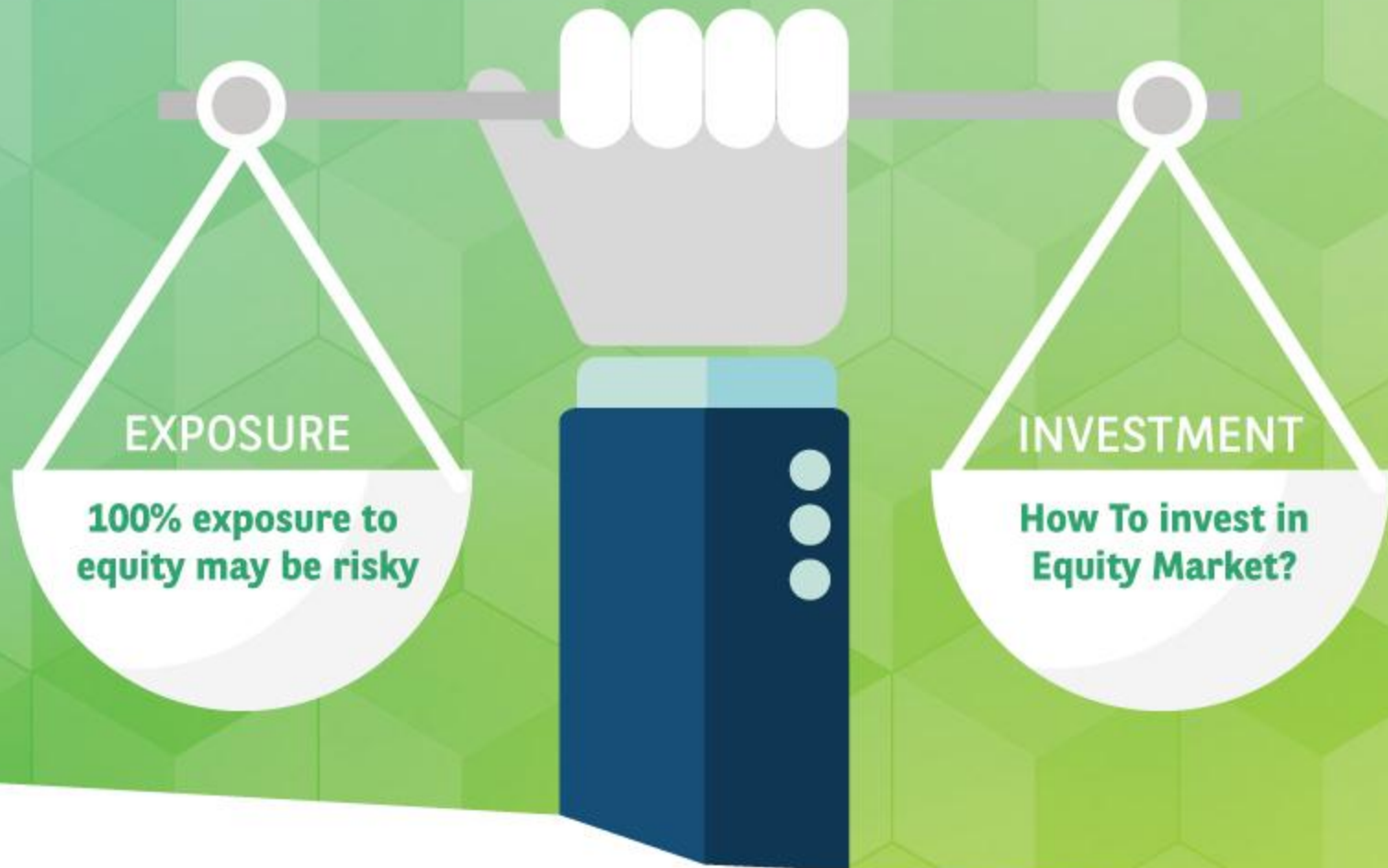


# BNP Paribas Enhanced Arbitrage Fund

2016



**BNP PARIBAS**  
MUTUAL FUND

The asset manager for a changing world

# What is Enhanced Arbitrage?

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Seeks to :

- ❖ Generate income through arbitrage opportunities
  - Arising out of pricing mismatch in a security between different markets/scrips or
  - As a result of special situations (dividend, corporate action)
- ❖ Endeavour to enhance Arbitrage opportunities through active fund management whilst hedging against Nifty.
- ❖ Generate income through money market instruments.

A highly tax efficient product ideal for deploying funds for any duration



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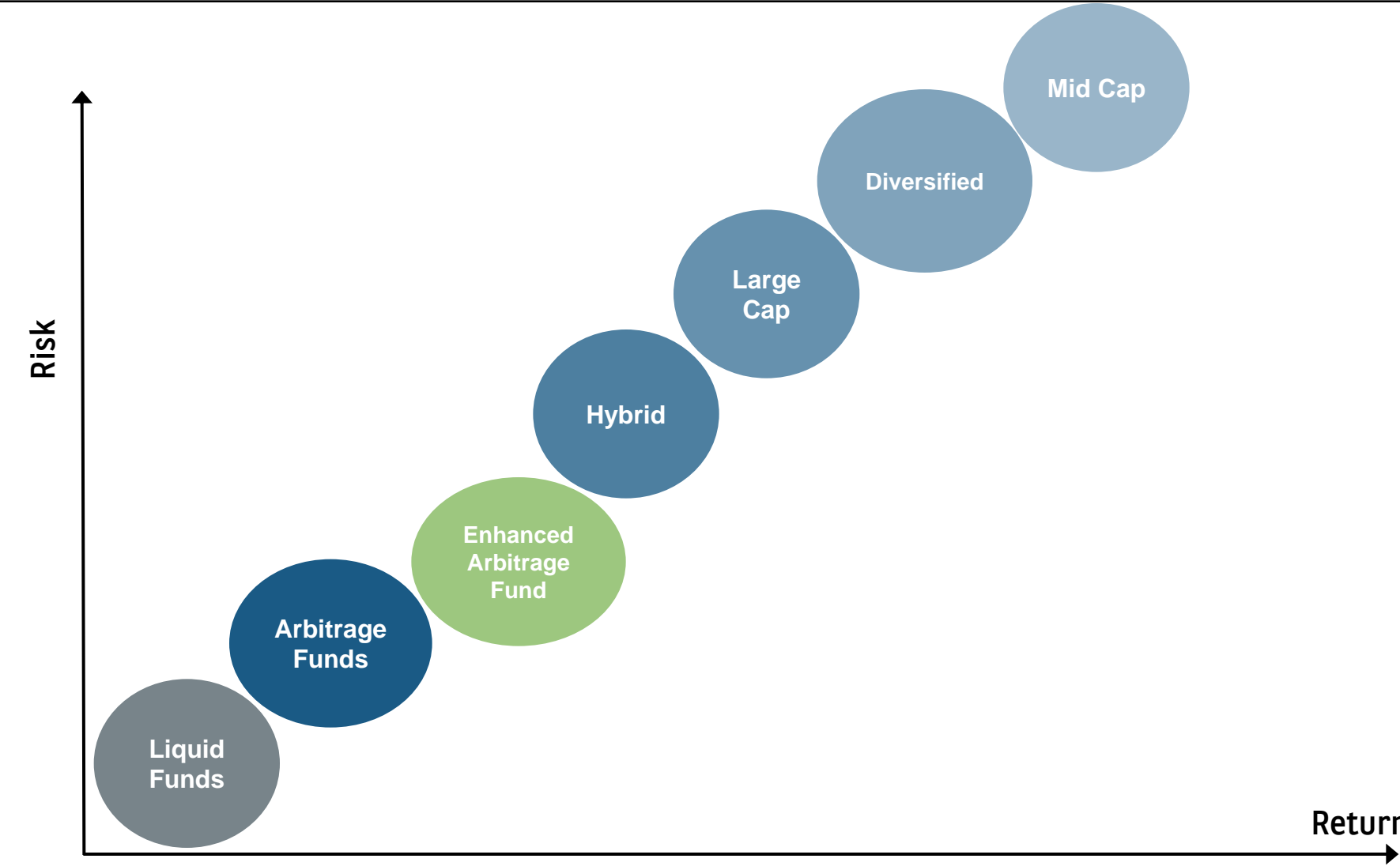
# **ENHANCED ARBITRAGE : A Preview**



# Benefits of Enhanced Arbitrage Fund over Normal Arbitrage

Enhanced Arbitrage	Arbitrage Fund
<p><b>Portion of the fund will take exposure in actively managed stock within Arbitrage opportunities that seeks to generate income (Long/Short Strategy )</b></p>	<p>No such opportunity exists</p>
	<p>Generic product which just takes advantage of plain arbitrage opportunities</p>
	<p>Performance is dependent on arbitrage opportunities available in the market</p>
	<p>As the size grows the opportunity to generate returns reduces exponentially</p>

# Positioning of BNP Paribas Enhanced Arbitrage



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**Presenting for the first time:**

# **BNP Paribas Enhanced Arbitrage Fund**

**which endeavours to give better risk adjusted return irrespective of fund size**



# BNP Paribas Enhanced Arbitrage Fund (An open ended equity scheme)

Instruments	Indicative allocations (% of total assets)		Risk Profile
	Minimum	Maximum	
Equities, equity related instruments (unhedged)*	0	10	Medium to High
Equities, equity related instruments and derivatives including index futures, stock futures, index options, & stock options, etc. as partly hedged / arbitrage exposure*	65	90	Medium to High
Debt Securities and Money market instruments with maturity upto 91 days only and/or units of liquid fund\$	10	35	Low

\*Equity allocation is measured as the gross exposure to equities, equity related instruments and derivatives. The Scheme will enter into derivatives transactions for arbitrage/partial hedging. The derivative positions will be hedged against corresponding positions in either equity or derivative markets depending on the strategies involved. On the total portfolio level the Scheme does not intend to take a net short exposure to equity markets. Unhedged positions in the portfolio (investments in equity shares without corresponding exposure to equity derivative) shall not exceed 10% of the net assets.

\$Debt instruments may include securitized debt up to 10% of the net assets. Includes investments in derivatives.

This product is suitable for investors who are seeking\*:

- Wealth creation in long term.
- Investment in a diversified portfolio of equity and equity related instruments, including use of equity derivatives strategies and arbitrage opportunities with exposure in debt and money market instruments

## Riskometer for the Scheme



Investors understand that their principal will be at moderately high risk.

\*Investors should consult their financial advisers if in doubt about whether the product is suitable for them.



# BNP Paribas Enhanced Arbitrage Fund: Fund Construct\*

	<b>%age of Corpus</b>
Arbitrage Portion (taking advantage of price mismatch)	40-50%
Actively Managed Equity Portion hedged against Nifty Futures (predominantly investing in large cap stocks)	20-25%
Debt and money market instruments with maturity up to 91 days	10-35%

\*The fund construct mentioned above is indicative and can change /vary depending upon the view of the Fund Manager. However, the construct will be within the requirement mentioned under the asset allocation table.



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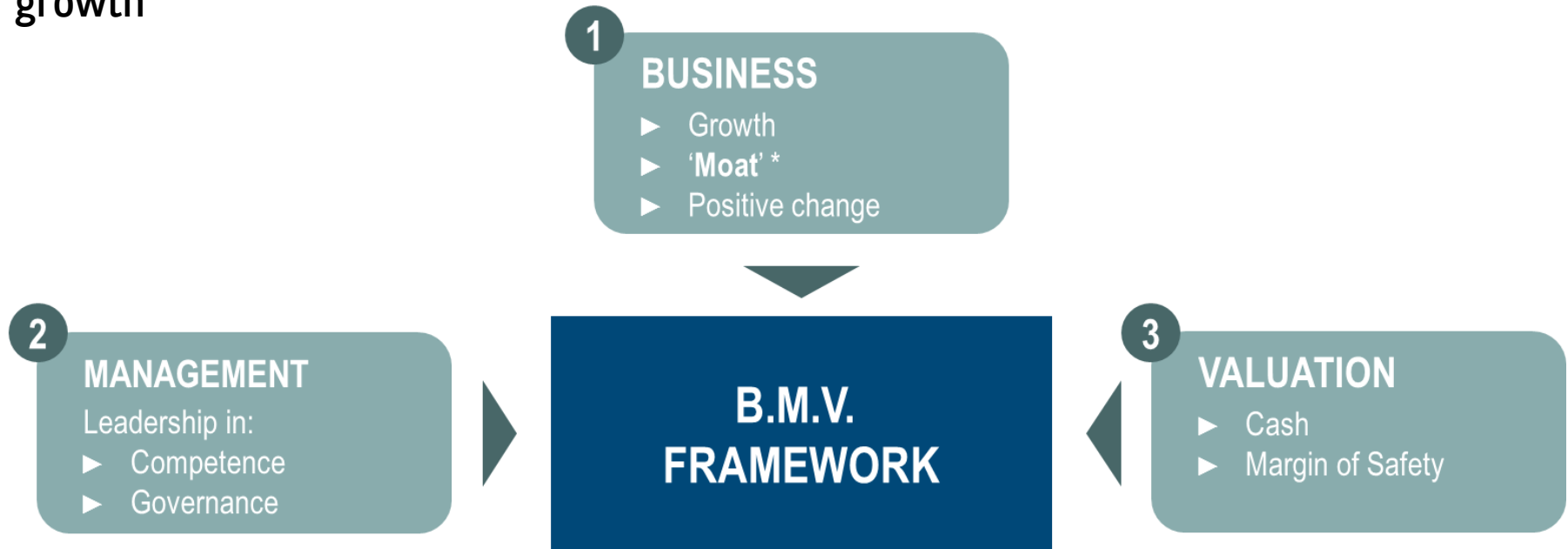
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# WHY BNP Paribas Asset Management?



# Core Belief: Companies Create Wealth, Not Markets

Constantly in search of companies with superior and sustainable earnings growth



Identify superior businesses, with strong management, at reasonable valuations

\* A sustainable competitive advantage

B.M.V.: Business, Management, Valuation. Source: BNPP IP, January 2016



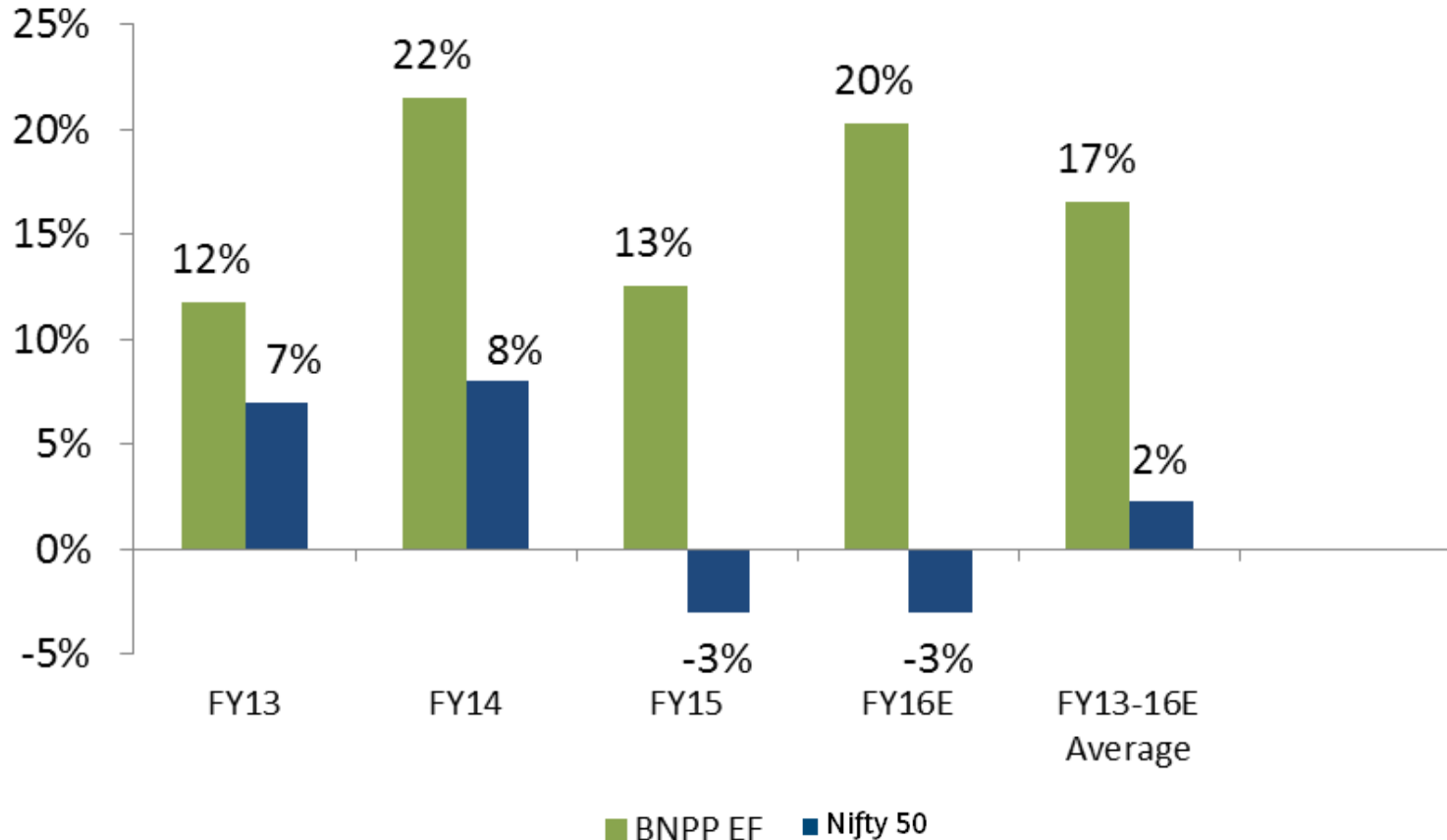
# NIFTY 50: 5 YEAR EARNINGS & RETURNS

Company Name	5 Yr CAGR (EPS)	5 Yr CAGR (Price)	Company Name	5 Yr CAGR (EPS)	5 Yr CAGR (Price)
Tech Mahindra Ltd	37	23	Reliance Infrastructure Ltd	6	-5
Bharat Petroleum Corp Ltd	35	24	IDFC Ltd	5	-12
IndusInd Bank Ltd	32	30	Mahindra & Mahindra Ltd	5	12
Reliance Capital Ltd	29	-9	Coal India Ltd	5	-3
Yes Bank Ltd	28	23	Grasim Industries Ltd	5	9
Idea Cellular Ltd	28	10	Larsen & Toubro Ltd	5	2
HCL Technologies Ltd	27	28	State Bank of India	4	-7
Adani Ports	26	13	NTPC Ltd	1	-8
HDFC Bank Ltd	26	18	Ranbaxy Laboratories Ltd	-3	14
Tata Consultancy Services Ltd	23	17	Oil & Natural Gas Corp Ltd	-4	-6
Sun Pharmaceutical Industries Ltd	22	30	Siemens Ltd	-4	5
Lupin Ltd	21	29	ACC Ltd	-4	5
Kotak Mahindra Bank Ltd	21	24	Tata Power Co Ltd	-4	-13
Axis Bank Ltd	19	10	Bharti Airtel Ltd	-6	0
Power Grid Corp of India Ltd	19	6	Ambuja Cements Ltd	-7	10
Dr Reddy's Laboratories Ltd	19	13	Jindal Steel & Power Ltd	-8	-39
Asian Paints Ltd	16	28	GAIL India Ltd	-9	-5
Housing Development Finance Corp	15	10	Reliance Communications Ltd	-13	-14
Maruti Suzuki India Ltd	15	24	NMDC Ltd	-13	-19
Infosys Ltd	15	9	Vedanta Ltd	-14	-21
ITC Ltd	15	13	DLF Ltd	-16	-16
Hindustan Unilever Ltd	14	25	Cairn India Ltd	-17	-15
ICICI Bank Ltd	14	1	Hindalco Industries Ltd	-18	-16
Ultratech Cement Ltd	13	23	United Spirits Ltd	-19	19
<b>Average of 24 Top companies</b>	<b>22</b>	<b>17</b>	<b>Average of 24 bottom companies</b>	<b>-5</b>	<b>-5</b>

\*Source: Axis Capital

# BNP Paribas for Alpha Generation

## CONSISTENTLY HIGHER EPS GROWTH VS. INDEX



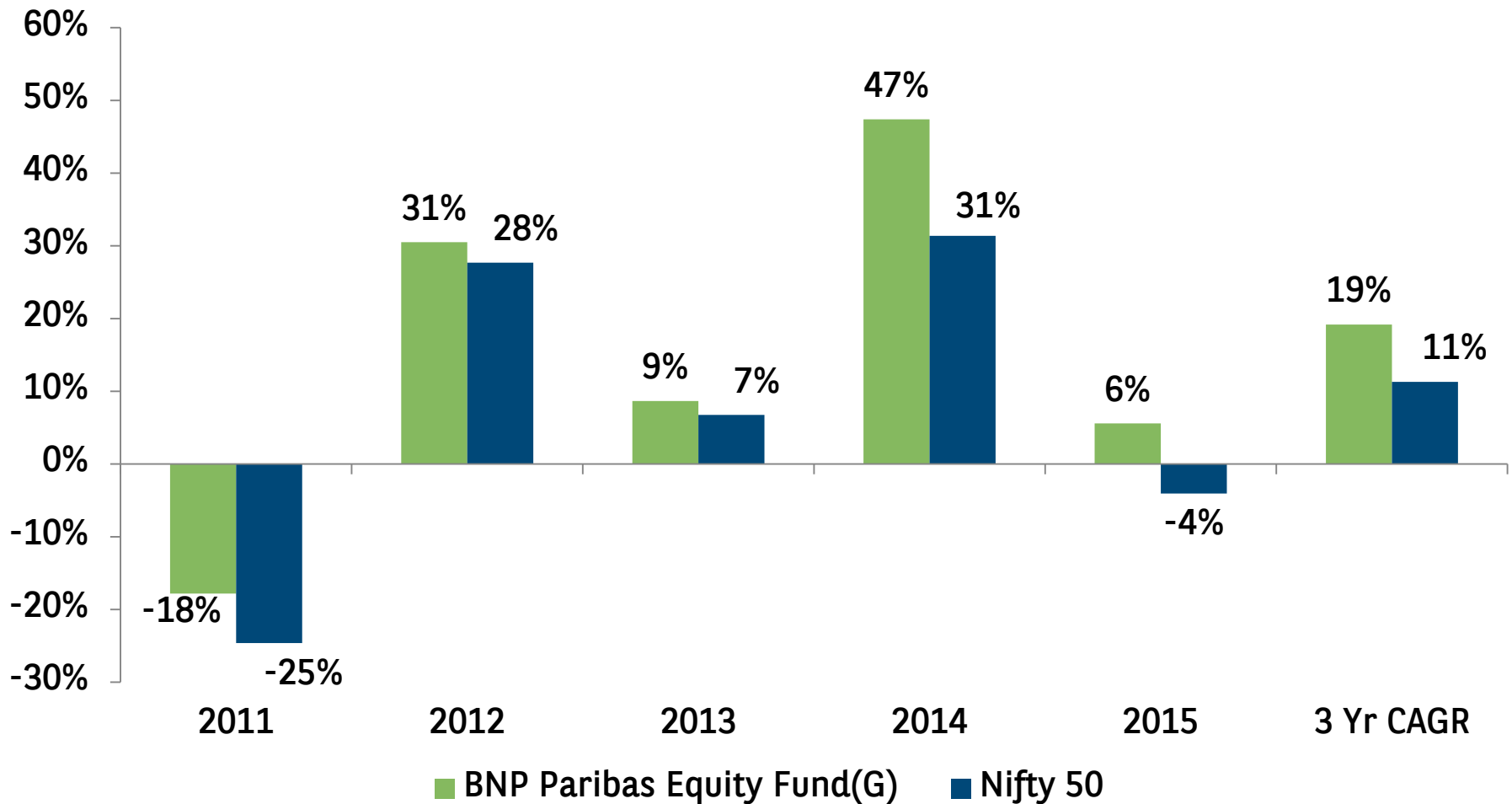
**Our B.M.V. framework helps us identify and invest in sectors growing faster than GDP and companies growing faster than their peers**

**Our endeavor is to create a Portfolio having EPS growth higher than Nifty 50**

**Consistently higher earnings growth profile since we implemented our B.M.V. framework in March 2011**



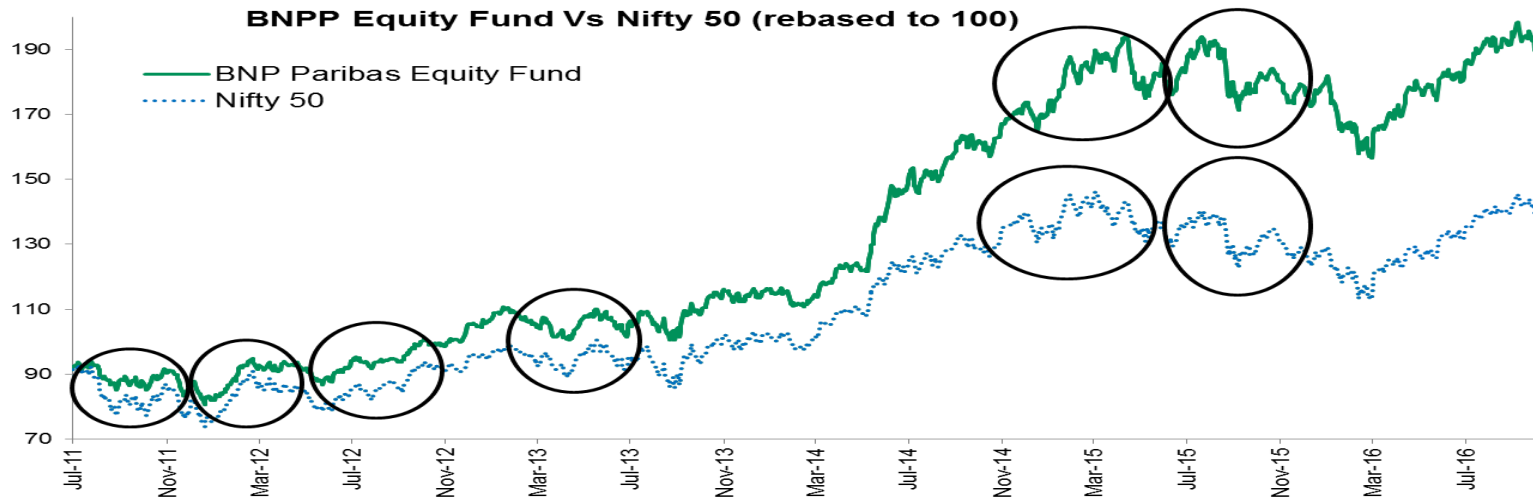
# BNP Paribas for Alpha Generation



Performance for 3Y as on 31-Oct-2016



# BNP Paribas for Steady Outperformance



Period	BNPP Equity	Nifty 50	Outperformance	Reason for the Fall
May'11 to Aug '11	-5.95%	-13.30%	7.35%	Concerns about the slowdown in the US, fears about the European situation reached new highs. Indian markets were hit by worsening fiscal situation and increasing current account deficit
Nov'11 to Dec '11	-10.3%	-13.58%	3.3%	Fall due to of global worries as well as weak economic data coming from India. India's GDP growth declined for 6th quarter in a row
Feb'12 to May '12	-3.86%	-7.25%	3.39%	Fall on the back of subdued global and due to concerns around the fiscal deficit, interest rates and inflation.
May'13 to Aug '13	-7.83%	-13.52%	5.69%	FII sold stocks for June, July and August on back of depreciating rupee and crude at 6 months high, concerns on CAD.
Mar '15 to Jul '15	1.41%	-5.15%	6.56%	Concerns on Greece exiting Euro and China selloff in equities triggered
Nov' 15 to Feb'16	-11.3%	-12.2%	0.8%	Global growth concerns and US Fed hiking rate

**Past performance may or may not be sustained in future**



# Performance

## Scheme(s) Performance Table (For Scheme(s) in existence for more than 1 year as on September 30, 2016)

	NAV as on 30 September, 2016	ABSOLUTE RETURNS (%)			Date of Inception of the Scheme	Since Inception	
		September 30,2015 to September 30,2016	September 30,2014 to September 30,2015	September 30,2013 to September 30,2014		PTP Returns* (in Rs)	CAGR (%)
<b>BNP Paribas Equity Fund</b>	70.36	6.24	10.88	49.59	23-Sep-04	70,360.00	17.61
Nifty 50 Index		8.33	-0.20	38.87		49,886.45	14.30
Additional Benchmark S&P BSE Sensex		6.54	-1.79	37.41		50,304.29	14.38
NAV per unit (Rs)#		66.23	59.73	39.93			
<b>BNP Paribas Dividend Yield Fund</b>	37.544	7.96	13.97	52.44	15-Sep-05	37,544.00	12.72
Nifty 200 Index		10.40	2.91	42.81		33,036.43	11.42
Additional Benchmark Nifty 50 Index		8.33	-0.20	38.87		34,117.75	11.75
NAV per unit (Rs)#		34.777	30.513	20.017			
<b>BNP Paribas Long Term Equity Fund</b>	31.159	6.03	13.63	56.58	5-Jan-06	31,159.00	11.16
Nifty 200 Index		10.40	2.91	42.81		29,065.05	10.44
Additional Benchmark S&P BSE Sensex		6.54	-1.79	37.41		28,973.50	10.41
NAV per unit (Rs)#		29.386	25.860	16.515			
<b>BNP Paribas Mid Cap Fund</b>	28.128	12.48	22.20	74.49	2-May-06	28,128.00	10.43
Nifty Midcap 100 Index		18.70	13.72	63.17		29,695.97	11.01
Additional Benchmark Nifty 50 Index		8.33	-0.20	38.87		23,883.70	8.71
NAV per unit (Rs)#		25.007	20.464	11.728			
<b>BNP Paribas Monthly Income Plan</b>	24.5662	9.77	9.53	15.48	23-Sep-04	24,566.20	7.76
CRISIL MIP Blended Index		11.17	10.72	15.45		26,878.57	8.57
Additional Benchmark - CRISIL 10 year Gilt Index		11.11	13.76	6.85		20,614.71	6.20
NAV per unit (Rs)#		22.3793	20.4312	17.6927			

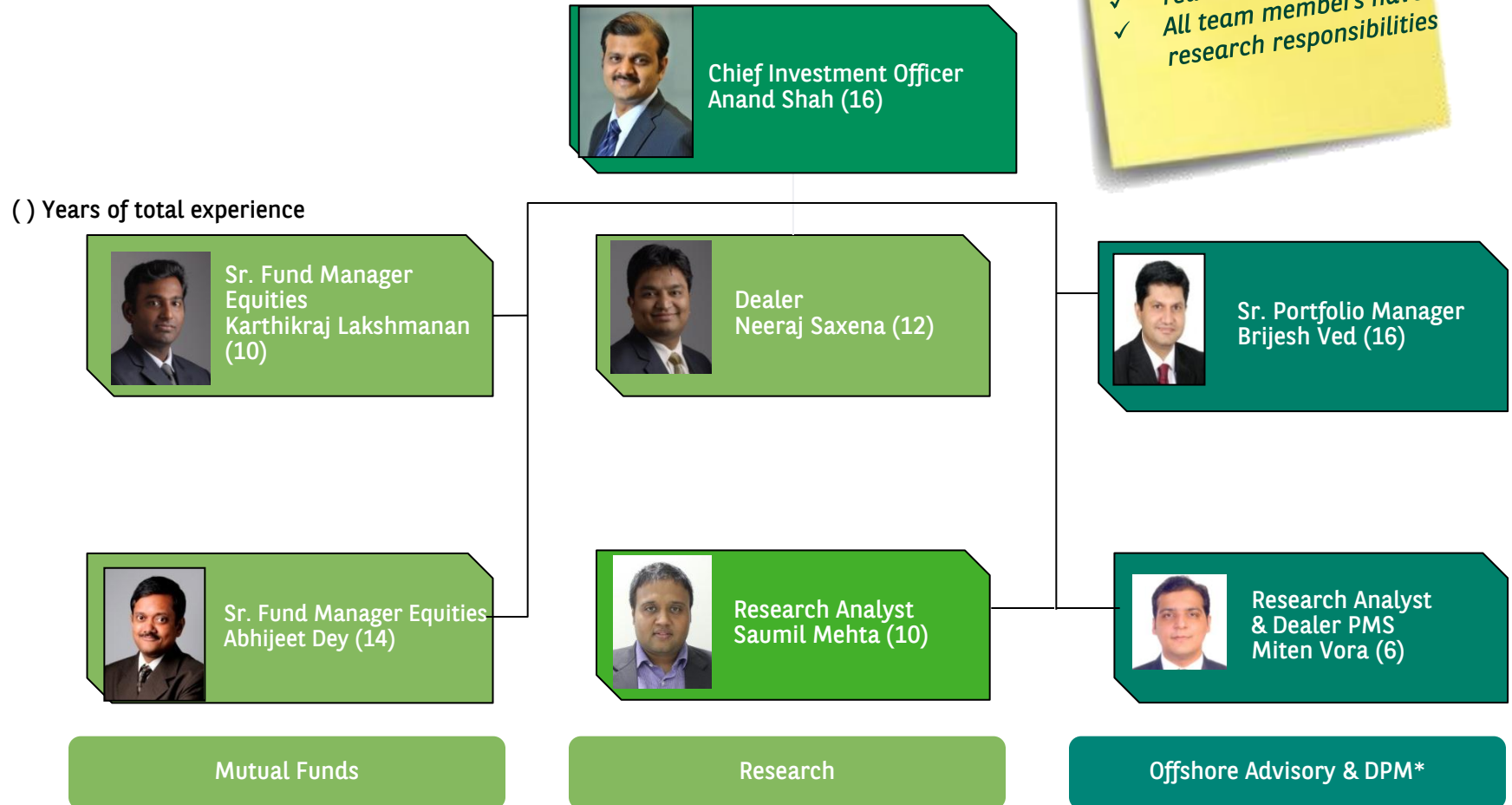
Equity Portion Of BNP Paribas Monthly Income Plan Managed By Mr. Karthikraj Lakshmanan. Debt Portion Of Portfolio Managed By Mr. Puneet Pal

#as on the start period mentioned above

# BNP Paribas Asset Management, India

## Strong & Experienced Investments Team

- ✓ Experienced Team
- ✓ Team Bolstered in 2011
- ✓ All team members have research responsibilities



\* The Offshore Advisory & Discretionary Portfolio Management team is responsible for managing portfolios for international investors  
Team details and years of experience as of October 2016.



# Who should invest BNP Paribas Enhanced Arbitrage

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- This product is apt for those investors who are conservative in taking equity exposure therefore invest in a hedged portfolio
- Ideal Investment horizon 3 months and above in all market conditions
- Tax Status: Equity Fund
- No dividend Distribution Tax (Dividend Distribution Tax for equity funds is nil however on debt funds for individuals it is at 28.84% and for non-individuals is at 33.99%)
- Investment of fixed income portion only in money market

# PORTFOLIO FEATURES

<b>Investment Objective</b>	<p>The primary investment objective of the scheme is to generate income and capital appreciation by investing in a combination of diversified portfolio of equity and equity related instruments, including use of equity derivatives strategies and arbitrage opportunities with exposure in debt and fixed income instruments. However, there can be no assurance that the investment objectives of the Scheme will be realized. The Scheme does not guarantee/indicate any returns.</p>				
<b>Asset Allocation</b>	<b>Instruments</b>		<b>Indicative allocations (% of total assets)</b>		<b>Risk Profile</b>
			<b>Minimum</b>	<b>Maximum</b>	
	Equities, equity related instruments (unhedged)*	0	10	Medium to High	
	Equities, equity related instruments and derivatives including index futures, stock futures, index options, & stock options, etc. as partly hedged / arbitrage exposure*	65	90	Medium to High	
	Debt Securities and Money market instruments with maturity upto 91 days only and/or units of liquid fund\$	10	35	Low	
<p>*Equity allocation is measured as the gross exposure to equities, equity related instruments and derivatives. The Scheme will enter into derivatives transactions for arbitrage/partial hedging. The derivative positions will be hedged against corresponding positions in either equity or derivative markets depending on the strategies involved. On the total portfolio level the Scheme does not intend to take a net short exposure to equity markets. Unhedged positions in the portfolio (investments in equity shares without corresponding exposure to equity derivative) shall not exceed 10% of the net assets.            \$Debt instruments may include securitized debt up to 10% of the net assets. Includes investments in derivatives.</p>					
<b>NFO Open</b>	December 8, 2016				
<b>NFO Close</b>	December 22, 2016				
<b>Fund Manager</b>	Mr. Karthikraj Lakshmanan (Equity) Mr. Mayank Prakash (Fixed Income)				
<b>Benchmark</b>	CRISIL Liquid Fund Index				
<b>Load</b>	Entry Load : Nil Exit Load: 0.25%, if redeemed or switched-out up to 3 months from the date of allotment of units. Nil, if redeemed or switched-out after 3 months from the date of allotment of units.				

# RISK FACTORS

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## **Risks associated with investing in equities:**

The risks associated with investments in equities and similar instruments include significant fluctuations in prices. The impact of fluctuations is likely to be accentuated for short-term investments. The risk that the performance of one or more companies declines or stagnates may have a negative impact on the performance of the Scheme as a whole at any given time.

Stock markets are volatile and can decline significantly in response to political, regulatory, economic, market and stock-specific developments etc. Different parts of the market can react differently to these developments. The stock-specific volatility may also change over a period of time as the characteristic of the stock undergoes a change in terms of market-cap category.

The Scheme may hold such securities for only a very short time, which could tend to increase the costs. The Scheme may invest in growth stocks which may be more volatile than the market in general and may react differently to economic, political and market developments and to specific information about the issuer. Growth stocks traditionally show higher volatility than other stocks, especially over short periods. These stocks may also be more expensive in relation to their profits than the market in general. Consequently, growth stocks may react with more volatility to variations in profit growth.

The Fund Manager may temporarily adopt a more defensive approach if it considers that the equity market or economy is experiencing excessive volatility, a persistent general decline, or other unfavourable conditions. In such circumstances, the Scheme may be unable to achieve or pursue its investment objective.

The Scheme may invest in companies making an initial public offering. In such cases there is a risk that the price of the newly floated share is more volatile due to factors such as the absence of previous trading, unseasonal transactions and the limited number of securities available for trading.

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# RISK FACTORS

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## Risk associated with investments in derivatives:

The scheme may use various derivative instruments and techniques, permitted within SEBI Regulation from time to time only for portfolio balancing and hedging purpose, which may increase the volatility of scheme's performance. Usage of derivatives will expose the scheme to certain risks inherent to such derivatives.

Derivative products are specialized instruments and can provide disproportionate gains as well as disproportionate losses to the investor. Execution of such strategies depends upon the ability of the fund manager to identify such opportunities. Identification and execution of the strategies to be pursued by the fund manager involve uncertainty and decision of fund manager may not always be profitable. No assurance can be given that the fund manager will be able to identify or execute such strategies. The risks associated with the use of derivatives are different from or possibly greater than the risks associated with investing directly in securities and other traditional investments.

The use of a derivative requires an understanding not only of the underlying instrument but also of the derivative itself. There is a possibility that a loss may be sustained by the Scheme as a result of the failure of another party (usually referred to as the "counterparty") to comply with the terms of the derivatives contract. Other risks in using derivatives include the risk of mispricing or improper valuation of derivatives and the inability of derivatives to correlate perfectly with underlying assets, interest rates and indices. Even a small price movement in the underlying instrument could have a large impact on their value. This could increase the volatility of the Scheme's performance.

In case of hedge, it is possible that derivative positions may not be perfectly in line with the underlying assets they are hedging. As a consequence the derivative cannot be expected to perfectly hedge the risk of the underlying assets. This also increases the volatility of the Scheme's performance.

Some of the risks inherent to derivatives investments include:

**Price Risk:** Despite the risk mitigation provided by various derivative instruments, there remains an inherent price risk which may result in losses exceeding actual underlying.

**Default Risk:** This is the risk that losses will be incurred due to default by counter party. This is also known as credit risk or counterparty risk.

**Basis Risk:** This risk arises when the derivative instrument used to hedge the underlying asset does not match the movement of the underlying being hedged for e.g. mismatch between the maturity date of the futures and the actual selling date of the asset.

**Limitations on upside:** Derivatives when used as hedging tool can also limit the profits from a genuine investment transaction.

**Liquidity risk:** This risk pertains to how saleable a security is in the market. All securities/instruments irrespective of whether they are equity, bonds or derivatives may be exposed to liquidity risk (when the sellers outnumber buyers) which may impact returns while exiting opportunities.

# DISCLAIMERS

## Disclaimer

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