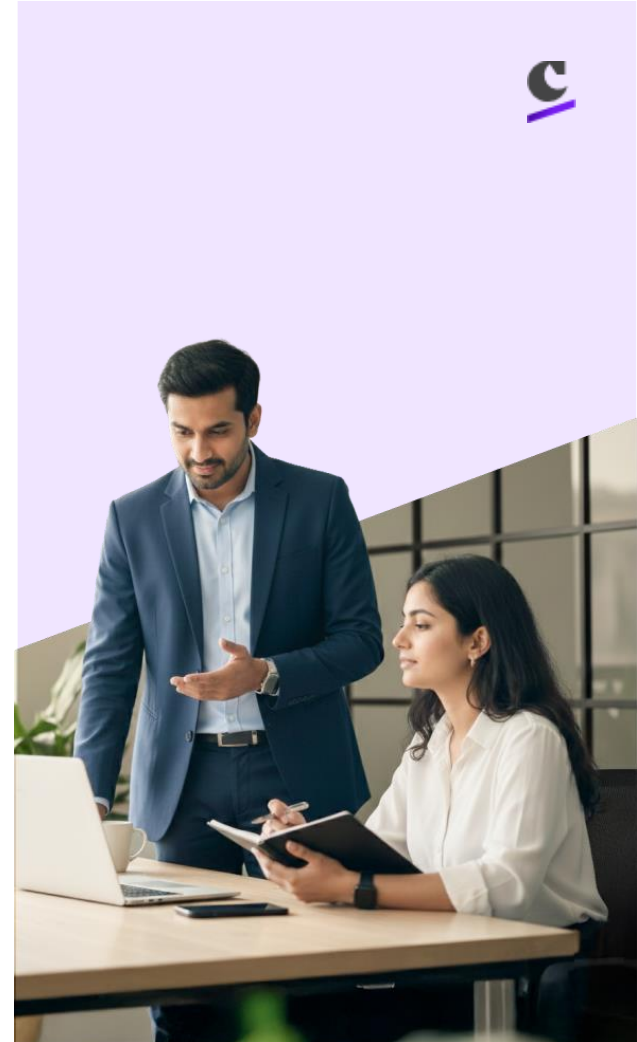


# Capitalmind Arbitrage Fund

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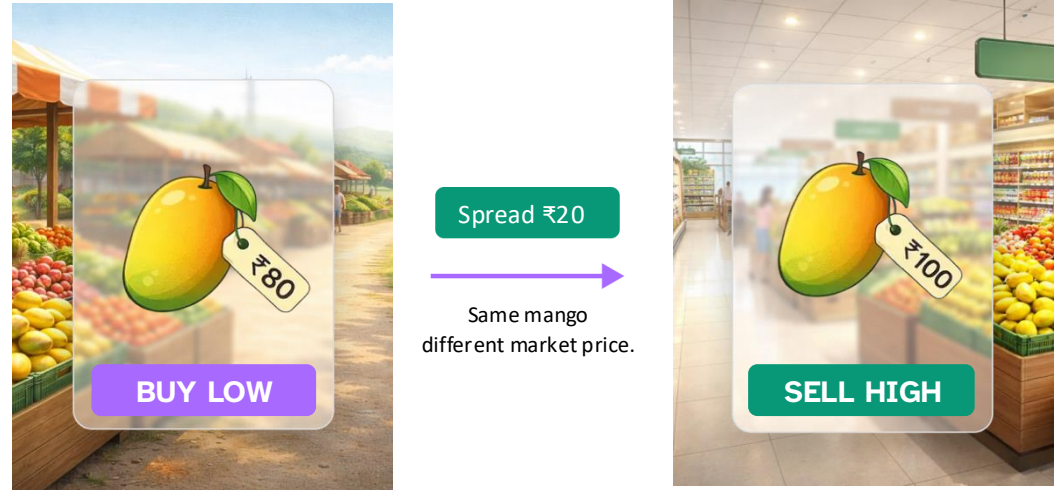
# Arbitrage 101

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# What is Arbitrage?



- Arbitrage is the practice of earning a low-risk profit by exploiting price differences for the same asset in different markets or forms.
- It involves buying low in one market and selling high simultaneously in another to lock in the difference (“spread”).
- Spreads in an arbitrage fund are the price differences between the same asset in two related markets (e.g., cash vs futures).
- The fund earns returns by capturing this spread, after accounting for costs like brokerage, taxes, and impact costs
- Spreads tend to narrow as expiry approaches, which is when profits get realized.

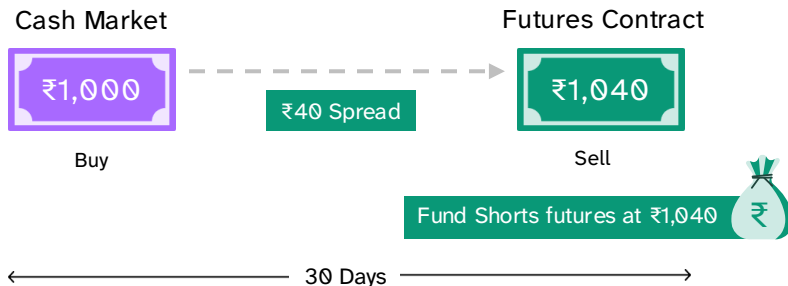


Larger spreads = Higher potential returns

# Understanding how arbitrage works



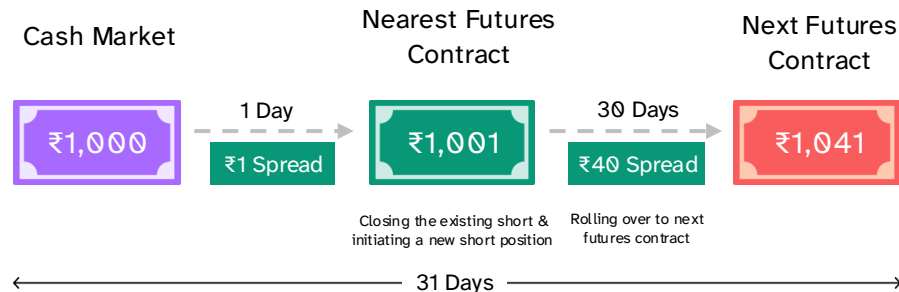
## Entry Spread



## Stock Price Arbitrage (Cash-Futures Arbitrage)

- The same stock trades at different prices in cash and futures markets.
- The fund buys the stock in the cash market and sells the futures contract at a higher price.
- The price difference (spread) is locked in upfront.
- At expiry, cash and futures prices converge, and the spread (minus costs) becomes the return.
- Returns depend on price convergence, not market direction

## Roll Over Spread



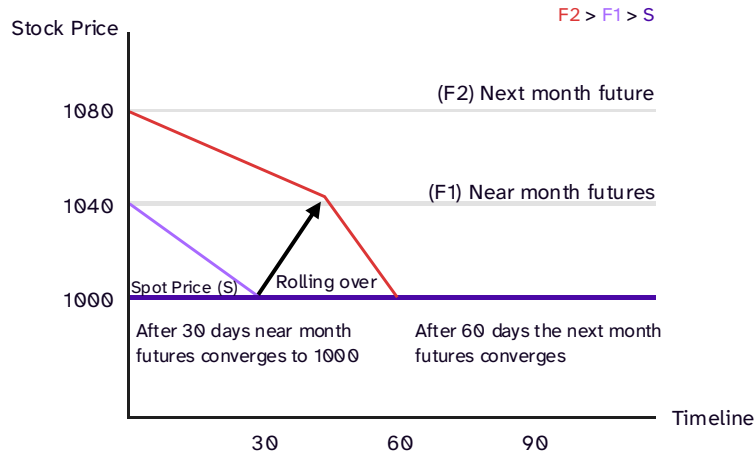
## Roll-Over Arbitrage

- As futures near expiry, next-month futures may trade at a higher price than expiring futures.
- The fund squares off the expiring futures and sells the next-month futures at a higher price.
- This shift captures a roll-over spread over the current cash position.
- Roll-overs help extend arbitrage positions and improve return potential without taking directional risk.
- Returns still come from spreads, not stock price movement.

# Why does arbitrage work?



\*Roll-Over Arbitrage the illustrative disclaimer at footnote



## Key Investment Insight:

Returns come from price convergence, not stock selection or market direction, making arbitrage funds low-volatility and suitable for lower risk investors

\*It is illustrative

Convergence is the primary source of returns.

- **The Gap:** At the start, the futures price is typically higher than the spot price due to the cost of carry.
- **The Decay:** As the contract nears its end, the time value component of the futures contract shrinks toward zero.
- **The Capture:** By being long on the physical asset (spot) and short on the future, the fund earns that carry as the two prices meet at expiry.
- **The Roll:** Simultaneously close the expiring short position and open a new short position in the next month's contract. This process captures the "basis" (the difference between the spot and the new future) all over again.

# Market Opportunity & Dynamics

---

1

## Volatility creates opportunities

- Higher volatility leads to temporary price mismatches between cash and futures.
- These dislocations widen arbitrage spreads, creating more opportunities.
- Spreads often expand during events, earnings seasons, or sharp market moves.



2

## Bullish markets = higher spreads

- In a bullish or risk-on environment, investors prefer futures for leverage.
- Increased demand for futures pushes futures prices above cash prices
- This demand imbalance increases the cash-futures spread.



3

## Reflects market interest rates

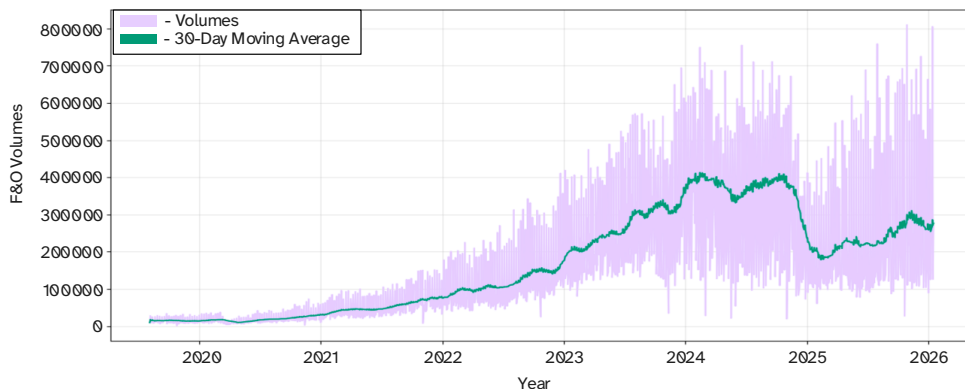
- Futures prices reflect the cost of carry, which includes short-term interest rates
- Higher short-term rates increase the cost of holding positions
- This typically results in higher futures premiums and wider spreads.



# Opportunities in futures markets are on an increasing trend

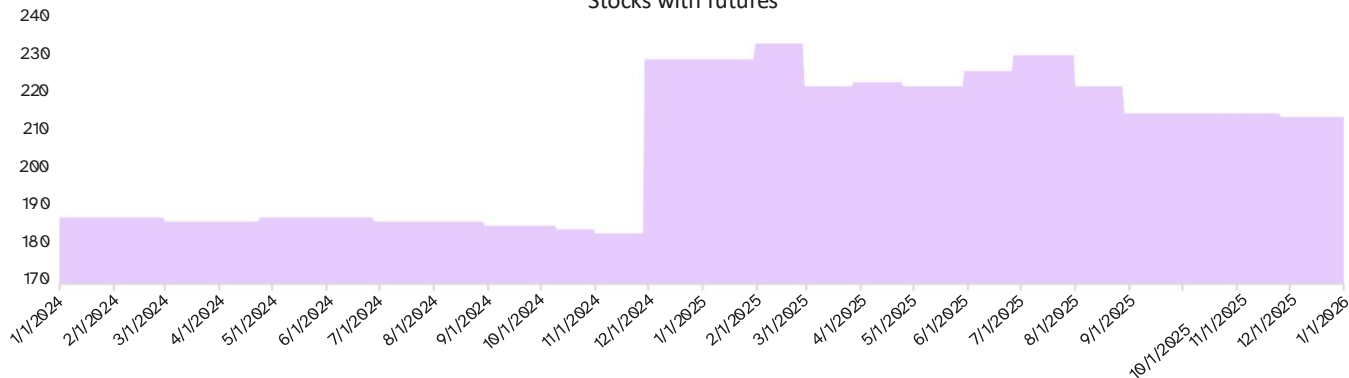


### F&O Volumes



Despite a dip in 2025 F&O volumes are trending upwards

### Stocks with futures



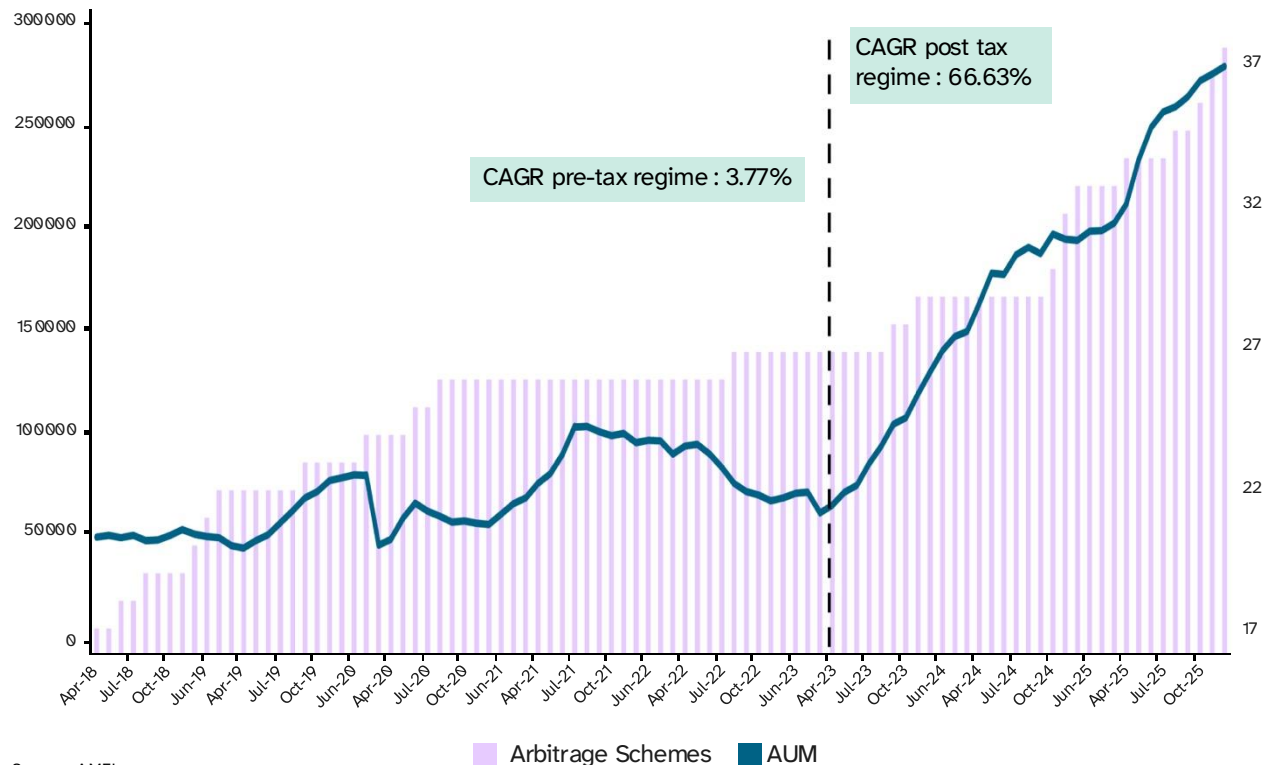
The number of stocks in F&O are above 200 increasing the market opportunity.

Source: F&O Volumes – Bloomberg, Stocks with futures - NSE

# Rapid expansion of the Arbitrage Fund category in recent years



## AUM and Arbitrage schemes universe



So source: AMEI

Due to the favorable tax treatment post 2023 the category expanded at a rapid pace.

A well regulated and trusted fund category has been established.

# Annualized monthly returns



## Nifty 50 Arbitrage Index

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Annual
2011	6.92	6.75	6.34	11.07	5.07	6.40	6.64	9.93	7.77	7.67	12.45	10.26	6.53
2012	5.54	7.41	14.40	9.25	8.85	2.03	11.63	3.46	9.94	9.95	9.29	10.84	8.56
2013	10.23	8.32	4.88	6.66	5.15	8.98	3.41	11.99	6.20	10.27	10.93	11.08	8.26
2014	11.34	12.53	6.82	10.36	10.43	8.53	8.61	5.47	10.00	6.97	5.90	11.22	8.82
2015	5.57	7.71	16.76	6.97	6.82	6.94	5.20	7.68	3.60	5.87	5.53	5.44	7.64
2016	6.23	4.64	5.24	6.16	5.25	6.71	4.86	7.43	7.42	8.77	5.88	1.84	6.71
2017	1.29	3.65	5.13	2.65	3.51	7.19	5.16	4.53	5.46	2.31	4.93	5.34	4.37
2018	4.57	2.60	3.22	3.39	6.78	3.05	3.85	5.34	8.47	9.81	5.40	2.70	4.68
2019	6.14	4.91	9.12	10.82	8.53	4.24	8.92	7.10	4.46	8.01	3.58	4.18	6.61
2020	5.22	4.98	1.45	1.91	1.75	0.20	-1.08	4.30	5.91	3.82	0.31	3.30	2.27
2021	0.41	7.80	6.29	4.90	8.27	5.94	4.67	3.25	2.51	2.38	5.23	4.34	4.19
2022	4.80	4.68	1.28	2.64	6.38	1.91	2.00	4.83	4.35	3.85	6.22	7.60	4.17
2023	4.75	6.35	8.22	7.71	6.67	8.37	8.32	7.11	7.34	6.56	5.72	6.95	7.85
2024	9.85	5.38	6.27	6.17	8.47	6.99	4.47	3.66	1.31	8.27	6.36	7.54	7.48
2025	10.30	5.03	10.91	9.06	5.17	6.77	6.28	5.47	6.02	5.78	6.83	7.00	7.51

Annualized Returns in %

Source: Niftyindices

Month

# The Fund Strategy & Portfolio

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## Cash-and-Carry Arbitrage

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- Buy the stock in the cash market and sell its futures contract at a higher price.
- Locks in the cash-futures spread, held till expiry.
- Most common strategy in arbitrage funds; market-neutral



## Futures-Futures Arbitrage

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- Exploits price differences between futures contracts of the same underlying with different expiries (near-month vs far-month).
- Typically involves buying the cheaper futures and selling the costlier futures simultaneously.
- Profits from spread convergence as contracts approach expiry.



## Corporate-Driven Arbitrage

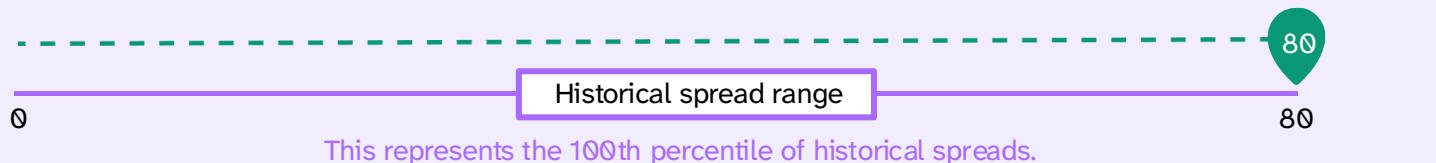
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- Mergers & acquisitions (target vs offer price spread)
- Buy-backs (market price vs buy-back price)
- Rights issues (rights price vs adjusted market price)
- Dividends (cash vs futures price adjustment)

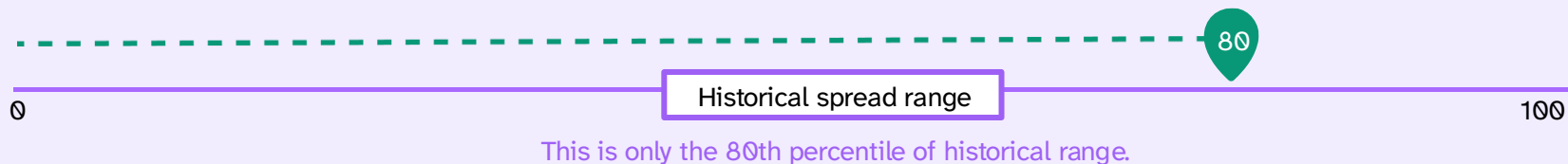
# Quant driven signal generation



**Case A: Stock A (High relative opportunity)**



**Case B: Stock B (Moderate Relative Opportunity)**



Stock A has a greater chance of convergence, so we will choose Stock A over stock B, despite spreads being similar.

Capitalmind Mutual Fund uses quantitative data analysis to build portfolios.

# Tax Benefits

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# Arbitrage Funds Win on Tax



Tax* treatment of arbitrage funds		
Fund Type	Short-Term Capital Gains (≤ 1 year)	Long-Term Capital Gains (> 1 year)
Arbitrage Fund	20%	12.5%* (on gains above ₹1.25 lakh/year)
Debt Fund	30% (Slab Rate)	30% (Slab Rate)

Tax* analysis				
	Nifty 50 Arbitrage Index		NIFTY Liquid Index A-I	
	3 Month	1 Year	3 Month	1 Year
Amount invested	2,00,000	2,00,000	2,00,000	2,00,000
Returns	6.00%	6.00%	6.00%	6.00%
Redemption Value (Annualized)	2,02,927	2,12,000	2,02,927	2,12,000
Tax rate	20%	12.5%	30%	30%
Tax amount	585	1,500	878	3,600
Post-tax value	2,02,341	2,10,500	2,02,049	2,08,400
Post-tax returns	0.01	0.05	0.01	0.04
Post-tax returns (Annualized)	4.70%	5.25%	4.11%	4.20%

Arbitrage funds are treated as equity funds for taxation.

Post 1 Year it is significantly more tax-efficient than debt funds, where long-term gains are taxed at the investor's slab rate.

\*Tax disclaimer: Assumes the highest tax slab for an individual investor. Tax rates and policies may change in the future

1

## Risk-averse investors

Seeking low volatility and stable, predictable returns with limited equity risk.



2

## Short-term savers (3 months +)

Ideal for parking surplus funds with better return potential than liquid funds, while maintaining liquidity.



3

## Tax-savvy individuals

Benefit from equity taxation (LTCG after 1 year, STCG at 20%), making arbitrage funds more tax-efficient than debt options.



4

## Corporate treasurers

Providing stable returns with favourable tax incidents.











# Key Fund Information

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# Capitalmind Arbitrage Fund: Key Facts



 Investment Objective	The investment objective of the scheme is to generate Income over short to medium term by predominantly investing in arbitrage opportunities in the cash & derivatives segment of the equity market The Scheme does not guarantee or assure any returns. There is no assurance that the investment objective of the Scheme will be achieved.
 Plan & Options	Regular & Direct   Growth & IDCW
 Minimum Amount	Minimum application amount for fresh purchase (lumpsum): INR 5,000/- and in multiples of INR 1/- thereafter Minimum amount for switch-in: INR 1,000 and in multiples of INR 1/- thereafter Systematic Investment Plan (SIP): INR 1,000 and in multiples of INR 1/- thereafter.
 Type of Scheme	An open-ended scheme investing in arbitrage opportunities
 Benchmark	Nifty 50 Arbitrage TRI
 Exit Load	<ul style="list-style-type: none"><li>• Exit Load: 0.25% if redeemed/switched out on or before completion of 15 Days from the date of allotment of units.</li><li>• No Exit Load is payable if Units are redeemed / switched-out after 15 Days from the date of allotment.</li></ul>
 Facilities Offered	SIP, STP, SWP, Inter-Scheme & Intra-Scheme Switching Facility. Please refer to SID for further details.
 Fund Manager(s)	Prateek Jain & Anoop Vijaykumar

## PRODUCT LABELLING

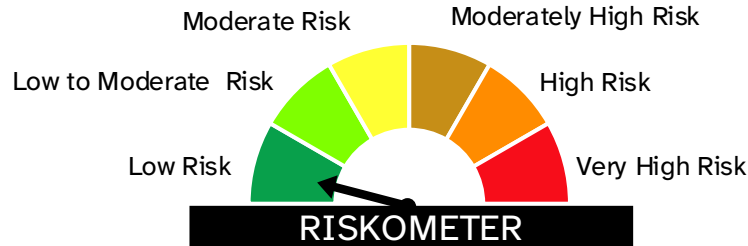
An open-ended scheme investing in arbitrage opportunities

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

1. Income over short to medium term.
2. 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.

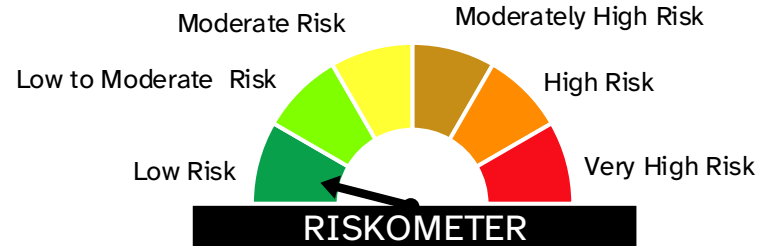
Risk-o meter of the Scheme



**The risk of the scheme is Low Risk**

Benchmark Risk-o-meter

Nifty 50 Arbitrage TRI (As per AMFI Tier I Benchmark)



**The risk of the Benchmark is Low Risk**

Note: Please visit our website for latest Risk-o-meter updates at [capitalmindmf.com](http://capitalmindmf.com)



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