

**THE EFFECT OF PORTFOLIO COMPOSITION ON THE FINANCIAL
PERFORMANCE OF INVESTMENT COMPANIES LISTED IN NAIROBI
SECURITIES EXCHANGE**

BY

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D63/71429/2014

**A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILMENT OF
REQUIREMENT FOR AWARD OF THE DEGREE OF MASTER OF SCIENCE
IN FINANCE, SCHOOL OF BUSINESS, UNIVERSITY OF NAIROBI**

OCTOBER 2015

DECLARATION

This research project is my original work and has not been presented for examination to any other college or any other institution of Higher Learning for academic accreditation.

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This research project has been submitted for examination with my approval as the University Supervisor.

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ACKNOWLEDGEMENTS

A major research project like this is never the work of anyone alone. The contributions of many different people, in their different ways, have made this possible.

First and foremost my deep gratitude goes to the Almighty God for provision, protection and the gift of life. My sincere acknowledgement to my University Supervisor Mr. Herrick O.Ondigo for his guidance, and indubitable willingness to assist. Truly you provided a conducive intellectual climate.

My sincere gratitude also goes to all MSc. Finance lecturers who took their time to impart their knowledge during my course work. I also wish to thank my fellow students for their thoughts, discussions and spirit of teamwork during the study period.

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Finally I wish to thank my family for their constant source of support and encouragement. To you I am forever indebted to. Thank you.

God bless you mighty.

DEDICATION

I dedicate this project to my wife Mrs. Florence Mbatha Mutie and my lovely daughter Stacy Mumbi Mutie for their support during its preparation. Your patience and encouragement as I stayed away for long either in class throughout the weekends, or in the Library was really touching.

To my dear mother Mrs. Grace N. Kimeu and my late uncle Mr Frank M. Kwinga for their financial support and encouragement by ensuring that I go through the course without difficulties.

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LIST OF ABBREVIATIONS

ANOVA	Analysis of the Variance
CIS	Collective Investment Schemes
CMA	Capital Market Authority
GDP	Gross Domestic Product
MPT	Modern Portfolio Theory
NSE	Nairobi Securities Exchange
ROA	Return on Asset
ROI	Return on Investment
SPSS	Statistical Package for Social Sciences

ABSTRACT

Investment is the sacrifice of current consumption for future consumption whose objective is to increase future wealth. Effective organizational decision-making is the primary responsibility and the raison of management (Dearlove, 1998). There is a long standing concern that the strategy literature needs a better understanding of how organizational structure and decision-making affect organizational performance. Despite the advantages of Investment Companies listed in Nairobi Stock Exchange, Kenyans have been wary of investing through them challenging the premise that improved market performance should attract new investments. The only entrants into these investment channels are corporate's and high net worth individuals. The study sought to determine the effect of portfolio composition on financial performance of investment companies listed in Nairobi Securities Exchange. This study took a descriptive research design approach. The study entailed a census of all the investment companies listed in the Nairobi Securities Exchange. There are five investment companies listed in Nairobi Securities Exchange. The study covered a period of three years starting in the year 2012 to year 2014. The study used secondary data sources available at the companies' books of account and the NSE or Capital Market Authority offices. The study used the multiple linear regression equation and the method of estimation was Ordinary Least Squares (OLS) so as to establish the effect of portfolio composition on financial performance of investment companies listed in Nairobi Securities Exchange. The study revealed that portfolio composition affects the financial performance of investment companies listed in the Nairobi Securities Exchange. The study found that investment in bonds positively influences the financial performance of investment companies listed in the Nairobi Securities Exchange. The study also found that investment in real estate and equity by investment companies positively impacted on their financial performance. The study recommends that the management of investment companies to have solid organization structure and policy implementation which will influence their portfolio composition which affect their financial performance.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

This paper makes a strong input to investment portfolio literature by examining the effect of portfolio composition on Investment Companies in Kenya. According to (Sharpe, 2006) investment firms are financial mediators that finance by selling securities and invest in financial assets of other companies to obtain return for their share holders. (Behzadi, 2007) argued that the main difference of these sorts of firms with other business firms is that they buy and sell financial assets such and firms' securities and bonds instead of buying and selling goods. They typically offer investors a variety of funds and investment services which include portfolio management, record keeping, custodial, legal, accounting and tax management services.

Making investment decisions are an integral and vital part of managing a firm, and thus an efficient investment decision is expected to enhance firm valuations. Evaluation of portfolio composition is vital for investors. If the results of evaluation of portfolio composition are not promising, the reasons must be identified to change investment policies. Evaluation of portfolio composition is also important for investors to make decisions about holding, purchasing and selling investments. In addition, shareholders are looking for shares that have better performance related to other investment firms and market performance.

It is expected that investment firms make good investment decisions while they are professional in this and have sophisticated employees to do so. Unfortunately, investment firms have not gained so much development in NSE in the way that only five investment firms have been listed in NSE. This may stem from the fact that according to Capital Market Authority, they can create investment portfolio for various securities. However, the most critical question that is of concerns to this study is whether portfolio composition affects performance of investment companies.

In this respect, the empirical work so far done suggests a general consensus regarding the negative effects on private investment performance in both developed and developing countries. Nevertheless, there are relatively few empirical studies exploring the channels through which uncertainty and risk affect portfolio composition. In particular, the interactions among fixed investment, uncertainty, and portfolio composition remain an unexplored field of research. The absence of empirical work on the portfolio composition and its effect on performance for investment firms is particularly surprising given the increasing integration of international goods and capital markets and the widening gap between the real and financial sector transactions.

The effect of portfolio composition under multiple investment options is not a new topic in the economics literature. Grube (2012) for example already pointed out the substitutability of real and financial assets in portfolio balances. Accordingly, depending on the respective rates of returns investors decide how to allocate their portfolios composition between real and financial investments.

Tornell (2010) argued that given the uncertain environment in developing countries, real sector firms may prefer to invest in more liquid reversible assets in the financial sectors that offer comparable or higher rates of return on their investments rather than on irreversible fixed assets. However, despite such insights, there was no empirical study looking into this question of substitution between real and financial assets by real sector firms. Only recently, there is a growing body of research exploring this issue that can be referred to as the financialization literature that focuses on the following key points; increasing rates of return on financial capital over and above those on fixed capital, increasing acquisition of short- term financial assets by real sector firms, and decreasing fixed investment rates.

Investors and stakeholders confidence depends on the smooth flow of adequate, reliable, relevant and accurate information regarding the portfolio composition in different sectors of the economy. Given the increasing amount of focus on and the amount of growing significance of the NSE as an important venue for attracting investments and to encourage local investors to invest in stocks and securities. Kenya investment companies provide right vehicles for investment and management of investments to all types of investors.

1.1.1 Portfolio Composition

Portfolio composition is an allocation of investments into different assets. Asset allocation is the strategy an investor uses to distribute his or her investments among various asset classes i.e. equity, debt, liquid and real assets. Investment managers track

the asset allocation of their clients by periodic review of the asset allocation through diversification to reduce the overall risk in terms of the fluctuation of expected returns. Investor's goals of wealth maximisation are met easily with the correct combination of asset allocation (Campbell, 2002).

Investment is driven by three basic needs; income, capital preservation and capital appreciation. For income, investments can be made in the hope of providing future income. Usually investors want income to begin in the immediate future. For capital preservation, investments are made to preserve capital or the original value. These are generally conservative investments the investor wants the money set aside with the assurance that the funds will be available with no risk of loss of purchasing power at a future point in time. Because the investor wants to preserve the real value of the invested capital, the nominal value of the investment should increase at a pace consistent with inflation trends. For capital appreciation, investments are made so that funds will appreciate, or grow in value to meet a future needs. The aim is to have the value of the invested money grow at a faster rate than inflation so there is a positive return after the effects of taxes and inflation. Typically, investments made for capital appreciation include some risk exposure to get the desired return. Optimal investment implies that on profit margins, the firm must be indifferent between investing today and transferring those resources to tomorrow, as long as appropriate discount rate is identified to discount the payoff in the next period (Trygve, 2006).

In most emerging markets financial liberalization has been accompanied by sharp fluctuations in key macro and micro prices together with increasing uncertainty. Consumption volatility, for example, has increased in emerging markets during the 1990s (Kose, 2003). Likewise, capital flows to developing countries during the 1990s compared to late 70s and 80s are found to be ‘high, rising and unpredictable’ (Gabriele, 2000). The existing evidence also shows an increase in the volatility of stock markets as well as sales and earnings of firms in both developed and developing country markets for the last three decades (Comin and Mulani, 2006).

1.1.2 Financial Performance

Investment companies measure their performance from two perspectives i.e. from the customer perspective and from the firm’s perspective. The customer perspective entails the rates of returns that the customers are entitled on the principal invested. The firm’s perspective entails factoring in the returns paid to customers. The balance is then adjusted from the administrative costs such as salaries and depreciation. The final figure may be adjusted for interest expenses and taxes in order to give the profit after interest and tax.

Several financial profitability measures have been adopted in financial statements analysis and long term planning (Ross, Westerfield, Jafee, & Jordan, 2008). Organizations are held accountable by measuring performance measurement, such become the consequences for performance (Ross, et al , 2008). Managers need these to improve performance as well as value judgement from customers and stakeholders. In this study several financial ratios have been adopted; Return on Investment (ROI), a measure of

used to evaluate the efficiency of an investment which it is computed by gain from investment minus cost of investment divided by cost of investment expressed as a percentage. ROI measures how well a fund invested is doing to generate optimal returns.

In their study Kosmidou, Pasiouras, & Tsaklanganos, (2007) points out, the ROI has emerged as key ratio for the evaluation of efficiency and has become the most common measure of returns in the literature. ROI provides useful information about profitability, however the investors i.e. unit holders care more about how much the fund is earning on their investment. According to an indication by Willie and Hopkins, (1997) that the ultimate measure of the strength of any financial institution is not its asset size, the number of branches, or the pervasiveness of its electronics rather the true measure is its return on unit holders (ROI). Hence ROI is the preferred method of measuring return. Thus, on review of the financial performance measures of funds, ROI and ROA will be considered as a general measure of funds profitability.

1.1.3 Effect of Portfolio Composition on Financial Performance

The performance of the firm can be measured by its financial results, i.e. by its size of earnings riskiness and profitability are two major factors which jointly determine the value of the firm (Pi and Timme, 1993). Financial decisions which increase risks will decrease the value of the firm and on the other hand, financial decisions which increase the profitability will increase value of the firm. Risk and profitability are two essential ingredients of a business concern. There has been a considerable debate about the ultimate objective of firm performance, whether it is profit maximization or wealth

maximization (Pi and Timme, 1993). It is observed that while considering the firm performance, the profit and wealth maximization are linked and are affected by one another.

The financial performance of an investment company and effect of portfolio composition is of vital interest to many different groups and individuals. Investors are concerned with the company's ability to repay investment returns as well as whether it is abiding to agreed contracts. Purchasing agents / brokers for other companies are concerned with its viability as an investment vehicle. Potential investors are interested in determining the financial strength of the company as an element in assessing the company's portfolio composition. In addition to these external analysts, managers within the investment market segment are also concerned with analyzing its financial performance. These internal analysts compare the actual performance of the various securities composition in line of business plans, budgets, or objectives, they also compare the company's performance with that of current and potential competition (Scott, 2007).

The primary sources of information these analysts use to evaluate firm's performance are its financial statements. Performance assessment via financial statement analysis is based on past data and conditions from which it may be difficult to extrapolate future expectations. Any decision to be made as a result of such performance assessment can affect only the future as the past is gone or sunk.

While past performance is interesting, many managers and analysts are more interested in what will happen in the future. The past performance of a company as shown in its financial statements may be used to help predict future performance (Pi and Timme, 1993). When analyzing financial statements, one must keep in mind the purpose of the analysis. Since different analysts are interested in different aspects of the company's performance, no single analytical technique or type of analysis is appropriate for all situations.

1.1.4 Investment Companies listed in Nairobi Securities Exchange

In Kenya, the establishment and licensing of Investment Companies is done by the Capital Markets Authority (CMA). These firms are registered as Collective Investment Schemes (CIS) each mandated to operate investment based on the license granted. Kenya represents over 50% of the economic power of the East African countries, with the most active securities exchange at Nairobi Securities Exchange (NSE). Even with the growth in the number of investment firms, the uptake of these investment opportunities has been wanting. The volume of funds channelled to funds in comparison to other securities, questions the knowledge of the operations of funds, investor confidence and knowledge of the different investment vehicles available hence determination of effect of portfolio composition in securities is vital in determining which securities are worth to invest in and their performance in security market in terms of returns (www.nse.co.ke).

Investment companies invest in a diversified portfolio of assets to make money for their shareholders and investors. They employ professional fund managers to invest in a wide

range of assets than most people could not practically invest in themselves and are responsible for the management of billions of shillings worth of assets on behalf of investors. The companies hold a broad range of assets which can include shares, securities and property, meaning investor's investment is diversified and is not exposed to the fortunes of just one or a few investments. Performance of the investment companies is mainly based on portfolio composition of those best performing securities reflecting financial performance of the firms (www.nse.co.ke).

In Kenya there are five investment companies listed in the Nairobi Securities Exchange. This indicates that such investments are professionally managed and the returns derived should mimic the market trends. The Investment companies listed at NSE are Kurwitu Ventures limited, Home Africa limited, Olympia Capital Holdings limited, Centum Investments Company limited and Trans-Century limited. Portfolio composition on investment companies in Kenya includes stocks, bonds, real estate, production facilities, and mutual funds (www.nse.co.ke).

1.2 Research Problem

Portfolio composition is a very important in development, survival, sustainability, growth and performance of investment companies. An investment does not translate to high returns in all cases. Therefore portfolio composition should be well managed in order to obtain an optimal level of returns. Portfolio composition is an important factor in determining the profitability of the investment firms (Jeroz, 2007).

Investment is the sacrifice of current consumption for future consumption whose objective is to increase future wealth. The sacrifice of current consumption takes place at present with certainty and the investor expects desired level of wealth at the end of his investment horizon. The portfolio composition under multiple investment options is not a new topic in the economics literature. Tornell (2010) argued that given the uncertain environment in developing countries, real sector firms may prefer to invest in more liquid reversible assets in the financial sectors that also offer comparable or higher rates of return on their investments rather than on irreversible fixed assets. Portfolio composition is an important in determining profitability of the investment companies, and overall portfolio performance in security market. A mix of high returns securities with same or lower level of risks is preferred by investors to earn returns. It is important for investors to be advised accordingly by investment managers on right mix securities so they earn optimal returns, (Tanui, 2010).

Studies done in Kenya includes , Bowa (2001) who did a study to determine the risk minimizing portfolio at the NSE, Ngene (2002) did an empirical investigation into portfolio performance measures by pension fund managers and the challenges they face in portfolio management in Kenya, Okwach (2001) conducted study on the predictive ability of closed-end value at risk model on changes to portfolio performance for selected intermediaries in Kenya, Sallah (2005) did a study on the portfolio returns using different portfolio management styles at the NSE, Mwangangi (2006), did a survey of the applicability of Markowitz portfolio optimization model in overall asset allocation decisions by pension fund managers in Kenya, Obusubiri (2006) conducted study on

corporate social responsibility and portfolio performance at the NSE, and Karanja (2007) conducted a study on factors influencing investment company portfolio choice.

It is evident that no known local study has sought to determine the effect of portfolio composition on performance of investment companies. The study thus aims to answer the question, what is the effect of portfolio composition on performance of investment companies listed at Nairobi Securities Exchange?

1.3 Research Objective

To determine the effect of Portfolio Composition on Financial Performance of Investment Companies listed in Nairobi Securities Exchange.

1.4 Value of the Study

The study is important to the following stakeholders;

Investment Companies Managers make investment decisions for the investors. They seek to increase the penetration ratio in the market. Firm financial performance is therefore affected by the decisions made by these managers. This study will therefore, be of help to them execute their role effectively and have the right investment portfolio mix for their firm.

Regulatory authorities play a crucial role in ensuring that there is fair play in the market by all relevant market players in the industry. This study will therefore assist the regulatory authorities in assessing the suitability of the current investment regulations for investment firms. What drives an industry forward or backward is highly dependent on

the policies governing the industry. This study will enlighten Policy makers who are seeking a better understanding of the industry in order to formulate appropriate legislation.

Research and Development play a key role in any given economy .This study will be a source of reference material for future researchers and academicians who would study on related topics hence it formulates a basis for further research.

Financial analysts carry out a research on market performance and on issues affecting the financial market players. Findings from the study will help them give sound information that will enable them to give informed decisions and offer appropriate advice to investors to make sound investment decisions.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter explores the literature that focuses on the area of effect of portfolio composition on investments companies in Kenya economy. The chapter commences by dwelling on the theories of portfolio composition after which it discusses the concept of determinants of financial performance on investments firms and empirical review.

2.2 Theoretical Review

This study is underpinned on three theories that are relevant to portfolio composition and financial performance of investment companies. These theories are Markowitz Portfolio Theory, Modern Portfolio Theory, and Theory of Active Portfolio Management as described below;

2.2.1 Markowitz Portfolio Theory

Markowitz (1953) developed the portfolio model. This model includes not only expected return, but also includes the level of risk for a particular return. Markowitz assumed the following about an individual's investment behaviour. Given the same level of expected return, an investor will choose the investment with the lowest amount of risk. Investors measure risk in terms of an investment's variance or standard deviation. For each investment, the investor can quantify the investment's expected return and the probability of those returns over a specified time horizon. Investors seek to maximize their utility.

Markowitz' work on an individual's investment behaviour is important not only when looking at individual investment, but also in the context of a portfolio composition. The risk of a portfolio takes into account each investment's risk and return as well as the investment's correlation with the other investments in the portfolio. Risk of a portfolio is affected by the risk of each investment in the portfolio relative to its return, as well as each investment's correlation with the other investments in the portfolio.

A portfolio is considered efficient if it gives the investor a higher expected return with the same or lower level of risk as compared to another investment (Fama, 1992). The efficient frontiers simply a plot of those efficient portfolios. While an efficient frontier illustrates each of the efficient portfolios relative to risk and return levels, each of the efficient portfolios may not be appropriate for every investor. When creating an investment policy, return and risk are the key objectives. An investor's risk profile is illustrated with indifference curves. The optimal portfolio then is the point on the efficient frontier that is tangential to the investor's highest indifference curve. Portfolio composition mainly depends on advise investors get in securities market with little regard to performance of investment company,

2.2.2 Modern Portfolio Theory

Modern Portfolio Theory (MPT), a hypothesis put forth by Markowitz (1952) based on the idea that risk-averse investors can construct portfolios to optimise or maximise expected return based on a given level of market risk, emphasizing that risk is an inherent

part of higher reward. It is one of the most important and influential economic theories dealing with finance and investment (Kaplan and Schoar, 2005).

Also called “portfolio theory” management theory suggests that it is possible to construct an “efficient frontier” of optimal portfolios, offering the maximum possible expected return for a given level of risk. It suggests that it is not enough to look at the expected risk and return of one particular stock. By investing in more than one stock, an investor can reap the benefits of diversification, particularly a reduction in the riskiness of the portfolio. MPT quantifies the benefits of diversification, also known as not putting all of your eggs in one basket (Kaplan and Schoar, 2005). The risk in a portfolio of diverse individual stocks will be less than the risk inherent in holding any one of the individual stocks. Markowitz showed that investment is not just about picking stocks, but about choosing the right combination of stocks among which to distribute one's nest egg.

The theoretical rationale for investing in an alternative assets class such as stocks, bonds and other securities is to improve the risk and reward characteristic of an investment portfolio with the expectation that the assets will offer a higher absolute return whilst improving portfolio diversification (Bodie, 2005). Effect of portfolio composition along efficient frontier is determined by level of risk taken by the investors and returns accrued out of the portfolio mix depending market performance.

2.2.3 Theory of Active Portfolio 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. Investors or mutual funds that do not aspire to create a return in excess of a benchmark index will often invest in an index fund that replicates as closely as possible the investment weighting and returns of that index, this is called passive management (Fama,1992). Active management is the opposite of passive management, because in passive management the manager does not seek to outperform the benchmark index. Ideally, the active manager exploits market inefficiencies by purchasing securities i.e. stocks that are undervalued or by short selling securities that are overvalued. Either of these methods may be used alone or in combination. Depending on the goals of the specific investment portfolio, hedge fund or mutual fund, active management may also serve to create less volatility (or risk) than the benchmark index.

The reduction of risk may be instead of or in addition to the goal of creating an investment return greater than the benchmark. Active portfolio managers may use a variety of factors and strategies to construct their portfolios. 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 favour or selling at a discount to their intrinsic value. Some actively managed funds also pursue strategies such as merger arbitrage, short positions, option writing, and asset allocation.

Construction of a portfolio is based upon the investor's objectives, constraints, preferences for risk and return and liability (Merton, 1973). Evaluation of the portfolio is done by continuous overview of the market conditions, company's performance and investor's circumstances, (Campbell, 2002). Portfolio management process according to Merton (1973) entails a three stage process, that is; determine optimal investment mix followed by creating a customized investment policy statement, and then selecting an investments after which monitoring of progress is necessary.(Merton, 1973) argues that it involves asset allocations which eventually create an optimal mix. This step represents one of the most important decisions in a portfolio construction as asset allocation has been found to be the major determinant of long-term portfolio performance (Campbell, 2002). The third stage which is creating a customized investment policy statement, which is necessary after the optimal investment mix, is determined.

This help to formalize the goals and objectives in order to utilize them as a benchmark to monitor progress and future updates (Campbell, 2002). After all the above is done, selection of investment is done so as to customize portfolio with a view of matching the optimal investment mix. For this to succeed there is need for monitoring the progress so that the mix of asset classes stays in line with investor's unique needs, the portfolio will be monitored and rebalanced back to the optimal investment mix (Fama, 1992). Risk and return is a key element in evaluating a portfolio. Risk refers to the probability that the return and therefore the value of an asset or security may have alternative outcomes (William, 1964). Return-yield or return differs from the nature of instruments, maturity period and the creditor or debtor nature of the instrument and a host of other factors.

Portfolios or combinations of securities are thought of as helping to spread risk over many securities may specify only broadly. Auto stocks are for example, recognized as risk interrelated with fire stocks, utility stocks display defensive price movement relative to the market and cyclical stocks like steel, and so on. This is not to say that traditional portfolio analysis is unsuccessful. It is to say that much of it might be more objectively specified in explicit terms. They include determining the objectives of the portfolio and selection of securities to be included in the portfolio. A portfolio composition with good performing securities and good investment strategies will yield high returns which translates to high performance of the investment company.

2.3 Determinants of Financial Performance on Investment Companies

These are the factors that are considered to greatly affect the financial performance of a firm. In this study, the determinants will include; capital adequacy, asset quality, management quality, earning quality, liquidity, sensitivity of market risk, macro-economic variables and growth options.

2.3.1 Capital Adequacy

Capital adequacy refers to the capital level required to maintain balance with the operational and market risks exposures of the investments companies in order to accommodate potential losses and safeguard the investor's wealth. Capital adequacy as a component of CAMELs rating focuses on the management ability to deal with marginal capital needs, the nature of the composition of balance sheet, the quantity of capital and

ability to access sources of capital including capital market, the volume of assets and capability of portfolio investment (Uniform financial rating system, 1997).

2.3.2 Asset Quality

Asset quality is the extent of financial strength and risk in the assets of the firm which comprise of investments and stocks .Asset quality indicates the credit risks levels associated with the assets. A comprehensive evaluation of asset quality is one of the most important components in assessing the current condition and future viability of the investment. Asset quality as a component of CAMELs rating is based on the trend, comparison, quality, diversification and investment portfolio, and ability of the firm to identify and recover risky investments (Uniform financial rating system, 1997).

2.3.3 Management Quality

Refers to the ability and competency of the management to detect, evaluate, and mitigate the risks associated with the investment activities of the investment company and also ensure that the operations are compliant with the set rules and regulations. According to Grier (2007) management is regarded as an integral element in the CAMEL rating since it is fundamental in the success of an investment firm. Management Quality is rated upon the quality and level of supervision by the firms Boards of directors and management, adherence to internal policies and adequacy of internal controls, the leadership and quality of the directors, tendencies towards self dealing and overall performance of an investing firm.

2.3.4 Earning Quality

Refers to the amount, trend, and factors influencing the sustainability of earnings. Poor management can result in significantly high losses in returns leading to high level of market risks. Adequate management ensures that the investment firm registers better future performance in returns which should be give equal or greater value than previous performance (Dichev, 2000).

2.3.5 Liquidity

Refers to the ability of the investment firm to cater for its investment obligations both in the present and in the future, since investment firm derive their income by investing in short-term investments at high rates and investing funds in long-term at higher rates of interest hence there is risk of the mismatch in investing rates (Rudolf, 2009).

2.3.6 Sensitivity to Market Risk

Investment companies deal in a greater variety of financial products making them susceptible to among others interest rate, foreign exchange risks and commodity price risk (Hilters, 2000).The focus assessment is on how management would be able to check and organize financial problems arising from the phenomena (Hays, Stephen and Arthur , 2000).

2.3.7 Macroeconomic Variables

The macro-economic policy stability, Gross Domestic Product, Inflation, Interest rates and Political instability are also other macro-economic variables that affect the

performance of investments firms. For instance GDP affects the demand for investments assets. During declining GDP growth the demand for investments falls which in turn negatively affect the investment returns. On the contrary, in a growing economy as expressed by positive GDP growth, the demand for investment is high due to the nature of investment cycle. During boom the demand for investment is high compared to recession (Athanasoglou et.al, 2005).

2.3.8 Growth Options

Rajan (2008) argued that future investment affect firm performance. A firm with higher growth options will have a higher performance as it's favourable to investors who have higher prospects of recovering their investment. If a firm has lower growth options it is likely to be erased by competitors leading to eventual collapse hence lower performance.

Growth opportunities may be considered assets that add value to a firm, but cannot be collateralized and are not subject to taxable income. The agency problem suggests a negative relationship between capital structure and a firm's growth. Hutchinson (1995) argued that high-growth firms might have more options for future investment than low-growth firms. Thus, highly leveraged firms are more likely to pass up profitable investment opportunities, because such an investment will effectively transfer wealth from the firm's owners to its debt holders. As a result, firms with high growth opportunities may not issue debt in the first place, and leverage is expected to be negatively related to growth opportunities.

2.4 Empirical Review

This section reviews the study variable as studied by other scholars in other parts of world. The findings helped to compare their findings and the current study findings. The section presents both the international evidence and local evidence.

2.4.1 International Evidence

Campbell (2002) found that Portfolio management is a highly deficient area globally and locally. By owning several assets, certain types of risk can be reduced. The assets in the portfolio could include stocks, bonds, options, warrants, gold certificates, real estate, futures contracts, production facilities, or any other item that is expected to retain its value. Ideally, everybody should have a long term and short term financial plan guiding their financial decision. Holding a portfolio is part of an investment and risk limiting strategy called diversification. Portfolio composition involves deciding what assets to include in the portfolio, given the goals of the portfolio owner and changing economic conditions. Selection involves deciding what assets to purchase, how many to purchase, when to purchase them, and what assets to diversify. Some investors are more risk averse than others. Investment companies have developed particular investment techniques to optimize their portfolio holdings. These decisions always involve some sort of performance measurement, most typically expected return on the portfolio, and the risk associated with this return i.e. the standard deviation of the return. Typically the expected returns from portfolios, comprised of different asset bundles are compared. The unique goals and circumstances of the investor must also be considered.

Sornette (2003) indicates that there are several forms of investments that include investment property (buildings), real estate investments, mutual funds, government securities (treasury bills and bonds), deposits with financial institutions (fixed deposits and On-call deposits), investment in associates, investments in subsidiaries and investments in stocks (equity). Shefrin (2006) argues that overall, there are three different kinds of investments. These include stocks, bonds and cash. The different types of investments can also be put in two categories of risk tolerance of either high risk or low risk depending on how risky it is to invest in such investments.

Jeroz (2007) in his study of investment companies recommended that portfolios should be reviewed and adjusted from time to time with the market conditions. He pointed out that evaluation of portfolio is to be done in terms of targets set for risk and return. The changes in portfolio are to be effected to meet the changing conditions. According to his studies portfolio construction refers to the allocation of surplus funds in hand among a variety of financial assets open for investment. He mostly concerned himself with the principles governing such allocation. The modern view of investment is oriented towards the assembly of proper combinations held together will give beneficial result if they are grouped in a manner to secure higher return after taking into consideration the risk element. The modern theory is the view that by diversification, risk can be reduced. The investor can make diversification either by having a large number of shares of companies in different regions, in different industries or those producing different types of product lines. There are many different ways to measure financial performance, but all measures should be taken in aggregation. Line items such as revenue from operations, operating

income or cash flow from operations can be used, as well as total unit sales. Furthermore, the analyst or investor may wish to look deeper into financial statements and seek out margin growth rates or any declining debt.

Morgan (2008) believed that investors can enhance the performance of their pure-stock portfolios by incorporating different options strategies. Among them, the most popular strategies are covered-call writing and protective-put buying. In theory, there is no clear evidence on whether a specific option strategy is superior. According to Morgan the efficient market theory, an increase in returns should be accompanied by an increase in risk. Adding options to stock portfolios may also create problems of performance measurement homogeneity. Hedging is a financial transaction in which one asset is held to offset the risk of holding another asset. Typically, a hedge is used to offset price risk due to changes of financial market conditions. In this way, the development of financial derivative instruments (options, futures, forward and swap) make hedgers simple to use it to reduce risk. However, many portfolio managers use these derivative instruments to speculate instead of hedging and in turn increase risk.

Jasmine (2010) argued that investing is the principal business activity for most institutions. Investment portfolio is typically the largest asset and the predominate source of revenue. As such, it is one of the greatest sources of risk to an organizations safety and soundness. Effective management of the investment portfolio and the credit function is fundamental to an organizations safety and soundness. Investment portfolio management is the process by which risks that are inherent in the management process are managed

and controlled. Because review of the portfolio management process is so important, it is a primary supervisory activity. Assessing portfolio management involves evaluating the steps management takes to identify and control risk throughout the investment process. The assessment focuses on what management does to identify issues before they become problems.

2.4.2 Local Evidence

Kogi (2003) conducted a study on the future of collective investments schemes in Kenya and concluded that collective investments had experienced slow growth. He made several observations; first slow growth was perhaps due to the type of investment and investment strategies adopted. In addition, the author cited investor awareness, education, low returns, and challenges facing collective investment schemes.

Mutswenje (2009) conducted a survey of the factors influencing investment decisions by taking the case of individual investors at the NSE. The author concluded that personal factors such as gender, income status, level of education, level of experience with stock market, the characteristics of the securities, and the investor needs influenced the investment decision. However, the study did not address the type of investment decisions adopted by investment firms.

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

Muthamia (2010) on his study of challenges faced by centum investments argued that when economic conditions become more challenging, organizations have fewer resources to deploy on new business or change projects and programmes, reducing the number of such initiatives they can undertake. However, at such times, the projects and programmes they do invest in are often more critical, since they may be essential to deliver efficiency savings, sustain revenue or improve aspects of performance on which the survival of the organization can depend. The current turbulent economic conditions appear to have caused increasing adoption of project portfolio management by organizations. Project portfolio management can be defined as managing a diverse range of projects and programmes to achieve the maximum organizational value within resource and funding constraints, where 'value' does not imply only financial value and includes delivering benefits which are relevant to the organization's chosen strategic move with time.

2.5 Summary of Literature Review

The review has evaluated the various theories that the study is based on. These theories are important in explaining what inferences the portfolio composition on financial performance of investment firms. It is however important to note that the theories

have not focused on the effect of portfolio composition on the financial performance of investment companies. The review has also presented various studies previously done on the determinants of the financial performance of investment companies as well as influence of portfolio management strategies on financial performance of investment companies.

From the review, it is clear that very few recent studies have specifically focussed on how portfolio composition affects the financial performance of investment companies in Kenya. These studies done locally include; Bowa (2001) did a study to determine the risk minimising portfolio at the NSE, Sallah (2005) did a study on portfolio returns using different portfolio management styles at NSE, and Karanja (2007) conducted a study on factors influencing investment company portfolio choice. These are the gaps that this study seeks to fill.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter outlines the methods, tools and sources of research data, targeted groups and sample from which data was collected in order to attain the objective of the study which was to find out the effect of portfolio composition on investment companies in Kenya. It further discusses how the data was processed and tools used in data analysis and presentation.

3.2 Research Design

This study took a descriptive research design approach. Descriptive research explores the effect of one thing on another and more specifically the effect of one variable on another that is concerned with cause effect relationships between two or more variables (Cooper & Schindler, 2006). Being that the study sought to find out the effect of portfolio composition on financial performance of investment companies in Kenya, a causal research design was deemed appropriate. This study took into consideration all investment companies listed in Nairobi stock exchange, in order to determine the effect of portfolio composition on investment companies.

3.3 Target Population

The study entailed a census of all the investment companies listed at Nairobi Securities Exchange. There are five investment companies listed in Nairobi Securities exchange. The study covered a period of three years starting in the year 2012 to 2014.

3.4 Data Collection

The study used secondary data sources available at the companies' books of account and the NSE or Capital Market Authority offices. The Secondary data was collected from the companies' annual reports as every company is required to report the extent to which they complied with the performance principles in their annual reports.

3.5 Data Analysis

The study used the multiple linear regression equation and the method of estimation i.e. Ordinary Least Squares (OLS). Statistical Package for Social Sciences (SPSS) software version 16 was used to apply multiple regression analysis on the secondary data to establish the casual effect relating independent variables to the dependent variable. The data was presented in tables.

3.5.1 Analytical Model

The study used a regression to estimate the model with ROI as the dependent variable and portfolio securities as the independent variables as used by Nishat and Mir (2004).

The economic model to use in the study is given as:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \epsilon_{it} \dots\dots\dots$$

(1)

Where, Y is the dependent variable, β_0 is constant $\beta_1, \beta_2, \beta_3,$ and β_4 are the coefficient of the explanatory variable (the determinant attributes), and ϵ_{it} is the error term assumed to have zero mean and independent across time period.

From the economic model in the equation above, equation below will evolve:

$$\text{PERF} = \beta_0 + \beta_1 \text{Bond} + \beta_2 \text{Equity} + \beta_3 \text{Real Estate} + \beta_4 \text{Size} + \epsilon_{it}$$

(2)

Where:

PERF;-Financial Performance of investment companies was measured by ROI, it was computed by gain from investment minus cost of investment divided by cost of investment expressed as a percentage.

Bond; - is the ratio of bond invested to total portfolio investment,

Equity;-is the ratio of equity invested to total portfolio investment,

Real estate's;-is the ratio of real estate to total portfolio investment,

Size; -The natural logarithm of the book value of total investment at year end which will be used as controlling variable,

ϵ_{it} ;- Stochastic Error term .

3.5.2 Test of Significance

The inferential statistics was used to test the significance of the relationship between the dependent variable and independent variables .The technique included Analysis of Variance (ANOVA) which tested the significance of the overall model at 95% level of significance. Co-efficient (R) was used to determine the magnitude of the relationship between the dependent and independent variables. Co-efficient of determination (R squared) was used to show the percentage for which each independent variable and all independent variables combined explain the change in the dependent variable.

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND INTERPRETATION

4.1 Introduction

This chapter presents the data findings to determine the effect of portfolio composition on financial performance of investment companies listed in Nairobi Securities Exchange. These data was collected from the Nairobi Security Exchange and Capital Market Authority offices. Multiple linear regressions was established through Ordinary Least Squares (OLS) so as to determine the effect of portfolio composition on financial performance of investment companies in Kenya. The study covered a period of 3 years from years 2012 to 2014.

4.2 Descriptive Statistics

Table 4.1: Descriptive Statistics

Descriptive statistics are concerned with explaining the sample of data that the researcher is concerned with. They are used to describe the main features of a collection of data quantitatively.

	N	Minimum	Maximum	Mean	Standard Deviation
ROI	4	.12	1.32	.8578	0.358
Size	4	10.86	11.30	10.972	12.359

Source: Research Findings

From the findings of the study it was found that the mean size of investment companies listed in Nairobi Securities Exchange was 11.30 and deviation of 12.359. The mean returns from investments was found to be 0.8578 with deviation of 0.358.

4.3 Inferential Statistics

Inferential analysis was undertaken by use of SPSS software with a view to establishing regression coefficients as well as assessing the relationship between portfolio composition and performance of investment companies listed at Nairobi Securities Exchange.

4.3.1 Correlation Analysis

Correlation analysis is the statistical tool that can be used to determine the level of association of two variables. This analysis can be seen as the initial step in statistical modelling to determine the relationship between the dependent and independent variables. Correlation value of 0 shows that there is no relationship between the dependent variable and independent variable. On the other hand, a correlation of $- / + 0$ means there is a perfect negative or positive relationship. The values were interpreted between 0 (no relationship) and 1 (perfect relationship).

Table 4.2: Correlation Analysis

		ROI	Size
ROI	Pearson Correlation	1	
Size	Pearson Correlation	.238	1

Source: Research Findings

The study conducted a Pearson moment correlation to determine the strength of the relationship between the study variable. From the findings on the correlation analysis between Return on investments and various independent variable, the study found there

was positive significant correlation between Return on Investments and Size of Investments companies listed in Nairobi Securities Exchange as shown by correlation factor of 0.238.

4.3.2 Regression Analysis

Table 4.3: Regression Analysis

Model	R	R Square	Adjusted R Square	Std Error of the Estimate
1	.756(a)	.741	.738	0.682

Source: Research Findings

Adjusted R squared is coefficient of determination which tells us the variation in the dependent variable due to changes in the independent variable. From the findings in the above table, the value of adjusted R squared was 0.738, an indication that there was variation of 73.8% on the financial performance (ROI) of investment companies due to changes in investment in bond, equity and real estate at 95% confidence interval. This implies that 73.8 % changes in financial performance of investment companies could be accounted for investment in bond, equity and real estate. R is the correlation coefficient which shows the relationship between the study variables. The findings show that in overall, there was a strong positive relationship between the study variables as shown by 0.756.

4.3.3 Analysis of the Variance

The summary of the basic logic ANOVA is the discussion of the purpose and analysis of the variance. The purpose of the analysis of the variance is to test differences in means (variable or groups) for statistical significance. The accomplishment is through analysing the variance, which is by portioning the total variance into the component that is due to true random error and the components that are due to differences between means. The ANOVA analysis is intended to investigate whether the variation in the independent variables explain the observed variance in the outcome in this study.

Table 4.4: Analysis of the Variance

Model		Sum of squares	df	Mean square	f	Sig
1	Regression	3.291	3	1.097	9.891	.046(a)
	Residual	0.333	3	0.111		
	Total	3.624	6			

Source: Research Findings

From the ANOVA statistics in table above, the processed data, which is the population parameters, had a significance level of 0.046 which shows that the data is ideal for making a conclusion on the population's parameter as the value of significance (p-value) is less than 5%. This is an indication that investment in bond, equity and real estate were significantly influencing financial performance (ROI) of investment firms in Kenya. The significance value was less than 0.05 an indication that the model was also statistically significant.

Analysis for 2012

Table 4.5: Model Summary

Model	R	R Square	Adjusted R Square	Std Error of the Estimate
1	.656(a)	.649	.636	0.678

Source: Research Findings

Adjusted R squared is coefficient of determination which tells us the variation in the dependent variable due to changes in the independent variable. From the findings in the above table, the value of adjusted R squared was 0.636, an indication that there was variation of 63.6% on the financial performance (ROI) of investment companies due to changes in investment in bond, equity and real estate at 95% confidence interval. This shows that 63.6% changes in financial performance of investment companies could be accounted for investment in bond, equity and real estate. R is the correlation coefficient which shows the relationship between the study variables. The findings show that there was a strong positive relationship between the study variables as shown by 0.656.

Table 4.6: ANOVA Year 2012

Model		Sum of squares	df	Mean square	F	Sig
1	Regression	4.989	3	1.663	10.660	.042(a)
	Residual	0.468	3	0.156		
	Total	5.457	6			

Source: Research Findings

From the ANOVA statistics in table above, the processed data, which is the population parameters had a significance level of 0.042 which shows that the data is ideal for making a conclusion on the population's parameter as the value of significance (p-value) is less than 0.05. This is also an indication that investment in bond, equity and real estate were significantly influencing financial performance (ROI) of investment firm in Kenya .The significance value was less than 0.05 an indication that the model was statistically significant.

Table 4.7: Coefficients Year 2012

Model	Variables	Unstandardized Coefficient		Standardized Coefficient	t	Sig.
		B	Std Error			
1	(Constant)	.156	.620		2.098	.030
	Bond	.523	.371	.234	.0864	.002
	Equity	.356	.109	.298	.891	.016
	Real estates	.293	.517	.109	.399	.029
	Size	.115	.986	.049	.152	.002

Source: Research Findings

From the data in the above table the established regression equation was

$$Y = 0.156 + 0.523 X_1 + 0.356 X_2 + 0.293 X_3 + 0.115 X_4$$

From the above regression equation it was revealed that holding investment in bond, equity and real estate to a constant zero, financial performance of investment companies would stand at 0.156, a unit increase in investment in bond would lead to increase in financial performance (ROI) of investment companies by a factor of 0.523, unit increase in investment in equity would lead to increase in financial performance of investment companies by a factor of 0.356 and a unit increase in investment in real estate would lead to increase in financial performance of investment companies by a factor of 0.293.

Analysis for 2013

Table 4.8: Model Summary

Model	R	R Square	Adjusted R Square	Std Error of the Estimate
1	.698(a)	.690	.661	0.327

Source: Research Findings

Adjusted R squared is coefficient of determination which tells us the variation in the dependent variable due to changes in the independent variable. From the findings in the above table, the value of adjusted R squared was 0.661, an indication that there was variation of 66.1% on the financial performance (ROI) of investment companies due to changes in investment in bond, equity, and real estate at 95% confidence interval. This shows that 66.1% changes in financial performance of investment companies could be accounted for investment in bond, equity, and real estate. R is the correlation coefficient which shows the relationship between the study variables. The findings show that there was a moderate positive relationship between the study variables as per the R value 0.698

Table 4.9: ANOVA Year 2013

Model		Sum of squares	df	Mean square	F	Sig
1	Regression	3.691	3	1.230	9.32	.049(a)
	Residual	0.396	3	0.132		
	Total	5.352	6			

Source: Research Findings

From the ANOVA statistics in table above, the processed data, which is the population parameters, had a significance level of 0.049 which shows that the data is ideal for making a conclusion on the population's parameter as the value of significance (p-value) is less than 0.05. This is an indication that investment in bond, equity and real estate were significantly influencing financial performance (ROI) of investment firm in Kenya. The significance value was less than 0.05 an indication that the model was also statistically significant.

Table 4.10: Coefficients Year 2013

Model	Variables	Unstandardized Coefficient		Standardized Coefficient	t	Sig.
		B	Std Error	Beta		
1	(Constant)	.890	.730		2.93	.19
	Bond	.046	.891	.032	.0321	.038
	Equity	.180	.167	.098	.237	.104

	Real estates	.290	.469	.196	.619	.043
	Size	.163	.986	.444	.796	.021

Source: Research Findings

From the data in the above table the established regression equation was

$$Y = 0.890 + 0.046 X_1 + 0.180 X_2 + 0.290X_3+ 0.163X_4$$

From the above regression equation it was evidence that holding investment in bond, equity, and real estate to a constant zero, financial performance of investment companies would stand at 0.890, a unit increase in investment in bond would lead to increase in financial performance (ROI) of investment companies by a factor of 0.046, unit increase in investment in equity would lead to increase in financial performance of investment companies by a factor of 0.180, and a unit increase in investment in real estate would lead to increase in financial performance of investment companies by a factor of 0.290.

Analysis for 2014

Table 4.11: Model Summary

Model	R	R Square	Adjusted R Square	Std Error of the Estimate
1	.552(a)	.548	.523	0.987

Source: Research Findings

Adjusted R squared is coefficient of determination which tells us the variation in the dependent variable due to changes in the independent variable. From the findings in the above table, the value of adjusted R squared was 0.523, an indication that there was variation of 52.3 % on the financial performance (ROI) of investment companies due to changes in investment in bond, equity and real estate at 95% confidence interval . This implies that 52.3% changes in financial performance of investment companies could be accounted for investment in bond, equity and real estate while the remaining 47.7% could be attributed to other factors other than the ones under consideration. R is the correlation coefficient which shows the relationship between the study variables. The findings show that there was a moderate relationship between the study variables as shown by 0.552.

Table 4.12: ANOVA Year 2014

Model		Sum of squares	df	Mean square	F	Sig
1	Regression	3.722	3	1.240	10.25	.044(a)
	Residual	.364	3	.121		
	Total	4.086	6			

Source: Research Findings

From the ANOVA statistics in table above, the processed data, which is the population parameters, had a significance level of 0.044 which shows that the data is ideal for making a conclusion on the population's parameter as the value of significance (p-value) is less than 0.05 This is an indication that investment in bond, equity and real estate were significantly influencing financial performance (ROI) of investment firm in Kenya

The significance value was less than 0.05 is also an implication that the model was statistically significant.

Table 4.13: Coefficients Year 2014

Model	Variables	Unstandardized		Standardized	t	Sig.
		Coefficient		Coefficient		
1		B	Std Error	Beta		
	(Constant)	.366	.891		3.093	.079
	Bond	.789	.469	.451	.129	.006
	Equity	.413	.196	.329	.300	0.19
	Real estates	.113	.412	.036	.913	0.001
	Size	.178	.981	.138	.976	.033

Source: Research Findings

From the data in the above table the established regression equation was

$$Y = 0.366 + 0.789 X_1 + 0.413 X_2 + 0.113X_3+ 0.178X_4$$

From the above regression equation it was revealed that holding investment in bond, equity, and real estate a constant, financial performance of investment companies would stand at 0.366, a unit increase in investment in bond would lead to increase in financial performance (ROI) of investment companies by a factor of 0.789, unit increase in investment in equity would lead to increase in financial performance of investment companies by a factor of 0.413, and a unit increase in investment in real estate would lead to increase in financial performance of investment companies by a factor of 0.113.

4.4 Interpretation of the Findings

Adjusted R squared is coefficient of determination which tells us the variation in the dependent variable due to changes in the independent variable. From the findings on the adjusted R squared the study revealed that major variation on the financial performance (ROI) of investment companies could be accounted to changes in investment in bond, equity and real estate. The study revealed that there was a significant positive relationship (strong and moderate) between financial performance of investment companies and investment in bond, equity and real estate, as there was high value of correlation coefficient.

From the findings on the ANOVA, the study revealed that investment in bond, equity and real estate were significantly influencing financial performance (ROI) of investment firm in Kenya. The significance value was less than 0.05 an implication that the model was statistically significant.

From the data in the above table the established regression equation for 2012 was

$$Y = 0.156 + 0.523 X_1 + 0.356 X_2 + 0.293 X_3 + 0.115 X_4$$

From the data in the above table the established regression equation for 2013 was

$$Y = 0.890 + 0.046 X_1 + 0.180 X_2 + 0.290 X_3 + 0.163 X_4$$

From the data in the above table the established regression equation for 2014 was

$$Y = 0.366 + 0.789 X_1 + 0.413 X_2 + 0.113 X_3 + 0.178 X_4$$

From the regression equation it was revealed investment in bond, equity and real estate and size of investment were positively related to financial performance of investment companies.

There are several studies conducted on portfolio performance at the Nairobi Securities Exchange which concur with the above findings. This study concurs with findings of Sallah (2005) who did a study on the portfolio returns using different portfolio management styles at the NSE and found out portfolio investment was yielding high returns from diversification of investments. Also Kogi (2003) conducted a study on the future collective investments schemes had experienced high growth due to the type of investment and investment strategies adopted. Karanja (2007) conducted a study on factors influencing investment company portfolio choice and concluded that the type of investment portfolio choice depended on type of securities returns, management strategies applied by investment managers to reflect companies performance.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

From the analysis and data collected, the following discussions, conclusion and recommendations were made. The responses were based on the objectives of the study. The research had intended to determine the effect of portfolio composition on financial performance of investment companies listed in Nairobi Securities Exchange.

5.2 Summary

From the findings on the adjusted R square the study revealed that major variation on the financial performance (ROI) of investment companies could be accounted to changes in investment in bond, equity and real estate. The study also revealed that there was strong/moderate positive relationship between financial performance of investment companies and investment in bond, equity and real estate, as there was high value of correlation coefficient.

From the findings on the ANOVA, the study revealed that investment in bond, equity and real estate were significantly influencing financial performance (ROI) of investment companies in Kenya. The significance value was less than 0.05 an indication that the model was statistically significant. The study revealed that a unit increase in investment in bond would lead to increase in financial performance (ROI) of investment companies, unit increase in investment in equity would lead to increase in financial performance of investment companies and a unit increase in investment in real estate

would lead to increase in financial performance of investment companies. From the regression equation it was revealed investment in bond, equity, and real where positively related to financial performance of investment companies listed at Nairobi Securities Exchange.

5.3 Conclusion

From the findings the study revealed that effect portfolio composition affects the financial performance of investment companies listed in the Nairobi Securities Exchange. The study revealed that investment in bond and equity positively influences the financial performance of investment companies listed in the NSE. The study also found that investment in real estate by investment companies positively affected the financial performance.

5.4 Policy Recommendations

There is need for the management of investment companies to have solid organization structure. Organization structure will influence their portfolio composition which affects their financial performance. Good organization structure will allow for better investment decision in the companies that manage their investment and thus increasing the performance of their companies in Nairobi Securities Exchange. There is need to increase or improve investments in real estates, enhance equity and invest in corporate bonds since these strategies have positive effect on the performance investment companies, as found in the research.

5.5 Limitations of the Study

In attaining its objective the study was limited to five firms listed companies in the NSE. However, the study used only four of the investment companies listed in the NSE. Secondary data was collected from the firm's financial reports. The study was also limited to the degree of precision of the data obtained from the secondary source. While the data was verifiable since it came from the Nairobi Securities Exchange publications, it nonetheless could still be prone to these shortcomings.

The study was limited to determine the effect of investment portfolio composition on financial performance of investment companies in Kenya. Out of five listed companies in Nairobi Securities Exchange Kurwitu Ventures limited which was recently listed in year 2014 had no data provided for analysis. Also for this reason the non-listed firms could not be incorporated in the study.

The study was based on a three year study period from the year 2012 to 2014. A longer duration of the study will have captured periods of various economic significances such as booms and recessions. This may have probably given a longer time focus hence given a broader dimension to the problem.

5.6 Suggestions for Further Research

A study can be designed to find out the impact of country economic growth on performance of investment companies in Kenya. This will give an indication on the effects of country economic growth on performance of investment companies in Kenya.

The study recommends a study should be conducted on the effects of trading on margins on financial performance of investment companies listed in the NSE. The study sought to determine effect of portfolio composition on financial performance of investment companies, there is need for a similar study to be replicated on investment companies not listed in the NSE in a case whereby more factors in portfolio composition are considered.

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APPENDICES

Appendix I: List of Investment Companies Listed Under the NSE 20 Share

Index as at 30.09.2015

NO.	INVESTMENTS SECTOR
1.	Centum Investments Company Limited
2.	Home Africa Limited
3.	Kurwitu Ventures Limited
4.	Olympia Capital Holdings Limited
5.	Trans-Century Limited

Source: www.nse.co.ke 2015

Appendix II: Table for year 2012

Company	ROI	Bond	Equity	Real Estate
Centum investment	-0.2970	0.4800	3.0935	3.9928
Home Africa	0.9255	0.1985	2.9875	0.4478
Trans-Century	1.3224	0.8240	4.2109	0.2851
Olympia Capital	0.6797	0.9837	6.9787	0.5604

Source: Investment Companies at NSE (2015)

Appendix III: Table for year 2013

Company	ROI	Bond	Equity	Real Estate
Centum investment	2.6322	0.9553	7.0391	5.4561
Home Africa	2.1812	0.3180	6.9843	0.5559
Trans-Century	-0.4486	0.2600	5.2374	0.2829
Olympia Capital	0.5135	0.9872	7.6908	0.7890

Source: Investment Companies at NSE (2015)

Appendix IV: Table for year 2014

Company	ROI	Bond	Equity	Real Estate
Centum Investment	1.6156	1.0710	10.6056	10.8454
Home Africa	0.1216	0.2786	6.9956	0.6915
Trans-Century	1.8751	0.9206	0.5397	0.3483
Olympia Capital	-0.8278	0.2895	9.9873	0.4579

Source: Investment Companies at NSE (2015)

Appendix V: Overall Summary Table (in Averages)

Company	Size	ROI	Bond	Equity	Real Estate
Centum Investment	11.3029	1.3169	0.8355	6.9127	6.7647
Home Africa	11.1833	1.0761	0.2650	5.6558	0.5651
Trans-Century	10.5408	0.9163	0.6682	3.3293	0.3054
Olympia Capital	10.8617	0.1218	0.7535	8.2189	0.6024

Source: Investment Companies at NSE (2015)