



Let your surplus cash experience
Arbitrage

AXIS **ARBITRAGE FUND**

(An open-ended scheme investing in arbitrage opportunities)

What is Arbitrage?



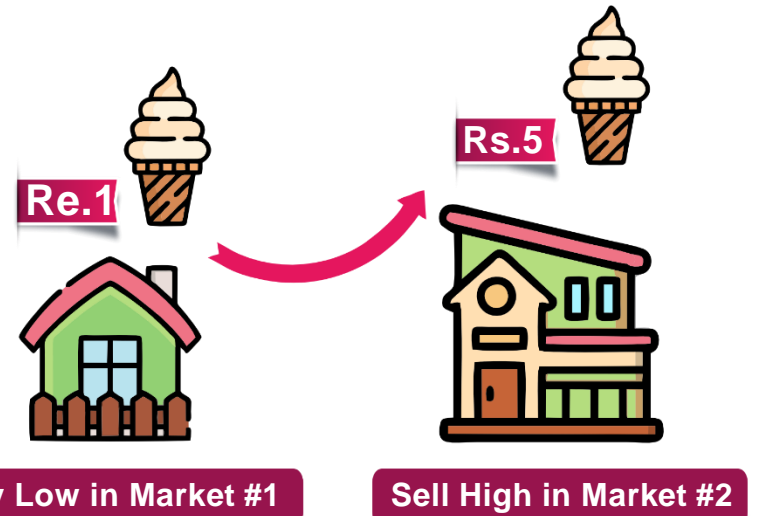
Markets are inherently inefficient at pricing securities.



This results in small pricing differences in the same security across multiple market venues



Arbitrage funds aim to exploit this pricing differential by simultaneously buying and selling an asset and earning profits - **This is called Arbitrage**



In the equity markets, arbitrage opportunities arise out of differences in prices between the cash market & the derivatives markets

Derivative markets comprise of Futures & Options

Understanding Equity Arbitrage

- **Key Terms to Know**

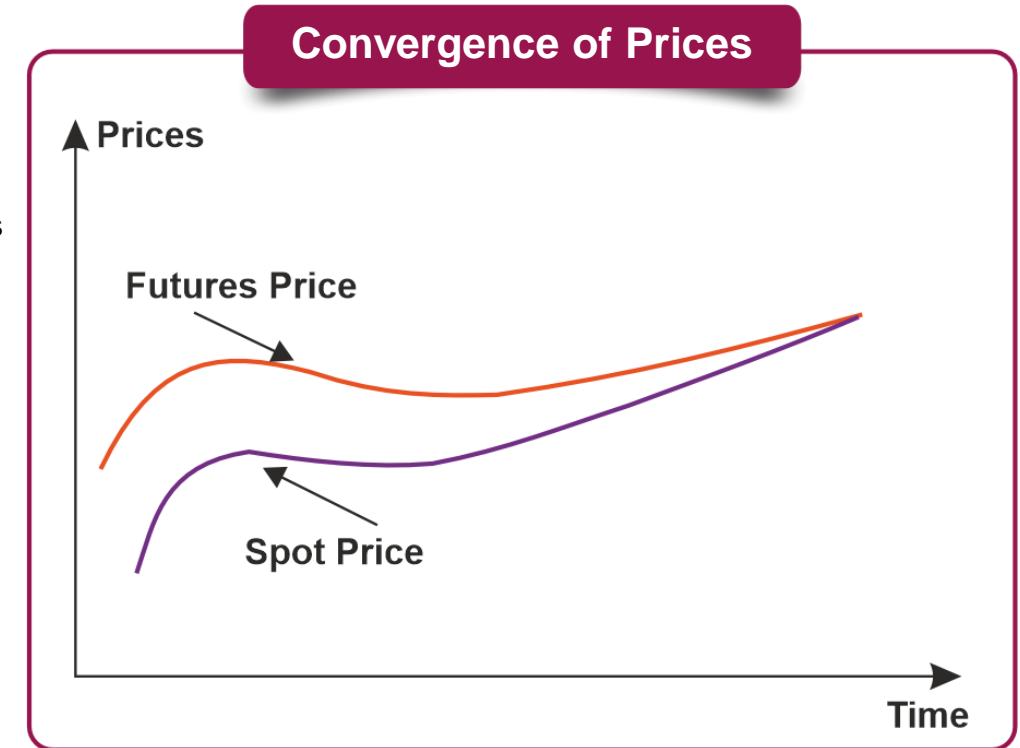
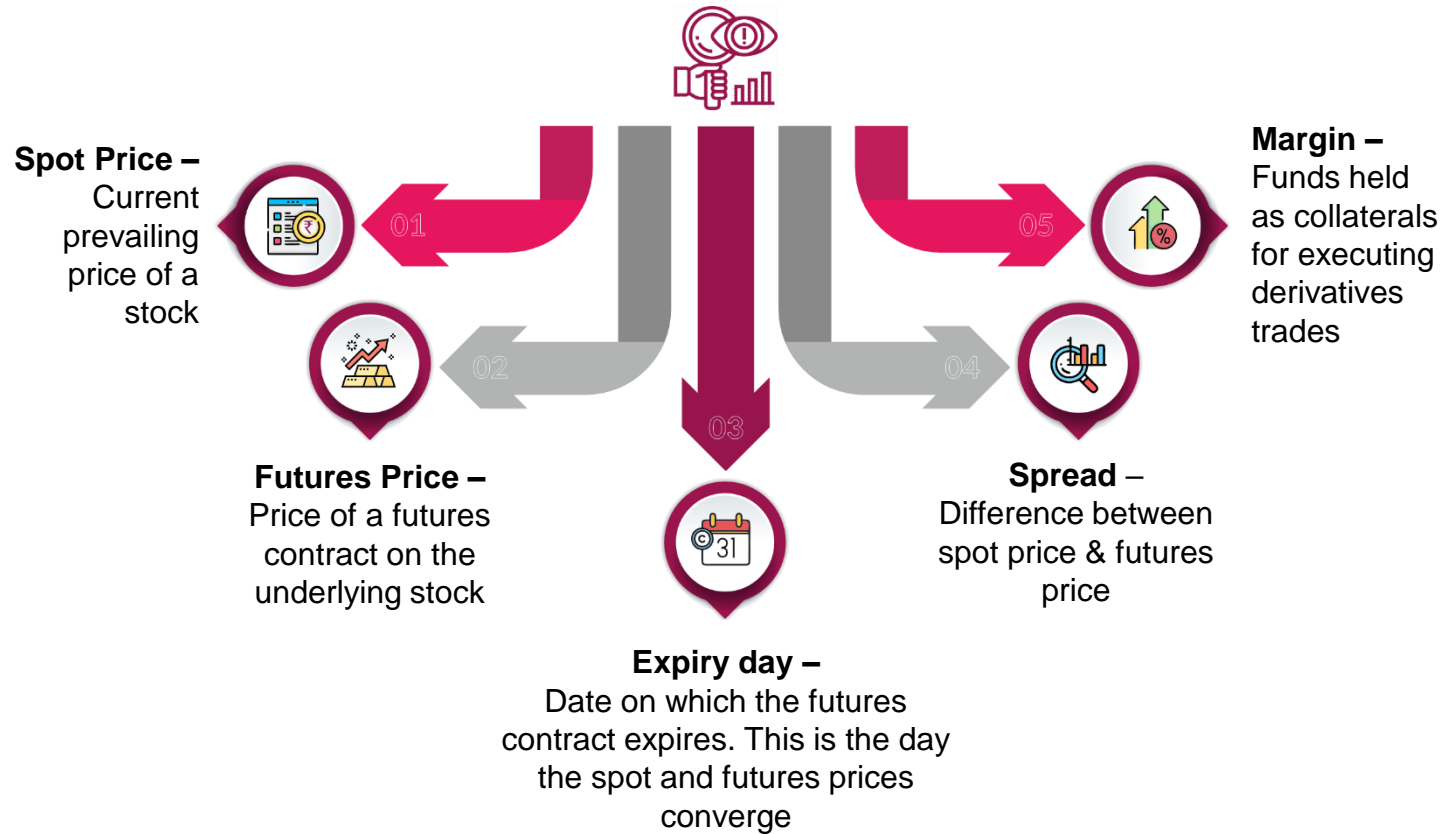
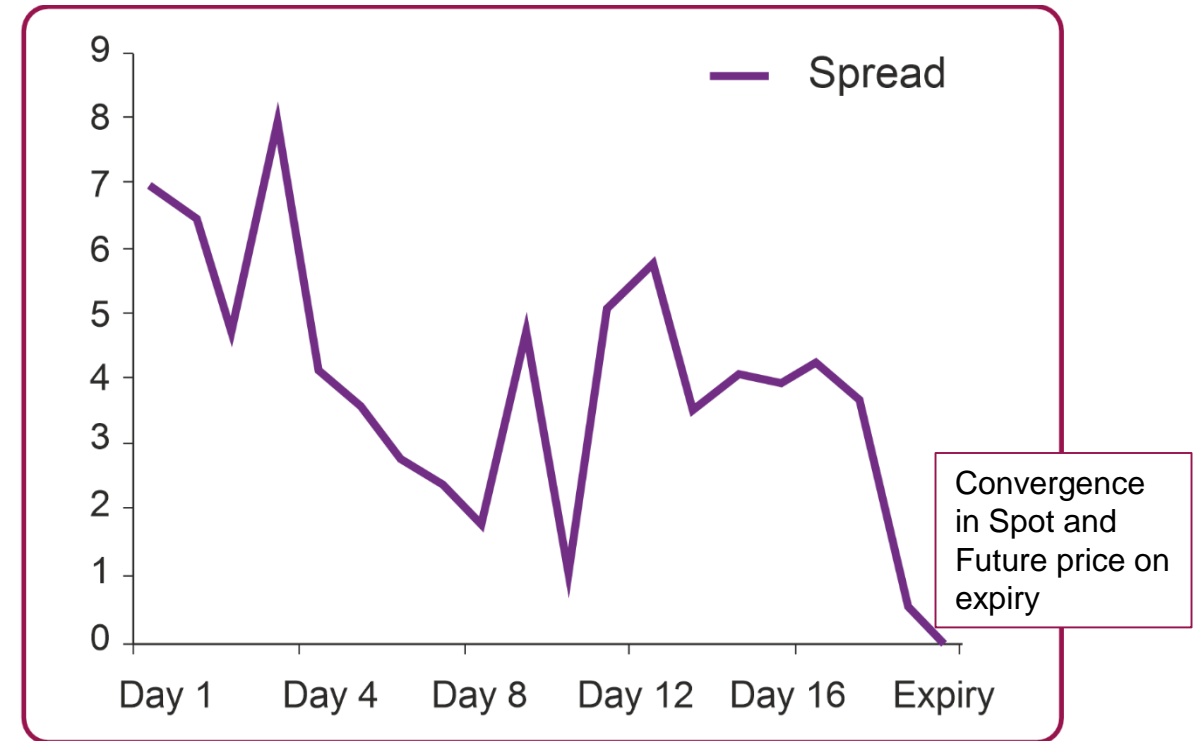
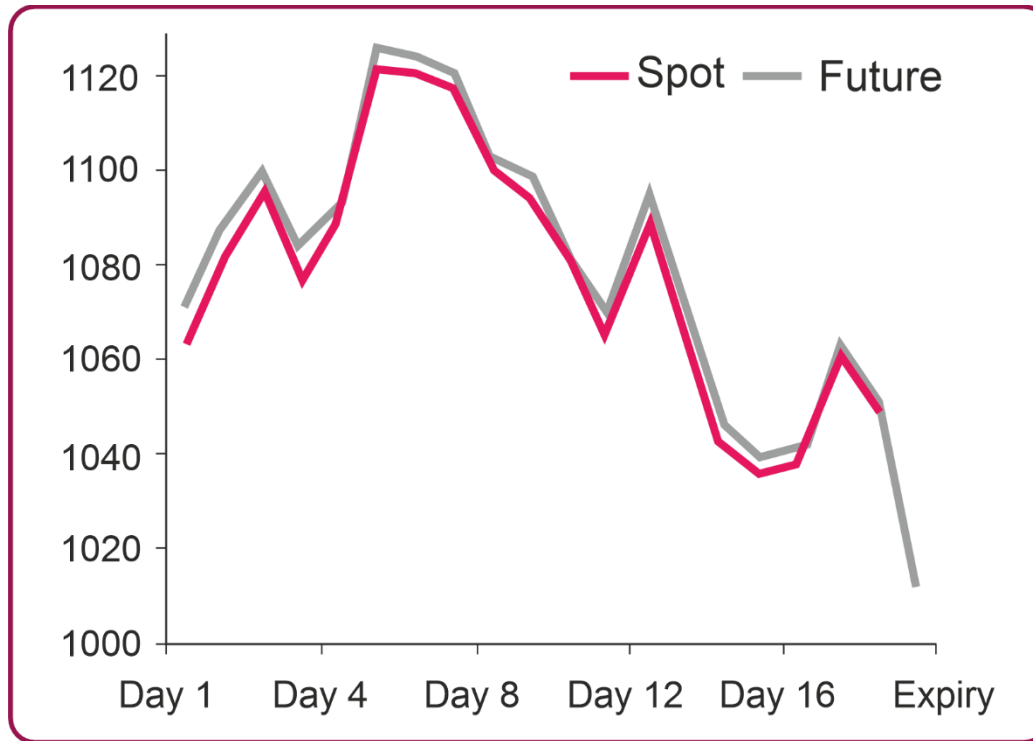


Illustration – Arbitrage Returns

Trajectory of Spreads

Illustration: The below chart on LHS depicts the spot and future price movement for one month contract.

While the chart on RHS explains how the spread between the future and the spot converges to zero by the expiry of the contract.



How does Arbitrage work?

Arbitrage is simultaneous buying and selling the same underlying security in its derivatives market segment to make profits.

For Illustration

Buy a stock at Rs. 100 and sell the 1 month future of the same at Rs. 101 simultaneously

Price at end of the month ↓

**Stock Price rises
to Rs. 105**

Gain on cash position
5 (105-100)

Loss on future position
4 (101-105)

Net Profit = 1 (5-4)

**Stock Price remain
same at Rs. 100**

Gain on cash position
0 (100-100)

Gain on future position
1 (101-100)

Net Profit = 1 (0+1)

**Stock Price falls
to Rs. 95**

Loss on cash position
5 (95-100)


Gain on future position
6 (101-95)

Net Profit = 1 (-5+6)

An arbitrage transaction seeks to capture profits

The Tax Advantage

Arbitrage funds are treated as equity funds for Taxation

 Your Gain	Capital Gains Taxation		
	Individual / HUF	Domestic Company	Non-Resident#
	Specified Mutual Fund Other Than Equity Oriented Scheme		
Capital Gains on Specified mutual funds (Refer Note 1)	30%[^]	30%/25%^{&} / 22%** / 15% ^{^^}	30%[^] (40% in case of Foreign Companies)
	Other than Specified Mutual & other than Equity Oriented Schemes (funds investing more than 35% & less than 65% of its total proceeds in the equity shares of domestic companies)		
Long Term Capital Gains (Holding period > 36 months) (Note 1)	20%^{\$}	20%^{\$}	Listed-20%^{\$} Unlisted-10%*
Short Term Capital Gains (Holding period ≤ 36 months) (Note 1)	30%[^]	30%/ 25%^{&} / 22%** / 15% ^{^^}	30%[^] (40% in case of Foreign Companies)
	Equity Oriented Schemes		
Long Term Capital Gains (Holding period > 12 months)	10%~		10%~*
Short Term Capital Gains (Holding period ≤ 12 months)	15%		



Source: Axis MF Research

Note 1- Aforementioned tax rates shall be increased by applicable surcharge (mentioned below) and health and education cess. #Short term/ long term capital gain tax will be deducted at the time of redemption of unit(s) in case of non-resident investors only. Non-resident investor who is a resident of a country with which India has signed a Double Tax Avoidance Agreement (DTAA) (which is in force), tax shall be deducted at the rate provided under the Income-tax Act, 1961 (Act) or the rate provided in the said DTAA, whichever is more beneficial to such non-resident investor (provided specified documents are provided). If the non-resident investor produces a nil or lower withholding certificate from the income tax authorities, then tax shall be deducted at such rates mentioned in the certificate during the validity of the certificate. \$After providing indexation benefit in respect of cost of acquisition. * Without foreign currency and indexation benefit. ^Assuming the investor falls into highest tax bracket. &If the total turnover of the domestic company does not exceed INR 400 crores during financial year 2021-22, a concessional rate of 25% (plus applicable surcharge and health & education cess) may apply. **Applicable to existing domestic companies opting to discharge taxes at 22% and fulfils prescribed conditions as provided in section 115BAA of the Act. ^^This lower rate is optional for companies engaged in manufacturing business (set-up and registered on or after 1 October 2019) subject to fulfilment of certain conditions as provided in section 115BAB of the Act.

In view of individual nature of the tax consequences, 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.

Why Arbitrage Funds?

01

As an equity-oriented fund, Arbitrage Fund **enjoys a tax advantage** over debt-oriented funds.^



03

Completely hedged equity portion neutralizes market risk (volatility) and therefore is a low risk product.



Enhance portfolio returns using different trading strategies within derivatives segment

02



Balance of relative safety, returns and liquidity

04

^As per current applicable tax laws
Investors are advised to consult his/her own Tax Consultant with respect to the specific amount of tax.

Investment Strategy



Derive returns by exploiting **price differentials** between the stocks in cash market and the derivatives market



The Scheme will endeavor to execute arbitrage strategies by taking opposite positions in markets (Cash V/s Futures) simultaneously –
No unhedged positions



The **overall risk** of the equity portion would be that of being **market neutral** i.e. no net exposure to equity risk



The fund also uses quality debt instruments and debt mutual fund schemes to enhance the market linked returns of marginable securities ensuring most efficient execution & management of the entire portfolio

Things to know before Investing



Risk & Return

- The **equity positions** are completely hedged. Hence the fund does not take any directional equity market exposure.
- Return profiles generally improve during **periods of volatility** and narrow in times of calm markets
- The fund **may deliver negative returns** intra-month due to market fluctuations or due to negative price movement in debt portion. However, the risk of negative returns is lower across a complete F&O expiry cycle



Investment Horizon

- Axis Arbitrage Fund can be considered as a **parking solution of surplus funds** for short term
- Given the tax structure for equity oriented mutual funds the fund is an **ideal substitute to short tenor debt mutual funds**
- Ideal investment horizon **3-6 months**



How can you participate

- Investors can enter the fund via **lumpsum or systematic investment solutions**
- The fund **does not have any lock-in**. However, exit loads may apply

Product Labelling

Axis Arbitrage Fund

(An Open Ended Scheme Investing In Arbitrage Opportunities)

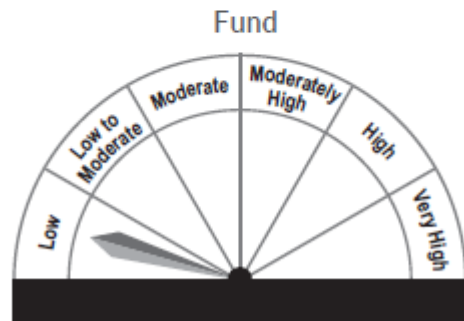
Benchmark: Nifty 50 Arbitrage Index

This product is suitable for investors who are seeking*:

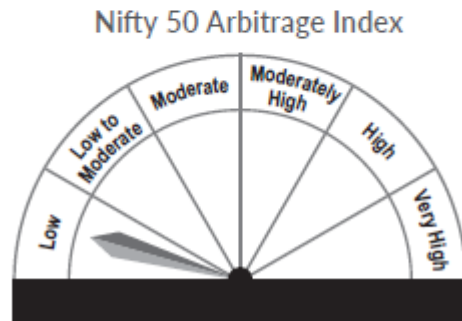
- Income over short to medium term
- Investment in arbitrage opportunities in the cash & derivatives segment of the equity market

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

Riskometer



Investors understand that their principal will be at Low Risk



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

Disclaimer & Risk Factors

Past performance may or may not be sustained in the future.

Statutory Details: Axis Mutual Fund has been established as a Trust under the Indian Trusts Act, 1882, sponsored by Axis Bank Ltd. (liability restricted to Rs. 1 Lakh).

Trustee: Axis Mutual Fund Trustee Ltd.

Investment Manager: Axis Asset Management Co. Ltd. (the AMC)

Risk Factors

Axis Bank Limited is not liable or responsible for any loss or shortfall resulting from the operation of the scheme.

This document represents the views of Axis Asset Management Co. Ltd. and must not be taken as the basis for an investment decision. Neither Axis Mutual Fund, Axis Mutual Fund Trustee Limited nor Axis Asset Management Company Limited, its Directors or associates shall be liable for any damages including lost revenue or lost profits that may arise from the use of the information contained herein. No representation or warranty is made as to the accuracy, completeness or fairness of the information and opinions contained herein. The AMC reserves the right to make modifications and alterations to this statement as may be required from time to time.

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

Thank You