INSIGHTS INTO NEPAL'S MUTUAL FUND MARKET

Himalayan Capital

A Subsidiary of Himalayan Bank Limited

Mangsir 2081

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IT Plaza, Kamaladi, Kathmandu

Some Common Abbreviations

Abbreviations	Full Form
H8020	Himalayan 80-20
MF	Mutual Fund
NFO	New Fund Offering
NAV	Net Asset Value
BVPS	Book Value Per Share
Q1	Quarter 1
Q2	Quarter 2
Q3	Quarter 3
Q4	Quarter 4
AUM	Assets Under Management
NEPSE	Nepal Stock Exchange
SEBON	Securities Board of Nepal
DP	Depositary Participant
DRIP	Dividend Reinvestment Plan
BANKING	Commercial Bank
DEVBANK	Development Bank
FIN	Finance
LI	Life Insurance
NLI	Non-Life Insurance
HOTELS	Hotels and Tourism
MAN & PRO	Manufacturing and Processing
MICRO	Microfinance
HYDRO	Hydropower
INV	Investment

Current Overview of NEPSE

On 2 January 2025, the NEPSE index closed at 2,586.23 points, with a weekly turnover of NPR 18.66 billion. Compared to the previous week's final close price and average weekly turnover, the index decreased by 44.48 points (i.e. 1.69%) and a 2.31% decrease in average weekly turnover.

The Relative Strength Index (RSI) stands at 38.47, which is near to the oversold zone and the MACD is suggesting a bearish trend.

In Poush 2081, the majority of banks (14) maintained their interest rates unchanged from the previous month, while 3 banks raised their rates and 3 opted for reductions.

NRB maintains the status quo in the First Quarterly Review of the Monetary Policy for FY 2081/82, which is a positive signal as no new policies or adjustments were introduced that could negatively impact the market.

From a technical analysis standpoint, the index is currently forming an ascending triangle pattern, suggesting the potential to climb to the 3000 level upon a positive breakout. Conversely, if the trend turns negative, the market could decline toward the 2440 level.

Macroeconomic Outlook

Inflation	5.60%
Deposit Growth	12.60%
Credit Growth	6.25%
Import Growth	0.20%
Export Growth	4.20%
Remittance Growth	9.13%
FX Reserve Growth	32.92%

For the month of Poush 2081, the majority of banks (14) kept their interest rates steady compared to the previous month, while 3 banks raised rates and another 3 opted for reductions. Despite a favorable macroeconomic outlook, trading volumes have remained subdued, reflecting a lack of confidence among market participants.

** Growth refers to the change between four months data of FY 80/81 and FY 81/82.*

** Credit refers to claim on private sector.*

HIMALAYAN MUTUAL FUND

Himalayan Mutual Fund, managed by Himalayan Capital Limited—a subsidiary of Himalayan Bank Limited—currently operates a single mutual fund, Himalayan 80-20.

Fund Details

Allotment Date	13-Sep-23
Maturity Date	01-Oct-33
AUM as of Mangsir end, 2081 in NPR	1,177,439,990.86
Scheme Type	Close Ended
Scheme Objective	Growth Oriented
Benchmark	NEPSE
Fund Management Fee	1.50% of NAV
DP Fee	0.20% of NAV
Fund Supervisor Fee	0.20% of NAV or NPR 100,000 per month whichever is lower
Fund Manager	Himalayan Capital Limited
H8020 Returns since FY 2080/81 End	12.21%
NEPSE returns since the same date	19.72%
Adjusted Fund Beta Since Inception (Monthly)	0.69
Fund Standard Deviation Since Inception (Monthly)	1.03
Average Monthly Fund Return Since Inception	1.61%

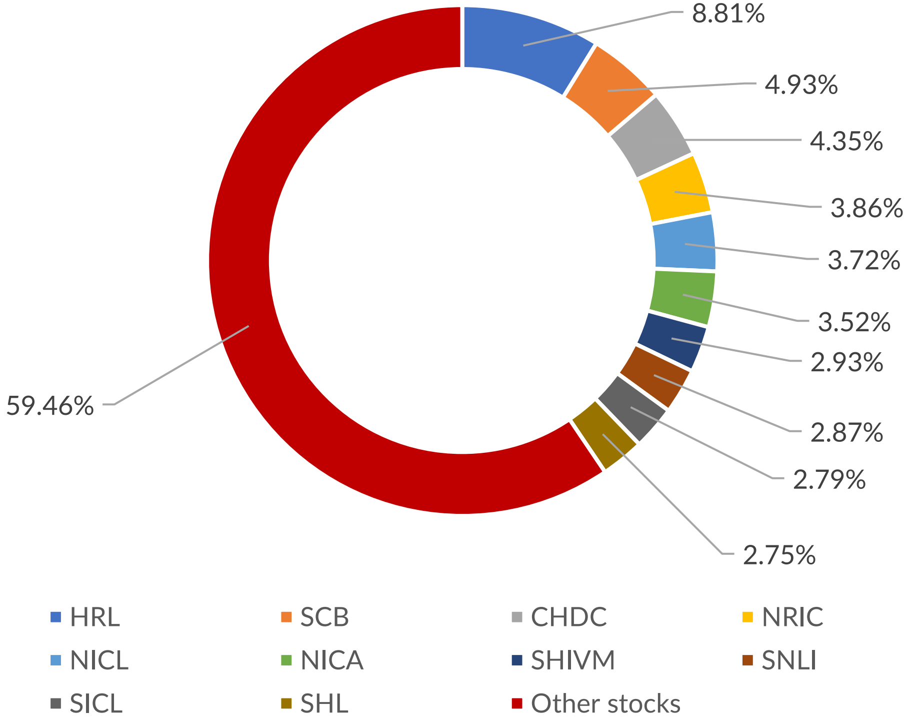
Investment Philosophy

The fund structure involves investing 80% of its capital in long-term investments within the capital and financial markets, aiming for compounding returns. The remaining 20% is actively managed to maximize returns based on market conditions.

HIMALAYAN MUTUAL FUND

Himalayan 80-20

Top 10 Equity Holdings as of Mangsir End, 2081



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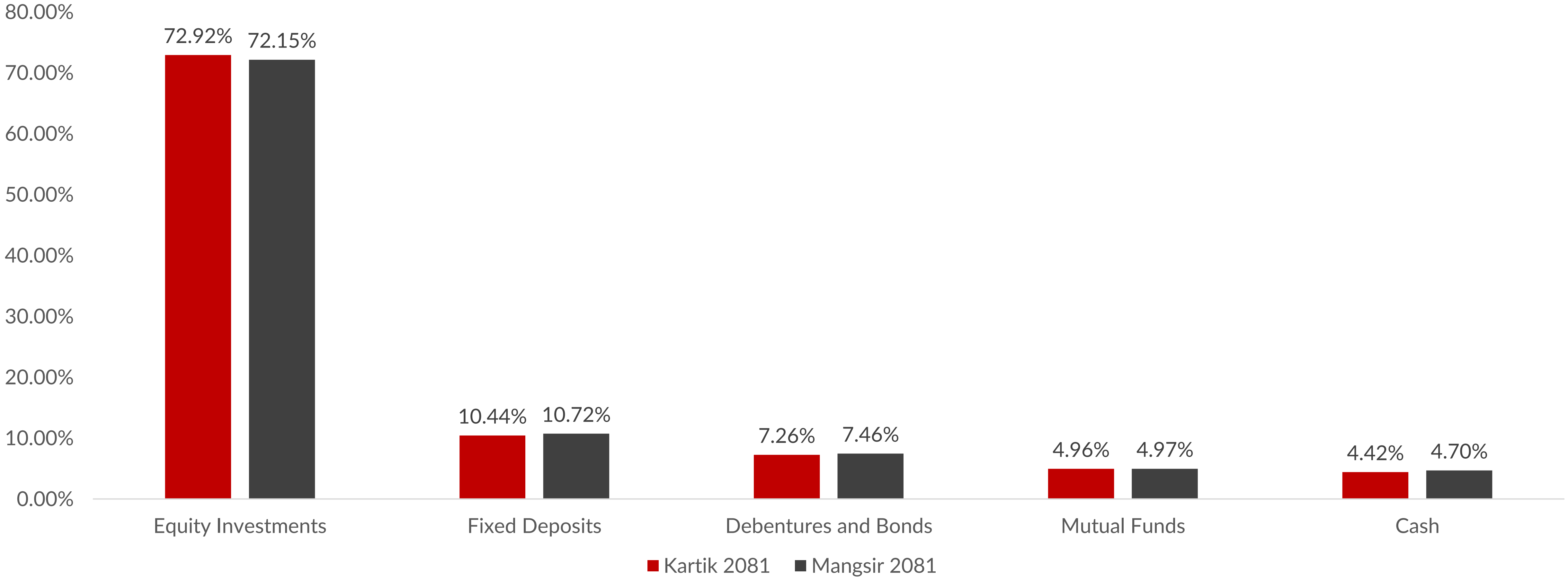
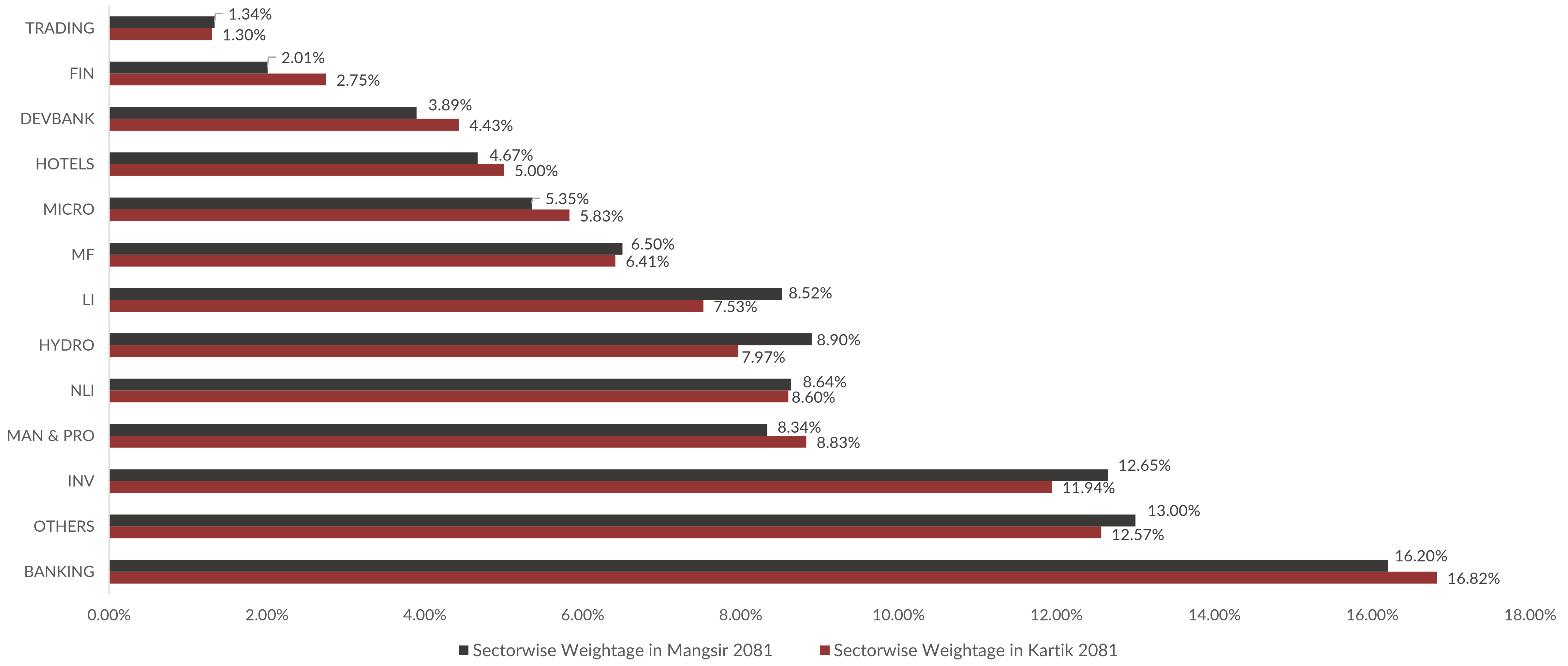
Asset Allocation of Himalayan 80-20

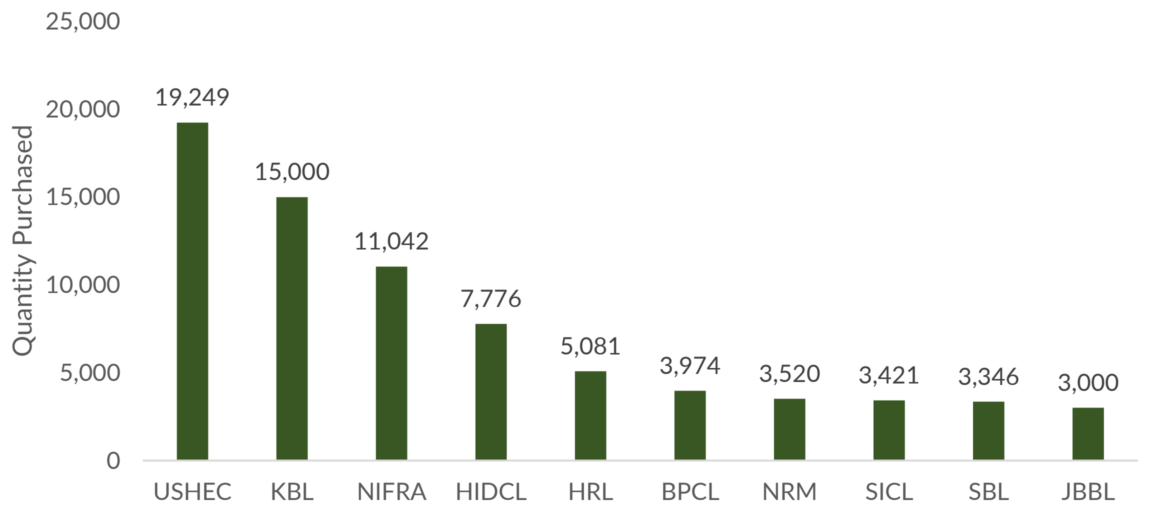
Our asset allocation in H8020 reflects adjustments that happened between Kartik 2081 and Mangsir 2081.
As NEPSE decreased by 2.42% on a month-on-month basis, equity allocation has been adjusted from 72.92% to 72.15%.



Sector Allocation of Himalayan 80-20



Top 10 Equity Purchases of H8020 (Kartik 2081)



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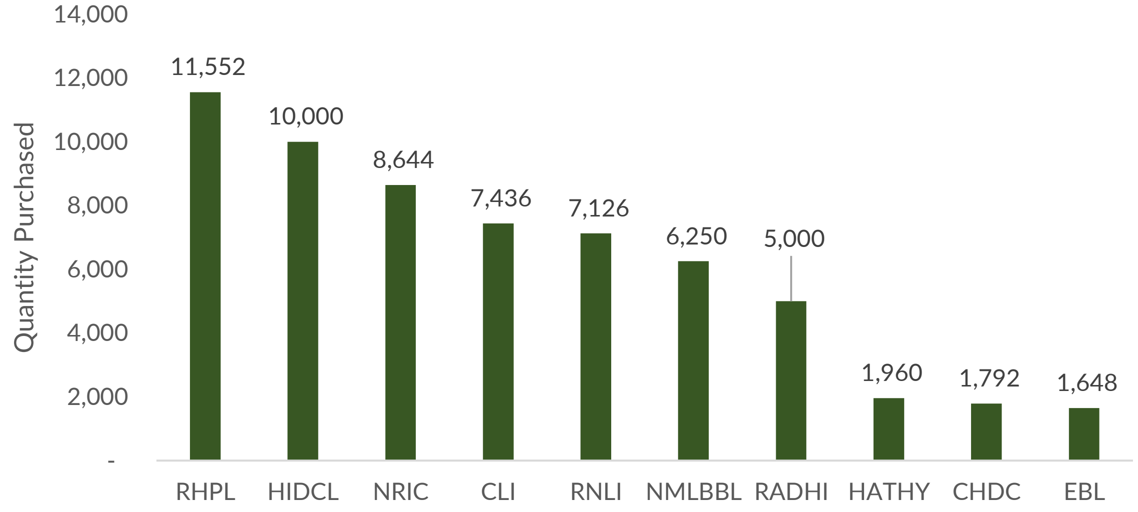
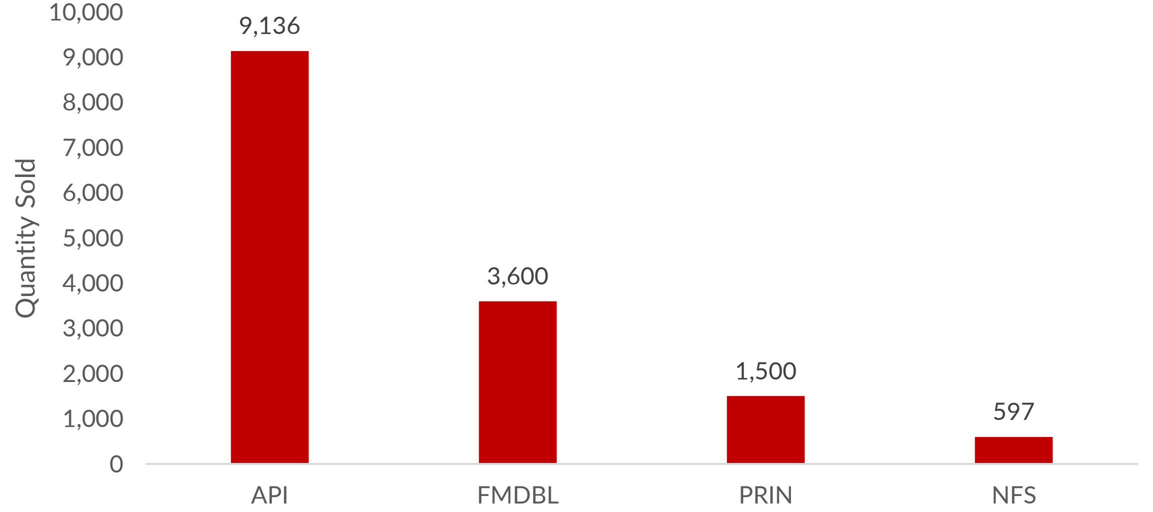
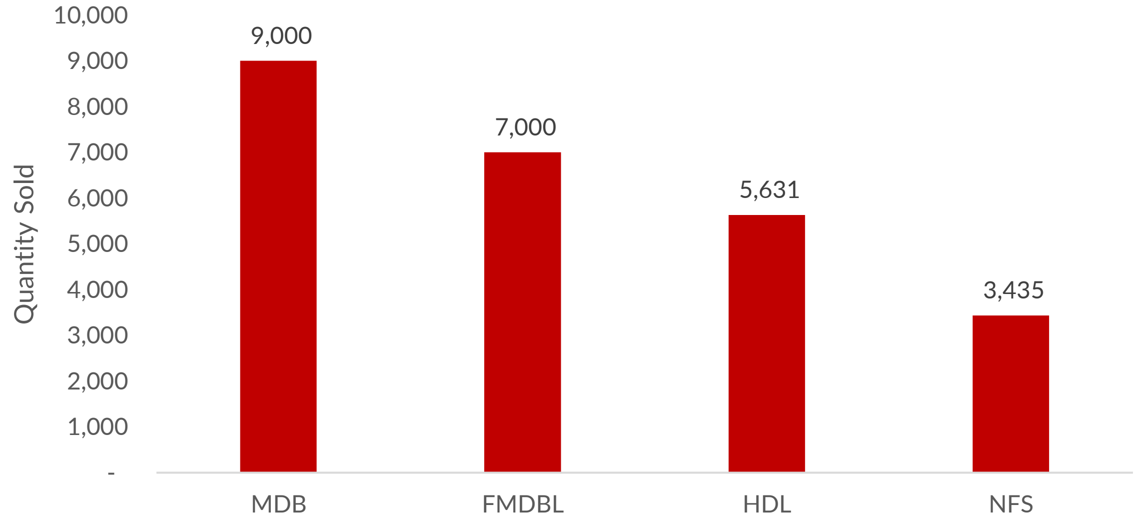


Top 10 Equity Sales of H8020 (Kartik 2081)



Top 10 Equity Sales of H8020 (Mangsir 2081)



Note: Mutual funds are excluded from both purchase and sale transactions
Purchases include bonus share listings as well.

NEPALESE MUTUAL FUND INDUSTRY

Currently, 45 active mutual funds—comprising 38 close-ended and 7 open-ended funds—are managed by 15 fund managers. With the addition of two more fund managers, Muktinath Capital and Garima Capital, the total IPO allocation **(5.00% quota)** per fund manager will be reduced.

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Citizens Capital Ltd.

Global IME Capital Limited
ग्लोबल आइएमई क्यापीटल लि.
GROW WITH US

कुमारी क्यापिटल लिमिटेड
KUMARI CAPITAL LIMITED
Invest for your Future

LS CAPITAL
लक्ष्मी सन्राइज क्यापिटल लिमिटेड
A Wholly Owned Subsidiary of Laxmi Sunrise Bank.

NABIL® INVESTMENT BANKING LIMITED

NIMB ACE CAPITAL LIMITED
Managing Shares. Managing Investments.

NIC ASIA CAPITAL

NMB CAPITAL
एनएमबि क्यापिटल
Partnership for Prosperity

PRABHU CAPITAL
(A Subsidiary of Prabhu Bank Limited)

आरविवि मर्चेन्ट बैंकिङ्ग लि.
RBB MERCHANT BANKING LTD.
A subsidiary company of Rastriya Banijya Bank Ltd.

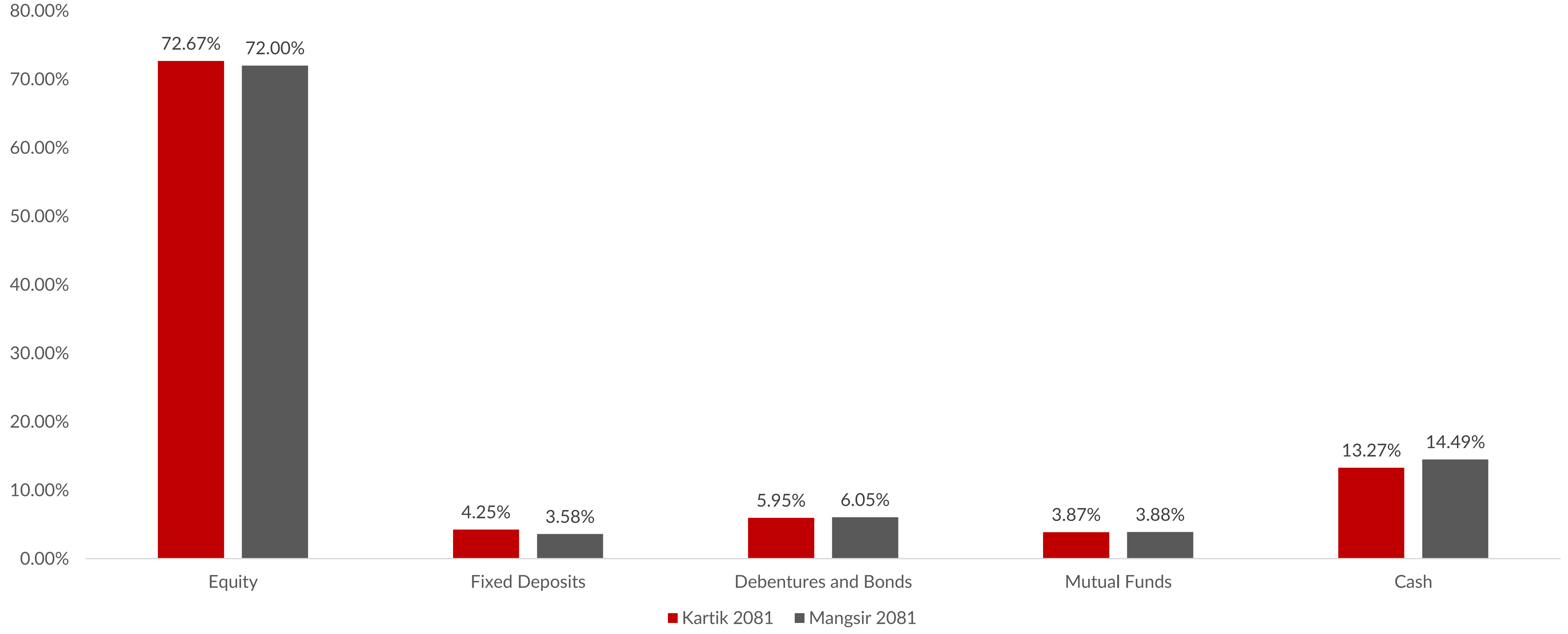
SanimaCapital
(A wholly owned subsidiary of Sanima Bank Ltd.)

Siddhartha Capital Limited
Investing happiness

मुक्तिनाथ क्यापिटल लि.
MUKTINATH CAPITAL LTD.
A Subsidiary of Muktinath Bikas Bank Ltd.

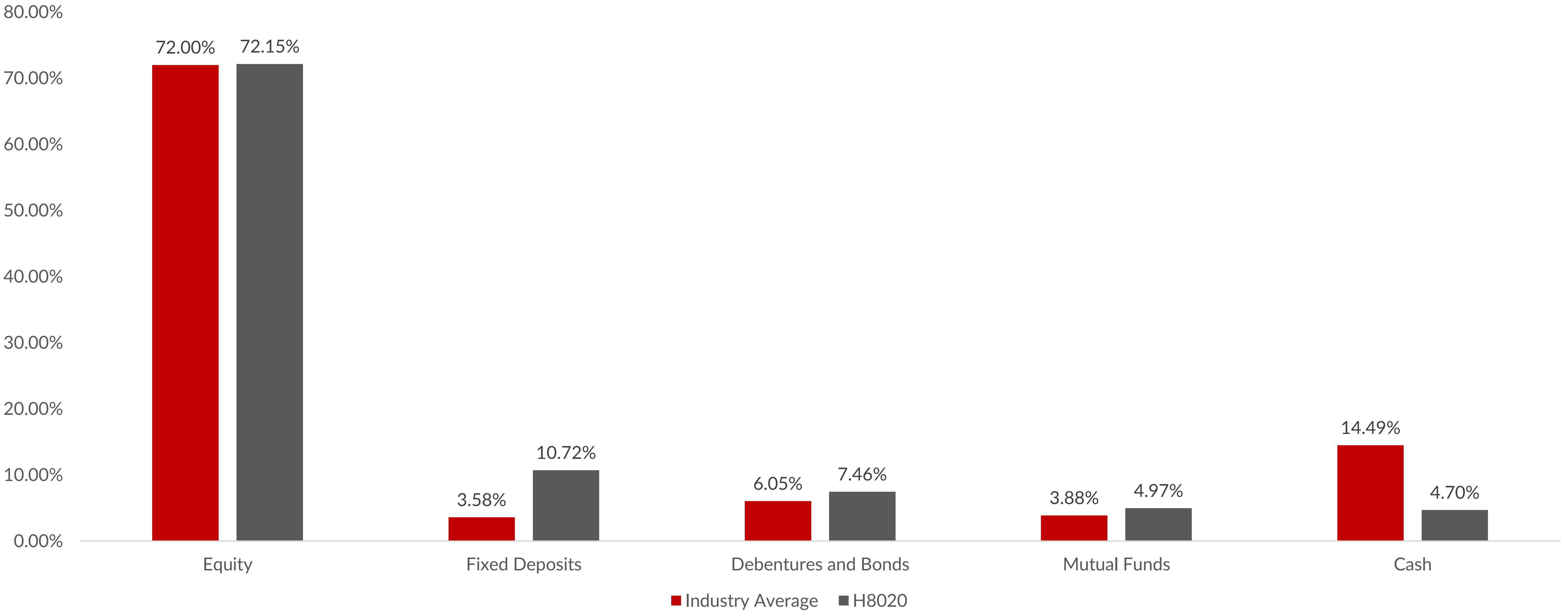
गरिमा क्यापिटल लिमिटेड
GARIMA CAPITAL LIMITED
(A Merchant Banker Licensed by SEBON)

The Assets Under Management (AUM) in Nepal's mutual fund industry contracted by 1.27% at the end of Mangsir 2081, falling to NPR 54.59 billion from NPR 55.30 billion recorded at the end of Kartik 2081. This decline is primarily attributed to a 2.42% month-on-month drop in NEPSE, which impacted the overall valuation of total AUM.



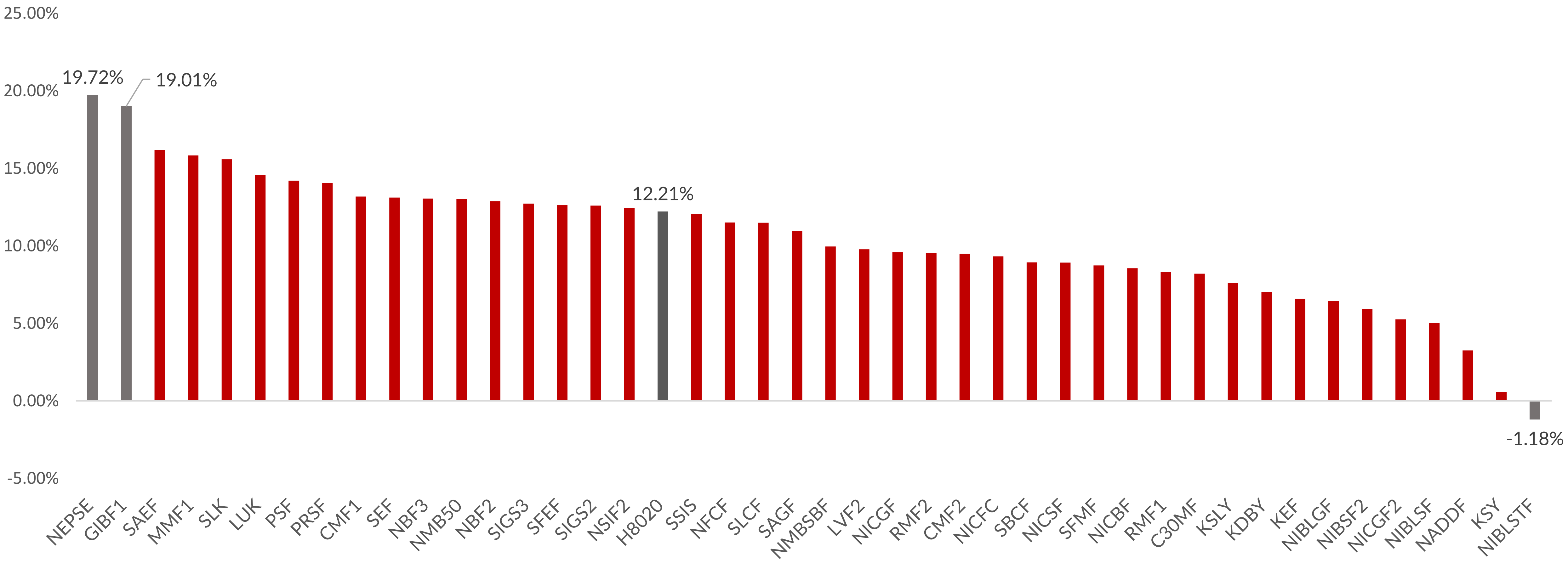
Asset Allocation Comparison for Mangsir 2081 : H8020 and Industry Average

For Mangsir 2081, H8020 closely aligns with the industry average in equity allocation but allocates more to fixed deposits, debentures, and mutual funds, showing a conservative investment approach. Notably, it holds significantly less cash, emphasizing fund deployment over liquidity, while maintaining diversification through higher fixed-income instruments and mutual fund investments.

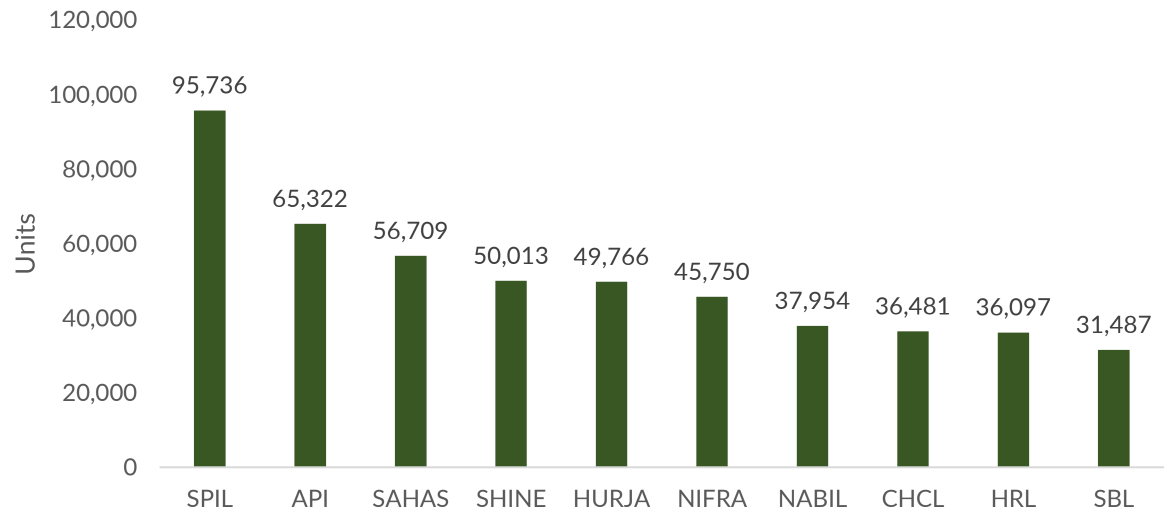


Comparison of Mutual Fund Returns with NEPSE Performance Since the End of FY 2080/81

Mutual funds often struggle to outperform the NEPSE index due to management fees, cash holdings, market efficiency, and diversification. These factors limit returns, while conservative strategies and behavioral constraints further hinder consistent outperformance.



Top 10 Equity Purchases of Mutual Funds (Kartik 2081)



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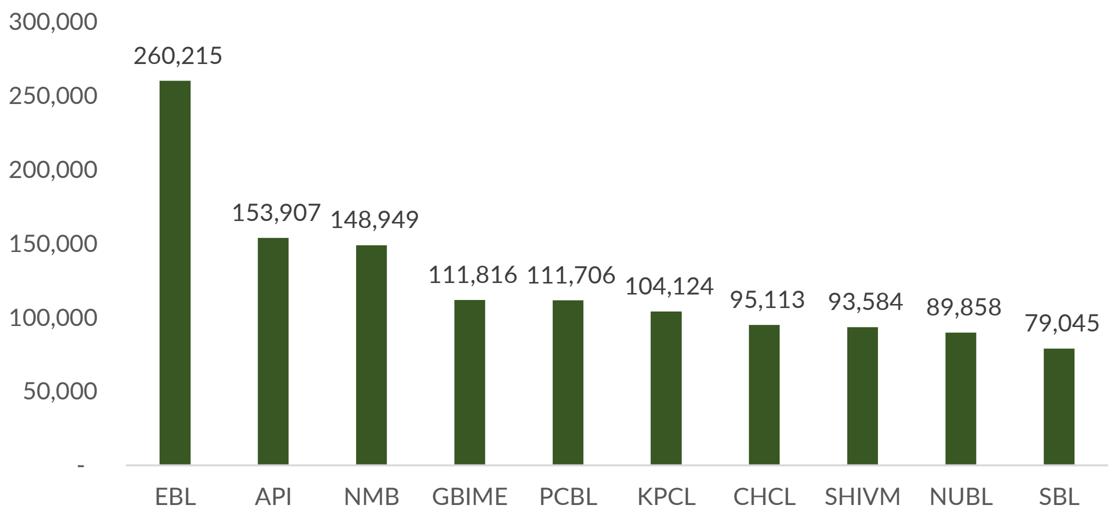
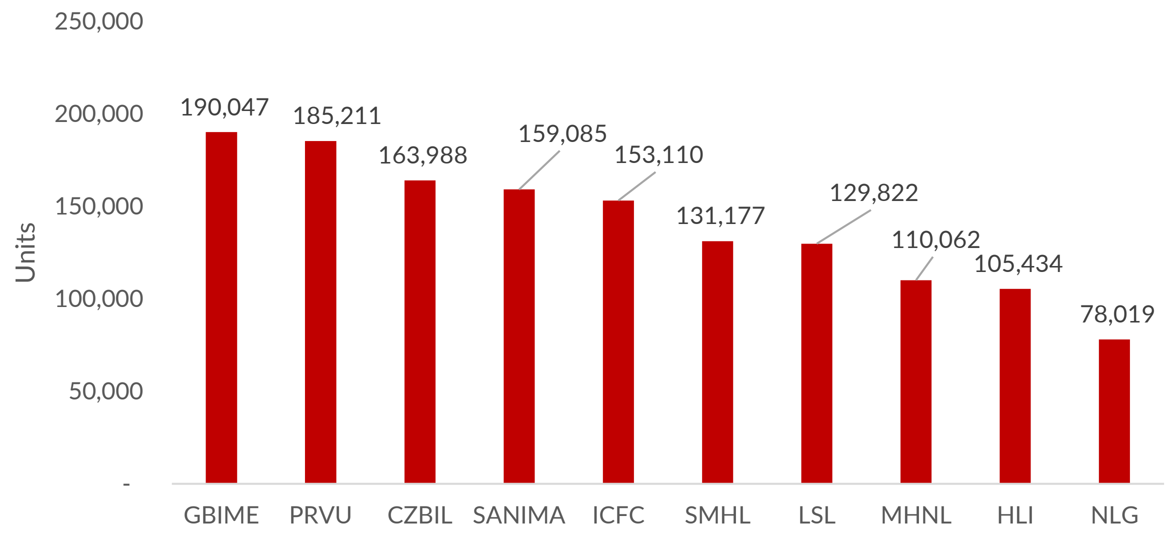
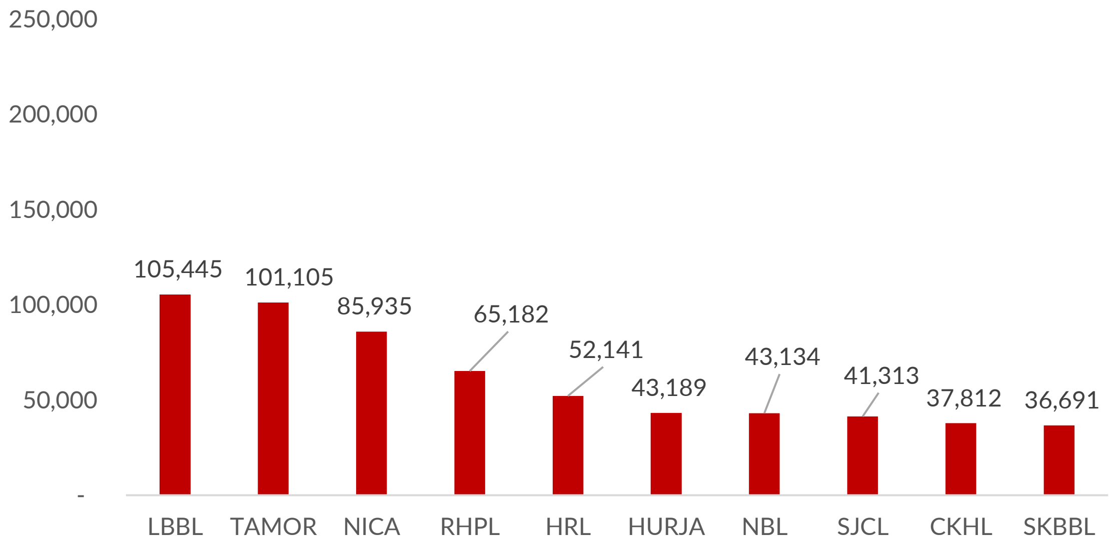


Top 10 Equity Sales of Mutual Funds (Kartik 2081)



Top 10 Equity Sales of Mutual Funds (Mangsir 2081)



HIMALAYAN MUTUAL FUND

Note: Mutual funds are excluded from both purchase and sale transactions
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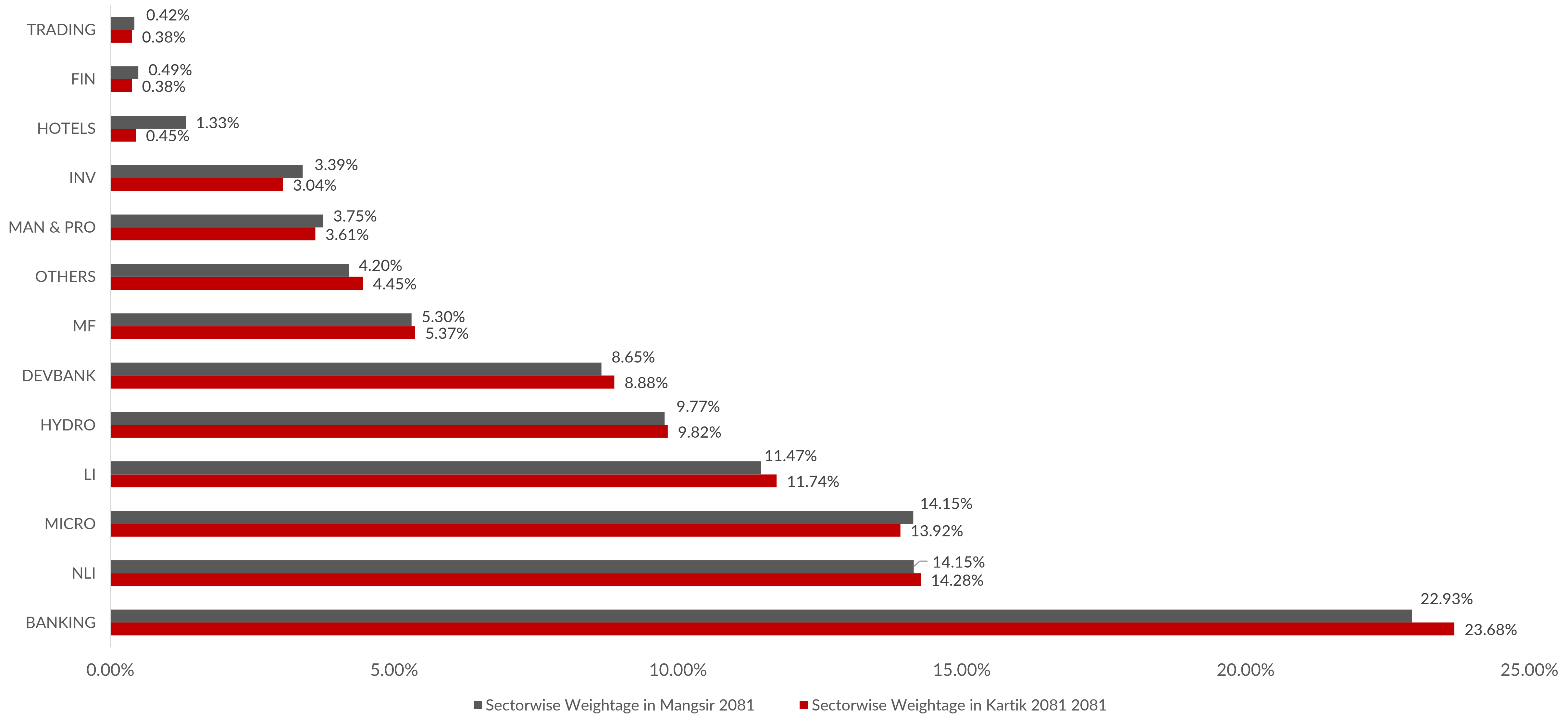
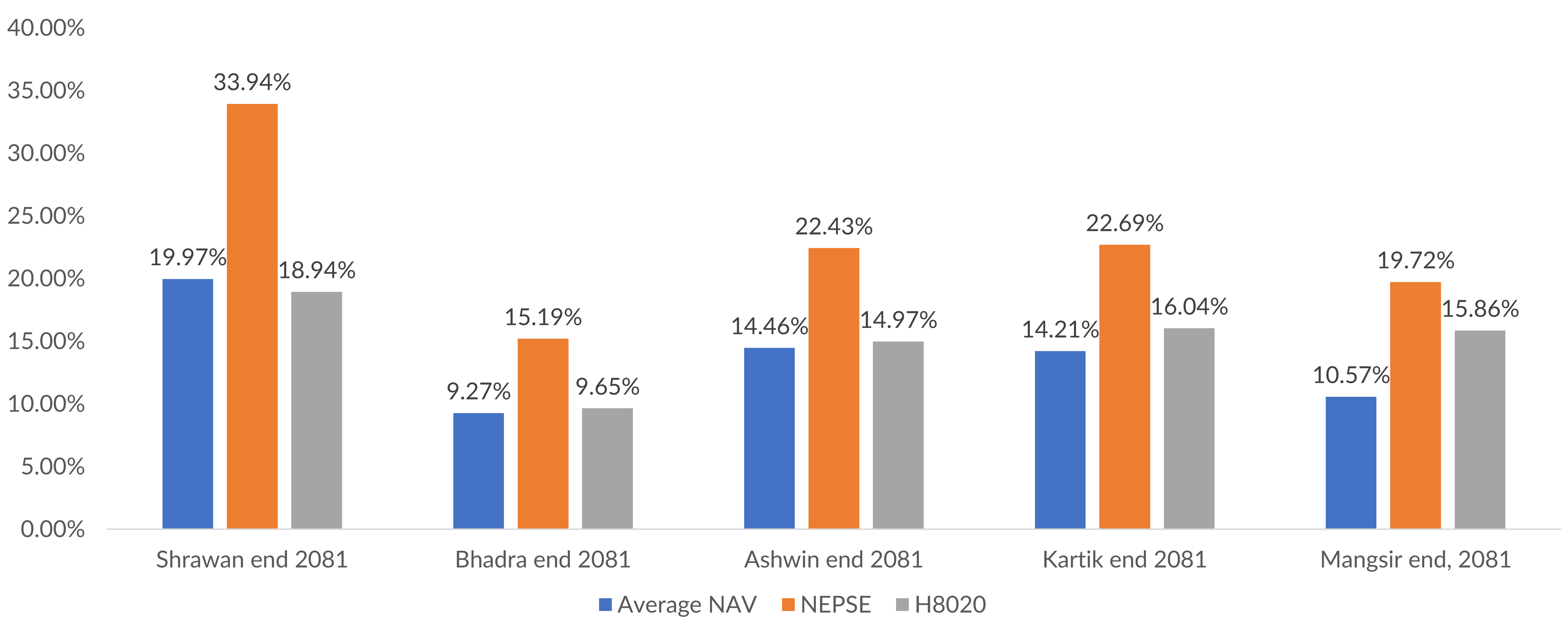
Sector Allocation of Mutual Fund Industry (Kartik 2081 and Mangsir 2081)



H8020 vs NEPSE vs Average NAV (Since FY 2080/81 End)



Note: NAV of all the mutual funds have been adjusted for cash dividend
For instance, if the dividend book close were in mid-Bhadra 2081, the previous NAV for Asar 2081 and Shrawan 2081 would be adjusted based on this formula,
NAV for the previous months / (1 + Cash dividend %)

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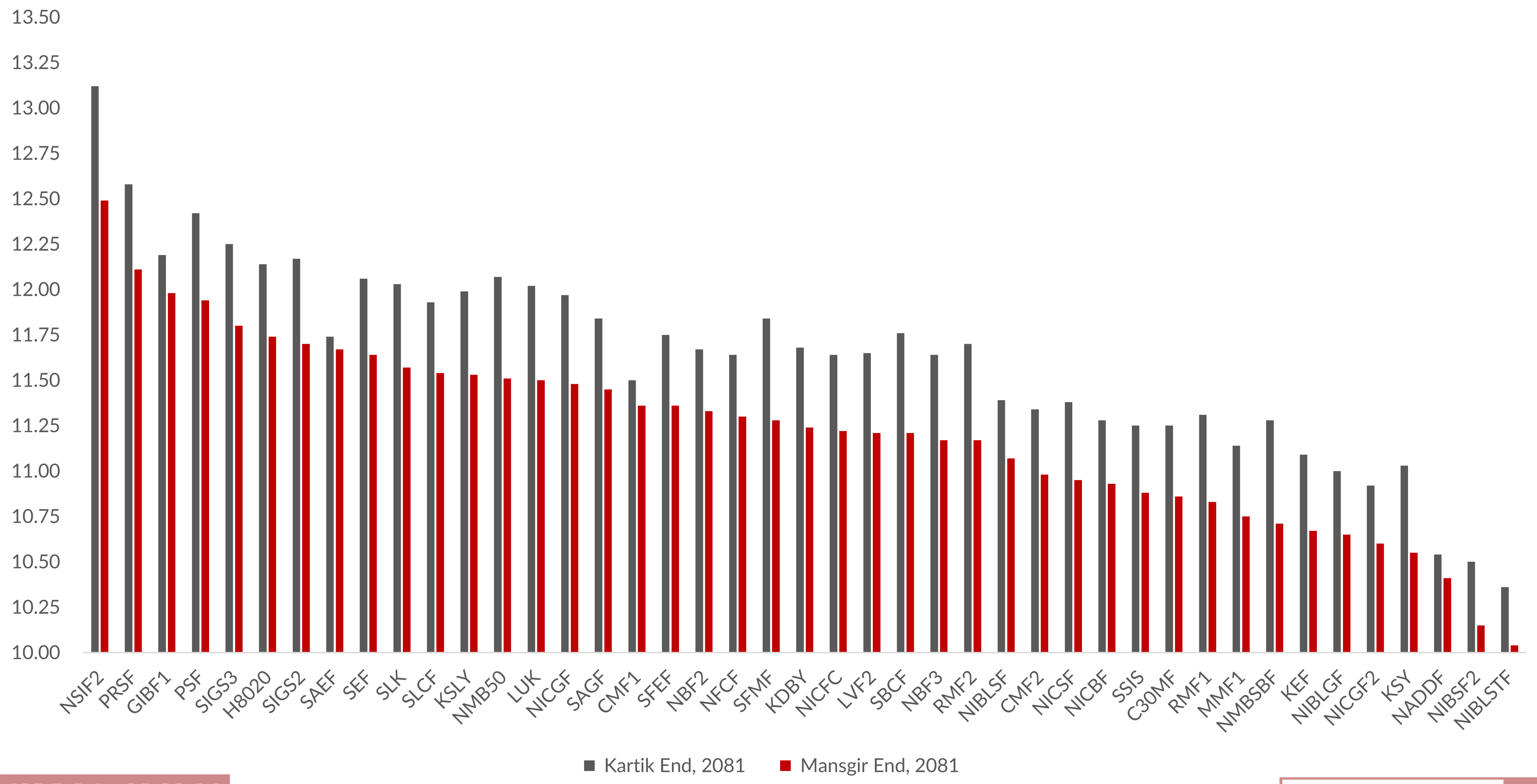
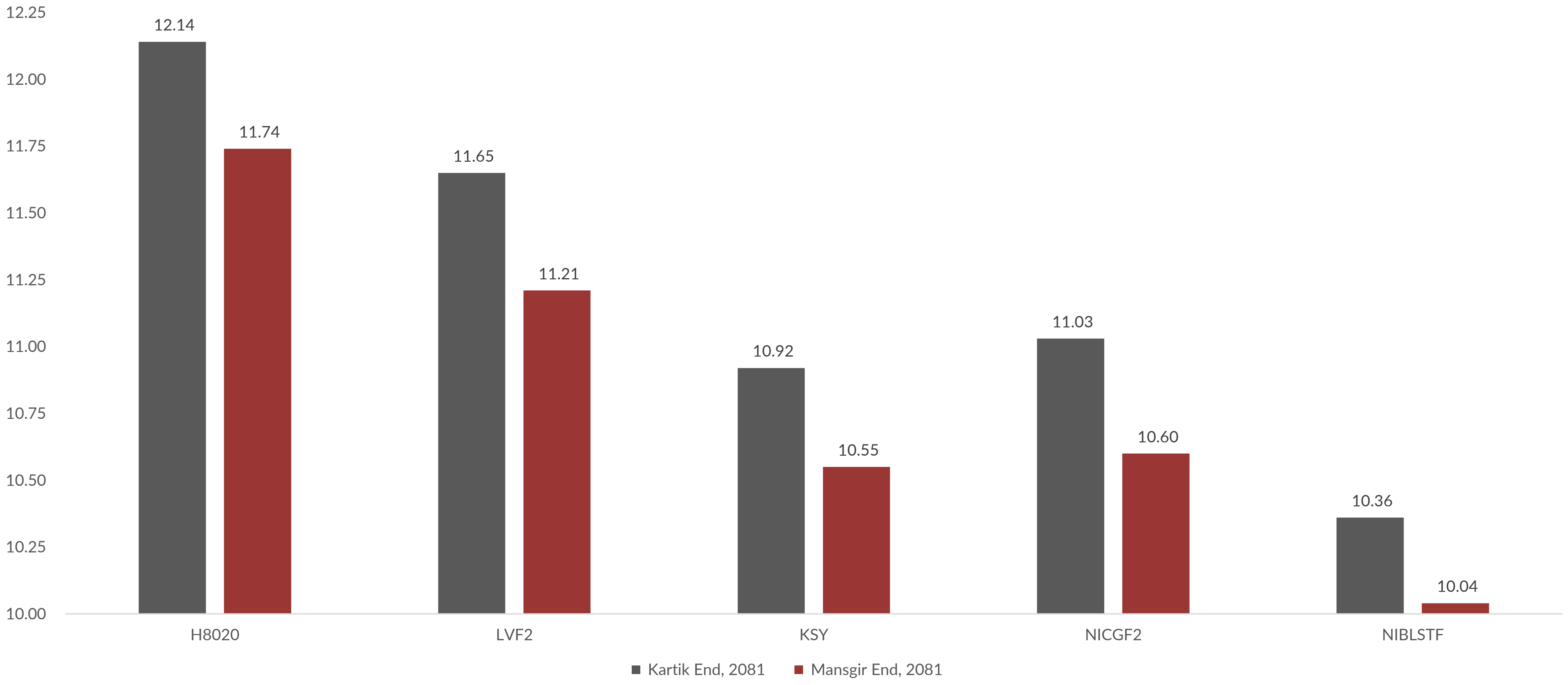
Month on Month NAV Comparison



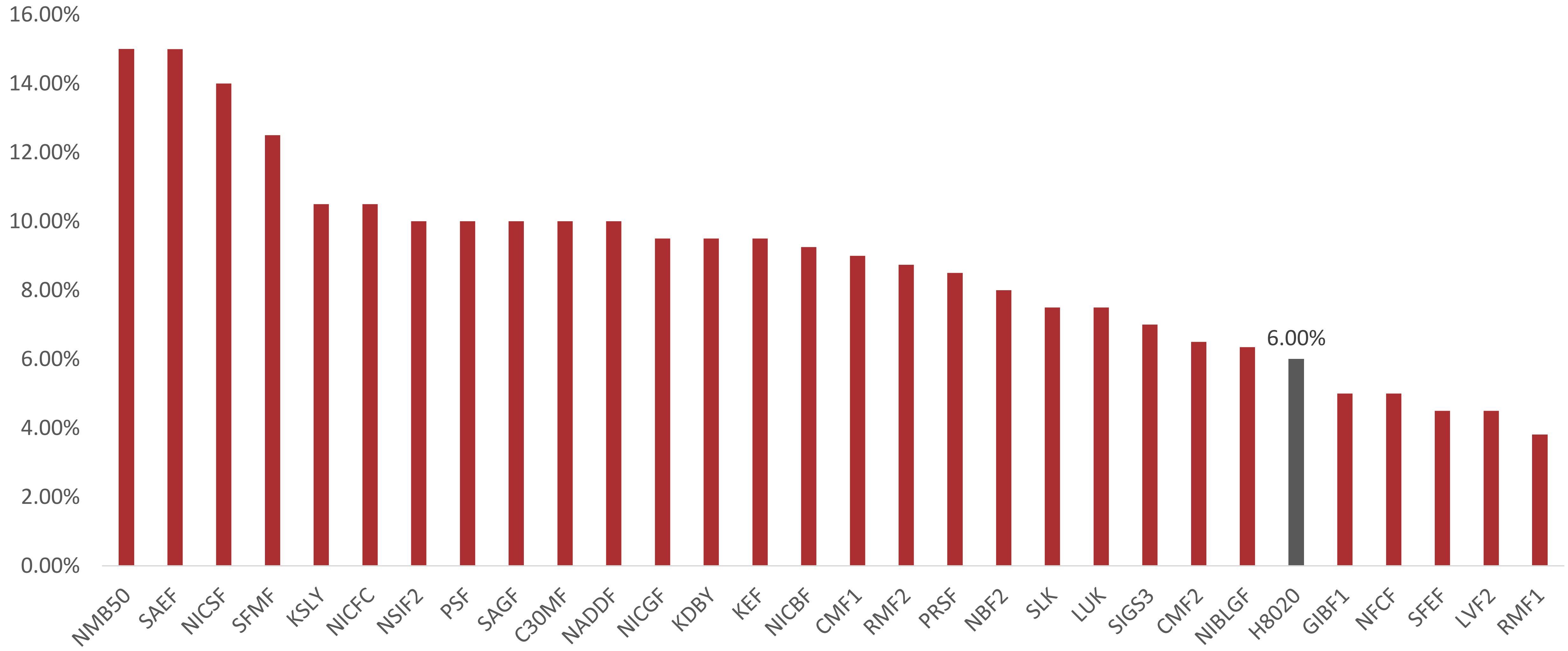
NAV of mutual funds as of the end of Mangsir end 2081 for funds that had their NFO in FY 2080/81



Among the mutual funds launched in FY 2080/81, H8020 has emerged as the top performer with the highest NAV as of Kartik 2081, showcasing strong early results.

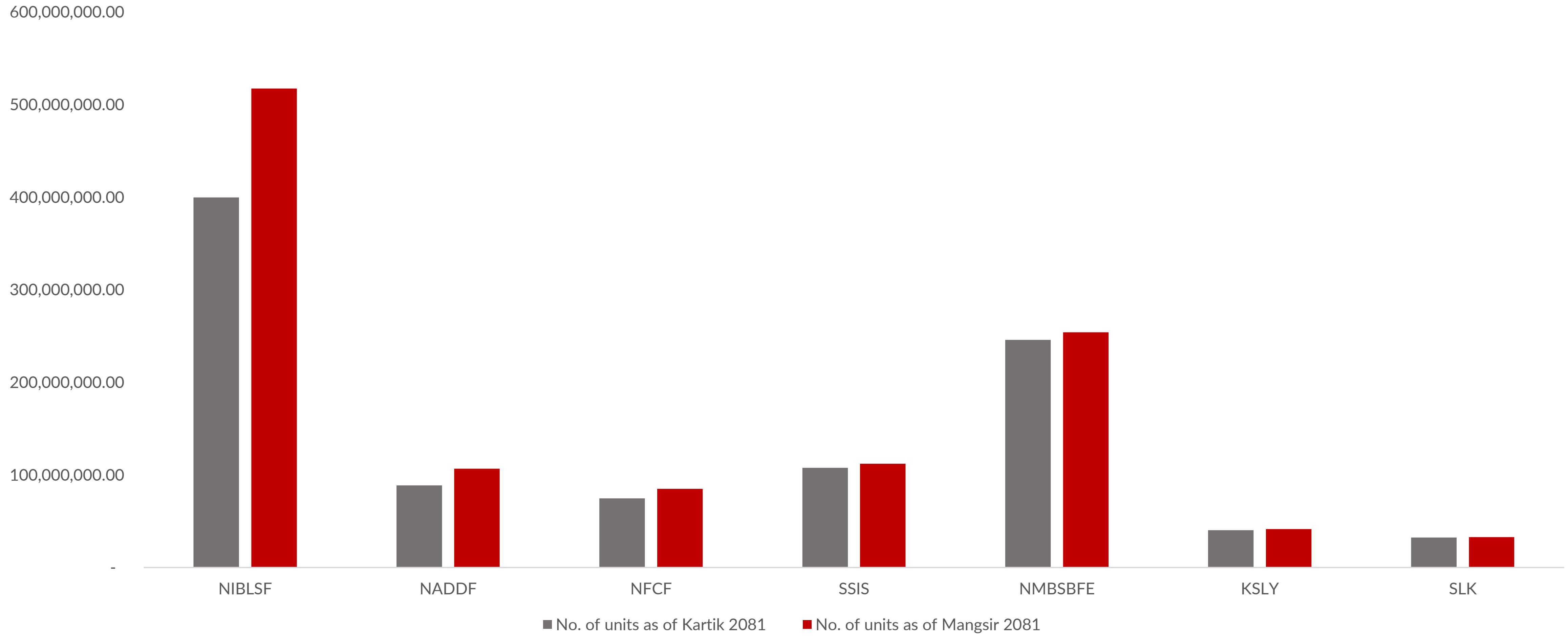
Cash Dividend Declarations for FY 2080/81

Among the 43 active mutual funds, currently, 30 have provided dividends to its shareholders.



Open Ended Mutual Funds

Among the seven open-ended mutual funds, there was a substantial net unit growth, totaling 160,126,592 units as of Mangsir end 2081. This represents a monthly increase of 10.78%.



For NIBLSF, the average monthly unit growth is approximately 16 million. However, the inflated figure of 117.68 million observed between Kartik 2081 and Mangsir 2081 is attributed to the cumulative impact of several months. It is important to note that for every billion-fund size increment, approval from SEBON is required. As of Kartik 2081, the fund size stood at 3.99 billion units, which increased to 5.17 billion units by the end of Mangsir 2081.

Value of SIP investment of open ended mutual funds since their inception assuming NPR 1,000 monthly investment since the date of the NFO, with DRIP (NAV as of Kartik end, 2081)

Symbol	Allotment Date	Total Investment Excluding Reinvested Dividends	Total Investment Including Reinvested Dividends	Current Value Including Reinvested Dividends	Simple Return	XIRR
NIBLSF	7/10/2019	65,000.00	81,957.71	81,908.96	26.01%	N/A
NADDF	2/4/2021	47,000.00	56,301.03	55,281.16	17.62%	N/A
NFCF	12/5/2022	25,000.00	26,106.26	29,155.47	16.62%	11.47%
SSIS	7/23/2021	41,000.00	41,000.00	49,062.35	19.66%	10.61%
NMBSBFE	9/23/2021	36,000.00	36,000.00	40,773.89	13.26%	8.24%
KSLY	4/13/2023	21,000.00	22,655.89	23,889.75	13.76%	6.77%

Open

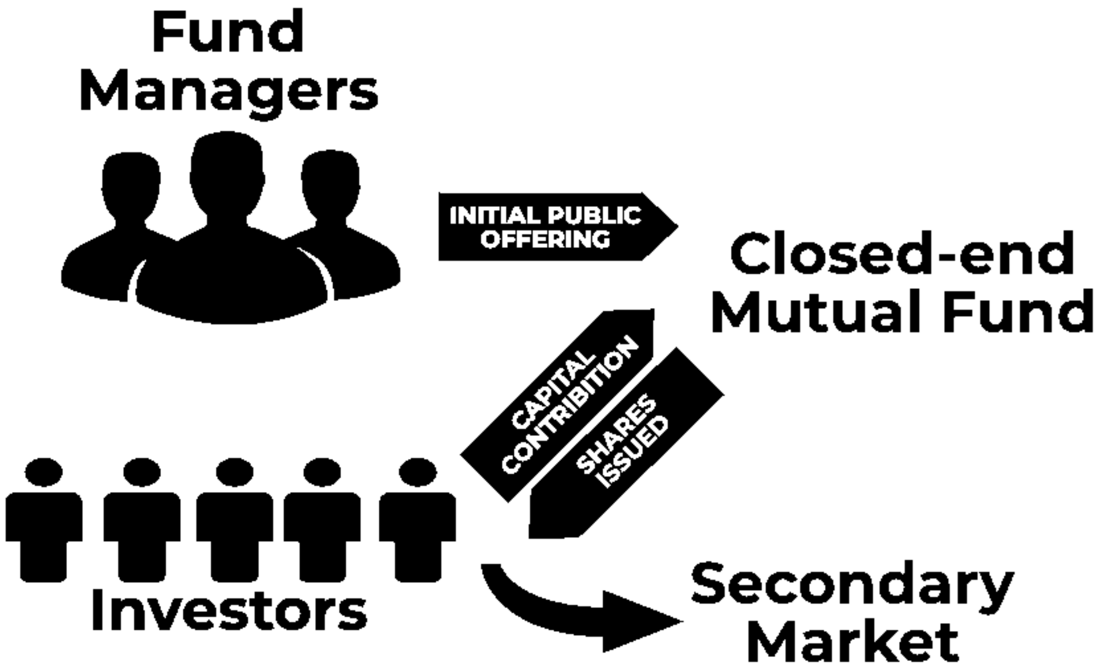
Ended Funds

When the total investment is lower than the current value, including reinvested dividends, the XIRR for dividend-paying funds can appear negative or minimal. This occurs because reinvested dividends increase the capital base, but if NAV growth is weak or market conditions are unfavorable, the XIRR may not reflect positive performance. On the other hand, old funds without dividends or new funds paying dividends often show positive XIRR, as returns are driven by NAV growth. It's essential to consider total returns, which account for both NAV growth and dividends, to better assess a fund's performance and whether it meets long-term objectives.

Note: SLK has been excluded from the list due to the unavailability of historical daily NAV data

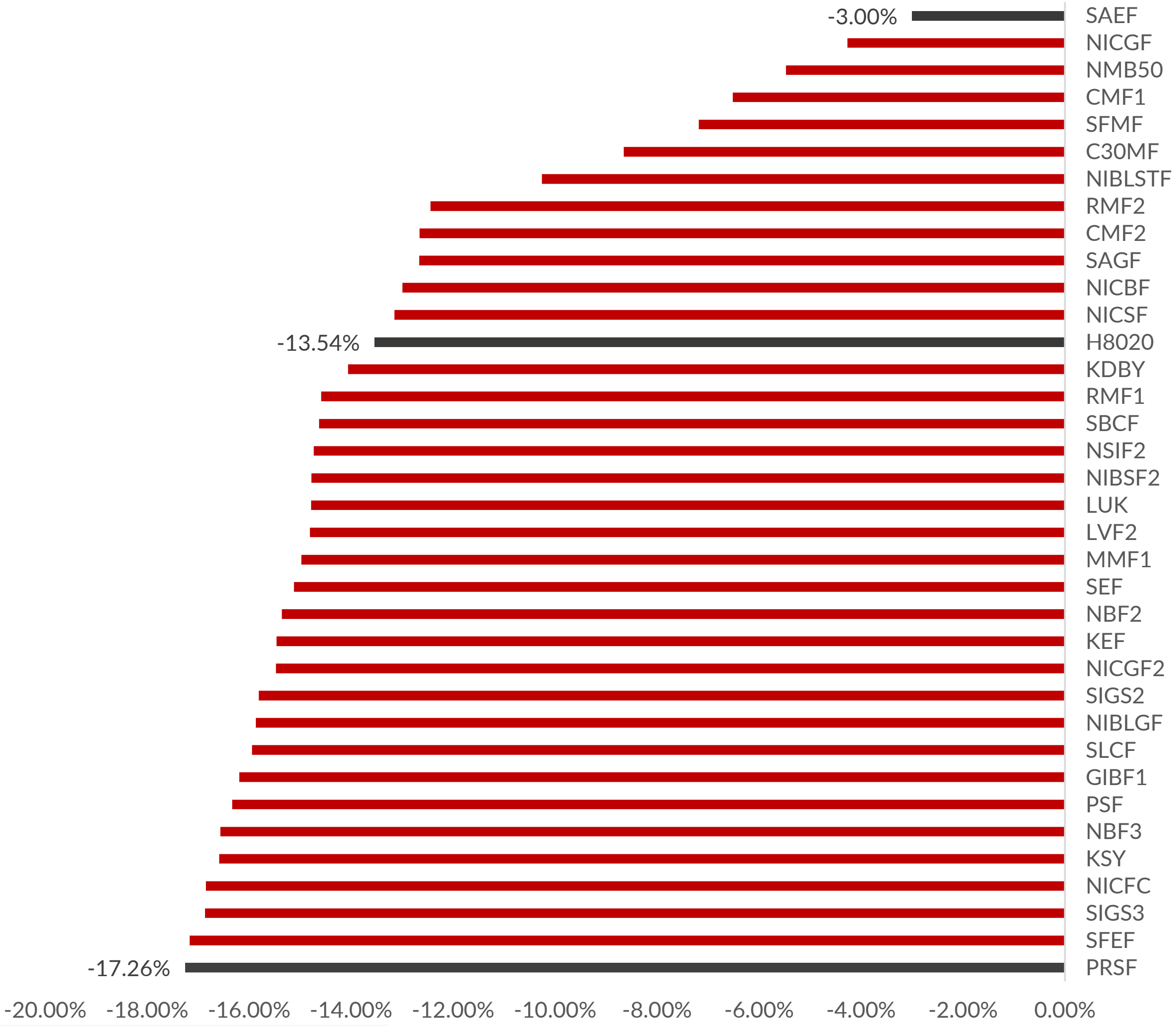
Close Ended Mutual Funds

Script	3 Month Average NAV	Mangsir End, 2081	Deviation
NSIF2	12.94	12.49	3.60%
PRSF	12.38	12.11	2.20%
PSF	12.23	11.94	2.46%
SIGS3	12.08	11.8	2.37%
GIBF1	12.05	11.98	0.56%
SIGS2	12.01	11.7	2.65%
H8020	**11.97**	**11.74**	**1.95%**
SEF	11.94	11.64	2.55%
NMB50	11.92	11.51	3.56%
NICGF	11.86	11.48	3.34%
LUK	11.85	11.5	3.04%
SLCF	11.81	11.54	2.34%
SAEF	11.75	11.67	0.71%
SAGF	11.71	11.45	2.30%
SFMF	11.66	11.28	3.37%
SFEF	11.65	11.36	2.58%
RMF2	11.63	11.17	4.09%
SBCF	11.61	11.21	3.54%
NBF2	11.54	11.33	1.85%
NICFC	11.53	11.22	2.79%
KDBY	11.52	11.24	2.49%
NBF3	11.47	11.17	2.72%
LVF2	11.47	11.21	2.35%
CMF1	11.41	11.36	0.47%
NICSF	11.25	10.95	2.74%
RMF1	11.24	10.83	3.76%
CMF2	11.21	10.98	2.06%
NICBF	11.20	10.93	2.44%
C30MF	11.09	10.86	2.12%
MMF1	11.05	10.75	2.76%
KEF	10.96	10.67	2.72%
NIBLGF	10.92	10.65	2.57%
KSY	10.88	10.55	3.10%
NICGF2	10.84	10.6	2.30%
NIBSF2	10.38	10.15	2.30%
NIBLSTF	10.28	10.04	2.42%



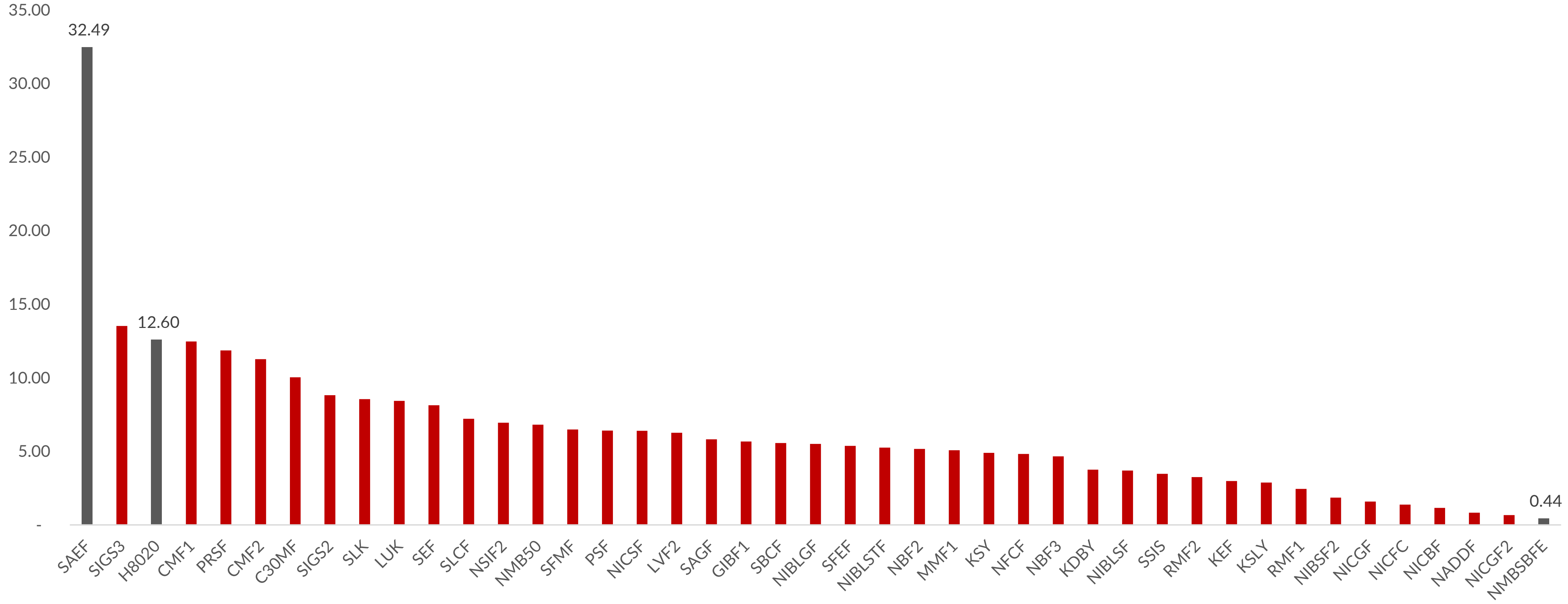
Note - 3 Month Average NAV has been adjusted for cash dividends provided

Closed-End Mutual Funds: Discount Analysis Based on NAV and Price as of Mangsir End, 2081



In Nepal, closed-end mutual funds often trade at a discount due to low demand and liquidity. Many investors prefer trading stocks for higher short-term returns compared to the long-term and relatively safer nature of mutual funds. While there is some level of institutional participation, it remains limited, which affects market activity. Furthermore, a lack of widespread understanding of how the Net Asset Value (NAV) reflects the intrinsic value of mutual funds further contributes to their lower market prices.

Dividend Capacity of Mutual Funds (5 months)



- ***Mutual funds with a Net Asset Value (NAV) above NPR 10 are eligible for dividend distribution. Dividends can only be paid from realized gains and reserves, and the final amount is determined at the discretion of the fund manager. For the current analysis, only realized gains have been considered. These gains are expected to gradually increase as the fiscal year progresses.***
- ***SAEF and CMF1 are nearing maturity. Both funds have strategically booked profits before maturity and will not distribute dividends. Instead, investors will receive payouts based on the NAV at the time of maturity or after all holdings have been fully liquidated.***

Top 5 Equity Purchases in Units by Mutual Funds in Mangsir 2081

Company Name	Graham Fair Value as of Q1 2081/82	BVPS as of Q1 2081/82	Market Price as of Kartik end, 2081	Our rationales
EBL	414.40	219.01	614.00	The bank’s net interest income has grown by 13.09% year-over-year as of FY 2081/82 Q1, driven by an increase in deposits and loans. Additionally, its profits have surged by an impressive 44.44%, largely due to a significant reduction in impairment charges. With an EPS of NPR 34.85—the second highest in the banking sector—and an exceptionally low NPL ratio of 0.77%, the bank has positioned itself as an attractive investment. These strong fundamentals likely explain why mutual funds have been actively purchasing this stock, making it the most acquired stock in Mangsir 2081. This trend of heightened mutual fund interest has also been evident over the past few months.
API	178.42	112.65	301.50	The company's reserves surged by 427.33%, alongside an 81.65% rise in electricity income. At the AGM, it approved investments in a 49 MW hydropower project and an apartment venture, signaling a shift toward portfolio diversification. After a 35% correction from its peak in Shrawan, API became a top pick for investors in Mangsir and ranked among the most bought stocks in Kartik 2081 as well, reflecting strong confidence in its growth.
NMB	304.30	164.95	260.00	NMB Bank has delivered strong financial performance, surpassing industry benchmarks. Deposits grew 22.42%, while loans increased 7.72% YOY as of FY 2081/82 Q1. Profitability improved with an 18.29% rise in net operating income and a 107.71% drop in impairment charges. With an EPS of NPR 24.95 and ROE of 15.13%, the bank outperforms its peers while maintaining solid capital adequacy and asset quality. Its P/E ratio of 11.16 and P/B ratio of 1.55 below industry averages as of Mangsir end, 2081 make it an attractive investment for mutual funds.
GBIME	256.15	174.20	256.60	Between Jestha and Kartik 2081, mutual funds sold around 649,000 units of GBIME due to concerns over its underperformance relative to banks with smaller capital bases. However, after the sell-off, mutual funds may have strategically bought GBIME shares at lower prices in Mangsir 2081, seeking to capitalize on short-term opportunities and price fluctuations.
PCBL	314.89	166.11	282.60	PCBL's net interest income rose by 16.67% in FY 2081/81 Q1, the highest in the sector, driven by strong growth in deposits and loans. Its 14.06% YOY loan growth, the highest in the sector, reflects its strong performance. The bank’s net income has grown organically, without relying on impairment charge reductions or writebacks, which is a positive sign. With an ROE of 15.97%, the third highest in the sector, mutual funds have increasingly turned their attention to PCBL, leading to greater interest in the bank.

Top 5 Equity Sales in Units by Mutual Funds in Mangsir 2081

Company	Graham Fair Value as of Q1 2081/82	BVPS as of Q1 2081/82	Market Price as of Kartik end, 2081	Our rationales
LBBL	318.74	196.57	507.30	Between **Bhadra 2081** and **Kartik 2081**, mutual funds accumulated **143,045 units** of **LBBL** stocks, coinciding with a rise in the stock price. However, in **Mangsir 2081**, mutual funds sold **105,445 units**, potentially engaging in profit booking during this period.
TAMOR	200.69	102.29	541.00	Since **Poush 2080 to Kartik 2081**, mutual funds had accumulated **457,652 units** of **TAMOR**. By **Chaitra end 2080**, the company began electricity production, achieving profitability in the following quarter. Mutual funds likely acquired shares before and after production commenced, anticipating the positive development. In **Mangsir 2081**, they sold **101,105 units**, possibly engaging in profit booking.
NICA	116.50	203.79	445.10	The bank's financial performance has deteriorated over the past few quarters. Previously, **NICA** held the largest share of mutual fund investments within the banking sector. However, as its financials weakened—reflected by its **Graham Fair Value** nearing the par value of **NPR 100**—mutual funds may have gradually begun offloading their holdings.
RHPL	N/A	94.27	441.20	Mutual funds may have opted for profit booking, reducing their holdings from **219,164 units** at the end of **Kartik** to **153,982 units** by **Mangsir 2081**.
HRL	176.00	159.16	820.00	Mutual funds may have opted for profit booking, reducing their holdings from **975,066 units** at the end of **Kartik** to **922,925 units** by **Mangsir 2081**.

Risk Factors Associated with the Likely Activity of Himalayan 80-20

Market Risk:

- **Price Risk**: The fund is exposed to price fluctuations in equity markets, which can impact returns. This risk is mitigated through an 80-20 portfolio strategy, combining long-term passive investments with active market-driven decisions, supported by tools like the Himalayan Equity Optimizer.
- **Sector and Stock-Specific Risk**: Managed through systematic research, leveraging both fundamental and technical analysis to make informed investment decisions.

Cash Flow and Interest Rate Risk:

- **Variable Interest Rate Risk**: The fund faces cash flow risk from interest rate fluctuations, which could affect returns on variable-rate instruments.
- **Fixed Interest Rate Risk**: The fund also faces fair value risk due to interest rate changes that can impact the valuation of fixed-rate investments.

Liquidity Risk:

- The fund may face liquidity challenges due to limited market depth or underdeveloped markets. However, it mitigates this risk by investing in listed securities and those soon to be listed on NEPSE. The Investment and Risk Management Committee monitors illiquid assets on a fortnightly basis to ensure prompt corrective actions.

Credit Risk:

- Exposure to potential credit risk arises from defaults on debt securities or other receivables. This is managed through continuous monitoring of the fund's credit position on a daily basis by the back office and Scheme Manager.

Operational Risk:

- Risks due to internal process failures, system issues, or external events are controlled through frequent compliance reviews and robust reconciliation systems, ensuring proper checks for all trading activities.

Default Risk:

- The fund faces the risk of securities failing to meet debt obligations (interest and principal). This risk is mitigated by regularly monitoring the credit ratings of issuers and updating investment thresholds based on periodic reviews.

Investor Education for the Month – Systematic Investment Plan (SIP)

- **Definition**: A Systematic Investment Plan (SIP) is a method of investing a fixed amount regularly in mutual funds
- **Affordability**: Investors can start with a small amount, making it accessible to all.
- **Rupee Cost Averaging**: Reduces the impact of market volatility by averaging the purchase cost over time.
- **Compounding Benefits**: Generates long-term wealth through reinvested earnings.
- **Flexibility**: Investors can modify or stop contributions as needed.
- **Financial Discipline**: Encourages regular savings and investment habits.
- **Convenience**: Automated deductions ensure hassle-free investing.

Disclaimer: Investments in mutual funds are subject to market risk. This Report is a proprietary document prepared by Himalayan Capital Limited (HCL)'s Investment Unit. (HCL) does not assume any liability for any financial or other loss resulting from this report in consequence of any undertaking made dependent on this report.

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HIMALAYAN MUTUAL FUND

Himalayan Capital

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