

ADVENT OF LOW INTEREST RATE REGIME

- With RBI cutting Repo rates aggressively from 6.5% in Dec 2018 to 4% currently, debt mutual funds YTM and fixed deposit rates have reduced drastically and have reached their historical lows.
- When we also deduct income tax, situation is more worse as Debt MF YTM & Fixed Deposit rates becomes almost negligible.

Debt Mutual Fund categories	Pre - tax YTM			Post - tax YTM		
	Dec-20	Dec-19	Dec-18	Dec-20	Dec-19	Dec-18
Liquid	3.0%	5.3%	7.3%	1.7%	3.0%	4.2%
Money Market	3.5%	5.7%	7.9%	2.0%	3.3%	4.5%
Ultra Short Duration	3.6%	6.0%	8.1%	2.0%	3.4%	4.7%
Low Duration	3.9%	6.3%	8.5%	2.2%	3.6%	4.9%

Bank Fixed Deposit	Pre – tax FD rates			Post – tax FD rates		
	Dec-20	Dec-19	Dec-18	Dec-20	Dec-19	Dec-18
7 days to 45 days	2.9%	4.5%	5.8%	1.7%	2.6%	3.3%
46 days to 179 days	3.9%	5.5%	6.3%	2.2%	3.1%	3.6%
180 days to 210 days	4.4%	5.8%	6.4%	2.5%	3.3%	3.6%
211 days to less than 1 year	4.4%	5.8%	6.4%	2.5%	3.3%	3.7%
1 year to less than 2 year	4.9%	6.3%	6.8%	2.8%	3.6%	3.9%
2 years to less than 3 years	5.1%	6.3%	6.8%	2.9%	3.6%	3.9%

*Source: MFIE,SBI. Fixed deposit rates pertains to SBI Domestic Term deposit. For Debt mutual Fund YTM, median YTM is considered. Debt mutual fund category is as per SEBI definition. Tax rate (42.74%) is assuming investor falls in highest tax bracket with investment holding period < 3 years. Tax rates are as per current Tax laws. Rates/YTM less than 1 year are annualised.

HOW ARBITRAGE FUNDS CAN BE BENEFICIAL?

Arbitrage Fund though invests in Equities but aims to provide fixed income like returns

FINANCIAL YEAR	NIFTY 50 ARBITRAGE INDEX	CRISIL LIQUID FUND INDEX
FY 10-11	5.2%	6.2%
FY 11-12	7.3%	8.4%
FY 12-13	8.4%	8.2%
FY 13-14	8.2%	9.5%
FY 14-15	9.1%	9.1%
FY 15-16	6.5%	8.1%
FY 16-17	6.1%	7.1%
FY 17-18	4.4%	6.8%
FY 18-19	5.4%	7.6%
FY 19-20	6.1%	6.4%
AVERAGE	6.7%	7.7%

Source : MFI Explorer. Past performance may or may not sustain in future and should not be used as a basis for comparison with other investments. These figures pertain to performance of the index and do not in any manner indicate the returns/performance of the Scheme. It is not possible to invest directly in an index.

- Investment in equities enable Arbitrage fund to be treated as Equity-oriented fund for taxation purpose
- Equity oriented funds can offer better tax advantage when compared to Debt mutual funds / Fixed deposits especially when holding period is less than 3 years

§ TAXATION OF ARBITRAGE FUND vs DEBT MUTUAL FUND vs FIXED DEPOSITS

Holding period	<1 Year			1 - 3 years			> 3 Years		
Income Level	Arbitrage Fund (STCG)	Debt MF (STCG) #	Fixed Deposits #	Arbitrage Fund (LTCG*)	Debt MF (STCG) #	Fixed Deposits #	Arbitrage Fund (LTCG*)	Debt MF (LTCG ^)	Fixed Deposits #
0 - 50 lac	15.60%	31.20%	31.20%	10.40%	31.20%	31.20%	10.40%	20.80%	31.20%
50 lac- 1 crore	17.16%	34.32%	34.32%	11.44%	34.32%	34.32%	11.44%	22.88%	34.32%
1-2 crore	17.94%	35.88%	35.88%	11.96%	35.88%	35.88%	11.96%	23.92%	35.88%
2-5 crore	17.94%	39.00%	39.00%	11.96%	39.00%	39.00%	11.96%	26.00%	39.00%
> 5 crore	17.94%	42.74%	42.74%	11.96%	42.74%	42.74%	11.96%	28.50%	42.74%

* LTCG tax is applicable on LTCG above Rs. 1 lac; ^ with indexation benefit; # Assuming highest tax slab rate; § Taxation as applicable to Individuals/HUFs/BOIs/AOPs and Artificial juridical persons; Tax rates are including surcharge as applicable. The above rates are as per current Tax laws.

ILLUSTRATION TO UNDERSTAND TAX EFFICIENCY OF ARBITRAGE FUND

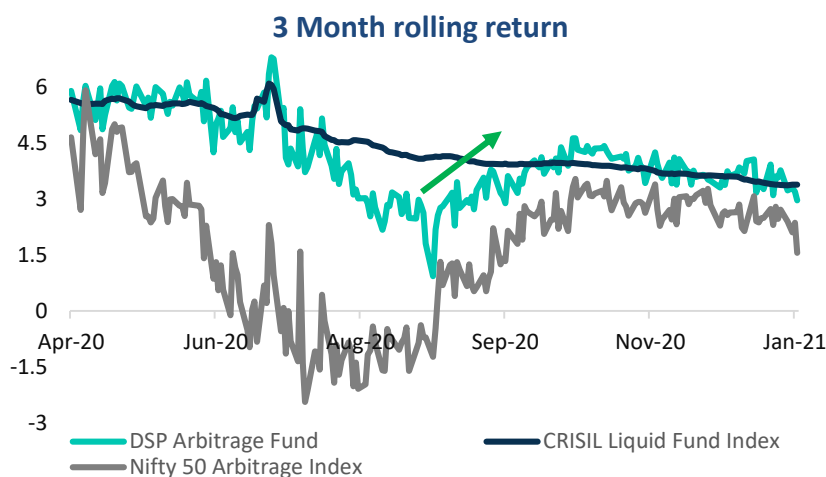
Assuming pre-tax return of 4 %, post tax returns for Arbitrage fund is superior to Debt mutual fund and Fixed deposits for holding period less than 3 years evident from below table

Holding period	Post tax returns								
	6 Months			1 year			2 year		
Income Level	Arbitrage Fund (STCG)	Debt MF (STCG) #	Fixed Deposits #	Arbitrage Fund (LTCG*)	Debt MF (STCG) #	Fixed Deposits #	Arbitrage Fund (LTCG*)	Debt MF (STCG) #	Fixed Deposits #
0 - 50 lac	3.4%	2.8%	2.8%	3.6%	2.8%	2.8%	3.6%	2.8%	2.8%
50 lac- 1 crore	3.3%	2.6%	2.6%	3.5%	2.6%	2.6%	3.6%	2.6%	2.6%
1-2 crore	3.3%	2.6%	2.6%	3.5%	2.6%	2.6%	3.5%	2.6%	2.6%
2-5 crore	3.3%	2.4%	2.4%	3.5%	2.4%	2.4%	3.5%	2.5%	2.4%
> 5 crore	3.3%	2.3%	2.3%	3.5%	2.3%	2.3%	3.5%	2.3%	2.3%

* LTCG tax is applicable on LTCG above Rs. 1 lac; # Assuming highest tax slab rate; Taxation as applicable to Individuals/HUFs/BOIs/AOPs and Artificial juridical persons; Tax rates are marginal rate of tax including surcharge as applicable. Returns less than 1 year are annualized.

WHY ARBITRAGE FUND – ARBITRAGE SPREAD REVIVAL

- Arbitrage spread which had collapsed post covid led market crash have revived significantly which can be witnessed from 3 Month rolling return chart

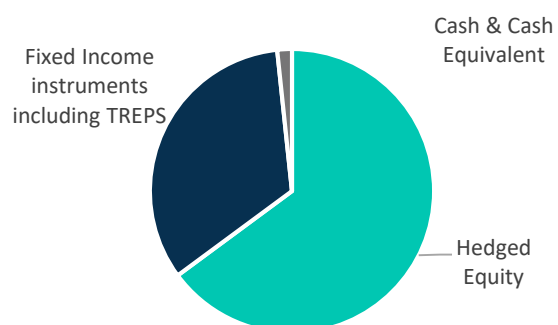


Month	DSP Arbitrage Fund	CRISIL Liquid Fund Index	Nifty 50 Arbitrage Index
Apr-20	5.6%	5.6%	4.3%
May-20	5.7%	5.5%	2.7%
Jun-20	5.3%	5.4%	0.5%
Jul-20	4.0%	4.7%	-1.2%
Aug-20	2.6%	4.3%	-1.0%
Sep-20	3.0%	4.0%	0.9%
Oct-20	3.9%	3.9%	2.6%
Nov-20	4.1%	3.9%	3.0%
Dec-20	3.7%	3.6%	2.8%
Jan-21	3.5%	3.5%	2.5%

Data as on 31 Jan 2021; Source – MFIE ; Nifty 50 Arbitrage index is benchmark for DSP Arbitrage Fund. Click [here](#) for performance of above mentioned scheme in SEBI prescribed format and of other schemes managed by the fund manager. **Past performance may or may not sustain in future and should not be used as a basis for comparison with other investments.** Performance is for direct plan - growth option. It is not possible to invest directly in an index.

Note – All returns are pre-tax

DSP ARBITRAGE FUND – PORTFOLIO STATISTICS



Asset class	% holding	Roll over rate / YTM
Hedged Equity	65%	2.9%
Fixed Income (including TREPS)	33%	3.7%
Cash	2%	-

Data as on 31 Jan 2021; Source – Internal ; Roll over rates for Hedged equities are annualised for Feb 2021 maturity and are only indicative. It is gross roll over rate before expense and doesn't represent actual returns of the fund.

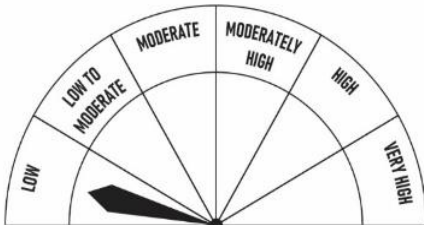
KEY TAKEAWAY

- There has been significant revival of arbitrage spread which had collapsed during covid market crash.
- Given the low interest rates environment especially for shorter duration, arbitrage funds may provide better post-tax returns to investors
- Investors need to consider arbitrage fund for atleast 3-6 months horizon for better investment experience

DISCLAIMERS

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

Scheme	Type of Scheme & Product Suitability	Riskometer
<p>DSP Arbitrage Fund (An open ended scheme investing in arbitrage opportunities)</p>	<p>The scheme is suitable for investors who are seeking*</p> <ul style="list-style-type: none"> ▶ Income over a short-term investment horizon ▶ Investment in arbitrage opportunities in the cash & derivatives segment of the equity market 	 <p style="text-align: center;">RISKOMETER</p> <p style="text-align: center;">INVESTORS UNDERSTAND THAT THEIR PRINCIPAL WILL BE AT LOW RISK</p>

**Investors should consult their financial /tax advisors if in doubt about whether the Scheme is suitable for them.*