

## **Emerging Market of Nepalese Mutual Fund in Nepal: A Systematic Review**

**<sup>1</sup>Rajan Bilas Bajracharya, PhD**

PDF Scholar, College of Management & Commerce, Srinivas University, Mangalore, India

[rajan\\_vj@hotmail.com](mailto:rajan_vj@hotmail.com)

**<sup>2</sup>P.S. Aithal, PhD**

VC, College of Management & Commerce, Srinivas University, Mangalore, India

E-mail: [psaithal@gmail.com](mailto:psaithal@gmail.com)

### **Corresponding Author**

**Rajan Bilas Bajracharya**

[rajan\\_vj@hotmail.com](mailto:rajan_vj@hotmail.com)

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### **Abstract**

The aim of this research was to determine the current state of the Nepalese mutual fund developing market. Studies carried out between 2010 and 2023 show that the specific topic area has been investigated. The research's dataset comprised 21 articles published in Nepal during a 14-year span. In the review of Researchers found that time restrictions and insufficient information provide obstacles for investors. Risk division is provided by mutual funds, along with other advantages including cash flow, accessibility, efficiency, creativity, and prevention. The safety and liquidity of funds impact investors' opinions of mutual fund investments. Advantages of mutual funds include cost-effectiveness, accessibility, personalization, innovation, transparency, and prevention when it comes to risk segmentation.

**Keywords:** Article, Investors, Mutual fund, Review

## Introduction

An investment pooling platform known as a mutual fund is used by investors to pool their funds and make group investments in a variety of assets (Saab, 2014). As the fund investors split the fund's returns after deducting its expenditures, the fund is considered mutual. In order to create returns, mutual funds mobilize investor savings and invest them in the securities market, acting as a bridge between investors and the securities market. For this reason, Portfolio Management Services (PMS) and mutual funds are comparable. Mutual funds will get 5% of all initial public offerings (IPOs) under statutory conditions set by the Nepali government. Along with its own significance and advantages, mutual funds are essential to the securities market (Jasmine & Basariya, 2018).s

As a relatively new investment option in Nepal, mutual funds have gained a lot of popularity among investors quite rapidly. Various factors contribute to this, such as expert oversight, diversified portfolios, decreased transaction expenses, ease of use and adaptability, affordability, and transparency.

In addition, there are a few more difficulties with investing in mutual funds in Nepal. A few are discussed about below: -

- **Lack of Awareness:** Nepalese investors are ignorant about mutual funds and their advantages. The merchant bankers' inadequate understanding and training programs, particularly with regard to mutual funds, are among the main causes of this. Most lessons still appear to be offered only in the Kathmandu Valley.
- **Limited Investment Options:** There are presently very few mutual funds offered in Nepal. There are 35 closed-ended schemes and 7 open-ended schemes as of right now.
- **Risks:** A well-known proverb goes, "Read all scheme-related documents carefully. Mutual fund investments are subject to market risks." The NAVs of the schemes might increase or decrease according on the forces and variables influencing the securities market, such as changes in interest rates. The mutual fund schemes' historical performance does not guarantee their future performance.

## History of Mutual Funds in Nepal

The way mutual funds operate is by combining the finances of several investors. Bonds, stocks, and other securities are subsequently bought with that money. Investors may instantly diversify their portfolios and reduce risk thanks to mutual funds, which invest in a variety of firms.

A new era of mutual funds was introduced to the Nepali financial sector in 2050 B.S. (1993 A.D.) with the debut of the NCM mutual fund. It was an open-ended plan with just Rs. 100 million in funds raised. These days, a key component of the Nepalese financial sector, merchant bankers are raising money that is five to ten times higher than that. The first mutual fund in Nepal was created in 2050 B.S. with the establishment of NCM mutual fund 2050 by NIDC Capital Market. At first, it issued units with a par value of Rs. 10. The fund was classified as open-ended. The did well at first, but in 2052 B.S., it started to perform poorly and was limited as a closed-ended fund. A second collective investment program, the Citizen Unit program (CUS), was run by the Citizen Investment Trust (CIT) in 2052 B.S. This programme has been

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run by CIT. A scheme with an open-ended structure and a face value of one hundred rupees a unit was launched. In Nepal, mutual fund regulations are overseen by the Security Board of Nepal (SEBON). The mutual fund industry is regulated by Mutual Fund Regulation, 2067, which it released. Various rules and conditions for the operation of mutual funds have been set by regulation. Fund managers, fund supervisors, and sponsors have their qualifications outlined in the rule. The legislation also lays out the investing requirements for mutual funds in detail. In Nepal, mutual funds are sponsored by 'A' class commercial banks with licenses from Nepal Rastra Bank and are administered by merchant bankers, also known as fund managers. Mutual fund flotation and management are restricted to merchant bankers who are direct subsidiaries of commercial banks. Hence, mutual fund firms are completely owned subsidiaries of commercial bank

## **Objective of this study**

The main objective of this study is to identify the present status of the emerging market of Nepalese mutual funds in Nepal.

## **Methodology**

The approach used for this study was qualitative research (Mahat, Neupane, & Karki, 2023). The study spans the years 2010 through 2023. A structured procedure is utilized in this study to direct the execution of tasks related to the systematic review (Mahat & Aithal, 2022; Mishra, Mahat, & Khanal, 2021).

## **Databases and search terms**

The findings were analyzed using the dimension database. The keyword and Abstract field are the only fields the database is instructed to take into account by the researcher. Search for the article using terms like closed ended mutual fund, Systematic investment Plan, Open ended mutual fund

## **Inclusion and exclusion criteria**

The research covers the domains of Nepal stock Exchange (NEPSE), Broker services, management, investors and commerce. In order to increase the amount of material that was available and make it easier to identify the main topic, this study used papers that used a systematic review approach. The review of chapter, proceeding, preprint, monograph, and edited book sources was not part of this investigation. Abstract materials written in imprecise language or lacking clarity were not included in the study.

## **Tools and Data Analysis**

The frequency, percentage, and bar chart were displayed using Excel in the study (Mahat & Mathema, 2018). The study employed VOS viewer for the analysis of the primary article, publication, and country under investigation of Nepal. The study also sought to determine the primary body of research in this specific topic on citation.

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## Results

### Publication per years

Table 1: Previous Study in Mutual Funds in Nepal

S.N	Publication Year	Number of Publication	Percentage
1	2010	0	0
2	2011	0	0
3	2012	0	0
4	2013	0	0
5	2014	0	0
6	2015	0	0
7	2016	1	5
8	2017	3	14
9	2018	1	5
10	2019	1	5
11	2020	4	18
12	2021	4	18
13	2022	5	23
14	2023	3	14
		22	100

Note. Data Base

From the 2010 to 2015, the research scenery on mutual fund in Nepal was not publication. From 2016 to 2018, few publications were emerging in each year. But in 2020 and 2021, interest in this subject started to pick again, with 4 publications a year accounting for 19% of the total. In 2022, there were five publications, which accounted for twenty-four percent of all publications.

In 2022, the upward trend in research on mutual funds persisted, as seen by a notable increase in publications, which reached five, accounting for 24 percent of the total. Three more publications, or 14% of the total publications, were added to the filed in 2023, demonstrating the continued noteworthy development in scholarly interest.

All things considered, the data demonstrates a remarkable change in emphasis, with a notable increase in scholarly interest in Nepalese mutual fund work throughout the years, especially in the last few years, indicating an increasing understanding of its significance in the contemporary workplace.

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## Top Publisher

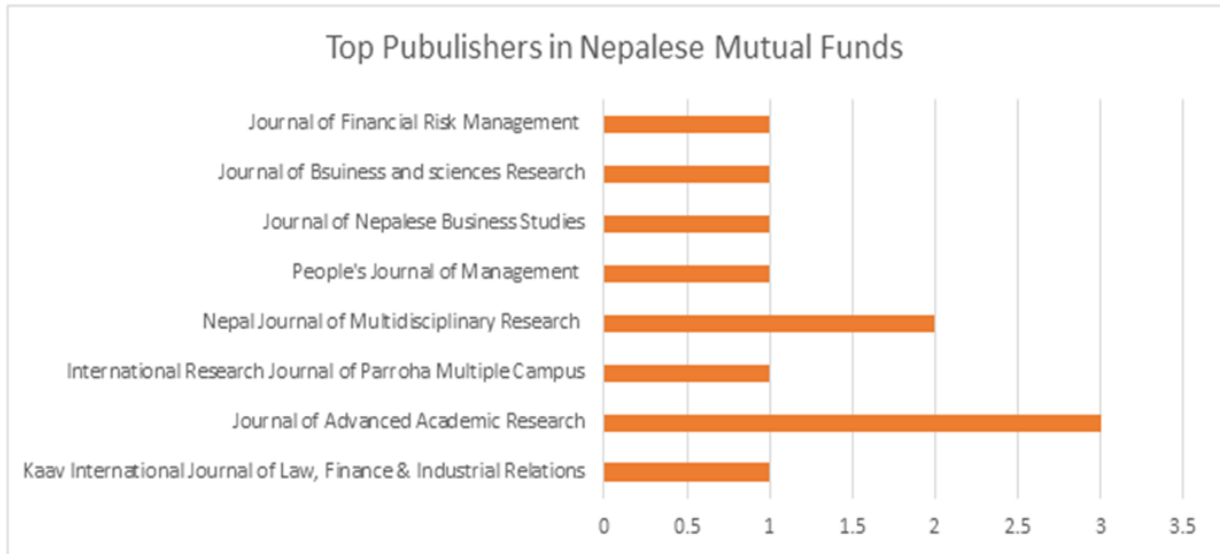


Figure 1: Top publishers in Nepalese Mutual Funds

The quantity of source documents was used to determine the top publications in the Nepalese mutual fund industry. The top spot was earned by the journal "Journal of Advanced Academic Research," demonstrating the journal's eminence in the publishing of studies on this subject. The "Nepal Journal of Multidisciplinary Research" came in second place, not far behind. The three places in the Nepalese mutual fund were Rest Journals. These publications were significant in expanding knowledge of this field of study and in communicating research findings.

## Top Affiliations

S.N	Affiliation	Number	Citation
1	Mewar University	4	54
2	Tribhuvan University	3	20
3	Nepal Reinsurance Co. Ltd	1	6
4	Nepal Bank Limited	1	5
5	peoples campus	1	1

Note. Data Base

The affiliations are shown in this table along with the relevant citation numbers. With 54 citations, Mewar University has the most, followed by Tribhuvan University with 20. Peoples Campus has one citation, Nepal Reinsurance Co. Ltd. has five, and Nepal Bank Limited has six. The figures show how frequently a particular setting is mentioned or referenced.

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## Top Articles

Table 2: Rank of Article title in Mutual fund based on Citation

Rank	Article Name	Citations
1	A study of investor's preference towards mutual funds in Kathmandu Metropolitan City, Nepal (Bajracharya & Mathema, 2017)	23
2	Mutual fund performance in Nepalese mutual fund units: An analysis of monthly returns (Bajracharya, 2016)	17
3	A study of investors' attitude towards mutual fund in Kathmandu City, Nepal (Bajracharya, 2018)	13
4	Current Status of Mutual Fund Schemes in Nepal (Rakhal, 2017)	8
5	Factors influencing investment in Mutual fund Schemes of Nepal (Shrestha & Shrestha, 2020)	6
6	Determinants of Mutual Fund Performance in Nepal (Pant, Ghimire, & Dahal, 2022)	5
7	An investors' interest towards Mutual Funds: A Study of Kathmandu Vally, Nepal	2
8	A Study of investors awareness towards mutual funds in Kathmandu Metropolitan City, Nepal (Bajracharya, 2018)	1
9	The risk and return Analysis of closed End Nepalese Mutual fund (Bajrachayra, 2022)	1
10	Performance Base Empirical Analysis of Mutual Fund of Nepal (Upadhyaya & Chhetri, 2019)	1

Note. From Data base

The quantity of citations acquired by research articles on Nepalese mutual funds determined their ranking. The paper by Bajracharya and Mathema (2017), titled "A study of investor's preference towards mutual fund in Kathmandu Metropolitan City, Nepal," had the highest ranking with 23 citations. The second-place item with 17 citations was "Mutual fund performance in Nepalese mutual fund units: An analysis of monthly returns" (Bajracharya, 2016), which was closely behind. In the third rank came the paper "A study of investors' attitude towards mutual fund in Kathmandu city, Nepal" (Bajracharya, 2017) with 13 citations. With eight, six, and five citations, respectively, the articles by Rakhal (2017), Shrestha & Shrestha (2020), and Pant, Ghimire, & Dahal (2022) secured the fourth, fifth, and sixth positions. The remaining articles' citation counts resulted in a lower ranking.

1. The perception that mutual funds are less safe than other investment options makes investors reluctant to invest their money in them. Due to the set rates and perceived safety of bank deposits, they would choose to place their money in them. It is a result of their mistrust of the advice of their advisors and concerns about the risks and uncertainties associated with the market.

2. Mutual funds provide a number of benefits, including tax advantages, flexibility, and variety, in Nepal. Their performance isn't always the finest, though, when measured against

benchmarks. Though most people don't choose them as a way to save because the market isn't completely developed and there aren't many attractive shares accessible, they might help people save money and build the capital market.

3. The study demonstrates the numerous advantages and importance of mutual funds to investors. It also demonstrates that there isn't a big correlation between the demographics of investors and how they feel. Investors tend to have diverse preferences when it comes to information sources, but the most common ones are brokers and agents. The study recommends that in order to increase knowledge and motivate private businesses to obtain capital through investments, we investigate other factors that influence investment decisions and potential legislative measures.

4. While NIBL Sambriddi Fund-1 faces difficulties with the lowest cash dividend distribution, Siddhartha Investment Growth Scheme-1 stands out with the highest weekly and monthly NAV in Nepal's nascent mutual fund market, which has only ten listed schemes. Three other schemes, Global IME Samunnat Scheme-1, Nabil Equity Fund, and NIBL Pragati Fund, exhibit market prices below their par values and need to be improved.

5. Except for the NIBL Pragati Fund (NIBLPPF), research indicates that mutual funds' performance in Nepal has not been sufficient. Similarly, data indicates that fund age significantly improves performance. In contrast, the performance of mutual funds in Nepal is significantly impacted negatively by cash ratios, expense ratios, bank rates, inflation, and stock indexes. In contrast, the market index has no bearing on the performance of Nepalese mutual funds, despite the contradicting variables affecting fund size.

6. The advantages of professional portfolio management, flexibility, and a secure investment mechanism are luring investors to mutual funds, but their widespread adoption is hampered by low awareness, a lack of knowledge, and a perception of passivity. This suggests that in order to improve understanding and promote investment in Nepal's expanding mutual fund industry, regulatory actions, educational initiatives, and training programmes are required.

7. Mutual funds are becoming more popular in Nepal due to their flexibility, variety, diversification, and tax advantages. Nevertheless, low investor confidence, perceived safety concerns, and low awareness underscore the need for legislative changes and educational programmes to guarantee adequate returns and encourage private companies to raise capital through mutual funds.

8. The analysis shows that all of the chosen funds have negative values in Sharpe and Jensen's ratios, indicating underperformance relative to the market, even though Sanima Equity Fund has the highest Treynor's ratio, indicating better risk-adjusted returns. Nevertheless, Sanima Equity Fund stands out as a potential option for investors seeking regular income due to its low beta value.

9. There was no significant correlation found between timing skill and fund returns during the research period, highlighting the important role mutual funds play in economic development through successful investment strategies. Group A (Period 36 months) mutual funds show positive net stock selection ability, indicating outperformance against the benchmark market



index, while Group B (Period 16 months) mutual funds show negative net selectivity ability, suggesting a low level of diversification and a moderate level of selectivity.

The widespread adoption of mutual funds in Nepal is impeded by poor investor confidence, perceived safety concerns, and insufficient understanding, despite the fact that they offer several advantages such as tax advantages, diversification, and professional portfolio management. It is essential to implement educational initiatives and legislative measures to increase awareness and encourage investment in this rapidly growing sector. The Siddhartha Investment Growth Scheme-1 and Sanima Equity Fund are two examples of exceptional achievers; yet, overall performance indicators show underperformance in comparison to benchmarks. Resolving these issues will improve investor returns and make it easier for private businesses to raise money through mutual funds, which will support Nepal's economic growth.

### Key Finding cited document:

1. The main problems that investors encountered were inadequate theoretical knowledge and insufficient time to solve the challenge.
2. The amount of money saved by those who invest in financial instruments such as stocks or bond funds that have a comparable economic goal.
3. This allows for the division of risks. The benefits of investing in mutual funds include primary prevention, cash flow, accessibility, efficiency, adaptability, and novelty.
4. The consumer has to choose the right schemes and the top MF management firms from the different schemes that the MFs have introduced.
5. The asset manager who can take on more risk is the one that manages their money the best.
6. It has been noted that relatively safe funds and the liquidity of investment products have an impact on investors' opinions of mutual fund investments.
7. Segmentation of risks is offered. Investing in MF has several benefits, such as cost, accessibility, personalization, novelty, transparency, and main prevention.
8. There is little to no correlation between timing skill and return on investment, little diversity, and a modest degree of selectivity.

### Conclusion

The aim of this research was to determine the current state of the Nepalese mutual fund developing market. Studies carried out between 2010 and 2023 show that the specific topic area has been investigated. At the top with 23 citations was the research paper article "A study of investor's preference towards mutual fund in Kathmandu Metropolitan City Nepal" (Bajracharya & Mathema, 2017). The top spot was earned by the journal "Journal of Advanced Academic Research," demonstrating the journal's eminence in the publishing of studies on this subject.

Time restrictions and insufficient information provide obstacles for investors. One may save a lot of money by investing in financial assets like stocks or bond funds. Risk division is provided by mutual funds, along with other advantages including cash flow, accessibility, efficiency,



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creativity, and prevention. It is important for consumers to select the appropriate mutual fund schemes and management companies. A good asset manager has effective money management, particularly when it comes to taking risks. The safety and liquidity of funds impact investors' opinions of mutual fund investments. Advantages of mutual funds include cost-effectiveness, accessibility, personalization, innovation, transparency, and prevention when it comes to risk segmentation.

To address current issues and investigate new prospects, further study on mutual funds in Nepal is needed. Education programs can be informed by looking at the time restrictions and knowledge gaps of investors. Benefits may be measured by examining the economic effects of mutual fund investments in Nepal. Investors can make well-informed decisions by conducting research on the management styles and performance of various mutual fund schemes and companies in the nation. Furthermore, knowledge on Nepalese investors' perceptions of risk and liquidity might shed light on market dynamics. All things considered, thorough study in these fields can help Nepal's mutual fund industry grow and prosper.

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