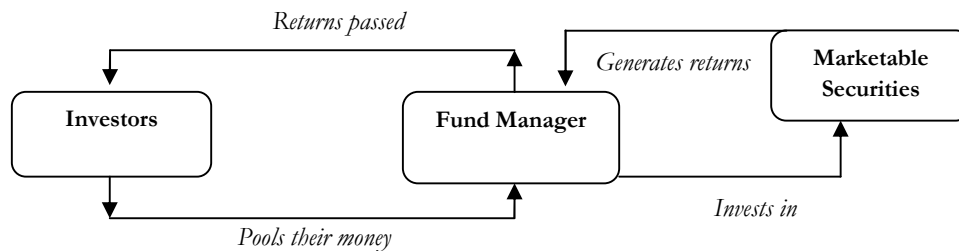


Why Mutual Funds?

A mutual fund is an investment vehicle that pools funds from many investors and invests the funds in stocks, bonds, short-term money-market instruments, other securities or assets, or some combination of these investments. Investment decisions are prudently taken by the fund managers after thorough research and the decisions will be in the interest of the unit holders.



The benefits of investing in Mutual Funds include:

- Professional Management:* Team of managers, researchers and analysts implementing best industry practices, techniques and tools; research, select, trade, and monitor the performance of the securities the fund invests in.
- Diversification:* Diversification is an investment strategy that can be summed up as “Don’t put all your eggs in one basket”. Spreading your investments across a wide range of companies and industry sectors can help lower your risk if a company or a sector doesn’t perform satisfactorily. It is easier and economically feasible for investors to achieve diversification through ownership of mutual funds rather than through ownership of individual stocks or bonds.

In the month of Baisakh, one of the mutual funds in Nepal held stocks in the following order Finance 1, Hotels 1, Manufacturing & Processing 1, Others 1, Hydro Power 4, Insurance 8, Development Banks 14, Commercial Banks 17. Analyzing and efficiently keeping track of all these stocks for a single individual or a non specialized institution would prove difficult.

- Affordability:* Mutual Funds investments are suitable for all kind of investors. They accommodate large investors who have resources but lack know how and time to manage large portfolios and also small investors who don’t have sizeable funds to invest by setting relatively low amounts for initial investments.

If an individual/institution wanted to create a portfolio replicating any of the mutual funds currently available in Nepal one would require nearly NPR. 3 million to buy 50 units of each scrip. (Based on Baisakh 2071 holdings)

- d. *Liquidity:* The units of the mutual funds are listed securities, which can be easily traded or pledged for liquidity.

Since its trading debut, out of total trading days the units of both mutual funds have traded for more than 85% of the trading days. On average 80,000 & 40,000 units of both mutual funds traded during this time. (Till Baisakh 2071)

- e. *Preference:* Mutual funds are popular forms of investments all around the world. The US mutual fund industry is the largest in the world with USD 13 Trillion in assets. Similarly in India, assets under management of mutual funds as of August 2012 were over USD 100 Billion. In the developed markets, mutual funds are one of the chosen fund management vehicles for investment. The Government elsewhere and its policies continuously support mutual funds through various incentives such as tax breaks on account of the diversification it provides, transparency and professional management. Mutual Funds are a relatively new industry in Nepal, and the last budget has also promoted mutual funds by waiving tax on capital gain and interest income generated by investments of the mutual funds. This waiver of taxes guarantees increased returns as compared to if an individual made the same kind of investment.



Why NMB Capital (NMBCL)?

NMB Bank, established in October 1995, is a Class 'A' financial institution and the first Class 'C' financial institution to upgrade as a commercial bank, erstwhile known as Nepal Merchant Banking and Finance Company Limited. NMB as a group has managed more than 100 public issues and holds the prestige of managing major public issues of the country so far. NMB is one of the pioneers in providing investment banking services, introducing innovative products, adapting to technological changes, supporting regulators to implement and improve the policies and procedures for betterment of processes and stronger compliance framework for sustainable market growth. NMBCL was spun-off from NMB Bank primarily to stand as an independent arm excelling with focus in merchant and investment banking and to abide by the new regulations in place. It formally started its operation from September 17, 2010.

Since its inception, NMBCL has been managing small/large public offerings and underwriting of securities, Registrar of Shares (RTS) Services, and support services like trusteeship services for issuance of bonds, debentures, and other marketable securities to some of the big public corporate organizations of the country. NMBCL is in the process to institute itself as a strong fund house of the country by introducing various Mutual Fund schemes and customized Portfolio Management Services. NMBCL is extensively working for introducing new financial and investment products/services like mutual funds, valuation of securities, management of private placements, private equity, venture capital, consultancy related services like investment advisory services, and offering customized wealth management services, etc. The objective of the fund is to prudently invest in the predefined areas, reward the unit holders with committed returns and contribute to the overall development of the capital market. The proposed mutual fund shall be driven by the following key philosophy:

- a. Fundamental, technical analysis and portfolio optimization form an integral part of our research methodology, but what differentiates us is our ability to scale and replicate those methodologies to all securities in our investable universe¹. NMBCL's proprietary tools and database enable us to quickly and accurately pick stocks to transact and also provide signals for future transactions and valuations. Our decisions and estimations are not only based on quantitative analysis of widely used tests and methodologies such as co-integration, stochastic volatility, monte carlo simulations etc. but also by balancing the knowledge of fundamentals, market dynamics and incoming market news. We have strived in creating a database for understanding the dynamics and relationships in the capital market to get the best quantitative and qualitative solutions. Utilizing industry wide best practices, analytics, portfolio optimization techniques, mathematical & statistical models, subjective analysis, and market research, we are confident on ensuring above average market returns.

¹ Investable Universe: Includes all the securities and investment vehicles Mutual Funds can invest in as per the Mutual Fund Guidelines 2069



- b. NMBCL not only draws its strengths from its team members, managers, supervisors, directors but also from the experience and resources of the parent company, NMB Bank and its team. Our team along with their expertise, experience and their network enable us to adhere to our commitments.
- c. We commit to maintain the supremacy gained by NMB Bank in years of service as a prudent and ethical entity. We strongly value in maintaining the legacy by empowering development with financial justice and uncompromising prudence. We will continuously strive to protect the interest of investors, patrons and stakeholders.
- d. NMB and NMB Capital's ICRA ratings

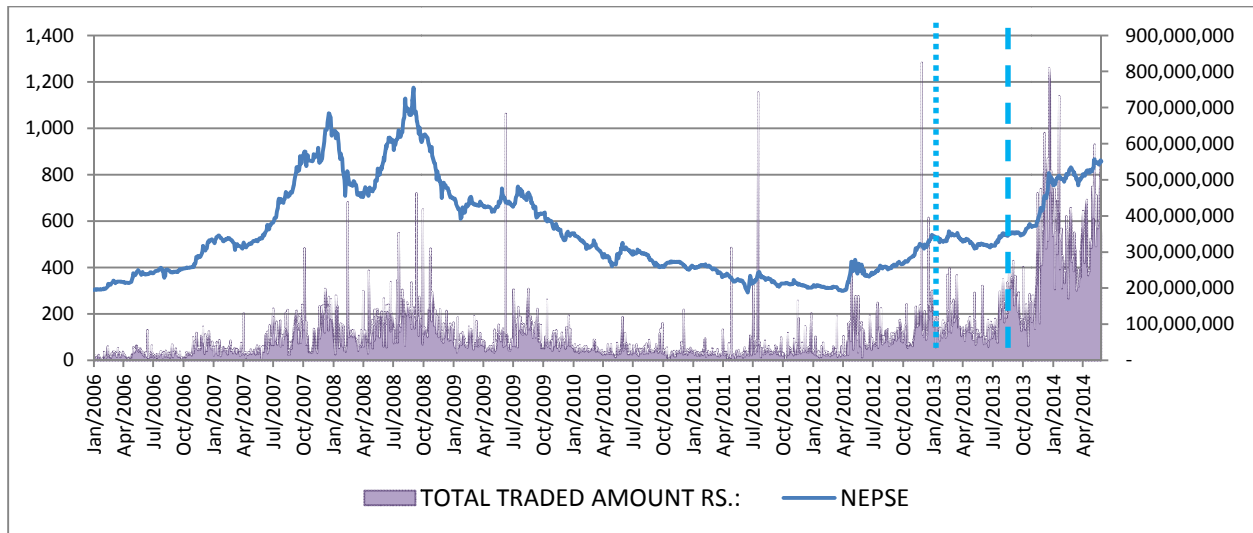
Issuer Rating “[ICRANP-IR] BBB” has been assigned to NMB Bank Limited by ICRA.

Fund Management Quality Rating “[ICRANP] AMC Quality 3 (AMC 3)” has been assigned to NMB Capital Limited.

Why now?

- a. *Entry of Institutional Investors:* Until recently there were few unorganized institutional investors in the Nepalese capital market. However in the last year the market saw entry of two new Institutional Investors in the form of mutual funds, established under the legal supervision to offer defined portfolio management products and services. Their entry along with ours in the near future will ensure overall development of the capital market in terms of volume, transactions and professional fund management. The total traded amount and the total traded shares both have *tripled* after the entry of mutual funds in comparison to Phase 3². Hence, we believe that our entry in this time in history is right. (In the below diagram, the first dotted line denotes the entry of the first mutual fund scheme in the market, the second dashed line denotes the entry of the other mutual fund scheme)

Relationship between Total Traded Amount & NEPSE

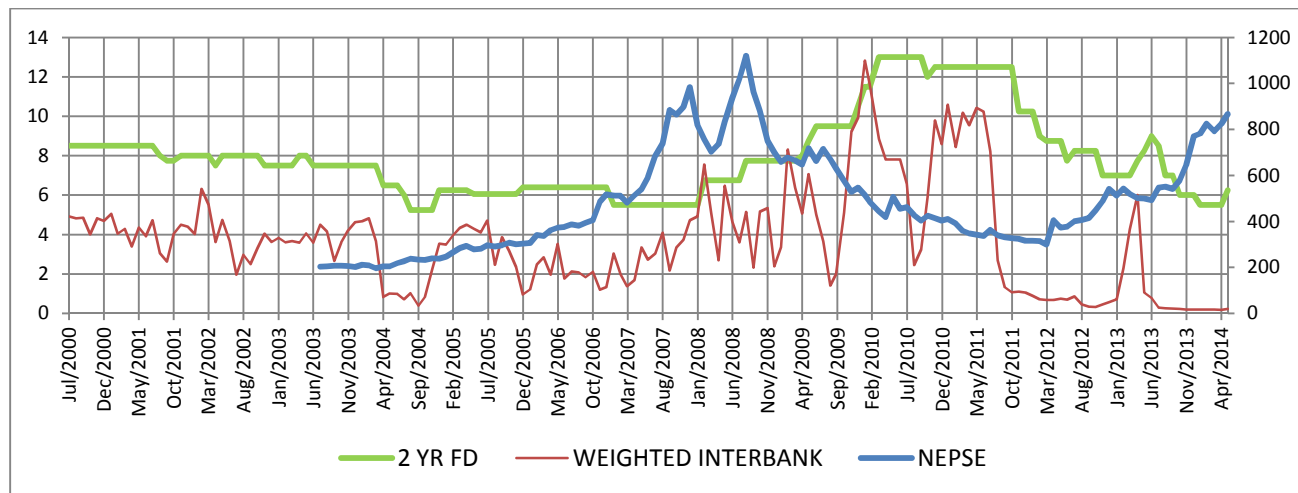


- b. *Interest Rates Cycle:* Peaceful conclusion of the Constituent Assembly Election, timely announcement of the full budget, various policy initiations by the Central Bank to ease the liquidity scenario, decrease in the cash reserve ratio and statutory liquidity ratio by the new monetary policy are factors which are in favor of increasing the flow of funds in the economy and hence leading to a lower interest rate regime. This decrease in the interest rate in the long term is usually followed by an increased flow of funds in the stock market most likely because of reduction in funding cost and limited investment opportunities. Other sectors such as real estate markets and precious metals are still weak and highly volatile and currently aren't the preferred sectors for seasoned investors. Hence, we firmly believe that the stock index will experience sustainable growth in the coming years. The graph below speaks the fundamentals and explains the relationship asserted as above.

² The period 03/01/2010-30/08/2012 of the NEPSE index; the period of correction in the market.

Historical Performance of 2yr Fixed Deposits, Weighted Interbank Rates, and NEPSE

Note: 2 year fixed deposits rate is considered as a proxy for interest rates in general



- c. *Central Depository System (CDS):* In the Depository System, the securities of an investor are held in electronic form by conversion of physical securities to an electronic form which facilitates transactions electronically without involving any physical certificate. Here the transfer of securities takes place by means of electronic book entries resulting in faster settlement cycles, faster disbursement of corporate benefits like Rights shares, Bonus shares etc., possible reduction in rates of interest on loans granted against pledge of dematerialized securities by various banks, and availability of periodical status report to investors on their holding and transaction. In most of the other countries of the world, upon implementation of CDS, the transactions have multiplied so as have the returns and liquidity.

In Bangladesh before the implementation of CDS the stock market only had 13 Million trades in 2008 but with full implementation and introduction of online trading, the number of trades grew to over 33 Million in 2012. The Bangladeshi market is bigger than ours but connotes similar psyche in investing habits and nature of trades.

- d. *The Market is Outside the Valley:* Trading of stocks is mostly centralized in Kathmandu and adjoining districts, but with the introduction of CDS along with online trading; people from all over the country can regularly and easily participate in the capital market. Almost 85% of the total funds of a recent IPO were collected from Kathmandu and adjoining districts, the remaining two Billion (balance 15% percent) was collected outside of this region. With the ushering of CDS and online trading, these funds and the people could easily participate in the capital market and reap its benefits while further contributing to the volume, liquidity and development of the capital market. Till date, there are 8 locations from where transactions can

be undertaken outside the valley but in the coming days NEPSE has cited opening 40-45 new locations considering the transaction volume and interest.

In the table below, the clusters outside the dotted lines and beyond will also have access; hence adding the volume and number of participants in the capital market. The valley's concentration will be matched by the volume of the rest of Nepal.

Table depicting Collection Centre (CC) Districts (Horizontal) & Home District (Vertical) along with amount of collected funds before allotment of a commercial bank's IPO

(Amount in '000)

CC District	HOME DISTRICT									
	Kathmandu	Lalitpur	Bhaktapur	Morang	Kavre	Jhapa	Chitwan	Parsa	Kaski	Gorkha
Kathmandu	4,906,849	570,707	226,885	205,681	268,082	227,667	204,497	95,563	119,791	274,661
Lalitpur	347,271	532,651	24,804	13,999	18,995	48,522	18,002	31,528	9,441	19,606
Bhaktapur	22,013	4,974	320,347	2,127	6,061	3,933	1,037	287	2,511	1,564
Parsa	9,601	1,708	310	3,441	2,450	1,313	2,526	201,839	123	257
Kaski	7,831	2,926	397	1,342	803	130	5,759	141	195,428	2,758
Kavre	52,649	9,448	24,561	2,971	92,422	526	287	406	491	706
Morang	2,931	113	151	157,319	161	5,041	226	203	22	257
Chitwan	5,006	2,705	575	1,336	102	165	101,420	211	291	1,325
Jhapa	170	60	320	1,495		76,343	100	60	80	85
Sunsari	687	120	10	13,358	220	8,252	578	25	41	50

Note: CC District: Districts where the funds were collected

Home District: Districts which the applicants noted as their birthplace in their Citizenship Cards.

Top 10 Districts according to amount of Funds Collected

CC District	Applicant Number %	Deposited Amount%
Kathmandu	70%	74%
Lalitpur	10%	9%
Bhaktapur	4%	3%
Parsa	2%	2%
Morang	2%	1%
Kaski	2%	2%
Rupandehi	1%	1%
Kavre	1%	1%
Sunsari	1%	1%
Chitwan	1%	1%
Remaining	5%	4%

The table illustrates % of applicants and % of amount collected before allotment of a commercial bank's IPO

Introduction of the Automated Trading System in NEPSE few years ago resulted in manifold increase in the trading volume and with the introduction of CDS the trend is expected to exponentially increase and add to the volume, breadth & sophistication of the capital market.

- e. *Migration Dynamics*: The above table gives insight not only on the investment habits and socio economic dynamics but also on key social issues and migration dynamics. Migration not only carries a lot of meaning in an economic sense; it also transports wealth, knowledge, education and investment habits. Currently the six clusters in the table above represent a significant portion of the investment, but other clusters outside where pockets of smaller investors are growing; that is where the real growth is.

Hence, with the understanding of these market dynamics we are confident on ensuring above average returns; also understanding these dynamics will let us anticipate where further growth will emerge from.

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