

# BARODA BNP PARIBAS ARBITRAGE FUND

(AN OPEN ENDED SCHEME INVESTING IN ARBITRAGE  
OPPORTUNITIES)

**May 2024**



**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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# Market Activity (as on May 31<sup>st</sup>, 2024)

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- ❖ Average rollover cost across stock futures during the expiry week (May-24 to June -24) were around 69 -72 bps.
- ❖ Nifty futures rollovers stood at 72 % vs 71% (3M avg)
- ❖ Nifty futures will start the June series at higher OI base 1.44 Cr shares vs. 1.24 Cr at the start of May series
- ❖ Market-wide rollovers were slightly lower at 90 % vs 92 % (3M avg)
- ❖ Industry wise arbitrage book size increased to INR 205,000/- Cr (May-24) vs INR 1,92,000/- Cr (Apr-24).

## Key triggers for coming (June-24) Expiry :

- ❖ National assembly election outcome, Auto sales , Monsoon progress , Inflation data , MPC & FOMC meet .

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 the SID available on our website ([www.barodabnpparibasmf.in](http://www.barodabnpparibasmf.in))

Source: Dolat Capital and Philip Capital

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# 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.

# Cash Futures Arbitrage

XYZ Ltd  
Spot / Cash Price = ₹ 2,500  
Buy

XYZ Ltd  
August Futures Price = ₹ 2,520  
Sell

On Expiry  
Reliance Industries  
Futures Price = Spot Price

Price = ₹ 2,450

Price = ₹ 2,500

Price = ₹ 2,550

XYZ Ltd  
Loss in Spot Market = ₹ 50  
Gain in Futures Market = ₹ 70  
Net Gain = ₹ 20

XYZ Ltd  
Gain / Loss in Spot Market = ₹ 0  
Gain in Futures Market = ₹ 20  
Net Gain = ₹ 20

XYZ Ltd  
Gain in Spot Market = ₹ 50  
Loss in Futures Market = ₹ 30  
Net Gain = ₹ 20

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 19.

# 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	<b>Positive</b> as roll spreads widen and hence the funds tend to give better returns
<b>Equity Market Sentiment (Bearish phase)</b>	Long futures spreads tend to decline in a bearish market and arbitrage opportunities may reduce significantly	<b>Negative</b> As spreads narrow, the returns tend to get impacted and may reduce significantly
<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> It offers higher churn potential intra-month in the portfolio, which could 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 rates rise it may lead to higher carry and arbitrage opportunities tend to look attractive <b>Negative</b> As interest rates fall, it leads to a lower carry and results in potentially lower returns as attractive arbitrage opportunities reduce
<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

This scenario may vary as per the market conditions

# BARODA BNP PARIBAS ARBITRAGE FUND



**Baroda**  
**BNP PARIBAS**  
MUTUAL FUND

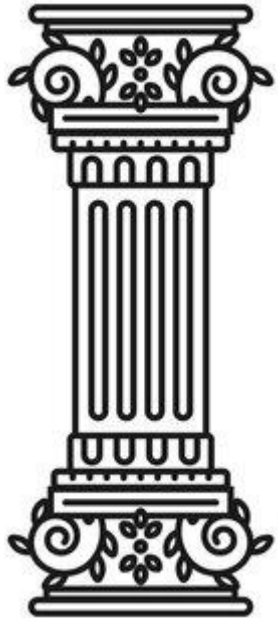


Together for more

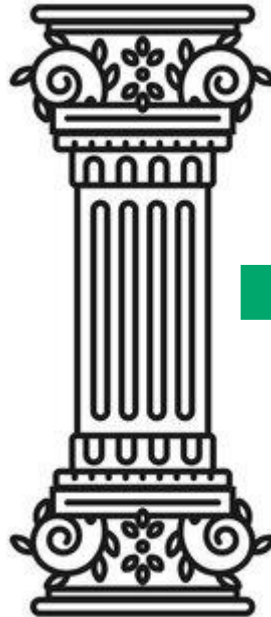


# 4 Pillars of Returns in the Arbitrage Fund

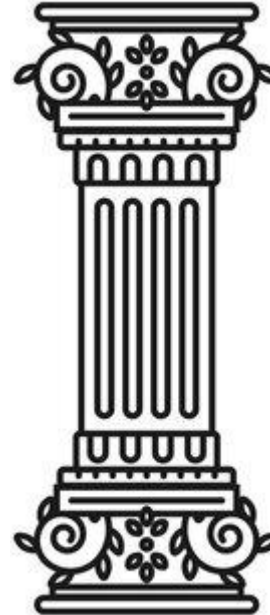
Income from the  
Debt portfolio



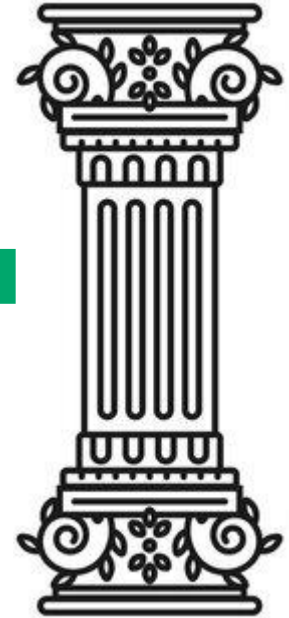
Rolls: Unwinding  
the Futures  
Position



Churn: Benefitting  
from intra month  
price anomalies



Dividend: Arbitrage  
from pre and ex  
dividend price  
movement



Returns in the Arbitrage Fund

Investment strategy stated above may change from time to time and shall be in accordance with the investment objective and strategy stated in the SID of the scheme.

# Advantages of Baroda BNP Paribas Arbitrage Fund

## Fund Size

- Smaller size of the portfolio makes it relatively easier and efficient for us to capture arbitrage opportunities in all segments of the market

## Intra Month Trading (Churn)

- Our relatively smaller AUM enables us to better capture the intra month volatility
- Actively churning the portfolio to capture arbitrage opportunities in the market

## Mid Cap tilted Market Cap:

- Spreads tend to be better in companies with a lower market cap. Our optimal fund size enables us to capture these relatively higher spreads in an efficient and effective manner.
- Relatively smaller size of the fund helps build a concentrated portfolio benefitting from the Market Wide Position Limits (MWPL) for each stock and scheme

## Fixed Income Portfolio:

- Good Quality Papers

# Why Arbitrage Funds Now

## No Directional Exposure:

- Arbitrage funds are not hampered by stresses in equity market 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.

## Elevated Money Market Yields:

- Higher Absolute Returns in the Arbitrage strategy as the spreads are a function of prevailing money market rates

## Impact of High Global Rates:

- Higher interest rates globally lead to FPI's potentially unwinding their positions in Indian markets leading to the cash-future spreads widening and therefore become more attractive

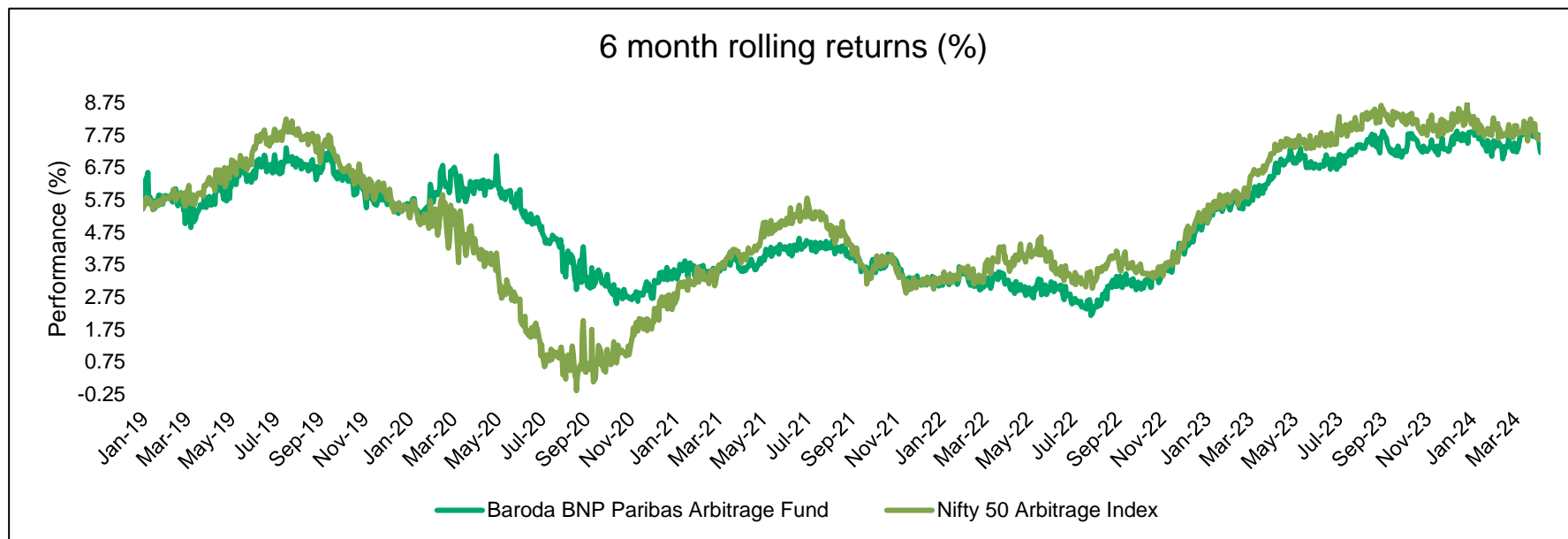
# Fund Performance (as on 31<sup>st</sup> May 2024)

	Baroda BNP Paribas Arbitrage Fund (%)	Benchmark Performance (%)
<b>1 Month</b>	7.33	7.65
<b>2 Months</b>	7.81	7.02
<b>3 Months</b>	7.58	7.66
<b>6 Months</b>	7.87	7.93
<b>9 Months</b>	7.53	8.03
<b>YTD</b>	7.70	7.86
<b>1 Year</b>	7.72	8.17
<b>3 Year</b>	5.43	5.80
<b>5 Year</b>	5.12	5.05
<b>Since Inception</b>	5.57	5.04

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 does 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 19 for further details on scheme performance.

# Rolling Returns (as on May 31<sup>st</sup>, 2024)



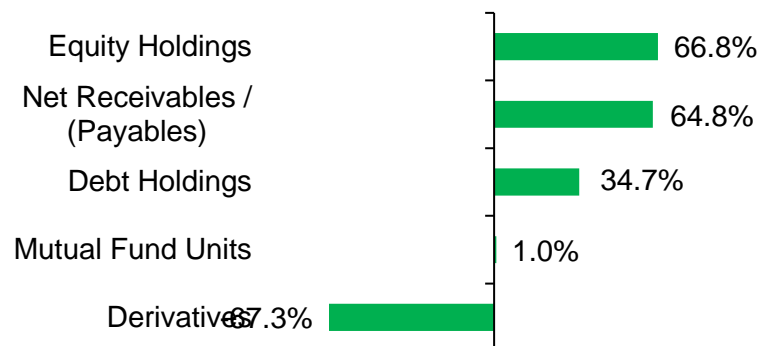
6M Rolling Returns (Jan'19- May'24)	Average	Minimum	Maximum
Baroda BNP Paribas Arbitrage Fund	5.12	2.17	8.17
Nifty 50 Arbitrage Index	5.08	-0.14	8.76

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 does 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 19 for further details on scheme performance.

# Portfolio Positioning

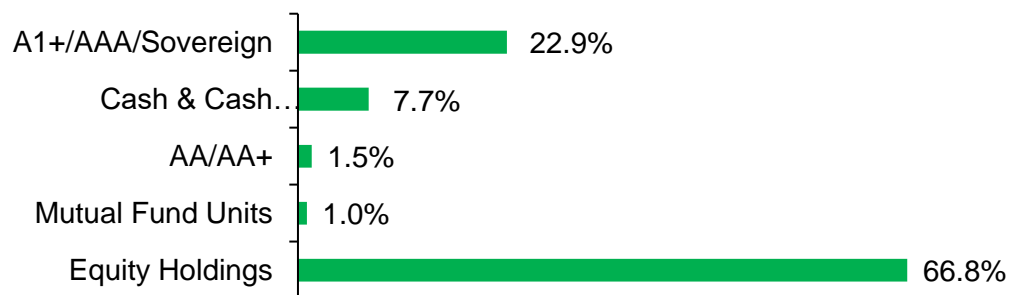
## Asset Allocation (% of Net Assets)



## Debt Quants

Yield to Maturity (YTM)*	Average Maturity*	Modified Duration*	Macaulay Duration*
7.08%	0.65 Years	0.44 Years	0.47 Years

## Credit Rating Composition (% of Net Assets)



Data as of May 31 2024. Source: Internal Research. Above details shown for fixed income portion of the portfolio. \*Yield to maturity (YTM), Average Maturity, Macaulay Duration and Modified duration has been calculated for the fixed income portion of the portfolio (including cash and cash equivalents). **Past performance is no guarantee of future returns.** 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)).

# 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				
	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
	# 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.barodabnp-paribasmf.in">www.barodabnp-paribasmf.in</a> ).			

For Product Label and Riskometer of the Scheme please refer slide 21

# Fund Facts

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<b>Fund Manager~</b>	Neeraj Saxena (managing fund since March 14, 2022) (Total Experience: 20 years), Vikram Pamnani (managing fund since March 16, 2022) (Total Experience: 14 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 within 7 days from the date of allotment of units. Nil, if redeemed or switched-out after 7 days from the date of allotment of units.</p> <p>No exit load will be charged on switches between options of the same plan of the Fund. No load will be charged on units issued upon reinvestment of amount of distribution under same IDCW option and bonus units. Transaction charges, if applicable, shall be deducted. The above-mentioned load structure is also applicable to SIP investments.</p>

For Product Label and Riskometer of the Scheme please refer slide 21

\*There is change in exit load structure w.e.f. Wednesday, January 17, 2024.

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



# 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 31<sup>st</sup> May 2024)

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>	10774.21	7.72	11720.18	5.43	12842.19	5.12	14957.30	5.57	28-Dec-16
	Nifty 50 Arbitrage Index	10819.06	8.17	11843.95	5.80	12797.02	5.05	14406.17	5.04	
	Additional Benchmark CRISIL 1 Year T-Bill Index	10709.62	7.08	11695.52	5.35	13089.01	5.53	15299.13	5.89	

## 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>	7.19	5.65	5.19
	CRISIL Liquid Debt A-I Index	7.28	5.75	5.28
2	<b>Baroda BNP Paribas Low Duration Fund</b>	6.69	5.06	5.50
	CRISIL Low Duration Debt A-I Index	7.37	5.78	6.15
3	<b>Baroda BNP Paribas Money Market Fund</b>	6.95	5.32	N.A.
	CRISIL Money Market A-I Index	7.45	5.93	N.A.
4	<b>Baroda BNP Paribas Ultra Short Duration Fund</b>	7.25	5.80	5.63
	CRISIL Ultra Short Duration Debt A-I Index	7.53	5.96	5.96

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>	6.71	5.29	4.71
	CRISIL Liquid Overnight Index	6.84	5.43	4.83

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>	29.35	N.A.	N.A.
	65% of Nifty 500 TRI + 20% of NIFTY Composite Debt Index + 15% of INR Price of Gold	26.94	N.A.	N.A.

\*Neeraj Saxena also manages Nifty 50 Index Fund, since the fund has not completed 6 months, performance has not been disclosed

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 returns are not available for a particular period, they have 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 20 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

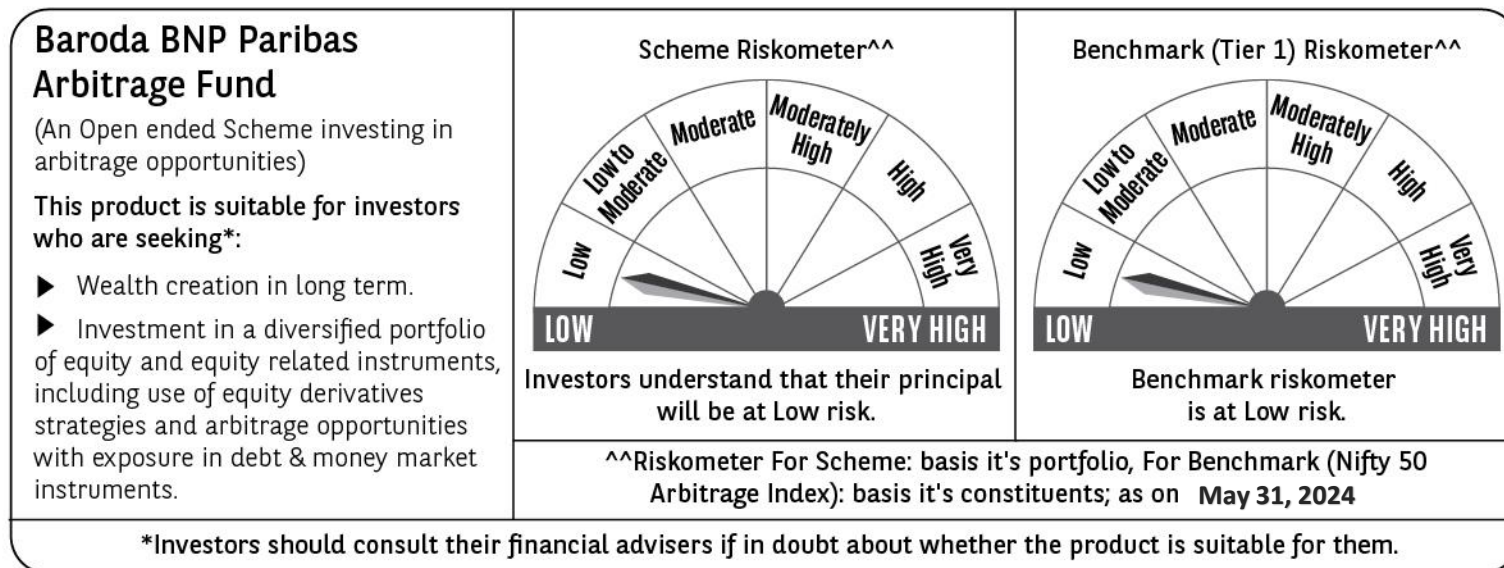
Scheme Name	Fund Managers	Managing Fund Since
Baroda BNP Paribas Liquid Fund	Mr. Vikram Pamnani	14-Mar-22
	Mr. Mayank Prakash	21-Oct-22
Baroda BNP Paribas Low Duration Fund~	Mr. Vikram Pamnani	27-Dec-17
	Mr. Mayank Prakash	21-Oct-22
Baroda BNP Paribas Money Market Fund	Mr. Vikram Pamnani	14-Mar-22
	Mr. 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
Baroda BNP Paribas Multi Asset Fund	Mr. Jitendra Sriram (Equity portion)	19-Dec-22
	Mr. Vikram Pamnani (Fixed Income Portion)	19-Dec-22
Baroda BNP Paribas Nifty 50 Index Fund	Mr. Neeraj Saxena	29-Jan-24

~Dedicated Fund Manager for Overseas Investments: Mr. Jay Sheth (Managing fund w.e.f. September 01, 2023)

\*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**