

Product Note

HSBC Arbitrage Fund (HATF)

(An open ended scheme investing in arbitrage opportunities)

September 2024

| Fund Category | Fund Manager | Benchmark ¹ | Inception Date | AUM ^{&} |
|----------------|---|--------------------------|----------------|----------------------|
| Arbitrage Fund | Praveen Ayathan, Hitesh Gondhia, Mahesh Chhabria and Kapil Punjabi [@] | Nifty 50 Arbitrage Index | 30 June 2014 | Rs. 2,505.59 Cr |

| Portfolio | % to net assets | Industry - Allocation | % to net assets |
|--------------------------------|-----------------|---------------------------------|-----------------|
| Bank of Baroda | 5.33% | Banks | 21.98% |
| HDFC Bank Limited | 5.06% | Government Securities | 12.14% |
| Kotak Mahindra Bank Limited | 3.07% | Pharmaceuticals & Biotechnology | 7.42% |
| Vedanta Limited | 3.04% | Internal - Mutual Fund Units | 6.86% |
| Indian Energy Exchange Limited | 2.97% | Finance | 4.00% |
| Laurus Labs Limited | 2.96% | Telecom - Services | 3.95% |
| Reliance Industries Limited | 2.68% | Petroleum Products | 3.42% |
| Dabur India Limited | 2.26% | Capital Markets | 3.35% |
| Biocon Limited | 1.97% | Consumer Durables | 3.31% |
| Hindustan Aeronautics Limited | 1.97% | Diversified Metals | 3.04% |

Arbitrage in simple terms means taking advantage of price differential between different markets for the same commodity. In financial markets, this translates into entering into trading positions in the same security through different market segments.

Fund Approach

- Currently, allocation towards hedged equities or cash futures arbitrage is at 76.91% 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 exist.
- 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 August 30, 2024.

Investment Objective

The investment objective of the Scheme is to seek to generate reasonable returns by predominantly investing in arbitrage opportunities in the cash and derivatives segments of the equity markets and by investing balance in debt and money market instruments. There is no assurance that the objective of the Scheme will be realised and the Scheme does not assure or guarantee any returns.

Exit Load: On and before 1 month from the date of allotment or Purchase applying First in First out basis : 0.5%. After 1 month from the date of allotment or purchase : NIL
 Month End Total Expenses Ratios (Annualized)² – Regular³: 0.94%, Direct: 0.27%

¹ As per clause 1.9 of the SEBI Master Circular dated June 27, 2024, on 'Guiding Principles for bringing uniformity in Benchmarks of Mutual Fund Schemes' has introduced two-tiered structure for benchmarking of certain categories of schemes. Accordingly, the benchmark has been classified as Tier 1 benchmark effective from 01 December 2021.

² TER Annualized TER including GST on Investment Management Fees

³ Continuing plans

[@] Managing since from May 1, 2024, Please refer notice cum addendum dated April 30, 2024

[&]For disclosure of quarterly AUM/AAUM and AUM by geography, please visit our website: <https://www.assetmanagement.hsbc.co.in/en/mutual-funds/investor-resources/information-library/#accordion1446811090=4>

Note: The sector(s)/stock(s)/issuer(s) mentioned in this document do not constitute any research report nor it should be considered as an investment research, investment recommendation or advice to any reader of this content to buy or sell any stocks / investments. The Fund/portfolio may or may not have any existing / future position in these sector(s)/stock(s)/issuer(s).

Source – HSBC Mutual Fund, Data as of 30 August 2024. Past performance may or may not be sustained in the future and is not indicative of future results.

Note : Please refer to Scheme Information Document for more details on Asset Allocation of the scheme.

HSBC Arbitrage Fund philosophy

- To enters into simultaneous transactions of a long position in cash and exactly off-setting short position in futures.
- Towards the expiry or before the expiry of the derivatives contract, the positions are reversed or rolled over.

Why HSBC Arbitrage Fund?

- Investment predominantly in arbitrage opportunities in the cash and derivatives segments of the equity markets; and debt and money market instruments
- Aim to provide reasonable liquidity and risk adjusted performance to suit the investor's requirements
- Maintains optimum allocation across arbitrage instruments
- Aims to generate opportunity of reasonable returns over short to medium term

Market Actions

The average roll spreads captured this month was 7.57% annualized. Allocation towards hedged equities is at 76.91 with a tilt towards Midcap. No duration or credit risk is taken on the debt side and that will pull down the final returns a bit.

- The start of August expiry saw rollover basis to start at 64-65 bps going down to 60-61 bps levels with very low participation. Start of the rollover week, roll levels touched 58-59 bps with low volume participation by short rollers. On expiry day rolls dropped to 54-55 bps levels with certain stocks at even lower levels of 43-45 bps. For the third consecutive month, we saw rolls levels remained under pressure all through the expiry period.
- Nifty increased 0.8% in August 2024 (MTD), in July 2024 the index had gained 3.9%.
- Stress and volatility in the global markets due to the unwinding of the carry trade as YEN rose against the USD, pulled down the benchmark index NIFTY50 around 4% at the start of the month. In the second half of the month though markets recovered.
- July CPI inflation at 3.54% YoY (est. 3.60%) was lower than June (5.08% YoY), mainly due to an extremely favorable base effect, with this being reflected in food inflation as well (5.4% YoY vs 9.4% in June 2024). However, on a sequential basis, headline inflation rose 1.4% – the highest increase in a year. Current elevated markets levels warrant caution going into the next series.
- FIIs have been net sellers this month, selling equities to the tune of \$0.5 billion (MTD) as compared to \$3.4 billion of buying previous month. Year to date, FIIs have bought equities close to \$3.2 billion.
- AUM of Arbitrage Funds increased compared to the previous expiry (Rs 2,25,961 crores vs Rs 2,22,829 crores). This month average roll basis was lower than previous expiry, 58 bps vs 71.75 bps previous month.

Global Markets

- Global equity markets have been positive this month as the US Fed chairman in his speech said the time has come to cut its key policy rate, making clear his intention to prevent further cooling in the labour market.
- In the US, CPI for the month of July 2024 dropped below 3% (at 2.9%) for the first time in three and a half years, in June 2024 the inflation print read 3% (YoY). The easing inflation and weakening job market led the Fed chair to make a dovish statement.
- In the UK, CPI increased for the first time this year, to 2.2% in July 2024 Vs 2% in June 2024 thereby boosting rate cut expectations, the central bank expects CPI to rise to 2.75% by the end of the year before returning to 2% in the first half of 2026.
- In the US, two out of the three major indices (S&P500 & Dow Jones) are trading positive this month – with S&P500 having increased the most MTD, by 1.3%. US10YR decreased from 4% (July 2024) to 3.8%.
- US Dollar Index decreased from 104.1 in July 2024 to 101.
- Crude decreased from \$80.7/bbl to \$78/bbl, it had declined to as low as \$76/bbl eventually re-bounding on the back of geopolitical risk in the Middle East and a production halt in Libya.

Note : Fund Manager manages the Fund as per prevailing Market condition. The above philosophy shall not be treated as investment strategy which is subject to Market condition at a given point of time.

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The below table indicates the approximate average spread of arbitrage position and does not in any manner indicates 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) |
|----------------|-----------------------------|
| Aug'24 | 7.57% |
| July '24 | 7.48% |
| June '24 | 8.93% |
| 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% |

Fund Manager - Praveen Ayathan Effective 30 Jun 2014. Total Schemes Managed - 5
 Fund Manager - Hitesh Gondhia Effective 01 Oct 2023. Total Schemes Managed - 3
 Fund Manager - Mahesh Chhabria Effective 15 Jul 2023. Total Schemes Managed – 11
 Fund Manager - Kapil Lal Punjabi Effective 01 September 2024. Total Schemes Managed - 17



| Lump Sum Investment Performance | | | | | | | | | Inception Date |
|---|--------------|-----------|--------------|-----------|--------------|-----------|-----------------|-----------|----------------|
| Fund / Benchmark (Value of Rs 10,000 invested) | 1 Year | | 3 Years | | 5 Years | | Since Inception | | |
| | Amount in Rs | Returns % | Amount in Rs | Returns % | Amount in Rs | Returns % | Amount in Rs | Returns % | |
| HSBC Arbitrage Fund – Regular Plan~ | 10740 | 7.40 | 11783 | 5.62 | 12897 | 5.21 | 17979 | 5.93 | 07-Feb-11 |
| Scheme Benchmark (Nifty 50 Arbitrage Index) | 10766 | 7.66 | 11913 | 6.01 | 12782 | 5.03 | 17447 | 5.62 | |
| Additional Benchmark (Nifty 50 TRI) | 13264 | 32.64 | 15274 | 15.17 | 24262 | 19.37 | 37589 | 13.90 | |

Past performance may or may not be sustained in the future and is not indicative of future results. The performance details provided herein are of Regular Plan - Growth Option. Returns on ₹10,000 are point-to-point returns for the specific time period, invested at the start of the period. The returns for the respective periods are provided as on last available NAV of August 2024 for the respective schemes. Returns for 1 year and above are Compounded Annualized. Returns for less than 1 year is Simple Annualized. Load is not taken into consideration for computation of performance. Different plans shall have a different expense structure. The expenses of the Direct Plan under the Scheme will be lower to the extent of the distribution expenses / commission charged to the Regular Plan. As per clause 5.9.1 of the SEBI Master Circular dated June 27, 2024, the scheme returns vis-à-vis the benchmark return (Total Return Index) shall be disclosed are provided from the date of allotment of units. Post merger performance of the surviving scheme, arising out of merger of schemes with similar features, is computed as per the provisions of clause 13.4 of the SEBI Master Circular dated June 27, 2024, on Disclosure of Performance of Schemes post-merger using the weighted average performance of both transferor and transferee schemes. In other cases, performance is computed using the Applicable NAV of the surviving/continuing schemes. ~ Face value Rs 10

| SIP Performance HSBC Arbitrage Fund - Reg | | | | | Inception Date: 07-Feb-11 |
|---|----------|----------|-----------|-----------------|---------------------------|
| Scheme Name & Benchmarks | 1 Year | 3 Years | 5 Years | Since Inception | |
| Total amount invested (₹) | 120000 | 360000 | 600000 | 1220000 | |
| Market Value as on August 30, 2024 (₹) | 1,24,685 | 3,98,004 | 6,93,611 | 16,36,139 | |
| Scheme Returns (%) | 7.34 | 6.63 | 5.74 | 5.63 | |
| Nifty 50 Arbitrage Index - Scheme Benchmark (₹) | 1,24,498 | 3,99,837 | 6,96,801 | 16,18,275 | |
| Nifty 50 Arbitrage Index - Scheme Benchmark Returns (%) | 7.05 | 6.94 | 5.92 | 5.42 | |
| Nifty 50 TRI - Additional Benchmark (₹) | 1,41,152 | 4,94,045 | 10,23,424 | 29,01,478 | |
| Nifty 50 TRI - Additional Benchmark Returns (%) | 34.34 | 21.70 | 21.52 | 16.23 | |

Past performance may or may not be sustained in the future and is not indicative of future results. For SIP returns, monthly investment of Rs. 10,000/- invested on the 1st day of every month has been considered. SIP Return are calculated on XIRR basis. IDCW are assumed to be reinvested and bonus is adjusted. Load is not taken into consideration. Sonal Gupta is dedicated fund manager for investments in foreign securities by all the schemes of HSBC Mutual Fund. Source: HSBC Mutual Fund, data as on 30 August 2024 [Click here](#) to check other funds performance managed by the Fund Manager

Product Label

| Scheme name and Type of scheme | Scheme Risk-o-meter | Benchmark Risk-o-meter (as applicable) |
|---|--|--|
| <div>HSBC Arbitrage Fund</div> <div>(An open ended scheme investing in arbitrage opportunities)</div> <div>This product is suitable for investors who are seeking*:</div> <div><ul style="list-style-type: none">• 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 instrument.</div> |  <p>RISKOMETER</p> <p>Investors understand that their principal will be at Low risk</p> | <div>As per AMFI Tier I Benchmark i.e.</div> <div>Benchmark Index: Nifty 50 Arbitrage Index</div>  <p>RISKOMETER</p> |

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

Note on Risk-o-meters: Riskometer is as on 30 August 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 that particular scheme

Note : Please refer to Scheme Information Document for more details on Asset Allocation of the scheme.

Past performance may or may not be sustained in the future and is not indicative of future results. Source: HSBC Mutual Fund, data as on 30 August 2024

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