BARODA BNP PARIBAS ARBITRAGE FUND

(AN OPEN ENDED SCHEME INVESTING IN ARBITRAGE OPPORTUNITIES)

February 2025

Together for more

The word 'more' does not imply more returns or assurance of scheme performance. It refers to the additional value provided by the joint venture, as compared to Baroda AMC and BNP Paribas AMC individually.

Contents

Market Activity (as on February 28, 2025)

Derivatives Market (Feb-25 Expiry) :-

- ✓ During the expiry week (Feb-25) the average rollover cost across stock futures was in the range of 52-55 bps.
- ✓ Rollover percentage for Nifty futures is at 84%, which exceeds the three-month average of 79%.
- ✓ Nifty futures to begin the March series with an open interest base of 1.76 crore shares, lower than the open interest of 1.81 crore shares seen at the commencement of the February series.
- ✓ Market-wide rollovers have reached 90%, surpassing three-month average of 89%.
- ✓ The rollover percentage for stock futures stands at 92% consistent with the three-month average of 92%.
- ✓ The domestic arbitrage book was valued at approximately ₹2.64 Lakh crore on February 25, a minor increase from the ₹2.58 lakh crore noted on January 24.

Equity Market Performance (Feb-25 Expiry) :

- ✓ Nifty concluded the February series with a decline of approximately 3%, marking the fifth consecutive expiry in the negative territory.
- ✓ The Bank Nifty concluded the February expiry with a decline of 1.2%.
- ✓ Underperforming sectors (Feb - 25):Industrials (-10.91%) , IT (-8.2%) , Energy (-7.17%) , PSU Banks (-6.67%) , FMCG (-6.31%) , Pharma (-5.69%), Auto (-5.16%)
- ✓ Outperforming sectors (Feb - 25) : Metals (+0.4%) ,Financials (+0.2%)

Key triggers for coming (Mar-25) Expiry :

- ✓ Key triggers for coming (Mar-25) expiry – Auto Sales, Inflation data, DXY & Brent movement.

Source: Dolat Capital and Philip Capital

ABOUT
ARBITRAGE FUNDS

Baroda BNP PARIBAS MUTUAL FUND

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How do Arbitrage Funds work?

- Arbitrage funds aim to take **advantage of the pricing differential between** stocks traded in cash and future segments.
- An arbitrage opportunity prevails for e.g., when one buys a stock in the cash market at a lower price and sells it at a higher price in the futures market so as to **lock-in the potential spread**
- Since arbitrage funds base their returns on the spreads between these two markets, **volatility creates** more such **arbitrage opportunities**

Example of Stock XYZ	Scenario 1: When stock price decreases		Scenario 2: when stock price increases	
	Cash	Futures	Cash	Futures
At Entry:	Buy at Rs. 100	Sell at Rs. 101	Buy at Rs. 100	Sell at Rs. 101
At Exit:	Sell at Rs. 97	Buy at Rs. 97	Sell at Rs. 103	Buy at Rs. 103
Difference (Rs.):	-3	4	3	-2
Spread locked-in	**Rs. 1**		**Rs. 1**	

The above is for illustration purposes only. Please note that on the date of expiry, when the arbitrage is to be unwound, it is not necessary for the stock price and its future contract to coincide. There could be a discrepancy in their prices even a minute before the market closes. Thus, there is a possibility that the arbitrage strategy gets unwound at different prices.

Cash Futures Arbitrage

XYZ Ltd
Spot / Cash Price = ₹ 2,500
Buy

XYZ Ltd
August Futures Price = ₹ 2,520
Sell

On Expiry
Reliance Industries
Futures Price = Spot Price

Price = ₹ 2,450

XYZ Ltd
Loss in Spot Market = ₹ 50
Gain in Futures Market = ₹ 70
Net Gain = ₹ 20

Price = ₹ 2,500

XYZ Ltd
Gain / Loss in Spot Market = ₹ 0
Gain in Futures Market = ₹ 20
Net Gain = ₹ 20

Price = ₹ 2,550

XYZ Ltd
Gain in Spot Market = ₹ 50
Loss in Futures Market = ₹ 30
Net Gain = ₹ 20

The above is for illustration purposes only. Please note that on the date of expiry, when the arbitrage is to be unwound, it is not necessary for the stock price and its future contract to coincide. There could be a discrepancy in their prices even a minute before the market closes. Thus, there is a possibility that the arbitrage strategy gets unwound at different prices.

Some key factors affecting arbitrage spreads

Factor	Description	Impact on Spreads
Equity Market Sentiment (Bullish phase)	Long futures spreads tend to increase in a bullish phase which is positive for arbitrage returns	**Positive** as roll spreads widen and hence the funds tend to give better returns
Equity Market Sentiment (Bearish phase)	Long futures spreads tend to decline in a bearish market and arbitrage opportunities may reduce significantly	**Negative** As spreads narrow, the returns tend to get impacted and may reduce significantly
Equity Market Sentiment (Volatile markets)	Range bound but volatile markets help exploit arbitrage opportunities intra-month. Trades can be unwound at a profit and thereby aiding returns by increasing the portfolio churn during the month.	**Positive** It offers higher churn potential intra-month in the portfolio, which could give better returns.
Interest Rates	• Interest rates have a direct impact on the cost of carry • Theoretically it is the differential between the future and spot price of the Index/stocks	**Positive** as interest rates rise it may lead to higher carry and arbitrage opportunities tend to look attractive **Negative** As interest rates fall, it leads to a lower carry and results in potentially lower returns as attractive arbitrage opportunities reduce
Number of stocks in physical settlement	Larger the number, larger the liquid F&O base to exploit arbitrage opportunities	**Positive** as all stocks are in physical settlement currently
Industry Size	More assets chasing the same opportunities brings down the arbitrage spreads	**Negative** if the corpus of the industry shows a sudden large spike

This scenario may vary as per the market conditions

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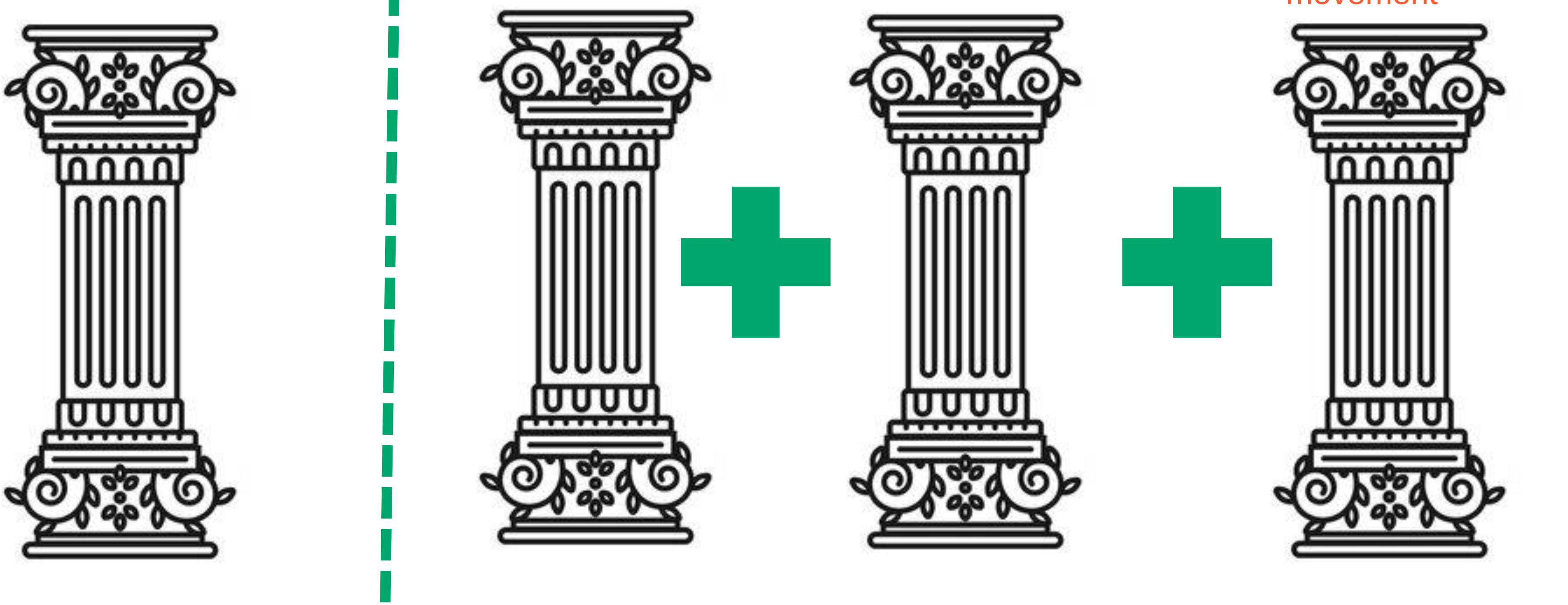
4 Pillars of Returns in the Arbitrage Fund

Income from the Debt portfolio

Rolls: Unwinding the Futures Position

Churn: Benefitting from intra month price anomalies

Dividend: Arbitrage from pre and ex dividend price movement



Returns in the Arbitrage Fund

Investment strategy stated above may change from time to time and shall be in accordance with the investment objective and strategy stated in the SID of the scheme.

Advantages of Baroda BNP Paribas Arbitrage Fund

Fund Size

- Smaller size of the portfolio makes it relatively easier and efficient for us to capture arbitrage opportunities in all segments of the market

Intra Month Trading (Churn)

- Our relatively smaller AUM enables us to better capture the intra month volatility
- Actively churning the portfolio to capture arbitrage opportunities in the market

Mid Cap tilted Market Cap:

- Spreads tend to be better in companies with a lower market cap. Our optimal fund size enables us to capture these relatively higher spreads in an efficient and effective manner.
- Relatively smaller size of the fund helps build a concentrated portfolio benefitting from the Market Wide Position Limits (MWPL) for each stock and scheme

Fixed Income Portfolio:

- Good Quality Papers

Why Arbitrage Funds Now

No Directional Exposure:

- Arbitrage funds are not hampered by stresses in equity market as these funds tend to not take any directional exposure.

Equity Taxation:

- Predominantly these funds tend to invest over 65% of their corpus in equity and equity related instruments thus offering equity taxation.

Elevated Money Market Yields:

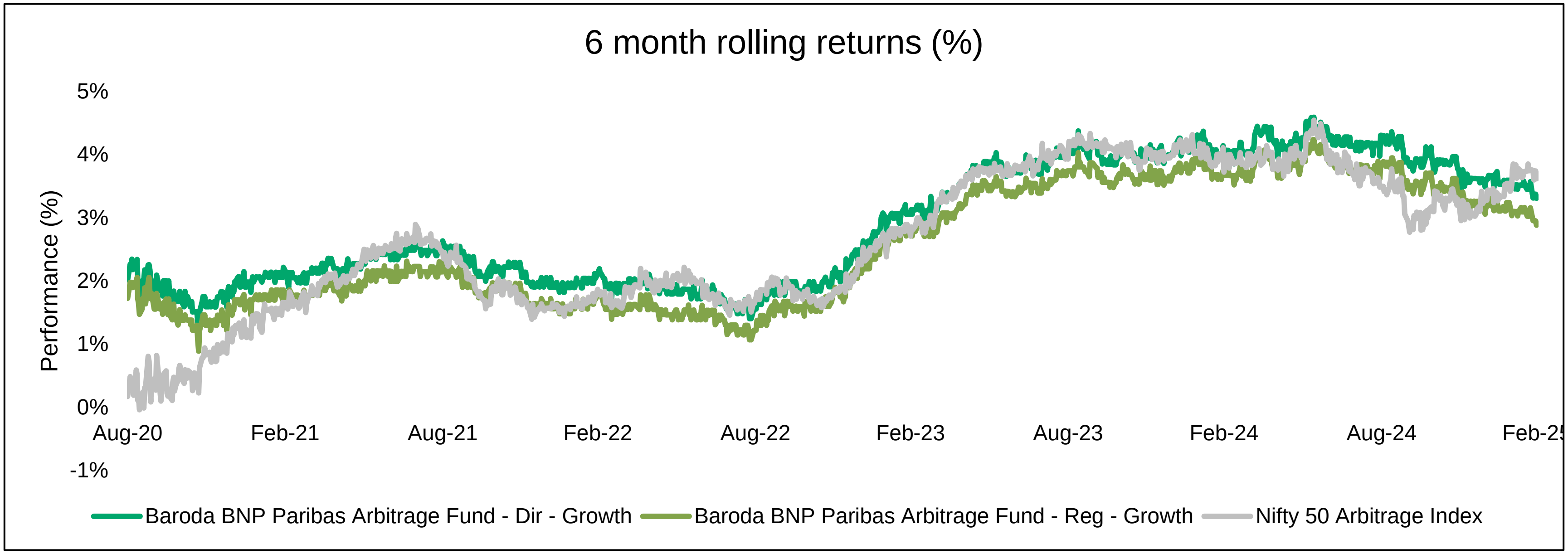
- Higher Absolute Returns in the Arbitrage strategy as the spreads are a function of prevailing money market rates

Fund Performance (as on 28th February 2025)

	Baroda BNP Paribas Arbitrage Fund – Regular Plan Growth Option (%)	Baroda BNP Paribas Arbitrage Fund – Direct Plan Growth Option (%)	Benchmark Performance (%)
1 Month	6.21	7.02	8.78
3 Months	6.33	7.15	8.45
6 Months	6.28	7.11	7.57
9 Months	6.72	7.53	7.40
YTD	6.28	7.09	8.41
1 Year	6.91	7.72	7.41
3 Year	6.19	6.93	6.74
5 Year	5.22	5.93	5.26
Since Inception	5.68	6.03	5.30

Data Source: MFI Explorer
Past performance may or may not be sustained in future and is not a guarantee of any future returns. All returns are for Regular Plan - Growth Option and Direct Plan – Growth Option. Returns does not take into account the load and taxes, if any. Different plans shall have a different expense structure. Simple annualized returns for periods up to 1 year and CAGR for periods beyond 1 year. Refer slide 19 for further details on scheme performance.

Rolling Returns (as on 28th February 2025)

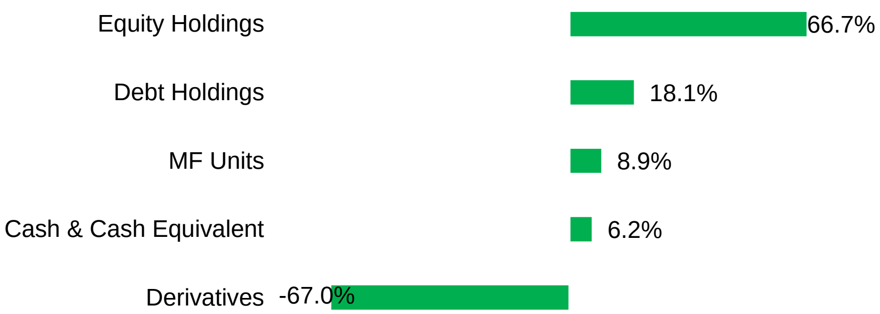


6M Rolling Returns (Feb'20 – Feb'25)	Average	Minimum	Maximum
Baroda BNP Paribas Arbitrage Fund - Dir - Growth	2.89%	1.11%	4.59%
Baroda BNP Paribas Arbitrage Fund - Reg - Growth	2.55%	0.89%	4.23%
Nifty 50 Arbitrage Index	2.63%	-0.04%	4.54%

Data Source: MFI Explorer
Past performance may or may not be sustained in future and is not a guarantee of any future returns. All returns are for regular plan - Growth option. Returns does not take into account the load and taxes, if any. Different plans shall have a different expense structure. Simple annualized returns for periods up to 1 year. Refer slide 19 for further details on scheme performance.

Portfolio Positioning

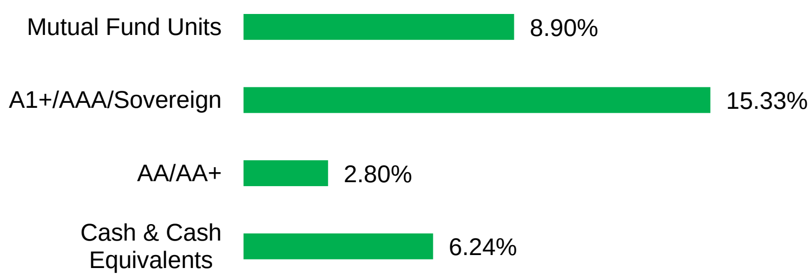
Asset Allocation (% of Net Assets)



Debt Quants

Yield to Maturity (YTM)*	Average Maturity*	Modified Duration*	Macaulay Duration*
6.77%	0.62 Years	0.45 Years	0.46 Years

Credit Rating Composition (% of Net Assets)



Data as of February 28, 2025. Source: Internal Research. Above details shown for fixed income portion of the portfolio. *Yield to maturity (YTM), Average Maturity, Macaulay Duration and Modified duration has been calculated for the fixed income portion of the portfolio (including cash and cash equivalents). Debt Quants - The information contained in this slide has been obtained from sources considered to be authentic and reliable. The quantitative data does not purport to be an offer for purchase and sale of mutual fund units.
Past performance is no guarantee of future returns. The portfolio of the Scheme is subject to changes within the provisions and limitations of Scheme Information Document (SID). For further details on asset allocation, investment strategy and risk factors of the Scheme, please refer to SID available on our website (www.barodabnpparibasmf.in).

Fund Facts

Scheme Name	Baroda BNP Paribas Arbitrage Fund (BBNPPAF)
Type of the Scheme	An Open-ended Scheme investing in arbitrage opportunities
Category	Arbitrage Fund
Investment Objective	The primary investment objective of the scheme is to generate income and capital appreciation by investing in a combination of diversified portfolio of equity and equity related instruments, including use of equity derivatives strategies and arbitrage opportunities with exposure in debt and fixed income instruments. However, there can be no assurance that the investment objectives of the Scheme will be realized. The Scheme does not guarantee/indicate any returns.

Asset Allocation

Type of Instruments	Minimum Allocation (% of Net Assets)	Maximum Allocation (% of Net Assets)	Risk Profile
Equities, equity related instruments# and derivatives including index futures, stock futures, index options, & stock options, etc. as hedged/ arbitrage exposure	65	100	Medium to High
Debt Securities* and Money market instruments and/or units of liquid fund	0	35	Low
Units issued by REITs & InvITs	0	10	Medium to High

including investments in foreign equity and equity related securities, ADR / GDR upto 25% of the net assets.
*Debt instruments may include securitised debt upto 20% of the net assets. The Scheme may take exposure in debt derivatives only for hedging and portfolio balancing upto 20% of the debt assets.
For complete details, please refer to SID available on our website (www.barodabnpparibasmf.in).

For Product Label and Riskometer of the Scheme please refer slide 20

Fund Facts

Fund Manager	Neeraj Saxena (managing fund since March 14, 2022) (Total Experience: 20 years), Vikram Pamnani (managing fund since March 16, 2022) (Total Experience: 14 years)
Date of Allotment:	December 28, 2016
Benchmark:	Nifty 50 Arbitrage Index
Loads:	Entry Load : Nil *Exit Load: 0.25%, if redeemed or switched-out within 15 days from the date of allotment of units. Nil, if redeemed or switched-out after 15 days from the date of allotment of units. No exit load will be charged on switches between options of the same plan of the Fund. No load will be charged on units issued upon reinvestment of amount of distribution under same IDCW option and bonus units. Transaction charges, if applicable, shall be deducted. The above-mentioned load structure is also applicable to SIP investments.

For Product Label and Riskometer of the Scheme please refer slide 20

APPENDIX

Baroda BNP PARIBAS MUTUAL FUND

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Glossary

- **Spread:** Generally, refers to the difference between two prices, rates or yields. Refer slide 12 for an illustration of spread.

- **Rollover:** Futures contracts expire on the last Thursday of the respective month. A participant who would like to continue holding on to the positions would take the same position in the next series, closing down the existing position at the same time near the expiry. This activity is termed as rolling over the position. Rollover is a quick measure of investors' willingness to bet in the market.

- **Expiry Week:** The future date by which the contracts have to be fulfilled is called the derivatives expiry. So, rollovers can happen till the close of trading hours on that day. Most rollovers begin a week before expiry and end till the last minute.

- **Non-deliverable forward (NDF):** is a cash-settled, and usually short-term, forward contract. It is a two-party currency derivatives contract to exchange cash flows between the NDF and prevailing spot rates. Refer slide 13 for further details.

- **Open Interest (OI):** Open interest is the total number of outstanding derivative contracts, such as futures that have not been settled for an asset. Increasing open interest represents new or additional money coming into the market while decreasing open interest indicates money flowing out of the market.

Source: Various media articles

Fund Performance (as on 28th February, 2025)

Schemes Managed by Mr. Neeraj Saxena* & Vikram Pamnani	Last 1 Year		Last 3 years		Last 5 years		Since Inception - Regular/Distributor		Since Inception - Direct		Date of Inception of the Scheme
	Returns In INR*	CAGR	Returns In INR*	CAGR	Returns In INR*	CAGR	Returns In INR*	CAGR (%)	Returns In INR*	CAGR (%)	
Baroda BNP Paribas Arbitrage Fund – Regular Plan	10704.50	7.05	11977.59	6.19	12900.07	5.22	15711.00	5.68	-	-	**28-Dec-16**
Baroda BNP Paribas Arbitrage Fund – Direct Plan	10786.01	7.86	12228.08	6.93	13340.88	5.93	-	-	16550.70	6.36	**28-Dec-16**
Nifty 50 Arbitrage Index	10752.32	7.52	12163.35	6.74	12924.97	5.26	15196.63	5.25	15196.63	5.25	
Additional Benchmark CRISIL 1 Year T-Bill Index	10750.43	7.50	12029.02	6.35	13150.98	5.62	16145.51	6.03	16145.51	6.03	

Source: Internal Research, Data as on February 28th , 2025. **Baroda BNP Paribas Mutual Fund does not guarantee returns on investments in the scheme.**
Past performance may or may not be sustained in future and is not a guarantee of any future returns. Returns do not consider the load and taxes, if any.
Different plans shall have a different expense structure. *Returns in INR shows the value of 10,000/- invested for last 1 year, last 3 years, last 5 years and since inception, respectively.
Where returns are not available for a particular period, they have not been shown. #CAGR = Compounded Annualized Growth Rate
Mr. Neeraj Saxena manages 7 funds and Mr. Vikram Pamnani manages 13 funds
For Other funds managed by the fund manager , please Click here

Risk Factors

Risk Factors associated with arbitrage strategy: In case of a large redemption, the scheme may need to reverse the spot-futures transaction before the date of futures' settlement. This eventuality may lead to the basis risk. While reversing the spot-futures transaction on the Futures & Options settlement day on the Exchange, there could be a risk of volume-weighted-average-price of the market being different from the price at which the actual reversal is processed. This may result in basis risk. On the date of expiry, when the arbitrage is to be unwound, it is not necessary for the stock price and its future contract to coincide. There could be a discrepancy in their prices even a minute before the market closes. Thus, there is a possibility that the arbitrage strategy gets unwound at different prices. For further details, please refer Scheme Information Document (SID) available on our website www.barodabnpparibasmf.in. Further, the Scheme shall, inter alia, also be subject to risk factors associated with investments in Derivatives (The fund may use various derivative instruments and techniques, as permitted from time to time only for portfolio balancing and hedging purpose, which may increase the volatility of fund's performance. Usage of derivatives will expose the scheme to certain risks inherent to such derivatives. The risks associated with the use of derivatives are different from or possibly greater than, the risks associated with investing directly in securities and other traditional investments. **Please refer to Scheme Information Document available on our website (www.barodabnpparibasmf.in) for detailed Risk Factors, assets allocation, investment strategy etc.**

Baroda BNP Paribas Arbitrage Fund

(An Open ended Scheme investing in arbitrage opportunities)

This product is suitable for investors who are seeking*:

- Wealth creation in long term.
- Investment in a diversified portfolio of equity and equity related instruments, including use of equity derivatives strategies and arbitrage opportunities with exposure in debt & money market instruments.

Scheme Riskometer^^

Investors understand that their principal will be at Low risk.

Benchmark (Tier 1) Riskometer^^

Benchmark riskometer is at Low risk.

^^Riskometer For Scheme: basis it's portfolio, ^Riskometer For Benchmark (Nifty 50 Arbitrage Index): basis it's constituents; as on February 28, 2025

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

Disclaimers

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MUTUAL FUND INVESTMENTS ARE SUBJECT TO MARKET RISKS, READ ALL SCHEME RELATED DOCUMENTS CAREFULLY.

THANK YOU