

Product Note

HSBC Arbitrage Fund (HATF)

(An open ended scheme investing in arbitrage opportunities)

January 2025

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. 2,423.19 Cr

Portfolio	% to Net Assets	% to Net Assets(Hedged)	% to Net Assets(Unhedged)	Industry - Allocation	% to net assets
Bank of Baroda	6.99%	6.99%	0.00%	Banks	27.65%
Reliance Industries Limited	5.43%	5.43%	0.00%	Internal - Mutual Fund Units	13.68%
IndusInd Bank Limited	4.48%	4.48%	0.00%	Government Securities	6.16%
Kotak Mahindra Bank Limited	2.52%	2.52%	0.00%	Petroleum Products	5.76%
Vedanta Limited	2.48%	2.48%	0.00%	Pharmaceuticals & Biotechnology	5.14%
Punjab National Bank Limited	2.47%	2.47%	0.00%	Finance	4.75%
Laurus Labs Limited	2.44%	2.44%	0.00%	Power	3.58%
Tata Power Company Limited	2.31%	2.31%	0.00%	Consumer Durables	3.18%
State Bank of India	2.18%	2.18%	0.00%	Automobiles	3.16%
Bandhan Bank Limited	2.15%	2.15%	0.00%	Diversified Metals	2.48%

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 78.2% 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 schemes of HSBC Mutual Fund, G-Secs/ TBILLS and CP/CD's (including for 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 December 27, 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: 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
(Effective date: August 01, 2023)

Month End Total Expenses Ratios (Annualized)² – Regular³: 0.93%, Direct: 0.26%

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 31 December 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.

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 & Overview

- The average roll spreads captured this month was 7.63% annualized. Allocation towards hedged equities is at 78.2 with tilt towards Midcap. No duration or credit risk is taken on the debt side and that will pull down the final returns a bit.
- At the onset of December expiry rollover basis were levelled at 74-75 bps with minimal participation, further lowering to 70-72 bps. Start of the rollover week, we saw short roller interest at 69-70 levels and was maintained progressively with decent volumes. Finally on expiry day with no improvement in roll levels or volumes, rolls traded in a range of 65-68 bps with certain stocks hitting lower at 60-62 bps.
- The Nifty 50 index decreased 1.6% in December 2024 (MTD) after declining by 0.3% in November 2024. Third consecutive month of negative returns.
- This month, FIIs have been net buyers of equities - after two months of selling. This month FIIs have purchased equities to the tune of \$2.5 bn. This month average roll basis was higher than previous expiry, 73 bps vs 57 bps previous month.
- Markets were buoyant in the first half of the month; however, the third week of the month saw the Nifty 50 decline by 4.8% - steepest weekly loss since June'22, erasing most of the gains. Spillover from US markets & the continued sell-off by FIIs contributed to the downturn.
- In the RBI's MPC meeting, the Repo rate was left unchanged at 6.50%. The decision was not a consensus one, as some sections of the market were expecting a rate cut; even within the MPC there were two dissenting voices. The spike in the last inflation and upside risks to inflation over the near term were given prominence overgrowth concerns.
- CPI inflation dipped to 5.48% YoY in November (est.: 5.50%; prior: 6.21%). Investors are cautious - keen to see how president elect Trump handles trade policy with respect to other countries (especially China) post his swearing in.

Global Markets

- Global equity markets around the world have shown mixed sentiments, this month. In the US, the FED cut its policy rate by 25 bps, as expected, bringing down the Fed funds rate to 4.25-4.5%. However, this was a hawkish cut, with the dot plot indicating only two cuts in 2025 as against expectations of four. The hawkish outlook led to a sharp market reaction: UST2Y and UST10Y yields both spiked by 10-11 bps, whereas S&P tanked 3% and DXY rose ~1.2%.
- US CPI rose by 0.3% in November 2024 – the most in seven months, YoY it rose by 2.7% Vs 2.6% in October 2024. Progress in lowering inflation toward the US Central Bank's 2% target has virtually stalled.
- In the UK, CPI rose to 2.6% (YoY) in November 2024 – rising second month in a row to the highest level in eight months while the central bank held interest rates at 4.75% as it downgraded growth forecast and warned of stagflation risk.
- In the US, two out of the three major indices are trading positive this month (MTD) - with NASDAQ having increased the most, by 4.2%. US10YR increased from 4.18% (November 2024) to 4.6%. US Dollar Index increased from 105.7 in November 2024 to 108.1.
- Crude increased since last month: (Nov \$72.9/bbl to \$73/bbl).

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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Key Triggers for December Series:

- Geopolitics and Global News
- Low Global Liquidity due to Holiday Season
- Change in US Government

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)
Dec '24	7.63%
Nov '24	7.46%
Oct '24	8.22%
Sep '24	7.12%
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%

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 January 2025. 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~	10733	7.26	11940	6.08	12966	5.33	18372	5.96	07-Feb-11
Scheme Benchmark (Nifty 50 Arbitrage Index)	10752	7.46	12094	6.54	12895	5.21	17882	5.68	
Additional Benchmark (Nifty 50 TRI)	11009	10.00	14114	12.16	20587	15.52	35275	12.74	

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 December 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	1260000	
Market Value as on December 31, 2024 (₹)	1,24,443	3,99,180	6,96,919	17,12,410	
Scheme Returns (%)	6.93	6.82	5.92	5.69	
Nifty 50 Arbitrage Index - Scheme Benchmark (₹)	1,24,620	4,01,695	7,02,734	16,99,273	
Nifty 50 Arbitrage Index - Scheme Benchmark Returns (%)	7.21	7.24	6.25	5.55	
Nifty 50 TRI - Additional Benchmark (₹)	1,21,593	4,45,455	9,11,371	27,61,025	
Nifty 50 TRI - Additional Benchmark Returns (%)	2.47	14.32	16.73	14.23	

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 31 December 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)
HSBC 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 instrument.	The risk of the scheme is Low Risk	As per AMFI Tier I Benchmark i.e. Benchmark Index: Nifty 50 Arbitrage Index The risk of the benchmark is Low Risk

* 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 31 December 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 31 December 2024

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