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Investigating the Performance and Sustainability of Active Investment Funds in the Iranian Capital Market and the Position of Funds in Attracting Investors

Jaber Ghahramanzadeh[1], Adel Shah Valizadeh[2,*], Petra Cajnko[3]

[1]Accounting Department, National University of Technology, Shahid Shamsipour, Iran
[2]Assistant Professor, Islamic Azad University, Ardabil Branch, Iran
[3]Faculty of Natural Sciences and Mathematics, University of Maribor, Slovenia

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ABSTRACT

Investment funds are among the effective instruments in the capital market that are established by banks and brokerage companies and play an effective role in developing the market and increasing investor participation. They are generally classified as low-risk instruments suitable for direct participation by less experienced investors. Accordingly, the purpose of this research is to examine the efficiency and sustainability of active investment funds in the Iranian capital market and the position of the funds in attracting investors in 125 investment funds from 2014 to the end of 2023. Also, the research is applied in terms of purpose and descriptive-analytical in terms of method. The method of collecting information in theoretical foundations is the library method and in the section of testing hypotheses, the method of document mining of financial statements.Excel software was used in the process of data preparation, modification, and processing, and Eviews software, version 11, was used to calculate descriptive and inferential statistics. The research hypotheses were tested using regression analysis and a mixed data approach. The results of the study indicate that the efficiency and sustainability of active investment funds in the Iranian capital market are positively and significantly related to investor attraction and its position.

Keywords: *Return, Sustainability, Active Investment Funds, Iranian Capital Market, Attracting Investors*

**Correspond author E-mail address: Adel.shahvalizadeh@iau.ac.ir*

Introduction

As a tool for indirect investment, funds collect the capital of interested individuals in the capital market and invest in a variety of securities. The management of investment funds is carried out under the supervision of the Stock Exchange Organization and by expert analysts (Yáñez-Valdés, & Guerrero, 2023). Most investors, in addition to their direct jobs, invest in investment funds with the aim of creating investment stability and enjoying a higher rate of return than deposits in banks (Papathanasiou & Koutsokostas, 2024). Investment funds are among the effective tools in the capital market that are established by banks and brokerage companies and play an effective role in developing the market and increasing investor participation (Javanbakht & Einabadi, 2023).In most advanced global markets, funds are categorized as low-risk instruments that can be used for direct participation by less experienced investors or those who do not have sufficient time in the stock market (Karami - Ardali et al., 2023). Each of the funds is classified into types of investment funds based on risk, return, asset type, etc. (Khorshid et al., 2024). From a general perspective, investment funds can be divided into two groups: tradable and non-tradable (fixed income and equity). Exchange-Traded Funds (ETFs) are a type of investment fund that consists of a variety of assets and its units are traded on the market during the day like stocks and have a structure similar to mutual funds; that is, during the hours and days that the stock market is open, one or more units of an exchange-traded fund can be bought or sold, or several units of it can be sold. Some of these funds can follow a specific market, industry or commodity. Now, if, as an investor, we are looking to operate in the stock market without incurring high risk, high transaction costs, and their various complexities, exchange-traded funds can be the best choice for this type of activity.These funds are actually a product with lower cost, risk, and complexity than buying and selling stocks directly and have their advantages (Plattek & Figueredo, 2023). Second, non-tradable funds, are mutual funds or non-tradable funds that have shares that are not tradable on the stock exchange.To buy and sell fund units, one must visit one of the fund offices in person or buy and sell investment units through the fund's website. Currently, in the Iranian capital market, non-tradable investment funds, like tradable investment funds, exist in three formats: fixed-income, equity, and mixed bonds (Karami -Ardali et al., 2023).

Return on investment is one of the most important issues raised in relation to investment. In other words, investors make choices by calculating the returns of different investments and comparing them with each other (Javanbakht & Einabadi, 2023). Investors can also employ various strategies to create and diversify their positions, ensuring financial success. One of the emerging trends that is changing the way businesses and investors think about investing is the concept of sustainable investing. This approach has contributed to positive social changes and helped shape the world. It has also been proven that individuals and businesses can benefit financially by making their investments sustainable. By establishing sustainable business strategies, purposeful leaders and organizations can make progress in solving the world's greatest challenges (Boltayeva, 2024).

According to the above, investment funds are considered examples of financial institutions active in the securities market that can play a significant role in public acceptance of the stock market and, by adopting appropriate policies, can play a fundamental role in attracting investors.

Currently, in most developed countries, investment funds are considered the central core of the capital market, directing huge amounts of idle capital to productive and active sectors of society on a monthly basis. Therefore, the primary objective of this research is to examine the efficiency and sustainability of investment funds active in the Iranian capital market, as well as their position in attracting investors.

Theoretical and Empirical Foundations of the Research

Return on investment: The profit or loss resulting from an investment is called the return. A positive return indicates profit, and a negative return indicates loss. For better comparison between different investments, return is often reported annually and as a percentage of the initial investment (Gantchev - et al., 2024).

Investment sustainability: In political economy, it refers to capital invested in production. Investment sustainability is the opposite of variable capital, and the distinction between them goes back to an aspect of the economic role of production factors in creating new added value (Kabbach-de-Castro et al., 2023).

Investment funds: Investment funds, as an indirect investment method in the capital market, play the role of a financial intermediary. In this way, by collecting small capital from different individuals, it will invest in the stock market through a team of professional analysts and with the opinion of the fund manager. For this reason, investment funds help non-professionals to enter the market more easily and benefit from appropriate investment opportunities (Kashanipour et al., 2019).

Iranian Capital Market: The capital market is a subset of the financial market that is divided into several different sections, including the stock exchange, the over-the-counter exchange, the energy exchange, and the commodity exchange. The most important features of the capital market include information transparency, market integration, facilitating the investment process, and other issues (Javanbakht & Ainabadi, 2023).

Investor attraction: Investor attraction refers to negotiating with investors for product development, production, development, sales, marketing, and creating office spaces. This helps companies grow (Yi, 2023).

Return: Return in the investment process is a driving force that motivates and rewards investors. The return on investment is of particular importance to investors because all investment activities are carried out in order to obtain a return. Evaluating return is the only logical way (before assessing risk) that investors can use to compare alternative investments._To better understand investment performance, it is necessary to measure real (past) returns. In particular, past returns are important in estimating future returns (Gantchev et al., 2024). Returns can be expressed nominally as the change in the dollar value of an investment over time (Klinkowska & Zhao, 2023). Returns can also be expressed as a percentage of the return on investment. They can be presented as net returns (after fees, taxes, and inflation) or gross returns, which include only price changes (Hekmatnia et al., 2023).

In other words, a positive return is a profit or money earned from an investment. Similarly, a negative return indicates a loss or money lost on an investment (Papathanasiou & Koutsokostas,

2024).

Rate of return: The rate of return is obtained by calculating the percentage ratio of profit after depreciation to the average capital employed. The rate of return is a financial ratio used to measure the efficiency of economic enterprises or investment projects, and there are various methods for calculating this rate. For example, the profit variable can be obtained before or after deducting taxes from the profit. For example, in one case, profit after tax, without deducting depreciation and interest expense, may be considered, or for the capital employed variable, preferred stock or bonds may be deducted, in which case the return obtained will be attributable only to common stock capital (Guidolin & Magnani, 2024).

Calculation of Expected Return: The expected return is calculated by adding the product of all probabilities and possible returns and setting them against the weighted average of the sum. When calculating the average return through the probability of return formula to represent portfolio returns, it is often referred to as the geometric mean return, because the formula evokes the averages used in geometry. However, the simple geometric mean does not adequately represent the full range of average returns as used in the stock market. The geometric mean return formula is mainly used for investments that are compound. By adding the rates and dividing by the time periods, it is possible to find the average of other simple interest calculations. On the other hand, a geometric mean return formula can show the rate of return for each period of the holding period, with the holding period return acting as the total return over several time periods (Boltayeva, 2024).

Return is usually made up of two parts: a) interest earned and b) capital gain (loss). Interest earned is the most important component of return, which is the profit in the form of periodic cash flows from the investment and can be considered as interest or dividends. The second most important component of return is capital gain (loss), which is specific to common stocks but also applies to long-term bonds and other fixed-income securities. This component, which is due to the increase (decrease) in the price of the asset, is called capital gain (loss). This capital gain (loss) is due to the difference between the purchase price and the price at which the securities are intended to be sold. This difference can be in the form of a profit or a loss. The sum of these two components constitutes the total return of the securities (Vilas et al., 2024), which for each security is as follows: Total return on securities = profit received + price increase.

Holding Period Return

Holding period return is the return on an investment over the period of time it is owned by a particular investor. Holding period return may be expressed as a nominal or percentage. When expressed as a percentage, the term most often used is Rate of Return (RoR). Often, people are interested in the annualized return of an investment, which calculates the price change from today to the same date one year ago. The process of converting shorter or longer return periods into annualized returns is called annualization (Boltayeva, 2024).

Average Return

The average return attempts to quantify the relationship between the risk of a portfolio of securities

and its return. It is assumed that while investors have different risk tolerances, rational investors always seek the maximum (RoR) for any level of acceptable risk. This is the expected return that investors try to maximize at any level of risk. The average return can also help investors visualize proportionate changes in wealth over time horizons and, through more detailed analysis, show that the rate of return on a stock or any other investment they hold can potentially continue (Hekmatnia et al., 2023).

Nominal Return

is the net profit or loss of an investment expressed in dollars (or other applicable currencies) before any adjustments for taxes, fees, dividends, inflation, or any other effects on the amount. It can be calculated by determining the change in the value of the investment over a specified period, plus any distributions, minus expenses. The distributions received by the investor depend on the type of investment, including dividends, interest, rent, salaries, benefits, or other forms of cash flow. The expenses paid by the investor depend on the type of investment, including taxes, fees, commissions, or expenses paid by the investor to buy, hold, and sell an investment (Khorshid et al., 2024).

Real Return

The real rate of return is adjusted for changes in prices due to inflation or other external factors. This method expresses the nominal rate of return in real terms that keep the purchasing power of a given level of capital constant over time. Adjusting the nominal return to compensate for factors such as inflation allows you to determine how much of your nominal return is a real return. Knowing the real rate of return of an investment before investing is very important. This is because inflation can reduce the value over time, as can taxes. Investors should also consider whether the risk associated with a particular investment is something they can tolerate given the real rate of return (Liao et al., 2024).

Return on Investment

The rate of return on investment, or the return on capital, all refer to the same concept. The English equivalent of the rate of return on investment is ROI. The return on investment is a measure and rate used to evaluate the efficiency and effectiveness of an investment. Even if you want to compare the returns of several investment examples, the best approach is to compare their investment returns (Karami Ardali et al., 2023). The biggest advantage of the rate of return on investment is that it is a relatively simple and straightforward measure, often used as a standard and global benchmark of profitability. As a measurement, its use in most cases does not cause misunderstandings and misinterpretations, because it maintains its meaning across different formats (Javanbakht & Einabadi, 2023).

Factors Affecting Investment Returns

Many factors affect investment risk and returns. The most important factor is the type of domestic or foreign markets in which the investment is made. Factors for domestic industries are classified into three general categories: macroeconomic, microeconomic, and non-economic factors, which

are as follows (Fang & Frieda, 2022):

Government policies and guidelines, cultural and social factors, industry status, country economic conditions, demand and elasticity of the company's manufactured goods, company management policies and guidelines, company financial status and accounts, the degree of dependence of the company's production on critical domestic and foreign factors, and the willingness to take risks.

Active Investment Funds

Most investors, in addition to their direct businesses, invest in investment funds with the aim of creating investment stability and enjoying a higher rate of return than deposits in banks. Investment funds are among the effective instruments in the capital market, established by banks and brokerage firms, and play an effective role in developing the market and increasing investor participation. In most advanced global markets, funds categorized as low-risk instruments that can be used for direct participation in the stock market by less experienced investors or those who lack sufficient time. Each fund is classified into types of investment funds based on risk, return, asset type, etc. (Plattek & Figueredo, 2023).

Types of Funds Based on Trading Method

Exchange-traded fund (ETF): An exchange-traded fund is a fund whose units can be bought and sold through the online trading system of brokerage firms. In other words, an exchange-traded fund, similar to company stocks, has its own symbol on the trading board. Among the notable advantages of exchange-traded funds is their high liquidity.

Issuance and cancellation investment fund: If the units of an investment fund cannot be traded through the online trading system, they will be bought and sold through issuance and cancellation, and for this purpose, one must visit the relevant fund's website and go through the issuance and cancellation process (Lee & Zhu, 2024):

Types of Investment Funds Based on Type of Activity

Investment funds are divided into the following based on risk tolerance, capital amount, and other related factors:

Stock Fund

Stock funds on the stock exchange allocate at least 70% of their assets to investing in stocks and pre-emptive rights. These types of funds can be established on a small scale with at least 5,000 units or on a large scale. Based on the latest quorum approved by the Stock Exchange Organization, stock investment funds are required to invest at least 70% of their assets in company stocks. For this reason, it can be said that the risk of this fund is much higher than that of a fixed-income fund, and as a result, its profits and losses will be much higher. The investment strategy of stock funds is different from each other and may be conservative, moderate, or aggressive.In general, it can be said that the risk and return of these funds are affected by the general conditions of the capital market (Javanbakht & Einabadi, 2023).

Fixed Income Funds

Fixed income investment funds are large in terms of financial scale and size and hold a large volume of assets. Fixed income investment funds invest the cash received in securities such as debt securities or bank deposits and always provide a constant cash flow for their investors. These funds allocate a minimum of 5% and a maximum of 25% of the resources to the purchase of stocks and invest 75 to 95% of the investor's assets in fixed income securities (Hekmatnia et al., 2023). Based on the latest quorum approved by the Stock Exchange Organization, fixed income investment funds are required to invest at least 90% of their assets in fixed income securities and bank deposits.Therefore, investing in these funds has very low risk and is the best alternative to cash or checking accounts and bank deposits. A maximum of 10% of the fund's assets is also allocated to the purchase of stocks, which, with the optimal arrangement of the asset portfolio, will reduce the probability of losses in these funds to near zero. Of course, a number of fixed-income funds are not allowed to invest in company stocks and therefore have very low risk. Among these funds, we can mention the second type of fixed-income funds, which are specifically designed for government bonds. Also, some fixed-income funds have periodic dividends, while others generate returns from the increase in the value of investment units (Guidolin & Magnani, 2024). Among the features of a fixed-income fund are: high liquidity, suitable for risk-averse individuals, daily interest and no failure rate, higher returns than bank deposits, the possibility of investing with small capital, tax-free, and low transaction costs (Kazemi Najaf Abadi et al., 2021).

Mixed Fund

A mixed investment fund is a middle ground between fixed-income funds and equity funds, meaning that it invests half of its capital in stocks of companies listed on the stock exchange and the other half in fixed-income securities. These funds allocate between 40% and 60% of their assets to investing in stocks, fixed-income securities, and bonds. Therefore, they are less risky than equity funds and more risky than fixed-income funds, and they fall between fixed-income funds and equity funds in terms of risk and return (Dash & Sethi, 2024). According to the latest quorum approved by the Stock Exchange Organization, mixed investment funds are required to invest 40 to 60 percent of their assets in company stocks, with the rest invested in fixed-income securities. Therefore, the risk and return of mixed funds are between fixed-income and equity funds. Mixed funds have greater potential for profitability than fixed-income funds, Still, because the majority of the fund's assets are invested in stocks, they do not have a guaranteed minimum return. They are suitable for individuals seeking to maintain the value of their assets against market fluctuations while also earning higher returns than fixed-income funds, provided the overall index grows (Karami Ardali et al., 2023). Among the features of mixed funds are cost savings, high and easy liquidity, suitable for people with a balanced risk appetite, positive returns in the long term, tax exemption, the possibility of investing with small amounts, no guarantee of profit and periodic payment of dividends, having a team of experts in capital market analysis, and lower risk compared to direct investment in the capital market (Kashanipour et al., 2019).

Gold-Backed Commodity Fund

Gold investment funds invest funds collected from clients in gold and coin certificates of deposit accepted on the stock exchange. At least 70% of these funds are invested in gold coins and gold-based derivatives, and the rest is invested in fixed-income securities (Badkoobeh Hazavah & Esmailzadeh Moqri, 2020).

Market-driven Private Equity Fund

A market-driven private equity fund buys and sells securities within the framework set by the Stock Exchange Organization. The performance of these funds increases the liquidity of stocks. It also causes the stock price to move towards its intrinsic value. Market-driven funds prevent the formation of buying and selling queues in stocks and make transactions smoother. A market-driven private equity fund holds a number of stocks of companies and buys and sells them. The goal of this fund is to create a balance in the stock price and prevent the formation of buying and selling queues, which ultimately drives the stock price towards its intrinsic value. Among the features of a dedicated market-driven fund are: specific to legal entities, increased stock liquidity, positive impact on the overall market trend, limiting the range of stock price fluctuations, and preventing severe fluctuations (Kazemi Najaf Abadi et al., 2021).

Land and Building Fund

The purpose of the Land and Building Investment Fund is to collect funds from applicants for investment in the fund and build a construction project specified in the fund's prospectus using the funds. The construction units of the project are then sold and the proceeds are ultimately divided among the fund's investors (Vilas et al., 2024).

Venture Capital Fund

The venture capital fund allocates capital collected from individuals and legal entities to invest in companies that do not have access to sufficient financial resources and emerging industries so that individuals can benefit from it (Boroumand et al., 2020).

Charitable Investment Fund

The purpose of forming a charitable investment fund is to collect funds from charitable individuals and allocate them to investment in bank deposits, fixed-income securities, stocks, and pre-emptive rights to buy stocks. According to the investor, any percentage of the capital assets in the fund is allocated to charitable causes such as providing housing for welfare organization clients (Hekmatnia et al., 2023).

Investment Fund Expenditures

Investment expenditures can indicate how much a company invests in current and new fixed assets to maintain or grow the business. In other words, investment expenditures are any type of expense that a company incurs. That is, instead of being recognized as an expense in the income statement, they are reported as an asset (investment) on the balance sheet. The level of capital expenditure of a company is usually dependent on the industry. Some capital-intensive industries have the highest

levels of capital expenditure, such as: oil drilling and production, telecommunications, manufacturing plants, and applied industries (Chien et al., 2023).

Investment Reporting on the Balance Sheet

Investments are reported on the balance sheet as assets. If the assets are purchased outright, the initial journal entry to record their acquisition may be offset by a cash credit, if the asset is financed with debt, or by equity if the asset is acquired through an exchange of property rights. While investment expenditures are depreciated, depreciation is reported on both the balance sheet and the income statement. In the income statement, depreciation is recorded as an expense and is often classified among the various types of depreciation of investment expenditures. On the balance sheet, depreciation is recorded as a contra asset that reduces the net asset value of the original asset purchased (Boroumand et al., 2020). Larger investments are often purchases of fixed assets that are intended to be used for a long time. If a company purchases a new vehicle for the company, the vehicle is considered a capital expenditure. Operating expenses are smaller, usually recurring purchases that support the company's operations with a certain value in the short term (He et al., 2023).

Advantages of Investment Funds

Investing in investment funds has advantages that make this form of investment suitable for a wide range of people (Boltayeva, 2024). Among these advantages are the following:

Ease of investment: Investing in funds does not require time or specialized knowledge, and everyone can easily invest in funds. By investing in one of the investment funds, you organize and manage your initial capital or assets in a completely professional manner. Therefore, by investing in investment funds, you can benefit from the abilities and skills of professionals to invest your assets. These funds employ analysts who continually review the market, seeking the best investment options and superior performance for investors. Professional management of investment funds does not mean obtaining a certain return, but rather means performing better than less experienced and non-professional investors in the capital market (Liao et al., 2024).

Minimum investment amount: Mutual funds are a good option for investing in the capital market with small amounts. The minimum investment amount in funds is as much as one unit of that fund, although this rule is different in exchange-traded funds and is as much as the minimum allowed investment amount (currently five hundred thousand Tomans). Individuals with limited capital cannot make large investments, but funds offer the opportunity to participate in a large investment with small capital and earn better profits (Gupta, 2024).

Diversity of investment funds: The diversity of investment funds is increasing in line with the demands and expectations of investors; therefore, individuals can choose the appropriate fund and purchase its units according to their conditions and risk tolerance level (Adu-Ameyaw et al., 2024).

Investment period: The investment period in funds can be very short-term and even a few days. Of course, given the volatile nature of the capital market, the shorter the investment period, the more volatile the returns will be. However, each investor can invest in the fund of their choice in the short, medium, or long term, depending on their trading strategy (Khorshid et al., 2024).

Asset diversification: Each investment fund is required to invest in different types of securities based on the quota set by the Securities and Exchange Organization; therefore, investment risk is also managed in a favorable manner. Of course, since there are different types of investment funds today, each investor can choose several funds to invest in, depending on their risk tolerance and capital (Gupta et al., 2024).

Fees payable: All investment funds have a fee, which, of course, is a specific and fixed amount. Investment funds typically have a fixed fee, which is a small amount, and only a few funds, including equity funds, have variable fees, which are realized if the fund performs well (Fang & Frida, 2022).

Professional asset management: Fund investment managers, who are selected from among professional capital market analysts and traders, control the risk and return of the fund in a desirable manner and manage the fund's assets professionally (Badkoobeh Hazaveh & Esmaeil Zadeh Moqri, 2020).

Appropriate liquidity: Investment funds have high liquidity and investors in each fund can easily withdraw their capital from the fund. According to the rules of the Stock Exchange Organization, all funds are required to have a market maker. A market maker increases the liquidity of the fund units and thereby eliminates the possibility of creating a buying or selling queue for the fund units. One of the most important features of any investment is its ability to be converted into cash when the investor decides to change their investment position and exit for any reason (Yáñez-Valdés, & Guerrero, 2023).

Tax exemption: According to the Financial Instruments and Institutions Development Act, profits from investing in funds are tax-exempt. In addition, fund transactions, including issuance, cancellation, and negotiability, are also tax-exempt (Kashanipour et al., 2019).

Risk reduction: Risk is inevitable in investing. People who are not risk-averse may find fixed income fund bonds more attractive. In addition, many shareholders hold fund bonds, especially fixed income funds, in their portfolios to reduce the risk of their investment portfolio (Fang & Frida, 2022).

How to Invest in an Investment Fund

Investment funds can be traded in two ways: issue-cancellation and Exchange-Traded Funds (ETF). ETFs are popular with investors because they are more liquid and easier to access. In this method, shareholders can search for the symbol of their desired funds from their user panel in the brokerage after receiving the trading code. Then, like buying shares, they specify the price and quantity and send the order. In the issue-cancellation method, applicants can also register their order through the website of the desired fund (Plattek & Figueredo, 2023).

Criteria for Selecting the Best Investment Fund

The criteria for selecting a good investment fund include: the performance of investment funds in previous years, the fund's return, the fund manager, the fund's life, the fund's liquidity guarantee, the fund's dividend payment period, whether monthly or quarterly, and the transaction method (Boroumand et al., 2010).

Methods for Attracting Investors

Utilizing the most effective financing and investor attraction strategies enables businesses to navigate various economic conditions with optimal quality. At the same time, they benefit from different opportunities to develop their business (Kabbach-de-Castro et al., 2023).

With thousands of different businesses worldwide, there are limited financial resources and methods and investor attraction that can be used to successfully advance retained earnings, attract capital through debt and equity capital. Among these methods are: Business founders: Business owners are among the most important investors who invest to finance their businesses. Banks: One of the most important sources for applying for a loan is the bank. Startups, entrepreneurship, and other types of loans will be granted to businesses that are used to attract and maintain capital. Venture capital: Some capital is risky and is classified as personal equity. These professional shares are not registered anywhere, but they are one of the methods of financing and attracting investors. Grants and subsidies: Grants or subsidies are a method of financing and attracting capital that is limited to a country, region, or union such as the European Union. This type of capital acts as a driving force for businesses (Plattek & Figueiredo, 2023).

Research Background

Khorshid et al. (2024) designed a model to promote the establishment of investment funds with the help of foreign investors to achieve sustainable development in the Kurdistan Region of Iraq. The present study was conducted with an applied approach and aimed at designing a model to promote the establishment of investment funds with the participation of foreign investors to achieve sustainable development. The research is of a mixed type (qualitative and quantitative). By analyzing the interviews conducted using the grounded theory strategy (open, axial and selective coding) and analyzing the data with the help of MAXQDA software, the researchers identified six main factors affecting the participation of foreign investors in the establishment of investment funds.

Vilas et al. (2024) studied the limited role of sustainability in mutual fund investor decisions using a machine learning approach. The results showed that investors consider the returns on investment decisions, but the factors that matter most are past growth, mutual fund fees, and past returns. In addition to confirming that "past financial performance does not guarantee future financial performance," they found that "the returns on past investment decisions do guarantee the returns on future investment decisions," which may be of interest to socially responsible investors

Gantchev et al. (2024) examined sustainability or returns, ratings, and incentives for fund managers. After the introduction of the Morningstar sustainability rating (the "world" rating), mutual funds increased their sustainable equity holdings to attract flows. However, such sustainability-based trading had poor returns and disrupted the overall returns of the funds. As a result, a trade-off between sustainability and returns emerged. In the new equilibrium, the world rating does not affect investor flows and funds no longer trade to improve their global ratings. Papathanasiou and Koutsokostas (2024) examined sustainability ratings and fund returns with new evidence from European ESG mutual funds. The results show that low-rated ESG funds show better returns, stronger positive return persistence, and a weaker flow-return relationship. During

the COVID-19 pandemic, investors became risk-averse and exited low-rated ESG funds, despite previous superior returns. Conversely, investors' preference for funds that largely incorporate sustainable assets suggests that sustainability is viewed as a necessity by investors.

Guidolin and Magnani (2024) examined the question of whether US active mutual funds deliver on their ESG promises: Evidence from portfolio holdings. The study tested two aspects of funds' portfolio allocation decisions using panel regression methods. The results showed that ESG and non-ESG funds make similar investment choices. Furthermore, on average, ESG funds invest more in companies with higher ESG ratings and avoid sin stocks more than non-ESG funds. However, there is evidence that some degree of greenwashing may still occur and that the difference between hedge funds and non-hedge funds in these behaviors has narrowed, suggesting a potential reduction in greenwashing practices.

In a study, Boltayeva (2024) examined the benefits and effectiveness of attracting foreign investment, focusing on its role in promoting economic growth and development. The results showed that foreign investment brings capital, technology, skills, and market access that help create jobs, develop infrastructure, and diversify economies. The effectiveness of attracting foreign investment depends on factors such as the policy and regulatory environment, political stability, infrastructure, human capital, and investment promotion efforts.

Liao et al. (2024) examined institutional investor site visits and cash flow attraction by reducing financing constraints or controlling agent conflicts. The results show that financing constraints of institutional investors can reduce cash flow attraction, and this effect is more pronounced for firms with fewer investment opportunities, larger size, higher internal cash flows, and higher agency costs, suggesting that financing constraints of institutional investors primarily inhibit cash flow attraction due to agency.

Gapita et al. (2024) examined economic policy uncertainty and cash flow attraction with evidence from India. This study shows that economic policy uncertainty increases investors' attraction to cash flow, which is higher (lower) during the crisis period (before and after the crisis). They also find that the impact of economic policy uncertainty on investors' attraction to cash flow is greater for smaller, younger, and independent (SA) firms than for larger, mature, and business group-affiliated (BGA) firms. This study also shows that economic policy uncertainty reduces corporate investment (CI).

Li and Zhu (2024) studied private information and investment sensitivity with evidence from new products. This study shows that reduced investment efficiency due to information asymmetry may not necessarily reduce firm value, but may increase it. Firms base their investment decisions on both public and private information. However, effectively communicating private information to investors in a competitive market is very challenging, as it results in the stock price not adequately reflecting the true value of the company. At the same time, companies need to invest to achieve their business goals, which leads to a deviation between the company's actual investment level and the market's expected investment level, thereby reducing investor attractiveness.

Dash and Sethi (2024) studied the effect of economic policy uncertainty on cash flow-sensitive

investment with the role of corporate governance. The results show that corporate governance reduces firm investment and increases the role of cash flow in firm investment. In addition, environmental, social and governance performance of firms reduces the adverse effect of corporate governance on cash flow sensitivity and makes investment cash flow less sensitive. In addition, this study shows that corporate governance helps in easy access to external funds.

Hosseini et al. (2023) examined the framework for monitoring liquidity risk management of mutual funds. Their results showed that policies, infrastructure, and appropriate methods are recognized as the three main categories of this framework. In this study, important codes have been identified for each component by studying international guidelines, regulatory laws in Europe and the United States, and consulting experts.

Farzin and Mohammadi (2022) studied the position of investment funds in attracting financial resources and their impact on the development of the Iranian capital market. The aim of this study was to examine the relationship between the growth of investment funds and capital market development indicators. Regression analysis showed that the growth of the net asset value of funds is positively correlated with the growth of the stock market index.

Ebrahim Nejad et al. (2021) studied the effect of residual prices in mutual funds. Their study showed that capital inflows (outflows) into the fund (currency) increase significantly. This capital inflow and outflow causes an estimated wealth transfer of 1.3% of the fund's assets under management between new and existing investors.

Hosseini and Sadeghi (2020) conducted a study to examine the stability of mutual fund performance in Iran. The performance of 30 investment funds was examined between 2015 and 2019 using indices such as Sharpe, Trainer, and Jensen's Alpha. Their results showed that some funds had relative stability in their returns, but most funds were vulnerable to market fluctuations.

Nabizadeh and Sepahvand (2019) investigated the effect of active management on the performance of mutual funds listed on the Tehran Stock Exchange. Their study showed that there is an inverse and significant relationship between the level of active management and the performance of mutual funds. Funds with larger size and higher expense ratios perform better, and increasing cash flow weakens the performance of these funds.

Research Hypothesis

According to the theoretical foundations of the research hypotheses, the following are the results:
The first research hypothesis: The return on investment funds active in the Iranian capital market has an effective position in attracting investors.
The second research hypothesis: The sustainability of investment funds active in the Iranian capital market has an effective position in attracting investors.

Method

In terms of subject matter, the research seeks to examine the return and sustainability of investment funds active in the Iranian capital market and the position of funds in attracting investors. The time scope of the research is the fiscal years 2014-2023 and the spatial scope of the research is investment funds active in the Iranian capital market. Based on the purpose, it is of an applied type

and, in terms of the nature of the research, it is inductive.To test the research hypotheses, multivariate linear regression analysis with mixed approaches and Eviews version 11 software were used.

Model for Testing Research Hypotheses and Measuring Variables

In order to examine and test research hypotheses, an empirical framework developed and derived from the article by Papathanasiou and Koutsokostas (2024) has been followed. The regression model of the research is as follows.

Model (1)

$$PERF_{it} = b_0 + b_1 RNAV_{it} + b_2 Z_{it} + b_3 SIZE_{it} + b_4 EXPR_{it} + b_5 TURN_{it} + b_6 NUM_{it} + b_7 FOUNDER_{it} + b_8 AGM_{it} + \varepsilon_{it}.$$

How to Measure Research Variables

Dependent variable: Investor attraction (PERF): To calculate investor attraction, the performance of the investment fund is used, which is calculated based on the compound rate of return of the fund f during the period t according to model (1).

Independent variables: The performance and sustainability of investment funds as independent variables are calculated from the following equation. Investment fund return (RNAV): The net daily value of each investment unit is published on the fund website daily, and this information is also supervised by the Stock Exchange Organization.

Model (2):

$$RNAV_{it} = \frac{NAV_{it} - NAV_{it-1}}{NAV_{it-1}}$$

Where:

RNAVit: Return of fund i in time period t

NAVit: Net asset value of fund i at the end of time period t

NAVit-1: Net asset value of fund i at the end of time period t-1.

Investment fund sustainability (Z): Investment fund sustainability is obtained by dividing the sum of the two ratios of net profit and equity to the total assets of the investment fund each year by the standard deviation of the ratio of net profit to total assets.

Model (3):

$$z_i = \frac{ROA_i + E/TA_i}{GROA_i}$$

ROA: is the average period of return on assets for the company.

TA / E: is the average period of the ratio of equity to total assets of the fund.

GROA: is the standard deviation of the return on assets in the period under study.

Z-index increases with a higher ratio of profitability and capital accumulation and decreases with the volatility of income reflected by the standard deviation.

Control variables:

Investment fund size (Size): is calculated as the natural logarithm of the total net assets of investment fund i in time period t.

Fund expense ratio (EXPR): is calculated as the ratio of the total expenses of the fund to the average total net asset value of the fund.

Fund asset turnover ratio (TURN): is calculated as the ratio of the net value of the fund's issuance and cancellation to the net asset value of the fund. Number of funds managed by the fund manager (NUM): A dummy variable that is set to 1 if the number of funds managed by the fund manager in period t is 1 fund, and is set to 0 otherwise.

Type of investment fund founder (FOUNDER): A dummy variable that is set to 1 if more than 50% of the fund's preferred investment units are held by the brokerage firm, and is set to 0 otherwise.

Age of the fund (AGM): The number of years the fund has been active on the stock exchange.

Results

Descriptive Statistics of Research Data

Table 1 presents the descriptive statistics of the variables and results, showing that the average investor attraction (6.63) in the investment funds under study exhibits relatively high volatility, with a standard deviation of 2.24. The average investment fund return (.53) with a standard deviation of (.47) has a relatively moderate volatility. The average investment fund stability (.65) with a standard deviation of (.574) has relatively good volatility.

Table 1

Descriptive Statistics of Research Variables

Variable Name	symbol	average	the middle	Max	at least	standard deviation
Investor Attractor	PERF	6.63	5.36	19.51	-9.74	2.24
Investment Fund Performance	RNAV	0.53	0.52	0.76	-0.83	0.47
Investment Fund Sustainability	Z	0.65	0.62	0.89	0.24	0.57
Investment Fund Size	SIZE	23.89	23.57	28.14	22.31	1.27
Fund Expense Ratio	EXPR	0.00	0.00	0.01	0.00	0.00
Fund Asset Turnover Ratio	TURN	-0.01	0.00	1.63	6.50	0.31
Number of Funds Managed by the Fund Manager	NUM	0.63	1.00	1.00	0.00	0.46
Type of Fund Founder	FOUNDER	0.45	0.00	1.00	0.00	0.49
Fund Age	AGM	6.16	6	20	1	0.21

Testing the Normality of Research Variables

In this study, the data distribution was examined using Jarko-Bera for normality, and the results

obtained were used according to Table 2, which assumes that the null hypothesis of normality is accepted for all variables and at a confidence level of 95%, all research variables are normal.

Table 2
Results of the Normality of the Research Variables

Variable Name	Symbol	Jarko-Bera statistics	Jarko-Bera probability	Result
Investor Attractor	PERF	2.10	0.10	Normal
Investment Fund Performance	RNAV	1.32	0.53	Normal
Investment Fund Sustainability	Z	1.96	0.24	Normal
Investment Fund Size	SIZE	3.64	0.26	Normal
Fund Expense Ratio	EXPR	4.59	0.14	Normal
Fund Asset Turnover Ratio	TURN	3.69	0.29	Normal
Number of Funds Managed by the Fund Manager	NUM	5.41	0.48	Normal
Type of Fund Founder	FOUNDER	2.89	0.73	Normal
Fund Age	AGM	4.12	0.84	Normal

Inferential Statistics of the Study

Correlation Coefficient Test of Research Variables

The correlation coefficient varies between 1 and -1. The relationship between two variables can be positive or negative. The correlation coefficient is a symmetrical relationship. According to the results, it can be said that there is a relationship between the variables and according to Table 2, the results of the Jarko-Bera probability statistic show. The null hypothesis of normality is accepted for all variables. They are normal at the 95% level. Therefore, the Pearson correlation coefficient is used to calculate the correlation coefficient of the research variables. It is usually said that if for a regression equation, the simple correlation coefficients between the descriptive variables are more than √(R^2), the collinearity is strong (Souri, 2013).

The results in Table 3 show that since the value of the coefficients is less than the radical R2, the linearity between the explanatory variables used in the research model is incomplete and can be ignored.

Table 3
Pearson Correlation Coefficients of Research Variables

Variable	Investor attraction	Investment fund performan	Investment fund stability	Investment fund size	Fund expense ratio	Asset turnover ratio	Number of funds	Type of investment fund	Fund age
Attracting investors	1.00	0.57	0.41	-0.85	-0.17	0.49	0.19	0.14	0.24
Investment fund performance	0.57	1.00	-0.40	-0.14	-0.17	0.51	0.28	0.42	0.57
Investment fund sustainability	0.41	-0.40	1.00	-0.29	0.29	0.59	0.42	0.19	0.17
Investment fund size	-0.85	-0.14	-0.29	1.00	0.00	-0.37	0.21	0.21	0.36
Fund expense ratio	-0.17	-0.17	0.29	0.00	1.00	-0.24	0.00	0.14	0.41
Fund asset turnover ratio	0.49	0.51	0.59	-0.37	-0.24	1.00	0.09	0.35	0.28
Number of funds under management by the fund manager	0.19	0.28	0.42	0.21	0.00	0.09	1.00	0.46	0.61
Type of investment fund founder	0.14	0.42	0.19	0.21	0.14	0.35	0.46	1.00	0.71
Fund age	0.24	0.57	0.17	0.36	0.41	0.28	0.61	0.71	1.00

Stationarity Test of Research Variables

The hypotheses related to the stationarity of the variables are as follows:

H0: The variable is not a variable
H1: It is a variable

Variables whose probability of test result is less than 5%, the null hypothesis is rejected, and that variable is stationary. If it is more than 5%, it is not stationary. The results of the stability test are included in Table 4. According to the "Lewin, Lin and Cho" test, since the probability value of all variables was less than 5%, all independent, dependent and control variables were at a stable level during the research period. Stability means that the mean and variance of the research variables over time and the covariance of the variables were constant between different years.

Table 4
Results of the Stationarity Test of Research Variables

Variable Name	variable symbol	Levine, Lin, and Cho		Results
		Statistics	Probability	Paya
Investor Attractor	PERF	-46,32	0.000	Paya
Investment Fund Performance	RNAV	-47,26	0.000	Paya
Investment Fund Sustainability	Z	-6,24	0.000	Paya
Investment Fund Size	SIZE	-23,59	0.000	Paya
Fund Expense Ratio	EXPR	-28,09	0.000	Paya
Fund Asset Turnover Ratio	TURN	-10,06	0.000	Paya
Number of Funds Managed by the Fund Manager	NUM	-36,27	0.000	Paya
Type of Fund Founder	FOUNDER	-12,20	0.000	Paya
Fund Age	AGM	-18,02	0.000	Paya

Results of the Tests for the Detection of the Method of Estimating Research Models

Given that the research data are composite. Therefore, it is necessary to estimate the method (composite or panel). For this purpose, the F-limer test has been used. If the test probability exceeds 5%, the composite method is employed; otherwise, the panel method is used. Also, the Hausman test has been used to determine the model used. Observations whose test probability is less than 5% use the fixed effects model (see Table 6), and otherwise, the random effects model is used to estimate the model (Table 7). According to Table 5, the F-limer probability in the research model exceeds 5%, necessitating the use of the composite method for estimation. Also, given that the composite method is used to estimate the model, there is no need to perform the Hausman test in any of the models. In estimating this model, since the variable data is provided at annual intervals, annual estimation was used.

Table 5
Results of the F-Test for the Investment Fund During the Period 2014-2023

Research model	Test statistic	Significance level	test result
	64.95	0.000	Confirming the combined versus the combined model

Table 6
Results of the Brosch-Pagan Test for the Investment Fund During the Period 2014-2023

Research model	Test statistic	Significance level	test result
	1452.73	0.000	Confirmation of the existence of a random effects pattern

Table 7
Results of the Hausman Test for the Investment Fund During the Period 2014-2023

Research model	Test statistic	Significance level	test result
	8.39	0.317	Confirming the random effects model against fixed effects

Based on the results of Table 8 and the verification of the unconstrained model, the research model for the selected funds of the world is estimated based on the EGLS model and the estimation results are reflected in Table 9.

Table 8

Results of the Variance Heterogeneity Test for the Investment Fund During the Period 2014-2023

Research model	Model type	Test statistic	Significance level	test result
	Unconstrained model (taking into account variance heterogeneity)	235.32	0.000	Verification of the unconstrained model against the constrained model
	Constrained model (without considering variance heteroscedasticity)	374.15	0.000	

Research Model Estimation Results

In order to test the research hypotheses, the model estimation results presented in Table 9 have been used. The probability value (or significance level) of F is .000 and since this value is less than .05, the null hypothesis is rejected at the 99% confidence level, meaning that the model is significant. The value of the Durbin-Watson statistic is 1.80, which indicates the absence of autocorrelation of errors. The results related to the adjusted coefficient of determination show that approximately 69.9% of the changes in the dependent variable (investor attraction) are explained by the independent and control variables of the model.

Table 9

Results of the Research Model Estimation for Investment Funds 2014-2023

$PERF_{it} = b_0 + b_1RNAV_{it} + b_2Z_{it} + b_3SIZE_{it} + b_4EXPR_{it} + b_5TURN_{it} + b_6NUM_{it} + b_7\ FOUNDER_{it} + b_8AGM_{it} + \varepsilon_{it}$.

Dependent variable: Investor attraction, model estimation: EGLS				
	Variable	Coefficients		
Width from origin	C	0.09	6.72	0.000
Return of investment fund	RNAV	0.12	5.21	0.000
Sustainability of investment fund	Z	0.16	4.38	0.000
Size of investment fund	SIZE	0.05	7.86	0.000
Fund expense ratio	EXPR	0.01	5.03	0.000
Fund asset turnover ratio	TURN	0.04	6.97	0.000
Number of funds under management by fund manager	NUM	0.02	8.94	0.000
Type of investment fund founder	FOUNDER	0.04	7.75	0.000
Fund age	AGM	0.05	3.24	0.000
Fisher's F statistic			87.257	0.000
Camera – Watson statistics		1.80	Coefficient of determination	0.721
Adjusted determination coefficient		0.69	Number of observations	1250

Testing Research Hypotheses

First research hypothesis: The return of investment funds active in the Iranian capital market has an effective position in attracting investors.

Second research hypothesis: The stability of investment funds active in the Iranian capital market has an effective position in attracting investors.

According to Table 9, the results of testing research hypotheses by regression of the proposed hypotheses indicate a positive effect between the return of investment funds and the stability of investment funds on the dependent variable of attracting investors. And the coefficients also indicate this.

The probability value for the variables of investor return and investment fund stability is equal to .000, which is less than .05. Therefore, the null hypothesis is rejected at the 99% confidence level and there is a significant effect between the return on investment funds for attracting investors and the sustainability of investment funds for attracting investors. Also, given the positivity of the variable coefficient, it can be concluded that with an increase of one unit in the return on investment funds, the attraction increases to .12 units. Also, with an increase of one unit in the sustainability of investment funds, the attraction increases to .16 units.

Conclusion

The purpose of forming an investment fund is to collect funds from investors and allocate them to purchase a variety of securities, in order to reduce investment risk, take advantage of economies of scale, and provide investors with benefits. In this regard, the fund manager and a team of expert analysts invest and manage the fund's assets based on their investment strategy. In general, investment funds are created to increase the diversity of investment opportunities in the capital market and are suitable for people who do not have enough time and knowledge to study and analyze the market. Investors can use several strategies to create and diversify their positions to ensure financial success. One emerging trend that is changing the way businesses and investors think about investing is a concept known as sustainable investment funds. Sustainable investment funds refer to a range of practices in which investors strive to achieve financial returns while promoting long-term environmental or social value. Combining traditional investment approaches with environmental, social and corporate governance insights has led to more comprehensive analysis and better investment decision-making by investors. Sustainable investment funds ensure that companies are not judged solely on short-term financial gains, but rather on the broader picture of what and how they contribute to society. The objectives of the present study are to investigate the efficiency and sustainability of active investment funds in the Iranian capital market and the position of funds in attracting investors. This study also has two sub-objectives, including investigating the efficiency of active investment funds in the Iranian capital market and the position of funds in attracting investors, and investigating the sustainability of active investment funds in the Iranian capital market and the position of funds in attracting investors. According to the studies conducted, there is a significant and positive relationship between the research variables.

According to the research findings, it is suggested that investment funds, instead of focusing

on the secondary market and speculation, focus on their intermediary role and, by allocating resources attracted from household liquidity to the primary market, have a positive impact on economic growth in this way. It is also suggested that investors and users of financial statements pay attention to attracting investors when analyzing, making predictions, and examining the reliability of funds' reporting. It is also recommended that managers reduce investors' emotional behavior in the market by providing high-quality information with less information risk, thereby strengthening investor confidence and increasing investor attractiveness in the market. Finally, it is recommended that economic policymakers consider the quantitative and qualitative development of investment funds in short-term and long-term policies.

The achievements of this research can be effective in expanding the literature related to the field in relevant groups and also used by individuals and stakeholders who are in line with investing and using investment funds. It can also strengthen the field of organizations and bodies that are directly related to this issue in any way. dditionally, the research results for students, as well as efforts to change officials' attitudes and promote investment values, can be seen as a turning point in this regard, particularly in attracting investors to relevant funds.

One of the most important limitations of the present study is the effect of other variables that were out the researcher's control. Therefore, the research is limited in that it is not able to control all variables. Also, the time is limited, considering that the present research has a wide scope. Therefore, conducting preliminary studies and reviewing other research to conduct the aforementioned research is inevitable. Problems related to data collection, especially problems of access to financial statements and notes attached to sample funds, and being costly and time-consuming, are another example of research limitations.

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