

**THE EFFECT OF INVESTMENT STRATEGIES ON FINANCIAL PERFORMANCE
OF INVESTMENT FUNDS IN KENYA**

BY

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DECLARATION

I declare that this research project proposal is my original work and has not been submitted for the award of a degree in any other university.

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This research project proposal has been submitted for examination with my approval as the university supervisor.

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DEDICATION

This research is dedicated to God for the good health and strength throughout the study period, my mum and dad you both inspired me throughout.

ABSTRACT

Investment strategy is so crucial for any investment funds manager as it sets of rules, behaviors or procedures, designed to guide an investor's selection of an investment portfolio. Usually the strategy will be designed around the investor's risk-return tradeoff: some investors will prefer to maximize expected returns by investing in risky assets, others will prefer to minimize risk, but most will select a strategy somewhere in between. Investment strategies are adopted at organizational, industry and market level and serve as a guide for entering and selecting investment portfolios.

The objective of this study was to identify investment strategies adopted by investment funds in Kenya and the effect of the strategies on financial performance of the funds. The population of study was all investment funds in Kenya and census was carried out on the nineteen investment funds since they are not many as given by Capital Market Authority Cap. 485A as of 2013. Primary data was collected through personal interview by use of interview guide to a total of ten investment managers who turned out to give a positive response. Secondary data was also collected from respective investment funds financial reports for the year 2012. Descriptive analysis which aims at finding out type of investment strategy was used and classified them either active investment strategy or passive investment strategy.

The study concludes that investment funds in Kenya takes an active investment strategy and found out to be integrated into operation investment funds in Kenya; financial performance is of positive influence to investment funds performance and greatly so is liquidity which probably means the investment firms utilize liquid assets to make quick investment which translates to good returns. From inferential statistics, a positive relationship is established between ROA and the Predictor variables which are investment strategy, Leverage, Liquidity, age and size. Chi-square test results show that companies with high liquidity can be said to be better performing as compared to those without or with lower liquidity.

The study recommends that there is need for examining actual performance and focusing upon those frequently cited for their contributory role. While certain factors appear to recur, there is no obvious combination of defining characteristics for financial performance that predicts negative outcomes. Credit control and capability initiatives can help to mitigate potential negative outcomes of rapid financial loss and should be part of a more comprehensive strategy for responsible finance among the investment institutions, which includes customer satisfaction, effective loan recovery mechanisms and financial innovation. Financial capability efforts may also be able to contribute to the adoption of new products and services as well as sustained positive behaviors, such as loan repayment, committing to investing, etc. But to be successful at these tasks, investment literacy and capability programs need to be incorporated in investment sector's innovation strategies.

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LIST OF ABBREVIATIONS

CMA	Capital Market Authority
EMH	Efficient Market Hypothesis
EUI	Economist Intelligence Unit
ICT	Information and Communications Technology
IPS	Investment Policy Statements
MPT	Modern Portfolio Theory
NSE	Nairobi Securities Exchange
REITS	Real Estate Investment Trust
ROA	Return on Assets
ROE	Return on Equity
ROI	Return on Investment

CHAPTER ONE

INTRODUCTION

1.1 Background of the study

Kenya is now an investment destination of choice and investment companies are making various strategies not only within the country but across the world to take advantage of the lucrative investment opportunities available in the country. The Vision 2030 is Kenya's current blue-print for the future of economic growth. The long-term goals of this vision are to create a prosperous and globally competitive nation with a high quality of life by the year 2030. To do this, it aims to promote Kenyan investment while creating a clean and secure environment.

The options for investing our savings are continually increasing, yet every single investment vehicle can be easily categorized for safety, income and growth which also correspond to types of investor objectives. Investment funds in Kenya are finding it so important to undertake investment strategies for the best interest of the shareholders more especially that the country is strategic and is witnessing a major transformation in infrastructure development with a massive programme of road construction and rehabilitation across the country has been carried out upgrading our airports and increased efficiency at the port of Mombasa and other border points, massive investments in the energy sector in an effort to increase electricity supply for the fast growing economy as well as invested heavily in the information and communications technology sector saying that a combination of innovation, effective regulation, and massive investment by the private sector has led to the rapid growth of mobile telephony as well as internet use.

Nearly half of international fund managers and investment bankers see Kenya as a top frontier investment market only second to Nigeria in Africa. A survey of 158 international investors conducted by the Economist Intelligence Unit (EUI) showed that 76 of them believed that Kenya offered the best prospects for institutional investors over the next five years, compared to 81 per cent who said Nigeria was better. Local investment funds managers have attributed the growing interest to the emerging middle income class that is offering a ready market for new products, including financial services, consumer goods, property and energy.

Edward Gitahi, a senior investment manager at PineBridge Investments, said there is demand for goods and services in the Kenyan market, making a case for international investors seeking profitable ventures. "There are profit-making opportunities in the market presented by ready demand for goods and services, and this is what investors are looking for," said Mr Gitahi. The diversity of the Kenyan economy provides a variety for investors seeking to spread their risk. Energy, communication and banking services sectors, he said, were recording a growing demand which perhaps explains why foreign investor interest has traditionally been biased to listed companies operating in the respective sectors.

Therefore the study will be very useful not only for investment funds managers to know the best strategies to maximize shareholders wealth as well as having a competitive edge more especially with the current Kenyan market, but also useful for the government of Kenya to know investment strategies employed by investment funds in Kenya to promote ones that has positive performance for the economy at large.

1.1.2 Investment Strategies

In finance, an investment strategy is a set of rules, behaviors or procedures, designed to guide an investor's selection of an investment portfolio. Usually the strategy will be designed around the investor's risk-return tradeoff: some investors will prefer to maximize expected returns by investing in risky assets, others will prefer to minimize risk, but most will select a strategy somewhere in between. Investment strategies are adopted at organizational, industry and market level and serve as a guide for entering and selecting investment portfolios (Fama & French, 1992).

There are two main investment strategies; active investment strategy and passive strategy. Passive management (also called passive investing) is a financial strategy in which an investor (or a investment fund manager) invests in accordance with a pre-determined strategy that doesn't entail any forecasting .The idea is to minimize investing fees (Jones 2009) and to avoid the adverse consequences of failing to correctly anticipate the future. Retail investors typically do

this by buying one or more 'index funds', by tracking an index, an investment portfolio typically gets good diversification, low turnover and extremely low management fees. With low management fees, an investor in such a fund would have higher returns than a similar fund with similar investments with higher management fees and/or turnover/transaction costs. Passive investors believe it is not possible to accurately identify investments that will consistently top market averages, at a low enough cost to justify the effort. The main advantage of passive investment strategy is that it has lower operating costs (Jones, 2009).

Active management (also called active investing) refers to a portfolio management strategy where the manager makes specific investments with the goal of outperforming an investment benchmark index. Ideally, the active manager exploits market inefficiencies by purchasing securities (stocks etc.) that are undervalued or by short selling securities that are overvalued. Schoenfeld and Steven (2004) states that active strategies are ones that are all about achieving returns that are superior to the financial markets. Active portfolio managers may use a variety of factors and strategies to construct their portfolio(s). These include quantitative measures such as price-earnings ratios, sector investments that attempt to anticipate long-term macroeconomic trends (such as a focus on energy or housing stocks), and purchasing stocks of companies that are temporarily out-of-favor or selling at a discount to their intrinsic value. Active investors believe that they are able to consistently identify enough high-performing investments to ultimately achieve better than average results. Active investors seek out what they consider to be better than average opportunities in an attempt to maximize returns.

Besides the two main classifications of the investment strategies, there are other types of strategies this include; aggressive investment strategy where one takes higher risks in order to achieve higher returns. Secondly, there is value investment strategy which generally involves buying securities that appear under priced by some form of fundamental analysis. Another one is moderate risk investment strategy involving a portfolio allocation and management method aimed at balancing risk and return. Such portfolios are generally divided equally between equities and fixed-income securities. In addition, there is conservative investment strategy that emphasizes capital preservation and risk minimization through a diversified and balanced

portfolio of low risk investments such as government and high quality corporate bonds, large cap and dividend-paying stocks, and money market funds. Finally there is one is high risk averse investment strategy whose investors dislikes risk, and therefore will stay away from adding high-risk stocks or investments to their portfolio and in turn will often lose out on higher rates of return. A description of an investor who, when faced with two investments with a similar expected return (but different risks), will prefer the one with the lower risk. Such investor hardly loses money, they don't make a lot of profit either (Ferri, 2009).

The way an investment fund managers goes about analyzing, buying, and selling stocks is very important as it will affect the performance of the funds . The manager's first step in creating an investment strategy is to identify a set of actionable return factors which can be used to generate superior performance. These economic, market and firm specific factors drive stock returns over time and determine the corresponding means, standard deviations, and correlations. If the factors upon which the manager focuses turn out to be non-actionable or if the strategy is poorly executed, the fund will underperform. On the other hand, if the factors are actionable and a narrowly defined strategy is relentlessly pursued, the fund will outperform. Factors that are actionable for one strategy will in general not be actionable for other strategies. A factor may currently be actionable, but may not remain so as its performance can be arbitrated away. Successful managers are continually adjusting the specifics of their strategy in response to the changing nature of actionable return factors consequently it will affect the performance of the investment fund.

1.1.3 Financial Performance

The subject of financial performance has received significant attention from scholars in the various areas of business and strategic management. The term is used as a general measure and has also been the primary concern of business practitioners in all types of organizations since financial performance has implications to organization's health and ultimately its survival. High performance reflects management effectiveness and efficiency in making use of company's resources and this in turn contributes to the country's economy at large. (Naser & Mokhtar 2004).

Financial performance can be described as a measurement of how well a firm uses its assets from its primary model or business and general revenue. The term is also used as general measure of firm's overall financial health over a given period of time. The business directory defines financial performance as measuring results of a firm's policies and operations in monetary terms and these results are reflected in firm's return on investment, return on assets, value among others. Studies done abroad by Majumdar (1997); Nunes, Serrasqueiro and Sequeira (2008), Lee (2009) and Dogan (2013) investigating the effect of firm size and firm performance totally ignored other potential firm characteristics that had an effect on firm financial performance like investment strategy. Yermack (1996) and Pacin, Hillson and Marlett (2008) investigated the relationship between board size and board performance further ignoring investment strategy which is an important element.

Performance is the function of the ability of an organization to gain and manage the resources in several different ways to develop competitive advantage (Iswatia, & Anshoria, 2007). There are two kinds of performance, financial performance and non-financial performance. Financial performance emphasizes on variables related directly to financial report. Company's performance is evaluated in three dimensions. The first dimension is company's productivity, or processing inputs into outputs efficiently. The second is profitability dimension, or the level of which company's earnings are bigger than its costs. The third dimension is market premium, or the level of which company's market value is exceeding its book value (Walker, 2001).

Performance measurement is a key tool of measurement as they are often viewed as forward-looking indicators which assist management predict a company economic performance and need for possible changes and possible for operational changes (Otley, 1999 and Simons 1999). Different organizations measure performance differently. According to Guest et al (2003), performance is outcomes, end results and achievements (negative or positive) arising from organizational activities. Investment companies measure performances from customer perspective and from company's perspective. From customer perspective it entails Return on investment (ROI) is the concept of an investment of some resource yielding a benefit to the investor. A high ROI means the investment gains compare favorably to investment cost. As a

performance measure, ROI is used to evaluate the efficiency of an investment or to compare the efficiency of a number of different investments. In purely economic terms, it is one way of considering profits in relation to capital invested. From a company perspective it involves considering returns paid to customers whereby the balance is adjusted from administrative cost.

Financial performance has been commonly measured using accounting-based performance such as Return on Equity (ROE) and Return on Assets (ROA) measured by net income divided by total assets. There is also market based measures such as Tobin Q (Daily & Dalton, 1993; Hermalin & Weisbach, 1991 and Lam & Lee, 2008). Return on Equity is a measure of a company's profitability that reveals how much profit a company generates with money that shareholders have invested in it. Return on Equity is a measure of a company profitability that reveals how profitable a company is relative to its assets and gives an idea as to how well the company is able to use their assets to generate earnings. The higher the ROA figure the better is seen as the company is earning more money on a less invested company. Tobin Q ratio, devised by James Tobin hypothesizes that the combined market value of all the companies on the stock market should be equal to their replacement costs. Tobin Q is widely used as a proxy for firms performance when studying the relationship between firms performance and corporate governance.

Financial statements are a final product of the accounting process. The main purpose of financial reporting is to provide information for user groups, especially shareholders and creditors to assist them in decision making and are main instruments of conveying information to the users of financial information. Ernst & Young's Centre for Business Innovation shows that corporate executives and investors are increasingly taking into account non-financial measures when valuing companies. Since financial metric are lagging indicators, proactive managers need to balance their focus between the hard numbers and intangibles that will drive value in future. Non-financial measures are believed to be superior to short term profit figures as indicators of progress towards a firms' long term goal (Johnson & Kaplan, 1987).

1.1.4 Relationship between Investment Strategies and Financial Performance

There is a positive relationship that investors, through active ownership practices, can make a difference to investment performance and reporting by investee companies. There is a growing body of evidence that companies with active investment strategies are likely to make higher and better investments over the longer-term. They are also likely to be regarded by investors as safer investments (using measures such as their cost of capital).

In one of the most significant studies that have been published in this area, Eccles et al. (2011) conducted an empirical study of two matched sets of firms covering an 18-year period. They found that, over the long-term, corporations that voluntarily adopted aggressive investment strategy many years ago significantly outperformed those that had adopted a conservative investment strategy, both in terms of stock market and accounting performance.

1.1.5 Investment Funds in Kenya.

The investment funds in Kenya through the investment fund managers make investments decisions and invest the schemes funds in an array of investment vehicles ranging from property, government securities, quoted shares, unquoted shares, corporate bonds, offshore investments, guaranteed funds among many others and declare income rate at the close of specific period, usually per annum. They are primarily engaged in holding securities of other companies purely for investment purposes and invests money on behalf of its shareholders who in turn share in the profits and losses in proportion to the investor's interest in the funds invested. The performance of the investment funds will be based on (but it won't be identical to) the performance of the securities and other assets that the investment company owns. Investment companies in Kenya are comprises of investment banks, investment Schemes, insurance companies, and venture capital.

Cap 486 of Capital Market Authority (CMA) gives a list of authorised investment funds that fall under investment companies. Cap 486 of Capital Market Authority (CMA) defines investment bank” as a non-deposit taking institution licensed by the Authority to advise on offers of securities to the public or a section of the public, take-overs, mergers, acquisitions, corporate

restructuring involving companies listed or quoted on a securities exchange, privatization of companies listed or to be listed on a securities exchange or underwriting of securities issued or to be issued to the public, and to engage in the business of a stockbroker or dealer. CMA (2010) notes that, as a market become sophisticated and more volatile, unit trusts become safe havens for less, sophisticated and less capitalized, conservative individuals in the market place. CMA Cap. 485A as of 2013 has listed of licensed investment companies in Kenya and they range from investment banks, stockbrokers, investment funds, investment advisers, authorized depositories, collective investment schemes and approved employee share ownership plans

The Kenyan capital markets offer an array of investment products in the form of shares, bonds and unit trusts. The type of products chosen by the investor to commit his capital depends largely on his financial goals, time frame, and amount of capital available. Unit trusts have grown in acceptance and popularity in recent years. This is evidenced by the growth in the number of approved unit trust funds from virtually zero in 2001 to 11 in 2008. Unit trusts are the small investor's answer to achieving wide investment diversification without the need of prohibitive sums of money. Although there are laws and guidelines to aid investor protection, it is ultimately investor's responsibility to evaluate the suitability, profitability and viability of an investment. An investor must read the information which is required to be provided in the prospectus and make the decision whether to invest or not, based on their own circumstance and attitude to risk.

Capital Market Authority Cap. 485 as of 2013 has licensed twenty investment funds under investment companies as listed in appendix I. However much the investment funds try to differentiate their products, the product still remain to be similar ranging from property, government securities, quoted shares, unquoted shares, corporate bonds, offshore investments, guaranteed funds among many others.

On the other hand First Community Bank (FCB) Capital limited is Kenya's first Investment Bank has a unique fund management product compared with the rest, it is a fully owned bank of First Community Bank. FCB is the first of this kind in Kenya and in the region licensed by CMA is formed to provide sharia compliant investment banking currently not offered. As a dynamic

investment avenue, the fund will continuously seek investment opportunities which are currently untapped by conventional methods of investment banking. The funds play an important role of directing profit seeking capital to important socially responsible investment opportunities and focuses products such as mutual funds including equity funds which invest in sharia compliant Kenyan regional stocks. First Community Bank (FCB) Capital limited has Sukuk of great significance, it fills the gap of fixed income asset class. Sukuk are investment certificates that represent ownership claims of investment assets or services. Widely known as Islamic bond, Sukuk employs' the principle of Islamic finance in order to provide sharia compliance tradable securities, the financial characteristics which are similar to those of conventional bonds. With growing regional economies, the demand for funds is on the increase as the number of projects to be funded in the region in the next ten years either by government or private sectors, continue to rise.

1.2 Research Problem

Investment is a key factor in the profitability and growth of a firm and shareholders' investment. Investment strategy is investor's plan of attack to guide their investment decisions based on individual goals, risk tolerance and future needs for capital. The components of most investment strategies include asset allocation, buy and sell guidelines, and risk guidelines. Globally, the studies by Christensen (2005), Chen and Liang (2005), Treynor and Mazuy (1966) and Merton and Henriksson(1981) have mixed conclusions on the ability of market timing to deliver superior or above market returns. While Chen and Liang (2005) find evidence of positive relationship between market timing and returns. This means that there is no clear conclusion of finding on how the investment strategies have on the performance of a company and in particular investment funds in Kenya which necessitates the study.

Locally, Nyale (2010) studied relationship between leverage and investment decisions by companies and quoted at Nairobi Securities Exchange (NSE), Kogi (2003) conducted a study on the future of collective investment schemes in Kenya and concluded that that collective investment schemes had experienced slow growth. This is perhaps the kind of investment strategy they adopt. However the above local studies (Nyale 2010 Kogi, 2003) failed to address

the relationship between investment companies and financial performance in Kenya. Mulindu (2007) who analyzed the impact of investment strategies on performance of managed funds in Kenya took a case study of Fedha Management Limited and concluded that the poor performance of the managed funds could be attributed to the inconsistent use of strategies by managers and emotional approach to investment management. Consequently the researcher knows no any research that concludes the question; the effect of investment strategies on financial performance of investment funds in Kenya.

1.3 Objectives of the Study

The objectives of the study were:

- (i) To identify investment strategies adopted by investment funds in Kenya
- (ii) To establish the effect of investment strategies on financial performance of investment funds in Kenya.

1.4 Significance of the Study

The finding from this study may particularly be useful in providing additional knowledge to existing and future investment funds in Kenya on best investment strategies that maximizes returns. The finding may also provide a useful reference to investment fund managers in their endeavors to formulate work plan to meet performance.

Scholars, students and other researchers may also find the study helpful to identify further areas of research built on the finding of this research. The study may be a source of reference material for future researchers on other related topics; it may also help other academicians who undertake the same topic in their studies. The study may also highlight other important relationships that require further research; this may be in areas in relationship between investment strategies and organizational performance. The study may add value to already similar studies which already have done been not mentioning academic institutions which can use the study for discussions.

Most importantly, it may help the policy makers within public and private sector to identify superior investment strategies to make appropriate decisions towards achieving investment that maximizes returns.. In addition, through this study, managers in companies and state corporations may learn and make best investment strategies and policy decisions that are meant to facilitate and maintain high organization performance as well as managing company and national resources for great benefit of the company and society at large. Moreover, the study will be useful to Capital Markets Authority as it will establish best investment strategies for the investment funds managers, shareholder, companies and government besides finding out if those strategies are adopted in the industry.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

The chapter looks various theories that which that relate to investment being undertaken by investment companies, investment funds and other investment institutions, determinants of company performance, literature and survey of literature review.

2.2 Theoretical Review

There have been a number of theories that relates to investment, this include modern portfolio theory, capital asset pricing model, arbitrage pricing theory and three factor model. All these attempts to show relationship between selection of portfolio and expected return for a given amount of portfolio risk.

2.2.1 Modern Portfolio Theory (MPT)

Modern Portfolio Theory is a theory of finance that attempts to maximize portfolio expected return for a given amount of portfolio risk, or equivalently minimize risk for a given level of expected return, by carefully choosing the proportions of various assets. MPT is a mathematical formulation of the concept of diversification in investing, with the aim of selecting a collection of investment assets that has collectively lower risk than any individual asset. MPT was developed in the 1950s through the early 1970s and was considered an important advance in the mathematical modeling of finance. Developed by Nobel Laureate Harry Markowitz, and refined by other noted economist over the years, MPT suggests that you can limit the volatility in your portfolio, while improving its performance, by spreading the risk among different types of securities that always don't behave the same way (Markowitz, 1952).

It is a principle of investing that the higher the risk, the higher the potential return and conversely, the lower the risk, the lower the return. According to MPT, a portfolio it exhibits risk and return characteristics based on its composition and the way those components relate to each other. For each level of risk, there is an "optimal" asset allocation that is designed to produce the best balance of risk versus returns. An optimal portfolio will neither provide the highest returns,

nor the lowest risk of all possible portfolio combinations – it will attempt to balance the lowest risk for a given level of return and the greatest return for an acceptable level of risk. This meeting point of each level of risk and reward, where the optimal portfolios reside, is called the “Efficient Frontier”

2.2.2 Capital Asset Pricing Model (CAPM)

Fama & French (1992) updated and synthesized the evidence on the empirical failures of the CAPM. Using the cross-section regression approach, they confirm that size, earnings-price, debt-equity and book-to-market ratios add to the explanation of expected stock returns provided by market beta. Fama & French (1996) reach the same conclusion using the time-series regression approach applied to portfolios of stocks sorted on price ratios as a development from the capital asset pricing model (CAPM) of William Sharpe (1964) & John Lintner (1965). The CAPM says that the expected return of a security or a portfolio equals the rate on a risk-free security plus a risk premium. If this expected return does not meet or beat the required return, then the investment should not be undertaken. The security market line plots the results of the CAPM for all different risks (betas). In finance, the capital asset pricing model (CAPM) is used to determine a theoretically appropriate required rate of return of an asset, if that asset is to be added to an already well-diversified portfolio, given that asset's non-diversifiable risk.

The model takes into account the asset's sensitivity to non-diversifiable risk (also known as systematic risk or market risk), often represented by the quantity beta (β) in the financial industry, as well as the expected return of the market and the expected return of a theoretical risk-free asset. CAPM “suggests that an investor’s cost of equity capital is determined by beta. The general idea behind CAPM is that investors need to be compensated in two ways: time value of money and risk. The time value of money is represented by the risk-free (rf) rate in the formula and compensates the investors for placing money in any investment over a period of time. The other half of the formula represents risk and calculates the amount of compensation the investor needs for taking on additional risk. This is calculated by taking a risk measure (beta) that compares the returns of the asset to the market over a period of time and to the market

premium ($R_m - r_f$). Therefore expected return of an asset is given by sum of risk-free (r_f) and product of quantity beta (β) in the financial industry with premium ($R_m - r_f$).

2.2.3 Arbitrage Pricing Theory

The theory was proposed by the economist Stephen Ross in 1976. In finance, arbitrage pricing theory (APT) is a general theory of asset pricing that holds that the expected return of a financial asset can be modeled as a linear function of various macro-economic factors or theoretical market indices, where sensitivity to changes in each factor is represented by a factor-specific beta coefficient. The model-derived rate of return will then be used to price the asset correctly - the asset price should equal the expected end of period price discounted at the rate implied by the model. If the price diverges, arbitrage should bring it back into line.

In the APT context, arbitrage consists of trading in two assets – with at least one being mispriced. The arbitrageur sells the asset which is relatively too expensive and uses the proceeds to buy one which is relatively too cheap. Under the APT, an asset is mispriced if its current price diverges from the price predicted by the model. The asset price today should equal the sum of all future cash flows discounted at the APT rate, where the expected return of the asset is a linear function of various factors, and sensitivity to changes in each factor is represented by a factor-specific beta coefficient. A correctly priced asset here may be in fact a synthetic asset - a portfolio consisting of other correctly priced assets. This portfolio has the same exposure to each of the macroeconomic factors as the mispriced asset. The arbitrageur creates the portfolio by identifying x correctly priced assets (one per factor plus one) and then weighting the assets such that portfolio beta per factor is the same as for the mispriced asset. When the investor is long the asset and short the portfolio (or vice versa) he has created a position which has a positive expected return (the difference between asset return and portfolio return) and which has a net-zero exposure to any macroeconomic factor and is therefore risk free (other than for firm specific risk). The arbitrageur is thus in a position to make a risk-free profit.

There is a relationship between APT along with the capital asset pricing model (CAPM) is one of two influential theories on asset pricing. The APT differs from the CAPM in that it is less restrictive in its assumptions. It allows for an explanatory (as opposed to statistical) model of asset returns. It assumes that each investor will hold a unique portfolio with its own particular array of betas, as opposed to the identical "market portfolio". In some ways, the CAPM can be considered a "special case" of the APT in that the securities market line represents a single-factor model of the asset price, where beta is exposed to changes in value of the market. Additionally, the APT can be seen as a "supply-side" model, since its beta coefficients reflect the sensitivity of the underlying asset to economic factors. Thus, factor shocks would cause structural changes in assets' expected returns, or in the case of stocks, in firms' profitabilities. On the other side, the capital asset pricing model is considered a "demand side" model. Its results, although similar to those of the APT, arise from a maximization problem of each investor's utility function, and from the resulting market equilibrium (investors are considered to be the "consumers" of the assets).

2.2.4 Three Factor Model

In asset pricing and portfolio management the Fama–French three-factor model is a model designed by Eugene Fama and Kenneth French (1992) to describe stock returns. Fama and French were professors at the University of Chicago Booth School of Business. The traditional asset pricing model, known formally as the Capital Asset Pricing Model (CAPM) uses only one variable to describe the returns of a portfolio or stock with the returns of the market as a whole. In contrast, the Fama–French model uses three variables. Fama and French started with the observation that two classes of stocks have tended to do better than the market as a whole: small caps and stocks with a high book-to-market ratio (customarily called value stocks, contrasted with growth stocks). They then added two factors to CAPM to reflect a portfolio's exposure to these two classes.

Fama & French attempted to better measure market returns and, through research, found that value stocks outperform growth stocks; similarly, small cap stocks tend to outperform large cap stocks. As an evaluation tool, the performance of portfolios with a large number of small cap or value stocks would be lower than the CAPM result, as the three factor model adjusts downward

for small cap and value outperformance. So, everybody that buys any traded stock (or portfolio of stocks) takes market risk. If your portfolio holds all traded stocks in the weighted proportion of the total market, that's the end of the story. But, if your portfolio differs in its makeup in average size or on the growth-value spectrum of the market, then you will have a different result. There are additional premiums for accepting a portfolio either larger or smaller than the market, and/or with a tilt toward growth or value different than the market. (These risks are sometimes called a priced risk, because we can identify additional return for accepting them.) Fama-French defined the size premium as the difference in returns between the largest stocks and the smallest stocks in the CRSP database. They defined the value premium as the difference in returns between the stocks with the 30% highest Book to Market Ratios (BTM) and the 30% lowest BTM.

2.3 Determinants of Financial Performance of Investment Funds

Performance is a difficult concept, in terms of both definition and measurement. It has been defined as the result of activity, and the appropriate measure selected to assess corporate performance is considered to depend on the type of organization to be evaluated, and the objectives to be achieved through that evaluation. Researchers in the strategic management field have offered a variety of models for analyzing financial performance. However, little consensus has emerged on what constitutes a valid set of performance criteria. For instance, researchers have suggested that studies on financial performance should include multiple criteria analysis. This multidimensional view of performance implies that different models or patterns of relationship between corporate performance and its determinants will emerge to demonstrate the various sets of relationships between dependent and independent variables in the estimated models (Ostroff and Schmidt, 1993)

Investment funds' performance is very essential to management as it is an outcome which has been achieved by an individual or a group of individuals in an organization related to its authority and responsibility in achieving the goal legally, not against the law, and conforming to the morale and ethic. Performance is the function of the ability of an organization to gain and manage the resources in several different ways to develop competitive advantage. There are two

kinds of performance, financial performance and non-financial performance (Hansen and Mowen, 2005). Company performance is the measurement for what had been achieved by company which shows good condition for certain period of time. The purpose of measuring the achievement is to obtain useful information related to flow of fund, the use of fund, effectiveness, and efficiency. Besides, the information can also motivate the managers to make the best decision. Empirical literature examines how financial and non-financial factors, such as leverage, liquidity, size, age, and Management competence index have an influence on the firms' financial performance and growth.

2.3.1 Type of Financial Strategy Employed

Investment strategy is a set of rules, behaviors or procedures, designed to guide an investor's selection of an investment portfolio. Usually the strategy will be designed around the investor's risk-return tradeoff: some investors will prefer to maximize expected returns by investing in risky assets, others will prefer to minimize risk, but most will select a strategy somewhere in between. The higher the risk, the higher the return this increases performance of an investment fund whilst the lower the risk, the lower the return this decreases performance of the fund.

2.3.2 Liquidity

Liquidity refers to the degree to which debt obligations coming due in the next twelve months can be paid from cash or assets that will be turned into cash. It is usually measured by the current assets to current liabilities (current ratio). It shows the ability to convert an asset to cash quickly and reflects the ability of the firm to manage working capital when kept at normal levels. An investment fund can use liquid assets to finance its activities and investments when external finance is not available or it is too costly. On the other hand, higher liquidity would allow an investment fund to deal with unexpected contingencies and to cope with its obligations during periods of low earnings. (Liargovas, and Skandalis, 2008)

2.3.3 Fund Size

The size of the investment fund affects its financial performance in many ways. Large investment fund can exploit economies of scale and scope and thus being more efficient

compared to small firms. In addition, small firms may have less power than large firms; hence they may find it difficult to compete with the large firms particularly in highly competitive markets. On the other hand, as investment funds become larger, they might suffer from inefficiencies, leading to inferior financial performance. Theory, therefore, is equivocal on the precise relationship between size and performance (Majumdar, 1997).

2.3.4 Fund Age

Several earlier studies (Batra, 1999, Lumpkin & Dess, 1999) argued that firm age has an influence on its performance. (Sorensen & Stuart, 2000) argued that organizational inertia operating in old firms tend to make them inflexible and unable to appreciate changes in the environment. Newer and smaller firms, as a result, take away market share in spite of disadvantages like lack of capital, brand names and corporate reputation with older firms. (Kakani, Saha, and Reddy, 2001) Regarding firm age, older firms are more experienced, have enjoyed the benefits of learning, are not prone to the liabilities of newness, and can, therefore, enjoy superior performance. Older firms may also benefit from reputation effects, which allow them to earn a higher margin on sales. On the other hand, older firms are prone to inertia, and the bureaucratic ossification that goes along with age; they might have developed routines, which are out of touch with changes in market conditions, in which case an inverse relationship between age and profitability or growth could be observed. (Liargovas, and Skandalis, 2008)

2.3.5 Leverage

Debt leverage is measured by the ratio of total debt to equity (debt/equity ratio). It shows the degree to which a business is utilizing borrowed money. Funds that are highly leveraged may be at risk of bankruptcy if they are unable to make payments on their debt; they may also be unable to find new lenders in the future. Leverage is not always bad, however; it can increase the shareholders' return on their investment and make good use of the tax advantages associated with borrowing.

2.4 Empirical Reviews

Kogi (2003) conducted a study on the future of collective investment schemes in Kenya and concluded that collective investment had experienced slow growth. Kogi (2003) made several observations; first the slow growth was perhaps due to the type of investments and investment strategies that are adopted, low public awareness and education of investors, lack of public trust and low returns.

Mulindu (2007) analyzed the impact of investment strategies on the performance of managed funds in Kenya. She took a case study of Fedha Management Limited and concluded that the poor performance of managed funds could be attributed to the inconsistent use of strategies by managers and emotional approach to investment. Pressure from emotional clients made investments managers change their investment strategies frequently leading to losses.

Nyale (2010) studied the relationship between leverage and investment decisions for companies quoted at the Nairobi Securities Exchange (NSE) and concluded that leverage influenced the investment decisions of quoted companies with high leveraged companies requiring a higher rate of return for their investments. However restrictive covenants were also factored while making investment decisions.

Rudolph (2011) conducted a study on the United States Company Investment Strategies in an Economic downturn. He observed that nearly all insurance companies, 97% reported having a well defined investment policy statements (IPS), approved by their boards, which are flexible and evolved over time. Only 3% reported having no IPS. The policy document guided the management and staff through the crisis towards stability and better performance during the period. Moreover, the author found that most insurance firms used conservative investment strategy, had limited leverage, focused on core offering and depended on recurring premiums.

Sehhat and Rad (2011) conducted a study on matching investment strategies for insurance firms and concluded that one of the difficulties of insurance companies' investment is selecting and choosing proper investment strategies for paying future liabilities. The authors noted that what

concerned insurance manager most was capacity of paying liabilities more than profitability and return on investment.

Wambui (2010) investigated the existence of real estate investment trust (REITS) needs by institutional investors at Nairobi Securities Exchange (NSE) and concluded that investors needed an avenue of investing in real estate without incurring the challenges associated with acquiring real estate.

2.5 Summary of Literature Review

Globally, the studies by Christensen (2005), Chen and Liang (2005), Treynor and Mazuy (1966) and Merton and Henricksson (1981) have mixed conclusions on the ability of market timing to deliver superior or above market returns. While Chen and Liang(2005) find evidence of positive relationship between market timing and returns. This means that there is no clear nut shell in the area of study.

Locally, Nyale (2010) studied relationship between leverage and investment decisions by companies and quoted at Nairobi Securities Exchange (NSE), Kogi (2003) conducted a study on the future of collective investment schemes in Kenya and concluded that that collective investment schemes had experienced slow growth. This is perhaps the kind of investment strategy they adopt. However the above local studies (Nyale 2010 Kogi, 2003) failed to address the relationship between investment companies and financial performance in Kenya. Mulindu (2007) who analyzed the impact of investment strategies on performance of managed funds in Kenya took a case study of Fedha Management Limited and concluded that the poor performance of the managed funds could be attributed to the inconsistent use of strategies by managers and emotional approach to investment management.

Consequently the researcher knows no any research that concludes the question; what are the investment strategies employed by investment funds and the effect of those strategies on financial performance of investment funds in Kenya.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter discusses the type of research design, population, and target population, sampling frame, sample size, sampling technique, instruments to be used, pilot test and data analysis.

3.2 Research Design

Burns and Grove (2003:195) define a research design as “a blueprint for conducting a study with maximum control over factors that may interfere with the validity of the findings”. Parahoo (1997:142) describes a research design as “a plan that describes how, when and where data are to be collected and analysed”. Polit et al (2001:167) define a research design as “the researcher’s overall for answering the research question or testing the research hypothesis”. The current study will take a descriptive survey design since it is trying to discover the way things are. It is appropriate since it intends to collect data from several organizations.

3.3 Population

Parahoo (1997:218) defines population as “the total number of units from which data can be collected”, such as individuals, artifacts, events or organisations. Burns and Grove (2003:213) describe population as all the elements that meet the criteria for inclusion in a study. According to Mugenda and Mugenda (2003) population refers to an entire group of individuals, events or objects having common observable characteristics. The population of study was all investment funds in Kenya and census will be carried on the twenty investment funds since they are not many as given by Capital Market Authority Cap. 485A as of 2013 as per attached appendix I.

3.4 Data collection

The researcher depended on both primary and secondary source which will be on financial statements of the investment companies while carrying scientific content of the theoretical framework of the study and to explain the basic concepts of the study. Data from the annual reports will be collected over the period of five years (from 2008 to 2012). The collected data focused into the following variables: company leverage, company liquidity company age,

company size, company investment strategy and financial performance through calculating (ROA)

The questionnaire had a set of questions that will attempt to measure a type of investment. Statement 1 to statement 6 represents active investment strategy (Aggressive Investment strategy, Value Investment strategy and Moderate Investment strategy respectively) while Statement 7 to Statement 10 represents passive Investment Strategy (Conservative and high risk Adverse). An investment company whose mean score was for active strategy was higher than its active score was labeled as a passive strategy and was assigned variable. This is based on the fact that investment companies take more than one type of investment strategies owing to the diverse requirements of its clientele. Also an investment company whose mean score was for the passive strategy was higher than its active score was labeled as a passive strategy and was assigned variable.

3.5 Data Analysis

The researcher uses Statistical Package for Social Sciences (SPSS) to do the data analysis. Regression analysis is used to show the relationship between the investment strategies and performance of an investment fund. A measure was used to evaluate the financial performance that is the Return on assets (ROA). Return on assets is one of the most widely used financial models for performance measurements and it was developed by Dupont in 1919.

3.5.1 Research Model

The model is as follows;

$$FP = \alpha + b_1M + b_2Q + b_3G + b_4S + b_5L + \epsilon$$

Where:

FP: Financial Performance of Investment Fund (measured by Return on assets; net profit/total assets)

M: Investment strategy (Measurement based on investment scale from questionnaire and analysed with mean and standard deviation)

Q: Liquidity (Measured by Current assets/Current Liabilities)

G: Age (Measured by the total number of year the investment fund has been in operation)

S: Size (Measured by the total assets of an investment company)

L: Leverage (Measured by Debt/Equity)

α : Constant

b_1, b_2, b_3, b_4, b_5 : the parameter to be estimated

ϵ : Error term

CHAPTER FOUR

DATA ANALYSIS, PRESENTATION AND INTERPRETATION

4.1 Introduction

This chapter covers data presentation and analysis. The study objective was to identify investment strategies adopted by investment funds in Kenya and the effect of these strategies on financial performance of the funds. The reliability and viability of the data collected for the study was ascertained through ascertaining the reliability of the questionnaires used in data collection by both a pilot study and Cronbach alpha internal consistency measure used to test the internal reliability of the measurement instrument.

4.2 Descriptive statistics

4.2.1 Response Rate

A sample of nineteen respondents was targeted, to this end, a total of nineteen investment funds were expected to participate in the study. A more than 52.6% response rate was therefore attained, with only 10 respondents managing to respond. According to Mugenda and Mugenda (1999), a response rate of 52.6% is adequate for analysis and reporting; a rate of 60% is good and a response rate of 70% and over is excellent. It therefore goes that the study registered a good response rate. This is reflected in the table below.

Table 4.1 Response Rate

Questionnaires	Frequency	Percent (%)
Returned	10	52.6
Unreturned	9	47.4
Distributed	20	100.0

Source: Survey Data

4.2.2 Investment Strategy Utilized

On a five-point likert scale (1 = Strongly agree, 2 = agree, 3 = Neither agree nor disagree, 4 = disagree, 5 = Strongly disagree), respondents were asked to indicate their levels of agreement with statements posed by the researcher on investment fund. The one with a mean of more than three is an active investment strategy while one with less is passive investment strategy. Results are presented in table 4.2 below

Table 4.2 Investment Strategy utilized

Extent of influence	Mean	Std. Dev
The investment fund focus on high risk return investment in the short run	4.10	.568
The investment fund aims at outperforming the market with its investment portfolio	3.00	.816
The investment fund invests in undervalued stocks	3.50	.850
The investment fund assumes that the market is yet to realize the potential of various stocks it has identified	4.00	.471
The investment fund attempts to minimize the risks in their portfolio by adding a few stable stocks	3.50	1.080
The investment fund balances out the high risk stock in their portfolio	3.80	.789
The investment fund seeks a consistent and dependable stock	2.20	1.135
The investment clientele is composed of retirees	2.40	.966
The investment fund hesitates to make purchases even when the market conditions show definite bullish tendencies	2.00	1.155
The investment fund holds back because of fear of losing money and thus fail to make the most of the stock market movements	3.10	.4679

4.2.3 Number of Years of Existence in the Industry

The study further sought to find out the number of years respondents had engaged in investment funding. This would also be useful in studying financial performance among the respondents. Table 4.2 below presents the findings.

Table 4.3 Years of Existence in the Industry

Years of trade	Mean	Std. Dev
1 above	0	0
1-5 yrs	0	0
5-10 yrs	0	0
Above 10	4	0

Source: Survey Data

As presented in table 4.2 above, most respondents were found to have engaged the said investment fund industry for more than 10years. A clear agreement between the financial performance and the number of years most respondents have been in business (above 10 years) is observed. This underscores a finding of interest to the study, investment strategies. This is seen with the agreement between the number of years respondents have been in the business and the financial performance.

4.3 Correlation analysis between Investment Strategy used and the Investment Funds' Financial Performance

For this analysis Pearson correlation was used to determine the degree of association within the independent variables, that is, leverage, liquidity, age, size and investment strategy which was found to be active investment strategy employed by the investment funds.

Table 4.3.1 reports very high positive correlation among different pairs of the independent variables.

Table 4.3 Correlation Analysis between Investment Strategy and the Firms' Financial Performance

	Investment strategy	Leverage	Liquidity	Age	Size
Investment strategy	1.000	0.9534	0.9384	0.9318	0.9203
Leverage		1.000	0.9874	0.9856	0.9184
Liquidity			1.000	0.9994	0.9264
Age				1.000	0.8982
Size					1.000

Source: Computed by the researcher from annual reports of the investment funds

*Correlation is significant at the 0.05 level (2-tailed).

The correlation matrix in Table 4.3.1 indicates that Leverage is strongly and positively correlated with the investment strategy as indicated by a correlation coefficient of 0.9534. Further the matrix also indicated that Liquidity is also positively correlated with investment strategy as indicated by a coefficient of 0.9384. Investment strategy showed the highest correlation with age of the firm as indicated by a strong correlation coefficient of 0.9318. The size is also strongly and positively correlated with investment strategy with a coefficient of 0.9203.

4.4 Multi-collinearity

Table 4.4: Collinearity Statistics

	Tolerance	VIF
Investment strategy	0.304	3.290
Leverage	0.612	1.635
Liquidity	0.316	3.163
Age	0.472	2.120
Size	0.464	2.210

Multi-collinearity test was conducted to establish if the independent variables were correlated. Multicollinearity affect regression model and its lack, thereof, is a key assumption for regression. The study conducted formal detection-tolerance or the variance inflation factor (VIF) for multicollinearity. For tolerance, value less than 0.1 suggest multi-collinearity while values of VIF that exceed 10 are often regarded as indicating multicollinearity. The values of tolerance were greater than 0.1 and those of VIF were less than 10. This shows lack of multicollinearity among independent variables.

4.5 Regression Analysis

To establish the influence of various factors affecting financial performance of investment fund, a multiple regression analysis was conducted. The regression model was as follows:

$$FP= \alpha+b1L+b2Q+b3G+b4S+b5M+\epsilon$$

Where:

FP: financial performance

M: Investment strategy

L: Leverage

Q: Liquidity

G: Age

S: Size

α : Constant

Regression analysis also produced correlation, coefficient of determination and analysis of variance (ANOVA). Correlation sought to show the nature of relationship between dependent and independent variables and coefficient of determination showed the strength of the relationship. Analysis of variance was done to show whether there is a significant mean difference between dependent and independent variables. The ANOVA was conducted at 95% confidence level.

Table 4.5 Model Goodness of Fit

R	R²	Adjusted R²	Std. Error of the Estimate
0.771	0.631	0.532	0.06227

a. Predictors: Investment strategy, Constant, Leverage, Liquidity, Age and Size

b. Dependent Variable: Financial Performance

Regression analysis was used to establish the relationship between Financial performance (dependent variable) and the possible factors influencing Financial performance, that is, Investment strategy, Leverage, Liquidity, age and size (independent variables). The results showed a correlation value (R) of 0.771 which depicts that there is a good linear dependence between the independent and dependent variables.

With an adjusted R-squared of 0.532, the model shows Investment strategy, Leverage, Liquidity, age and size 53.2 percent of the variations in financial performance while 46.8 percent is explained by other factors not in the model.

Table 4.5.1: Analysis of Variance

	Sum Squares	of Df	Mean Square	F	Sig.
Regression	4.9	9	.544	0.	.00
Residual	0	0	.00		
Total	4.9	9			

ANOVA statistics was conducted to determine the differences in the means of the dependent and independent variables thus show whether a relationship exists between the two. The P-value of 0.00 implies that financial performance has a strong, positive and significant joint relationship with Investment strategy, Leverage, Liquidity, age and size which is significant at 5 percent level of significance. This also depicted the significance of the regression analysis done at 95% confidence level.

Table 4.5.1: Regression Coefficient Results

	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	7.724	5.006		1.543	.132
Investment strategy	1.434	.697	.338	2.058	.047
Leverage	1.652	.689	.287	2.243	.027
Liquidity	1.719	.720	.362	2.387	.023
Age	0.724	5.006	0.762	1.442	.113
Size	1.256	.827	.091	.551	.045

a. Source: Survey Data

From the data in the above table, there is a positive relationship between financial performance and all the independent variables, that is, Investment strategy, Leverage, Liquidity, age and size. The established regression equation was: Financial Performance = 7.724 + 1.434 Investment strategy + 1.652 Leverage + 1.719 Liquidity + 0.724 age + 1.256 size p=0.00

The regression results show that liquidity exhibits the strongest and positive influence on financial performance as indicated by a coefficient value of 1.719 closely followed by leverage at a coefficient value of 1.652. Investment strategy, age and size of the firm are also positively correlated with financial performance at coefficient values of 1.434, 0.724 and 1.256 respectively. When Investment strategy, Leverage, Liquidity, age and size have zero values, the space allocation value would be 7.724. It is also established that a unit increase in investment strategy leads to a 1.434 increase in financial performance and so on. This statistic had a t-value of 2.387 at 0.023 showing that the statistic is significant at 95% confidence level. A t-value of -2.058 was established at 0.047 error margin. This shows that the statistics was significant at 95% significance level. Further the study carried out the hypothesis testing between financial performance and all the independent variables. The study findings are as shown below.

Table 4.30 Attributable factors Vs Financial Performance

	Financial Performance
Attributable factors Pearson Correlation	0.782
Sig. (2-tailed)	0.000
N	10

Source: Survey Data (2012)

A Pearson coefficient of 0.782 and p-value of 0.000 shows a strong, significant, positive relationship between the attributable factors and investment fund performance as established from the survey data. Therefore basing on these findings the study accepts all the hypotheses that there exists a relationship between investment strategy, Leverage, Liquidity, age and size and financial performance of investment funds in Kenya

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATION

5.1 Introduction

This chapter summarizes the study and makes conclusion based on the results. The implications from the findings and areas for further research are also presented. This section presents the findings from the study in comparison to what other scholars have done as noted under literature review.

5.2 Summary of Findings

The study provided two types of data analysis; namely descriptive analysis and inferential analysis. The descriptive analysis helps the study to describe the relevant aspects of the phenomena under consideration and provide detailed information about each relevant variable. For the inferential analysis, the study used the Pearson correlation and the panel data regression analysis statistics. The study first evaluated the financial performance variables under consideration i.e. investment strategy, Leverage, Liquidity, age and size. Their mean and standard deviation values were determined.

Descriptive statistics involved the generation of means and standard deviation for the all the four distinguished variables, that is investment strategy, Leverage, Liquidity, age and size. From the findings, 'liquidity had the highest mean score at 5.030 and a standard deviation of 0.503, implying strong levels of agreement with the view that liquidity leads to a positive financial performance.

Second up at a mean of 3.8775 and a standard deviation of .695 was leverage implying an overall moderate agreement pointing to an increase in the financial performance of the investment funds. Investment fund strategy attained a mean score of 2.880 and a standard deviation of 0.554, implying a medium extent of financial performance meaning that the full potential of strategies in investment fund is yet to be fully realized among most investment institutions in Kenya. Age of the firms on the other hand had a mean score of 2.877 and a standard deviation of .506 pointing to medium levels of agreement with financial performance in investment funds.

The study further measured the degree of association between financial performance measured by return on Assets among the investment funds institutions in Kenya and the researcher used investment strategy, Leverage, Liquidity, age and size as variables for financial performance and Return on Asset (ROA) also. Regression coefficient results indicate a positive relationship between ROA and the Predictor variables which are investment strategy, Leverage, Liquidity, age and size. The established regression equation was: $ROA = 7.724 + 1.434 \text{ Investment strategy} + 1.652 \text{ Leverage} + 1.719 \text{ Liquidity} + 0.724 \text{ age} + 1.256 \text{ size}$ $p=0.00$

5.3 Conclusion

The study has investigated types of investment strategies and effect of those strategies on financial performance investments institutions in Kenya. Data have been analyzed by applying both descriptive and inferential statistics. Results from descriptive statistics lead to conclusive assertions as informed by the means and standard deviations generated, including the full potentia investment strategy is not the main driving factor in financial performance of investment funds in Kenya; active investment strategy is one that was found to be integrated into operation investment funds in Kenya; financial performance is of positive influence to investment funds performance and greatly so is liquidity which probably means the investment firms utilize liquid assets to make quick investment which translates to good returns.

From inferential statistics, a positive relationship is established between ROA and the Predictor variables which are investment strategy, Leverage, Liquidity, age and size. Chi-square test results show that companies with high liquidity can be said to be better performing as compared to those without or with lower liquidity.

5.4 Limitations of the Study

Limitation of the study was that there was reluctance to provide financial statements of the the investment companies since they are private. In addition there was unwillingness by investment funds managers to fill the questionnaires and constant effort to make it a success was in vain , the sample of this study, consisted mostly of top managers in investment funds the study therefore, restricted itself only to a certain group with similar demographic characteristics. The sample size used in the study could therefore be considered to be not representative enough.

The target population in this study consisted of investment institutions in Kenya that were fully registered with Capital Market Authority, this left out the larger population of microfinance institutions and other financial institutions such as SACCOs, Insurance companies who have also established investment in their operations.

The study was also restricted to a short period of time i.e. 2012. This period may therefore not give a true and fair picture of the effect of investment strategy on financial performance of investment institutions in Kenya.

5.5 Recommendations

The study recommends that there is need for examining actual performance and focusing upon those frequently cited for their contributory role. While certain factors appear to recur, there is no obvious combination of defining characteristics for financial performance that predicts negative outcomes. Credit control and capability initiatives can help to mitigate potential negative outcomes of rapid financial loss and should be part of a more comprehensive strategy for responsible finance among the investment institutions, which includes customer satisfaction, effective loan recovery mechanisms and financial innovation. Financial capability efforts may also be able to contribute to the adoption of new products and services as well as sustained positive behaviors, such as loan repayment, committing to investing, etc. But to be successful at these tasks, investment literacy and capability programs need to be incorporated in investment sector's innovation strategies.

5.5 Suggestions for Further Studies

The researcher suggests that for effective conclusive study on the relationship between investment strategy and improvement in financial performance, a replicate study be carried out in the entire investment sector. Probably an in-depth approach would uncover more. The researcher also suggests that there is a need to carry out further study on the rate of innovation diffusion in investment industry. Such a study will help these institutions to accelerate the rate of innovation and investment strategies diffusion in their operations thus improving their financial performance.

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Appendix I : List of Investment Funds Licensed under Investment Companies in Kenya as given by CMA Cap. 485A as of 2013

No.	Name
1	Old Mutual Investment Services (K) Limited
2	ICEA Lion Asset Management Limited
3	Pinebridge Investments East Africa Limited
4	Genesis (K) Investment Management Limited
5	British American Asset Managers Limited
6	Stanlib Kenya Limited
7	Sanlam Investment Management Kenya Limited
8	Standard Chartered Investment Services Limited
9	Co-optrust Investment Services Limited
10	CIC Asset Management Limited
11	Madison Asset Management Services Limited
12	Apollo Asset Management Company Limited
13	Dry Associates Limited
14	Canon Asset Managers Limited
15	Amana Capital Limited
16	Aureos (K) Managers Limited
17	FCB Capital Limited
18	Zimele Asset Management Company limited
19	Fusion Capital Asset Management Limited

Appendix II: Questionnaire

Dear Respondent.

INVESTMENT STRATEGIES EMPLOYED BY INVESTMENT FUNDS AND ITS EFFECT
ON PERFORMANCE OF THE INVESTMENT FUNDS IN KENYA.

A) ORGANISATION INFORMATION.

1. How long has been your firm been in existence (Tick as appropriate)

- | | |
|----------------------|--------------------------|
| A Less than 1year | <input type="checkbox"/> |
| B Between 1-5 Years | <input type="checkbox"/> |
| C Between 5-10 Years | <input type="checkbox"/> |
| D Over 10 Years | <input type="checkbox"/> |

SECTION B: INVESTMENT STRATEGIES

2. This section attempts to identify the investment strategies that the firm utilizes. Kindly state the level of agreement using the like scale provided. Strongly agree = 5, Agree=4, Neither Agree nor Disagree = 3, Disagree = 2, strongly disagree = 1

Year 2012

		Strongly disagree	Disagree	Neither Agree nor Disagree	Agree	Strongly Agree
		1	2	3	4	5
1	The investment fund focus on high risk high return investment in the short to medium term					
2	The investment fund aims at outperforming the market with its investment portfolio.					
3	The investment fund invests in undervalued stocks					
4	The investment fund assumes that the market that the market is yet to realise the potential of various stocks it has identified					
5	The investment fund attempts to minimise the risk in their portfolio by adding a few stable stocks.					
6	The investment fund balances out the high risk stock in their portfolio.					
7	The investment fund seeks a consistent and dependable income.					
8	The investment fund clientele is composed of retirees.					
9	The investment fund hesitates to make purchases even when the market conditions show definite bullish tendencies.					
10	The investment fund holds back because of fear of losing money and thus fail to make the most of the stock market movements.					

THANK YOU!!!

Appendix III: Analysed Data from Investment Funds with positive response .

No.	Name	ROA = Net Profit/Total Assets	Investment Strategy (M)	Liquidity = CurrentAssets/Current Liabilities (Q)	Age (G)	Size = Total Assets (S)
1	Old Mutual Asset Managers (K) Limited	5.166550377	Active	2.650070529	20	3,909,816.25
2	Genesis (K) Investment Management Limited	-14.33920198	Active	1.003578165	17	1,085,430.00
3	British American Asset Managers Limited	7.033638734	Active	1.251926686	10	35,820,165.00
4	Sanlam Investment Management Kenya Limited	7.497328232	Active	3.964351245	6	805,447.01
5	Standard Chartered Investment Services Limited	0.783167169	Active	1.501678274	21	636,518.00
6	Co-optrust Investment Services Limited	3.186114776	Active	10.62206533	18	168,311,639.00
7	CIC Asset Management Limited	38.88510728	Active	4.466192572	17	14,069,551.00
8	Canon Asset Managers Limited	5.677255206	Active	2.465857052	3	3,955.50

No.	Name	ROA = Net Profit/Total Assets	Investment Strategy (M)	Liquidity = CurrentAssets/Current Liabilities (Q)	Age (G)	Size = Total Assets (S)
9	Amana Capital Limited	-1.75561539	Active	46.53780386	10	1,964,343.17
10	Zimele Asset Management Company limited	6.009649341	Active	1.186857734	13	218,483.93

No.	Name	Debt	Equity	Net Profit	Total Assets	Currency
1	Old Mutual Asset Managers (K) Limited		3,895,762.37	202,002.63	3,909,816.25	Ksh
2	Genesis (K) Investment Management Limited	2,046.00	1,081,560.00	-155,642.00	1,085,430.00	USD
3	British American Asset Managers Limited	0.00	12,472,324.00	2,519,461.00	35,820,165.00	Ksh
4	Sanlam Investment Management Kenya Limited	0.00	803,695.92	60,387.01	805,447.01	USD
5	Standard Chartered Investment Services Limited	55,979	46,055	4,985	636,518	\$million

No.	Name	Debt	Equity	Net Profit	Total Assets	Currency
6	Co-optrust Investment Services Limited	227,563.00	20,951,498.00	5,362,602.00	168,311,639.00	Ksh
7	CIC Asset Management Limited	444,409.00	5,470,960.00	5,470,960.00	14,069,551.00	Ksh
8	Canon Asset Managers Limited	2.12	2,598.03	224.56	3,955.50	Yen
9	Amana Capital Limited	0.00	740,658.19	-34,486.31	1,964,343.17	Rs
10	Zimele Asset Management Company limited	695.94	195,348.53	13,130.12	218,483.93	Ksh