EFFECT OF ECONOMIC GROWTH ON PERFORMANCE OF MUTUAL TRUST FUNDS IN KENYA

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A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF DEGREE OF MASTER OF SCIENCE IN FINANCE, SCHOOL OF BUSINESS AND MANAGEMENT SCIENCES, UNIVERSITY OF NAIROBI,

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DECLARATION

This research project is my original work and has not been presented for any award in any other institution of learning

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Sign**:** Date**: 04/11/2021**

DEDICATION

This work is dedicated to the most important people in my life: My beloved husband

Moses Gatheca and my daughter Elsie Gatheca. May God always watch over you!!

ACKNOWLEDGEMENT

ABSTRACT

Mutual trust funds in Kenya has continued to post a dwindling performance for the last 10 years, especially for the last one year, when the country recorded a major performance decline in 2020 as a result of global Covid-19 pandemic that affected nearly all sectors of the economy. This study therefore seeks to assess the effects of economic growth of Kenya on mutual trust funds performance. The study was based on Modern Portfolio Theory (MPT) and Capital Asset Pricing Model (CAPM). The research was guided by descriptive research design and all the 34 mutual trust funds schemes from the listed mutual trust fund firms by Capital Market Authority were involved in the study. The study used simple random sampling technique to obtain the firms and sourced for secondary data from Capital Market Authority on the sampled firms. The study used SPSS version 26 where data was analysed through descriptive statistics as well multiple linear regression analysis. The study found that economic growth of a country indicated by GDP, Interest Rate and Human Capital influenced significantly the financial performance of the mutual trust fund schemes in Kenya, with interest rate having a stronger influence followed by Gross Domestic Product then Human capital development or growth. The study therefore recommended that mutual trust fund firms should have in place a well thought out structures and policies that would help in mitigating adverse effects of volatile interest rate and also come up with ways in which the funds can be invested in diverse portfolio. Policy makers in the general economy of the county should come up with various stimulus programs or policies that enhance GDP growth rate, which would then augment the financial performance of the mutual trust funds. The government through various policies should work on plans that encourage human capital development and efficiency of a country through offering education and training incentives, since this was found to have influenced positively on the financial performance of mutual trust fund firms.

TABLE OF CONTENTS

LIST OF ABBREVIATIONS

CAPM: Capital Asset Pricing Model

FRs: Fund Returns

GDP: Gross Domestic Product

ICT: Information Computer and Technology

IMF: International Monetary Fund

MPT: Modern Portfolio Theory

NSE: Nairobi Securities Exchange

SAP: Structural Adjustment Program

VAT: Value Added Tax

CHAPTER ONE

INTRODUCTION

1.1 Background of the study

A mutual fund is a kind of monetary vehicle composed of a pool of financial resources gathered from various business investors to venture in securities such as stocks, financial market tools and bonds (McNultry and Akhigbe, 2015). Mutual funds are traded by professional financial managers on behalf of the investors, and the managers distribute the funds and try to generate financial gains or revenues for the investors. The portfolio for the mutual funds is organised to adhere to the investment objectives as spelt out in the prospects. Proceeds from investing in Unit trusts are then distributed periodically to investors which can be in terms of yearly or semi-annually. However, some funds permit certain investors to convert their funds at any given time within few days of notification (Ochieng 2005). Business investors at the moment can choose from tens of hundreds of mutual funds giving large array of venture profiles of business with non-risky debt ventures to relatively risky securities and derivatives in short-term (Carlson, 2017). The popularity of mutual trust funds have dramatically risen for the past decade and played a very significant role in the financial market asserts (Hallahan, 2008). This is event due to sharp increase in the global mutual trust fund assets, from $14 trillion to $26 trillion in 2013 and 2017 respectively (ICI, 2018). In the developed countries, mutual trust fund have gained recognition thus the largest financial intermediaries controlling over $7 trillion in the US in terms of assets, and over $3 trillion in Europe according to the report from ICT (2019); McNultry and Akhigbe (2015). Mutual trust fund is among the lowest fund industry with only 13% in the entire world in Africa in addition to the pacific (Hendricks, Patel, and Zackhauser, 2008).

The decision by the investors to take risk and make investment decisions can also be underscored by Modern Theory Portfolio, which was developed by Markoawitz in 1952. The

theory postulates that when coming up with a fundamental model for portfolios, it is imperative to know the sources of projected returns of a given investment portfolio as well as measure the anticipated risks of investment. The model also emphasizes on generating portfolios on the basis of optimizing on the anticipated returns within an acceptable risk level and with the knowledge that risks are intertwined to higher benefits. To take of the anticipated risks of investment, the Capital Asset Pricing Model disintegrates these risks in a portfolio and helps in quantifying it as well as the individual assets to its basic components.

Mutual trust funds are indispensable to the financial market equity, growth and development of an economy of a country. This usually occur if they are held by institutional investors processing important share of capital assets (Boudoukh, Richardson, Subrahmanyan, 2002). As a result of this, it is clear that mutual trust fund system pool finances from countless investors and money security ventures in the market, bonds, viable securities and short-term financial market platforms are available (Ferreira, Miguel and Romas, 2006). Consequently, the information on mutual trust funds performance is worrisome to both investors and fund managers. This is because of dwindling performance trend posted by the fund managers hence it is not clear whether this is also dependant on economic growth of a country or not (Brinson, Singer, and Beebower, 2009). In Kenya, Mutual trust Funds are commonly known as unit trust and business stakeholders can only venture into them via licensed business organizations (Kagendo, 2009). Although there may be many factors influencing the persistence performance of the mutual trust funds, it is not known empirically whether the economic growth of a country would influence this performance, given that most of the literature on performance have majorly focused on how past records of performance forms the premise of predicting future performance across the various sectors of economy. The present study therefore seeks to assess the effects of economic growth of Kenya on mutual trust funds performance.

1.1.1 Economic Growth

Economic growth in simple illustration means an increase in total production of a country or of an economy (Vakidis, 2009). Usually, but not automatically, aggregate expansions in a production relate with the rise of ordinary marginal productivity (Rehman and Bloch, 2016). That results in a growth in incomes, motivating consumers to do more purchases and buying of the commodities which would then consequently increase standard of living and quality of life.

In the world of business, growth is usually shown as a function of human capital, physical capital, labour capital and state of technology (Mbataru 2016). In simple terms, rising the quantity and quality of age of the workforce, their instrument of operations and the available methods to mix capital, labour, and raw materials, would result into growth of economic yield.

Therefore, simple ways to realise economic growth are increasing amount of tangible capital goods, improving technology, growing labour and increasing human capital, which would eventually point to the general GDP of a country. Most of the scholars such as Vakidis, (2009) and Ikikii and Nzomoi, (2013) illustrates economic growth of a country as an amplifier of the fiscal wellbeing of a country that comes as a consequent of better quality of services and improved quantity of goods generated by the country over a duration of time. In the present study, economic growth will be measured through technology, GDP and human capital and assessed how these parameters influence financial performance of mutual trust funds.

1.1.2 Mutual Trust Fund Performance

Mutual trust fund performance can be defined as the trend or rate at which pool of financial resources invested in a portfolio of securities are able to generate capital gains, dividends or interest within the stated period of time (McNultry and Akhigbe, 2015). Several elements can

be used to assess performance of mutual trust funds especially with respect to quality and quantity management of the mutual fund. Therefore, the measurement may be grouped into risk related fund returns (FRs), dividend adjusted returns, excess return (FR without the risk-free rate or FR without the benchmark return) and finally risk-adjusted returns, like Sortino ratio, Treynor ratio, Sharpe ratio, and information ratio. Similarly, these ratios are mainly applied to assess and measure the performance of mutual trust fund across the globe, either individually or by credit rating organizations that may utilise advanced financial models to rate mutual trust funds with regards to the aforementioned variables.

Investment Company Institute (2018) also explains that performances of mutual fund trust can also be assessed through capital development and growth, frequency of returns as calculated in dividends, received interest and capital proceeds obtained from the growth of the assets ventured in and fund's value. Mbataru (2016) explains that the surviving of the mutual funds is exclusively hinged on how its fairing on in the market, implying that survival of capital for growing funds and steady returns for value funds. As the Kenyan economy grow, it is necessary to shift from the direct performance indicators and benchmarking, to style oriented pointers that also gives relevant information on persistence in mutual funds' performance, funds' behavioural patterns, funds' characteristics, stock-picking and capacity of the fund managers to conduct proper timing (Melih, 2010).

1.1.3 Economic Growth and Mutual Trust Fund Performance

Pozen and Crane (2018) elaborate that venturing into mutual trust fund is significant to any equity market and consequently to the overall growth of an economy, given that the funds are held by institutional investors who owns a substantial portion of capital assets.

Kamwaro, (2013) also documents that performance of mutual trust funds is also hinged on economic trend or growth of a country given that indicators of economic growth such as

technology, GDP and human capital may influence the magnitude of liquidity to the financial market by mobilizing domestic and foreign savings in the economy. Subsequently there would be positive link between performance of the fund and its liquidity.

In evaluating of mutual trust fund performance is in terms of capital growth, interest received, periodical returns in the form of dividends and capital gains realised from the magnitude of assets invested, Iraya & Wafula (2018) document that the GDP of a country have a strong and positive effects on the mutual trust fund performance. Similarly, Nawaz (2010) and Rehman and Bloch (2016) documented that economic growth of a country, turnover of assets and public expense ratio played a vital role in the mutual fund growth. Gupta and Sinhta, (2015) also in their study found a direct correlation between macroeconomic variables of a country such as inflation rate; interest rates, gross domestic, and currency exchange rates to have had a significant influence on the return of mutual funds.

1.1.4 Mutual Trust Funds in Kenya

In Kenya, Mutual trust Funds are commonly known as unit trust and business stakeholders can only venture into them via licensed business organizations (Kagendo, 2009). Currently, there are about 20 mutual trust funds registered in Kenya and are regulated by capital market authority (CMA).

This business investment vehicle in Kenya pool together financial resources from different investors with same investment goals and the gathered resources are ventured in portfolio of securities, which are the operated by professionals managers.

The concept of mutual trust funds has gained popularity in the country for the past few years. There are various securities that attract the mutual funds in Kenya and these are, equity funds, bonds funds and money market funds (Odhiambo, 2004). Report by CMA (2020) indicates that

the asset value for the entire mutual trust funds in Kenya increased to KES 88.1 billion from KES 76.5 billion, signifying a 15% increase as at the conclusion of the first quarter.

Some of the reasons why the mutual trust funds investment is gaining popularity in Kenya is due to the reason that it offers easy accessibility of various assets which would otherwise not available to individual business investors (Mbataru, 2016). For instance, corporate bonds are only given to group investors as opposed to individual investors. Besides, this nature of investment encourage spreading of risks given that the invested unit can similarly be divided further and be invested in different financial tools.

Ikikii and Nzomoi, (2013) also highlights that the investors can access the mutual trust funds easily and either buy or sell off the securities invested in, in Nairobi security exchange. However, this decision is largely guided by the professional mutual trust fund managers after carrying out an elaborate research on profitability of the decision.

The regulation framework of the CMA that guides the mutual trust funds in Kenya ensures that they support, safeguard, monitor and ensure that there is financial stability for the investors through provision of enabling and fair financial environment to the players (Caprio, 2013). Proper regulation of the mutual trust funds operations in Kenya is quite necessary to ensure that there is market integrity, protection of the investors, prevention of infiltration by unscrupulous entities, and guarding against unsafe activities such as overpricing, market rigging and misinformation (Mishkin & Eakins, 2009).

1.2 Research Problem

A mutual trust fund is a method of investment that makes individuals to share the risks involved in investment with other investors. Everyone that has contributed to the mutual trust fund experience similar share of proceeds as well as any losses for every money invested. This

method of investment pools funds from many investors to generate a portfolio of bonds, stocks, real estates, and or other securities, in accordance to the nature of investments that the mutual trust fund trades in. Therefore, mutual trust fund performance can be defined as the trend or rate at which pool of financial resources invested in a portfolio of securities are able to generate capital gains, dividends or interest within the stated period of time.

In the context of the present study, the financial performance of mutual fund trust are assessed through return on investment (ROI) obtained from the growth of the assets ventured in and fund's value. However, mutual trust funds in Kenya has continued to post a dwindling performance for the last 10 years, especially for the last one year, when the country recorded a major performance decline in 2020 as a result of global Covid-19 pandemic that affected nearly all sectors of the economy.

Theoretically, the expected correlation between economic growth of Kenya and mutual trust funds performance is not clear; this is because empirical studies insist that there is a positive correlation, others concluded that there is a negative association, while others document that there is no significant correlation at all between these variables. For instance, Gitagia (2013) and Kagendo (2009) in their studies, both identified fund characteristics, stock-picking and effectiveness abilities of managers as major factors influencing mutual trust fund performance in Kenya, while Kagunda (2011) found that there was a positive correlation between allocation of assets and mutual trust fund performance. However, most of the studies have contextual gaps given that they have only focused on other areas such as size of the funds, characteristics of funds and behaviour of mutual fund managers but not on the relationship between economic growth of a country and performance of mutual trust funds. The present study therefore seeks to assess the effects of economic growth of Kenya on mutual trust funds performance. Thus, this research attempted to response to the research question which is what are the effects of

economic growth on financial performance of mutual trust funds in Kenya?

1.3. Objective of the study

To assess the effect of economic growth on performance of on mutual trust funds in Kenya.

1.4 Value of the Study

Learning the effect of economic variables on mutual trust funds performance will be helpful especially on investment. Investors in business and mutual fund managers will benefit from this contemporary scholarship through study findings application as a measuring premise and investment decisions prediction. Hereafter, mutual fund managers, through comprehending the dynamic nature of the economy of a country informs investors accordingly on tolerance for risk taking, the investors are fortified with knowledge on when to buy, sell which share due to making the best portfolio for investors that generate maximum return.

Findings on this study will help in flaking light on how mutual trust funds performance are affected by growth of economic indicators that assist policy makers and economic practitioners in coming up with feasible policies, market controls and advocate for a decent commercial governance for economic growth of a country. The study will also be beneficial to the government and investigation bodies especially in the field of business and economics. It is prudent to note that any business with the interest in progressing, the information and literature on performance of mutual trust funds with respect to economic growth variables is important. The findings of the study will also expound literature subject as reference resource therefore, inspiring further study in the field.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter contains a review of literature and research on the related study themes. It presents the theoretical reviews of theories underpinning the study concept, an empirical review on the study themes as well as the developed conceptual framework. The chapter concludes with a summary of the literature reviewed and the emerging knowledge gaps.

2.2 Theoretical Review

This study is based on two theories relating to fund performance: Modern Portfolio Theory (MPT) by Markowitz (1952) and Capital Asset Pricing Model (CAPM) developed by Sharpe (1964).

2.2.1 Modern Theory Portfolio

Markowitz (1952) in developing the fundamental model for portfolios performed derivations of projected return rates of a given investment portfolio as well as the measure of anticipated risks. The emphasizes constructing portfolios by risk-aware investors on the basis of optimizing on the anticipated returns within an acceptable risk level and incognizant of the fact that risk is intertwined to higher benefits. The theory presents a possibility of an efficient level portfolio with highest level of returns for the existing risks. Basically, four (4) steps are systematically followed in developing a portfolio: evaluating security, apportioning assets, optimizing the portfolio and measuring performance. The consequence of MPT leads to the notion that investors will rationally not go for a given portfolio in the event of a more favourable option based on risk-return level. Thus, any fund manager will collect assets with resulting high performance for considered risk level within their portfolio.

Markowitz (1952) posits that there are two forms of risk inherent in a portfolio being systematic and unsystematic. Systematic risk emerges from the market volatility as a whole while individual or specific risk which is considered unsystematic is attributable to individual stocks. Thus, the essence of developing a portfolio is to balance the individual risks by deriving advantages from risks in one form of security and using it to compensate for risks due to another security within the portfolio in what is known as diversification. Sharpe (1964) explains that, in efficient capital markets, investors will benefit by accepting systematic risk with no benefit in taking specific risks due to existence of diversification possibility. Carrying specific risks by a given fund eliminates the benefits of efficiency through optimization of returns.

The MPT was postulated in the 1950s and was effectively applied through to the early 1970s and its significance was highly seen in mathematical finance modelling. Since then, a number of practical and theoretical criticisms have come up against it. For instance, the fact that monetary returns do not adhere to a Gaussian distribution or any symmetric distribution, and the fact that connexions between classes of assets are dynamic depending on external factors (Kamwaro, 2013). Furthermore, there is an evidence that the investors are not knowledgeable enough to understand the dynamic markets, which is increasing becoming inefficient (Otuteye, and Siddiquee, 2017).

This theory informs this study from the point that given that the portfolio Return is the combined possible gains from assets in a given investment portfolio, hence, it resonate well with the tenets of mutual trust funds given that the investment compose of a pool of financial resources gathered from various business investors to venture in securities such as stocks, financial market tools and bonds (McNultry and Akhigbe, 2015). Besides, the theory underscores how risks are associated with investments and how they can be managed through diversification or spreading of portfolios. Owing to this, the nature of mutual trust fund

investment encourage spreading of risks given that the invested unit can similarly be divided further and be invested in different financial tools.

2.2.2 Capital Asset Pricing Model

Capital Asset Pricing Model commonly abbreviated as (CAPM) was first formulated by three scholars namely Jack Treynor in 1961, William Sharpe in 1964 and John Lintner in 1965. The three scholars independently modified the modern portfolio to link together the aspect of risk and return while defining their relationship and interrelationship. According to this model, there exists a super-efficient portfolio determined by the market also known as market portfolio (Tobin, 1958). It is this portfolio that investors strive to acquire thus manipulating it to identify assets devoid of risks to attain maximum desirable risks.

Thus, CAPM disintegrates the overall risks in a portfolio and quantifies it as well as the individual assets to its basic components of unsystematic and systematic. In this case, systematic risks occur in participating in the market portfolio which each stock affected one way or the other by changes in the overall market. On the other hand, unsystematic risk, which is specific in nature, is particular to a given asset and is not affected by the general movements. Thus, it is contributed to internal factors affecting the asset in question.

The reason for the popularity of the CAPM especially for its application for the current study is its simplicity in logic application and instinctively predicting on how to assess and quantify risk associated with mutual trust fund investment performance and measurement of the relation between projected return on investment and associated risks. Understanding the anticipated return and risks associated with mutual trust fund, the investors make right decisions on when and where to invest, however, pending the prevailing state of economy. Nonetheless, this decision is largely guided by the professional mutual trust fund managers after carrying out an elaborate research on profitability of the decision.

However, its criticism comes from the simplicity of its application, where the empirical records of the theory is poor, in fact, so poor that it actually invalidates how it is applied in the financial investments. The model's empirical shortcomings may indicate actual failings, but this may similarly result from problems associated with the empirical tests, most particularly, poor substitutes for the investment portfolio, which plays an important function in the model's predictions. .

2.2.3 The three factor model

In portfolio management and asset valuing, the three factor model was designed by French and Fama in early 1992 to provide a comprehensive descriptions of stock returns (French and Fama, 1992). According to the model, the investment element, market element and return on asset element combine to bring disparities or variations of anticipated stock returns (Cakici, Fabozzi, Tan, 2013). This model significantly outperforms the old asset pricing models in elaborating the anomalies related with short term before returns, fiscal distress, asset expansion, net stock, earning shocks and pricing ratios (Fama, and French, 2012). In its application and relevance to the present study, the model's performance coupled with its economic perception in regard to q-theory recommends that it can be applied to get expected return approximates in mutual trust funds and this may be useful to investors in making their decisions. Moreover, mutual trust funds investors would make decisions subjects to professional managers' guidelines with the aim of increasing capital gains or dividends, which indicate the performance of mutual trust fund that is also influenced by the economic growth of a country.

2.3 Determinants of Mutual Trust Fund Financial Performance

Most of the research studies particularly on determinants of mutual fund performance, that have focused on fund-level characteristics, and economic elements have documented that these dynamics are significant in establishing the funds outperformance in the market (Banegas et

al., 2013); Angelidis et al., 2013; Cuthbertson et al., 2012; Bialkowski and Otten, 2011). Thus, growth of the economic indicators like, human capital and GDP of a country.

2.3.1 Economic Growth

Comprehended as financial establishments that oblige households' needs, growth of mutual resources is more likely realized by numeral factors: income level and built-up wealth of the country. Theoretically, devoting on mutual funds, like life assurance purchasing insurance and saving for retirement, should be seen as a luxury good with a positive income elasticity of demand (Gitagia, 2013). Pragmatically, however, the correlation between income per capita seen as a pointer of economic progress of a nation and assets of mutual trust fund as shown as a proportion of national income is has never been obviously positive (Kagendo, 2009). Nguyen and Nguyen (2021) when looking at the determinants of performance for mutual trust funds found a direct link between economic growth indicators and growth and development of mutual trust funds as well as country situation measured through economic growth, development plan, market regulation and political consistency. Internal organizational factors had no significant effect on performance.

Generally, market for mutual trust funds may be slanted by ancillary taxes (transaction taxes or VAT) imposed on other monetary tools or trades by other financial entities however, from which mutual funds are exempted Kamwaro (2013). The exception of mutual trust funds from the tax on fiscal transactions in Brazil has been a foremost influence behindhand the formation of limited mutual funds for corporation pension funds, in turn, this has underwrote to rapid enlargement of mutual trust fund sector in Brazil. Lemantile (2017) also examined how economic pointers of Kenya influenced mutual trust funds traded in Kenya and similarly found a significantly positive association of funds' performance and prevailing interest rates.

2.3.2 Human Capital

Human capital is one of the main determinants of performance and trend of any economic growth, advancement and prosperity of a nation. Investing into human capital through such initiatives as educations and training are hence a major concern for governments, individuals and firms. Becker (2018), also posit that human capital is the crucial determinant in justifying the rise and tumble of countries or states and also the chief predictor of individual income. However, the effect of human capital on business enterprise in most cases has always been less clear. This can be justified by the fact that the indicators of human capital and it investments are attributed to the individual as opposed to the business organization or firm.

Bialkowski and Otten, (2017) also conducted a study to find out whether skills, training and education influence the company's performance. The study found that based on the nature of the trainings that business organizations give to their employee, good training improves the skills of the workers, which in turn influence their productivity and finally the overall performance of the business organization. Moreover, Angelidis et al., (2013) highlighted that training produces significant gains for the business organizations regardless whether the training was valuable to other companies. Similarly, the justification that the employers gain from employee training and human capital development is also seen from the findings of Banegas et al., (2013) who also indicated that most of the employee training programs conducted in Britain, Netherlands, France and Sweden, yield a positive results and returns for the firms in these countries. Generally, the impacts of education and competency on company's level of production and technology is significant and positive. Hence, the business organization is expected to increase in their returns after investing in training and skill development. The present study also seek to establish if training, education and skill development influence the returns of the mutual trust funds.

2.3.3 Gross Domestic Product

Development in Economy of any given country is measured in terms of the Gross Domestic Product. This in turn depends on investment opportunities and the management of such investment. According to Komleh, (2018) through Capital Markets, investors are able to access potential investment opportunities which drive economic development and the GDP. Mutual trust Funds have emerged as the investment intermediaries which will sources funds from investors and establish profitable investment portfolios for their clients. The performance of such funds may correlate with the overall economic growth and specifically the GDP. Amunga (2015) conducted a study on determinants of performance of mutual funds using the case of Kenyan market. Arbitrage price model was sued for factor identification and consequently, GDP growth rate, fund size, inflation and treasury bills were conceived as the predictors of performance in such funds. GDP growth rate, market interest rate and inflation had significant effect on fund performance with fund having no significant effect.

2.4 Empirical Literature Review

This sector highlights empirical studies of the past researches that shows how economic growth influence mutual trust fund performance. Aim-Suppa (2021) examined the mutual Fund Performance in Emerging in Thailand Markets, using more widespread dataset such as unique characteristics of mutual funds, investment policy safeguards and tax-purpose variations in Thailand. Using regression analysis, the study found that size, fund family and age had a direct influence on the mutual fund performance. However, the influence of investment policy controls and safeguards was not economically significant. It was also established that cash flows largely had no meaningful effects of fund performance. Though, substantial amount of cash inflows was found to be having a potential impact of lowering the trust fund performance.

Nazakat (2021) sought to find out how country precise elements alongside fund precise elements influence mutual trust fund performance, assessing the sample of 32 equity mutual trust funds in India and Pakistan. Annual statistical data was gathered from fiscal records on mutual trust fund within a 5 year period of 2010 to 2015. The gathered data was analysed through fixed effect model and the study found that the gross domestic product of a country and size of the funds positively correlated with the development of mutual funds. Capital Price Index was also found to be negatively related to mutual trust performance of the funds. Previous particular elements of country level variables was also found to be having a direct effect on mutual trust fund performance.

Nthimba, Jagongo and Wamugo (2021) conducted an investigation on how fund size affects performance in Kenya with a case of unit trust. The researchers adopted explanatory design with population comprising registered unit trust funds in the country as December 2020 accessed by census. Data used was secondary, obtained from audited statements and capture via data collection schedule for period 2016-2020. Findings showed significant positive effect of fund size on performance with increase in size leading to increased performance.

Wafula and Iraya (2021) conducted a study aimed at establishing how diversification affects performance of mutual funds basing on the Kenyan case. Descriptive survey was adopted in analyzing thirty four (34) well balanced mutual funds over a year period in 2020 with data being secondary for each fund. Return on each portfolio was determined basing on reported price changes with diversification being unsystematic risk level in performance from trading figures of Nairobi Securities Exchange (NSE). Ordinary Least Square regression was used to model the data with findings showing positive correlation between risk and performance of specific funds.

Alvi and Rehan (2020) carried out a study on determinants of performance of mutual trust funds in Pakistan. The study used convenient sampling approach to select 16 asset management firms that had 114 outstanding mutual trust funds in Pakistan. Data were gathered on quarterly basis. Using multiple regression approach, the study found that fund risk, total income, fund's age and total expenses had a positive effect. Howver, the quality of management ratings was found to be insignificantly and positively influencing returns, while instruments free of risks had a negative and insignificant influence on returns.

Nguyen and Nguyen (2020) studied the predictors of mutual fund performance in Vietnam within the context of country and fund characteristics. Various kinds of mutual funds that have been in operations for more than five years were selected to reduce outliers with the period of operations. The study sampled 54 mutual trust fund entities and the study found a positive correlation between macroeconomics variables such as GDP, interest rate and inflation with the mutual funds' performance. In addition, mutual trust performance was also found to be positively correlated with economic growth and political stability of a country.

Miguel, Ferreira, and Romas (2020) studied the predictors of performance of mutual trust fund from five African states (Nigeria, Ghana, South Africa, Morocco, and Tanzania). The study finding elucidated that size of funds and economic growth rate related negatively with the inflation rate of a country. The research also found that large funds reasonably performed better in comparison with the less funds. The study also revealed that the mutual trust funds that were managed by more skilful and knowledgeable individuals and were charging high fees performed comparatively better than those that charged low fees.
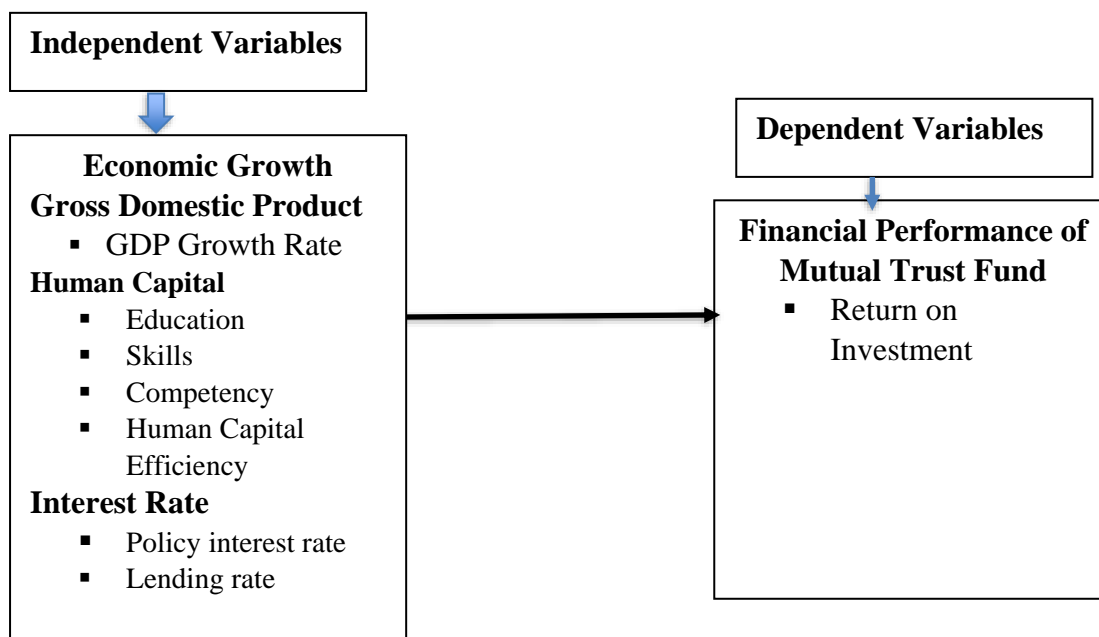
Muturi and Muthomi (2020) looked into effect of predefined fund characteristics on performance. The predefined characteristics were: market timing, asset selection, fund size and expense proportion. The study was a two stage modeling using Treynor and Mazuy (1966)

model in investigating timing and asset selection and single-index asset pricing model for determining the subsequent performance of each selected asset using Jensen's Alpha coefficient. Multiple regression was used in determining the relationship with performance. Findings portrayed a significant positive influence of asset selection on performance measured through equity, money market and balanced funds.

Muriithi (2020) investigated the nature of relationship that existed between risks and equity mutual trust funds returns in Kenya, using the NSE20 share index as the reference point. Secondary data was sourced to obtain every mutual trust fund return plus the associated risk. The study regressed the two variables and the coefficient of variation, together with the Jensen model were adopted to assess the performance of mutual trust funds. It was established that there was a positive correlation between risk and return.

2.5 Conceptual Framework

Conceptual framework is a diagrammatic presentation of the interrelationship between variables. The conceived framework for the study variables is presented in Figure1.From the diagram, the independent variables indicating economic growth (GDP, human capital and interest rate) influence the financial performance of the mutual trust fund (dependent variable). Financial Performance of the mutual fund was measured in terms of return on investment.

Independent Variables		Dependent Variables

Economic Growth
Gross Domestic Product
- GDP Growth Rate

Human Capital
- Education
- Skills
- Competency
- Human Capital Efficiency

Interest Rate
- Policy interest rate
- Lending rate

Financial Performance of Mutual Trust Fund
- Return on Investment

2.6 Summary of literature review

This study is anchored on two theories relating to fund performance: Modern Portfolio Theory (MPT) and Capital Asset Pricing Model. The proponents, tenets and how these theories informs the study have been described in the study. The empirical reviews underscores how different both local and international scholars have underpin how economic growth influence mutual trust performance. For instance, Nderitu (2012) investigated how inflation affects investment by insurance firms favouring descriptive design for the research. Kigen (2016) also conducted an analysis of how fund size affects financial performance specifically for pension funds operating in Kenya. Similarly, Oluoch (2013) focused on performance of pension funds and determined a generally weak association between fund value and performance in Kenya using a case of pension funds. Thus, the researchers failed to capture dynamics in other funds especially Mutual Trust Fund which this present research investigates. Nthimba, Jagongo and Wamugo (2021) conducted an investigation on how fund size affects performance in Kenya with a case of unit trust. While Muriithi (2020) studied the correlation between risks and proceeds of equity mutual trust funds in Kenya utilising NSE 20 share index as the baseline.

Globally, Aim-Suppa (2021) explored the mutual Fund Performance in Thailand Emerging Markets, by means of a more all-embracing dataset; its investment policy and tax-purpose variances, as unique features of mutual funds in Thailand, while Nguyen and Nguyen (2021) examined the predictors of performance of mutual funds for both a country level and fund level in Vietnam as Miguel, Ferreira, and Romas (2020) assessed also the predictors of mutual trust fund performance using four factor models for the funds from 5 African countries (Nigeria, Ghana, Morocco, South Africa, and Tanzania). However, in all these scholarships, there are relative gaps given that none have centred their focus on mutual trust fund investments performance in Kenya, besides, because they have used different methodologies, there is inconsistence and inconclusive findings on how economic growth influence mutual trust fund performance.

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CHAPTER THREE
RESEARCH METHODOLOGY

3.1 Introduction

The section sketches the methodology adopted for successfully realizing the research. Therefore, it entails the design, populace and sampling techniques. It also has data collection analysis framework and the working empirical model.

3.2 Research Design

Research design can be defined as the general approaches that a researcher choose to incorporate the diverse components of the study in a logical manner to address a research problem. Kothari, (2004) further explains that it entails the outline that the study will utilise to collect, measure and analyse data. The research adopted descriptive research design. This design is ideal because it is apprehensive with constructing accurate valuation of the arithmetical inferences, relationship and distribution of phenomenon (Edwards, 2006). Studies have the benefit of providing significant info for all types of information of the public and research fields like one desired in this research. Owing to fact that the study pursues to bargain out the effects of economic growth performance of Kenyan mutual trust funds, descriptive research design is well-thought-out appropriate for present study.

3.3. Population

In research context, population is an inclusive group of subjects, objects, individuals or institutions with similar characteristics or features that are of significant to the researcher (Kothari, (2004). The population of this study were all the listed mutual trust funds firms in Kenya which is currently 34 in number and was obtained from the Capital Market Authority. The researcher will therefore involve all the 34 mutual trust firms in the study through census sampling technique.

3.4 Data Collection

The present study used secondary data sourced from Capital Market Authority as well as NSE. The secondary data type was chosen since they are relatively cheap and readily available in comparison to primary data. Capital Market Authority provided secondary data on financial performance of mutual trust fund as measured through (Return on Investment, ROI), as well as GDP growth rate, interest rate. Human capital development data measured through human capital efficiency was obtained from the firms' website. Data collection lasted for three weeks since only secondary data was sourced.

3.5 Diagnostic Test

Diagnostic test takes care of different kinds of bias that are likely to take place in a study. Creswell (2014) defines diagnostic accuracy as the degree at which a test properly shows the "true" existence or absence of the bias in data.

3.5.1 Multicollinearity

The current study utilized the correlation coefficients coupled with determinants of variance inflation to assess the presence of multi-collinearity. As Kothari, (2004) asserts, multicollinearity is a circumstance in which independent variables relate with one another to a greater extend, therefore causing interference with the coefficients and making the interpretation and comprehension of the study findings difficult, hence invalidating the significance of the tests. On the other hand, VIF reveals the extent at which standard errors increases as a consequent of multicollinearity. The coefficients are then checked whether it exceeds or are less than 0.8 and in case of VIF, the value is must be at least 5. This observation is also supported by Gujarati (2003) who also explains that the available of multicollinear among the variables were realised when the independent variables have their coefficients exceeding 0.8 threshold, or VIF recording more than 5 as the point of reference. However,

should the assumptions aforementioned in multicollinearity fails, the study either eliminated highly related independent variables or linearly group all the independent variables like adding them altogether or carry out an analysis intended for extremely related variables like carrying out partial least squares regression analysis or principal components analysis.

3.5.2 Test Normality

In testing for the normality of the data set, the test was carried out to establish whether independent variables and their respective regression coefficients showed nonskeweness. Normal distribution ought not to be excessively flat (platykurtic) or too steep (leptokurtic). It should also not be negatively or positively skewed and in case of absence of non-normality of the data with the estimators, interference may be witnessed in efficiency and statistical tests thereby rendering the data invalid (Green, 2008). High skewness and kurtosis of the values shows the likeliness of abnormality in data spread. Kerlinger, (2011) similarly illuminates that when the value of skewness exceeds 3, and the value of kurtosis exceeds 10, then the date may be rendered abnormal. This test is based on the premise that data was normally distributed. However, if this assumption fails, then the study transformed the data to conform with normality, by using either box-cox transformation or checking the for the outliers. In box-cox transformation approach, the researcher will use power transform method where she will take the square roots and the logarithms of the observations to make the data normal. Alternatively, the

3.6 Data Analysis

The study used SPSS version 26 as a platform to analyse the data. The data was analysed through descriptive statistics as well as through multiple linear regression analysis. Regression analysis helped in establishing the relationship between economic growth variables and mutual trust fund performance.

3.6.1 Empirical model

Therefore, the model was

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon$$

Where Y= Performance of Mutual Trust Funds (Return on Investment)

X_1 =Human Capital Development

X_2 =Gross Domestic Product

X_3 =Interest rates

e=Error of prediction

β_0= Constant. Value of dependent variable; Performance of Mutual Trust Funds, holding all the independent attributes constant at zero. β_1, β_2, β_3, = represent regression coefficients of independent variables, denoting the rate of change in the dependent variable for every unit change in the independent variable; X_1, X_2, and X_3

3.7 Significance Test

A *t*-test is a statistical assessment applied to make a comparison between the actual mean and the populace mean. It can also be described as the baseline mean, with respect to standard deviation. In the present study, regression analysis used t-statistic, at a 5% (1.96) significance level. F-test was used to illustrate how the data are distributed (F-distribution) as guided by valueless hypotheses. Normally it is applied when correlating statistical designs that fit very well in the data set, so as to pick out the model that fits very well with the study sampled population. In the context of the present study, the F-test statistical analysis checked whether all predictors variables of economic growth fits very well with the mutual trust fund performance, in which the F value was computed through at 95% confidence level. Besides establishing the significant results, the explanatory power of the regression illustrated by the R^2 in the regression output also helped in explaining the adjusted coefficient of determination.

In this regard, the percentage R^2 showed the ability and extent the independent individual predictor variable is able to explain the variation of dependent variable to which it pertains.

3.8: Operationalization of Variables

In this section, the study underscore how the variables (independent and dependent variables) are operationalized within the context of the present study. Therefore, the variables, how they are operationalized and the measurements were as given in Table 3.1

Table 3.0:1 Operationalization of the Variables

Variable	Variable type	Operationalization	Measurement
Financial Performance of Mutual Trust Funds	Dependent Variable	▪ Return on Investment (ROI)	Nominal
Gross Domestic Product	Independent Variables	▪ GDP growth rate	Ratio scale
Human Capital	Independent Variables	▪ Human Capital Efficiency	Nominal
Interest Rate	Independent Variables	▪ Policy Interest rate ▪ Lending interest rate	Nominal

CHAPTER FOUR: DATA ANALYSIS, RESULTS AD DISCUSSION

4.1 Introduction

This chapter is set out to detail the findings of analysis based on the specific objectives that guided the study. The study relied on secondary data that was gathered covering the period 2018 to 2020 from 34 listed mutual trust funds firms in Kenya and thus the value of n was 34. The contents of this chapter include the diagnostic tests, and regression results.

4.2 Diagnostic Tests

Diagnostic tests were conducted to validate the assumptions of regression model. This was important since any violation of these assumptions could easily invalidate the results obtained from regression analysis. The specific tests that were conducted include normality test and multicollinearity test as specified below:

4.2.1 Multicollinearity Test

Multicollinearity test was conducted to ascertain that none of the independent variables were highly correlated with each other apart from the dependent variable financial performance. This was realized through Variance of Inflation Factor (VIF) a specified in Table 4.1.

Table 4.1 Multicollinearity Test

	Collinearity Statistics	
	Tolerance	VIF
Human Capital	.943	1.019
Gross Domestic Product	.961	1.047
Interest Rate	.922	1.041
Mean VIF	**.942**	**1.036**

Source: Research Findings (2021)

Table 4.1 shows the mean value of VIF as 1.036 which happen to fall with the range of 1-5. Even all the VIF values for the individual objective variables were all within this range. This also shows that there was no severe multi-collinearity effects emanating from the predicting variables. Meaning, in the present study, the problems associated with multi-collinearity was

not witnessed between the predictor variables, thus allowing interpretation of the results with much confidence.

4.2.2 Normality Test

Normality of the secondary data was tested through Skewness and Kurtosis with the findings as presented in Table 4.2. The essence of this test was to ascertain whether the data used in the study was normally distributed.

Table 4.2 Normality Test

	N	Skewness		Kurtosis	
	Statistic	Statistic	Std. Error	Statistic	Std. Error
RO1	34	**2.247**	**0.112**	**1.233**	**0.224**
Interest rate	34	**1.241**	**0.112**	**1.342**	**0.224**
Gross Domestic Product	34	**1.435**	**0.112**	**1.117**	**0.224**
Human Capital Development	34	**1.352**	**0.112**	**1.412**	**0.224**
Mean	**34**	**1.569**	**0.112**	**1.276**	**0.224**

Source: Research Findings (2021)

Table 4.2 gives the mean value of Skewness as 1.569 while that of Kurtosis as 1.276. Kothari (2004) shares that Value of Skewness and Kurtosis within the range of + or – 2 signify presence of normality in the data. It then follows that the data used in this study was normally distributed since the mean values of Skewness and Kurtosis meet the threshold.

4.3 Descriptive Analysis of Mutual Funds Financial Performance

To assess the performance of mutual trust funds, the study computed return on investments of the 34 mutual trust firms, by dividing their net profits by the total assets and then converting the results to a percentage. As shown in table 4.3. The year 2019 had the highest ROI mean or average of 9.94, while the least ROI mean/average was recorded in 2015 with a figure of 4.48. The study also revealed that there was positive growth trend in performance of the trust funds from 2016 to 2018, while 2019 to 2020 recorded a decline in performance. Poor financial performance of the trust funds in 2020 could be explained by the global Covid-19 pandemic that adversely affected almost all the sector of businesses and the economy.

Table 4.3 Performance of Mutual trust fund schemes for 2015-2020 for the 34 mutual trust fund schemes (n=34)

	2015	2016	2017	2018	2019	2020
NP	822,006,345	1,473,035,965	1,464,447,935	1,462,585,710	1,255,264,170	1,076,614,455
TA	18,350,440,755	18,446,667,69	17,324,353,810	14,720,961,130	12,858,288,115	17,939,488,185
ROI	4.48	7.99	8.45	9.94	9.76	6.00

Where;

NP- Average Net profit

TA- Total Assets

ROI- Return on Investments

4.3.1 GDP trend for the past Five Years (2016-2020)

As an economic indicator that may influence the performance of mutual trust fund, the study

from the CBK, the GDP growth trend for the past five years. Table 4.4 shows the response.

Table 4.4 GDP trend for the past Five Years (2016-2020)

Year	Nominal GDP prices (Ksh Million)	Yearly GDP growth (%)	Real/Actual GDP prices (Ksh Million)
2020	10,752,992	-0.3	8,714,771
2019	10,255,654	5.0	8,742,413
2018	9,340,307	5.6	8,327,604
2017	8,483,396	3.8	7,883,816
2016	7,594,064	4.2	7,594,064

Source: Research Findings (2021)

The study findings reveals that the GDP growth trend has been on a positive trajectory since

2016 with 2018 recording the highest at 5.6%. It then slumped to 2019, then finally recoded

the least growth at -0.3% in 2020. The dismal GDP growth recorded in 2020 could be explained

by the global Covid-19 pandemic that adversely affected almost all the sectors of businesses

and the economy.

4.3.2 Interest Rate for the past Five Years (2016-2020)

As an economic indicator that may influence the performance of mutual trust fund, the study

from the CBK sought both the policy interest rates and the lending interest rates for the past

five years. Table 4.5 shows the response.

Table 4.5 Interest Rate for the past Five Years (2016-2020)

Year	Policy interest Rate	Lending Interest Rate
2020	7.00	11.996
2019	8.50	12.441
2018	9.00	13.061
2017	10.00	13.668
2016	10.00	16.560

Source: Research Findings (2021)

The study established in both cases, there have been a decrease in the interest rates for the past five years (2016-2020), in which 2020 recorded the least interest rates at 7.00% for the policy interest rate and 11.996 for the lending interest rate.

4.3.3 Human Capital Efficiency

In investigating the human capital efficiency as an indicator of economic growth, the study sourced for secondary data from the various mutual trust fund firms on total revenue of the firms, operating expenses, salaries and personnel expenses (salaries and benefits). The study then computed the Human Capital Efficiency (HCE) as shown;

Human Capital Efficiency (HCE);

$$HCE = \frac{\text{Total Revenue} - (\text{Operating Expenses} - \text{ Salaries})}{\text{Personnel expenses (salaries and benefits)}}$$

Table 4.6 Human Capital Efficiency Trend (2016-2020) for the 34 mutual trust fund schemes (n=34)

Year	2016	2017	2018	2019	2020
Total Revenue	1,775,606,000.00	1,882,536,000.00	1,987,105,000.00	1,989,556,000.00	1,621,896,000.00
Operating Expenses	1,766,695,000.00	1,764,128,000.00	1,758,427,000.00	1,755,812,000.00	1,794,125,000.00
Salaries	1,291,105,000.00	1,330,485,000.00	1,331,247,000.00	1,328,413,000.00	1,284,001,000.00
Personnel expenses (salaries and benefits)	1,537,305,000.00	1,636,236,000.00	1,636,125,000.00	1,638,152,000.00	1,511,412,000.00
Operating Expenses-Salaries	475,590,000.00	433,643,000.00	427,180,000.00	427,399,000.00	510,124,000.00
Total Revenue-(Operating Exp-Salaries)	1,300,016,000.00	1,448,893,000.00	1,559,925,000.00	1,562,157,000.00	1,111,772,000.00
Human Capital efficiency	**84.6**	**88.6**	**95.3**	**95.4**	**73.6**

Source: Research Findings (2021)

Table 4.6 reveals that the HCE of the 34 mutual trust fund schemes recorded an increasing average human capital efficiency between the 2016 to 2019. However, in the year 2020, the HCE of these firms slumped significantly. This could be explained by the COVID-19 pandemic that shook the whole world's economy in nearly all sectors. It therefore safe to say that human capital development or efficiency relates positively with the economy of the nation. The study also reveals that all the mutual trust fund schemes had an HCE of above 50%, implying that these mutual trust fund schemes benefitted much from the existing human capital.

4.4 Regression Analysis Results

Regression analysis was conducted to establish the effect of economic growth indicators (Human capital development, gross domestic product and interest rate) on financial performance of mutual trust funds in Kenya. The findings were determined and summarized where Table 4.7 is the model summary.

Table 4.7 Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.718[a]	.516	.510	.14934

Source: Research Findings (2021)

According to Table 4.7 the value of R square is .516; this implies that 51.6% change in financial performance of the mutual trust funds in Kenya is explained by the economic growth in Kenya. It also means that other than the economic growth indicators (Human capital development, gross domestic product and interest rate) there are also other factors that affect the financial performance of the mutual trust funds in Kenya. Table 4.8 gives the findings of the ANOVA.

4.4.1 Analysis of Variance (ANOVA)

Table 4.8 Analysis of Variance

	Sum of Squares	df	Mean Square	F	Sig.
Regression	18.522	3	6.174	14.735	0.000[b]
Residual	12.989	31	0.419		
Total	31.511	34			

Source: Research Findings (2021)

From Table 4.7, the value of F calculated is given as 14.735 with p-value as 0.000 which is ($p<0.05$). This is an indication that economic growth significantly predict financial performance of the mutual trust funds in Kenya. Results on the beta coefficients and significance were determined and summarized as shown in Table 4.9.

Table 4.9 Coefficients and Significance

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	19.51	0.654		29.88	0.000
	Interest rate	0.633	0.143	0.631	4.43	0.000
	Human Capital Development	0.481	0.151	0.473	3.19	0.038
	Gross Domestic Product	0.578	0.145	0.619	3.97	0.028

Source: Research Findings (2021)

Table 4.9 shows that Interest rate (β=.633, t>1.96; p<0.05) had the largest significant effect on financial performance of mutual trust funds in Kenya followed by Gross Domestic Product (β=.578, t>1.96; p<0.05) then Human capital development or growth (β=.481, t>1.96; p<0.05). Thus, the economic growth indicators covered in this study had significant contribution towards financial performance of the mutual trust funds in Kenya.

4.5 Interpretation of the Findings

The study carried out regression analysis to predict how economic growth indicators (gross domestic product, interest rate and human capital development) affect financial performance of mutual trust funds in Kenya. The results showed that over half of the variation in financial performance of mutual trust funds in Kenya is explained by the economic growth indicators aforementioned.

The ANOVA results showed that economic growth indicators had significant contribution towards financial performance of mutual trust funds in Kenya. This finding is strongly supported by Komleh, (2018) who also based on his study on the Capital Markets, found that investors are able to access potential investment opportunities which drive economic development and the GDP. The study also found that mutual trust Funds have emerged as the investment intermediaries which will sources funds from investors and establish profitable investment portfolios for their clients. Further, Komleh, study established that performance of such funds may correlate with the overall economic growth and specifically the GDP. Similarly, Amunga (2015) conducted a study on determinants of performance of mutual funds using the case of Kenyan market and also found that, GDP growth rate, interest rate, fund size, inflation and treasury bills were the predictors of performance of such funds. GDP growth rate, market interest rate and inflation had significant effect on fund performance.

Based on the regression beta coefficients, the study noted that Interest rate had the largest significant effect on financial performance of mutual trust fund schemes in Kenya followed by

Gross Domestic Product then Human capital development or growth. Interest rate positively related with performance of mutual trust funds. For instance, when the interest rate were high in 2018, the mutual funds' performance illustrated by ROI was also high. Similarly, from 2018-2020 a decline in interest rates also seen a decline in ROI. These findings concur with that of Ugur and Ozlen, (2012), who also depicted that variation in interest rates in response to various economic occurrence, like variation in government policies, domestic and global financial market crisis, and variation in the projections for long-term or future economic growth. However, these economic events tend to be unpredictable and irregular. Therefore, interest rate relate positively with the performance of mutual trust funds because in a case of prolonged low interest rate charged, there will be more pressure on the returns on mutual funds. However, there will be more borrowing as low interest rate attract more borrowers, and the reverse is true.

The regression analysis revealed that the GDP was 0.578, meaning that the GDP significantly and positively affects the financial performance of mutual trust funds in Kenya. The findings were that of Illo (2012) who also found that financial performance registered by Kenya commercial banks were in positive correlation with GDP. Similarly, Njau (2013) found that in most of the business organizations in Kenya, their ROI was significantly influenced by the certain economic predictors, with GDP registering the largest influence.

The regression analysis revealed that the human capital was 0.481, meaning that the human capital efficiency or development significantly and positively affects the financial performance of mutual trust funds in Kenya. This is because, how mutual trust funds perform is reliant on the investment approaches and strategies used by the portfolio managers. These portfolio managers signify human capital of a trust fund and therefore, venturing in this resource makes contributions towards human capital development and efficiency. Therefore, the human capital efficiency should result to a performance that relates with the human capital efficiency. Human

capital is one of the main determinants of performance and trend of any economic growth, advancement and prosperity of a nation. Investing into human capital through such initiatives as educations and training are hence a major concern for governments, individuals and firms. This is also supported by Becker (2018) who similarly posit that human capital is the crucial determinant in justifying the rise and tumble of countries or states and also the chief predictor of individual income. Bialkowski and Otten, (2017) also conducted a study to find out whether skills, training and education influence the company's performance. The study found that based on the nature of the trainings that business organizations give to their employee, good training improves the skills of the workers, which in turn influence their productivity and finally the overall performance of the business organization.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

The chapter provides a summary of the analyzed findings with conclusions and recommendations drawing relevant implications of the results. Limitations and areas that require further research are also discussed in detail in this chapter.

5.2 Summary

This study was set out to determine the effect Of Economic Growth on Performance of Mutual Trust Funds in Kenya. From descriptive statistics, the study found that the year 2019 had the highest ROI mean or average of 9.94, while the least ROI mean/average was recorded in 2015 with a figure of 4.48. The study also revealed that there was positive growth trend in performance of the trust funds from 2016 to 2018, in all the mutual trust fund schemes, while 2019 to 2020 recorded a decline in performance. Poor financial performance of the trust funds in 2020 could be explained by the global Covid-19 pandemic that adversely affected almost all the sector of businesses and the economy. It was also found that the Kenyan GDP growth trend has been on a positive trajectory since 2016 with 2018 recording the highest at 5.6%. It then slumped to 2019, then finally recoded the least growth at -0.3% in 2020. The dismal GDP growth recorded in 2020 could be explained by the global Covid-19 pandemic that adversely affected almost all the sectors of businesses and the economy. On interest Rate, the study established these was a decrease in the interest rates for the past five years (2016-2020), in which 2020 recorded the least interest rates at 7.00% for the policy interest rate and 11.996 for the lending interest rate. Based on the human capital development as measured through Human Capital Efficiency in these mutual trust firms, the study reveals that the HCE of the sampled seven mutual trust firms recorded an increasing average human capital efficiency between the 2016 to 2019. However, in the year 2020, the HCE of these firms slumped significantly. This could be explained by the COVID-19 pandemic that shook the whole world's economy in nearly all sectors. It therefore safe to say that human capital development or efficiency relates

positively with the economy of the nation. The study also reveals that the mean HCE was above 50%, implying that these firms benefitted much from the existing human capital.

Regression analysis was conducted to predict how economic growth of a country indicated by GDP, Interest Rate and Human Capital influenced the financial performance of the mutual trust fund firms in Kenya as measured through return on investment (ROI). The results showed that over half of the variation in financial performance of mutual trust fund firms in Kenya is explained by the economic growth indicators such as GDP, Interest Rate and Human Capital in place. The ANOVA results showed that economic growth significantly predicted financial performance of mutual trust funds firms in Kenya. Based on the regression beta coefficients, the study noted that interest rate, followed by Gross Domestic Product then Human capital development or growth. Thus, the economic growth indicators covered in this study had significant contribution towards financial performance of the mutual trust funds in Kenya.

5.3 Conclusions

The study recognizes the critical role played by economy of the country on financial performance of the mutual trust funds in Kenya. The mutual trust fund schemes recorded the highest ROI in the year 2019, while 2015 showed the least performance. The study also revealed that there was positive growth trend in performance of the trust funds from 2016 to 2018, in all the mutual trust fund schemes, while 2019 to 2020 recorded a decline in performance. As an indicator of economy, the Kenyan GDP growth trend has been on a positive trajectory since 2016 with 2018 recording the highest growth rate, while in 2020, it recorded the least growth. On interest Rate, the study concluded that these was a decrease in the interest rates for the past five years (2016-2020), in which 2020 recorded the least interest rates for both policy interest rate and lending interest rate. Based on the human capital development as measured through Human Capital Efficiency for the mutual trust fund schemes, the study concluded that the HCE of the sampled seven mutual trust firms recorded an increasing average

human capital efficiency between the 2016 to 2019. Generally, the economic growth of Kenyan has been on upward trend until 2020 when it significantly slumped. This could be explained by the COVID-19 pandemic that adversely influenced the global economy in nearly all sectors. Through regression analysis, the study also concluded that economic growth of a country indicated by GDP, Interest Rate and Human Capital influenced significantly the financial performance of the mutual trust fund firms in Kenya, with interest rate having a stronger influence followed by Gross Domestic Product then Human capital development or growth.

5.4 Recommendations for Policy and Practice

Owing to the nature volatile nature of interest rates, any sudden variation of interest rate may lead to either a negative or positive financial performance of mutual trust funds. With the regression output indicating that interest rate variation having a high effect on financial performance of Mutual trust funds firms. The study therefore suggest that mutual trust fund firms should have in place a well thought out structures and policies that would help in mitigating adverse effects of dynamic interest rate and also come up with ways in which the funds can be invested in diverse portfolio.

The study also found that GDP trend influence the investment in mutual trust fund firms which then influence the performance of these firms. The study therefore recommend that policy makers in the general economy of the county should come up with various stimulus programs or policies that enhance GDP growth rate, which would then augment the financial performance of the mutual trust funds.

The government through various policies should work on plans that encourage human capital development and efficiency of a country through offering education and training incentives, since this was found to have influenced positively on the financial performance of mutual trust fund firms

5.5 Limitations of the Study

The study was limited to two variables i.e economic growth that was measured through only three indicators (Interest rate, GDP and Human Capital Development) and financial performance of mutual trust fund firms measured through ROI. The study was limited to a five-year period (2016-2020) and more specifically, the study was constrained on only seven mutual trust fund firms in Kenya. Secondary data was utilized in this study obtained from the CMA and respective firms' websites.

5.6 Areas for Further Research

Future studies should be conducted to relate tax incentives and other constructs like operational performance or profitability aside from financial performance. Aside from use of ROI as a parameter for financial performance, future studies should adopt other indicators like ROE or ROA. Future studies should be conducted in other mutual trust fund firms to allow generalization of the study findings.

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Appendix I: Data Collection Sheet

Variable	Source	MEASUREMENTS	2016	2017	2018	2019	2020
Return on Investments	Financial Reports	Interest income					
		Total Asset					

Variable	Source	MEASUREMENTS	2016	2017	2018	2019	2020
GDP	Capital Market Authority	GDP as indicated by CMA					

Variable	Source	MEASUREMENTS	2016	2017	2018	2019	2020
Interest Rate	Central Bank of Kenya	CBK Interest Rate					

Variable	Source	MEASUREMENTS	2016	2017	2018	2019	2020
Human Capital	Mutual fund firms	Human Capital efficiency					
		Total Revenue					
		Operating Expenses					
		Salaries					
		Personnel expenses (salaries and benefits)					

Appendix II: List of Investment Schemes

1. African Alliance Kenya Unit Trust Scheme
2. Allan Gray (Kenya) Unit Trust Scheme
3. Alpha Africa Asset Trust Scheme
4. Amana Unit Trust Funds Scheme
5. Apollo Unit Trust Scheme
6. British-American Unit Trust Scheme
7. Canon Trust Scheme
8. CIC Unit Trust Scheme
9. Commercial Bank of Africa Unit Trust Scheme
10. Co-op Trust Scheme
11. Cytonn Investment Trust Scheme
12. Diaspora Unit Trust Scheme
13. Dry Associates Unit Trust Scheme
14. Dyer and Blair Unit Trust Scheme
15. Equity Investment Bank Collective Investment Scheme
16. FCB Capital Trust Scheme
17. First Ethical Opportunities Fund
18. Fusion Investment Scheme
19. Gen Africa Asset Trust Scheme
20. Genghis Unit Trust Scheme
21. ICEA Unit Trust Scheme
22. Madison Asset Unit Trust Scheme
23. Nabo Africa Trust Scheme
24. Natbank Trustee and Investment Trust Scheme
25. Old Mutual Unit Trust Scheme
26. Pinebridge Investments Trust Scheme
27. Sanlam Unit Trust Scheme
28. Seriani Asset Trust Scheme
29. Stanbic Unit Trust Scheme
30. Standard Investment Trust Funds,
31. Stanlib Kenya Trust Scheme
32. Suntra Unit Trust Scheme
33. Watu Capital Trust Scheme
34. Zimele Unit Trust Scheme