

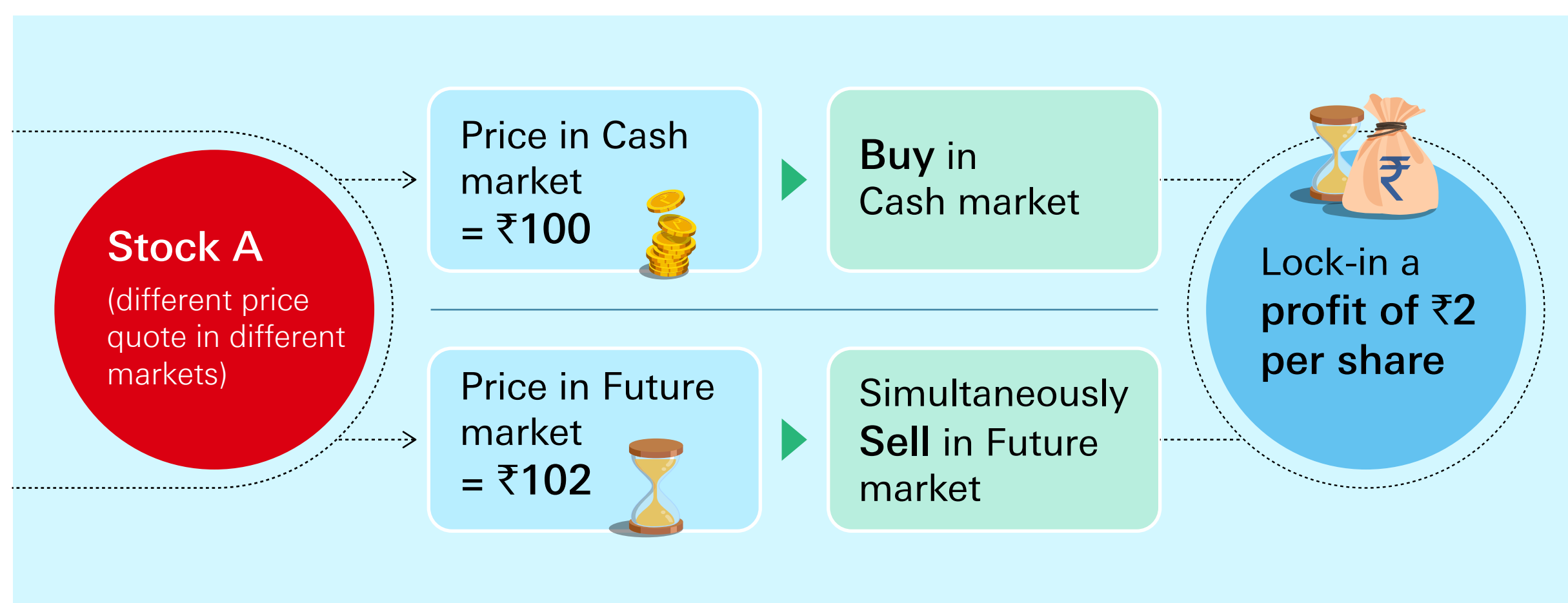
# Here's how you can make the most of arbitrage funds.



Arbitrage is simply a process of buying stocks or shares in one market and selling them in another market to exploit the price difference between them. Arbitrage Funds fall under the category of Hybrid Funds that seek profits on arbitrage opportunities between cash and derivative segments of equity markets. The fund managers look for opportunities that can generate profits between these differences to generate returns.

## Here's how Arbitrage Funds work

These Funds start the process by buying a stock in the cash segment and simultaneously selling equal quantity of the stock in the futures segment of the market. The positions initiated are thus to be reversed before or during the expiry of the futures series.



(The above example shows an illustration of the arbitrage opportunity. It is assumed that the cash and futures prices will converge on the day of the expiry. The above opportunity may or may not be always available in the market. This is for illustration purpose only. No assurance can be given that prices of stock and stock futures will correlate perfectly on expiry date of stock futures)

## Features of Arbitrage Funds



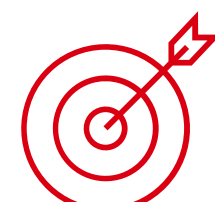
Endeavor to generate positive returns during market volatility



Tax-efficient, as tax treatment is similar to equity funds



Offer relatively risk-free returns among equity investments



Aims to generate returns through fully hedged exposure to equities

## Arbitrage Funds and Taxation

Since Arbitrage Funds hold a minimum 65% in equities where the same is hedged, they are thus taxed as equity-oriented funds. If an investor redeems their investment after one year, the gains from overall equities are tax-free up to Rs.1 lakh. Beyond this limit, the investor has to pay 10% Long-Term Capital Gains tax. Short Term Capital Gains tax is also lower than other debt funds at 15%.



## Who are Arbitrage Funds suitable for?

- 1 Investors seeking low-risk but reasonable returns in a volatile market
- 2 Those in a higher income tax bracket can use them to park surplus money for a short period
- 3 Those with an investment horizon of 3 months or more can park a part of their portfolio in these funds

Follow us on     

Investors should consult their tax consultant if in doubt about whether the product is suitable for them.

### An Investor Education & Awareness Initiative

Investors should deal only with Registered Mutual Funds, to be verified on SEBI website under Intermediaries/Market Infrastructure Institutions". Refer to [www.assetmanagement.hsbc.co.in](http://www.assetmanagement.hsbc.co.in) for details on Standard KYC (Know Your Customer) process (Investment, phone number etc. and change of bank details, etc. For complaints redressal, either visit [www.assetmanagement.hsbc.co.in](http://www.assetmanagement.hsbc.co.in) or SEBI's website [www.scores.gov.in](http://www.scores.gov.in). Investors may refer to the section on 'Investor Education' on the website of Mutual Fund for the details on all 'Investor Education' on the website of Mutual Fund for the details on all 'Investor Education and Awareness Initiatives' undertaken by the AMC.

Disclaimer: This document has been prepared by HSBC Asset Management (India) Private Limited for information purposes only and should not be construed as i) an offer or recommendation to buy or sell securities referred to herein or any of the funds of HSBC Mutual Fund; or ii) an investment research or investment advice. Investors should seek personal and independent advice regarding the appropriateness of investing in any of the funds, securities, other investment or investment strategies that may have been discussed or referred herein and should understand that the views regarding future prospects may or may not be realized. This document is intended only for those who access it from within India and approved for distribution in Indian jurisdiction only. Distribution of this document to anyone (including investors, prospective investors or distributors) who are located outside India or foreign nationals residing in India, is strictly prohibited.

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