

# BARODA BNP PARIBAS ARBITRAGE FUND

(AN OPEN ENDED SCHEME INVESTING IN ARBITRAGE OPPORTUNITIES)

**JANUARY 2023**



**Together for more**

The word 'more' does not imply more returns or assurance of scheme performance. It refers to the additional value provided by the joint venture, as compared to Baroda AMC and BNP Paribas AMC individually.

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# UPDATE ON BARODA BNP PARIBAS ARBITRAGE FUND



**Together for more**

The word 'more' does not imply more returns or assurance of scheme performance. It refers to the additional value provided by the joint venture, as compared to Baroda AMC and BNP Paribas AMC individually.

# Why Arbitrage Funds Now

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## No Directional Exposure:

- Fixed income markets have been under stress owing to volatility in the duration curve and rating downgrades.
- Arbitrage funds are not hampered by this as these funds tend to not take any directional exposure.

## Equity Taxation:

- Predominantly these funds tend to invest over 65% of their corpus in equity and equity related instruments thus offering equity taxation

Against this backdrop, we are of the opinion that conservative investors may consider investing in Arbitrage Funds.

The above information on taxation is provided for only general information purposes. In view of the individual nature of tax implications, each investor is further advised to consult with his or her own tax consultant.

# Market Action (as on January 31, 2023)

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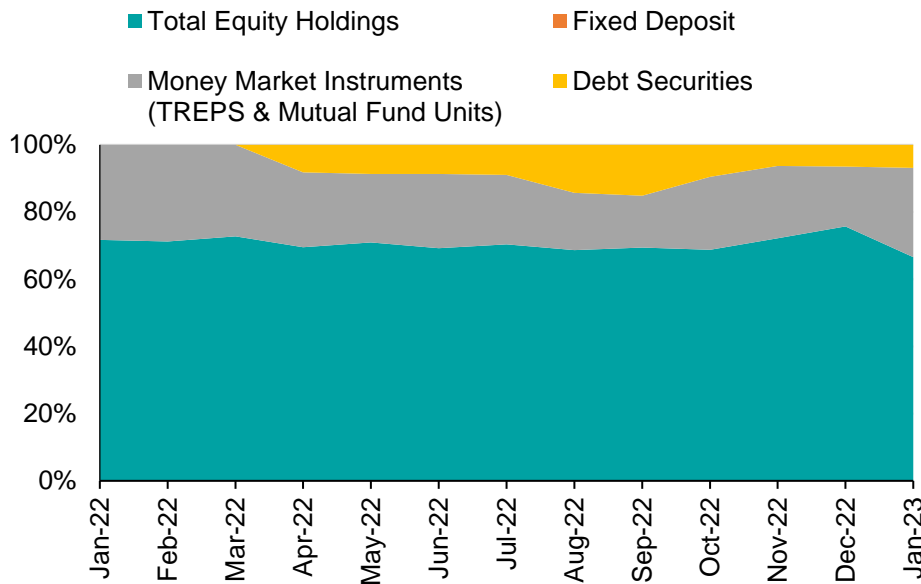
- January series ends on a weak note, Nifty dips by -1.6% while Bank Nifty declines by -3.7%
- Rollover for Nifty stands at 79% vs 79% (3M avg), Bank Nifty at 84% vs 84% (3M avg) & Market-wide 93 % vs 93 %
- Nifty futures will start the Feb series at a lower Open Interest (OI) base of INR 186bn (~10.4mn shares) vs. OI of INR 209bn(~11.5mn shares) seen at the start of January series.
- Roll cost moved between 55- 65 bps (Jan series) vs 65-75 bps (Dec series)
- Industry wise arbitrage book size was slightly higher around ~INR 88,000/- cr vs 86,500/- cr.
- The sectors that settled in green are IT Index (up by 4.7%), Auto Index (2.6%), and Metal Index (0.2%).
- Underperformer against Nifty: Media (-5.4%), PSU Bank (-5.0%)

Data sources: Bloomberg. Refer glossary on slide 15

Portfolio details contained herein is for general information purposes only and does not indicate assurance of future Scheme performance. The sector(s)/stock(s) mentioned in this document do not constitute any recommendation of the same and Baroda BNP Paribas Mutual Fund may or may not have any future position in these sector(s)/stock(s). Further, the portfolio of the Scheme is subject to changes within the provisions and limitations of Scheme Information Document (SID). For further details on asset allocation, investment strategy and risk factors of the Scheme please refer to SID available on our website ([www.barodabnpparibasmf.in](http://www.barodabnpparibasmf.in))

# Portfolio Positioning (as on January 31, 2023)

## Asset Allocation (% to net assets)



Total equity holdings would be summation of equity holdings, futures and net receivables.

Data source: MFI Explorer

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## Equity component:

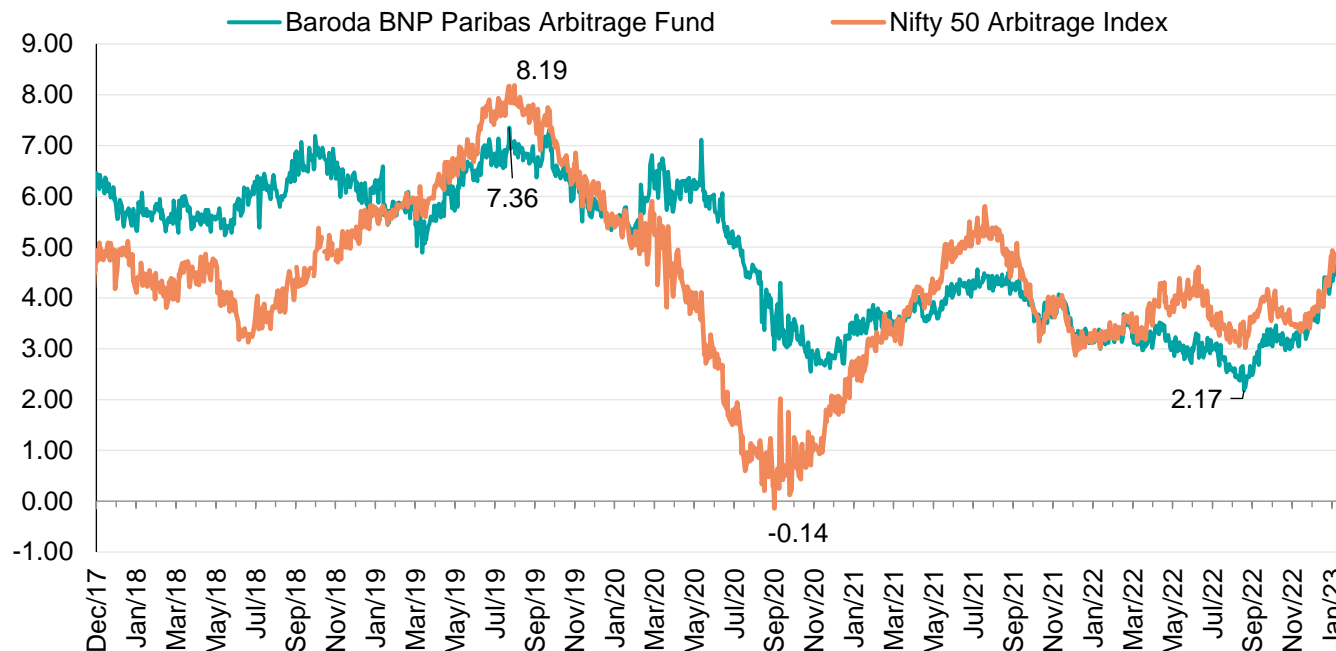
- There is no directional equity exposure in the portfolio and has completely hedged arbitrage positions
- Currently the fund has no long-short positions.

## Fixed income component:

- Over the last 1 year there has been no exposure to debt instruments.
- Exposure to money market instruments includes TREPS, T-Bills, and units of Liquid Mutual Fund.
- Current fixed income exposure of the portfolio is 33.5% to net assets.

# Fund Performance (as on January 31, 2023)

## 6 Month Rolling returns (%)



6M Rolling Returns (Jun'17- Jan'23)	Average	Median	Minimum	Maximum
Baroda BNP Paribas Arbitrage Fund	4.92	5.43	2.17	7.36
Nifty 50 Arbitrage Index	4.29	4.23	-0.14	8.19

Data Source: MFI Explorer

Past performance may or may not be sustained in future and should not be used as a basis of comparison with other investments. All returns are for regular plan - Growth option. Returns do not take into account the load and taxes, if any. Different plans shall have a different expense structure. Simple annualized returns for periods up to 1 year and CAGR for periods beyond 1 year. Refer slide 16 for further details on scheme performance.

# About the Fund

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- Baroda BNP Paribas Arbitrage Fund aims to generate long-term capital growth primarily by using arbitrage strategy in equity markets and also invests a small component in short-term fixed income instruments.
- Fund follows **an arbitrage strategy with a “market neutral” approach**. The portfolio allocation is as follows:

## ARBITRAGE

- This is the predominant strategy employed which invests in **cash - future arbitrage opportunities**.
- Additionally, may invest in stocks and hedge the same with short index futures of similar weight (to the extent of the long portfolio). While there is an imperfect hedge at play (values are matched), there is **no directional view taken on markets**.

## FIXED INCOME

- Up to 35% would be invested in debt and money market instruments and/or units of liquid fund.

The portfolio of the Scheme is subject to changes within the provisions and limitations of Scheme Information Document (SID). For further details on asset allocation, investment strategy and risk factors of the Scheme please refer to SID available on our website ([www.barodabnpparibasmf.in](http://www.barodabnpparibasmf.in)). For Product Label and Riskometer of the Scheme please refer slide 18



# Fund Facts

Scheme Name	Baroda BNP Paribas Arbitrage Fund (BBNPPAF)																			
Type of the Scheme	An Open-ended Scheme investing in arbitrage opportunities																			
Category	Arbitrage Fund																			
Investment Objective	The primary investment objective of the scheme is to generate income and capital appreciation by investing in a combination of diversified portfolio of equity and equity related instruments, including use of equity derivatives strategies and arbitrage opportunities with exposure in debt and fixed income instruments. However, there can be no assurance that the investment objectives of the Scheme will be realized. The Scheme does not guarantee/indicate any returns.																			
Asset Allocation	<table><thead><tr><th>Type of Instruments</th><th>Minimum Allocation (% of Net Assets)</th><th>Maximum Allocation (% of Net Assets)</th><th>Risk Profile</th></tr></thead><tbody><tr><td>Equities, equity related instruments# and derivatives including index futures, stock futures, index options, &amp; stock options, etc. as hedged/ arbitrage exposure</td><td>65</td><td>100</td><td>Medium to High</td></tr><tr><td>Debt Securities* and Money market instruments and/or units of liquid fund</td><td>0</td><td>35</td><td>Low</td></tr><tr><td>Units issued by REITs &amp; InvITs</td><td>0</td><td>10</td><td>Medium to High</td></tr></tbody></table> <p># including investments in foreign equity and equity related securities, ADR / GDR upto 25% of the net assets. *Debt instruments may include securitised debt upto 20% of the net assets. The Scheme may take exposure in debt derivatives only for hedging and portfolio balancing upto 20% of the debt assets. For complete details, please refer to SID available on our website (<a href="http://www.barodabnpparibasmf.in">www.barodabnpparibasmf.in</a>).</p>				Type of Instruments	Minimum Allocation (% of Net Assets)	Maximum Allocation (% of Net Assets)	Risk Profile	Equities, equity related instruments# and derivatives including index futures, stock futures, index options, & stock options, etc. as hedged/ arbitrage exposure	65	100	Medium to High	Debt Securities* and Money market instruments and/or units of liquid fund	0	35	Low	Units issued by REITs & InvITs	0	10	Medium to High
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For Product Label and Riskometer of the Scheme please refer slide 18

# Fund Facts

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<b>Fund Manager~</b>	Neeraj Saxena (managing fund since March 14, 2022) (Total Experience: 18 years), Vikram Pamnani (managing fund since March 16, 2022) (Total Experience: 12 years)
<b>Date of Allotment:</b>	December 28, 2016
<b>Benchmark:</b>	Nifty 50 Arbitrage Index
<b>Loads:</b>	<p>Entry Load : Nil Exit Load: 0.25%, if redeemed or switched-out upto 1 month from the date of allotment of units. Nil, if redeemed or switched-out after 1 month from the date of allotment of units.</p> <p>No exit load will be charged on units issued upon reinvestment of Income Distribution cum Capital Withdrawal and bonus units. Transaction charges, if applicable, shall be deducted. The above-mentioned load structure is also applicable to SIP investments.</p>

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~Dedicated Fund Manager for Overseas Investments: Mr. Miten Vora (managing fund since December 01, 2022)

# ABOUT ARBITRAGE FUNDS

# How do Arbitrage Funds work?

- Arbitrage funds aim to take **advantage of the pricing differential between** stocks traded in cash and future segments.
- An arbitrage opportunity prevails for e.g., when one buys a stock in the cash market at a lower price and sells it at a higher price in the futures market so as to **lock-in the potential spread**.
- Since arbitrage funds base their returns on the spreads between these two markets, **volatility creates** more such **arbitrage opportunities**.

Example of Stock XYZ	Scenario 1: When stock price decreases		Scenario 2: when stock price increases	
	Cash	Futures	Cash	Futures
At Entry:	Buy at Rs. 100	Sell at Rs. 101	Buy at Rs. 100	Sell at Rs. 101
At Exit:	Sell at Rs. 97	Buy at Rs. 97	Sell at Rs. 103	Buy at Rs. 103
Difference (Rs.):	-3	4	3	-2
Spread locked-in	Rs. 1		Rs. 1	

The above is for illustration purposes only. Please note that on the date of expiry, when the arbitrage is to be unwound, it is not necessary for the stock price and its future contract to coincide. There could be a discrepancy in their prices even a minute before the market closes. Thus, there is a possibility that the arbitrage strategy gets unwound at different prices. Also, refer Slide 13.

# Some key factors affecting arbitrage spreads

Factor	Description	Impact on Spreads
<b>Equity Market Sentiment (Bullish phase)</b>	Bullish Phase: Long futures spreads tend to increase in a bullish phase which is positive for arbitrage returns; while the opposite is true in a bearish phase, i.e., spreads tend to decline.	<b>Positive</b> as roll spreads widen and hence the funds tend to give better returns
<b>Equity Market Sentiment (Volatile markets)</b>	Range bound but volatile markets help exploit arbitrage opportunities intra-month. Trades can be unwound at a profit and thereby aiding returns by increasing the portfolio churn during the month.	<b>Positive</b> as it offers higher churn potential intra-month in the portfolio and hence the funds tend to give better returns
<b>Interest Rates</b>	<ul style="list-style-type: none"> <li>Interest rates have a direct impact on the cost of carry</li> <li>Theoretically it is the differential between the future and spot price of the Index/stocks</li> </ul>	<b>Positive</b> as interest rate rises it may lead to higher carry and arbitrage opportunities tend to look attractive
<b>Non-deliverable forward (NDF)</b>	NDF market is an overseas currency market used by FIIs to hedge their underlying Indian currency exposure	<b>Positive</b> whenever the NDF spread goes up, the arbitrage market provides better opportunities to domestic investors
<b>Number of stocks in physical settlement</b>	Larger the number, larger the liquid F&O base to exploit arbitrage opportunities	<b>Positive</b> as all stocks are in physical settlement currently
<b>Industry Size</b>	More assets chasing the same opportunities brings down the arbitrage spreads	<b>Negative</b> if the corpus of the industry shows a sudden large spike

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# APPENDIX

# Glossary

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- **Spread:** Generally, refers to the difference between two prices, rates or yields. Refer slide 12 for an illustration of spread.
- **Rollover:** Futures contracts expire on the last Thursday of the respective month. A participant who would like to continue holding on to the positions would take the same position in the next series, closing down the existing position at the same time near the expiry. This activity is termed as rolling over the position. Rollover is a quick measure of investors' willingness to bet in the market.
- **Expiry Week:** The future date by which the contracts have to be fulfilled is called the derivatives expiry. So, rollovers can happen till the close of trading hours on that day. Most rollovers begin a week before expiry and end till the last minute.
- **Non-deliverable forward (NDF):** is a cash-settled, and usually short-term, forward contract. It is a two-party currency derivatives contract to exchange cash flows between the NDF and prevailing spot rates. Refer slide 13 for further details.
- **Open Interest (OI):** Open interest is the total number of outstanding derivative contracts, such as futures that have not been settled for an asset. Increasing open interest represents new or additional money coming into the market while decreasing open interest indicates money flowing out of the market.

Source: Various media articles

# Fund Performance (as on January 31, 2023)

S.No	Schemes Managed by Mr. Neeraj Saxena & Vikram Pamnani	Last 1 Year		Last 3 years		Last 5 years		Since Inception		Date of Inception of the Scheme
		Returns In INR*	CAGR	Returns In INR*	CAGR	Returns In INR*	CAGR	Returns In INR*	CAGR	
1	<b>Baroda BNP Paribas Arbitrage Fund</b>	10383.89	3.84	11228.08	3.93	12694.12	4.88	13562.40	5.13	<b>28-Dec-16</b>
	Nifty 50 Arbitrage Index	10418.80	4.19	11094.68	3.52	12403.43	4.40	12966.76	4.35	
	Additional Benchmark CRISIL 1 Year T-Bill Index	10456.43	4.56	11425.13	4.54	13138.49	5.61	13968.83	5.64	

## PERFORMANCE OF OTHER SCHEME MANAGED BY FUND MANAGER

S.No	Schemes Managed by Mr. Vikram Pamnani and Mr. Mayank Prakash	CAGR		
		Last 1 Year	Last 3 years	Last 5 years
1	<b>Baroda BNP Paribas Liquid Fund</b>	5.15	4.15	5.27
	CRISIL Liquid Fund BI Index	5.37	4.45	5.41
2	<b>Baroda BNP Paribas Low Duration Fund</b>	3.91	4.75	5.68
	CRISIL Low Duration Fund BI Index	5.34	5.34	6.30
3	<b>Baroda BNP Paribas Money Market Fund</b>	4.39	3.71	N.A.
	CRISIL Money Market Fund BI Index	5.38	4.74	N.A.
4	<b>Baroda BNP Paribas Ultra Short Duration Fund</b>	5.08	4.57	N.A.
	CRISIL Ultra Short Duration Fund BI Index	5.60	5.16	N.A.

S.No	Schemes Managed by Mr. Vikram Pamnani	CAGR		
		Last 1 Year	Last 3 years	Last 5 years
1	<b>Baroda BNP Paribas Overnight Fund</b>	4.87	3.75	N.A.
	CRISIL Overnight Fund AI Index	5.01	3.86	N.A.

S.No	Schemes Managed by Mr. Vikram Pamnani & Mr. Jitendra Sriram	CAGR		
		Last 1 Year	Last 3 years	Last 5 years
1	<b>Baroda BNP Paribas Multi Asset Fund</b>	N.A.	N.A.	N.A.
	65% of Nifty 500 TRI + 20% of NIFTY Composite Debt Index + 15% of INR Price of Gold	N.A.	N.A.	N.A.

Past performance may or may not be sustained in future and should not be used as a basis of comparison with other investments. Returns do not take into account the load and taxes, if any. Returns are for growth option. Different plans shall have a different expense structure. Where scheme performance for last 3 and 5 years is not available, the same has not been shown.

\* Returns in INR show the value of 10,000/- invested for last 1 year, last 3 years, last 5 years and since inception respectively. Refer to the table on slide 17 for fund managers and managing since details. TRI: Total Return Index



# Fund manager and managing since details

Scheme Name	Fund Managers	Managing Fund Since
Baroda BNP Paribas Arbitrage Fund	Mr. Neeraj Saxena	March 14, 2022
	Mr. Vikram Pamnani	March 16, 2022

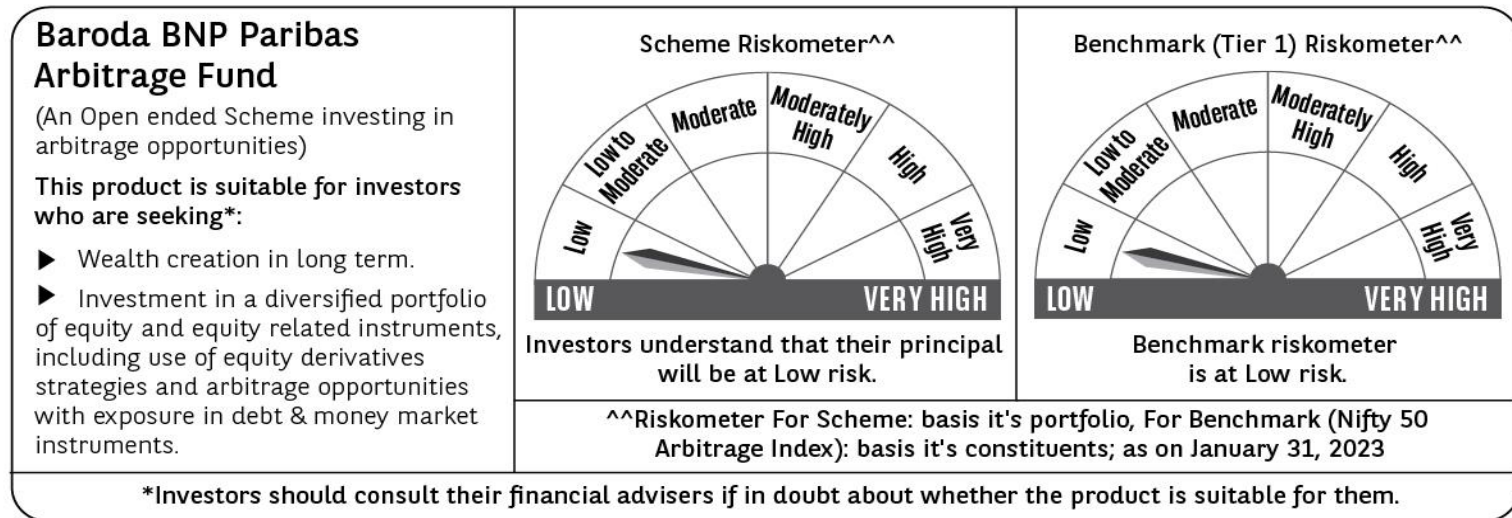
Scheme Name	Fund Managers	Managing Fund Since
Baroda BNP Paribas Liquid Fund	Mr. Vikram Pamnani	14-Mar-22
	Mr. Mayank Prakash	21-Oct-22
Baroda BNP Paribas Low Duration Fund~	Mr. Vikram Pamnani	27-Dec-17
	Mr. Mayank Prakash	21-Oct-22
Baroda BNP Paribas Money Market Fund	Mr. Vikram Pamnani	14-Mar-22
	Mr. Mayank Prakash	21-Oct-22
Baroda BNP Paribas Overnight Fund	Mr. Vikram Pamnani	14-Mar-22
Baroda BNP Paribas Ultra Short Duration Fund	Mr. Vikram Pamnani	14-Mar-22
	Mr. Mayank Prakash	21-Oct-22

~Dedicated Fund Manager for Overseas Investments: Mr. Shreekirana Rao (managing fund since December 01, 2022)

\*Dedicated Fund Manager for Overseas Investments: Mr. Miten Vora (managing fund since December 01, 2022)

# Risk Factors

**Risk Factors associated with arbitrage strategy:** In case of a large redemption, the scheme may need to reverse the spot-futures transaction before the date of futures' settlement. This eventuality may lead to the basis risk. While reversing the spot-futures transaction on the Futures & Options settlement day on the Exchange, there could be a risk of volume-weighted-average-price of the market being different from the price at which the actual reversal is processed. This may result in basis risk. On the date of expiry, when the arbitrage is to be unwound, it is not necessary for the stock price and its future contract to coincide. There could be a discrepancy in their prices even a minute before the market closes. Thus, there is a possibility that the arbitrage strategy gets unwound at different prices. For further details, please refer Scheme Information Document (SID) available on our website [www.barodabnpparibasmf.in](http://www.barodabnpparibasmf.in). Further, the Scheme shall, inter alia, also be subject to risk factors associated with investments in Derivatives (The fund may use various derivative instruments and techniques, as permitted from time to time only for portfolio balancing and hedging purpose, which may increase the volatility of fund's performance. Usage of derivatives will expose the scheme to certain risks inherent to such derivatives. The risks associated with the use of derivatives are different from or possibly greater than, the risks associated with investing directly in securities and other traditional investments. **Please refer to Scheme Information Document available on our website ([www.barodabnpparibasmf.in](http://www.barodabnpparibasmf.in)) for detailed Risk Factors, assets allocation, investment strategy etc.**



# Disclaimers

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**MUTUAL FUND INVESTMENTS ARE SUBJECT TO MARKET RISKS, READ ALL SCHEME RELATED DOCUMENTS CAREFULLY.**



**THANK YOU**