

## Effects of Unit Trust Products Mix on Turnover of Asset Management Companies in Kenya

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### Abstract

**Purpose:** The focus of this study was to establish the effect of unit trust products mix on turnover of Asset Management Companies in Kenya.

**Methodology:** The study was modeled as a mixed methods research design which incorporated both qualitative and quantitative methods of research. Primary and secondary data was collected and thereafter analyzed through a multiple linear regression model. Data from 10 of the 21 registered mutual funds managers as at April 2017 was used for the study.

**Findings:** The study revealed that holding proportions of Equity funds, Money market funds, Balanced funds and bond funds constant revenues of asset managers would be at 7.306, a unit increase in equity funds would lead to an increase in revenues of asset managers by a factor of 1.86, a unit increase in money market would lead to an increase in revenue of asset managers by a factor of 0.861, a unit increase in balanced funds would lead to increase in revenue of asset managers by a factor of 0.672, further a unit increase in size of bond fund would lead to an increase in the revenues of asset managers by a factor of 0.369. Therefore, the industry is generally experiencing unbalanced investment volumes and, hence, income level in the unit trust products.

**Implications:** This study implies that different unit trust products had different degrees of contributions to the total income attributed to unit trusts. Also, unit trust products had a positive impact on the incomes by asset management companies but losses in some unit trust products had negative effects on incomes of the companies as well. This necessitates for the intervention of authorities such as the Capital Markets Authority and make policies that encourage the even distribution of investments in unit trusts and a fairer competitive environment for the mutual fund managers.

**Value:** This study will aid the fund managers in improving their skills to make viable decisions by taking into consideration different unit trust products and their optimal performance in the Kenyan market. Secondly, the asset management companies should comprehend how best to add value to unit trust products with the intent of boosting and diversifying their incomes. Unit holders should also be able to understand how best to link asset management performance through their reported incomes over specific periods. The investors should also have a better glimpse on the overall health of the asset management industry by observing trends and key performance indicators (KPIs) that denote the overall health of the capital markets in Kenya. This study should be of benefit to the Kenyan government through its bodies; National Security Exchange (NSE) and Capital Markets Authority (CMA). The relevant bodies should be in a better position to avail informed policies and counsel to the relevant asset management companies and authorities hence aid the market efficiency and industrial growth.

**Keywords:** *Unit Trust Products Mix, Turnover of Asset Management Companies, Kenya*

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## **Introduction**

According to Harman (1987) unit trusts can be defined as an investment alternative that pools funds from many parties and channels it into various investment platforms with the intent of attaining low risk through lower average cost per member and diversification. These funds are committed in a portfolio of assets such as bonds, shares, money market instruments and other authorized securities to meet the objectives and needs of the investors or group of investors.

The Kenyan capital markets various unit trust products which have grown in terms of acceptance in the recent decades. Unit trusts were first introduced in Kenya in 2001 through the tutelage of the Capital Markets Authority (CMA). By the end of June 2011, the sum of unit trust providers had grown to 13 with the size of the industry growing to a tune of Kshs29 Billion.

The Kenyan Unit Trust industry has yet to be tapped to its full potential as compared to other peer nations such as South Africa which is 300 times bigger (Njeri, 2012). However, a recent report by InfoHub Kenya (2017) indicates that by the end of 2016 the number of unit trust schemes registered under Capital Markets Authority had risen to 19.

The current unit trust products available in the Kenyan market are money market funds, balanced funds, equity funds, bond funds, Real Estate Investment Trusts, and Sharia Compliant funds among others. This study shall focus on the four commonly held unit trusts i.e. Money market funds, Equity funds, bond and balanced funds.

Equity funds are one of the most common unit trust products in the capital market. They consist of host companies (or equities) centred on certain criteria as outlined by the unit trusts key mandate. Money market funds are open-ended funds that capitalize in short-term instruments like commercial papers and treasury bills. Money market funds are a favourite for the risk averse investors seeking safe assets with relatively low risk yet providing a higher yield. For financial intermediaries, money market funds are a major source of liquidity.

Bond funds entail funds that primarily invest in bonds and other debt securities or instruments. They usually issue out periodic dividends that incorporate interest payments derived from the underlying securities as well as the periodic realized capital appreciation (Chandra, 2006). A balanced fund has a portfolio comprising of a mix of equities, fixed

income securities and cash. These hybrid funds are founded on a relatively fixed mix of bonds and stocks that reflect either a higher, or moderate equity, component, or conservative, or higher fixed income, component orientation.

Financial performance can be defined as a measure of how well a firm utilizes its assets from its core business and generates revenues. Subjective as it, it can be used to imply a firm's general financial health over a particular time period, and can be used for cross-industry or cross-sector comparative analysis for similar firms (Fortin & Michelson, 2005). It can be defined as determining the outcomes of a company's policies and operations in monetarist terms. These outcomes are mirrored in the firm's return on investment, return on assets, value added, etc. (Were, 2012).

One of the metrics of measure include profitability ratios that include; Return on Assets (ROA), Returns on total Capital employed (ROTC), Return on Equity (ROE), Return on common equity is thoroughly analysed through the Dupoint analysis (Fortin & Michelson, 2005). Profitability ratios offer information on how well the corporation makes net profits and operating profits from its sales (Fortin & Michelson, 2005). Different firms have different operational overheads, even at the bare minimum different remuneration and bonuses for analysts and portfolio managers. This study shall focus on the revenue generating capacity of the different unit trust funds and seek to ascertain what correlation exists between the changes in unit trust income and the unit trusts asset mix.

For asset managers, over and above returns to the investors, the revenue generating capacity of their funds to the company as a stakeholder is also key. This income is in terms of asset management fees that in turn translate to overall financial performance of the company. According to Otieno (2013) Most asset management companies run a diversified portfolio of investment activities including discretionary funds, alternative investments, real estate/property, fixed income securities and deposits among others.

Needless to say, most of the investment companies in Kenya can relate to the fact that unit trusts formed their first baby steps at the start-up stage and that gave them an entry point leverage into the industry (Were, 2012). These mutual funds are now a common item in the investment firm's investment Menu and a key player in the financial performance of the companies. No clear conclusions however have been arrived at with regards to what proportion of the total asset management revenue can be attributed to any of the different types of the unit trust products. It is, however, clear that different unit trust products don't contribute equally to the total revenue of asset management companies.

Through the Modern Portfolio theory, the relationship between unit trust products and financial performance can be established (Otieno, 2013). The theory advances that investors can construct unit trust portfolios to elevate anticipated financial yields based on a given market risk level. The Capital Asset Management theory, on the other hand, points towards the correlation between the expected financial returns and security risk (Otieno, 2013). In this case, financial performance of unit securities is best captured by taking into consideration of the risks attached to unit trust products preferred by an asset management company.

In 2015, the asset management industry in Kenya was recorded as the second fastest growing industry in Africa. The strong capital markets coupled with the macroeconomic stability continue to point to its massive potential. The pension funds and insurance have recorded the highest growth. The asset management industry in

Kenya has largely expanded due to the dynamic changes that have characterized it in the recent years. The advent of mobile access to financial services has been a game changer with various asset management companies tailor-making their unit trust products to suit the small investors across the country. Old Mutual Kenya was the first asset management company to launch a mobile platform for its investors to “register and manage a unit trust account from the convenience of their mobile phone” in early 2013. Britam and Genghis are some of the other notable players in the industry that embraced the mobile phone platform to pool investors with competitive offers. The Kenyan government has not been left behind in rolling out a similar scheme through the M-Akiba which has seen more Kenyans and Kenyan companies buy government bonds seamlessly. Banks have also embraced the M-Pesa technology to facilitate their clients to access the capital markets using their phones (CMA, 2013). These advancements according to CMA (2013), have enabled the investors to actively “securely place their orders, modify and cancel orders, view order histories and order status in a real-time environment. With the current 21 players in the asset management industries, the Kenyan Capital Market Authorities is yet to tap its full potential. However, through the enhanced financial literacy and saving culture of the Kenyan populace, most of the institutes have effectively managed to appeal to the investor psyche successfully. As a low-cost way of participating in the capital markets, unit trusts each day are becoming convenient to the ordinary citizen.

As aforementioned, the convenience is afforded by the various mobile phone applications that provide real time information and simplified schemes for different types of investors. The asset management industry is also buoyed by the fact that the average returns from unit trust companies compare very positively with the earnings generated from more outdated investment products.

Unit trust products have direct correlation to the financial performance of asset management companies. It is, however, subject the careful selection of optimal unit trust portfolios to maximize the financial returns as envisaged under Modern Portfolio Theory (MPT). Asset managers in an effort to boost financial performance through investment in unit trust products have to consider the risks involved. The Capital Asset Management provides a foundation for the relationship between the expected financial returns and security risk.

Kenyan asset management companies over the years have been focused on boosting their financial performance. This is largely due to the increasing investment appetite in the local populace and the convenience afforded through mobile money and other investment technologies. The entities, however, are much concerned by the continued responsiveness towards traditional investments such as land and real estate. Unit trusts, however, have grown as the most favored investment funds. According to an East African article by Kang'e Saiti in 2015, unit trusts under management grew from 17.6 billion in 2010 to Kshs 38.1 billion in 2014, a compound annual growth rate of 21.2 percent. Through increased financial performance of unit trust products an investor is assured steady stream of incomes. He or she is also cushioned from market shocks that may occur once in a while.

### **Research Objective**

The objective of this study was to determine the effects of unit trust products mix on turnover of asset management companies in Kenya.

### **Methodology**

The mixed research design was used with both qualitative and quantitative research methodologies been utilized by the researcher. The researcher resolved to employ the qualitative research method given that various theoretical frameworks support the research topic. The qualitative research strategy strives to offer an understanding of the essential motivations, causes, and views of a specific aspect (Myers, 2013). As such, the qualitative strategy has been substantial in underlining the effects of different unit trust products on unit trust incomes of asset management companies in Kenya (Zikmund et al., 2013).

The quantitative research approach, on the other hand, gives the study a prospect to investigate the aspects of unit trust products of asset management companies in Kenya using a prescribed statistical technique. This descriptive research method has applied a case study approach for asset management companies in Kenya. The case study approach collects data

to produce efficient results; however, it primarily collects data from a small number of organizations or individuals, implying it does not produce unbiased evidence; hence, it is most suitable for the research (Mugenda & Mugenda, 1999). The researcher applied the case study method in performing the investigation of the effects of different unit trust products on unit trust incomes of asset management companies in Kenya.

The population of the study comprised of the 21 registered unit trusts in Kenya as at April 2017 by the capital markets authority. The judgmental sampling approach was exploited in the study to pinpoint different companies in the asset management segment that fit the study. This sampling approach was realized by inspecting the companies that have superior unit trusts products on the market. This was substantial in presenting the effects of different unit trust products on unit trust incomes of asset management companies in Kenya. As such, the researcher sought to collect data from all the registered unit trust managers with publicly available data on portfolio composition and performance.

The data collection process of the research employed both primary and secondary data. The secondary data was sensible in ascertaining that the research had sufficient data, which was significant in providing the essential outcomes of research. The researcher exploited diverse sources in the attainment of dependable secondary data, and this included; books, company reports, journals, online sources and published financial statements. The majority of the primary data was acquired from the sampled participants. The primary data collection tool of this particular study was questionnaires and interviews which is relevant in the delivery of the required data. Consequently, the secondary was available in the previous studies performed on the topic of unit trusts products and unit trusts income.

The choice of the mixed research methodology in this particular study permitted the researcher to apply both qualitative and quantitative analysis approaches (Myers, 2013). The researcher embarked on a heightened qualitative scrutiny of the collected secondary data to recognize notable features of these data, which satisfied the research purpose (Zikmund et al. 2013). The quantitative analysis strategy necessitated the utilization of statistical examinations of the data obtained in the study. A multiple linear regression analysis of the collected data was sufficient in providing the research findings. The researcher would, nevertheless, undertake some computations, including the measures of central tendency to ensure the delivery of credible findings of the study. Secondary data would be collected bi-annually for the past ten years spanning 2006-2016.

### **Analytical Model**

A multiple linear regression model was used to establish how the dependent variables associate with the explanatory variables.

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \beta_6 X_6 + \varepsilon$$

- Y= Natural logarithm of declared revenues earned from unit trusts management.
- $B_{1-6}$  = Beta Coefficients; Change in dependent variable, caused by unitary change in explanatory variable
- X1 = Proportion of Equity fund to total unit trusts portfolio
- X2= Proportion of Money Market Fund to total unit trusts portfolio
- X3 = Proportion of Balanced Fund to total unit trusts portfolio
- X4 = Proportion of Bonds Fund to total unit trusts portfolio
- X5 = Age of the fund in years
- X6 = Annual Inflation index
- $\varepsilon$  = Error term, the changes in the response variable that can't be explained by the independent variables.

The researcher carried out the diagnostics of the dependent variable using the coefficient of determination ( $R^2$ ) test to ascertain what proportion of the dependent variable is explained by the model. The Pearson's co-efficient was also applied to ascertain linear relationship between the variables.

### **Reliability and Validity of Research**

The mixed research methodology is effective in offering answers to the study problem given that effects of different unit trust products on unit trust incomes of asset management companies necessitates a full depiction of the phenomena, that is, the effects of different unit trust products.

The qualitative methodology is also admissible in this research because the research also depends on some fundamental hypothetical models (Myers, 2013). Consequently, the quantitative research methodology has proven reliable in undertaking an investigation into the research topic by utilizing statistical techniques that enable the delivery of the required findings.

### **Results and Discussion**

## **Response Rate**

21 requests for interview sessions were sent to portfolio managers of twenty-one companies that had registered unit trusts in Kenya as at April 2017 as provided by the capital markets authority. However, only 15 of the 21 portfolio managers provided feedback on attendance to interviews that were to be conducted. As a result, only 15 interview subjects were guaranteed as sources of legitimate data for this research. However, 5 of the 15 questionnaires issued to the participants during the interviews were not completed as the managers were unavailable for the actual interview due to various official engagements.

Given the 5 incomplete interviews, the remaining 10 interviews were a success. Since the total number of conducted interviews was considered as a base on which to calculate the response rate, the response rate was found to be 67% since 10 out of 15 portfolio managers who were willing to participate in the research took part fully in contributing to the findings.

A 67% response rate was adequate for the analysis since the ten portfolio managers who were unbiasedly selected to participate in the research are sufficient representatives of the whole population which was targeted to provide findings for the research. The deficit of 33% in response rate can however not be considered as a significant limitation to the plausibility of the findings.

To ensure that the data collected from the participants using the questionnaires were viable enough to be used as a criterion on which to develop viable findings, it is important to conduct a data validity test on the data collection process, instruments, and findings. The major test of validity used in the research was content validity which refers to the degree in which a data collection tool represents the aspects that are being studied. To ensure content validity, the researchers ensured that the questionnaires contained a wide variety of questions that gauged the portfolio managers' knowledge on the impact that unit trust products have had on the incomes of asset management companies' in Kenya from a general, then specific perspective.

Since some parts of the questionnaire took the form of verbal communication of the respondents when answering the questions, all the respondents completed the questionnaires in the presence of the researcher and thus, the research participants did not give the questionnaires to other people such as their secretaries or assistants to fill in on their behalf. Thus, the data collected was made as valid as possible to ensure the increased credibility of the findings and, consequently, conclusions and recommendations.



**Summary Statistics**

The research involved both qualitative and quantitative data. Content analysis was used to analyze qualitative data while for quantitative data, descriptive statistics analysis was done using the SPSS software.

Statistical inferences such as the means, standard deviations, the coefficient of variation, kurtosis and skewness for each of the variables involved in the study were computed. Based on the analysis of the data using SPSS software, the following values were obtained for the means, standard deviations, the coefficient of variation, kurtosis and skewness for each study variable:

**Table 1 Table showing the descriptive statistics of the independent variables**

| Descriptive Statistics |           |           |                |           |           |            |           |            |
|------------------------|-----------|-----------|----------------|-----------|-----------|------------|-----------|------------|
|                        | N         | Mean      | Std. Deviation | Variance  | Skewness  |            | Kurtosis  |            |
|                        | Statistic | Statistic | Statistic      | Statistic | Statistic | Std. Error | Statistic | Std. Error |
| X1                     | 91        | .155440   | .1318397       | .017      | .795      | .253       | -.274     | .500       |
| X2                     | 102       | .677157   | .2869142       | .082      | -.788     | .239       | -.672     | .474       |
| X3                     | 89        | .137809   | .1573705       | .025      | 1.719     | .255       | 1.945     | .506       |
| X4                     | 72        | .075083   | .1213690       | .015      | 3.327     | .283       | 15.043    | .559       |

Source: Research Findings

Case study research was implemented so as to research on the effects of different unit trust products on unit trust incomes of asset management companies in Kenya. The data which was analyzed during the case study research included the financials of the ten asset management companies in Kenya which had registered unit trusts by April 2017. The data was analyzed through interpreting the reports provided by the companies.

In the questionnaire, the first question inquired about two demographic questions to the participants: their gender and their age bracket. Based on the findings, the two tables show the percentage of male and female participants as presented able 4.1 belonging to different age brackets as presented in table 2. The demographic statistics were important in determining the scope of the study.

**Table 2 Gender Distribution of the Subjects**

| <b>Gender</b> | <b>Frequency</b> | <b>Total</b> |
|---------------|------------------|--------------|
| Male          | 6                | 60%          |
| Female        | 4                | 40%          |
| <b>Total</b>  | <b>10</b>        | <b>100%</b>  |

From the table above, it can be deduced that male participants were more than female participants given that male participants made 60% out of the 100% total participants while the female participants made up the remaining 40%.

**Table 3 Age Distribution of the Subjects**

| <b>Age Bracket</b> | <b>Frequency</b> | <b>Percentage</b> |
|--------------------|------------------|-------------------|
| 20-30              | 1                | 10%               |
| 31-40              | 3                | 30%               |
| 41-50              | 4                | 40%               |
| 51 and above       | 2                | 20%               |
| <b>Total</b>       | <b>10</b>        | <b>100%</b>       |

From the table above, it is evident that most participants were aged 41 to 50 years old, followed by those aged 31 to 40 years old, those aged 51 years and above and, lastly, those aged 21-30 years old where only one participant was below 30 years old.

Based on the questionnaire, it was deduced that eight out of the ten respondents thought that the asset management industry and, especially, investments in unit trust funds are currently experiencing a positive growth and that competition is set to increase as more companies join the industry. The two remaining respondents were of the opinion that little had been done to nurture the industry and that some of the unit trust funds were experiencing negative instead of positive growth. The questionnaire also depict that nine out of ten portfolio managers were of the opinion that the four-unit trust fund types (bond, money market, balanced and equity funds)

were the most prevalent amongst other unity trust fund types and that the four had better chances of widening profit margins for the company and its investors.

**Product Mixture and Turnover**

**Results of Correlation Analysis**

**Table 4: Table showing the Correlation and between the variables Correlations**

|    |                     | Y       | X1      | X2      | X3      | X4      |
|----|---------------------|---------|---------|---------|---------|---------|
| Y  | Pearson Correlation | 1       | .523**  | -.416** | .227*   | -.332** |
|    | Sig. (2-tailed)     |         | .000    | .000    | .032    | .004    |
|    | N                   | 102     | 91      | 102     | 89      | 72      |
| X1 | Pearson Correlation | .523    | 1       | -.778** | .428*   | .225    |
|    | Sig. (2-tailed)     | .000    |         | .000    | .000    | .069    |
|    | N                   | 91      | 91      | 91      | 84      | 66      |
| X2 | Pearson Correlation | -.416   | -.778** | 1       | -.886** | -.419   |
|    | Sig. (2-tailed)     | .000    | .000    |         | .000    | .000    |
|    | N                   | 102     | 91      | 102     | 89      | 72      |
| X3 | Pearson Correlation | .227    | .428*   | -.886** | 1       | .676*   |
|    | Sig. (2-tailed)     | .032    | .000    | .000    |         | .000    |
|    | N                   | 89      | 84      | 89      | 89      | 66      |
| X4 | Pearson Correlation | -.332** | .225    | -.419   | .676*   | 1       |
|    | Sig. (2-tailed)     | .004    | .069    | .000    | .000    |         |
|    | N                   | 72      | 66      | 72      | 66      | 72      |

\*\* . Correlation is significant at the 0.01 level (2-tailed).

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

Based on the correlation results using Pearson correlation, a linear relationship between the dependent and each independent variable can be deduced. Based on the table, the correlation between total income and equity funds is strongest at 0.523, followed by balanced funds and then bond funds while the least correlation observed was with money market funds at -0.416. Amongst the independent variables (bond, money market, balanced and equity funds) the strongest observed relationship was between bond and balanced funds at 0.676 while the least correlation observed was between balanced and money market funds at -0.886.

**Results of Model Goodness of Fit**

Regression analysis was done by using the regression presented in the analytical model;

$$Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \beta_5X_5 + \beta_6X_6 + \epsilon$$

The following information pertains the linear regression computation as conducted using the SPSS Software tool:

**Table 5: Linear Regression Analysis: The Model Summary**

| Model | R                 | R Square | Adjusted R Square | Std. Error of the Estimate |
|-------|-------------------|----------|-------------------|----------------------------|
| 1     | .406 <sup>a</sup> | .165     | .110              | .3023230                   |

a. Predictors: (Constant), X<sub>4</sub>, X<sub>1</sub>, X<sub>3</sub>, X<sub>2</sub> - Equity, Balanced, Money market, Bonds

The coefficient of determination (R square) is 0.165 which means that a significant portion of total income attributed to unit trust for the companies is explained by the regression model.

**Results of ANOVA**

**Table 6: Linear Regression Analysis: the ANOVA Test**

ANOVA<sup>a</sup>

| Model |            | Sum of Squares | df | Mean Square | F     | Sig.              |
|-------|------------|----------------|----|-------------|-------|-------------------|
| 1     | Regression | 1.099          | 4  | .275        | 3.006 | .025 <sup>b</sup> |
|       | Residual   | 5.575          | 61 | .091        |       |                   |
|       | Total      | 6.674          | 65 |             |       |                   |

a. Dependent Variable: Y

b. Predictors: (Constant), X<sub>4</sub>, X<sub>1</sub>, X<sub>3</sub>, X<sub>2</sub>

The analysis of variance (ANOVA Test) depicts that the data processed has a significance level of 2.5% which is less than the P-value of 5% showing that it is ideal and significant in making inference about the population parameters. At the significance level, the F calculated is 3.006 while at the same significance level and the given degrees of freedom the F critical is 2.523 Therefore the overall model is significant and that the explanatory variables sufficiently explain the response variable.

**Estimation of Model**

**Table 7: Linear Regression Analysis: Coefficients of Variables**

**Coefficients <sup>a</sup>**

| Model                       | Unstandardized Coefficients |            | Standardized Coefficients |       |      |
|-----------------------------|-----------------------------|------------|---------------------------|-------|------|
|                             | B                           | Std. Error | Beta                      | t     | Sig. |
| 1 (Constant)                | 7.306                       | 1.433      |                           | 5.099 | .000 |
| Proportion of Equity fund.  | 1.860                       | 1.477      | .764                      | 1.259 | .213 |
| Proportion of Money Market  | .861                        | 1.440      | .791                      | .598  | .552 |
| Proportion of Balanced Fund | .672                        | 1.395      | .359                      | .482  | .632 |
| Proportion Bond Fund        | .369                        | 1.959      | .073                      | .188  | .851 |

a. Dependent Variable: Y

The proportions referred to above are with reference to the total unit trust portfolio. Based on the regression analysis data, therefore, the regression equation would be given as:

$$Y = 7.306 + 1.860X_1 + 0.861X_2 + 0.672X_3 + 0.369X_4 + \varepsilon$$

From this regression equation it was revealed that holding proportions of Equity funds, Money market funds, Balanced funds and bond funds constant revenues of asset managers would be at 7.306, a unit increase in equity funds would lead to an increase in revenues of asset managers by a factor of 1.86, a unit increase in money market would lead to an increase in revenue of asset managers by a factor of 0.861, a unit increase in balanced funds would lead to increase in revenue of asset managers by a factor of 0.672, further a unit increase in size of bond fund would lead to an increase in the revenues of asset managers by a factor of 0.369.

## **Discussion**

At 5% level of significance and 95% confidence level, Bond fund has a significance level of 0.851 which is greater than the P value (0.05) hence its relationship with response variable insignificant, balanced fund of 0.632 which is greater than the P value (0.05) hence its relationship with response variable insignificant, money market of 0.552 which is greater than the P value (0.05) hence its relationship with response variable insignificant and equity funds a significance of 0.213 which is greater than the P value (0.05) hence its relationship with response variable insignificant.

X5 and X6 involved varying ages of funds and inflation respectively, in the former no respondent could ascertain with a significant level of absolute certainty the fund age while inflation effects were considered insignificant in the objectives of the study as it affected the performance of the funds identically as per the respondent.

The research findings are in line with the Modern Portfolio Theory which states that when making investment decisions, investors normally try to avoid or reduce the risks involved and, thus, create their own portfolios so as to limit the risks while maximizing the returns that would be expected while asserting that higher risks imply higher returns (Omisore, Yusuf, & Christopher, 2014). Unit trusts present such a portfolio for investors, and according to the case study analysis and questionnaires, it is evident that investors combine the different types of unit trust investments but major on money market funds since higher risks and, hence, higher returns, are earned. Therefore, the findings by the research have depicted that the existing theories such as the Modern Portfolio Theory are accurate.

## **Examining the influence of unit trust products on unit trust incomes of asset management companies in Kenya**

Money Market Funds have displayed the highest Pearson's correlation Co-efficient of 0.982. showing a strong positive linear correlation with unit trust incomes of the sampled respondents. The case study analysis reported that money market funds are the unit trust products with the most returns even in terms of revenue volumes. Money market has contributed to over 60% of the total funds under management preferred most for its risk averseness and short investment horizon. Mostly invested in call and fix deposits as well as treasury bills that have a guaranteed rate of return. Holding other factors constant there is a direct relationship between revenue and profitability. The greatest risks facing money markets however remain imprudent financial management leading to collapse of banks with

client's deposits where asset management companies remain heavily invested as well as shrinking and collapse of some mega players in the retail chains industries where most managers have invested in their commercial papers.

Based on our findings bond funds have shown a Pearson's correlation co-efficient of 0.659. This is a strong linear relationship with the incomes of asset management companies in Kenya. Bond funds are considered lower risk investments as they focus on government and high rated corporate bonds rewarding mainly through dividends and capital gains.

Traditionally government bonds were access to privileged few as the lowest face value was floored at kes.50,000 before demystifying it with platforms like M-Bonds where with as little as kes.3000 one can invest in government securities. Asset managers were therefore adding value by aggregating small investors and pooling the funds to meet the minimum investment thresholds. It will however remain key to note how the above move by the government shall affect incomes from bond funds.

Equity Funds channel their funds to shares of listed companies. The Pearson's Correlation coefficient for Equity funds is 0.535. This relationship however positive is not as strong as Money market. In our research it was clear that a significant number of investors buy shares directly from the companies they perceive are and will continue doing well which is a result of heuristic driven biases like representativeness, overconfidence and anchoring. Kenya has experienced some internal and external shocks over the past that has adversely affected the general corporate performance with the equities market experiencing the first primary shocks, among them the sharp rise in inflation over the past ten years, post-election violence and the subsequent recession and general worsening of the operating environment. Equity funds have however outperformed peers in the long term and long investment horizon.

Most balanced funds have hybrid properties of equities and money market. The uptake is however low with asset managers having less than 5% of their funds invested in balanced funds. The Pearson's correlation coefficient of 0.059 shows weak linear relationship with unit trust incomes. The intuition behind balanced funds is that losses in one fund can be offset by gains in the other fund especially where the funds have an inverse relationship. However, most investors are on extreme ends of the risk line as either purely risk averse or appetite for risk.

## **Conclusion**

The study findings show that unit trust products have a positive impact on the incomes, profits, and success of the asset management companies. The findings also show that the incomes, profits, and success made by the asset management companies owing to unit trust investments are consequential in such a way that incomes will determine the level of profits and profits, in turn, will determine the general success of the companies over a given number of years. According to the findings, the companies have varying amounts of earnings owing to the unit trust products and the amounts earned by each of the companies owing to each of the unit trusts also varies widely in terms of millions of Kenyan Shillings, a trend that justifies the large values of standard deviations and variances.

These findings imply that the industry is generally experiencing unbalanced investment volumes and, hence, income level in the unit trust products. Not all the companies experienced similar returns in each of the unit trust products unlike the implications of the general analysis. The trend also means that individual companies do not perform similarly in each of the unit trust portfolio products. The findings from the managers also imply that while there are some unified opinions on the asset management industry performance, not all situations coincide. The implications of the research findings give rise to the need for recommendations on the findings.

## **Recommendations for Policy**

According to the findings and as stated in the concluding statements, the asset management industry, even with the small number of asset management companies having joined the industry, the performance of specific unit trust products is dispersed, and the distribution of returns on investments are widely varied between the companies. The trends suggest that there is a need for an external mandated company such as the Capital Markets Authority to intervene and encourage even distribution of investments in unit trusts and a fairer competitive environment for the twenty-one companies. Efforts that could be made by the CMA in relation to the imbalance include issuing regulations on the pooling of investments into various units, standardization of investment incentives in the industry and encouragement of small players to invest more on the unit trust funds that generate more capital for them so as to build momentum for those unit trust products that they are not performing well at. For example, Apollo Unit Trust could capitalize on balanced funds but at the same time, plough its profits to capitalize on improving the performance of its Money Market funds where evidently, is lagging behind.



Based on the findings, companies such as Old Mutual and Stanlib have reported negative equity fund income but some of the highest money market funds. The two companies, along with other asset management companies that may be experiencing similar situations, should concentrate on problem-solving so as to ensure that they record revenues and profits instead of losses. Since the other companies have depicted that it is possible to earn income and profits on equity funds, the companies should work on keeping up with their competitors. The general performance of the asset management companies over a three-year has made it clear that the industry is experiencing continuous positive growth despite minor instances of negative growth. It, therefore, implies that CMA should make efforts towards attracting more investments to the industry.

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