The determinants of the financial performance of money market funds in Kenya

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Abstract:

This paper examined the performance of money market funds in Kenya during the period 2009 to 2011. The purpose of the study was to determine the factors that influence the financial performance of money market funds in Kenya. The study analyzed the factors affecting the performance of the entire population of the fourteen money market funds that were in operation during the above period. The study found that majority of the funds (76%) performed on or above the set benchmarks. 50% of the funds performed above the benchmark and only 14% of the funds performed below the benchmark. It is also observed that the money market funds in the study have very low standard deviation and thus fluctuation in their expected returns is low. This is expected because of the financial instruments that they mainly used, which provide relatively low risk and low return. The study established that there are various factors influencing the performance of money markets funds including fund size, expense ratio, portfolio composition, fund manager’s skill, market returns and liquidity. Some of the above factors are highly correlated and therefore through the application of factor analysis, the above factors were summarized into three major determinants namely fund size (AUM), expense ratio and portfolio composition. The study also found that the age of the fund does not affect performance.