BLUE PEACOCK ABRITRAGE FUND

What is an Arbitrage Fund?

An arbitrage fund is a type of fund that leverages the price differential in the various asset classes in their respective markets to generate returns. The returns are dependent on the price spreads and volatility of the asset. The fund does not take any fundamental or directional call on the underlying assets. The arbitrage opportunities in equity markets are between cash & derivatives or between exchanges, while in currencies it is mainly between exchanges.

What type of investors is an Arbitrage Fund suitable for?

Arbitrage funds are the panacea for low risk-taking investors. In a situation of high and persistent volatility, arbitrage funds provide investors a safe avenue to park their money. These funds capitalize on the market inefficiencies and generate profits for the investors. Globally, investors are doing a permanent allocation to arbitrage funds for medium to longer duration in order to reduce the volatility in their returns as well as to take care of the uncertainty in other asset class' returns.

Introducing **Blue Peacock Arbitrage Fund:**

The primary objective of the fund would involve benefiting from the arbitrage opportunities that exist in trading pairs of currencies (primarily USD and INR) across different exchanges in India, UAE, Singapore and UK. The fund does not aim to take any directional bets or net open positions. Therefore, it does not carry any beta risk with respect to the chosen currency pair. It seeks alpha from differences in pricing in various markets for a chosen currency pair.

The nature of the fund does not warrant any benchmark but the fund seeks to target gross return between 7-10% per annum with zero to negligible addition to risk compared to cash / bank deposit returns. The fund is suitable for the investors who want to benefit from a volatile market without taking on too much risk and locking-in a more stable return.

How will the Fund invest?

The Fund will take positions across trading pairs of currencies across different exchanges. For example, the Fund might buy 1 month forward USD-INR contracts in National Stock Exchange (NSE) while selling the same number of contracts of similar duration in Dubai Gold & Commodities Exchange (DGCX). This would lock-in a gross spread which would be unwound either when the position matures or if better spreads present themselves.

A few sample gross spreads that traded in the last 12 months were as follows:

Trade Details			
Entry Date	NSE Price	DGCX Price	Gross Spread
28 April 2020	76.5000	76.5900	0.0900
27 March 2020	76.1500	76.4000	0.2500
06 March 2020	74.0500	74.3300	0.2800
24 February 2020	72.0750	72.1300	0.0550
16 December 2019	70.8800	70.8400	0.0400
29 August 2019	72.1900	72.2500	0.0600
05 August 2019	70.6500	70.7500	0.1000
26 June 2019	69.6913	69.7280	0.0367

At various price points and spreads, the Fund will create positions between one and two months' forward contracts by buying in one exchange and selling in another one simultaneously. In some months, where there is higher volatility, the spreads usually rise and therefore, the ability to capture wider spreads goes up. The Fund would always endeavor to select contracts with adequate liquidity. Hence, an investment in this Fund would give optimal results when the investment is held for the medium term.

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