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Pakistan's Mutual Funds: An Empirical Analysis

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Abstract

This study explores the increasing popularity of mutual funds as investment vehicles, emphasizing their role in portfolio diversification and risk management. Mutual funds pool capital from multiple investors to invest in a mix of stocks, bonds, and other securities, offering advantages such as professional management, liquidity, and accessibility. However, the risk and return potential of mutual funds vary significantly, ranging from conservative bond funds to high-growth equity funds. Understanding key investment principles—risk tolerance, time horizon, and financial objectives—is essential for selecting appropriate funds. Risk tolerance influences investment choices, as conservative investors may prefer lower-risk bond funds, while those seeking higher returns may opt for equity funds. The time horizon also plays a crucial role, with long-term investors potentially benefiting from equity funds, whereas short-term investors may favor money market funds. Furthermore, aligning investment objectives—such as capital appreciation, income generation, or wealth preservation—with the right mutual fund strategy enhances financial outcomes. This study highlights the necessity of informed decision-making in mutual fund investments by equipping investors with essential knowledge to assess different fund types and their suitability. The findings provide valuable insights for both novice and experienced investors, reinforcing the importance of a strategic approach to financial planning. By understanding fundamental investment principles and risk-return trade-offs, investors can navigate the mutual fund landscape more effectively and optimize their portfolio for long-term financial growth. The study contributes to the broader discourse on investment strategies, risk management, and financial literacy in contemporary investment practices.

Keywords: Mutual Fund, Return, Liquidity, Quality of Assets

JEL Codes: G12, G33

1. INTRODUCTION

A mutual fund is a well-being pool that can serve as the name sponsor for a professional money manager. The management invests the funds in stocks, bonds, and other assets, allowing certain investment objects to continue to be recognized for the stock. You can receive any units or shares to indicate the balance of the group's share of fund assets with the reappearance of the housing fund money. With the return of basic portfolio management and oversight, the fund manager must guarantee that the costs charged to the fund are determined by the benefits (Bogle, 1999; Mehmood et al., 2013; Siddiqi et al., 2014). Mutual funds are open-ended funds with the significance of giving money to new stockholders at any moment and present investors returning their portions or shares of stock for recovery at any time. When you sell your mutual fund units or shares, you will get a check based on the current market value of the fund's portfolio (Russell, 2007). Investment funds are typically called by the investments they make.

Some sources include a collaboration of equities, bonds, foreign currency market instruments, or other securities (Geltner et al., 2001). Special investment funds are largely sponsored in Canada, although some are financed worldwide and in specialized nations or sectors. Certain mutual funds solely invest in low-risk securities, but others invest in significantly riskier securities (Alessie et al., 2004). If you decide to have a common base of shareholders, one of the most significant considerations is to take into account funds that have invested and threat profiles that you prefer.

1.1. COMMON TYPES OF MUTUAL FUNDS

1.1.1. MONEY MARKET FUNDS

Short-term (less than one-year maturity) debt securities, such as Treasury bills, notes, and corporate investors, were received. Some money market funds solely invest in Canadian or American money market instruments, while others only invest in Treasury notes. These are often low-risk funds with poor current returns.

1.1.2. GROWTH OR EQUITY FUNDS

The funding is mostly from mutual funds (shares), and Canadian or international corporations, although it includes all assets. The goal is generally long-term growth; the gain in assets retained throughout the period is worth it. Some growth funds target huge "blue-chip" corporations, while others target smaller or riskier businesses. The performance will have an impact on the success or failure of individual initiatives, as well as the overall performance of the stock market.

1.1.3. FIXED INCOME FUNDS

Bonds, debentures, and mortgages are examples of upper-case debt securities that pay steady interest, whereas preferred shares of a corporation provide monthly dividends. The purpose, of course, is to provide a low-risk earnings stream to regular stockholders. On some level, basic services fluctuate, particularly in reaction to changes in major interest rates.

1.1.4. GLOBAL AND INTERNATIONAL FUNDS

You may have a stable income, balanced funds, and foreign development finance securities. These capitals can indicate changes to international investors and the disclosure of foreign enterprises, but the emphasis is on the dangers connected with funding foreign nations and foreign currencies.

1.1.5. BALANCED FUNDS

Funding a "balanced" portfolio of stocks, debt securities, and money market instruments to provide a consistent income to low-medium risk investors.

1.1.6. INDEX FUNDS

Uppercase denotes a group of stocks chosen for a specific purpose or index level higher than the S & P / TSX Index compounds. How can one make (or lose) money in a mutual fund? As a joint fund investor, you can receive a return on your investment by paying attention to interest, dividends, or capital gains and the net rise in the price of the units or components. Similarly, depending on the current market value of the fund's portfolio, the assets of the units or portions may decline. A fixed-income fund, for example, will make up a significant amount of the return in the form of profits and dividends, which are provided to you, or if you like, you invested on your behalf other than stock portions. I also feel that there are numerous variables, up or down, in the property at stake, or components, and bond market scenarios alter. Fixed-income assets' values will move in the opposite direction of interest rates. If your major interest rates fall, you must raise the stock of assets in your portfolio.

1.1.7. SPECIAL FUNDS

Typically, they are used predominantly in a single geographical location (for example, Asia) or a specialized business (eg, high-tech companies).

1.2. WHAT ARE THE POTENTIAL BENEFITS OF INVESTING IN MUTUAL FUNDS?

Change: Using a variety of securities will assist to lessen investing risk.

When you purchase a mutual fund, you are purchasing a profit from a collection of hundreds of different assets, which provides you with instant change, at least if you own the fund's shares.

Liquidity: Mutual funds or stock units can be redeemed at any moment.

1.2.1. FLEXIBILITY

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There are several investment funds and investment businesses (for example, spot market, fixed income, growth, balanced, and foreign funds) that allow you to switch between funds within the "core family" for little or no cost. This allows you to adjust the portfolio's balance to match your demands or when market circumstances change.

1.2.2. PERFORMANCE MONITORING

The daily value of most investment funds announced in the financial press and on many websites enables frequent monitoring of investment performance. Affordability: With so many mutual funds available, you may begin purchasing portions for a relatively little sum of money (e.g., \$ 500 for your first purchase). Some common ground permits us to purchase more units regularly, even in smaller amounts (for example, \$50 each month). Specialized Management: The creation of mixed funds by specialists who are trained in cash investing and who have the expertise and means to do research has altered various investment prospects.

1.2.3. SIGNIFICANT GROWTH IN THE MUTUAL FUNDS INDUSTRY IN PAKISTAN

In Pakistan, the mutual funds business is seeing tremendous expansion in terms of the number of funds and changes in net asset administration. The mutual fund industry's prospects are quite exciting and inspirational. The financial risks are adequately managed. Up to macroeconomic imbalances, a severe threat to the country's financial stability. One of the major threats to Pakistan's economic stability is the monetary sector's general lack of diversity. The overall monetary sector assets, insurance businesses account for less than 3% of the common fund, other non-bank financial companies account for 2% of the system, and private owners of fixed bonds account for less than 1%. According to the latest State Bank of Pakistan report, planned payments to banks increased by around 4 trillion. In India, 15 percent of the common fund deposits banking segment, but in the United States, deposit funds, such as banks, account for 150 percent or more. We expect that after three or four years, we will witness a rise in investment money and be able to generate around \$ 10 billion in bank deposits. The mutual fund sector is in its early stages, and there are obstacles such as stiff competition from mutual funds, restricted investment channels, and effective management of the newly added risk of market instability.

2. LITERATURE REVIEW

To evaluate the risk-adjusted measure of the mutual funds stated in the perceived scale fluctuation in the compensation ratio (Sharpe ratio now) is Sharp (1966). With the assistance of this report, I was assessed in the interests of open mutual funds from 1944 to 1964. The majority of the sample was as powerful as the Dow Jones; as a consequence, the primary level of the capital market has demonstrated that it is quite efficient. Sharp (1964) discovered just 11 funds in 1962 that topped the Dow Jones Industrial Average of 23 funds since 1953. The decision to invest in mutual funds came at the worst conceivable time.

Jason (1970) conducted a study to investigate the predictive value of the previous results to predict the future performance of the investment trust period from 1949 to 1968. The authors also recognized the factors to consider the effectiveness of the market, related to the performance of the fund. First, he can create a (profit balanced varied stock) three indicators of investment funds to control the power used for the benefit inches relationship between these indicators in the market indicators. Ready to provide a practical guide to the capital asset pricing model risk underwriting, investment trusts meet the market is constantly changing, and the result is, we surpass the choice of the exchange market. The writer also has shown in the past performance predicted value is small, he pointed out that it is related to the performance of the new cash resources available to invest aggressively. UL has developed its assessment to monitor the risk of predictive analytics capability of investment manager performance and risk-adjusted Statham's (1967) Jensen alpha portfolio. The measure was based on the concept of capital goods prices. Thus, the open-ended UCITS fund of 115 (net asset value and dividend tax information was available) samples were obtained for the period from 1955 to 1964. I was determined after the application of the Jensen measures, and it is impossible to predict which strategy could not be used to advantage of what the stock market mutual aid fund has adequately bought. In addition, evidence that receives a higher return than the portfolio that has been randomly selected individual mutual fund is hardly covered.

Muse (1974) created a model to evaluate the performance of mutual funds holding securities in both countries. At this stage, the sample was the oldest 8 French investment funds. As a result of these funds monthly, I was examined by counting the period from 1965 to 1970. As a result, the presentation that you have to generate generally higher risk-adjusted returns, fund integrity, and incompetence on the degree of diffusion of the French market. The author concluded that these funds, and are invested in the French market in 1970 from 1965 achieved lower returns of a particular level of dispersion as reflected in the return of the U.S. market in general. McDonald (1974), it was found that it was possible to obtain a relatively simple portfolio strategy and generally good yields of their funds.

The first two moments of the probability distribution of the rate of return, (1972) provided a reward (1967) based on that comparison of sharp variation Jennifer evaluation principles. Authors, it should be included in the third moment analysis to measure the direction and magnitude of the tail of the distribution has been suggested. I said (1973); investors would prefer positive scenes in the upper right corner of the positive scenes implied probability of higher returns because of Jennifer's comparison. As a result, the use of the tool, reward ratio changes if you have a relatively high proportion (high positive) times the third investment is relatively small but few are trying. Additionally, consider the (1967) Sharp, worse than the performance of the (DJIA) Dow Jones Industrial Average, since it appears that is not the usual standard, the authors For additional information about this requirement, I think it is slope Dow distribution and (DJIA) Jones Industrial Average, provide the base bias is substantially smaller.

To more closely approximate α and β , in the presence of non-stationary, Hansel and Gretel (1981) pointed out a study to verify the relationship between risk and return. Therefore, using the partition to return to the normal approximation partitions and collection rules, in this study, CAPM is not stationary. Report these measures, the price of 1975 since it is the increase in the financial markets, the common data, in the period from 1974 and 28. The results are good agreement is consistent, shows the relationship between risk and return. The results we have presented are some tense relationship between the beta and less than the rate of profit in the market with a weak positive correlation. On the other hand, as well as some useful links, the results presented a poor relationship between the β and α . However, it is not complete, a statistically significant relationship was found between any types.

Gump (1974) conducted a study to investigate (risk and return) performance indicators, targets, and investment funds in the United States from 1960 to 1969 period. A sample of mutual funds in the United States examined indicators (1967) (1966) and 123 consumers. The results can be greatly organized target was associated with maximum flexibility measures threat became clear. In this way, the objects are generally shaped by aggressive funds and better features. The results also, (1967), 39 Index Fund, only that you have presented excellent performance index of a pound (1965) Fund stock market is better than the stock market average of 67 as normal showed. The authors concluded that based on ordinary income cause an increase in the threat. The entire period of the study was from 1965 until 1984. Using high contrast (1988), the CAPM, the results are summarized in the (1968) Jensen. The results of the risk-return investment arm indicated that the net costs and expenses were similar to index funds available for profit. The results also showed me that the cost of having to organize your income portfolio, as presented is irrelevant. In the study, you chose to get a yield high enough to offset the higher costs of the fees and expenses of mutual fund sales increased. The study also found that funds to collect information were efficient.

Showed (1985) Mark Bruno to investigate the market timing of mutual fund revised law. Thus, the 116 model opens the mutual fund in February 1968 in the photo June 1981. The author examines the monthly data of open investment funds this parametric and non-parametric method. Profit data for all premiums are paid by the deduction of all fees and expenses and the organization's account. Both parametric and nonparametric tests showed that you cannot follow financial strategies that managers of mutual funds have been successful in. Evidence presented was not found to be in anticipation of a significant change in the market portfolio of assets that correspond to the minor changes that have been successful in market timing activity is also expected results. Miss Nicholson, wishes to consider whether the investigation would be better, a link to the presentation of the capital works of the past.

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Therefore, 279 to fund the sample photo. By splitting the sample into two periods of five years from every five years, the survey represents the basic design of all sales irregularly. Similarly, the abnormal return was calculated from the cross-sectional regression slope coefficient. The results were shown, but I was able to make a useful resolution fund managers and mutual funds earn irregularly. Therefore, he concluded with the study, and implementation, and provide the basic information for the final value of the remaining shareholders in terms of the hedge fund. Research to meet a variety of table presentations Morgan Stanley (1991), in the United States and the international global stock index mutual fund Jenkins stove. In this study, we used the United States, international diversification of investment trusts more than 15 years between 1982 and 1988. Performance is compared to education Jensen (1968), and then progressive weight measurement period. He concluded that the results, and performance of funds do not exceed the index of international justice individually or as a whole. The authors also visited the presentation comparison of the Morgan Stanley Capital of the United States, to create a few recommendations for these funds to the United States before the index. John Nash (1996) showed the holding period for the common test to evaluate the fairness of the presentation of the years from 1972 to 1992. Therefore, the report is occupied in a series of high-performance of all mutual funds, for each year of the period. After reviewing the statements of all the basic knowledge that money does not appear in the market. Survival bias is an essential part of research is known. He also describes the basic structure of the income prize; the program will create an overload without the risk of a non-profit organization created by the capital asset pricing model and practical non-profit. Shareholder of the report, I decided to buy a health index fund with a low price as a selection of active fund managers.

The survey revealed a metal, Ted. Check the cross-linking major cities (1994) presentation. Examples of bond funds: one example is designed to eliminate the prejudice of all the widows, the fund's municipal bonds non-46 for 10 years after the beginning of 1979 to the end of the second example one thousand nine hundred eighty-nine first Bond Fund I was the end of 1992 that contains all are included. To verify the two examples, the researcher doubled, the nonlinear model used. The results showed that the Bond Fund index was independent of the payments afterward. Considering the implementation of the mutual funds in Europe in 1992, he also, Linking Professor (1998), the completion of the first thousand nine hundred ninety-nine, the main types of risk exist leaders discuss the main presentation I show adjusted. Because it is an example of the funds, in 506, this drive is the standard four-factor used. Investment Trust Europe, Total fund shares small; out-performance meant that to indicate that the population equally important has managed to increase the four public companies 5 and its value in particular. The results also exposed relative optimism in risk-adjusted return on capital in the middle of the fund's risk-adjusted expense ratio and speed and a bad relationship. Ski brush. From 1982 to 1991 Japan Open presentation estimated investment trusts (1997). For this purpose, a sample of 800 open-end investment trusts, please follow the nine companies involved in the administration. The two standards were used in the test. To evaluate the presentation of the basic training Jensen abandoned this research, temporary measure training, and instruction Jensen (PPW) positive period weighting. Weighted equally, the result is a weighted portfolio of 800 mutual funds has shown that it is not an index of 7.0% and 6.0% about standard uniform. The advantage is that those who invest in large-cap stocks have leaned appear most of the wealth.

Byron and Denison (2001) Leads to analyze the operation of the risk-adjusted mutual fund. Several factors were utilized in the assessment, and all German top funds become public in 1973. The study covered the shield in the research from 1999 to 1974. DAX100 top 30 German language titles and up to 100 German shares to be used for comparison DAX, of the reference. We evaluated a comparable event next and practical ways to evaluate the weighted average interest rate and capitalized expenses for recording (Jensen, 1967). Sharp uncommon fund altogether. Funds to achieve the case's results have been supplied with the keys to the gadgets of evil at a rate of roughly 1.5% every year. The deficit, on the other hand, was less than 40% of the average rate of income off-road. It also breasts the stock market, mutual great German, which means it is healthier than tiny ones.

Miller (2000) investigated the advantages of a risk-adjusted portfolio comprising five global grounds. Three situations are shown in the report: 1984-1993, 1984-1988, and 1991-1995. The study is concluded, and Jensen's alpha index of indices was calm throughout the presentation, despite the significant contrast in the US market (1964). The results tray is not the portfolio of global investment funds of the library description (1964), 1984 will continue to mature as aftermarket 1993 and from 1984 to the United States until the year 1988. The new section of the global portfolio's prologue and the portfolio of the US stock market index nevertheless outperformed the period from 1990 to 1994.

3. BANK FIXED DEPOSITS VERSUS MUTUAL FUND

In this section, we look at how mutual financing differs from bank deposits. We have several measurements to demonstrate that mutual financing is considerably superior to bank fixed deposits in many ways. Here's a table that demonstrates the advantages of mutual funds and the disadvantages of banking investments.

4. MUTUAL FUND ASSETS DIVISION

With \$11.6 trillion in assets under administration at the end of 2011, the US mutual fund market remained the largest in the world, accounting for 49 percent of the \$23.8 trillion in global mutual fund assets. The comparison presented in Table 1 highlights key differences between bank deposits and mutual funds in the context of Pakistan, offering insights into the advantages and trade-offs associated with each investment option. Mutual funds appear to offer a relatively better return profile compared to bank deposits, which are traditionally associated with lower returns due to their conservative nature. This finding aligns with global investment behavior, where mutual funds generally outperform fixed deposit instruments over the long term because of their diversified portfolios and exposure to equity and debt markets. In terms of administrative costs, mutual funds show a clear advantage. Bank deposits often come with higher administrative charges in the form of account maintenance fees or transaction-related costs. Conversely, mutual funds typically have lower expense ratios and are regulated to ensure transparency in cost disclosure (Reilly & Brown, 2011; Shahid & Ali, 2015; Ali & Rehman, 2015). Risk is another key dimension of differentiation. Bank deposits are seen as low-risk investments because they are usually insured and backed by government guarantees or central bank schemes. In contrast, mutual funds carry a moderate or "normal" level of risk, which can vary depending on the asset allocation of the fund. This normal risk level, however, is compensated by the prospect of higher returns—a trade-off commonly accepted by more risk-tolerant investors. The table also emphasizes the flexibility and variety offered by mutual funds. They provide a broader range of investment options, including equity, debt, money market, and hybrid funds. This diversity allows investors to tailor their portfolios according to individual risk appetites and financial goals, unlike bank deposits, which typically offer limited customization beyond the tenure or amount. Network infrastructure appears to be a current limitation of mutual funds in Pakistan, as the sector is still under development compared to the extensive branch network and digital reach of traditional banks. However, with the ongoing digitalization of financial services and increased fintech adoption, this gap is expected to narrow over time. Liquidity is another strength of mutual funds, as they typically allow for easy redemption and offer greater flexibility in accessing funds, particularly with open-end schemes. Bank deposits may impose penalties on premature withdrawal, making them relatively less liquid in comparison (Elton et al., 2014). On the aspect of asset quality, mutual funds are more transparent due to mandatory disclosure regulations enforced by the Securities and Exchange Commission of Pakistan (SECP), while the clarity of asset utilization in bank deposits remains limited. This transparency allows investors to better evaluate risk and performance. Interest calculation mechanisms differ as well. While banks generally calculate interest quarterly (i.e., at the end of the 3rd, 6th, 9th, and 12th months), mutual funds often distribute returns or dividends on a monthly basis, thereby providing more frequent income opportunities for investors. Lastly, the need for a guarantor in bank-related financial instruments, especially when applying for larger deposit schemes or fixed deposits, contrasts with mutual funds, where no guarantor is required. This ease of access lowers entry barriers for retail investors and enhances financial inclusion. Overall, mutual funds in Pakistan offer superior flexibility, transparency, liquidity, and return potential compared to traditional bank deposits, though they carry moderately

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higher risk and face challenges in network expansion. These distinctions should guide investors in selecting instruments that align with their financial objectives, risk tolerance, and liquidity needs.

Table 1: Outcomes

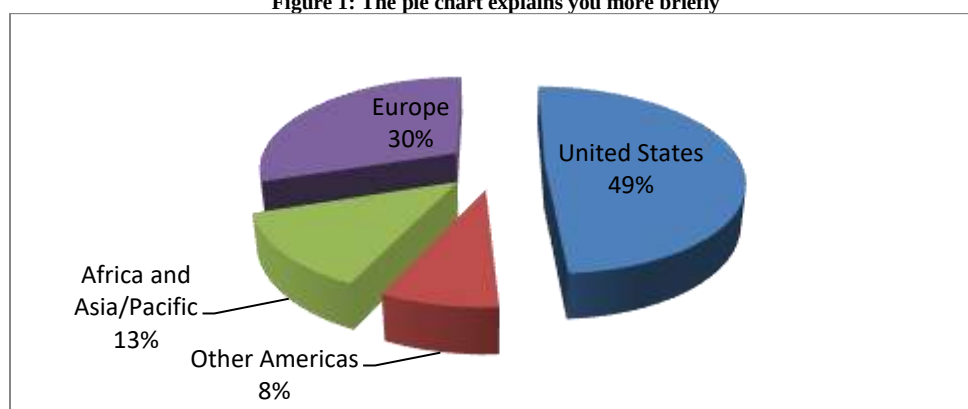
	Banks Deposits	Mutual Funds
Returns	Low	Better
Administrative	High	Low
Risk	Less	Normal
Investment options	Low	High
Network	Developed	Under development
Liquidity	Normal	Good
Quality of assets	Not clear	Clear
Interest calculation	Quarterly i.e. 3 rd , 6 th , 9 th , 12 th	Every month
Guarantor	Is needed	Not needed

Table 2 presents the global distribution of mutual funds accessible or represented in Pakistan, indicating a significant dominance of United States-based funds. Out of the total, 48 percent originate from the United States, showcasing the country's extensive influence and leadership in the global mutual fund industry. This concentration can be attributed to the maturity, scale, and diversification of the U.S. financial markets, along with the regulatory frameworks such as those enforced by the Securities and Exchange Commission (SEC), which ensure investor protection and transparency (Elton, Gruber, Brown, & Goetzmann, 2014). Europe accounts for 30 percent of the mutual funds, reflecting the region's sophisticated financial infrastructure and the presence of multinational fund managers operating across borders. The European Union's UCITS (Undertakings for Collective Investment in Transferable Securities) directives have played a critical role in harmonizing mutual fund regulations, making European funds attractive and relatively safe for international investors, including those in emerging markets like Pakistan (Haider & Ali, 2015). Africa and the Asia-Pacific region together contribute 12 percent. Despite representing a large geographic and demographic base, the relatively small share of mutual funds from these regions in Pakistan reflects underdeveloped capital markets, limited cross-border fund mobility, and lower levels of global investor integration. However, with financial integration in Asia increasing—particularly through China, Singapore, and India—this share could grow in the future as regional investment vehicles expand their outreach. The remaining 10 percent come from other parts of the Americas, excluding the United States. This modest proportion likely includes funds from countries like Canada and Brazil, which, while having developed markets, do not possess the global fund management outreach of their U.S. counterpart. The dominance of U.S. and European funds in Pakistan reflects global trends in capital allocation and institutional trust. These funds are not only preferred due to their strong regulatory backing and performance history, but also because of their capacity to offer diversified portfolios tailored to different risk appetites. As Pakistan's financial sector evolves and seeks greater integration with global capital markets, it is expected that fund inflows from Asia-Pacific and African markets may increase, especially under South-South cooperation initiatives and fintech-enabled investment platforms.

Table 2: Division of Worlds

United States	48
Other Americas	10
Africa and Asia/Pacific	12
Europe	30

Figure 1: The pie chart explains you more briefly



Mutual funds are growing far faster than the banking industry. Banks have a low-interest rate and a high tax rate. Fixed deposit interest rates from earlier years. Table 3 shows a clear upward trend in deposit rates in Pakistan from 2005 to 2008. In 2005, the deposit rate stood at 1.6 percent, which gradually increased to 2.6 percent in 2006. This was followed by a more significant rise to 4.2 percent in 2007 and further to 5.3 percent in 2008. This upward movement reflects a monetary tightening stance adopted by the central bank during this period, likely in response to inflationary pressures and efforts to attract savings in formal financial institutions. The increase in deposit rates may also be viewed within the broader context of economic adjustments and financial liberalization trends seen in the mid-2000s in Pakistan. The central bank's attempt to stabilize the macroeconomic environment and strengthen the banking sector could explain the incentives offered through higher deposit returns. Higher deposit rates typically aim to encourage savings by offering real returns that outpace inflation, thus increasing the availability of loanable funds for investment and credit expansion in the economy (Mishkin & Eakins, 2018). Furthermore, during this period, Pakistan experienced growth in remittance inflows, rising foreign direct investment, and structural banking reforms, which may have contributed to an increased competitiveness among banks to attract depositors (State Bank of Pakistan, 2008). The trend in

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deposit rates also reflects the evolving dynamics of the financial sector, where banks sought to increase deposit mobilization as a reliable and cost-effective source of funding.

Table 3: Deposit Rate

Year	Deposit rate
2005	1.6
2006	2.6
2007	4.2
2008	5.3

As we can see, the deposit rate in Pakistan is not much higher. It also has a variation in its political and social matters that has a favorable effect. Table 4 presents the return rates of various investment options in Pakistan over the period from 2006 to 2011. The three indicators—open-end equity-based funds, close-end equity-based funds, and the KSE 100 Index—demonstrate significant fluctuations, reflecting the volatility of the capital market during this time. In 2006 and 2007, all three investment types yielded strong positive returns. Open-end equity-based funds returned 28.34% and 43.54% in 2006 and 2007, respectively, while close-end funds produced lower but still substantial returns of 10.8% and 28.33%. The KSE 100 Index outperformed both in 2006 at 31.56% but was slightly behind open-end funds in 2007 at 40.54%. These robust performances likely reflected favorable macroeconomic conditions, increased investor confidence, and buoyant market sentiment (Shah & Hijazi, 2005). However, 2008 and 2009 marked a period of sharp decline, in line with the global financial crisis. Open-end funds dropped by -3.88% in 2008 and plummeted further to -38.13% in 2009. Close-end funds experienced similar negative trends, with -2.7% and -37.57% returns, respectively. The KSE 100 Index mirrored this downturn, reporting -10.78% in 2008 and a deeper fall of -41.73% in 2009. These dramatic losses underscore the market's exposure to both global financial disruptions and domestic political instability during the late 2000s (Haque & Sarwar, 2013). Post-2009, the market showed a recovery trend. Open-end funds recovered with 20.599% in 2010 and 25.80% in 2011. Close-end funds also regained momentum, delivering 14.62% and 20.5% returns. The KSE 100 Index posted the highest returns among the three categories in both years—35.75% in 2010 and 28.54% in 2011—indicating a resurgence of market confidence, driven in part by economic reforms, improved earnings, and a more stable policy environment (Khan et al., 2014; Marc & Ali, 2016; Arshad & Ali, 2016). This comparative return analysis illustrates that while mutual funds offer diversification, their performance is strongly linked to overall market conditions. Open-end funds generally show higher returns compared to close-end funds, especially in bullish markets. However, all investment types were vulnerable to systemic risks during the financial crisis, emphasizing the importance of risk management and timing in portfolio allocation.

Table 4: Return Rate

Years	2006	2007	2008	2009	2010	2011
Return of open-end equity-based funds (%)	28.34	43.54	-3.88	-38.13	20.599	25.80
Return of close-end equity-based funds (%)	10.8	28.33	-2.7	-37.57	14.62	20.5
Return of KSE 100 Index (%)	31.56	40.54	-10.78	-41.73	35.75	28.54

Figure 2

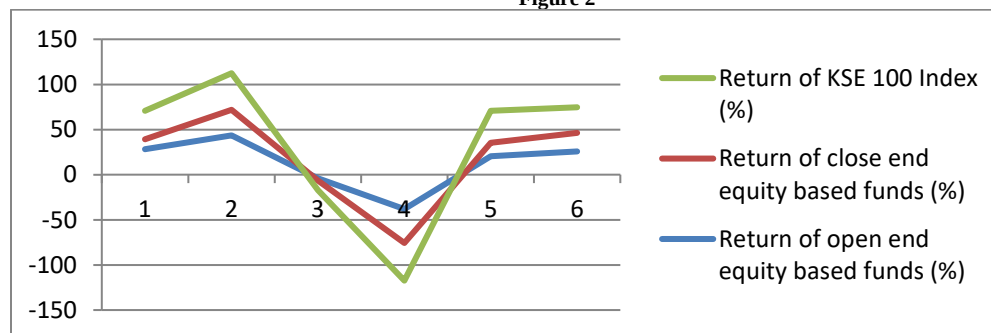


Table 5: List of Companies in Pakistan

Companies	Ranked	Retunes (%)
Safe way funds	18 th	74.24
NAFA stock funds	26 th	69.5
AKD opportunity funds	32 nd	65.84
JS pension saving funds	42 nd	62.58
Asian stock funds	45 st	61.08
Atlas stock market funds	47 th	60.67
JS growth funds	51 st	60.44
Pakistan pension Islamic funds	52 nd	60.32
Atlas pension Islamic funds	80 th	57.62
Atlas pension funds	90 th	55.94
Pak Islamic pension funds	91 st	55.71
ABL stock funds	96 th	54.40
JS Islamic funds	99 th	54.08

Pakistan mutual funds entered the list of the world's top 100 best-performing equity funds in 2008 as an Asian regional market, demonstrating the rise of mutual funds. Table 5 presents a comparative overview of various investment funds in Pakistan, ranked based on their performance returns. These rankings illustrate the competitive landscape of mutual fund companies in terms of yield generation for investors. The performance metric used here is percentage

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return, with all listed funds delivering returns above 50%, indicating an overall favorable market cycle or efficient fund management practices during the assessed period. At the top of the list is Safe Way Funds, ranked 18th, with an impressive return of 74.24%. This suggests a strong investment strategy and potentially higher risk-reward profile that paid off during the period. NAFA Stock Funds follows at 26th place with a return of 69.5%, which aligns with NAFA's broader reputation for delivering consistent equity performance in Pakistan's mutual fund industry.

AKD Opportunity Funds, ranked 32nd with 65.84%, also demonstrates robust management, often attributed to sectoral diversification and timely reallocation strategies (Hassan & Kalim, 2011). JS Pension Saving Funds and Asian Stock Funds, ranked 42nd and 45th respectively, maintain returns slightly above 60%, reflecting the solid performance of mid-tier funds focused on retirement and sectoral equities. Atlas Stock Market Funds (47th) and JS Growth Funds (51st) closely follow, suggesting that both equity-focused and hybrid funds are competitive when it comes to investor returns. The list also features Islamic-compliant investment options such as Pakistan Pension Islamic Funds (52nd), Atlas Pension Islamic Funds (80th), and Pak Islamic Pension Funds (91st), with returns ranging between 60.32% and 55.71%. The presence of these funds highlights the growing preference and development of Shariah-compliant investment products in the country (Siddiqi, 2006; Marc & Ali, 2017; Marc & Ali, 2018). These funds not only offer religiously permissible investment avenues but also deliver competitive returns in comparison to conventional funds. Towards the end of the list, ABL Stock Funds (96th), and JS Islamic Funds (99th) register returns of 54.40% and 54.08%, respectively. Although relatively lower in the rankings, these returns remain significantly positive, reaffirming the overall health of Pakistan's mutual fund sector during the analyzed timeframe. These rankings underscore the performance diversity among mutual funds operating in Pakistan and indicate that both conventional and Islamic funds can deliver high returns if effectively managed. The choice for investors, therefore, hinges on their risk tolerance, investment horizon, and preference for ethical finance instruments.

Figure 3

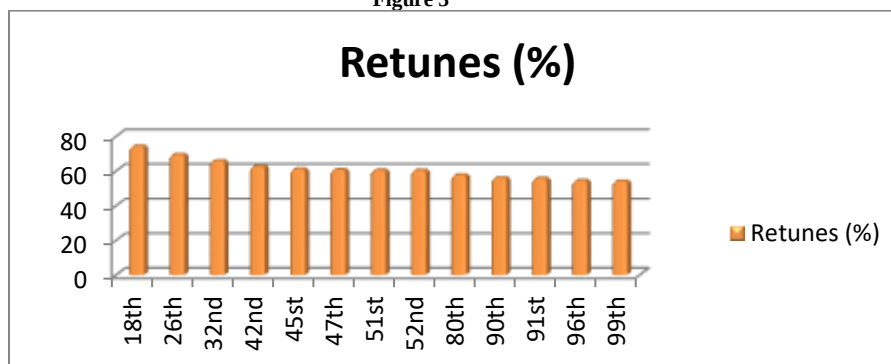


Table 6 provides a comparative analysis of the tax implications and resulting after-tax returns on investments in banks versus mutual funds in Pakistan for both corporate entities and individual investors. The analysis demonstrates that mutual funds offer a more tax-efficient investment vehicle, especially under the condition that the investment is held for at least one year, at which point capital gains from mutual funds are exempted from taxation. For corporate investors, both banks and mutual funds offer a pre-tax return of 12%. However, bank investments are subject to a 35% corporate income tax, resulting in a deduction of 4.2%, which reduces the after-tax return to 7.8%. In contrast, mutual funds yield the same pre-tax return of 12%, but due to the exemption from capital gains tax—assuming the one-year holding condition is met—there is no tax deduction. This leaves the corporate investor with the full 12% return, making mutual funds significantly more attractive in terms of post-tax profitability for corporations. For individual investors falling within a 10% income tax bracket, the pattern is similar but with a smaller differential. Again, the pre-tax return is 12% for both banks and mutual funds. In the case of bank investments, a 10% tax leads to a deduction of 1.2%, resulting in an after-tax return of 10.8%. Mutual funds, however, continue to provide a full 12% after-tax return due to the tax exemption condition being fulfilled. This makes mutual funds not only competitive but superior for long-term retail investors as well, especially those aiming to maximize net gains from fixed investment instruments. This comparison underscores the strategic advantage mutual funds can offer in Pakistan's tax environment, particularly under capital gains tax regulations that favor longer investment horizons. The attractiveness is further bolstered by the fact that mutual funds often pool diversified assets, provide professional management, and maintain higher liquidity compared to traditional bank deposits, which often come with more rigid withdrawal conditions and lower risk-adjusted returns. The evidence from this table supports the broader global trend where mutual funds are increasingly used as efficient investment vehicles for both institutional and individual investors, particularly in economies where capital market reforms and favorable tax treatments have been implemented to encourage financial inclusion and portfolio diversification.

Table 6: Outcomes Mutual Funds in Pakistan

	Banks	Mutual Funds
Corporate (35% tax)		
Pretax return	12.0	12
Tax Deduction	4.2	0
After-tax return	7.8	12
Individuals (10% tax bracket)		
Pretax return	12.0	12.0
Tax Deduction	1.2	0
After-tax return	10.8	12

*subject to completion of 1 year when capital gain tax is exempted.

5. MUTUAL FUNDING VS. INSURANCE POLICIES

If an investor wants to invest his capital, he has several possibilities, one of which is to acquire an insurance policy to double his wealth, but an insurance policy is not a smart investment option since it isolates his investment and does not have a broad scope. If we acquire insurance policies for a mutual fund, we must initially spend a large sum as a starting premium, which is not feasible for small investors. However, we may simply start mutual funding with as little as \$2500. We earn a monthly or even daily profit on it in an insurance policy, and there is a maturity term that we must wait for the maturity period to get the benefits.

Figure 4

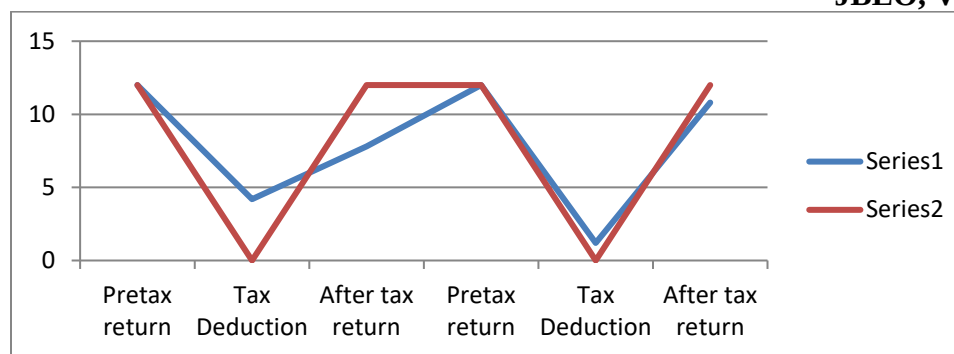


Table 7 presents a comparative overview of post-tax returns derived from an investment of PKR 100,000 under three scenarios: mutual funds with a dividend option for individual investors, mutual funds with a dividend option for corporate entities, and fixed deposits in traditional banking institutions. While all investment options assume a uniform markup or profit rate of 10.25%, the effective post-tax returns diverge significantly due to differences in tax treatment and applicable rates. The maturity value is constant across the three investment modes at PKR 102,555, resulting in a uniform gross gain of PKR 2,555 for each. However, tax deductions vary depending on the investor type and investment channel. For individual investors opting for mutual funds, the tax rate applied is 14.16%, resulting in a tax payment of PKR 317 and a post-tax gain of PKR 2,239. This equates to a post-tax return of 9.29%, which stands as the highest among the three options. For corporate investors investing in mutual funds through the dividend option, the tax rate is higher at 22.66%, leading to a tax deduction of PKR 472. Consequently, the post-tax gain is reduced to PKR 2,083, yielding a net return of 8.62%. Although this is lower than the return available to individual mutual fund investors, it still surpasses the outcome of the third alternative—fixed deposits. The fixed deposit option, although maintaining the same profit rate of 10.25%, suffers from the highest tax rate of 33.99%. The resulting tax of PKR 869 substantially diminishes the post-tax gain to PKR 1,687, with a final return of only 6.94%. This outcome underscores the disadvantage fixed deposits face under the existing tax regime, making them less attractive despite the apparent simplicity and perceived security they offer. These results emphasize the importance of tax considerations in investment decision-making. Mutual funds, particularly under the dividend option for individuals, demonstrate superior post-tax performance. Moreover, the corporate preference for mutual funds over fixed deposits is justified even with higher tax liability due to relatively better returns. This analysis also reflects a key behavioral finance insight: investors should not assess returns in isolation but must consider the post-tax implications of their investment vehicles. Under the assumed conditions of equal markup, mutual funds provide a more advantageous investment vehicle in terms of post-tax returns for both individual and corporate investors in Pakistan. Fixed deposits, though traditionally favored for their security and liquidity, lag significantly behind in net returns after accounting for tax burdens.

Table 7: Outcomes Mutual Funds in Pakistan

	Dividend option (Individual)	Dividend option (Corporate)	Fixed Deposits
Investment amount	100000	100000	100000
Markup (%)	10.25	10.25	10.25
Maturity value	102555	102555	102555
Gain=maturity	2555	2555	2555
Tax rate (%)	14.16	22.66	33.99
Tax	317	472	869
Post-tax Gains	2239	2083	1687
Post-tax returns (%)	9.29	8.62	6.94

Here we supposed that the markup rate is equal at 10.25. Table 8 presents a comparative summary of key outcomes associated with equity mutual funds and insurance plans in Pakistan. The table outlines the costs and benefits involved in both financial instruments, highlighting differences in charges, management structure, and life coverage. For equity mutual funds, the initial load—which is the upfront cost deducted from the investment—ranges from 0 to 3 percent. In contrast, insurance plans impose significantly higher initial costs, typically deducting between 21 to 28 percent of the premium during the initial few years. This substantial deduction reflects administrative and distribution charges associated with insurance policies, especially in their early stages. In terms of annual expenses, equity mutual funds charge between 1.0 to 2.4 percent, which covers fund management, administrative, and operational costs. On the other hand, insurance plans apply flat annual charges ranging from 181 to 241 Pakistani Rupees, regardless of the investment size. While this flat fee structure might appear lower in absolute terms, its relative impact depends on the premium size and policy value. When considering the management fee, equity mutual funds typically charge between 0.8 to 1 percent of the assets under management. Insurance plans, however, show slightly broader variation in management charges, ranging from 0.8 to 1.8 percent. This reflects the additional services bundled into insurance-based investment products. A critical point of difference is life cover. Equity mutual funds do not provide any life insurance component, focusing purely on investment returns. In contrast, insurance plans include life cover, offering a level of financial protection in case of the policyholder's death. This dual function of investment and protection makes insurance plans fundamentally different in nature from mutual funds, although it often comes at the cost of higher charges and lower investment transparency. Overall, while equity mutual funds are cost-efficient and suitable for pure investment objectives, insurance plans integrate investment with protection but at the expense of higher initial costs and potentially reduced investment efficiency during the early years of the policy.

Table 8: Outcomes Mutual Funds in Pakistan

	Equity mutual funds	Insurance plans
Initial load	0-3%	The 21-28% of premium for the initial few years
Annual expenses	1.0-2.4%	flat charges of 181-241 per year
Management fee	0.8-1%	.80-1.8%
Life cover	Nil	Yes

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Table 9 provides a comparative overview of mutual funds globally versus Islamic mutual funds, offering insight into their relative scale, asset base, and returns. The data underscores the significant difference in both the size and investment reach of conventional mutual funds compared to their Islamic counterparts. Globally, there are 56,864 mutual funds with total assets under management amounting to approximately US\$ 17.9 trillion, reflecting the widespread acceptance and institutional development of mutual fund structures in global financial markets. In contrast, Islamic mutual funds are a much smaller segment, comprising only 551 funds with total assets of US\$ 17.4 billion. This stark difference highlights the relatively nascent and niche status of Islamic mutual funds within the global financial ecosystem. In terms of rate of return, the table indicates that conventional mutual funds typically offer very high returns, likely due to their wider access to diversified asset classes, broader market participation, and risk-taking strategies that include interest-based instruments and derivatives. The entry for Islamic mutual funds merely notes "rate of return," without quantification, suggesting either variability or limitations in comparative data. However, it is generally acknowledged that while Islamic funds may offer competitive returns, they tend to be slightly more conservative due to their adherence to Shariah principles, which prohibit interest (riba), excessive uncertainty (gharar), and investments in non-compliant industries such as alcohol, gambling, and conventional financial services. Overall, this comparison reveals the dominance of conventional mutual funds in terms of volume and capital, while Islamic mutual funds represent a growing but relatively underdeveloped segment, particularly suited for investors seeking Shariah-compliant financial solutions. Despite their smaller scale, Islamic funds serve a unique purpose by offering faith-based investment vehicles, and with increasing demand for ethical finance, their role is expected to grow in both Muslim-majority and broader ethical investment markets.

Table 9: Comparison Mutual Funds in Pakistan

Mutual funds	Islamic banking
Total mutual funds in the world 56,864	Total Islamic 551
Total assets invested in mutual funds: us\$ 17.9 Trillion	Total assets in Islamic funds: Us\$ 17.4 Billion
The rate of return is very high	Rate of return

6. DEBT FUNDS VS. EQUITY FUNDS

The debt and capital of relatives are used to produce a set income for the capital donor. If you order government bonds (assuming the government's success on the loan), you will receive a specified amount of money. Similarly, when you incur credit card debt, you pay a specific portion to the bank. Individual stakeholders' money is usually available for large consumers of capital, such as governments and enterprises, through purchasing promises. When a shareholder purchases pledges, an investor offers the majority of the organization that issued the bonds. Shares relatives, however, stock relatives do not have a predetermined return. Because the capital supplier in this situation has a detailed portion of the wealth employed, earnings based on user efficiency may be made. When we purchase uncommon stocks (or mutual funds), we are betting on ownership in exceptional firms. We own a very small percentage of the shares of certain investors. Because these companies earn money (ideally), and we get paid in the form of bonuses or growing stock prices.

7. MUTUAL FUNDING VS. ISLAMIC BANKING

Islamic banking is a very beautiful deed to undertake, but because it is in its early stages, we do not have as many options as mutual funds, and our main goal implies that profit and yearly growth are quite modest in comparison to mutual funding. According to research, there are many possibilities in mutual financing to invest in various assets available to customers to benefit from, but Islamic banking has just a few options at present moment.

8. VARIABLES

The variables employed in this study are both dependent and independent.

Investment in mutual funds is an independent variable.

Mutual financing growth is a dependent variable.

These variables indicate the changes that may be made by investing in mutual funds.

Mutual financing is expanding. The connection between these factors demonstrates their influence on one another. Mutual financing is an independent variable investment. Has a beneficial effect on the growth of the dependent variable.

9. SEARCH TYPE

There are several techniques for collecting and analyzing data. These procedures are critical for obtaining reliable data. These strategies aid in the gathering of vital information. There are two sorts of search methods: quantitative and qualitative. The quantity of words used in these strategies varies. The technique is frequently used as a synonym for any quantitative data-collecting process, such as liquid analysis methods and graphs or data, such as Statistics. The approach is frequently used interchangeably with any qualitative data-collecting method, such as interviews with numerical data. Thus, the distinction between qualitative and quantitative data is that data quality relates to the words of such images, and so on.

10. DATA SOURCES

Annual Report was used to collect statistics for equity and balanced funds from 1997 to 2004. Various sources were employed for this goal. Money asset management businesses, the stock market, the SECP, and the Internet were used to collect data on the rate of Treasury bonds from the State Bank of Pakistan's statistics bulletins.

11. RESEARCH FINDINGS

The study's main goal was to evaluate acquired data using various tools and methodologies and derive findings. Various factors of mutual financing growth were examined and assessed in light of existing data. We used data from financial institutions to demonstrate how mutual funds outperform other investments in terms of household decision-making in the economic, income and spending, asset transactions, education, and health and social aspects. Mutual funds are often called by their investing objectives. Some funds collaborate on stocks, while others focus on bonds, money market instruments, or other securities. Funds investing primarily in private finance in Canada and others are financings at the global level and identify some of the countries or specific industries. The only certain mutual funds to take advantage of low-risk investments, despite the fact those others may hold securities riskier than that. If you choose to become a contributor to a common fund, with investment funds that object Profile threats and the right to stand for you and will remain one of the most important decisions of your own. After all examination and analysis, we came on to the result that mutual fundings are better than the fixed deposit and other funding we prove our perspective by many tests and analyses above in examination table no. 1, 2, 3, and 4 which shows that way mutual funding is preferable to others. All tests and analyses support the viewpoint. Mutual financing is fast expanding in Pakistan, as seen by the world's top ranking, which reveals that in the world's top 100 mutual fund firms, Pakistan has 14 businesses, starting from the 18th place, indicating that the scope of mutual funding has a very bright future in Pakistan. We will be at the top of mutual fund investing in a few years.

12. CONCLUSIONS

After researching all areas, we discovered that mutual funds outperform other fixed deposits and bank deposits. To illustrate our viewpoints, we use a variety of measurements and sample data. For example, in table no. 1, we provide some prior years' deposit rates, which reveal insatiability in 2009 and a very low-interest rate. In the study, we showed the last six years of growth in mutual funding, which indicates a fairly respectable increase in the previous few years. It also contains two years of fall, but the following two years cover the drop. Then, in table 3, we display the world ranking of mutual funds, which shows the position of Pakistan's 14 mutual fund businesses that are among the top 100 mutual fund companies in the world. In table 4, we also show why mutual funds are preferable to bank deposits since the banking sector's tax rate is substantially higher than that of mutual funds. Mutual funds vastly outperform other investment vehicles such as insurance plans and Islamic banking in comparison. Mutual funds, on the other hand, are a rapidly rising financing mechanism due to their cheap returns and growth. Mutual funds can have relatively low-interest rates. As a result, we decided that investing in mutual funds is a wise investment move. Due to comprehensive financial expansion, enhanced commercial pays light, and the stock market, investment funds are projected to remain appealing to savers retail investment Blvd. Manufacturing offers several fascinating opportunities for both savers and unique enterprises, including antique dealers. These days, the creation of a common fund has piqued the interest of a rising number of savers. It attracts money managers and manufacturing businesses, as well as members of the community and supporters. Moreover, it has been a useful asset if ways and beaten to the general public while paying better returns abstemiously shining based on profits and bonuses reward wealth.

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