



INSIGHTS INTO NEPAL'S MUTUAL FUND MARKET


Kartik 2081



www.himalayancapital.com 

01-5970675, 5358345, 5363147 

info@himalayancapital.com 

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	Depository 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 5 December 2024, the NEPSE index closed at 2734.93 points, with a weekly turnover of NPR 44.91 billion. Compared to the previous week's final close price and average weekly turnover, the index decreased by 13.12 points (i.e. 0.48%) and a 15.50% increase in average weekly turnover.

The Relative Strength Index (RSI) stands at 59.38, indicating a neutral zone, while the MACD indicator has yet to confirm a positive trend.

Banks have further reduced interest rates for Mangsir 2081, signaling a positive impact for the market

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 3100 level upon a positive breakout. Conversely, if the trend turns negative, the market could decline toward the 2440 level.

Macroeconomic Outlook for Mangsir 2081

The macroeconomic outlook has improved due to regulatory actions, increased remittance inflows, and a positive Balance of Payments, resulting in decreased inflation and interest rates.

The recent NEPSE index surge is due to several factors: lower interest rates improving borrowing conditions, the appointment of Mr. Bishnu Prasad Paudel as Finance Minister boosting market confidence, and Nepal Rastra Bank's rate cuts in FY 2081/82 aimed at stimulating economic activity. These combined factors have driven the NEPSE index upward.

The NRB has lowered the policy rates and introduced a range of rate cut measures, particularly benefiting the banking, financial institutions (BFI), and construction sectors.

Additionally, the NRB's decision to lift the NPR 20 crore cap on margin lending for institutional investors is expected to further inject capital into the market.

On 10 Mangsir 2081, Santosh Kumar Shrestha was appointed as the new Chairman of SEBON, filling the crucial position that had been vacant for 11 months. This prolonged leadership gap had stalled the approval of numerous IPOs. With the new chairman in place, the market is poised to witness a significant uptick in IPO issuances soon.

The new chairperson of SEBON, Mr. Santosh Kumar Shrestha holding a BBA and MBA from Kathmandu University, is a seasoned leader with over two decades of experience in finance, manufacturing, and education, contributing significantly to Nepal's development.





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

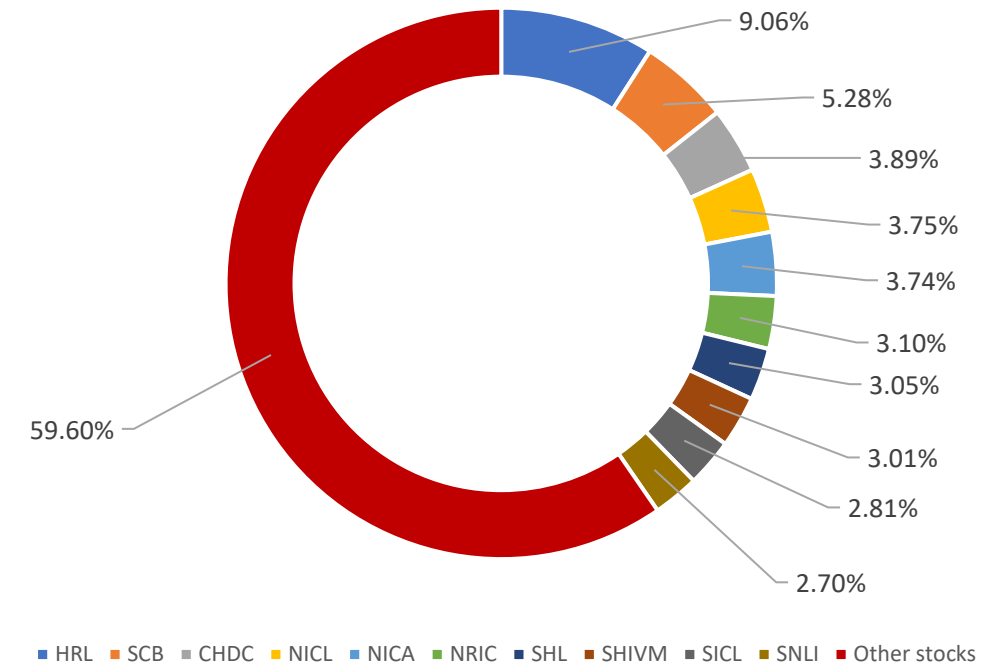
Allotment Date	13-Sep-23
Maturity Date	01-Oct-33
AUM as of Ashwin end, 2081 in NPR	1,214,131,739.43
Scheme Type	Close Ended
Scheme Objective	Growth Oriented
Benchmark	NEPSE
Fund Management Fee	1.50% of NAV
DP Fee	0.20% of NAV
Fund Supervisor Fee	0.20% of NAV or NPR 100,000 per month whichever is lower
Fund Manager	Himalayan Capital Limited
H8020 Returns since FY 2080/81 End	16.04%
NEPSE returns since the same date	22.69%
Adjusted Fund Beta Since Inception (Monthly)	0.71
Fund Standard Deviation Since Inception (Monthly)	1.01
Average Monthly Fund Return Since Inception	1.96%

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 80-20

Top 10 Equity Holdings as of Kartik End, 2081

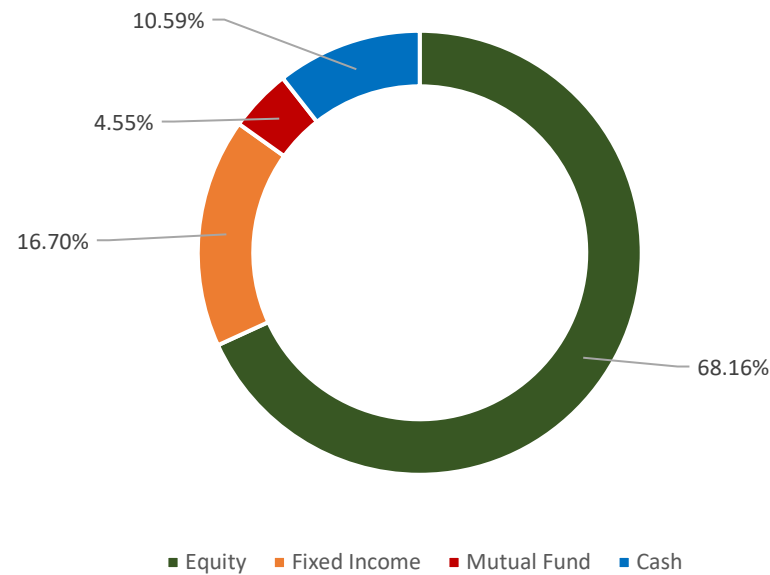


Asset Allocation of Himalayan 80-20

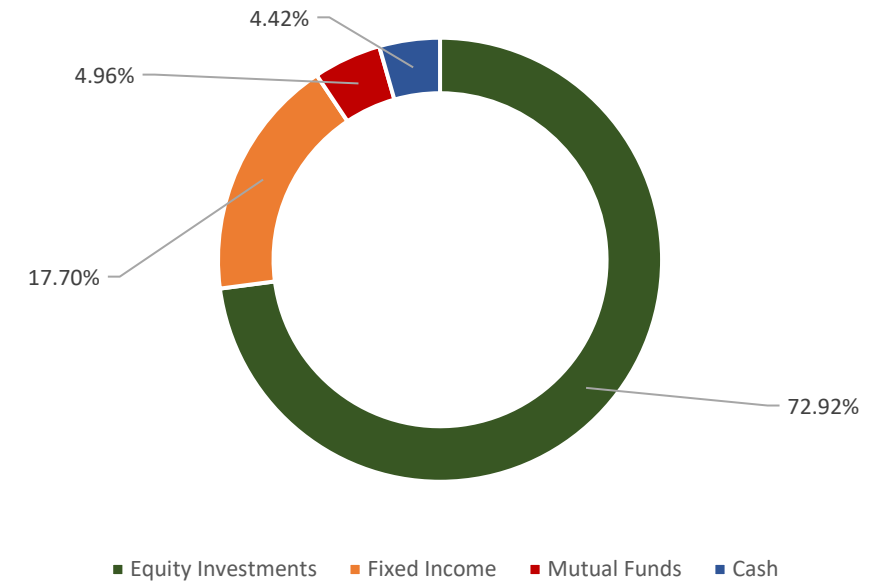
Our asset allocation in H8020 reflects adjustments made between Ashwin 2081 and Kartik 2081 to align with evolving market dynamics. Equity allocation has increased from 68.16% to 72.92%, while cash holdings have dropped from 10.59% to 4.22%.

These changes reflect our expectation of a post-festival rally in the NEPSE index, supported by low interest rates and improving market sentiment. By increasing equity exposure, we are positioning the fund to capitalize on anticipated positive market momentum while maintaining a balanced approach.

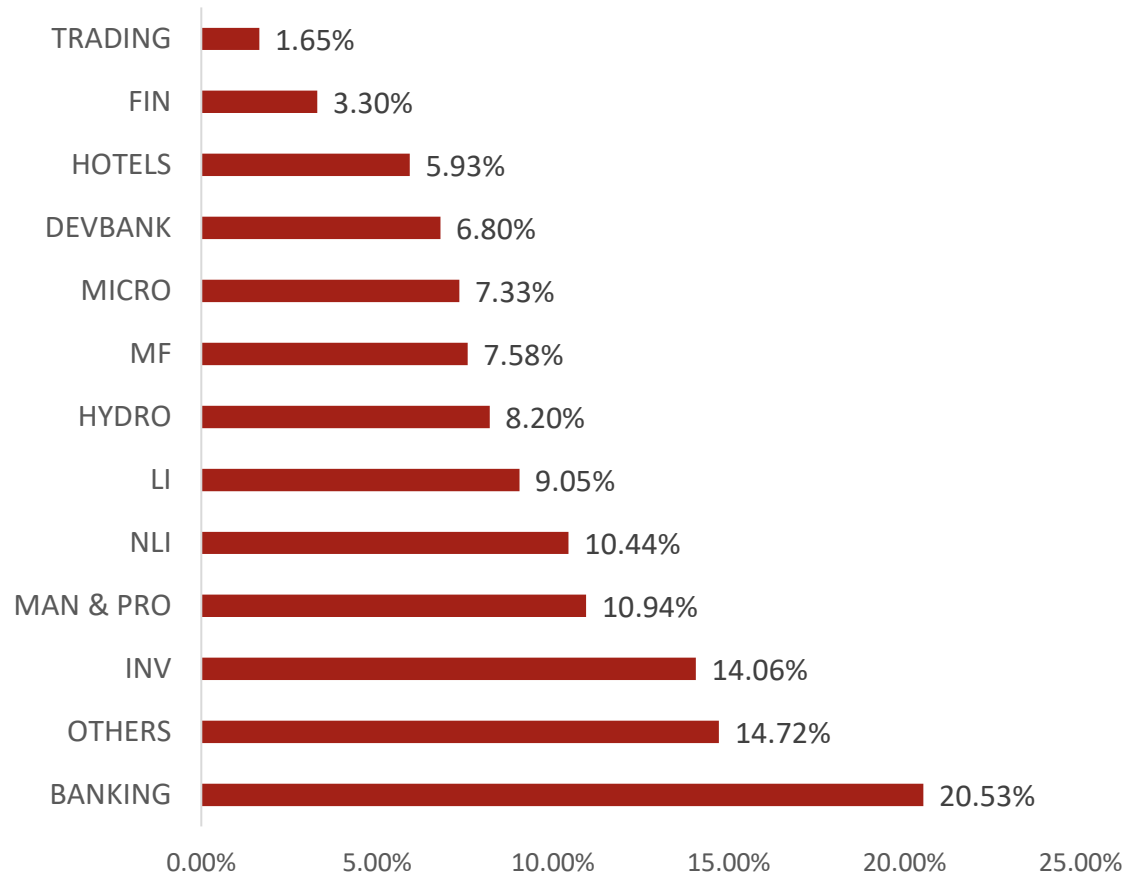
Ashwin End, 2081



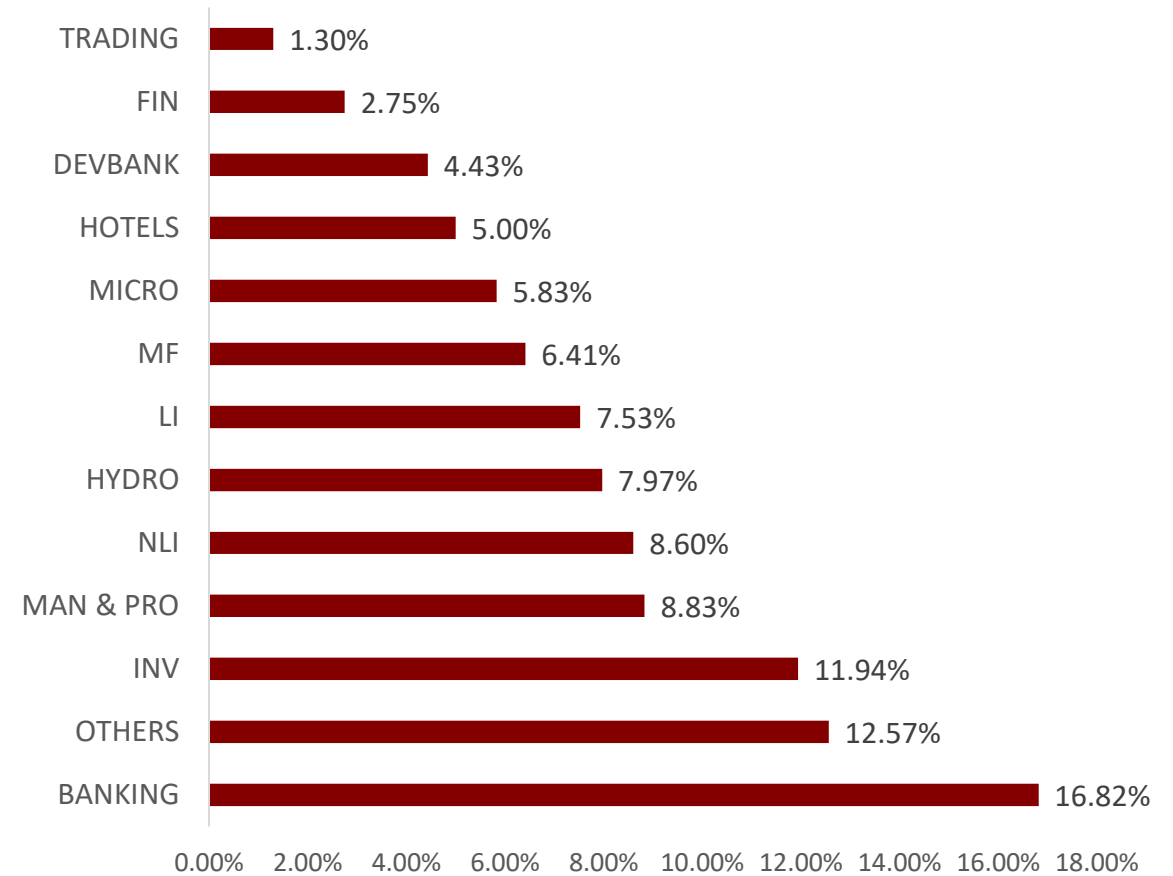
Kartik End, 2081



Sector Allocation of Himalayan 80-20

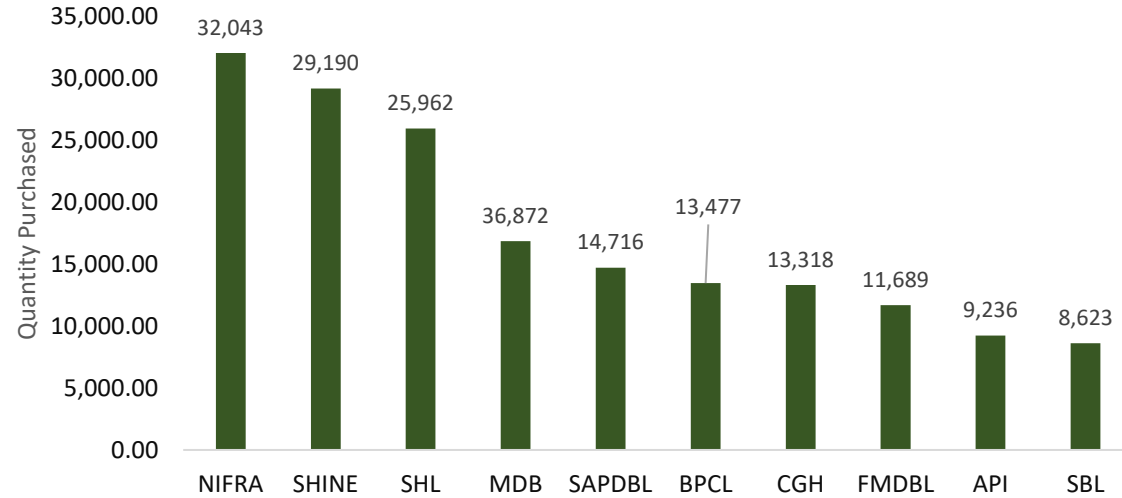


Ashwin 2081

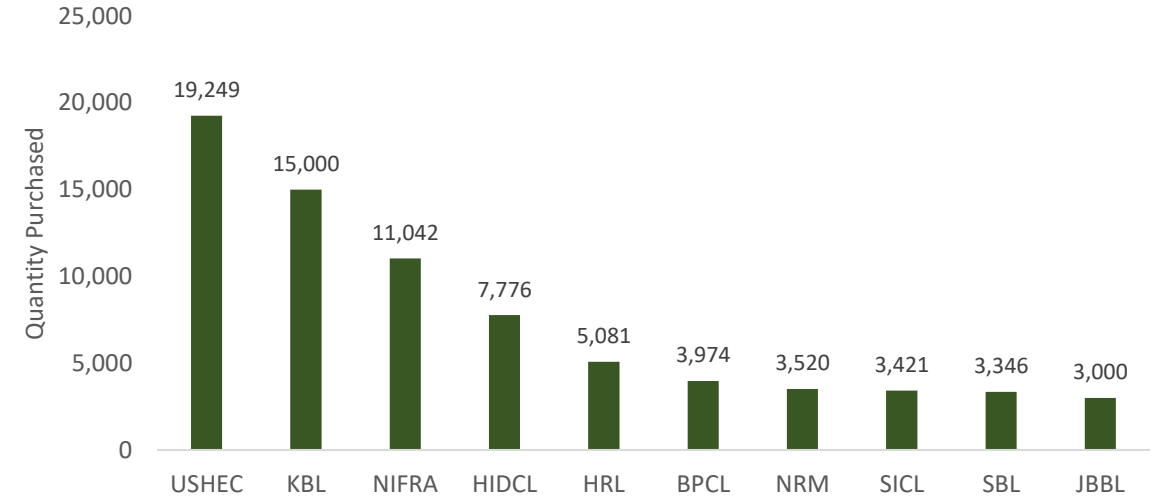


Kartik 2081

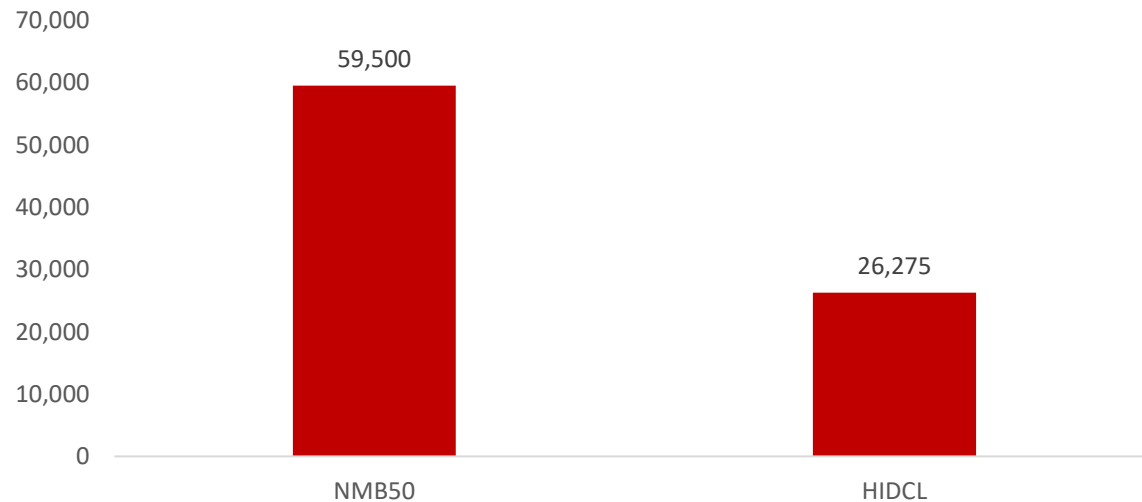
Top 10 Equity Purchases of H8020 (Ashwin 2081)



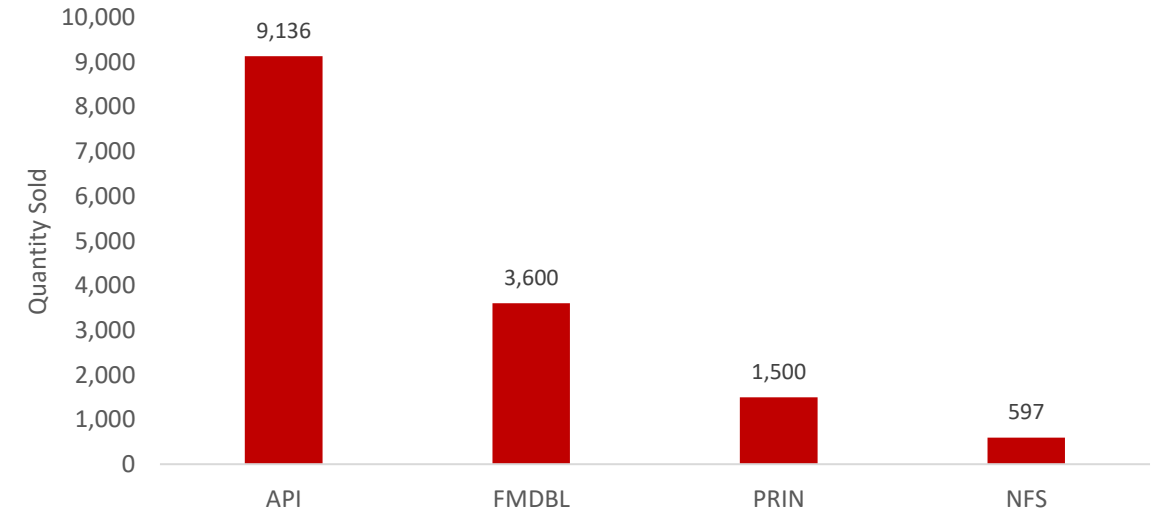
Top 10 Equity Purchases of H8020 (Kartik 2081)



Top 10 Equity Sales of H8020 (Ashwin 2081)



Top 10 Equity Sales of H8020 (Kartik 2081)



Note - As part of our strategy, we have focused on making more purchases than sales over the past two months, as reflected in the charts above.

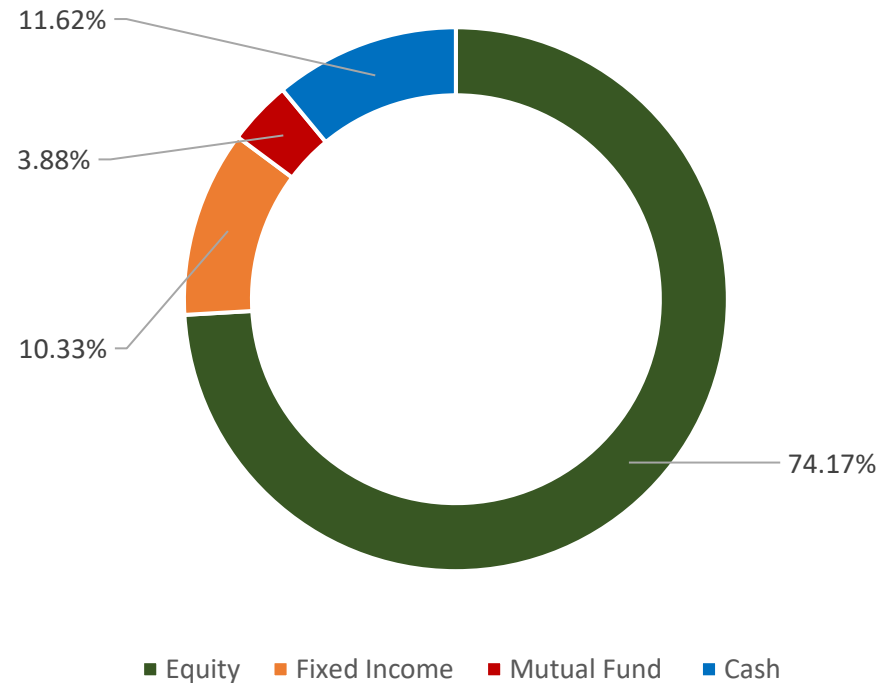
NEPALESE MUTUAL FUND INDUSTRY

Currently, there are 43 active mutual funds, including 36 close-ended and 7 open-ended funds, managed by 13 different fund managers. Additionally, Muktinath Capital Limited is preparing to launch its first mutual fund, Muktinath Mutual Fund 1 – a close-ended fund, on 20th Mangsir 2081.

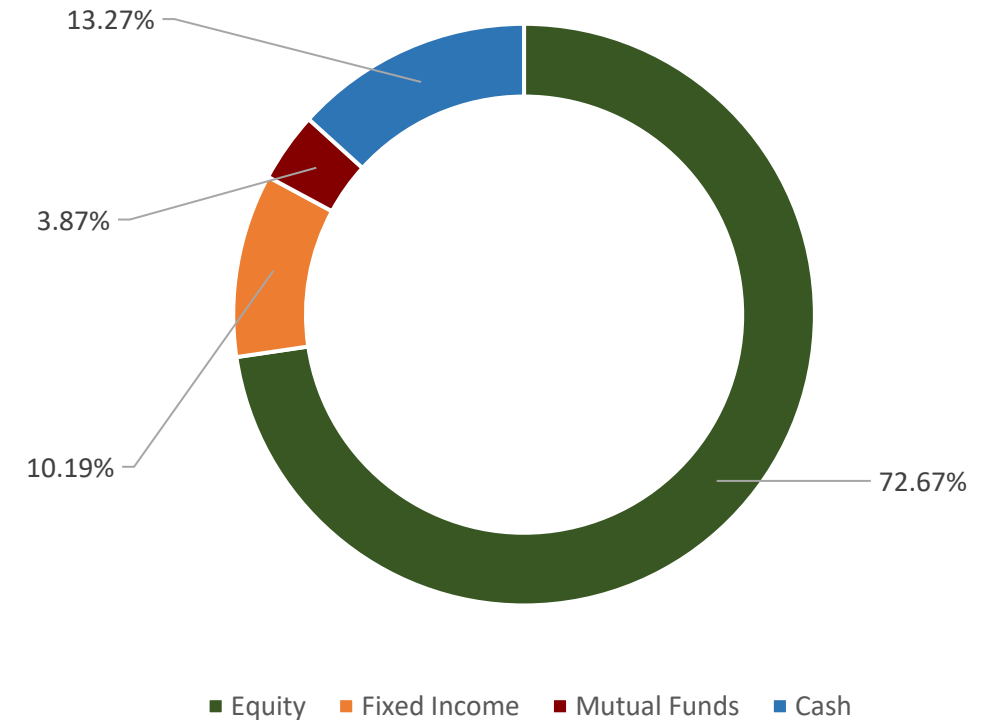


The Assets Under Management (AUM) in Nepal's mutual fund industry declined by 2.68% at the end of Kartik 2081, dropping to NPR 55.30 billion from NPR 56.82 billion at the end of Ashwin 2081. This decline reflects a profit-taking strategy across mutual funds, as evidenced by a reduction in equity exposure from 74.17% to 72.67%, alongside an increase in cash holdings from 11.62% to 13.27%.

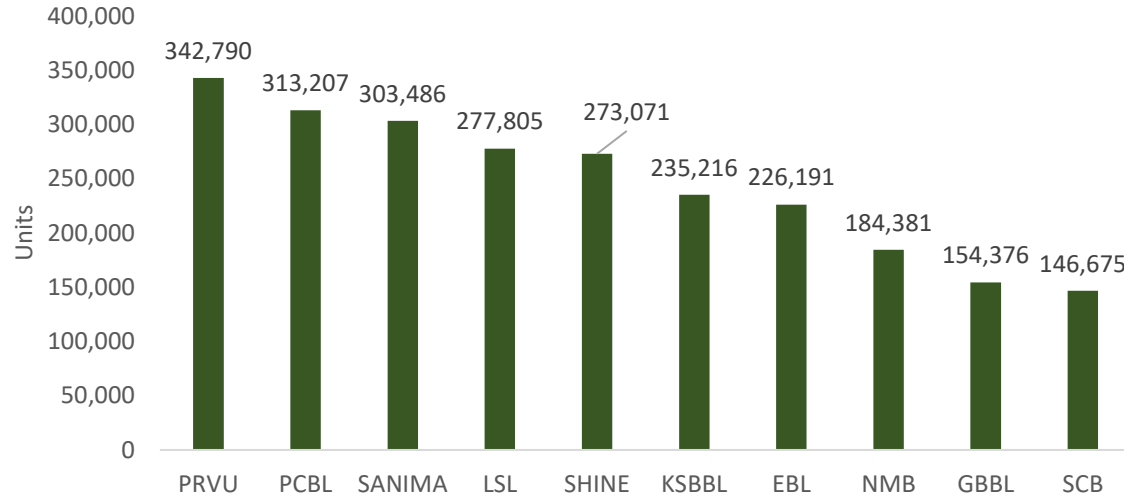
Ashwin End, 2081



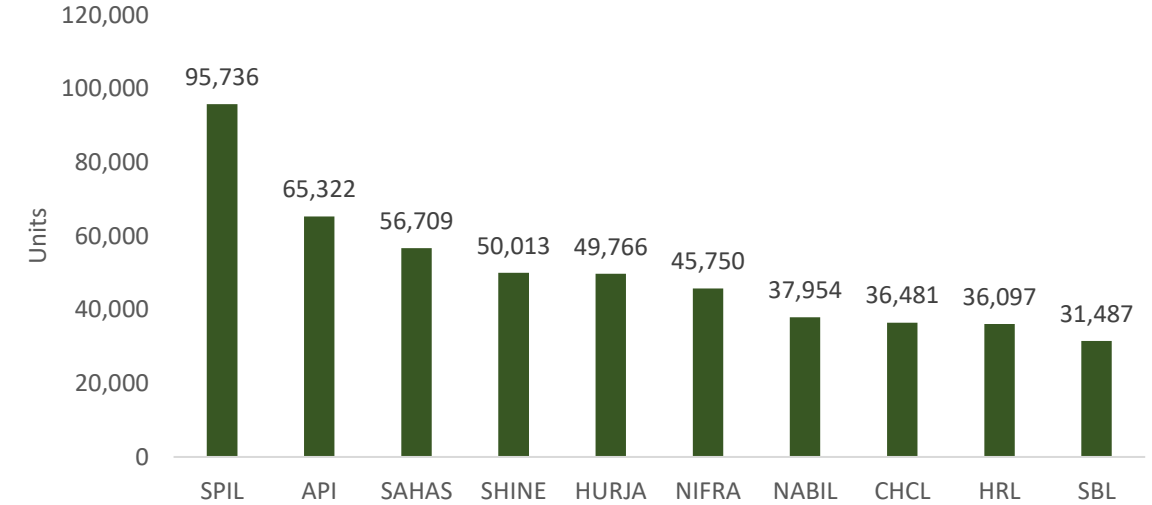
Kartik End, 2081



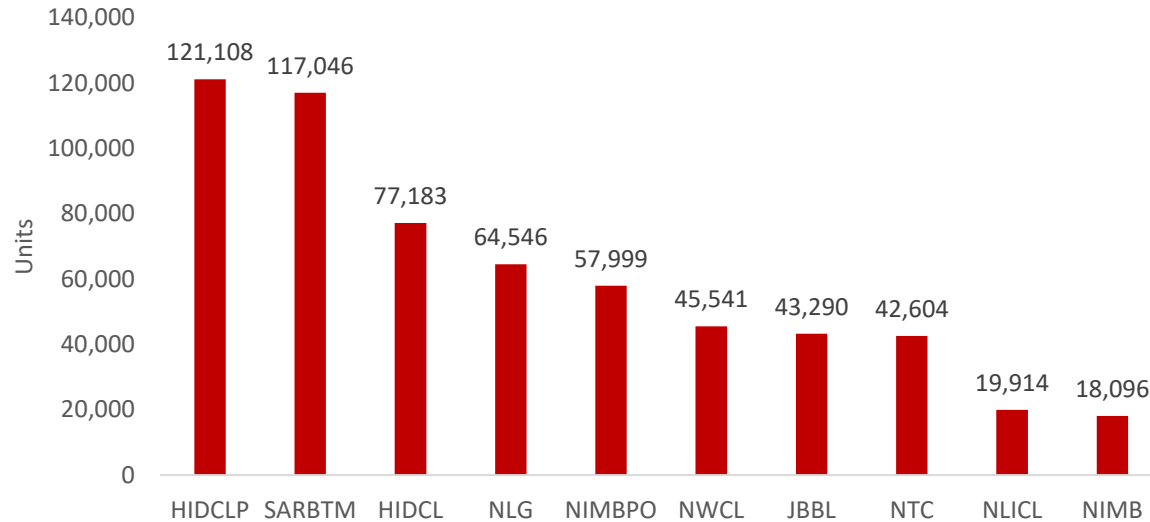
Top 10 Equity Purchases of Mutual Funds (Ashwin 2081)



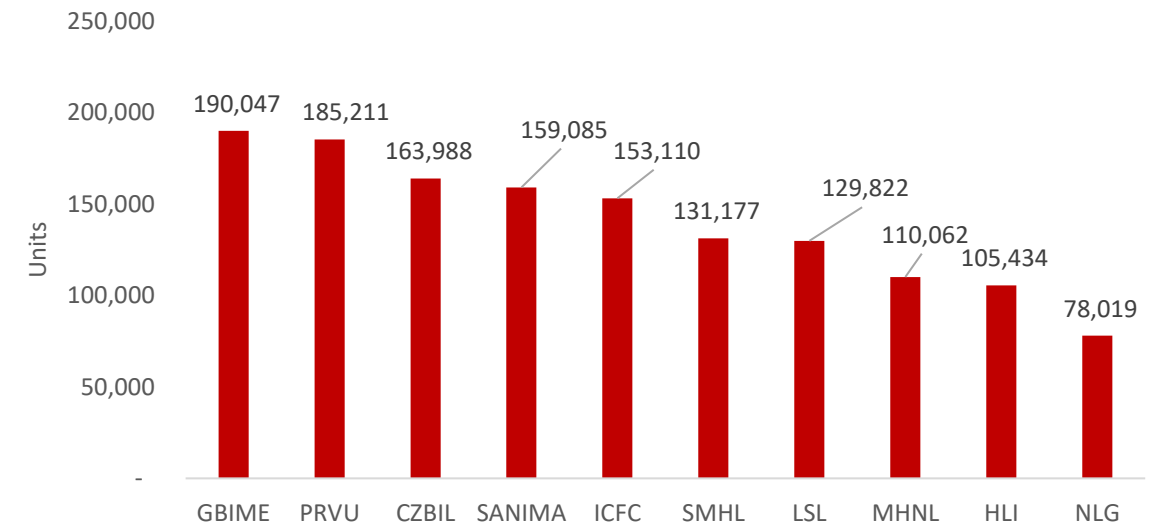
Top 10 Equity Purchases of Mutual Funds (Kartik 2081)



Top 10 Equity Sales of Mutual Funds (Ashwin 2081)

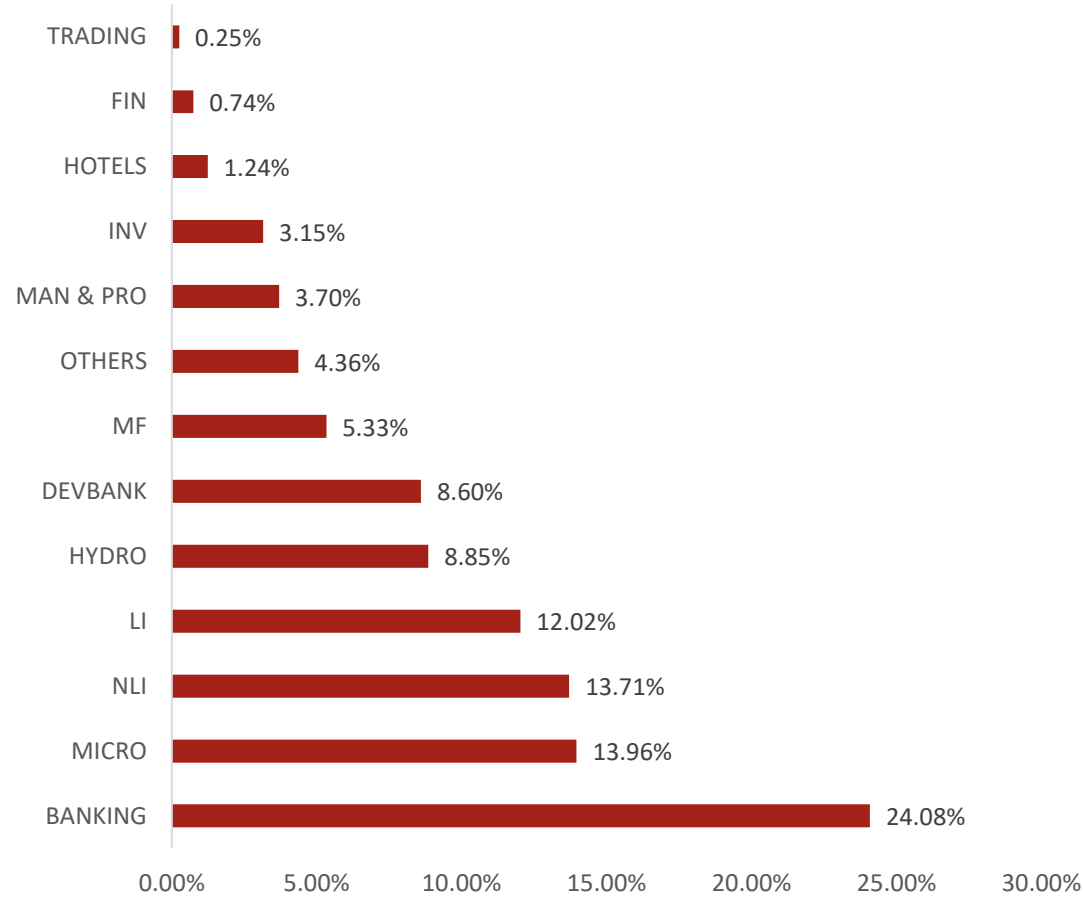


Top 10 Equity Sales of Mutual Funds (Kartik 2081)

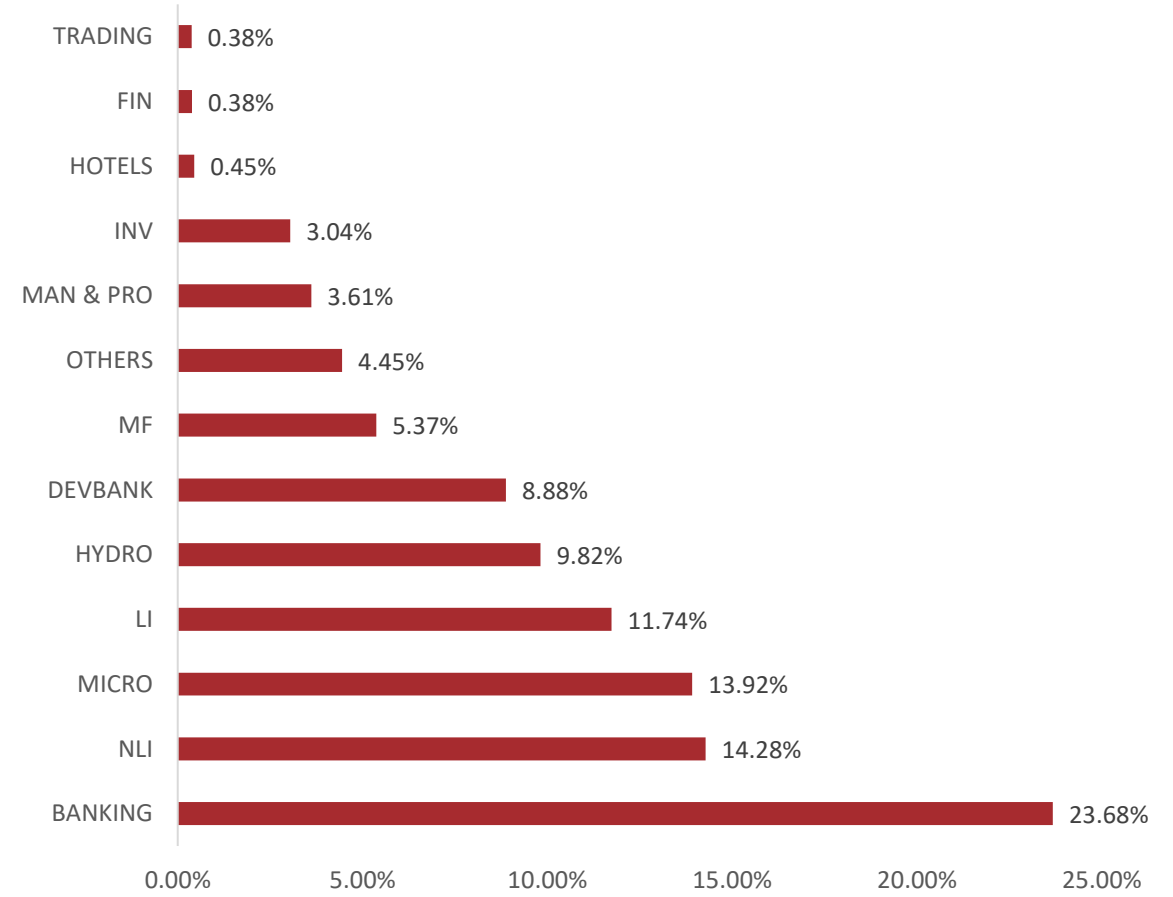


Note: Mutual funds are excluded from both purchase and sale transactions..

Sector Allocation of Mutual Fund Industry (Ashwin 2081 and Kartik 2081)

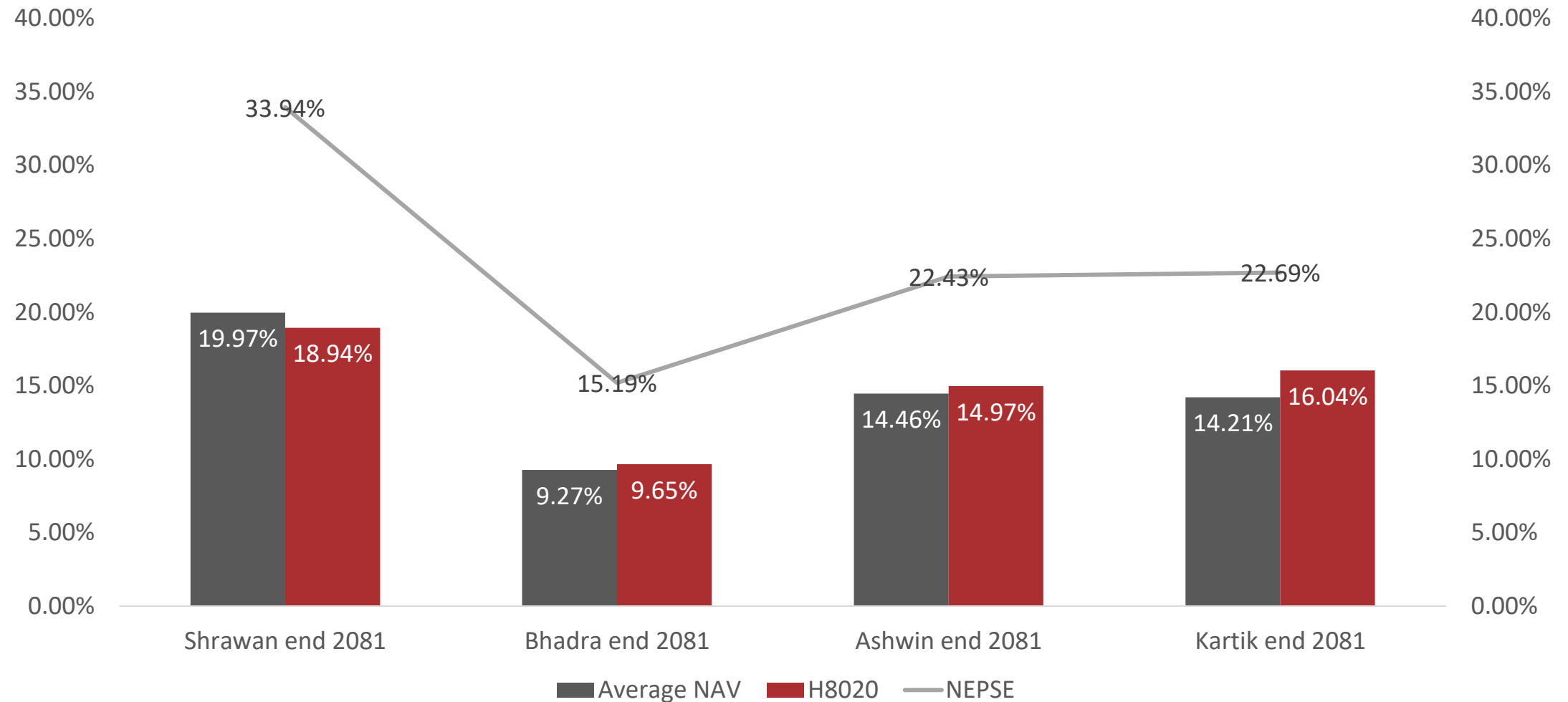


Ashwin 2081



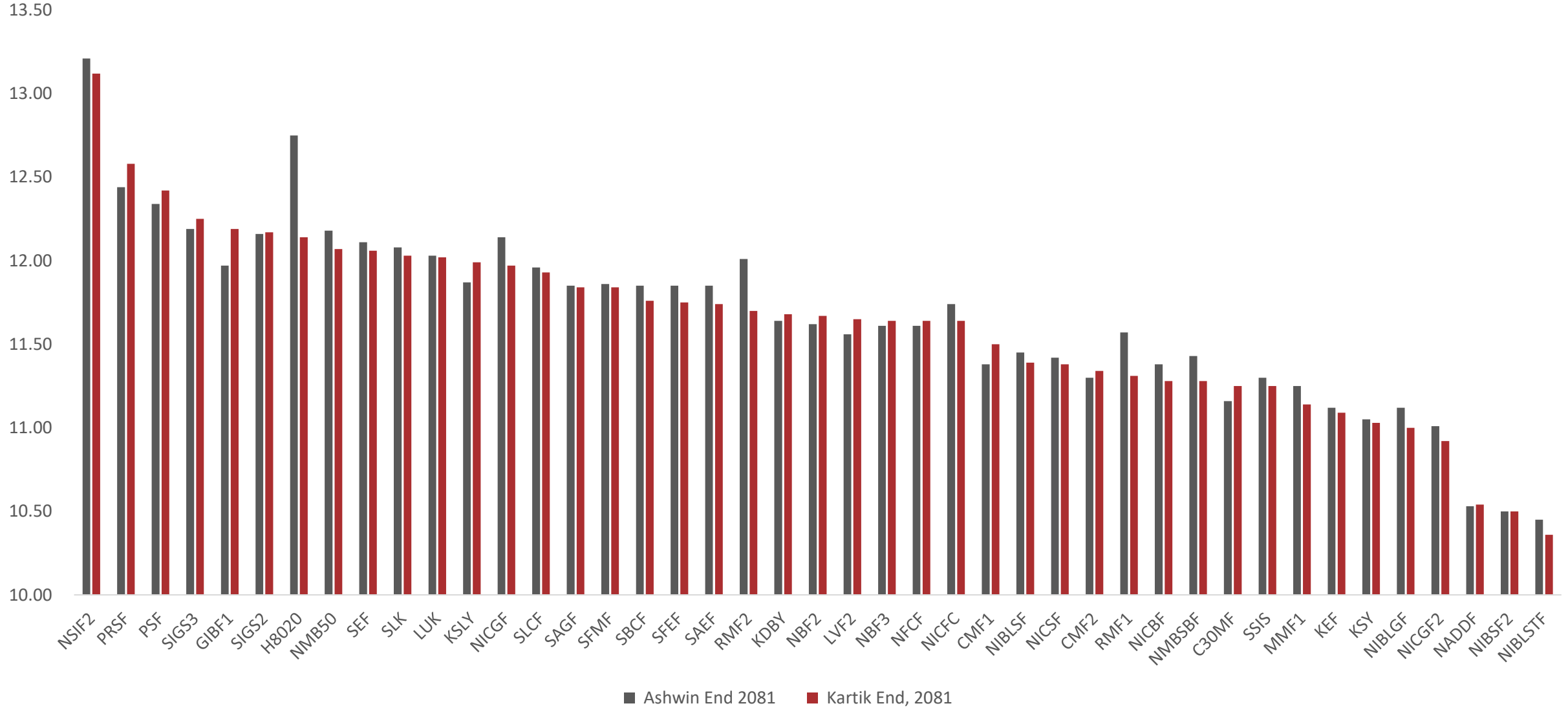
Kartik 2081

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



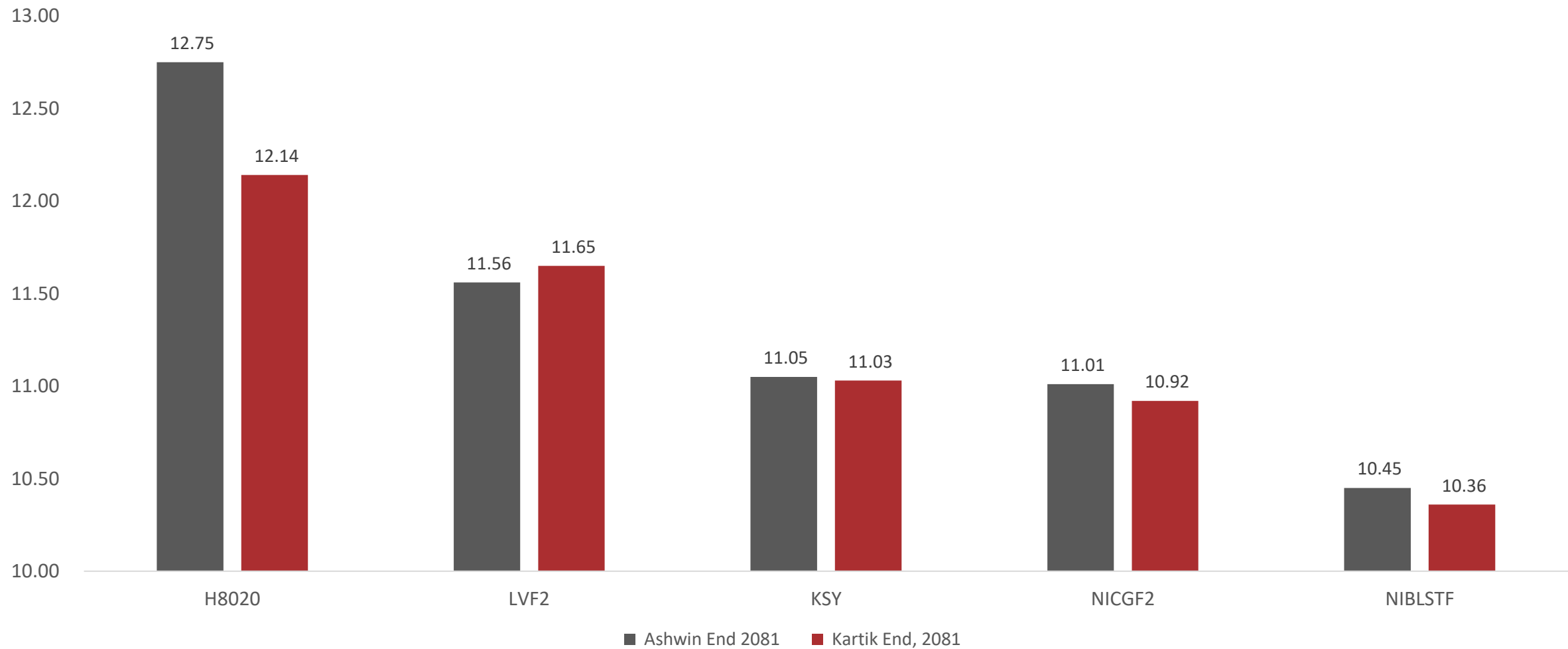
Note: NAV of all the mutual funds have been adjusted for cash dividend
For instance, if the dividend book close were in mid-Bhadra 2081, the previous NAV for Asar 2081 and Shrawan 2081 would be adjusted based on this formula,
NAV for the previous months / (1 + Cash dividend %)

Month on Month NAV Comparison



The above chart does not account for cash dividend adjustments. H8020 distributed a 6% cash dividend in Kartik 2081.

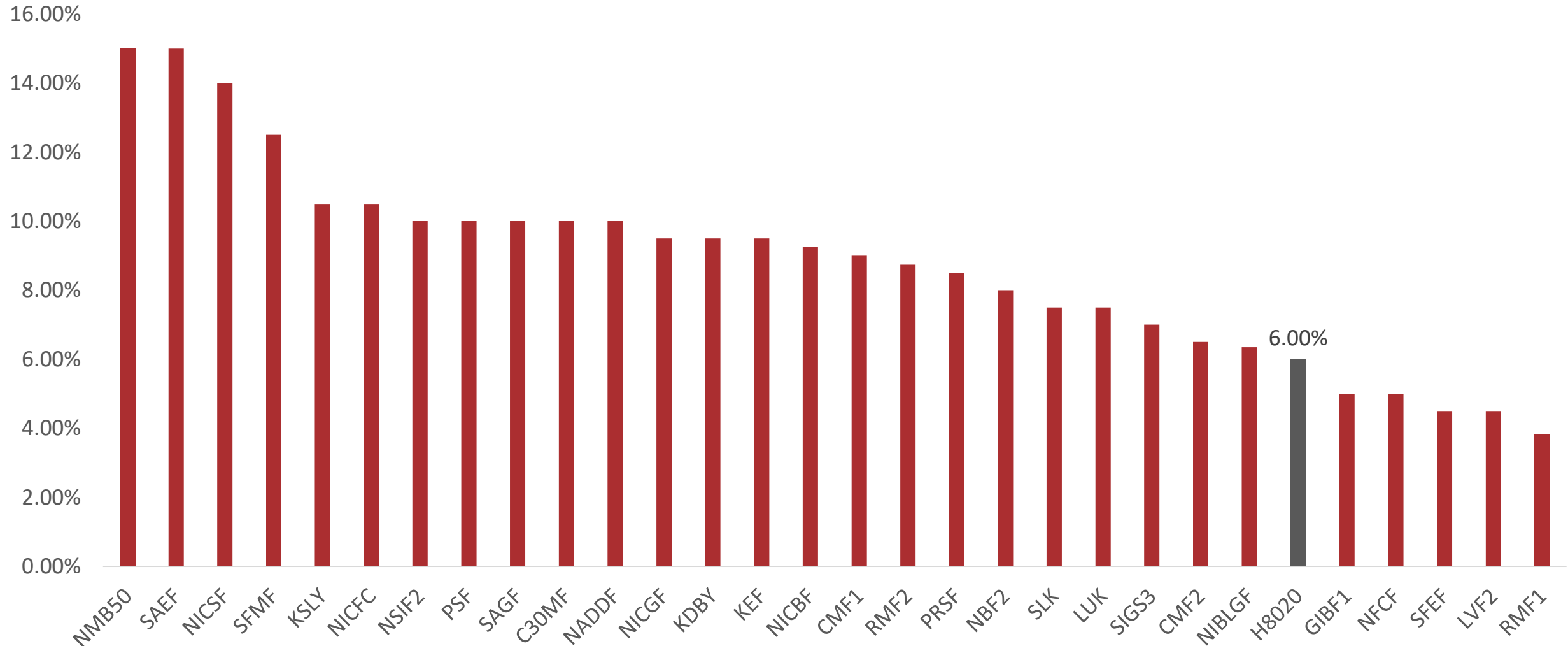
NAV of mutual funds as of the end of Kartik end 2081 for funds that had their NFO in FY 2080/81



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. Following the distribution of a 6% cash dividend, the NAV was adjusted downward to reflect the payout.

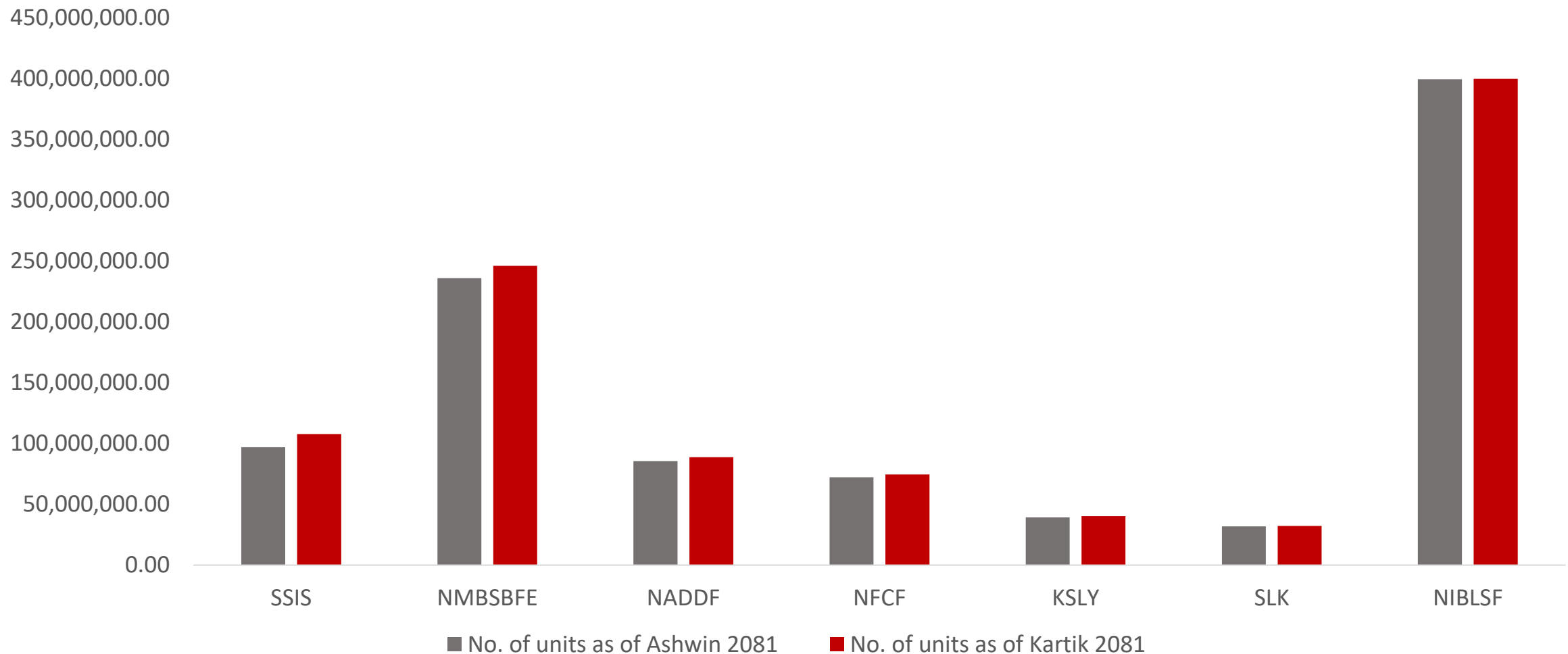
Cash Dividend Declarations for FY 2080/81

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 28,523,017 units as of Kartik end 2081. This represents a monthly increase of 3.83%.



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	Total Return	XIRR
NFCF	12/5/2022	24,000.00	25,106.26	29,017.14	20.90%	15.93%
SSIS	7/23/2021	40,000.00	40,000.00	49,710.88	24.28%	13.24%
KSLY	4/13/2023	20,000.00	21,655.89	23,802.96	19.01%	13.05%
NMBSBFE	9/23/2021	35,000.00	35,000.00	41,939.47	19.83%	12.42%
NIBLSF	7/10/2019	64,000.00	80,957.71	83,169.86	29.95%	1.03%
NADDF	2/4/2021	46,000.00	55,301.03	54,912.07	19.37%	-0.40%

Open Ended Funds

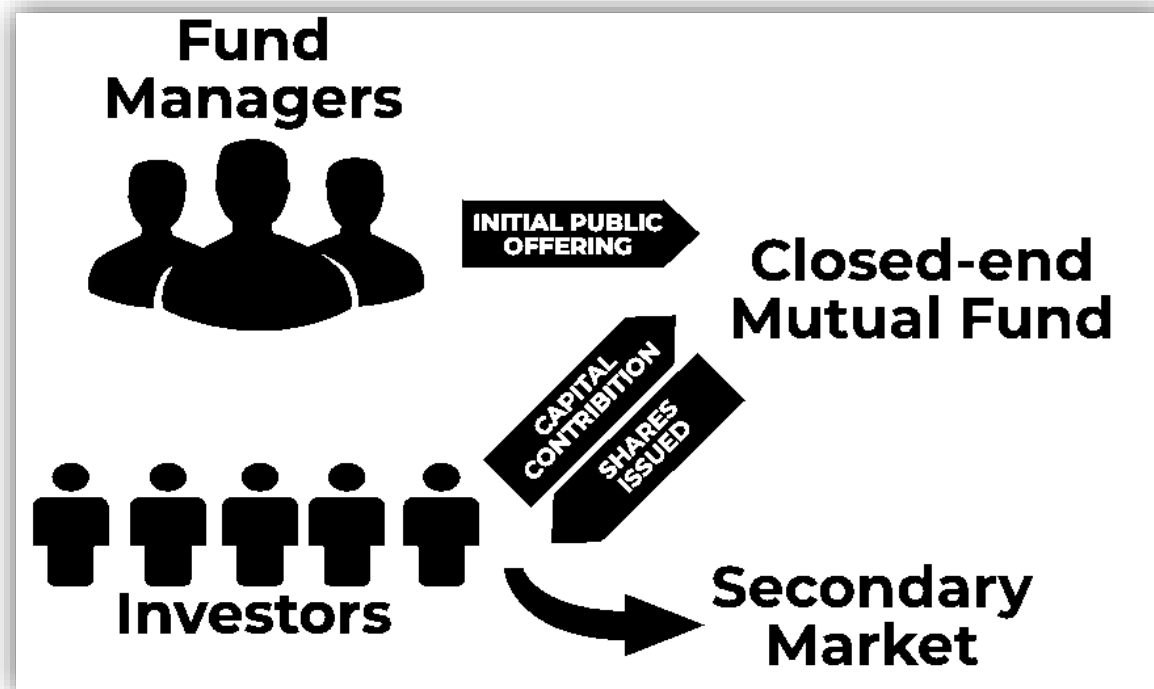


When the total investment is lower than the current value, including reinvested dividends, the XIRR for dividend-paying funds can appear negative or minimal. This occurs because reinvested dividends increase the capital base, but if NAV growth is weak or market conditions are unfavorable, the XIRR may 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.

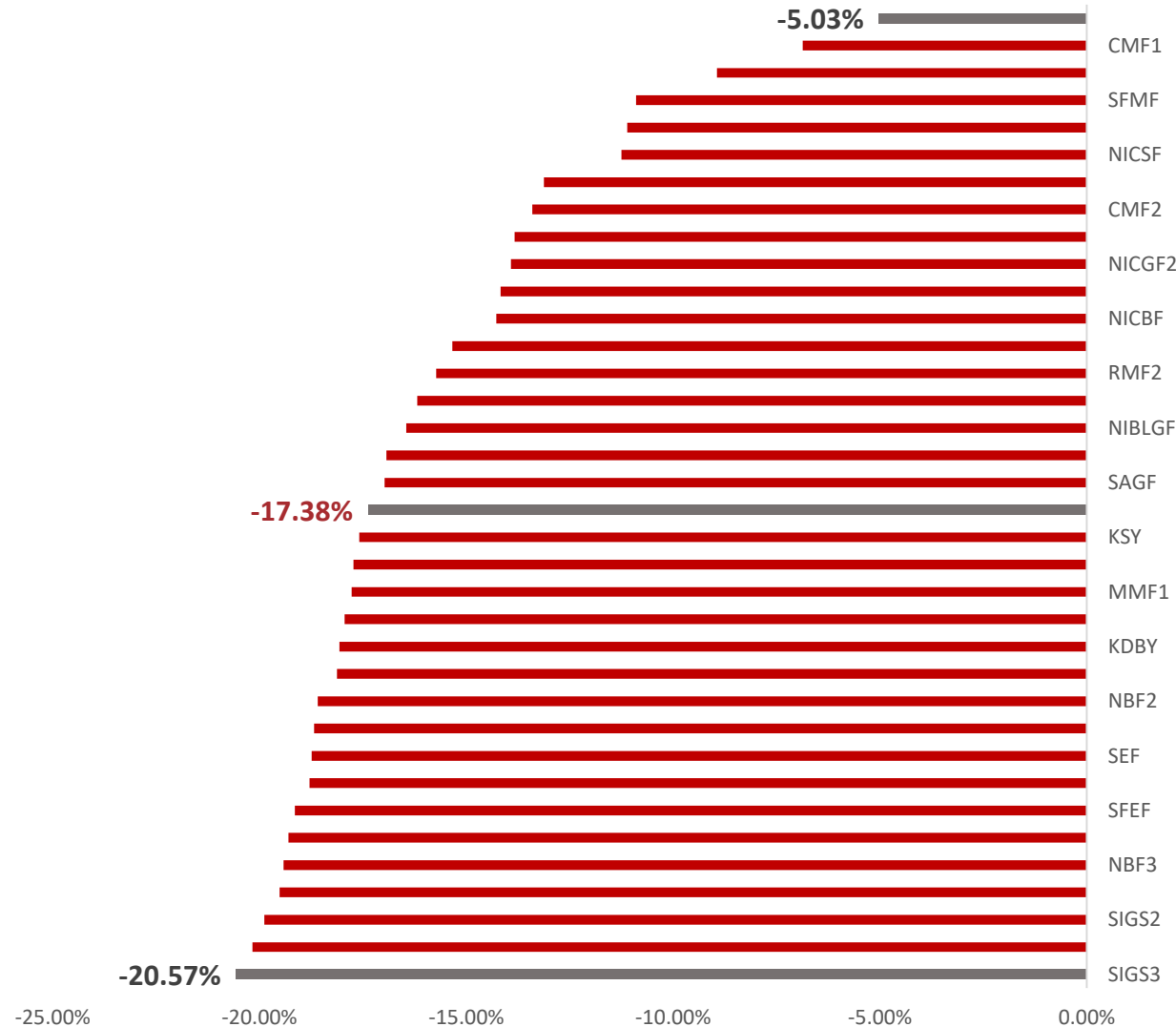
Note: SLK has been excluded from the list due to the unavailability of historical daily NAV data

Close Ended Mutual Funds

Script	3 Month Average NAV	Kartik End, 2081	Deviation
NSIF2	13.28	13.12	-1.20%
PRSF	12.61	12.58	-0.24%
PSF	12.53	12.42	-0.88%
NMB50	12.41	12.07	-2.74%
H8020	12.35	12.14	-1.70%
SIGS3	12.05	12.25	1.66%
GIBF1	12.04	12.19	1.25%
SIGS2	12.00	12.17	1.42%
SEF	11.92	12.06	1.17%
NICGF	11.87	11.97	0.84%
LUK	11.83	12.02	1.61%
SLCF	11.79	11.93	1.19%
NBF2	11.72	11.67	-0.43%
SAEF	11.71	11.74	0.26%
RMF2	11.69	11.70	0.09%
SAGF	11.69	11.84	1.28%
SFMF	11.66	11.84	1.54%
SFEF	11.63	11.75	1.03%
SBCF	11.61	11.76	1.29%
CMF1	11.60	11.50	-0.86%
NICFC	11.52	11.64	1.04%
KDBY	11.51	11.68	1.48%
NBF3	11.41	11.64	2.02%
LVF2	11.40	11.65	2.19%
C30MF	11.40	11.25	-1.32%
CMF2	11.36	11.34	-0.18%
RMF1	11.30	11.31	0.09%
NICSF	11.26	11.38	1.07%
NICBF	11.18	11.28	0.89%
NIBLGF	11.14	11.00	-1.26%
SSIS	11.13	11.25	1.08%
MMF1	11.02	11.14	1.09%
KEF	10.95	11.09	1.28%
KSY	10.93	11.03	0.91%
NICGF2	10.85	10.92	0.65%
NIBSF2	10.37	10.50	1.25%
NIBLSTF	10.26	10.36	0.97%



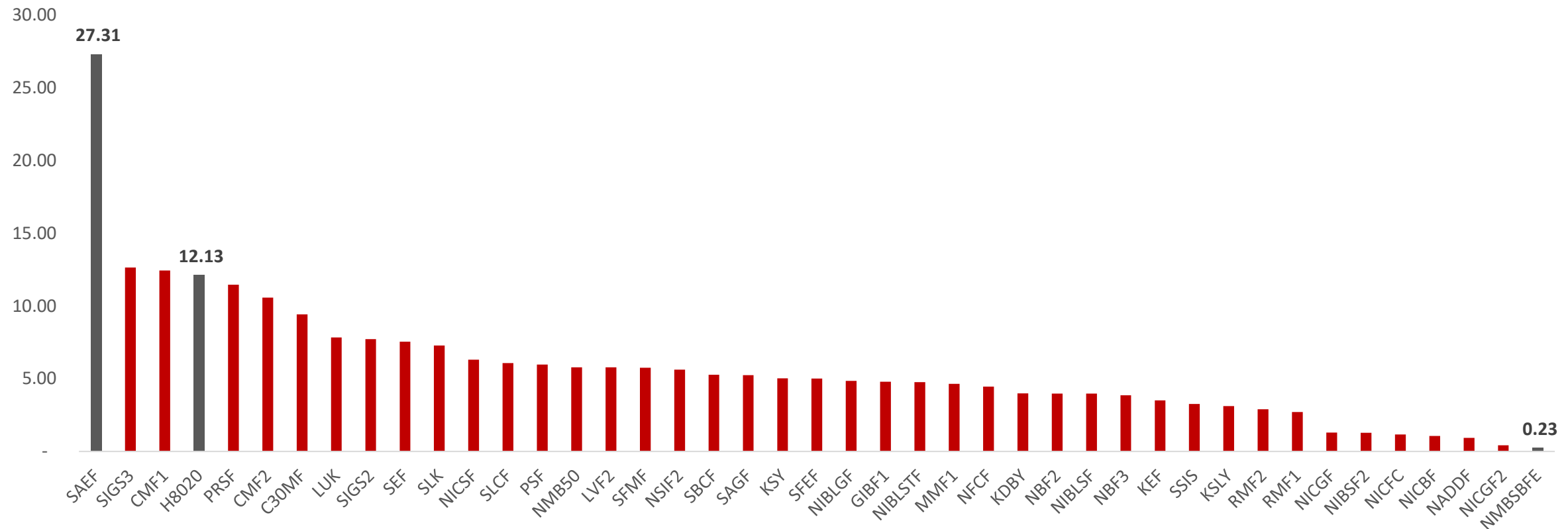
Closed-End Mutual Funds: Discount Analysis Based on NAV and Price as of Kartik End, 2081



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.

DISCOUNT

Dividend Capacity of Mutual Funds (4 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.*
- *NMBSBFE, an open-ended fund managed by NMB Capital, is focusing on long-term value investing with its stock selections and currently holds unrealized gains of NPR 34.14 crores.*
- *SAEF and CMF1 are nearing maturity, with SAEF due in one month and CMF1 in four months. 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 Kartik 2081

Company Name	Graham Fair Value as of Q1 2081/82	BVPS as of Q1 2081/82	Market Price as of Ashwin end, 2081	Our rationales
SPIL	238.70	277.67	882.10	The company's net premium grew by 1.39% year-on-year (YoY) in the first quarter of FY 81/82, while reserves and surplus rose by 10.09% YoY. Despite a 20% price drop in October 2024, driven by investor expectations of significant insurance claim payouts following recent flood damages that occurred that month, the stock has stabilized, consolidating over the past two months. With premium collections reaching NPR 360 million till Q1 2081/82—the second highest among non-life insurers—the company showcases resilience and a robust market position.
API	178.42	112.65	297.00	The company's reserves and surplus surged by an impressive 427.33%, accompanied by an 81.65% growth in electricity income. Its Annual General Meeting (AGM) approved strategic investments in a 49 MW hydropower project and an apartment construction venture, showcasing its focus on investment diversification. Following a 35% correction from its Shrawan-end highs, API emerged as one of the most purchased stocks in Ashwin, reflecting strong investor confidence in its growth potential.
SAHAS	436.03	184.74	485.20	As per its FY 2081/82 Q1 report, the company achieved a year-on-year net profit growth of 16.07% and secured a BBB- rating in its latest ICRA assessment. While the rating suggests moderate risk in the broader stock market, it is viewed as strong within Nepal's hydropower sector. After a 38% correction from its recent peak, SAHAS has attracted interest from mutual funds, likely seeing the dip as an appealing entry point due to its solid fundamentals and the promising outlook for the hydropower industry.
SHINE	262.19	151.03	502.20	As per its Q1 FY 2081/82 report, the company recorded a year-on-year growth of 17.14% in reserves and surplus, a 28.84% increase in net interest income, and a 24.89% rise in net profit by the end of Ashwin. Fundamentally strong, the stock appears to be in an accumulation phase. The revised NRB provisions for NPLs, including reduced provisioning requirements for "pass" loans, are expected to boost profitability across the development banking sector. The significant price gains seen even in weaker development banks highlight growing investor optimism, positioning SHINE as a promising opportunity in the current market environment.
HURJA	230.86	92.86	228.10	As per its FY 2081/82 Q1 report, the company demonstrated a remarkable year-on-year performance, with a 298.52% surge in net profit and a 44.24% increase in electricity sales. Despite the stock price staying below the 180-day average of 257.75 in both Kartik and Ashwin, the strong growth has caught the attention of mutual funds, which have been actively accumulating shares since Ashwin. This trend signals robust investor confidence.

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

Company	Graham Fair Value as of Q1 2081/82	BVPS as of Q1 2081/82	Market Price as of Ashwin end, 2081	Our rationales
GBIME	256.15	174.20	249.40	Since Jestha 2081, mutual funds have offloaded approximately 649,000 units. This trend may be attributed to GBIME's underutilization of its larger capital base, leading to comparatively weaker performance. In contrast, banks with smaller capital bases have shown better efficiency, prompting mutual funds to reduce their holdings in GBIME.
PRVU	252.23	159.93	265.50	PRVU was among the top five acquisitions by mutual funds in Ashwin 2081, driven by expectations of strong Q1 2081/82 financial results. Monetary policy changes for FY 2081/82, such as rate cuts and potential NPL reclassification, enhanced its appeal to investors. Additionally, prior impairment charges and anticipated profitability in Q1 2081/82 made PRVU an attractive opportunity for mutual funds aiming to capitalize on these favorable developments. However, following the release of the financial results, mutual funds appear to have gradually reduced their exposure.
CZBIL	138.87	153.62	258.10	CZBIL experienced a sharp decline in performance, with its net profit plunging by 50.75% and operating profit dropping by 50.17% year-over-year, primarily due to elevated impairment charges. This disappointing financial outcome likely prompted mutual funds to offload their holdings in the company.
SANIMA	203.88	156.96	347.70	SANIMA reported substantial declines in the first quarter, with Net Interest Income falling by 13.26%, Operating Profit by 20.80%, and Net Profit by 17.27% year-over-year. Notably, mutual funds hold the highest exposure to SANIMA among commercial banks. Given these underwhelming financial results, it is likely that mutual funds have reduced some of their holdings in response.
ICFC	297.49	169.18	787.90	Mutual funds may have engaged in profit booking following the company's strong financial performance for FY 2081/82..

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 – Exit Load Fees

- **Definition:** An exit load fee is a charge imposed on open-end mutual funds when an investor redeems or sells their units within a certain period after purchase.
- **Purpose:** The fee discourages early withdrawals and covers costs incurred by the fund from selling investments.
- **Variation:** The fee amount depends on the fund manager's guidelines and the investment holding period.
- **Nepal Context:** Most fund managers in Nepal waive exit fees after 1 - 2 years.





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.

Himalayan Capital Limited

IT Plaza, Kamaladi, Kathmandu

Contact: 01-5970675, 5358345, 5363147

www.himalayancapital.com

info@himalayancapital.com