PGIM
India Mutual Fund

Gain from experience

PGIM INDIA ARBITRAGE FUND

(An open ended scheme investing in arbitrage opportunities)

November 2022

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About Us

PGIM (INDIA)

24,299
CRORES*
ASSETS UNDER MANAGEMENT
AS ON 30/11/2022

PGIM

102 LAC
CRORES
ASSETS UNDER MANAGEMENT
AS ON 30/06/2022
The Global Investment Management Business of PFI

Prudential Financial (PFI)

126 LAC
CRORES
ASSETS UNDER MANAGEMENT
AS ON 31/03/2022

Source: www.pgim.com and www.prudential.com. *For AUM Breakup please refer slide no. 23
This information has been prepared by PGIM, Inc ("PGIM"). PGIM is the premirary asset management business of PFI and is a registered investment advisor with the US Securities and Exhange Commission. PFI, a company with corporate headquaters in the US, is not affiliated in any manner with Prudential plc, a company incorporated in the United Kingdom.

About Us

Global Footprint

Global Depth & Scale

A leading global investment manager	**1300+** investment professionals	**39** OFFICES	**17** COUNTRIES

Source: www.pgim.com

PGIM India Asset Management

PGIM India Mutual Fund is a wholly owned business of PGIM, the global investment management business of the US based PFI.

Network
27 CITIES

No of open-ended Investment products
EQUITY FUNDS - 12
FIXED INCOME - 10

Differentiated
ASSET ALLOCATION SOLUTIONS

10000+ DISTRIBUTORS

Investment Team size
16

Total no. of years of experience of investment team
226 YEARS

PORTFOLIO MANAGEMENT SERVICES: STRATEGIES - 2

PGIM India Core Equity Portfolio
PGIM India Phoenix Portfolio

What is Arbitage ?

What is Arbitrage?

- 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

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?

1st leg for stock ABC Ltd – Fresh Position (typically during the last week of monthly expiry)

- Price in cash segment – Rs 100
- Price in future segment – Rs 101
- Buy in cash segment
- Simultaneously sell an equal quantity in futures segment
- Rs 1 differential "locked-in"

2nd leg for stock ABC Ltd – Unwind Position (typically at the end of the series expiry)

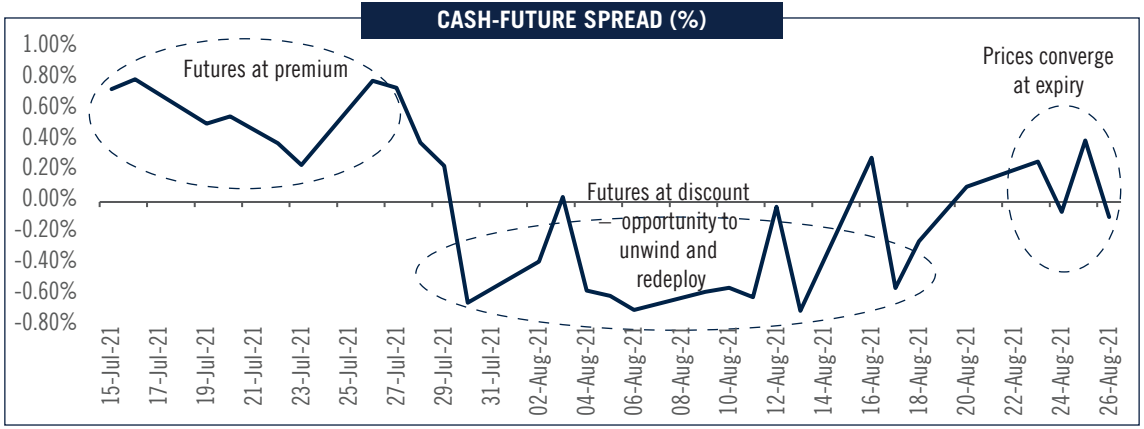
- Price in cash segment – Rs 101
- Price in future segment – Rs 101
- sell in cash segment
- Simultaneously buy an equal quantity in futures segment
- Rs 1 differential absolute profit (adjusted for cost like brokerage, STT etc which can be approx. 28 bps for both the legs combined in cash and futures trade)

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.

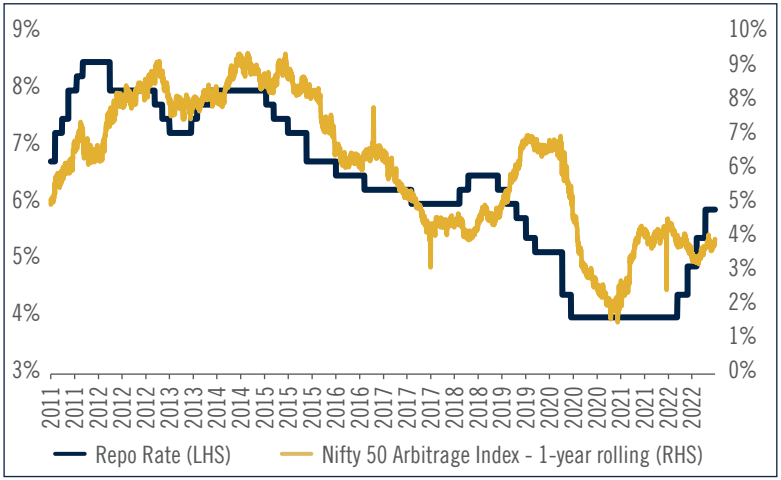
Cash-Future Spread illustration



- **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.

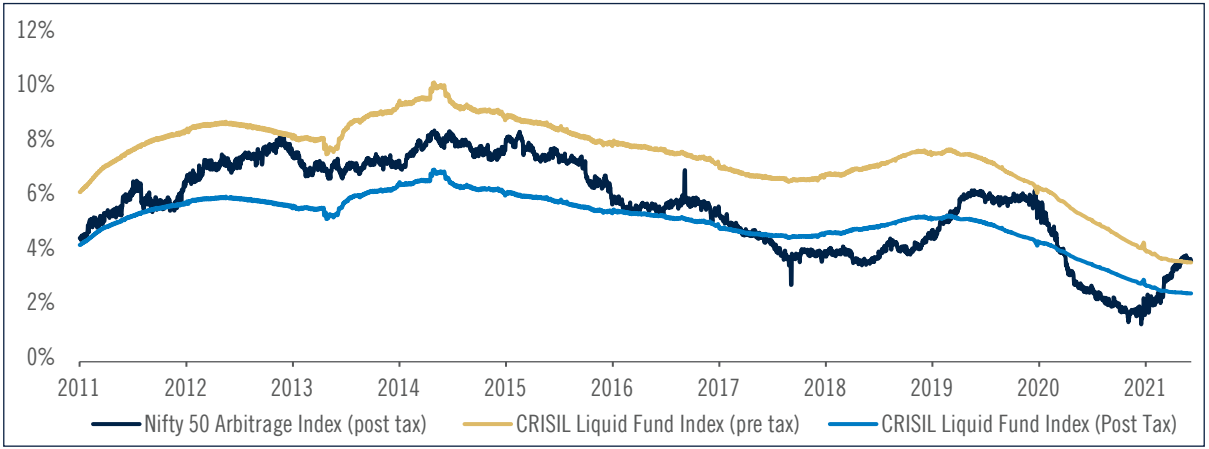
Arbitrage spreads correlated with short-term rates in the economy among other things



Source: Bloomberg, NSE. Chart data updated as of 30 November 2022.

- 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*0.06*30/365 = Rs 2,000 + 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

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 72% of the times

Source: Bloomberg, Crisil. 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

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

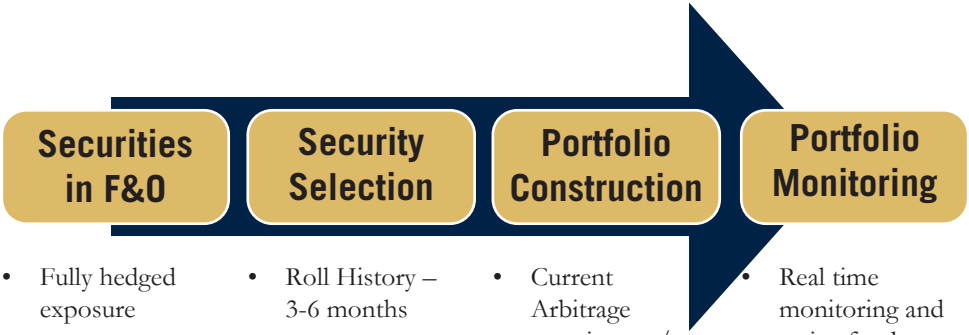
- Fixed income allocation is primarily for margin requirements towards equity futures positions, predominantly in liquid fund and T-Bills. The balance is invested in overnight funds and TREPS, which have minimal interest rate risk.

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



- Fully hedged exposure

- Roll History – 3-6 months average
- Fresh arbitrage levels
- Liquidity & Open interest
- Dividend paying history
- Expected corporate actions

- Current Arbitrage premiums v/s market average
- Stock limit at 10% of AUM
- Minimum 65% equity exposure at beginning and month end

- Real time monitoring and active fund management strategy
- Buy/Sell discipline (selective churn) to better performance and overall yield.

Fund Performance

	Fund		Nifty 50 Arbitrage Index^		CRISIL 1 Year T-Bill Index#	
	Returns (%)	Value (INR)*	Returns (%)	Value (INR)*	Returns (%)	Value (INR)*
PGIM India Arbitrage Fund-Reg(G)						
Last 1 Year	3.27	10,327	3.97	10,397	3.74	10,374
Last 3 Years	3.64	11,135	3.49	11,085	4.38	11,376
Last 5 Years	4.49	12,459	4.35	12,376	5.52	13,085
Since Inception	5.42	15,474	5.14	15,132	6.25	16,504
PGIM India Arbitrage Fund(G)-Direct Plan						
Last 1 Year	3.97	10,397	3.97	10,397	3.74	10,374
Last 3 Years	4.31	11,351	3.49	11,085	4.38	11,376
Last 5 Years	5.12	12,840	4.35	12,376	5.52	13,085
Since Inception	6.04	16,237	5.14	15,132	6.25	16,504

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

^ Scheme Benchmark. # Standard Benchmark. *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. Utkarsh Katkoria (Equity Investments) has been managing this fund since March 2016, Mr. Hitash Dang (Equity Investments) has been managing this fund since May 2017 & Mr. Puneet Pal (Debt Investments) is co-managing this fund since 22nd April, 2022. For performance of schemes managed Utkarsh Katkoria, Hitash Dang and Puneet Pal refer to the next slides

The above returns are as on November 30, 2022

Performance of another scheme managed by Utkarsh Katkoria

	Last 1 Year	Last 3 Years	Last 5 Years	Managing Since
PGIM India ELSS Tax Saver Fund	10.85	20.10	12.73	01 June 2021
NIFTY 500 TRI^	10.20	18.83	13.03	

Date of Inception: Regular Plan: December 11, 2015; Direct Plan: December 11, 2015. CAGR – Compounded Annual Growth Rate Based on standard investment of Rs.10,000 made at the beginning of the relevant period. All the above returns are in CAGR

^ Scheme Benchmark. 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. 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.

Utkarsh Katkoria is managing 2 schemes as on 30th November 2022.

PGIM India ELSS Tax Saver Fund is co-managed by Mr. Srinivas Rao Ravuri & Mr. Puneet Pal.

Please refer to www.pgimindiamf.com for details on performance of all schemes including direct plans.

Performance as on November 30, 2022

Performance of other schemes managed by Hitash Dang

	Last 1 Year	Last 3 Years	Last 5 Years	Managing Since
PGIM India Balanced Advantage Fund**	5.42	–	–	01 June 2021
CRISIL Hybrid 50+50 Moderate Index^	6.84	–	–	
PGIM India Equity Savings Fund*	3.66	7.06	6.87	01 June 2021
NIFTY Equity Savings Index^	6.75	9.72	9.07	

^ 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 returns are of Regular Plan - Growth Option of respective schemes. All the above returns are CAGR. CAGR - Compounded Annual Growth Rate. Different plans have a different expense structure. Returns for the benchmark have been calculated using TRI values. Mr. Hitash Dang is managing 3 schemes of PGIM India Mutual Fund. On account of difference in scheme features, the performance of these schemes are not strictly comparable.

*PGIM India Equity Savings Fund is co-managed by A. Anandha (Equity portion wef 12 May 2022) and Puneet Pal (Debt portion wef 01 December 2021)

**PGIM India Balanced Advantage Fund is co-managed by Aniruddha Naha (Equity portion), Puneet Pal (Debt portion wef 01 December 2021) and Rahul Jagwani (Overseas Investments wef 12 May 2022)

Please refer to www.pgimindiamf.com for details on performance of all schemes including direct plans.

Performance as on November 30, 2022

Performance of other schemes managed by Puneet Pal

	Last 1 Year	Last 3 Years	Last 5 Years	Managing Since
Top 3 Schemes Performance (%)				
PGIM India ELSS Tax Saver Fund*	10.85	20.10	12.73	December 01, 2021
NIFTY 500 TRI^	10.20	18.83	13.03	
PGIM India Large Cap Fund*	7.57	13.18	10.27	April 22, 2022
NIFTY 100 TRI^	10.99	17.10	13.55	
PGIM India Midcap Opportunities Fund*	6.85	35.96	17.51	July 16, 2022
NIFTY Midcap 150 TRI^	8.74	25.24	12.86	
Bottom 3 Schemes Performance (%)				
PGIM India Gilt Fund*	1.41	4.62	5.71	December 13, 2017
CRISIL Dynamic Gilt Index^	1.26	5.52	6.52	
PGIM India Dynamic Bond Fund*	1.96	4.51	5.96	December 13, 2017
CRISIL Dynamic Bond Fund AIII Index^	1.32	5.97	6.84	
PGIM India Corporate Bond Fund*	2.83	5.42	5.81	December 13, 2017
CRISIL Corporate Bond Fund BIII Index^	3.19	7.80	6.73	

^ 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 16 schemes of PGIM India Mutual Fund.
*PGIM India ELSS Tax Saver Fund is co-managed by Srinivas Rao Ravuri (Equity) and Utkarsh Katkoria (Equity). *PGIM India Large Cap Fund is co-managed by Mr. Srinivas Rao Ravuri (Equity Portion). *PGIM India Midcap Opportunities Fund is co-managed by Aniruddha Naha & Vivek Sharma (Equity). *PGIM India Gilt Fund is co-managed by Mr. Bhupesh Kalyani. *PGIM India Dynamic Bond Fund is co-managed by Mr. Bhupesh Kalyani. *PGIM India Overnight Fund is co-managed by Mr. Bhupesh Kalyani. 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 November 30, 2022. Performance as on November 30, 2022

PGIM India Arbitrage Fund – Fund Facts

Scheme Name	PGIM India Arbitrage Fund
Type of scheme	An open ended scheme investing in arbitrage opportunities
Investment objective	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 & money market instruments. 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.
Exit Load	NIL
Fund Manager	Mr. Utkarsh Katkoria (Equity Portion), Mr. Hitash Dang (Equity Portion) and Mr. Puneet Pal (Debt Portion) (w.e.f 22 April 2022)
Benchmark Index	Nifty 50 Arbitrage Index

AUM Breakup

AUM Breakup: Asset class wise disclosure of AAUM: AUM as on November 30, 2022 (Rs in Crores): Income: 877.30, Equity Other than ELSS: 15,589.82, Balanced: 0.00, Liquid: 998.47, Gilt: 133.61, Equity ELSS: 453.57, Hybrid: 2,032.11, GOLD ETF: 0.00, Other ETF: 0.00, Fund of Fund Investing Overseas: 1,526.49, Total: 21,611.37; **Average AUM for the month:** Income: 884.27, Equity Other than ELSS: 15,260.10, Balanced: 0.00, Liquid: 966.34, Gilt: 134.10, Equity ELSS: 441.85, Hybrid: 2,043.50, GOLD ETF: 0.00, Other ETF: 0.00, Fund of Fund Investing Overseas: 1,475.25, Total: 21,205.40; **Disclosure of percentage of AUM by geography: % of Total AUM as on November 30, 2022:** Top 5 cities: 55.52%, Next 10 cities: 18.69%, Next 20 cities: 7.10%, Next 75 cities: 7.30%, Other: 11.40%, Total: 100.00%; **Disclosure of AUM by Service Category: AUM as on November 30, 2022 (Rs. in Crores):** Mutual Funds: 21,611, PMS: 133, Advisory: 2,555, Total: 24,299.

This information has been prepared by PGIM, Inc ("PGIM"). PGIM is the premirary asset management business of PFI and is a registered investment advisor with the US Securities and Exhange Commission. PFI, a company with corporate headquaters in the US, is not affiliated in any manner with Prudential plc, a company incorporated in the United Kingdom.

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.

Scheme Riskometer

Investors understand that their principal will be at low risk

Benchmark Riskometer

Nifty 50 Arbitrage TR Index Benchmark riskometer is at low risk

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www.pgimindiamf.com

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

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