FACTORS AFFECTING THE PERFORMANCE OF

UNIT TRUST FUNDS IN KENYA

BY

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A research proposal submitted in partial fulfillment of the requirement for the award of the degree of Master of Business Administration, University of Nairobi.
DECLARATION

This project is my original work and it has not been submitted to any other university for examination.

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D61/70709/2009

This has been submitted for examination with my approval as the student’s supervisor.

Signature: ______________ Date: ________________

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DEDICATION
To my mother Gladwell Mbataru for her love, support, prayers and always believing in me and to my siblings Cathy, Bibian, Optat and Bendict for the love and support.
ACKNOWLEDGEMENT

My greatest gratitude is to the God Almighty for bringing me this far. This journey would not have been possible without his mercy and love.

I would like to sincerely thank my mother for her continuous love, encouragement and always believing in me. I pass my gratitude to my siblings and more particularly to my sister Cathy for care and words of encouragement.

To my supervisor Dr. Sifunjo Kisaka, I extend my sincere thanks for his guidance, comments, criticisms and encouragement throughout the period of study.

Lastly, I wish to thank my friends Naomi, Joan, Millicent, Nduta, Nelly, Eva and my colleagues Hillary, Eric and Christine for their ideas and support during the study.
ABSTRACT

This study aimed at identifying the factors affecting the performance of unit trusts in Kenya. A unit Trust is an arrangement whereby property (shares, bonus and real estate) is held on trust for a large number of investors. This makes unit trust funds the ideal alternative, providing cost effective access to a wide variety of local and international shares / equities (companies listed on a stock exchange), bonds, and money market instruments such as fixed deposits, treasury bills and call accounts.

The study focused on registered unit trusts in Kenya from January 2008 to December 2011 categorized as money markets, equity and balanced funds due to the fact that these were the predominant category of funds representing the extreme ends of the investment spectrum.

In the analysis of the factors affecting performance, growth in assets, expense ratio, size of fund, age of fund and the initial investment amount as factors affecting performance of equity, money market and balanced funds were analyzed using Jensen’s Alpha model.

The findings of the study show that growth of fund is a critical determinant of performance of unit trusts. As funds grow larger, they tend to become less efficient in their operations. The study also found that expense ratio, age of fund, fund size, and initial investment amount do not have a key influence on performance.
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<tr>
<td>BAAM</td>
<td>British America Asset Managers</td>
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<td>CBA</td>
<td>Commercial Bank of Africa</td>
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<td>CIS</td>
<td>Collective Investment Schemes</td>
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<td>CMA</td>
<td>Capital Markets Authority</td>
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<td>ICEA</td>
<td>Insurance Company of East Africa</td>
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<td>KCB</td>
<td>Kenya Commercial Bank</td>
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<td>MPT</td>
<td>Modern Portfolio Theory</td>
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<td>OMAM</td>
<td>Old Mutual Asset Managers</td>
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<td>RBA</td>
<td>Retirement Benefits Authority</td>
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<td>R/V</td>
<td>Reward Volatility Ratio</td>
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CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

Investing in shares has traditionally yielded unrivalled returns, offering investors the opportunity to build real wealth. Yet, the large amounts of money required to purchase these shares are often out of reach for smaller investors. The pooling of investors' funds makes Collective Investment Schemes the ideal alternative, providing cost effective access to a wide variety of local and international shares / equities (companies listed on a stock exchange), bonds, and money market instruments such as fixed deposits, treasury bills and call accounts. Pooling enables investors to reduce transactional costs involved in buying and selling of securities and gives investors the ability to negotiate for better returns than they would get if investing individually, Stanbic (2009). Several forms of legal structures are commonly used for such funds, the most common of them being unit trusts, investment companies or contractual pools, World Bank (2011).

Unit Trusts provide the small investor, the answers to investing in a widely diversified investment without the need of prohibitive sums of money. As the market becomes sophisticated and more volatile, unit trust become the safe havens for less sophisticated and less capitalized conservative individuals in the market place (Maina, 2011). A Unit Trust Fund is an investment scheme that pools money together from many investors who share the same financial objective to be managed by a group of professional managers who invest the pooled money in a portfolio of securities such as shares, bonds and money market instruments and other authorized securities to achieve the objectives of the fund, CMA (2009). Basically a Unit Trust is an arrangement whereby property (shares, bonds and real estate) is held on trust for a large number of investors. It is constituted by a deed or indenture regulating the rights, powers and duties of the parties to the arrangement Harman (1987).

To invest in a unit trust fund, investors buy units through the fund manager at the prevailing selling price which is calculated daily. These units can be bought anytime as
long as the fund has not reached its maximum approved size. Unit holders can sell their units back to the fund manager at the prevailing buying price. It is because of this repurchase feature that unit trusts are called open-ended funds. The fund manager not only issues new units to incoming investors, they are also required to repurchase them or redeem the from outgoing investors (Maina, 2011)

The phenomenal growth in the mutual fund industry in the emerging markets has resulted in an increase in the number of investment companies offering a range of funds. In Kenya with the passage of the Capital Markets Authority Amendment Act (2000), which recognizes specific investment vehicles and especially mutual funds and unit trusts, more opportunities for diversification by both institutional and retail investors emerged. The first unit trust scheme in Kenya was registered in 2002 and since that time there has been phenomenal growth in the market in terms of share trading volumes, market capitalization and share prices including the tremendous growth of these funds with numerous being registered on an annual basis (Kasanga, 2011)

The number of Unit Trust Funds has proliferated into thousands in the US with trillions of dollars; however they are relatively few in the developed countries. Investors get attracted to the market and mutual funds because they represent a sensible, efficient vehicle for individual investors to participate in the market. The individual investor can effect employ a team of investment professionals to manage the investors money under the direction of a portfolio or fund manager. The professionals work full time on studying the markets, market trends, and individual stocks. The mutual fund allows the individual investor to purchase a diversified portfolio of securities for a small investment. Because of the size of the trades of a mutual fund, the investment company achieves savings on transaction costs, such as brokerage commissions over those the individual investor would have to pay, Hughes (2002).

Over the decades, many studies on U.S. and European mutual funds have examined the impact of fund attributes on fund performance. As with other areas of mutual fund studies such as the literature on the overall fund performance and timing and or selectivity performance of fund managers, the groups of studies that link performance to fund
specific characteristics have also reached contradictory conclusions. Several factors that have been cited as possible causes of the conflicts include survivorship bias, different time periods, returns frequencies and of benchmarks. Nevertheless, some studies contend that the survivorship problem may not be severe when the study period is short, Low (2007).

A central problem in finance and especially portfolio management has been that of evaluating the “performance” of portfolios of risky investments (Jensen, 1968). The problem of accurately measuring the performance of managed portfolios remains largely unresolved after more than 30 years of work by academics and practitioners (Wermers, 2000).

Portfolio managers can achieve differential return performance by engaging in successful “macro” market timing activities as well as careful “micro” security selection efforts i.e. they can shift the overall risk composition of their portfolios in anticipation of broad market price movements (Chang, 1984). Fund managers are perceived to possess informational advantage as compared to the general investing public and as a result they become candidates for analysis related to portfolio performance. The fund manager’s performance is crucial to justify their existence. If the fund managers are not capable of generating sufficient return to compensate for the high management fees they charge their clients, or if their performance is not able to outperform even the return from a buy-and-hold investment strategy, the role of the fund managers will certainly be in serious doubt as there will be no justification for engaging the service of such poorly performing fund managers, Abd(2010). Early study by Sharpe (1966) finds that funds with lower expenses tend to have better performance. However, the extensive work of Friend et al. (1970) published in a book, report no significant relation between performance and expense ratio and only a slight positive relation with turnover ratio.

Net assets under management can affect performance, as funds need to attain a minimum size to achieve returns net of research expenses and other costs. However, a large funds incurring excessive costs results in diminishing or even negative marginal returns. Initially, growth in fund size provides cost advantages, as brokerage costs for larger
transactions are lower while research expenses increase less than proportionately with fund size. After exceeding an optimal size, too large a fund can lead to deviation from original objectives by investing with some lower quality assets, as well as increased administrative costs for additional coordination among staff to manage sub-funds (Indro et al. 1999). Studies by Malhotra and McLeod (1997), Berkowitz and Kotowitz (2002), Dowen and Mann (2004) among others found a negative relation between the expense ratio and the size of a fund family. That is, as the size of the fund family increases, the average expenses per fund within the fund family decreases as many of the fund expenses can be spread over a greater number of funds under management.

Otten and Bams (2002) find that larger fund assets are associated with higher returns and that fund age is negatively related to risk-adjusted returns. Theoretically, fund performance may increase or decrease as fund age progresses. A mutual fund may perform better in the later stage of its life cycle due to accumulated experiences and resources as well as better understanding of the market. On the other hand, a mutual fund’s performance may deteriorate over times due to slack and increasing complexity of the fund operation or increasing fund size. If mutual fund performance is an increasing function of its age, investors may generate higher profit by investing in funds with a relative long history. On the contrary, if fund performance decreases as age progress, investors should stay away from aging funds.

Asset allocation is the most important factor determining fund performance. Asset allocation is the process of deciding how to distribute an investor’s wealth among different countries and asset classes for purposes of investment, Reily and Brown (1997). This asset allocation is based on investor’s policy statement and it contributes to the performance of an investment. According to Massa (2003) the degree of differentiation in the industry affects the company's incentive to generate better fund performance. The reason for his argument is that fund investors differ in terms of their investment needs. For example, their needs vary with regard to their investment time horizon and their plans to switch one type of fund to another. This is where the fund heterogeneity, i. e. fees and investment objectives, or the company's heterogeneity, i. e. the numbers of funds and the
numbers of fund categories can capture the investors' unique needs. Accordingly, the investors select the fund that best suits their needs. Such a line of reasoning invokes his proposition that maximization of fund performance is not necessarily to the optimal strategy.

### 1.1.1 Unit Trust Funds in Kenya

The fund management industry in Kenya is at its formative stages and its thus underdeveloped. There are 16 fund managers, licensed by both the Capital Market authority (CMA) and Retirement Benefit Authority (RBA), who play the role of managing the pension and unit trusts funds as well as other institutional and retail funds, Kasanga (2011). An approved fund can easily be identified by the cover of its prospectus which contains a statement that a copy of the prospectus has been lodged and approved by the Capital Markets Authority, CMA (2009).

The first unit trust scheme was registered in 2002 and since then there has been phenomenal growth in the market in terms of share trading volumes market capitalization and share prices including the tremendous growth of these funds with numerous others being registered annually (Maiyo, 2007). Unit Trust offer investors more choices, besides enhancing returns to investors of between 8% - 10% as more compared to 3% - 4% return gained from traditional investments such as bank deposits (Maiyo, 2007).

In Kenya, the leading corporate Trustee in the industry is KCB Limited which has 99% of unit trust collective scheme customers including Old Mutual Unit Trusts, CBA Unit trusts, Suntra Unit Trusts, British American, ICEA, Zimele, Madison and Dyer and Blair which collect monthly incomes for collective investment(KCB Custody, 2010). The graph below shows the growth of Unit Trusts in Kenya as depicted by Trustee services clients at KCB Limited:-
There has been a progressive growth in Unit Trust but at a slower rate than expected. However, like other businesses which swim through the waves of business challenges to remain in the right momentum, some collective investment schemes in Nairobi appear to have several challenges ranging from stiff competitors who make some to die before they are even launched or go through a very short life span compared to other businesses (Zimele, 2010).

1.2 Statement of the Problem

Many studies on unit trusts in Kenya concentrated mainly equity funds leaving out other types of funds such as balanced and income funds which are on the rise. Thus, the findings of these studies may not be applicable to all types of unit trusts.

Studies on performance include among others, Cheong (2006) who carried out a research on factors influencing unit trust performance in Singapore using secondary data research and his results revealed that large funds outperformed small funds, although better performance of large funds was not significant. Rozali (2006) did a study on market timing and security selection performance on mutual funds in Malaysia using a sample of 102 equity based unit trust funds which revealed that Fund Managers appear to possess inferior selection skills and poor market timing abilities. Khorana et al. (2007) analyzed the relationship between fund managers’ ownership and fund performance. They found
evidence of positive correlation characterized by higher excess return generated by mutual funds as the ownership stake of their fund managers increases. These studies on performance of Unit Trusts resulted to mixed findings, thus it is not clear on what specific factors affect profitability of Unit Trusts.

Kagunga (2010) investigated the performance of Unit Trust compared to that of market portfolio of shares at Nairobi Stock exchange. He employed descriptive survey in his study which revealed that Unit Trust outperformed the market which was attributed to access to private information by Fund Managers. Maiyo (2007) in her study of the performance of unit trust funds in Kenya, using cross sectional survey, observed that the main reason for low performance of some funds was due to the portfolios having instruments of various categories put together in varying proportions. Maina (2011) evaluated portfolio management by unit trusts in Kenya and revealed that performance of equity unit trust is highly influenced by the nature and type of asset selection by fund managers. His study was limited to equity funds. Kasanga(2011) in a study of determinants of performance of unit trust funds in Kenya found that forecast ability, market timing ability and security selection techniques to be important determinants of performance. His research however did not cover other determinants such as growth in size and expense ratio. Kagunda (2011) evaluated asset allocation by fund managers and the financial performance of unit trusts. She revealed that fund managers have access to private information leading to a high performance as compared to the market performance. Her research covered equity funds only.

The researcher did not find evidence how factors such as growth in size of fund and expense ratio that affect performance of unit trust in Kenya. Studies on performance concentrated on equity fund. Thus there exist a gap.

1.3 Objectives of the Study
To determine the factors affecting the performance of unit trust funds in Kenya.
1.4 Importance of the Study

This research will be beneficial to business managers in revealing challenges that they are currently facing and their implication to the performance of the schemes. Action on these challenges will enable the upcoming managers explore how this problem can be addressed or solved. It will also assist managers in other organizations as it will explore the effect of managerial skills to all organizations. This will enable the management to effectively plan for change and make timely decision on financial allocation.

This research will help the investors to determine the hindrance of development of Unit Trust Funds and hence it will help them to know ways of contributing positively to their development. It will also assist in formulation of good strategies for investing by knowing when to get in and out of the schemes depending on their needs.

Information from this study will enable the government in its poverty eradication strategies, understand and address challenges facing collective investment schemes that may also be challenges facing other businesses owned by other groups of owners that have a great impact on the economy.
CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction
This chapter reviews studies from other researchers who have carried out their research in the same field of study. Section 2.2 presents the theoretical literature, section 2.3 discusses the empirical literature, section 2.4 analyses the determinants of Unit Trust performance i.e. growth in size and expense ratio. Section 2.5 reviews the performance of unit trust and other investment vehicle and section 2.6 is the summary.

2.2 Theoretical Literature

2.2.1 Efficient Market Hypothesis
The Efficient Market Hypothesis states that at any given time, security prices fully reflect all available information Eugene Fama’s (1970), it is believed that securities markets are extremely efficient in reflecting information about individual stocks and about the stock market as a whole. The accepted view is that when information arises, the news spreads very quickly and is incorporated into the prices of securities without delay. This was confirmed by Jain and Wu (2000) by noting no performance persistence for advertised funds with one year of good pre advertising performance even though they attracted 20 percent more investor money than non-advertised funds. There are three forms of the efficient market hypothesis; i). the weak form asserts that all past market prices and data are fully reflected in securities prices. In other words, technical analysis is of no use; ii). the semi-strong form asserts that all publicly available information is fully reflected in securities prices. In other words, fundamental analysis is of no use and iii). the strong form asserts that all information is fully reflected in securities prices. In other words, even insider information is of no use Fama (1970).

The most direct and most convincing test of market efficiency is direct test of the ability of professional Fund Manager to outperform the market as a whole. Surely, if the market prices were determined by irrational investors and systematically deviated from rational
estimates of the present value of corporates and if it were easy to spot predictable patterns in security of returns on anomalous security prices, then professional Fund Managers should be able to beat the Market. Direct test of the actual performance of professionals who often are compensated with strong incentives to outperform the market should represent the most competing evidence of market efficiency.

2.2.2 Modern Portfolio Theory

Modern Portfolio Theory (MPT) was introduced by Harry Markowitz with his paper "Portfolio Selection" in the 1952 Journal of Finance. This basic portfolio model suggested that the variance of the rate of return is a significant measure of portfolio risk under a certain set of assumptions related to investor behavior. Markowitz suggested that to choose profitable investments it is not enough to look at the relationship between risk and return. Investors should focus on the significance of diversification to reduce the total portfolio risk, but they also learn how they can effectively diversify.

The basic assumption of MPT is that investors are willing to maximize their return on investment for a given level of risk. However, investors are fundamentally risk averse, which means that if they have to choose between two assets with equal rates of return, they are more likely to choose the asset with the lower level of risk. Evidence that the majority of investors are risk averse is the fact that they purchase a variety of insurance products outlaying a given amount to guard against an uncertain, possibly larger expense in the future.

Markowitz (1952,1959) demonstrated that, because investors are risk averse they need to combine assets into efficiently diversified portfolios. Prior to Markowitz model, investors compiled their portfolios based on the risk-reward relationship of individual securities thus failing to account properly for the high correlation between security returns. However, MPT assumes that portfolio risk can be reduced if investors focus on the variability of expected returns. To achieve that, investors should pick assets that tend to have dissimilar price movements. In other words, MPT assumes that diversification reduces portfolio risk only when combined assets have prices that move inversely.
2.2.3 Capital Asset Pricing Model
The capital asset pricing model was the work of a financial economist (and later, Nobel Laureate in economics) William Sharpe, set out in his 1964 book “Portfolio Theory and Capital Markets”. CAPM extended Harry Markowitz’s portfolio theory to introduce the notions of systematic and specific risk.

CAPM starts with the idea that individual investments contain two types of risks. First, systematic risk is the risk of holding the market portfolio. These are market risks that cannot be diversified away. As the market moves, each individual asset is more or less affected. To the extent that any asset participates in such general market moves, that asset entails market risk. Interest rates, recessions and wars are examples of systematic risks. Secondly specific risk (unsystematic risk) is the risk which is unique to an individual’s asset. This risk can be diversified away as the investor increases the number of stocks in his or her portfolio. In more technical terms, it represents the component of an asset’s returns which is uncorrelated with general market moves.

CAPM is one of the most commonly used tools in the securities industry in pricing of financial security. In deriving the relationship between the risk and return of a portfolio, that is Risk return trade off, the risk and return relationship of specific portfolios are analysed and the results generalized based on the findings. (Brealy and Myers, 1999).

2.3 Factors Affecting Unit Trust Performance

2.3.1 Expense Ratio
Passively managed funds incurred lower costs and outperformed actively managed funds, Bogle (1998). Actively managed funds incur various costs, including operating and research expenses, which are measured by the expense ratio. Indro et al. (1999) defined expense ratio as the proportion of assets paid for operating expenses and management fees, including administration fees and other costs, but excluding brokerage costs. Even though various costs are included in the ratio, most of the expenses can be associated with financial market research, as Indro et al. (1999) considered explicit cost of research
to be reflected by the ratio, which is the price paid by uninformed investors to be informed.

Early study by Sharpe (1966) finds that funds with lower expenses tend to have better performance. However, the extensive work of Friend et al. (1970) published in a book, report no significant relation between performance and expense ratio and only a slight positive relation with turnover ratio. Ippolito (1989) finds that the risk-adjusted returns, net of fees and expenses of active portfolios are comparable to those of index funds and that fund performance is not related to portfolio turnover and management fees. Grinblatt and Titman (1989, 1992) also report that mutual funds are able to generate sufficient returns to offset the expenses that they incurred. The findings of these studies are inconsistent with the so-called original version of efficient market theory (EMT, hereafter) which implies that expenditures of money on research and trading are wasted in a market in which securities prices already incorporate all available information. This version of EMT predicts that active management of fund will result in alphas equal to the negative of the expenses incurred in acquiring the information.

Ippolito (1989), found that fund performance is not significantly related to turnover, management fee and expense ratio are consistent with the notion that mutual funds invest monies efficiently. It appears that funds with higher portfolio turnover, fees, and expenses do earn sufficient risk-adjusted returns to offset the higher charges involved. In other words, mutual funds are sufficiently successful in acquiring and implementing new information to offset their expenses. In his summary piece of mutual fund studies, Ippolito (1993) noted that such findings fit neatly into a modified version of efficient market theory. Fortin and Michelson (2005) in their study of international mutual funds, also find no relationship between performance and expense ratio. However, their results show a significant positive relationship between performance and turnover.

2.3.2 Growth in Size

Net assets under management can affect performance, as funds need to attain a minimum size to achieve returns net of research expenses and other costs. However, a large funds
incurring excessive costs results in diminishing or even negative marginal returns. Initially, growth in fund size provides cost advantages, as brokerage costs for larger transactions are lower while research expenses increase less than proportionately with fund size. After exceeding an optimal size, too large a fund can lead to deviation from original objectives by investing with some lower quality assets, as well as increased administrative costs for additional coordination among staff to manage sub-funds (Indro et al. 1999).

It is commonly assumed that small unit trusts perform better than large ones, and based on a market liquidity theory which states that a large unit trust has difficulty in realizing its shareholdings without affecting the share price when it wants to change the balance of its portfolio. Many researchers have suggested that there is an optimum fund size. Indro et al. (1999) conclude that funds must attain a minimum size in order to achieve adequate returns. They also note that marginal returns become negative after a fund exceeds its optimal size. In a study on the mutual fund’s size and its performance, Perold and Salomon (1991) believe that a large asset base of a mutual fund eroded fund performance because of trading costs that were associated with liquidity or price impact, whereas a small fund can easily put all of its money in its best ideas.

Bednarczyk and Eichler (2002) suggest that the maximum fund size could be in the region of $1.6bn - $2.0bn. They argued that there exist a principal agency conflict between the investor and the fund managers. Most fund managers may maximize fund size in order to increase their performance fees. Sawicki (2001) suggested young funds that were small abandoned unsuccessful strategies for more successful ones to convince investors not to withdraw. In a later study, Sawicki and Finn (2002) found small funds were represented disproportionately among top performers but underrepresented among worst performers, indicating fund size may influence performance.

In a comprehensive study on the economies of scale in mutual fund administration, Latzko (1999) documents a reduction in the average costs for the full range of fund assets but the rapid average cost decrease is exhausted by about $3.5 billion in fund assets. The
author also suggests that funds that belong to a fund family may enjoy greater economies of scale than can be explained solely by fund size due to the sharing of fund expenses within the same fund family. In addition to economies of scale, other studies that document evidence of economies of scope include Malhotra and McLeod (1997), Berkowitz and Kotowitz (2002), Dowen and Mann (2004) among others. These studies find a negative relation between the expense ratio and the size of a fund family. That is, as the size of the fund family increases, the average expenses per fund within the fund family decreases as many of the fund expenses can be spread over a greater number of funds under management.

2.4 Empirical Literature

Studies have been carried out mainly in US, Great Britain, Australia and Japan. Very few studies outside these countries due to the fact that mutual funds and unit trust are relatively new investment in many parts of the world. In Kenya, the first unit trust was in operation from 2001.

Sharpe (1966) carried out a study using returns from 34 mutual funds for the period 1954 to 1963, calculated the correlation between each fund’s Reward Volatility (R/V) ratio and its net asset value. The R/V ratio was computed as the difference between a fund’s average annual return and the pure interest rate divided by the standard deviation of the annual rate of return. He found that larger funds provided better performance, although this was marginal and not statistically significant.

In a study on the mutual fund’s size and its performance, Perold and Salomon (1991) believe that a large asset base of a mutual fund eroded fund performance because of trading costs that were associated with liquidity or price impact, whereas a small fund can easily put all of its money in its best ideas. Grindblatt and Titman (1989) find mixed evidence that fund returns decline with fund size. When controlling for fund size, Chen et al. (2004) find that controlling for fund size, solo-managed funds (funds managed by one manager) outperform co-managed funds (funds managed by many managers). Sharpe (1966) discusses the impact of size on fund performance where funds with substantial
assets could obtain a given level of security analysis by spending a smaller percentage of its income than a smaller fund can. Detzel (2006) finds that investors should monitor their fund size regularly, as there is evidence that fund size tends to drift over the years.

Carter (1950) cited lower brokerage commissions and greater influence in the market as reasons for the support of large funds outperforming. Cassidy (1991) investigated the relationship between the returns from nine South African unit trusts and their respective asset sizes from 1971 to 1985. She noted a positive correlation between the risk-adjusted returns and the asset size, concluding that this relationship was either due to the fact that the larger funds were able to afford more expert management or that they benefited from reduced transaction costs.

Becker & Vaughan (2001) found that value managers could cope more easily with growth in assets under management. Using historical simulations, they looked at the 250 stocks that made up the Australian All Ordinaries Index over a three year period ending September 1999 and confirmed that efficiency is negatively related to asset size. Larger funds do not succeed in implementing the desired fund style profile as efficiently as the smaller ones, leading to a reduction in the value added from style.

Moles (1981) analyzed the performance of all the Department of Trade authorized unit trusts in existence between 1966 and 1975. He found that fund size had no effect on performance.

Khorana et al. (2007) analyzed the relationship between fund managers’ ownership and fund performance. They found evidence of positive correlation characterized by higher excess return generated by mutual funds as the ownership stake of their fund managers increases. Abd-Karim (2010) in his study on the characteristics and performance of Islamic funds in Malaysia concluded that Islamic funds’ performance is significantly influenced by fund managers’ special investment skills as it enables the fund managers to outperform in any given market condition.
Berkowitz and Kotowitz (2004) examine the relation between fees charged by mutual funds and fund performance. The authors found that while there is a positive relation between fees and performance for high quality managers, a negative relation exists for low quality managers. Consistent with earlier studies, fund size and the number of funds within the management group are found to be negatively related to fund expense ratio, indicating the presence of both economies of scale and economies of scope in the sample of funds studied. The results also show that conservative funds have lower expense ratios compared to those with more aggressive objectives and that funds that have high portfolio turnover have higher expense ratios than those with low turnover. Additionally, fund age is found to be unrelated to fund expense ratio. Khorana et al. (2006), found that fees differ considerably from country to country and that larger funds and fund complexes have lower fees, as do older funds and funds that sell cross-nationally. In addition, fees also vary across funds with different investment objectives and are lower in countries with stronger investor protection. The cross-country differences persist even after controlling for the aforesaid variables and some other country-specific factors.

Low (2007) examined the determinants of fund expense ratio based on a sample of sixty-five Malaysian unit trust funds, using management expense ratio of the fund, investment objective, fund size, age, portfolio turnover ratio, the number of funds under management and fund’s beta data. His results revealed that larger funds have lower expense ratios than smaller funds due to economies of scales. He also found that the number of funds managed under the same fund management company is negatively related to fund expense ratio. That is, funds that belong to a large fund family are found to have low expense ratios, indicating the presence of economies of scope. Fund objective and fund age are not related to fund expense ratio. The findings further indicate that funds with high returns volatility are associated with low expense ratios and that high portfolio turnover leads to high expense ratio.

Malkiel (1995) is a good illustration of a paper showing performance persistence with some reservations. His main point is that performance persistence reported in prior literature depends on the year and duration of the performance measured. Using equity
mutual funds over a twenty-year period between 1971 and 1991, Malkiel constructed contingency tables similar to those in the Goetzmann and Ibbotson's (1994) work. Based on quarterly total returns of funds, the tables showed funds with successful performance in year \( t \) over the successive period, i.e. year \( (t+1) \). His key results were as follows: The persistence appeared to be present in the 1970's when winners, e.g. funds with high return than the average, were likely to repeat almost two third of the time. However, in contrast to the 1970's, winners tended to repeat just over half of the time over the whole period of the 1980's. Hence, Malkiel concluded that considerable performance persistence existed during the 1970's, but such a pattern disappeared during the 1980s.

Phelps and Detzel (1998) presented evidence that performance persistence was a temporal phenomenon. The basic method of Phelps and Detzel's work was the same as that of Goetzman and Ibbotson (1994). However, the point to observe is that Phelps and Detzel's data, covering the period of 1975-1996, was much longer and more recent than that used in Goetzman and Ibbotson's work, i.e. the period of 1976-1988. Their analysis indicated that there was positive and statistically significant persistence pattern during the period of 1985-1988. The finding is consistent with that of prior studies (Hendricks et al, 1993 and Goetzman and Ibbotson, 1994). Nevertheless, such positive persistence patterns were not observed in the later period, e.g. from 1989 to 1994. Given the findings, Phelps and Detzel had taken a position against performance persistence.

Ferreira et al. (2006) examined fund attributes and country characteristics that are related to the cross-sectional variations in fund performance, using a large cross-section of international funds from 19 countries for a period from 1999-2005. Their findings indicate that mutual funds in countries with strong legal institutions and investor protection have better performance than those in countries with weak institutional structure and poor investor protection. On fund attributes, evidence shows that large funds, funds with high fee charges and young funds that invest abroad are associated with good performance. In addition, he argued that fund size can affect managerial skills because when the size of the fund is large, portfolio managers would have to keep on
looking for worthwhile investment opportunities and such effort contribute to diluting managerial skills.

In another study, Apap and Collins (1994) found that, when compared to a specially designed and constructed Morgan Stanley Capital Weighted International Index that accurately reflects the composition of a portfolio investment, the 13 evaluated outperformed the index. Their study also finds that the international mutual fund performance exceeded US domestic mutual fund performance. A similar finding was projected by Redman et.al. (2000), who further suggested that there were potential diversification benefits to adding global funds to portfolios of domestic mutual funds, and that those mutual funds that invest solely in foreign securities or in combinations of US stocks outperformed the US market over a period of ten years.

The benefits of international portfolio diversification are also emphasized by Fletcher and Marshall (2005) who examined UK investors between January 1985 and December 2000. They found significant benefits of diversification among the U.K. unit trusts with international equity objectives. International investment opportunities were attractive to investors because there were greater opportunities for portfolio risk reduction than those concentrated on domestic funds (Dimson and Marsh, 2001). Demaskey, Dellva and Heck (2003) discovered that international diversification provides opportunities for increasing portfolio returns and/or decreasing portfolio risk.

Kagunda (2011) in her study of asset allocation by Fund Managers and the financial performance of Unit Trust in Kenya found that Unit Trusts outperform the market. This is due to the fact that fund managers could be in a position to predict stock prices based on several fundamental variables such as initial dividend yields, market capitalization, price earnings ratios and price to book value ratios.

Kasanga (2011) investigated the determinants of performance of unit trust in Kenya from January 2008 to December 2010. He found out that forecasting ability, market timing ability and security selection techniques employed by fund managers in managing both equity and money market portfolios were important determinants of performance. He also
found out that performance of equity and money market funds managed by unit trust schemes was highly positively correlated with forecasting ability, market timing and security selection techniques.

2.5 Performance of Unit Trust Funds in Kenya

Risk aversion by Kenya's unit trusts managers has limited growth of this investment opportunity as most put the bulk of the funds in banks and the stock market CMA (2010). There has been an average growth of Sh1.9 billion annually to Sh17.6 billion in the past nine years, which is much slower than other financial sector investments such as pension funds that have more than doubled over the past five years from Sh176 billion in 2005 to Sh 420 billion. Most Unit trust managers concentrate their investments in quoted equities and bank deposits which are less risky and more liquid CMA (2010).

The value of assets under management by unit trust firms increased by 68 per cent in the year 2010 attributed by gains in share price at the stock market and increased purchase of treasury bonds, Mugwe (2011). Unit trust managers' total assets increased by Sh11 billion to Sh28 billion in 2010 from Sh16.8 billion in 2009 CMA (2011). Total revenue of the fund managers, which includes unrealized gains on securities, increased more than four times to Sh3.8 billion compared to the 2009 level of Sh868 million. The industry reported profits after tax of Sh3.3 billion from Sh446 million with British American Asset Managers (BAAM) being the market leader in the industry measured by assets under management. BAAM's assets under management went up by 60 per cent to Sh9.2 billion giving it a 32.7 per cent market share as at the end of 2010 compared to the previous year's Sh5.7 billion where it had a 34.3 per cent market share. This growth was realized from its large network of over 1,000 financial advisors, and the use of technology to work to gain market share over a six-year period according to BAAM’s Managing Director.

Old Mutual assets under management went up 12 per cent to Sh8.7 billion to give it second position with 30.8 per cent market share compared to the previous year when its Sh7.7 billion assets under management gave it a 46 per cent market share. The Stanbic Investments moved to third position - its assets under management going up more than 16 times to Sh5 billion giving it a 17.8 per cent market share compared to last year's Sh303
million. African Alliance Kenya Management, ICEA, Zimele Asset Management and Commercial Bank of Africa took the fourth, fifth, sixth and seventh positions with 8.2, 5.5, 2.3 and 1.9 per cent market share respectively. Dyer & Blair, Suntra and Standard Investment Banks took the last three positions and shared out the remaining market share of less than one per cent CMA (2011).

Old Mutual unit trusts collectively posted Sh1.52 billion in profits after tax, seconded by British American Asset Managers which posted Sh1.37, in third position was ICEA which posted Sh120 million while all the other unit trusts posted Sh195 million in profits after tax.

Money market funds in Kenya posted a return of between 3.8 and 8.9 per cent; balanced funds a return of between 24 and 34 per cent while equity funds posted returns of between 16 and 25 per cent. According to Zimele Asset Management Company analysts, past performance is not an indication of future performance one can get from the respective fund managers and that the rate are subject to fluctuations in the market. The industry is working on an initiative of reporting actual returns achieved by various unit trust funds.

2.6 Summary
Collective Investment Schemes have been one of the most significant developments in the capital markets during the past few decades, Lamuno (2005). It is generally acknowledged that CIS are one of the most effective ways of mobilizing savings and investments particularly from small investors. However, there have been problems associated with investment in Collective Investment Schemes which have included deceptive promotion techniques, negligent or self-interested investment selection or management, unreasonable fees and lack of an accountable party from whom redress can be sought. Some schemes have become insolvent, leading to very large losses for some investors e.g. Suntra Unit Trust. The operators of CIS control large amounts of assets and have significant capability to control the information that is provided to investors. Many
investors are individuals who have limited capability to monitor the performance of the CIS in detail.

There have been few studies done on the performance of Unit Trust Funds in Kenya. Kasanga (2011) who carried out a research on determinants of performance of unit trusts in Kenya, concentrated on equity and money market funds leaving out other funds such as balanced funds, income funds, managed funds among others. His study was limited to three factors which included; forecasting ability, market timing and security selection ability. Other studies carried out focused only on the Unit Trust that invests in shares. Kagunga (2010) investigated the performance of Unit Trust compared to that of market portfolio of shares at Nairobi Stock exchange. His study revealed that Unit Trust outperformed the market which was attributed to access to private information by Fund Managers. Maiyo (2007) in her study of the performance of unit trust funds in Kenya, observed that returns on equity funds are higher than those on money market funds, the highest return on equity being 35.4% compared to the highest of money market 7.89%.

These research aims at covering all categories of funds managed by unit trust schemes. The study will cover the specific factors that affect the performance of Unit Trust Funds in Kenya such as the growth in size of fund and expense ratio.
CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction
This chapter outlines the methodology, procedures and modalities that were used in data collection. Section 3.2 outlines for the research design applied, section 3.3 presents target population and sample size, section 3.4 discusses the data analysis models employed, section 3.5 shows the data collection methods used in the study and section outlines the data reliability and validity.

3.2 Research Design
The study was a longitudinal descriptive survey utilizing data from the year 2005 to 2011 for various funds. The major purpose of longitudinal research design is to present a time series data and changes over time period. According to Robson (2002), the research design portrays an accurate profile of persons, events or situations.

3.3 Population and Sample
The target population included all 16 unit trust schemes registered with CMA as at 31st December 2010. A census study for the trust schemes was carried out on all money market, equity and balanced funds managed by the schemes from January 2008 to December 2011.

3.4 Data Analysis
Secondary data was the main source for the study and involved collection of public material and information from other sources such as financial reports and published data. Emails were sent to Fund Managers to obtain the net asset value (NPV) and average yield for money market funds which was used to calculate the return on investment. The average 91 day Treasury bill rates were obtained from CBK website. This study employed the most widely used Jensen’s model to calculate the risk adjusted returns with the following regression specification:

$$R_u - R_f = \alpha_i + \beta(R_m - R_f) + \varepsilon_u$$

\[ \text{1} \]
Where:

\[ R_i \] = Rate of return of the fund i at time t (dependent variable)
\[ R_{mt} \] = Rate of return for the market portfolio at time t (independent variable)
\[ R_p \] = Rate of return of risk free asset
\[ \beta_i \] = Coefficient of systematic risk of fund i
\[ \alpha_i \] = (Jensen’s alpha) reflects the risk-adjusted performance of fund i
\[ \epsilon_i \] = Residuals of regression equation.

To determine to what extent fund performance is related to expense ratio, growth in assets, size of fund, age of fund and initial investment amount the alphas generated from the Equation (1) are regressed in the following regression borrowed from Low(2007):

\[ \alpha_i = b_0 + b_1ER_i + b_2LNS + b_3LNA + b_4GFS + b_5IIA + \epsilon_i \] .......................... 2

Where:

\[ ER \] = Expense Ratio
\[ LNS \] = Natural Logarith of fund’s end of year total net asset value
\[ LNA \] = Natural Logarith of fund’s age since inception to December 2011
\[ GFS \] = Growth in fund size
\[ IIA \] = Initial investment amount

3.5 Data and Data Collection

The information required for this study was secondary data. The data was obtained from the business annual report and other relevant company documentations or records available in the library and also in the web sites.

3.6 Data Reliability and Validity

Reliability and validity are tools of an essentially positivist epistemology Winter (2000). For reliability and validity to exist in data, the data collection techniques must yield
information that is not only relevant to the research hypothesis but also correct. Reliability is defined as the extent to which a questionnaire, test, observation or any measurement procedure produces the same results on repeated trials. In short, it is the stability or consistency of scores over time or across raters. The researcher will use the Cronbach’s Coefficient Alpha which measures the internal consistence of data. Validity is the accuracy and meaningfulness of inferences which are based on the research results. It’s the degree to which results obtained from the analysis of the data actually represents the phenomenon under study. Validity is largely determined by the presence or absence of systematic error in data. The researcher will use content validity which is a measure of the degree to which data collected using a particular instrument represents a specific domain of indicators or content of a particular concept.
4.1 Introduction

This chapter presents data analysis employed in the study, presentation of the output, summary and interpretation of findings. Section 4.2 presents the summary statistics, section 4.3 presents the results of the regression analysis and section 4.4 are the discussions of the findings.

4.2 Summary Statistics

Data analyzed consisted of returns of the funds and how this varies with fund characteristics such as age, expense ratio, size of fund, initial investment amount and growth of fund.

Data analyzed included a total of 11 funds which were in operation in 2008 and whose data was available.
4.2.1 Fund Characteristics and Distribution by company

Table 4.1 Fund Characteristics and Distribution by company

<table>
<thead>
<tr>
<th>Company</th>
<th>Type of Fund</th>
<th>Year Started</th>
<th>Initial Investment Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>BA</td>
<td>Balanced</td>
<td>2003</td>
<td>250,000</td>
</tr>
<tr>
<td></td>
<td>Equity</td>
<td>2003</td>
<td>250,000</td>
</tr>
<tr>
<td></td>
<td>Money Market</td>
<td>2003</td>
<td>250,000</td>
</tr>
<tr>
<td>CBA</td>
<td>Equity</td>
<td>2006</td>
<td>100,000</td>
</tr>
<tr>
<td></td>
<td>Money Market</td>
<td>2006</td>
<td>100,000</td>
</tr>
<tr>
<td>Old Mutual</td>
<td>Balanced</td>
<td>2003</td>
<td>50,000</td>
</tr>
<tr>
<td></td>
<td>Equity</td>
<td>2003</td>
<td>50,000</td>
</tr>
<tr>
<td></td>
<td>Money Market</td>
<td>2003</td>
<td>50,000</td>
</tr>
<tr>
<td>Suntra</td>
<td>Balanced</td>
<td>2008</td>
<td>100,000</td>
</tr>
<tr>
<td></td>
<td>Equity</td>
<td>2008</td>
<td>100,000</td>
</tr>
<tr>
<td></td>
<td>Money Market</td>
<td>2008</td>
<td>100,000</td>
</tr>
</tbody>
</table>

Source: Researcher, 2012

Table 4.1 shows the year of inception of the funds and the minimum initial investment amounts for each fund. British American and old mutual were the earliest companies’ to introduce the funds beginning in 2003. The two funds dominated the industry until 2006 when CBA was introduced.

Old Mutual asset managers Ltd have the lowest initial investment amount of Kshs.50,000.00, British America Asset Managers have the highest amount of Kshs.250,000.00. CBA and Suntra have the same initial investment amounts of Kshs.100,000.00
4.2.2 Unit Trust Performance

Table 4.2 Unit Trust Performance

<table>
<thead>
<tr>
<th></th>
<th>Min</th>
<th>Max</th>
<th>Mean</th>
<th>S.D</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>3.75</td>
<td>141.91</td>
<td>81.688</td>
<td>200.1628</td>
</tr>
<tr>
<td>2008</td>
<td>2.58</td>
<td>122.83</td>
<td>64.342</td>
<td>180.234</td>
</tr>
<tr>
<td>2009</td>
<td>3.12</td>
<td>153.23</td>
<td>75.627</td>
<td>200.091</td>
</tr>
<tr>
<td>2010</td>
<td>4.85</td>
<td>175.20</td>
<td>98.034</td>
<td>200.2560</td>
</tr>
<tr>
<td>2011</td>
<td>3.02</td>
<td>125.44</td>
<td>68.030</td>
<td>183.243</td>
</tr>
</tbody>
</table>

Source: NSE

Table 4.2 provides the return of unit trust over a five year period. The average values show that unit trust decreased their returns from 81.688% in 2007 to 64.342% in 2008. This value increased to 75.627% in 2009 and further increased to 98.034 in 2010 which was the highest return during the period. This value is seen to reduce in 2011 to 68.030%.

4.2.3 Factors Affecting Performance of Unit Trust Funds

Table 4.3 Factors Affecting Performance of Unit Trust Funds

<table>
<thead>
<tr>
<th>Variable</th>
<th>Min</th>
<th>Max</th>
<th>Mean</th>
<th>S.D</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alpha</td>
<td>0.4332</td>
<td>4.8226</td>
<td>2.6685</td>
<td>1.8050</td>
</tr>
<tr>
<td>Beta</td>
<td>0.7678</td>
<td>2.9999</td>
<td>1.3902</td>
<td>1.0767</td>
</tr>
<tr>
<td>Growth of Fund</td>
<td>0.7678</td>
<td>30.9000</td>
<td>6.7625</td>
<td>18.6713</td>
</tr>
<tr>
<td>Expense ratio</td>
<td>1.6000</td>
<td>3.0100</td>
<td>2.4275</td>
<td>0.6974</td>
</tr>
<tr>
<td>Age</td>
<td>6.5000</td>
<td>7.3300</td>
<td>6.9575</td>
<td>0.3424</td>
</tr>
<tr>
<td>Initial Funds</td>
<td>62.8000</td>
<td>150.0000</td>
<td>117.7000</td>
<td>38.0555</td>
</tr>
<tr>
<td>Fund Value</td>
<td>226,153</td>
<td>1,665,988</td>
<td>965,388.80</td>
<td>664,352.40</td>
</tr>
</tbody>
</table>
Table 4.3 shows the factors affecting the performance of unit trust funds. Growth of fund has a mean value of 6.7625 with a minimum value of 0.7678 and a maximum value of 30.90. The mean value for expense ratio is at 2.4275 with a minimum value of 1.6000 and a maximum value of 3.0100. Age of fund has a mean value of 6.9575, initial funds and value of funds 117.70 and 965,388.80 respectively.

4.3 Regression Analysis

Table 4.4 Model Summary

<table>
<thead>
<tr>
<th>Fund</th>
<th>Alpha</th>
<th>Beta</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity</td>
<td>2.9683</td>
<td>0.8182</td>
</tr>
<tr>
<td>Money Market</td>
<td>0.4332</td>
<td>0.975</td>
</tr>
<tr>
<td>Balanced</td>
<td>4.8226</td>
<td>0.7678</td>
</tr>
</tbody>
</table>

Note: all betas are significant

Table 4.5 Coefficients

<table>
<thead>
<tr>
<th>Model</th>
<th>Coefficients</th>
<th>t statistic</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>A</td>
<td>Std. Error</td>
</tr>
<tr>
<td>Beta</td>
<td>1.04</td>
<td>0.44</td>
</tr>
<tr>
<td>Growth of Fund</td>
<td>-0.16</td>
<td>0.04</td>
</tr>
<tr>
<td>Expense ratio</td>
<td>1.74</td>
<td>1.37</td>
</tr>
<tr>
<td>Ln Fund Value</td>
<td>-2.91</td>
<td>2.34</td>
</tr>
<tr>
<td>Ln Age</td>
<td>2.33</td>
<td>3.34</td>
</tr>
<tr>
<td>Ln Initial Investment</td>
<td>-1.02</td>
<td>0.98</td>
</tr>
<tr>
<td>Constant</td>
<td>3.04</td>
<td>1.95</td>
</tr>
</tbody>
</table>

\( t > 1.98 \) significant
4.4 Discussion

Table 4.4 reports the regression results of risk-adjusted returns on various fund characteristics variables. From the t statistics, growth of fund is negatively and significantly linked to fund performance i.e -4.10. This could imply that as funds grow larger they tend to become less efficient in their operations. This is consistent with the findings of Low (2007) According to him, as funds grow larger; managers are being pressured with the never ending task of finding worthwhile investment opportunities thus causing strain in their capabilities.

The coefficient of Beta is positively and significantly related to fund performance and the result indicates that riskier funds are able to generate higher returns which commensurate with their risk levels. This study finds that fund’s risk adjusted returns are not significantly related to fund age and initial service charge. This suggests that fund performance has nothing to do with the number of years that the fund has been in existence.

Expense ratio is not significantly related to fund performance. This could imply that fund managers are able to efficiently use resources to offset their expenses in research and acting on new information. This finding are consistent with the findings of Ippolito(1993), according to him if mutual funds expend resources efficiently, they should be able to generate high gross returns sufficient to offset expenses involved
CHAPTER FIVE

SUMMARY AND CONCLUSION

5.1 Introduction
This chapter presents the summary and conclusions that were made. Section 5.2 presents the summary of the study, section 5.3 the conclusion, section 5.4 the limitations of the study and section 5.5 the recommendations for further research.

5.2 Summary of the Study
The study aimed at determining the factors that affect the performance of unit trust funds in Kenya. The study concentrated on Equity, Money Market and Balanced funds which represented the extreme ends of the investment spectrum.

The study employed unit price data from the eleven unit trust funds as provided by the Fund Managers to compute the fund returns and betas, the NSE 20-share index as provided by the NSE served as benchmark for equity and balanced funds and the 91 Treasury Bill rates as provided by CBK served as proxy market for money market funds, the values of expenses were collected from the financial reports, age of fund was provided by CMA which was from inception to December 2011, size of fund which was measured by the assets under management which was collected from the annual financial statements. The Jensen’s Model was used to calculate alphas which were then regressed to determine the extent of relationship between performance and expense ratio, size of fund, age of fund, initial investment amount and growth in size.

The study found that growth of fund has a negative impact on performance i.e as unit trust funds grow larger over the years, they become less efficient in their operations which were supported by the t-statistics. This implies that high growth rate tends to present fund managers with some challenges.

The study also revealed that expense ratio has no significant impact on performance. This shows that fund managers are successful in making efficient use of resources to offset
their expenses in acquiring new information and research. This is consistent with the findings of Ippolito (1989) that mutual funds invest monies efficiently. The study found no significant relationship between age, size and the initial investment amount. These results suggest that, when selecting unit trust funds investors should pay attention rate of growth of the fund.

5.3 Conclusion

The study found that growth of fund to be a very important factor in determining the performance of unit trust funds, thus investors should look at the rate of growth of the fund before investing. CMA needs to have policy measures to control the growth of unit trust funds order to safeguard the interests of Investors. The management fees paid to fund managers may increase the expenses incurred by the fund but this may be offset by the abilities of the fund managers outperform the market benchmark. This may be explained by the insignificant relationship between performance and expense ratio.

The study also found that the minimum investment amounts are very high with a minimum of Kes. 50,000 for Old Mutual unit trust being the lowest and Kes.250,000 in British America unit trust. This amount should be reduced inorder to accommodate more investors.

CMA should also regulate the growth of funds inorder to safeguard the interest of investors. By this fund managers will be able to find worthwhile investment opportunities.

5.4 Limitations of the Study

The study was limited to Equity, Money Market and balanced funds this was due to availability of information on market benchmarks and proxies which were commonly adopted in the industry. The other unit trust funds such as retirement fund, income fund, bond fund and east African fund were omitted due to lack of universally acceptable benchmarks.
The study was limited to a period of four years due to availability of data in the 11 funds studied. However a longer period should be considered as more funds are being registered.

5.5 Recommendations for Further Research

This study covered money markets, equity and balanced funds only. A study on funds such as east African fund, bond fund, and retirement fund should be carried out. Factors such as fund type, fund objective and portfolio turnover were not examined in this study. It’s important for investors to how these factors would affect their returns. It is also important to find out the impact of Investment statement policy on fund performance.
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Nahid Golafshani (2003): Understanding Reliability and Validity in Qualitative Research, Volume 8 Number 4 December 2003 597-607

Old Mutual Annual Report (2010): Published Financial Statements


Stanbic Investment Services Ltd Annual Report (2010): Published Financial Statements


APPENDIX

Appendix I: Approved Collective investment Schemes

1. African Alliance Kenya Unit Trust Scheme:
   - African Alliance Kenya Shilling Fund.
   - African Alliance Kenya Managed Fund.
   - African Alliance Kenya Equity Fund.

2. Old Mutual Unit Trust Scheme:
   - Old Mutual Equity Fund.
   - Old Mutual Money Market Fund.
   - Old Mutual Balanced Fund.
   - Old Mutual East Africa Fund
   - Old Mutual Bond Fund.

3. British-American Unit Trust Scheme:
   - British-American Money Market Fund.
   - British-American Income Fund.
   - British-American Balanced Fund.
   - British-American Managed Retirement Fund.
   - British-American Equity Fund.

4. Stanbic Unit Trust Scheme:
   - Stanbic Money Market Fund.
   - Stanbic Flexible Income Fund.
   - Stanbic Managed Prudential Fund.
   - Stanbic Equity Fund.

5. Commercial Bank of Africa Unit Trust Scheme:
   - Commercial Bank of Africa Money Market Fund.
- Commercial Bank of Africa. Equity Fund

6. Zimele Unit Trust Scheme:

- Zimele Balanced Fund.
- Zimele Money Market Fund

7. Suntra Unit Trust Scheme:

- Suntra Money Market Fund.
- Suntra Equity Fund.
- Suntra Balanced Fund.

8. Madison Asset Unit Trust Funds:

- Madison Asset Equity Fund.
- Madison Asset Balanced Fund.
- Madison Asset Money Market Fund
- Madison Asset Treasury Bill Fond
- Madison Asset Bond Fund.

9. Standard Investment Trust Funds:

- Standard Investment Equity Growth Fund.
- Standard Investment Fixed Income Fund.
- Standard Investment Balanced Fund.

10. CIC Unit Trust Scheme:

- CIC Money Market Fund
- CIC Balanced Fund.
- CIC Fixed Income Fund.
- CIC Equity Fund.

11. ICEA Unit Trust Funds

- ICEA Money Market Fund.
- ICEA Equity Fund.
- ICEA Growth Fund.
• ICEA Bond Fund.

12. Dyer and Blair Unit Trust Scheme:

• Dyer and Blair Diversified Fund.
• Dyer and Blair Bond Fund.
• Dyer and Blair Money Market Fund.
• Dyer and Blair Equity Fund.

13. Amana Unit Trust Funds Scheme:

• Amana Money-Market Fund.
• Amana Balanced Fund.
• Amana Growth Fund.

14. CFC Unit Trust Fund:

• CFC Simba Fund.
• CFC Money Market Fund.

15. Diaspora Unit Trust Scheme:

• Diaspora Money Market Fund.
• Diaspora Bond Fund.
• Diaspora Equity Fund.

16. First Ethical Opportunities Fund