

CHAPTER -I

Introduction

1.1 Background

Everybody wants to spend luxurious and healthy life. And we know luxurious and healthy life can't be achieved simply. For this, we have to earn more money. Now a days, easy to spend money rather than earning and salary is not enough to fulfill our needs. And people curtail their present consumption for better future consumption. So, they invest their saving in different types of assets. Assets are classified in two different categories i.e. financial assets and real assets. Investment in real assets refers to the investment of funds in real goods such as land and building, vehicles and computer etc. Investment in financial securities means putting the money in the piece of papers such as shares, debentures, bonds, and treasury bills etc. In general, only a piece of paper represents the investor's right to certain prospects or property and the conditions under which he or she may exercise those rights.

Capital market is that segment of financial market in which long term corporate securities are bought and sold and their prices are determined by the interaction of demand and supply of these securities. The market consists a number of players such as issuers, investors and market intermediaries who bring the above two parties together for buying and selling of various instruments. The capital market is primarily divided in to two parts; primary market and secondary market. Initial floatation of shares and debenture take place in the primary market and in the secondary market, the initially floated shares and other securities is traded ensuring liquidity to the investors. The price of the securities is highly fluctuating due to up and down of the securities in the market. So the investors must have some knowledge about the risk and return factors of the capital market to reap the advantage from investing in securities. Individuals must have comparatively a large sum of amount to invest in the

share or debentures. So that small savers may not have accessibility to invest in shares and debentures easily. On the other hand, all investors may not have sufficient fund for making diversified portfolio and they may not have enough skill to make the optimal portfolio. Thus mutual funds are established to remove all this difficulties in the investment field.

A mutual fund is a corporation that pools large sums of money individual investors who wish to save or make money. Individuals or terms of professional's money managers who invest the pool of money into stocks, bonds, or other securities run mutual funds. The combined holdings of a mutual fund are known as the fund's portfolio. An individual who owns shares in a mutual fund does not have to worry about the investment portfolio. By investing in mutual fund, your money is spread out and diversified among a wide range of stocks, bonds or other securities, minimizing risk. You need not to buy bonds and stocks directly. Furthermore, you are not limited to the volatile performance of merely one or two stocks. In addition to this, you pay minimal fees of your investment [per annum], while earning money with the expertise of the mutual fund managers. But, most of all you will certainly be making more money than leaving it in a bank account where you may actually lose money in spending power.

The basic objectives of mutual fund are to divert unproductive and inactive capital towards the productive sectors. The concept of mutual fund evolved because one cannot have sufficient funds to buy a diversified portfolio. Mutual fund is a form of management -investment Company that combines the money of its shareholders and invests those funds in a wide variety of stocks, bonds, and so-called money market instruments. The latter include short term investments and other securities, commercial paper and bank certificates of deposit. Mutual fund provides the investor with professional management of funds and diversification of investment among the securities offered by leading corporations, governments and other entities. There are several advantages of a

mutual fund over direct investment by savers. The mutual fund can diversify, reducing the risk of catastrophic losses. Using direct purchase of securities, individual investor might be too small to buy enough securities to diversify, probability ten or more different securities are require to diversify efficiently. Mutual funds provide economies of scale, including efficient record keeping and more importantly, economies in information search. For small portfolios, the amount of time require to monitor and efficient portfolio can be large relative to the absolute benefits of monitoring, implying significant advantages of having mutual fund manager carryout the task. Because mutual fund can trade securities in large quantities, transaction cost can be significantly lower than for individual investors. Advantages of mutual fund can be explained as:

- 1 Expertise in operations
- 2 Diversification of risks
- 3 Liquidity
- 4 low cost of operation
- 5 Guaranteed return
- 6 High growth attraction resulting from reinvestment plan

Mutual funds are classed as open-end funds, meaning that the fund will redeem outstanding shares immediately up on request and have a fix maturity period. Thus, the numbers of shares of a given mutual fund is not fixed, but fluctuates as new shares are sold to investors and outstand shares are redeemed. The offering price and redemption price of open-end fund are best on market value of securities in portfolio. In addition varying charges, call loads, may be applied. The offering price may include a front -end load, generally to cover to broke or other seals representative. A back end load may be subtracted from the redemption price; often at the rate that progressively decreases the longer shares are held.

Close-end funds generally have a fixed number of shares out standing and are traded on the over-the-counter market or, in some instances, on stock

exchanges. Shares are purchased and sold at the market price plus a commission. They may sell at a premium that is above the value of their assets or at a discount, below the value of their assets. It also has a specific maturity period (ranging from 2 to 15 years).

1.2 Mutual Fund in Nepal

Mutual fund is not popular in Nepal. It is a new concept in Nepalese people. It has been introduced form last decade. An introduction of mutual fund scheme in Nepal is given below.

1.2.1 First NCM Mutual Fund

First NCM mutual fund 2050 was first launched by NIDC capital market ltd on Aashad 19, 2050 as the first mutual fund in Nepal. When the first mutual fund was introduced there was no assurance of dividing to the unit holders but they could enjoy the capital appreciation, safely and liquidity. The total amount of Fund was an open RS 100 million. It was an open -end fund with a par Value of RS 10 per unit. NIDC capital Market Ltd. was the Custodian and trustee of the fund and Nepal Industrial Development Corporation was the fund manager. The Scheme was terminated by the end of the fiscal year 2000/2001. Thereafter the fund gave the options to the fund holders either to refund or to participate in another scheme.

The NCM Mutual Fund has taken the following policies to attain the objective.

-) To invest up to 90% of the Fund in Share and debenture and 10% -30% in Short -term and medium -term loan.
-) The funds are to be invested in strong securities, which are either in the stock exchange.
-) Not to invest in more than 10% of paid up capital of a company While invest in the share.

The scheme would invest in the following areas.

- [i] Treasury bill and saving bonds issued by His Majesty's Government.
- [ii] Share, debenture and bond etc of public company
- [iii] Bridge - financing
- [iv] Short -term loans
- [v] Money market

1.2.2 Citizen Investment Trust [CIT]

Second is citizen investment Trust [CIT] Mutual fund. It was established in 2047 in order to expand investment opportunities from the savings of general public. CIT is generally incorporated under citizen investment trust act 1990. CIT is basically the saving and investment institution. It has been operating various unit and mutual fund Schemes to both domestic and Foreign investors. Not only this, savings have been mobilized by operating gratuity Fund scheme as well as operating investor's accounts scheme. Major investor's of CIT are in the Corporate, shares, debentures, and government securities. It also provides teams loan and bridge finances to Corporation bodies and also provide Credit for purchasing shares. There are various trustee services provided by CIT like debenture trustee Services, Escrow agent services, and Custodian service. Its function is also the public issue management, underwriting and syndication of underwriting public issue, and market of corporate and government securities. It also provides consultancy service in the area of capital markets. Such services are available for designing capital structure, pricing of securities, corporate acts like merger acquisition, privatization and other related activities.

1.3 Statement of the Problems

The concept of mutual fund is not clear than other investment alternatives. So, it is popular among few investors. That's why it could not take wide range of investor. It is still face sing some problems. Hence, the study has focus on the following problems related to the subject chosen.

-) ☐☐ what is the current scenario of mutual fund in Nepalese market?
-) ☐☐☐ what are the advantages and disadvantages of the mutual fund?
-) ☐☐ Is mutual funds return effective with comparison to other investment alternatives?
-) ☐☐ What will be the expected trend of return in future?
-) ☐☐ What are the focuses that influence the return of mutual fund?
-) ☐☐ What can be other portfolio of investment for mutual fund for better return?
-) ☐☐ Is there effective rules and regulation for investing in mutual fund?
-) How mutual fund makes investment less risky?
-) ☐☐ What are the current problems of mutual fund?
-) ☐☐ How far it is relevant in the Nepalese financial market?

This study has tried to search the solution of the above questions. In addition to this, it has also tried to state the present problem and possibilities of mutual fund.

1.4 Objectives of the Study

The main purpose of the study is to analyze the present functional performance of Cat's mutual fund and NCM mutual fund, and to examine the successfulness of these two organizations.

Other specific objectives are as follows:

1. To examine the growth and development of mutual fund in Nepal
2. To analyze investment portfolio of both mutual fund of schemes.
3. To analyze the return on mutual fund.
4. To compare a fund's performance with other investment schemes

1.5 Focus of the Study

All investor are not introduces about mutual fund. It is quite a new concept for Nepalese investors, and still in the growing phase, though study has to be made. The study has mainly focused as follows.

1. To analyses the risk and return of mutual fund.
2. To clear about the necessity of mutual fund.
3. To know current problems and future potentiality opportunity and threats of mutual fund.
4. Try to provide feed back for the better performance for the both companies.

1.6 Significance of the Study

A mutual fund is a corporation, treat or partnership that combines the assets of all of its shareholders or partners into one common investment account for the purpose of providing diversification and professional management.”⁴ so the investor should know what the objects are of the mutual fund, which helps to determine if it is suitable for his /her investment. Hence, this study will be much helpful for small investors in making the investment designs. This study is concerned with the finical intermediaries companies: it will be also significant for those who wish to pursue study on development of capital market.

This study will also be beneficial for the shareholders, management and the general public who want to know about mutual funds in Nepal.

1.7 limitations of Study

The present research is based on both primary and secondary data. Every research has its own constraints and limitations. It is also not an exception. The research results and findings based on the secondary data, depends in the real information disclosed by the respective organization. Similarly, the study

covers the period of five year i.e. 2003-2008. The study has main focused on only two mutual fund companies in Nepal. There are many factors that affect the financial performance of the company. Since it is not possible to cover all the factors, the study is limited to the variables, which can be exposed, in quantitative terms by fitting them into financial and statistical tools of analysis. And some recent data have been gathered to measure the current status of existing mutual funds. Non-availability of various references or sources and lack of time, this is a single effort to find out the problems and prospects of mutual funds in Nepal. The study has the following limitations.

1. The study is confined only on performance of mutual funds in Nepal.
2. Data have been used for five years from 2003-2008.
3. Questionnaire method is used to collect primary data.
4. Non-availability of various references or sources and lack of sufficient.
5. Some times internet is not sufficient to collect the data because the related company is not updated their wave side.
6. Difficult to collect previous data.
7. Someone is not interested to express their own view.

1.8 Structure of Study

The present research has been divided in six different sections to attain the desired objectives as under. Initially, vivo-voce sheet, declaration, acknowledgement and contents along with the list of tables and figures are given.

first chapter represents introduction of the study, important of mutual funds, types of mutual fund , statement of the problems, objectives of the study, structure of study and other relevant topics are include in this chapter.

In **second chapter** describe the review of literature.

Chapter three is for research methodology. It gives the idea of research design, data collection, tools and technique of data analysis.

Chapter four is the main part of the study. It represents the secondary data presentation and analysis by using various financial and statistical tools.

Chapter five is also important; it represents the primary data presentation and analysis by using various statistical tools.

Chapter six includes summary and conclusions of the study and some recommendations and suggestions that were found relevant to suggest and recommend from the study. Lastly, the set of questionnaire use for primary data collection and bibliographies are included at the last of the study report.

CHAPTER - II

Review of Literature

Review of literature means reviewing research studies or other relevant propositions in the related area of the study so that all the past studies, their conclusions and deficiencies may be known and further research can be conducted. In the chapter, an attempt is made to review some of the literatures concerning the mutual funds in Nepal and abroad. The chapter deals with the reviews relating to the topic, “performance of the mutual funds in Nepal” in detail. Various books, journals, articles and related previous research works have been reviewed.

2.1 Conceptual Framework

This section deals concept of mutual funds, type, expenses, advantages and disadvantages of mutual funds etc.

2.2 Types of Mutual Funds

Millions of aspiring investors lack sufficient capital to buy a diversified portfolio. Furthermore, even if they have enough money, most people do not have the expertise and time to manage a portfolio. As a result, enterprising portfolio managers have created public portfolios of diversified securities in which even small investors can afford to buy shares, These public portfolios, called Investment Company, typically assume one of two basic forms: (1)the open-end investment company ,usually called a mutual funds and (2)the closed-end investment fund.

(1) The Open-end Fund

The most popular types of Investment Company is open-end investment company, known as mutual funds, which offer shareholders the right for redeem their share at their approximate net asset value at any time. These companies are called open–end because as a matter of business, they continuously offer new shares and redeem the shares from the unit holders.

(2) Closed–end Fund

Another type of investment company is closed-end investment companies, whose share are not redeemable at the option of the holder (holder dispose of closed- end fund shares in secondary market transactions, usually in an exchange center) and unit investment trusts. Unit investment trusts are entities without board of directors that offer investors redeemable.

Mutual Funds can be categorized as follows:

(1) Balance funds:

These divide their holdings between fixed income securities and low- risk common stocks in order to avoid the risk of loss. These highly risk- averse funds have low rate of return.

(2) Growth funds:

These funds tend to invest only in common stock and plan to assume significant risk to obtain stock that are expected to provide substantial price appreciation

(3) Dual-purpose mutual funds

Dual- purpose mutual funds invest in equal amounts in each of two types of shares, income and capital. Income shareholders receive a set, minimum rate of

return and are paid all of the dividend and interest income produced by the fund. Income shares are redeemable at a stated time and price. Income shareholders do not receive any part of the fund's capital growth. Capital shareholders on the other hand, received no periodic income but due to entitle to all the company's assets after the company terminates and incomes shareholders have are reimbursed.

(4) Bond funds

Bond funds invest only in debt instruments, usually either corporate bonds or government bonds. Due to the relatively stable returns of these instruments as a portfolio base, the funds are generally exposed to be less risky than others.

(5) Option funds

An option funds are high risky investment in which manager of the fund buys and sell securities options and engages in "short" sales. Although options may be used in connection with existing portfolios of common stock to unit the effect of upward and downward price movement, the use of options without owning the underlying security is speculative and should be entered into lightly. Its return is high and return is also high.

(6) Treasury bond funds

Investors that are extremely averse to the possibility of bond default losses can purchase shares in these mutual funds, which only in default-free U.S Treasury bonds.

(7) Global funds

These funds invest in foreign securities; they can be divided into subcategories- (a) Global funds and (b) Global bond funds.

(8) Liquid assets funds

These mutual funds are also called money market funds because they invest in money market instruments such as Treasury bills. One of the main assets of some liquid asset funds is bank deposits (called certificates of deposits or CDs) of over \$100,000 that are left with the bank for a specified number of days. The 90-days or 180-days CDs sometimes pay high rates of interest with practically no risk. The investment objective of the liquid asset funds is to earn high rates of interest from liquid, low-risk short-term bonds, bank deposits and other money market instruments. Some money market funds specialize in short-term tax -exempt Municipal bonds.

(9) Treasury bond funds

Investors that are extremely averse to the possibilities of bond default losses can purchase shares in these mutual funds, which only invest in default-free U.S. treasury bonds.

(10) Municipal bond funds

These funds buy only municipal bonds to obtain their tax exempt coupon income. Only substantial individuals who are in high tax brackets regularly buy shares in municipal bond funds. Within the major category of municipal bond funds are in two subcategories- a) Short-term municipal bond funds and b) Long-term municipal bond funds.

(11) High-yield corporate bond funds

These mutual funds invest in the bonds of business corporations that have low bond quality ratings to earn interest rates higher than U.S. Treasury bonds pay while taking less bankruptcy risk than common stock investors. These high yield mutual funds are often called junk bond funds.

(12) International funds

- a. global funds these funds invest in both U.S and international stock.
- b. Foreign Funds these funds invest primarily outside the U.S
- c. Country specific funds-these funds focus on one country or region of the world
- d. Emerging markets funds-these funds focus on small developing country and are considered very risky.

2.3 Expenses of mutual funds

Mutual funds are managed by professionals. So that management expenses are incurred. However, such funds have very small amount of obligations. Other things being equal, investors benefit by investing in funds with low expenses ratios. Generally, followings are the expenses of mutual funds:

a. Load fee

Some mutual funds charge sales commission on the purchases and sales of shares.

b. Management fee

Every fund charges an annual management fee roughly 0.5% of assets market Value, to compensate for research and management cost increased by fund. The fee is deducted from the fund's earning during the year. The management is usually the largest component of a fund's expense. It covers salaries, office expenses, accessories, and the cost of portfolio management.

c. Administrative cost

Operating expenses of the fund, including custodian, accounting, legal and postage costs must be paid by the shareholders such fees are deducted from the assets of the funds on an annual basis and typically amount to less than 0.5% of assets value per year.

d. Transaction cost

Mutual funds like other investment must pay transaction costs to buy and sell the securities. Mutual funds have an advantageous over individual investors, however because of the large blocks they trade and their power to negotiate favorable, commission. Obviously, holding down portfolio turnover, whole other turnover almost their entire portfolio regularly, a possible 'hidden' transaction cost for investment companies is the pressure caused by the trading of a large block i.e., buying or selling a large block may drive the prices up or down beyond what would have occurred with a smaller number of shares.

2.4 Merits of Mutual Funds

-) Professional Management: - Few investors have the time or skill it takes to effectively manage a large portfolio of securities. Each mutual fund has a professional fund manager who monitors the fund's investment on a daily basis and decides which securities to buy and sell.
-) Diversification:-Mutual funds offer an efficient way to achieve diversification by enabling investors to purchase shares in a professionally managed portfolio of securities. In other words, the more stocks and bonds you own, the less any one of them can hurt you. Large mutual funds often own over 100 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.
-) Economies of Scale: - Because a mutual fund buy and sells large amounts of securities at a time. Its transaction cost is lower than an individual would pay.
-) Liquidity:- If you need cash, you redeem all or part of your shares any business day and receive the current value of your investment. (As with all securities, the value of the fund will fluctuate worth more or less than their original cost).

-) Simplicity:-Buying a mutual fund is easy, pretty well and bank has its own line of mutual funds, and the minimum investment is small. Buying a mutual fund is as simple as buying a security.

2.5 Demerits of Mutual Funds

-) Professional Management:-The overall measure of portfolio performance can be divided into two parts: one that considers manager's ability to successfully select individual stocks that are mispriced i.e. manager's selectivity skill. Did we notice how we qualified the advantage of professional management with the word "theoretically"? Many investors debate over whether or not the so-called professionals are any better than us at picking stocks. Management is by no means infallible, and even if the fund loses money, the manager still takes his/her cut.
-) Cost: - 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. These costs are under layers of jargon. These costs are so complicated.
-) Dilution: - It's possible to have too much diversification. Because funds have small holdings 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 return of a successful fund getting too big. When money pours onto funds that have had strong success, the manager often has trouble finding a good investment for all the new money.
-) Taxes: - when making decision about your money, fund managers don't consider your personal tax situation. For example, when a fund manager sells a securities, a capital-gain tax is triggered, When affects

how profitable the individual is from the sale. It might have been more advantageous for the individual to defer the capital gains liability.

2.6 History of mutual fund

The concept of mutual fund originated in England and found its way to the United States in 1924. When three Boston securities executives pooled their money together in 1924 to create the first mutual fund, they had no idea how popular mutual funds would become. The idea of pooling money together for investing purposes started in England in the 1800s. The first pooled fund in the U.S. was created in 1893 for the faculty and staff of Harvard University. On March 21st, 1924 the first official mutual fund was born. It was called the Massachusetts Investors Trust. After one year, the Massachusetts Investors Trust grew from \$50,000 in assets in the end of 1924 to \$392,000 in assets (with around 200 shareholders). In contrast, there are over 10,000 mutual funds in the U.S. today (in 2003) totaling around \$7 trillion (with approximately 83 million individual investors) according to the Investment Company Institute.

Both open-end and closed-end funds were organized in Boston, New York and Philadelphia. The purpose of mutual funds was essentially the same as today: to offer investors a way to obtain professional investment management along with diversification in terms of the number of securities in the portfolio. The stock market crash of 1929 temporarily halted the growth of the investment company industry. In particular, many of the closed-end funds were severely hurt by the market collapse. Nevertheless, in 1940 the assets of closed-end funds were still larger than those of mutual funds. Over the next decades, however, mutual funds outpaced closed-end funds to become the dominant organizational form for investment companies, by the end of 1989 mutual fund assets exceeded \$922.2 billion. While closed-end funds had grown to only \$53.6 billion. The 1990 edition contains data on more than 3600 investment companies including mutual funds, closed-end funds, unit trusts and variable

annuity separate account.

The popularity of mutual fund also increased in India. It has emerged as the most dynamic segment of the Indian financial system due to the rigorous policy initiatives of the government. Although till 1987, the unit trust of India (UTI) was the only mutual fund with an investible fund of Rs.6700 crores, the industry has witness an unprecedented level of growth with the fund under management rising to nearly Rs. 48000 crores by the end of 1992-93 and the funds crossing Rs 72000 crores by 1995)

The history of mutual fund in Nepal in comparison to other countries is quite new. Citizen Investment Trust (CIT) was the first institution that provides the professional management of the fund, it was started in 1990. CIT is incorporated under citizen investment trust act 1990 with a view to expand investment opportunities by encouraging general public to save capital and to bring the dynamism in the development of capital markets.

CIT is basically the saving and investment institution and it statutorily derives a special status and privileges, which adds up its strengths to emerge as a national institution reaching wider spectrum of the population. CIT, at the same time achieves a high professionalism in the financial intermediation and has an ability to provide varied capital market services.

NIDC capital markets was then the second organization which introduce the first mutual fund namely NCM mutual fund in 2050 in Nepalese financial market. Initially, this mutual fund was issued as open-end fund but later in 2059, it was converted in closed-end.

2.7 Mutual funds: Buying and Selling Funds

You can buy some mutual funds (no load) by contacting the fund companies directly. Other funds are sold through brokers, banks financial planners, or

insurance agents. If you buy through third party there is a good chance they'll hit you with a sales charge (load).

That being said, more and more funds can be purchased through no transaction fee programs that offer funds of many companies. Sometimes referred to as a "fund supermarket," this service lets you consolidate your holdings and record keeping, and it still allows you to buy funds without sales charges from money different companies. Popular examples are Schwab's one source, vanguard's fund access, and fidelity's funds network. Many large brokerages have similar offerings.

Selling a fund is as easy as purchasing one. All mutual funds will redeem (buy back) your shares on any business day. In the United States companies must send you the payment within seven days.

The value of fund

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. 14 then you can expect to buy the fund for Rs 14 or sell it for Rs. 14 (although some loaded funds don't follow this logic). You can basically just think of NAV per share as the price of a mutual fund. It fluctuate everyday as fund holding 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.

2.8 Calculating NAVs

Calculating mutual funds net asset value per share is easy. Simply take the current market value of the fund's net assets (securities held by the fund minus any liabilities) and divide by the number of share outstanding. So if a fund had

net asset value of Rs 140 million and there are one million shares of the fund. Then the price per share (or NAV) is Rs.14.

NAV can be found out by solving the following equation.

$$\text{Net asset Value (NAV)} = \frac{\text{Total asset} - \text{Liabilities}}{\text{No. of stock}}$$

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

2.9 How to Use Net Assets Values

NAVs are helpful in keeping an eye on your mutual fund's price movement. But NAVs are not the best way to deep 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. was paid out to the shareholder).

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

Rate of return of opened -end and closed -end funds

The rate of return of open-end company or mutual fund is found out based on the Net Assets Value (NAV)

$$\text{Rate of Return (r)} = \frac{\text{NAV1} - \text{NAV0} + \text{D1} - \text{C1}}{\text{NAV0}}$$

Where,

D1=dividend

C1=Capital gain

NAV1=Net Assets Value at the end of year 1

NAV0=Net Assets Value at the end of year 0

The rate of return of closed-end Company is simply the total return an investor would receive during the investment period or holding period stated as a percent of the investment's price at the start of the holding period.

$$\text{Rate of Return (r)} = \frac{P_1 - P_0 + D_1}{P_0}$$

Where,

P₁= Ending price

P₀= Beginning price

D₁=Cash flow income (cash dividend or coupon interest)

2.10 Performance measures of mutual funds

Return alone should not be considered as the basis of measurement of the performance of a mutual funds scheme, it should also include the risk taken by the fund manager because different funds will have different levels of risk attached to them. Risk associated with a fund, in a general, can be defined as variability or fluctuations in the returns generated by it. The higher the fluctuations in the returns of a fund during a given period, higher will be the risk associated with it. These fluctuations in the returns generated by a fund are resultant of two guiding forces. First, general market fluctuations, which affect all the securities, present in the market. Called market risk or systematic risk

and second, fluctuations due to specific securities present in the portfolio of the fund, called unsystematic risk. The total risk of a given fund is the sum of these two and is measured in terms of standard deviation of returns of the fund. Systematic risk, on the other hand, is measured in terms of beta. This represents fluctuations in the NAV of the fund vis-à-vis market. The more responsive the NAV of a mutual fund is to the changes in the market, the higher will be its beta. Beta is calculated by relating the returns on a mutual fund with the returns in the market. While unsystematic risk can be diversified through investments in a number of instruments, systematic risk cannot. By using the risk return relationship, we try to assess the competitive strength of the mutual funds vice-versa one another in a better way.

Mutual funds invest according to the underlying investment objective as specified at the time of launching a scheme. So, it can be equity funds, debt funds, gilt funds and many others that cater to the different needs of the investor. The availability of these options makes them a good option. While equity funds can be as risky as the stock markets themselves, debt funds offer the kind of security that is aimed for at the time of making investments. Money market funds offer the liquidity that is desired by big investors who wish to park surplus funds for very short-term periods. Balance funds act to the investors having an appetite for risk greater than the debt funds but less than the equity funds. The only pertinent factor here is that the fund has to be selected keeping the risk portfolio of the investor in mind because the products listed above have different risks associated with them. So, while equity funds are a good bet for a long term, they may not find favor with corporate or High Networth Individuals (HNIs) who have short-term needs.

In order to determine the risk-adjusted returns of investment portfolios, several eminent authors have worked since 1960s to develop composite performance indices to evaluate a portfolio by comparing alternative portfolios within a particular risk class. The most important and widely used measures of

performance are:

-) the Treynor measure
-) the Sharpe measure
-) Jensen model
-) Fama model

2.10.1 The Treynor measure

Developed by Jack Treynor, this performance measure evaluates funds on the basis of Treynor's index. This index is a ratio of return generated by the fund over and above risk free rate of return (generally taken to be the return on securities backed by the government, as there is no credit risk associated), during a given period and systematic risk associated with it (beta). Symbolically, it can be represented as:

Treynor's index (T_i) = $\frac{R - R_f}{\beta}$

β

Where,

R = Return on fund

R_f = Risk free rate

β = Beta coefficient of fund

"All risk-averse investors would like to maximize this value. While a high and positive Treynor's index shows a superior risk-adjusted performance of a fund, a low and negative Treynor's index is an indication of unfavorable performance"

2.10.2 The Sharpe Measure

In this model, performance of a fund is evaluated on the basis of Sharpe ratio, which is a ratio of returns generated by the fund over and above risk free rate of return and the total risk associated with it. According to Sharpe, it is the total

risk of the fund that the investors are concerned about. So the model evaluates funds on the basis of reward per unit of total risk. Symbolically, it can be written as:

$$\text{Sharpe index (Si)} = \frac{(R-R_f)}{\sigma_f}$$

Where,

R_f = Risk free rate

R = Return of the fund

σ_f = standard deviation of the fund

While a high and positive share ratio shows a superior risk-adjusted performance of a fund, a low and negative Sharpe Ratio is an indication of unfavorable performance.

2.10.3 Comparison of Sharpe and Treynor

Sharpe and Treynor measures are similar in a way, since they both divide the risk premium by a numerical risk measure. The total risk is appropriate when we are evaluating the risk return relationship for well diversified portfolios. On the other hand, the systematic risk is the relevant measure of risk when we are evaluating less than fully diversified portfolios or individual stocks. For a well-diversified portfolio the total risk is equal to systematic risk. Ranking based on total risk (Sharpe measure) and systematic risk (Treynor measure) should be identical for a well-diversified portfolio, as the total risk is reduced to systematic risk.

Therefore, a poorly diversified fund that ranks higher on Treynor measure, compared with another fund that is highly diversified, will rank lower on Sharpe Measure.

2.10.5 Jensen Model

Jensen model proposed another risk adjusted performance measure. This measure was developed by Michael Jensen and is sometimes referred to as the differential return method. This measure involves evaluation of the returns that the fund has generated vs. the returns actually expected out of the fund give the level of its systematic risk. The surplus between the two returns is called alpha, which measures the performance of a fund compared with the actual returns over the period. Required return of a fund at a given level of risk (β) can be calculated as:

$$R = R_f + \beta (R_m - R_f)$$

Where, R Represents the return on fund, R_f is the risk free rate of return, β the beta coefficient and R_m , the average market return during the given period. After calculating it, alpha can be obtained by subtracting required return from the actual return of the fund. $\exists \exists$

Higher alpha represents superior performance of the fund and vice versa.

Limitation of this model is that it considers only systematic risk not the entire risk associated with the fund and an ordinary investor can not mitigate unsystematic risk, as his knowledge of market is primitive.

2.10.6 Fama Model

The Eugene Fama model is an extension of Jensen model. This model compares the performance measured in terms of returns of a fund with the required return commensurate with the total risk associated with it. The difference between these two is taken as a measure of the performance of the fund and is called net selectivity.

The net selectivity represents the stock selection skill of the fund manager, as it is the excess return over and above the return required to compensate for the

total risk taken by the fund manager. Higher value of which indicates that fund manager has earned returns well above the return commensurate with the level of risk taken by him.

Required return can be calculated as:

$$R = R_f + \beta_m (R_m - R_f)$$

Where,

β_m - Standard deviation of Market return

R - Required return on fund

R_f - Risk Free Rate

β_f - Standard deviation of Fund

R_m - Market Return

The net selectivity is then calculated by subtracting this required return from the actual return of the fund.

Among the above performance measures, two models namely, Treynor measure and Jensen model use systematic risk based on the premise that the unsystematic risk is diversifiable. These models are suitable for large investors like institutional investors with high risk taking capacities as they do not face paucity of funds and can invest in a number of options to dilute some risks. For them, a portfolio can be spread across a number of stocks and sectors. However Sharpe measure and Fama model that consider the entire risk associated with fund are suitable for small investors, as the ordinary investor lacks the necessary skill and resources to diversify. Moreover, the selection of the fund on the basis of superior stock selection ability of the fund manager will also help in safeguarding the money invested to a great extent. The investment in funds that have generated big returns at higher levels of risks leaves the money all the more prone to risks of all kinds that many exceed the individual investors risk appetite.

2.11 Review of Articles and Journals

This section attempts to review the most important research works that have been conducted in the area of mutual funds. Primarily, researches are conducted to measure the performance of mutual funds in different situations. The performance of mutual fund is measured in terms of risk and return of the fund with the comparison of the risk and return of the market. Here are come review of research works conducted by the researcher academicians.

Journals:

Journals: The journal of finance, 1949

Title: The Economic role if investment company

Wrirer: John c.Bogle

The john C.Bogle, Founder and senior chairman. The vanguard group was selected as the 1999 recipient if the “Adam Smith distinguished leadership Award”. In his study, he focused in how to help the citizen of United States of America put aside part of today’s earning for tomorrow. And invest those savings in the most productive manner possible. The role of mutual funds is repository for the savings of American families was a prime theme of the senior thesis that he wrote at Princeton university nearly 50 years ago – it was entitled “the economic role of the investment company” –and he worked in this industry ever since his graduation.

His thesis put forth the preposition that the best way for individuals to employ their capital stock was in owing mutual funds. Every individual intends only his own security; by directing his industry in such a manner as to produce its greatest value. He believes that the investment companies could make better utilization of the fund resulting the substantial benefit.

Friend, Brown, Herman and Vickers conducted on mutual funds in 1902. it was the first empirical analysis of mutual fund performance. Because of the growing important of investment mutual funds in the united state, the

securitized and exchange commission (SEC) engaged the Wharton school of finance and commerce to conduct the study of mutual funds. The researchers found the relationship between the performance of mutual funds and management fees and sales charged that funds levied. The research indicated that higher management fees doesn't imply superior management ability the funds. (Wharton school of Finance and Commerce, August,28, 1962.)

In 1965, Jack Treynor presented a paper in the Harvard Business Review titled "How to rate management of investment funds." He made a comprehensive study on the performance of mutual funds. He divided an index in order to rank the performance of funds. He used the systematic risk i.e. beta of the fund rather than the total risk i.e. standard deviation. (**J. Treynor, Harvard Business Review, Jan-Feb, 1965, p 63**)

Thus, Treynor's Index:

$$I_T = \frac{\text{Risk premium (Excess return)}}{\text{Beta}}$$

Where,

$$\text{Risk premium (Excess return)} = \text{Average return} - \text{Risk less rate}$$

He found out from his study that the fund was not superior performance as the market portfolio.

In 1966, William Sharpe devised an index of portfolio performance to measure the performance of mutual funds. The performance is measured in terms of risk and returns of the fund.

$$\text{Therefore, Sharpe index (S}_i\text{)} = \frac{\text{Risk premium}}{\text{Total Risk}}$$

$$= \frac{r_i - R_f}{\sigma_i}$$

$$\sigma_i$$

$r_i - R_f$ is called the risk premium for portfolio i . The risk premium is called the additional return over and above the risk less rate that is paid to induce investors to assume risk. Sharpe index of performance generates one ordinal number that is determined by both risk and return of the portfolio.

Sharpe gathered data on risk and return of 34 mutual funds for a decade and ranked standard rein performance. The Dow Jones Industrial average (DJIA) was used as a standard of comparison in evaluating the performance of funds. Out of 34 funds, 12 had risk premium to risk ratios above 0.667 of the DJIA. The average of the 34 mutual funds ratio is 0.633, which is below the DJIA 0.667. This means that the DJIA was a more efficiency portfolio than average mutual funds in the sample. The efficiency of average mutual funds investment is below than of the DJIA. He follows that, many investors would be able to creating own portfolio of randomly selected stocks instead of buying mutual funds.

In 1968, Dr. Michael C. Jensen modified the characteristic regression line to make it useful as one parameter investment performance measure. The basic random variables in Jensen's model are risk premium, defined as following.

$r_{p,i,t}$ = risk premium for assets i in period t

$r_{b,t}$ = one period rate of return for assets i in period t

R_f = Risk free rate of observed in period t

Jensen's finding was that the funds in his study were an average not able to predict security prices well enough to outperform a buy the market and hold policy but also that there is very little evidence that any individual fund was able to do significantly better than that which we expected from more random chance. Jensen found that the funds earned (not of expenses) about 11% less pre year (computed continuously) then they should earn the given their level of

systematic risk. (Jensen: *Journal of Business*, May, 1968, p.386)

Darryll, Hendricks, Jayendu Patel and Richard Zeckhauser (1993) conducted a research on performance of mutual funds and the research programmer was supported by Brady Foundation and the decision, Risk and Management sciences program of the National Science Foundation . The study carefully examined the quarterly excess return of 165 funds from 1974 through 1988 in order to see whether funds with relatively high returns in one period tended to have relatively high return primarily in common stocks with the objectives of growth and income or income and aggressive growth. (**Hendricks, Patel and Zeckhausre, *Journal of finance*: March, 1993**) .

In the study each fund was placed in one of the eight groups based on the excess returns over the first quarter of 1974. Then the excess return of each group was measured for the record quarter of 1974 by averaging the excess return of funds in the group. the process was repeated except that the funds was assigned to one of the eight groups based on their quarterly excess return for the second quarter of 1974, and then the average fund excess return was for each group was calculated for the third quarter of 1974. This process was repeated through the forth quarter of 1988, resulting in a set of quarterly excess return for each group ranging from the s second quarter of the 1988. At this point average excess quarterly returns for the eight groups were calculated over the entire period.

This study found that the mutual funds that didn't better in one period quarter were lively to do better in the next quarter. The study also suffused that investors should be concerned with short-term relative performance based on the quarter. Similar results were obtained when various risk-adjusted measures of performance, such as ex-post alpha were used.

2.12. Review of Empirical Studies

All empirical studies referred to in this section are based on different samples of U.S mutual fund portfolios. The empirical results based on Jensen's standard

and modified measures have also been subject to some debates among researchers. The early study of portfolio measurement, Especially Jensen (1969) shows that between 1964, mutual fund portfolios displayed an inferior performance net cost, and neutral performance gross cost. Sharpe (1966) and Blume and Crockett (1970) found similar results. During 1980s however, some studies were done which showed that the mutual funds might generate risk - adjusted returns that would beat the passive strategy. These results follow the definition of market efficiency by Grossman (1976) and Grossman and Stiglitz (1980). According to these studies, in an efficient market one should consider the cost of acquiring information and implement it in investment decision.

Lehman and Modest (1987) study the performance of 130 mutual fund portfolios over the 1968-1982 periods. The objective of their study was to learn whether inferences about the performance of their portfolios are sensitive to different benchmark portfolios, including CAPM and APT benchmark. The conclusion is that Jensen measure is, in fact, highly sensitive to the methods used to construct the APT benchmark. Generally the greater the number of stocks included in the analysis of APT, the lesser is the value of the Jensen measure.

Ippolito (1989) applies the Jensen measure to a sample of 143 mutual fund portfolios during 1965-1984 periods. The results show that 127 out of 143 portfolios had alphas equal to zero, 12 had positive alphas and only 4 had negative alphas, corresponding figures in Jensen (1969) for a 1945-1964 period were 98 zero alphas out of 115 portfolios and 3 positive and finally 14 negative alphas. The average value of alphas in Ippolito's sample was 0.81, net costs and expenses except load charges, while the same figure in Jensen's sample was -1.1. Ippolito (1989) interpreted the results as evidence of superior mutual funds performance. The results are of course, contrary to Jensen's.

Thus the conclusion is clear. According to results in Ippolito (1989), the mean

alpha is on average significantly positive, but it seems to be just enough to cover the cost of acquiring the superior information. Thus the results suit the characteristics of an efficient market where information is costly.

The study of Ippolito (1989) has been, more or less directly, confronted in a number of articles. The common issue is, though, that the empirical analysis is based on the single factor model. Lehnann and modest (1987), Grinblatt and Titman (1989) and Elton, Gruber, Das, and Hlavka (1993) have dealt with a multi- factor structure of performance measurement.

Grinblatt and Titman (1989) also apply Jensen's measure to a large number of mutual fund portfolios during the 1974-1984 periods. The important difference in their methodology then was that the appropriateness of an index portfolio as a benchmark portfolio is judged by the performance of passive portfolio relative to it. There are four benchmark candidates for the zero- performance test of the passive portfolio. The most appropriate benchmark portfolio, in the context of zero-performance test, turns out to be the eight - portfolio benchmark formed on the basis of firm size, dividend yield, and past returns. In addition, Grinblatt and Titman (1989a) use the compositions of the portfolios for the sample period to form hypothetical portfolios to study the impact of the survivorship bias on the empirical results of performance among the sample portfolios.

The empirical results from Grinblatt and Titman (1989a) show that by employing Jensen's measure to the p8-benchmark one can find significant evidence of superior performance. The evidence is particularly in favor of superior performance among aggressive -growth and growth funds and those funds with the smallest net asset values. It is interesting that these funds also have the highest expenses. Thus the return, net all expenses, do not exhibit abnormal performance. Furthermore, Grinblatt and Titman (1989a) consider the survivorship bias to be relative small and negligible.

Elton, Gruber, Das, and Hlavka (1993) focus on the results from Ippolito (1989) and discuss the importance of the assets, not included in the standard & Poor's index, for the outcome. Elton apply Jensen's measure to the data used in Jensen (1969) which covers mutual fund returns during 1945-1964, and in Ippolito (1989) which covers the mutual funds returns during 1965-1984. The conclusion is that when the impact of non -standard & poor assets is accounted for, the results from Ippolito's period are very much like the results from Jensen's period. This implies that Ippolito's findings are reversed and that the results are consistent with the literature of 1970s in this field, which concurs on the point that mutual fund managers under-perform the passive portfolio strategy. Furthermore Elton show that funds with higher fees and turnover under-perform those with lower fees and turnover.

Malkiel (1995) studies the results of mutual fund performance during the last two decades. The interesting aspect of Malkiel (1995) for our study is its deep analysis of the importance of the survivorship bias in the studies of mutual fund performance. The data set used for the study of mutual fund performance is normally based on surviving portfolios - ones that on average have a relatively good performance. Many portfolios with poor or very poor performance are, naturally, vanished from the market or merged into other portfolios with a more successful performance. Malkiel (1995) comprehensively includes all the mutual fund portfolios that existed during the 1982-1994 period. The results are interesting, especially for growth funds. The yearly average of growth funds, when all portfolios in existence during the sample period are included, is 15.81 percent, while the yearly average of survived portfolios during the same period was 17.89 and the yearly average of S & P 500 index was 17.52 percent. Clearly the performance of the survived portfolios seems to be in line with the results from Grinblatt and Titman (1989a), but considering all the funds in existences, the conclusion will be reversed i.e. even growth funds has a neutral to inferior performance. Thus the final conclusion in Malkiel (1995) is that when returns from all funds are analyzed, there is an indication of mutual funds under -

performing the market, both net and gross costs.

Further Research Topics on the Mutual Fund

In this section a summary of several research topics in the area of mutual fund market is given.

Is there "smart money" in the mutual fund market, i.e. it possible for active mutual fund investors to generate risk - adjusted return by active mutual fund investors to generate risk - adjusted return by systematic selecting portfolios with superior performance? This question has been discussed in Gruber (1996) and Zheng (1997)

Gruber (1996) demonstrates the following: a) there are some mutual fund managers with long - term persistence in superior performance, and b) there is no significant correlation between the management ability and the management costs. Given these results, together with the fact that the share of the mutual fund portfolios are traded at the net asset value, there should be some arbitrage potential for active mutual fund investors. Gruber evaluates this notion of smart money and finds evidence to support Zheng(1997) examines the smart money effect on a large sample of equity portfolios and finds that the future performance of the sample portfolios may be predicted by the investors' cash flow in the portfolios. However, active mutual fund investors can beat the market.

The issue of mutual fund managers' portfolio strategy has also engaged many researchers. Falkenstein (1996) studies the holding strategies of a comprehensive set of mutual fund managers during 1991-1992, using semi parametric regressions. He finds significant effects from several stocks characteristics, such as price level, volatility, liquidity, news stories and size, on the managers' stock picking. Most of the mutual funds favor stocks with high

volatility and high liquidity. Mutual fund shows also some aversion to low-price stocks, stocks in firms that provide little information flow, and small firm stocks. The latter is, though, not the case for the small - capital mutual funds. the significance of these variables in explaining mutual fund strategies is that they show the managers concern for risk, transaction costs, and information generated by the firms.

Brown, Harlow, and Stark (1998) identify a source of changes in the risk exposure of a portfolio that depends on the portfolios' past performance. A sample of 334 mutual fund portfolios during 1976-1991 is divided, each year, into two categories, latter part of the year to a greater extent than mid-year winners. This effect seems to become stronger as the mutual fund industry grows and investor awareness of fund performance increases.

Most of the performance measures discussed in this section is based on the unconditional returns. The conditional equilibrium models have developed in finance without being applied in the area of performance measurement, in a considerable extent. Wayne and Schadt (1996) use a sample of monthly returns for 67 mutual fund portfolios during 1968-1990 to estimate their performance conditioned on the public available information. They find significant evidence of variable conditional portfolio risk. When the conditional benchmark models are used, the overall Jensen measure and the measures of market timing suggested by Treynor and Mazuy (1966) and Merton and Henriksson (1981) indicate better portfolio performance than when the unconditional models are used.

Redman, Gullet and Manakyan's Study (2000) Arnold L. Redman, N.S. Gullet and Herman Manakyan made a recent study on the performance of Global and International mutual fund. The study examined the risk adjusted return using Sharpe's index, Treynor's Index and Jensen's Alpha for five portfolios of international mutual fund and for three time periods: 1985 through

1994, 1985-1989, 1990-1994. the benchmarks for comparison were the U.S.A market proxies by the vanguard index 50 mutual fund and a portfolio of fund that invest solely in U.S.A stocks.

The study found out that during the period of 1985 through 1994, the portfolio of global funds generally earned and risk - adjusted returns superior to that of the U.S.A market and the portfolio of domestic mutual fund under the Sharpe and Treynor's Indices. The Jensen's Alphas were generally positive, but were not significantly different from zero during 1985-1994. The R²s for the Jensen regression were generally below 60% indicating that excess returns in the U.S.A stock market explained a small proportion of the excess returns of the global portfolio of funds.

For 1985 through 1989, all international portfolios outperformed both the U.S.A stock market and domestic mutual fund according to Sharpe and Treynor's Indices. The informational funds as a group had a Jensen's Alpha that was significant and positive indicating superior risk adjusted relative to the stock market. For the period 1990 through 1994, the risk -adjusted returns of global portfolios were lower those of the domestic fund portfolio and the stock market under the Sharpe and Treynor's indices. The Jensen's alphas were negative for all of the global portfolios. While the alpha for the domestic portfolio was small and positive. The study concluded that there are potential diversification benefits to adding global funds to portfolios of domestic mutual fund and showed that mutual fund that invested solely in foreign securities or in combinations of U.S.A stock outperformed the U.S.A market over the past ten years.

Some other studies were also conducted with regarding to global funds. In 1990, Cumby and Glen compared the performance of 15 U.S.A based index for the U.S.A the Morgan Stanley world index and to benchmark combining the world index and Euro currency deposits. Cumby and Glen concluded the funds did not

outperform the international equity index. However, there was some evidence of the funds outperforming the U.S.A index. Eun Kolodny and Resnick (1991) reported similar findings. The benchmarks used in their study were the standard and poor's 500 indices. The Morgan Stanley capital international world index and a self constructed index of U.S.A multinational firms. For the period 1977-1986 the majority of international funds outperformed the U.S.A market. However, most of them failed to outperform the world index.

Jan Annaert, Julien van den Broeck and Rudi Vander Vennet (2001) in the paper, "Determinants of Mutual Fund performance: A Bayesian Stochastic Frontier Approach", they acknowledge the results from three decades of mutual fund performance studies that mutual funds are not able to outperform passive benchmarks. Nevertheless, cross-sectional differences in performance may exist and identification of such difference may be important to mutual fund investors. The purpose of this paper was to identify readily available ex-ante fund statistics that can be related to future performance of European equity funds over the period 1995-1998. This task is hampered by the fact that ex-post, purely due to chance, some funds are found to outperform the benchmark portfolios. In this paper we therefore decompose the return deviation from their expected return into a noise component and an efficiency term which would be 100% if the fund exhibits no underperformance. The decomposition is based on the Bayesian frontier approach as developed by van den Broeck, et al. (1994).

They found that for a sample of European equity funds efficiency is positively related to fund size. Large funds outperform small funds, which may indicate the presence of scale economies in the European equity mutual fund industry. However, as they relied on an ex-post size figure, the relationship may also be due to a flow effect: investors may base their investment decision on historical performance. This would also result in a positive relationship between performance and ex-post size. The positive relationship found for the ex-ante size figures provides an evidence for the former explanation, but due to their

poor quality the statistical evidence is weaker.

In addition to a relation with size, we also find that performance is related to historical performance, which is in line with the performance persistence literature. This effect is almost entirely due to the poorly performing group of funds. No relationship between efficiency and historical return is found in the top 80% of funds. Finally, they fail to find a link between fund age and performance.

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Lounsbury, Michael and leblebici, Huseyin(2002) in the paper, "new practices and Logic Transformation: Sources of professional Money Management firm Contracting in the U.S. mutual fund industry" they examined how professional money management practices emerged and became established in the mutual fund industry. while industrial researcher have recently highlighted how practices change in organizational fields as a result of shifts in institutional logics, there has been little attention directed towards how logics change. Drawing on historical research and event history analyses, they showed study how the professionalization project of money managers fostered a shift from a trustee to market logic in the mutual fund industry, enabling the rise of contracting to professional money management firms by mutual funds. They highlighted how contracting to professional money management firms was initially introduced by new entrant from outside the industry, but was later adopted by existing firms that switched from in - house money management to external contracting when their funds experience poor performance. In showing

how new practices related to the money management profession required professional elites to engage in efforts that transformed industry logics, their study contributes to theories of institutional change while also helping to bridge the literatures on organizations and professions.

2.11.2 Review of Related Thesis

Title: A study in mutual fund performance in Nepal

Researcher: Mr. Suman Neupane (2001)

In his study, Mr. Suman 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 tried to analyze the performance and practice of mutual fund in Nepal and conclude that it has been far from satisfactory level in comparison to the market portfolio.

Title: Risk and Return analysis of investing in mutual fund

Researcher: Srijana Mohato (2000)

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. In her study, she used the following statistical and financial measures to find out risk -adjusted and evaluate the performance of mutual fund:

-) Sharpe's index
-) Treynor's Index
-) Jensen's alpha
-) Reward to volatility Ratio
-) Reward to variability Ratio

In conclusion, she found out that the NCM mutual fund id 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.

In her opinion there exist several deficiencies in the practice of mutual fund in Nepal. Since the return is comparatively low and the risk is higher, as a result, investors are hesitating to put their money in mutual fund. Thus, investors prefer investing in stock to mutual fund. She even believes that one of the major reasons for the failure of mutual fund might be due to lack of proper knowledge.

Title: Mutual Fund: An Emerging Trend in Nepalese Financial Market

Researcher: Rabin Hada (2004)

The main objective of this study was to examine the need and significance of mutual fund for Nepalese economy and to explore the current problems being faced by the mutual fund and its performance in Nepalese market.

In this study, he examined the trading trend of NCM mutual fund in NEPSE index. The projected and actual NAV of NCM mutual fund has been analyzed with trend analysis.

After analysis, he has concluded that NCM mutual fund has underperformed of could not perform efficiently; he has also added that Nepalese capital market which is an important sector to Nepalese economy could not develop sufficiently to sustain the financial institutions like mutual fund companies.

Performance of listed companies and returns to investors:-2002

Arun Kumar Dhungana(T.U)."Mutual Fund provides collective investment opportunities to individual investors. CIT and NIDC capital markets ltd. are

working as Mutual Fund companies in Nepal. "The profitability condition of both companies is satisfactory for most of the years, but CIT is relatively earning more profit than NIDC Capital Market. Earning per share is positive for both companies but not satisfactory. The liquidity position of both companies is not good, rather comparatively, NIDC Capital Market is better than CIT .NIDC Capital Market is better performance in collecting debt and its capital structure but turnover position of CIT is better. Both companies are generating profits, but CIT has relatively higher profit. CIT is providing higher yield lower risk and more liquid than the other. Thus the financial position of CIT is slightly better than NIDC Capital Marker ltd. in terms of profitability and activity ratios, but the liquidity and capital structure of NIDC Capital Markets ltd. is better than CIT (Adhikari-2001, 67-71)

CHAPTER - III

Research Methodology

3.1 Introduction

Research means to get new things and techniques and to verify existing tools and techniques by hypothesis and other relevant information. Methodology is the research method used to complete the study systematically and test the hypothesis. This chapter aims to familiar the relevant techniques of data collection, analysis of data includes research design, population and sample of the study, methods of data collection, tools and techniques of analysis and some research hypothesis. A research methodology helps us to find out accuracy, validity and stability. The justification on the present study can not obtained without help of the proper research methodology.

The present study is designated to focus on the performance of mutual fund in Nepal. It has tried to find out the problems and prospects of mutual fund in Nepal. The study is based on both primary and secondary data. A set of questionnaire is distributed to collect the primary data from the respondents. The sources of primary data are executive of respective organization, SEBO/N, NEPSE, stock brokers and investors and professionals. Random sampling method is used to collect the data from the respondents. Secondary data is collected from Nepal stock exchange, securities board, and respective organizations. Some facts have been collected from websites of various organizations. Various financial and statistical tools are used to obtain the objectives of the research.

3.2 Research Design

“A research design is the arrangement of condition for collection and analysis of data in a manner that aims to combine relevance to the research proposes

with economy in procedure. It helps the research identifying the research problem and problem area to report writing with the help of collection, tabulation, analysis and interpretation of data.

Research design is a plan, structure and strategy of investigation conceived so as to obtain answer to research questions and to control the variables. Research design stands in obtaining information, the availability of skills of the research staff and a detailed explanation of the way in which selected means of obtaining information will be organized and the reasoning to the selection and time and cost of the research.

This is a small study going to be conducted by a single researcher and will be bases on the primary and secondary data in the peripheries of the mutual funds in Nepal. Mainly, the research will be commended on the covered area of the performance of mutual funds in Nepal.

3.3 Sources of Data

The data collection is a major part of this study since it plays a key role in this study. Having decided the problem and its scope, the next point is to determination the sources from which the data are to be collected. The persons or organizations that have collects the data and the reports and publications in which the data are published are known as the source of data. Data may be obtained from two sources: primary data and secondary data. This study is equally based on secondary sources of information as well as primary sources of information.

3.3.1 Primary Data Collection

The primary data are collected using the questionnaire method, interview and discussion with the concerned officers at NIDC capital market and CIT. primary data are collected through structured and opened questionnaire from various respondents. The respondent's categories are shown as in table.3.1.

Table 3.1
Respondents' Category

Respondents category	No of respondents	percent
NEPSE& SEBO/N	15	30%
NIDC&CIT	15	30%
Stock Brokers	10	20%
Investors	10	20%
Total	50	100%

A set of questionnaire was prepared regarding the problems and prospects of mutual funds in Nepal and was distributed of the different respondents. The respondents are categorized in to four groups as SEBO/N, NEPSE, Mutual fund manager executives, Stock Brokers and individual investors. Total 65 sets questionnaires were distributed. Out of the questionnaire distributed to the different respondents, 15were from SEBO/N and NEPSE 15 mutual funds manager executives, 10 to stock brokers and 10 sets were collected from general investors i.e. total 50 were collected.

The data obtained from the questionnaire are firstly collected and then tabulated. Then data are analyzed using Chi-Square statistics. All the questionnaires are presented in Appendix. While conducting the personal interviews, the respondents are asked for the effective solution to the problems of the mutual funds in Nepal.

The study is based on primary data for analyzing the problems and prospects of mutual funds in Nepal. The primary sources of data are used by questioning to the concerned people. Questionnaires are personally presented by hand to all the respondents. Information is also collected through direct interview with the respondents. Secondary data consists of descriptive analysis of secondary

market indicators and the corporate information disclosure made by the governing bodies, publication of the capital market related studies, trading reports, annual reports, past studies made in this field. The prevailing laws and bylaws also included in the secondary sources of information. All these are collected by visiting the different bodies and gathered at the time of field visit.

3.3.2 Secondary Data Collection

The backbone of this study is the data collected from the secondary sources. A significant number of secondary data have been used in this study. Some of the information is collected from the various websites in order to prove the study more relevant. The data which are originally collected but obtained from some published or unpublished sources: The major source of secondary data are as follows:-

-) Annual report of NCM and NIDC capital market
-) Previous thesis and report
-) Course books and materials
-) Finance websites
-) Bulletins of related organization
-) Financial journals from T.U library
-) library of securities board
-) Others

3.4 Tools and Techniques of Analysis

Secondary data are very important to know the existing condition of mutual funds and their presence in the capital market. On the basis of the existing condition of the mutual fund's performance in terms of risk and returns, the problems and prospects have been tried to find out. To achieve the desired objectives of the research both financial and statistical tools are employed.

On the basis of the financial tools, the existing performances of mutual funds

are assessed in terms of risk and return to the investors. And Chi-Square statistic has been employed to test the validity of the obtained result. The following is the introduction of some tools used in this research.

3.4.1 Financial Tools

Financial tools are used to evaluate the financial performance of the fund in the capital market. Using various financial tools we can measure the performance and efficiency of the fund in the financial market.

1. Expected or Required Rate of Return (ER)

It is the expected return to be received from the fund. It is found out taking the sum of previous returns dividing it by the number of years. This financial tool helps us to determine the market price or value of the fund. It is defined as:

$$E(R) = \frac{R}{n}$$

E(R) = Expected return on the fund

n = no. of periods

2 Market price of the fund

The price at which the stock is purchased and sold in the market is known as the market price. It is determined by the law of Demand and supply. It is perhaps one of the most important tools to measure the fund's performance and the efficiency of the management. There are many factors that affect the market price of a stock. Some of them are:

-) Firm's Goodwill
-) Net income
-) Expected Dividend
-) Management
-) Others

When taking market price, three types of price: high price, low price and closing price are recorded. But the closing market price of the fund is used for the analysis purpose.

3. Holding Periods Rate of Return on Stock Investment

“Return is the total gain or loss experienced on an investment over given period of time; calculated by dividing the asset’s change in value plus any cash distributions during the period by its beginning –of – period investment value.” This tool helps us to find out the real rate of return on the fund investment. It is the minimum return that the fund must earn. It is defined as,

$$R = \frac{P_t - P_{t-1} + C_t}{P_{t-1}}$$

Where,

R=Actual, Expected or Required rate of return during the period t

P_t = price (value) of fund at time t

P_{t-1} =Price (value) of fund at time t-1

C_t = Capital gain or Cash flow received from the fund investment in the time Period t-1 to t

The return R reflects the combined effect of changes in value, ($P_t - P_{t-1}$) and cash flow (C_t) over period t.

3.5.2 Statistical Tools

The statistical tools are the indispensable measures for evaluating the performance of the fund. Hence some of the statistical tools used in this study are explain below.

1. Measuring Total Risk-Standard Deviation

Standard Deviation (SD) is defined as the positive square root of the mean or the square of the deviations taken from the arithmetic mean. It 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:

$$\sigma = \sqrt{\frac{(R-R)}{n-1}}$$

2. Measuring Systematic Risk-Beta

The beta coefficient (b) measures the non-diversifiable risk. It is an index of the degree of movement of an asset's return in response to a change in the market return. Beta is the indicator or 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. Such assets are referred to as aggressive assets. If the beta of particular asset is less than 1, it measure that the returns of the asset are less volatile than market return. Such assets are called defensive assets.

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

$$b_i = \frac{\text{cov}(R_i, R_m)}{\text{Var}(R_m)}$$

Where,

b_i =beta coefficient

$\text{cov}(R_i, R_m)$ =covariance between asset's return and market return

$\text{Var}(R_m)$ =variance of market return

In our study, the beta coefficient of the fund helps us to find its systematic risk or non diversifiable risk.

3. Correlation coefficient

Correlation coefficient used to describe the degree to which one variable is

linearly related to another. The coefficient correlation measures the direction of relationship between two sets of figures. It is the square root of the coefficient of determination. Correlation can either be negative or positive. If both variables are changing in the same direction, then correlation is said to be positive, but if the variation in the two variables take place in opposite direction, the correlation would be negative. In this study, coefficient of correlation is calculated between the market and the fund.

4. Chi-square statistics

Chi-square is an important test among the several test of significance developed by statistician. Chi-square is statistical measure used in the context of sampling analysis for comparing a variance to the theoretical variance. As a non -parametric test, it can be used to determine if categorical data shows dependency or the classification are independent. In this research, chi-square is tested to test the validity of the opinions expressed by various groups of respondents.

5. Research hypothesis

A hypothesis helps the researcher in proceeding further and finding solution of the problem, which he or she wants to study. Without the hypothesis, the effective of the research is not possible. It also helps to collect the data and analyze the fact systematically. The hypothesis formulated in the problems and prospects of mutual funds in Nepal.

The following hypothesis is formulated.

Null hypothesis (H_0) = There is not significant difference among the opinions made by various groups of respondents.

Alternative hypothesis (H_A) = There is significant difference among the opinion made by various groups of respondents

CHAPTER -IV

Data Presentation and Analysis of Secondary Data

4.1 Introduction

This chapter deals with the presentation of relevant data obtain from the various sources relating to the problems and prospects of mutual funds in Nepal in order to full fill the objectives of the study. data presentation and interpretation is the important part of a research work which analyze the data and information using various tools and techniques and verify with the stated statistical tools to get the best results.

"Data analysis is the relationships or difference supporting or conflicting with original or new hypothesis or differences supporting or conflicting with original or new hypothesis should be subjected to statistical test of significance to determine with what validity data can be served to indicate and conclusion."

With the help of this analysis an effort has been made to highlight the existing condition of mutual funds in Nepal, growth of funds, various schemes operated by the fund managers and the performance of funds in comparison to the overall market performance in different years. Various statistical and financial tools have been used to verify facts obtained. The researcher has aimed to reveal some facts regarding the performance of mutual funds in Nepal. There are two companies operating mutual fund schemes under the approval of securities board of Nepal. NIDC's NCM mutual fund is the close-end scheme where as CIT's citizen unit scheme is open-end scheme.

4.2. Performance of NCM Mutual Fund

The size of Nepalese capital market in the fiscal year 2007/08 is about Rs. 194.7million. Nepalese capital market has seen highly volatile due to various reasons. First NCM Mutual fund 2052 scheme was started by NIDC capital markets in 1993 which was open- ended scheme with the maturity period of ten years. NIDC capital markets itself used to repurchase the units at the NAV price fixed time to time.

In the beginning, it became popular when the market was booming but latter, most of investors rushed to repurchase the units to NIDC capital markets. Later it was converted into close-end fund. NIDC capital markets ltd. started another scheme NCM mutual fund 2059 in 2002 continuing the assets and liabilities of previous scheme. The scheme also has 10 years of maturity time. The fund manager, NIDC capital markets determine the portfolio of assets to be invested in the listed companies' shares and debentures. This scheme was listed in Nepal stock exchange (NEPSE) in September, 2003. Since then the transaction of the mutual fund have been trading at the organized capital market. The selling price and purchase price of the fund is determined by the market and the investors have to purchase and sale the units through the registered broker.

4.2.1. Investment Portfolio of NCM Mutual Fund

The fund investment in the corporate share is 92.02%, in debt securities 5.09% and other sector 2.87% .In the same period the expenses ratio of the fund is 4.81% which seems above in the international practice. In the international practice mutual expenses ratio is around 2%. The NAV was Rs 50.05 .The allocation seems as per the investment plan. Beside this, the NAV of the fund is very attractive

Table 4.1

Investment Portfolio of NCM Mutual Fund

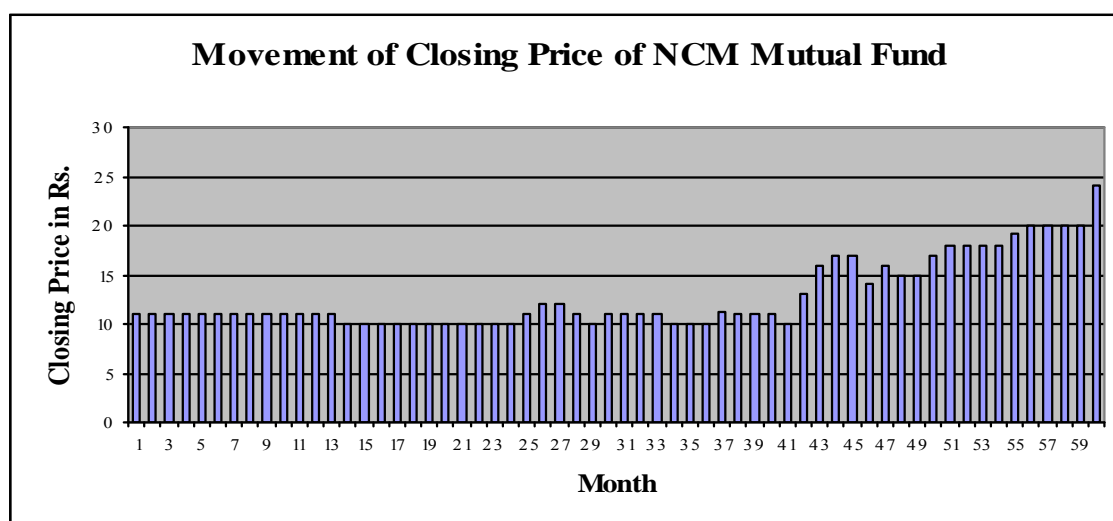
S.N	Investment sector	Rs.	%
1	Equity share	482758242	92.02
2	Debt securities	26740000	5.09
3	others	15080836.3	2.87
	Total	524579078	100
	Expenses ratio	(12627195.68)	
	Current liabilities	(11445910.07)	
	Net assets	500505972.25	
	No of units	10000000	
	NAV Per Unit	50.05	

Source: NIDC capital market, quarterly publication.2065 poush

4.2.2 Closing price of NCM Mutual Fund

Under this scheme, investor get return on their investment in the form of capital appreciation and it provides the minimum dividend of 5% up to 2063 and 8%, and 15% there after reminding years. The fund manager, NIDC capital markets makes the portfolio of investment. The monthly closing price of the fund from fiscal year 2003/04 to fiscal year 2007/08 is shown in figure 4.1

Figure 4.1



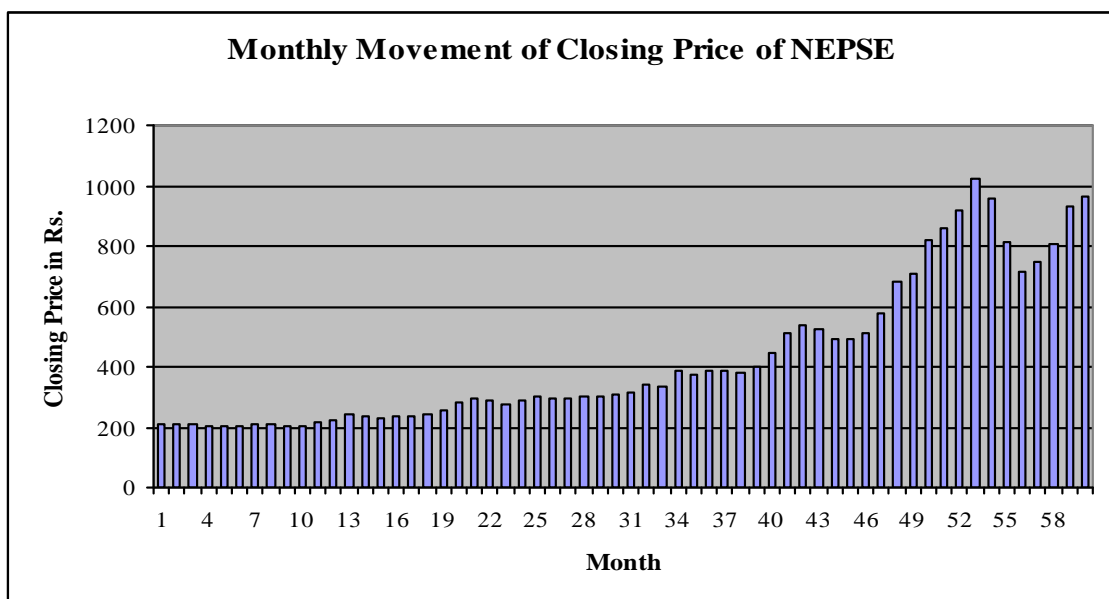
Sources: Annual Trading Report of NEPSE

The monthly closing price of NCM mutual fund during the study period is depicted in the figure 4.2 .In the beginning months of study period the minimum price of the fund is Rs. 11. Which is Rs 1 more at par value and the maximum price of the fund is Rs. 24 in the last month of the study period. the closing price of the fund is smoothly increasing in the fiscal year 2007/08 .closing price of each month remain same in the fiscal year 2003/04,in 2004/05 the closing price of beginning month is Rs 11 and remaining month closing price is equal to par value. It is seen that the price of the fund is never below its par value, but it is very below than NAV.

4.2.3. Closing Price of Market (NEPSE)

Market index represent the portfolio price of all securities which are listed in the stock exchange center. For the study, it is necessary to show the market price in order to compare the fund's performance either the market performance. These all price index are taken from the trading report of Nepal stock exchange limited. Closing price movement indicated the monthly return of the market, the monthly closing price of NEPES from Jul/Aug 2003 to Jun/July 2008 is shown in figure 4.2.

Figure 4.2



Sources: Annual Trading Report of NEPSE

Due to the whopping increment in the share prices of banks financial institutions, hydropower companies and development banks, the NEPES index increased notably over the year. The restoration of peace, an improvement in listed companies' financial performance and, most importantly the central bank's direction, dated 26 March 2007, to double paid up capital for banks and financial institutions contributed to a remarkable increment in share prices and subsequently the stock market indices.

Evaluating the NEPSE index in the basis of Current fiscal year 2007/08, the stock market opened with the NEPES index of 683.95 points at the beginning of the Fiscal year 2007/08 and ended with 963.36 points during the year. The year on NEPES index increased by 40.9%.It reached the high of 1064.09o 17 December 2007 and the low of 677.98 on 18 July 2008.Of the NEPES index, banking sub-index went up by 181.39 points to 985.65(which is also the highest point) during the year. The banking sub-index measures the transactions of companies listed under commercial bank group. It touched the lowest point of 759.67 on 31 July August 2007.

But in average the monthly market index of NEPSE has gradually increase on the study period and reached in the highest point in 53rd month (2007/08) with 1025.91 NEPSE index. Then, NEPSE index declined to around to 201.94 point in (Nov/Dec 2003) 5th month. In the study period the market index in Nepal stock exchange is continuously increasing although distortion in the national economic of the country.

4.3 Return of NCM Mutual Fund

The units of NCM mutual fund 2059 is listed in the Nepal stock exchange in September, 2003. Thus return of the fund is determined by the market. But the return of the fund is calculated from July/August 2003 to June/July 2008. Hence, the price o NCM mutual fund determined as per the net assets value in

the respective months. The return of the fund over the study period is presented in figure 4.3

Securities board Nepal, permitted to NIDC capital markets Ltd. to operate First NCM mutual fund 2052 in 1993/94. The total amount of mutual fund was Rs. 100.00 million. It was open-end fund with value of Rs. 10 per unit. The scheme had the maturity period of 10 years so that First NCM mutual fund was terminated and new NCM mutual fund 2059 came into existence continuing the assets and liabilities of First NCM mutual fund 259 with the amount of Rs. 100.00 million. The monthly return of NCM mutual fund is calculated by following formula.

$$R = \frac{P_1 - P_{t-1}}{P_{t-1}}$$

Where,

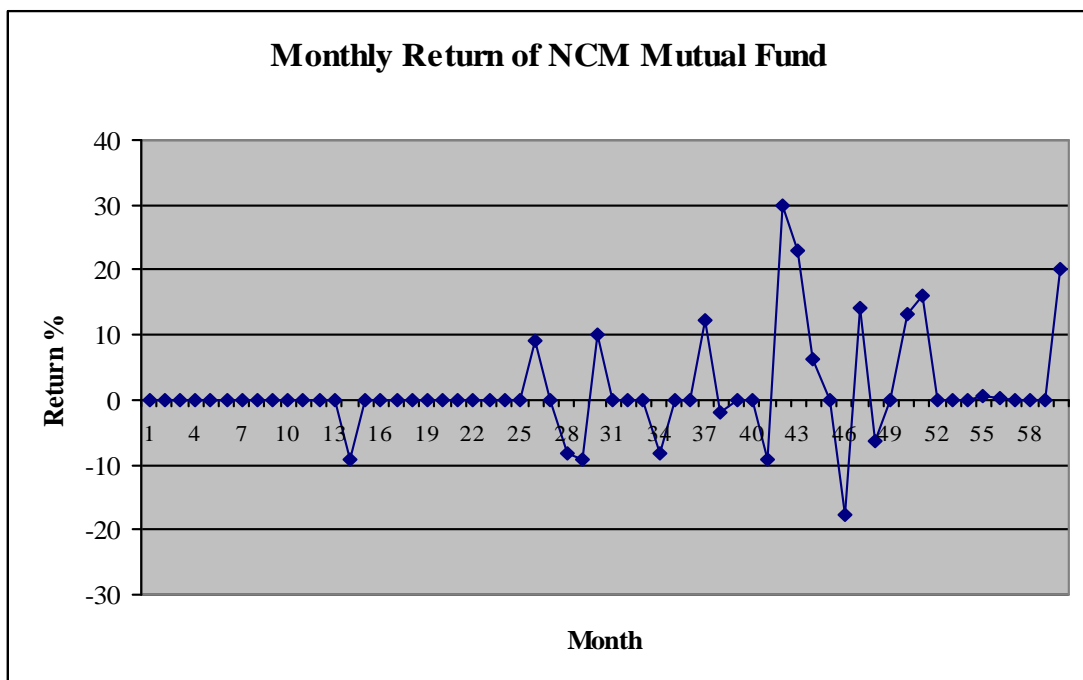
R = Monthly return of the fund

P₁ = Closing price of fund

P_{t-1} = opening price of the fund

Figure 4.3

Monthly Return of NCM Mutual Fund



Sources: Annual Trading Report of NEPSE

The movement of monthly return of First NCM mutual fund is depicted in figure 4.3. It is clear from the figure that the monthly return of the fund is highly fluctuating. In the starting of the long period the closing price of fund is constant so, the return is also constant in Zero point. After that it gradually increased positively and reached to 30% monthly return in 43rd month for the study period. Similarly, it has been seen that the monthly return drastically dropped to -17.6% in the 46th month of the study period. The monthly return based on closing price is fluctuating over the study period.

4.4 Return of Market (NEPSE)

Market return is the average return of all securities listed in an organized stock exchange. Thus, closing price of the index provides the market index. The monthly return of the market of Nepalese capital market over the study period is presented in the following graph i.e. from August 2003 to July 2008. The monthly return of NEPES is calculated by following formula.

$$R_m = \frac{P_t - P_{t-1}}{P_{t-1}}$$

Where,

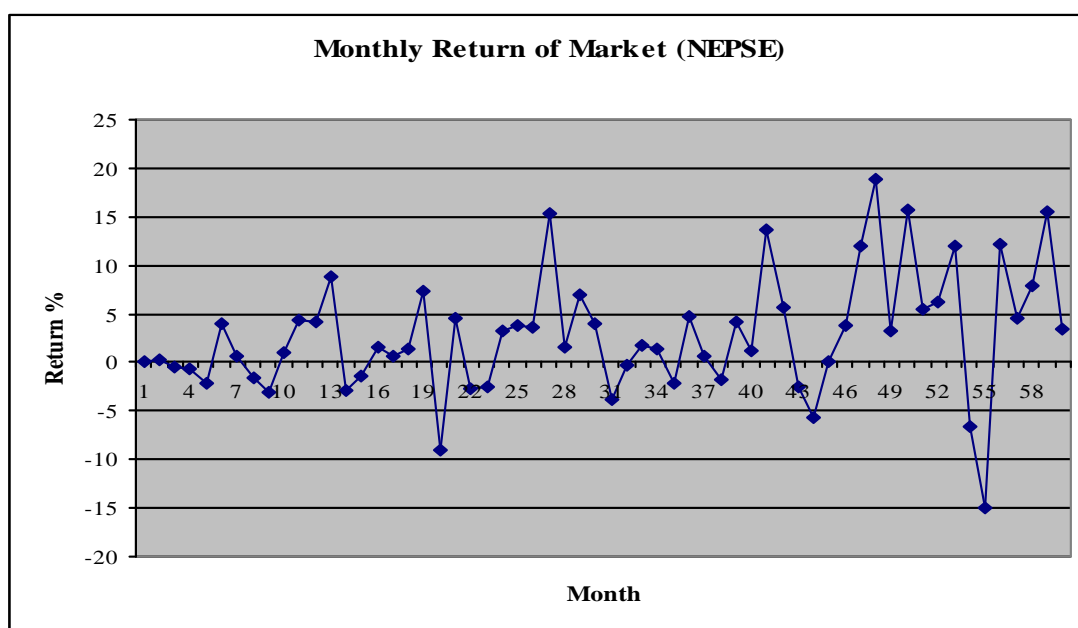
R_m = Monthly return of NEPSE (Market)

P_t = Closing price of NEPSE

P_{t-1} = opening price of NEPSE

The calculated monthly closing price is visualized in figure 4.4. It is clear from the figure that monthly return of the fund is highly fluctuating. In the starting of the study period, the return was negative. After that it is increased and reached to 18.94% monthly return in 48th month for the study period. Similarly it has been seen that the monthly return drastically dropped to -15.06% in the 55th month of the study period. The monthly return based on fluctuation of closing price.

Figure 4.4



Sources: Annual Trading Report of NEPSE

4.5 CIT's Citizen Unit Scheme

Citizen investment Trust (CIT) was incorporated under the Citizen Investment Act, 1990 with a view to expand investment opportunities by encouraging general public to save capital and development of capital markets. CIT is basically the savings and investment institution and it statutorily services a special status and privileges, which adds up its strength to encourage as a national institution reaching wider spectrum of the population. Major functions of CIT are to operate various unit and mutual fund schemes to both domestic and foreign investors, operate various kinds of retirement schemes like gratuity, pension fund etc, and to operate investor's accounts schemes. The Trust has the policy to invest in corporate share, debenture, government securities and term loan and bridge financial to corporate bodies. Other function of the Trust are to provide capital market services and corporate finance services such as public issue management, underwriting and syndication of underwriting public issue, market maker of corporate and government securities and consultancy services. At present, the Trust is operating three various schemes as per the citizen Investment Act 1990 and one citizen unit scheme with the approval of

securities Board of Nepal. Only Citizen Unit Scheme is known as the Mutual Fund .short description of the various scheme of the funds are as follows.

4.5.1 Employees savings Growth Scheme Fund (E.S.G.S Fund)

The scheme was started in the fiscal year 1996 (2052). The main objective of this scheme is to mobilize the saving from the employees. The trust returns back money (investment) to the scheme holders at the time of their termination of job or resignation from their job. This investment scheme is useful for the financial requirement in the retired life. The trust collects the fund from 75 districts through the different bank accounts. The trust has collected a signification amount of saving from the employees of various organization of the country. The trust's total saving mobilization under scheme in the fiscal year 2007/08 was Rs. 8721.7 Million the repurchase was Rs. 1739.4 Million. The scheme provided 6.5% return to the participants of the scheme in that period.

4.5.2 Investment Account Scheme (I.A. Scheme)

This scheme was started Investment Account Scheme in 1999.The main objective of the scheme is to encourage the saving through pulling the saving from the employee of the corporate companies. By the end of the fiscal year 2007/08, the total saving mobilization from this scheme was Rs. 1523.7 million and the repayment was Rs. 473 Million .The scheme provided 4.56% return to participants in the fiscal year 2007/08.

4.5.3 Gratuity Fund Scheme

Gratuity Fund Scheme fund was started in 1999 as a new instrument for the investors. it is a perpetual scheme. The main objectives of the fund are to collect the fund from the employee of the corporate. This Scheme's total saving mobilization was Rs. 2753.2Million in 2007/08. It fulfills the long-term

financial requirements of the investments.4.50% dividend was provided to the investors in fiscal year 2007/08.

4.5.4 Citizen Unit Scheme 2052

Citizen Unit Scheme 2052 (CUS) was started in 1995.This is an open ended scheme, can be purchased at Rs 100 per unit and CIT provided the facility to repurchase the units from the units holders at any time. The trust fixed the selling price and purchase price of the units in time to time. The fund collected from the scheme is invested in different securities and income earned thereon is distributed to the units' holders in the form of dividends. The scheme has been providing the divided to the unit holders since the operation i.e. 1996. The saving mobilization and returns given by the scheme is presented in table 4.2

Table 4.2
Saving Mobilization and Return of CIT's Unit Scheme 2052

in Million

Year	sale (Rs)	Repurchase	Net Saving	% Growth Net saving	Return
2003/04	1003.9	536.3	467.6	15.54	7
2004/05	1215.6	702.3	513.1	97.3	7
2005/06	1486.3	829.0	657.3	28.1	7
2006/07	1703.7	1004.1	699.6	64.3	6.25
2007/08	1984.1	1204.3	779.8	1..6	6.25

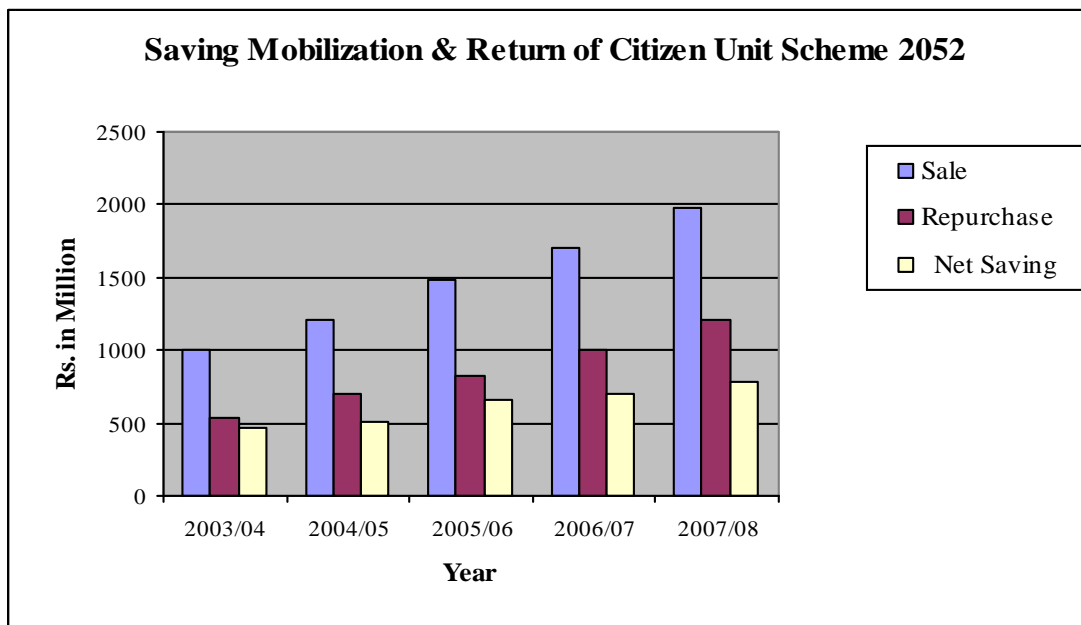
Sources: Annual Report of CIT -2007/09

Among the Five scheme of CIT citizen unit scheme is one of the popular schemes for the collection of fund from the general public. Under this scheme the trust has collected 1003.9 million and Repayment was Rs.536.3 Million in the F/Y 2003/04.

The net saving amount was Rs.467.6 Million. Similarly, the scheme has

collected Rs. 1215.6, 1486.3, 1703.7, 1984.1 Million and Repayment was Rs. 702.3, 829, 1004.1, 1204.3 million in the F/S 2004/05, 2005/06, 2006/07,2007/08. In the same period, the net saving from this scheme was Rs.513.1, 657.3, 699.6, 779.8 million with the annual growth rate of 97.3%, 28.1%, 64.3%, 11.46%. The scheme has distributed a dividend of 7% in First three F/Y 2003/04, 2004/05, 2005/06 and in Reminding two F/Y, the dividend was constant 6.25%. The rate of return on the scheme has not been increase due to the continuous fall down in the market price of securities in Nepalese capital market. And the rate of return likely to decrease until the condition of capital market improves in the country. By The end of the fiscal year 2007/08, the total investment was Rs.798.3 million and the profit was Rs. 49.1 million under the scheme. The total number of participants of the scheme reached 2426 in the fiscal year 2007/08. The sale Repurchase and Net saving trend of citizen unit scheme is shown in figure 4.5.

Figure 4.5



Sources: Annual Report of CIT -2007/09

4.5.5 Insurance Fund Scheme for Civil

This Insurance Fund scheme was started in 2005. The main objective of this scheme was to maximize the long-term fund of citizen investment trust through compulsory regular saving and to secure owner from economic loss. The scheme is very effective, so wisied to range it started for teachers also in 2007. Because of new scheme, CIT is successes to increase saving mobilization 40.50% in 2008.

4.5.6 Size of the Fund Managed by CIT Under Different Scheme

Citizen investment trust (CIT) provides the capital market services like public issue management, underwriting and syndication of underwriting public issue, market maker of corporate and government securities and consultancy service in the area of capital markets such as designing capital structure, pricing of securities , corporate acts like merge, privatization and other related service. The main function of CTT is saving mobilization through various schemes and investment in different securities. In the F/Y 2007/08, the total saving mobilized through five schemes was Rs. 12885.609 million. In table 4.3, we can see clearly above 50% fund are collected from E.C.G.S fund scheme. Under citizen unit scheme -2052 collected the lowest fund under remaining three schemes. The new scheme, insurance scheme is effective because it has collected above 10% fund of total fund .The insurance scheme may be good fund collector scheme in the future.

Table 4.3
Size of the fund managed by CIT under different scheme
In Million

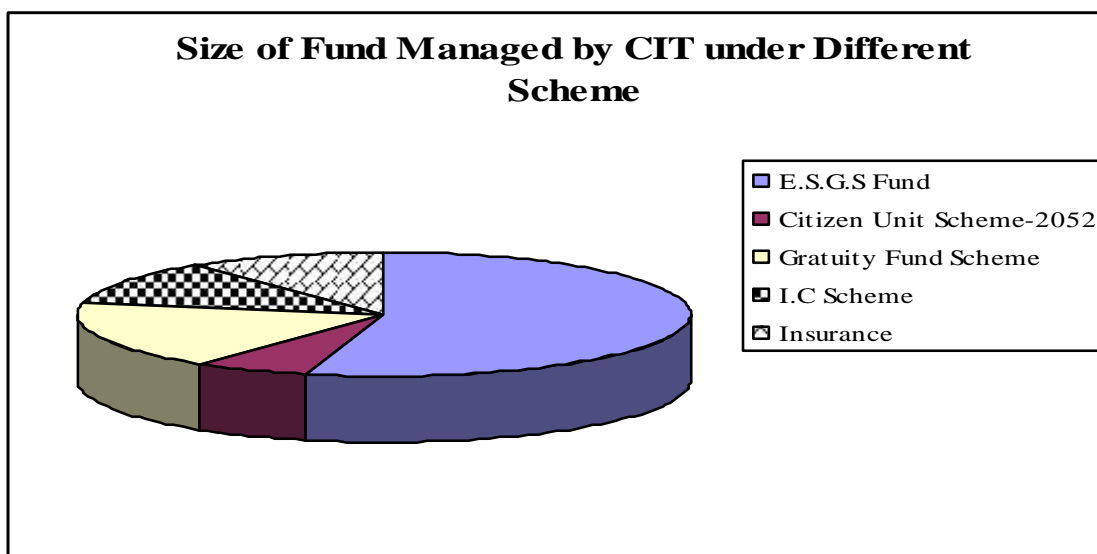
S.N.	Sources of Fund Collection	Rs. In Million	Percentage
1	E.S.G.S Fund	6982.3	54.18
2	Citizen Unit Scheme-2052	779.8	6.05
3	Gratuity Fund Scheme	2280.3	17.69
4	I.C Scheme	1477	11.46
5	Insurance	1366.2	10.6
6	Total	12886	100

Source: Annual Report of CIT2007/08

The size of fund managed in the F/Y 2007/08 of different scheme is shown in

the following pie chart.

Figure 4.6



Source: Annual Report of CIT2007/08

4.6 Investment Pattern of CIT

Investment activity is another important function of the trust and to distribute the return to its investors. Mutual funds being the institutional investors are believed good investors because they expertise in the securities market knowledge. They can make better portfolios than individual investors. Therefore, they tend to minimize the risk and increase the return. Nepalese securities market is still in growing stage. Major of the public issue is cover by equity share. There are few bonds issued in the government and fixed income securities like bank accounts. The CIT investment pattern for the fiscal year2007/08 is shown in the following pie chart.

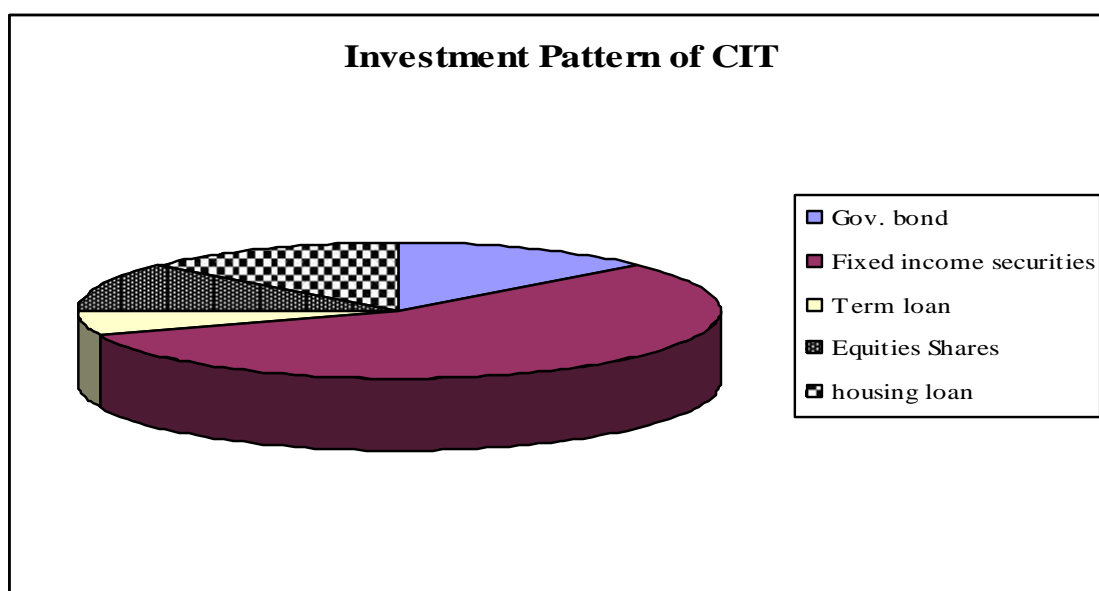
Table 4.4

Investment Pattern of CIT

S.N.	Investment Sector	Rs. in Million	Percentage
1	Government Bond	1576	13.32
2	Fixed Income Securities	6590.5	55.58
3	Term Loan	713.9	6.04
4	Equity Share	1332.9	11.26
5	Housing Loan	1618.4	13.68
	Total	11831.7	100

Sources: Annual Report of CIT

Figure 4.7



Sources: Annual Report of CIT

Mutual funds invest in different type of assets on the basis of their investment objectives. Most of the mutual funds in the world, invest majority of the collected in listed shares, debentures, bonds and options which has the opportunity of capital appreciation. Out of the total invest-able amount of Rs.11831.7 million, CIT's investment in government debt Rs., 1576 million ,in Fixed income securities Rs. 6590.5 million, in equity share Rs. 1332.9 million, in term loan 713.9 and housing Rs.1618.4 million.

4.7. Difference between CIT,s Citizen Unit Scheme and NCM Mutual fund

The difference in the nature of CIT's and NIDC's NCM mutual fund is shown in following table.

Table 4.5

Citizen Unit Scheme	Scheme	NCM mutual fund -2052
Open-end scheme	Type	Close -end scheme
Repurchase by fund	Liquidity	Through stock exchange
In term of dividend	Return	Price appreciation
less percent investment in share	Assets allocation	More percent invest in share
No specified	Duration	10 years
Rs.1000(100 units @Rs.10	Minimum subscription amount	Rs. 1000 (10 units @Rs.1000

4.8 Measurement of Risk

Investment in financial assets is highly riskier than other assets because of the volatility of the stock prices. There are various tools of measuring the risk of the securities. Standard deviation, variance, and beta of the returns of the stocks are the common tools of measuring the risk of the financial assets which comprises both systematic and unsystematic risks. Beta measure the systematic risk of the stock which can't be avoided by making portfolio. To compare the risk of the fund and market, the standard deviation, variance and beta of the stock is shown in table 4.6

Table 4.6

Risk	NCM fund	Citizen unit scheme	NEPSE
Average yearly return	26.72%	6.7%	38.02%
Average risk free rate	4%	4%	4%
Standard deviation	29.05	0.37	22.27
Variance	844.32	0.134	495.91
Covariance of NEPSE	241.56	4.98	
Beta	0.487	0.010	
Correlation coefficient (r)	.37	0.61	

Sources appendix III

The table 4.4 depicts some statistical indicators of NCM fund with market and CUS -52 with market during the study period. The average return of the NCM fund is 26.72%, CUS -52 is 6.7% and average market return is 38.02%. This shows that average market return is higher than funds. Average risk free rate of the return over the period is 4%. Standard deviation of the NCM & CUS -52 funds is 29.05 and 0.37 respectively. And market standard deviation is 22.27. The standard deviation of CUS -52 is very less than standard deviation of and market. Beta of NCM fund and CUS -52 funds are 0.48&0.10, which are less than 1. Thus it can say that the fund is a defensive stock. The correlation coefficient between NCM fund & market and CUS -52 & market is 0.37&0.61 during the study period. It shows that the return of the fund is not lead by the market return. This statically calculations are simple measure and we can't come to a conclusion as to which is better portfolio. There are lots of tools which are responsible to determine which is better. However in this table we can say that CUS -52 has low risk low return and NCM fund has high risk low return with comparison of NEPSE risk and return.

4.9 Major Findings from the Secondary Data

1. The monthly return of mutual fund was observed fluctuating from 30% to -17.6% whereas the monthly market return was fluctuating from 15.88% to -5.70% during the same period. This indicated that monthly fund return was more fluctuating than market.
2. Net assets value per unit is one of the most important indicators of performance of mutual funds. The NAV of the fund was Rs. 50.05 in the last quarter of 2065 Push.
3. NCM's portfolio investment 97% of the total investment was made in share and 3% in other sector still Push 2065.
4. The expenses ratio of the fund was found 4.81% of the total assets in Push 2065. The fund is providing 15% return per year beside the return from capital appreciation.
5. During the study period the risk free rate return was observed 4% (average rate of return). The average rate of return on the fund was 26.72% per annum whereas market rate of return was 38.02.
6. Thus, market rate of return was higher than fund return for the study period. The standard deviation of the fund for study period is found higher than market i.e. fund's standard deviation is 29.05 and market standard deviation is 22.22%.
7. The beta of the fund is 0.487 which is less than 1 and it indicates the fund is a defensive stock and the correlation coefficient of the fund with market is found 0.37.
8. Citizen investment trust operates five types of saving mobilization schemes. Among them, citizen unit scheme is recognized as the mutual fund scheme. CIT's saving mobilization under this scheme was Rs.1003.9 million in 2003/04 and it was Rs. 779.817 million in 2007/08.
9. The scheme provided 7% return to the investors in 2003/04 and 6.25% in 2007/08.

10. Out of the total saving mobilization of CIT Rs 11831.7 million, citizen unit scheme share is 6% and remaining other scheme and majority of the investors of this scheme are government and fixed income and corporate employees.
11. CIT's total investment in government debt Rs.1576 million, fixed income securities is 6590.5 million; in term loan Rs. 713.9 million, in equity share Rs.1332.9, and in housing Rs.1618.4 million.

CHAPTER -V

Data presentation and analysis of primary data

5.1 Introduction

This research deals with the study of opinions of respondents with respect to major problems and prospects of mutual funds in Nepal. 65 sets of questionnaire were distributed to collect the data from the respondents. Out of 50 sets of questionnaire was collected. This study is based on questionnaires survey on the opinions of 50 respondents. The main objective of distribution of the questionnaires is to collect opinions on problem and prospects of mutual fund in Nepal. Mutual funds performance has been seen less than other financial assets. Among the 50 respondents, 15 respondents belong to regulating bodies i.e. Securities board of Nepal stock exchange, 15 respondents belong to mutual fund managers i.e. NIDC capital market and citizen investment trust, 10 respondents belongs to stock brokers and 10 respondents represent the general investors. After gathering the respondent's answers, they are processed and chi- square statistic is tested for the validity of the respondent's opinions. Percentage of the respondent's category is presented in table 5.1

Table 5.1
Respondents' category

Respondents category	No of respondents	percent
NEPSE& SEBO/N	15	30%
NIDC&CIT	15	30%
Stock Brokers	10	20%
Investors	10	20%
Total	50	100%

5.2 Question wise primary data analysis

Question No 1.

Regarding the knowledge about mutual fund among Nepalese investors

The first question was about the knowledge among Nepalese investors in Nepalese capital market. There were four categories of respondents viz. regulating and monitoring bodies, (SEBO/N & NEPSE), mutual fund operators (NIDC & CIT), stock brokers and Investors. Each of the respondents was asked whether Nepalese investors have adequate knowledge about mutual funds. 87% of the executive of SEBO/N and NEPSE opined that Nepalese investors don't have adequate knowledge about mutual funds and remaining 13% think that Nepalese investor have some knowledge about mutual funds. In the opinion of mutual fund manager's executives, 92% of them think that Nepalese investors don't have adequate knowledge about mutual funds and 8% think that Nepalese investors have some knowledge about mutual funds. In case of stock brokers, 90% think that Nepalese don't have adequate knowledge about mutual funds and 10% of them think that Nepalese investors have some knowledge about mutual funds. Finally, in the opinion of sampled investors, 12% think that Nepalese don't have adequate knowledge about mutual funds and 88% think that Nepalese investors have some knowledge about mutual funds.

Test of chi- square statistics:

Computed value of Chi-Square(x ²)	2.79
Tabulated value of Chi-Square(x ²) at 5% level of significance with 3d	7.815
Result : Accept Null hypothesis	

Sources: Appendix -II

Since the computed value of chi- square (2.79) is less than its tabulated value of chi-square (7.815) for 3d.f at 5% level of significance, null hypothesis is

accepted. Therefore, it can be concluded that the respondents of various group have similar opinion that Nepalese investors don't have adequate knowledge about mutual funds in Nepal.

Question No .2

Regarding Nepalese capital market for mutual funds

Mutual funds are built in the capital market. So developed capital market with various types of securities are the foundation for the establishment and sustainability of mutual funds. The history of Nepalese securities is not much long. In 1994, Nepalese stock exchange floor was opened for trading of securities of listed companies. Banking sector covers a significant proportion of total market capitalization which is about 72%. Similarly, finance company cover 10%, hydropower cover 15% and Remaining 3% cover Hotel, insurance Trading mfg & pro and other sectors of total market capitalization. Mutual funds are considered relatively low risky assets because of portfolio diversification and professional management. To achieve the objectives, there should be various types of securities for diversification. In Nepal, capital market is dominated by financial sector. Manufacturing sector's stocks are considered blue chip stocks in the developed country's capital market. In Nepal, except few companies, most of the manufacturing companies are low return yielding stocks. In this regard the respondents were asked whether Nepalese capital market is enough developed for mutual funds or not. 25% of the executives of SEBO/N and NEPSE think that Nepalese capital market is enough developed for mutual funds because almost all types of securities are available in the securities market to make portfolio and there is increasing the awareness about securities market in the recent years. On the country, 75% of them think that Nepalese capital market is not enough developed for mutual funds there are not sufficient number and types of stocks to make optimal portfolios. In the opinion mutual fund operates, 93% of them think that Nepalese capital market is not developed for mutual funds in Nepal. They expressed during the discussion that

people don't have confidence about the professional management of funds by the mutual funds. So, building confidence and bringing new schemes are the challenges for the mutual fund operators. Similarly, they obtained that only financial sector stock is not sufficient because in case of the bankruptcy of this sector mutual funds should be able to diversify the investment in other sector's stocks. And 7% think that Nepalese capital market is enough developed for mutual funds. In the opinion of stock brokers, 10% of respondents think that Nepalese capital market is enough developed for mutual funds in Nepal whereas 90% are in against. Similarly, in the opinion of stock investors, 20% respondents think that Nepalese capital market is enough developed for mutual funds in Nepal whereas 80% respondents are in against the opinion. To test the validity of the various respondents opinion, chi-square statistics is tested.

Test of Chi- Square statistics:

Computed value of Chi-Square(x ²)	3.506
Tabulated value of Chi-Square(x ²) at 5% level of significance with 3d	7.815
Result : Accept Null hypothesis	

Sources; appendix -II

The calculated value of chi-square is 3.506 at 5% with 3 degree of freedom this is lower than its tabulated value 7.815. Therefore, null hypothesis accepted. It can be said that there is not significant difference in the opinion expressed by the various groups of respondents. It refers that Nepalese capital market is not enough developed for mutual funds.

Question No 3

Regarding the sufficiency mutual funds schemes in Nepal

The respondents were asked whether mutual funds schemes are sufficient or not. Majority of the respondents have expressed that there are only two mutual funds in Nepal which is just like the experiment. They also provided the example of

other countries where various types' mutual fund schemes are operated to fulfill the investment objective of investor. 33% of the executive of SEBO/N and NEPSE expresses that existing schemes are enough and 67% expressed that there is the need of other type of scheme with different feature. All the respondents of fund operators responded that existing mutual fund scheme is just a piece of bread to a hungry man. So that, other mutual schemes is needed in Nepalese capital market. In the opinion of stock brokers, 17% states that existing mutual funds schemed is enough and 83% stated the need of other schemes. 23% of the investors expressed that existing mutual fund schemes are enough but 62% felt the need of other schemes and 15% expressed the lack of knowledge in the regard.

Question No 4

Regarding the importance of mutual funds for the growth capital market

The respondents were asked whether many other mutual funds should come for the growth of capital market. Most of the respondents of all category opined that mutual funds can play vital role for the development of capital market of the country. During the discussion, they exemplified the importance of mutual funds In the developed capital market, Mutual funds are institutional investors so that mutual funds can help to stabilize the capital market. Based on the survey, 80% of the respondents of SEBO/N and NEPESE opined that mutual funds have played significant role in the capital market in the large capital markets .During the discussion, SEBO/N executives said that SEBO/N is bringing new securities act which will immensely help the growth of mutual funds in Nepal. On the opinion of CIT & NIDC and stock broker, 67% opined that mutual funds can play vital role in increasing and stabilizing the capital market in the country. And individual investor's opinion was mixed type. Out of total respondents 40% was in favor of opinion, 40% were in against and 20% were unaware about it.

Question No 5

Regarding the sufficiency of securities markets laws for mutual funds in Nepal

Related laws, by laws and acts affect the growth and development of related sector. The growth of mutual funds has been seen slow in Nepal. The respondents were asked whether the existing securities markets laws are sufficient for mutual funds or not. In the regard, 47% of the SEBO/N and NEPES executive opined that existing securities markets laws are sufficient for mutual funds and remaining 53% opined that existing securities market is not sufficient for growth of mutual funds. In the opinion of mutual fund managers, 87% of them think that existing securities market laws are not sufficient for growth of mutual funds and 13% opined that existing securities market laws are sufficient for mutual funds. 80% of respondents on the stock broker think that existing securities market laws are not sufficient for mutual funds, of the sampled respondents of investor group think that existing securities market laws are not sufficient for mutual funds.

Test of Chi- Square statistics

Computed value of Chi-Square(x ²)	5.558
Tabulated value of Chi-Square(x ²) at 5% level of significance with 3d.f	7.815
Result : Accept Null hypothesis	

Sources: Appendix -II

Since the computed value of chi-square (5.558) is less than its tabulated value of chi- square (7.815) for 3 d. f at 5% level of significance, null hypothesis is accepted. Therefore, it can be concluded that the respondents of various group have similar opinion that Nepalese investors don't have adequate knowledge about mutual funds in Nepal.

The respondents expressed that there are lots of insufficiencies in securities markets laws for mutual funds. Most of the respondents of regulating and monitoring bodies opinion was that separate investment company act should be enacted for the operation and regulation of mutual fund companies in the country. Similarly, one of the respondents opined that there should be legal provision for the reservation of certain portion of capital for mutual funds while issuing the equities and there should be tax benefits to the mutual fund investors. In the opinion of some respondents present trading system has become the constraints for the growth of mutual funds in Nepal because mutual funds have small par value but it takes some more time to convert in to cash through brokers.

Question No 6

Regarding the role of SEBO/N in growth of mutual fund in Nepal

Securities board of Nepal, being the regulating and monitoring body of capital market, should formulate and implement the proper policies for the development stability and reliability of capital market. An attempt is made to know the view of respondents regarding the role of SEBO/N for the growth of mutual funds in Nepal. 53% respondents of the executives of SEBO/N and NEPSE think SEBO/N is playing role for the growth of mutual funds in Nepal and 47% are in against of this view. Likewise in the opinion of mutual fund operators, only 33% think that SEBO/N is playing role for the growth of mutual funds 67% expressed in against of the view. Regarding the opinion of stock brokers, 30% think that SEBO/N is playing role for the growth of mutual funds and 67% think that SEBO/N is not playing any role for the growth of mutual funds in Nepal. Similarly, in the view of investors, 40% of them think that SEBO/N has played some role and 60% view was that SEBO/N is not playing significant role for the growth of mutual funds. From the various groups of respondents' view it seems that SEBO/N is not significant role for the growth and development of mutual funds in Nepal. Chi-square statistics is tested for the validity of the opinion expressed by the various group of respondents. The result of chi-square

statistics is as follows

Test of Chi- Square statistics

Computed value of Chi-Square(x ²)	1.81
Tabulated value of Chi-Square(x ²) at 5% level of significance with 3d.f	7.815
Result : Accept Null hypothesis	

Source: appendix- II

Since the computed value of chi-square (1.81) is less than its tabulated value of chi-square (7.815) for 3 d. f at 5% level of significance, null hypothesis is accepted. Therefore, it can be concluded that the respondents of various group have similar opinion regarding the role of SEBO/N in the development of mutual funds in Nepal that SEBO/N is not playing significant role for the growth and development of mutual funds in Nepal.

Question No 7

Regarding the popularity of mutual funds in Nepal

The respondents were asked whether mutual funds are popular to the investor in Nepal. Majority of the respondents of stated that mutual funds are not popular as other investment instruments. All the respondents of SEBO/N and NEPSE executive stated that mutual funds are not popular in Nepal. 80% of the executives of CIT and NIDC capital markets said that mutual funds are not popular as share and debenture among Nepalese investors.75% of the stock brokers stated that mutual funds are mot popular as other investment instruments in Nepal and 17% respondents opinion was that mutual funds are popular in Nepal and 8% respondent were not sure. 60% of the sampled investors opinion was that mutual funds are not popular in Nepal and 15% stated that mutual funds are popular in Nepal and 23% respondents expressed they were unaware about this matter.

In the personal interview with the respondents regarding the reasons of the unpopularity of such funds in Nepal, most of the respondents view was due to the lack of knowledge about mutual funds. Likewise, some respondents' pointed that there is lack of advertisement regarding the mutual funds. It was revealed that mutual funds major means of public information is given through the annual report from which only few people can be informed. In the personal interview with the fund operators, they said there has been rarely advertised about mutual funds through electronic media. Some stock brokers expressed that mutual funds are not properly managed due to the lack of professional management so that mutual funds are not able to provide good return to the mutual fund investors. This is why mutual fund unit is not easily marketable in the stock market and fund is not popular among the informed group. A group of respondents' argument was that one of the causes of the unpopularity of mutual funds in Nepalese capital market was that there is lake of various types of mutual funds schemes for different type of investors. So mutual fund operators are not able to identify the different investment objectives of people. In the USA, more than 50% mutual funds investors are household people. In Nepal, target group of mutual funds is not identified. So, it is not able to attract the investors and create demand of such securities.

Question no 8

Regarding the main reason of investing in common stock instead of mutual funds in Nepal

It has been seen that equity share is over subscribed while the initial public offering is made in Nepalese capital market. Specifically, banking sector equity shares are frequently over subscribed and also paying moue return to the stock holders. in this connection, the respondents were asked why investors put their funds in common stock instead of mutual funds. The respondents were given 3 options: (i) mutual funds provide less return than common stock (ii) mutual funds are less liquid than other securities (iii) people don't have enough

knowledge about mutual funds. Percentage wise respondents' opinion is presented in figure 5.1

Reason of investing in common stock instead of investing in mutual funds

Respondents	SEBO/N NEPSE	CIT & NIDC	Brokers	Investors
Main reasons				
Mutual funds provides less return than other stocks	20%	0%	30%	30%
Mutual funds are less liquid than other securities	20%	7%	40%	60%
people don't have enough knowledge about mutual funds	60%	93%	30%	10%
Total	100%	100%	100%	100%

Source Appendix-II

Based on the respondents opinion survey, regarding the main reason of investing in other securities like common stock majority (60%) executives of SEBO/N and NEPSE opinion was that people don't have much knowledge about mutual funds in Nepal. similarly,(93%) of the respondents of fund manager's group opined that mutual funds have not become a popular means of investment for Nepalese investor due to lack of knowledge about this schemes. Nobody show the cause that less return of such funds in comparison to common stock and only 7% respondents opinion was that mutual funds are less Marketable and less liquid funds so investor are not willing to purchase such funds.

Brokers experience in this regard was that 40% of them stated that mutual funds (closed-end: NCM mutual fund) are not popular among the investors due to its non - marketability in the time. They stated during the interview that the transaction of mutual fund in the stock exchange is very rare. Despite this the broker stated that fund management is very passive and the portfolio management of the fund is made in long period of time. That's why fund is not

able to create the curiosity toward the investors. It seems that the schemed is just for experiment. Some brokers said that there is lack of aggressive portfolio management of the fund.

From the view point of investors, 60% respondents view was that mutual funds are not getting popularity due to the lack of liquidity. They said that investment in securities is done with mainly two purposes, first return from the capital appreciation and cash dividend and second is the securities can be sold in the stock market in short period of time. Liquidity nature of the fund is very less. Chi-square statistics is tested whether there is significant difference among the opinion of various groups of respondents. The result of the chi-square statistics is as follows:

Test of Chi- Square statistics

Computed value of Chi-Square(x ²)	18.453
Tabulated value of Chi-Square(x ²) at 5% level of significance with 3d.f	12.6
Result : Accept Alternative hypothesis	

Sources Appendix II

Since the computed value of chi-square (18.453) is higher than its tabulated value of chi-square (12.6) for d.f at 5% level of significance, Alternative hypothesis is accepted. Therefore, it can be concluded that the respondents of various group have similar opinion that mutual funds schemes are being popular because of the lack of knowledge about mutual funds in Nepalese investors beside other many factors.

Question no 9

Regarding the future prospects of mutual funds in Nepal

One of the objectives of the study is to know the future prospects of mutual funds in Nepal. The respondents were asked do you see any future prospects of

mutual funds in Nepal. The respondents' opinion was of mixed type. 80% of the executives of regulating and monitoring bodies (SEBO/N NEPSE) stated that there are the good prospects of mutual funds in Nepal and may flourish in future as other funds and schemes come in the market and increase the number of rational investor. the executive also took the example of banking habit of today's people and few years back. Few years ago people used to fear to put their money in the bank but today they fear to keep money at home. Remaining 20% executive were in against the opinion.

in the opinion of fund managers, 60% of the respondents agreed that mutual funds have good prospects in Nepal and 40% respondents view was against this opinion. Likewise, 58% the respondents group of stock broker stated good prospects of mutual funds in Nepal and remaining 42% opined that no future growth of mutual funds in Nepal. In the sampled investor's opinion, 50% thought that mutual funds have future prospects and 50% respondents said that there are no future prospects of Mutual fund in Nepal. Majority of the respondents agree that mutual funds have good prospects in Nepal. Chi-square statistics has been tested for the validity of the various groups of respondents. The result of the chi-square statistics is presented as follows:

Test of Chi- Square statistics

Computed value of Chi-Square(x ²)	2.4
Tabulated value of Chi-Square(x ²) at 5% level of significance with 3 d.f	7.81
Result : Accept Alternative hypothesis	

Sources Appendix II

Since the computed value of chi-square (2.58) is less than its tabulated value of chi-square (12.6) for 5d f at 5% level of significance, null hypothesis is accepted. There fore it can be concluded that the respondents of various group have similar opinion regarding the future prospects of mutual funds in Nepal and it shows tha5t mut5ual funds have good future prospects in Nepal.

Question no 10.

Suggestion and recommendations from the respondents for the development of mutual funds in Nepal

In order to obtain to suggestions and recommendations for the development of mutual funds in Nepal, the respondents were asked to give their suggestions and recommendations. Formal and informal discussions were done to collect the suggestions and recommendations from the respondents as well other concerned parsons. The respondents of regulating and monitoring bodies suggested that the existing mutual funds schemes are not enough for the investors. Many other funds with different features should come in the capital market that create the competition among the mutual funds operators it obviously increases the efficiency of the fund managers. Existing two mutual funds scheme i.e. NIDC's NCM mutual fund and CIT's citizen unit schemes are insufficient for the investors. They also said that there should be separate investment company act or mutual fund act. There also stated that there should be regional stocks exchange to facilitate the trading of securities. Some respondents view was that due to the centralized trading facility of the stocks (Nepal stock exchange center, Katmandu), the stock holders outside the valley are facing difficulty to sell and buy the securities. Some respondents' argument was that the trading of securities of can be facilitated by introducing on lion trading mechanism of securities.

One of the major problems of mutual fund identified by the respondents is that Nepalese investors have not adequate knowledge about mutual funds; people don't know how it works and what the benefit of such funds is. So that investor's awareness campaign should be made through various Medias. The government securities should be practiced to be traded through stock market. Similarly, government bodies like municipalities should practice to collect long term debt by issuing municipal bonds that may create the better opportunities for the mutual fund companies to earn fixed income and it will also increase the confidence over the investors on such funds. Likewise, some respondents view was that there is lack of institutional investors in the Nepalese stock market.

various types of bonds and debentures should be encouraged to issue in the market and tax benefits should be given to the investors to motivate them to invest in the mutual funds.

5.3 Major Finding From Primary Data

1. Most of the investors don't have adequate knowledge about the mutual funds in Nepal. 88% of the respondents of all group opinion such views.
2. 84% respondents view was the Nepalese securities market is not enough developed for mutual funds because of the unavailability of sufficient types of securities for portfolio management. But 16% respondents were in against to this view.
3. Regarding the sufficiency of mutual funds schemes in Nepal, majority of the respondents think that the existing mutual funds schemes are not sufficient for investors. Other mutual funds should come in the capital market with different feature.
4. Sufficiency of existing securities markets law for mutual funds, among 20% the 16% respondents of NEPSE's opinion was that existing securities market laws are sufficient for mutual funds and 4% are other group of respondents in same view. Remaining 80% respondent's opinion is that existing securities market laws are not sufficient for the growth and development of mutual funds in Nepal.
5. The view of 40% respondents is playing role for the development of mutual funds in Nepal but majority of the respondents of other group opinioned that SEBO/N is not playing effective role for the development and growth of mutual funds in Nepal.
6. Most of the respondents of all group think that mutual funds are not popular as other investment instrument shares and debentures in Nepal.
- 7.

5.4 Major Problems of Mutual Funds in Nepal

The capital market reflects the economic growth and economic condition in the

country. The Nepalese capital market is mainly dominated by banking sector which sector along covers around 63% of annual turnover. The economic activities are not growing as per the requirement of the country due to the unstable political condition of the country. The capital market can't be expected to grow until the securities condition improves and higher economic growth is achieved in the country. Based on study of both secondary and primary sources, the followings have been identified as the problems of mutual funds in Nepal.

1. Slow growth of capital market: Nepalese capital market is growing slowly over the years. The portion of private sector securities is negligible in the total securities market of the country. In the developing countries, foreign direct investment (FDI) has been used as the stimulus for the development of the country because of the efficient utilization of resources with new technology and creation of jobs in the country. However every government has policy to attract the foreign investment in different sectors, there are very few such investment has been made in Nepal. The slow growth of capital market has become one of the problems of mutual funds in Nepal.
2. Lack of adequate education about mutual funds in Nepalese investors. First of all very few people are aware about the capital market. Most of people prefer to keep their money in to banks for safety and liquidity purpose. Nepalese capital market is not much aggressive. Mutual funds are new concepts for Nepalese investors. So, one of the problem for mutual funds are lack knowledge about mutual funds among the potential investors.
3. Lack of separate investment company act: there are various laws, by laws and acts regarding securities market. But there is not any specific act for mutual funds in Nepal. Until a separate for mutual funds is enacted, the growth and development of mutual funds may not be expected.
4. Lack of professional investors: in Nepal, there is the lack of professional investors who could educate other people. Most of the investors are

influenced by the month publicity in the market during buying and selling the securities.

5. Lack of institutional investors: in Nepal there are very few institutional investors investing in share markets. Thus, the base of Nepalese capital market is weak and market price of the stock is highly volatile with events.
6. Lengthy settlement process of securities: cleaning and settlement of securities very lengthy in Nepalese capital market. Many days takes in paper works to transfer the ownership of the securities.
7. Lack of marketability of the mutual fund schemes: As per the NIDC executives, through NCM mutual fund is listed in NEPESE, the transition rarely takes place. The certain of the liquidity of such funds are one of the major challenges for mutual fund managers.
8. Low level of return on mutual funds: Nepalese capital market is not so big to make good portfolio. So, return from the fund is not so high as compared to other securities.
9. Lack of various types of mutual funds schemes: there is lack of various types of mutual funds schemes in Nepal. It is due to the lack of research and studies in this field.
10. Passive management strategy of funds by fund managers: The fund manager's portfolio management seems less active. So, it has not able to attract the investors in this sector. According to some fund manager executive, the management takes long time the decision to change the portfolio of assets. While the decision comes, the possible benefits might have been ceased. This shows that there is lack of mutual fund specialist in Nepal.
11. Lack of various types of securities for investment: there are few types of securities in Nepal. Preference share and bonds have not become popular means of financing for the issuing companies. Other derivatives securities are not introduced in Nepal.
12. Lack of Tax incentives: in some countries, investment in mutual funds are tax deductible investment like insurance premium which encourage

people to investment in mutual funds and return from such investment is non-taxable. But such provision is not in Nepal

13. Low level of saving: the per capital income of Nepalese people is one of the lowest in the world. The per capital income of Nepalese is around \$220 until the income level of people grows up the number of investors may not increase in a significant manner.
14. Market imperfection is another problem for whole capital market and mutual funds.
15. Infrastructure inadequacies are problems for mutual funds in Nepal.
16. There is lack of understanding trading of securities i.e. due to lack of adequate professional services, proper financial information disclosure, proper and sufficient regulatory and supervisory frameworks in Nepalese capital market.
17. Act of practice to issue the securities to finance government projects. However, treasury bills and other government bonds are issued to meet the financial requirement of the government bonds are issued to meet the financial requirement of the government but there is 1 Act of practice to issue government and semi- government projects.
18. Stock market volatility, low return on investment, inadequate information and lack of understanding has created the problem of mutual funds in Nepal.
19. Emerging capital market is small. Nepalese capital market is one of the emerging capital market so Nepalese capital market doesn't provide all types of financial instruments for making the optimal portfolio.
20. Low level of public saving has been a problem of mutual funds growth in Nepal. Low level of saving means lower habits of investment.

5.5 Prospects of Mutual Funds in Nepal

From the review of literature and interview with the respondents, It has been found that is the need of vibrant stock market for the growth of mutual funds in

Nepal. The overall capital market has been suffered by various problems, specifically; the political instability and insecurity situation has heavily affected the business environment in Nepal. The overall economic growth has been seen not much rapid. As the country's economy gets better improvement, there is the potential growth of the size of capital market and mutual funds in Nepal.

In Nepal, very few people are aware about the capital market. In the recent years, the awareness in the capital market is increasing and people are seeking better investment alternatives. Mostly, people keep their money in the banks with the objectives of safety and interest income. The bank interests have been decreasing around 2%-3%. So, mutual funds may be most suitable investment instruments that have less knowledge about the risk and return of the financial securities. So, investors may be protected from the huge losses due to fluctuation of the price of the securities. Principally, mutual funds are professional investors and diversify the possible risk by investing in different securities. Thus, a significant amount of money can be attracted towards the mutual funds.

The government securities are not practiced to be traded through organized stock exchange and argument has been made for long time to make the trading of government securities will be made through stock exchange which will increase the volume of the Nepalese capital market and it will create good investment sector for the mutual funds and it will increase the confidence of investors towards the mutual funds.

CHAPTER -VI

Summary, Conclusion and Recommendations

6.1 Summary and Conclusion

In this chapter, the summary, conclusions and some recommendations have been presented which have been found from the study. The study seems to be relevant in the particular time when mutual funds form a dominant portion of the investment in both developed and developing capital markets. For this purpose, to funds currently operating in Nepal was taken for the study, they are NIDC's NCM mutual fund and CIT's citizen unit scheme.

Mutual funds are investment companies which pool the scattered capital and invest in the capital market and return earned there on is invested to the investors. Mutual funds in investment are considered as the risk diversified investments because the funds are invested in various types of financial assets. Such funds have become popular in the developed capital market for the investors and it has become able to channelise the savings into the productive sectors which have helped in the growth of national economy of the country.

In Nepal, the history of mutual fund begins with the introduction of first NCM mutual fund 2050 in 1993 by NIDC capital markets which was an open-end scheme and later it was converted into close-end and was listed in 2003. Another mutual fund scheme was started by citizen investment trust with the approval of securities board, Nepal in 1995. In order to fulfill the objectives of the study, both primary and secondary data have been used. For secondary data analysis, 5 year data have been used. Likewise, in order to study the opinion of executive of capital market, Fund operators, stock brokers and general investors, a questionnaire survey of 50 respondents were carried out. The result was analysis to ascertain the differences in the responses of

the respondents. For this purpose chi-squared test was employed and the results were tested at 5% level of significance.

More than one decade long history of mutual fund in Nepal has been witnessed as new option for investors in Nepal. NIDC capital markets and CIT was the pioneer to establish mutual funds in Nepal. NIDC capital market started first NCM mutual fund and CIT started Citizen Investment scheme in 2052. For the risk -return analysis of the NCM mutual fund, 60 month's closing price of NCM mutual fund and NEPSE closing price has been observed. Secondary data relating to securities market and mutual funds were collected from various sources and analyzed with various tools and techniques to obtain the stated objectives. Based on the analysis, major findings from the secondary data are as follows:

Major findings from the secondary

12. The monthly return o mutual fund was observed fluctuating from 30% to -17.6% where as the monthly market return was fluctuating from 15.88% to -5.70% during the same period. This indicated that monthly fund return was more fluctuating than market.
13. Net assets value per unit is one of the most important indicators of performance of mutual funds. The NAV of the fund was Rs. 50.05 in the last quarter of 2065 Push.
14. NCM's portfolio investment 97% of the total investment was made in share and 3% in other sector still Push 2065.
15. The expenses ratio of the fund was found 4.81% of the total assets in Push 2065. The fund is providing 15% return per year beside the return from capital appreciation.
16. During the study period the risk free rate return was observed 4% (average rate of return). The average rate of return on the fund was 26.72% per

- annum where as market rate of return was 38.02.
17. Thus, market rate of return was higher than fund return for the study period. The standard deviation of the fund for study period is found higher than market i.e. fund's standard deviation is 29.05 and market standard deviation is 22.22%.
 18. The beta of the fund is 0.487 which is less than 1 and it indicates the fund is a defensive stock and the correlation coefficient of the fund with market is found 0.37.
 19. Citizen investment trust operates five types of saving mobilization schemes. Among them, citizen unit scheme is recognized as the mutual fund scheme. CIT's saving mobilization under this scheme was Rs.1003.9 million in 2003/04 and it was Rs. 779.817 million in 2007/08.
 20. The scheme provided 7% return to the investors in 2003/04 and 6.25% in 2007/08.
 21. Out of the total saving mobilization of CIT Rs 11831.7 million, citizen unit scheme share is 6% and remaining other scheme and majority of the investors of this scheme are government and fixed income and corporate employees.
 22. CIT's total investment in government debt Rs.1576 million, fixed income securities is 6590.5 million; in term loan Rs. 713.9 million, in equity share Rs.1332.9, and in housing Rs.1618.4 million.

Major findings from primary data analysis:

More than one decade long history of mutual fund in Nepal has been witnessed as a new option for investor in Nepal. NIDC capital markets and CIT was the pioneer to establish mutual funds in Nepal. NIDC capital markets started First NCM mutual fund and CIT started citizen investment scheme in 2052. For the risk -return analysis of the NCM mutual funds, 60 month's closing price of the fund and NEPSE is observed. For the analysis of performance of mutual fund in Nepal. The respondents were divided in to four categories. After the collection of the answer sheet, the data were processed and analyzed with

financial and statistical tools to draw some conclusions. In course of the collection of the primary data, some interesting facts have been found. The summary of the major findings of the primary data are as follows:

1. Most of the investors don't have adequate knowledge about the mutual fund in Nepal. More than 88% of the respondents of all group opined such views.
2. 25% of the respondents of SEBO/N and NEPSE opined that Nepalese capital market is enough developed for mutual funds and 75% were in against to this view. And majority of the respondents of other group respondent's view was that Nepalese securities market is not enough developed for mutual funds because of the unavailability of sufficient types of securities for portfolio management.
3. Regarding the sufficient of mutual funds schemes in Nepal, majority of the respondents think that the existing mutual funds schemes are not sufficient for investors. Other mutual funds should come in the capital market with different feature.
4. Sufficiency of existing securities markets law for mutual funds, 47% respondents of SEBO/N and NEPSE executive's opinion was that existing securities market laws are sufficient for mutual funds and majority of other group respondent's opinion is that existing securities markets laws are not sufficient for the growth and development of mutual funds in Nepal.
5. 53% of the respondents' of SEBO/N and NEPSE viewed that SEBO/N is playing role for the development of mutual fund in Nepal but majority of the respondents of other group opined that SEBO/N is not playing effective role for the development and growth of mutual funds in Nepal.
6. Most of respondents of all groups think that mutual funds are not popular as other instruments like shares and debenture in Nepal. The instrument is still a new for the Nepalese investors.
7. From the survey, it is found that majority of the respondents opinion was that investors don't put their money in mutual funds because of the lack of sufficient knowledge. Beside this, people are reluctant to buy mutual funds units because

of the illiquid nature of the fund in the stock exchange. There is rare transaction of such funds in the stock exchange. Manager's ability also plays important role in the performance of mutual funds because the fund is free to choose the better stocks. In this regard, the fund management seems passive investment strategy. The management has to do their best to increase the return.

8. Regarding the prospects of mutual funds in Nepal, majority of the investors of SEBO/N, NEPSE mutual fund managers and stock brokers think that mutual funds have good prospects in Nepal and expect to grow in future but majority of the investors are in against to this opinion.
9. The respondents have given some suggestions for the development and growth of mutual funds in Nepal. The respondents have emphasized on the enactment of separate mutual fund act. Most of the respondents said that there is not any policy to regulate mutual funds in capital market. Similarly, the respondents felt the need of other mutual funds with distinct feature to create the competition among the mutual funds schemes. Likewise, online trading and regional stock exchange are established to facilitate the investor out side Katmandu valley. Based on the opinion of executives of regulating monitoring, mutual fund manager, stock broker and investors, there is the need of some specific policies regarding mutual funds for the growth of mutual funds in Nepal.

Nepalese capital market is in growing stage and is very small. Practice of issuing debenture and preference share is not developed in Nepal. The development of capital market is influenced by the national economy of a country. show economic growth , lack of adequate education about mutual funds in Nepalese investors, lack of separate mutual company act, lack of experts, lengthy settlement process of securities, low level of return on mutual funds, political instability , poor security condition , passive investment strategy of funds, market imperfection, lack of liquidity power of funds, lack of tax incentives on investment in mutual funds income and lack of various types of instrument are some of the existing problem of mutual funds.

Despite all these problems, from the literature review and interaction with the respondents, it has been found that there is the need of mutual funds for the stability and growth of capital market. Majority of the respondents were agreed that there is the good prospect of mutual funds in the country. The main role of the capital market in the economy is mobilizing the idle capital in the productive sector. The open and liberal policies will enhance the growth of capital market in Nepal. SEBO/N is enacting new securities law where there is new provision for mutual funds.

6.2 Recommendations and suggestion

The analysis of primary as well as secondary data revealed various facts about the mutual fund's present conditions in Nepalese capital market. From the financial and statistical analysis of the data, it is obvious that NCM mutual fund and CIT could not perform efficiently. The research had been done to find out the performance and current scenario of mutual fund in Nepal. For the research, investment portfolios of both NCM mutual fund and CIT have been done from the report published by the NIDC and CIT.

From the analysis of data, it is found that still there are lots of things to be done in mutual fund business. Mutual fund, management should adopt dynamic investment strategy and efficiency portfolio management. The fund should try to invest most of its assets 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.

Finally, from the overall analysis it seems that an overall practice of mutual fund in Nepal is not in satisfactory condition. Investments are not so much

interested towards the mutual fund because of less return and high risk in comparison to the market. That's why, investing in share is better than the fund. One of the major reasons for the failure of mutual fund might be due to the lack of adequate knowledge and efficient decision making. Based on the conclusion of the study; various suggestions have been concluded as follows:

Suggestion to the government

Government has not issued specific directives on mutual fund related activities; however the company carrying mutual fund activities may design specific norms and self-regulatory provision with the objectives of diversifying risk. These provisions may include as follows:

-) Maintains stick standards on leveraging so that funds do not take undue risks with funds assets. Effective and efficient supervision should be made by securities exchange board of Nepal (SEBO) on the loan portfolio management of mutual fund on behalf of its stack holders.
-) Since, the essence of mutual fund is too averse the risk by efficient management of the fund of the investors, the incumbent responsible for the management of the funds should competent. By maintaining the effective internal governance system like better human resource management, physical resource management etc. the fund will be able to act on the best interest of the investors. So through the effective vigilances, the government should ensure that mutual funds maintain effective internal government system.
-) For encouraging the better corporate culture in the mutual fund company, the government should establish the corporate governance norms and should ensure that it is well practiced in the company.
-) For the transparency of the activities of the mutual fund which regard to accounting and auditing practices. The report and recommendation from the office of auditor general should be implemented effectively.

-) Develop or revise rules and amendments as necessary to adapt regulation to new circumstances.
-) There is lack of conference regarding the mutual funds in Nepal. Securities Board, Nepal, NEPSE, government and concerned organizations should discuss and suggestion policies for the development and growth of mutual funds in Nepal.
-) Till date, no effort has been made to promote and develop mutual funds in Nepal. So, responsible bodies should make effective effort to upgrade it. It needs hands on hands effort from institutions, regulating bodies (SEBO/N, NEPSE and NRB) and investors to promote and develop mutual funds in Nepal.
-) Government and private sectors should be encouraged to finance the project by issuing the shares and debentures rather than foreign loan.
-) To enhance the growth of mutual funds, number of mutual funds expert and professionals are yet to be increase.
-) To boost up the mutual funds in Nepal, separate mutual funds act (investment company act) is a must that should regulate, monitor and promote the mutual funds companies Nepal.
-) SEBO/N, NEPSE and concerned companies should make studies, research regarding the mutual funds schemes, investment strategies of the mutual funds in the developed capital markets and can be established in Nepal.
-) Government bodies like municipalities and other bodies should practice to issue various types of bonds as the long-term source of financial for developmental activities that enhance the growth of capital market and mutual funds in the country.
-) Alternative securities exchange center should be established to accelerate the competition and liquidity of securities and facilitate the investors of outside the valley.

Suggestions to the managers

From the research it is found out that the following steps should be taken by the fund managers of the companies.

-) Should make investment plan resulting high growth attraction.
-) Stocks have historically been the best performing assets class for growth especially of commercial banks. When planning long-term financial goals, it is important to see return expectation for equities in relation to the growth of real business.
-) Portfolio management should be efficient so that market movement could be watch carefully.
-) in other to secure investors saving fund should invest on primary shares of financial institutions for capital gain and should invest on secure sector like government bond, debenture. Foreign investments and securities etc.
-) Company should focus on its marketing strategy in order to give general awareness towards the saving especially on mutual fund schemes.
-) In order to attract general investors, company should try to maintain its dividend payout ratio as far as possible.
-) Buy back facility with or without a minimum look in period.
-) Additional liquidity through listing in a stock exchange.
-) Competition creates better market and increases the performance and efficiency of the companies. it has been found that manager's investment strategy is passive in Nepal: long time is taken to make the new portfolio of the funds. Many other such mutual funds should be established in Nepal which may create competition and benchmark for the comparison of mutual funds in time to time.

Suggestions to the investors

The major contributor to the investor's ability to build wealth has been its adherence to a set of basic principles concerning investor's behavior that any individual can learn and practice. Investors should make long term perspective

.buying and selling rationally, and using high- quality source of information when making investment decisions. Therefore investor should gain much financial knowledge about the mutual fund.

) Investors are highly encouraged to make financial planning decisions on reliable information.

) Mutual fund companies have done very well at international level because it has been handle professionally and efficiently. Therefore, it could be better if Nepalese economy follow suit.

) Mutual fund investment could be better and risk free in future with high yields.

) Mutual fund reduces risk by diversification, so it is safe investment than other investment alternatives.

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Appendix-I

Research Question

A Questionnaire survey on "performance of Mutual Fund in Nepal"

Dear Respondent,

I have been conducting a research on performance of mutual fund in Nepal as a requirement for the partial fulfillment of the degree of MBS. In this regard, with a view to see the views of all the market participants and or concerned bodies on the key issues relating to the performance of mutual fund in Nepal. I have set a list of questionnaire, which are the key problems identified by the researcher. I humbly request you to fill up at the best of your knowledge. Your co- operation by this regard will be immense value for me. I shall be highly obliged for your prompt reply as far as possible.

Thank you.

Name: ----- Organization: -----

Designation: ----- Address: -----

Please answer the following questions.

1. Do you think that Nepalese investors have enough knowledge about the mutual funds?
a. Yes b. no c. I don't know
2. Do you think that Nepalese capital market is enough developed for Mutual funds?
a. yes b. no c. I don't know
3. Do you think that there is enough mutual funds scheme for Nepalese Investor?
a. yes b. know c. I don't know
4. Do you think that mutual funds play important role to grow capital?
a. yes b. no c. I don't know
5. In your view, existing securities markets laws are sufficient for growth of Mutual funds?
a. sufficient b. insufficient
6. Do you think, SEBO/N has playing any role to grow mutual funds?
a. yes b. no c. ignorance
7. Whether Mutual funds are popular among the investor in Nepal?
a. popular b. not popular c. I don't know
8. Why investors put their funds in common stocks instate of mutual funds?
a. Mutual funds provide less return than common stocks.
b. Mutual funds are less liquid than other securities.
c. people don't have enough knowledge about mutual funds.
9. Do you see any future prospects of mutual funds in Nepal?
a. Good future b. Bad future
Reason no 1.
10. To give your suggestion and recommendation for the development of mutual funds in Nepal?

Appendix III

Calculation of Expected Rate of Return Standard deviation and Variance of NCM Mutual Fund

Year	Return %	R-R	(R-R) ²
060/61	4.5	-22.22	493.72
2061/62	-4.5	31.22	974.68
2062/63	15	-11.72	137.36
2063/64	43.6	16.88	284.90
2064/65	75	48.28	2330.95
Total	133.6	62.44	4221.61

$$\begin{aligned}
 \text{Expected Rate of Return (ER}_n) &= \frac{\text{of Return}}{\text{No of year}} \\
 &= \frac{133.6}{5} \\
 &= \mathbf{26.72}
 \end{aligned}$$

$$\begin{aligned}
 \text{Variance of Return } (\exists n^2) &= \frac{(R-R)^2}{N} \\
 &= \frac{4221.61}{5} \\
 &= \mathbf{844.32}
 \end{aligned}$$

$$\begin{aligned}
 \text{Standard deviation } (\exists n) &= \sqrt{\frac{(R-R)^2}{N}} \\
 &= \sqrt{\frac{4221.6}{5}} \\
 &= \mathbf{29.05}
 \end{aligned}$$

Appendix III

Calculation of Expected Rate of Return Standard deviation and Variance of NEPSE

Year	Return %	R-R	(R-R) ²
060/61	8.39	-29.63	877.94
2061/62	29.11	-8.91	79.39
2062/63	34.93	-3.09	9.55
2063/64	76.81	38.79	1504.66
2064/65	40.85	2.83	8.0
Total	190.09	-0.01	2479.54

$$\text{Expected Rate of Return (ER}_m\text{)} = \frac{\text{of Return}}{\text{No. of year}}$$

$$= \frac{190.09}{5}$$

$$= 38.02$$

$$\text{Variance of Return } (\exists m^2) = \frac{(R-R)^2}{N}$$

$$= \frac{2479.54}{5}$$

$$= 495.91$$

$$\text{Standard deviation } (\exists m) = \sqrt{\frac{(R-R)^2}{N}}$$

$$= \sqrt{\frac{2479.54}{5}}$$

$$= 22.27$$

Appendix III

Calculation of Expected Rate of Return Standard deviation and Variance of
CIT's citizen Unit Scheme

Year	Return %	R-R	(R-R) ²
060/61	7	-0.3	0.09
2061/62	7	0.3	0.09
2062/63	7	0.3	0.09
2063/64	6.25	0.45	0.20
2064/65	6.25	0.45	0.20
Total	33.5	1.2	0.67

$$\text{Expected Rate of Return (ERc)} = \frac{\text{of Return}}{\text{No of year}}$$

$$= \frac{33.5}{5}$$

$$= 6.7$$

$$\text{Variance of Return } ((\exists c^2)) = \frac{(R-R)^2}{N}$$

$$= \frac{0.67}{5}$$

$$= 0.134$$

$$\text{Standard deviation } ((\exists c)) = \sqrt{\frac{(R-R)^2}{N}}$$

$$= \sqrt{\frac{0.67}{5}}$$

$$= 0.37$$

Appendix III

Calculation of Covariance, Beta, and Correlation of NCM Mutual Fund with Market

Year	(R _n - ER _n)	(R _m - ER _m)	{(R _n -ER _n)(R _m -ER _m)}
060/61	-22.22	-29.63	658.37
2061/62	31.22	-8.91	-278.170
2062/63	-11.71	-3.09	36.18
2063/64	16.88	38.79	654.78
2064/65	48.28	2.83	136.63
Total	62.45	-0.01	1207.80

$$\text{Coefficient covariance (Cov}_{nm}) = \frac{\{(R_n - ER_n)(R_m - ER_m)\}}{N}$$

$$= \frac{1207.80}{5}$$

$$= 241.56$$

$$\text{Correlation (pnm)} = \frac{(\text{Cov}_{nm})}{\sigma_m}$$

$$= \frac{241.56}{(29.05)(22.27)}$$

$$= 0.3733$$

$$\text{Beta (bn)} = \frac{(\text{Cov}_{nm})}{\sigma_m^2}$$

$$= \frac{241.56}{495.91}$$

$$= 0.487$$

Appendix III

Calculation of Covariance, Beta, and Correlation of CIT's Citizen Unit Scheme with Market

Year	(Ru- ERu)	(Rm- ERm)	{(Ru-ERu)(Rm-ERm)}
060/61	-0.09	-29.63	8.89
2061/62	0.09	-8.91	-2.67
2062/63	0.09	-3.09	-0.92
2063/64	0.20	38.79	17.452
2064/65	0.20	2.83	1.273
Total	.49	.99	24.94

$$\text{Coefficient covariance (Cov}_{cm}) = \frac{\{(Rc-ERC) (Rm-ERM)\}}{N}$$

$$= \frac{24.94}{5}$$

$$= 4.98$$

$$\text{Correlation (pnm)} = \frac{(\text{Cov}_{um})}{\sigma_m}$$

$$= \frac{4.98}{(0.37)(22.27)}$$

$$= 0.61$$

$$\text{Beta (bn)} = \frac{(\text{Cov}_{Um})}{\sigma_m^2}$$

$$= \frac{24.94}{495.91}$$

$$= 0.010$$

Appendix II

Calculation of chi-square (χ^2)

Question no 2.

Respondents Option	NEPES & NEBO/N	Mutual funds operators	Brokers	Investor	Total
Developed	4	1	1	2	8
undeveloped	11	14	9	8	42
Total	15	15	10	10	50

(χ^2) -test whither Nepalese Capital Market is enough developed or not
Developed for mutual fund of first of all, we have calculated the expected or estimated frequencies (E_i) according to given frequencies (O_i).

H0: $O_i = E_i$

H1: $O_i \neq E_i$ (Two tail test)

Calculation of the Given Data

<u>O_i</u>	<u>E_i</u>	<u>$(O_i - E_i)^2$</u>	<u>$(O_i - E_i)^2 / E_i$</u>
$E(4) = 8 \times 15 / 50 = 2.4$	2	4	2
$E(1) = 8 \times 15 / 50 = 2.4$	2	1	0.5
$E(1) = 8 \times 10 / 50 = 1.6$	2	1	0.5
$E(2) = 8 \times 10 / 50 = 1.6$	2	0	0
$E(11) = 42 \times 15 / 50 = 12.6$	13	4	0.3
$E(14) = 42 \times 15 / 50 = 12.6$	13	1	0.07
$E(9) = 42 \times 10 / 50 = 8.4$	8	1	0.13
$E(8) = 42 \times 10 / 50 = 8.4$	8	0	<u>0.00</u>
			3.506

Calculated value of (χ^2) = 3.506

Tabulated Value of (χ^2) = 7.815 (5% {r-1} {c-1} = 3 d.f)

Conclusion

$\chi^2_{Cal} < \chi^2_{tab}$ value so H_A is accepted.

Appendix II

Calculation of chi-square (χ^2)

Question no 1.

(χ^2) -test whither the number of investor have knowledge or have not

Respondents Option	NEPES & NEBO/N	Mutual funds operators	Brokers	Investor	Total
have knowledge	2	1	1	2	6
haven't knowledge	13	14	9	8	44
Total	15	15	10	10	50

knowledge, first of all, we have calculate the expected or estimated frequencies (E_i) according to given frequencies (O_i).

$H_0: O_i = E_i$

$H_1: O_i \neq E_i$ (Two tail test)

Calculation of the Given Data

<u>O_i</u>	<u>E_i</u>	<u>$(O_i - E_i)^2$</u>	<u>$(O_i - E_i)^2 / E_i$</u>
$E(2) = 6 \times 15 / 50 = 1.8$	2	0	0
$E(1) = 6 \times 15 / 50 = 1.8$	2	1	0.5
$E(1) = 6 \times 10 / 50 = 1.2$	2	0	0
$E(2) = 6 \times 10 / 50 = 1.2$	2	1	1
$E(13) = 44 \times 15 / 50 = 10.56$	11	4	0.36
$E(14) = 44 \times 15 / 50 = 10.56$	11	9	0.82
$E(9) = 44 \times 10 / 50 = 8.8$	9	0	0.11
$E(9) = 44 \times 10 / 50 = 8.8$	9	1	<u>0.11</u>
			2.79

Calculated value of (χ^2) = 2.79

Tabulated Value of (χ^2) = 7.815 (5% {r-1} {c-1} = 3 d.f)

Conclusion

$\chi^2_{cal} < \chi^2_{tab}$ value so H_A is accepted.

Appendix II

Calculation of chi-square (χ^2)

Question no 5.

Respondents Option	NEPES & NEBO/N	Mutual funds operators	Brokers	Investor	Total
Sufficient	7	2	2	1	12
Insufficient	8	13	8	9	38
Total	15	15	10	10	50

(χ^2) -test whither there is enough mutual fund scheme or not, first of all, we have calculate the expected or estimated frequencies (E_i) according to given frequencies (O_i).

H_0 : $O_i = E_i$

H_1 : $O_i \neq E_i$ (Two tail test)

Calculation of the Given Data

<u>O_i</u>	<u>E_i</u>	<u>$(O_i - E_i)^2$</u>	<u>$(O_i - E_i)^2 / E_i$</u>
$E(7) = 12 \times 15 / 50 = 3.6$	4	9	2.25
$E(2) = 12 \times 15 / 50 = 3.6$	4	4	1
$E(2) = 12 \times 10 / 50 = 2.4$	2	1	0.5
$E(1) = 12 \times 10 / 50 = 2.4$	2	1	0.5
$E(8) = 38 \times 15 / 50 = 11.4$	11	9	0.818
$E(13) = 38 \times 15 / 50 = 11.4$	11	4	0.36
$E(8) = 38 \times 10 / 50 = 7.6$	8	0	0
$E(9) = 38 \times 10 / 50 = 7.6$	8	1	<u>0.13</u>
			5.558

Calculated value of (χ^2) = 5.558

Tabulated Value of (χ^2) = 7.815 (5% {r-1} {c-1} = 3 d.f)

Conclusion

$\chi^2_{Cal} < \chi^2_{tab}$ value so H_A is accepted.

Appendix II

Calculation of chi-square (χ^2)
Question no 6.

Respondents Option	NEPES & NEBO/N	Mutual Funds Operators	Brokers	Investor	Total
Play Important Role	8	5	3	4	20
Not playing any Role	7	10	7	6	30
Total	15	15	10	10	50

(χ^2) -test whither SEBO/N has playing important role or not to growing mutual funds, first of all, we have calculate the expected or estimated frequencies (E_i) according to given frequencies (O_i).

H₀: $O_i = E_i$
H₁: $O_i \neq E_i$ (Two tail test)

Calculation of the given data

<u>O_i</u>	<u>E_i</u>	<u>$(O_i - E_i)^2$</u>	<u>$(O_i - E_i)^2 / E_i$</u>
E (8) = $20 \times 15 / 50$	= 6	4	0.67
E (5) = $20 \times 15 / 50$	= 6	1	0.17
E (3) = $20 \times 10 / 50$	= 4	1	0.25
E (4) = $20 \times 10 / 50$	= 4	0	0
E (7) = $30 \times 15 / 50$	= 9	4	0.44
E (10) = $30 \times 15 / 50$	= 9	1	0.11
E (7) = $30 \times 10 / 50$	= 6	1	0.17
E (6) = $30 \times 10 / 50$	= 6	0	<u>0.00</u>
			1.81

Calculated value of (χ^2) = 1.81

Tabulated Value of (χ^2) = 7.815 (5% {r-1} {c-1} = 3 d.f)

Conclusion

$\chi^2_{\text{Cal}} < \chi^2_{\text{tab}}$ value so H_A is accepted.

Appendix II

Calculation of chi-square (χ^2)

Question no 8.

Respondents Main Reason	NEPES & NEBO/N	Mutual funds operators	Brokers	Investor	Total
Less Return	3	0	3	3	9
Less Liquidity	3	1	4	6	14
Lack of knowledge	9	14	3	1	27
Total	15	15	10	10	50

(χ^2) -test whither investor put their funds in common stock instate of mutual funds first of all, we have calculate the expected or estimated frequencies (E_i) according to given frequencies (O_i).

H0: $O_i = E_i$

H1: $O_i \neq E_i$ (Two tail test)

Calculation of the Given Data

<u>O_i</u>	<u>E_i</u>	<u>$(O_i - E_i)^2$</u>	<u>$(O_i - E_i)^2 / E_i$</u>
$E(3) = 9 \times 15 / 50 = 2.7$	3	0	0
$E(0) = 9 \times 15 / 50 = 2.7$	3	9	3
$E(3) = 9 \times 10 / 50 = 1.8$	2	1	0.5
$E(3) = 9 \times 10 / 50 = 1.8$	2	1	0.5
$E(3) = 14 \times 15 / 50 = 4.2$	4	1	0.25
$E(1) = 14 \times 15 / 50 = 4.2$	4	9	2.25
$E(4) = 14 \times 10 / 50 = 2.8$	3	1	0.33
$E(6) = 14 \times 10 / 50 = 2.8$	3	9	3
$E(9) = 27 \times 15 / 50 = 8.1$	8	1	0.125
$E(14) = 27 \times 15 / 50 = 8.1$	8	36	4.5
$E(3) = 27 \times 10 / 50 = 5.4$	5	4	0.8
$E(1) = 27 \times 10 / 50 = 5.4$	5	16	<u>3.20</u>
			18.45

Calculated value of (χ^2) = 18.453

Tabulated Value of (χ^2) = 12.6 (5% {r-1} {c-1} = 6 d.f)

Conclusion

$\chi^2_{Cal} < \chi^2_{tab}$ value so H_0 is accepted.

Calculation of Return of NCM Mutual Fund and CIT Unit

Appendix II

Calculation of chi-square (χ^2)

Question no 9.

Respondents Option	NEPES & NEBO/N	Mutual Funds Operators	Brokers	Investor	Total
Good Future	12	9	6	5	32
Bad Future	3	6	4	5	18
Total	15	15	10	10	50

(χ^2) -test whither SEBO/N has playing important role or not to growing mutual funds, first of all, we have calculate the expected or estimated frequencies (E_i) according to given frequencies (O_i).

H₀: $O_i = E_i$

H₁: $O_i \neq E_i$ (Two tail test)

Calculation of the given data

<u>O_i</u>	<u>E_i</u>	<u>$(O_i - E_i)^2$</u>	<u>$(O_i - E_i)^2 / E_i$</u>
$E(12) = 32 \times 15 / 50 = 9.6$	10	4	0.4
$E(9) = 32 \times 15 / 50 = 9.6$	10	1	0.11
$E(6) = 32 \times 10 / 50 = 6.4$	6	0	0
$E(5) = 32 \times 10 / 50 = 6.4$	6	1	0.2
$E(3) = 18 \times 15 / 50 = 5.4$	5	4	1.33
$E(6) = 18 \times 15 / 50 = 5.4$	5	1	1.6
$E(4) = 18 \times 10 / 50 = 3.6$	4	0	0
$E(5) = 18 \times 10 / 50 = 3.6$	4	1	<u>0.2</u>
			2.4

Calculated value of (χ^2) = 2.4

Tabulated Value of (χ^2) = 7.815 (5% {r-1} {c-1} = 3 d.f)

Conclusion

$\chi^2_{Cal} < \chi^2_{tab}$ value so H_A is accepted.

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