DSP Arbitrage Fund

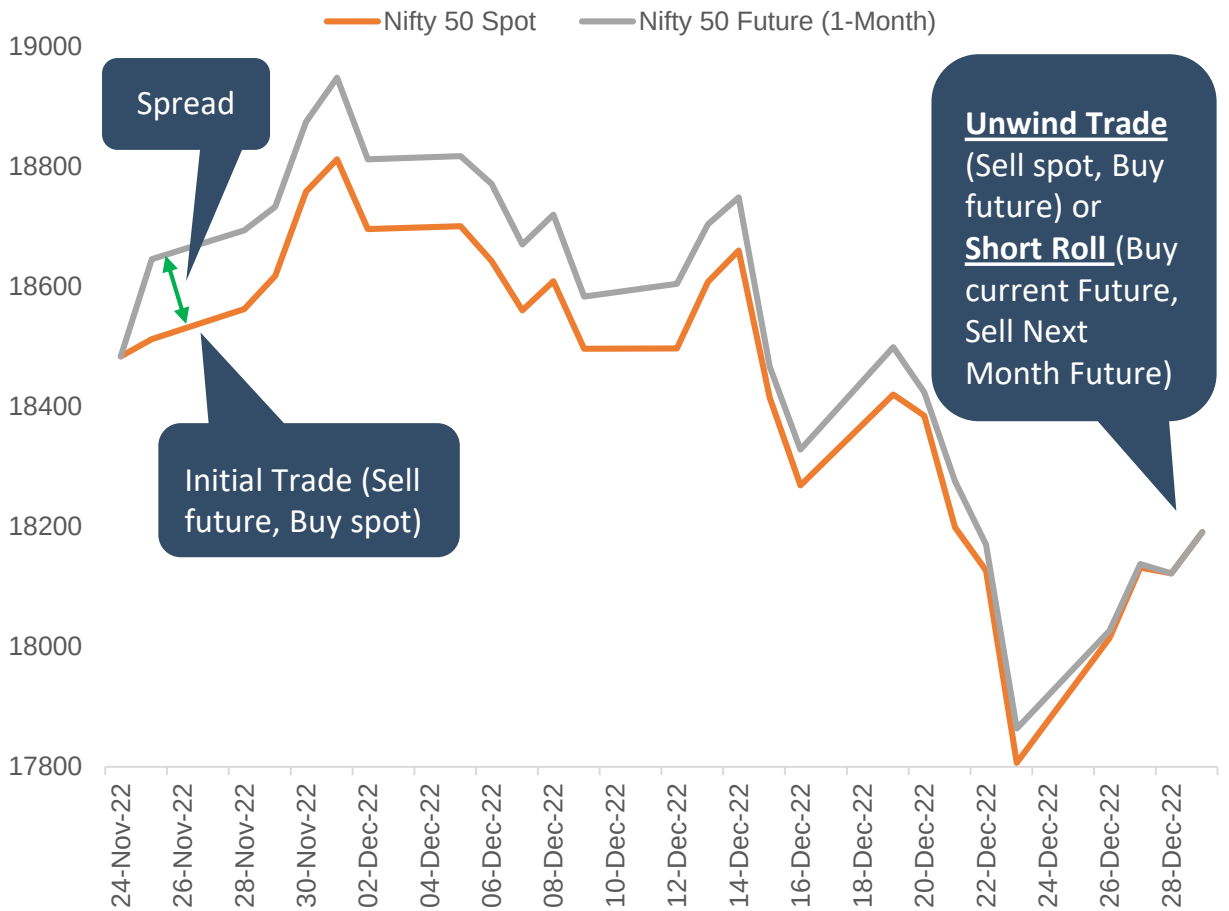
(An open ended scheme investing in arbitrage opportunities)

April 2023

What is an Arbitrage?

Arbitrage takes advantage of pricing difference of a particular asset, between two or more markets. It captures *risk-free* profit on the transaction.

- One of the most commonly used strategy is the Cash-Future Arbitrage by Mutual Funds (MFs)
- Under this strategy, MFs simultaneously buy stock & sell futures thereby locking the spread (risk free profit) at initiation. At expiry, future price converge with actual stock price & accordingly gain is realized.
- Apart from unwinding trade at/near expiry at parity (Spot =Future), MFs can unwind trade before expiry in case other favorable opportunities are available or futures have started to trade at discount (backwardation).



Source of Returns for Arbitrage MFs

Spread Income

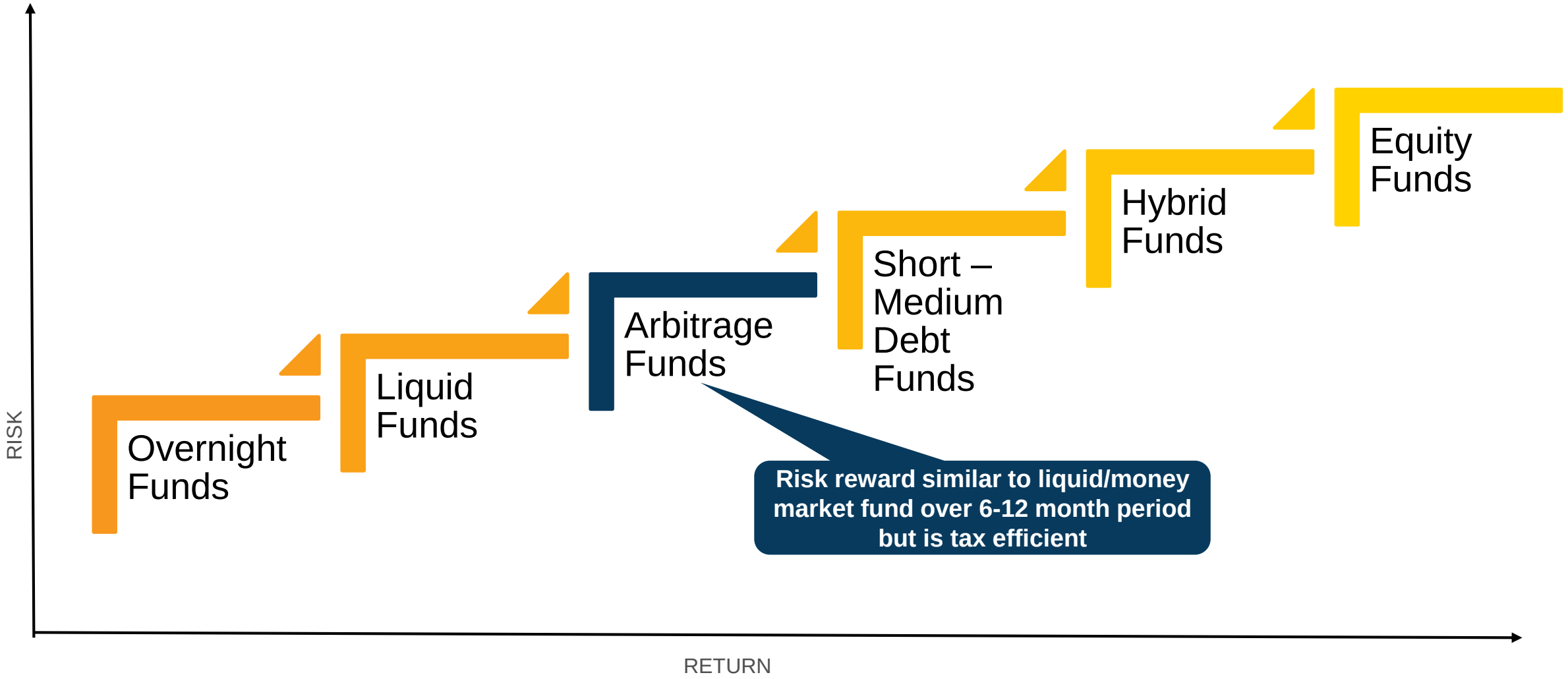
- Hedged Equity Position
- Min ~65% required to maintain equity taxation status

Interest Income

- Units of debt Mutual Funds, T-Bills etc.

It is not possible to directly invest in Index. The graph is for illustration purpose.
To know more about technical terms and concepts of Arbitrage and Arbitrage Mutual funds read our 'Getting Smarter' note here

Product Positioning



Investor Profile

WHO CAN CONSIDER INVESTING

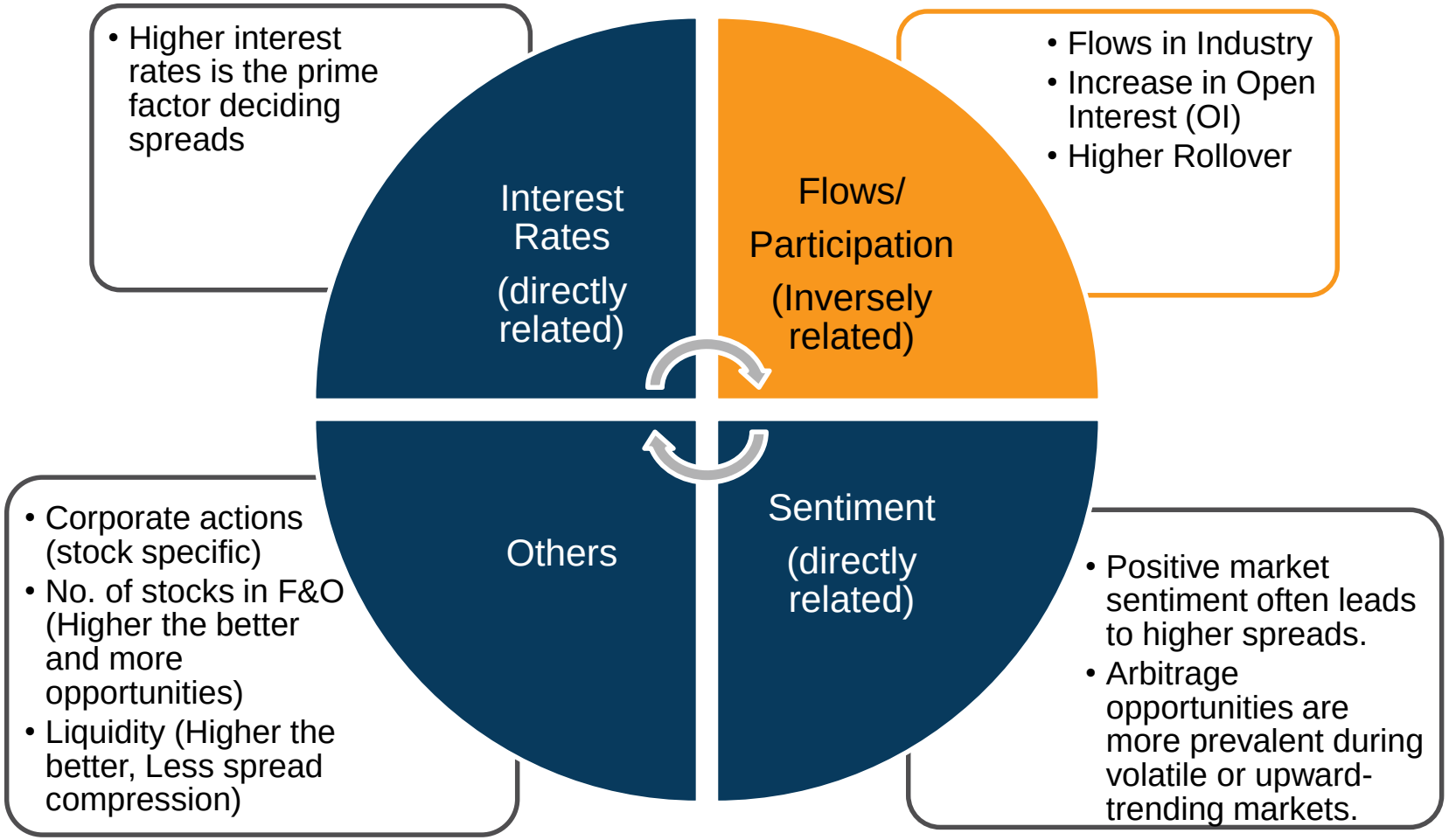
Low risk profile

Park Surplus money

Alternative to FDs/Shorter-end Debt Funds

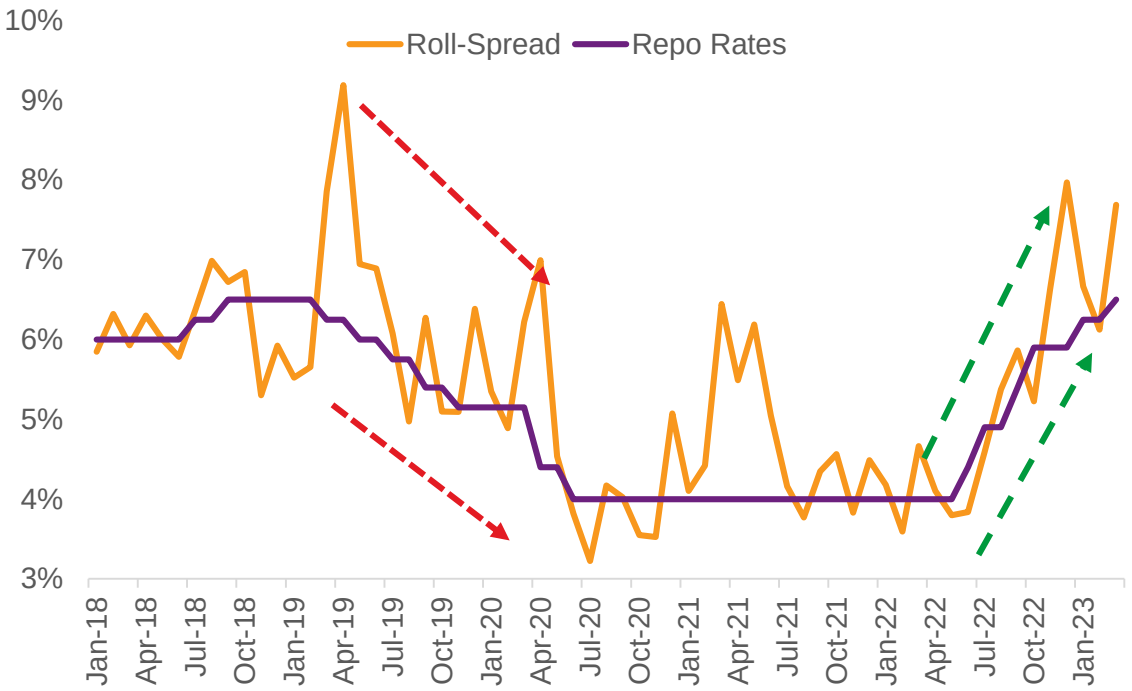
At least 6 months – 1 year of investment horizon

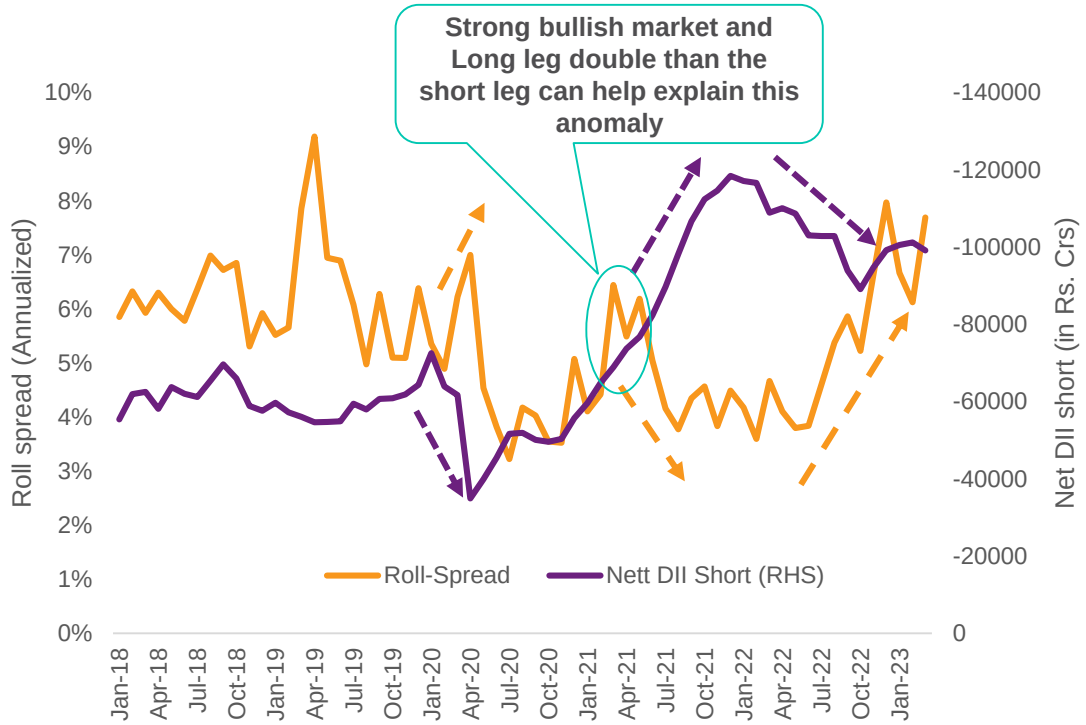
Factors affecting spreads (1)



Factors affecting spreads (2)

Spreads are dynamic and influenced by many factors and could indicate abnormalities sometimes, however the trend of factors could help comprehend it's relation.





- Interest rate regime determines returns for most asset classes.
- A falling interest rate regime highlights lower/ falling spreads on an average compared higher/increasing interest rates regime

- Short Leg of DII widely represents mutual funds
- Dramatic increase in 'short-selling' compared to Long-buying may compress spreads temporarily.

DSP

Source: Bloomberg, Phillip Capital. Data as on 31st March 2023. DII- Domestic Individual Investor

DSP ASSET MANAGERS

DSP Arbitrage Fund

Portfolio Construction

HEDGED – EQUITY PORTION

Universe: Stocks in F&O

Fresh arbitrage spreads available in market

Sizing depends on:

- Liquidity
- Better spreads than market average
- Stocks that tend to undergo backwardation in between/near expiry
- Consistent rollover levels
- Max weight in a stock – 10%

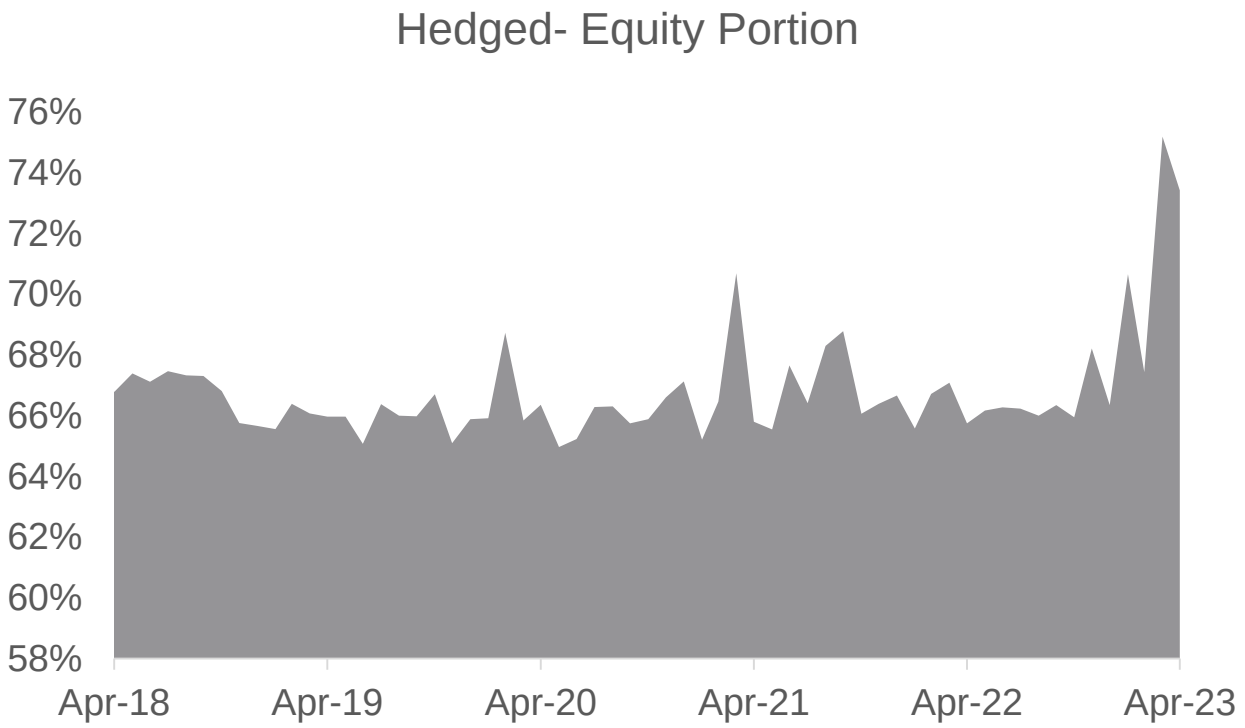
Conservative approach in taking positions involving corporate actions.

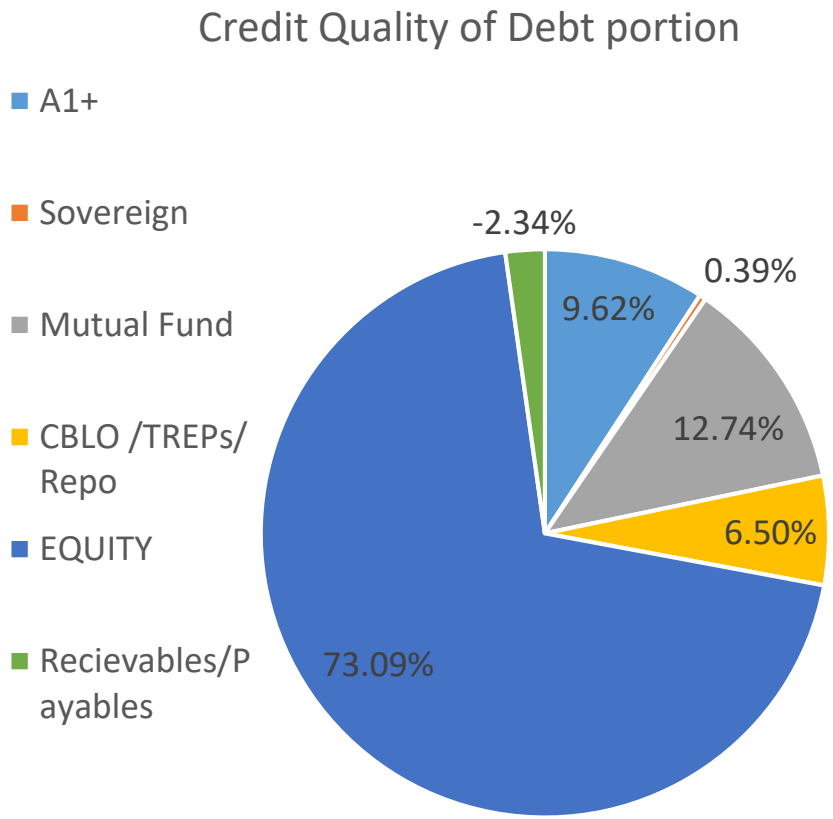
DEBT PORTION

- Debt Portion is primarily invested in fixed income instruments, some of which are placed as margin for trading in F&O segment
- These include
  - Mutual Fund units
  - G-Secs/T-bills
  - Debt and money market instruments and up to 1 year maturity and of ***highest credit quality***

Source: DSP. The investment approach / framework/ strategy mentioned herein are currently followed by the scheme and the same may change in future depending on market conditions and other factors.

Portfolio Characteristics





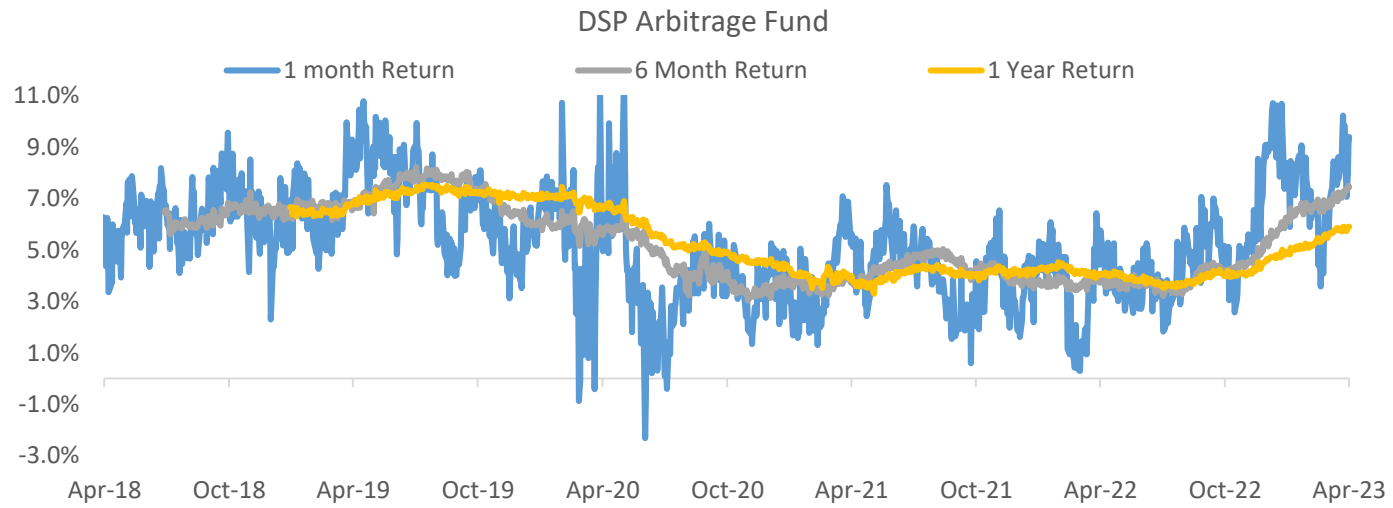
On an average, equity-hedged position is near ~65% of the portfolio though increases based spreads and opportunities

DSP

Source: DSP. The portfolio details are as on 30th April 2023. The investment approach/framework/strategy mentioned herein are currently followed by the scheme and the same may change in future depending on market conditions and other factors

Investor Horizon

For a smooth investment experience 6 months – 1 Year of holding period is advised



	1 month Return	6 Month Return	1 Year
Minimum	-2.3%	3.0%	3.3%
Maximum	11.8%	8.2%	7.5%
Average	5.2%	5.2%	5.2%
Std.Deviation	2.1%	1.4%	1.3%

Volatility reduces significantly if held for slightly longer period. Potentially lesser chances of negative returns.

DSP

Source: MFI. Data as on 30th April 2023. Returns above are of direct plan and growth scheme of DSP Arbitrage Fund. Returns are calculated on daily rolling basis.
Past performance may or may not be sustained in future and should not be used as a basis for comparison with other investments.

Tax Efficiency

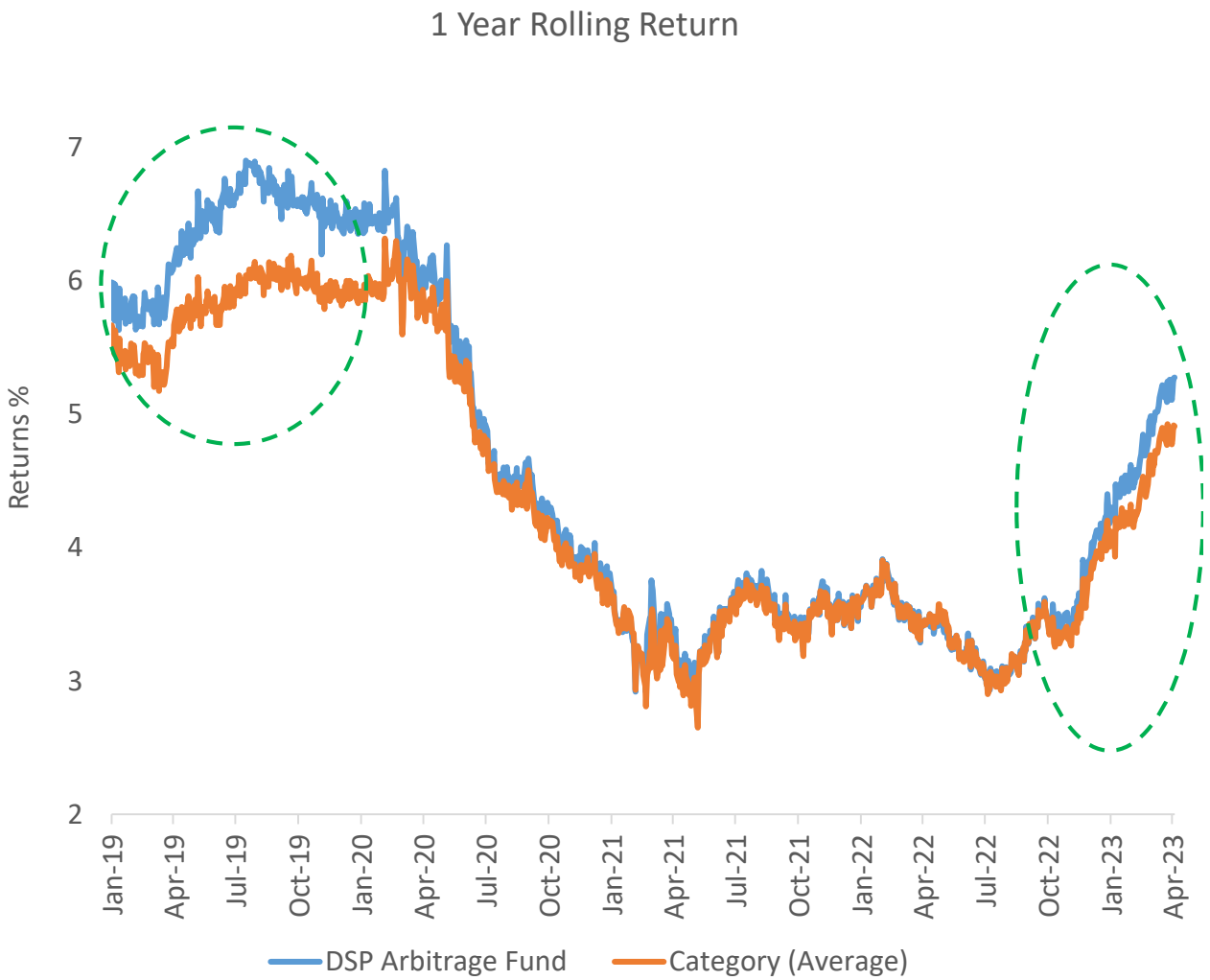
Holding period		<1 Year	>1 Year	
Type of Gains		Equity Oriented Fund (STCG)	Equity Oriented Fund (LTCG)	Debt Mutual Funds
Base Tax Rate		15%	10%	30%#
Income Level	Surcharge	Effective Tax Rate (Including Surcharge + 4% Health and Education Cess)		
0 - 50 lac	0%	15.60%	10.40%	31.20%
50 lac- 1 crore	10%	17.16%	11.44%	34.32%
1 -2 crore	15%	17.94%	11.96%	35.88%
2-5 crore	25%	17.94%^	11.96%^	39.00%
> 5 crore	37%*	17.94%^	11.96%^	42.74%

Above rates are applicable for individual /HUF / AOP & BOI investors
$Debt mutual fund units (with exposure to domestic equity securities of upto 35%) acquired on or after 1 April 2023 will be taxed as specified mutual funds under the Income Tax law. Capital gain/loss on such units will be deemed as Short term and accordingly benefit of long term capital taxation (including indexation benefit) may not be available to such schemes.
*Budget 2023 Update: Under new tax regime, the highest surcharge of 37% has been reduced to 25% which will be applicable from 1st April 2023 (FY2023-24)
^For Equity Oriented Funds Surcharge is capped at 15%
Assuming highest tax bracket

Arbitrage Funds enjoy benefit of equity taxation with debt-like returns which can enhance post-tax returns

Investors are advised to consult their own legal, tax and financial advisors to determine possible tax, legal and other financial implication or consequence of subscribing to the units of the schemes of the DSP Mutual Fund.

How have we performed?



1 Year Rolling Returns		
	DSP Arbitrage Fund	Category
Min	2.7	2.7
Max	6.9	6.3
Average	4.6	4.4

On an average, DSP arbitrage fund has performed better than category.

DSP

Source: MFI. Data as on 30th April 2023. Returns above are of regular plan and growth scheme of DSP Arbitrage Fund. Past performance may or may not be sustained in future and should not be used as a basis for comparison with other investments.

Why Now?

Recent changes in taxation makes this category more tax-efficient than other fixed income products.

No. of FnO stocks have increased in the last years from ~144 in 2019s to ~188 in 2023 which means increase in opportunities.

Average AUM of arbitrage category was ~ Rs. ~1.21 Lac Crores in Aug – 21 which is is ~Rs. 87K Crores as of Mar-23 . This means lesser pressure on spreads.

Currently, spreads seem to be attractive as many factors are favorable like higher interest rates, decreased AUM etc.

Source: Nuvama, NSE, MFI Explorer

Disclaimer

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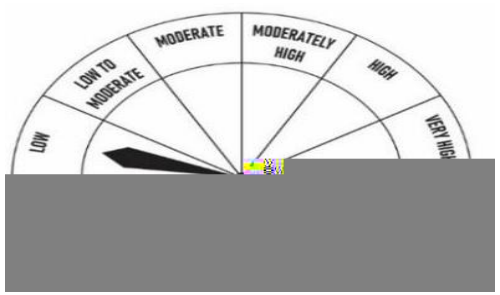
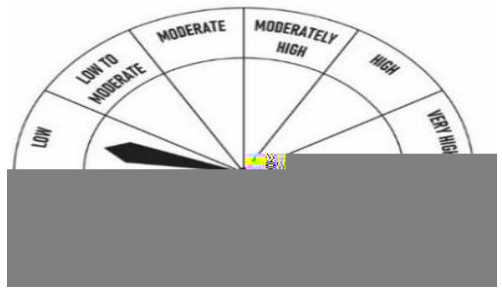
Large-caps are defined as top 100 stocks on market capitalization, mid-caps as 101-250 , small-caps as 251 and above. The strategy mentioned has been currently followed by the Scheme and the same may change in future depending on market conditions and other factors

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

Scheme	Product Suitability	Riskometer	
		DSP Arbitrage Fund	Benchmark - NIFTY 50 Arbitrage Index
DSP Arbitrage Fund *(An open ended scheme investing in arbitrage opportunities)*	This Open ended scheme is suitable for investors who are seeking* ▸ Income over a short-term investment horizon ▸ Investment in arbitrage opportunities in the cash & derivatives segment of the equity market		

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

Disclaimer

All Funds managed by Abhishek Singh

Sr. No.	Scheme Name	Managing since	Period					
			1 Years		3 Years		5 Years	
			Scheme return (%)	Benchmark return (%)	Scheme return (%)	Benchmark return (%)	Scheme return (%)	Benchmark return (%)
1	DSP Arbitrage Fund	08-Apr-2022	5.3	5.51	3.97	3.91	4.84	4.64
2	DSP Regular Savings Fund	01-May-2021	4.68	6.03	8.86	8.34	4.73	8.5
3	DSP Top 100 Equity Fund	01-Jun-2022	8.6	5.78	18.65	24.19	7.74	11.89
4	DSP Equity Savings Fund	01-May-2021	5.04	6.15	12.25	11.46	6.29	8.56

Period for which fund's performance has been provided is computed based on last day of the month-end preceding the date of advertisement

Different plans shall have a different expense structure. The performance details provided herein are of regular plan.

Data as on 28 April 2023. Regular plan, growth option considered. **Past performance may or may not sustain in future and should not be used as a basis for comparison with other investments.**

Disclaimer

All Funds managed by Kedar Karnik

Sr. No.	Scheme Name	Managing since	Period					
			1 Years		3 Years		5 Years	
			Scheme return (%)	Benchmark return (%)	Scheme return (%)	Benchmark return (%)	Scheme return (%)	Benchmark return (%)
1	DSP Liquidity Fund	01-Jul-2016	5.91	6.13	4.2	4.57	5.2	5.43
2	DSP Ultra Short Fund	01-Jul-2016	5.16	6.43	4.01	5.28	4.8	6.25
3	DSP Global Innovation Fund of Fund	14-Feb-2022	4.4	8.98	NA	15.22	NA	11.5
4	DSP Global Allocation Fund	01-Jul-2016	4.8	9.15	7.8	9.63	7.31	9.57
5	DSP Floater Fund	17-Jul-2021	5.37	5.48	NA	5.89	NA	7.13
6	DSP Arbitrage Fund	16-Jun-2020	5.3	5.51	3.97	3.91	4.84	4.64
7	DSP Overnight Fund	09-Jan-2019	5.61	5.76	3.96	4.09	NA	4.71
8	DSP US Flexible Equity Fund	01-Jul-2016	5.72	8.72	17.87	17.46	13.54	15.49
9	DSP Equity Savings Fund	17-Jul-2021	5.04	6.15	12.25	11.46	6.29	8.56
10	DSP Savings Fund	01-Jul-2016	5.33	6.15	4.64	4.82	5.76	5.81

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