BALANCED ADVANTAGE FUNDS WITH ARBITRAGE STRATEGY



WHAT IS A BALANCED ADVANTAGE FUNDS (BAF)?



A hybrid fund which dynamically manages the equity and debt exposure or uses equity arbitrage to hedge portfolio based on prevailing market conditions

How does a BAF Work?

- A BAF works on the premise that different asset classes are subject to different risks and can earn different returns at different points in a market cycle
- A BAF aims to earn reasonable returns at a relatively lower volatility than pure equity funds

TWO ASPECTS OF BAF

- Dynamic Asset Allocation
- Arbitrage Strategy

DYNAMIC ASSET ALLOCATION

The dynamic asset allocation approach followed by a BAF seeks to balance its holding between equity and debt basis market opportunities. BAF could follow a PE-based model with the average forward and trailing PE levels deciding the equity allocation. PE stands for the price-to-earnings ratio.

- Lower PE = Cheaper Valuations (therefore, increase equity allocation)
- Higher PE = High Valuations (therefore, lower equity allocation)

WHAT IS ARBITRAGE?

Assume there is a company ABC Ltd which is currently trading in the cash market at Rs 1254 and in the futures market at Rs 1262. So, using an arbitrage strategy, a fund manager will buy in the cash market and simultaneously sell in the futures market. This trade is protected against any market movement as the long position is completely hedged with the short position. The difference of Rs 8 will be realized at the day of expiry or before if the futures start trading at a discount to the spot.

HOW DOES BAF USE ARBITRAGE?

- When equity valuations look attractive, a BAF fund manager increases equity exposure.
- When the equity valuations seem expensive, he may reduce the equity allocation or hedge the equity portfolio.
- To maintain the equity status, funds may use the arbitrage strategy to reduce the net long equity positions

An Investor Education & Awareness Initiative of Tata Mutual Fund

DISCLAIMER

- To know more about KYC documentation requirements and procedure for change of address, phone number, bank details etc., please visit : https://www.tatamutualfund.com/investor-education.
- Please deal only with registered Mutual Funds, details of which can be verified on the SEBI website under 'Intermediaries / Market infrastructure institutions.
- All complaints regarding Tata Mutual Fund may be directed to service@tataamc.com and/ or https://www.scores.gov.in (SEBISCORES portal)
- Nomination is advisable for all folios opened by an individual especially with sole holding as it facilitates an easy transmission process.
- This communication is a part of investor education and awareness initiative of Tata Mutual Fund.

TATA MUTUAL FUND

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AN INVESTOR EDUCATION & AWARENESS INITIATIVE BY TATA MUTUAL FUND

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