



HSBC Mutual Fund

HSBC Arbitrage Fund

An open ended scheme investing in arbitrage opportunities

May 31, 2024



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About HSBC Arbitrage Fund

- Enters into simultaneous transactions of a long position in cash and exactly offsetting short position in futures.
- Equity position is completely hedged at trade initiation.
- Towards the expiry or before the expiry of the derivatives contract, the positions are reversed or rolled over.

Market Actions & Overview

- The average roll spreads captured this month was 9.26% annualized. No duration or credit risk is taken on the debt side and that will pull down the final returns a bit.
- The start of May Expiry saw rollover basis at 72/73 bps with low participation as roll levels lowered to 67/69 bps, still there wasn't any meaningful increase in participation, once roll levels touched 69-70 bps we saw aggressive participation by short rollers and was maintained progressively with high volumes, finally on expiry day we saw rollovers moving in a wide range of 75-80 bps with certain stocks hitting 88-90 bps at the end of expiry.
- NSE Nifty 50 decreased 0.5% in May'24 (MTD), in Apr'24 the index had gained 1.2%.
- FIIs have been net sellers this month too, selling equities to the tune of \$3.1bn (MTD) as compared to \$1 bn of selling previous month. In the last 3 months FIIs have sold equities close to \$230 mn.
- AUM of Arbitrage Funds increased compared to the previous expiry (Rs 2,06,106 Crs vs Rs 1,93,334 Crs). This month average roll basis was lower than previous expiry, 71 bps Vs 74.5 bps previous month. Total rollover at 92.5% for this month was slightly lower than the 6-month average of 93%.
- Markets were volatile this month with the benchmark index NIFTY50 witnessing a 3.6% drawdown from the highs and closing almost 2.5% up from the lows.
- A massive dividend by the RBI to the Government of India (Rs 2.1 trn vs Rs 800-850 bn forecasted in the Interim Budget) cheered the markets.
- Headline CPI eased to 4.83% in Apr'24, while core inflation hit another series low (3.28% YoY). However, sequential momentum ticked up. In spite of easing inflation, there is no macro stability case for the RBI to precede the Fed in any rate action.
- With FII flows returning in the second half of the month and likelihood of the incumbent government to come back to power, markets could witness a rally post the election results.

Inception Date

30th June 2014

Benchmark

Nifty 50 Arbitrage Index

Minimum Inv. Amount

Rs. 5,000 & in multiples of Re. 1/- thereafter

Additional Inv. Amount

Rs. 1,000 & in multiples of Re. 1/- thereafter

Exit Load

- Any redemption / switch-out of units on or before 1 month from the date of allotment: 0.25%
- If units are redeemed or switched out after 1 Month from the date of allotment: NIL

Plans & Options

Regular & Direct Plans

Growth & IDCW[^]

Monthly & Quarterly

(Payout & Re-investment)

[^]refer note on slide 5

Fund Managers

For Arbitrage Portfolio

Praveen Ayathan &

Hitesh Gondhia

For Debt Portfolio

Mahesh Chhabria

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Global Markets

- In the US, except for Dow Jones, S&P500 & Nasdaq are trading positive this month - with NASDAQ having increased the most, by 5.7%.
- US10YR decreased from 4.7% (Apr'24) to 4.5%. US Dollar Index decreased from 106.2 in Apr'24 to 104.8.
- Crude decreased from \$87.9/bbl to \$81.6/bbl. Decline in crude can be attributed to worries that strong US macroeconomic data would keep interest rates elevated for longer than expected.

The below table indicates the approximate average spread of arbitrage position and does not in any manner indicate any return potential of the scheme. Investors should not consider below as investment advice or recommendation. Past performance may or may not be sustained in future.

Series (Month)	~ Roll Spreads (Annualised)
May'24	9.26%
Apr '24	7.55%
Mar '24	10.19%
Feb '24	8.87%
Jan'24	8.65%
Dec'23	11.26%
Nov'23	8.28%
Oct'23	7.28%
Sept '23	9.11%
Aug '23	9.24%
July '23	7.93%
Jun '23	8.57%



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Key Triggers for June Series

- Exit polls (June 1, 2024)
- General election results (June 4, 2024)
- RBI policy (June 7, 2024)
- Advancement of Monsoons
- Geopolitical Situations
- Global news and flows

Fund Positioning & Strategy

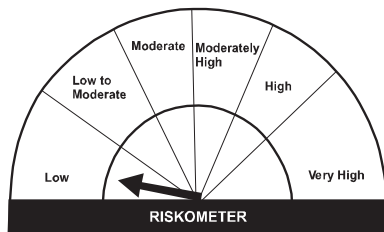
- Currently, allocation towards hedged equities or cash futures arbitrage is at 78.51% with tilt towards Mid cap. The fund in the current series as well have exposure in companies where the fund managers believes, dividend arbitrage opportunities can exists.
- The rest is invested in Liquid Fund, G-Secs and Bank FDs (Margin Placements). The debt portion is actively managed but has a conservative maturity profile and a high quality focus: AAA/Sovereign/A1+ portfolio and no exposure to any low rated Debt Instruments or any Perpetual Bonds as on May 30, 2024.

Disclaimer & Product Labelling

May 31, 2024

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Investors understand that their principal will be from Low risk

Arbitrage Fund - An open ended scheme investing in arbitrage opportunities.

This product is suitable for investors who are seeking*

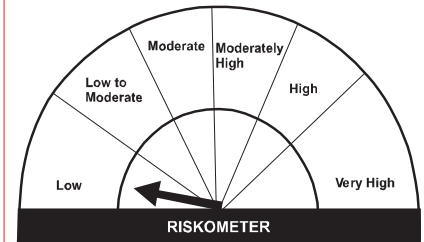
- Generation of reasonable returns over short to medium term
- Investment predominantly in arbitrage opportunities in the cash and derivatives segments of the equity markets; and debt and money market instruments

*Investors should consult their financial advisers if in doubt about whether the product is suitable for them.

Riskometer is as on April 30, 2024.

Any change in risk-o-meter shall be communicated by way of Notice cum Addendum and by way of an e-mail or SMS to unitholders of the particular Scheme.

Benchmark: Nifty 50 Arbitrage Index



[^]Note: IDCW stands for 'Income Distribution cum Capital Withdrawal option'. The amounts can be distributed out of investors' capital (Equalized on Reserve), which is part of the sale price that represents realized gains, as may be declared by the Trustees at its discretion from time to time (subject to the availability of distributable surplus as calculated in accordance with the Regulations).

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The details pertaining to benchmark & Scheme Risk-o-meter is as on April 30, 2024

Mutual Fund investments are subject to market risks, read all scheme related documents carefully.

Source: HSBC Mutual Fund and Bloomberg

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