A SURVEY OF THE PORTFOLIO PERFORMANCE MEASURES USED BY PENSION FUNDS IN KENYA

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DECLARATION

This research project is my original work and has not been presented for any degree award in any university.

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

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DEDICATION

This research project is dedicated to my family who offered encouragement even when it was not easy for me to continue. A special mention of the support I received from my dear wife Lucy and our daughters, Janet, Mercy and Grace. May the Almighty God reward you richly.
ACKNOWLEDGEMENT

I would like to express my gratitude to my supervisor Mr Herrick Ondigo for his great support and encouragement throughout this research project. I also thank my moderator Dr Josiah Aduda who was also the chairman of finance and accounting department for helping me fine tune my document. May God bless you abundantly as you continue helping other students realize their full potential. Finally many thanks to my colleagues who supported and encouraged me in this study.
<table>
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<tr>
<th>Abbreviation</th>
<th>Definition</th>
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<tr>
<td>ASR</td>
<td>Adjusted Sharp Ratio</td>
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<tr>
<td>APT</td>
<td>Arbitrage Pricing Theory</td>
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<td>CAPM</td>
<td>Capital Asset pricing Model</td>
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<td>IR</td>
<td>Information Ratio</td>
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<tr>
<td>MBA</td>
<td>Master of Business Administration</td>
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<td>NSE</td>
<td>Nairobi Securities Exchange</td>
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<td>RBA</td>
<td>Retirement Benefits Authority</td>
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<td>SPSS</td>
<td>Statistical Package for Social Sciences</td>
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<td>SR</td>
<td>Sortino Ratio</td>
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<td>VaR</td>
<td>Value at Risk</td>
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ABSTRACT

The study sought to establish the composite measures of portfolio performance used by pension funds to manage portfolio performance. A survey research design was used to conduct the study. A questionnaire was used to gather the data where the respondents were the investment fund managers of pension funds in Kenya.

The data was analyzed using the standard package for social sciences (SPSS) and presented using frequency tables and graphs.

It was established that the main techniques used by investment managers to evaluate portfolio performance were Treynors measure, Sharpe’s measure, Jensen’s measure, Bhattacharya and Pfeiderer quadratic model, Information ratio, Sweeney Grinbalt and Titman performance change measure, Henrikson and Merton timing measure ratio and Value at risk performance measure.

Jensen’s measure was the most popular measure with 47.6% and 28.6% of the respondents strongly agreeing and agreeing respectively that they used the measure to evaluate portfolio performance. The Treynors measure was the next most popular measure with 47.6% of the respondents strongly agreeing on the using the measure and 19.06% agreeing that they use the measure to evaluate portfolio performance. Sharpe’s measure was the third most popular measure of evaluating portfolio performance with 42.9% and 38.1% of respondents strongly agreeing and agreeing respectively that they use the measure to evaluate portfolio performance.

The Bhattacharya and Pfeiderer quadratic model equally had a large support with 42.8% of the respondents strongly agreeing that they use the measure and 38.1% agreeing that they use the measure to evaluate portfolio performance. Next was the Henrikson and Merton timing measure ratio which was also quoted as one of the popular measures of portfolio performance with 42.8% of respondents stating that they strongly agree that they use the measure and 28.6% stating that they agree that they use the measure to evaluate portfolio performance.

The recommendations were as follows;
Investment managers should use the Jensen’s measure, Treynors measure and Sharpe’s measure. This is because most investment managers used these measures to evaluate portfolio performance. Furthermore, these are the common composite measures of portfolio performance that have been used to evaluate portfolio performance since the 1960s.

Next the Investment managers are advised to use a combination of measures to evaluate portfolio performance. This is because it was noted no firm used a single measure to evaluate portfolio performance but a combination of a number of measures depending on the circumstances prevailing and the nature of investment involved.

Lastly though the value at risk measure was moderately supported by investment managers as a measure of portfolio performance with 14.% strongly agreeing on using the measure and 47.6% agreeing on using it to measure portfolio performance, it should be embraced by investment managers to evaluate portfolio performance. This is because value at risk is an emerging issue that involves attempting to provide a single measure summarizing the total risk in a portfolio of financial assets for senior management. It has become widely used by corporate treasurers and fund managers as well as financial institutions in most developed countries. It’s therefore necessary for local fund and investment managers to embrace it as well.
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