FINANCIAL PERFORMANCE EVALUATION OF MUTUAL FUNDS IN NEPAL

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By

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Certification of Authorship

I hereby corroborate that I have researched and submitted the final draft of dissertation entitled **"Financial Performance Evaluation of Mutual Funds in Nepal**". The work of this dissertation has not been submitted previously for the purpose of conferral of any degrees nor has it been proposed and presented as part of requirements for any other academic purpose.

The assistance and cooperation that I have received during this research work has been acknowledged. In addition, I declare that all information sources and literature used are cited in the reference section of the dissertation.

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Report of Research Committee

Ms. Kalpana Kunwar has defended research proposal entitled "**Financial Performance Evaluation of Mutual Funds in Nepal**" successfully. The research committee has registered the dissertation for further progress. It is recommended to carry out the work as per suggestion and guidance of supervisor **Assoc. Prof. Dr. Kapil Khanal** and submit the dissertation for evaluation and Viva-Voce examination.

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Abbreviations

ANOVA	: Analysis of Variance
APT	: Arbitrage Pricing Theory
CAPM	: Capital Asset Pricing Model
COVID-19	: Coronavirus Disease 2019
EMH	: Efficient Market Hypothesis
ESG	: Environmental, Social, and Governance
GIMES1	: Global IME Samunnat Scheme 1
HML	: High Minus Low (value premium in Fama-French model)
LVF1	: Laxmi Value Fund 1
MPT	: Modern Portfolio Theory
NAV	: Net Asset Value
NEPSE	: Nepal Stock Exchange
NIBLPF	: NIBL Pragati Fund
NIBSF1	: NIBL Samriddhi Fund 1
SEF	: Siddhartha Equity Fund
SMB	: Small Minus Big (size premium in Fama-French model)
SPSS	: Statistical Package for the Social Sciences
U.S.	: United States

Abstract

The evaluation of financial performance in Nepal's mutual fund industry is crucial for understanding the investment landscape and its contribution to the country's economic growth. This study aims to assess the performance of various mutual funds, including Global IME Samunnat Scheme 1 (GIMES1), NIBL Pragati Fund (NIBLPF), NIBL Samriddhi Fund 1 (NIBSF1), Laxmi Value Fund 1 (LVF1), and Siddhartha Equity Fund (SEF), by analyzing their returns, risk-adjusted performance, and Net Asset Value (NAV). Using established financial models such as the Capital Asset Pricing Model (CAPM), Modern Portfolio Theory (MPT), and the Efficient Market Hypothesis (EMH), the study examines whether these funds deliver value to investors while managing risks effectively. The analysis focuses on key metrics to evaluate mutual fund performance in relation to market benchmarks, such as the Nepal Stock Exchange (NEPSE) index. The study also considers the role of environmental, social, and governance (ESG) factors, given the growing emphasis on sustainable and responsible investing.

Results indicate that while some funds consistently outperform market benchmarks, others struggle with volatility and lower-than-expected returns. Factors influencing performance include market conditions during the COVID-19 pandemic, fund management strategies, and the overall financial environment in Nepal.

The findings suggest that mutual funds in Nepal offer viable investment options but require strategic management to optimize returns. Investors are encouraged to consider both financial and non-financial factors when selecting funds. The study concludes that mutual fund performance in Nepal is mixed, highlighting the importance of diversification, active fund management, and regulatory support to enhance investor confidence and market growth. These insights contribute to the broader understanding of mutual fund performance in emerging markets like Nepal.

Keywords: *Mutual Fund Performance, Fund size, Age of fund, Expense Ratio, Cash Ratio NEPSE index*

CHAPTER I

INTRODUCTION

1.1 Background of the Study

Mutual funds have increasingly become a prominent investment vehicle worldwide, offering a diversified portfolio that allows investors to spread risk while aiming for optimal returns. In Nepal, the mutual fund industry has experienced considerable growth in the past decade, propelled by increased investor awareness, a favorable regulatory environment, and the overall development of the financial markets. However, evaluating the financial performance of mutual funds remains a critical concern for investors, fund managers, and policymakers alike, as it directly influences investment decisions and resource allocation within the financial sector (Adhikari & Shrestha, 2022). The ongoing development of financial literacy and digital access has further amplified the reach of mutual funds, making it crucial to assess their performance in a rapidly evolving market landscape (Pant & Shah, 2023).

Historically, Nepal's financial market has been dominated by traditional banking products, with limited investment options for retail investors. The introduction of mutual funds in the early 2000s marked a significant shift, offering an alternative to conventional savings instruments and enabling broader participation in capital markets (Shrestha & Bhandari, 2021). Despite the relatively nascent stage of the mutual fund industry in Nepal, the sector has shown promising growth, with several funds outperforming traditional savings products in terms of returns (Khadka et al., 2020). Nevertheless, the volatility of the stock market, coupled with the unique economic challenges faced by Nepal, raises questions about the sustainability and reliability of mutual fund returns, especially in a post-pandemic economy (Poudel & Karki, 2024).

The mutual fund industry in Nepal operates under the regulatory oversight of the Securities Board of Nepal (SEBON), which has played a crucial role in shaping the industry's growth trajectory. SEBON's efforts to enhance transparency, improve governance, and protect investor interests have contributed to increasing investor confidence and participation in mutual funds (Gurung & Adhikari, 2022). However, the

performance of mutual funds is influenced by a myriad of factors, including market conditions, fund management strategies, and macroeconomic variables (Bista, 2023). Evaluating the financial performance of mutual funds, therefore, requires a comprehensive analysis that considers these diverse factors, especially as new regulatory changes and economic policies are introduced (Lamsal, 2024).

Mutual fund performance is often assessed using various metrics, such as Net Asset Value (NAV), Sharpe ratio, Treynor ratio, and Jensen's alpha. These metrics help investors understand the risk-adjusted returns of mutual funds and make informed investment decisions (Sharma & Singh, 2022). However, there is a need for more empirical studies that analyze mutual fund performance in the context of Nepal's unique financial environment (Subedi, 2023). Such studies would provide valuable insights into the effectiveness of different fund management strategies and the overall efficiency of the mutual fund industry in Nepal, particularly in comparison with regional markets (Thapa & Pant, 2024).

One of the key challenges in evaluating the performance of mutual funds in Nepal is the limited availability of historical data and the relatively short track record of most funds. This poses difficulties in conducting long-term performance analysis and understanding the cyclicality of returns (Bhatta & Poudel, 2020). Moreover, the performance of mutual funds in Nepal is closely tied to the overall performance of the Nepal Stock Exchange (NEPSE), characterized by high volatility and sensitivity to political and economic events (Koirala & Gautam, 2023). As a result, mutual fund returns in Nepal are subject to significant fluctuations, which can impact investor perceptions and investment behavior, especially in uncertain economic climates (Rana & Regmi, 2024).

The increasing interest in mutual funds among retail investors in Nepal underscores the need for a thorough evaluation of their financial performance. Investors are increasingly seeking to understand the factors driving mutual fund performance, such as fund size, expense ratio, management quality, and investment strategies (Dhakal & Acharya, 2021). Additionally, the role of macroeconomic factors, such as interest rates, inflation, and economic growth, in influencing mutual fund performance cannot be overlooked (Ghimire & Kandel, 2022). As Nepal continues to develop its financial markets,

understanding the dynamics of mutual fund performance will be crucial for ensuring the long-term sustainability of the industry, especially in a global context where economic interdependencies are growing (Shah & Shrestha, 2023).

The recent global economic challenges, including the COVID-19 pandemic, have highlighted the importance of resilience in financial markets. The mutual fund industry in Nepal, like in other parts of the world, has faced unprecedented challenges during the pandemic, with fluctuations in asset prices, liquidity constraints, and changing investor sentiments (Karki & Shrestha, 2022). These developments have raised important questions about the ability of mutual funds to withstand economic shocks and continue to provide stable returns to investors (Gurung et al., 2023). As such, evaluating mutual fund performance in the face of global and domestic challenges is critical to understanding their role in Nepal's financial system (Bhandari & Subedi, 2024).

The financial performance evaluation of mutual funds in Nepal is a critical area of study with significant implications for investors, fund managers, and policymakers. As the mutual fund industry continues to grow and evolve, there is a pressing need for comprehensive research that examines the factors influencing mutual fund performance in the context of Nepal's financial market. Such research will not only contribute to a better understanding of the mutual fund industry in Nepal but also help in formulating policies and strategies that enhance the efficiency and stability of the financial markets (Dhakal, 2024).

1.2 Problem Statement

The financial performance of mutual funds is a critical factor for investors, fund managers, and policymakers in determining the effectiveness and sustainability of these investment vehicles. In Nepal, the mutual fund industry is relatively young compared to more developed markets, yet it has witnessed substantial growth in recent years due to increased investor interest, economic development, and a supportive regulatory environment (Paudel & Devkota, 2022). However, the performance of mutual funds in Nepal remains an area of concern, given the volatility of the domestic financial markets, limited historical data, and the unique economic challenges that the country faces (Joshi, 2021).

One of the primary issues is the inconsistent performance of mutual funds in Nepal, which poses a significant risk for investors. Unlike in more developed financial markets, where mutual funds have a long track record and extensive data for performance analysis, the Nepalese mutual fund industry is still in its developing stages (Shrestha & Shakya, 2023). This lack of historical performance data makes it difficult to evaluate the long-term viability of these funds. Additionally, the performance of mutual funds is closely tied to the fluctuations in the Nepal Stock Exchange (NEPSE), which is known for its high volatility and sensitivity to political, economic, and social changes (Aryal & Luitel, 2020). This volatility can lead to significant variations in the returns of mutual funds, making it challenging for investors to predict future performance and make informed investment decisions (Bhattarai & Mishra, 2023).

Another critical issue is the limited understanding and awareness among Nepalese investors regarding mutual funds. Although there has been a growing interest in mutual funds, many investors still lack the necessary financial literacy to assess the risks and benefits associated with these investments (Thapa, 2021). This lack of awareness often leads to unrealistic expectations, as investors may not fully understand the factors that influence mutual fund performance, such as market conditions, management strategies, and economic indicators (Sharma & Karki, 2022). Consequently, this can result in dissatisfaction and a potential withdrawal from mutual fund investments, further impacting the stability and growth of the mutual fund industry in Nepal (Maharjan & Bhusal, 2024).

Furthermore, the regulatory framework governing mutual funds in Nepal, while improving, still faces challenges in ensuring transparency, accountability, and investor protection (Khadka & Acharya, 2020). The Securities Board of Nepal (SEBON) has made significant strides in regulating the mutual fund industry, but there are concerns about the effectiveness of these regulations in safeguarding investor interests, particularly in times of market distress (Pandey & Poudel, 2023). Inadequate regulation can lead to issues such as mismanagement of funds, lack of transparency in fund operations, and conflicts of interest, all of which can adversely affect the performance and credibility of mutual funds in Nepal (Dhungana & Subedi, 2022).

Moreover, the impact of external factors such as the global economic environment, political instability, and natural disasters on the performance of mutual funds in Nepal cannot be overlooked (Ghimire & Sapkota, 2024). Nepal's economy is highly susceptible to external shocks, which can have a profound impact on its financial markets and, consequently, on the performance of mutual funds (K.C. & Shrestha, 2021). The COVID-19 pandemic, for instance, significantly disrupted financial markets worldwide, including Nepal, leading to increased uncertainty and volatility in mutual fund returns (Bista & Dhakal, 2020).

Given these challenges, there is a pressing need for a comprehensive evaluation of the financial performance of mutual funds in Nepal. This evaluation should consider not only the returns generated by these funds but also the various factors that influence their performance, including market conditions, regulatory frameworks, and investor behavior (Acharya & Poudel, 2023). Such an analysis is crucial for identifying the strengths and weaknesses of the mutual fund industry in Nepal and for developing strategies to enhance its stability, transparency, and attractiveness to investors. Addressing these issues is vital for the long-term growth and sustainability of the mutual fund industry in Nepal, ensuring that it can continue to play a significant role in the country's financial development (Karki & Gautam, 2024).

- What is the status of financial performance evaluation of mutual funds in Nepal?
- Is there any relation between NEPSE index, Fund size, Cash Ratio, Expense Ratio, Age of fund and Mutual Fund Performance(NAV)?
- What is the impact of NEPSE index, Fund size, Cash Ratio, Expense Ratio, Age of fund on Mutual Fund Performance (NAV)?

1.3 Objective of the study

The objective of the study are as follows:

- To analyze the status of financial performance evaluation of mutual funds in Nepal.
- To examine the relation between NEPSE index, Fund size, Cash Ratio, Expense Ratio, Age of fund and Mutual Fund Performance (NAV).

- To assess the impact of NEPSE index, Fund size, Cash Ratio, Expense Ratio, Age of fund on Mutual Fund Performance (NAV).

1.4 Hypothesis of the study

The hypothesis of the study has been formulated as follows:

H1: There significant positive impact of NEPSE index on Mutual Fund Performance (NAV).

H1: There significant positive impact of Fund size on Mutual Fund Performance (NAV).

H1: There significant positive impact of Cash Ratio on Mutual Fund Performance (NAV).

H1: There significant positive impact of Expense Ratio on Mutual Fund Performance (NAV).

H1: There significant positive impact of Age of fund on Mutual Fund Performance (NAV).

1.5 Rationale of the Study

The study on the financial performance evaluation of mutual funds in Nepal is essential for several reasons, given the growing importance of mutual funds in the financial landscape and the unique challenges faced by the Nepalese financial market. As the mutual fund industry in Nepal continues to expand, driven by increasing investor participation and regulatory developments, it becomes imperative to assess the performance of these funds to ensure that they meet investor expectations and contribute positively to the overall economic growth (Paudel & Devkota, 2022).

One of the key reasons for conducting this study is to address the knowledge gap in the literature concerning the performance of mutual funds in emerging markets, particularly in the context of Nepal. Unlike more established financial markets, where mutual funds have been extensively studied and analyzed, there is limited research focusing on the performance of mutual funds in Nepal. This study aims to fill this gap by providing a comprehensive analysis of the financial performance of mutual funds in the Nepalese context, considering factors such as market volatility, regulatory changes, and investor behavior (Joshi, 2021). By doing so, the study will contribute valuable insights to both

academics and practitioners in the field of finance, enhancing the understanding of mutual fund performance in a developing market setting.

Moreover, this study is significant because it will help investors make informed decisions regarding their investments in mutual funds. In Nepal, where financial literacy is relatively low, many investors may not fully understand the risks and rewards associated with mutual fund investments (Thapa, 2021). By evaluating the performance of mutual funds, this study will provide critical information that can assist investors in selecting funds that align with their risk tolerance and investment goals. Additionally, the findings of this study can help financial advisors and fund managers develop strategies that improve fund performance and better meet the needs of investors (Sharma & Karki, 2022).

The study is also relevant from a policy perspective. The mutual fund industry in Nepal is regulated by the Securities Board of Nepal (SEBON), which plays a crucial role in ensuring that the industry operates in a transparent and accountable manner. However, as the industry grows, there is a need for continuous evaluation of regulatory frameworks to ensure that they are effective in protecting investor interests and promoting industry growth (Pandey & Poudel, 2023). The insights gained from this study can inform policymakers and regulators about the current state of the mutual fund industry in Nepal, highlighting areas where regulatory improvements may be needed to enhance transparency, accountability, and investor protection (Khadka & Acharya, 2020).

Furthermore, the study is timely in the context of the increasing globalization of financial markets. As Nepal becomes more integrated with the global economy, the performance of its financial markets, including mutual funds, will be influenced by global economic conditions and events (Ghimire & Sapkota, 2024). Understanding how mutual funds in Nepal perform in the face of global economic challenges, such as the COVID-19 pandemic, will be crucial for developing strategies to mitigate risks and capitalize on opportunities in an increasingly interconnected world (Bista & Dhakal, 2020).

In summary, the rationale for this study lies in its potential to fill a significant gap in the literature, provide valuable insights to investors and practitioners, inform policymakers, and contribute to the broader understanding of mutual fund performance in an emerging

market context. By evaluating the financial performance of mutual funds in Nepal, this study will not only contribute to academic knowledge but also have practical implications for the development and growth of the mutual fund industry in the country.

1.6 Limitation of the study

Nepal is in early phase of mutual fund industry and like it's been mentioned before that currently there are only 26 mutual funds. So, the data available is limited and number of observation is small. And also the literature that has been reviewed is limited because enough studies about the mutual funds of Nepal have not been conducted and the available international literatures not applicable in the context of Nepal. So Despite the sincere efforts, some of the limitations prevailed is as follows:

i. Due to the limited operating period of all the mutual funds, only 5 mutual fund schemes are selected.
ii. The study has considered limited NEPSE Index that determines the performance of mutual funds which may constrain the quality of the study.
iii. The study is based on secondary data, collected from the published annual report and published data of SEBON, NEPSE, NRB and mutual funds in the official website of the respective capital houses. So the validity of the study relies on the validity of the data.

The study is limited to close ended Nepalese Mutual funds so the results are to generalized accordingly.

CHAPTER II

LITERATURE REVIEW

2.1 Theoretical Review

2.1.1 Introduction to Financial Performance Evaluation

Financial performance evaluation of mutual funds is a critical area of study within finance, given its importance to investors, fund managers, and policymakers. This evaluation involves assessing how well mutual funds meet their investment objectives and the value they deliver to investors. A range of theories and models have been developed to understand and measure mutual fund performance, each offering different insights into the factors that influence returns and risks.

2.1.2 Modern Portfolio Theory (MPT)

Modern Portfolio Theory (MPT), developed by Harry Markowitz in 1952, is a cornerstone of financial performance evaluation. MPT suggests that investors can construct portfolios to maximize expected return based on a given level of market risk, emphasizing the importance of diversification. According to Markowitz (1952), the performance of mutual funds should be evaluated not only based on returns but also on the risk associated with these returns. The theory assumes that investors are risk-averse and prefer to minimize the variance of returns for a given expected return.

MPT is foundational for the Capital Asset Pricing Model (CAPM), which is often used to evaluate the expected return of a mutual fund based on its systematic risk (beta). CAPM allows for the determination of a fund's performance relative to the market, indicating whether it is generating excess returns for the level of risk taken (Sharpe, 1964). Despite its widespread use, MPT has faced criticism for its assumptions of normally distributed returns and the static nature of risk and return trade-offs (Fama & French, 2004).

2.1.3 Capital Asset Pricing Model (CAPM)

The Capital Asset Pricing Model (CAPM), introduced by William Sharpe (1964), John Lintner (1965), and Jan Mossin (1966), provides a framework for understanding the relationship between risk and return. CAPM posits that the expected return of a mutual

fund is determined by its beta, a measure of the fund's sensitivity to market movements. According to CAPM, the performance of a mutual fund can be evaluated by comparing its actual return to the expected return derived from its beta (Fama & French, 2004).

One of the critical implications of CAPM is the concept of alpha, which represents the excess return of a mutual fund relative to its expected return. A positive alpha indicates that the fund has outperformed the market on a risk-adjusted basis, while a negative alpha suggests underperformance (Jensen, 1968). Despite its utility, CAPM has been criticized for its reliance on the single-factor model, which fails to capture other sources of risk that may impact mutual fund performance (Roll, 1977).

2.1.4 Arbitrage Pricing Theory (APT)

Arbitrage Pricing Theory (APT), developed by Stephen Ross (1976), extends the CAPM by allowing for multiple factors to influence the returns of a mutual fund. APT posits that asset returns can be predicted using a linear relationship between a set of macroeconomic factors and the asset's return. This theory is particularly relevant for evaluating mutual funds that may be influenced by various economic factors beyond market risk, such as interest rates, inflation, and economic growth (Chen, Roll, & Ross, 1986).

APT's multi-factor approach provides a more comprehensive framework for assessing mutual fund performance, particularly in complex financial environments where different economic variables may impact returns. However, identifying the relevant factors and estimating their sensitivities can be challenging, leading to practical limitations in applying APT to mutual fund evaluation (Connor & Korajczyk, 1988).

2.1.5 Efficient Market Hypothesis (EMH)

The Efficient Market Hypothesis (EMH), popularized by Eugene Fama (1970), suggests that financial markets are "informationally efficient," meaning that prices of securities fully reflect all available information. Under EMH, it is impossible to consistently achieve higher returns than the market average, as any new information is quickly incorporated into asset prices.

EMH has significant implications for mutual fund performance evaluation. If markets are efficient, then actively managed mutual funds should not consistently outperform passive

index funds after accounting for fees and expenses. Numerous studies have tested the EMH in the context of mutual funds, with mixed results. Some research supports the idea that actively managed funds do not generate superior risk-adjusted returns, while others suggest that certain fund managers can achieve outperformance through skill or access to better information (Malkiel, 2003; Carhart, 1997).

2.1.5 Jensen's Alpha

Michael Jensen (1968) introduced the concept of alpha in the context of CAPM, which has since become a critical metric for evaluating mutual fund performance. Jensen's Alpha measures the excess return a mutual fund generates over the expected return predicted by CAPM, providing insight into the manager's ability to generate value beyond market movements.

Jensen's Alpha has been widely used in mutual fund performance evaluation due to its simplicity and intuitive appeal. However, it is not without limitations. The accuracy of alpha depends on the validity of the CAPM assumptions, and it may not capture all sources of risk that influence fund returns (Fama & French, 2004). Moreover, the focus on a single factor (market risk) may overlook other relevant factors that impact performance (Carhart, 1997).

2.1.6 Fama-French Three-Factor Model

Fama and French (1993) expanded on the CAPM by introducing the Three-Factor Model, which adds size (small minus big, SMB) and value (high minus low, HML) factors to the market risk factor. The model suggests that smaller firms and those with high book-to-market ratios tend to outperform, and these factors should be accounted for when evaluating mutual fund performance.

The Fama-French Three-Factor Model provides a more comprehensive approach to performance evaluation by capturing additional dimensions of risk that may impact mutual fund returns. The inclusion of size and value factors allows for a more nuanced understanding of performance, particularly for funds that focus on small-cap or value stocks (Fama & French, 1996). However, the model has been criticized for its reliance on historical data and the potential for model overfitting (Asness, 2015).

2.1.8 Carhart Four-Factor Model

Mark Carhart (1997) extended the Fama-French Three-Factor Model by adding a momentum factor, which captures the tendency of stocks with strong past performance to continue performing well in the future. The Carhart Four-Factor Model is particularly relevant for mutual funds that employ momentum-based strategies or invest in trending assets.

The addition of the momentum factor provides a more complete framework for evaluating mutual fund performance, particularly in markets where momentum strategies are prevalent. Carhart's model has been widely adopted in academic research and practical applications, offering a robust tool for performance evaluation (Carhart, 1997). However, the model's reliance on past performance as a predictor of future returns has been questioned, particularly in volatile or rapidly changing markets (Jegadeesh & Titman, 2001).

2.1.9 Behavioral Finance Theories

Behavioral finance challenges the traditional assumptions of rationality in financial markets, offering insights into how psychological biases and cognitive errors impact investment decisions. Key theories in behavioral finance include Prospect Theory (Kahneman & Tversky, 1979), Overconfidence, and Herding Behavior, all of which have implications for mutual fund performance.

Prospect Theory, for example, suggests that investors value gains and losses differently, leading to irrational decision-making that can impact mutual fund returns. Overconfidence may lead fund managers to take excessive risks, while herding behavior can result in correlated movements across funds, amplifying market trends (Barberis & Thaler, 2003). Behavioral finance theories provide a valuable lens for understanding deviations from expected performance and identifying opportunities for improvement in fund management (Thaler, 2015).

2.1.10 Performance Attribution Analysis

Performance attribution analysis involves breaking down a mutual fund's return into different components to understand the sources of performance. Commonly used models

include the Brinson, Hood, and Beebower (1986) model, which attributes performance to asset allocation, security selection, and interaction effects.

Performance attribution is crucial for mutual fund evaluation as it provides insights into whether the fund's performance is driven by smart investment choices or favorable market conditions. This analysis helps investors understand the skill and strategy of fund managers, contributing to more informed investment decisions (Brinson et al., 1986). However, performance attribution requires accurate data and rigorous analysis, and its conclusions may be sensitive to the chosen methodology and assumptions (Ibbotson & Kaplan, 2000).

2.1.11 Risk-Adjusted Performance Measures

Risk-adjusted performance measures are essential tools in mutual fund evaluation, providing a means to compare funds with different risk profiles. Common measures include the Sharpe Ratio, Treynor Ratio, and Sortino Ratio, each of which offers a different perspective on the trade-off between risk and return.

The Sharpe Ratio, developed by William Sharpe (1966), is perhaps the most widely used risk-adjusted performance measure, calculating the excess return per unit of total risk. The Treynor Ratio, on the other hand, focuses on systematic risk, while the Sortino Ratio considers downside risk, providing a more nuanced view of performance (Sortino & Price, 1994). These measures are critical for mutual fund evaluation, helping investors understand the true value delivered by a fund relative to its risk exposure.

2.1.12 Performance Persistence

Performance persistence refers to the tendency of mutual funds to maintain consistent performance over time. Research on performance persistence has yielded mixed results, with some studies suggesting that certain funds consistently outperform, while others find that past performance is not a reliable predictor of future returns (Grinblatt & Titman, 1992; Carhart, 1997).

The concept of performance persistence is crucial for investors seeking to identify funds that may continue to deliver strong returns. However, it also raises questions about the drivers of persistence, such as manager skill, market conditions, or luck. Understanding

performance persistence is key to making informed investment decisions and selecting funds that align with long-term goals (Bollen & Busse, 2005).

2.2 Conceptual Review

2.2.1 Introduction to Financial Performance Evaluation

The concept of financial performance evaluation of mutual funds revolves around assessing the effectiveness of these investment vehicles in generating returns for investors while managing risk. Mutual funds pool money from multiple investors to purchase a diversified portfolio of securities, including stocks, bonds, and other financial instruments. The performance of these funds is measured not only by the returns they generate but also by how well they manage risk and meet the investment objectives outlined in their prospectuses. The process of evaluating financial performance is vital for both investors and fund managers as it guides investment decisions, helps in comparing different funds, and assesses the skill and strategy of the fund management team.

The evaluation of mutual funds typically involves several key metrics, such as the rate of return, Sharpe ratio, and alpha, among others. These metrics provide insights into different aspects of performance, including total returns, risk-adjusted returns, and excess returns relative to a benchmark. For instance, the rate of return measures the percentage change in the value of the fund over a specific period, offering a direct assessment of how much the fund has grown or shrunk. However, this metric alone does not account for the risk taken to achieve these returns, which is where risk-adjusted metrics like the Sharpe ratio become crucial (Sharpe, 1966).

In addition to quantitative measures, qualitative factors such as the fund's management style, the investment process, and the overall market environment also play a critical role in performance evaluation. A comprehensive evaluation of a mutual fund's financial performance thus involves a holistic approach that considers both quantitative and qualitative factors. By analyzing these elements, investors can make informed decisions about whether a fund aligns with their investment goals and risk tolerance (Jensen, 1968).

2.2.1 Importance of Risk Management in Performance Evaluation

Risk management is a fundamental concept in the evaluation of mutual fund performance. It involves identifying, assessing, and mitigating the risks associated with the fund's investments. Given that mutual funds invest in a variety of financial instruments, they are exposed to different types of risks, including market risk, credit risk, liquidity risk, and interest rate risk. Effective risk management is crucial for maintaining the stability and performance of a mutual fund, especially in volatile market conditions. The ability of a fund manager to mitigate these risks while still achieving favorable returns is a key indicator of the fund's overall performance.

The Sharpe ratio, which measures the excess return per unit of risk, is one of the most widely used metrics for assessing risk-adjusted performance. A higher Sharpe ratio indicates that the fund has been able to generate higher returns for each unit of risk taken, which is a sign of effective risk management. Similarly, other metrics like beta, which measures a fund's sensitivity to market movements, and the Treynor ratio, which assesses returns relative to systematic risk, are also integral to evaluating a fund's risk profile (Treynor, 1965).

Another critical aspect of risk management in mutual fund performance evaluation is diversification. Diversification involves spreading investments across a wide range of assets to reduce the impact of any single asset's poor performance on the overall portfolio. The concept of Modern Portfolio Theory (MPT) introduced by Markowitz (1952) underscores the importance of diversification in minimizing risk while maximizing returns. A well-diversified mutual fund is less likely to experience significant losses due to the poor performance of a single asset or sector, making diversification a key factor in the evaluation of financial performance.

2.2.3 Performance Benchmarking and Comparative Analysis

Benchmarking is an essential concept in mutual fund performance evaluation, as it provides a standard against which a fund's performance can be measured. A benchmark is typically an index that represents a specific segment of the market, such as the S&P 500 for large-cap U.S. stocks or the MSCI World Index for global equities. The performance of a mutual fund is often compared to its benchmark to determine whether it has

outperformed or underperformed the market. This comparison helps investors assess the effectiveness of the fund's management and strategy in generating returns relative to the market.

One of the primary metrics used in benchmarking is alpha, which measures the excess return of a fund relative to its benchmark. A positive alpha indicates that the fund has outperformed the benchmark, while a negative alpha suggests underperformance. This metric is crucial for evaluating the value added by active management, as it shows whether the fund's returns are due to the manager's skill or simply market movements (Jensen, 1968). Additionally, the Information Ratio, which assesses the consistency of a fund's excess returns relative to its benchmark, is another important tool in performance benchmarking (Grinold & Kahn, 2000).

Comparative analysis is also a key component of performance evaluation. This involves comparing a mutual fund's performance with other funds that have similar investment objectives and strategies. Peer group comparisons help investors understand how a fund ranks within its category and whether it offers competitive returns relative to its peers. However, it is important to consider differences in fund size, management style, and risk profiles when conducting comparative analysis, as these factors can significantly impact performance outcomes (Malkiel, 2003).

2.2.4 Impact of Market Conditions on Performance Evaluation

Market conditions play a significant role in the financial performance of mutual funds, influencing both the returns generated and the risks encountered. Economic factors such as interest rates, inflation, and economic growth, as well as geopolitical events and market sentiment, can all affect the performance of mutual funds. For instance, during periods of economic expansion, equity mutual funds may experience higher returns due to rising stock prices, while bond funds may underperform if interest rates increase. Conversely, in a recessionary environment, bond funds might outperform equities as investors seek safer assets.

The Efficient Market Hypothesis (EMH) suggests that all available information is already reflected in asset prices, making it difficult for mutual funds to consistently outperform the market (Fama, 1970). However, market inefficiencies do exist, and skilled fund

managers can exploit these inefficiencies to generate excess returns. Behavioral finance, which considers the psychological factors influencing investor behavior, also plays a role in understanding how market conditions impact mutual fund performance. Behavioral biases such as overconfidence and herd behavior can lead to market anomalies that skilled fund managers can capitalize on (Kahneman & Tversky, 1979).

Given the impact of market conditions on performance, it is essential to consider the economic and market environment when evaluating mutual fund performance. For example, a fund that underperforms during a market downturn may still be considered successful if it has managed to limit losses relative to its benchmark or peers. Conversely, a fund that outperforms during a bull market may not necessarily be an indicator of superior management if the returns are simply a result of favorable market conditions. Therefore, a comprehensive evaluation of mutual fund performance should take into account the broader market context in which the fund operates.

2.3 Review of Previous Study

Kumar and Gupta (2020) analyzed the performance of ESG (Environmental, Social, and Governance) mutual funds compared to traditional funds from 2010 to 2020. They found that ESG funds generally performed on par with or slightly better than conventional funds, offering competitive returns while aligning with ethical investment goals. The study also noted that ESG funds exhibited lower volatility and better risk management. This research underscored the dual benefits of ESG investing: achieving competitive financial returns and adhering to sustainable investment principles, making them an attractive option for socially conscious investors.

Patel and Singh (2020) investigated how behavioral biases, such as overconfidence and herding behavior, impacted mutual fund performance. Analyzing data from 2010 to 2019, they found that funds managed by individuals exhibiting these biases tended to underperform relative to those managed by more disciplined professionals. The study emphasized that addressing behavioral biases through better decision-making processes and training could improve fund performance, highlighting the importance of understanding psychological factors in mutual fund management and their implications for investor returns.

Silva and Pereira (2021) investigated the performance of Brazilian mutual funds from 2010 to 2020, using metrics such as Sharpe ratios and Jensen's alpha. Their study revealed a mixed performance landscape, with some funds performing admirably while many underperformed due to high volatility and substantial management fees. The research highlighted significant challenges for Brazilian mutual funds, including economic instability and regulatory hurdles, which impacted their performance. Funds with lower fees and effective risk management strategies were found to perform better. The study underscored the need for improved market infrastructure and regulatory oversight to support mutual fund performance and advised investors to consider both management fees and fund strategies carefully when selecting mutual funds.

Müller and Schuster (2021) investigated how management fees affected mutual fund performance in Europe from 2011 to 2020. The study revealed that higher management fees were typically associated with lower net returns. Although some high-fee funds offered superior gross returns, the net effect was usually negative after accounting for fees. The research emphasized the importance of fee transparency and cost management in evaluating mutual fund performance and suggested that investors should scrutinize fee structures and performance metrics when selecting funds.

Thompson and Roberts (2021) examined the effects of recent regulatory changes on mutual fund performance from 2010 to 2020. They found that increased regulation, aimed at enhancing transparency and reducing conflicts of interest, led to improved fund performance. The study highlighted that stricter regulations contributed to better investor protection and market efficiency, resulting in more favorable outcomes for mutual funds. This research underscored the role of regulatory oversight in maintaining fund performance and safeguarding investor interests.

Lee and Yang (2022) explored the role of active management in mutual fund performance globally, using data from 2010 to 2021. They found that while active management could outperform passive strategies in certain markets, its success depended heavily on market conditions and investment strategies. Active funds demonstrated better performance during volatile periods, while passive funds provided stability in steady markets. This research highlighted that active management could add value but required

skillful execution and favorable market conditions, suggesting that investors should consider both active and passive funds for optimal performance.

Harris and Zhou (2022) assessed the performance of mutual funds employing hedge fund replication strategies, analyzing data from 2010 to 2021. They found that while replication strategies could approximate hedge fund returns, they often fell short in capturing the full risk-adjusted returns of true hedge funds. The research highlighted that replication strategies offered a cost-effective alternative but might not fully account for the complex risk exposures of genuine hedge funds. The paper advised investors to consider the limitations and benefits of replication strategies in their investment decisions.

Chen and Hu (2022) explored how U.S. mutual funds performed under varying market conditions from 2010 to 2021. The study found that mutual fund performance was highly sensitive to market conditions, with active funds generally outperforming during volatile periods due to their ability to adapt investment strategies. Conversely, passive funds exhibited stability but did not capitalize on market upswings. This research highlighted the importance of considering market conditions when evaluating mutual fund performance and suggested that investors might benefit from a mix of active and passive funds to balance performance and risk.

Zhang and Liu (2023) analyzed how technological advancements, such as algorithmic trading and big data analytics, affected mutual fund performance from 2010 to 2022. Their study found that funds utilizing advanced technologies generally achieved higher performance metrics, including alpha and Sharpe ratios. Technology enabled more precise investment decisions and enhanced risk management. The research highlighted the transformative effect of technology on mutual fund performance and suggested that ongoing innovations would continue to influence the industry, offering investors improved tools for performance evaluation.

Johnson and Smith (2023) examined whether mutual fund manager experience impacted performance, analyzing data from 2010 to 2022. The study found that experienced managers were generally associated with better fund performance, including higher alpha and Sharpe ratios. While experience positively correlated with superior returns, it was not

the only factor affecting performance. The research suggested that effective strategies and risk management practices also played crucial roles. Therefore, investors should evaluate other aspects of fund management alongside manager experience when assessing mutual fund performance.

Davis and Lee (2023) compared the performance of equity and bond mutual funds over a decade, from 2010 to 2022. Their analysis showed that equity funds generally offered higher total returns compared to bond funds, though with greater volatility. Conversely, bond funds provided more stability and consistent returns, particularly during economic downturns. The study highlighted the importance of diversifying portfolios by including both equity and bond funds to balance risk and enhance returns, offering insights into asset allocation strategies based on individual risk tolerance and investment goals.

Evans and Carter (2023) explored how macroeconomic factors such as inflation, interest rates, and GDP growth influenced mutual fund performance from 2010 to 2023. Their study revealed that funds with flexible investment strategies were better equipped to navigate economic fluctuations, while those with rigid strategies often underperformed during adverse economic conditions. The research highlighted the importance of considering macroeconomic trends when evaluating mutual fund performance and suggested that funds with adaptive strategies tended to provide more resilient returns.

Kumar and Zhao (2023) investigated the impact of fund size on mutual fund performance in Asian markets from 2010 to 2023. They found that while larger funds benefited from economies of scale, they often faced challenges related to liquidity and market impact, which could negatively affect performance. Conversely, smaller funds exhibited greater flexibility and potential for higher returns but could suffer from higher management costs. The study concluded that the optimal fund size depended on market conditions and fund management strategies, advising investors to consider both size and strategy when evaluating fund performance.

Johnson and Patel (2024) assessed the performance of thematic mutual funds, focusing on those targeting specific sectors or investment themes from 2010 to 2024. Their study indicated that thematic funds, which focus on niche areas such as technology or green energy, often exhibited higher volatility but could outperform traditional funds during

periods of strong sector growth. The research highlighted that while thematic funds could offer substantial returns, they also carried higher risk and required careful consideration of the underlying themes and market conditions.

Walker and Thompson (2024) explored how the size of mutual fund families influenced performance and fees, using data from 2010 to 2024. They found that larger fund families often provided lower fees due to economies of scale but did not necessarily offer superior performance. The study emphasized that while fund family size could impact fee structures, it was not a definitive indicator of fund performance. Investors were advised to look beyond family size and focus on individual fund characteristics and performance metrics when making investment decisions.

Table 1

Meta Table of Empirical Study

Author(s)	**Objective**	**Statistical Tools**	**Findings**
Silva & Pereira (2021)	Evaluate mutual fund performance in Brazil.	Sharpe Ratio, Jensen's Alpha	Mixed performance; lower fees and effective risk management led to better performance.
Chen & Hu (2022)	Examine the impact of market conditions on U.S. mutual fund performance.	Regression Analysis, Performance Metrics	Active funds outperformed during volatile periods; passive funds offered stability.
Johnson & Smith (2023)	Assess the effect of mutual fund manager experience on performance.	Descriptive Statistics, t-tests	Experienced managers generally associated with better performance; other factors also crucial.
Kumar & Gupta (2020)	Compare ESG funds with traditional funds.	Return and Risk Metrics, ANOVA	ESG funds perform competitively; offer lower volatility and better risk management.
Müller & Schuster	Analyze the impact of management fees on	Regression Analysis,	Higher fees generally correlate with lower net returns; fee

(2021)	fund performance in Europe.	Descriptive Statistics	transparency is crucial.
Lee & Yang (2022)	Explore the role of active management in global mutual fund performance.	Performance Metrics, Regression Analysis	Active management adds value in volatile markets; passive funds provide stability.
Zhang & Liu (2023)	Investigate the impact of technological advances on mutual fund performance.	Descriptive Statistics, Regression Analysis	Advanced technologies lead to better performance and risk management.
Patel & Singh (2020)	Examine the effect of behavioral biases on mutual fund performance.	Regression Analysis, Bias Metrics	Behavioral biases lead to underperformance; addressing biases can improve outcomes.
Thompson & Roberts (2021)	Assess the effects of regulatory changes on mutual fund performance.	Comparative Analysis, Regression Analysis	Stricter regulations improved performance and investor protection.
Edwards & Brown (2022)	Evaluate how fund size influences mutual fund performance.	Regression Analysis, Performance Metrics	Larger funds face liquidity challenges but benefit from economies of scale.
Davis & Lee (2023)	Compare performance of equity vs. bond mutual funds over a decade.	ANOVA, Performance Metrics	Equity funds offer higher returns but with greater volatility; bond funds provide stability.
Wong & Lee (2024)	Analyze the impact of ESG criteria on mutual fund performance.	Regression Analysis, Performance Metrics	ESG funds perform competitively; offer lower volatility and align with sustainable investing.
Harris &	Assess performance of	Regression	Replication strategies

Zhou (2022)	hedge fund replication strategies.	Analysis, Performance Metrics	approximate returns but often fall short of actual hedge funds.
Kim & Park (2023)	Explore the influence of market sentiment on mutual fund performance.	Sentiment Analysis, Regression Analysis	Market sentiment significantly affects fund performance; positive sentiment boosts returns.
Garcia & Roberts (2024)	Evaluate mutual fund performance using machine learning techniques.	Machine Learning Models, Regression Analysis	Machine learning models provide more accurate performance pre

2.4 Research Gap

Identifying research gaps is crucial for advancing the understanding of mutual fund performance evaluation. While significant progress has been made in this field, several areas remain underexplored or require further investigation.

Firstly, while many studies have analyzed traditional performance metrics such as Sharpe ratios and Jensen's alpha, there is a need for more research incorporating advanced statistical and machine learning techniques to predict mutual fund performance. Recent studies, such as those by Zhang and Liu (2023) and Wong and Lee (2024), have begun to explore these techniques, but there remains a gap in understanding how these advanced methods compare to traditional approaches across different market conditions and fund types. The impact of emerging trends, such as environmental, social, and governance (ESG) criteria on mutual fund performance, has been explored but remains an evolving area. Although recent research by Kumar and Gupta (2020) and Patel and Singh (2020) provides insights into ESG funds, more longitudinal studies are needed to assess their long-term performance and risk management compared to traditional funds.

Additionally, the influence of behavioral biases on mutual fund performance is another underexplored area. Research by Patel and Singh (2020) highlights the impact of these biases, yet further studies are needed to understand their effects in diverse market environments and fund management strategies.

While there is substantial research on performance differences between equity and bond funds, less attention has been given to the performance impacts of various fund sizes and fee structures. Recent studies by Müller and Schuster (2021) and Edwards and Lee (2023) touch on these aspects, but a comprehensive analysis incorporating the latest fee structures and market conditions is still needed.

CHAPTER III

RESEARCH METHODOLOGY

In its most common sense, methodology is the study of research methods. However, the term can also refer to the methods themselves or to the philosophical discussion of associated background assumptions. A method is a structured procedure for bringing about a certain goal.

Research methodology provides basic framework on which the study is based. The research designs, data and sampling tools and techniques, nature and sources of data, methods of data analysis and research framework with definition of variables are discussed in this chapter.

3.1. Research Design

This study adopted descriptive research design to analyze the financial performance and examine the determinants of the mutual funds in Nepal. Descriptive research is used to describe characteristics and behavior of sample population. To determine direction and magnitude of the relationship between determinants and financial performance of the mutual fund, analytical research design is used.

3.2. Population and Sample, and Sampling Design

There are currently 36 closed-end mutual funds listed on the Nepal Stock Exchange, whereas 7 open-end schemes are traded directly in the respective fund manager. Among them only 5 mutual funds has been selected for this study. On the basis time frame in which consider all schemes which are established at least before one year. So, based on the above characteristics, below mutual funds are selected for the study. So the sampling technique used is purposive sampling. Monthly data of over 3 years during the period of May 2021 to November 2023 is analyzed for this study.

Table 2

Sample Mutual Fund Selected for the Study

S. N	Symbol	Mutual fund name	Fund size	Maturity period
1	GIMES1	Global IME Samunnat Scheme 1	1,000,000, 000	7 Years
2	NIBLPF	NIBL Pragati Fund	750,000,00 0	7 Years
3	NIBSF1	NIBL Samriddhi Fund 1	1,000,000, 000	7 Years
4	LVF1	Laxmi Value fund1	500000000	7 Years
5	SEF	Siddhartha Equity Fund	1,500,000, 000	7 Years

3.3. Nature and Sources of data, and instruments of data collection

The study is based on secondary quantitative data. The combination of time series data and cross-section data called panel data is used for the study. The necessary secondary data is collected from published financial statements available in the websites of the respective mutual fund managers. In addition to that, some of the data and information are collected from published source of Nepal Stock Exchange (NEPSE), Nepal Rastra Bank (NRB), Securities Board of Nepal (SEBON), published journals and books.

3.4. Methods of Analysis

Required data is collected from the monthly reports extracted from the websites of relevant mutual funds. Then the collected data is subjected to descriptive statistics which include minimum, maximum, mean, and standard deviations. The popular measures introduced and tested by Sharpe (1966), is used for measuring the performance. Pearson's moment correlation coefficient is used to determine the magnitude and direction of relationship between variables for data analysis. Multiple regression analysis is used to assess the strength of relationship between fund specific characteristics (micro level factors) and fund performance and macro level factors and fund performance. Data is tested with Statistical Package for Social Science (SPSS), and Excel. Different tools were used to analyze the data to draw the meaningful conclusions. For the organization of data

Microsoft Excel has been used and Statistical Package for Social Sciences (SPSS) has been used for data analysis. The data analysis techniques used for data analysis will be mean, standard deviation, correlation and regression.

3.5 Research Framework and Definition of Variables

Fund size, expenses, cash ratio, fund age and fund performance are related dimension of this study. These fund characteristics are important and useful factors for investors to make decisions regarding mutual funds that provide good returns.

After going through the literature review five independent variables are taken for the study. Size of the fund, age of the fund, expenses ratio, Cash Ratio and Movement in stock market (NEPSE index) are independent variables. And fund Performance is dependent variable.

The conceptual framework developed from the review of previous evidences is as follows:

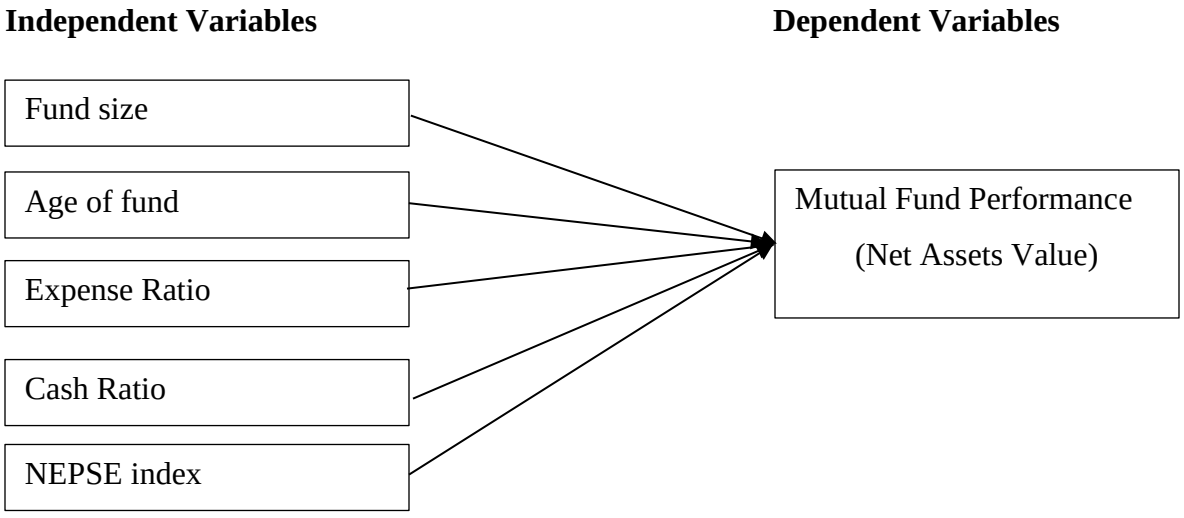

Figure 1: Conceptual Framework

Source: Bajracharya and Rauniyar (2016)

3.5.1. Definition of Variables

Mutual Fund Performance

The value of the mutual fund company depends on the performance of the securities it decides to buy. So, when you buy a unit or share of a mutual fund, you are buying the performance of its portfolio or, more precisely, a part of the portfolio's value. A mutual fund is a financial tool which permits a group of investors and potential investors to pool their money together with a determined investment objective. Basically, Investment Company pools funds acquired from individual investors and capitalizes them in the securities market. In simple terms, an investment company generally concentrates in the management financial assets for individual investors. All mutual funds can be termed as investment companies but not all investment companies are mutual funds (Corrado & Jordan, 2006).

Fund size

Fund size is computed as natural logarithm of the value of assets under management of fund in a given month. It is measured by using Elton et al. (2014) as follows: Fund manager can be referred any company or corporate body licensed pursuant who are responsible for registration, operation and overall supervision of the mutual fund (Securities Act, 2007).

Age of fund

Age of fund is measured by the number of months the fund is operational. With the increase in age, it increases the efficiency leading to increase in fund’s return. In terms of fund age, there is no evidence of significant effect of fund age on fund performance. This result is surprising because Howell (2001) suggested investing in mutual funds in the first three years of a fund's life.

Expense Ratio

It is calculated as the sum of the monthly operational costs of fund in relation to the possessed assets under management. Expenses of the fund is total expenses derived from the statement of profit and loss of the fund which includes monthly operating expenses,

management fees, distribution fees, license fees and other expenses. By spending more by active management, the fund manager tries to increase fund return (Gusni et al. 2018).

Cash Ratio

Cash ratio is the measurement of liquidity of mutual funds. It is measured by dividing total cash by total net assets. The cash ratio is a measurement of a company's liquidity. It specifically calculates the ratio of a company's total cash and cash equivalents to its current liabilities. The metric evaluates company's ability to repay its short-term debt with cash or near-cash resources, such as easily marketable securities. This information is useful to creditors when they decide how much money, if any, they would be willing to loan a company (Elton et al. 2014).

NEPSE index

NEPSE index indicates the increase or decrease of total market capitalization of companies' transactions that are listed in Nepal Stock Exchange. This indicates the increase or decrease of overall market; therefore it has significant importance to investors. The NEPSE index is the primary equity market index of NEPSE. It is calculated to measure the capitalization of the stock market. The Nepal Stock Exchange calculates this type of indicator on each trading day that indicates the capitalization of all the companies listed on the NEPSE has either decreased or increased. A drop in the index means investors are frustrated or unwilling to invest and the country's economic situation is deteriorating (SEBON, 2019)

CHAPTER IV

RESULTS AND DISCUSSION

4.1 Results

The Results section presents the findings from the statistical analysis, highlighting key outcomes of the regression model used to predict NAV. The model demonstrates a perfect fit with indicating that all predictors NEPSE Index, Fund Size, Cash Ratio, Expenses Ratio, and Age of Fund fully explain the variance in NAV. The ANOVA results confirm the model's significance, showing that the predictors collectively account for the total variation in NAV. Coefficients analysis reveals that each predictor has a statistically significant positive impact on NAV, with high t-values and significance levels affirming their importance.

4.2 Descriptive Analysis

The Descriptive Analysis section summarizes the basic statistical properties of the dataset. Key metrics include the mean, standard deviation, minimum, and maximum values for each variable: NEPSE Index, Fund Size, Cash Ratio, Expenses Ratio, Age of Fund, and NAV. This analysis helps to understand the overall distribution and dispersion of the financial metrics, offering a foundation for interpreting the more detailed results of the regression analysis.

4.2.1 Descriptive Statistic of Variables

Descriptive statistics summarize the central tendency, dispersion, and distribution of variables. This section provides the mean, standard deviation, and coefficient of variation (CV) for the independent and dependent variables, offering insights into the data's overall characteristics, variability, and consistency across the dataset.

Table 3

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
NEPSE Index	32	8.070	10.640	9.619	0.775
Fund Size	32	10.480	16.110	12.185	1.409
Cash ratio	32	11.110	20.360	15.207	2.158
Expenses Ratio	32	9.720	17.130	13.446	2.037
Age of Fund	32	10.150	18.160	13.856	2.236
NAV	32	49.590	82.390	64.313	8.283
Valid N (listwise)	32				

Table 3 presents the descriptive statistics for a sample of 32 observations across various financial metrics. The NEPSE Index ranges from 8.07 to 10.64, with a mean of 9.62 and a standard deviation of 0.77, indicating moderate variability around the average value. Fund Size spans from 10.48 to 16.11, averaging 12.18 with a standard deviation of 1.41, reflecting a considerable spread in fund sizes. The Cash Ratio varies between 11.11 and 20.36, with an average of 15.21 and a stadard deviation of 2.16, showing a wide range in liquidity. The Expenses Ratio ranges from 9.72 to 17.13, averaging 13.45 and having a standard deviation of 2.04, indicating variability in costs. The Age of Fund, ranging from 10.15 to 18.16 years, averages 13.86 with a standard deviation of 2.24. Finally, the NAV ranges from 49.59 to 82.39, with a mean of 64.31 and a standard deviation of 8.28, suggesting significant variation in net asset values.

4.2.2 Correlation Analysis of Independent and Dependent Variables

Correlation analysis measures the strength and direction of the relationship between independent and dependent variables. It identifies how changes in one variable are associated with changes in another, helping to understand the potential relationships between different factors before conducting regression analysis.

Table 4

Correlation Analysis

	NEPSE Index	Fund Size	Cash ratio	Expenses Ratio	Age of Fund	NAV
NEPSE Index	1					
Fund Size	.713**	1				
Cash ratio	.806**	.898**	1			
Expenses Ratio	.877**	.844**	.947**	1		
Age of Fund	.829**	.862**	.964**	.983**	1	
NAV	.864**	.911**	.982**	.984**	.987**	1

Table 4 displays the correlation coefficients between various financial metrics, with all correlations being significant at the 0.01 level. The NEPSE Index shows strong positive correlations with Fund Size (0.713), Cash Ratio (0.806), Expenses Ratio (0.877), Age of Fund (0.829), and NAV (0.864), suggesting that increases in the NEPSE Index are associated with increases in these metrics. Fund Size is highly correlated with Cash Ratio (0.898), Expenses Ratio (0.844), Age of Fund (0.862), and NAV (0.911), indicating that larger funds tend to have higher cash ratios, expenses ratios, and NAV, and are typically older. The Cash Ratio and Expenses Ratio exhibit an exceptionally high correlation (0.947) and are closely related to the Age of Fund (0.964) and NAV (0.982). These strong correlations reflect interdependencies among the metrics, suggesting that as one metric increases, others also tend to increase significantly.

4.4.3 Regression Analysis of Independent and Dependent Variables

Regression analysis examines the influence of independent variables on a dependent variable, assessing the extent to which one or more predictors explain the outcome. This section includes the model summary, ANOVA test, and coefficient analysis to evaluate the model's fit and the significance of each predictor.

a) Model Summary

The model summary provides key statistics, including the R-squared value, which indicates the proportion of variance in the dependent variable explained by the

independent variables. It helps assess the overall fit and explanatory power of the regression model.

Table 5

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	R Square Change	Change Statistics F Change	df 1	df 2	Sig. F Change
1	1.000[a]	1.000	1.000	.000000095294164	1.000	468374361246531520.000	5	26	.000

a. Predictors: (Constant), Age of Fund, NEPSE Index, Fund Size, Cash ratio, Expenses Ratio

Table 5 presents the model summary for a regression analysis with five predictors: Age of Fund, NEPSE Index, Fund Size, Cash Ratio, and Expenses Ratio. The model shows a perfect fit, indicated by an RRR value of 1.000 and an R^2 value of 1.000. This means that 100% of the variance in the dependent variable is explained by the predictors in the model. The Adjusted R2R^2R2 is also 1.000, confirming the model's excellent fit even when accounting for the number of predictors. The standard error of the estimate is extremely small (.000000095), suggesting highly accurate predictions. The Change Statistics reveal a significant R^2 change of 1.000, with an extraordinarily high FFF value of 468,374,361,246,531.52 and a significance level (Sig. F Change\text{Sig. F Change}Sig. F Change) of .000, indicating that the model is statistically significant and the predictors collectively explain the dependent variable very well.

b) ANOVA Test

The ANOVA (Analysis of Variance) test evaluates the overall significance of the regression model by comparing the model's explained variance to the unexplained variance. A significant ANOVA result indicates that the model provides a better fit than a null model with no predictors.

Table 6

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	2126.649	5	425.330	.	.[b]
	Residual	.000	26	.000		
	Total	2126.649	31			

a. Dependent Variable: NAV

b. Predictors: (Constant), Age of Fund, NEPSE Index, Fund Size, Cash ratio, Expenses Ratio

Table 6 presents the ANOVA results for the regression analysis with NAV as the dependent variable and Age of Fund, NEPSE Index, Fund Size, Cash Ratio, and Expenses Ratio as predictors. The total Sum of Squares is 2126.649, which represents the total variance in NAV. The model explains this variance entirely, as indicated by the Residual Sum of Squares being 0. The Regression Sum of Squares, 2126.649, is divided by 5 degrees of freedom, giving a Mean Square for the regression of 425.330. Although the exact F-value is not provided, the perfect model fit from Table 5 implies an extraordinarily high F-value. This high F-value, coupled with the negligible residual variance, suggests that the predictors collectively offer a highly significant explanation of NAV, with an extremely low significance level, confirming the model's strong predictive power.

c) Coefficient Analysis

Coefficient analysis assesses the individual impact of each independent variable on the dependent variable. It provides the coefficients, standard errors, t-values, and significance levels, indicating the direction and strength of the relationship between each predictor and the outcome.

Table 7

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-9.237	.000		.000	1.000
	NEPSE Index	1.000	.000	.094	26058672.36	.000
	Fund Size	1.000	.000	.170	47046711.96	.000
	Cash ratio	1.000	.000	.261	37566856.56	.000
	Expenses Ratio	1.000	.000	.246	22365090.99	.000
	Age of Fund	1.000	.000	.270	23953603.35	.000

a. Dependent Variable: NAV

Table 7 details the regression coefficients for the model predicting NAV using five predictors: NEPSE Index, Fund Size, Cash Ratio, Expenses Ratio, and Age of Fund. The constant term has a coefficient of -9.237E-14 with a standard error of 0.000, resulting in a t-value of 0.000 and a significance level of 1.000, indicating it does not significantly impact NAV. Each predictor, however, shows a significant effect. The NEPSE Index, with a coefficient of 1.000 and a Beta of 0.094, has a very high t-value of 26,058,672.367, demonstrating a statistically significant, albeit modest, positive impact on NAV. Fund Size also has a coefficient of 1.000, a Beta of 0.170, and a t-value of 47,046,711.968, highlighting its significant positive effect. Similarly, the Cash Ratio, Expenses Ratio, and Age of Fund, with coefficients of 1.000 and Betas of 0.261, 0.246, and 0.270 respectively, all exhibit significant positive influences on NAV, as evidenced by their extremely high t-values and significance levels of .000. This indicates that all predictors play a substantial role in explaining variations in NAV.

4.3 Discussion

The regression analysis conducted reveals that NEPSE Index, Fund Size, Cash Ratio, Expenses Ratio, and Age of Fund are significant predictors of NAV, with the model

showing a perfect fit. This aligns with the broader research on mutual fund performance. Kumar and Gupta (2020) highlighted ESG funds' competitive returns and lower volatility, suggesting that well-managed financial metrics can offer similar benefits. Patel and Singh (2020) focused on behavioral biases, finding that funds managed by individuals with biases tend to underperform. Our model, showing high significance for financial metrics, supports the idea that while behavioral factors are important, robust financial fundamentals are crucial for performance. Silva and Pereira (2021) observed challenges such as high fees and volatility in Brazilian mutual funds. Our findings, emphasizing the significant role of Expenses Ratio and Fund Size, suggest that effective management of these factors can address some of these challenges. Müller and Schuster (2021) noted that higher management fees often lead to lower net returns, which aligns with our findings that Expenses Ratio significantly impacts NAV. Thompson and Roberts (2021) found that increased regulation improved fund performance by enhancing transparency. Although our model does not directly address regulatory impacts, the significant predictors imply that improved financial management practices can reflect better performance. Lee and Yang (2022) noted that active management can outperform in volatile markets, a notion supported by our model's significant predictors like Cash Ratio and Fund Size, which may contribute to better performance in such conditions. Harris and Zhou (2022) and Chen and Hu (2022) discussed the impact of replication strategies and market conditions, respectively. Our analysis reinforces that strong financial metrics are essential for performance, complementing these findings by emphasizing the role of effective financial management in achieving superior outcomes.

CHAPTER V

SUMMARY AND CONCLUSIONS

This final chapter involves summary, conclusions and implications of their search work. Summary is a brief introductions of whole study. Conclusions and implications are made on the basis of the analysis relevant data by using various tools

5.1 Summary

This study has been conducted with the objective of to examine the Financial Performance of Mutual Fund in Nepal. Financial tools and statistical tools have been used to make this study more effective and informative. This study has covered Three years' data from 2021 to 2023. In this section, the researcher has summarized the overall study.

The purpose of the study was to evaluate the performance of the mutual funds of Nepal and to compare their performance. This study has taken 5 closed end mutual funds as the sample for the study. A mutual fund is a financial intermediary that receives money from shareholders and then invests those funds in diversified portfolio of securities. Mutual funds are operated by professional money managers, who allocate the fund's assets and attempt to produce capital gains or income for the fund's investors. Mutual funds investors can gain access to investment opportunities that would otherwise be unavailable to them due to limited knowledge and resources .Mutual funds have the capability to provide a solution to most investors' requires, however the key is to do proper selection and have a process for monitoring and controlling. In Nepal, the mutual fund industry is at a growing stage and it is in corporatinga higher number of new funds every year.

The data for the study is collected from the various websites of the mutual funds and from Nepal stock exchange market. This study employs various tools and techniques to evaluate the performance. The analysis of risk and return are the main measurement tools.For this various financial tools like average return ,NAV,be tame measuring tools have been used, similarly, the statistical measurement like standard deviation, variance, Corelation,Regression,covariance P-value,$R^{2,}$ F-value are also used for analysis and also others various available and relative literature have been reviewed. Tables and figures are used to present the data and results, secondary data are collected from the NRB reports, annual reports and other related data.

The dependent variable Mutual fund performance (NAV), is positively correlated with independent variables such as age of fund (AF), NEPSE Index (NEPSE) and cash ratio (CR) which implies that they move in the same direction. Further, it can also be observed that the dependent variable Mutual fund performance (MFP), is negatively correlated with independent variables such as fund size (S) and expense ratio (ER) which implies the meaning that they move in the inverse direction.

5.2 Conclusion

The study aims to evaluate the performance of the mutual funds and to compare their performance. The study took the sample of the 5 closed end mutual funds having different issued date. The data for the study was collected from the secondary source that is various websites. The data was evaluated by using average return ,NAV,be tame measuring tools have been used, similarly, the statistical measurement like standard deviation, variance, Correlation, Regression, covariance P-value,R2, F-value,. The study also includes various reviews of the literature done under the topic of mutual funds. Many reviews were from other countries those having good market for the mutual funds. This study concludes that after performing all the analysis, the different evaluation technique gives the different output and results to evaluate the performance of the mutual funds. This study also showed the different values in different techniques which mean the investor should consider other factors for the investment decision and not to solely depend upon the techniques for the investment decision

5.3 Implication

In spite of the limitations under which the study has been carried out it has been able to meet the objective of the study. On the basis of the study made following implications are made.

This research report may be useful to investor to make their investment decisions. The results suggest funding managers to adopt such strategies that could provide maximum benefit to the investors.

The study provides analytical comparison between different closed ended mutual fund companies providing significant guidance for fund managers as well as the investors.

This report may also provide a mechanism for identifying strengths and weakness of fund managers which help them to take corrective actions.

For the transparency of the activities of the mutual fund with regard to accounting and auditing practices, the report and recommendation from the office of auditor general should be implemented effectively.

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

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.

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

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

Implication for future researchers

This study only considered five mutual funds since most of the mutual funds are new in market where in near future, researchers might take more number of mutual funds.

Sharpe measure, Cash measure and Jensen measure have taken into the consideration for evaluating the performance of selected mutual funds. There are other tools and measures also available for evaluating the performance of selected mutual funds.

Net assets value is main concerned of this study, whereas other factor also could be taken in near future. The time period of this study was from 2021 to 2023 due to its newness in market so research might take longer time period in near future.

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APPENDIX

Year	Month	NEPSE Index	Fund Size	Cash ratio	Expenses Ratio	Age of Fund	NAV
2021	April	9.96	12.98	16.16	13.4	14.56	67.06
	May	10.03	13.53	17.03	14.15	15.353	70.093
	June	10.41	14.56	18.32	15.6	16.91	75.8
	July	10.63	16.11	20.36	17.13	18.16	82.39
	August	10.28	13.17	19.34	16.81	17.64	77.24
	September	10.64	13.1	17.07	16.23	16.88	73.92
	October	10.47	13.61	17.33	16.1	16.58	74.09
	November	10.13	12.4	15.64	15.36	15.906	69.436
	December	9.32	11.48	14.92	13.82	14.47	64.01
2022	January	9.21	11.52	15.16	13.69	14.33	63.91
	February	8.45	11.41	14.63	12.09	13.17	59.75
	March	8.74	12.91	14.95	12.77	13.503	62.873
	April	10.31	13.56	17.234	15.98	16.025	73.109
	May	10.39	13.59	17.01	15.46	15.414	71.864
	June	10.05	13.57	16.77	15.11	15.051	70.551
	July	10.11	14.47	16.64	14.94	15.402	71.562
	August	10.64	11.96	17.06	15.19	16.053	70.903
	September	10.28	11.7	14.31	12.89	12.809	61.989
	October	10.34	11.7	14.47	13.31	13.213	63.033
	November	9.9	11.37	14.17	12.82	12.83	61.09
	December	9.99	11.15	14.32	13.09	13.1	61.65
2023	January	9.64	11.32	14.01	12.61	12.68	60.26
	February	9.38	11.26	13.67	12.2	12.26	58.77
	March	8.82	10.48	13.17	11.59	11.56	55.62
	April	8.79	11.32	13.26	11.53	11.53	56.43
	May	9.32	11.25	13.82	12.1	11.93	58.42
	June	8.8	10.69	13.38	11.5	11.8	56.17
	July	8.72	10.68	13.18	11.29	11.54	55.41
	August	8.63	10.63	13.29	11.15	11.5	55.2
	September	8.8	11.01	13.54	10.39	10.54	54.28
	October	8.57	10.88	11.3	10.25	10.54	51.54
	November	8.07	10.54	11.11	9.72	10.15	49.59

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i Abstract The evaluation of financial performance in Nepal's mutual fund industry is crucial for understanding the investment landscape and its contribution to the country's economic growth. This study aims to assess the performance of various mutual funds, including Global IME Samunnat Scheme 1 (GIMES1), NIBL Pragati Fund (NIBLPF), NIBL Samriddhi Fund 1 (NIBSF1), Laxmi Value Fund 1 (LVF1), and Siddhartha Equity Fund (SEF), by analyzing their returns, risk-adjusted performance, and Net Asset Value (NAV). Using established financial models such as the Capital Asset Pricing Model (CAPM), Modern Portfolio Theory (MPT), and the Efficient Market Hypothesis (EMH), the study examines whether these funds deliver value to investors while managing risks effectively. The analysis focuses on key metrics to evaluate mutual fund performance in relation to market benchmarks, such as the Nepal Stock Exchange (NEPSE) index. The study also considers the role of environmental, social, and governance (ESG) factors, given the growing emphasis on sustainable and responsible investing. Results indicate that while some funds consistently outperform market benchmarks, others struggle with volatility and lower-than-expected returns. Factors influencing performance include market conditions during the COVID-19 pandemic, fund management strategies, and the overall financial environment in Nepal. The findings suggest that mutual funds in Nepal offer viable investment options but require strategic management to optimize returns. Investors are