



Edelweiss Arbitrage Fund

(An Open-Ended scheme investing in Arbitrage Opportunities)

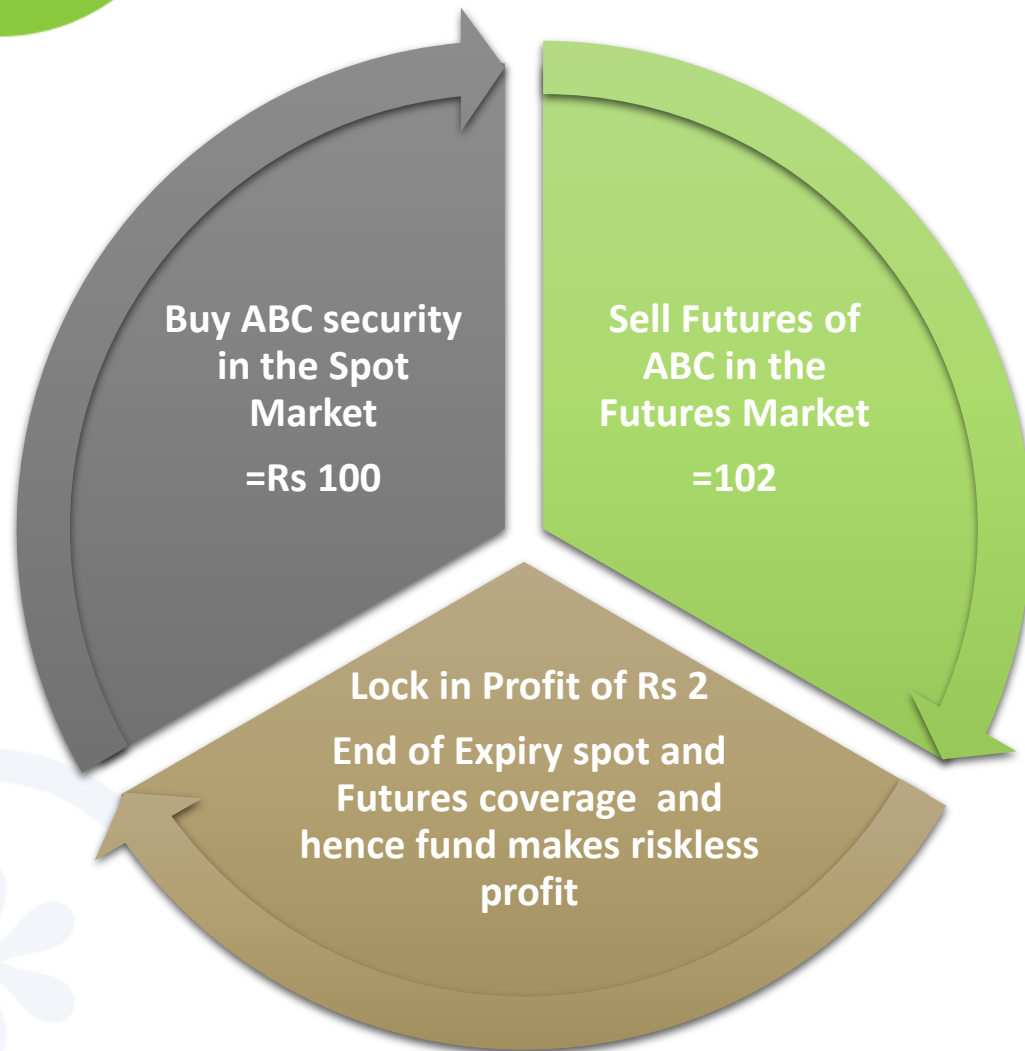
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Sep 2022

Make price difference between markets work for you.



Arbitrage Simplified



Arbitrage is the way of buying share in one market and selling them in another to exploit the price difference

Arbitrage Opportunities in Equity Market

Arbitrage is a process of identifying a gap between the price in the cash market (Spot) and its corresponding price in the futures market (Future Price).

Equity Arbitrage seeks to identify this spread between stock Spot and Future price and attempts to capture it in an efficient risk-free manner.

How it Works?

Spread Rs. 6.22



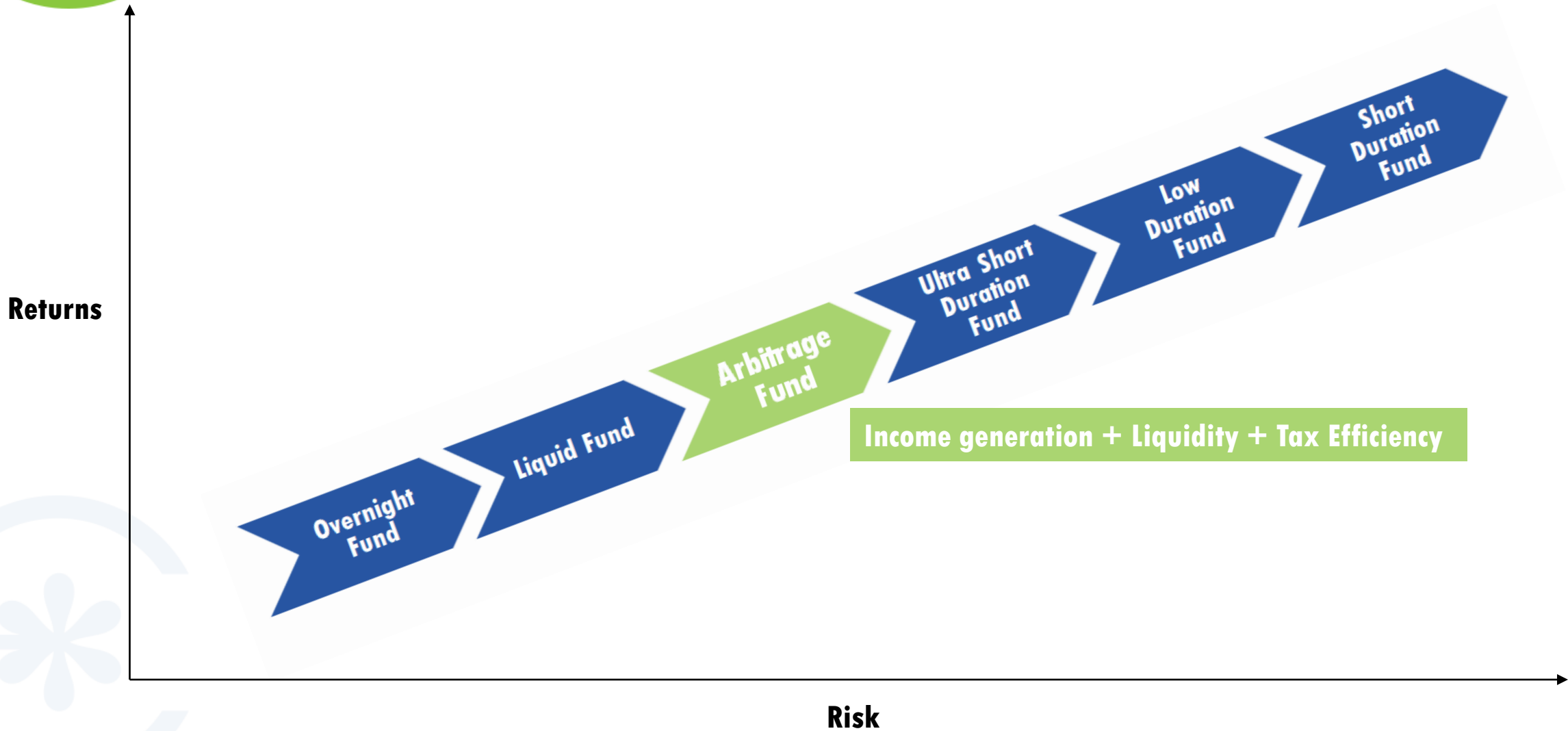
As on Nov 30th 2017

Buy RIL stock in cash & sell Dec 17 futures

In this way you make a risk-free return of 8.77% annualised return

The Above example is only for illustration purpose, the scheme may or may not hold such securities in its portfolio.

Portfolio Positioning along the risk-return spectrum

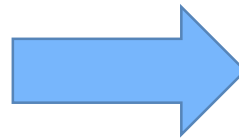


What is Arbitrage Fund



An Arbitrage Fund is a type of hybrid fund which aims to capitalise on profitable arbitrage opportunities (price differential in a stock) between cash and derivatives segments of the equity market.

**Fund will Initiate an arbitrage position by buying a stock in the cash segment
&
Selling simultaneously equal quantity of the stock in the futures segment of the market**



Positions thus initiated are to be reversed before or during the expiry of the futures series.

Types of Arbitrage Opportunities



Arbitrage

Buying in Cash and simultaneously selling Future of the same stock

- Example - Buy ABC Ltd. Equity @ 1000 and Sell ABC Ltd. March Future @ 1010
- Difference: 10 / 100 bps

Reverse Arbitrage

It is reversing the arbitrage position if futures premium is low or negative i.e. Selling in Cash and simultaneously buying Future of the same stock.

- Example - i.e. Sell ABC Ltd. Equity @ 1000 and Buy ABC Ltd. March Future @ 1005
- Difference: 5 / 50 bps cost

Churning

It is combination of Arbitrage and Reverse Arbitrage

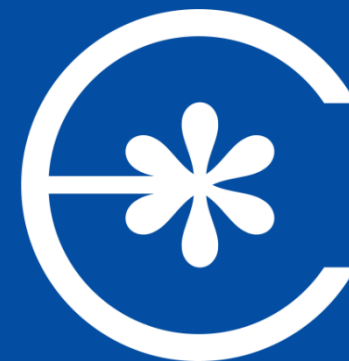
- Example - Exiting position in a stock (Reverse Arbitrage) wherein futures premium is low and Shifting to another stock (Fresh Arbitrage) where futures premium is high.
- As mentioned above Fresh Arbitrage @ 100 Bps and Reverse Arbitrage @ 50 Bps cost, Net benefit from churning the portfolio is 50 Bps.

Short Roll

Rolling futures position from current month to next month i.e. Buy current month futures and selling next month future (simultaneously)

- Example - Buy XYZ March Future @ 1000 and Sell XYZ April Future @ 1004
- Difference: 4 / 40 bps cost

Edelweiss Arbitrage Fund



Edelweiss Arbitrage Fund – Investment Strategy



- * Predominantly invest in arbitrage opportunities between spot and futures prices of exchange traded equities
- * Build market neutral positions that offer an arbitrage potential for e.g., buying the basket of index constituents in the cash or futures segment and selling the index futures
- * The margin money requirement for the purposes of derivative exposure will be held in the form of Term Deposits, Cash or Cash equivalents.
- * Invests in quality debt instruments of short maturities

Where can the Fund Invest?

Asset Type	Edelweiss Arbitrage Fund
Arbitrage Opportunities	Yes
Margin Fixed Deposits	Yes
Out-right Equity Exposures	No
Government Bonds	No
Duration Risk	Lower
Credit Risk	Lower
Equity IPO	No

Benefits of Arbitrage Fund



The Fund is suitable for investors with Short to Medium- Term investment horizon

LOW VOLATILE RETURNS



Simultaneous trades in the same security across exchanges/platform eliminates risks of significant price movements

ALTERNATIVE TO LIQUID INVESTMENTS



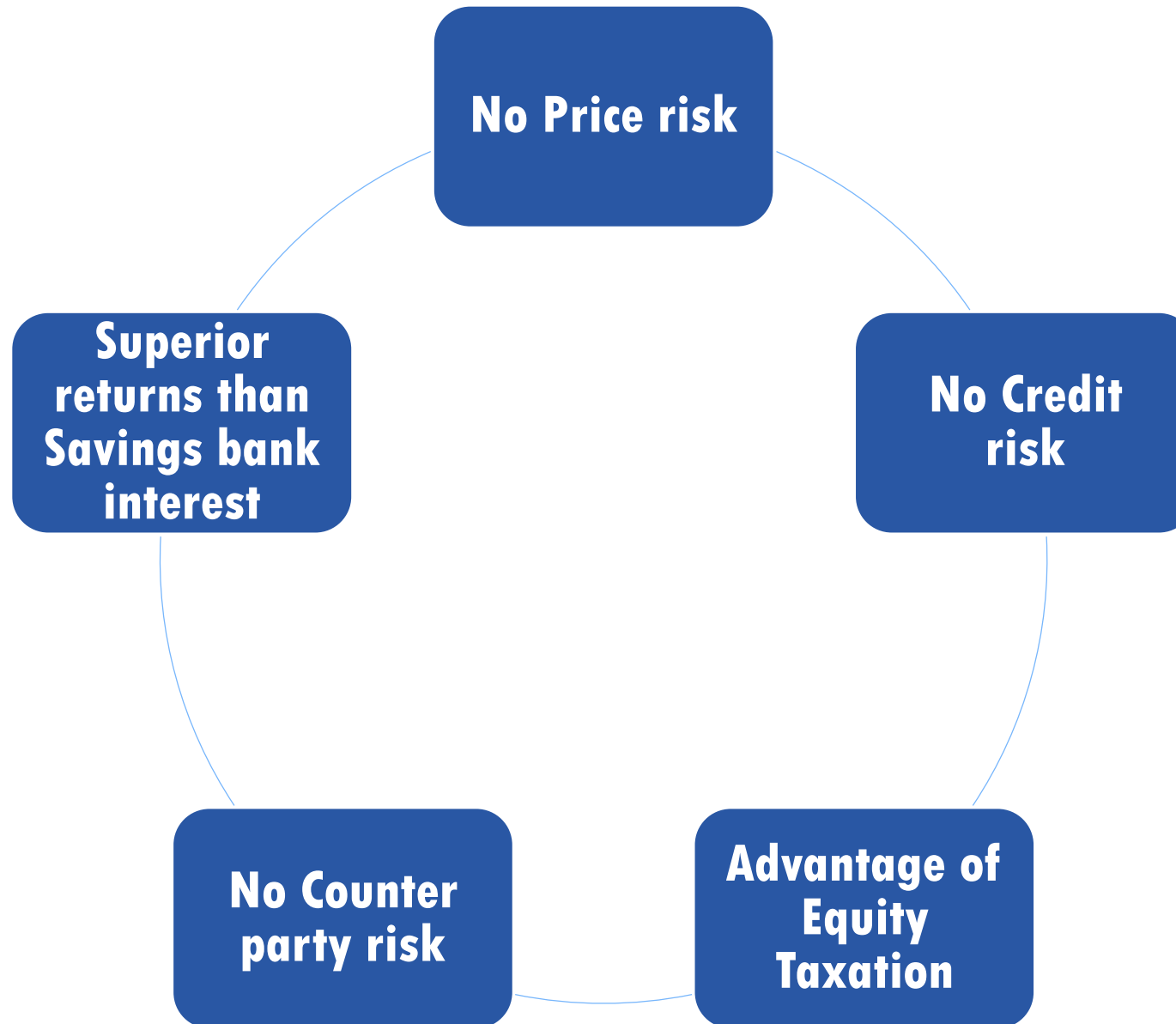
Offers similar risk – adjusted returns

BETTER POST-TAX RETURNS



Being classified as an Equity Scheme, it enjoys tax advantage over Debt/Money Market Schemes

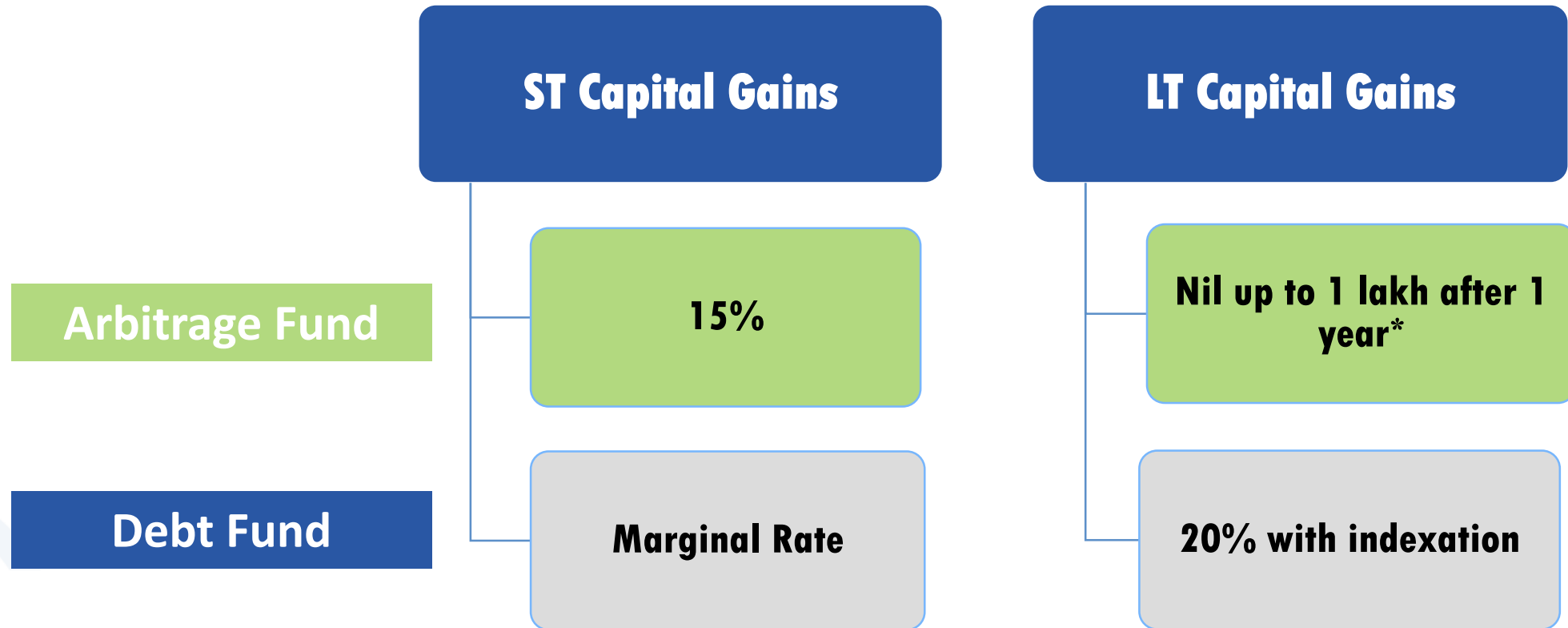
Why one should Invest in Arbitrage Fund?



Tax Efficiency of Arbitrage Funds



Arbitrage Funds being equity-oriented schemes enjoys tax treatment of Equity funds. The Following table compares the tax treatment on returns of Arbitrage Fund with fixed income funds:



*Assumed returns over next one year** LTCG tax applicable after one year. Surcharge not considered. It will be applicable as per investor tax bracket in addition to this. Investors are requested to consult their tax advisor. Above is Only for Illustration Purpose. #Distribution of dividend is subject to availability of distributable surplus. Pursuant to payment of dividend, the NAV of the Dividend Options of the Scheme will fall to the extent of dividend payout and statutory levy, if any.

Tax Advantage in an Arbitrage Fund



Let us assume that Investor A, B and C has ₹ 15 lakhs.

- Investor B invests ₹ 15 lakhs in his savings bank account. The bank pays 3.5% interest on the savings bank balance.
- Investor A invested ₹ 15 lakhs in an arbitrage fund.
- Investor C invested the same amount in a debt fund.
- All are in the 30% tax bracket except the arbitrage fund which is taxed in the short term at 15%. Let us compare their post tax returns.

Particulars	Investor A (Arbitrage Fund)	Investor B (Savings Bank)	Investor C (Debt Fund)
Investment	15,00,000	15,00,000	15,00,000
Interest rate / Return	3.50%	3.50%	3.50%
For investments less than 1 year			
Investment tenure (months)	6	6	6
Interest / Profit	26,250	26,250	26,250
Exemption u/s 80TTA	NA	10,000	NA
STCG Tax	3,938	4,875	7,875
Post Tax Value	15,22,312	15,21,375	15,18,375
For investments more than 1 year			
Investment tenure (months)	13	13	13
Interest / Profit	56,875	56,875	56,875
Exemption u/s 80TTA	NA	10,000	NA
Exemption under LTCG	1,00,000	NA	NA (LTCG after 3 years)
Income / LTCG Tax	NIL	14,063	17,063
Post Tax Value	15,56,875	15,42,812	15,39,812

For simplification purposes, we have not taken surcharge and cess. For more details, pls discuss with your tax advisor

Who should invest in Arbitrage Funds?



Investors who are risk-averse who wants to park their surplus funds when there is a persistent fluctuation in the market

Investors who want very low risk profile for their investment

Investors in higher tax brackets who want to take advantage of equity taxation.

Investors who have investment horizon of at least 3 month or more.

Investors who are looking for alternatives to liquid and bank deposits.

Current Equity Market Environment



Update on the Fund



Nifty ended Aug series gaining by 3.50%.

Stock future rollovers for the month stands at 93% which is at par with the average rollovers of last three series at 93%.

Average roll levels (spreads) across stock futures were approximately between 55 to 57 bps (cost to long rollers).

For the Sep series, stock future open interest has increased to INR 181,983 Crores (~1% higher compared to the Aug series).

We have maintained our Cash-Future exposure in the fund to 72%.

Roll levels (spreads) were strong in the range of 55 to 57 bps (for 5 week expiry), compared to 35 to 37 bps spreads (for 4 week expiry) during last series.

Single stock future open interest for Sep series has increased to INR 181,983 Crores compared to previous series open interest of 179,809 Crores.

Equity Market brief

Moving ahead in September



News around interest rate hike from RBI/Fed, FII flows in equity market will be events to watch in coming series.



If market sentiments continue to improve along with some dovish commentary from RBI/FED can lead to further improvement in spreads.



Looking at current volatility and news flow in market, we advise investor to take a monthly call on investment in arb from expiry to expiry.



Factors which supported higher spread



Performance



Edelweiss Arbitrage Fund

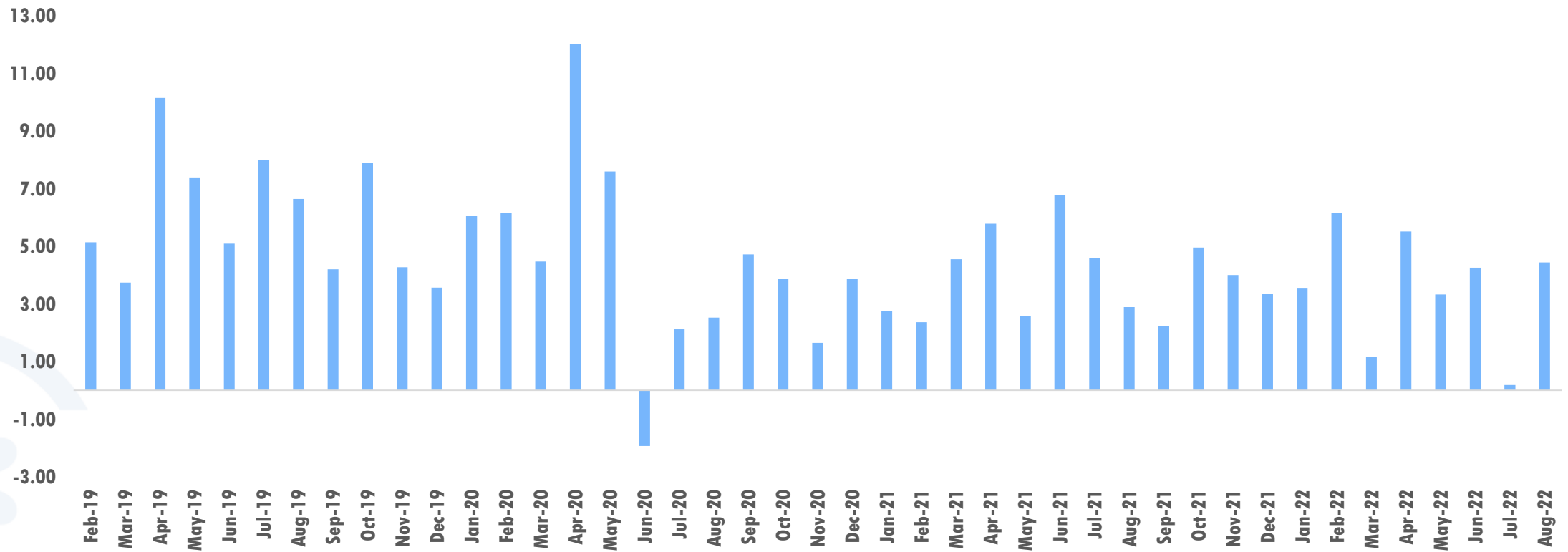
	Scheme – Regular Plan		Scheme – Direct Plan		Scheme Benchmark Nifty 50 Arbitrage Index		Additional Benchmark CRISIL 1 year T-bill Index	
Period	Return	Value (INR)\$	Return	Value (INR)	Return	Value (INR)	Return	Value (INR)
1 Year	3.55%	10,354	4.30%	10,428	3.41%	10,340	3.17%	10,316
3 Year	4.15%	11,297	4.90%	11,545	3.52%	11,095	4.62%	11,451
5 Year	5.00%	12,765	5.74%	13,218	4.31%	12,348	5.59%	13,124
Since Inception (CAGR)	5.87%	15,952	6.54%	16,785	5.22%	15,163	6.33%	16,523

Past Performance may or may not be sustained in future and should not be used as a basis for comparison with other investments. Nifty 50 Arbitrage TR index is not available hence PR index is used. \$ Value of Rs. 10000 invested is shown above. 1. Different plans shall have different expense structure. Since Inception returns are calculated on Rs.10/- invested at inception of the scheme. In case the start/end date is non business day, the NAV of previous day is used for computation. 2. The scheme is currently managed by Bhavesh Jain (managing this fund from June 27, 2014) and Mr. Dhawal Dalal (Managing this fund from December 22, 2016). Please refer <http://edelweisssmf.com/Download/factsheet.aspx> for other schemes currently managed by the Fund Managers and relevant scheme for performance. 3. Since the scheme is in existence for more than 3 year but less than 5 years hence performance data for 5 years and more is not provided. 4. \$ Nifty 50 Arbitrage TR Index is not available on NSE Website. Liquid Index is represented by CRISIL Liquid Index. Data as on 31st Aug 2022

Expiry to Expiry Return



The Funds historical performance on expiry-to-expiry basis



Past Performance may or may not be sustained in future.

Fund Features



Investment Objective	<p>The investment objective of the Scheme is to generate income by predominantly investing in arbitrage opportunities in the cash and the derivative segments of the equity markets and the arbitrage opportunities available within the derivative segment and by investing the balance in debt and money market instruments.</p> <p>However, there is no assurance that the investment objective of the scheme will be realized.</p>
Benchmark	<p>Nifty 50 Arbitrage Index</p>
Plans / Options	<p>The Scheme offers two Plans: Regular Plan and Direct Plan</p> <p>Each Plan offers: Growth Option, IDCW option</p> <p>IDCW Option shall have Reinvestment of Income Distribution cum Capital withdrawal option (IDCW – Reinvestment), Payout of Income Distribution cum Capital Withdrawal option (IDCW – Payout) & Transfer of Income Distribution cum Capital Withdrawal option (IDCW – Transfer).</p>
Fund Manager	<p>Mr. Bhavesh Jain - Fund Manager – Equity Portion</p> <p>Mr. Dhawal Dalal – Fund Manager – Debt Portion</p>
Exit Load Structure	<ul style="list-style-type: none">• If the Units are redeemed / switched out on or before 30 days from the date of allotment – 0.10%• If the Units are redeemed / switched out after 30 days from the date of allotment – Nil
Minimum Application amount (For lump sum application)	<p>Rs 5,000/- and in multiples of Re 1/- thereafter</p>

Disclaimer



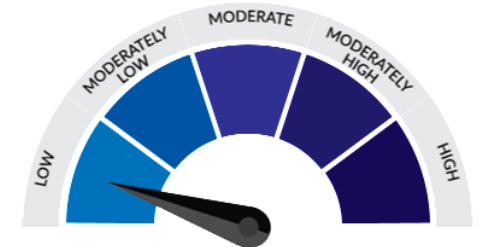
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This product is suitable for investors who are seeking* :

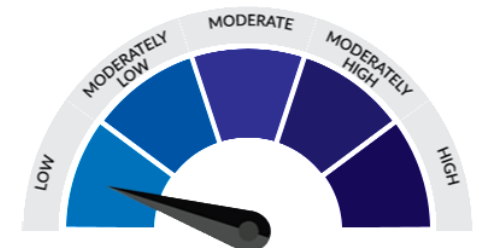
- * To generate income by predominantly investing in arbitrage opportunities
- * Investments predominantly in arbitrage opportunities in the cash and derivative segments of the equity markets and the arbitrage opportunities available within the derivative segment and by investing the balance in debt and money market instruments

*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**



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

Know more

