

MIRAE ASSET ARBITRAGE FUND (MAAF)

An open ended scheme investing in arbitrage opportunities

June 2023

What is Arbitrage?

01 The act of buying a security in one market and simultaneously selling it in another market for a price differential is called Arbitrage .

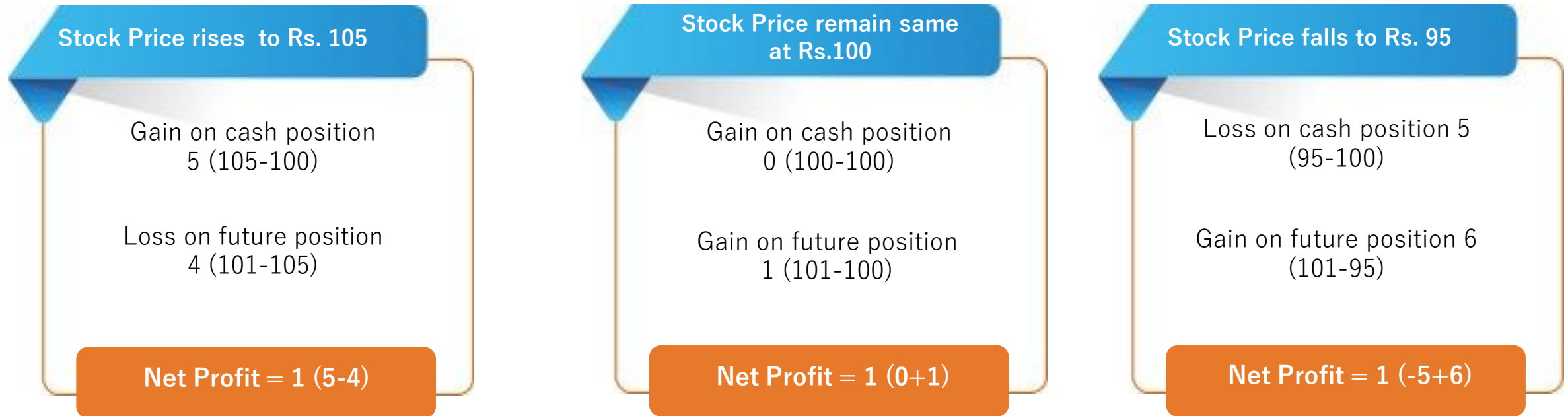
02 The Price differential that exist in the equity and derivative segments for the same asset is called as the spread and can also be attributed to market inefficiencies.

What makes Arbitrage Risk Free?

Arbitrage is simultaneous buying and selling the same underlying security or its derivatives in different market segments to make risk free profits.

For Illustration

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



An arbitrage transaction seeks to capture riskless profits

Factors Affecting Arbitrage Spread



Arbitrage Strategies



**Exchange
Arbitrage**



**Cash and Carry
Arbitrage**



**Reverse
Arbitrage**



**Index and
Baskets of Stock
Arbitrage**



**Corporate
Driven Arbitrage**

1. Exchange Arbitrage

Exchange arbitrage is taking advantage of price difference of the same security in two stock exchanges.

For instance-

	NSE	BSE
Price of Stock A	Rs 100	Rs 101
Action	Buy	Sell
Profit	Rs 1 (101 – 100)	

Excludes all cost

The above data is for illustration purpose only.

2. Cash and Carry Arbitrage

Cash and Carry Arbitrage is taking advantage of price difference of the same security in cash market and current future series of same security. It is the most common arbitrage strategy used by Arbitrage Mutual Funds.



Scenario Analysis of Cash and Carry Arbitrage

	On F&O Expiry Price of Stock		
	Stock Prices goes up to 1900	Stock Prices goes down to 1700	Stock Prices remains 1785
Buy the Stock @ 1785	115	-85	0
Sell the Stock Future @ 1800	-100	100	15
Profit	15	15	15

The above data is for illustration purpose only. *Excludes all costs F&O stands for Future and Options

3. Reverse Arbitrage

Reverse arbitrage is reversing the arbitrage position wherein since the premiums in the futures market is low or negative you sell the stock in the cash market and simultaneously buy the futures of the same stock



4. Index and Basket of Stocks Arbitrage

Index and basket of stocks arbitrage is similar to Cash and carry arbitrage, the only difference is that instead of a single stock here the arbitrage is for the index.

For Instance-

	Cash Market	F&O Market
Security	Stocks constituting Nifty 50 Index in the same proportion as the index	Nifty 50 index
Action	Buy	Sell
Price	Rs. 9,275	Rs. 9,300
Profit*	Rs 25 (9300-9275)	

5. Corporate Driven Arbitrage

Right Issues

This is announced for a company's existing investors when it needs more capital. The company gives an option or 'rights' to an existing investor to buy new shares at a discounted price during a certain period. This offers an arbitrage opportunity as the investor can buy shares at a discount and sell the same when it matches the market price.

Mergers and acquisitions (M&A)

When a company goes through merger, amalgamation, hive off, demerger etc., there could be opportunities due to price differential in the cash and the derivative market.

Buy-Back Arbitrage

When the company announces the buy back of its own shares, there could be opportunities due to price differential in buyback price and trade price.

Dividend Arbitrage

Dividend arbitrage is intended to create a risk-free profit by hedging the downside of a dividend-paying stock while waiting for upcoming dividends to be issued.

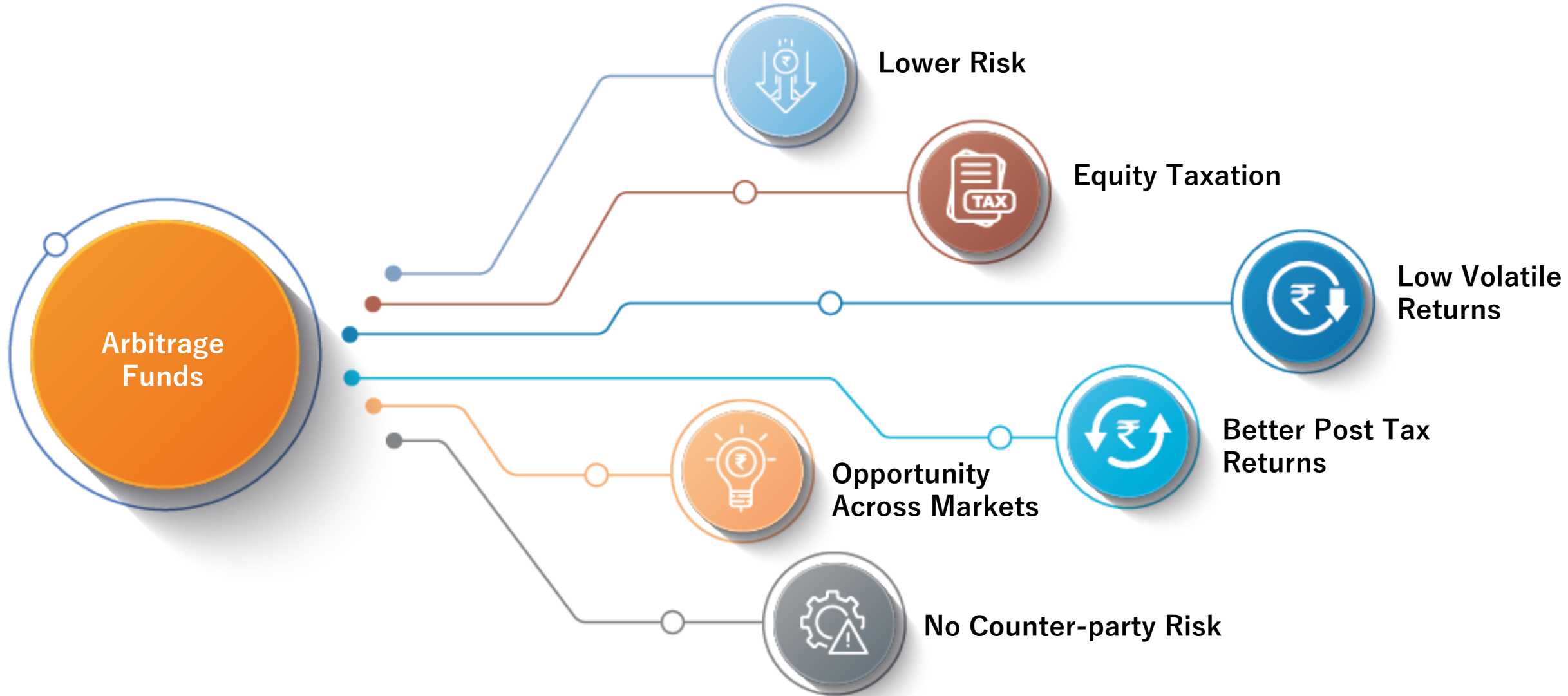
What are Arbitrage Funds ?

Arbitrage funds are equity-oriented funds under the hybrid category that simultaneously invest (buy in cash and sell in futures) in the same stock in two different markets (cash and futures) to generate returns

The minimum exposure to equity is 65% of the asset while the balance portion is invested into debt segment.

Minimum exposure of 65% in equity arbitrage is required for the scheme to be eligible for equity taxation. The remaining 35% is invested in debt and money market instruments.

Reasons to Invest in an Arbitrage Fund



Mirae Asset Arbitrage Fund

(An open ended scheme investing in arbitrage opportunities)

Investments in Fund

Arbitrage Fund is taking advantage of a price difference between two or more markets

Investment Framework

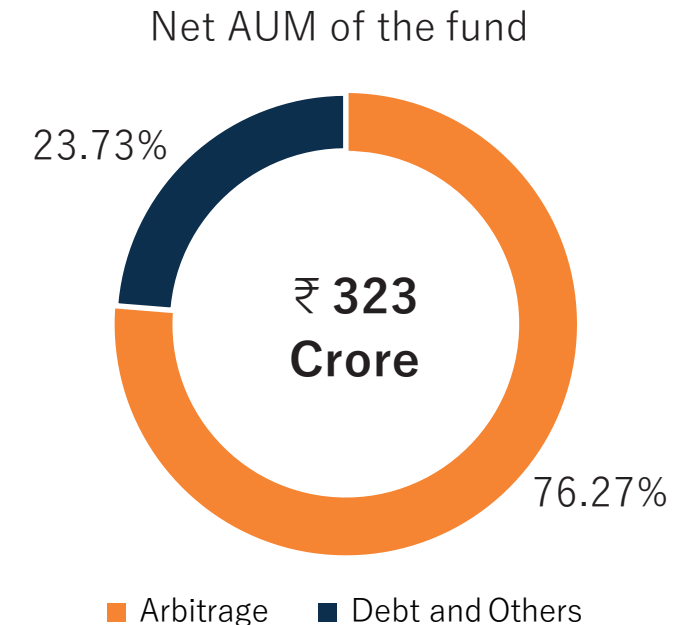
Invest predominantly in completely hedged arbitrage opportunities (simultaneous transactions of a long position in cash and exactly short position in futures) A small portion will be invested in other arbitrage opportunities




Aims to provide relatively risk-free returns without any directional equity risk

Why Mirae Asset Arbitrage Fund?






The fund provides minimal risk.

These can be an alternative to debt-oriented mutual funds



Fund Inception	Category	Benchmark
22 June 2020	Arbitrage Fund	NIFTY 50 Arbitrage Index
Goal	Ideal Investment Horizon	Risk Profile
 Regular Income	 3 months and above	 Low

Our Investment Framework

-  Investments are predominantly completely hedged arbitrage opportunities (simultaneous transactions of a long position in cash and exactly short position in futures)
-  A small portion could be invested in other arbitrage opportunities (corporate drive, event driven)
-  The fund aims to provide relatively risk-free returns without any directional equity risk
-  The scheme will largely be invested in arbitrage but may allocate a higher proportion occasionally towards debt (high quality low duration debt securities or money market instruments) when returns look more favourable compared to arbitrage but ensuring at all times that the taxation status is not compromised.
-  The margin money requirement for the derivative exposure may be held in the form of G-sec, T-bills, CDs and CPs.

Key Strategies of Fund

**Cash And
Carry
Arbitrage**

**Index
Arbitrage**

**Event
Arbitrage**

**Corporate
Driven
Arbitrage**

Normally the position would be held until expiry of the futures contract when the offsetting position is converged and profit is locked.

However if the price converges before the expiry we may wind up the position and could invest in other opportunities, if available.

At times the arbitrage positions could be rolled over to the next cycle.

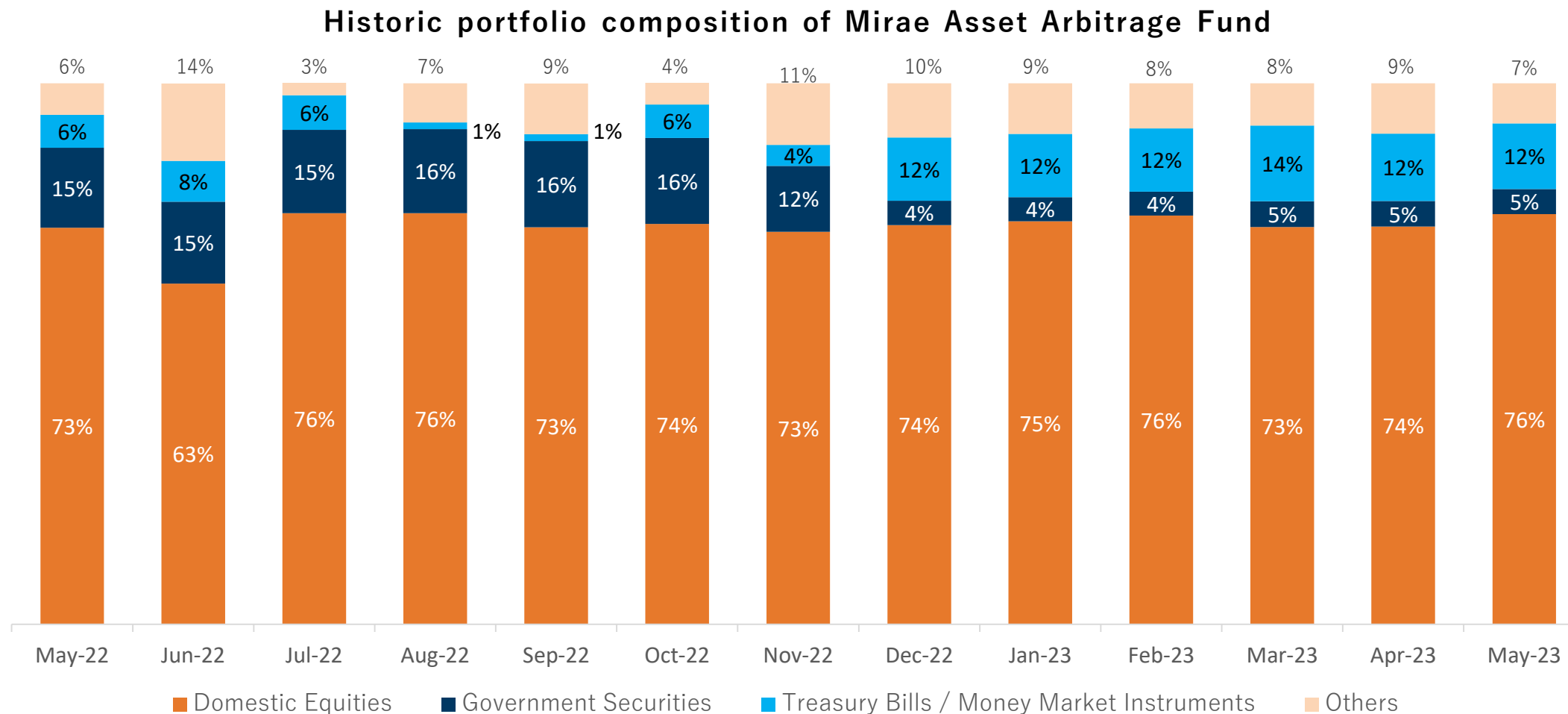
Largely the fund will try and follow the cash and carry arbitrage strategy but could also consider other strategies depending on the opportunities available.

Where can the Fund Invest

Asset Type	Investment decision
Arbitrage Opportunities	Yes
Margin Fixed Deposits	Yes
Out-right Equity Exposures	No
Equity IPO	No
Debt & Money Market Instruments	Yes
Credit Risk	Low
Duration Risk	Low

This is the current investment framework which may or may not change in the future.

Historic Portfolio Composition



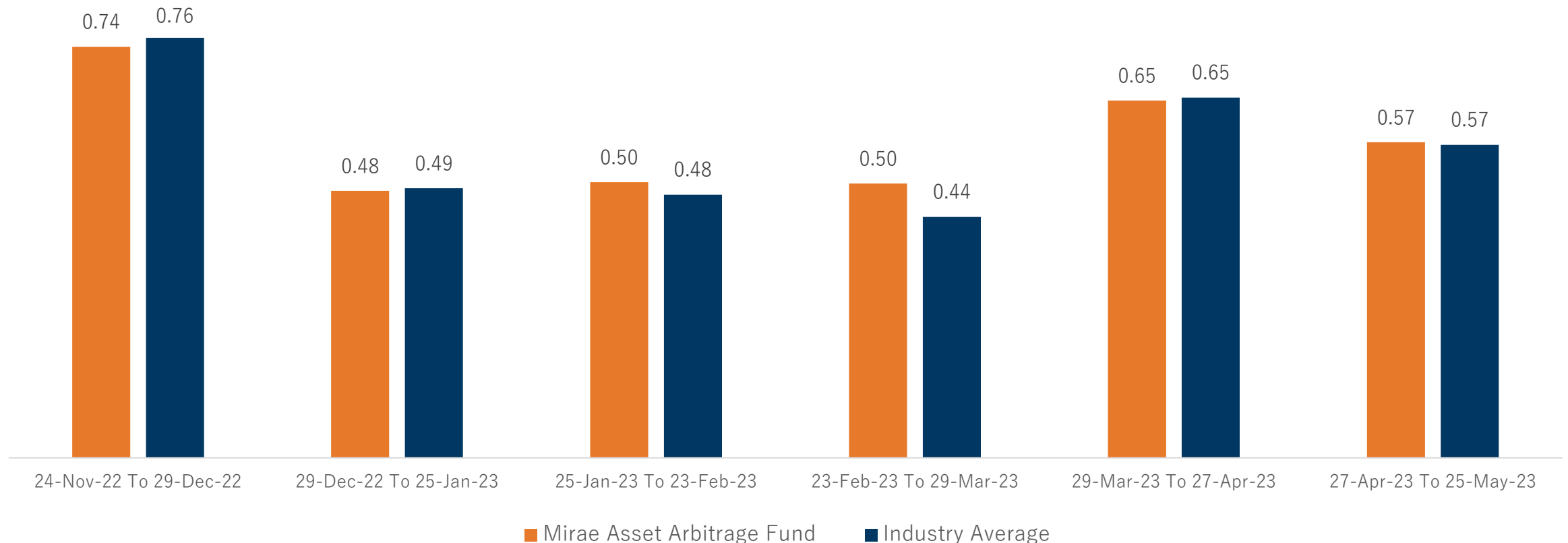
- Since the Inception of the Fund, Asset Allocation has remained in line with mandate.
- Since the past few months allocation towards G-secs have reduced and allocations towards Treasury Bills and Money market instruments have increased.

This framework may or may not change in the future.

Source: Internal, Data as on 31st May, 2023 for complete portfolio, please visit <https://www.miraeassetmf.co.in/downloads/portfolio>

Returns Between Expiry Dates – Last 6 months

- Below is the last six months' Mirae Asset Arbitrage Fund returns month on month from one expiry date to the other
- The higher arbitrage position has converted in better rollover capture by Mirae Asset vs. its peers



Source: Internal, Data as on 31st May, 2023. Returns are on Absolute basis.

Past Performance may or may not be sustained in future. The industry average provided above pertains to the average of all Arbitrage funds in the Indian market present at respective time frames

Who may Invest



Looking for investment horizon of 3 months and above



Looking for tax efficient returns



Low risk- No directional exposure in equity



Looking for low volatility in returns

Disclaimers

Statutory Details: Trustee: Mirae Asset Trustee Company Private Limited; Investment Manager: Mirae Asset Investment Managers (India) Private Limited (AMC); Sponsor: Mirae Asset Global Investments Company Limited.

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For further information about other schemes (product labelling and performance of the fund) please visit the website of the AMC: www.miraeassetmf.co.in

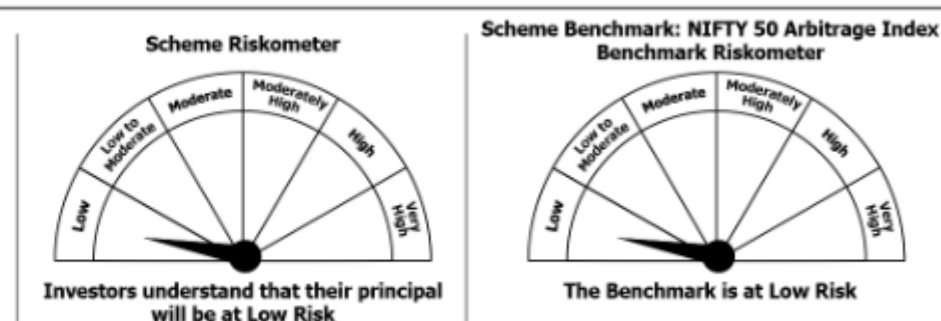
Please consult your financial advisor or mutual fund distributor before investing

PRODUCT LABELLING

Mirae Asset Arbitrage Fund is suitable for investors who are seeking*

- Income over short term
- Investments predominantly in arbitrage opportunities in the cash and derivative segments and the arbitrage opportunities available within the derivative segment

*Investors should consult their financial advisors if they are not clear about the suitability of the product.



THANK YOU

Follow us on:     

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