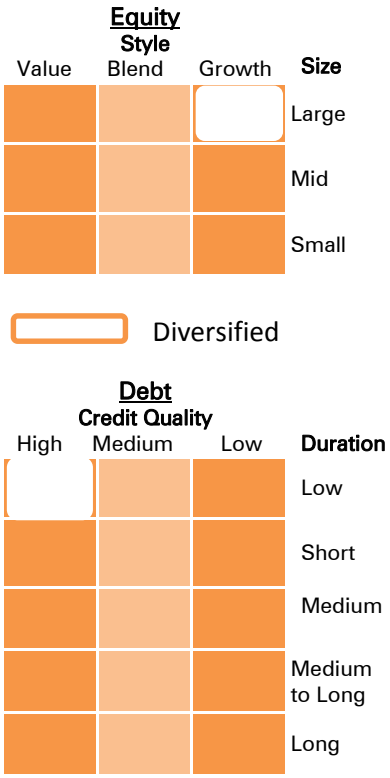
ICICI Prudential

Equity - Arbitrage Fund

An open ended scheme investing in arbitrage opportunities.

ICICI PRUDENTIAL MUTUAL FUND
TARAKKI KAREIN!

Investment Style



Investment Approach

- Focus on generating returns at low volatility
- Uses cash and index arbitrage
- Blend of equity, equity derivative and debt instruments

About the Scheme

An arbitrage scheme that seeks to generate low volatility returns by using arbitrage and other derivative strategies in equity markets and investments in debt and money market instruments.

What is Arbitrage?

- A process of taking advantage of a price difference between two or more markets. When you earn by selling and buying same security at different rates in different markets, it is called Arbitrage.
- Arbitrage Schemes invest in assets in at least two markets and aim to make money when there is a difference in prices.
- For instance, there could be a difference between a stock's price on the BSE and the NSE or between the price of an asset in the spot (cash) market and the futures (derivatives) market, or between this month's futures contract and the next month's.
- An arbitrage transaction is a strategy that involves aiming for no negative cash flow at any probable state and positive cash flow in at least one state.

How arbitrage opportunity arises?

- Fair value of future price of the underlying asset should equal to spot price of the underlying asset + cost of carry. When there is mispricing in cost of carry and future price of the underlying asset is at premium or discount to its fair value, arbitrage opportunity arises. (Cost of carry is cost incurred as a result of investment position, for example, interest costs on bonds, interest expenses on margin accounts and interest on loans used to purchase a security etc.)

Example:

Suppose on 1st April 2018, Nifty is trading at 2000 in cash market and one month Nifty futures contract is trading at 2100. There is an arbitrage opportunity to lock in profit of 100.

- To gain, you will buy Nifty for 2000 in the cash market and simultaneously sell Nifty Futures in market for 2100 and lock the gain of 100.
- At expiry, you will offset your position i.e. sell Nifty in cash market and buy Nifty futures contract in order to make gain.
- Also at expiry the price of Nifty Futures tends to be equal to spot price. Therefore, the price of Nifty Futures will equate spot price of Nifty.
- On expiry 30th April 2018, irrespective of prevailing Nifty price, you can make profit of 100.

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Idea behind Arbitrage

- Investors expect different rate of returns from different securities, depending on the risk component of such securities and if risk is priced inconsistently across securities, then arbitrage opportunities exist there.
- Arbitrageurs take the advantage of these opportunities until the prices are pushed back in line, if risk is priced consistently across the securities then arbitrage disappears.
- Arbitrage is described as a strategy with reasonable returns with low volatility because participants are not speculating on market movements.

Relevance in the current market

The opportunity in the Arbitrage space continues to remain attractive, post the March end. We believe there is a strong case for investment in ICICI Prudential Equity Arbitrage Fund with a 3 Month view.

Key Factors leading to this opportunity:

1. **Volatility in Equity Market** - We expect equity markets to be volatile with the start of election season, this can further increase the spread plus will give fund manager the opportunity to book profits at an appropriate time.
2. **Muted activity by DIIs, post the heavy redemptions in the month of March in Arbitrage Funds** - The participation from DIIs have been muted in the first half of April, 2019 and we have seen heavy redemptions in this category in the last month. This has resulted into lower demand in the arbitrage space and widening of spreads, which presents a good opportunity to invest and get reasonable risk adjusted returns
3. **NDF Spreads** - The Non-Deliverable Forward (NDF) spread continue to remain elevated due to fluctuations in the currency markets, yielding good opportunities for the FM to roll-over at attractive spreads

Investment Philosophy of the Scheme

The **ICICI Prudential Equity – Arbitrage Fund** is a blend of equity, equity derivative and debt instruments.

- **Equity:** The scheme aims to have a controlled exposure to equity with a view to have reasonable returns.
- **Equity Derivatives:** The scheme will concentrate on generating reasonable returns with low volatility by predominantly using equity derivative strategies. The fund manager may employ a combination of the following strategies:
  - **Cash arbitrage**: Uses the difference between the cash and future price of stocks to enter into equal but opposite positions, simultaneously in both markets, for the same scrip to lock in the price difference.
  - **Index arbitrage**: Takes equal and opposite positions of index futures and corresponding stock futures constituting the index in proportion to their respective weights in the index simultaneously, to lock in the price difference.
  - **Debt:** The scheme has the flexibility of increasing its exposure to 35% in debt securities if the risk–reward ratio is favourable to such an allocation.

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The above is just an illustration to explain how an arbitrage strategy works. Investors are requested to note that investments in equity/related securities are subject to various risks and any return/potential return is dependent on market movement during expiry. Any adverse movement during the expiry can affect the above mentioned scenario. Investors must understand that the above does not consider costs involved like brokerage and other expenses associated with markets.

Features of the Scheme

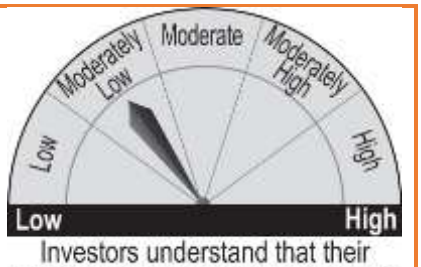
Type of Scheme	An open ended scheme investing in arbitrage opportunities.	
Plans	ICICI Prudential Equity - Arbitrage Fund & ICICI Prudential Equity - Arbitrage Fund - Direct	
Options	Growth & Dividend (payout* and reinvestment facility available)	
Minimum Application Amount	Rs. 5,000 (plus in multiples of Re.1)	
Minimum Additional Application Amount	Rs. 1,000 (plus in multiple of Re. 1)	
Minimum Redemption Amount	Any Amount	
Entry Load	Not Applicable	
Exit Load	Within 1 month from allotment	0.25% of applicable NAV
	More than 1 month from allotment	Nil
Fund Manager	Equity: Kayzad Eghlim, with 29 years of experience, has been managing this fund since Feb 2011 Debt: Manish Banthia, with 16 years of experience, has been managing the fund since Nov 2009. In addition to the fund manager managing this Scheme, the overseas investment of the scheme is managed by Ms. Priyanka Khandelwal.	
Benchmark Index	Nifty 50 Arbitrage Index	
SIP / SWP / STP (Flex / Value)	Available	

*The minimum amount for dividend payout shall be Rs. 100 (net of dividend distribution tax and other statutory levy, if any), else the dividend would be mandatorily reinvested.

This Product is suitable for investors who are seeking*:

- Short term income generation
- A hybrid scheme that aims to generate low volatility returns by using arbitrage and other derivative strategies in equity markets and investments in debt and money market instruments.

*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 moderately low risk

Statutory Details

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

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