ICICI Prudential

Equity - Arbitrage Fund

An open ended scheme investing in arbitrage opportunities.

ICICI PRUDENTIAL MUTUAL FUND
TARAKKI KAREIN!

Investment Style

Equity

Style

	Value	Blend	Growth
Size			
Large			
Mid			
Small			

Diversified

Debt

Credit Quality

	High	Medium	Low
Duration			
Low			
Short			
Medium			
Medium to Long			
Long			

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 May 2021, Nifty is trading at 15000 in cash market and one month Nifty futures contract is trading at 15100. There is an arbitrage opportunity to lock in profit of 100.

- To gain, you would buy Nifty for 15000 in the cash market and simultaneously sell Nifty Futures in market for 15100 and lock the gain of 100.
- At expiry, you would 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 31st May 2021, irrespective of prevailing Nifty price, you could make profit of 100.

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.

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.

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.

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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 & IDCW* (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 (Managing this fund since Feb 2011 & Overall 29 years of experience) Debt: Rohan Maru (Managing this fund since Dec 2020 & Overall 11 years of experience) Nikhil Kabra (Managing this fund since Dec 2020 & Overall 6 years of experience) 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	

*IDCW – Income Distribution cum Capital Withdrawal Option. Payment of IDCW is subject to availability of distributable surplus and Trustee approval. Pursuant to payment of IDCW , the NAV of the scheme falls to the extent of IDCW payout. When units are sold and sale price (NAV) is higher than face value of the unit, a portion of sale price that represents realized gains is credited to an Equalization Reserve Account and which can be used to pay IDCW. IDCW can be distributed out of investors capital (Equalization Reserve), which is part of sale price that represents realized gains. In case the unit holder has opted for IDCW payout option, the minimum amount for IDCW payout shall be 100 (net of statutory levy, if any), else the IDCW would be mandatorily reinvested. IDCW Payout -Payout of Income Distribution cum capital withdrawal option;IDCW Reinvestment - Reinvestment of Income Distribution cum capital withdrawal option.

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 Low risk

Please note that the Risk-o-meter(s) specified above will be evaluated and updated on a monthly basis as per SEBI circular dated October 05, 2020 on Product Labelling in Mutual Fund schemes – Risk-o-meter. Please refer to https://www.icicipruamc.com/news-and-updates/all-news for more details.

Statutory Details

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

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