



**PGIM**  
India Mutual Fund

Gain from experience

# PGIM INDIA ARBITRAGE FUND

(An open ended scheme investing in arbitrage opportunities)

May 2024

# Index

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**1**

**What is Arbitrage**

**2**

**PGIM India – Arbitrage Investment Process**

**3**

**Why Arbitrage ?**

**4**

**Why PGIM India Arbitrage Fund?**

**What is Arbitrage ?**

## What is Arbitrage?

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- Arbitrage takes advantage of pricing difference of a particular asset, between two or more markets
- A combination of matching deals are executed, with a view to capitalize on this pricing difference
- The “spread” thus captured, net of any associated cost is the arbitrage profit

**The predominant type of arbitrage strategy used in mutual funds is buying a particular stock in the cash segment and selling it in the futures segment, whenever the futures are trading at a relatively attractive premium and reversing this trade at an appropriate on or before expiry of the futures contract or rolling over the position for next months futures contract**

**The arbitrage strategy thus is fully hedged as the simultaneous buy(long cash) and sell(short futures) would look to exactly offset each other**

# Cash Equity And Futures Arbitrage

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## What is Equity Arbitrage?

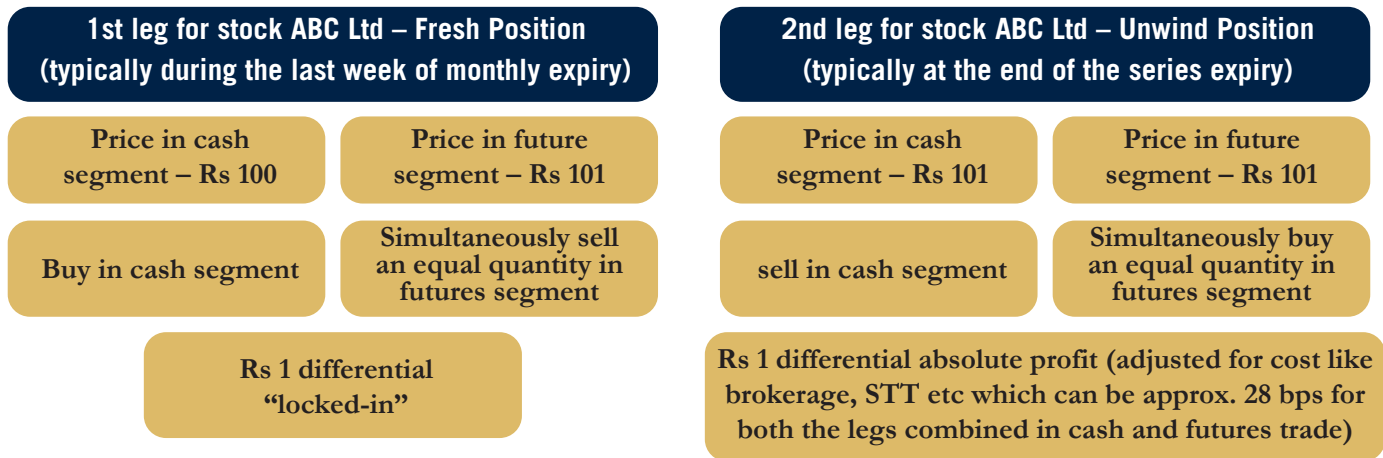
- Simultaneous purchase and sale of the same number of shares in the equity spot market and the equity futures market of the same security to profit from the difference in price
- Arbitrage exists due to market inefficiencies and available leverage in derivatives segment
- This strategy seeks to exploit pricing inefficiencies in order to make low risk profits. When such opportunities are not available the fund may invest in short term debt securities or money market instruments

## Types of Transactions

- Fresh Arbitrage (Buy Cash & Sell Futures)
- Reverse Arbitrage (Sell Cash & Buy Futures)
- Short Roll (Buy Current Month Futures & Sell Next Month Futures)

**Why Arbitrage ?**

# How does the Arbitrage strategy work?

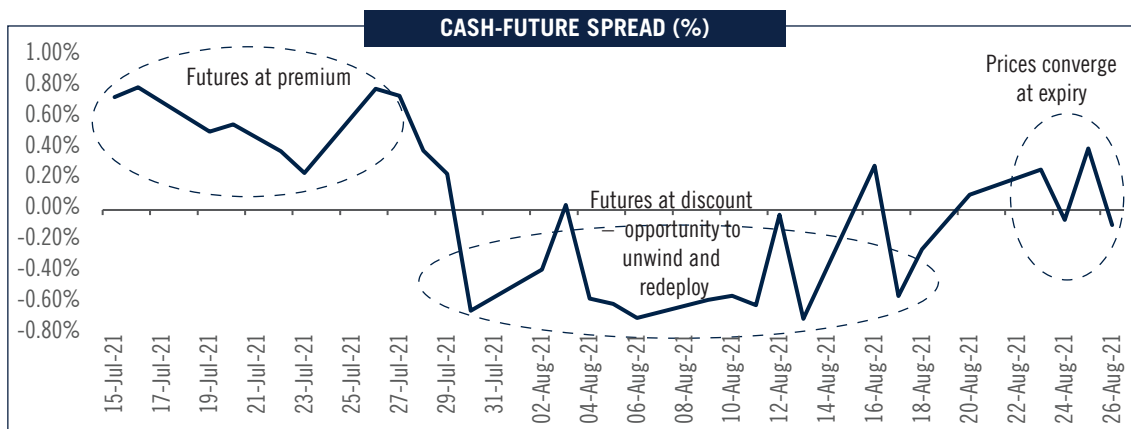


## 2nd leg of arbitrage can be done in 3 ways

- Rollover - If the spreads continue to remain attractive, the fund manager may choose to rollover the position. This means that the cash position will not be squared off and futures position will be shifted to next month
- Premature closure – if futures price converge or go into discount before the expiry
- At or near maturity – winding up both the long and short position

The above is for illustration purpose only. The above is only meant for understanding the concept of arbitrage. The above illustration should not be taken as any indication of future returns of the scheme.

## Cash-Future Spread illustration

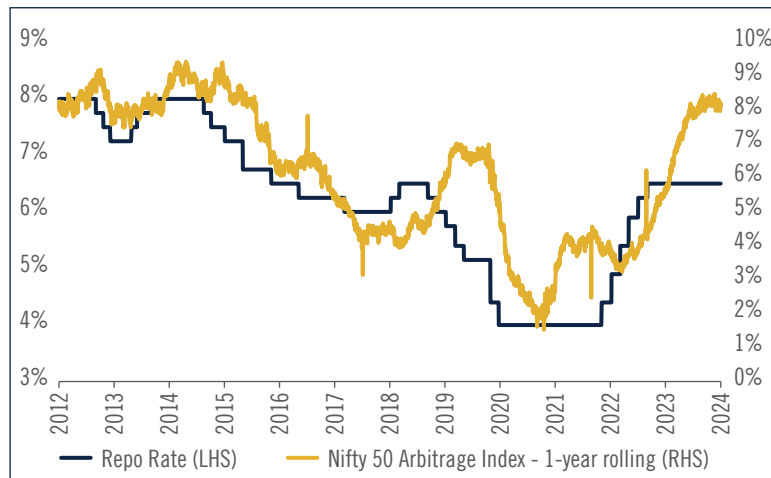


- **Arbitrage strategy involves initiating a trade when futures are trading at a premium to spot price and unwinding the trade when futures are at discount or during expiry.**
- **Fund manager may also choose to rollover the position if the spreads continue to be relatively attractive**

Source: NSE. The above is for illustration purpose only. The above does not take into account any associated cost like brokerage etc and is only meant for understanding the concept of arbitrage. The above illustration should not be taken as any indication of future returns of the scheme.



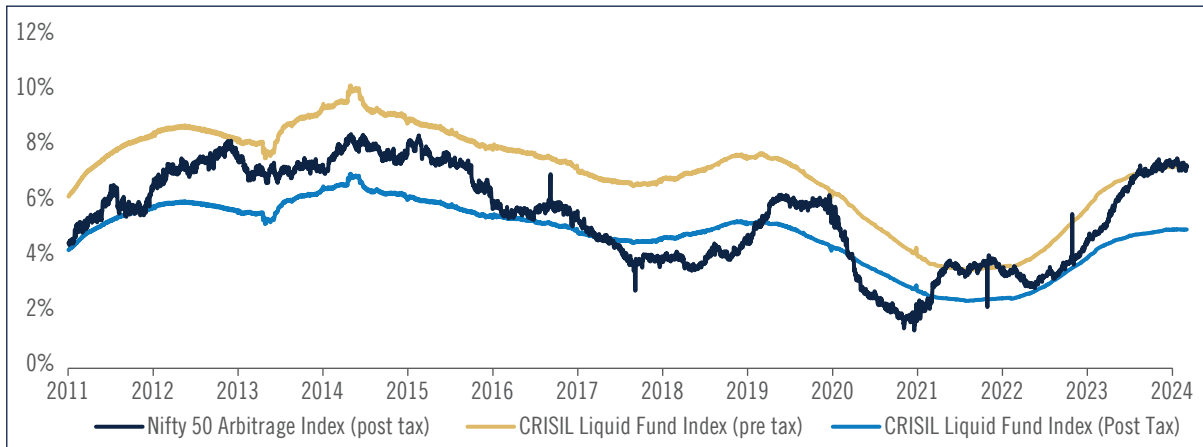
# Arbitrage spreads correlated with short-term rates in the economy among other things



- The cash-future spreads are determined by two factors predominantly:
  - Cost of Carry
  - Demand and supply of the underlying stock
- Cost of carry can be thought of as interest cost for a similar position in cash market, for the duration of the future contract's expiry, less any dividends received in the interim
- Suppose the spot price of scrip X is Rs 2,000 and the prevailing interest rate is 6 per cent per annum. Futures price of one-month contract would therefore be:  $2,000 + 2,000 \times 0.06 \times \frac{30}{365} = \text{Rs } 2,000 + \text{Rs } 9.86 = 2009.86$ . Here, Rs 9.86 is the cost of carry
- Demand and supply can ensure a higher premium or discount, relative to the implied spread price as determined by Cost of Carry
- Other considerations like FII/DII participation, arbitrage industry flows, number of stocks in derivatives segment available for trading, margin requirement, brokerage, liquidity etc can also lay an important role

Source: Bloomberg, NSE. Chart data updated as of 31 May 2024.

# Taxation efficiency compared to shorter term fixed income products



The above is for illustration purpose only. This is not an indication of returns. Please consult your tax advisor for details. The calculation is based on prevailing tax rates and is subject to change. Past performance may or may not be sustained in the future. Investment is assumed to be in growth option.

## ■ On a post-tax basis, Arbitrage strategy has outperformed Liquid strategy 78% of the times

Source: NSE Indices, Crisil. Data for 1 April 2011 to 31 March 2024. Post tax returns calculated assuming individual is in the highest tax bracket. Surcharge has not been considered. Rs 1 lakh exemption for LTCG in equities assumed to be exhausted for the financial year.

## Illustration : Taxation for holding period of more than 1 year

	Equity taxation	Debt taxation	Gain required in debt product to match similar post tax return of equity
Amount Invested	100000	100000	100000
Assumed rate of return (%)	5.00%	5.00%	6.51%
Gains at the end of 1 year	5000	5000	6510
Tax Head	LTCG	STCG	STCG
Applicable Tax rate	10.40%	31.20%	31.20%
Tax Liability	520	1560	2031
Post Tax Gains	4480	3440	4479
Post Tax Returns	4.48%	3.44%	4.48%

The above is for illustration purpose only. This is not an indication of returns. Please consult your tax advisor for details. The calculation is based on prevailing tax rates and is subject to change. Past performance may or may not be sustained in the future.

### Assumptions:

Individual is in the highest tax bracket and is a resident investor.

Rs 1 lakh exemption for LTCG in equities is exhausted for the year.

Surcharge has not been considered

Holding period is assumed to be more than 12 months but less than 3 years. In the above illustration returns are based on 1 year holding period

# **PGIM India - Arbitrage Investment Process?**

# PGIM India Arbitrage Fund – Positioning

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## ■ Granular portfolio to take advantage of market volatility

- In order to take advantage of volatile markets, we have increased the number of stocks and made the portfolio granular (~55-65 stocks). Stock selection is based on open interest data, roll history, liquidity, corporate actions and current premium levels

## ■ Active management with selective churn: unwind and enter into fresh arbitrage trades during the month

- Due to the market volatility, many stock futures at times trade at a discount to cash price. We use this opportunity to selectively re-balance the portfolio at favourable levels on intra-month basis thereby benefiting overall performance. We increased intra-month portfolio churns to take advantage of market volatility.
- Active management looks to enhance returns by constantly shifting into positions offering a relatively higher carry

## ■ No added Risk in Fixed Income Portion

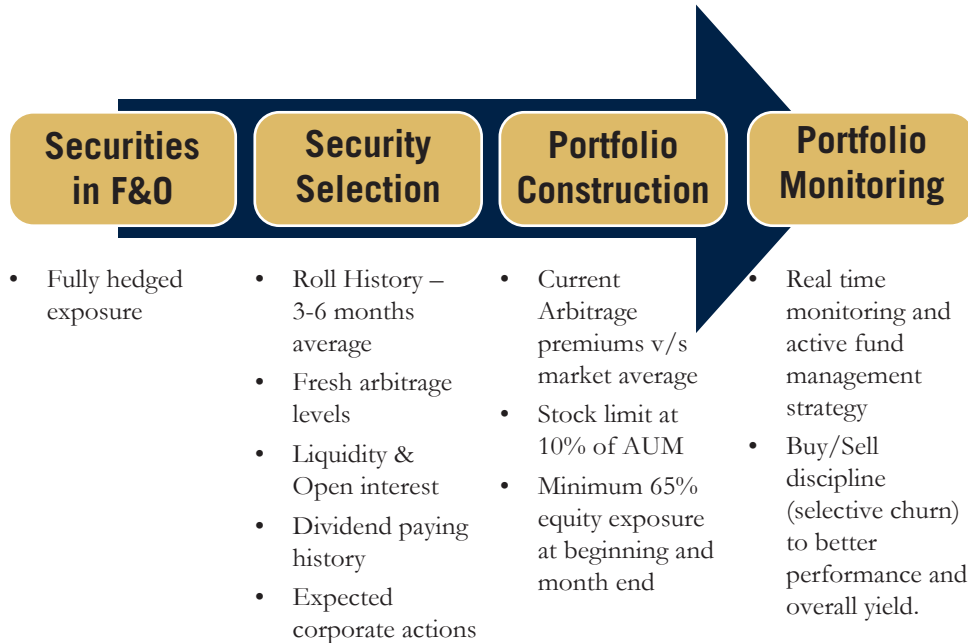
- Fixed income allocation is primarily for margin requirements towards equity futures positions, predominantly in liquid fund and T-Bills. The balance is invested in overnight funds and TREPS, which have minimal interest rate risk.

## ■ Outlook

- Over the medium term we expect arbitrage premiums to remain supported or gradually improve due to higher rates and gradual pick-up in economic growth which should help boost market sentiments.

The current allocation and strategy is based on fund manager's views and is subject to change.

# Stock Selection Process



# Fund Performance

	Fund		Nifty 50 Arbitrage Index <sup>^</sup>		CRISIL 1 Year T-Bill Index <sup>#</sup>	
	Returns (%)	Value (INR)*	Returns (%)	Value (INR)*	Returns (%)	Value (INR)*
<b>PGIM India Arbitrage Fund-Reg(G)</b>						
Last 1 Year	6.98	10,700	8.17	10,819	7.08	10,710
Last 3 Years	5.17	11,633	5.80	11,844	5.35	11,696
Last 5 Years	4.79	12,640	5.05	12,797	5.53	13,089
Since Inception	5.65	17,099	5.57	16,973	6.38	18,295
<b>PGIM India Arbitrage Fund(G)-Direct Plan</b>						
Last 1 Year	7.74	10,776	8.17	10,819	7.08	10,710
Last 3 Years	5.88	11,873	5.80	11,844	5.35	11,696
Last 5 Years	5.46	13,047	5.05	12,797	5.53	13,089
Since Inception	6.28	18,132	5.57	16,973	6.38	18,295

**Date of Inception: Regular Plan:** August 27, 2014; **Direct Plan:** August 27, 2014. Above returns are CAGR – Compounded Annual Growth Rate.

<sup>^</sup> Scheme Benchmark. <sup>#</sup> Standard Benchmark. <sup>\*</sup>Based on standard investment of Rs.10,000 made at the beginning of the relevant period. Past performance may or may not be sustained in future and should not be used as a basis for comparison with other investments. Different plans have a different expense structure.

Scheme performance is not strictly comparable with that of its Standard Benchmark since the scheme does not take directional call in equity markets but is limited to availing arbitrage opportunities, etc. Mr. Chetan Chavan (Equity Investments) has been managing this fund since March 29, 2024 & Mr. Puneet Pal (Debt Investments) is co-managing this fund since 22nd April, 2022. For performance of schemes managed by Hitash Dang and Puneet Pal refer to the next slides

The above returns are as on May 31, 2024

## Performance of other schemes managed by Chetan Chavan

	Last 1 Year	Last 3 Years	Last 5 Years	Managing Since
PGIM India Balanced Advantage Fund*	14.00	9.10	–	March 29, 2024
CRISIL Hybrid 50+50 Moderate Index^	19.14	11.38	–	
PGIM India Equity Savings Fund*	8.11	6.66	7.10	March 29, 2024
NIFTY Equity Savings Index^	13.05	8.90	9.51	

^ Scheme Benchmark. All the above returns are in CAGR. CAGR – Compounded Annual Growth Rate. The performance provided is for Regular Plan - Growth Option. Past performance may or may not be sustained in future and should not be used as a basis for comparison with other investments. Past performance may or may not be sustained in future and should not be used as a basis for comparison with other investments. Different plans have a different expense structure. Chetan Chavan is managing 3 schemes of PGIM India Mutual Fund. \*PGIM India Balanced Advantage Fund is co-managed by Utsav Mehta (Equity Portion), Anandha Padmanabhan Anjeneyan (Equity Portion), Vinay Paharia (Equity Portion), Chetan Gindodia (Equity Portion) and Puneet Pal (Debt Portion). \*PGIM India Equity Savings Fund is co-managed by Anandha Padmanabhan Anjeneyan (Equity), Vivek Sharma (Equity), Vinay Paharia (Equity) and Puneet Pal (Debt Portion). Please refer to [www.pgimindiamf.com](http://www.pgimindiamf.com) for details on performance of all schemes including direct plans. Performance as on May 31, 2024.



## Performance of other schemes managed by Puneet Pal

	Last 1 Year	Last 3 Years	Last 5 Years	Managing Since
<b>Top 3 Schemes Performance (%)</b>				
PGIM India Small Cap Fund*	28.23	–	–	April 01, 2023
NIFTY Smallcap 250 TRI^	58.44	–	–	
PGIM India Midcap Opportunities Fund*	25.00	17.40	24.96	July 16, 2022
NIFTY Midcap 150 TRI^	53.82	26.69	25.60	
PGIM India Flexi Cap Fund*	18.96	11.72	17.92	March 29, 2024
NIFTY 500 TRI^	35.06	18.08	17.83	
<b>Bottom 3 Schemes Performance (%)</b>				
PGIM India Corporate Bond Fund*	6.08	4.95	6.22	December 13, 2017
CRISIL Corporate Debt A-II Index^	7.01	5.38	6.80	
PGIM India Ultra Short Duration Fund*	6.62	5.19	6.60	December 13, 2017
CRISIL Ultra Short Duration Debt A-I Index^	7.53	5.96	5.95	
PGIM India Dynamic Bond Fund*	6.69	4.72	5.85	July 16, 2022
CRISIL Dynamic Bond A-III Index^	6.47	5.19	7.14	

^ Scheme Benchmark. Past performance may or may not be sustained in future and should not be used as a basis for comparison with other investments. The above mentioned earlier are for Regular Plan - Growth Option. Above returns are in CAGR – Compounded Annual Growth Rate. Different plans have a different expense structure.

Mr. Puneet Pal is managing 17 schemes of PGIM India Mutual Fund. \*PGIM India Midcap Opportunities Fund is co-managed by Vivek Sharma (Equity Portion), Utsav Mehta (Equity Portion) and Vinay Paharia (Equity Portion). \*PGIM India Ultra Short Duration Fund is co-managed by Mr. Bhupesh Kalyani (Debt). \*PGIM India Flexi Cap Fund is co-managed by Vivek Sharma (Equity Portion), Vinay Paharia (Equity), Anandha Padmanabhan Anjeneyan (Equity) and Chetan Gindodia (Overseas Investments). \*PGIM India Small Cap Fund is co-managed by Utsav Mehta (Equity Portion), Vivek Sharma (Equity Portion), Vinay Paharia (Equity), Harsh Kothari (Equity Portion) and Chetan Gindodia (Overseas). \*PGIM India Corporate Bond Fund is co-managed by Bhupesh Kalyani (Debt). \*PGIM India Dynamic Bond Fund is co-managed by Bhupesh Kalyani (Debt). Returns for the benchmark have been calculated using TRI values. Top three and bottom three schemes managed by the fund manager have been derived on the basis of last one year performance ending on May 31, 2024. Performance as on May 31, 2024.

## PGIM India Arbitrage Fund – Fund Facts

<b>Scheme Name</b>	<b>PGIM India Arbitrage Fund</b>
<b>Type of scheme</b>	An open ended scheme investing in arbitrage opportunities
<b>Investment objective</b>	<p>To generate income by investing in arbitrage opportunities that potentially exist between the cash and derivatives market as well as within the derivatives segment of the market. Investments may also be made in debt &amp; money market instruments.</p> <p>There can be no assurance or guarantee that the investment objective of the Scheme will be realized. The Scheme does not guarantee/ indicate any returns.</p>
<b>Exit Load</b>	(w.e.f. October 25, 2023) For exits within 30 days from the date of allotment of units: 0.25%; For exits beyond 30 days from the date of allotment of units: Nil
<b>Fund Manager</b>	Mr. Chetan Chavan (Equity Portion) (w.e.f. March 29, 2024) and Mr. Puneet Pal (Debt Portion) (w.e.f 22 April 2022)
<b>Benchmark Index</b>	Nifty 50 Arbitrage Index

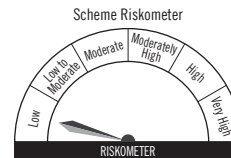
# PGIM INDIA ARBITRAGE FUND

(An open ended scheme investing in arbitrage opportunities)

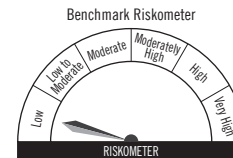
This product is suitable for investors who are seeking\*:

- Income over short term
- Income through arbitrage opportunities between the equity spot and equity derivatives market and arbitrage opportunities within the equity derivatives segment
- Degree of risk – LOW

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



Investors understand that their principal will be at low risk



Nifty 50 Arbitrage TR Index  
Benchmark riskometer is at low risk



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