

**FACTORS THAT INFLUENCE RETAIL INVESTORS TO
INVEST IN COLLECTIVE INVESTMENT SCHEMES: A
CASE OF NAIROBI SECURITIES EXCHANGE**

BY

NJUGUNA ANN NYAMBURA

**UNITED STATES INTERNATIONAL UNIVERSITY –
AFRICA**

SUMMER 2016

**FACTORS THAT INFLUENCE RETAIL INVESTORS TO
INVEST IN COLLECTIVE INVESTMENT SCHEMES: A
CASE OF NAIROBI SECURITIES EXCHANGE**

BY

NJUGUNA ANN NYAMBURA

**A Research Project Report Submitted to the Chandaria School of
Business in Partial Fulfilment of the Requirements for the Award of a
Degree of Masters in Business Administration (MBA)**

**UNITED STATES INTERNATIONAL UNIVERSITY –
AFRICA**

SUMMER 2016

DECLARATION

I, the undersigned, declare that this is my original work and has not been submitted to any other college, institution or university other than the United States International University in Nairobi for academic credit.

Signed: _____

Date: _____

Ann Njuguna (ID No. 631168)

This project has been presented for examination with our approval as the appointed supervisors.

Signed: _____

Date: _____

Dr.Amos Njuguna

Signed: _____

Date: _____

Dean, Chandaria School of Business

ABSTRACT

Many investors are faced with the challenge of finding the right set of investment products to meet their needs. Just as there are many different types of investment management clients, there is a diverse set of investment products available to investors. While many investment opportunities are available in the capital market, most individuals lack the requisite investment skills and cannot afford sufficiently diversified portfolios or execute large trades efficiently.

This study sought to examine the factors that influence retail investors to invest in collective investment schemes as a case study of Nairobi securities exchange. The research questions of this study were; What are personal factors influencing retail investors to invest in Unit Trust Funds? What institutional factors influence retail investors investing in Unit Trust Funds? What are product features that affect retail investors while making investment choices? and regulation factors which influence retail investor to invest in Unit Trust Funds?

The study adopted a descriptive research design on a population of individual retail investors of collective investment schemes in Nairobi securities exchange from whom a representative sample was acquired using stratified random sampling. From this sample, the study collected primary collected using questionnaires and secondary data.

The study realized a response rate of 96% where 143 respondents were realized from a targeted 149. A 58% male and 42% female gender representation was realized, with most of the respondents (44%) being within the 40-49 years age group, and above 50 years (30%), an indication that most of the investors in unit trust are mainly beyond their youthful age with youths shunning the sector. This view was further enhanced by the observation that most of the respondents (67%) had degree level of education, indicating that a high education level is needed for investors within unit trust.

The study found a varying portfolio distribution with most of the respondents having portfolio values of above Ksh. 200,000. The study also found that most of the respondents had held their investments between 1-3 years (42%), a relatively short time, followed by 4-10 years (25%), an indication that most of the investors prefer short term to long term investments with most preferring quarterly (42%) and annual (33%) transactions.

The findings concluded that personal, institutional, product and regulatory factors influence the retail investors' decisions in investing in unit trust. Personal factors such as level of disposable income, personal investment objectives, education level, financial literacy and access to information, and age of investor were observed to influence retail investor's investments in unit trust. Institutional factors such as reputation of the fund manager, unit trust fund past performance, accessibility and distribution network, and minimum investment amount was confirmed to influence retail investor's investment decisions in unit trust. Product features such as strategy of the fund and liquidity were found to have a significant influence on retail investors' unit trust investment. Regulation factors composed of tax, fund manager disclosure and transparency were found to have an impact on the unit trust investment by retail investors.

The study recommended that these factors to be considered by investors, managers and unit trust institutions so as to improve access and acceptability of the unit trust investment to the retail investors. The study suggested further studies to be carried out in other investment forms present in Kenya to determine the influence of these personal, institutional, product features, and regulation factors on their adoption, so as to bring out further understanding of the investment sector, especially the unit trust investments.

ACKNOWLEDGMENT

First I would like to thank God for the gift of life and the blessings that have made this work possible. I would also like to thank my family for their encouragement and emotional support in my studies. The completion of this research work required concerted efforts from different persons who in one way or another gave their advice and or insights with an objective of making this project a success. I would like to thank them through this acknowledgement, for their support, input, assistance and encouragement. Firstly, I would like to thank my supervisor Dr.Amos Njuguna, of the University States International University, school of business for the supervision and moral support he gave me during the finalization of my dissertation. For all others who may not have been mentioned and they did help in making this project a success, I extend my thanks to you all, and hereby acknowledge your input. However, any errors or omissions observed in the study remain my obligation and not the acknowledged parties.

DEDICATION

I wish to dedicate this work to my dear family who were the source of motivation in my studies as well as in this research, especially for their care and sacrifice throughout my studies. Their love, care, concern, support, encouragement and enthusiasm inspired me to finally achieve this goal. May God bless and keep you well.

TABLE OF CONTENTS

DECLARATION	ii
ABSTRACT	iii
ACKNOWLEDGMENT	v
DEDICATION	vi
LIST OF TABLES	ix
LIST OF FIGURES	x
LIST OF ABBREVIATIONS AND ACRONYMS	xi
CHAPTER ONE	1
1.0 INTRODUCTION	1
1.1 Background of the Study	1
1.2 Problem Statement	4
1.3 Purpose of the Study	6
1.4 Research Questions	6
1.5 Scope of the Study	6
1.6 Significance of the Study	6
1.7 Definition of Terms.....	7
1.8 Chapter Summary	8
CHAPTER TWO	9
2.0 LITERATURE REVIEW	9
2.1 Introduction.....	9
2.2 Personal Factors Influencing Retail Investors to Invest in Unit Trust Funds	9
2.3 Institutional Factors Influencing Retail Investors Investing in Unit Trust Funds	10
2.4 Product features that affect retail investors while making investment choices	12
2.5 Regulatory Factors that Influence Retail Investor	15
2.6 Chapter Summary	16
CHAPTER THREE	17
3.0 RESEARCH METHODOLOGY	17
3.1 Introduction.....	17
3.2 Research Design.....	17
3.3 Population and Sampling Design.....	17

3.4 Data Collection Methods	19
3.5 Research Procedures	20
3.6 Data Analysis Methods	21
3.7 Chapter Summary	22
CHAPTER FOUR.....	23
4.0 DATA ANALYSIS AND PRESENTATION OF FINDINGS.....	23
4.1 Introduction.....	23
4.2 Demographic Information.....	23
4.3 The Personal Factors Influencing Investment in Unit Trust.....	28
4.4 The Institutional Factors Influencing Investment in Unit Trust	33
4.5 Product Features Influencing Investment in Unit Trust.....	37
4.6The Regulation Factors Influencing Investment in Unit Trust	38
4.7 Inferential Statistics	39
4.8 Chapter Summary	40
CHAPTER FIVE	41
5.0 DISCUSSION, CONCLUSIONS AND RECOMMENDATIONS	41
5.1 Introduction.....	41
5.2 Summary.....	41
5.3 Discussion of Findings.....	43
5.4 Conclusion	45
5.5 Recommendations.....	46
REFERENCE.....	49
APPENDICES	52
Appendix I: Cover Letter	52
Appendix II: Questionnaire	53

LIST OF TABLES

Table 3.1: Population Distribution.....	18
Table 3.2: Sample Size Distribution	19
Table 4.1: Personal Factors influence on Unit Trust Investment.....	29
Table 4.2:Correlation between Select Demographic Factors and Personal factors	31
Table 4.3: Institutional Factors influence on Unit Trust Investment	33
Table 4.4: Correlation between Select Demographic factors and Institutional Factors	35
Table 4.5: Product Features influence on Unit Trust Investment	37
Table 4.6: Regulation Factors influence on Unit Trust Investment.....	38
Table 4.7: Correlation of Factors influencing Unit Trust Investment	39

LIST OF FIGURES

Figure 4.1: Response rate.....	24
Figure 4.2: Study Gender.....	24
Figure 4.3: Age of the Respondents.....	25
Figure 4.4: Education among the Respondents.....	26
Figure 4.5: Portfolio Size of Respondents.....	26
Figure 4.6: Length of Investment Period.....	27
Figure 4.7: Length of Transaction Period.....	28

LIST OF ABBREVIATIONS AND ACRONYMS

CIS	-	Collective Investment scheme
UTF	-	Unit trust Fund
CMA	-	Capital Markets Authority
CDS	-	Central Depository Settlement
CDSC	-	Central Depository Settlement Corporation
NAV	-	Net Asset Value
CFA	-	Chartered Financial Analyst
ESOP	-	Employees Share Ownership Plans

CHAPTER ONE

1.0 INTRODUCTION

1.1 Background of the Study

Many investors are faced with the challenge of finding the right set of investment products to meet their needs. Just as there are many different types of investment management clients, there is a diverse set of investment products available to investors. These vary from a simple brokerage account in which the individual creates her own portfolio by assembling individual securities, to large institutions that hire individual portfolio managers for all or part of their investment management needs. Although the array of products is staggering, there are some general categories of pooled investment products that represent the full range of what is available. At one end are mutual funds and exchange traded funds in which investors can participate in Unit Trusts for all initial investment (CFA, 2010).

Collective Investments (CIS) are pools of funds that are managed on behalf of investors by a professional money manager. They are private financial arrangements that pool resources of many Unit trusts - all savers, generating a large pool of resources which they then invest in a variety of assets like shares, bonds, futures and property with the sole purpose of generating high returns (Thompson, 2004). This way, investors are able to participate in capital markets regardless of their little investments by buying into a diversified and professionally managed portfolio. The investments are chosen and managed by professionals, usually fund managers appointed by CIS trustees, according to the stated investment objectives and therefore investors are not involved in the day to day decisions on their investments.

Despite availability of many investment opportunities, many investors lack basic investment skills that prevent them from having diversified portfolios or execute large trades efficiently. Pooling resources and hiring professionals through collective schemes help them to overcome these challenges. Whatever the legal structure, the underlying concept is that the investor purchases an instrument that gives certain rights to a proportional share in the risk and rewards of a collectively owned pool of managed assets. CIS provide various advantages to investors by pooling of resources to achieve sufficient size for portfolio diversification, reduced costs and cost-efficient trading; a formal

legal/governance structure for operation of the CIS, including institutional arrangements for investor protection; and professional portfolio management to execute a defined investment strategy (Thompson & Choi, 2001).

In any country's financial system, there are various types of financial institutions, including banks as well as insurance and investment companies, which borrow funds from lenders and make loans to borrowers (Mishkin & Eakins, 2003). According to the Investment Company Institute (ICI), the national association of investment companies in the USA, an investment company is a corporation, trust or partnership that invests pooled shareholder dollars in securities appropriate to the organization's objective (ICI, 2004).

Among investment companies, mutual funds purchase portfolios of securities chosen by professional investment advisers to meet specific financial goals for investors buying shares from these companies (ICI 2004). In Kenya, instead of mutual fund, the alternative name 'unit trust' is used. Unit trusts are financial institutions that invite the public to subscribe in funds invested by the company in assets specified by its trust deed (McGrath & Viney, 1998).

Investment companies are financial intermediaries that earn fees to pool and invest investors' funds, giving the investors rights to a proportional share of the pooled fund performance. Both managed and unmanaged companies pool investor funds in this manner. Unmanaged investment companies (Unit Trust Funds) hold a fixed portfolio of investments (often tax-exempt) for the life of the company and usually stand ready to redeem the investor's shares at market value. Managed investment companies are classified according to whether or not they stand ready to redeem investor shares. Open-end funds operated by investment companies (mutual funds) offer this redemption feature, but closed-end funds do not. Closed-end investment companies issue shares that are then traded in the secondary markets (CFA, 2010). They charge fees, some as one time charges and some as annual charges. By setting an initial selling price above the net assets value (NAV), the unmanaged company charges a fee for the effort of setting up the fund. For managed funds, loads are simply sales commissions charged at purchase (front-end load) as a percentage of the investment. A redemption fee (back-end load) is a charge to exit the fund. Redemption fees discourage quick trading turnover and are often set up so that the fees decline the longer the shares are held (in this case, the fees are sometimes called contingent deferred sales charges). Loads and redemption fees provide sales

incentives but not portfolio management performance incentives.

Common types of funds managed by these institutions include bond funds that invest generally in long-term government and corporate bonds, equity funds investing generally in common stocks, balanced funds investing in a combination of bonds and stocks, index funds investing in securities that make up a market index and money market funds that invest in short-term securities (Reilly & Brown, 2003). Such funds are risky assets as they have uncertain future returns. A fund's market value can be measured by computing its per share value, or net asset value (NAV), which is calculated by dividing total market value of assets in the fund by its number of shares outstanding (Reilly & Brown 2003).

As the capital market became sophisticated, more volatile and increase of passive Unit trusts all investor's, Capital Markets Authority (CMA) introduced CIS in December 2001 to help investor achieve wide investment diversification without the need of prohibitive sums of money. The available CIS in Kenya are Unit Trusts Funds (UTF) and Employees Share Ownership Plans (ESOP). Three parties are involved in Unit Trust Fund: a trustee, a fund manager and a custodian. Independence of custodian and trustee is responsible for safeguarding interests of investor by ensuring the fund manager complies with contractual regulations. Regarding duties and compensation of fund manager include investment research, portfolio management and issuing dividends. As for compensation, management fee is stated as a percentage of total fund value (Low & Ghazali, 2007).

Shareholders of the fund are investors seeking dividend income and capital gains from shares of the fund. By purchasing new issues of shares at launch price or secondary issues at asking price and subsequently selling at a higher price, shareholders can earn a capital gain. Alternatively, shareholders may incur capital loss with selling price lower than purchase price (Koh 1999). The fund sponsor appoints a fund manager to generate returns for shareholders while satisfying the fund's investment objectives. To achieve economies of scale and appeal to investors with different risk-return preferences, sponsor manages a family of funds with different characteristics, promoting flexibility by letting shareholders switch funds in response to different financial conditions (Reilly & Brown 2003).

Although CIS industry is in advanced stages in developed economies like USA, Canada, Japan and UK, they have gained popularity in recent years in emerging markets like South Africa, China and Russia. Their presence and acceptance is yet to have an impact

in frontier markets like Kenya. According to Nairobi Business monthly 2013, published financial results for 13 asset managers out of 16 licensed by the Capital Markets Authority (CMA) to run collective investment schemes show that total assets under management rose by 24% to Sh29 billion in 2012 from Sh23.4 billion in 2011. This was majorly boosted by share price gains at the Nairobi Securities Exchange (NSE). This is much Unit trustsaller compared to the South African CIS Industry pointing to a lot of room for growth. According to Association of Savings & Investments in South Africa (ASISA, 2013) there were 967 registered CIS in South Africa managing \$139.1bn in 2012.

Only unit trusts schemes that are approved by the Capital Markets Authority may be offered for sale to the Kenyan public. Such schemes must comply with the Capital Markets Act Cap 485 A and also the Capital Markets (Collective Investment Schemes) Regulations, 2001. Although there are laws and guidelines to aid investor protection, it is ultimately investor's responsibility to evaluate the suitability, profitability and viability of an investment. An investor must read the information which is required to be provided in the prospectus and make the decision whether to invest or not, based on their own circumstance and attitude to risk (CMA 2001)

1.2 Problem Statement

In 2008 CMA commissioned Vista Capital to carry out a study on Impediments to growth of collective investment schemes industry in Kenya. The study found out that all investors recognized CIS as suitable financial product which help to control risk through greater diversification. However, many retail investors in Kenya are not familiar with this type of investment product. Therefore, the increased need for investor education had to be addressed as the lack of awareness of CIS was considered to be one of the biggest hindrances of CIS growth in Kenya (CMA 2008). Investors who are motivated by information to trade do so to profit from that information because they believe it allows them to predict future prices. Like all other traders, they hope to buy at low prices and sell at higher prices. Unlike pure investors, however, they expect to earn a return on their information in addition to the normal return expected for bearing risk through time. Investors who are motivated by information to trade do so to profit from that information because they believe it allows them to predict future prices. Like all other traders, they hope to buy at low prices and sell at higher prices. Unlike pure investors, however, they

expect to earn a return on their information in addition to the normal return expected for bearing risk through time. Financial system best facilitates these uses when people can trade instruments that interest them in liquid markets, when institutions provide financial services at low cost, when information about assets and about credit risks is readily available, and when regulation helps ensure that everyone faithfully honors their contracts (CFA, 2010).

Although Kenya is among the countries with higher number of retail investors by indication of the Central Depository Settlement (CDS) accounts in sub Saharan Africa, many investors have limited financial literacy and information. In the case of Kenyan retail investors, they are not aware of different investment products available and their benefits. Majority invest in securities through Initial Public Offers (IPO) for speculative purposes. From Central Depository Settlement Corporation (CDSC) data, most investor accounts remain dormant after a major IPO like that of Safaricom (Waweru, Munyoki & Uliana, 2008). Lutwama (2010) carried out an analysis of the factors that affect the demand and supply of CISs in Uganda and identified three major bottlenecks to the development of the CIS industry in Uganda as; a poor culture of savings and investments; a lack of an extensive and comprehensive marketing strategy and distribution network for CIS products; an underdeveloped capital market with a few investment opportunities for the CIS industry. Domestic retail investors have been unable to realize maximum benefits from the growth of capital markets over time. CIS is seen as having great potential to mobilize and distribute financial assets as well as increase the nation's investment/savings rate. To encourage less speculation and to increase the awareness of CIS amongst the retail sector, IPO allocations should favor CIS allotments rather than retail individual allotments (Sally, Alexeeva, & Mark, 2003).

The slow intake of collective investments has posed a great challenge in domestic investor participation in capital markets. This exposed the country to the risk of dominance by foreign investors. Strong shareholding in Kenya's equity market by the local investors is important in mitigating possible high foreign investors' portfolio outflows. Currently, foreign investor net portfolio flows have continued to increase. From Kenya's Financial Stability Report 2013, local institutional and retail investors held 58.02 percent of all listed and trading equities at the NSE by category. Foreign institutional investors however held the highest proportion of listed equities at the NSE with 39.8

percent. East African investors accounted for the lowest stake at only 1.6 percent. The local retail category had the highest number of investors, accounting for 21 percent of shares held. The market structure in equity holdings at the NSE has evolved over the last six years. While the East African institutional investors' category declined, foreign investors' interest has more than doubled since 2008 (NSE 2013). Whereas many studies have been conducted in the area of CIS, mainly focusing on the activities involved and their benefits to stakeholders, little is known about the factors affecting investments in unit trust funds among retail investors, more so is the case of Kenya where no study was found to define this phenomenon. The study bridged this gap by assessing factors affecting investments in unit trust funds among Kenya's retail investors in the NSE.

1.3 Purpose of the Study

The purpose of the study was to determine the factors affecting investments in unit trust funds among Kenya's retail investors.

1.4 Research Questions

The study was guided by the following specific research questions which depicts key elements of unit trust funds:

- 1.4.1 What are personal factors influencing retail investors to invest in Unit Trust Funds?
- 1.4.2 What institutional factors influence retail investors investing in Unit Trust Funds?
- 1.4.3 What are product features that affect retail investors while making investment choices?
- 1.4.4 Are there regulation factors which influence retail investor to invest in Unit Trust Funds?

1.5 Scope of the Study

The research was limited to the findings drawn from Kenya's Capital Markets Intermediaries. The intermediaries from which the study was undertaken include Stock Brokers and Investment Banks in Nairobi. The sampling unit included Unit trust's investors who have been active for the past five years. Field work was undertaken in the month of January 2015.

1.6 Significance of the Study

This study is of high significance to the following stakeholders:

1.6.1 Capital Markets Authority

The study informed the Authority on any information and regulatory gaps that need to be addressed to promote growth of collective investment schemes (CIS)

1.6.2 Fund Managers

The study feedback helped identify any expertise gaps from fund managers which encourage investors to invest directly in the stock market for better return.

1.6.3 Fund Sponsor

The research will provide insights on any product features which discourage investors from investing in collective investment schemes. This will help sponsors to review product structure to attract more funds.

1.7 Definition of Terms

1.7.1 Collective Investment

Collective Investments are investments in which many different investors put their money together or pool their money into a portfolio, and then this pooled money is managed by professional investment managers (also known as unit trusts or participatory interests).

1.7.2 Unit Trust Fund

Unit Trust Fund is an investment scheme that pools money together from many investors who share the same financial objective to be managed by a group of professional managers who invest the pooled money in a portfolio of securities such as shares, bonds and money market instruments or other authorized securities to achieve the objectives of the fund, (CMA, 2001).

1.7.3 Mutual Fund

Mutual Fund is an investment program funded by shareholders that trade in diversified holdings and is professionally managed.

1.7.4 Retail Investor

Retail Investor refers to an individual who purchases securities for his or her own personal account rather than for an organization. Retail investors typically trade in much smaller amounts than institutional investors such as mutual funds, pensions, or university endowments.

1.8 Chapter Summary

This chapter provides the background on collective investments, trends and growth issues in capital markets. The chapter discusses the problem and raise the research questions. Further, it provides the scope and explains the significance of the study. It also defines key operating terms that were used in the research.

The next chapter, chapter two, reviews literature pertinent to collective investments. This includes a review of the theories and past studies done on investments in collective investments by retail investors.

Chapter three describe the methodology that was used to undertake the research. This includes a discussion of the research design, the population and sampling design, the data collection methods, research procedures and data analysis methods. Subsequently, chapter four presents the results and analysis of findings whereas chapter five discusses the findings, draws conclusions and makes recommendations for improvements.

CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 Introduction

This chapter reviews literature related to Unit Trust Funds. The chapter explores theoretical and empirical literature regarding personal, institutional, regulatory factors and product features which may affect investor decision on investing in UTF. There has been very little study on unit trust funds in developing countries particularly in Kenya; therefore the review of this study will be on literature in developed countries.

2.2 Personal Factors Influencing Retail Investors to Invest in Unit Trust Funds

2.2.1 Lack of Awareness

According to Barber and Odean (2000) investment advice is available to retail investors from sources such as newsletters, research notes, and the financial statements. Brokerage firms also provide stock selection advice to their clients. If this advice is valuable and if investors attend to it, it is plausible that individual investors that invest directly in the market earn both better gross returns and net returns. Retail investors may have little information or confidence in various investment products. Majority may choose to participate directly in the stock markets by buying shares instead.

The availability of information and advance in technology play key role in empowering investors. The information processing sectors add value to the mandatory disclosed information. The enhanced information is then communicated through the specialized financial press, but information technology such as the Internet has become increasingly important (Thompson & Choi, 2001).

Investors make choices based on how well versed they are on available investment option or on how such products meet their investment needs. The availability of information to investors is a major force for the growth of Unit Trust Fund sector. One component of information flow is mandatory disclosure by various regulators. However the information processing firms obtain this data regularly and analyze it further to add value, presenting the data in a consistent way, comparing the performance of various CIS and

disseminating the results. This will make investors aware of what is available and where they can maximize their returns and minimize risks (Fama & Macbeth, 2001).

2.2.2 Levels of Disposable Income

Unit trust as a collective investment scheme, through the intermediation by fund managers of investment management industry, mobilize investors' savings to the capital markets that serve as a source of funding for financing business expansions and large-scale projects. The capital is provided for companies to expand their operations and realize profitable projects in turn create job opportunities and generating returns on long-term investments. Investors can invest their money, finance education for their children, or buy real properties. These result in the growth of the overall economy and improve the quality of life (Thompson & Choi, 2001).

Capital market development enables financial deepening by enabling the savers to diversify their financial asset basket and the firms to have access to alternative sources of financing. The past experience with KenGen and Safaricom IPOs, which saw huge oversubscriptions, is an indication that there is pursuit for a diversified financial asset basket among savers (Ngugi, Amanja & Maana, 2010). Stock markets provide market liquidity that enables implementation of long-term projects with long-term payoffs thereby promoting a country's economic growth endeavor. Moreover, efficient capital markets not only avail resources to investors; they also facilitate inflow of foreign financial resources into the domestic economy (Ngugi, Amanja & Maana, 2010).

Levels of income dictate individuals saving behaviors. Individual with high incomes tend to save more compared to those with lower incomes. Majority of Kenyans belong to low-income levels and therefore are constrained to buy certain investment products. Since introduction of Unit Trust Funds in the capital markets, most investment companies set the minimum investment to Ksh 100,000 which majority of retail investors could not afford. This made many investors to result in participating directly in the stock market by buying penny stocks (Ngugi, Amanja & Maana, 2010).

2.3 Institutional Factors Influencing Retail Investors Investing in Unit Trust Funds

Most UTFs are sponsored and distributed by large financial institutions like banks, fund managers which sell other unrelated products. These array of products give investors

variety which may take away opportunities of investing in UTFs (Thompson & Choi, 2001). Most investors may end up buying other savings and investments products.

2.3.1 Agency Problem

The UTFs sector is characterized by complex agency relationships as well as asymmetry in market power and information from sponsoring company. This poses high agency risk since some participants of collective schemes abuse agency relationship. Therefore proper safeguards are required to prevent UTFs operators from misrepresenting the portfolio assets, value or investment strategy. There are instances where such problems arose owing in part to the absence of adequate investor protection frameworks, (Thompson & Choi, 2001).

John and Sang (2001) argue that investment managers may not have links to other financial institutions but may pursue their own interests when managing CIS. Some of those interests may be in form of charging higher fees for services or attracting excess investors into the fund making it too large for efficient management. In addition managers may take excess risk or other conflict of interests that may involve fraud (Volkman and Wohar, 1995).

2.3.2 Conflict of Interest

Potential conflicts exist in CIS sector since most fund sponsors are affiliated with other financial institutions like banks, insurance, asset managers and brokers. Potential conflicts exist in CIS sector since most fund sponsors are affiliated with other financial institutions like banks, insurance, asset managers and brokers. Even for legally free-standing CIS, they utilize facilities which belong to the asset management companies that are hired and compensate for managing the fund. In this kind of arrangements it is not clear to draw the line on what is of the benefit to the investor and the firm as a whole. In this kind of arrangements it is not clear to draw the line on what is of the benefit to the investor and the firm as a whole (Fama & Macbeth, 2001).

In some instances the asset managers may use the fund to support issue of securities underwritten by the parent company or purchase assets that could not be placed in a public offering. Other cases of conflict is where fund managers could direct securities trades to affiliated intermediary rather than seeking best execution of orders elsewhere.

CIS also face risk by fund managers trading excessively in orders to increase income of affiliated intermediaries. With recent case of British American Asset Managers, the fund manager may deviate from the fund's investment strategy for his own benefit (Bodie, Kane & Marcus, 2001).

2.4 Product features that affect retail investors while making investment choices

As the fund can be categorized according to its investment objectives, the investment styles of fund manager can be an important factor in fund selection. A number of empirical studies have indicated that investment style does make a difference in investment returns. For example, Volkman and Wohar (1995) found that the goal of a fund does affect persistent fund performance, with high-risk maximum capital gain funds' demonstrating a strong positive persistence in abnormal returns.

2.4.1 Types

Major classification of Unit Trust can be divided into four. The equity fund, balanced fund, fixed income fund and money market fund. The Equity fund as the name implies invest mainly in the equity market where the fund will buy company shares. Shares are generally comes with high volatility as it is traded in the exchange market and it does not have fixed dividend. The general economic conditions and business environment will affect the fluctuation of the price. It focuses mainly on achieving capital appreciation or growth (Low & Ghazali, 2007).

Fixed income fund on the other hand invest mainly in corporate and government bond. Bond normally pays a fixed return which is also known as coupon payment. Because of the nature of the return is fixed the fluctuation of the price is also very much lower. Investment in fixed income fund is useful as portfolio diversification to complement the investment in equity fund. Fixed income fund generally focused on the annual income as the instrument is able to provide fixed coupon annually (Golec1996).

Balanced fund on the other hand possess a lower volatility as compared to equity fund and higher than fixed income or bond fund. This is because it normally has a balanced of shares and bond as the investment. Thus the balanced fund can provide both annual income and capital appreciation and of course the appreciations generally lower as compared to an equity fund (Elton, Gruber, Das and Hlavka 1993). The money market fund invests mainly in short term money market instrument. Money market instrument

generally poses the lowest risk among the three asset classes. The money market fund is very useful as a short term parking place for investors as it is very stable and the volatility is very low (Matallin & Nieto, 2002).

2.4.2 Strategy

Investors invest for anticipated future returns, but these returns can rarely be predicted precisely. Actual or realized returns will almost always deviate from the expected return anticipated at the start of the investment period (Bodie, Kane & Marcus, 2001). If all else could be held equal, investors would prefer investments with the highest expected return. In the portfolio model, the investor looks at individual assets only in terms of their contributions to the expected value and dispersion, or risk, of the portfolio return (Fama & Macbeth, 2001). With normal return distributions, the portfolio's risk is measured by the standard deviation of its return. Fama and Macbeth (2001) also find that on average there is a positive trade-off between return and risk, with risk measured from the portfolio view point.

According to Low and Ghazali (2007), for a unit trust fund to serve as an alternative to direct a stock market investment, it is reasonable to expect that fund prices have a degree of responsiveness to the direct equity market. The co-integration or the long-run equilibrium relationship between unit trust funds and the stock market index implies that unit trust funds are replicating the stock market index in the long run, suggesting that investors can regard the investment in unit trust funds as an alternative or a substitute for the direct investment in the stock market (Matallin & Nieto, 2002).

According to Benedict et al. (2009), the key benefit of investing in unit trusts is that they offer investors risk diversification that they might not otherwise be able to achieve on their own. Risk diversification occurs when investors spread their limited capital over a large number of stocks and financial assets. Financial analysts often measure risk diversification by the R² statistic of regression of excess return of funds on the excess returns of the benchmark index.

In Unit Trust there are only two major investment strategies. First is the cost averaging and the second is asset allocation. Any investor should be familiar with these two strategies. An investor should know which strategy fund managers are using. On the other hand Unit Trust is a very simple investment instrument. An investor is not required to

have knowledge of expertise or time to manage your investment as the investment will be managed by a professional fund manager. However it is very important to apply a proper strategy as their investment is tied to a long term investment commitment in order to achieve their financial goal. Either one of the strategy must be applied. Cost averaging is a strategy where investors invest regularly where it can be done monthly, quarterly or semi-annually depending on the needs and investors' preference. In asset investments are allocated in different asset classes. This is done depending on the investment horizon and the risk appetite and investment goal of the investor (Benedict et al., 2009).

The Unit Trust Funds encourages retail investors to choose their preferred product increases retail investors' willingness to pay by altering quality perceptions and enhancing brand awareness (Mitra and Lynch 2005). By investing in advertising, marketers aim to encourage retail investors to choose their unit trust. For a consumer to choose a unit trust they considers two conditions of whether the unit trust is in their choice set (personal and product factors) or the unit trust must be preferred over all the other brands in her choice set (regulation and institutional factors). These factors may further be enhanced through advertising for one or both of these conditions (Nedungadi 2010).

2.4.3 Fees

Among term and charges that investors must be familiar with before investing in Unit Trust are load and no load, exit fee, management fee and trustee fee. For the loaded, it means that the fund carries a service charge. For an example, if an investor invests Kshs10, 000 worth of investment in a fund that imposes a 5% service charge they have to pay an extra ksh500 in order to invest in the fund. This is the fee that will be paid to the servicing agent who will be monitoring and advising. A lot of people argue that service charge for Unit Trust is very high. No load fund on the other hand does not have service charge (Ngugi, Amanja & Maana, 2010).

The management fee is the fee that an investor pays for all the cost incurred in managing the fund for an instance brokerage fee, auditor fee, tax agent fee and many more. On average the management fee is about 1.5%. The trustee fee on the other hand stood at an average of 0.07% per annum. This fee is charged to pay trustee as the custodian of the fund. It is inevitable that the cost of transaction (or known as expense ratio) in dealing

with a mutual fund affects the performance of the fund. Elton, Gruber, Das and Hlavka (1993) showed that there is a strong negative relationship between expense ratios and fund returns. Golec (1996) recommended that investors should avoid funds with large fees. Ippolito (1989) found that funds with a lower transaction cost outperform those with higher fees.

2.5 Regulatory Factors that Influence Retail Investor

The CIS governance involves well-defined legal and regulatory framework for investor protection through which the fund sponsor offers the public a product with specified investment mandate, communicates the facts about the product to the investor and implement and monitor investment strategy regularly. Many governments have put into place measures to enforce the legal and regulatory framework for CIS (Benedict et al., 2009).

2.5.1 Internal Compliance

Generally there are accepted standards of conduct and rules of best practice in CIS industry. The industry also has a well-defined legal and regulatory framework with certain bodies designated and charged with securitizing the activity of CIS and conformity with those standards. This is accompanied by regular supervision to ensure the laws; regulations and industry practices are adhered to. The supervisor also assumes the responsibility for licensing fund sponsors and investigates each product they offer. Internal compliance plays a key role in building confidence among investors. This function is in charge of ensuring key industry standards are met by the fund. Capital Markets Authority require all fund sponsors to develop and have written procedures and highlight policies that are subject to review by authority's supervisory team. Compliance department is the key contact for the regulator for regular supervision. Further the regulator verifies the CIS is fit to carry out the task and licensing those operators who comply (Low and Ghazali 2007).

2.5.2 Disclosure

It is a requirement for investment managers to disclose investment strategy including the expected trading activity to achieve fund objectives for investors to make decisions on any additional analysis they may require and active portfolio selection. They are also required by all means to follow stipulated standards while pursuing investment objectives

as effectively as possible and should as well fully disclose information as is required (Bodie, Kane & Marcus, 2001). Where there are breaches of law or negligence investment management company directors may be held legally responsible (Matallin & Nieto, 2002)

2.6 Chapter Summary

This chapter has reviewed the literature related to UTF. It has discussed the potential factors that influence investors while making investment decisions. The literature shows that most scholars have highlighted a number of factors to the fund promoters and investment companies. However, few empirical studies have been conducted and those that exist have yielded mixed results in terms of successful outcomes. In the next chapter, a description of the research design that guided this research work was provided.

CHAPTER THREE

3.0 RESEARCH METHODOLOGY

3.1 Introduction

This chapter provides a detailed research design to be applied in the study. The research design chosen enables the purpose and objectives of this study to be achieved. The main objective of this study is to examine the factors that are considered important in selecting unit trust investments. To achieve the objectives of the study, this chapter discusses research methodology, population and sampling, data collection, research procedure and data analysis applied.

3.2 Research Design

The researcher adopted a descriptive research design. Descriptive research design involves measuring a set of variables as they exist naturally (Gravetter & Forzano, 2011), and seeks to provide answers to immediate questions about a current state of affairs (Matthews & Kostelis, 2011). According to Denscombe (2007), descriptive design emphasizes on producing data based on real world observation through a purposeful and structured approach. Researchers can draw inferences about relationships between variables from related variations of independent and dependent variables (Polit & Beck, 2001). Denscombe (2007) adds that empirical data is an advantage inherent in this design because of its emphasis on producing data based on real world observation through a purposeful and structured approach. In this study, the major variables that were studied are: financial reporting, financial transaction processing and financial control and governance.

3.3 Population and Sampling Design

3.3.1 Study Population

A population is the total set of elements about which a researcher wishes to make some inferences; where population elements refer to the subject on whom the measurement is being taken (Cooper & Schindler, 2005). According to Central Depository Settlement Corporation (2013), there are more than five million local individuals with CDS accounts. This represented the population of the study. The target population comprised of retail

investors with accounts in AIB Capital Limited brokerage firm stratified as shown in table 3.1.

Table 3.1: Population Distribution

Strata	Population	Percentage of Total Population
Portfolio size Kshs 20,000- 50,000	150	28%
Portfolio size Kshs 51,000- 100,000	200	38%
Portfolio size Kshs 101,000- 150,000	80	15%
Portfolio size Kshs 151,000- 200,000	100	19%
Total	530	100%

3.3.2 Sampling Design

3.3.2.1 Sampling Frame

Saunders, Lewis and Thornhill (2009) sampling is a complete list of all the cases in the population and a probability sample is drawn from it. This refers to the list of components from which the sample is actually drawn, and is closely related to the population. It is a complete and correct list of population members only. (Cooper & Schindler, 2001). However, the sampling frame may differ from the theoretical population due to errors and omissions. It is therefore it requires judgment when it comes to exactly how much inaccuracy can be tolerated while choosing a sampling frame. In this study, the sampling frame comprised of the list of target clients available in the target brokerage firms.

3.3.2.2 Sampling Technique

To select sample elements from the population, a stratified sampling technique was applied. The population was divided into subpopulations or strata that are mutually exclusive and constrained to include elements from each of the segments. This technique is referred to as stratified random sampling and has three main benefits: provides adequate data for analysing the various subpopulations, it increases a sample's statistical efficiency and enables different research methods and procedures to be used in different strata (Cooper & Schindler, 2001).

3.3.3 Sampling Size

Sample size may be defined as a Unit trusts all section of a part that represents the larger whole (Saunders et al., 2009). Gill and Johnson (2010) argue that an adequate sample size depends on several issues. They explain that what is important is not the proportion to the research population that gets sampled, but the absolute size of the sample selected relative to the complexity of the population, the aims of the research and the kinds of statistical manipulations that will be used in data analysis. Denscombe (2007) concurs with this argument and adds that adequacy of sample size depends on a number of factors connected with the research which need to be borne in mind and weighed upon by the researcher in the process of reaching a decision about the necessary size of the sample. That is, the absolute size depended on the complexity of the population and the research questions being investigated. For the purpose of this study, a sample size of 149 respondents, representing 28% of the target population was used for the study as presented in table 3.2.

Table 3.2: Sample Size Distribution

Strata	Population	Sample Percentage of Population	Sample size
Portfolio size Kshs 20,000- 50,000	150	28%	42
Portfolio size Kshs 51,000- 100,000	200	38%	76
Portfolio size Kshs 101,000- 150,000	80	15%	12
Portfolio size Kshs 151,000- 200,000	100	19%	19
Total	530	28%	149

3.4 Data Collection Methods

Structured questionnaire were used to collect data. According to Saunders et al., (2009) a questionnaire is a data collection technique in which each person is asked to answer the same set of questions in a predetermined order. In this study, the questions were seeking

to find answers to the research questions and the respondents were provided with a list of closed-ended and open-end questions based on each specific objective.

The research instrument was designed using measurement variables such as nominal, ordinal, interval and ratio scales as recommended by Kothari (2004). Denscombe (2007) observes that nominal data come from counting things and placing them into a category. Like nominal data however, ordinal data are based on counts of things assigned to specific categories, but, in this case, the categories stand in some clear, ordered, ranked relationship. This means that the data in each category can be compared with data in the other categories as either being higher or lower, more or less, among other examples. In this study, the questions seeking responses regarding the views of respondents about the factors affecting investment in Unit Trusts were constructed using a 5 Point Likert scale. This was guided by the specific research questions.

The questionnaire was divided into four major sections. The first section was seeking respondents' demographic profile such as gender, age, education, years they have held investment, among others. The second section comprise of Likert Scale questions about the product features to consider before investing in unit trusts. Similarly, the third section comprised of questions about the institutional features. The last section contained questions concerning the personal factors that influence investment decisions

3.5 Research Procedures

Buchanan and Bryman (2007) observed that organizational researchers can rarely approach respondents directly with requests to participate in their studies. The authors argue that permission typically has to be obtained first from a senior management gatekeeper, who may often refer such requests to other senior colleagues and in some instances to a management committee or board. In turn, once a general warrant to proceed has been granted, they explain that unit or department managers may then have to be approached with further requests to access "their" staff in a particular manner. The authors further submit that individual respondents can, of course, and then refuse to collaborate despite that cascade of management concessions. According to them, this layering of permissions has at least two consequences for the researcher. First, this can delay the start of data collection; second, it can compromise research objectives and methods. They add that permission may be constrained in terms of the topics that can be

investigated, the questions that can be asked, the materials that can be collated, and the timing and manner in which data collection is allowed to unfold. In view of this, the research looked for all necessary permissions to conduct the study from the Chief Executive of AIB Capital Limited.

Once official authority is granted, a pre-test of the research instrument was undertaken on 5 respondents from the target population to ascertain the suitability of the tool. The purpose of pre-testing the instrument is to ensure that items in the instruments are stated clearly and have the same meaning to all respondents (Mugenda & Mugenda, 2003). This enabled the researcher to refine the questionnaire for objectivity and efficiency of the process. The researcher consulted with the research supervisor to ensure that the instrument is robust. Afterwards, the researcher undertook the actual data collection, estimated to have taken not more than two weeks.

Buchanan and Bryman (2007) note that researchers are often asked to report their findings to those who granted access as a form of quid pro quo for providing documentation and allowing staff to be interviewed, complete questionnaires, or attend focus groups, for example. Such reporting implies a tacit acceptance of managerially defined themes and problems. The consequences of failing to meet gatekeeper expectations in this respect can be damaging to the researcher's local reputation, may restrict publication of findings, occasionally leading to the censorship of reports, and can close that research site to other investigators. The researcher therefore promised to make available a summary of the report to all participants who expressly requested so once the research exercise is complete.

3.6 Data Analysis Methods

To analyze data, coding and entering data in the Statistical Package for the Social Sciences (SPSS) was done. Coding refers to attribution of a number to a piece of data, or group of data, with main aim of allowing such data to be analyzed in quantitative terms (Denscombe, 2007). Descriptive statistical techniques were then used to analyze data. According to Healey (2005), descriptive statistics allow researchers to summarize large quantities of data using measures that are easily understood by an observer. This consisted of graphical and numerical techniques for summarizing data, in other words, reducing a large mass of data to simpler, more understandable terms. Denscombe (2007)

considers this process a vital part of making sense of the data. The descriptive statistical techniques, which were used, include mean and standard deviation as well as percentage frequencies.

Inferences on the relationship between variables were drawn using correlation analysis techniques. The correlation technique to be used is Spearman's rank correlation coefficient which, according to Healey (2011), is a statistic which is used to measure the relationship of paired ranks assigned to individual scores on two variables. In this case, data was coded and entered into the Statistical Package for the Social sciences and results were then presented in figures and tables.

3.7 Chapter Summary

This chapter has described the methodology that was adopted for the research. It has discussed the population, sampling frame, sampling technique, sample size, the data collection methods, the research procedure and finally the data analysis methods that were applied in the study. The chapter has indicated that the Statistical Package for Social Sciences program was used to aid in the analysis of data. Chapter four presented the results and findings of the study while conclusions and recommendations were made in chapter five.

CHAPTER FOUR

4.0 DATA ANALYSIS AND PRESENTATION OF FINDINGS

4.1 Introduction

The methodology that was adopted for the research has been discussed in this chapter. In addition, the chapter discusses the population, sampling frame, sampling technique, sample size, the data collection methods, the research procedure and finally the data analysis methods that were applied in the study. The Statistical Package for Social Sciences program was used to aid in the analysis of data. Chapter four presented the results and findings of the study while conclusions and recommendations were made in chapter five. The second section covers the level of and factors influence the investments in Unit Trusts among retail investors. The third section looks at the impact of Investor's occupation has an influence on investment in Unit Trust, the final section was on the factors influencing investment in unit trust.

4.2 Demographic Information

The demographic review of the study respondents with regards to their age, gender, levels of education, occupation, as well as monthly income are presented in this chapter. These factors are important because of the meaningful contribution they offer to the study as the variables help in the provision of the logic behind the responses given by the respective respondents.

4.2.1 Study Response Rate

The study targeted 149 respondents as the main respondents comprising of retail investors with accounts in AIB Capital Limited brokerage firm. The response rate for the study is as presented in the figure 4.1.

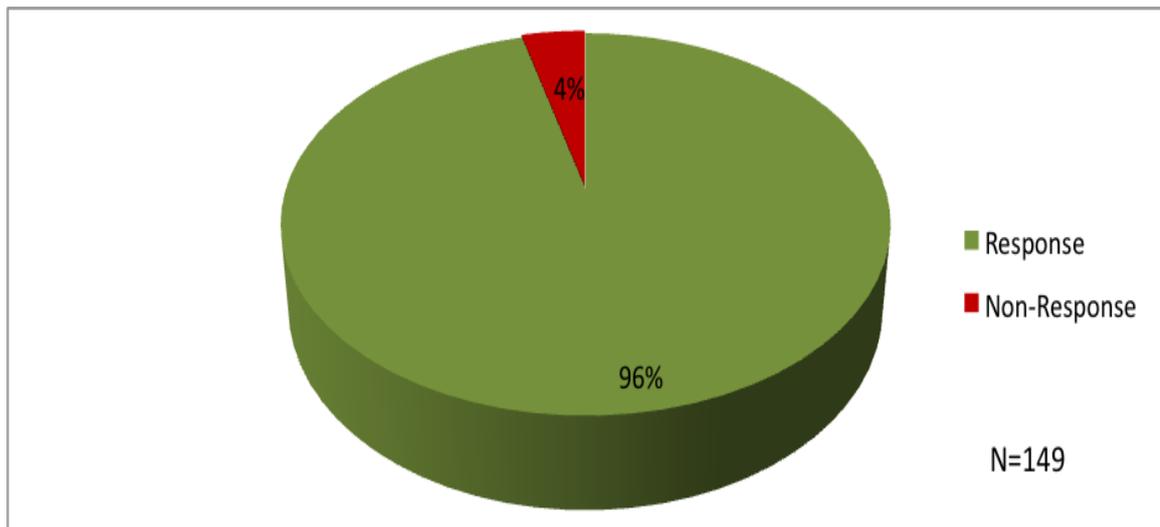


Figure 4.1: Response Rate

As presented in Figure 4.1, the study found that a 96% response rate was realized from the targeted population while only 4% of the respondents were unable to respond to the study questionnaires. This was a high response rate and therefore able to offer the requisite information to meet the study objectives.

4.2.2 Gender of the Respondents

There has been an overemphasis on the gender representation in leadership and business positions. This emphasis has been motivated by the need to empower women through affirmative action. This study was not left behind in capturing the gender representation in the study population. The gender representation among the respondents who took part in this study was as shown in figure 4.2.

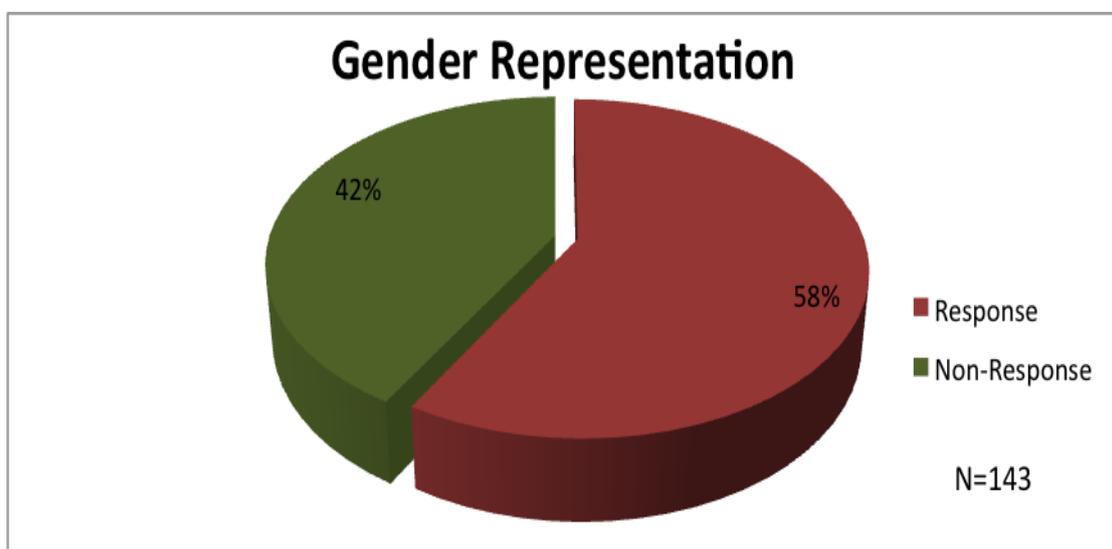


Figure 4.2: Study Gender

Table 4.1 shows a summary of the respondents who were engaged in the survey on the basis of their gender. The results of the study show that indeed 58% of the total respondents were of the male gender, while the remaining 42% were of the female gender. Therefore the study was not gender biased.

4.2.3 Age

The age structure data and information is a very important data. It can be used to inform the proportion of the productive population and the dependent population, which comprise of the young and the elderly. The age distribution of the respondents in the study is shown in figure 4.3.

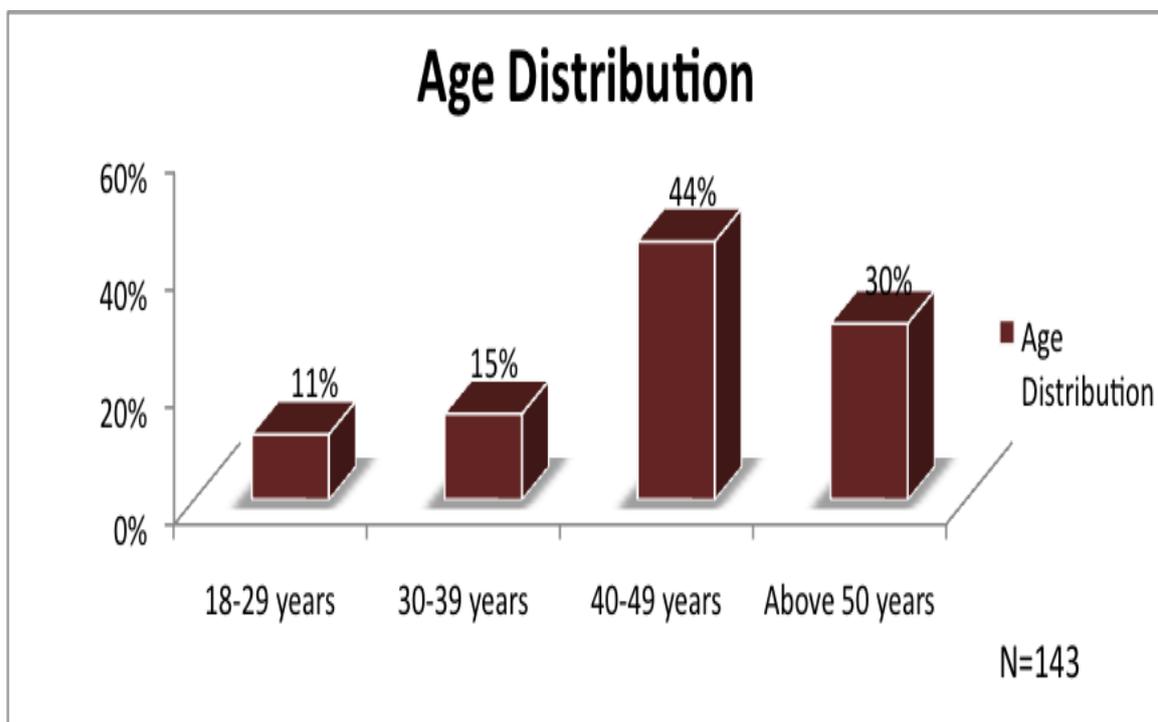


Figure 4.3: Age of the Respondents

Figure 4.3 provides the results of the respondents with regards to their age. The study findings show that 11% of the respondents were between 18-29 years, 15% of the respondents between 30-39 years, 44% of the respondents between 40-49 years and the remaining 30% of the respondents above 50 years. This is a true representation of the investment market where most of the investors are beyond their youthful stage, an indication that the youths have not fully embraced investment.

4.2.4 Education Level

The level of education of a person shows the expertise of a person. The education level of the passengers is shown in figure 4.4.

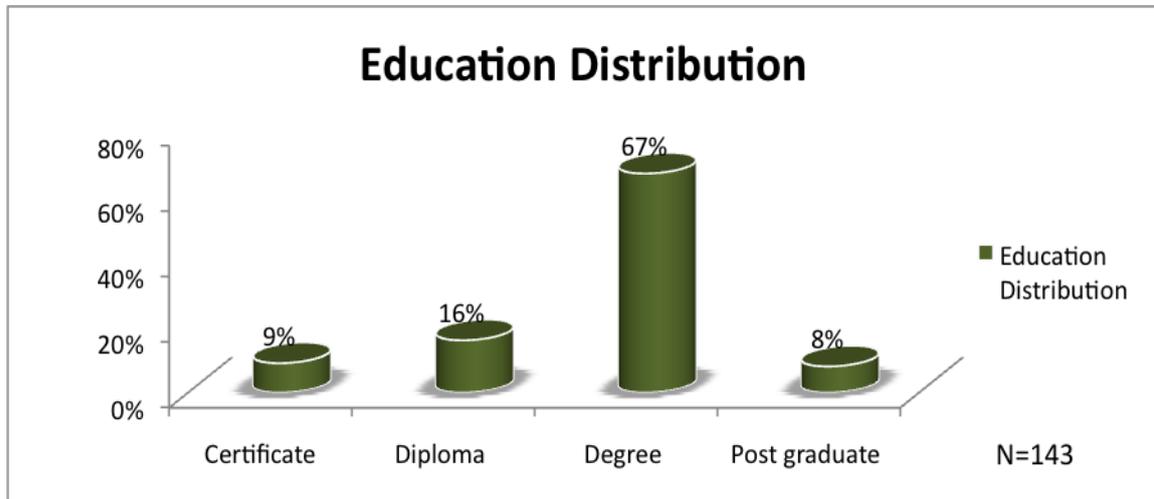


Figure 4.4: Education among the Respondents

Figure 4.4 provides the results of the respondents with regards to their education level. The study findings show that 9% of the respondents had certificate, 16% of the respondents had diploma, 67% of the respondents had degree and the remaining 8% of the respondents had post graduate education.

4.2.5 Portfolio Size

The study looked at the distribution of portfolio values of involved respondents and found the following outcomes as posited in Figure 4.5.

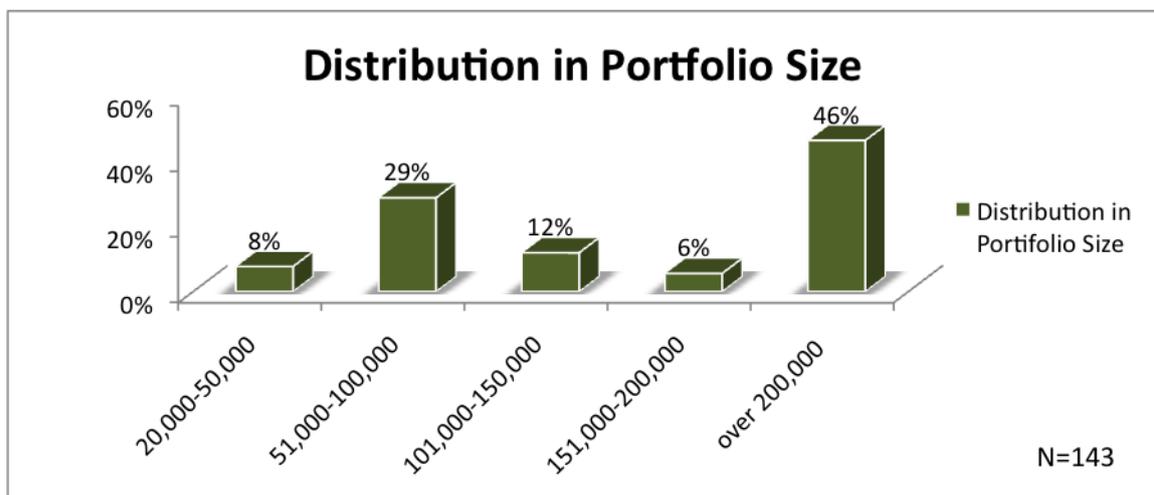


Figure 4.5: Portfolio Size of Respondents

Figure 4.5 provides the results of the respondents with regards to their Portfolio size. The study findings show that 8% of the respondents had a portfolio size between Ksh. 20,000-50,000, 29% of the respondents between Kshs. 51,000-100,000, 12% of the respondents had between Kshs. 101,000-150,000, 6% of the respondents had between Kshs. 151,000-200,000 and the remaining 46% of the respondents above Kshs. 200,000 indicating an irregular trend in the outcomes.

4.2.6 Period the Investment has been Held

The experience of the respondents in investment was captured with regard to the number of years they have held their investments, whose outcomes are presented as shown in figure 4.6.

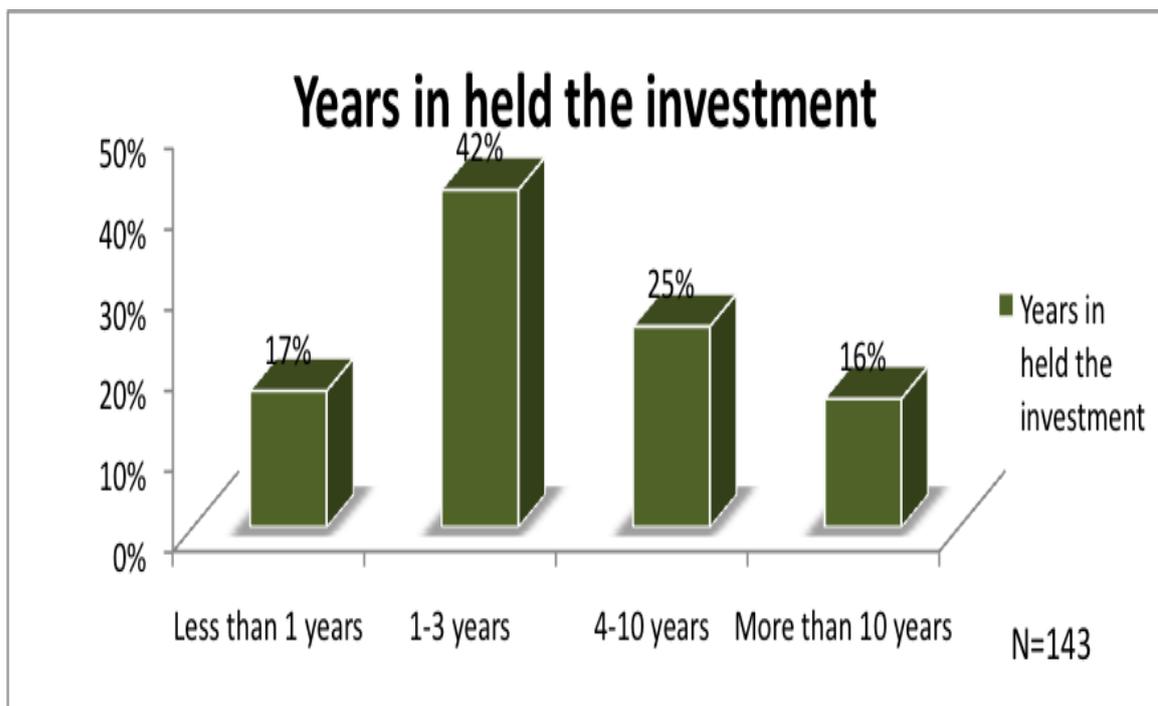


Figure 4.6: Length of Investment Period

Figure 4.6 provides the results of the study findings with regards to the years investors have held their investments. The study findings show that indeed the majority of the respondents (42%) have held their investments for a period of 1-3 years. Another 25% of the respondents have had their portfolio for 4-10 years and 16% have held their investments for more than 10 years. Only a small percentage of the respondents (17%) have held their portfolio for less than 1 year, an indication that most of these investors are short term investors.

4.2.7 Frequency Transaction Period in the Stock Market

The study also considered the transaction period of the respondents in the Stock market to indicate how active the people are in managing their investments. The study found the following outcomes as presented in Figure 4.7.

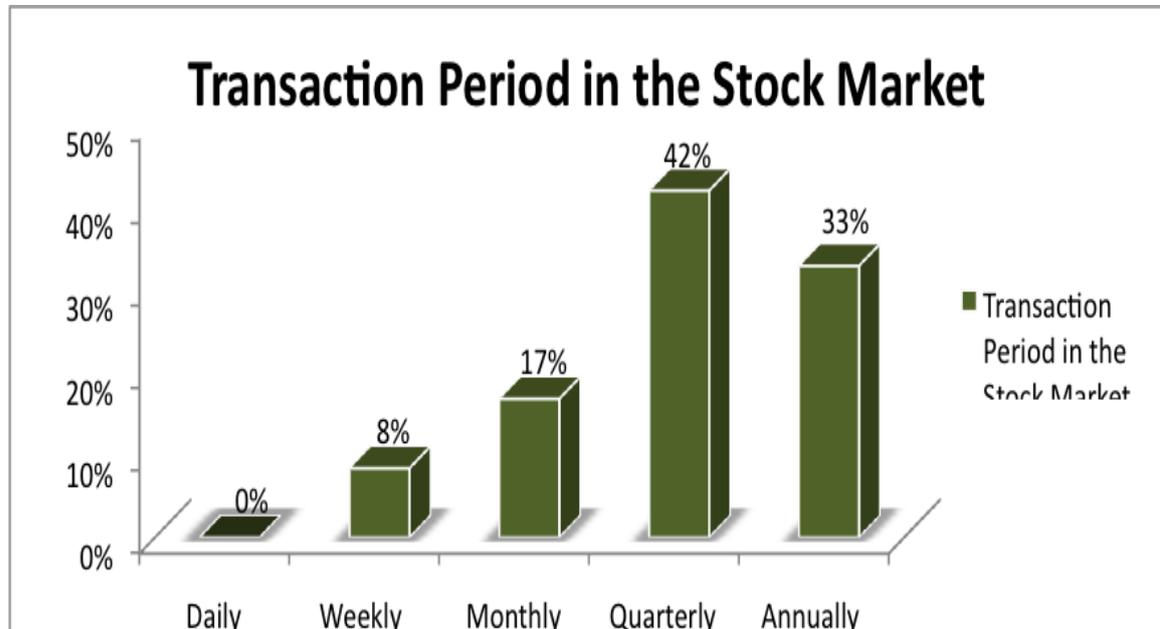


Figure 4.7: Length of Transaction Period

Figure 4.7 provides the results of the respondents with regards to their frequency and transaction period in the stock market. The study findings show that 42% of the respondents have quarterly transactional period, 33% of the respondents have annual transaction period, 17% of the respondents have monthly and the remaining 8% of the respondents have weekly transaction periods in the stock market and none of the respondents do have daily transactions.

4.3 The Personal Factors Influencing Investment in Unit Trust

The first objective of the study was to determine the personal factors influencing retail investors to invest in Unit Trust Funds. The following sub-sections present a summary of the study findings with regard to this objective as presented in table 4.1

Table 4.1: Personal Factors influence on Unit Trust Investment

Personal Factors	Strongly agree	Agree	Neutral	Disagree	Strongly disagree	Mean	Std. Dev.
Level of disposable income	16%	62%	18%	13%	0%	4.08	0.034
Personal investment objectives (capital growth & reservation)	38%	54%	8%	0%	0%	4.30	0.214
Education level	54%	24%	16%	6%	0%	4.26	0.132
Investor's marital status and gender	0%	34%	29%	22%	15%	2.82	1.017
Investor's occupation	23%	39%	23%	15%	0%	3.70	0.083
Financial literacy and access to information	69%	31%	0%	0%	0%	4.69	0.421
The age of an investor	21%	39%	25%	15%	0%	3.66	0.214

The research considered disposable income as an influence of investments in unit trusts among retail investors and therefore asked the views of the respondents in this regard. The results of the study findings indicate that 16% of the respondents strongly agree and 62% agree that disposable income affects their investments with Unit Trust. On the other hand, 8% of the respondents were uncertain of the view that disposable income have an impact on their unit trust investments and a few respondents (13%) disagreed while none strongly disagreed to the notion that the level of disposable income influence the investments in Unit Trusts among retail investors. However, a mean of 4.08 (M=4.08) shows that the study respondents agreed that personal disposable income affects their investments in unit trust.

On the other hand, a look at personal investment objectives (capital growth & reservation) of the investors indicated that 38% of the respondents strongly agreed, 54% agreed, and 8% were uncertain, while none is disagreed or strongly disagreed that personal investment objectives (capital growth & reservation) have an impact on investment in unit trust. With a mean of 4.30 (M=4.30), the study confirms that personal investment objectives affects investment in unit trust. The results of the study findings indicate that 54% of the respondents strongly agree, 24% agree, 16% were neutral, while 6% disagree,

that Education level has an impact on investment decisions retail investors make while investing in Unit Trust. The study confirms that education do affect the decision to invest in unit trust where the study realised a mean of 4.26 (M=4.26).

The findings of the study also indicate that none of the respondents strongly agreed that marital status and gender impacts the investment decision in unit trust. However, 34% agreed, 29% were uncertain, 22% disagreed, while 15%strongly disagreed that investor's marital status and gender are considered by retail investors with interest in Unit Trust investments. The study observed that marital status and gender realized a mean of 2.8 (M=2.8), which leads the study to conclude that investor's marital status impact on investment decision in unit trust is uncertain. The study also looked at impact of investor's occupation on their unit trust investment decision and found that 23% of the respondents strongly agreed, and 39% agree with the notion, 15% disagreed, while 23% are uncertain if the level of investor's occupation has an influence on investment in Unit Trust among retail investors. A further look at the mean distribution of these views brought out the observation that investor's occupation has an impact on the investment decision of the unit trust investor with a mean of 3.70.

Finally, the study found that 69% of the respondents strongly agreed that financial literacy and access to information have an impact on the investment decision for unit trust investors while 31% agreed to this notion. None of the respondents disagreed to these views confirming that the level of financial literacy and access to information have influence on investment in Unit Trust among retail investors, confirmed to a great level by a mean of 4.69 (M=4.69).The results of the study findings further indicate that 21% of the respondents strongly agreed and 39% agreed, while15% disagreed and 25% are uncertain if the age of an investor influence investment in Unit Trust. A descriptive analysis confirmed that the age of an investor influence investment in Unit Trust with a mean of 3.66 (M=3.66). The study therefore observed that personal factors such as the level of disposable income, personal investment objectives (capital growth & reservation), education level, investor's occupation, financial literacy and access to information, and the age of an investor all have an influence on investment in Unit Trust among retail investors. However, the study found that marital status and gender do not affect the investments decision of retail investors in unit trust.

The study also employed inferential statistics to assess the relationship between select demographic factors such as age, education, portfolio size, period of investment, and frequency of transactions and the personal factors considered. The study used correlation to determine the relationship between the factors. The results were as presented in table 4.2 below.

Table 4.2: Correlation between Select Demographic Factors and Personal factors

Demographic Factors	Statistical test	Age	Education	Portfolio Size	Period the Inv. has been held	Frequency of Transactions
Level of disposable income	Pearson Correlation	.722**	.641**	.678**	.709**	.617**
	Sig. (2-tailed)	.001	.001	.001	.001	.001
	N	27	27	25	27	27
Personal investment objectives (capital growth & reservation)	Pearson Correlation	.611*	.759*	.745**	.451*	.618*
	Sig. (2-tailed)	.039	.034	.001	.039	.034
	N	28	28	25	28	28
Education level	Pearson Correlation	.496*	.810**	.722*	.781**	.655**
	Sig. (2-tailed)	.022	.001	.022	.001	.001
	N	25	25	25	25	27
Investor's marital status and gender	Pearson Correlation	.644**	.685**	.744**	.716**	.597**
	Sig. (2-tailed)	.001	.001	.001	.001	.001
	N	27	27	27	27	27
Investor's occupation	Pearson Correlation	.557*	.608*	.640**	.711**	.584*
	Sig. (2-tailed)	.039	.034	.001	.001	.039
	N	28	28	25	27	28
Financial literacy and access to information	Pearson Correlation	.726**	.748**	.867**	.752**	.699**
	Sig. (2-tailed)	.001	.001	.001	.001	.001
	N	27	27	25	27	27
The age of an investor	Pearson Correlation	.960*	.844*	.744**	.694*	.744*
	Sig. (2-tailed)	.039	0.034	.001	.039	.034
	N	28	28	25	28	28

The study found that level of disposable income had a high positive correlation coefficient of 0.722 against age as a demographic factor, education (R=0.641), portfolio size (R=0.678), period the investment has been held (R=0.709), and frequency of transactions (R=0.617). This is an indication that level of disposable income has a high correlation against age, education, portfolio size, period the investment has been held, and frequency of transactions. The study found that personal investment objectives (capital growth & reservation) had a high positive correlation coefficient of 0.611 against age as a demographic factor, education (R=0.759), portfolio size (R=0.745), period the investment has been held (R=0.451), and frequency of transactions (R=0.618). This is an indication that personal investment objectives (capital growth & reservation) has a high correlation against age, education, portfolio size, period the investment has been held, and frequency of transactions. It was observed that education level had a positive correlation coefficient against age (R=0.496), education (R=0.810), portfolio size (R=0.722), period the investment has been held (R=0.781), and frequency of transactions (R=0.655). This is an indication that education level has a high correlation against age, education, portfolio size, period the investment has been held, and frequency of transactions. The correlation analysis observed that investor's marital status and gender had a positive correlation coefficient against age (R=0.644), education (R=0.685), portfolio size (R=0.744), period the investment has been held (R=0.716), and frequency of transactions (R=0.597). This is an indication that investors' marital status and gender has a high correlation against demographics such as age, education, portfolio size, period the investment has been held, and frequency of transactions. It was observed that investor's occupation had a positive correlation coefficient against age (R=0.557), education (R=0.608), portfolio size (R=0.640), period the investment has been held (R=0.711), and frequency of transactions (R=0.584). This is an indication that investors' occupation has a high correlation against demographics such as age, education, portfolio size, period the investment has been held, and frequency of transactions. Financial literacy and access to information had a positive correlation coefficient against age (R=0.726), education (R=0.748), portfolio size (R=0.867), period the investment has been held (R=0.752), and frequency of transactions (R=0.699). Therefore, financial literacy and access to information has a high correlation against demographics such as age, education, portfolio size, period the investment has been held, and frequency of transactions. The age of an investor had a positive correlation coefficient against age (R=0.960), education (R=0.844), portfolio size (R=0.744), period the investment has

been held ($R=0.694$), and frequency of transactions ($R=0.744$) indicating that the age of investor has a high correlation against demographics such as age, education, portfolio size, period the investment has been held, and frequency of transactions. The study can therefore confirm that the demographic factors are correlated to the personal factors among CIS investors.

4.4 The Institutional Factors Influencing Investment in Unit Trust

The second objective of the study was to determine, the institutional factors influence retail investors investing in Unit Trust Funds. The following subsection presents a summary of the findings with regards to the various variables of the study. The findings revealed that indeed Reputation of the fund manager is a key factor to consider while investing in Unit Trust Funds, among products they are aware of The Unit Trust fund past performance has an influence in investment by retail investors and Accessibility and distribution network affect uptake of Unit Trust products. Table 4.3 provides a preview of the data analysis on these factors.

Table 4.3: Institutional Factors Influence on Unit Trust Investment

Institutional factors	Strongly agree	Agree	Neutral	Disagree	Strongly disagree	Mean	Std. Dev0
Reputation of the fund manager	55%	36%	9%	0%	0%	4.46	.658
The Unit Trust fund past performance	49%	35%	9%	7%	0%	4.25	.907
Accessibility and distribution network	16%	50%	25%	9%	0%	3.74	.828
The fees charged	8%	32%	35%	25%	0%	3.23	.925
Other services/ products offered by the Fund manager	0%	43%	41%	16%	0%	3.26	.721
Minimum investment amount	26%	30%	16%	24%	4%	3.50	1.215

The results of the study findings indicate that 55% of the respondents strongly agreed and 36% agreed that reputation of the fund manager is a key factor to consider while investing

in Unit Trust Funds, while only 9% of the respondents were uncertain of this while none disagreed or strongly disagreed to this notion. With a mean of 4.46 (M=4.25), the study strongly agreed that reputation of the fund manager is a key factor to consider while investing in Unit Trust Funds. On the other hand, study findings indicated that 49% of the respondents strongly agree and 35% agree that Unit Trust fund past performance has an influence in investment by retail investors. However, 9% of the respondents were uncertain while 7% disagreed and none strongly disagreed to this notion. With a mean of 4.25 (M=4.25), the study agreed to the notion that Unit Trust fund past performance has an influence in investment by retail investors.

The study findings further indicate that 16% of the respondents strongly agreed and 50% agreed that accessibility and distribution network affect uptake of Unit Trust products, while 25% of the respondent's were uncertain 9% disagreed and none strongly disagreed to this notion. The study confirmed that acceptance that accessibility and distribution network affect uptake of Unit Trust products with a mean of 3.74 (M=3.74). The study also considered the impact of fees charged on investing in Unit Trust. It was observed that 8% of the respondents strongly agreed and 32% agreed to this view while 35% of the respondents were uncertain and 25% disagreed with none strongly disagreeing to these views. Observing a mean value of 3.23, the study confirms that it is uncertain whether fees charged have an impact on investing in Unit Trust.

The study also considered the impact of other services and/or products on investments in unit trust. The study findings indicate that none of the respondents strongly agreed to the notion that other services and/or products have an impact on investments in unit trust and only 43% agreed while 41% of the respondents were uncertain, 16% disagreed and none strongly disagreed. With a mean outcome of 3.26, the study affirms that it is uncertain if the level other services and/or products offered by the Fund manager has an influence on Unit Trust investments. The study also considered the impact of minimum investment on unit trust investments and found that 26% of the respondents strongly agreed and 30% agreed the views that minimum investment has an impact on unit trust investments, while 16% elicited uncertainty, 24% disagreed and 4% strongly disagree. The factor realized a mean of 3.50 (M=3.50), an indication that on average, the respondents agreed that the minimum investment amount affects investment in Unit Trust. The study therefore conclude that unit trust investment by retail investors is affected by institutional

factors such as reputation of the fund manager, unit trust fund past performance, accessibility and distribution network, and minimum investment amount. However, it is unclear whether fees charged and other services/ products offered by the fund manager affect unit trust investments.

Table 4.4: Correlation between Select Demographic factors and Institutional Factors

Institutional Factors	Statistical Tests	Age	Education	Portfolio Size	Period the Inv. has been held	Frequency of Transactions
Reputation of the fund manager	Pearson Correlation	.766**	.546**	.844**	.747**	.599**
	Sig. (2-tailed)	.001	.001	.001	.001	.001
	N	27	27	25	27	27
The Unit Trust fund past performance	Pearson Correlation	.655*	.740*	.688**	.539*	.718*
	Sig. (2-tailed)	.039	.034	.001	.039	.034
	N	28	28	25	28	28
Accessibility and distribution network	Pearson Correlation	.644*	.615**	.702*	.659**	.739**
	Sig. (2-tailed)	.022	.001	.022	.001	.001
	N	25	25	25	25	27
The fees charged	Pearson Correlation	.681**	.725**	.692**	.733**	.681**
	Sig. (2-tailed)	.001	.001	.001	.001	.001
	N	27	27	27	27	27
Other services/ products offered by the Fund manager	Pearson Correlation	.598*	.677*	.854**	.694**	.744*
	Sig. (2-tailed)	.039	.034	.001	.001	.039
	N	28	28	25	27	28
Minimum investment amount	Pearson Correlation	.688*	.577*	.844**	.726**	.599*
	Sig. (2-tailed)	.039	.034	.001	.001	.039
	N	28	28	25	27	28

The study found that reputation of the fund manager has a positive correlation to age ($R=0.766$), education ($R=0.546$), portfolio size ($R=0.844$), period the investment has been held ($R=0.747$), and frequency of transactions ($R=0.599$) indicating that the reputation of the fund manager positively correlates with demographics such as age, education, portfolio size, period the investment has been held, and frequency of transactions. It was observed that unit trust fund past performance is positively correlated against age ($R=0.655$), education ($R=0.740$), portfolio size ($R=0.688$), period the investment has been held ($R=0.539$), and frequency of transactions ($R=0.718$) indicating that the reputation of the fund manager positively correlates with demographics such as age, education, portfolio size, period the investment has been held, and frequency of transactions. The study also looked at the correlation of accessibility and distribution network against demographic characteristics. The study found that accessibility and distribution network has a positive correlation coefficient against age ($R=0.644$), education ($R=0.615$), portfolio size ($R=0.702$), period the investment has been held ($R=0.659$), and frequency of transactions ($R=0.739$), an indication that a positive correlation exists between accessibility and distribution network and demographic factors such as age, education, portfolio size, period the investment has been held, and frequency of transactions. The study found that the fees charged has a significant positive correlation against age ($R=0.681$), education ($R=0.725$), portfolio size ($R=0.692$), period the investment has been held ($R=0.733$), and frequency of transactions ($R=0.681$), an indication that a positive correlation exists between fees charged and demographic factors such as age, education, portfolio size, period the investment has been held, and frequency of transactions. A look at the correlation between other services/ products offered by the fund manager and selected demographics factors indicated that age ($R=0.598$), education ($R=0.677$), portfolio size ($R=0.854$), period the investment has been held ($R=0.694$), and frequency of transactions ($R=0.744$), indicating positive correlation coefficients. Minimum investment amount was found to have positive correlation coefficients against age ($R=0.688$), education ($R=0.577$), portfolio size ($R=0.844$), period the investment has been held ($R=0.726$), and frequency of transactions ($R=0.599$), indicating that a positive correlation exists between minimum investment amount and demographic factors such as age, education, portfolio size, period the investment has been held, and frequency of transactions.

4.5 Product Features Influencing Investment in Unit Trust

The study considered product features that influence investment in Unit Trust among the retail investors. The study looked at product features such as strategy of the fund (equity, balanced, money market), liquidity of the Unit Trust product, availability of other substitute savings products, and other benefits linked to the Unit Trust product. The study outcomes are as presented in table 4.5.

Table 4.5: Product Features Influence on Unit Trust Investment

Product features	Strongly agree	Agree	Neutral	Disagree	Strongly disagree	Mean	Std. Dev
Strategy of the fund (equity, balanced, money market)	16%	46%	27%	9%	2%	3.66	.903
Liquidity of the Unit Trust product	55%	41%	4%	0%	0%	4.51	.579
Availability of other substitute savings products	15%	27%	41%	16%	1%	3.39	.958
Other benefits linked to the Unit Trust product	12%	28%	50%	10%	0%	3.42	.825

The study found that strategy of the fund (equity, balanced, money market), had an influence in unit trust investments. It was observed that 16% of the respondents strongly agreed and 46% agreed the views that strategy of the fund influences the unit trust investments, while 27% were neutral, 9% disagreed and 2% strongly disagreed to this notion. With a mean of 3.66 (M=3.66) the study confirms the agreement of respondents to the notion that strategy of the fund influences the unit trust investments. On the other hand, the study considered the influence of liquidity of the Unit Trust product on unit trust investment. It was observed that 55% of the respondents strongly agreed and 41% agreed that liquidity of the unit trust product influences the investment into unit trust, while only 4% were uncertain of this notion and none disagreed or strongly disagreed. Realizing a mean of 4.51 (M=4.51), the study confirms that there is strong agreement that liquidity of the Unit Trust product influences investments ion unit trust.

The study also considered availability of other substitute savings products and other benefits linked to the Unit Trust product. It was observed that most of the respondents (41%) were neutral on the observation that availability of other substitute savings products influence investment in unit trust, while 15% strongly agreed and 27% agreed to this notion, and 16% disagreed to this notion and 1% strongly disagreed to the notion. With a mean of 3.39 (M=3.39) the study finds uncertainty of the influence of availability of other substitute savings products on investment in unit trust. Likewise, it was observed that most of the respondents (50%) were uncertain of the notion that other benefits linked to the Unit Trust product influences investments in unit trust, and 12% strongly agreed and 28% agreed to this notion, while only 10% disagreed to this notion. Further analysis provided a mean of 3.42, an indication that on average, the respondents were uncertain of the influence other benefits linked to the Unit Trust product have in unit trust investments. The study therefore confirms product features influencing unit trust investments to include strategy of the fund and liquidity of the Unit Trust product.

4.6The Regulation Factors Influencing Investment in Unit Trust

The third objective of the study was to determine the impact of the regulation factors influencing investment in unit trust. Fund manager disclosure and transparency are important in enabling investors to make informed decisions. Additionally Tax has an impact on Unit Trust investments. It also creates the faith that retail investors never be manipulated, as it also enhances perceived service quality. Table 4.6 shows the outcomes of the study analysis.

Table 4.6: Regulation Factors influence on Unit Trust Investment

Regulation factors	Strongly Agree	Agree	Neutral	Disagree	Strongly disagree	Mean	Std. Dev
Tax has an impact on Unit Trust investments	26%	42%	20%	8%	4%	3.77	1.059
Fund manager disclosure and transparency	77%	15%	8%	0%	0%	4.69	.621

The results of the study findings indicate that 26% of the respondents strongly agree and 42% agreed the observation that tax has an impact on Unit Trust investments, while 4% strongly disagree, 8% disagree and 20% are uncertain of this notion. A mean

value of 3.77 (M=3.77) leads to the conclusion that respondents on average agreed that tax has an impact on Unit Trust investments. On the other hand the study findings indicate that 77% of the respondents strongly agreed and 15% agreed that fund manager disclosure and transparency influences unit trust investments while 8% of the respondents were uncertain of this notion and none disagree or strongly disagreed. Further review of this observation indicated that on average, respondents strongly agreed (M=4.69) that fund manager disclosure and transparency influences unit trust investments and are important in enabling investors to make informed decisions. This further confirmed that tax and fund manager disclosure and transparency influences unit trust investments by retail investors.

4.7 Inferential Statistics

The study carried out inferential statistics on the study data to assess the relationship between unit trust investment and institutional factors, product features, personal factors, and regulation factors. The outcomes of this analysis are as presented in table 4.7.

Table 4.7: Correlation of Factors influencing Unit Trust Investment

		Unit Trust Investment	Institutional Factors	Product Features	Personal Factors	Regulation Factors
UTInv.	Pearson Correlation	1				
	Sig. (2-tailed)					
	N	143				
Institution Factors	Pearson Correlation	.155*	1			
	Sig. (2-tailed)	.044				
	N	143	143			
Product Features	Pearson Correlation	.265**	.499**	1		
	Sig. (2-tailed)	.001	.000			
	N	143	143	143		
Personal Factors	Pearson Correlation	.055*	.171*	.014	1	
	Sig. (2-tailed)	.018	.042	.868		
	N	143	143	143	143	
Regulation Factors	Pearson Correlation	.138*	.056*	.204*	.109	1
	Sig. (2-tailed)	.041	.509	.014	.196	
	N	143	143	143	143	143

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

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

The study correlation analysis observed positive correlation coefficients for all the study factors. Unit trust investment measured by assessing the portfolio, years held in investment and frequency of transactions was correlated with institutional factors, product features, personal factors and regulation factors, where all indicated a positive relationship with each other. Unit trust investment has positive correlation with institutional factors of 0.155, with a p-value of 0.044 indicating that the outcome has statistical significance. Unit trust investment also elicited positive correlation coefficient of 0.265, with a p-value of 0.001 indicating that the outcome was statistically significant. Personal factors and unit trust investment showed positive correlation of 0.055 with a p-value of 0.018. Regulation factors and unit trust investment showed positive correlation of 0.138 and a p-value of 0.041, an indication of statistical significance at 0.05 level. This indicates that institutional factors, product features, personal factors, and regulation factors have a positive relationship with unit trust investment and therefore can influence unit trust investment for retail investors.

4.8 Chapter Summary

Results and findings based on the specific objectives have been presented in form of pie charts; tables and figures as well as graphs are presented in this chapter. Following that is chapter five which provides a detailed discussion of the results and findings, conclusions as well as recommendations. Thereafter recommendations for improvement on each specific objective will be provided followed by recommendations for further studies.

CHAPTER FIVE

5.0 DISCUSSION, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter consists of four sections, namely, discussion of findings, conclusions, and recommendations respectively. The chapter discusses the findings in the discussion sections and relates with the previous literature and studies. It then draws the conclusions from the discussion of findings, the observed recommendations, and suggests further areas of study. The last sub-section provides the recommendations for improvement which are indeed based on the specific objectives. It also goes ahead to offer the recommendations for further studies.

5.2 Summary

The study set out to determine factors influencing retail investors to invest in Unit Trust Funds. The study targeted to determine the personal, institutional, product features and regulation factors that affect retail investors investing in Unit Trust Funds. To achieve this objective, the researcher adopted a descriptive research design targeting a population of retail investors in Kenyan financial market. The study made use of simple random sampling as the technique to select the study sample for the study comprising of 149 retail investors. Descriptive and inferential statistics were applied to determine the study findings from the data collected using a structured questionnaire, whose outputs and summaries were presented in form of charts, frequency tables, and graphs.

The study realized a response rate of 96% where 143 respondents were realized from a targeted 149. A 58% male and 42% female gender representation was realized, with most of the respondents (44%) being within the 40-49 years age group, and above 50 years (30%), an indication that most of the investors in unit trust are mainly beyond their youthful age with youths shunning the sector. This view was further enhanced by the observation that most of the respondents (67%) had degree level of education, indicating that a high education level is needed for investors within unit trust. This might be due to the fact that the investments are intellectually demanding to investors, and hence have to be done by investors who understand them, unlike what the unit trust companies purport them to be – easily manageable and undemanding. The study also found a varying

portfolio distribution with most of the respondents having portfolio values of above Ksh. 200,000. The study found that most of the respondents had held their investments between 1-3 years (42%), a relatively short time, followed by 4-10 years (25%), an indication that most of the investors prefer short term to long term investments with most preferring quarterly (42%) and annual (33%) transactions.

An analysis of personal factors that influence retail investors to invest in collective investment schemes revealed that indeed, some factors do have an impact. These factors help retail investors to simultaneously choose, among unit trusts products they are aware and enhances the utility that retail investors may obtain from purchasing a product that leads to brand awareness, which further lead enhance customer retention. It was observed that personal factors such as the level of disposable income (M=4.08), personal investment objectives (capital growth & reservation) (M=4.30), education level (M=4.26), investor's occupation (M=3.70), financial literacy and access to information (M=4.69), and the age of an investor (M=3.66), all have an influence on investment in Unit Trust among retail investors. However, the study found that marital status and gender (M=2.82) do not affect the investment decision of retail investors in unit trust.

It was also revealed that some institutional factors have profound input on unit trust investors' perception on service quality and choice as it leads to enhanced investor attraction and retention (McGrath & Viney, 1998). Additionally unit trusts activities include helping the public to understand the company and its products. It also creates the faith that retail investors never be manipulated, as it also enhances perceived service quality hence attracting more investors. The study observed that unit trust investment by retail investors is affected by institutional factors such as reputation of the fund manager (M=4.46), unit trust fund past performance (M=4.25), accessibility and distribution network (M=3.74), and minimum investment amount (M=3.50). However, it remains unclear whether fees charged (M=3.23) and other services/ products offered by the fund manager (M=3.26) affect unit trust investments. The study also confirmed product features influencing unit trust investments for retail investors to include strategy of the fund (M=3.66) and liquidity of the Unit Trust product (M=4.51). This is an indication that product features have an impact on retail investors' investments in unit trust. It was further observed that regulation factors of tax (M=3.77) and fund manager disclosure and transparency (M=4.69) influences unit trust investments by retail investors. An inferential

analysis indicated the view that there is a relationship between unit trust investments (measured by portfolio size and distribution) elicited positive correlation coefficients with personal factors, institutional factors, regulation factors and product features, hence confirming the influence.

5.3 Discussion of Findings

5.3.1 Personal Factors and Unit Trust Investments

The study found various personal factors that affect unit trust investments by retail investors. Level of disposable income affects was one of these factors, hence confirming Ngugi, Amanja and Maana, (2010) observations that the level of disposable income determines the ability of an individual and household to save, and eventually their ability to create wealth through investment of the savings where it was seen that the higher the disposable income, the more the ability to save, invest and create wealth. A closely linked factor that was found to be influential is the investor's occupation which determines the income and also the time investors can devote to their investments. A further observation of similar factors includes that of personal investment objectives (capital growth & reservation), education level, financial literacy and access to information, and age of investor, which are all intertwined in that they closely relate with each other. Thompson(2004) was of the view that your investment objectives must be considered when calculating how much risk can be assumed since if you are saving for your retirement, you will need to minimize risk in the undertaking, a fact that the study contends with. Reilly and Brown (2003) found similar characteristics of personal factors influencing investment decisions where they found that goals (investment objectives), age, knowledge (education, information and financial literacy), risk aversion and income. The study found a positive and significant relation between these personal factors and retail investor's investment in unit trust.

5.3.2 Institutional factors and Unit Trust Investments

The study also considered various institutional factors to influence investments in unit trust by retail investors. The study found that unit trust investment by retail investors is affected by institutional factors such as reputation of the fund manager, unit trust fund past performance, accessibility and distribution network, and minimum investment amount. Waweru, *et al.* (2008) investigated the effect of behavioural factors on the

investment decision making of institutional investors and found that firm-level corporate governance along with other behavioural factors such as equity fund managers' reputation. Furthermore, since unit trusts influences investor perception about the financial product, Retail investors are more likely to incorporate a product in their choice set if they have purchased it in the past or if it becomes more visible.

Klapper and Love (2004) are of the view that poor governance leads to harmful consequences which in turn increases the cost of the organization. They claim that if the organization is governed in a good manner a number of benefits can be achieved. They goes on to list out key indicators of institution governance as performance (fund performance), institution visibility (accessibility and distribution network), and operational guidelines (where minimum investment falls within). This indicates that they observed similar outcomes as compared with study. The study therefore confirms that investment in unit trust by retail investors is influenced by institutional factors all of which were observed to have a positive and significant relationship with unit trust investments. The findings revealed that indeed institution factors helps retail investors to simultaneously choose, among products they are aware of within unit trusts and enhances the utility that retail investors may obtain from purchasing that product of unit trusts, leading to brand awareness, which further lead to enhanced customer retention.

5.3.3 Product Features influence on Retail investors Investment in Unit Trust

A further look at the product features brought out the key features that a retail investor considers in their decisions to invest in a unit trust. It was found that product features with significant influence on unit trust investment by retail investors was strategy of the fund and liquidity of the Unit Trust product. Fama and Macbeth (2001) observed that since various unit trust products applies different strategies to meet their needs, it is very important to apply a proper strategy as investor's investment is tied to a long term investment commitment in order to achieve investor's financial goal. Liquidity of the fund is also a key consideration since it is very important to maintain a liquidity position to avoid insolvency or what is referred to as liquidity risk. Mayfield, Perdue and Wooten (2008) defines it as the degree of uncertainty associated with the time it takes to sell an investment with a minimum of capital loss from the current market price, which they claims have an influence of all investments in the world since the liquidity needs of individuals and firms differ from time to time. This was confirmed in the study where a

significant and positive relationship was observed between unit trust investments and the two product features.

5.3.4 Regulation Factors influence on Retail Investors Investment in Unit Trust

The study also reviewed regulatory factors that have an impact on unit trust investment by retail investors. The study found that tax and fund manager disclosure and transparency have a significant influence on investment in unit trust by retail investors. This study confirms Yue-Fang, (2010) observation that various tax policies of the government relating the tax concession on prioritized investment, rebate on new investment, and methods allowing depreciation deduction allowance influence capital investment. Unit holders are subject to taxes on their investments which might act as a deterrent to many retail investors who would choose products that have tax exemptions. The study found that disclosure and transparency are important in making unit trust investment, hence seconding IMAS (2013) who are of the view that when recommending a unit trust, your financial adviser is required to disclose to you the key features of the product including the following: nature and aim of the product; benefits of the product, risks of the product; details about the fund manager; fees and charges to be borne by you; share of fees and commissions due to the financial adviser; warnings, exclusions and disclaimers; and the presence or otherwise of a disclosure and transparency clause in their contract, in order to be able to manage your investment in an open manner.

5.4 Conclusion

5.4.1 Personal Factors affecting Retail Investors in Unit Trust Investment

The study concludes that personal factors such as level of disposable income, personal investment objectives, education level, financial literacy and access to information, and age of investor influences retail investor's investments in unit trust at varying intensity. These factors posited a significant and positive relationship with unit trust investment hence being confirmed to have an influence on the retail investor's unit trust investment decisions.

5.4.2 Institutional Factors affecting Retail Investors in Unit Trust Investment

The study also concludes that various institutional factors such as reputation of the fund manager, unit trust fund past performance, accessibility and distribution network, and

minimum investment amount influences retail investor's investment decisions in unit trust. The factor showed a significant positive relationship with unit trust investment measurement hence the observation of the influence.

5.4.3 Product Features influencing Retail Investors in Unit Trust Investment

The study found that the product features such as strategy of the fund and liquidity had a significant influence on retail investors' unit trust investment. The two factors representing product features showed a positive and significant positive relationship to retail investor's investment in unit trust.

5.4.4 Regulation factors influencing Retail Investors in Unit Trust Investment

It was observed that regulation factors represented by two key factors of tax and fund manager disclosure and transparency have an impact on the unit trust investment by retail investors, confirming that regulation factors do influence unit trust investments. Both factors showed significant positive influence on unit trust investments leading to the conclusion that regulation factors influences retail investors decisions in unit trust investments.

5.5 Recommendations

From the observed study conclusions, the study realized the following views as the recommendations for policy and improvement. These recommendations are given in objectified format in this section.

5.5.1 Suggestion for Improvements

5.5.1.1 Personal Factors Recommendations

The study has found various personal factors to have an impact on unit trust investment among the retail investors. These were level of disposable income, personal investment objectives, education level, financial literacy and access to information, and age of investor. The study recommends that those wishing to join unit trust investments in near or far future to check these factors so as to ready themselves to enter into unit trust market. Unit trust managers should also consider these factors to maximize their marketing bids by targeting the right calibre of customers. It is recommended that unit

trust companies should invest in defining these factors further and determine the desirable traits in them from which they would tailor make their unit trust investment products.

5.5.1.2 Institutional Factors Recommendations

The study observed the various institutional factors that influence retail investor's investment into unit trust. These includes reputation of the fund manager, unit trust fund past performance, accessibility and distribution network, and minimum investment amount, which the study recommends to be put into consideration by potential investors when determining their future investments in unit trust. Managers and firms within the unit trust investment section should also put these factors into consideration when designing new products and positioning existing products into the market. Further enhancement of these factors is also recommended.

5.5.1.3 Product Features Recommendations

The study identified two product features that have an influence on the retail investor's investment in unit trust. These include strategy of the fund and liquidity. These factors ought to be considered when developing future unit trust investment products by the fund managers and firms, as their consideration might improve the access of unit trust by more retail investors. Therefore, further enhancement of these two factors would be desirable to allow easier application of the views.

5.5.1.4 Regulation Factors Recommendations

The study also identified two regulation factors that have an influence on the retail investor's investment in unit trust. These were observed to be tax and fund manager disclosure and transparency. The study recommends these factors to be considered by managers and unit trust institutions so as to improve access and acceptability of the unit trust investment to the retail investors. Further development of these factors to ease understanding and applicability is desirable and recommended by the study.

5.5.2 Suggestions for Further Research

5.5.2.1 Personal Factors Suggestions

The study suggests further studies to further determine the level and direction of impact of personal factors identified in the study of level of disposable income, personal

investment objectives, education level, financial literacy and access to information, and age of investor on unit trust investments at the retail level, so as to further provide information necessary to implement the study findings in an institutional setting. Further study ought to be also carried out to assess the reason behind the exclusion of marital status and gender factor to influence retail investor's unit trust investments.

5.5.2.2 Institutional Factors Suggestions

Further study is also suggested on the institutional factors of reputation of the fund manager, unit trust fund past performance, accessibility and distribution network, and minimum investment amount, to expand the understanding of their relationship to retail investors' investment in unit trust. Further studies ought to be carried out to establish how fees charged and other services/ products offered by the fund manager were observed to have no influence on unit trust investments.

5.5.2.3 Product Features Suggestions

Further studies are suggested to be carried out to enhance the understanding of the product features (strategy of the fund and liquidity) observed to have an impact on unit trust investments.

5.5.2.4 Regulation Factors Suggestions

Finally, further studies are suggested on the regulation factors such as tax and fund manager disclosure and transparency to further provide insights on the relationship with the retail investor's investment in unit trust, so as to provide enough understanding of the factor within the investment sector. Additionally, further studies should be carried out in other investment forms present in Kenya to determine the influence of these personal, institutional, product features, and regulation factors on their adoption, so as to bring out further understanding of the investment sector and hence improve it, since the sector has been highly segregated by research activities.

REFERENCE

- Lutwama S. J. (2010). An Analysis of the Factors Affecting the Development of Unit Trusts in Uganda. *Working Paper*, Capital Markets Authority-Uganda
- Sally B., Ekaterina A., and Mark G., (2003). *Managing Collective Investment Funds*. 2nd Edition. West Sussex: Wiley.
- Barber, B. M., Reuven L., Maureen M., and Brett T., (1998). *Can investors profit from the prophets? Consensus analyst recommendations and stock returns*. Working paper, Graduate School of Management, University of California, Davis.
- Bodie, Z., Kane, A. & Marcus, A. J. (2001). *Essentials of Investments*, (4th Ed.). NY: McGraw-Hill.
- Buchanan, D. A. & Bryman, A. (2007). Contextualizing Methods Choice in Organizational Research. *Organizational Research Methods*, 10(3).
- CFA (2010). *Equity and Fixed Income, CFA Curriculum Level I*. 6(5). Pearson Learning Solutions
- Cooper, D. R. & Schindler, P. S. (2005). *Business Research Methods*. 7th ed. McGraw Hill International Edition. USA.
- Denscombe, M., (2007). *The Good Research Guide*. New York: Prentice Hall.
- Elton, E. J., Gruber, M. J., Das, S., & Hlavka, M. (1993). Efficiency with Costly Information: A Reinterpretation of Evidence from Managed Portfolios. *Review of Financial Studies*, 6(1), 1-22.
- Fama, E. F. & Macbeth J. D. (2001). Risk, return and equilibrium: Empirical tests. *Journal of Political Economy*, 81(3), 607–636..
- Gill, J. & Johnson, P. (2010). *Research Methods for Managers*. London: Sage Publications.
- Golec, J. H., (1996). The effects of mutual fund managers' characteristics on their portfolio performance, risks and fees. *Financial Services Review*, 5(2), 133-148.

- Gravetter, F. J. & Forzano, L. B. (2011). *Research methods for the behavioural sciences, Stamford*. Cengage Learning.
- Healey, J. F. (2005). *Statistics: A Tool for Social Research*. Belmont: Thomson Wadsworth.
- IMAS (2013). Making Sense of Unit Trust. *Investment Management Association of Singapore*. Accessed from www.imas.org.sg on 25th June 2015.
- Ippolito, R. A. (1989). Consumer Reaction to Measures of Poor Quality: Evidence from the Mutual Fund Industry. *Journal of Law and Economics*, 35(1), 45-70.
- Klapper, L. F., & Love, I. (2004). Corporate Governance, investor protection, and performance in emerging markets. *Journal of Corporate Finance*, (10): 703 – 728.
- Koh, S., (1999). A survey of unit trusts in Singapore. *Singapore Management Review*, vol. 21, no. 1, pp. 49-78.
- Low, S. W., & Ghazali, N. A. (2007). The price linkages between Malaysian unit trust funds and the stock market: Short-run and long-run interrelationships. *Managerial Finance*, 33(2), 89-101
- Matallin, J. C., & Nieto, L. (2002). Mutual funds as an alternative to direct stock investment: A co integration approach. *Applied Financial Economics*, 12(10), 743-750
- Mathews, T. D. & Kostelis, K. T. (2011). *Designing and conducting research in health and human performance*. New York: John Wiley & Sons.
- Mayfield, C., Perdue, G., & Wooten, K. (2008). Investment management and personality type. *Financial Services Review*, 17, 219–236.
- McGrath, M. & Viney, C., (1998). *Financial Institutions, Instruments and Markets*. 2 Ed, McGraw-Hill, Sydney.
- Mishkin, F. & Eakins, S., (2003). *Financial Markets and Institutions*, 4th Edition, Addison-Wesley, New York.
- Polit, D. F. & Beck, C. T., (2001). *Study guide to accompany essentials of nursing*

research: methods, appraisals, and utilization. New York: Lippincott.

Reilly, F. & Brown, K., (2003). *Investment Analysis and Portfolio Management*, 7th edn, South-Western, Ohio.

Saunders, M., Lewis, P. & Thornhill, A., (2009). *Research Methods for Business Students*. (5th ed.) Harlow: FT/Prentice Hall.

Thompson J. K. & Choi S.; (2001). Governance Systems for Collective Investment Schemes in OECD Countries. OECD

Thompson J., (2004). Governance of Collective Investment Schemes (CIS). Discussion Draft for Comment, Directorate for Financial and Enterprise Affairs. available at www.oecd.org/dataoecd/13/31/33621909.pdf

Volkman, D. A., & Wohar, M., (1995). Determinants of Persistence in Relative Performance of Mutual Funds. *Journal of Financial Research*, 18(4), 415-430.

Waweru, N, M., Munyoki, E., & Uliana, E. (2008). The effects of behavioural factors in investment decision making: a survey of institutional investors operating at the Nairobi Stock Exchange. *International Journal of Business and Emerging Markets*, 1(1): 24-41.

Yue-Fang, W. (2010). Capital investment decision, corporate governance, and prospect theory. *Procedia social and behavioral sciences*, 5, 116 – 126.

APPENDICES

Appendix I: Cover Letter

**Ann Njuguna
United States International University
P.O. Box 14634 - 00800
Nairobi**

11 February 2015

**AIB Capital Limited
P.O Box 11019 - 00100
Nairobi**

Dear Sir/Madam,

RE: REQUEST TO CONDUCT RESEARCH ON RETAIL INVESTORS IN THE COMPANY

I am carrying out a research to determine the factors retail investors consider investing in collective investment schemes. This is in partial fulfillment of the requirement of the Master of Business Administration (MBA) degree program at the United States International University.

This is an academic research and therefore, the information obtained during the research process will be used strictly for academic purposes and will be treated with utmost confidentiality. Your kind support in this regard will be highly appreciated.

Thank you in advance,

Yours sincerely,

Ann Njuguna
(0729975888)

Appendix II: Questionnaire

SECTION A: GENERAL INFORMATION

1. What is your gender?
Male
Female
2. What is your age bracket?
18 – 29 years
30 – 39 years
40 – 49 years
50 years and over
3. Level of education:
Certificate
Diploma
Degree
Post graduate
4. Portfolio size:
Kshs 20,000-50,000
Kshs 51,000-100,000
Kshs 101,000-150,000
Kshs 151,000-200,000
5. How long have you held the investment?
Less than 1 year
1 – 3 years
4 – 10 years
More than 10 years
6. How frequent do you transact in the stock market?
Daily
Weekly
Monthly
Quarterly
Annually

SECTION B: THE FACTORS INFLUENCING INVESTMENT IN UNIT TRUST

Please indicate whether you agree or disagree with the following statements by placing a tick (✓) inside the appropriate box:

	Strongly agree	Agree	Neutral	Disagree	Strongly disagree
<i>Personal Factors</i>					
7. The level of disposable income influence the investments in Unit Trusts among retail investors					
8. Personal investment objectives (capital growth & reservation) is a key factor investor consider while investing in Unit Trusts					
9. Education level has an impact on investment decisions retail investors make while investing in Unit Trust					
10. Inventor's marital status and gender are reflected on retail investors interests in Unit Trust					
11. Investor's occupation has an influence on investment in Unit Trust					
12. Financial literacy and access to information have influence on investment in Unit Trust					
13. The age of an investor influence investment in Unit Trust					
<i>Institutional factors</i>					
14. Reputation of the fund manager is a key factor to consider while investing in Unit Trust Funds					
15. The Unit Trust fund past performance has an influence in					

investment by retail investors					
16. Accessibility and distribution network affect uptake of Unit Trust products					
17. The fees charged have an impact on investing in Unit Trust					
18. Other services/ products offered by the Fund manager has an influence on Unit Trust investments					
19. Minimum investment amount may hinder investment in Unit Trust					
<i>Product features</i>					
20. Strategy of the fund (equity, balanced, money market) should be considered before investing in a Unit Trust					
21. Liquidity of the Unit Trust product affect investment among retail investors					
22. Availability of other substitute savings products affect uptake of Unit Trust products					
23. Other benefits linked to the Unit Trust product are important					
<i>Regulation factors</i>					
24. Tax has an impact on Unit Trust investments					
25. Fund manager disclosure and transparency are important in enabling investors to make informed decisions					

What other factors besides the ones mentioned above do you believe have a significant

while making investment decisions?.....

.....

What recommendation can you give that would go ahead to encourage retail investors to invest in Unit Trusts?

.....

.....

Thank you Very much for taking the time to complete this survey