

Bajaj Finserv Arbitrage Fund

(An open ended scheme investing in arbitrage opportunities)

July 2024



Arbitrage in a nutshell!

The simultaneous purchase and sale of the same or similar asset in different markets in order to profit from tiny differences in the asset's listed price.



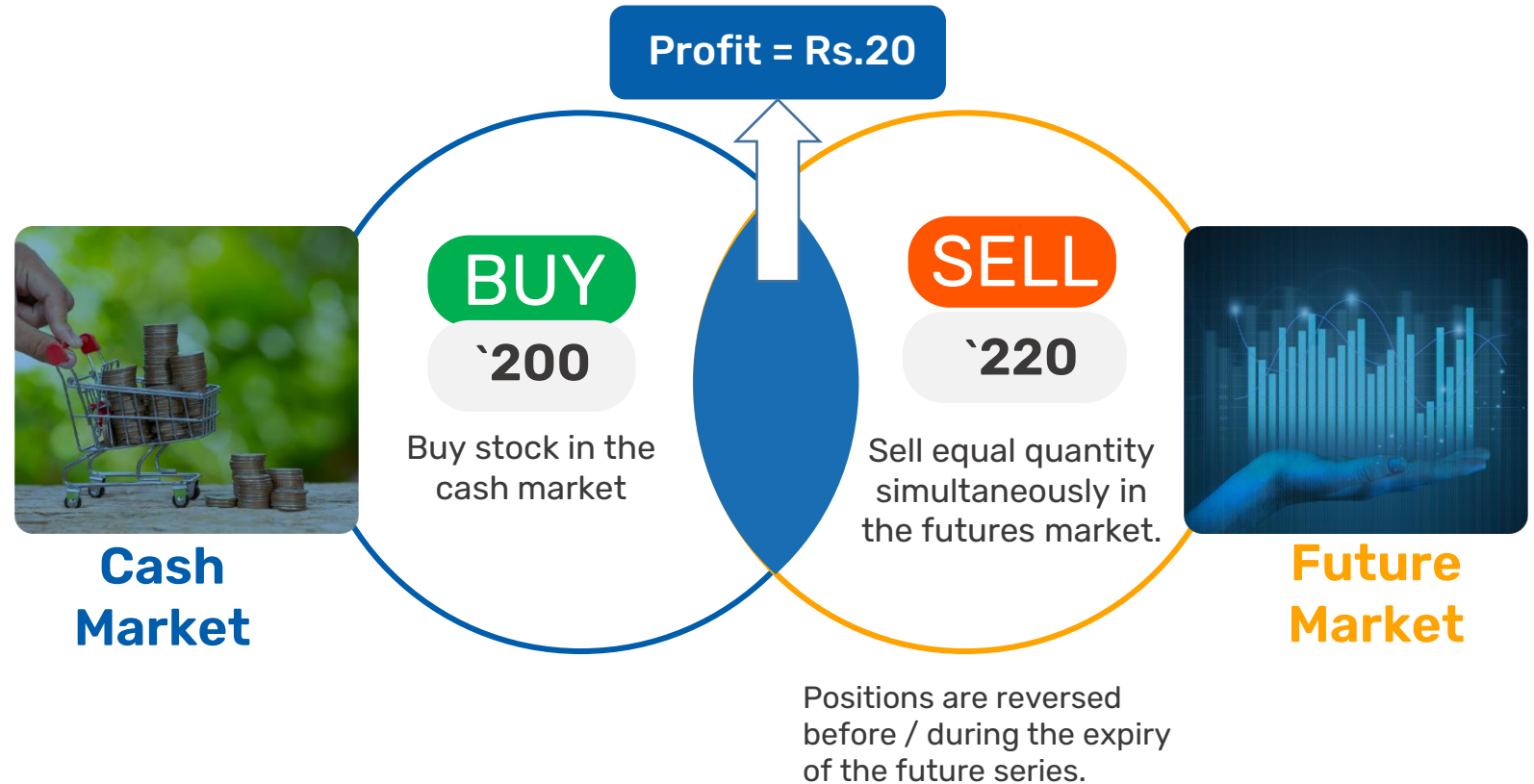
$$\text{Arbitrage} = \text{Rs } 12000 - \text{Rs } 10000 = \text{Rs } 2000$$

Let's dive deep into Arbitrage Fund

A type of mutual fund that leverages on the price difference between cash and futures market to generate returns for one particular asset/asset class.

Arbitrage Opportunity

Price difference prevailing in two different markets for the same security/commodity.



DNA of Arbitrage Fund



A transaction wherein **buying and selling occurs simultaneously.**



A **security and derivative** is bought and sold

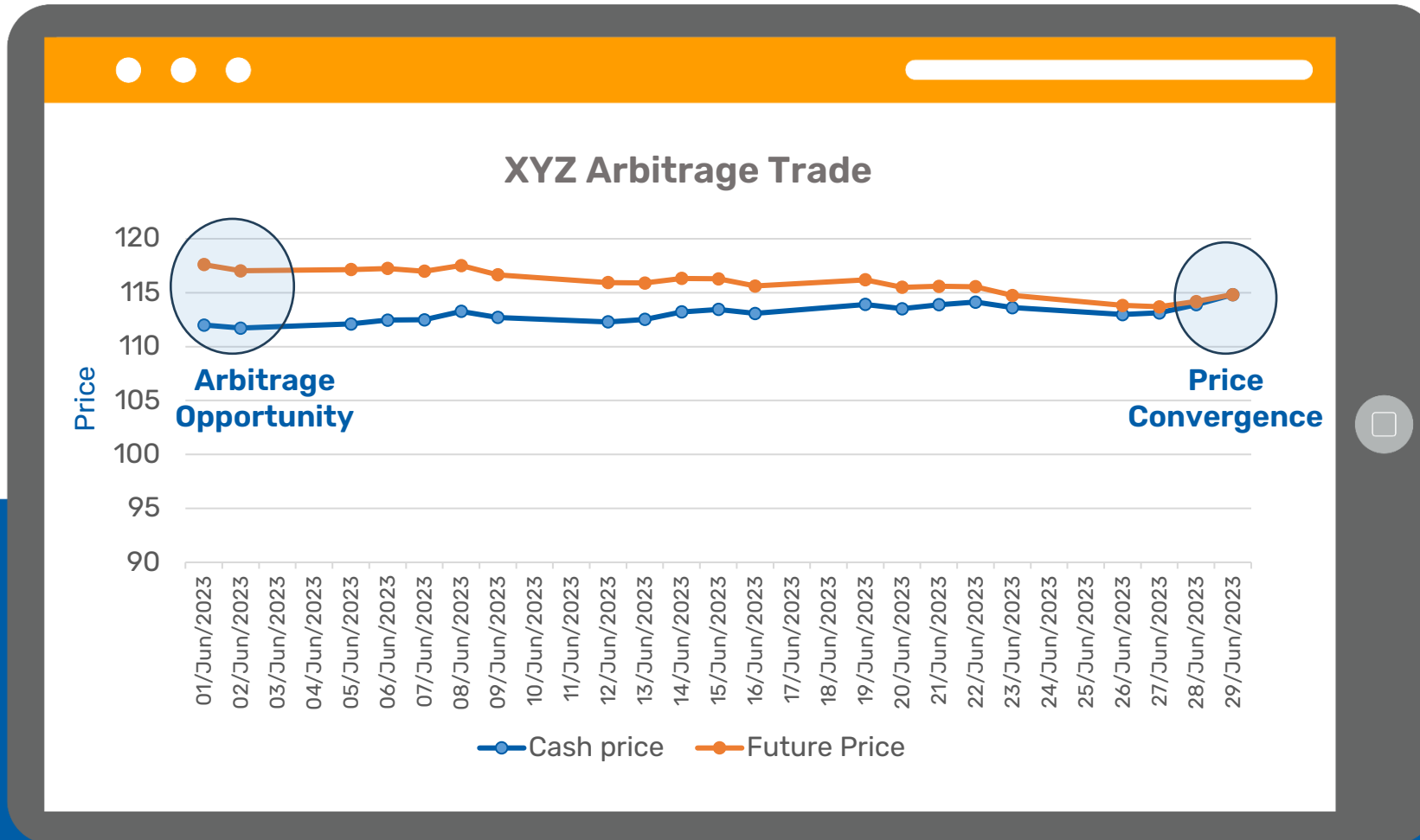


The activity happens in **two different markets** (Cash & Futures)



Relatively Low Risk since the cash market price converges with the futures market price at the month end.

Example : Capturing the spread between Cash and Future prices



Reasons for spreads between Cash and Futures markets



Cost of Acquisition: The cost of acquisition i.e. full consideration for cash markets and margin funding for futures contract affects their price relationship.



Transaction Volume: Higher acquisition costs may lead to reduced trading volume, affecting liquidity and prices in both markets.



Participant Diversity: Different types of traders in cash and futures markets lead to varied liquidity levels and spread dynamics.



Settlement Timing: Cash markets settle immediately, while futures have set expiration dates, causing spread variation as contracts approach maturity.



Market Sentiments and Volatility: Differences in market sentiment, economic data, and geopolitical events affects the spread width in both markets.



Speculation: Levels of Traders' speculative behaviour affects the spread differences between markets for arbitrage opportunities, impacting spread levels.

Cash and Carry Arbitrage – ‘Wait For The Expiry’ Method

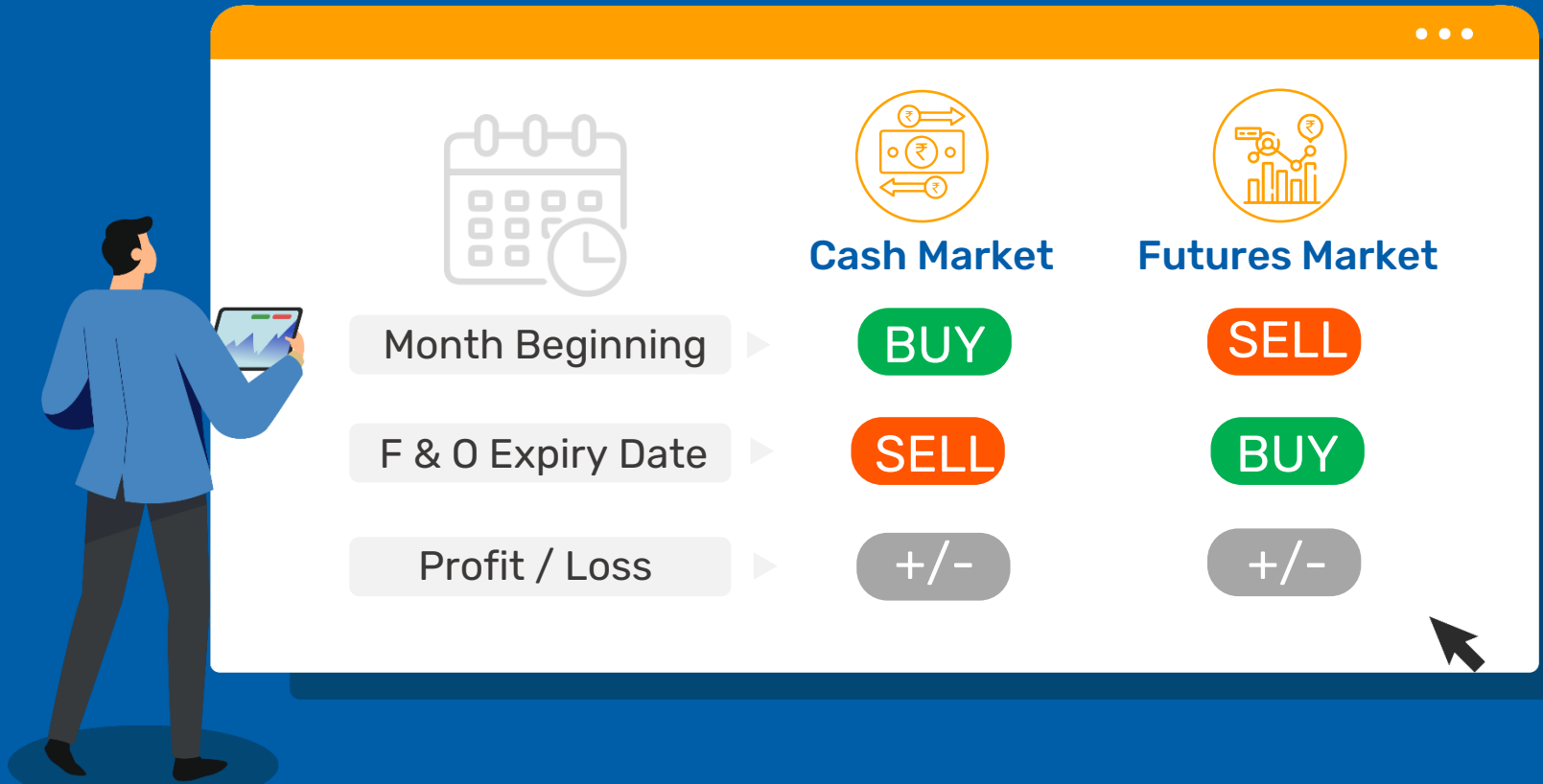


Fund Manager



F & O Expiry Date

Cash and Carry Arbitrage – ‘Wait For The Expiry’ Method



24th March 2023

25th April 2023



Fund Manager

F & O Expiry Date

Cash and Carry Arbitrage – Case study

Mr. A **buys**
a stock at
Rs.200



Different Price Possibilities at the month end

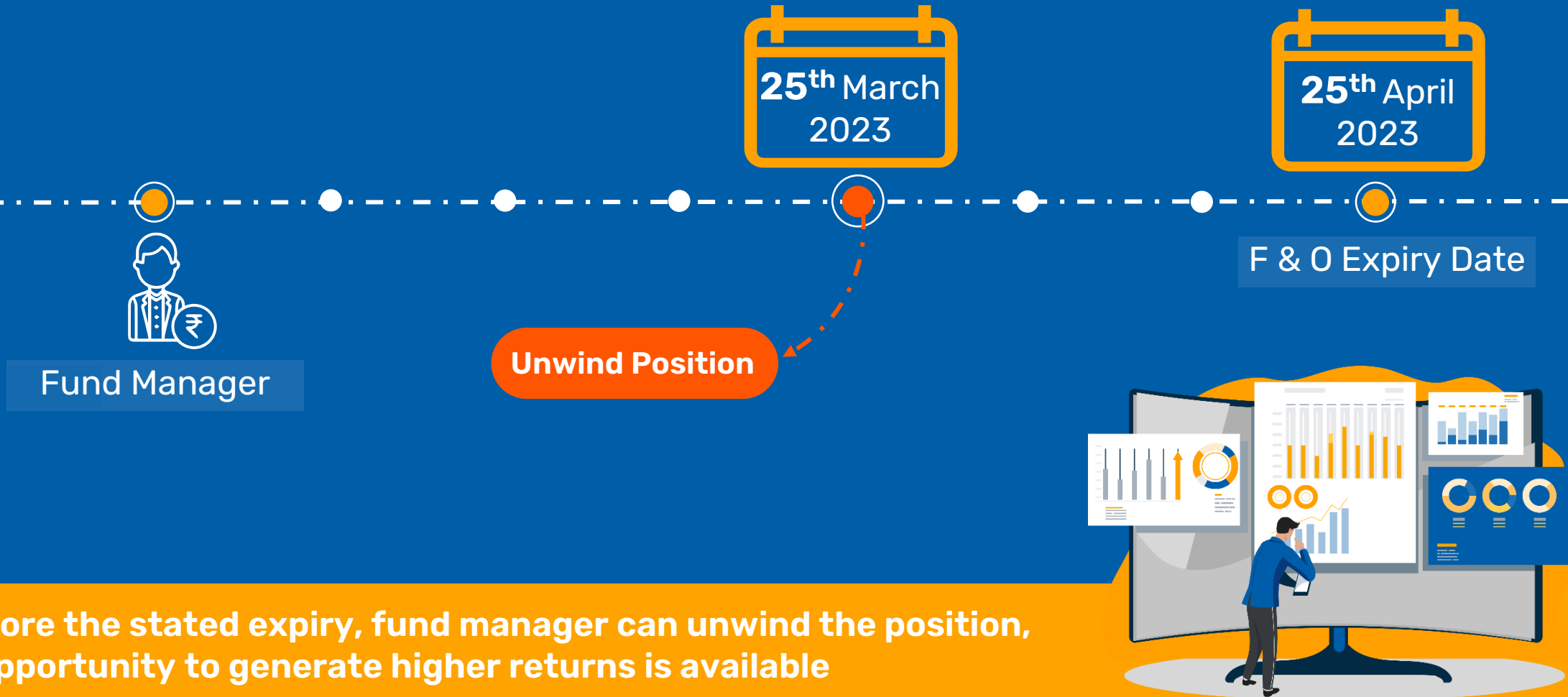
| | | | |
|----------------------------|---|---|--|
| | <p>Stock Price rises to Rs.210</p> | <p>Stock Price remain at Rs.200</p> | <p>Stock Price dip to Rs.190</p> |
| | Cash Position = A + 10 (210-200) | Cash Position = A 0 (200 -200) | Cash Position = A - 10 (200 -190) |
| Future Position = B | Future Position = B - 5 (205-210) | Future Position = B + 5 (205 - 200) | Future Position = B + 15 (205 - 190) |
| Net Profit | + 5 | + 5 | + 5 |

Fund Manager locks the profit irrespective of price movement of a stock in future.

And **sells** in futures market simultaneously at **Rs. 205**



Unwinding The Position



Before the stated expiry, fund manager can unwind the position, if opportunity to generate higher returns is available

Rollover Futures Position



Fund Manager




25th April
2023

F & O Expiry Date



24th May
2023

Rollover Futures Position



On the date of expiry, fund manager can rollover the futures position to capture delta, if the price difference still exists for the next month's expiry.

Arbitrage Investment Strategies



Spot - Futures



Index Arbitrage



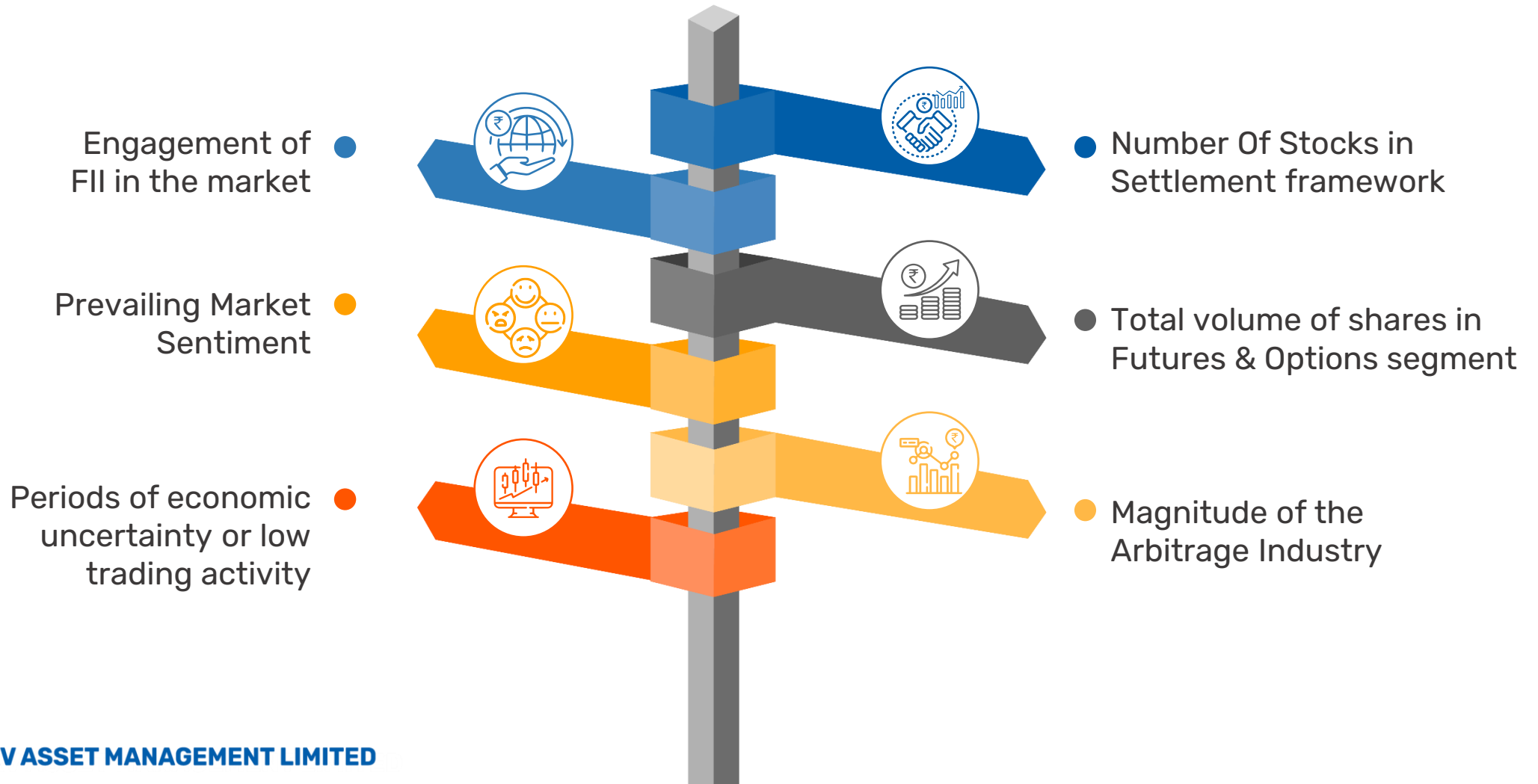
Exchange Arbitrage



Dividend Arbitrage

Factors Impacting Spreads

Spread: Difference between buying and selling prices of a stock.



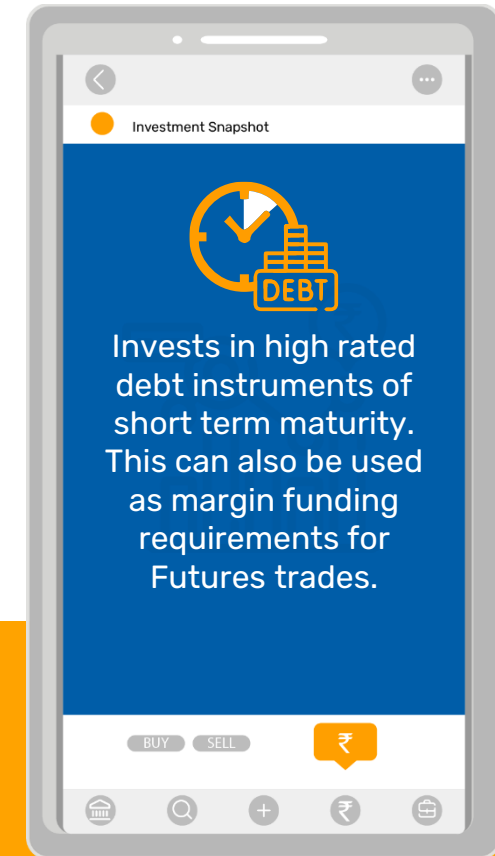
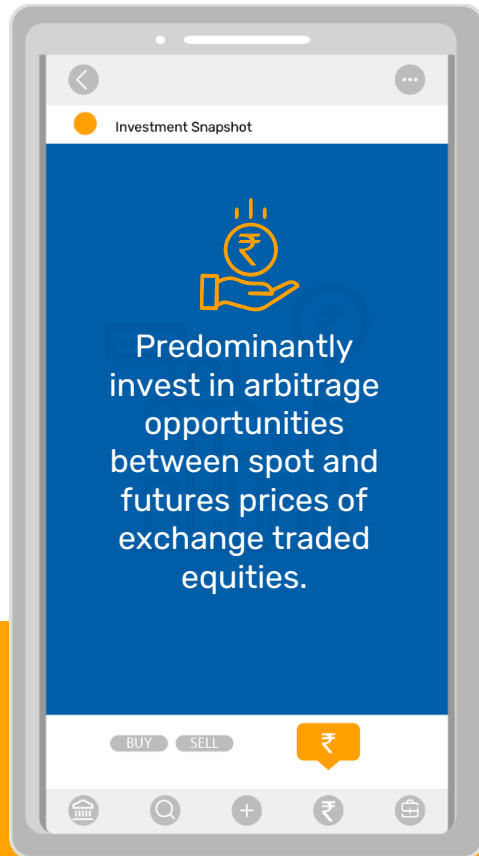
Decoding the commonly used terms

- **Arbitrage:** The practice of exploiting price differences for the same asset in different markets to make a profit.
- **Spot Market:** Financial instruments, commodities, or assets are bought and sold for immediate delivery and settlement.
- **Futures Market:** Contracts are traded that obligate the buyer to purchase, and the seller to sell, an asset at a predetermined price and date in the future.
- **Price Discrepancy:** Difference in prices between markets that allows for potential profit.
- **Long Position:** Owning stock with the expectation of its price increasing
- **Short Position:** Borrowing or selling stock with the expectation of its price decreasing, aiming to buy it back at a lower price.
- **Spread:** Difference between buying and selling prices of a stock.
- **Hedging:** Using a strategy or instrument to offset potential losses from price movements in another asset, reducing overall risk.
- **Market Efficiency:** How well asset prices reflect all available information and adjust to new information.
- **Index arbitrage:** Trading strategy that attempts to profit from the price differences between two or more market indices.
- **Dividend arbitrage:** An options trading strategy that involves purchasing put options and an equivalent amount of underlying stock before its ex-dividend date and then exercising the put after collecting the dividend.

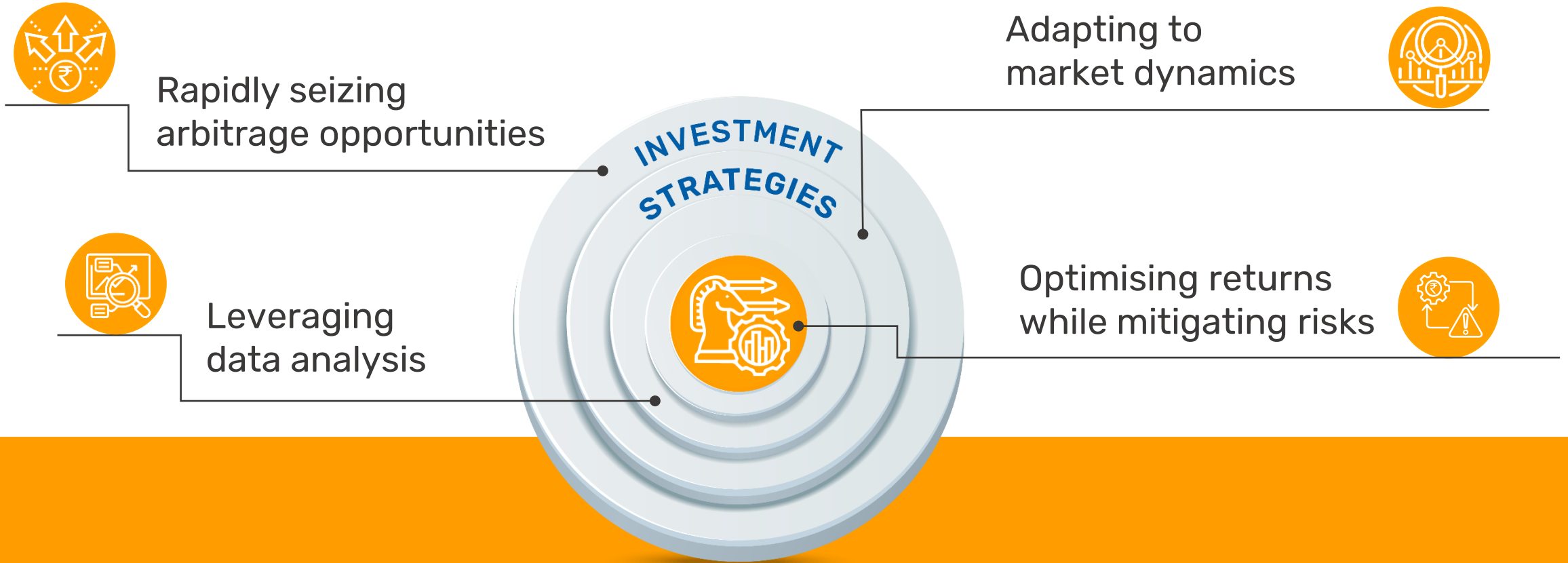
Introducing Bajaj Finserv Arbitrage Fund



Investment Snapshot



Bajaj Finserv Arbitrage Fund : Investment Strategies



Why invest in Bajaj Finserv Arbitrage Fund?



Why invest in Bajaj Finserv Arbitrage Fund?





1 
Low Volatility

2 
No Credit Risk

3 
Equity Taxation

Low Volatility Advantage

An analysis of 90 days daily rolling returns of Nifty 50 Arbitrage Index vs Nifty 50 TRI (from Apr 1, 2010 to Jul 31, 2023)

| Parameter | Nifty 50 Arbitrage Index | Nifty 50 TRI |
|--|--------------------------|--------------|
|  Maximum Returns (Absolute) | 3.04% | 33.58% |
|  Minimum Returns (Absolute) | -0.58% | -33.35% |
|  No. of times +ve returns | 98.6% | 66.9% |
|  Standard Deviation | 1.4% | 16.6% |

Arbitrage Index scores favourable on the risk parameters vis-a-vis Equities.

Past performance may or may not be sustained in the future

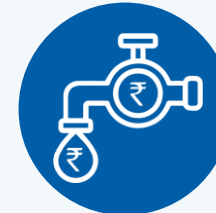
1  **Low Volatility**

Fixed Income Strategy – Low Credit Advantage

2 No Credit Risk



Bajaj Finserv Arbitrage Fund endeavors to negate the credit and duration risk by investing in short term debt instruments that are highly rated.



For margin requirements, the fund would seek to invest in its own Liquid Fund.



Will allocate basis the interest rate and demand supply outlook to invest across the short end of the curve to generate performance.

Tax Advantage

3



Equity Taxation

| Capital Gains Tax | Arbitrage Funds | Equity Funds | Debt Funds* |
|-------------------|-----------------|-----------------|--|
| Short Term | 15% (< 1 year) | 15% (< 1 year) | Income Tax Slab applicable to assessee |
| Long Term | 10%# (> 1 year) | 10%# (> 1 year) | Income Tax Slab applicable to assessee |

Above rates are excluding Surcharge and Cess


Capital gains upto Rs 1 lakh are tax exempted.

*The Finance Act 2023 by way of introduction of Section 50AA of the Income Tax Act, 1961 (hereinafter referred to as 'the IT Act') provided that any gain or income arising on transfer, redemption or maturity of units of specified mutual funds (wherein not more than 35% of the total proceeds are invested in equity shares of domestic companies for instance, certain debt funds) acquired on or after 1 April 2023 will be deemed as short term capital gains, and subject to tax at the applicable slab rate of the investor, irrespective of the period of holding



Arbitrage Funds offers a better Tax Advantage than Debt Funds

Tax Advantage – Arbitrage Fund vs Bank Deposit


Individual/HUF

| Particulars | Arbitrage Funds | Bank Deposit |
|---|-----------------|-----------------|
| Invested Amount | Rs. 1,00,00,000 | Rs. 1,00,00,000 |
| Assumed Annualized Rate of Return (p.a) | 7% | 7% |
| Abs returns for 364 days | Rs. 6,98,082.19 | Rs. 6,98,082.19 |
| Tax rate* | 15% | 30% |
| (-) Short term capital gains tax | Rs. 1,04,712 | Rs. 2,09,425 |
| Net Tax Returns | Rs. 5,93,370 | Rs. 4,88,658 |
| Gains (Annualized) | 5.95% | 4.90% |

*Excluding surcharge and cess. The incidence of the same will be based on the individual tax slabs. | Source: Internal data computation

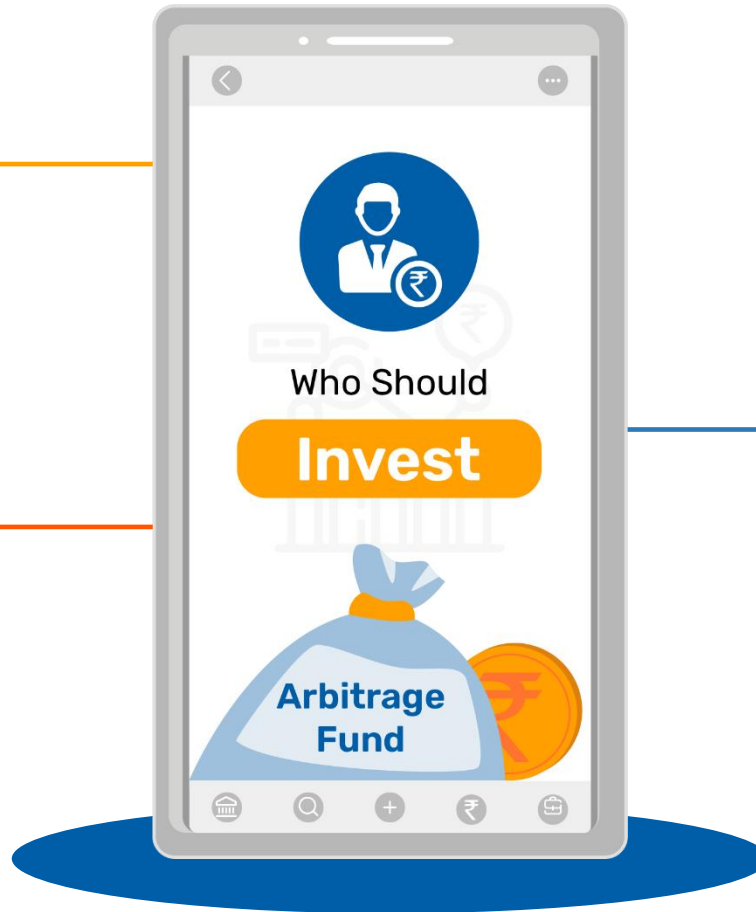
The above simulation is based on highest tax rates applicable to Individual/HUF/Domestic Companies as per the Finance Act, 2023 read with the Taxation Laws, for illustrative purposes only and should not be construed as a promise on minimum returns and safeguard of capital. The above illustration is not a tax advise. Each investor is advised to consult his/her own professional tax advisor. The AMC / Mutual Fund is not guaranteeing or promising or forecasting any returns. These products are not strictly comparable. There is no assurance or guarantee to unit holders as to rate/quantum of dividend distribution nor that the dividends will be paid regularly.

Who should Invest in Arbitrage Fund?

Risk-averse investors for parking surplus funds



Looking for **investments upto 3 month or more**



Investors who want to take **advantage of Equity Taxation**

Bajaj Finserv Arbitrage Fund - Portfolio

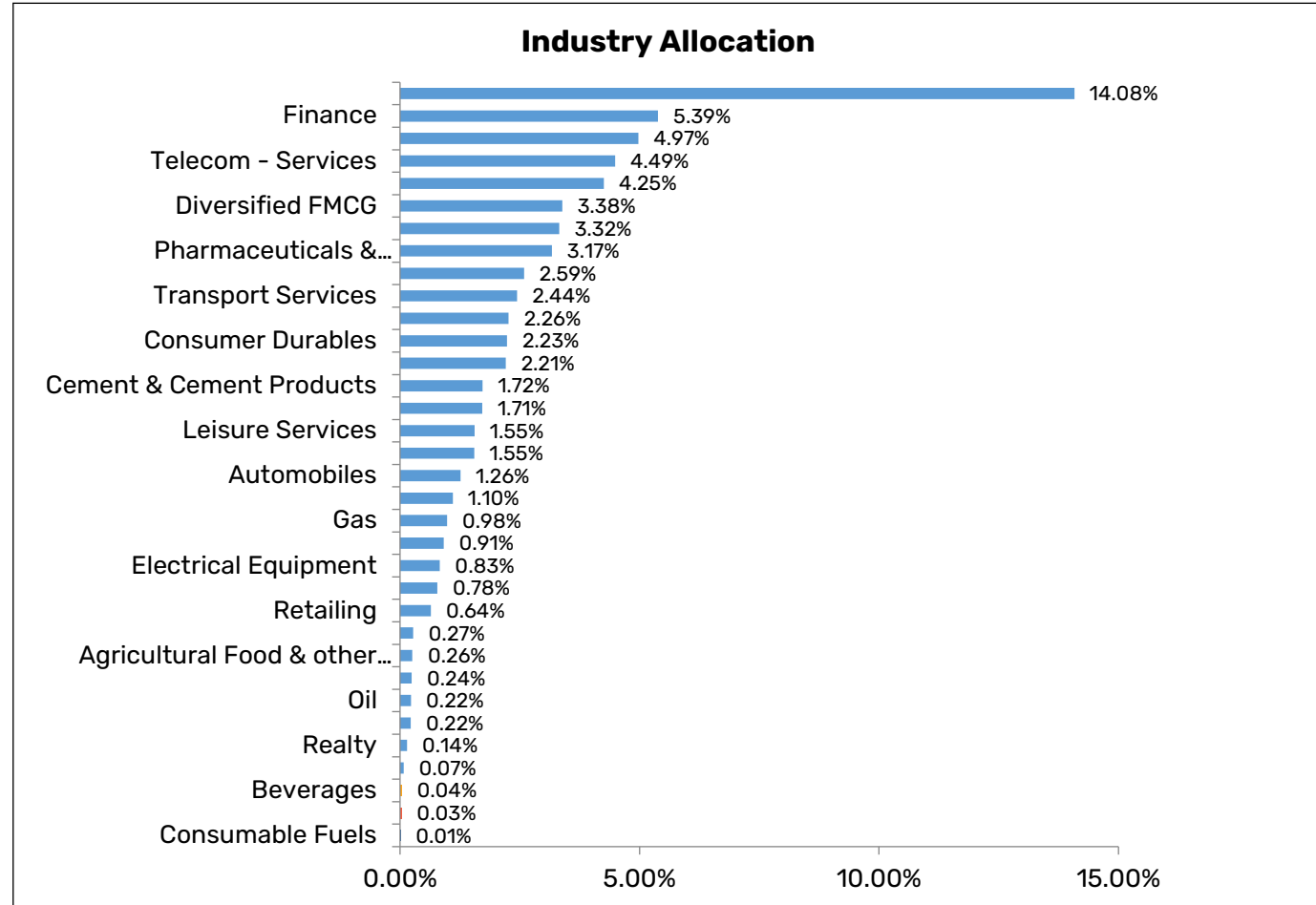
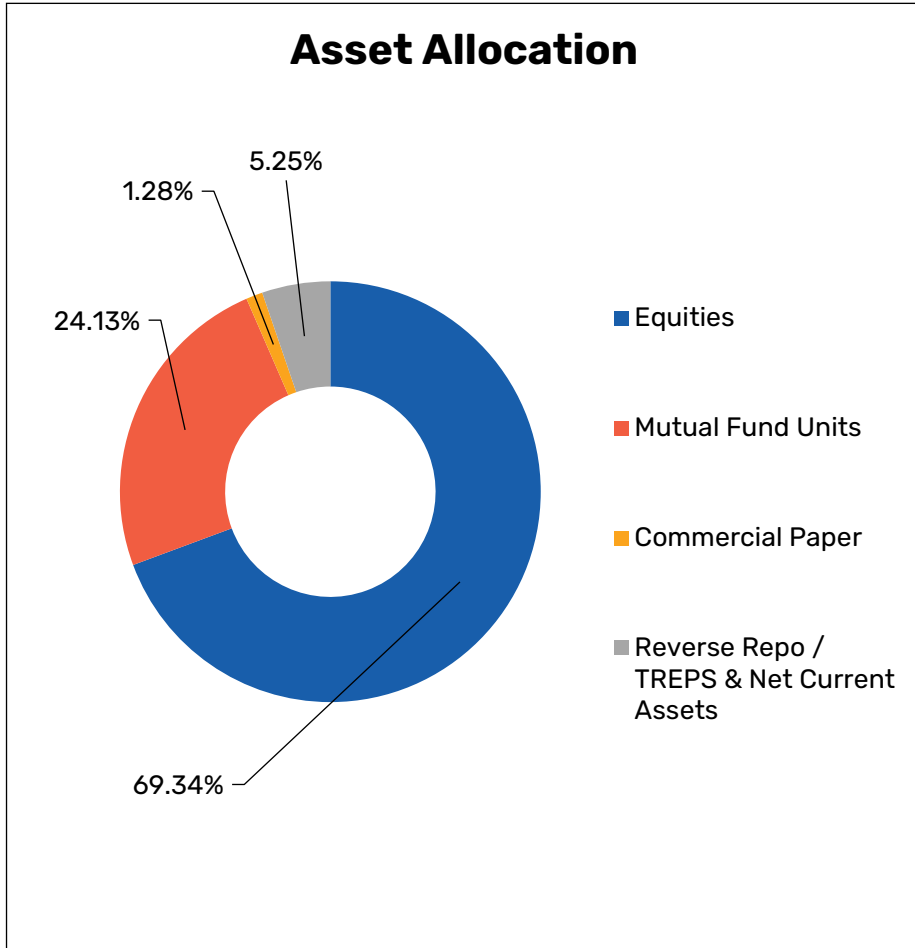
| Stock | Equity (% to NAV) | Futures (% to NAV) |
|---|-------------------|--------------------|
| Bank of Baroda | 3.98% | -4.01% |
| Multi Commodity Exchange of India Limited | 3.45% | -3.47% |
| Reliance Industries Limited | 3.17% | -3.19% |
| HDFC Bank Limited | 3.09% | -3.11% |
| Kotak Mahindra Bank Limited | 2.93% | -2.95% |
| Indus Towers Limited | 2.61% | -2.63% |
| Oracle Financial Services Software Limited | 2.60% | -2.62% |
| Hindustan Unilever Limited | 1.99% | -2.00% |
| Tata Power Company Limited | 1.76% | -1.76% |
| Polycab India Limited | 1.71% | -1.72% |
| Hindustan Aeronautics Limited | 1.64% | -1.65% |
| Bajaj Finance Limited | 1.62% | -1.63% |
| InterGlobe Aviation Limited | 1.58% | -1.60% |
| Indian Railway Catering And Tourism Corporation Limited | 1.55% | -1.56% |
| ITC Limited | 1.39% | -1.40% |
| Indian Energy Exchange Limited | 1.38% | -1.38% |
| Dalmia Bharat Limited | 1.29% | -1.29% |
| GMR Airports Infrastructure Limited | 1.17% | -1.18% |
| Glenmark Pharmaceuticals Limited | 1.16% | -1.17% |
| Tata Consultancy Services Limited | 1.14% | -1.14% |
| Steel Authority of India Limited | 1.10% | -1.11% |
| Tata Communications Limited | 1.06% | -1.06% |
| MRF Limited | 0.89% | -0.89% |
| Container Corporation of India Limited | 0.86% | -0.86% |
| Bharat Heavy Electricals Limited | 0.83% | -0.83% |
| Metropolis Healthcare Limited | 0.82% | -0.82% |
| LIC Housing Finance Limited | 0.80% | -0.81% |
| Jindal Steel & Power Limited | 0.79% | -0.79% |
| Vodafone Idea Limited | 0.79% | -0.79% |
| Shriram Finance Limited | 0.79% | -0.79% |
| Larsen & Toubro Limited | 0.78% | -0.78% |
| State Bank of India | 0.77% | -0.78% |
| Berger Paints (I) Limited | 0.74% | -0.75% |

| Stock | Equity (% to NAV) | Futures (% to NAV) |
|--|-------------------|--------------------|
| Alkem Laboratories Limited | 0.72% | -0.72% |
| Tata Steel Limited | 0.70% | -0.70% |
| Punjab National Bank | 0.69% | -0.70% |
| Titan Company Limited | 0.67% | -0.67% |
| REC Limited | 0.66% | -0.66% |
| Manappuram Finance Limited | 0.65% | -0.66% |
| Aurobindo Pharma Limited | 0.65% | -0.66% |
| The Federal Bank Limited | 0.65% | -0.65% |
| Trent Limited | 0.64% | -0.64% |
| Mahindra & Mahindra Limited | 0.64% | -0.64% |
| Bharat Electronics Limited | 0.63% | -0.63% |
| Bandhan Bank Limited | 0.61% | -0.62% |
| Crompton Greaves Consumer Electricals Limited | 0.61% | -0.61% |
| Canara Bank | 0.60% | -0.60% |
| IndusInd Bank Limited | 0.55% | -0.55% |
| GAIL (India) Limited | 0.53% | -0.54% |
| NTPC Limited | 0.45% | -0.46% |
| IDFC Limited | 0.41% | -0.42% |
| Maruti Suzuki India Limited | 0.41% | -0.41% |
| Ambuja Cements Limited | 0.40% | -0.40% |
| Adani Ports and Special Economic Zone Limited | 0.38% | -0.38% |
| L&T Finance Limited | 0.35% | -0.36% |
| Biocon Limited | 0.35% | -0.35% |
| Indraprastha Gas Limited | 0.28% | -0.28% |
| MphasiS Limited | 0.26% | -0.26% |
| Balrampur Chini Mills Limited | 0.26% | -0.26% |
| SBI Life Insurance Company Limited | 0.24% | -0.24% |
| Oil & Natural Gas Corporation Limited | 0.22% | -0.23% |
| Gujarat Narmada Valley Fertilizers and Chemicals Limited | 0.22% | -0.22% |
| Hindustan Copper Limited | 0.20% | -0.20% |
| Tata Motors Limited | 0.19% | -0.19% |
| Sun Pharmaceutical Industries Limited | 0.18% | -0.18% |
| Petronet LNG Limited | 0.17% | -0.17% |

| Stock | Equity (% to NAV) | Futures (% to NAV) |
|--|-------------------|--------------------|
| Dr. Lal Path Labs Limited | 0.16% | -0.16% |
| Tech Mahindra Limited | 0.15% | -0.15% |
| DLF Limited | 0.14% | -0.15% |
| HDFC Asset Management Company Limited | 0.14% | -0.14% |
| Apollo Hospitals Enterprise Limited | 0.12% | -0.12% |
| Dixon Technologies (India) Limited | 0.11% | -0.11% |
| Birlasoft Limited | 0.11% | -0.11% |
| Axis Bank Limited | 0.11% | -0.11% |
| Piramal Enterprises Limited | 0.09% | -0.09% |
| Bharat Petroleum Corporation Limited | 0.09% | -0.09% |
| NMDC Limited | 0.07% | -0.07% |
| Granules India Limited | 0.07% | -0.07% |
| Hindustan Petroleum Corporation Limited | 0.06% | -0.06% |
| Voltas Limited | 0.06% | -0.06% |
| City Union Bank Limited | 0.06% | -0.06% |
| IDFC First Bank Limited | 0.04% | -0.04% |
| Asian Paints Limited | 0.04% | -0.04% |
| Hindalco Industries Limited | 0.04% | -0.04% |
| Cipla Limited | 0.04% | -0.04% |
| United Spirits Limited | 0.04% | -0.04% |
| Ashok Leyland Limited | 0.03% | -0.03% |
| ACC Limited | 0.03% | -0.03% |
| Bharti Airtel Limited | 0.03% | -0.03% |
| HDFC Life Insurance Company Limited | 0.03% | -0.03% |
| Balkrishna Industries Limited | 0.03% | -0.03% |
| TVS Motor Company Limited | 0.02% | -0.02% |
| Coal India Limited | 0.01% | -0.01% |
| Max Financial Services Limited | 0.01% | -0.01% |
| Equities | 69.34% | -69.73% |
| Bajaj Finserv Liquid Fund - Direct Plan - Growth | 24.13% | |
| Mutual Fund Units | 24.13% | |
| Bajaj Finance Limited | 1.28% | |
| Commercial Paper | 1.28% | |
| Reverse Repo / TREPS | 4.75% | |
| Cash Receivables/Payable | 0.50% | |
| Grand Total | 100.00% | |

Data as on 28th June 2024

Bajaj Finserv Arbitrage Fund - Allocation



Data as on 28th June 2024

Fund Features

| | |
|-----------------------------------|--|
| Investment Objective | The investment objective of the Scheme is to seek to generate returns by investing in arbitrage opportunities in the cash and derivatives segments of the equity markets and by investing balance in debt and money market instruments. However, there is no assurance that the investment objective of the Scheme will be achieved |
| Benchmark | Nifty 50 Arbitrage Index (TRI) |
| Plans | Regular/Direct |
| Options | Growth and IDCW |
| Fund Manager | Mr. Ilesh Savla (Equity portion) Mr. Siddharth Chaudhary (Debt portion) |
| Exit Load Structure | Entry Load – Not Applicable Exit Load – 0.25% of applicable NAV if redeemed/switched out within 15 days from the date of allotment. Nil if redeemed/switched out after 15 days from the date of allotment. |
| Minimum Application Amount | During ongoing offer: Fresh subscription - Rs. 500/- and in multiples of Re. 1/- Minimum additional application amount - Rs. 100/- and in multiples of Re. 1/- Systematic Investment Plan (SIP): •From Rs. 500 upto Rs. 1,000: minimum 60 instalments. •Above Rs. 1,000: minimum 6 instalments. Minimum amount for switch-in – Rs. 500 and in multiples of Re. 1. |

Riskometer

This product is suitable for investors who are seeking*:

- Short term income generation
- Income through arbitrage opportunities in the cash and derivatives segments of the equity markets

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

SCHEME

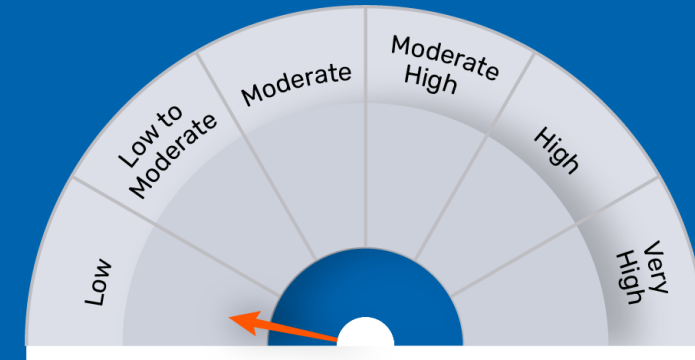
Riskometer



Investors understand that their principal will be at low risk

BENCHMARK

Riskometer



Nifty 50 Arbitrage Index (TRI)

An open ended scheme investing in arbitrage opportunities

Disclaimers

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

Thank You