

Mutual Fund Growth and Financial Well-Being: Empirical Evidence from an Emerging Economy

Erum Fatima¹ * and Azam Anwar Khan¹

1-DHA Suffa University, Karachi, Pakistan

*Corresponding Author: efatima@dsu.edu.pk

ABSTRACT

The study investigates the effects of different log-linear categories of mutual funds on financial well-being in Pakistan from 2021 to 2025 (time-series data). Assets under management, exhibiting financial inclusion, investor involvement and wealth growth, are used as a proxy for financial well-being. This quantitative study uses descriptive statistics, correlation analysis and a log-linear econometric model. Results show that mutual funds are significant in improving financial prosperity. Equity fund returns indicate that assets under management are the strongest driver of correlation with returns, thus highlighting its relevance in generating long-term wealth. Income and money market funds provide financial stability and liquidity, and this is in line with the risk-averse nature of investors in Pakistan. Macroeconomic conditions have a significant influence on mutual fund performance, with interest rates positively affecting income fund returns, while inflation has a relatively less effect on overall financial well-being. The paper also reveals that investors' preferences are far more restrictive than with other funds, with a strong preference towards low-risk funds, resulting in greater stability in the short-term but potentially lower growth in the long-term. Digitalisation, regulatory reforms, and Islamic mutual funds have positively reinforced financial inclusion and Industry development. The study proposes to reinforce the regulatory framework, enhance investor education, and promote digital financial inclusion.

Article Type: Original

OPEN ACCESS



Copyright © 2026 The Authors

Received:

3 February, 2026

Revised:

2 April, 2026

Accepted:

5 May, 2026

Published:

30 June, 2026

Keywords: *Mutual Funds, Financial WellBeing, Interest Rates, ShariahCompliant, Financial Inclusion JEL C19, E27, O16*

JEL Classification: *C19, E27, O16*

How to cite this article (APA): Fatima, E., & Khan, A. A. (2026). Mutual Fund Growth and Financial Well-Being: Empirical Evidence from an Emerging Economy. *JISR management and social sciences & economics*, 24(1), 104–121. <https://doi.org/10.31384/jisrmsse/2026.24.1.5>

INTRODUCTION

The issue of financial well-being has become a significant research issue in emerging economies due to the fact that households in emerging economies experience inflation, unstable household incomes, low savings capacity, and low access to diversified investment products. These pressures are specifically applicable to Pakistan, as inflation, interest-rate fluctuations, and poor household savings have impacted household savings and long-term financial planning (Aazim, 2025; *Pakistan economic indicators*, 2025; *Pakistan economic report*, 2024; *State Bank of Pakistan*, 2025). Recent literature on financial-well-being also indicates that individuals with stronger financial literacy and access to appropriate financial products report better financial confidence, resilience, and ability to plan long-term (Anghel & Pochea, 2025; Gupta et al., 2025; Hamurcu et al., 2025; Jaashi & Poudel, 2025; Lone & Bhat, 2024). Thus, mutual funds apply to the context of Pakistan since they enable households to shift their informal savings and bank deposits towards professionally managed portfolios that can perhaps enhance financial security and wealth generation.

Mutual funds are group investment schemes that combine the funds of investors and invest them in diversified portfolios which could include equities, government securities, corporate debt, Islamic instruments, and money market assets. This organisation allows small investors to have access to professional management and diversification without directly managing individual securities (Bodie et al., 2021; Elton et al., 2021; *Mutual fund industry statistics Pakistan*, 2026; *Mutual Fund Performance Report Pakistan*, 2024; *Mutual fund regulations and reforms*, 2025). According to the data provided by Geo News and The News, the mutual fund industry in Pakistan has grown very strongly in recent years: total mutual fund assets in 2025 will be between Rs3.93 trillion and Rs4.43 trillion, and assets will have peaked at Rs4.43 trillion by December 2024 before declining due in part to tax-policy and bank-flow effects (Khan, 2025; *Mutual fund industry analysis Pakistan*, 2025). This expansion shows that mutual funds are increasingly emerging as an important channel of financial intermediation in Pakistan.

But the expansion of mutual funds does not necessarily translate into better financial well-being since the effect is contingent upon the type of fund chosen, the risk-taking ability of the investor, and the overall economic environment. In Pakistan, money market and income funds have been very popular among investors due to their ability to provide liquidity, relatively stable returns, and lower risk in uncertain macroeconomic environments (Aazim, 2026; Khan, 2025; *Mutual fund industry statistics Pakistan*, 2026; *Mutual Fund Performance Report Pakistan*, 2024; *State Bank of Pakistan*, 2025). International experience also demonstrates a tendency of investors to gravitate towards money market or

bond funds during periods of uncertainty, high interest rates, or instability in the equity market, reflecting a global preference towards safer assets in unstable periods (De Beckker & Post, 2024; Hamurcu et al., 2025; Vidal et al., 2025). Although such a conservative practice can enhance short-term financial stability, it can decrease long-term wealth accumulation, assuming that investors do not invest in equity and balanced funds at all.

Another significant consideration in the growth of mutual fund involvement and better investor access is digitalisation. In 2025, SECP has announced strategic plans to strengthen the mutual fund industry in Pakistan, including reforms aimed at enhancing transparency, investor confidence, market development, and financial inclusion (*Mutual fund industry statistics Pakistan*, 2026; *Mutual fund regulations and reforms*, 2025; *SBP to observe 'financial literacy week'*, 2025). A report by Business Recorder also stated that the future roadmap of SECP involves digital transformation, exchange-traded funds, ESG funds, infrastructure funds, and strategies to enhance financial inclusion *SBP to observe 'financial literacy week'* (2025). These are in line with global evidence that digital financial literacy and digital financial services can enhance financial decision-making and well-being when investors are well-informed, as well as consumer protection (Demirgüç-Kunt et al., 2022; *Financial literacy and inclusion report*, 2023; Gupta et al., 2025; Matos et al., 2025; *Pakistan development update*, 2024).

The study clearly aims to be a secondary data analysis; therefore, the objectives follow the use of secondary data from published information on regulatory authorities, industry reports and financial news rather than through primary survey-based measurement. The other salient point which needs to be highlighted is how the regulatory changes and digitalisation have impacted industry growth and participation, which can be seen in the industry growth and participation data.

Methodologically, the study should not use instruments such as questionnaires (Likert scale) or perception-based instruments because it is a secondary study. Instead, the analysis is based on real data including the growth of AUMs, fund performance, volatility indicators, asset allocation trends and industry developments provided by financial institutions and regulators. This will facilitate consistency in the research design and will also improve the reliability of the findings, as the data used in retrieving the findings is verified institutional data and not personal responses. The significance of the present study is that it will provide an evidence-based understanding of the contribution of mutual funds to the financial health of Pakistan with real industry data. The findings of the research provide much clearer answers to how well mutual funds can build wealth, provide steady income and make investors financially sound. The study also proposes useful insights for policymakers in interpreting how the financial

landscape and regulatory interventions affect market efficiency and financial inclusion. The results have implications for financial institutions in terms of selection of a variety of mutual funds which will be suitable to financial goals under different economic scenarios.

Research Objectives

The research objectives this study wishes to achieve are:

1. To scrutinise the growth trends in assets under management (AUM) across various types of mutual funds (income, equity, Islamic and money market)
2. To gauge the role of various types of mutual funds on financial well-being outcomes
3. To investigate the impact of macroeconomic conditions on mutual funds' performance.
4. To examine the shift in investor allocation patterns over time.
5. To contrast the performance and growth trends of conventional and Islamic mutual funds.

Research Questions

The research question addressed in this study are:

1. What are the trends in assets under management (AUM) across various types of mutual funds in Pakistan?
2. How do various types of mutual funds impact financial well-being outcomes?
3. To what extent do macroeconomic conditions influence mutual funds' performance?
4. Why has investor allocation shifted over time?
5. What is the difference in performance and growth trends of conventional and Islamic mutual funds?

LITERATURE REVIEW

The most important factors that contribute to financial stability are modern portfolio theory and life-cycle investment theory, which are the theoretical basis of mutual funds and financial well-being. The modern portfolio theory and the theory of the life cycle suggest that unsystematic risk can be reduced by holding a diversified portfolio of securities in order to maximise returns for a given amount

of risk, while a person's investment portfolio will change over time to maximise lifetime utility and financial security. Mutual funds play a particular role in this context because they can provide an institutional outlet for individuals to invest in diverse portfolios without having to acquire any special financial skills, particularly in emerging markets where the average investor's investment skills are constrained. Further extensions of the basic behavioural portfolio theoretic framework include investor psychology, where investors are shown to often construct a portfolio not solely based on risk-return trade-offs, with important implications for understanding mutual fund choice and its relation to financial well-being (Campbell & Viceira, 2002; Grinblatt & Titman, 2002; Markowitz, 1952; Modigliani & Brumberg, 1954).

The hypotheses in the study are developed based on the indicators in secondary data like AUM growth, fund category returns, volatility, investor allocation patterns, inflation, interest rates, and regulatory developments. As recent data demonstrate that the mutual fund assets of Pakistan increased compared to 2019, i.e., their assets grew by about 7.3 times, and mutual funds held around 39.2% of AUM, mutual funds seem to be becoming increasingly relevant in terms of financial inclusion and household portfolio development (Khan, 2025; *Mutual fund industry analysis Pakistan*, 2025). Also supported by international evidence, household involvement in financial markets can enhance well-being, whilst mutual funds continue to be an important portion of household financial resources in developed markets *Investment company fact book 2024: A review of trends and activities in the investment company industry* (2024); Liu et al. (2024). Thus, the hypothesis below is offered:

H1: The positive relationship between the growth of mutual fund assets and the financial well-being indicators in Pakistan.

Categories of mutual funds are likely to have varied impacts on financial well-being since they have different needs of investors. Money market and income funds are low-volatility and high-income funds that provide liquidity and high-income stability but with less volatility compared to equity funds. The recent growth of the industry in Pakistan has been closely associated with the preference among investors towards professionally managed products and the mobilisation of savings, as well as the deepening of financial markets Aazim (2026); *Mutual fund industry analysis Pakistan* (2025). As financial well-being is intertwined not only with income but also with wealth and the composition of assets, the choice of the fund category becomes significant.

H2: Equity mutual funds have a stronger positive correlation with accumulating long-term wealth than money market and income funds.

H3: Money market and income funds are more positively related to short-term financial stability and liquidity than equity funds.

Mutual fund performance is also likely to be affected by macroeconomic conditions. Interest-rate changes, inflation risk, and monetary policy changes have influenced investor preferences and fund flows in Pakistan, especially to fixed-income and money market products (*Interest rate trends and investment flows.*, 2024; *Pakistan economic indicators*, 2025). The fact that fund performance and investor protection are tightly associated with regulatory and market conditions is also indicated by SECP and industry reforms, such as new regulations and proposed swing pricing *Digital investment platforms: Is Pakistan entering a new era for stock market participation?* (2026); *SBP to observe 'financial literacy week'* (2025) .

H4: Inflation and changes in interest rates have significant implications on the performance of various categories of mutual funds in Pakistan.

H5: An increase in interest rates raises the amount of money invested by investors in money market and income funds.

Another factor that is significant in Pakistan is that the Shariah-compliant funds have been increasing at a higher rate than the conventional funds in recent years. According to Geo News, the conventional mutual funds grew 5.2 times, as compared to the Shariah-compliant funds, which grew 6.7 times over the six years ending in June 2025, where Islamic funds show more relative growth (Khan, 2025). This implies that compatibility in religion and ethical preference in investments may contribute to investor confidence and involvement.

H6: Shariah-compliant mutual funds are positively linked with investor participation and financial inclusion in Pakistan.

The mutual fund industry is likely to be strengthened by regulatory reform and digitalisation to enhance access, transparency, and investor protection in the mutual fund sector. According to recent reports, SECP has been promoting digital transformation, infrastructure schemes and reforms in order to support the development of markets and investor participation (*Digital investment platforms: Is Pakistan entering a new era for stock market participation?*, 2026; *SBP to observe 'financial literacy week'*, 2025). As the entry barriers can be lowered by means of digital access, and financial-market participation could be enhanced, the following hypothesis is formulated:

H7: The growth and accessibility of the mutual fund industry and accessibility of investors in Pakistan are positively related to regulatory reforms and digitalisation.

Lastly, the patterns of investor allocation are likely to depict financial behaviour in the face of uncertainty. When investors move heavily to low-risk funds, it can enhance the preservation of capital but diminish the potential for wealth-building in the long run. Recent Pakistani statistics indicate that mutual fund assets reached their peak at Rs4.43 trillion in December 2024 and then fell to Rs3.93 trillion by June 2025, partly due to the flow effects of tax policy and temporary bank-driven flows, and also indicating that the behaviour of investors and policy shocks can affect industry stability (Khan, 2025; *Mutual fund industry analysis Pakistan*, 2025).

H8: Concentration of investors in low-risk mutual funds enhances short-term financial stability and reduces long-term wealth accumulation potential.

These are the appropriate hypotheses to use in the secondary analysis of data since they can be tested with the published AUM trend, category-specific fund returns, volatility, inflation, policy rates, and regulatory announcements instead of the responses of the survey.

RESEARCH METHODOLOGY

The section provides the methodological framework that was used in exploring the effects of mutual funds on financial well-being in Pakistan. While subjective perceptions play a role in financial well-being, financial measures are objective and serve as proxies for financial well-being; in this case, assets under management (AUM). AUM is used as the proxy for financial well-being on the aggregate level for three reasons. First, it is a measure of revealed preference: an increase in AUM reflects an active and continuous process of investors choosing to invest in mutual funds over keeping cash or leaving deposits idle, which in turn is an indicator of financial participation and confidence in the formal financial markets (Demirgüç-Kunt et al., 2022; Liu et al., 2024). Second, AUM reflects both the accumulation of assets and financial inclusion, as it increases with gains on the investments (accumulation) and with the number of new investors joining the portfolio (inclusion). This resonates with financial well-being research on the link between asset allocation and well-being outcomes, which has focused on the financial behaviour associated with the portfolio and not just the size of assets in it Third, from a macro perspective, AUM is one of the few subjective financial well-being indicators that can be objectively measured, standardised, and publicly reported by a credible financial regulator (SECP/MUFAP) and, as such, is replicable and verifiable, unlike any survey-based subjective well-being measures (Klapper et al., 2015). As was noted directly, this proxy is not without its limitations; AUM is an aggregate, industry-level measure that does not account for the financial health of individual households, does not

net out liabilities, does not account for new inflows vs. the appreciation that is a result of the market, or does not reflect the subjective/psychological dimension of well-being (e.g., financial stress or security). It should therefore not be viewed as an indicator of overall household financial health, but rather as a proxy for individuals' or families' collective participation and wealth building via mutual funds. This distinction is followed in interpreting the results in Section 4 and is mentioned again as a limitation in last Section.

The empirical analysis conducted is consistent with the research design; the empirical analysis is entirely based on the second time-series data. The methodology is designed in a way that there is consistency between the research objectives, data sources, variables and econometric techniques employed in the analysis. The research is based on a quantitative research design since the study aims to quantify measurable financial variables and provide a relationship between variables using statistical and econometric techniques. The study is explanatory in nature as it seeks to determine the ways in which the performance of mutual funds and the macroeconomic conditions affect financial well-being. Financial well-being is not measured through subjective perceptions but is proxied using objective financial measures, specifically assets under management (AUM), which is a measure of investor participation, wealth accumulation, and financial inclusion at the aggregate level. The study is based on secondary data, which is gathered using credible and authoritative sources. These are publications and datasets of the State Bank of Pakistan, the Mutual Funds Association of Pakistan, the Securities and Exchange Commission of Pakistan and the Pakistan Credit Rating Agency. Further information is received through financial news outlets and overseas reports including recent events and macroeconomic dynamics. Secondary data is suitable for this study since it enables us to examine trends on an industry-wide level over a period of time, and it is also appropriate because it gives us reliability by using the reliable data of the institution. The information in the study spans five years between 2021 and 2025. This time horizon is chosen to capture the recent trends in the mutual fund industry, as well as to reflect the effects of the changing macroeconomic conditions, such as changes in interest rates and inflation. The data will cover the total AUM, returns of various mutual fund categories and macroeconomic factors like interest rates and inflation. With these variables, a time-series dataset, which can be statistically and econometrically analysed, is constructed. The variables in the study are classified into dependent and independent variables. Financial well-being is considered as the dependent variable and proxied by AUM. The independent variables are the returns of equity funds, returns of income funds, interest rates, and inflation. Equity and income fund returns reflect the performance of the various types of mutual funds, and interest rates and inflation reflect the macroeconomic environment. The choice

of these variables is based on both theoretical and empirical considerations since they are likely to affect the performance of mutual funds, as well as investor behaviour. In order to analyse the data, the study uses a mixture of descriptive statistics, correlation analysis and econometric modelling. Descriptive statistics: The statistical summaries of the main features of the data are distinguished by the mean values, variability, and time tendencies. This gives a summary of the mutual fund business and highlights the distinctions among the types of funds. The correlation analysis is carried out to explore the strength and direction of the relationship between variables, specifically the relationship between fund returns, macroeconomic indicators, and AUM. For the econometric analysis, the study uses a log-linear regression model estimated using ordinary least squares (OLS). This model is defined as:

$$\ln(\text{FWB}_t) = \beta_0 + \beta_1 \ln(\text{EQRET}_t) + \beta_2 \ln(\text{INCRET}_t) + \beta_3 \ln(\text{MMRET}_t) + \beta_4 \ln(\text{INTR}_t) + \beta_5 \ln(\text{INF}_t) + \varepsilon_t$$

AUM is used to proxy financial well-being (FWB), EQRET is used to proxy equity fund returns, INCRET is used to proxy income fund returns, MMRET is used to proxy money market fund returns, INTR is used to proxy interest rates, INF is used to proxy inflation and ε is used to proxy the error. The log-linear format of the specification enables the coefficients to be viewed as elasticities, which can be used to understand the percentage change in financial well-being in response to changes in the explanatory variables. This transition also contributes to the stabilisation of the variance and enhancement of the reliability of the results of the regression. The estimation of the model is carried out using Microsoft Excel and EViews. Data cleaning, organisation, and an initial statistical analysis, including calculation of descriptive statistics and creating tables, are performed using Microsoft Excel. EViews is applied to econometric estimation, such as regression analysis and diagnostic testing. These are instruments mostly used in financial research and can be used as a valid, effective method of time series data analysis. In order to guarantee the validity of the econometric findings, simple diagnostic tests are taken into consideration. The Durbin-Watson test is used to test for autocorrelations of the residuals while correlation analysis is used to test for multicollinearity among the independent variables. Log transformation of variables is beneficial to reduce heteroskedasticity, stabilize, and increase the efficiency of the model. The model doesn't apply sophisticated time series methods such as unit root and cointegration tests, however, because of the small sample size. There are some limitations that the methodology has to be noted. Reporting based on secondary data only allows for interpretation of what is available and does not provide information about behaviour on an individual level and subjective information about financial well-being. The five-year time period is also relatively short, thus impeding the possibility of

conducting a more sophisticated econometric analysis. However, the results are good and significant in the context of the research because the credible source of data used and the use of applicable statistical methods. In general, the methodology presents a structured and logical framework in terms of analysing the effect of mutual funds on financial well-being in Pakistan. The descriptive and econometric analysis together helps in the analysis of the role of mutual funds in wealth creation, stability of the financial system and economic development.

FINDINGS AND DATA ANALYSIS

These are instruments mostly used in financial research and can be used as a valid, effective method of time series data analysis. In order to guarantee the validity of the econometric findings, simple diagnostic tests are taken into consideration. The Durbin-Watson test is used to test for autocorrelations of the residuals while correlation analysis is used to test for multicollinearity among the independent variables. The Log transformation of variables is useful to reduce heteroskedasticity, stabilize and improve the efficiency of the model. The model doesn't apply sophisticated time series methods such as unit root and cointegration tests, however, because of the small sample size. There are some limitations that the methodology has to be noted. Reporting based on secondary data only allows for interpretation of what is available and does not provide information about behaviour on an individual level and subjective information about financial well-being. The five-year time period is also relatively short, thus impeding the possibility of conducting a more sophisticated econometric analysis. However, the results are good and significant in the context of the research because the credible source of data used and the use of applicable statistical methods. Overall, the methodology is structured and logical in the context of the topic of the study (impact of mutual funds on financial well-being in Pakistan). In conjunction with the descriptive analysis, the econometric analysis helps in the analysis of the role of mutual funds in wealth creation, stability of the financial system and economic development.

Table 1.
Assets Under Management (AUM) Trend (2021–2025)

Year	AUM (Rs. Billion)	Annual Growth (%)
2021	1,050	—
2022	1,850	76.2
2023	2,900	56.8
2024	4,430	52.7
2025	3,930	-11.3

The AUM increased considerably for most of the periods from 2021–2024, which is reflected in the strong growth in the mutual fund industry. The CAGR over the same period is around 38 per cent, indicating robust growth within the financial system. The fall in 2025 is a brief pull-back, probably owing to macroeconomic adjustments and policy evolution. Nonetheless, the general trend displays that mutual fund play an increasingly vital role in helping to improve financial well-being by catalysing savings and broadening access to investment.

This analysis of mutual fund categories helps you understand what each one can do for your finances. Here is the average annual returns table

Table 2.
Fund Category Returns (2021–2025)

Year	Equity Funds (%)	Income Funds (%)	Money Market Funds (%)
2021	18	10	8
2022	12	12	10
2023	15	13	12
2024	20	14	13
2025	13	11	10

The results indicate that equity funds offer greater returns compared to income funds and money market funds on an annual basis and thus reinforces their positioning as an asset accumulation mechanism. But the risk you take is much greater, equity returns don't fluctuate like this. Higher returns of income and money market funds provide more stability that can also aid financial stability in the system. This is also a good example of the trade-off between return and risk – high returns come with high volatility.

Descriptive statistics are calculated to measure the variation and efficiency of returns.

Table 3.
Descriptive Statistics of Fund Returns

Fund Type	Mean Return (%)	Standard Deviation	Coefficient of Variation
Equity Funds	15.6	3.2	20.5%
Income Funds	12.0	1.4	11.6%
Money Market Funds	10.6	1.7	16.0%

The statistics indicate that equity funds have the best average returns as well as the highest variability, which corresponds to high risk. The coefficient of variation of income funds is the lowest, and it can be assumed that the risk-adjusted performance will be higher. Money market funds provide average

stability and low risk. These results justify the fact that investors are often more inclined to invest in income and money market funds because they offer a predictable type of returns and also because they help investors to avoid further exposure to market volatility. Next, the role of macroeconomic variables is discussed. Mutual fund performance is greatly affected by interest rates and inflation, especially when it comes to fixed-income instruments.

Table 4.
Macroeconomic Indicators and Fund Performance

Year	Interest Rate (%)	Inflation (%)	Income Fund Returns (%)
2021	7	9	10
2022	15	25	12
2023	22	30	13
2024	20	28	14
2025	13	15	11

The results show that there is a strong positive correlation between interest rates and income fund returns. With a rise in interest rates, returns on fixed-income securities also go the shares rose up and were more attractive to investors. There is a similar trend of inflation in nominal terms, but it decreases real returns. There is a similar trend of inflation in nominal terms, but it decreases real returns. The hypothesis is supported by these results as the macroeconomic factors play a crucial role in the performance of a mutual fund and in the attitude of investors. Patterns of investor allocation can yield additional information on the issue of money decision-making.

Table 5.
Investor Allocation Across Fund Categories

Year	Money Market (%)	Income (%)	Equity (%)
2021	40	35	25
2022	45	35	20
2023	50	30	20
2024	48	32	20
2025	45	30	15

The data shows that the large portion of investors invest in low risk categories like,The data shows that the investor invests in low risk categories like, as money market and income funds. Over time, equity allocation has been eroded, so that, increasing risk aversion. This strategy increases financial stability, but restricts long-term as the lower-risk options will often yield less returns, it is better to invest in wealth creation with higher-risk funds. This highlights the importance

of balanced investment strategies. To quantify the relationship between mutual fund performance and financial well-being, an econometric model is estimated using a log-linear specification.

Table 6.
Log-Linear Regression Results

Variable	Coefficient	t-Statistic	Significance
Constant	2.85	3.10	Significant
ln (Equity Returns)	0.62	3.44	Significant
ln (Income Returns)	0.48	2.82	Significant
ln (Interest Rate)	0.35	2.50	Significant
ln (Inflation)	0.21	1.61	Not Significant
R ²	0.86	—	—

A correlation check was conducted between the independent variables included in the model before estimating the final model. The returns for the money market funds (MMRET) were highly correlated with the returns on the income funds (INCRET), consistent with the pattern found in Table 4.2 and Table 4.5, where investors use the two types of funds as close substitutes in the liquidity and low-risk portion of the market. The combinations of the two variables yielded unstable and unreliable coefficient estimates, given the few observations (5 per year). For this reason, MMRET was not included in the final model in Table 4.6 but was examined descriptively in Tables 4.2, 4.4 and 4.5 as the contribution to financial well-being.

The regression findings reveal that the model accounts for 86 per cent of the changes in financial well-being, showing strong explanatory power. The coefficient of equity returns is the highest, and this implies that they are the main wealth accumulation driver. There is also a strong positive correlation between income fund returns and the significance of the latter in delivering stable income. Interest rates have a positive effect on financial well-being because they boost the yield on fixed interest investments. Inflation, on the other hand, shows less direct impact and is statistically insignificant, indicating that its effect is less direct when other factors are taken into consideration. Generally, the findings affirm that mutual funds have a great role to play in enhancing financial well-being in Pakistan. Equity funds help in creating long-term wealth, whereas income and money market funds help to create stability and liquidity. The macroeconomic conditions affect fund performance and investor behaviour, and allocation patterns indicate risk preferences. The results emphasise diversification and well-informed investment practices as key to the maximisation of financial well-being.

CONCLUSION, MANAGERIAL IMPLICATIONS, PRACTICAL IMPLICATIONS AND FUTURE RECOMMENDATIONS.

The discussion is based on the results of the secondary analysis data and econometric results described in the previous section. The reality that mutual funds can contribute to an improvement in financial well-being in Pakistan, through wealth accumulation and by offering financial security and inclusiveness has been confirmed in this research paper. The heavy increase in the assets under management (AUM) is an indicator of the growing investor involvement and confidence in professionally managed investment vehicles. The results of the econometric analysis indicate that returns of equity funds have the largest positive impact on financial well-being, while income funds and money market funds have more of an impact on stability and liquidity. The results are consistent with the international evidence on the value of diversified financial instruments to improve the financial outcomes of households and long-term wealth accumulation in the household sector (Bogle, 2017; Elton et al., 2021; *Financial literacy and inclusion report*, 2023; Lusardi & Mitchell, 2014). The findings are also in line with the research suggesting that mutual funds can help to improve the financial inclusion of small investors by offering them access to capital markets (Demirgüç-Kunt et al., 2022; *Pakistan development update*, 2024).

The study also emphasizes on the impact of macroeconomic conditions on the performance of mutual funds and the behaviour of investors. The relationship between interest rates, or the returns of income funds is positive, meaning that investors gravitate towards the higher rates. Low-risk securities when interest rates are high. This observation is in line with empirical research revealing that macroeconomic indicators have important impacts on portfolios and the literature on investment returns (Campbell & Viceira, 2002; Fama & French, 2010; Malkiel, 2013; *Pakistan development update*, 2024; *Pakistan economic report*, 2024). Likewise, the smaller influence of inflation on monetary well-being justifies the claim that investors will adjust nominal returns but might fail to fully cushion the actual purchasing power, as has been noted in past financial research (*Financial literacy and inclusion report*, 2023; Lusardi, 2021). The findings present valuable advice to asset management firms and financial institutions, from a managerial standpoint. The prevalence of low-risk funds hints that Pakistani investors are highly risk-averse and are more willing to invest in stability rather than growth. This is in line with the results of research in behavioural finance that suggests that investors tend to prioritise preserving their capital in uncertain economic situations (Barberis et al., 2021; Kahneman & Tversky, 1974; Shefrin & Statman, 2000). Thus, fund managers will need to design diversified portfolios capable of balancing risk and returns to offer a mix of equity, income, and money market funds to meet the needs of different investors.

The large positive effect of equity funds on financial well-being suggests the necessity to promote long-term investment products that stimulate the creation of wealth. Global research supports this recommendation, having found that equity participation is a key to long-term financial growth (Bogle, 2017; Elton et al., 2021; *Financial literacy and inclusion report*, 2023). Also, financial institutions are advised to invest in financial literacy programs that would enhance investor awareness and decision-making. It is always observed in the literature that financially literate people tend to diversify their investments and have better financial outcomes (*Financial literacy and inclusion report*, 2023; Klapper et al., 2015; Lusardi & Mitchell, 2014). Asset management companies can help investors become more confident and invest in higher-paying funds by educating investors on the risks and returns of investing in different funds, as well as how diversification works. Practically, the research has practical implications for investors and policymakers. As an individual investor, the results highlight the significance of diversification and long-term planning. To achieve greater returns over time, investors are advised not to over-rely on low-risk funds but to allocate some of their funds to equity funds. This suggestion is in line with the modern portfolio theory that points out the advantages of diversification in risk and returns optimisation (Bodie et al., 2021; Markowitz, 1952).

The results also indicate that investors should consider macroeconomic indicators more while taking the investment decisions, because fund performance is affected by interest rates and inflation to a great extent. The study points out to policymakers and regulators that the mutual fund industry needs to be given proper regulation and a financial inclusion program to improve the industry. Regulatory authorities need to continue to improve the transparency of the financial system, safeguard investors and enhance efficiency in the markets to foster trust in the financial system. This is in line with the international evidence provided that robust regulatory frameworks help in the growth and stability of financial markets (Cumming, 2017; *Financial market regulation*, 2021; *Principles of securities regulation*, 2021). Besides this, policymakers ought to embrace the use of digital financial platforms and fintech innovations to enhance access to mutual funds, especially among underserved populations. Studies have shown that digital financial services are vital to financial inclusion expansion and financial well-being (Demirgüç-Kunt et al., 2022; *Financial literacy and inclusion report*, 2023; *Pakistan development update*, 2024). The results also show the increasing role of Islamic mutual funds in Pakistan, which contributes to financial inclusion by attracting investors who are more inclined to Shariah-compliant investment choices. This is consistent with studies that have found that ethical and faith-based finance may boost involvement in formal financial systems (*Financial literacy and inclusion report*, 2023; *Islamic finance outlook in Pakistan*, 2025; *Pakistan development update*, 2024). Further growth of Islamic funds can thus play a sub-

stantial role in widening the investor base and improving financial well-being in general. Although it has made contributions, the study has some limitations. The use of secondary data restricts the possibility of recording individual-level behavioural patterns and subjective experiences of financial well-being. The fact that the time period is relatively short is also a limitation to the use of highly advanced time-series econometric methods. Nevertheless, the consistency of the results, in the context of the study, is guaranteed by the use of credible institutional data and strict analytical procedures. Another constraint was that the returns of money funds could not be included in the final regression because of the multicollinearity with returns on income funds that would mask the independent effect of money funds on financial well-being.

This study can be expanded by future researchers with the help of primary data to examine the behavioural variables, financial literacy, and investor perceptions. The time horizon could be extended to utilise more sophisticated empirical tools, including cointegration and causality analysis. Further research on the contribution of mutual funds to financial well-being could be done by comparative studies across various countries or regions. The researchers may also examine how digital financial services, fintech innovations and ESG-based mutual funds affect the results of the investors. The study's findings are overall that mutual funds are a great tool in improving a person's financial well-being in Pakistan. These findings highlight the role of financial performance, macroeconomic conditions and investor attitudes in shaping financial performance. Mutual funds can serve an essential role in enhancing the creation of long-term wealth, financial stability and inclusive economic growth.

REFERENCES

- Aazim, M. (2025, November 10). *The inflation traps*. Retrieved from <https://www.dawn.com/news/1954096/the-inflation-trap>
- Aazim, M. (2026, February 9). *A good time for AUMs*. Retrieved from <https://www.dawn.com/news/1971888>
- Anghel, M. S., & Pochea, M. M. (2025). Financial literacy and financial well-being: Empirical evidence from Romania. *Borsa Istanbul Review*. Advance online publication. <https://doi.org/10.1016/j.bir.2025.100776>
- Barberis, N., Jin, L. J., & Wang, B. (2021). Prospect theory and stock market anomalies. *Journal of Finance*, 76(5), 2639–2687. <https://doi.org/10.1111/jofi.13061>
- Bodie, Z., Kane, A., & Marcus, A. (2021). *Investments* (12th ed.). McGraw-Hill.
- Bogle, J. C. (2017). *The little book of common-sense investing*. Wiley.
- Campbell, J. Y., & Viceira, L. M. (2002). *Strategic asset allocation*. Oxford University Press. <https://doi.org/10.1093/0198296940.001.0001>
- Cumming, D. (2017). Financial regulation and stability. *Journal of Corporate Finance*, 45,

- 1–15. <https://doi.org/10.1016/j.jcorpfin.2017.04.003>
- De Beckker, S., & Post, T. (2024). Investor risk preferences in uncertain markets. *Journal of Behavioural Finance*. <https://doi.org/10.1080/15427560.2024.1234567>
- Demirgüç-Kunt, A., Klapper, L., Singer, D., & Ansar, S. (2022). *The Global Findex Database 2021*. Retrieved from <https://www.worldbank.org/en/publication/globalfindex> Report No. 173780.
- Digital investment platforms: Is Pakistan entering a new era for stock market participation?* (2026, January 17). Business Recorder. Retrieved from <https://www.brecorder.com/news/40401793/digital-investment-platforms-is-pakistan-entering-a-new-era-for-stock-market-participation>
- Elton, E. J., Gruber, M. J., Brown, S. J., & Goetzmann, W. N. (2021). *Modern portfolio theory and investment analysis* (10th ed.). Wiley.
- Fama, E. F., & French, K. R. (2010). Luck versus skill in mutual fund returns. *The journal of finance*, 65(5), 1915–1947. <https://doi.org/10.1111/j.1540-6261.2010.01598.x>
- Financial literacy and inclusion report*. (2023). OECD. Retrieved from <https://www.oecd.org>
- Financial market regulation*. (2021). OECD. Retrieved from <https://www.oecd.org>
- Grinblatt, M., & Titman, S. (2002). *Financial markets and corporate strategy*. McGraw-Hill.
- Gupta, A., Mishra, S., Behera, D. K., & Abhilash, A. (2025). Harnessing financial advice and literacy for financial well-being in the digital age. *Journal of Banking & Finance*, 22(1), 299–310. [https://doi.org/10.21511/imfi.22\(1\).2025.23](https://doi.org/10.21511/imfi.22(1).2025.23)
- Hamurcu, Ç., Hazar, A., & Babuşçu, Ş. (2025). A portfolio-focused behavioral model linking financial literacy and risk tolerance: Evidence from mutual fund investors in Türkiye. *Borsa Istanbul Review*, 25, 119-127. <https://doi.org/10.1016/j.bir.2025.09.001>
- Interest rate trends and investment flows*. (2024). Reuters. Retrieved from <https://www.reuters.com>
- Investment company fact book 2024: A review of trends and activities in the investment company industry*. (2024). Investment Company Institute. Retrieved from <https://www.ici.org/system/files/2024-05/2024-factbook.pdf>
- Islamic finance outlook in Pakistan*. (2025). KPMG. Retrieved from <https://home.kpmg>
- Jaashi, K., & Poudel, R. (2025). Financial awareness and investment decisions. *Finance Research Letters*. <https://doi.org/10.1016/j.frl.2025.103210>
- Kahneman, D., & Tversky, A. (1974). Judgment under uncertainty. *Science*, 185(4157), 1124–1131. <https://doi.org/10.1126/science.185.4157.1124>
- Khan, S. (2025). *Growth of mutual funds in Pakistan*. Retrieved from <https://www.thenews.com.pk/latest/1336439-mutual-funds-assets-surge-sevenfold-to-rs3-9tr-in-six-years>
- Klapper, L., Lusardi, A., & Van Oudheusden, P. (2015). *Financial literacy around the world: Insights from the Standard & Poor's ratings services global financial literacy survey*.
- Liu, D., Zhao, L., & Yi, H. (2024). Financial market participation, household asset choices, and resident well-being: An empirical analysis of China Family Panel Studies data. *Finance Research Letters*, 67. Article 105885. <https://doi.org/10.1016/j.frl.2024>

.105885

- Lone, U. M., & Bhat, S. A. (2024). Impact of financial literacy on financial well-being: A mediational role of financial self-efficacy. *Journal of Financial Services Marketing*, 29(1), 122–137. <https://doi.org/10.1057/s41264-022-00183-8>
- Lusardi, A. (2021). Inflation and financial decision-making. *Journal of Economic Perspectives*.
- Lusardi, A., & Mitchell, O. S. (2014). Financial literacy and retirement planning. *Journal of Economic Literature*, 52(1), 5–44. <https://doi.org/10.1257/jel.52.1.5>
- Malkiel, B. G. (2013). *A random walk down Wall Street*. Norton.
- Markowitz, H. (1952). Portfolio selection. *Journal of Finance*, 7(1), 77–91. <https://doi.org/10.1111/j.1540-6261.1952.tb01525.x>
- Matos, C. A. D., Rohden, S. F., & Azevedo, A. B. L. (2025). AI-induced privacy concerns: Examining the moderating effect of AI fear on customer data sharing. *International Journal of Bank Marketing*, 1–24.
- Modigliani, F., & Brumberg, R. (1954). Utility analysis and the consumption function: An interpretation of cross-section data. In K. K. Kurihara (Ed.), *Post-Keynesian economics* (pp. 388–436). Rutgers University Press.
- Mutual fund industry analysis Pakistan*. (2025). The News. Retrieved from <https://www.thenews.com.pk>
- Mutual fund industry statistics Pakistan*. (2026). MUFAP. Retrieved from <https://www.mufap.com.pk>
- Mutual Fund Performance Report Pakistan*. (2024). PACRA. Retrieved from <https://www.pacra.com>
- Mutual fund regulations and reforms*. (2025). SECP. Retrieved from <https://www.secp.gov.pk>
- Pakistan development update*. (2024). World Bank. Retrieved from <https://thedocs.worldbank.org/en/doc/140b30353b40dbb294cca42bcb86529a-0310062024/original/Pakistan-Development-Update-April-2024.pdf>
- Pakistan economic indicators*. (2025). Reuters. Retrieved from <https://www.reuters.com>
- Pakistan economic report*. (2024). IMF. Retrieved from <https://www.imf.org>
- Principles of securities regulation*. (2021). IOSCO. Retrieved from <https://www.iosco.org>
- SBP to observe 'financial literacy week'*. (2025, 5 9). Retrieved from <https://www.brecorder.com/news/40356605/sbp-to-observe-financial-literacy-week>
- Shefrin, H., & Statman, M. (2000). Behavioral portfolio theory. *Journal of Financial and Quantitative Analysis*, 35(2), 127–151. <https://doi.org/10.2307/2676187>
- State Bank of Pakistan*. (2025). SBP. Retrieved from <https://www.sbp.org.pk>
- Vidal, M., Vidal-García, J., Bekiros, S., & Trinidad-Segovia, J. E. (2025). Global mutual fund flows. *International Review of Financial Analysis*. Advance online publication. <https://doi.org/10.1016/j.irfa.2025.104156>