CHAPTER ONE

INTRODUCTION

1.1 Background of the study

The speedy development of the any country in this modern era depends largely, on the level of financial activities. Financial activities here are used to mean those activities, which are related to investment of individual or corporate earnings in the financial assets, which primarily comprises of long-term debt and equity. The development of financial activities in a country depends upon the state of its security markets. The growth of U.S. economy has been due in large part of the strength efficiency of securities markets. The capital market is an important nexus between the saving and the investment of an economy, thus playing a crucial role in the industrialization of the economy. The stock exchange also encourages saving, helps channel saving into productive investment and encourages the entrepreneurs to improve the efficiency of investment. Because of the development of security markets, the new opportunities for investors have been open up. One of the most prominent forms is the investment company or which is the Mutual fund, simply a corporation that invest in marketable securities and other categories of investments such as real assets.

So most of the people who do not have knowledge, expertise and time to manage a portfolio, to them, Luckily, there are Mutual Funds (Collective Investment Scheme), which collect capital from the small and medium sources to make investment in a professional and efficient way and distribute the returns earned thereon. People can do portfolio investment of their fund by purchasing units of such Collective Investment Schemes.

It can be explained as in another viewpoint. A substantial amount of investment, among other things, is a prerequisite in the process of transforming of the economic systems from agrarianism to industrialism. For this, it is necessary to increase production by improvement of production process, to generate employment, to increase income and do the social welfare. To overcome of the challenge of fulfilling

people's aspirations for development can succeed through increased investment and it is possible only through the mobilization of resource. The resource mobilizations are of two types; foreign and internal among which internal sources of investment consist of both Government as well as private savings. Foreign investments are often attached certain restrictions and are not sustainable for sustainable development activities so as far as possible be financed by internal sources and priorities should be given to generate surpluses inside the country. The Government has many things to do for its people and it has some limitations, private sectors should be promoted and one of these means is through the Mutual Funds or Collective Investment Schemes.

We are heavily dependent on foreign aid and now slowly entrapped into foreign debt, and a huge percentage of budgets are allocated for interest and debt servicing. Mobilization of internal resources is only the means for development of economic growth of the country and Mutual Funds can contribute significantly in the formation and mobilization of capital for development efforts.

In Nepal, the ratio of saving to gross national income is quite low and the gap between savings and investment is high so there is strong need of mobilization savings for investment in productive activities. Financial/ investment companies or financial intermediaries are the companies that collect small savings through unit schemes. The security market consists of primary market and secondary market. The primary market refers to market of new issues of securities i.e. stokes and bonds, where as secondary market refers to the market whereby securities sold in the primary market are traded or transferred from one hand to another. These institutions undertake the job of brokering, underwriting, managing public issue, market making for Government bonds and other financial services. In Nepal, Citizen Investment Trust and NIDC Capital Market Ltd. are those financial intermediary companies that work for the development of unit trust/mutual funds. Citizen Investment Trust collects small savings through Citizen Unit Scheme and NIDC Capital Market Ltd collects it through NCM Mutual Fund and invests the savings in shares and securities. The role of these financial intermediary companies is very important for the economic development of the nation. They mobilize of funds, they collect small savings and invest as capital and capital investment is very important for the establishment of

industries and other companies. In addition to this the role of these companies for the economic development can be summarize as follows;

- Performing the job of brokering for the sale and purchase of shares and securities.
- These companies can help to mobilize the surplus of people in productive activities.
- They Stimulate savings by the way of different mutual fund schemes.
- They can provide short term, long term and bridge loans.
- They encourage the establishment of industries and other companies by investing in their shares and debentures.
- These companies can provide underwriting services.
- They could also make the market for Government bonds.

Today more than $1.6 trillion is invested in the "universe" in stocks, bonds, and money funds, according to Investment Company, institute, and a national trade group. There are in excess of 72 million-shareholder accounts`. There are more than 3000 open-end investment companies in the United States. In Nepal, there are two collective investment schemes namely (I) Citizen Unit Scheme and (ii) NCM Mutual Fund. (Bhattarai, 2007:256)

Many Mutual Funds are established in United States, they are so popular that they now outnumber companies on the New York Stoke Exchange. Then, in the money and intelligence world, which Mutual Fund has performed the best, what investment strategies are applied, how does the Mutual Fund trend is going, in which mutual fund to be invested etc. are nowadays become one of the major emerging issue. And comparative analyses of such Mutual Funds are essential to purchase units of right mutual fund company.

But, Nepalese people are hesitating to invest in share market in present ruined condition. On other hand, many Nepalese people are innocent about share market. Which company’s shares to be purchase, how much money should be invested in difference companies’ shares for higher return? - They do not have idea. But it is

necessary to bring even small investors to the main stream of participating in the capital market and it is possible through collective investment scheme. But people want higher return and its consistency. So, comparative studies among mutual funds are essential.

1.2 Statement of the problem

As it has been already mentioned in the background of the study, most people do not have the expertise and time to manage a portfolio, they need such Collective Investment Schemes. In our country, there are two organizations which are providing the service of portfolio management. They are Citizen Unit Scheme and NCM Mutual Fund. Then which Mutual Fund has performed the best, how does the Mutual Fund trend is going, whether their performance is consistent or not etc, questions have been arisen.

Most of the investors do not have adequate knowledge about features and operations of the mutual fund which is one of the awareness problems. It is found that Nepalese Capital Market has not grown adequate to sustain mutual fund. There are many internal as well as external problems such as; inefficient management, defective information system, weak economy and inefficient strategy, no strong government policy to regulate mutual fund, unstable political environment etc.

In other side, how to survive in the present ruin market, what investment policies and strategies need to be applied in order to expand the mutual fund, knowledge of mutual fund to the investors, investment according to portfolio management, how to go to the rural areas to collect funds etc. problems are facing by Mutual Fund companies.

Thus the study will deal with the following research questions:

- What are the major problems faced by mutual fund companies in Nepal?
- Which of the Collective Investment Schemes generated higher returns?
- Why the investors are not interested to invest in mutual fund companies?
- What will be solutions or ways to improve portfolio performance of Mutual funds in Nepal?

1.3 Objectives of the study

The main objective of the study is to analyses the prospects and problems of mutual funds in Nepal. The prime objective of the study is to figure out which of the two funds via, NCM – mutual fund or CUS do better portfolio performance for the period studied and to identify the challenges of CIS to do better performance and find out its solutions, that is to get the general idea about the practice of mutual fund in the country. The specific objectives of the study will be listed as follows:

- To analyze the prospects and problems of mutual funds in Nepal.
- To examine the financial performance of mutual funds during the period studied.
- To find out the best investment scheme of mutual fund companies.
- To give the necessary suggestion and recommends.

1.4 Significance of the study

This present research deals with the study of problems and prospectus of mutual funds in Nepal. The study of the portfolio performance of the Collective Investment scheme: Citizen Unit Scheme and NCM mutual Fund will be done. So this study will be significant in the following ways:

It tries to explore the problems of mutual funds and provides solutions or ways to overcome the challenges to do better portfolio performance. It provides encouragement and insight to handle the problems to Mutual Fund managers.

It shows which investment company is better than another one in term of return and its consistency. It will be useful for public invertors. It is also benefited to the Security Board, Nepal. Because the study try to provide some recommendations to it as a government body on behalf of executives, financial teachers, investors, stockbrokers and students who have knowledge about mutual fund.

And lastly it provides information to investors and literature to the researcher.

1.5 Limitation of the study

This study has the following limitations:

- This Study covers only 5 fiscal years.
- As the samples have been drawn at random for convenience there may exist some sampling errors.
- Reliability of study depends upon the reliability of published data and the fairness of the opinion given by respondents.
- Since this study is for the purpose of fulfillment of the 'Masters Degree', stipulated time and resources are also the limitation for the study.

1.6 Organization of the study

The study report has presented the systematic presentation of the research design, analysis, presentation and findings of the study. It has divided into five chapters :

Chapter 1: Introduction

The first chapter of the study is introduction, which highlighted the basic information of the research area, various problems, objectives, importance, limitations and organization of the study.

Chapter 2: Review of Literature

The second chapter of the study assures readers that they are familiar with important research that has been carried out in similar areas by earlier scholars in related areas. It also establishes that the study as link in a chain of research that is developing and emerging knowledge about concerned field.

Chapter 3: Research Methodology

The third chapter refers to the various sequential steps to be adopted by a researcher in studying a problem with certain objectives in view. It describes the various research

methods (i.e. research design, source of data, data collection techniques, data collection methods).

Chapter 4: Presentation and Analysis of Data

The developed information has finished in required form in fourth chapter. Information is presented and analyzed (i.e. both primaries as well as secondary source) by using various financial and statistical tools in specified form to meet the stated objective of study.

Chapter 5: Summary, Conclusions and Recommendations

On the basis of the results from data analysis, the researcher concluded about the research work. Besides, it also gives important suggestions to the concerned organization for better improvement.

CHAPTER TWO

REVIEW OF LITERATURE

This chapter provides knowledge about the development and progress made by the earlier scholars on the concerned field of study. Review of literature is the process of learning and understanding the concept of related area thoroughly. It assures readers that they are familiar with important research that has been carried out in similar areas. It also establishes that the study as a link in a chain of research that is developing and emerging knowledge about concerned field. Besides, it also summarizes the findings of previous literature to provide knowledge about the background of the work done by earlier research work and to step duplicate of the previous work. Thus, present work may be valuable piece of research work. Therefore, much focus is given to the various dimensions of the concept of mutual fund.

2.1 Conceptual Framework

2.1.1 Investment Companies

A-company (corporation, business trust, partnership or Limited Liability Company) that issues securities and is primarily engaged in the business of investing in securities is known as Investment companies. In other words an investment company is simply a corporation that invests in marketable securities and other category of investments such as real assets. In other words a manager investment company can be defined as financial service organization that sells shares of itself to the public & uses these funds to invest in a portfolio of securities such as money market instruments, stocks and bonds. Thus we can state that investments companies are those companies that keep the portfolio of securities of various other companies through the fund generated from the public by the issues of shares. (Thapa, 2009:202)

There are basically three types of investment companies:

- Open-end Investment Companies

- Close-end Investment Companies
- Mutual Funds Companies

1. Open-End Investment Companies:

An investment company that stands ready at all times to purchase its own share at or near their net assets value is termed an open-end investment company. Most of these companies are commonly known as mutual funds. They continuously offer new shares to the public for a price at or near their net asset values. Therefore their capitalization is open with the number of shares outstanding changing on a daily basis. Mutual funds are the dominant form of investment companies. Open-end funds can have more money put into the funds or money can be taken out if there is net redemption of shares. In Nepal, Citizen Unit Scheme is operating as open-end fund. (Bhattarai, 2009:212)

2. Closed-end Companies:

Close-end Companies have a fix number of share outstanding following an initial public offering, their shares are traded on an exchange between investors and no new shares are sold. Existing shares cannot be redeemed. Thus close-end funds have no new cash inflow or redemption. Shares of close-end companies traded on the open market at prices that may differ from their net asset value. Transactions in shares of close-end funds are based on their market price as determined by the forces of supply and demand in the market place. The invested capital in the close-end fund is fixed and will change only at the direction of management. Capital can be increased through the issue of shares in conjunction with a rights offering or through the reinvestment of certain dividend payments. (Dhungana, 2007:202)

3. Mutual Fund Companies:

The common name for an open-end investment company is mutual fund. Like other type of Investment Company mutual fund pools money from many investors and invest the money in stocks, bonds, short-term money market instruments, or other securities or assets, or some combination of these investments. The combined holdings the mutual funds own are known as its portfolio. Each share represents an

investor's proportionate ownership of the fund's holding and the income those holdings generate. Mutual funds issue redeemable shares that investors purchase directly from the fund (or through a broker for the fund) instead of purchasing from investors on a secondary market. (Thapa, 2009:203)

The concept of mutual fund originated in England in the late nineteenth century. Some of the earliest British and Scottish investment pools called trusts, contributed to the financing of American economic growth after the civil war. These trusts invested mortgages, railroads, and industrial companies. The trusts were the forerunners of today's closed-end funds-investment companies that issue a fixed number of shares, which are then bought and sold on a stock exchange or over the country.

The money-market funds that introduced many savers to this New World of mutual funds offer variable interest rates, but the per share value is fixed. The value of stock and bond fund shares, on the other hand, often fluctuates daily in response to changing market and economic trends. Whether you are buying shares of redeeming them, the shares' price-known as the net asset value- is set by the fund on the day that you traded them.

Investing in mutual funds is like buying designer-label clothes off the rack instead of going to a tailor: You can easily find something to suit your personal style, and at a much more affordable price than if you were to seek the individualized attentions of a professional.

Mutual fund or unit trust organization is a type of pooled portfolio financial company or institution. It pools individual investors' money and buys securities such as stocks, bonds and treasury bills. It earns profit in the form of stock dividends, interest received and money market instruments, or capital gains realized form selling securities for a higher price than the fund originally paid for them.

These types of institutions are known as unit trusts in the U.K. and mutual funds in the U.S.A., Canada and now in India. Nowadays, Mutual Fund is also called 'Collective Investment Scheme' as a new conceptual name. But law incorporates investment trusts incorporated under the company act and they differ from unit trusts. An investment trust is an investment holding company and it is now being increasingly known as investment trust company. It is incorporated under the

company act and it has the same tape of capital structure as an industrial or commercial company.

Unit trust is a trust at law so that it is obliged to buy back units whenever an investor wants to sell them. The essence of a unit trust is that there shall always be a direct relation between the value of the unit and the value of the fund (underlying assets). The financial claim(s) it issues is formally almost identical with the major asset(s) it holds. Unlike other financial institutions whose liabilities and assets differ sharply in their nature, unit trust issues claims (units) which have, like their assets (equity stocks) claim on a proportionate part of the portfolio.

As financial intermediaries mutual fund companies obtain money and invest it in financial assets e.g. stocks, bonds, commercial paper. The people who provide the money are given claims on the assets and the earnings from them. There are various definitions about the mutual funds given by different people and different investment companies. Some of them are as follows.

"A mutual fund is a company that consolidates its shareholders' money and buys and sells securities on their behalf. When you put money into a fund, you receive shares representing part ownership of the fund's securities and of any profits they produce. In effect, the fund transforms you from a solitary small investor into a part owner of a multimillion-dollar portfolio whose value fluctuates with changing market conditions." (Junius Ellis, 1987:10)

"The fund seeks long-term growth of capital, a reasonable level of current income and dividends. Total return will consist of both capital appreciation and dividend increase in future income through investment primarily in income producing equity securities which have the prospects for growth of capital and increasing income. The fund cannot guarantee it will achieve its investment objectives. The fund's value will fluctuate based on market conditions." (Kolb, 1992:786)

"The objective of the kind of organization is to provide to the investors of small and moderate means the same advantage as enjoyed by large capitalists. This sought to be ensured by diminishing the risk of investing in stocks by spreading or diversifying investments over large number of different kinds of stocks. Unit trusts enable a small investor to hold share in a large and diversified portfolio of assets, which reduces the

risks of investors. Similarly, they make it possible for small investors to have the benefit of professional management of portfolio, which, in turn, help them to earn a relatively higher rate of return that they otherwise would have earned if their small savings were invested independently or separately. In other words, they help small investors to obtain "high return-low risk" combination from their indirect holding of equities and other assets." (Cheny & Mosy, 2007:105)

"Mutual funds are firms that manage pools of other people's money. Individuals buy shares of mutual funds, and the funds invest the money in certain specified types of assets (e.g. common stock, tax exempt bonds, and mortgages). The shares issued to the investors entitle them to a private portion of the income generated by these assets." (Bodie, Kane & Marcus, 1999:107)

"Mutual funds appeal to people who have too little investment cash to achieve sufficient diversification and to investors who doubt their ability to select winning individual securities. Mutual funds allow such investors to participate in the performance of a widely diversified portfolio of securities selected by professionals."

"Mutual funds provide a clear example of the diversification role played by financial intermediaries. A mutual fund is a pooling of the funds of many small savers. Then, managers of the mutual funds in stocks, bonds, invest these funds and other financial claims, as allowed by the fund's prospectus. Each investor has a proportional claim on the assets of the fund."

The Investment Company institute, the trade organization of the investment company industry of America, defines a mutual fund as follows:

"A company that makes investments on behalf of individuals and institutions with similar financial goals. Pooling is the key to mutual fund investing. By pooling the financial resources of thousands of shareholders each with a different amount to invest-investors gain access to the expertise of the top money managers and wide diversification of ownership in the securities markets." (Bhole, 1992:207)

Arthur Wiesenberger and Company (1987), a recognized authority in the field of mutual fund in America, defines a mutual fund as, "It is a corporation or trust whose only business is the proper investment of its shareholders' money, generally in

common stock or a combination of stock and bonds, in the hope of achieving specific investment goal and it undertakes to do a better job of investing those funds and managing the investments than the people, individually, could do for themselves." (Sharp, 2000:211)

"A mutual fund is basically a device that collects money from a number of investors and invests these funds hopefully on a scientific basis in securities. In this system, funds are accepted from small investors and used them to buy stock, long-term debt, instrument, which is issued by public limited companies. This type of pool fund reduces risk by diversification. That entails a responsibility to a large number of investors, usually small, who cannot handle the intricacies of the stock market on their own interest. It also helps them who do not have the necessary technical knowledge and information to take a view on the degree of risk that depends on the mutual fund to make sound investment decisions." (Meir, 1998:188)

"A mutual fund is nothing more than a collection of stocks and/or bonds. You can think of a mutual fund as a company that brings together a group of people and invests their money in stocks, bonds, and other securities. Each investor owns shares, which represent a portion of the holdings of the fund. We can make money from a mutual fund in three ways:

1. Income is earned from dividends on stocks and interest on bonds. A fund pays out nearly all income it receives over the year to fund owners in the form of a distribution.
2. If the fund sells securities that have increased in price, the fund has a capital gain. Most funds also pass on these gains to investors in a distribution.
3. If fund holdings increase in price but are not sold by the fund manager, the fund's shares increase in price. You can then sell your mutual fund shares for a profit. Funds will also usually give you a choice either to receive a check for distributions or to reinvest the earnings and get more shares." (www.insightmicrosystem.com.np)

"A Mutual Fund is a company that brings together money from many people and invests it in stocks, bonds or other assets. The combined holdings of stocks, bonds or

other assets fund are known as its portfolio. Each investor in the fund owns shares, which represent a part of these holdings." (www.sec.gov.np)

Mutual fund may be aggressive or conservative in their investment strategy. The investor has to consider his investment objectives and choose amongst them. Prices of units are quoted daily, the difference between the bid and offer prices provide margin for the management costs. Thus we can say that, mutual fund is akin to a portfolio management scheme. When individual investors pool their resources into an investment company, they are issued units/shares for the amount invested, the amount so collected is invested in capital market instruments like bonds, treasury bills etc. Mutual fund provides variety of investment services that makes them a convenient form of investing.

These all definitions are more or less similar thus, mutual fund is a trust formed to manage a portfolio of Stock Exchange Securities and other financial instruments, in which small investors can buy units. This gives the small investor's access to a diversified portfolio of securities chosen and managed by professional fund managers, who seek either high capital gains or high yields, within the parameters of reasonable security.

A Brief Profile of NCM Mutual Fund and CUS

NCM Mutual Fund

The "NCM First Mutual Fund, 2050", which the SEBO approved in the fiscal year 1993/94, had terminated by the end of the fiscal year 2000/01. The fund, at the time of its termination, offered two options to its participants; either to refund or to participate in another new scheme to be operated and managed by NIDC Capital Markets Ltd. in the name of "NCM Mutual Fund, 2059" SEBO approved this new mutual fund on August 9, 2002. The fund has 10 million units with Rs.10 face value. Out of the total units, it distributed 1.5 million units to its management and trustee, 1.33 million to the unit holders of previous mutual fund scheme and the remaining 7.17 million units issued to the public. At the end of the date, Ashad, 2064, total investment of the fund reached to Rs.123, 408,160.9 and the net asset value (NAV) is Rs.11.80.

Main Features:

- It is a closed-end type of fund of Rs.100 million, divided into 10 million units of Rs.10 face value.
- The term of the scheme is 10 years.
- The trustee organization (NIDC) and the manager of the Fund (NIDC Capital Markets) have invested 15 percent of the total fund as seed money.
- The fund has guaranteed at least 5 percent return on the face value of subscribed units.
- The units have been listed in Nepal Stock Exchange; hence its price is determined in the exchange through the interaction of market forces.

The manager of the fund has constituted a fund management committee and investment subcommittee to manage the fund. The committees follow number of investment policies to insure good return and safety of the investment. The general investment policies of the fund are:

- The investment of the fund on shares and debentures will be made on financially sound listed companies.
- The fund can be invested in shares (equity as well as preference), debentures, bonds and term loan. The maximum limit on shares, debentures and term loans is 65 percent, 15 percent and 20 percent respectively. However, there is no limit on investing in government or government –guaranteed securities.
- The investment on securities of one company will be limited to 10 percent of the paid up capital of that company.
- The investment in any organization or company will not exceed by 10 percent of the total assets of the fund.

Citizen Unit Scheme (CUS)

Under Citizen Investment Trust different type of schemes is being operated: Saving Programme, Home Loan, Citizen Unit Scheme, Staff Saving Policy, Investor Account Scheme, Pension Trust and Retired Trust. SEBO had permitted Citizen Investment Trust (CIT) to operate the Citizen Unit Scheme in the fiscal year1994/95. The objective of the scheme is to collect capital from the small and medium savers to make investment in a professional and efficient way and distribute the returns earned thereon. This is an open-ended scheme with the face value of Rs.100.00 per unit. CIT

itself has been performing the function of selling and repurchasing the unit of the scheme. The total investment was only Rs. 65 million at the end of 2052/53, which has increase to Rs.447.53 million by the end of 2061/62. Similarly, the number of investor is 119 in year 2052/53 and it is 9871in the year of 2061. CUS is thinking about to go to stock exchange market when the financial market seems to be bright.

Main Features:

- It is an open-ended scheme. The units can be purchased from and sold to CIT at any time. Therefore, the number of units outstanding varies from time to time.
- This scheme has also guaranteed a minimum return to its investors.
- It is described as a regular income plus growth-oriented scheme.
- CIT has taken the responsibility of operation and management of the scheme. It has constituted a trustee committee and investment committee for the effective management of scheme. The management fee is limited to 1.5 percent of the total fund and 15 percent of the total income.
- CIT invests the fund in government securities, fixed deposit accounts of commercial banks, shares and debentures of corporate organizations, term loan and bridge financing.

By the end of the fiscal year 2061/62, it sold units amounting to Rs.1003.86 million and repurchased the units amounting to 536.26million. By the end of this fiscal year, its total investment is Rs.447.53 and profit is Rs.36.44 million. The total number of participants of the scheme reached to 9871 and it distributed 7 percent dividend to its holders.

2.2 Advantages and Disadvantages of Mutual Funds

Every investment has advantages and disadvantages. There is nothing prefect that is made by human. Mutual fund is better in many viewpoints to people but it’s important to remember that features that matter one investor may not be important to other. It has also some challenges too. So it is better to mention both advantage and disadvantages of mutual funds.

Advantages of the Mutual Funds

Professional Management

The Professional money managers research, select, and monitor the performance of the securities the fund purchases. So the primary advantage of funds is the professional management of our money. Investors purchase funds because they do not have the time or the expertise to manage their own portfolio. A mutual fund is a relatively inexpensive way for a small investor to get a full-time manager to make and monitor investments.

Diversification

Diversification is an investing strategy that can be neatly summed up as "Don't put all your eggs in one basket." By owning shares in a mutual fund instead of owning individual stocks or bonds, our risk is spread out. The idea behind diversification is to invest in a large number of assets so that a loss in any particular investment is minimized by gains in others. In other words, the more stocks and bonds we own, the less any one of them can hurt we. Large mutual funds typically own hundreds of different stocks in many different industries. It wouldn't be possible for an investor to build this kind of a portfolio with a small amount of money.

Affordability

Some mutual funds accommodate investors who don't have a lot of money to invest by setting relatively low rupees amounts for initial purchase, subsequent monthly purchase or both.

Economies of Scale

Because a mutual fund buys and sells large amounts of securities at a time, its transaction costs are lower than we as an individual would pay.

Liquidity

Mutual fund investors can readily redeem their shares at the current NAV-plus any fees and charges assessed on redemption at any time. Just like an individual stock, a mutual fund allows you to request that our shares be converted into cash at any time.

Simplicity

Buying a mutual fund is easy! Pretty well any bank has its own line of mutual funds, and the minimum investment is small. Most companies also have automatic purchase plans whereby as little as $100 can be invested on a monthly basis. In the context of Nepal, minimum investment amount is just Rs. 1000.

Disadvantages of the Mutual Funds

Mutual funds also have features that some investors might view as disadvantages, such as:

Professional Management

Many investors debate over whether or not the so-called professionals are any better than we at picking stocks. Management is by no means infallible, and even if the fund loses money, the manager still takes his/her cut.

Costs despite Negative Returns

Investors must pay sales charges, annual fees, and other expanses regardless of how the fund performs. Mutual funds don't exist solely to make your life easier--all funds are in it for a profit. The mutual fund industry is masterful at burying costs under layers of jargon. Investors may pay sales charges, annual fees, and other expenses regardless of how the fund performs. Investors may also have to pay taxes on any capital gains distribution they receive even if the fund went of to perform poorly after they bought shares.

Lack of Control

Investors typically cannot ascertain the exact make-up of a fund's portfolio at any given time, nor can they directly influence which securities the fund manager buys and sells or the timing of those trades.

Dilution

It's possible to have too much diversification. Because funds have smallholdings in so many different companies, high returns from a few investments often don't make

much difference on the overall return. Dilution is also the result of a successful fund getting too big. When money pours into funds that have had strong success, the manager often has trouble finding a good investment for all the new money.

Taxes

When making decisions about our money, fund managers don't consider our personal tax situation. For example, when a fund manager sells a security, a capital-gain tax is triggered, which affects how profitable the individual is from the sale. It might have been more advantageous for the individual to defer the capital gains liability.

2.3 Different Types of Funds

When it comes to investing in mutual funds, investors have literally thousand of choices. No matter what type of investor we are there is bound to be a mutual fund that fits our style. According to the last count there are over 10,000 mutual funds in North America! That means there are more mutual funds than stocks.

It's important to understand that each mutual fund has different risks and rewards. In general, the higher the potential returns, the higher the risk of loss. Although some funds are less risky than others, all funds have some level of risk--it's never possible to diversify away all risk. Once you know what you're saving for, when you'll need the money, and how much risk you can tolerate, you can easily narrow your choices. This is a fact for all investments.

Most Mutual Funds fall into one of the three categories:

1. Money market funds
2. Bond Funds (Fixed-income funds)
3. Stock Funds (equity funds)

All mutual funds are variations of these three asset classes. For example, while equity funds that invest in fast-growing companies are known as growth funds, equity funds that invest only in companies of the same sector or region are known as specialty funds.

Let's go over the many different flavors of funds. We'll start with the safest and then work through to the more risky.

Money Market Funds

Money market funds have relatively low risks, compared to other mutual funds. The money market consists of short-term debt instruments, mostly T-bills. This is a safe place to park our money. We shan't get great returns, but we shan't have to worry about losing our principle. Money market funds pay dividends that generally reflect short-term interest rates, and historically the returns for money market funds have been lower than for either bond or stock fund. A typical return is twice the amount we would earn in a regular checking/savings account and a little less than the average certificate of deposit (CD). (www.sec.gov/answers/mfmmkt.htm)

Bond/Income Funds

Bond funds generally have higher risks than money market funds, largely because they typically pursue strategies aimed at producing higher yields. Unlike money market funds, the SEC's rules do not restrict bond funds to high-quality or short-term investments. Income funds are named appropriately: their purpose is to provide current income on a steady basis. When referring to mutual funds, the terms "fixed-income," "bond," and "income" are synonymous. These terms denote funds that invest primarily in government and corporate debt. While fund holdings may appreciate in value, the primary objective of these funds is to provide a steady cash flow to investors.

Bond funds are likely to pay higher returns than certificates of deposit and money market investments, but bond funds aren't without risk. Because there are many different types of bonds, bond funds can vary dramatically depending on where they invest. For example, a fund specializing in high-yield junk bonds is much more risky than a fund that invests in government securities; also, nearly all bond funds are subject to interest rate risk, which means that if rates go up the value of the fund goes down. (www.investorwords.com/521/bond.html)

Stock Funds (Equity Funds)

Although a stock fund's value can rise and fall quickly over the short term, that invest in stock represent the largest category of mutual funds. Generally, the investment objective of this class of funds is long-term capital growth with some income. There are, however, many different types of equity funds because there are many different types of equities. A great way to understand the universe of equity funds is to use a style box, an example of which is below.

The idea is to classify funds based on both the size of the companies invested in and the investment style of the manager. The term "value" refers to a style of investing that looks for high quality companies that are out of favor with the market. These companies are characterized by low P/E ratios, price-to-book ratios, and high dividend yields, etc. The opposite of value is growth, which refers to companies that have had (and are expected to continue to have) strong growth in earnings, sales, and cash flow, etc. A compromise between value and growth is "blend," which simply refers to companies that are neither value nor growth stocks and so are classified as being somewhere in the middle. (www.asianstockfunds.com)

For example, a mutual fund that invests in large-cap companies who are in strong financial shape but have recently seen their share price fall would be placed in the upper left quadrant of the style box (large and value). The opposite of this would be a fund that invests in startup technology companies with excellent growth prospects. Such a mutual would reside in the bottom right quadrant (small and growth). Besides these classifications there are other classifications of funds based on size, nature, market etc. of the funds some of which are as follows:

1. Balanced Funds

The objective of these funds is to provide a "balanced" mixture of safety, income, and capital appreciation. The strategy of balanced funds is to invest in a combination of fixed-income and equities. A typical balanced fund might have a weighting of 60% equity and 40% fixed-income. The weighting might also be restricted to a specified maximum or minimum for each asset class.

A similar type of fund is known as an Asset Allocation Fund. Objectives are similar to those of a balanced fund, but these kinds of funds typically do not have to hold a

specified percentage of any asset class. The portfolio manager is therefore given freedom to switch the ratio of asset classes as the economy moves through the business cycle.

Global/International Funds

An international fund (or foreign fund) invests only outside our home country. Global funds invest anywhere around the world, including our home country. It's tough to classify these funds as either more risky or safer. On the one hand they tend to be more volatile and have unique country and/or political risks. But, on the flip side, they can, as part of a well-balanced portfolio, actually reduce risk by increasing diversification. Although the world's economies are becoming more interrelated, it is likely that another economy somewhere is outperforming the economy of our home country. (www.investopedia.com)

Specialty Funds

This classification of mutual funds is more of an all-encompassing "etc. category" that consists of funds that have proven to be popular but don't necessarily belong to the categories we've described so far. This type of mutual fund forgoes broad diversification to concentrate on a certain segment of the economy.

Sector funds are targeted at specific sectors of the economy such as financial, technology, health, etc. Sector funds are extremely volatile. There is a greater possibility of big gains, but we have to accept that our sector may tank.

Regional funds make it easier to focus on a specific area of the world. This may mean focusing on a region (say Latin America) or an individual country (for example, only Brazil). An advantage of these funds is that they make it easier to buy stock in foreign countries, which is otherwise difficult and expensive. Just like for sector funds, we have to accept the high risk of loss, which occurs if the region goes into a bad recession.

Socially-responsible funds (or ethical funds) invest only in companies that meet the criteria of certain guidelines or beliefs. Most socially responsible funds don't invest in industries such as tobacco, alcoholic beverages, weapons, or nuclear power. The idea is to get a competitive performance while still maintaining a healthy conscience.

Index Funds

Other important types are index funds. This type of mutual fund replicates the performance of a broad market index such as the S&P 500 or DJIA. An investor in an index fund figures that most managers can't beat the market. An index fund merely replicates the market return and benefits investors in the form of low fees. (www.insightmicrosystem.com)

According to Miles Livingstone and as implies the Security Board, Nepal, Collective Investment Scheme also can be classified as follows:

Open-end Funds

Open-end funds are those funds, which continuously stands ready to sell new shares and redeem old shares. Most mutual funds are open-end fund. Open-end funds can have more money put into the fund, or money can be taken out if there is net redemption of shares. In Nepal, Citizen Unit Scheme is operating as Open-end fund.

Closed-end Funds

A type of Investment Company that does not continuously offer its share for sale but instead sells a fixed number of shares which then typically traded on a secondary market at one time which then typically traded on a secondary market. Existing shares cannot be redeemed. Thus a closed-end fund has no new cash inflows or redemption. Share of closed-end funds trade on the open market at prices that may differ from their net asset value. The net value of a mutual fund is the liquidating value, or the amount available to distribute if all the fund's assets were sold off. Typically, closed-end fund shares trade at a price that is discount from their net asset value, although sometimes they may trade at premiums. NCM Mutual Fund is being operated as Closed-end fund.

2.4 Costs of Collective Investment Schemes/ Mutual Fund

As with any business, running a mutual fund involves costs – including shareholder transaction costs, investment advisory fees, and marketing and distribution expanses. Costs are the biggest problem with mutual funds. Funds pass along these costs to investors by imposing fees and expenses.

Some funds impose “shareholders fees” directly on investors whenever they buy or sell shares. In addition, every fund has regular, recurring, fund-wide “operating expenses.” Funds typically pay their operating expenses out of fund assets – which mean that investors indirectly pay these costs.

Fund fees can be divided into two broad categories:

1. Annual Fund Operating Expenses.
2. Transaction fees paid when you buy or sell shares in a fund (loads).

1. Annual Fund Operating Expenses

The ongoing expenses of a mutual fund are represented by the expense ratio. This is sometimes also referred to as the management expense ratio (MER). The expense ratio is composed of the following:

The cost of hiring the fund manager(s)

Fees that are paid out of the fund assets to the fund’s investment adviser for investment portfolio management and other management fees. Though it sounds small, this fee ensures that mutual fund managers remain in the country's top echelon of earners. Think about it for a second: 1% of 250 million (a small mutual fund) is $2.5 million-- fund managers are definitely not going hungry! It's true that paying managers is a necessary fee, but don't think that a high fee assures superior performance.

Administrative costs

These include necessities such as postage, record keeping, customer service, cappuccino machines, etc. Some funds are excellent at minimizing these costs while others (the ones with the cappuccino machines in the office) are not.

Distribution Fees (12B-1 Fee)

The last part of the ongoing fees paid by the fund out of fund assets to cover the costs of marketing and selling fund shares and sometimes to cover the costs of providing shareholder services is known as the 12B-1 Fee. This expense goes toward paying brokerage commissions and toward advertising and promoting the fund. That's right,

if you invest in a fund with a 12B-1 fee, you are paying for the fund to run commercials and sell itself!

On the whole, expense ratios range from as low as 0.2% (usually for index funds) to as high as 2.0%. The average equity mutual fund charges around 1.3%-1.5%. You'll generally pay more for specialty or international funds, which require more expertise from managers. (www.investopedia.com)

Transaction fees paid when you buy or sell shares in a fund (loads)

Loads are just fees that a fund uses to compensate brokers or other salespeople for selling you the mutual fund. All we really need to know about loads is this: don't buy funds with loads.

There is mainly two type of Load:

Front-end loads

These are the simplest type of load: you pay the fee when you purchase the fund. If you invest $1,000 in a mutual fund with a 5% front-end load, $50 will pay for the sales charge, and $950 will be invested in the fund.

Back-end loads (also known as deferred sales charges)

These are a bit more complicated. In such a fund you pay a back-end load if you sell a fund within a certain time frame. A typical example is a 6% back-end load that decreases to 0% in the seventh year. The load is 6% if you sell in the first year, 5% in the second year, etc. If you don't sell the mutual fund until the seventh year, you don't have to pay the back-end load at all.

A "no-load" fund sells its shares without a commission or sales charge. Some in the mutual fund industry will tell you that the load is the fee that pays for the "service" of a broker choosing the correct fund for you. According to this argument, your returns will be higher because the professional advice put you into a better fund. There is little to no evidence that shows a correlation between load funds and superior performance. In fact, when you take the fees into account, the average load fund performs worse than a no-load fund. (www.insightmicrosystem.com)

2.5 Net Asset Value

Net asset value (NAV), which is a fund's assets minus liabilities, is the value of a mutual fund. NAV per share is the value of one share in the mutual fund, and it is the number that is quoted in newspapers. If you see a fund NAV as Rs.100, then you can expect to buy the fund for Rs.100 or sell it for Rs.100 although some loaded funds don't follow this logic. When you buy shares, you pay the current NAV per share plus any sales front-end load. When you sell your shares, the fund will pay you NAV less any back-end load. You can basically just think of NAV per share as the price of a mutual fund. It fluctuate everyday as fund holdings and shares outstanding change. Since mutual funds hold a number of securities, the NAV must be calculated at the end of day as daily basis.

2.5.1 Calculating NAVs

NAV is generally calculated daily, at the close of trading. Calculating mutual funds net asset value per share is easy. First, the total market values of all the stocks held are computed. The total of the market values is added to the fund's cash and equivalent holdings. Liabilities are subtracted. The result is total net assets. Dividing total net assets by the number of fund shares outstanding gives us the NAV per share. So if a fund had net asset value of Rs. 160 million and there are one million shares of the fund, then the price per share (or NAV) is Rs. 16.00.

NAV can be found out by solving the following equation:

$$\textbf{Net Asset Value (NAV)} = \frac{\textbf{Assets – Liabilities}}{\textbf{Number of shares}}$$

When you buy shares, you pay the current NAV per share plus any sales front-end load. When you sell your shares, the fund will pay you NAV less any back-end load.

2.5.2 How to Use Net Asset Values

NAVs are helpful in keeping an eye on your mutual fund's price movement, but NAVs are not the best way to keep track of performance. The reason for this is mutual fund distributions. Mutual funds are forced by law to distribute at least 90% of its' realized capital gains and dividend income each year. When a fund pays out this

distribution, the NAV drops by the amount paid. This is important because an investor may become frightened when they see their fund's NAV drop by Rs.3 (suppose) even though they haven't lost any money (the Rs.3 was paid out to the shareholder).

The most important thing to keep in mind is that NAVs change daily and are not a good indicator on how your portfolio is doing because things like distributions mess with the NAV.

2.5.3 Rate of Return of Open-End and Closed End Fund

Holding Period Return for Open-End Fund

The rate of return or holding period return (HRP) for open-end company or mutual fund is calculated in the same manner as it is calculated for other securities –by relating the income form the investment to the investment made initially. An investor of mutual fund receives the following return:

- Dividend payments
- Capital gain /loss on the investment
- Increased in the NAV value

Therefore, the HRP of the open-end fund can be calculated by adding the changes in net asset value to the amount of capital gain/ loss and dividend and then dividing this total by the net asset value at the beginning of the period. Symbolically,

Rate of Return of Open-End Fund (HPR),

$$\mathbf{HPR} = \frac{(NAV_{t+1} - NAV_t) + CG_{t+1} + Div_{t+1}}{NAV_t}$$

Where,

NAV_{t+1} = Net Asset Value at the end of the period

NAV_t = Net Asset Value at the beginning of the period

Div_{t+1} = Dividend at the end of the period

CG_{t+1} = Capital gain at the end of the period

Rate of return of Closed-end Fund

Closed-end funds are essentially marketable shares of common stock. As a result, their one-period rates of return are calculated like common stock return, which is given below:

$$\mathbf{HPR} = \frac{(P_{t+1} - P_t) + Div_{t+1}}{P_t}$$

Where,

P_{t+1} = unit price at the end of the period

P_t = unit price at the beginning of the period

2.6 Key Decision Variables for Selecting Mutual Fund

Thinking about your long-term investment strategies and tolerance for risk can help you decide what type of fund is best suited for you. The mutual Fund investment decision is the critical dimension in defining the amount of investment success one will have with mutual funds. It means putting into action all investor know about funds in order to gain as much return as possible from an acceptable level risk. The following factors are often mentioned in the mutual fund investment decision. (www.northwesternmutual.com)

MAIN VARIABLES

A. Consistency of Performance

This is the most popular variable used in mutual fund selection is ex-post return. Investors should be very cautious in very historical returns to forecast ex-ante (future) returns. It might be reasonable, however to assume that superior ex-post return performance indicate that management has demonstrated the ability to perform successfully. A fund of this type would be better selection than a fund that has never demonstrated superior return performance.

The amount of dividend paid by the fund, capital gains, and growths in capital are all-important aspects of return. Such return information enables the investor to judge the investment performance of the fund. Dividend income is derived from the dividend

earned on the security holdings of the mutual fund. When the fund receives dividends on its securities, it passes these on to unit holders in the form of dividend payments. Capital gains distributions work on the same principle, except that these payments are derived from the capital gain earned by the mutual fund. Capital gain distribution applies only to realize capital gains-that is, only the capital gains received from the actual sale of the security holdings. Unrealized capital gains are third and final element in a mutual fund's return. When the fund's holdings go up or down in price, the net assets value of the fund moves accordingly. Holding period return captures all these elements of returns, therefore, it is the most important variable used in the selection of mutual fund. Although holding period return is important, the investors should be cautious in using it to forecast expected rate of return because the history may not repeat. (www.northwesternmutual.com)

B. Expenses Ratios

Expense ratio reflects the operating cost, excluding brokerage cost, spent by investment companies to manage the fund. Therefore, investor should consider expenses ratio in the evaluation of the fund. Other things being equal, investors benefit by investing in funds with low annual expenses ratios. It is important to remember however that the type a classification of the fund and the size of the fund will influence this ratio.

OTHER VARIABLES

Load Versus no- load Funds

This is another important variable that should be considered. The term load fund is used to describe a mutual fund that charges a commission when shares are bought and no-load fund is a mutual fund that does not charge a commission when shares are bought. A load fund might be better for a long holding period and a no-load fund is generally a better choice for a short holding period. However, annual expense and fees, and level of risk associated with each mutual fund also should be taken into consideration. (Ghimire, 2008:22)

Portfolio Turnover

In an actively managed mutual fund, portfolio managers revise the portfolio (add new securities and drop existing securities from the portfolio) to reflect the changing market sentiment. Frequent revisions result in large portfolio turnover ratio resulting into reduced HPR. Therefore, portfolio turn over ratio of the fund should be analyzed in light of its effect on the HPR. (Bhattarai, 2009:23)

Correct Market Timing

Management can involve security collection where the portfolio manager tries to identify market timing. It is possible for an active portfolio manager to be involved in both security selection and market timing. Successful mutual fund depends to large extend on buying the right fund at the right time. Investigations into the investment performance of mutual funds with the published objective of maximizing their investors' income by trading actively reveal that few have been able to earn a significantly higher rate of return than has been earned with a naïve buy and hold strategy. Before buying mutual fund, investor should forecast situation of stock market i.e. bull market and bear market. (Thapa, 2009:207)

2.7 Strategies for Mutual Funds

As in other type of investment, Investing in mutual has become complex with the proliferation of number and types of mutual funds. Therefore, it has become necessary to understand and adopt appropriate investment strategy for mutual funds. The following sections present material on investment strategies for mutual funds.

Passive Strategies

Passive strategies emphasize buying and holding securities rather than market timing and active trading among investment alternatives. Investor who favors passive strategy may follow the following alternatives.

Buying and Hold

Investors pursuing this strategy buy and hold securities. This strategy is suitable for small investors who typically lack professional knowledge for security analysis. By

investing and holding mutual funds, therefore, investors can take advantage of professional investment management. However, the limitation of this strategy is that some funds are non-diversified –they invest to a specific industry or place. Buying and holding such mutual fund exposes to risk. Similarly, it is highly unlikely that an individual mutual fund always beats the market, thus, holding one mutual fund is not always superior strategy.

Index Mutual Fund

Investing in index mutual fund is another type of passive investment strategy. Index funds form a portfolio that attempts to duplicate the market portfolio. Investors who believe on market efficiency pursue this type of strategy. A number of banks trust departments, insurance companies and pension funds also use index portfolio. The advantages of an index fund are broad diversification, low operating expenses and limited brokerage fee.

Asset Allocation Fund

Asset allocation refers to the percentage invested in various security classes. Security classes are simply the type of securities like money market investment, fixed income securities, equity shares, real estate investment and international securities. Accordingly, assets allocation fund invest in different categories of securities. The purpose of these funds is to provide additional type of diversification.

Active Strategies

Active strategy is a form of investment management that involves buying and selling financial securities with the aim of earning certain exceptional return. In spite of the efficient market assumptions, it is clear that markets cannot be perceptively competent. Since the market cannot be perfectly efficient, the active management strategy can have effective results.

Traditionally, mutual fund investors did not attempt to use active strategies. In recent years, however, because of the several developments in the mutual fund industry (like introduction of money market funds, proliferation of specialized sector or industry funds, rapid growth of no-load fund) mutual fund investors engage in active investment strategies. In the context of mutual funds, active strategy basically

involves selection and timing. Investors pursue selection strategy to make selection decisions regarding specific industries. They can pursue market timing strategy by switching between money market, bond, common stock and specialized find within a family of funds. (www.northwesternmutual.com)

2.8 Historical Development of Mutual Fund

Investment companies first appeared in the nineteenth century as a way for small investors to invest in corporate equities. Equities were then considers highly speculative and exotic, requiring a great deal of specialized knowledge and market survey. Investment companies promised the small investor relatively safe and inexpensive access to the stock market.

The first modern Investment Company the Scottish-American Investment Company was founded in London in 1860 at the beginning of a stock market boom that lasted until 1875. By then, there were fifty investment companies in Britain. Many of them failed in the stock market crisis of 1890, and public interest in the stock market won until the boom of the 1920s renewed it. (Ghimire, 2064, Aswin:413)

It was during the same boom of the 1920s that investment companies first became important in United States. They had existed since the 1890s, but by 1923 there were only fifteen with total assets of no more than $15 million. However, as stock prices soared in the late 1920s, and small investors rushed to get in on the action, investment companies mushroomed. By 1929, there were some 400, with $3 billion in assets. Most of these early investment companies were closed-end companies. Some offered “families” of trusts with differing investment objectives, much like the mutual funds of today. (Ghimire, 2064, Aswin: 414)

The stock market collapse between 1929 and 1933 was, of course, a catastrophic for the investment companies. Poor management and risky investment practices that had gone unnoticed in the boom became painfully apparent in the collapse.

The 1930s saw relatively rapid growth of open-ended companies (mutual funds), partly because of the disrepute into which the closed-end companies had fallen. In particular, open- ended companies are not allowed to issue debt. The first mutual

fund, the Massachusetts Investors trust, had been formed in Boston in 1924. (Dhungana, 2064:233)

“In India, Unit Trust of India was established as a trust by the Government of India in February 1964 in terms of the UTI Act, 1963. It provides attractive investment opportunities through issue of units and shares under various schemes. Till the middle of 1986, there was only one mutual fund, namely UTI, operating in India. As a public sector financial institution, it had a completely monopoly of the unit trust business in the country. The picture has changed since 1986, although UTI still retains a monopoly in this area of business. Within a short span of time about five years, as many as sixteen more funds have been set up in India.” (Thapa, 2064: 232)

In Nepal, NIDC Capital Market as a first mutual fund established "NCM First Mutual Fund-2050" in 1993/94. It floated units of Rs10 par value in the beginning. The fund was of open-end type. The fund performed well in the beginning when there was boom in the stock market. However, its performance deteriorated in 1995 and its trading had to suspend due to excessive selling pressure. The fund was restructured into closed-end fund to bring it back into operation in the name of “NCM Mutual Fund, 2059” on August 9, 2002. The previous unit holders were offered two options- either to refund or to participate in this new scheme. The fund has 10 million units with Rs.10 face value. Out of the total units, it distributed 1.5 million units to its management and trustee, 1.33 million to the unit holders of previous mutual fund scheme and the remaining 7.17 million units issued to the public. (Thapa, 2064:233)

Similarly, Citizen Unit Scheme (CUS) was operated by Citizen Investment Trust (CIT) as a second Collective Investment Scheme in 1994/95. It was incorporated under Citizen Investment Trust Act, 1990. It is established as open-ended scheme with the face value of Rs.100 per unit. CIT put Rs5 million as seed capital in the beginning. (Cheney & Mosses, 2004:532)

2.9 Review of Previous Research

Resume of Earlier Studies

The following section tries to present the most important research works that have been carried out in the area of investment companies.

Subin Kumar Khadka (2063), conducted a study on ***"Problem and Prospect of Mutual Fund Companies of Nepal,"*** His study was mainly focuses on the potentiality, risk and return of mutual fund. The current problems and future potentiality are the subject matter of his study. He analyzed the trends of first mutual fund of Nepal NCM mutual fund and chosen as the subject matter of his study. In conclusion, he found out that from the financial and statistical analysis of the data, NCM Mutual Fund has under performed or could not perform efficiently. He has found that still there are lots of things to be done in mutual fund business. First of all, the management has to adopt dynamic investment strategy and efficient portfolio management. The fund should try to invest most of its asset into the primary shares of the bank and other financial institutions for the possibility of capital gain in addition to the current yields. The portfolio management of the fund should be made dynamic. It should restructure the portfolio by removing the securities yielding low return with the securities that yield high return.

Sujan Dhakal (2063), conducted a study on ***"Mutual Fund Investment Analysis in Nepal",*** in his thesis on mutual fund: "NIDC Capital Markets Ltd. with NCM-mutual fund is stepping in the capital market to create innovative investment stimulus to the investment diversification with custodian function. The focus of this mutual fund is to attract investors by providing them indirect investment option for having favorable return on their investment. Due to growing confidence of investors on the capital market, the offer of mutual fund shares of Rs.10 denomination per share by NIDC Capital Market, Ltd. make it possible to bring even small investors to the main stream of participating in the capital market.

Suman Neupane (2001), conducted a study on ***"A Study on Mutual fund performance in Nepal",*** in his study, Mr. Neupane tried to focus mainly on the performance evaluation of Mutual Fund in Nepal. His study is based on the data of 32 months. He tries to find out why the mutual fund in Nepal is not successful. He tried to analyze the performance and practice of Mutual Fund in Nepal and his major finding is that the NCM mutual fund is

not as efficient as the market portfolio i.e. he concluded that it has been far from satisfactory level in comparison to the Market Portfolio.

Srijana Mahato (2002), conducted a study on ***"Risk and Return analysis of investing in Mutual Fund,"*** the main purpose of her study was to know the risk and return of Mutual Fund in Nepal and its performance. She used NEPSE index as a basis and data of 44 months (2055-2057) for evaluating the performance of Mutual Fund in Nepal. She also concluded that the NCM Mutual Fund is not as efficient as market portfolio. Though monthly return of NCM Mutual Fund is higher than the market but total risk of the market (S.D) is less than NCM Mutual Fund. It means that NCM Mutual Fund is riskier than the market.

Saroj Khanal (2004), conducted a study on ***"A Mutual Fund in Nepal"*** Mr. Khanal tried to study on his thesis mainly on the financial performance of Citizen Investment Trust and NIDC Capital Markets Ltd on the context of Mutual Fund operating under these organizations. He applied financial ratio for this comparative study. He concluded that the financial situation of CIT is slightly better than NIDC Capital Markets Ltd, in terms of the profitability and activity ratios. However, the liquidity and the capital structure of NIDC Capital Markets Ltd. are better than CIT.

2.10 Research Gap

The job of conducting research and preparing report is difficult in itself especially to the unprofessional person like a student. I tried best of my effort and knowledge to make this thesis as a complete outcome of the research on mentioned topic.

This research is an original one which will be the foundation for the future researchers to know about the problem and prospect of mutual fund companies of Nepal. This study is different than other's study due to the following reasons.

I researched the Nepal Capital Market and Citizen Investment Trust.

This study includes the very recent problem and prospect of mutual fund.

The study particularly shows how these companies are growing despite of critical market situation.

CHAPTER THREE

RESEARCH METHODOLOGY

Research methodology describes the methods and process applied in the entire aspect of the study. It refers to the various sequential steps to be adopted by researcher in studying a problem with certain objects in view. 'Research methodology is the way to solve systematically about the research problem.' (Kothari, 1990:357) It helps to analyze, examine and interpret various aspects of research work.

The main objective of this study is to highlight the true picture of the prospects and problems adopted by the selected Nepalese mutual fund companies as well as to recommend necessary suggestion for the improvement of weakness. Therefore, an appropriate and purposeful methodology has been followed for the fulfillment of the stated objectives. Thus, this chapter is concerned with the research methodology applied in this study. This generally consists of research design, sources of data, data collection procedures, data processing, tabulation and analytical tools used.

3.1 Research Design

Descriptive as well as analytical research design was followed for data analysis to meet the objectives designed for study. Few financial statements were collected and tabulated using spreadsheet. Another major design of this present research is survey. Survey designed is conducted to those objectives which cannot be fulfilled by secondary data analysis. For the data analysis financial tools and statistical tools were used in this study.

3.2 Sources of data

Both primary as well as secondary source of information were used for this study. Secondary sources of information and published financial statements were collected from NIDC Capital Market, Citizen Investment Trust, Nepal Stock Exchange and Security Board of Nepal) and tabulated in spreadsheet. Primary data were collected using a carefully designed instrument (Questionnaire). Basic sources of primary information were employees of the mutual fund companies.

3.3 Population and sample of survey design

At present there are two Mutual Fund companies working in Nepal: a) NCM Mutual Fund b) Citizen Unit Scheme. Almost all the populations of the five years have been taken for this study. Five years data from both of the companies i.e. NCM and CUS Mutual Fund were availed. Considering should not be higher contrast in result because of undertaking year, only four years data of CUS has been considered.

3.4 Data collection instrument of primary information

An instrument was designed deriving many items from earlier international researchers and theoretical concept. The instrument is placed in appendix of this study. Few demographic variables such as age, gender of the respondents and designation of respondents, department and work experiences in organization of respondents are designed. The demographic variables and antecedent items were designed in nominal scale. The various survey techniques have been applied by using questionnaire tool to collect the primary data. The summary of the respondents has been tabulated as follows:

Table 3.1

List of the Respondents

Types of Respondents	Number of Participation	Number of Respondents	Percentage of Respondents
Financial executives	10	7	17.5
Financial Teachers	16	11	27.5
General Investors	20	7	17.5
Stock Broker	10	6	15
Senior Students	14	9	22.5
Total	70	40	100

In this table the total number of participation is seventy people and out of seventy, forty people are given their response.

3.5 Data collection procedure

The researcher personally visited the NIDC Capital Market, Citizen Investment Trust, Nepal Stock Exchange and Security Board of Nepal for data collection. I visited the human resource department to get permission for data collection for both primary and secondary information. A convenient sampling technique was followed for primary information to collect the opinion of the employees. Questionnaire were administered and returned in two to three days. In many situations, I asked the respondents to give opinions of the questions and ticked on replied answers to administer the questionnaire. The last hour of the day was used to request the respondents to fill up the questionnaire. In most of cases, meaning of the item and instruction to fill up the questionnaire were described to the respondents.

3.6 Tools for Analysis

Basically financial tools and statistic tools have been used for data analysis.

3.6.1 Financial Tools

Mainly following financial tools have been used in the study:

3.6.1.1 Net Asset Value per Share:

It is calculated by taking the current market value of the fund's net assets (securities held by the fund minus any liabilities) and divide by the number of shares outstanding.

$$\text{Net Asset Value (NAV)} = \frac{\text{Assets} - \text{Liabilities}}{\text{Number of shares}}$$

3.6.1.2 Holding Period Return:

Return for Open-End Fund:

The rate of return or holding period return (HRP) for open-end company or mutual fund is calculated in the same manner as it is calculated for other securities –by

relating the income form the investment to the investment made initially. An investor of mutual fund receives the following return:

- Dividend/interest on the investment
- Capital gain /loss on the investment
- Change in the NAV of the investment

Thus, the HPR of the mutual fund can be calculated by:

$$HPR = \frac{(NAV_{t+1} - NAV_t) + CG_{t+1} + Div_{t+1}}{NAV_t}$$

Where,

NAV_{t+1} = Net Asset Value at the end of the period

NAV_t = Net Asset Value at the beginning of the period

Div_{t+1} = Dividend at the end of the period

CG_{t+1} = Capital gain at the end of the period

Return for Closed-End Fund:

Closed-end funds are essentially marketable shares of common stock. As a result, their one-period rates of return are calculated like common stock return which is given below:

$$HPR = \frac{(P_{t+1} - P_t) + Div_{t+1}}{P_t}$$

Where,

P_{t+1} = unit price at the end of the period

P_t = unit price at the beginning of the period

3.6.2 Statistical Tools

Basically following statistical tools will be applied:

3.6.2.1 Average rate of return:

The average rate of return is the sum of the various one-period rate of return divided by the number of periods. It is denoted as:

$$(\bar{r}_i)\ \mathrm{X}\frac{r_i}{n}$$

Where,

r_i = return of security i

n = no. of years

3.6.2.2 Standard deviation:

Standard Deviation (SD) is a statistical tool that measures the variability of distribution of return around its mean or average return. It is mainly used to find out the total risk of the fund. It is defined as:

$$\pm_i\ \mathrm{X}\sqrt{\frac{[r_i\ \mathrm{Z}\bar{r}_i]^2}{n}}$$

3.6.2.3 Covariance:

Covariance of two securities measures their co-movement. The portfolio variance (or standard deviation) is affected by it.

$$Cov(r_{i,}r_j)\ \mathrm{X}\frac{[r_i\ \mathrm{Z}\bar{r}_i][r_j\mathrm{Z}\bar{r}_j]}{n}$$

Where,

r_j = return of security j

3.6.2.4 Beta Risk:

Beta is the indicator of the asset's systematic risk. It shows the relationship between market return and asset's return. The beta of market return is always equals to 1. If an asset has a beta greater than 1, it means that the returns of the asset are more volatile (fluctuating) than return of the market. If the beta of a particular asset is less than 1, it means that the returns of the asset are less volatile than market return.

The systematic risk or beta of an asset is defined as:

$$_j = \frac{Cov_{jm}}{\sigma_m^2} = \frac{\rho_{jm} \sigma_j \sigma_m}{\sigma_m^2}$$

Where,

$_j$ = beta coefficient of security j.

Cov_{jm} = covariance between asset's return of j and market return

σ_m^2 = variance of market return

ρ_{jm} = correlation between security j and market

σ_m = Standard deviation of market return.

σ_j = Standard deviation of return security j.

In this study, the beta coefficient of the funds helps to find their systematic risk.

3.6.2.5 Coefficient of Variation:

Standard deviation is the absolute measure of risk. The relative measure of risk based on the standard deviation is known as the coefficient of variation. It is a measure of relative dispersion that is used to compare the risk of assets with differing expected return. If the coefficient of variation is high, the greater will be the risk. The coefficient of variation is calculated as follows:

$$C.V. = \frac{\sigma}{\bar{x}} \times 100$$

3.6.2.6 Market Variance:

How does market return fluctuate? It is calculated by following formula:

$$(\pm_m^2) = \frac{(Rm\ Z\overline{Rm})^2}{n}$$

Where,

R_m = rate of return of market

$\overline{R_m}$ = average rate of return of market

CHAPTER IV

DATA PRESENTATION AND ANALYSIS

Presentation and analysis of data are the important stage of the research study. The main purpose of analyzing the data is to change it from an unprocessed form in an understandable presentation. The analysis of data consists of organizing data by tabulating and then placing that data in presentable form by using figures and tables. (Wolf and Pant, 2000: 127)

4.1 Presentation and Analysis of Secondary Data

In this section the presentation, analysis and interpretation of relevant secondary data of NCM and CUS mutual fund have been analyzed according to the research methodology as mentioned in third chapter. In this analysis, investment portfolio analysis, risk and return analysis is done on the basis of statistical tools.

4.1.1 Investment Portfolio

The study is about investment portfolio of Nepalese Collective Investment Scheme. Therefore it is important to know than how much and in which sectors the funds have diversified the collected amounts. The investment portfolio is very important for mutual fund schemes because the good choice of investment will make the scheme better performance. Investment portfolio refers to the choice of investment in different types of securities e.g. shares, debentures, fixed income securities etc. Fixed income securities are those securities, which provide the fixed rate of return during the period. The investment in shares is more risky but it may give the high return. On the other hand, fixed deposit and investment in government bond is secure but it gives a low yield. There is not the standard rule to make the sound investment portfolio but we can say that it should be proper or optimum which minimizes the return and maximizes the risk. The price fluctuation of the shares is too high and it may cause a serious problem to invest in shares.

The CUS has made investment portfolio as Government Bond, Fixed Account, Bond and Debentures and Investment in Shares.

Table 4.1

Investment Portfolio of NCM

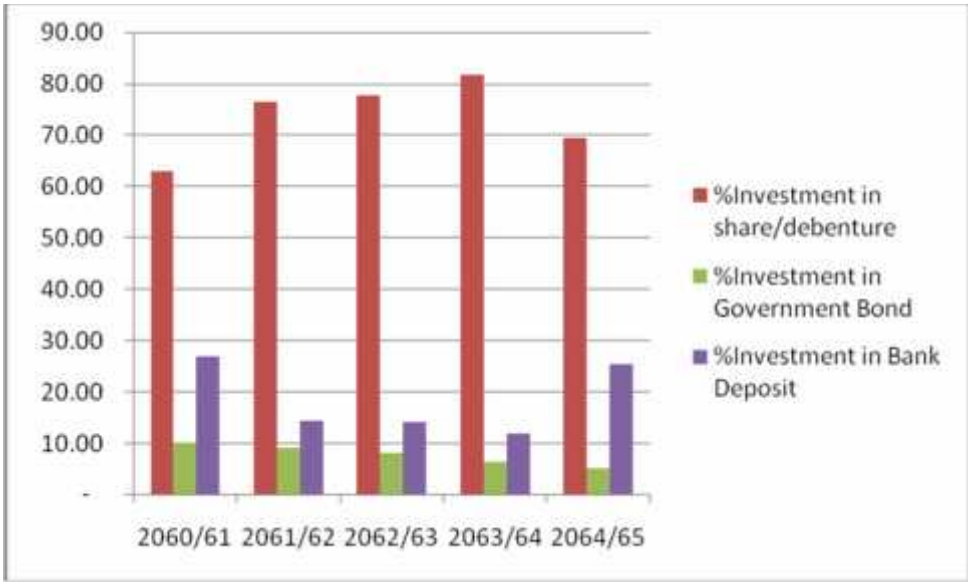
Years	Total investment	% Investment in share/debenture	% Investment in Government Bond	% Investment in Bank Deposit
2060/61	98,552,652.08	62.94	10.15	26.92
2061/62	110,323,465.08	76.54	9.06	14.40
2062/63	123,408,160.91	77.70	8.10	14.20
2063/64	156,489,940.81	81.76	6.39	11.85
2064/65	195,356,580.80	69.54	5.12	25.34

See Annex II (A) *Source: Annual Report of NCM*

The table 4.1 shows the percentage investment of the NCM in share/debenture in fiscal year 2060/61 was 62.94 which are in increasing trend and was highest in fiscal year 2063/64 (i.e. 81) whereas the percentage investment of the NCM in Government bond was in decreasing trend. Likewise, the percentage investment of the NCM in Bank Deposit was highest in fiscal year 2060/61 (i.e. 26.92%) which was in decreasing trend but at the fiscal year 2064/65 it rise to 25.34 %.

Figure 4.1

Investment Portfolio of NCM



The figure 4.1 shows the percentage investment of the NCM in share/debenture, government bond and bank deposit. The percentage investment of NCM in share and debenture was in increasing trend whereas decreasing trend in government bond. Likewise, percentage investment in Bank deposit was in fluctuating trend.

Table 4.2

Investment Portfolio of CUS

'00000'

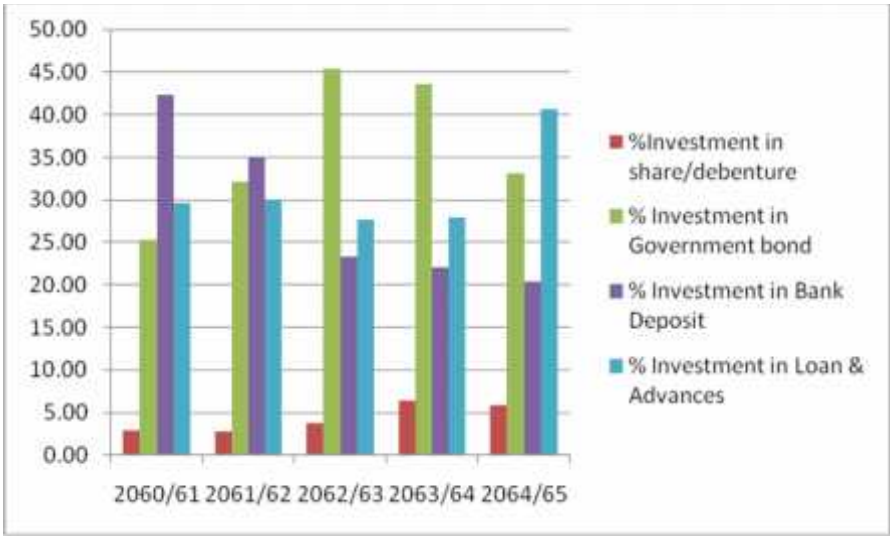
Fiscal Year	Total Investment	%Investment in share/debenture	% Investment in Government bond	% Investment in Bank Deposit	% Investment in Loan & Advances
2060/61	236.40	2.86	25.23	42.30	29.61
2061/62	371.50	2.83	32.17	34.99	30.01
2062/63	414.43	3.72	45.36	23.28	27.63
2063/64	417.04	6.36	43.64	22.06	27.93
2064/65	531.40	5.91	33.12	20.32	40.65

See Annex II (B) *Source: Annual Report of CUS*

The table 4.2 shows the percentage investment of the CUS in share/debenture, government bond, bank deposit and Loan & advances. During the study period, the percentage investment in share and debenture was highest in fiscal year 2063/64 (i.e. 6.36%) and was lowest in 2061/62 which was 2.83%. Likewise, the percentage investment in government bond was highest in fiscal year 2062/63 (i.e. 45.36%) and was found lowest in fiscal year 2060/61 (i.e. 25.23%). Similarly, highest percentage investment in bank deposit was in fiscal year 2060/61 (i.e. 42.30%) whereas lowest in fiscal year 2064/65 (i.e. 20.32%). The highest percentage investment in loan & advances was in fiscal year 2064/65 (i.e. 40.65%) and lowest in 2062/63 which was 27.63 %.

Figure 4.2

Investment Portfolio of CUS



The above figure 4.2 shows the percentage investment of CUS in share/debenture, government bond, bank deposit and loan & advances. During the study period, the investment in share/debenture was in increasing trend where as decreasing trend in bank deposit. Likewise, the fluctuating trend of investment was found in government bond and loan & advances.

4.1.2 RETURN AND RISK ANALYSIS

In this section the periodic returns, their standard deviations, coefficient of variation has been presented and analyzed.

Table 4.3

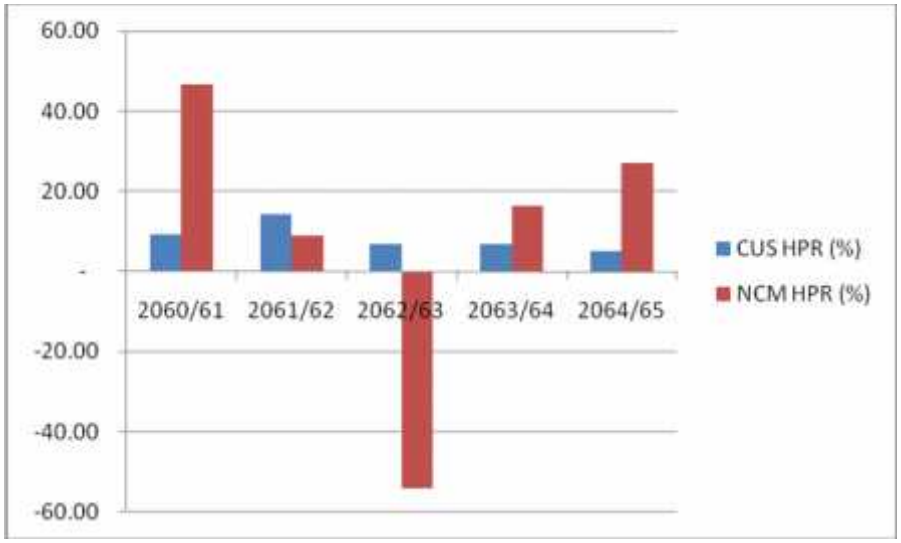
Return Analysis of CUS and NCM

CUS		NCM	
Year	HPR (%)	Year	HPR (%)
2060/61	9.14	2060/61	46.72
2061/62	14.40	2061/62	8.86
2062/63	6.71	2062/63	-54
2063/64	6.92	2063/64	16.37
2064/65	5.0	2064/65	27.03

See Annex II (C) *Source: Annual Report of NCM*

Figure 4.3

Return Analysis of NCM and CUS



The return of the CUS is the interest payment by the fund as the return to the unit holders. The unit of the CUS is sold and repurchased at par by the CUS it self. The return or holding period return for the 2060/61-2064/65 is given in the table. The table shows the return is fluctuating small. The average return for the fund is 8.43%.

The unit of the NCM mutual fund is traded in the NEPSE. Therefore market forces determine its price. There was no any dividend before 2062. In mutual fund 2062, there was a provision of minimum return of 5% dividend each year. From the above table, holding period return of NCM mutual fund is more fluctuating than CUS mutual fund. The HPR is highest in 2060/61 (i.e.46.72%) and lowest in 2062/63 (i.e. –54%). The average return is 9%, still greater than the CUS mutual fund.

Table 4.4

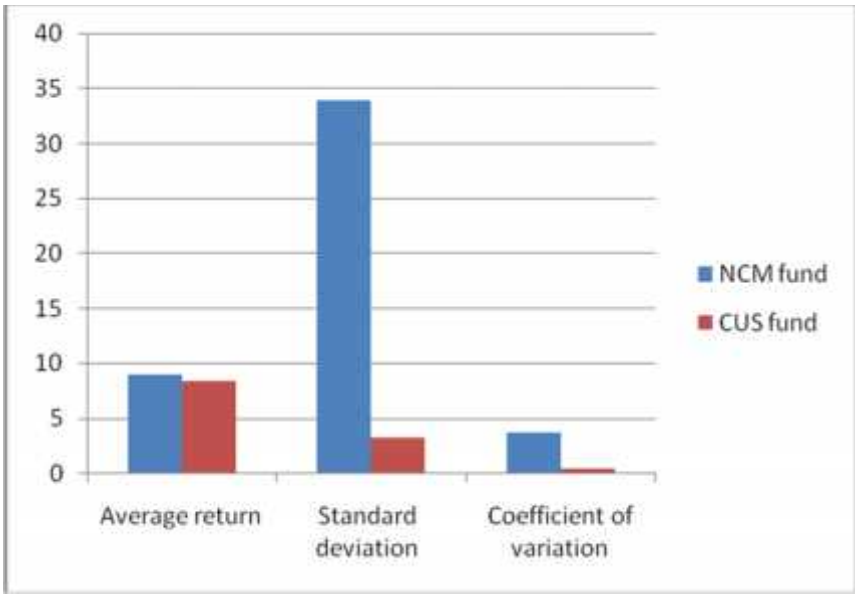
Risk Analysis of NCM and CUS

Fund	Average return	Standard deviation	Coefficient of variation
NCM fund	9	33.97	3.77
CUS fund	8.43	3.26	0.3867

See Annex II (C) *Source: Annual Report of NCM*

Figure 4.4

Risk Analysis of NCM and CUS



NCM fund has higher standard deviation or total risk than CUS fund. NCM fund has higher coefficient of variation and higher risk in per unit basis and CUS has low coefficient of variation and lower risk in per unit basis. But the average return of both the mutual funds was almost nearly to each other. Therefore, it is concluded that the CUS fund is less risky than NCM mutual fund.

4.1.3 SYSTEMATIC RISK AND UNSYSTEMATIC RISK ANALYSIS OF FUND

The portion of the total risk of an individual security caused by market factors that simultaneously affects the prices of all securities. It can't be diversified away. It is also called market risk or unavoidable risk or non-diversifiable risk or beta risk. It stems from factors, which systematically affect all firms, such as war, inflation, recession, high interest rates, depressions, and long-term changes in consumption in the economy.

Mathematically the systematic risk beta is measured as the covariance of the stock returns with the market returns expressed per unit of market variance as follows:

$$\beta = \frac{Cov_{jm}}{\sigma_m^2}$$

Interpretation:

If β = 1.0, Stock is of average risk.

If β = 0.5, Stock is only half as volatile, or risky, as the average risk.

If β = 2.0, Stock is twice as risky as the average risk.

The beta coefficient is an index of systematic risk. Beta can be used for an ordinal ranking of the systematic risk of assets. An asset with $\beta > 1$ is an aggressive asset because it is more volatile than the market portfolio. If an asset has a beta of 2 and the market (e. g. as represented by the S&P 500) goes up by 10 percent, this asset will increase in return by 20 percent on average. With defensive asset, beta < 1, and the response of the asset will be less than that of the market.

Table 4.5

Systematic and unsystematic risk of NCM and CUS fund

Fund	Beta risk	Total risk	Systematic risk	Percentage of systematic risk	Unsystematic risk	Percentage of unsystematic risk
NCM	0.8993	1154.24	933.48	80.87%	220.76	19.13%
CUS	0.00867	10.63	0.001	1%	10.629	99.99%

See Annex II (D) *Source: Annual Report of NCM and CUS*

The NCM fund has the beta of 0.8993 and CUS fund has 0.00867. Beta is the measure of systematic risk, higher the beta, higher the systematic risk. Therefore the NCM mutual fund has high systematic risk than CUS mutual fund.

In total risk analysis, NCM has 80.87% systematic risk and 19.13% unsystematic risk. NCM has high percentage of systematic risk due to high market variance. CUS fund has only 1% is the systematic risk and 99% percent is the unsystematic risk.

4.2 PRESENTATIONS AND ANALYSIS OF PRIMARY DATA

In this section the primary data is analyzed. The primary data is collected through questionnaire distributed to the executives, teachers, stockbrokers, investors and the master level students that is all are related in the field of finance who have at least familiar about mutual fund. The questionnaire is mainly focused into two parts to fulfill the objectives of the study. Firstly, it is try to survey what kind of challenges are existing to the Mutual Fund Companies and what could be the solutions in the Nepalese financial market and on the other hand it has been tried to find out the prospectus of the Nepalese Mutual Fund Companies.

As has been stated above, the respondents are categorized into five groups which is shown in table of chapter three via: executives, teachers, stockbrokers, investors and master level students all related to finance. All no of respondent has been converted into percentage that has been presented in the table.

Because of the intention of this thesis is focused on the investor, the majority of the persons responding were general investors. Similarly financial executives, teachers

and stockbrokers are also interviewed through questionnaire. Most investors invest in capital market without proper knowledge and they do invest as stockbrokers' advice. And most stockbrokers have poor knowledge about mutual fund. They even know nothing about mutual fund. Majority of the investors and stockbrokers are concern only the dividend amount provided by companies. It is seem that they are fail to give attention to the Reserve fund, Provision Account, Debt Equity Ratio, Earning per Share of the companies. But financial executives, finance teachers, some investors and some stockbrokers are found well educated and familiar about mutual fund investment.

The survey result that is found is presented without any modification. It tries to show the some realistic feature of the mutual fund companies that are exit in Nepal at present.

Present Condition of Mutual Fund in Nepalese Financial Market

This first question was related about the present situation of mutual fund companies in Nepal. The viewpoints of the different respondents are presented in figure below.

Table 4.6

Present Condition of Mutual Fund in Nepalese Financial Market

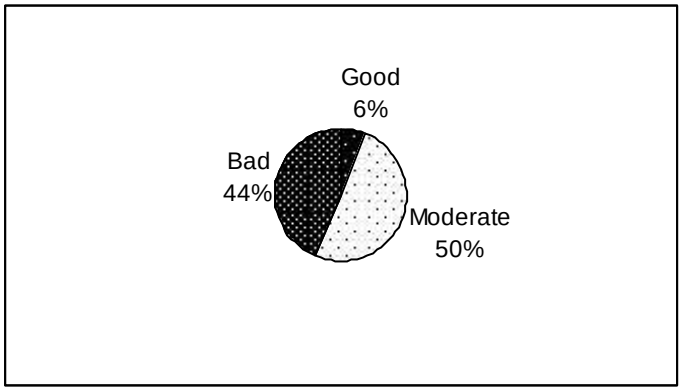
State of Nature	Good	Moderate	Bad
No of Participation	6%	50%	44%
Total	2	20	18

Source: Research Survey from Questionnaire No 1

The above table shows that present condition of mutual fund in Nepalese Financial market in moderate i.e. 50% of the respondents believe that it is in moderate condition and 44% followed by bad. Only 6% respondents believe it is in good condition. Sixteen people are participation in questionnaire, out of forty people, only two people are satisfied and they tell well. And twenty people said moderate and remaining eighteen people told badly.

Figure 4.5

Present Condition of Mutual Fund in Nepalese Financial Market



The above figure shows that present condition of mutual fund in Nepalese Financial market in moderate i.e. 50% of the respondents believe that it is in moderate condition and 44% followed by bad. Only 6% respondents believe it is in good condition. About 44% of people seem it is in bad condition so it is a matter of anxiety. Moderate condition means it may be either go up or go down and the economy of the country is worsen day by day so the attention must be given.

The Knowledge of Nepalese Investors about Mutual Fund

This question tries to test about the knowledge of people about the mutual funds. If they don't know about it then how can they invest on it? The investors, brokers, executives should have knowledge about it in order to develop it.

Table 4.7

The Knowledge of Nepalese Investors about Mutual Fund

Investor's Types	Yes	No	Don't Know
Respondents	7	27	6

Source: Research Survey from Questionnaire No 2

The above table shows that Nepalese investor have not have adequate knowledge of mutual Fund i.e. 27 respondent think investor do not have adequate knowledge and 6 person of the respondent don't know about it, and remaining only 7 respondent said that Nepalese investor have adequate knowledge of mutual fund. So it is one of the challenges of mutual fund companies.

Figure 4.6

The Knowledge of Nepalese Investors about Mutual Fund

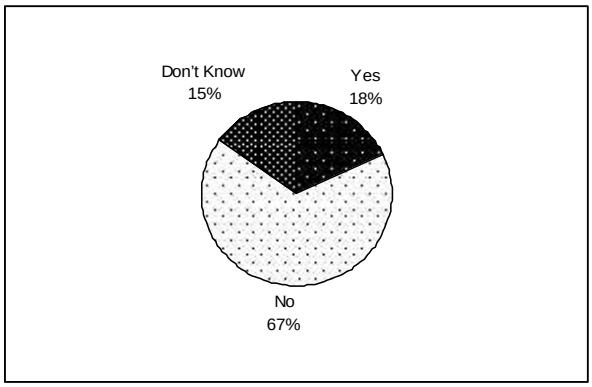


Figure 4.6 shows that Nepalese investor have not adequate knowledge of mutual Fund i.e. 67% respondent think investor do not have adequate knowledge and 15 % of the respondent don't know about it and remaining only 18 % of the respondent said that Nepalese investor have adequate knowledge of mutual fund. So it is one of the challenges of mutual fund companies.

Contribution of Mutual Fund in the Development of Capital Market in Nepal

This question tries to show the contribution of the mutual fund companies in Nepalese capital market though it is in growing phase. But it just wants a respondent's view as mutual funds are contributing more in foreign countries like America and India.

Table 4.8

Contribution of Mutual Fund

Investor's Types	Yes	No	Don't Know
Respondents	24	12	4

Source: Research Survey from Questionnaire No 3

The above table shows that the contribution of the mutual fund companies in Nepalese capital market though it is in growing phase. Twenty four people say the mutual fund can substantially contribute in the development of capital market in Nepal, and out of forty people, four people haven't known about it. And remaining twelve people didn't think mutual fund companies will contribute in Nepalese capital market.

Figure 4.7

Contribution of Mutual Fund

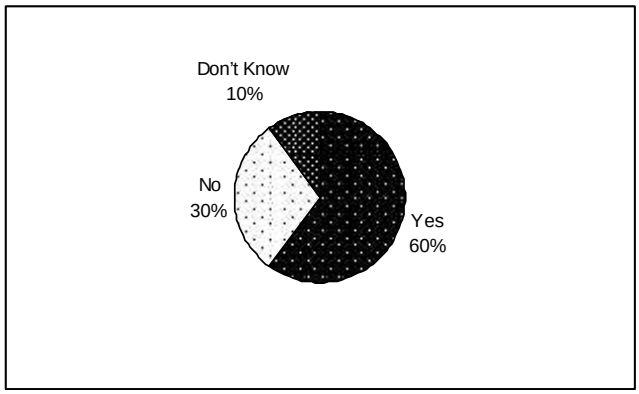


Figure 4.7 show that mutual fund can substantially contribute to the development of capital market in Nepal. Only 30% of the respondents said that mutual fund couldn't substantially contribute in the development of capital market in Nepal whereas 10% of the respondents are unfamiliar about it. Most of the respondents think its growth can contribute to the development of capital market in Nepal so, it is one of the prospective of the mutual fund companies.

Growth of Nepalese Capital Market

It tries to find out the growthness of the Nepalese capital market. How the development is going on? But it is in growing phase and the pace is little bit slowly. The result is presented below.

Table 4.9

Growth of Nepalese Capital Market

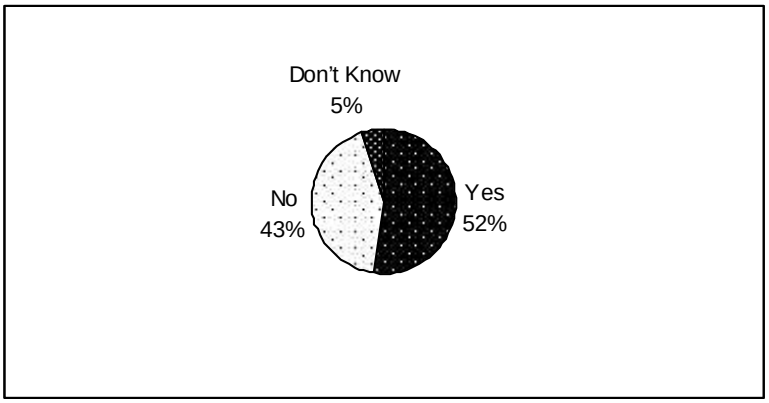
Investor's Types	Yes	No	Don't Know
Respondents	21	17	2

Source: Research Survey from Questionnaire No 4

From above table, it is found that twenty-one respondents said Nepalese capital market has grown up adequate to sustain investment companies including mutual fund while seventeen respondents of them said No and remaining two said that they don't know. As majority says yes then it is one of the prospective of the mutual fund companies.

Figure 4.8

Growth of Nepalese Capital Market



Above figure 4.8 shows that 52% respondents said Nepalese capital market has grown up adequate to sustain investment companies including mutual fund while 43% respondents of them said No and remaining 5% said that they don't know. As majority says yes then it is one of the prospective of the mutual fund companies.

Interest of Investors to the Mutual Fund Companies

As per the questions of knowledge and performance of the mutual fund companies, this question is the supplementary of them and tries to get the reason of the investor's detraction.

Table 4.10

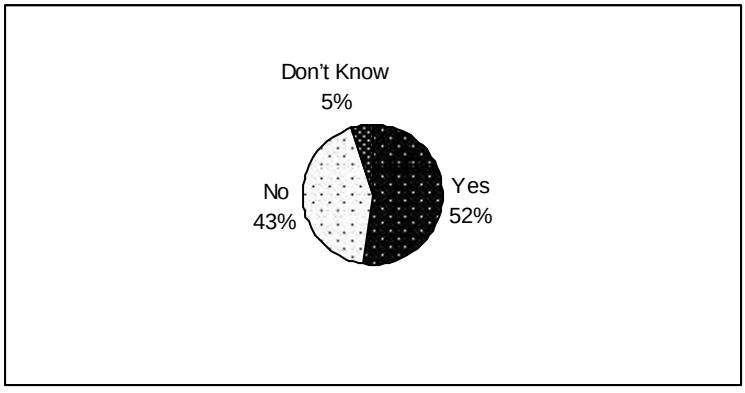
Interest of Investors to the Mutual Fund Companies

Investor's Types	Yes	No	Don't Know
Respondents	21	17	2

Source: Research Survey from Questionnaire No 6

Figure 4.9

Interest of Investors to the Mutual Fund Companies



Above table 4.10 and figure 4.9 shows that 52% of the respondents are interested to invest in mutual fund companies whereas 43% of the respondents are no interested. Only few (i.e. 5%) respondents are not well-known about the investment in mutual fund companies.

CIT's Citizen Unit Scheme as a Purely Mutual Fund Scheme

The previous thesis student doesn't figure out CUS as a purely mutual fund company so this question arises whether this is a mutual fund or not.

Table 4.11

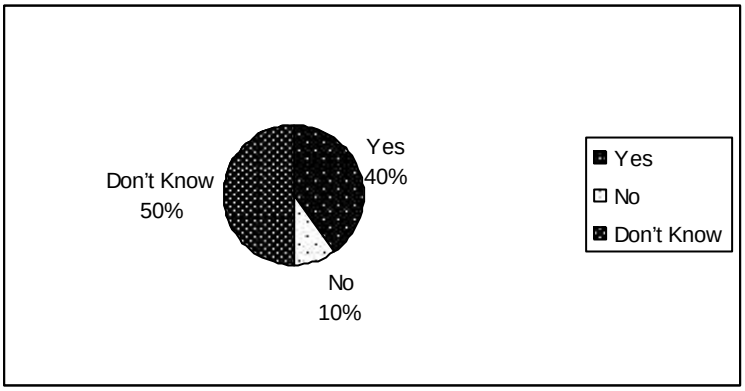
CIT's Citizen Unit Scheme as a Purely Mutual Fund Scheme

Investor's Types	Yes	No	Don't Know
Respondents	16	4	20

Source: Research Survey from Questionnaire No 7

Figure 4.10

CIT's Citizen Unit Scheme as a Purely Mutual Fund Scheme



The result is so surprising because who have adequate knowledge about it say that it is acting as a mutual fund company and 50% of the respondent who have little knowledge about mutual fund, don't know about the citizens investment trust's citizens unit scheme act as a purely mutual fund or not. Remaining 10% of them said no. This confusion is due the proper knowledge about mutual fund.

Investor's Evaluation about CUS

This question is primarily trying to evaluate the response of the investor about the CUS mutual fund. It tries to find out how actively the investors are taking parts in it.

Table 4.12

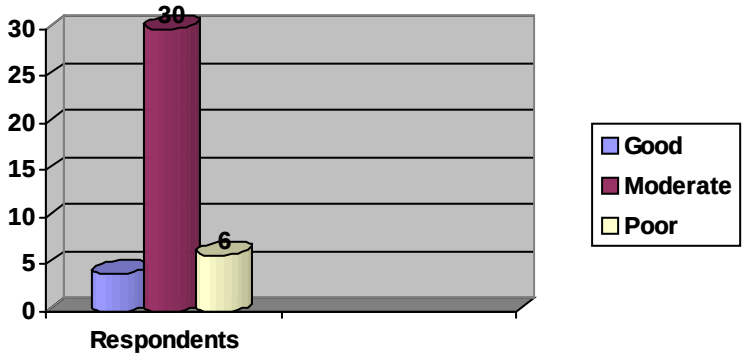
Investor's Evaluation about CUS

Particulars	Good	Moderate	Poor
No of Participation	10%	75%	15%
Total	4	30	6

Source: Research Survey from Questionnaire No 9

Figure 4.11

Investor's Evaluation about CUS



Above table and figures shows that most of the respondents (i.e. 75%) say it is in moderate. Only few respondents evaluate CUS in good or poor. Majority of respondents suppose it is moderate means it is fluctuating. It may either sometimes go up or sometimes down.

The Sectors of Investment that NIDC Capital Market and CUS Should Invest

This question tries to find out that sector which should give the priority for investment of the money collected by mutual fund. In order to get higher return a good sector of investment should be selected and this will help to find out.

Table 4.13

Investment that NIDC Capital Market and CUS

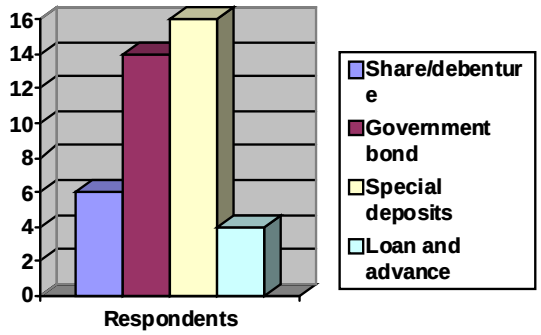
Investor Types	No of Respondents
Share/Debenture	6
Government Bond	14
Special Deposit	16
Loan and Advance	4

Source: Research Survey from Questionnaire No 10

The table 4.13 shows that most of the respondents prefer to invest mutual fund money in bank deposit and government. In same way, out of forty, fourteen people want to invest in the government securities. There is no any risk; it may be due to less risky. Only few of them ticked share/debenture and loan advance. This shows the investor wants their investment in less risky areas.

Figure 4.12

Investment that NIDC Capital Market and CUS



The above figure shows that most of the respondents select the sector of bank deposit and special bank loan. It may be due to less risky. Only few of them ticked share/debenture and loan advance. This shows the investor wants their investment in less risky areas. This is one of the great challenges for our mutual fund companies. They need good education and well training for further improvement.

The Most Effective Means to Create Awareness about Mutual Funds

In the above section it is found that lack of well knowledge about mutual fund to the investors is one of the challenges of mutual fund companies. So, these questions will try to find out the better way to create awareness to the people about mutual fund. The result found is shown below.

Table 4.14

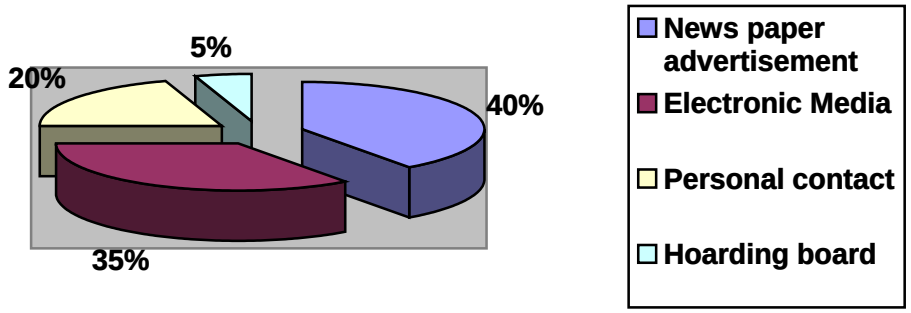
Most Effective Means to Create Awareness

Particulars	News Paper Advertisement	Electronic Media	Personal Contact	Hoarding Board
No of Respondents	40%	35%	20%	5%

Source: Research Survey from Questionnaire No 17

Figure 4.13

Most Effective Means to Create Awareness



As indicated by above table and pie chart, it is found that advertisement through newspaper is the most effective media to create awareness, 40% of the respondent agrees with this. And 35% of the respondents say electronic media is more effective where as 20% and 5% of the respondents said personal contact and hoarding respectively. So it is found that to create the awareness about mutual fund, newspaper advertisement as well as electronic media is the best options, which can directly attract the people.

About New Mutual Fund Companies' Existence in this Present Environment

This question is deals with the born and survival of new mutual fund companies in present condition. As indicated already, there are only two mutual fund companies operating at present. By studying their overall activities and performances, they are still at the growth phase. They are still facing so many problems, which they need to

overcome. Keeping this in mind introducing a new mutual fund companies is a very challenging job. So this survey question tries to know the view of the respondents about the coming up new mutual fund companies.

Table 4.15

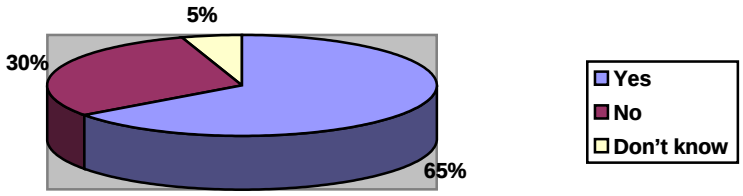
New Mutual Fund Companies' Existence

Investor's Types	Yes	No	Don't Know
Respondents	65%	5%	30%

Source: Research Survey from Questionnaire No 18

Figure 4.14

New Mutual Fund Companies' Existence



Above table 4.15 and figure 4.14 shows the views of the respondents regarding new mutual fund companies' existence. It is quite interesting that as they are not satisfied about the performance of present mutual fund companies and they do not found the good economic and political environment but they still say "Yes" the new mutual fund company can exist, 65% of them agree with this. Out of forty respondents, 30% of the respondent says there in "No" chances of survival of new mutual fund company. And 5% respondents are in confusion whether it exists or not.

The Reason that the Nepalese Mutual Fund Companies have Good Future Prospects

As already said by the majority of the respondents, the new mutual fund companies can exist in the Nepalese capital market and they have the good prospects too. So what may be the reasons that Nepalese mutual fund companies have bright future? And this question might give the particular reason.

Table 4.16

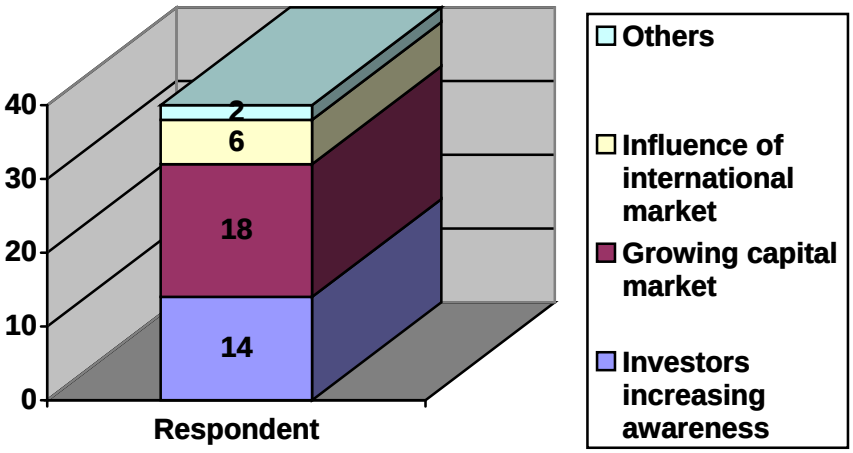
Nepalese Mutual Fund Companies

Particulars	No of Respondents
Others	2
Growth Capital Market	18
Influence International Market	6
Investors Increasing Awareness	14

Source: Research Survey from Questionnaire No 19

Figure 4.15

Nepalese Mutual Fund Companies



Above table 4.16 and figure 4.15 shows the specific reasons why the Nepalese mutual fund companies have prosperous future. It is ultimately growing capital market and increasing investor's awareness about the mutual fund. Out of forty respondents 18 said it is due to increasing capital market and 14 say it is due to awareness of the investor. International capital market may also influence the Nepalese mutual fund companies, which is another possible reason as said by six out of forty respondents. It shows that whatever may be the reason the Nepalese mutual fund companies have good future which is one of the prospectuses of the mutual fund companies in Nepal.

Major Findings of the Study

From the descriptive and analytical analysis of secondary and primary data, many facts have been found out. In this section, the relevant major findings of the study have been presented.

The major findings have been divided into two categories.

- Major findings from the analysis of secondary data
- Major findings from the analysis of primary data

4.3 MAJOR FINDINGS OF THE SECONDARY DATA

The major findings from the analysis of secondary data have been briefly described as follows:

Most of fund of CUS mutual fund was found investing in Government bond, Bank Deposit and Loan & Advances respectively whereas few portion of the total investment of fund was investing in share/debenture during the study period. It seems that most of the investments of CUS mutual funds were in riskless sector. The highest investment of CUS mutual fund in Government bond was in fiscal year 2062/63 (i.e. 45.36%) whereas highest investment in Bank deposit was in fiscal year 2060/61 (i.e. 42.30%). Similarly, the highest investment in Loan & Advances was in fiscal year 2064/65 (i.e. 40.65%) whereas highest investment in share/debenture was in fiscal year 2063/64 (i.e. 6.36%) during the study period.

The NCM Mutual Fund invests its huge amount of fund in Share/Debenture, Bank Deposit and Government Bond respectively. The highest investment in Share/Debenture was found in fiscal year 2063/64 (i.e. 81.76%). Similarly, the highest investment in Government Bond and Bank deposit was found in fiscal year 2060/61(i.e. 10.15% and 26.92 %) respectively. The fluctuating trend was found in investment in share/debenture and bank deposit whereas decreasing trend was found in investment in government bond during the study period.

During the study period, the highest rate of return of CUS mutual fund was 14.40 % in the fiscal year 2061/62 whereas, 46.72 % was found of NCM mutual fund in the fiscal year 2060/61. The average rate of return of CUS and NCM mutual fund were 8.43 % and 9 % respectively. The standard deviation of CUS and NCM mutual funds were 3.26 % and 33.97 % whereas, the coefficient of variation were 0.3867 and 33.97 respectively during the study period. In total risk analysis, CUS has 1% systematic risk and 99.99% unsystematic risk whereas NCM has 80.87% systematic risk and 19.13% unsystematic risk.

In comparison between CUS and NCM mutual fund, CUS had done better portfolio management than NCM mutual fund. CUS had invested its huge amount in riskless sector than NCM mutual fund. The average rate of return of CUS and NCM mutual fund were approximately near (i.e. 8.43% ≒ 9%) but the risk of NCM mutual fund was higher than CUS mutual fund (i.e. 33.97% > 3.26%). From this, we can conclude that the performance of CUS mutual fund is better than NCM mutual fund due to the higher average return, low standard deviation, low coefficient of variation, less systematic and unsystematic risk factors of CUS than NCM mutual fund.

4.4 MAJOR FINDINGS OF THE PRIMARY DATA

The primary data was collected through survey by using questionnaire method. The main purpose of primary data collection was to find out the challenges of mutual fund for getting better performance and ways to overcome the obstacles. Major findings of primary data analysis are as follows:

Prospects of Mutual Fund Companies

It was found that the awareness about mutual fund was increasing in our country, which indicates the good sign. Most of the people think that the growth of Mutual Fund Company can contribute to the development of capital market in Nepal, which is one of the prospectuses of the mutual fund companies.

Mutual fund investments are subjected to the market risk that is less risky. In comparison to other investment companies it is safe to invest in mutual funds, which is also the prospectus of the mutual fund companies.

Problems of Mutual Fund to Better Performance

From the survey, following challenges of the Nepalese CIS have been found:

The present condition of mutual fund is moderate in Nepalese financial market. As it was found by primary data most people said it is in moderate condition. Most of the investors do not have adequate knowledge about features and operations of the mutual fund, which is one of the great challenges. It is found that Nepalese capital market has not grown adequate to sustain mutual fund. It has yet to struggle.

The other problem found is that there is no strong government policy to regulate mutual fund in Nepal. On the other hand, the passive investors are still in majority in Nepal. Collective investment schemes are affected by political environment so political instability is another great challenge.

There are many internal problems found such as inefficient management, defective information system, incapable human resources, weak economy and inefficient and wrong rule, policy and strategy exist as weakness in currently operating mutual fund companies.

CHAPTER V
SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 SUMMARY

Mutual funds are the companies, which objectives are to collect money from the small and medium investors to make investment in a professional and efficient way and distribute the returns earned thereon. Presently there are two mutual funds exists in Nepal: a) NCM mutual fund and b) Citizen Unit Scheme. There are some previous studies those mainly focused just NCM Mutual Fund as mutual fund operated in Nepal where as a less emphasis is given to the Citizen Unit Schemes which is also operated as mutual fund under Citizen Investment Trust. Security Board/Nepal has classified these two schemes under collective investment scheme so both of these Mutual Fund Companies are taken in this research.

The basic and prime objectives of the study are to get overall picture of the mutual fund companies and make comparison between them. It also try to find out which of the two funds (Citizen Unit Scheme and NCM Mutual Fund) do better portfolio performance during the period studied, to examine which mutual fund is more consistent in its performance. This study is focused on to identify the prospectus and problems of the Mutual Fund companies that are operated in Nepal and to make recommendations to overcome the obstacles of these companies.

Nepalese people are hesitating to invest in share market and the economy is very unstable due the various environmental factors so the economic condition is very ruined in present so the study is seems to be very relevant in order to find out the some sorts of problems. On the other hand, many Nepalese people don't have adequate knowledge about share market. But it is necessary to bring even small investors to the main stream of participating in the capital market and it is one of the best options to invest through collective investment scheme i.e. through mutual funds.

In order to fulfill the objectives to the study many descriptive, analytical and exploratory research designs were applied. Various statistical and financial tools were used. Secondary data were collected from Citizen Investment Trust, NCM Mutual

Fund, Security Board of Nepal, Nepal Stock Exchange and Nepal Rastra Bank. Primary data were collected through applying survey technique by using questionnaire.

For the fulfillment of our objective, the return on the NCM was calculated on a yearly basis on average price of year plus 5 percent fixed dividend base on year-end and the return on CUS was calculated on the basis of the yearly return provided by the fund. The market return was calculated on the basis of the changes in the NEPSE index and the risk-free rates of the return on the Treasury bills were used. Similarly, in order to judge the actual condition of Mutual Fund companies in term of value of unit or in other words to measure the portfolio performance of Mutual Funds on the basis of NAV, the changes in the net assets value was taken into account for the period studied. The NAV of both the companies is calculated on the yearly basis. The detail computations were shown in annex 'B' and the results were presented in tabular and graphic form and analyzed in data presentation and analysis chapter.

To fulfill our other objectives, the opinions of forty respondents (financial executives, financial teachers, investors, stockbrokers and senior students who have knowledge about MF) were used as primary data and on the basis of most of the respondent's viewpoint; conclusion was presented in chapter forth under presentation and analysis of primary data section.

On the basis of the presentation and analysis of secondary and primary data conclusions and recommendations have been presented in incoming sections.

The major findings mentioned in chapter IV led this study to conclude. From the secondary data analysis, it can be concluded that although the portfolio performance of CUS is better than NCM without adjusting NAV, if the CUS do not give attention to improve its NAV, it would not be able to provide higher return to investors and would become financial crisis in future because NAV is actual value of unit and it is lower than par value of unit of CUS.

From the primary data analysis, it can be concluded that CIS is new concept in Nepal so many people do not have knowledge about Mutual Fund. On the other hand, Nepalese Mutual Funds are doing struggle because of various challenges of external and internal factors such as investors do not have knowledge about Mutual Fund, no

strong government policy to regulate Mutual Fund, unstable political environment, passive investors are still in majority, inefficient management etc.

But the challenges of Mutual Fund can be managed through formulating separate mutual fund act as well as expanding Mutual Funds in geographically and going to the rural areas where tons of small savings are waiting to come to the market, efficient and effective management, aware to investors about Mutual Fund and providing trainings to them.

5.2 CONCLUSION

The major findings mentioned in chapter IV led this study to conclude. From the secondary data analysis, it can be concluded that although the portfolio performance of CUS is better than NCM without adjusting NAV, if the CUS do not give attention to improve its NAV, it would not be able to provide higher return to investors and would become financial crisis in future because NAV is actual value of unit and it is lower than par value of unit of CUS.

From the primary data analysis, it can be concluded that Citizen Investment Scheme is new concept in Nepal so many people do not have knowledge about Mutual Fund. On the other hand, Nepalese Mutual Funds are doing struggle because of various challenges of external and internal factors such as investors do not have knowledge about Mutual Fund, no strong government policy to regulate Mutual Fund, unstable political environment, passive investors are still in majority, inefficient management etc.

But the challenges of Mutual Fund can be managed through formulating separate mutual fund act as well as expanding Mutual Funds in geographically and going to the rural areas where tons of small savings are waiting to come to the market, efficient and effective management, aware to investors about Mutual Fund and providing trainings to them.

5.3 RECOMMENDATIONS

On the basis of the study, following recommendations are made to improve the existing situation of the collective investment schemes:

Recommendations to the Mutual Fund Companies

From the primary data analysis, it is shown that most of the people don't know about the mutual fund. So it will be better to create the awareness to the people by organizing the campaigns, providing detail knowledge and flowing sufficient information by the mutual fund companies.

From the secondary data analysis, it is shown that both the mutual fund companies are investing more funds in share and debenture, government securities i.e. they do not diversify their investment properly. It will be much better to construct optimal portfolio, innovate in investment, and make appropriate policies and strategies in order to expand the mutual fund company.

The research shows that the mutual fund companies are concentrating in capital only so it will be beneficial to them if they expanded in its strength geographically and they must reach to the rural areas where many of small savings investors are waiting to come to the market.

Many investors are not satisfied with the management as far concerning the skilled manpower, training programs, human resources etc. so there should be conducted the training, workshop, and seminars regularly to the manager and staff of mutual fund companies and it will be also helpful if such training is given to the investors too.

The number of transaction of share of NCM Mutual Fund is low in NEPSE it should give special effort to increase the number of transactions of unit in stock market.

Recommendations to the Security Board, Nepal as a Government Body

There is a lack of separate laws and policies regarding mutual fund companies. So the government should formulate separate laws and policies regarding mutual fund.

It is found that there are not any incentives to the investor while investing the mutual funds. So it will be better if the investors are given tax incentives and benefits whether they invest in mutual funds.

Neither incentives nor a punishment system is found to be developed so a proper punishment system too should be developed in government laws and rules.

The research found that there is not a proper check and balance system by the government. It will be better to check yearly working activities of mutual fund companies, ensure their annual report is publishing regularly and auditor's report, balance sheet, income and expenditure statement etc are need to be regularly examined in detail.

Recommendations to the Investors

It is found that Investors are not aware of mutual fund companies; they should learn thoroughly the prospectus of the mutual fund companies before investing.

Before investing in mutual fund they should visit the companies, see the necessary data, auditor's report, balance sheet, annual report should be read carefully. The Reserve fund, Provision Account, Debt Equity Ratio, Earning per Share of company's etc. major factors should be considered when investment in capital market has been made.

Only the dividend/interest provided by company should not be considered. Investors should not just follow the stockbrokers. They also should investigate themselves by using financial analysis of the companies.

In order to get the higher return the investors should practice the active investment strategy.

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ANNEX-I

Questionnaire

Name (Optional): .....

Position: .....

Institution: .....

Address: .....

1. What is the present condition of mutual fund in Nepalese Financial market?
   a. Good
   b. Moderate
   c. Bad

2. Do you think that Nepalese investors have adequate knowledge of Mutual Fund?
   a. Yes
   b. No
   c. Don't Know
   If 'YES' indicate the level (One for lowest five for the highest)

3. Can Mutual Fund substantially contribute in the development of capital market in Nepal?
   a. Yes
   b. No
   c. Don't Know
   If 'YES' indicate the level (One for lowest five for the highest)

4. Do you think that Nepalese capital market has grown adequate to sustain investment companies including mutual fund.
   a. Yes
   b. No
   c. Don't Know

If 'YES' indicate the level (One for lowest five for the highest)

5. How do you rate the performance of NIDC's Mutual Fund in the context of Nepalese capital markets?
   a. Above Par
   b. In Par
   c. Below Par

6. If you think that the investors are not so interested in NIDC's Mutual Fund, please specify the reasons
   a. Passive investment strategy
   b. Lack of dividend announcements
   c. Mismanagement
   d. Others (please specify): ……

7. Do you think that Citizen Investment Trust's Citizen Unit Scheme acts as a purely Mutual Fund scheme?
   a. Yes
   b. No
   c. Don't Know

8. How do you rate the performance of Citizen Unit Scheme in context of Nepalese capital market?
   a. Above Par
   b. In Par
   c. Below Par

9. How do you evaluate the response of Investors about CUS?
   a. Good
   b. Moderate
   c. Poor

10. Could you indicate the level of risk in investing in current Mutual Fund scheme?

a. High

b. Moderate

c. Less

d. No Risk

11. What are the sectors of investment that NIDC capital market and CUS should invests the fund collected through mutual fund?

a .....

b. .....

c. .....

d. .....

12. Do you think there is a sufficient policy and laws are made to regulate Mutual Fund in Nepalese capital market?

a. Yes

b. No

If no, what difficulties may face to regulate mutual fund scheme in capital market?

If yes, do you think the current policy is helpful to develop present capital market? Please specify.

13. What sorts of players are needed to make Mutual fund more effective? (Please rank) (One for lowest five for the highest)

a. Individual investor ( )

b. Government. ( )

c. Corporate sector ( )

d. Investment bank ( )

e. Financial institution ( )

14. The basic external problems facing by mutual fund companies are:

    a. Political environment

    b. Social norms and values

    c. Small capital market

    d. Other financial institutions

15. What are the organizational internal factors, which exist as challenges in the currently operating mutual Fund in Nepal?

    a. Strong internally

    b. Inefficient, weak internally

    c. Poor management

    d. Poor HRM

    e. Defective information system

    f. Others

16. How do you found present managerial skills on Mutual Fund?
    a. Excellent
    b. Good
    c. Fair
    d. Poor

17. What will be the most effective means to create awareness about mutual funds?
    a. Newspaper advertisement
    b. Electronic media
    c. Personal contact
    d. Hoarding board
    e. Other

18. Does other new mutual fund companies' can exists in this present environment?
    a. Yes
    b. No
    c. Don't know

19. Which reasons do you think that the Nepalese mutual fund companies has good future prospects?

    a. Investors increasing awareness

    b. Growing capital market

    c. Influence of international market

    d. Other

ANNEX-II

ANNEX II (A)

NCM Mutual Fund

Calculation of Yearly Investment in Share/Debenture and Average Investment

Years	Total investment	Investment in share/debenture	% Investment in share/debenture	Average Investment
2060/61	98,552,652.08	62,024,358.05	62.94	73.69
2061/62	110,323,465.08	84,436,101.08	76.54	73.69
2062/63	123,408,160.91	95,888,712.67	77.70	73.69
2063/64	156,489,940.81	127,950,736.00	81.76	73.69
2064/65	195,356,580.80	135,850,895.00	69.54	73.69

Calculation of Average Investment, Standard Deviation and Coefficient of Variation in Investment in Share/Debenture:

Year	% Investment in share/debenture (X)	Average Investment ($\overline{X}$)	$(X-\overline{X})^2$	$\exists^2=\frac{\phi(X-\overline{X})^2}{N}$	$\exists=\sqrt{\exists^2}$	CV=$\exists/\overline{X}$
2060/61	62.94	73.69	21.50	$\exists^2$= 59.66/5 =11.93	3.45	0.0468
2061/62	76.54	73.69	5.70			
2062/63	77.70	73.69	8.02			
2063/64	81.76	73.69	16.14			
2064/65	69.54	73.69	8.30			
Total	368.48		59.66			

Calculation of Yearly Investment in Government Bond and Average Investment

Years	Total investment	Investment in government bond	% Investment in government bond	Average Investment
2060/61	98,552,652.08	1,00,00,000,00	10.15	7.76
2061/62	110,323,465.08	1,00,00,000,00	9.06	7.76
2062/63	123,408,160.91	1,00,00,000,00	8.10	7.76
2063/64	156,489,940.81	1,00,00,000,00	6.39	7.76
2064/65	195,356,580.80	1,00,00,000,00	5.12	7.76

Calculation of Average Investment, Standard Deviation and Coefficient of Variation in Investment in Government Bond

Year	% Investment in government bond	Average Investment ($\bar{X}$)	$(X-\bar{X})^2$	$\exists^2=\frac{\phi(X-\bar{X})^2}{N}$	$\exists=\sqrt{\exists^2}$	CV=$\exists/\bar{X}$
2060/61	10.15	7.76	5.71	$\exists^2$= 16.36/5 =3.27	1.80	0.2320
2061/62	9.06	7.76	1.69			
2062/63	8.10	7.76	0.12			
2063/64	6.39	7.76	1.88			
2064/65	5.12	7.76	6.97			
Total			16.36			

Calculation of Yearly Investment in Bank (Special Deposit) and Average Investment

Years	Total investment	Investment in Bank Deposit	% Investment in Bank Deposit	Average Investment
2060/61	98,552,652.08	26,528,294.03	26.92	18.54
2061/62	110,323,465.08	15,887,364.00	14.40	18.54
2062/63	123,408,160.91	17,519,448.24	14.20	18.54
2063/64	156,489,940.81	18,539,204.81	11.85	18.54
2064/65	195,356,580.80	49,505,685.80	25.34	18.54

Calculation of Standard Deviation and Coefficient of Variation in Investment in Bank (Special Deposit):

Year	% Investment in Bank Deposit	Average Investment ($\bar{X}$)	$(X-\bar{X})^2$	$\exists^2=\frac{\phi(X-\bar{X})^2}{N}$	$\exists=\sqrt{\exists^2}$	CV=$\exists/\bar{X}$
2060/61	26.92	18.54	70.22	$\exists^2$= 197.2/5 =39.44	6.28	0.3387
2061/62	14.40	18.54	17.14			
2062/63	14.20	18.54	18.84			
2063/64	11.85	18.54	44.76			
2064/65	25.34	18.54	46.24			
Total			197.2			

ANNEX- II (B)

CUS Mutual Fund

Calculation of Yearly Percentage Investment and Average Investment in Share/Debenture (00,000)

Years	Total investment	Investment in share/debenture	% Investment in share/debenture	Average Investment ($\bar{X}$)
2060/61	236.40	6.75	2.86	
2061/62	371.50	10.50	2.83	
2062/63	414.43	15.43	3.72	
2063/64	417.04	26.54	6.36	($\bar{X}$)=21.68/5=4.34
2064/65	531.40	31.40	5.9	
Total	1970.77		21.68	

Calculation of Standard Deviation and Coefficient of Variation of Share/Debenture

Year	% Investment in share/debenture (X)	Average Investment ($\bar{X}$)	$(X-\bar{X})^2$	$\exists^2=\frac{\phi(X-\bar{X})^2}{N}$	$\exists=\sqrt{\exists^2}$	CV=$\exists/\bar{X}$
2060/61	2.86	4.34	2.19			
2061/62	2.83	4.34	2.28			
2062/63	3.72	4.34	0.38	$\exists^2$=11.40/5 =2.28	1.51	0.3479
2063/64	6.36	4.34	4.08			
2064/65	5.9	4.34	2.46			
Total			11.40			

Calculation of Yearly Percentage Investment and Average Investment in Government Bond

Years	Total investment	Investment in government bond	% Investment in government bond	Average Investment ($\bar{X}$)
2060/61	236.40	59.65	25.23	
2061/62	371.50	119.50	32.17	
2062/63	414.43	188.00	45.36	
2063/64	417.04	182.00	43.64	($\bar{X}$)=179.52/5=35.90
2064/65	531.40	176.00	33.12	
			179.52	

Calculation of Standard Deviation and Coefficient of Variation of Government Bond

Year	% Investment in government bond (X)	Average Investment ($\bar{X}$)	$(X-\bar{X})^2$	$\exists^2=\frac{\phi(X-\bar{X})^2}{N}$	$\exists=\exists^2$	$CV=\exists/\bar{X}$
2060/61	25.23	35.90	113.85	$\exists^2$=284.89/5 =56.98	7.55	0.2103
2061/62	32.17	35.90	13.91			
2062/63	45.36	35.90	89.45			
2063/64	43.64	35.90	59.91			
2064/65	33.12	35.90	7.73			
Total			284.89			

Calculation of Yearly Percentage Investment and Average Investment in Bank Deposit

Years	Total investment	Investment in bank deposit	% Investment in bank deposit	Average Investment ($\bar{X}$)
2060/61	236.40	100.00	42.30	($\bar{X}$)=142.96/5 =28.59
2061/62	371.50	130.00	34.99	
2062/63	414.43	96.50	23.28	
2063/64	417.04	92.00	22.06	
2064/65	531.40	108.00	20.32	
Total			142.96	

Calculation of Standard Deviation and Coefficient of Variation of Bank Deposit

Year	% Investment in government bond (X)	Average Investment ($\bar{X}$)	$(X-\bar{X})^2$	$\exists^2=\frac{\phi(X-\bar{X})^2}{N}$	$\exists=\exists^2$	$CV=\exists/\bar{X}$
2060/61	42.30	28.59	187.96	$\exists^2$=368.15/5 =73.63	8.58	0.3001
2061/62	34.99	28.59	40.96			
2062/63	23.28	28.59	28.20			
2063/64	22.06	28.59	42.64			
2064/65	20.32	28.59	68.39			
Total			368.15			

Calculation of Yearly Percentage Investment and Average Investment in Loan and Advance

Years	Total investment	Investment in Loan and advance	% Investment in loan and advance	Average Investment ($\bar{X}$)
2060/61	236.40	70	29.61	31.17
2061/62	371.50	111.5	30.01	
2062/63	414.43	114.5	27.63	
2063/64	417.04	116.5	27.93	
2064/65	531.40	216.00	40.63	
Total			155.83	

Calculation of Standard Deviation and Coefficient of Variation of Loan and Advance

Year	% Investment in loan and advance (X)	Average Investment ($\overline{X}$)	$(X-\overline{X})^2$	$\exists^2=\frac{\phi(X-\overline{X})^2}{N}$	$\exists=\exists^2$	CV=$\exists/\overline{X}$
2060/61	29.61	31.17	2.43	$\exists^2$=116.68/5 =23.34	4.83	0.748
2061/62	30.01	31.17	1.35			
2062/63	27.63	31.17	12.53			
2063/64	27.93	31.17	10.50			
2064/65	40.63	31.17	89.87			
			116.68			

ANNEX -II (C)

Calculation of holding period return, standard deviation and coefficient of variation for CUS, NCM mutual fund and NEPSE

Citizen Unit Scheme

Calculation of Holding Period Return for CUS Mutual Fund

Year	NAV(Rs.)	Dividend	Calculation	HPR
2060/61	90.57	11	(90.57-93.06) + 11/93.06	9.14
2061/62	94.61	9	(94.61-90.57) + 9/90.57	14.40
2062/63	92.46	8.5	(92.46-94.61) + 8.5/94.61	6.71
2063/64	90.86	8	(90.86-92.46) + 8.0/92.46	6.92
2064/65	88.40	7	(88.40-90.86) + 7/90.86	5.0

Note: - NAV of 2059/60 were Rs. 93.06

Calculation of Mean S.D & CV of CUS Mutual Fund

Year	HPR_{CUS} (%)	$(HPR_{CUS} - \overline{HPR}_{CUS})^2$
2060/61	9.14	$(9.14-8.43)^2 = 0.5041$
2061/62	14.40	$(14.40-8.43)^2 = 35.6409$
2062/63	6.71	$(6.71-8.43)^2 = 2.9584$
2063/64	6.92	$(6.92-8.43)^2 = 2.2801$
2064/65	5.0	$(5.0-8.43)^2 = 11.7649$
Total	$\Sigma HPR_{CUS} = 42.17$	$\Sigma(HPR_{S\&P500} - \overline{HPR}_{S\&P\ 500})^2 = 53.1484$

$$\overline{HPR}_{CUS} = \frac{\Sigma HPR_{CUS}}{N} = \frac{42.17}{5} = 8.43\%$$

$$\text{Variance } (\sigma_{CUS}^2) = \frac{\Sigma(HPR_{CUS} - \overline{HPR}_{CUS})^2}{N} = \frac{53.1484}{5} = 10.62968$$

$$\text{Standard derivation } (\sigma_{CUS}) = \sqrt{\sigma_{CUS}^2} = \sqrt{10.62968} = 3.26\%$$

$$\text{Coefficient of variation (C.V.)} = \frac{\sigma_{CUS}}{\overline{HPR}_{CUS}} = 3.26/8.43 = 0.3867$$

NCM Mutual Fund

Calculation of Holding Period Return for NCM Mutual Fund

Year	NAV(Rs.)	Dividend	Calculation	HPR
2060/61	22.11	0	(22.11-15.07) + 0/15.07	46.72
2061/62	24.07	0	(24.07-22.11) + 0/22.11	8.86
2062/63	10.57	0.5	(10.57-24.07) + 0.5/24.07	-54
2063/64	11.80	0.5	(11.80-10.57) + 0.5/10.57	16.37
2064/65	14.49	0.5	(14.49-11.80) + 0.5/11.80	27.03

Note: - NAV of NCM in 2059/60 were Rs. 15.07

Calculation of Mean S.D & CV of NCM

Year	HPR_{NCM} (%)	$(HPR_{NCM} - \overline{HPR}_{NCM})^2$	
2060/61	46.72	$(46.72-9)^2$	= 1422.7984
2061/62	8.86	$(8.86-9)^2$	= 0.0196
2062/63	-54	$(-54-9)^2$	= 3969
2063/64	16.37	$(16.37-9)^2$	= 54.3169
2064/65	27.03	$(27.03-9)^2$	= 325.0809
Total	ϕHPR_{NCM} = 44.98	$\phi(HPR_{NCM} - \overline{HPR}_{NCM})^2$ = 5,771.2158	

$$\overline{HPR}_{NCM} = \frac{\phi HPR_{NCM}}{N} = \frac{44.98}{5} = 8.996\% \approx 9\%$$

$$\text{Variance } (\sigma_{NCM}^2) = \frac{\phi(HPR_{NCM} - \overline{HPR}_{NCM})^2}{N} = \frac{5771.2158}{5} = 1154.24316$$

$$\text{Standard derivation } (\sigma_{NCM}) = \sqrt{\sigma_{NCM}^2} = \sqrt{1154.24316} = 33.97\%$$

$$\text{Coefficient of variation } (C.V._{NCM}) = \frac{\sigma_{NCM}}{\overline{HPR}_{NCM}} = \frac{33.97}{9} = 3.77$$

NEPSE

Calculation of Market Returns (NEPSE Index)

Year	Index	Calculation	Market return
2060/61	360.70	(360.70-216.92)/216.92	66.28
2061/62	348.43	(348.43-360.70)/360.70	-3.40
2062/63	227.40	(227.14-348.43)/348.43	-34.74
2063/64	204.86	(204.86-227.54)/227.54	-9.97
2064/65	222.04	(222.04-204.86)/204.86	8.39

Note: - Index for 2059/60 were 216.92

Calculation of Return on NEPSE, Standard Deviation, and Coefficient of Variation

Year	HPR_{NEPSE} (%)	$(HPR_{NEPSE} - \overline{HPR}_{NEPSE})^2$	
2060/61	66.28	$(66.28-5.32)^2$	= 3716.1216
2061/62	-3.40	$(-3.40-5.32)^2$	= 76.0384
2062/63	-34.70	$(-34.70-5.32)^2$	= 1601.6004
2063/64	-9.97	$(-9.97-5.32)^2$	= 233.7841
2064/65	8.39	$(8.39-5.32)^2$	= 9.4249
Total	ϕ HPR_{NEPSE} = 26.6	$\phi(HPR_{NEPSE} - \overline{HPR}_{NEPSE})^2$ = 5636.9694	

$$\overline{HPR}_{NEPSE} = \frac{\phi HPR_{NEPSE}}{N} = \frac{26.6}{5} = 5.32\%$$

$$\text{Variance } (\sigma_{NEPSE}^2) = \frac{\phi(HPR_{NEPSE} - \overline{HPR}_{NEPSE})^2}{N} = \frac{5636.9694}{5} = 1127.3939$$

$$\text{Standard derivation } (\sigma_{NEPSE}) = \sqrt{\sigma_{NEPSE}^2} = \sqrt{1127.3939} = 33.57\%$$

$$\text{Coefficient of variation } (C.V._{NEPSE}) = \frac{\sigma_{NCM}}{\overline{HPR}_{NCM}} = 33.57/5.32 = 6.31$$

ANNEX -II (D)

Calculation of Covariance between CUS and NEPSE, NCM and NEPSE and Beta

Calculation of HPR and Deviation of CUS Fund

Year	NAV	HPR_{CUS} (%)	$(HPR_{CUS} - \overline{HPR}_{CUS})$
1	90.57	9.14	(9.14-8.95)
2	94.61	14.40	(14.40-8.95)
3	90.86	6.92	(6.92-8.95)
4	88.40	5.00	(5.00-8.95)
5	89.63	9.31	(9.31-8.95)
Total		$\Sigma HPR_{CUS} = 44.77$	

$$\overline{HPR}_{CUS} = \frac{\phi HPR_{CUS}}{N} = \frac{44.77}{5} = 8.95\%$$

Calculation of HPR and Deviation of NCM Fund

Year	NAV	HPR_{NCM}	$(HPR_{NCM} - \overline{HPR}_{NCM})$
1	22.11	46.72	(46.72 – 9)
2	24.07	8.86	(8.86 – 9)
3	10.57	-54	(-54 – 9)
4	11.80	16.37	(16.37 – 9)
5	14.49	27.03	(27.03 – 9)
		$\phi HPR_{NCM} = 44.98$	

$$\overline{HPR}_{NCM} = \frac{\phi HPR_{NCM}}{N} = \frac{44.98}{5} = 8.996\% \rceil 9\%$$

Calculation of HPR, Deviation and Variance of NEPSE

Year	NAV	HPR_{NEPSE}	$(HPR_{NEPSE} - \overline{HPR}_{NEPSE})$	$(HPR_{NEPSE} - \overline{HPR}_{NEPSE})^2$
1	360.70	66.28	(66.28 – 11.84)	2963.71
2	348.43	– 3.40	(–3.40 – 11.84)	232.26
3	204.86	– 41.20	(-41.20 – 11.84)	2813.24
4	222.04	8.39	(8.39 – 11.84)	11.90
5	286.67	29.11	(29.11 – 11.84)	298.25
		$\phi HPR_{NCM} = 59.18$		$p(HPR_{NEPSE} - \overline{HPR}_{NEPSE})2 = 6319.36$

Note: The NEPSE index on 0 year were 216.92

$$\overline{HPR}_{NEPSE} = \frac{\phi HPR_{NEPSE}}{N} = \frac{59.18}{5} = 11.84\%$$

$$\exists^2_{NEPSE} = \frac{\phi(HPR_{NEPSE} Z \overline{HPR}_{NEPSE})2}{N} = \frac{6319.36}{5} = 1263.87$$

Calculation of covariance of CUS and NCM with NEPSE

Year	$(HPR_{CUS} - \overline{HPR}_{CUS})(HPR_{NEPSE} - \overline{HPR}_{NEPSE})$	$(HPR_{NCM} - \overline{HPR}_{NCM})(HPR_{NEPSE} - \overline{HPR}_{NEPSE})$
1	(9.14-8.95) (66.28 – 11.84) = 10.34	(46.72 – 9) (66.28 – 11.84) = 2053.48
2	(14.40-8.95) (–3.40 – 11.84) = – 83.06	(8.86 – 9) (–3.40 – 11.84) = 2.1336
3	(6.92-8.95) (-41.20 – 11.84) = 107.67	(-54 – 9) (-41.20 – 11.84) = 3341.52
4	(5.00-8.95) (8.39 – 11.84) = 13.63	(16.37 – 9) (8.39 – 11.84) = –25.43
5	(9.31-8.95) (29.11 – 11.84) = 6.22	(27.03 – 9) (29.11 – 11.84) = 311.38
Total	$\phi(HPR_{CUS} - \overline{HPR}_{CUS})(HPR_{NEPSE} - \overline{HPR}_{NEPSE})$ = 54.8	$\phi(HPR_{NCM} - \overline{HPR}_{NCM})(HPR_{NEPSE} - \overline{HPR}_{NEPSE})$ = 5683.08

$$Cov_{CUS,NEPSE} = \frac{\phi(HPR_{CUS} - \overline{HPR}_{CUS})(HPR_{NEPSE} - \overline{HPR}_{NEPSE})}{N} = \frac{54.8}{5} = 10.96$$

$$Cov_{NCM,NEPSE} = \frac{\phi(HPR_{NCM} - \overline{HPR}_{NCM})(HPR_{NEPSE} - \overline{HPR}_{NEPSE})}{N} = \frac{5683.08}{5} = 1136.62$$

Calculation of beta of each fund

Beta of CUS Mutual Fund

$$\beta_{CUS} = \frac{Cov_{CUS,NEPSE}}{\sigma^2_{NEPSE}} = \frac{10.96}{1263.87} = 0.00867$$

Beta of NCM Mutual Fund

$$\beta_{NCM} = \frac{Cov_{CUS,NEPSE}}{\sigma^2_{NEPSE}} = \frac{1136.62}{1263.87} = 0.8993$$

Risk Analysis

Total risk = Unsystematic risk + Systematic risk

NCM Mutual Fund

Total risk $(\sigma_{NCM})^2$	Systematic risk (β^2_{NCM}, σ^2_{NEPSE})	Unsystematic risk (total risk – systematic risk)
1154.24	$(0.8993)^2$ | 1154.24 = 933.48	Unsystematic risk = 1154.24 – 933.48 = 220.76
100%	$\frac{933.48}{1154.24}$ = 0.8087 or 80.87%	$\frac{220.76}{1154.24}$ = 0.1913 or 19.13%

CUS Mutual Fund

Total risk $(\sigma_{CUS})^2$	Systematic risk (β^2_{CUS}, σ^2_{NEPSE})	Unsystematic risk (total risk – systematic risk)
10.63	$(0.00867)^2$ | 10.63 = 0.001	Unsystematic risk = 10.63 – 0.001 = 10.629
100%	$\frac{0.001}{10.63}$ = 1%	$\frac{10.629}{10.63}$ = 0.9999 or 99.99%

NCM mutual fund has total risk of 1154.24 and 80.87 percent of total risk is systematic risk and 19.13 percent risk is unsystematic risk. CUS mutual fund has only one percent systematic risk and 99 percent is unsystematic risk.

Market of Sensitivity Analysis

Average return on CUS fund = 8.43%
Average return on NCM fund = 9%
Average market return (NEPSE) = 5.312%
Average return on risk free security = 5.03%

Required rate of return,
$E(r_{CUS}) = Rf + [E(r_m) - Rf]\ \beta_{CUS}$
$= 5.03 + (5.312-5.03)\ 0.00867$
$= 5.03\ \%$
CUS is under valued because its required return is less than average return.

Required rate of return,
$E(r_{NCM}) = Rf + [E(r_m) - Rf]\ \beta_{CUS}$
$= 5.03 + (5.312-5.03)\ 0.8993$
$= 5.28\ \%$
NCM fund is under valued because its required return is less than average return.

Operating expenses ratio $= \frac{\text{Operating expenses}}{\text{NAV}}$

NCM Mutual Fund

2061	**2062**	**2063**	**2064**	**2065**
1217467.61	910576240	1745951	2540358	2558358
103123452	74534158	105692313.61	118016064.56	144930658.54
= 1.18%	= 2.56%	= 1.65%	= 2.15%	= 1.77%

Operating expenses ratio of CUS

2061	**2062**	**2063**	**2064**	**2065**
19604000	19802000	37305000	41347000	41849000
1297476670.4	2139682400	3371253890	3677335990	4133376010
= 1.51%	= 0.98%	= 1.11%	= 1.12%	= 1.01%

REQUEST LETTER

Dear Sir and Madam

I would like to introduce myself as the student of Shanker Dev Campus. In order to fulfill the partial requirements of Master's Degree in management, I am concluding a research work entitled of **"A study on Prospects and Problem of Mutual Fund Companies of Nepal."** a core study of mutual fund. I would very much appreciate of you kindly spare few of your busy and valuable time for completing research work. Your view is purely used for my academic purpose only. I anticipate your suggestion as soon as possible**.** The series of questionnaires are hereby forwarded. I suppose the questions presented have at least viability and will not be difficult in responding in a friendly manner.

Sincerely Yours

Minu Pradhan