

Religare Arbitrage Fund

(An equity oriented interval scheme)

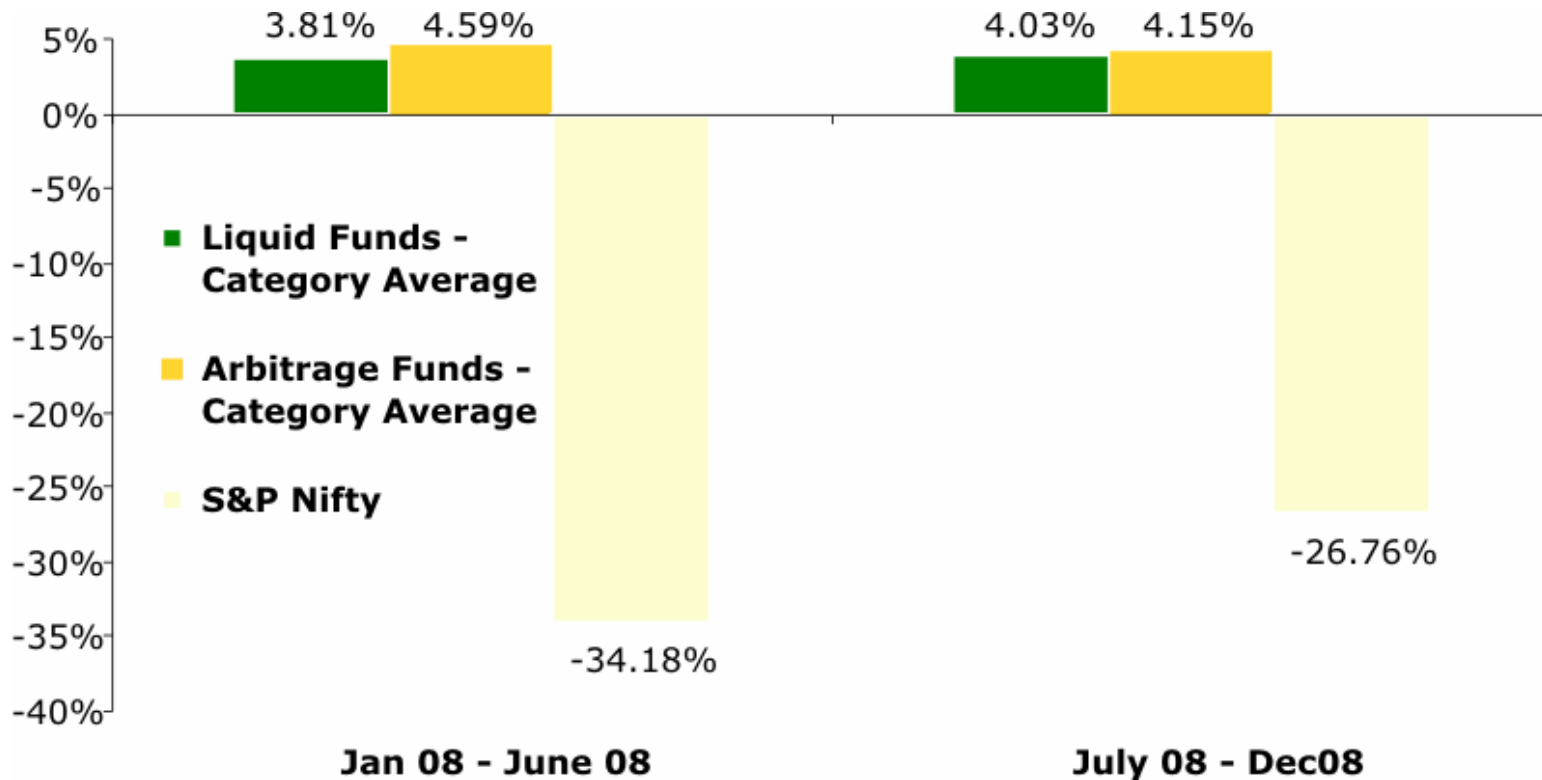
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What is arbitrage?

- In simple terms, arbitrage is the practice of taking advantage of a price differential – of the same asset – between two or more markets...*say taking advantage of the mispricing between the cash and derivatives market*
- For e.g..
 - Assume stock price of ABC Ltd is at Rs.1906/- in the cash market
 - Stock is also traded in the derivatives segment, where its future price is Rs.1976/-
 - In such a case, one can make a risk-free profit by selling a futures contract of ABC Ltd. at Rs. 1976/- and buy an equivalent number of shares in the equity market at Rs.1906/-

On settlement day, it wouldn't matter which direction the stock price has taken in the interim. Because on the expiry day (settlement date) the price of equity shares and their futures tend to converge

When is arbitrage profitable?



- Returns are enhanced in volatile times
- In these periods, arbitrage funds would typically outperform both debt & equity markets
- Leading to superior risk adjusted returns over time

(No. of schemes considered for liquid funds category is 49 for Jan08-Jun08 period, and 50 schemes for July08-Dec08 period. For Arbitrage category, no. of schemes considered is 10 for Jan08-Jun08 period and 11 schemes for July08-Dec08 period. Returns are absolute for all time periods). Source: ICRA MFIE. Disclaimer: The above graph is for illustrative purpose only and does not in any manner indicate the performance of Religare Arbitrage Fund. The mutual fund/ AMC is not guaranteeing, promising or forecasting any returns. Please refer relative performance table on slide 14



Presenting
Religare Arbitrage Fund

Religare Arbitrage Fund

- The Fund aims at exploiting the price differential between cash and derivative markets to generate returns without any market exposure and low risk to capital
- Buys and sells simultaneously in same equity and / or derivative securities.
- Seeks to generate Net positive returns on a monthly basis with low volatility; regardless of market direction
- Focus on absolute return on a monthly basis



Religare Arbitrage Fund - Philosophy & Strategy

- Fund believes that markets are inefficient, best opportunities of arbitrage arise when markets are most volatile
- Invests upto 65% -80% of its net assets in equity and equity related instruments on a fully hedged basis. No un- hedged positions
- No directional exposure. Truly market neutral. Quantification of profits
- Residual Portion – upto 35% will be deployed in debt and money market instruments
- Positions either reversed or rolled over at expiry



Arbitrage Strategies

- **Index/Stock Spot – Index/Stock Future**

The pricing of Futures is derived from the underlying index or underlying stock. When the two go out of sync, there arises opportunities by selling the overpriced futures and buying the underlying index / stock

- **Dividend Arbitrage**

Usually during the period prior to dividend declaration, the stock futures/options market can provide a profitable opportunity. Generally, the stock price declines by the dividend amount when the stock goes ex-dividend

- **Buy Back Arbitrage**

When the company announces the buyback of its own shares, there could be opportunities due to the price differential in buy-back price and traded price



Few examples of arbitrage strategy at work

Trading opportunity - Oriental Bank of Commerce

Initial Corpus : Rs 60,00,000

Profit on Initiating a Trade

Date of Initiating Trade: 25 th July'08	No. of shares	Price	Value	Net Value (Post Brokerage and Taxes)
Buy Cash	34,000	146.45	49,79,300	49,87,017
Sell Futures	34,000	147.35	50,09,900	50,08,397

Profit on Reversing a Trade

Date of Reversing Trade: 26 th Aug'08	No. of shares	Price	Value	Net Value (Post Brokerage and Taxes)
Sell Cash	34,000	168.55	57,30,700	57,21,817
Buy Futures	34,000	165.15	56,15,100	56,16,784

Profit on Cash Leg	7,34,800
Loss on Futures Leg	-6,08,388
Net Profit from Trade	1,26,412

Final Corpus Post Initiating and Reversing the Trade	61,26,412
Initial Corpus	60,00,000
Net Gain from the Arbitrage Trades	1,26,412
Annualised Returns	25.28%

Disclaimer: The above simulation is for illustration purposes only and should not be constructed as a promise or minimum returns or safeguard of capital. The AMC/Mutual Fund is not guaranteeing, promising or forecasting any returns. Source: RMF



Few examples of arbitrage strategy at work

Trading opportunity - Power Finance Corporation

Initial Corpus : Rs 60,00,000

Profit on Initiating a Trade

Date of Initiating Trade: 29 th Sept'08	No. of shares	Price	Value	Net Value (Post Brokerage and Taxes)
Buy Cash	41,000	121.95	49,99,950	50,07,699
Sell Futures	41,000	122.85	50,36,850	50,35,338

Profit on Reversing a Trade

Date of Reversing Trade: 30 th Oct'08	No. of shares	Price	Value	Net Value (Post Brokerage and Taxes)
Sell Cash	41,000	96.8	39,68,800	39,62,648
Buy Futures	41,000	96.8	39,68,800	39,69,990

Profit on Cash Leg	-10,45,052
Loss on Futures Leg	10,65,348
Net Profit from Trade	20,297

Final Corpus Post Initiating and Reversing the Trade	60,20,297
Initial Corpus	60,00,000
Net Gain from the Arbitrage Trades	20,297
Annualised Returns	4.06%

Disclaimer: The above simulation is for illustration purposes only and should not be constructed as a promise or minimum returns or safeguard of capital. The AMC/Mutual Fund is not guaranteeing, promising or forecasting any returns. Source: RMF



Why Religare Arbitrage Fund ?

- Is an ideal fund in this current volatile and uncertain market condition
- Operates on the concept of “fully hedged equity exposure” – each position in equity stock is hedged
- The fund doesn't take any market risk and generates returns possibly higher than short term interest rates
- It has provided consistent positive returns on a month on month basis*
- Aggressive trading strategies enable the fund to deliver superior returns and take advantage of the differential prices between the cash and futures markets

* **Past performance may or may not be sustained in future.** Please refer relative performance table on subsequent slides



Why Religare Arbitrage Fund ? ...contd

- Offers an opportunity for investors to earn higher returns without taking directional call in the equity market
- Status of an equity-oriented fund, thus lower tax incidence compared to debt and liquid funds
- Interval Scheme** (monthly exit option) – helps better returns management

(**The interval period will be the settlement Thursday (the settlement day for derivatives segment in the NSE, which is currently last Thursday of the month) or any day which is declared as the settlement day for Derivatives segment by the NSE)



Who should invest ?

- Investors looking forward to benefiting from arbitrage opportunities available in the equity markets
- Investors looking to earn higher returns compared to comparable debt funds, without assuming equity market risk
- Investors seeking returns, which are commensurate with a medium term investment horizon, without taking an un-hedged exposure to the equity markets



Religare Arbitrage Fund - Portfolio

Top Ten Holdings	% of Net Assets
Great Offshore Ltd.	3.31%
IFCI Ltd.	3.17%
KS Oil Ltd.	2.76%
Indiabulls Real Estate Ltd.	2.55%
Television Eighteen India Ltd.	2.30%
Century Textiles & Industries Ltd.	2.26%
Housing Development & Infrastr Ltd.	2.25%
Ispat Industries Ltd.	2.15%
Financial Technologies India	2.02%
Videocon Industries Ltd.	2.00%
Total	24.77%

Top 10 Sectors	% of Net Assets
CONSUMER NON DURABLES	12.38%
SOFTWARE	5.90%
CONSTRUCTION	5.33%
OIL	5.12%
MEDIA & ENTERTAINMENT	4.69%
PHARMACEUTICALS	4.51%
PETROLEUM PRODUCTS	3.76%
BANKS	3.20%
FINANCE	3.17%
CEMENT	2.66%
Total	50.72%

Net assets: **Rs 118.14 crores**, as on 31st May, 10

Source: RMF. Portfolio data as on 31st May, 10. RAF – Religare Arbitrage Fund.



Religare Arbitrage Fund - Performance Update

Performance (as on May 31, 2010)

Period	Religare Arbitrage Fund#	Crisil Liquid Fund Index
1 Month \$	0.44%	0.29%
3 Months \$	0.94%	0.99%
6 Months \$	1.62%	1.75%
1 Year \$\$	3.72%	3.13%
3 Years \$\$	6.42%	6.16%
Since Inception \$\$	6.54%	6.29%

#Past performance may or may not be sustained in future. \$ Absolute returns \$\$ Compounded Annualized, @ Inception Date: 30th April 2007. Returns are for the Growth option.

Source: RMF



Key Facts

Category	An equity oriented interval scheme		
Investment Objective	To generate income through arbitrage opportunities emerging out of mis-pricing between the cash market and the derivatives market and through deployment of surplus cash in fixed income instruments.		
Asset Allocation	Type of Instruments	Normal Allocation (% of corpus)	Risk Profile
	Equity & Equity Related Instruments	65-80%	High
	Equity Derivatives including stock futures and stock options#	65-80%	High
	Debt* & Money Market Instruments & Fixed Income Derivatives	20-35%	Low to medium
	<p>* Debt instruments may include securitized debt (excluding foreign securitised debt) upto 30% of the net assets. # Maximum exposure to the derivatives shall not be exceeding 80% of the Net assets of the Scheme, subject to the limits as specified by SEBI, from time to time. # Maximum exposure to fixed income derivatives position shall not be exceeding 35% of the Net assets of the Scheme, subject to the limits as specified by SEBI, from time to time.</p>		
Minimum Application Amount	Rs 5000 per application and in multiples of Re. 1 thereafter.		
Options	<ul style="list-style-type: none"> ▪ Growth Option ▪ Dividend Payout ▪ Dividend Reinvestment (If dividend payable under dividend option is equal or less than Rs 500/- then the dividend would be compulsorily reinvested)		
Loads	<p>Entry Load: : Nil.</p> <p>Exit Load: 0.75% (if redeemed/switched out on or before 180 days from the date of allotment); Nil (if redeemed after 180 days from the date of allotment)</p>		
Fund Manager	Vetri Subramaniam		
Benchmark	Crisil Liquid Fund Index		



Biographies - Equity Team

- **Vetri Subramaniam, Head – Equity Funds**

Vetri has over 15 years' experience in the Indian equity markets and is responsible for the AMC's equity portfolio. He joins Religare Asset Management from Motilal Oswal Securities where he was the Chief Investment Officer. Prior to Motilal Oswal, he was working as an Advisor to Boyer Allan Investment Management, UK, where he was advising them on their investments in India. Vetri has also worked with Kotak Mahindra Asset Management as Head of Equity Funds, Sharekhan.com as Chief Investment Advisor and SSKI Securities as Vice President - Equity Sales. Vetri holds a Commerce degree and holds a PGDM from Indian Institute of Management, Bangalore.

- **Pradeep Kumar - Fund Manager**

Pradeep has over 9 years' experience in fund management and equity analysis. Prior to joining Religare Asset Management, Pradeep was a Fund Manager in ABN Amro Mutual Fund where he was actively managing three equity funds. Prior to ABN Amro Asset Management, he was working with DBS Cholamandalam AMC, initially as an equity analyst and then as a Fund Manager. Prior to joining the investment field, Pradeep worked as a Mechanical Engineer for 2 years. Pradeep holds a Mechanical Engineering degree and is an MBA from Mumbai University.

- **Vinay Paharia – Associate Fund Manager**

Vinay has over 7 years' experience in equity research. Prior to joining Religare Asset Management, Vinay was an Equity Research Analyst with DBS Cholamandalam AMC. Prior to DBS Cholamandalam AMC, Vinay worked with KRC, a domestic broking house, as an Analyst in the PMS division and as a sell side analyst with First Global. Vinay holds a Commerce degree and holds an MMS degree from Welingkar Institute of Management Mumbai. He is also a Chartered Financial Analyst from ICFAI.



Biographies - Equity Team

- **Amit Ganatra – Analyst**

Amit has over 6 years' experience in equity research. Prior to joining Religare Asset Management, Amit was working with DBS Cholamandalam Mutual Fund covering banking, property and construction sectors. Prior to DBS Cholamandalam Mutual Fund, he was working with Fidelity as a sector specialist covering the banking sector. Amit holds a Commerce degree and is a Chartered Accountant. He is also a Chartered Financial Analyst from AIMR.

- **Pranav Gokhale – Analyst**

Pranav has over 7 years' experience in equity research and financial services domain. He joins Religare Asset Management from Infrastructure Leasing & Financial Services Limited where he was assisting the Fund Manager in managing portfolios, investment process and client interaction as an Equity Analyst. Prior to this, he was working with ICICI Web Trade Limited as a Research Analyst identifying stock ideas and dealing in equity and derivative market on behalf of NRIs. Pranav has also worked with Rosy Blue Securities Private Limited and International Ship Repair LLC. Pranav holds a Masters degree in Commerce and is a Chartered Accountant.

- **Rajeev Bhardwaj – Dealer**

Rajeev has over 4 years' experience in equity sales and dealing. He joins Religare Asset Management from SAL Securities where he was in the Institutional Equity Sales function which involved Dealing and providing technical analysis to support and grow ongoing key client business. Prior to this, he was working in Share Khan as a Relationship Manager advising clients to invest in equity products including Portfolio Management Services and Mutual Funds. Rajeev has also worked with Motilal Oswal Securities as a Business Development Executive, acquiring high net worth clients and revenue generation. Rajeev holds a degree in Information Technology and is an MBA from Pune University.

- **Abbas Ratnani – Dealer**

Abbas has over 3 years' experience in the financial services sector of which, over one year was on the fund management side. Prior to joining Religare Asset Management, he was working with ICICI Bank Limited as a Research Analyst in their Global Research Group. Abbas holds a Commerce degree and is a Chartered Accountant.



Disclaimer

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