

# Bajaj Finserv Arbitrage Fund

(An open ended scheme investing in arbitrage opportunities)

March 2025



# 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.



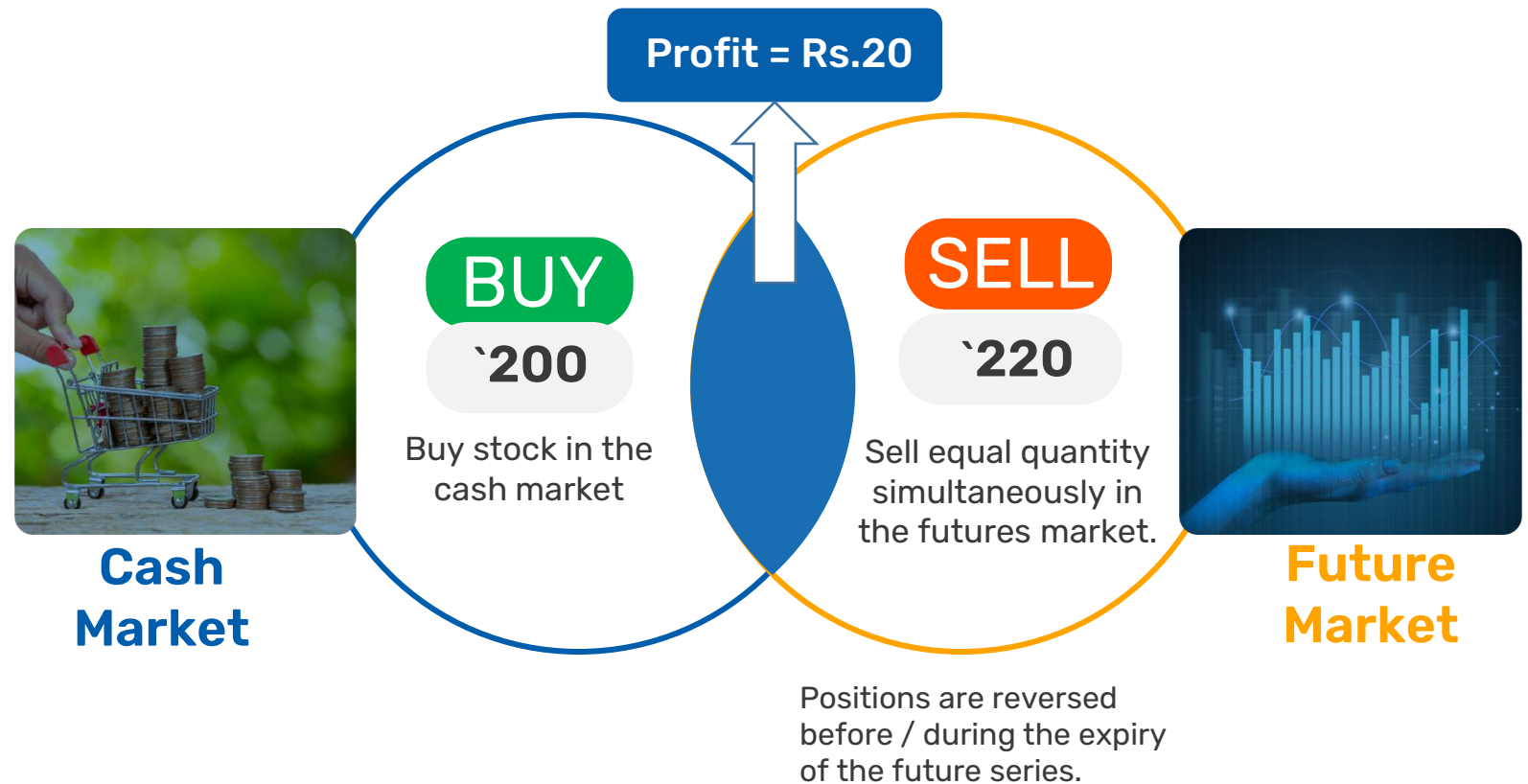
$$\text{Arbitrage} = \text{Rs } 12000 - \text{Rs } 10000 = \text{Rs } 2000$$

# 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

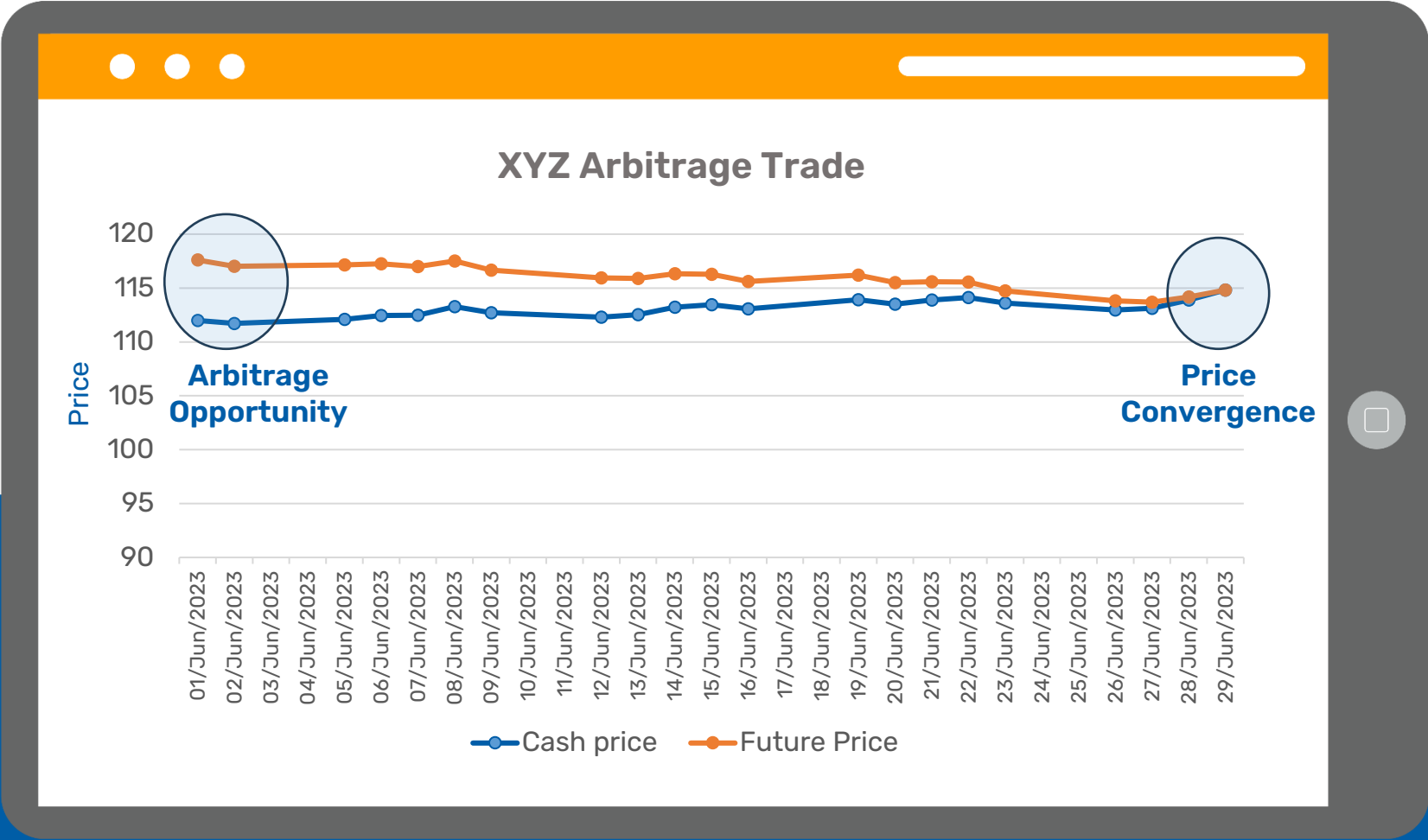


The activity happens in **two different markets** (Cash & Futures)



**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

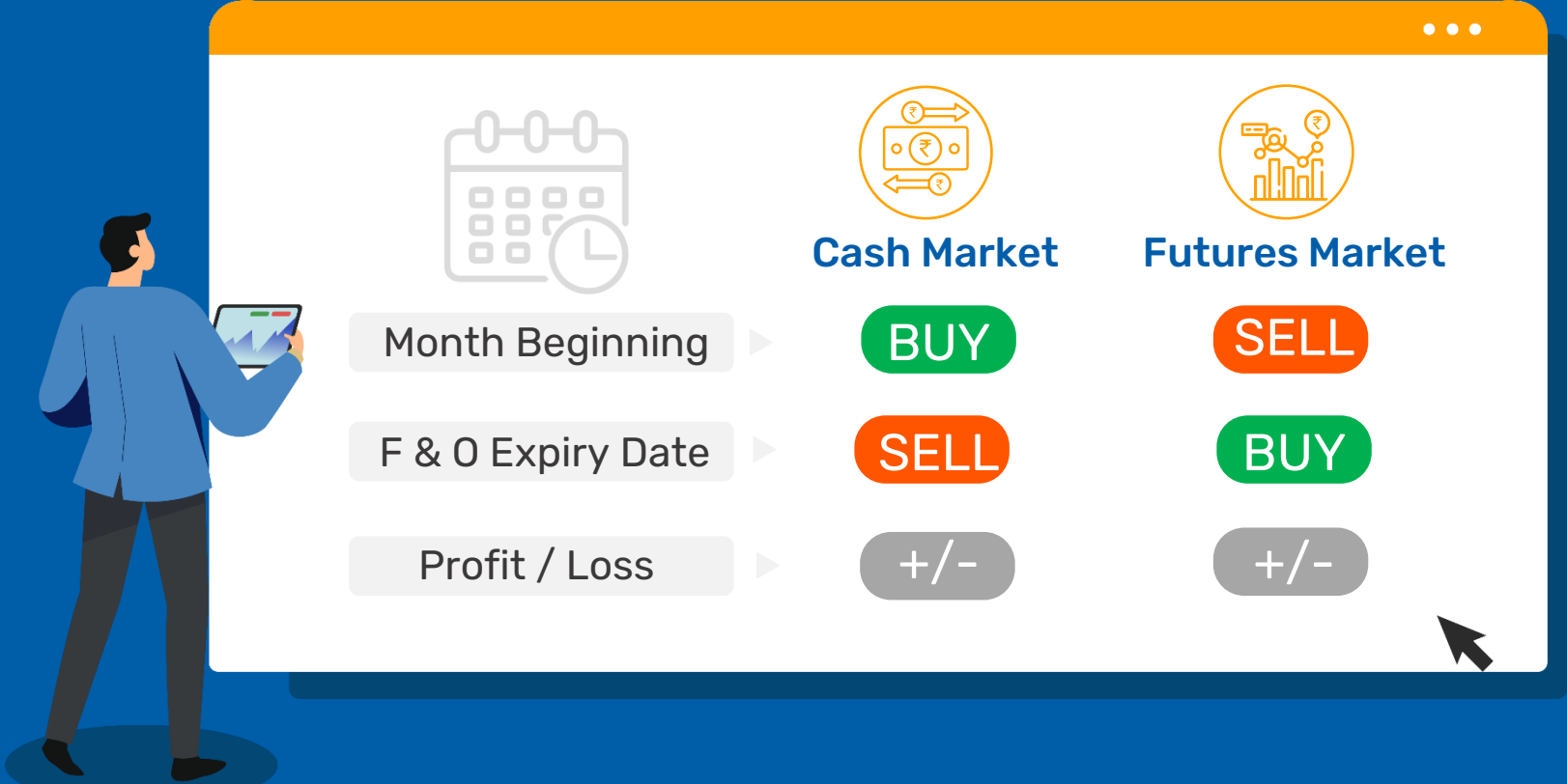


Fund Manager



F & O Expiry Date

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



24<sup>th</sup> March 2023

25<sup>th</sup> April 2023



Fund Manager

F & O Expiry Date



# Cash and Carry Arbitrage – Case study

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

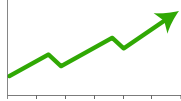
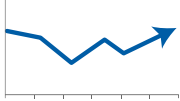
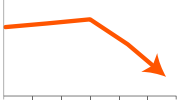


Cash Position = A

Future Position = B

Net Profit

## Different Price Possibilities at the month end

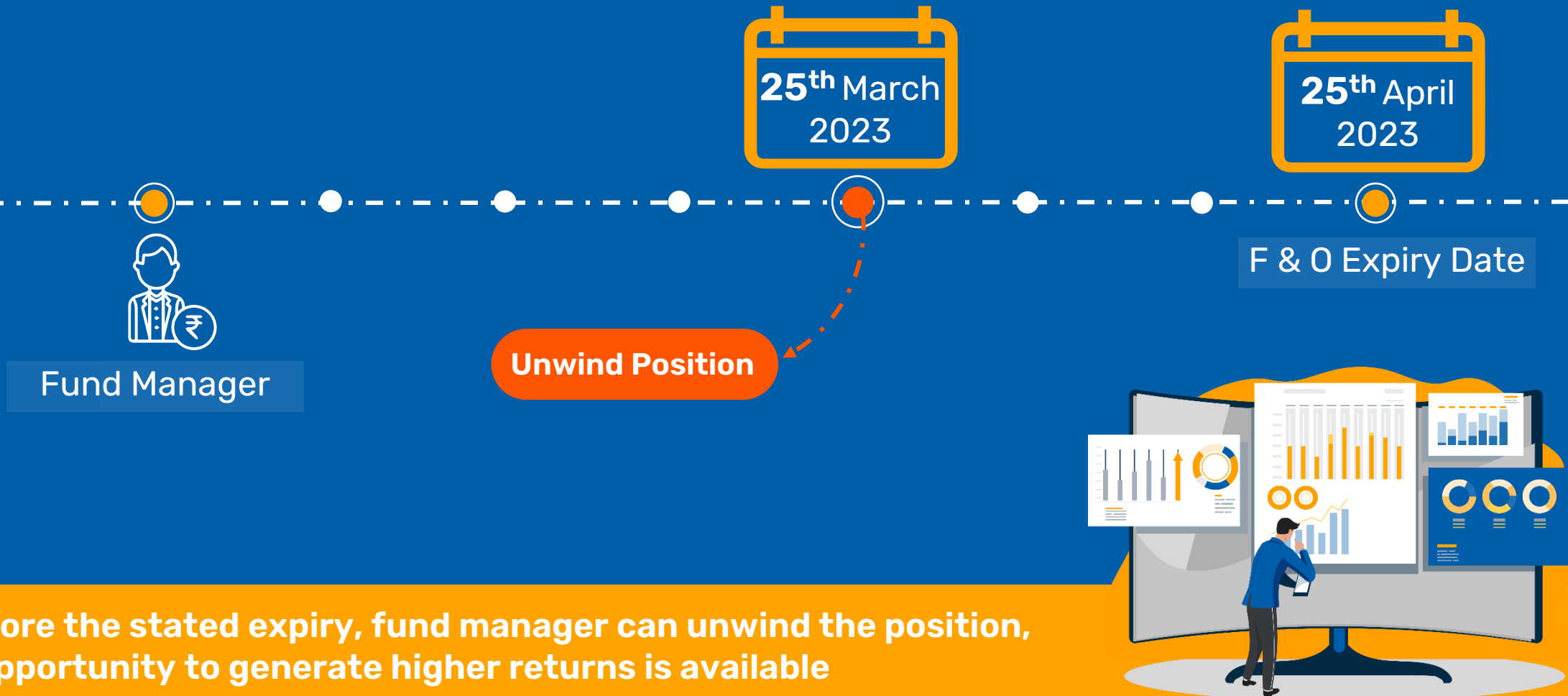
 Stock Price rises to <b>Rs.210</b>	 Stock Price remain at <b>Rs.200</b>	 Stock Price dip to <b>Rs.190</b>
+ 10 (210-200)	0 (200 -200)	- 10 (200 -190)
- 5 (205-210)	+ 5 (205 - 200)	+ 15 (205 - 190)
<b>+ 5</b>	<b>+ 5</b>	<b>+ 5</b>

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



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

# 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



F & O Expiry Date



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**



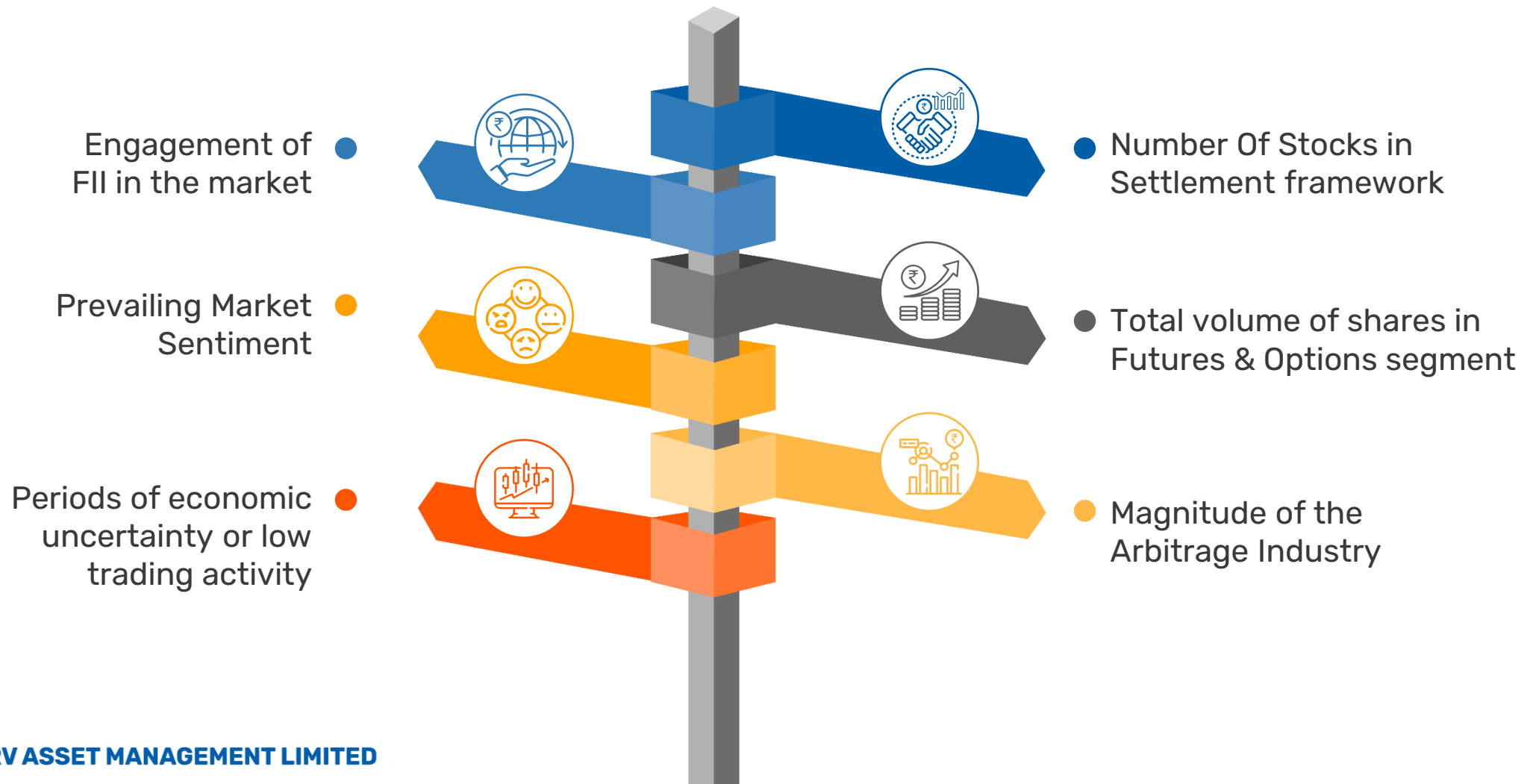
**Exchange Arbitrage**



**Dividend Arbitrage**

# Factors Impacting Spreads

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



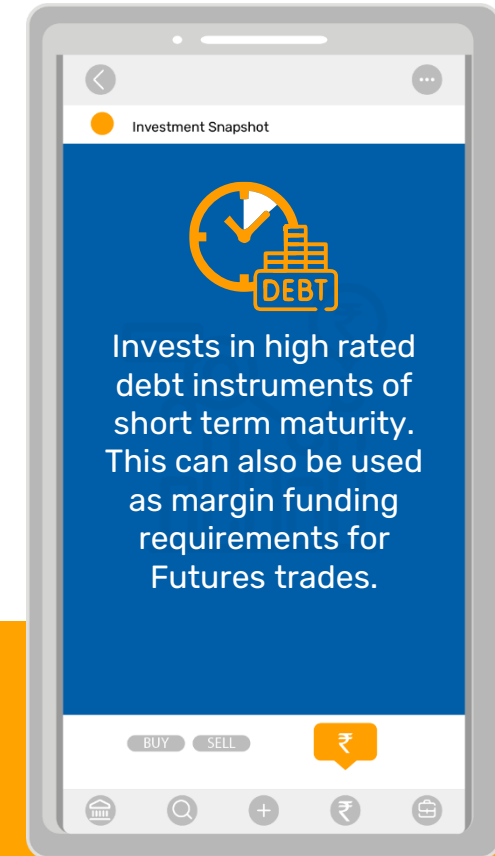
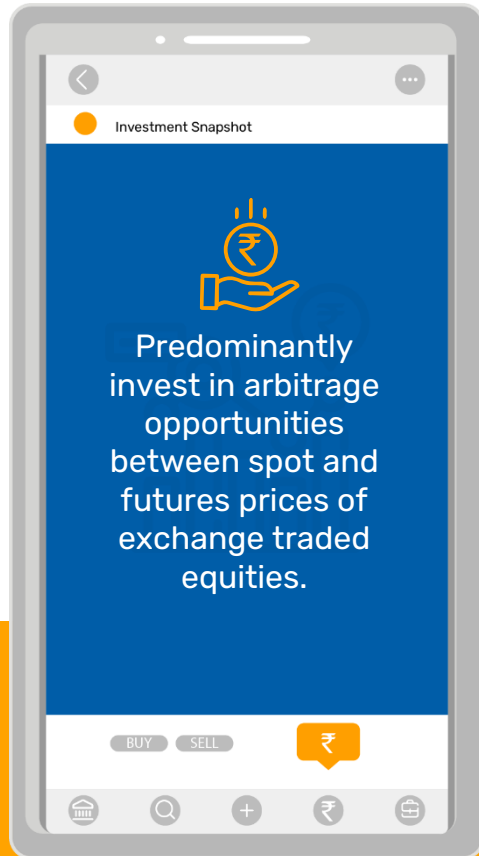
# Decoding the commonly used terms

- **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

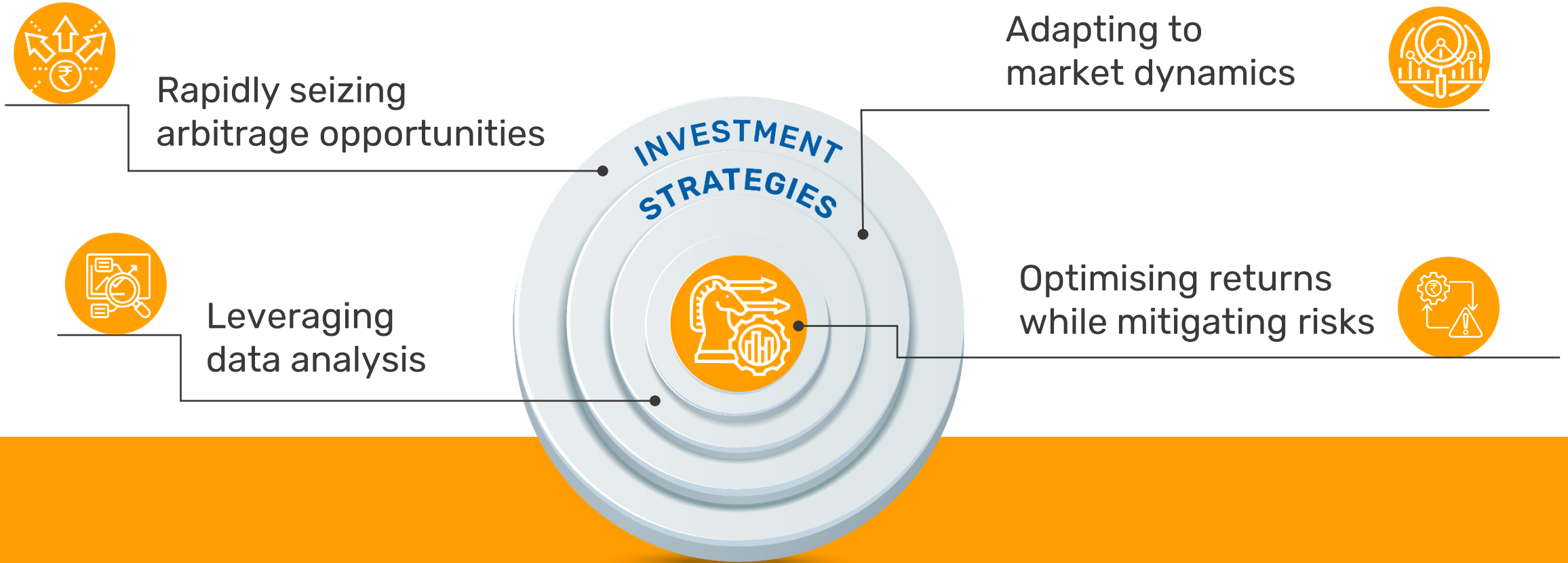


# Investment Snapshot





# Bajaj Finserv Arbitrage Fund : Investment Strategies



# Why invest in Bajaj Finserv Arbitrage Fund?



# Why invest in Bajaj Finserv Arbitrage Fund?

1  Low Volatility

The icon for Low Volatility shows a line graph with a downward arrow and the word 'Low' above it, all within a white circle.

2  No Credit Risk

The icon for No Credit Risk shows a credit card with a warning triangle, all within a blue circle.





3  Equity Taxation

The icon for Equity Taxation shows a document with a magnifying glass over a percentage sign and the word 'TAX', all within an orange circle.

# 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 Dec 31, 2024)

Parameter	Nifty 50 Arbitrage Index	Nifty 50 TRI
 Maximum Returns (Absolute)	3.05%	32.39%
 Minimum Returns (Absolute)	-0.54%	-37.52%
 No. of times +ve returns	98.75%	68.11%
 Standard Deviation	0.57%	7.89%

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

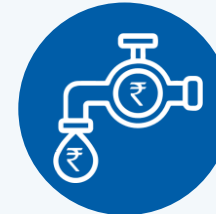
Past performance may or may not be sustained in the future

# 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

 <b>Capital Gains Tax</b>	 <b>Arbitrage Funds</b>	 <b>Equity Funds</b>	 <b>Debt Funds*</b>
 Short Term	20% (< 1 year)	20% (< 1 year)	Income Tax Slab applicable to assessee
 Long Term	12.5%# (> 1 year)	12.5%# (> 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 2024 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

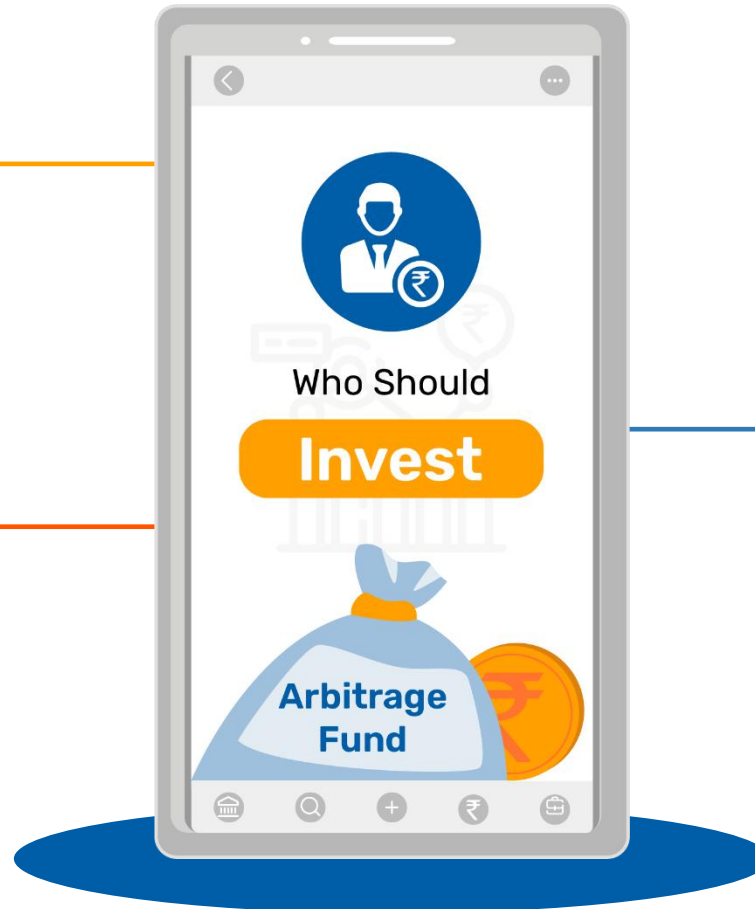
The above simulation is based on highest tax rates applicable to Individual/HUF/Domestic Companies as per the Finance Act, 2023 read with the Taxation Laws, for illustrative purposes only and should not be construed as a promise on minimum returns and safeguard of capital. The above illustration is not 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

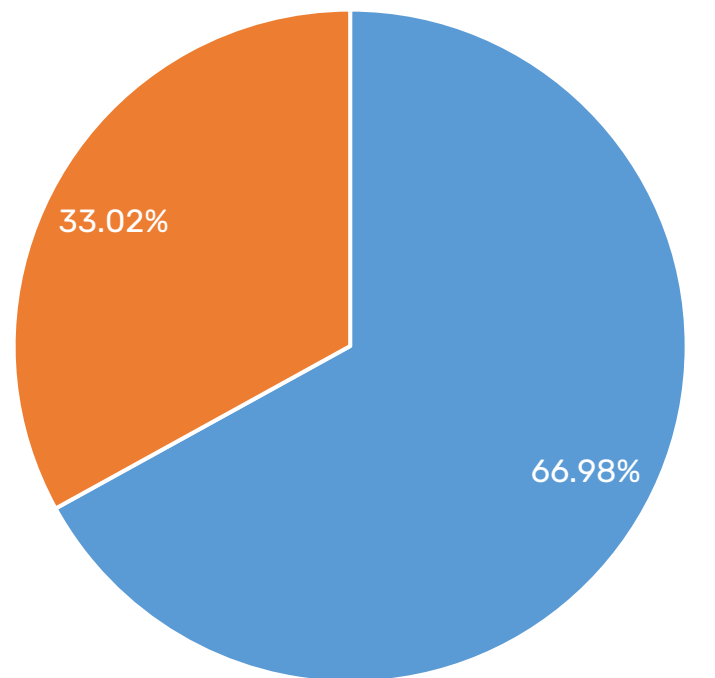
Stock	Equity (% to NAV)	Future (% to NAV)
Reliance Industries Limited	8.12%	-8.16%
ICICI Bank Limited	5.49%	-5.52%
Axis Bank Limited	5.07%	-5.09%
Punjab National Bank	4.20%	-4.22%
HDFC Bank Limited	2.99%	-3.00%
State Bank of India	2.39%	-2.41%
REC Limited	2.26%	-2.27%
Bank of Baroda	1.97%	-1.98%
Tata Power Company Limited	1.58%	-1.59%
Power Grid Corporation of India Limited	1.56%	-1.57%
Bandhan Bank Limited	1.54%	-1.54%
Infosys Limited	1.35%	-1.36%
Bharti Airtel Limited	1.15%	-1.16%
Bharat Electronics Limited	1.09%	-1.09%
Hindalco Industries Limited	1.05%	-1.05%
Mahindra & Mahindra Limited	1.05%	-1.05%
TVS Motor Company Limited	0.93%	-0.94%
Tata Motors Limited	0.92%	-0.92%
Godrej Properties Limited	0.86%	-0.86%
Tata Communications Limited	0.86%	-0.86%
Ambuja Cements Limited	0.84%	-0.84%
ITC Limited	0.81%	-0.81%
Maruti Suzuki India Limited	0.78%	-0.79%
GMR Airports Limited	0.78%	-0.78%
Canara Bank	0.71%	-0.72%
DLF Limited	0.68%	-0.68%
NTPC Limited	0.67%	-0.67%
Tata Steel Limited	0.66%	-0.66%
Cipla Limited	0.65%	-0.65%
Tata Consultancy Services Limited	0.65%	-0.66%
Havells India Limited	0.60%	-0.60%
UltraTech Cement Limited	0.59%	-0.59%
LIC Housing Finance Limited	0.59%	-0.59%

Stock	Equity (% to NAV)	Future (% to NAV)
Indian Railway Catering And Tourism Corporation Limited	0.56%	-0.57%
Power Finance Corporation Limited	0.56%	-0.56%
Marico Limited	0.55%	-0.55%
Vodafone Idea Limited	0.45%	-0.45%
Aditya Birla Fashion and Retail Limited	0.44%	-0.44%
Kotak Mahindra Bank Limited	0.40%	-0.40%
Shriram Finance Limited	0.39%	-0.39%
Titan Company Limited	0.38%	-0.38%
Trent Limited	0.38%	-0.39%
The Federal Bank Limited	0.37%	-0.37%
Oil & Natural Gas Corporation Limited	0.35%	-0.35%
Indus Towers Limited	0.34%	-0.34%
Hindustan Aeronautics Limited	0.33%	-0.34%
Hero MotoCorp Limited	0.31%	-0.31%
Aurobindo Pharma Limited	0.30%	-0.31%
Jindal Steel & Power Limited	0.29%	-0.29%
Grasim Industries Limited	0.28%	-0.28%
Coal India Limited	0.26%	-0.26%
JSW Steel Limited	0.26%	-0.26%
NMDC Limited	0.26%	-0.27%
Adani Ports and Special Economic Zone Limited	0.25%	-0.25%
Adani Enterprises Limited	0.24%	-0.24%
Siemens Limited	0.24%	-0.24%
Sun Pharmaceutical Industries Limited	0.23%	-0.23%
Biocon Limited	0.22%	-0.22%
Exide Industries Limited	0.22%	-0.22%
IIFL Finance Limited	0.21%	-0.22%
Granules India Limited	0.19%	-0.19%
The Indian Hotels Company Limited	0.19%	-0.19%
IndusInd Bank Limited	0.17%	-0.17%
Astral Limited	0.17%	-0.17%
PB Fintech Limited	0.15%	-0.15%
HDFC Asset Management Company Limited	0.15%	-0.15%
Bajaj Auto Limited	0.12%	-0.12%

Stock	Equity (% to NAV)	Future (% to NAV)
GAIL (India) Limited	0.11%	-0.11%
ACC Limited	0.11%	-0.11%
Pidilite Industries Limited	0.10%	-0.10%
Cummins India Limited	0.10%	-0.10%
Bharat Heavy Electricals Limited	0.10%	-0.10%
ABB India Limited	0.09%	-0.09%
Jio Financial Services Limited	0.09%	-0.09%
Crompton Greaves Consumer Electricals Limited	0.07%	-0.07%
Asian Paints Limited	0.06%	-0.06%
SBI Life Insurance Company Limited	0.06%	-0.06%
Yes Bank Limited	0.05%	-0.05%
IDFC First Bank Limited	0.05%	-0.06%
Aarti Industries Limited	0.04%	-0.04%
MRF Limited	0.04%	-0.04%
InterGlobe Aviation Limited	0.03%	-0.04%
JSW Energy Limited	0.03%	-0.03%
HDFC Life Insurance Company Limited	0.02%	-0.02%
Dabur India Limited	0.02%	-0.02%
One 97 Communications Limited	0.02%	-0.02%
Vedanta Limited	0.02%	-0.02%
Info Edge (India) Limited	0.02%	-0.02%
Bank of India	0.02%	-0.02%
APL Apollo Tubes Limited	0.02%	-0.02%
Bajaj Finance Limited	0.01%	-0.01%
Colgate Palmolive (India) Limited	0.01%	-0.01%
Voltas Limited	0.01%	-0.01%
Mahanagar Gas Limited	0.01%	-0.01%
Bajaj Finserv Limited	0.01%	-0.01%
United Spirits Limited	0.01%	-0.01%
ICICI Prudential Life Insurance Company Limited	0.00%	0.00%
Steel Authority of India Limited	0.00%	0.00%
<b>Hedged Equity Exposure</b>	<b>66.98%</b>	<b>-67.30%</b>
<b>Total Short Term Debt and Net Current Assets</b>	<b>33.02%</b>	
<b>Grand Total</b>	<b>100.00%</b>	

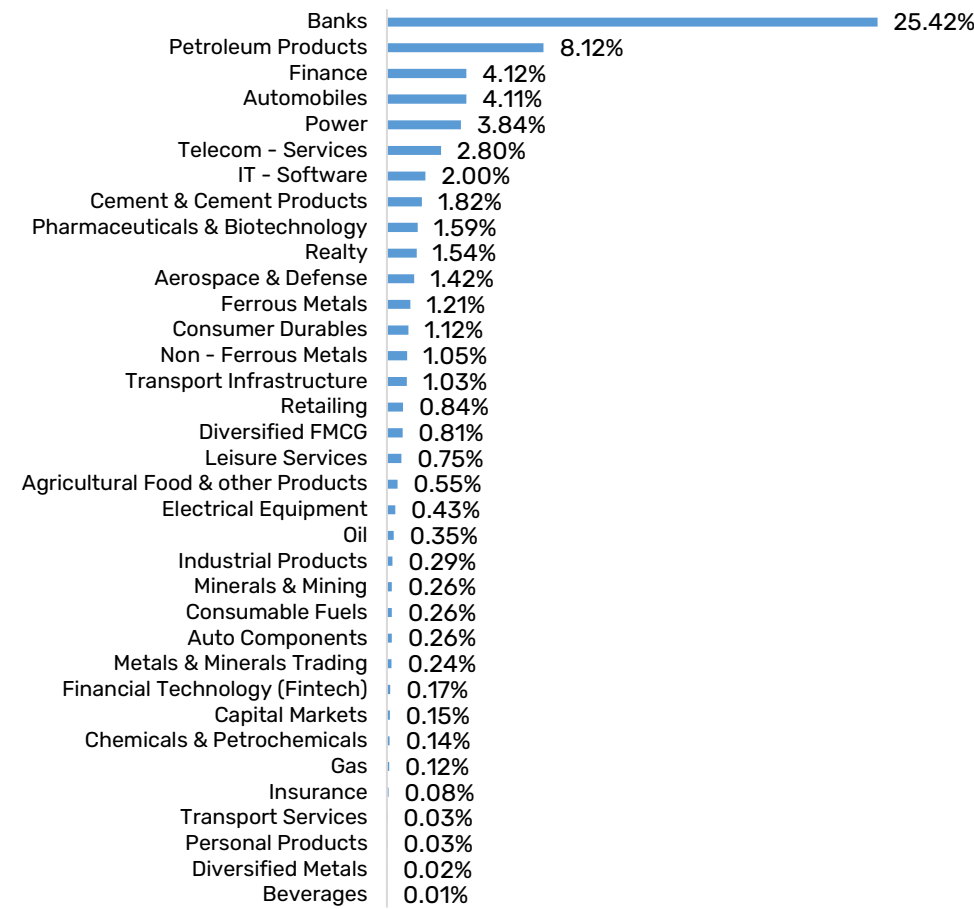
# Bajaj Finserv Arbitrage Fund – Allocation

Asset Allocation



■ Hedged Equity Exposure  
 ■ Total Short Term Debt and Net Current Assets

Industry Allocation



# Fund Features

<b>Investment Objective</b>	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
<b>Benchmark</b>	Nifty 50 Arbitrage Index (TRI)
<b>Plans</b>	Regular/Direct
<b>Options</b>	Growth and IDCW
<b>Fund Manager</b>	Mr. Ilesh Savla (Equity portion) Mr. Siddharth Chaudhary (Debt portion)
<b>Exit Load Structure</b>	Entry Load – Nil 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.
<b>Minimum Application Amount</b>	Fresh Purchase (lumpsum): Rs. 500/- and in multiples of Re. 1/- thereafter Systematic Investment Plan (SIP): <ul style="list-style-type: none"> <li>From Rs. 500 upto Rs. 1,000: minimum 60 instalments.</li> <li>Above Rs. 1,000: minimum 6 instalments.</li> </ul> Minimum amount for switch-in: Rs. 500 and in multiples of Re. 1. Two-Factor Authentication will be applicable for subscription as well as redemption transactions in the units of Mutual Fund.

# Riskometer

An open ended scheme investing in arbitrage opportunities

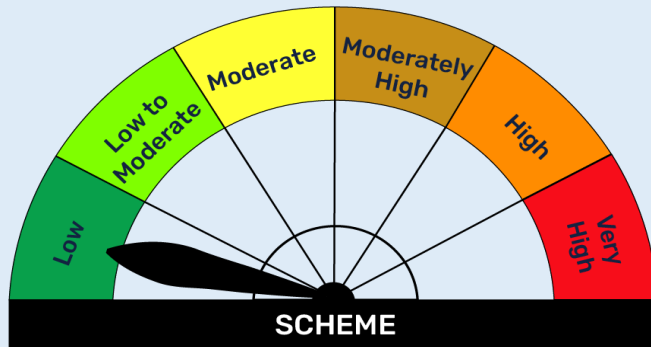
This product is suitable for investors who are seeking\*:

- 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

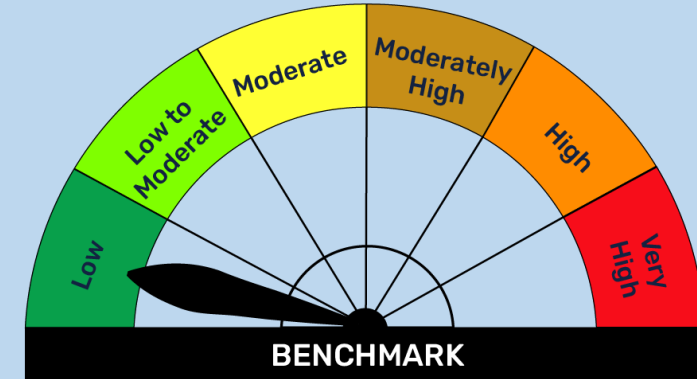
### Riskometer



The risk of the scheme is low

## BENCHMARK

### Riskometer



The risk of the benchmark i.e. Nifty 50 Arbitrage Index (TRI) is low

# Disclaimers

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

**Thank You**