FACTORS THAT AFFECT THE PERFORMANCE OF COLLECTIVE INVESTMENT SCHEMES IN KENYA

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UNITED STATES INTERNATIONAL UNIVERSITY - AFRICA

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FACTORS THAT AFFECT THE PERFORMANCE OF COLLECTIVE INVESTMENT SCHEMES IN KENYA

By

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A Project Report Submitted to the Chandaria School of Business in Partial Fulfilment of the Requirement for the Degree of Masters in Business Administration (MBA)

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STUDENT’S DECLARATION

I, whose signature is appended, proclaim 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: _______________________

Kyalo Mercy Munee (631752)

This project has been presented for examination with my approval as the appointed supervisor.

Signed: __________________________  Date: _______________________

Mambo Gatumo

Signed: __________________________  Date: _______________________

Dean, Chandaria School of Business,
ABSTRACT

The study sought to investigate the factors that affect the performance of Collective Investment Schemes in Kenya. The objectives of this research were to establish the factors influencing the profitability of collective investment schemes in Kenya. The objectives of this research were; To establish institutional factors influence the profitability of collective investment schemes in Kenya, To find out the products offered in collective investment schemes in Kenya and the challenges and facing the collective investment schemes in Kenya.

In this study, the researcher used primary data due to the nature of the variables generated and the type of population characteristics. Primary data was both quantitative and qualitative. The target population contributed to the collection of primary data. There were questionnaires to be answered by the respondents themselves. The questionnaires had questions based to establish the factors influencing the profitability of collective investment schemes in Kenya. In this research, no sampling method was engaged since it was a case study. The data collected was edited, coded, classified and analysed using Statistics Package for Social Sciences (SPSS) and later presented in frequency tables and figures. Both qualitative techniques and quantitative techniques procedures were applied by the researcher.

From the analysis, it was noted that there was a significant and positive correlation (R square= 0.661, 0.630 and 0.629) in all the variables respectively and the significance level in all is below 0.05 (p< 0.05) implying that the relationship between them and Performance of Collective Investment Schemes is strong positive relationship. The findings of this study revealed that the products offered in collective investment schemes in Kenya are commendable as shown by the total aggregate mean on the products offered was 3.484 implying that majority of the respondents agreed and while a standard deviation of .6689 implying that their responses were coherent. In objective two whether institutional factors influence the profitability of collective investment schemes in Kenya, as shown by the total aggregate mean at 4.200 implying that majority of the respondents strongly agreed and while a standard deviation of .2979 implies that their responses were coherent. The last objective was on the challenges and facing the collective investment schemes in Kenya with the total aggregate mean on the of 4.481 implied that majority of
the respondents strongly agreed and while a standard deviation of .3711 implied that their responses were coherent.

The study concluded that the findings of this study reveals that the products offered are commendable, the rules set up in the maintenance of the Schemes are stringent and the information available on Investment Funds is very helpful and can help one make informed decision on the investment schemes. Institutional factors influence the profitability of collective investment schemes in Kenya for instance the past performance of the scheme, the level of disposable income, personal investment objectives, education level and reputation of the fund manager influence the performance of the scheme. Lastly collective investment schemes in Kenya face a number of challenges which prevent them from properly performing this include insufficient investor protection laws and screening rules for entrants into the CIS industry limits institution.

From the summary and conclusion, the study recommends the policy makers to set up sound legal and regulatory frame that encourages the development of an environment conducive to informed risk-taking. The NSE should educate the public and investors on the CIS and how to invest in them to boost performance since the products offered are commendable. Finally, CIS to put in place corporate governance procedures to ensure that investors can judge the performance of the fund managers, preventing errors in valuation or manipulation of reserve asset prices on which assessments are based thus protect existing or potential investors from making investment decisions based on misleading or even fraudulent information.
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<tr>
<td>CDS</td>
<td>Central Depository Settlement</td>
</tr>
<tr>
<td>CFA</td>
<td>Chartered Financial Analyst</td>
</tr>
<tr>
<td>CIS</td>
<td>Collective Investment Scheme</td>
</tr>
<tr>
<td>CMA</td>
<td>Capital Markets Authority</td>
</tr>
<tr>
<td>NAV</td>
<td>Net Asset Value</td>
</tr>
<tr>
<td>SPSS</td>
<td>Statistical Package For Social Science</td>
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<td>Unit Trust Fund</td>
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CHAPTER ONE

1.0. INTRODUCTION

1.1 Background of the Problem

Investors and practitioners have for the past four decades been interested in investment managers, and their performance. Indeed, the debate within the industry between active and passive investment management continues. Most performance evaluation studies have employed the Jensen (1968) approach where risk-adjusted performance measures the ability of funds to outperform the market (Jensen, 1972; Lee and Rahman, 1990).

The CIS history goes way back to 1774 according to Rouwenhorst (2004). The history is believed to have started at a time when Abraham Van Ketwich a broker and a Dutch merchant invited investors for subscriptions. The subscription formed a trust namely "Eendragt Maakt Magt" which means "Unity Creates Strength." The Amsterdam stock exchange at the time of CIS formation had an average of 100 securities. These securities were regularly traded providing a budding investment platform for the CIS. Then, there were no different classifications of as many CIS as today. These CISs invested in a plantation in the far Indies West and bonds provided by the government and foreign investors. The Eendragt Maakt Magt was classified as a CIS corporate which is closed ended. The CIS had over 200 shares which were open for subscription to the public. In the placing of the shares, the CIS would only survive by buying shares in the secondary market from existing shareholders. The first CIS in Africa was in South Africa. The CIS were Unit Trusts which made investments in tradable equities (IOSCO, 2001).

The origin of collective investment schemes dates back in 1927 organized under the state law. CIS existed in several markets, both emerging and developed such as the UK and most of continental Europe, the USA, Australia, China, Japan, and Turkey. In the USA, total net asset of mutual funds amounted to the US $ 10,413,617 million at the end of 2006 (Investment Company Institute, 2007). In Africa, the largest and most advanced CIS are in South Africa. In South Africa assets held in CIS investment amounted to the US $ 78,026 million (Investment Company Institute, 2007).
The mutual fund is an industry recognized with Adriaan Van Ketwich who is a European Dutch merchant of 1774. The men mentioned above chat created a closed end fund of more than 2000 shares after experiencing two years of financial crisis. He was motivated by the urge to give small investors the diversification they deserve.

During the two-year period, many banks fell into bankruptcy due to the overextension by the British East India Company. In Amsterdam, most banks were affected. This crisis gave an opportunity for Adrian to apply diversification. He aimed at attracting investors who helped him invest in plantation loans of the South and Central America, in banks and bonds given by Swedish, Spanish, Russian-Danish Australia and German governments (Budiono, 2009).

Within the past two decades, the mutual fund industry has grown globally. Mutual funds had increased from 69,492 to 79,669 in 2010 and 2014 respectively. There has been a growth in the global assets from $4 trillion to $33.3 trillion in 1993 and September 2014 respectively. The above statistics is by four regions Europe, United States, Asia and the world (ICI, 2015).

The United States accounted for half the $33.3 trillion since it had the largest mutual fund industry in 2014 of $17.9 trillion. In the recent year ending 2013 total net assets had increased by $817 billion due to the increase in fund asset equity. The statistics of 2014 currently show that net cash flow is accumulative $102 billion (ICI, 2015). According to the ICI global statistical analysis, China is now little on their mutual fund but has a promising future in the coming decades.

According to the same study, China is estimated to have a growth of $11.8 trillion by 2050. These are considering that China doesn't have a defined contribution plan which allows investors to participate in mutual funds. If the planning system is put in place, China is most probably estimated to have $15 trillion in the worth of mutual funds by 2050 (Kagunda, 2011).

Only 951 units of trusts funds were recorded in Africa by 30th June of 2012. According to the latest Forbes by Alexander, in South Africa the total assets were R3.2 trillion in comparison with 2011 of R3.0 trillion which is an increase of 6%. The World Bank Prospects display that there is an increase of 4.4% at the beginning of 2013 and is
expected to record 4.9% by the end year. The analysis further shows an estimated increase of 5.2% and 5.4% in 2014 and 2015 respectively (KPMG, 2013).

Mutual funds in Kenya began after the enacting and amendment of the CMA (Capital Markets Authority). These laws are under the capital markets act approval of 2001 which promotes corporate investment. Kenyans total assets ranged between Ksh 38.0 billion and 17.6 billion in 2013 and 2010 respectively.

These statistics were due to a sharp increase in share prices, higher bond valuations and investors putting in more funds into unit trusts. In 2012 the NSE 20 Share Index, which tracks the prices of the 20 most traded shares at the Nairobi Securities Exchange (NSE), rose by 28.95 per cent. While the NSE All-Share Index rose by 39.42 per cent Total income for the unit trusts rose to Ksh4.8 billion ($56.1 million) in 2012 from a loss of Ksh931.1 million ($10.9 million) in 2011. While profit after tax increased to Ksh4.1 billion ($48.4 million) from a combined loss after tax of Ksh2.4 billion ($28.2 million) (ICI, 2015).

CIS in Kenya are not fully developed, and the knowledge and operations of CIS are still in its developing stages. The first company in Kenya to establish CIS was the Zimele Asset Management Company and was registered by CMA and RBA. The initiative for them then was to pool resources together and come up with a substantial amount where they could invest in various interest-earning instruments like treasury bills, bonds, and commercial paper. They had three investment portfolios, an offshore portfolio which allows investors to invest in foreign companies, a balanced portfolio which combines both local and international markets and money markets which deal with short-term financial objectives like commercial papers.

In Kenya, the leading corporate trustee in the industry is KCB Limited which has 99% of unit trust common scheme customers including Old Mutual Unit Trust, CBA Unit Trust, British American, Sentra Unit Trust, Zimele, and Stanlib Unit Trust which collect monthly incomes for collective investment (KCB Custody, 2010). There has been a progressive growth in CIS but at a slower rate than expected. However, like other businesses which swim through the waves of business challenges to remain in the right momentum, some CIS in Nairobi appear to have several problems ranging from stiff
competitors who make them die before they are even launched or go through a very short life span compared to other businesses (Zimele 2010).

Collective Investment Schemes is a bank administered trust that holds commingled assets that meet the specific criteria established by regulations. The bank acts as a fiduciary for the CIF and holds legal title to the funds' assets. Participants of the CIF are the owners of the capital assets. The monetary value of these assets is divided by the number of units issued when the fund is created to give an initial unit value. The value then fluctuates as the underlying asset trades daily, and investors put money in or take money out. As there is no limit as to how many units can be created or redeemed on an on-going basis, they are typically known as open-ended funds.

Collective Investment Schemes are designed to enhance investment management by combining assets from different accounts into a single fund with a particular investment strategy. They allow many people to pool together their savings and to appoint an investment manager to act collectively on their behalf. By using them an individual investor can enjoy the benefit of diversification which would otherwise be difficult to achieve. Collective Investment Schemes also help investors reduce the risk of investing by spreading the risk of their investment, as the fund manager will be able to purchase a far greater number of investments than the individual investor. CIS types that are most popular include the unit trust, REIT, and Open-ended Investment Companies. To invest in Unit Trust, investors, buy units through the fund manager at the usual selling price which is calculated daily. These units can be purchased anytime as long as the mutual fund has not reached its maximum approved size. The fund manager is responsible for issuing units to incoming investors and repurchasing the same units from outgoing investors (Maina, 2011).

1.2 Statement of the Problem

Collective investment schemes are a new savings product having been only introduced in Kenya recently in 2001. Collective investment schemes enable investors to participate in the capital markets. The CMA is the regulatory authority that is charged with making regulations for the operations of the collective investment schemes and overseeing the capital markets and ensuring that investors participating in the financial markets are protected.
As According to Sharpe, (1966) and Jensen, (1968), early studies in developed markets have shown that unit trusts do not outperform the market and managers do not have the capacity to beat the market consistently. However, research in the 1980’s has discovered that fund managers can beat the market. This is in contrast to the general findings of earlier studies. Research by Ippolito (1989) on 143 mutual funds in the US over the period 1965-1984 showed that mutual funds with high turnover, fees and expenses can earn higher returns to offset the high charges. Contrary to the studies in the US, findings on a mutual funds study in Australia deduced no evidence of persistence in performance. Some local studies have been conducted regarding unit trusts in Kenya. Kagunda (2011) focused on net asset value and dividend paid by unit trusts for equity based funds and schemes and found out that asset allocation by fund managers can be useful. Most researchers have focused on the development of Collective Investment Schemes in Kenya. The few that have focused on performance have only used unit trust or mutual funds as a representation of the performance of Collective Investment Schemes as a whole hence there exists a gap as there is no study on performances of Collective investment schemes in Kenya.

1.3 Purpose of the Study

The main reason for the study was to investigate the factors that affect the performance of Collective Investment Schemes in Kenya

1.4 Research Questions

1.4.1 Do institutional factors influence the profitability of collective investment schemes in Kenya?

1.4.2 What is the products offered in collective investment schemes in Kenya?

1.4.3 What is the challenges and solutions facing the collective investment schemes in Kenya?
1.5 Importance of the Study

1.5.1 Unit Trusts

The unit trust will benefit from the research on understanding the factors which affect the performance and as such seek out ways of either mitigating constraints or work out ways of eliminating such restrictions. Additionally, unit trust will seek out to underrated the factors that will enhance their performance.

1.5.2 Capital Markets Authority

CMA will find the study useful in that they will be able to understand exactly what has been going on in the unit trust and as such be proactive in enacting legislative laws that help to protect the investors and ensure that it is beneficial to both the Treasury and the public. The study will also contribute to highlight issues in the regulatory and legislative framework of CIS which may contradict existing legislation on which may be inadequate with regards to the existing objectives.

1.5.3 Nairobi Stock Exchange

CIS may be the missing link in increasing the performance and profitability of the country by increasing the returns, and so the NSE will be able to look for ways to educate the public on the CIS and how to invest in them to boost performance.

1.5.4 Researchers and scholars

The study can be used as a source of reference for academics that disseminate knowledge. The study will also help to open up areas of further research which will contribute to bridging the existing gap.

1.5.5 Managers

The management will be able to use this research to formulate strategies that provide to maximize free CIS options. The management will also be able to make informed decisions especially in the exercise of formulating and implementing effective strategies.
1.5.6 Investors

The study will help them know the regulations of CIS and assess how geared they are towards investor problems and also assist them to know the products offered and thus help them understand the options they have and what is suitable for their specific needs while also looking at the constraints.

1.6 Scope of the Study

This survey dealt with factors that affect the performance of Collective Investment Schemes in the Kenyan capital market. The research was cross-sectional and views collected were of one particular point in time. The respondents who gave their opinions included the regulators and other market players, who are involved in CIS implementation. The players in the CIS implementation were better suited to determine legislative, supervisory, regulatory and institutional matters. Their views were a representation of the overall capital market. The study relied on information from fund managers of the 20 approved CIS in Kenya.

The research was carried over a period of three months that was from January 2017 to March 2027. The method used to conduct the research included both questionnaires and interviewing the fund managers.

1.7 Definition of Terms

1.7.1 Collective Investment Schemes

Joint 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). An example is Zimele Unit Trust Fund, and Stanlib.

1.7.2 Unit Trust

Unit Trust Fund is an investment scheme that pools money together from many investors who share the same financial objective. This money is managed by a group of professional managers who invest the pooled money in a portfolio of securities. Such
securities include bonds, stocks, and money market instruments or other authorized securities to achieve the objectives of the fund, (CMA, 2002).

1.7.3 Asset Allocation

Asset Allocation is the process of deciding how to distribute an investor's wealth among different countries and asset classes for purposes of investments (Reily and Brown, 2003).

1.7.4 Manager of Funds

These are individuals, businesses or banks that make the investment decisions for most mutual funds. These managers use parameters set by the prospectus of funds to make decisions. Fund managers are not paid using commissions as brokers. They are paid a percentage of the amount they have in possession. This mode of payment gives and the fund manager the zeal to work harder since the more profit they make, the more they get paid (Financial Glossary, 2011).

1.8 Chapter Summary

Chapter one presents the background information to the research problem, identifies the problem statement, states the purpose of the study and lists the research questions addressed in the research project. It also presents the rationale, scope and definition of terms used. Chapter two presents the literature review, chapter three covers the methodology applied while chapter four looks at the results obtained from the data analysis done and lastly chapter five brings out the discussions, conclusions arrived at and the recommendation drawn from the study.
CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 Introduction

This chapter reviewed literature related to Collective Investment Schemes. This chapter explored theoretical and empirical research regarding factors that affect the performance of CIS both internal and external, products offered in CIS and the challenges facing CIS. There has been a little study of Collective Investment Schemes in developing countries, particularly in Kenya. Therefore, the review of this research was of other developing countries.

2.2 Institutional Factors that affect the profitability of Collective Investment Schemes

2.2.1. Expense Ratio

Passively managed funds incurred lower costs and outperformed actively managed funds Bogle (1998). Actively managed funds incur various costs, including operating and research expenses, which are measured by the expense ratio. The asset proportion paid for management fees and operation cost is that indro et al (1999) termed as the expense ratio. He also included brokerage costs, administration fee and another spending in the proportion. Despite the fact that numerous cost is included in the rate, most of the expenses can be associated with financial market research, as Indro et al. (1999) considered the exact cost of research to be reflected by the ratio, which is the price paid by uninformed investors to be informed.

In his research, Sharpe (1966) found out that better performance is gotten from funds with lower expenses in his book of 1970 he only gave the relationship between expense ratio and performance and not turnover rates. Ippolito (1989) finds that the risk-adjusted returns, net of fees and expenditures of existing portfolios are comparable to those of index funds and that fund performance is not related to portfolio turnover and management fees. Grinblatt and Titman (1992) believe that mutual funds can provide enough resources to surpass the expenditure incurred. The survey shows that the previous research is not the same as the current one since it proclaims that expense on trading and
research is a waste of money in a market with securities with incorporated information Ippolito (1989, 1992).

In the current version of EMT, it is believed that active management of funds provides a negative produced by the expenses of getting the processed data. Ippolito (1989), a researcher, found out that turnover and performance are not related an expense ratio rather, and management fee are consistent since money is being invested in mutual funds efficiently. In a concluded statement funds with high costs, portfolio turnover and fees acquire a sufficient return. Other researchers’ Fortine and Michelson (2005) also found out that performance isn’t related to turnover.

2.2.2 Growth in Size

Net assets under management can affect profitability, as funds need to attain a minimum size to achieve returns net of research expenses and other costs. However, a significant funds incurring excessive costs results in diminishing or even negative marginal returns. Initially, growth in fund size provides cost advantages, as brokerage costs for larger transactions are lower while research expenses increase less than proportionately with fund size. After exceeding an optimal size, too large a fund can lead to deviation from original objectives by investing in some lower quality assets, as well as increased administrative costs for additional coordination among staff to manage sub-funds (Indro et al, 1999).

It is commonly assumed that little unit trusts perform better than large ones, and based on a market liquidity theory which states that a large unit trust has difficulty in realizing its shareholdings without affecting the share price when it wants to change the balance of its portfolio. Many researchers have suggested that there is an optimum fund size. Indro et al. (1999) conclude that funds must attain a minimum size to achieve adequate returns. They also note that marginal returns become negative after a fund exceeds its optimal size. In a study on the mutual fund's size and its performance, Perold and Salomon (1991) believe that a large asset base of a mutual fund eroded fund performance. These are Because of trading costs that were associated with liquidity or price impact, whereas a small fund can quickly put all of its money in its best ideas Perold and Salomon (1991) suggest that the maximum fund size could be in the region of $1.6bn -$2.0bn.
They argued that there exists a major agency conflict between the investor and the fund managers. Most fund managers may maximize fund size to increase their performance fees. Sawicki (2001) suggested young funds that were small abandoned unsuccessful strategies for more successful ones to convince investors not to withdraw. Finn and Sawicki (2000) later found out that low fund was represented disproportionately among top performers but underrepresented among worst performers; indicating fund size may influence performance. In a comprehensive study of the economies of scale in mutual fund administration, Latzko (1999) documents a reduction in the average costs for the full range of fund assets, but the rapid average price decrease is exhausted by about $3.5 billion in capital goods. Latzko (1999) believes that funds belonging to the same family give the family a comprehensive platform to enjoy economies of scale since they share capital expenses. This statement has been supported by McLeod and Malhotra (1997) and others. The research shows a negative relationship between the size of the family fund and expense ratio. That is, as the scale of the fund family increases, the average costs per fund within the fund family decreases as many of the capital expenses can be spread over a greater number of funds under management.

Maina (2011) reveals that smaller funds are more financially efficient than larger ones owing to the bigger ones sitting on large sums of money and inefficiently investing it. Smaller funds have lower financial resources which they have to spend more judiciously. Furthermore, more significant pension funds with huge investments in the stock market are exposed to more risk compared with smaller funds. Fewer pension funds might be more financially efficient than larger ones, but economic efficiency does not necessarily translate into profitability.

2.2.3 Liquidity

Pastor and Stambaugh (2003) did a study on the expected stock returns and Liquidity risk in the U.S between 1966 and 1999. The purpose of the survey was to determine whether market liquidity is a related to pricing. The study established that expected stock returns are related cross-sectional to the sensitivities of returns to liquidity aggregate variation. Liquidity is an ambiguous and broad concept that implies and indicates the power to trade huge quantities quickly without change of price. Ferreira et al. (2012) analysed the determinants of mutual fund performance in 27 countries over 1997–2007 periods. The study established that the adverse scale effects in the USA are related to liquidity
constraints faced by funds that, by their style, have to invest in small and domestic stocks. Countries with strong legal institutions and strong liquid equity markets have resources that display better performances. It is recorded that non-US funds don't get negatively affected as the funds used to invest in illiquid and small stocks.

Suppa aim (2010) carried out a study in Thailand of mutual fund performance share restriction and liquidity premium. The author used return based price measure to quantify the liquidity of the asset to determine the relationship between mutual fund performance and liquidity. The study established that the liquidity of property included in the mutual fund portfolio plays an important part in mutual fund returns. Further, the study concluded that the highest cash mutual fund portfolio significantly underperforms the market in contrast to the lowest liquidity mutual fund portfolio, which significantly outperforms the market hence evidence of an illiquidity premium in Thai mutual funds.

2.2.4 Profitability

ICI (2015) analysed the profitability of mutual funds and investors' behaviour in India during April 2006 to March 2012. The study indicated that more than half of the mutual fund schemes have risk-adjusted performance (Sharpe ratio) below than the industry average risk-adjusted return. The study concluded that Investors judge mutual fund schemes for investment by their professional expertise, status, performance, and size. The survey suggested that enterprises should take measures and steps to increase their performance. Also, policy makers and governing bodies might abolish the schemes giving poor performance for an extended period. Further research was recommended to be carried for a shorter span of time say two to three years so that data for many mutual fund schemes will be available and sample size may be increased.

2.3 Products offered in Collective Investment Schemes

Collective Investment Scheme (CIS) is an umbrella term for pooled investments known by various names such as mutual funds and investment trusts. In recent years such projects have seen their assets under management grow rapidly in the United States, Europe and Asia (Yuta, 2001). Collective Investment is share–based products run by experts that allow investors to spread the risk over a wide range of companies, sectors, and markets with a limited amount of money. Collective Investment Schemes is
especially useful for new investors who are cautious and those that have limited funds. Although many perform well, one of the disadvantages is that their performance will rarely match that of an individual winning company share. On the other hand, they are likely to face large losses. An important feature of CIS is that they are passive investors; they do not usually exercise control over their investee companies and this sense are quite different from holding companies.

There are major parties in any CIS, the investors whose assets have been pooled into a fund, the body of fiduciaries who oversee the management and investment of this company (Zimele Asset Management, 2000).

CIS is an investment pool that has several advantages. One of them is spreading risk thus even with the little amount to cover one can spread the money across a wide range of investment. This strategy thus lowers risk than just putting all your money into one or two investments. Professional portfolio management requires a considerable degree of expertise, time, resources and experiences, attributes which individual investors do not possess (Zimele Asset Management, 2000). Reduced dealing cost includes pooling money with that of other investor's means that you get a higher return since you get to buy in bulk. Liquidity individual investors may need to cash their investments at short notice to meet financial emergencies. An open-ended CIS allows investors to cash in some or all their holdings at any time and to receive the current market value of their investments which is calculated daily. Investors in CIS have none of the rights connected with the individual investment of the fund. CIS can be organized in the following legal forms (Solnik, 2000). Depending on the underlying assets, CIS may have different characteristics. They incorporate a variety of types of investments

2.3.1 Mutual fund/ unit trust

These two terms above describe the same kinds of resources in the various countries. Mutual funds being the term used in the US, and Unit Trust being employed in the UK and most European and Commonwealth countries (Solnik, 2000). The first CIS can be traced back to 19th century in Great Britain. The colonial government formed a trust in 1868 in London that resembled a closed-ended mutual fund as it promised the ‘investor of modest means the same advantages as the largest capitalist by spreading the investment over some different stocks. The first-ever mutual fund was made in 1924 and was named
the Massachusetts Investors Trust was introduced in the USA with a modest portfolio of 45 stocks and $50,000 in assets. This was the first so-called open-end mutual fund (Zimele Asset Management, 2000; Faure, 1987).

Mutual Funds/Unit Trusts are resources designed to permit thousands of investors to pool their resources as unit holders, in funds that invest in some securities, such as quoted stocks, government and corporate bonds, and money market instruments among others. The funds managed by the professional portfolio manager belong to the unit holder. He is therefore entitled to a net funds income (ILO, 1996). This is made up of the gross revenues generated less the operating expenses, such as trustee and accounting fees and legal fees, such as stock exchange transaction fee among others. The funds lose, gains, expenses, and incomes are shared equally by Investors.

Each fund has its investment objectives described in the fund's trust deed. The different funds with different investment objectives are called fund families. In most cases, investors can usually withdraw money from one fund and invest it in another of the same family with minimal or no charge (Solnik, 2000).

There are two main advantages (Zurich Learning Canter, 2002). Growth – increasing the value of the principal investment amount. Income – generating a constant flow of revenue Funds can be divided into several types some of which are based on the investments that make up the predominant investment of the fund (ILO, 1996; Zurich Learning Canter, 2002).

2.3.1.1 Equity or stock funds and Fixed Income or Bond Funds

Equity funds invest mostly in stocks and are thus subject to volatility in commodity prices. These funds invest mainly in well-established companies with regular dividends, young high-tech companies, and underperforming companies. Equity funds are volatile but represent the most potential gains in the long term. Bond funds, on the other hand, comprise primarily of bonds that produce regular income (Solnik, 2000). Bond funds invest in a range of different qualities of bonds, from government bonds and treasury bills too high yield bonds. The maturity of the bonds plays a significant role in the return of that fund. Dividend received is directly proportional to maturity. Restitution for bond
funds will be lower than that of an equity fund, and the majority of the return will be of the interests the bonds produce (ICI, 1996).

2.3.1.2 Money Market Funds and Index Funds

Money Market Funds are short-term bond funds with high liquidity and are very insecure investments. Index funds are managed passively, on the other hand, are passively managed. They attempt to match the performance of a particular index, for example, in the US, the Standard and Poor's 500 Composite Stock Price Index (S&P 500), rather than have fund managers actively select stocks. Thus, the costs of index funds tend to be lower than actively managed mutual funds.

2.3.1.3 Asset Allocation Fund

These kinds of funds offer investors a standard approach to investment in a broadly diversified portfolio of money markets, stocks, and bonds. As market conditions change, asset allocation funds rebalance their investments among different kinds of assets (stocks, bonds, cash and real estate). These funds emphasize a quality oriented approach that combines the growth potential of stocks with the income and relative stability of bonds invested in different countries (Solnik, 2000).

Asset allocation funds can also be categorized as Income or conservative funds which typically invest in high-quality bonds or other mutual funds (Solnik, 2000). These funds are managed with the principal objective of providing current income to investors with little or no emphasize on the growth of principal. Another category is fixed allocation or balanced funds which are proportionally balanced between revenue and growth elements. These funds involve less risk than funds investing exclusively in common stocks. This means that the investor can achieve adequate growth without taking high risk (Zurich Learning Canter, 2002). Changing allocation or growth funds- these funds lean heavily toward stocks and are managed with the objective of increasing the investor's principal with little or no emphasize on current income. They are meant to be more aggressive.

2.3.1.4 Floor or Protection Funds

These are an alternative available to risk-averse, long-term investors. These funds give protection against adverse market movements by limiting the risk of losses. They provide
a continuous floor or minimal value; usually not lower the 95% of the bid price at the start decreases losses (Ferreira et al, 2006):

Calculating the net asset of the mutual fund give you the value of the unit trust. The NAV is how much the investor would receive for each share if the mutual fund sold all its assets. The mutual fund also has to pay off all its outstanding debts, and distribute the proceeds to shareholders NAV is the price per unit for a resource and is determined by the difference between the total market value of the funds' (CFA, 2010).

\[ \text{Net Asset Value} = \frac{\text{Assets and liabilities}}{\text{Outstanding units}} \]

NAV is termed as the book value of a unit

Net Asset Value = Totals of the market value of the mutual fund/ unit trust outstanding units number

The cost of buying and managing mutual funds/ unit trust can be quite varied there are three primary costs to consider (ICI, 1996; Zurich Learning Canter, 2002). In general, sales commission can range from 0% to 5% of the investment. Some funds are no-load funds which do not require a sales commission to purchase. They are sold directly to the investor instead of the broker. No load funds, however, may charge higher managing fees to compensate for this. The seller charges front-end loads when the fund is initially sold to the investor. Back-end loads or deferred loads are paid when the investor exits the fund. In addition to sales commission, the investor sometimes has to pay a redemption fee, which is usually lower than the selling commission.

The mutual fund's industry is growing rapidly worldwide. The growth in Europe has been spectacular especially in countries that do not have a pension fund system. International funds provide an efficient alternative to the direct purchase of foreign shares. Buying a country fund or a local fund (e.g., European Equity) allows participation in some markets in a risk diversified or cost-efficient way. Mutual funds invest money that doesn't belong to them that why their called institutional investors. Also, as mutual funds manage the money internally, they are also asset managers. (Solnik, 2000)

Mutual Funds and Unit Trusts, however, differ regarding their legal structures. The Capital Markets Authority Act, Cap. 485A (1990), defines mutual funds as any person
who us or holds himself out as being engaged or proposes to be engaged in the business of investing, reinvesting or trading in securities and which is offering for sale or has outstanding any redeemable shares of which he is the issuer.

Mutual funds are open-ended investment companies that continue to sell and purchase their shares after their initial public offering at a price based on the NAV per share. These are businesses that have to their major assets the portfolio of marketable securities referred to as a fund. They have boards of directors who oversee the operations of the company in the best interests of the shareholders, establish its investment and hire a separate investment management company to manage the portfolio of securities as well as the administrative functions involved in dealing with shareholders. The directors are acting as fiduciaries in the interests of the investors take major decisions regarding the structure of the fund and announcement of dividends and other distributions, but these decisions are subject to ratification by the shareholders of the company (Zimele Asset Management, 2000).

Unit Trusts are similar in structure as they have a fund, a trustee and a management company, each of which performs functions analogous to those different elements. A unit trust is under the trust deed, as defined in the Unit Trusts Act Cap. 521, the document that establishes its belief structure and contains full details of its constitution and investment objectives and sets out the provisions relating to its charges for every unit added there is a unit that is used in a unit trust which doesn’t happen for the mutual trust since it can't own assets on its own.

The legal owner of the property is the trustee who holds these assets as a fiduciary for the benefit of the unit holders. The trustee must at all times protect the interests of the unit owners, safeguard the property of the trust and ensure that the fund management company complies with the Trust Deed (Zimele Asset Management, 2000)

2.3.2 Investment Trust

Investment Trust share price is determined by the need for the shares, as well as the value of the underlying investments. An investment trust is more the same as the mutual funds. The investment trust is listed on the stock exchange due to its shares. Share purchaser buys shares from the company, and the company buys from another. The value of each
share varies with supply and demand; the share also varies with the value of the underlying asset. The market price for one share in the fund A and B will not be the same, and the price per share is less than the NAV as measured by percentage discount or percentage difference. One advantage Investment Trusts have over Unit Trust is that the investors tend to cash in units when stock markets are small (Zurich Learning Canter, 2010)

2.3.3 Open-Ended Investment Company (OEIC)

OEIC is a relatively recent development in CIS, and are hybrid investment funds that have some features of investment trusts and some of mutual funds/unit trusts. They issue shares and have the option of listing on stock exchanges like investment trusts. Unlike Investment Trusts, the investment expands and contract as investors join and leave the company, thus there is no fixed capital (Yuta, 2001). In OEICs shareholding and participation in the investment fund is one and the same thing. The board of directors to run is elected by shareholders. Their share prices usually reflect the asset value of the fund. They cannot be traded at a discount or premium, and they have to be evaluated daily, and a single price will be quoted to buyers and sellers alike (Yuta, 2001).

The advantages acquire in an OEIC are the same merits u get from a mutual fund or unit trust. One can spread his investment and get access to professional management at a lower cost. The OEIC can transfer umbrella funds through stock brokers and financial advisors. This may result in a reduction of trading costs when investors switch from one sub-fund to another (CFA, 2010).

In practice, in the UK, there have been funds changing from unit trusts to OEIC status. This is large because the corporate code of OEICs is more transparent and flexible than relying on unwritten trust deeds underlying the unit trust. OEIC is the equivalent to European SICAV (Societe d; Investment a Capital Variable) funds (Solnik, 2000; Zurich Learning Canter, 2002)
2.4 Challenges facing Collective Investment Schemes

2.4.1 Supervisory and Regulatory Authority

A single regulatory authority should have paramount responsibility for funds within its jurisdiction. Funds should be registered with or authorized by the regulator before the operator begins marketing activity (St Giles et al, 2003). The regulator must have the power to promulgate and apply regulations and inspect and investigate fund management companies. It should also have adequate powers to protect the interests of investors, including revocation of licenses, suspension of dealing, freezing of fund or fund management companies' assets, levying fines, withdrawing fund authorization, commencing civil proceedings and recommending criminal prosecutions.

Under the CIS Act, the CMA, which is the capital markets regulator, has been given a lot of powers of supervision and intervention in CIS through monitoring them, carrying out inspection visits, investigations, and enforcement of the laws and regulations governing these schemes. (Collective Investment Schemes, 2003) This, therefore, should create investor protection because the CMA is always supervising the activities of the projects to ensure there is compliance with the laws and regulations. To carry out its functions, the regulatory authority requires sufficient staff with adequate training and remuneration. The regulator also needs sufficient legal power and independence to accomplish its investigatory and enforcement missions (Thompson, 2007). The question, however, is whether CMA has the required capacity and technocrats to regulate capital markets ethically and professionally? Many industry players have argued that CMA has no ability to control the financial markets adequately (Alexeeva, 2000). Some industry players have claimed that CMA does not have sufficient staff to carry out inspections and one such instance is regarding Hurry Finch Investments Ltd which a company was holding itself out as a unit trust and promising investors great returns, but it was not licensed by CMA (Alexeeever, 2000). Many investors joined it and lost their money. Employees at CMA were informed about the impending fraud, but they failed to investigate and prevent the public from being defrauded. Investors may never recover their money, and this raises doubts about the capacity of CMA to adequately protect investors who participate in capital markets. Also, CMA is facing a severe crisis of credibility after its failure to take firm action against an errand fund management company that is alleged to have defrauded
the millions of shillings by under-declaring proceeds from transactions it handled on behalf of the provident fund. (Wakabi, 2008).

2.4.2 Legal Framework and its Compliance by Operators

All collective investment schemes (CIS) that are promoted to the investing public should be required to operate through a recognized legal and regulatory framework. A sound legal and regulatory framework is one that encourages the development of an environment conducive to informed risk-taking (Capital Markets Authority, 2009). There is, however, no universally accepted best legal form for CIS. Most countries, including all countries with well-developed financial markets, have enacted a body of legislation specifying the terms under which CIS may be offered. Such a framework is part of the broader system of capital market organization and oversight. Fundamental laws stipulate the legal forms in which CIS may be provided to the public and determine that an internal governance system must be established for each CIS (Ferreira et al., 2006).

In Kenya, the CIS are governed by a legal framework which includes the CIS Act, the principal legislation and the regulations made there under by CMA which include CIS (UT) Regulations, CIS (OEIC) Regulations, and CIS (Conduct of Business) Regulations, among others. The legal regime is meant to ensure that capital market players are regularly monitored to ensure compliance with regulations. This constant monitoring is therefore intended to make sure that investors are protected (Capital Markets Authority, 2009).

A functioning legal system that all parties have faith in is, therefore, a critical component of investor protection. Without a viable legal infrastructure in place, it is tough to create investor confidence. Market trust is a major factor in creating a vibrant market. If people do not have faith in the system, they will be reluctant to invest. There is a legal requirement that the schemes are required by law to have a compliance function in place. This means that managers, ACDs, depositaries, trustees and other service providers should have in place internal procedures and systems. They are needed to demonstrate if they are in compliance or not and to enable their management to demonstrate to the regulator that their business and the funds which they manage are operated in agreement with the law and regulations (CFA, 2010).
2.4.3 Eligibility Requirements for CIS and other Service Providers

Fund Management Company must be licensed independently of the licensing of the fund itself (Collective Investment Scheme, 2009). The purpose of licensing is to ensure that those who obtain licenses are honest, competent and solvent. The regulatory system, therefore, imposes standards of conduct and minimum eligibility for fund management companies to ensure they are of good repute before they issue out a license. These include capital adequacy and financial resources, the integrity of directors, competence and the ability to meet minimum standards of systems and procedures. In Uganda, the trustee must be either a bank or an insurance company licensed as such under the Financial Institutions Act or Insurance Act and approved to act as trustee by Capital Markets Authority. At this point, the trustee and the operator must not be related entities. This is to ensure that they do not take advantage of the investors but ensure that the trustee and depositary oversee the actions of the management company and that the investors are protected. Therefore, by making sure that only eligible companies participate in the capital markets, this enhances the protection of investors in collective investment scheme (Bhole, 1999).

Some industry players have stated that the eligibility requirements in the law are adequate in that investor protection is emphasized. (Bhole, 1999). However, some argue that the eligibility criteria required for the grant of a CIS and the conditions to be fulfilled before registration are somewhat lacking in that they are vague and others need clarification. It has also been argued that the regulations regarding the eligibility requirements are stringent. Apart from the obvious factors that affect all firms like erratic infrastructure services, high-interest rates and difficulties in accessing economic justice. There is a more insidious problem that hurts small businesses much more than large enterprises – that of high regulatory costs – the amount of business, time and money tied up in regulatory activities that could otherwise be spent on productive business activities (Collective Investment Scheme, 2009).

2.4.4 Separation of Assets from Management

CIS are one of the types of investments that are designed to afford some reasonable degree of protection to investors, and therefore to achieve this, CIS are structured in such a way that the assets of a scheme are held and controlled by an entity that is separate and
independent from the trustee/depositary. This is to prevent fund management companies or directors from stealing capital assets, and this also aims at ensuring that investors' property is protected. In Kenya, the Regulations provide that the property must be held and controlled by the trustee and depositary. (Capital Markets Authority, 2009)

Market players have argued that in as much as the law ensures that assets are held by an entity that is separate from the operator, the law poses a challenge in that it does not restrict the operator of unit trusts from providing other services in the capital markets and this situation leads to a conflict of interest. African Alliance Uganda is a fund operator, but it is also licensed as an investment adviser and a stock broker. This is not accepted in the developed markets like in the USA and other markets since it leads to a conflict of interest (CFA, 2010). A client should have free services from different service providers so as to ensure that no conflict of interest arises. For example, Old Mutual Fund is a South African company whose subsidiary Old Mutual in Kenya is licensed as a unit trust operator. It was denied a permit to operate as a stockbroker in Kenya because they were already licensed as a unit trust operator since this would have led to issues of conflict of interest which may be detrimental to the investors. Besides, being a stockbroker and fund manager at the same time leads to short selling to the detriment of the investor (Capital Markets Authority, 2002)

2.4.5 Governance of CIS

CIS are a unique product in the capital market in that they are organized and operated by people whose primary loyalty and pecuniary interest lies outside the enterprise. Thus, the need for effective governance of CIS cannot be overemphasized, especially when the CIS are repositories of trust and investors' hard-earned money; but the task of providing such protection is a difficult one. The governance structure of CIS has the potential for conflict of interest and other kinds of abuses (CFA, 2010) The CIS legal and regulatory framework has tried to address these issues, but a lot is still needed in this area to achieve protection of the investors. It has been noted that "increasingly everything in the fund industry is favouring the manager at the expense of the shareholder. Mutual funds provide insufficient protection for shareholder interests and no haven from opportunistic behaviour(Capital Markets Authority, 2009).
Warren Buffet, writing in the New York Times on "Who Cooks the Books" stated that "to clean up their act, CEOs don't need independent directors. Oversight committees or auditors free of conflict of interest but merely need to do what is right!" and the essence is "to do what is right." But what is right may not always be self-evident. In fact, most ethical dilemmas are because of two competing ethical concerns and the judgment required to sacrificing one for the other. Jackson J points out in his book Introduction to Business Ethics that there are two difficulties in ethical business behaviours i.e. difficulties in identification of what is one's duty in a particular situation and problems with compliance with doing one's duty once one knows what it is (World Bank Institute 2001). Thus, even when they have undergone the analysis and requirements to make an ethical decision, they still must face the challenges of putting that decision into practice. Thus, the law may not be able to ensure that the professionals practice principles of good corporate governance and this will expose the investors to all kinds of risks seeing that they are not knowledgeable and are just relying on the professionals (World Bank Institute, 2001).

2.4.6 Asset Valuation and Pricing

Valuation of fund assets and pricing of fund shares or units are central to the operation of funds. If investors are to entrust their money to a shared pool, they must have confidence that the way in which the investments owned by that pool are valued and priced is fair and does not disadvantage them. The price of a unit in a scheme is arrived at by valuing the project property (Net Asset Value) and dividing it by the number of units in issue. In an OEIC, the price of a share of any class is calculated by valuing the scheme property attributable to shares of that class and dividing that value by the number of shares of the class in issue (Yue-Fang, 2010).

CIS operators should take great care in constructing and regulating valuation and pricing systems, to ensure that among other things, the pricing and valuation are correctly done and that investors are not misled. Thus, a manager and ACD are required to value the underlying assets of a scheme periodically. The evaluation period must be stated in the project sand prospectus (CFA, 2010). However, the assessment points shall not be less frequent than specified in the project details and prospectus and any event not less than once in two weeks.422 In the case of false valuations, investors can easily be disadvantaged either to the benefit of other investors or more seriously to the interest of
the fund management company which may be able to gain in some different ways. Also since the net asset value of the fund is the sole means by which investors can judge the performance of the fund manager, any error in valuation or manipulation of reserve asset prices on which assessments are based may cause existing or potential investors to take investment decisions based on misleading or even fraudulent information (Yue-Fang, 2010)

2.5 Chapter Summary

The chapter is a literature review of existing research literature on the factors that affect the performance of CIS, products offered in CIS and the challenges that CIS face. The discussion tackles all the research questions posed and provides a theoretical background for the study. The next chapter on Research Methodology presents the research design, population and sampling design, data collection methods, research procedures and data analysis methods used in the study
CHAPTER THREE

3.0 RESEARCH METHODOLOGY

3.1 Introduction

This chapter presented the research methodology. The chapter covered research design, population and sampling design, data collection methods, research procedures, data analysis methods and chapter summary. The validity and reliability tests were also discussed.

3.2 Research Design

The research design adopted was the descriptive study 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 (Mathews & Kostelis, 2011). According to Denscombe (2007), detailed designs emphasizes on producing data based on real world observation through a purposeful and structured approach. Researchers can draw inferences about the relationship between variables from related variations of independent and dependent variables (Polit & Beck, 2001). Denscombe (2007) added 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 were financial reporting, financial transaction processing and financial control and governance (Schneider & White, 2004).

3.3 Population and sampling design

A population is the entire set of elements about which a researcher wishes to make some inferences; where community elements refer to the subject on whom the measurement is being been taken (Cooper & Schindler, 2005). A group of individuals with same characteristics that can be observed is termed as Target population (Mugenda, 2008). The more particular a population of interest is defined, the better the ability to describe and explain the behaviour intended to be studied. This was a case study of Kenya hence no population and sample since the population of collective investments schemes in Kenya is
small. According to Mugenda, (2003) when the population is small there’s no need to sample when time and resources since this enhances the reliability of data collected.

3.3.2 Sampling Design

3.3.2.1 Sampling Frame

The sampling frame for this study was finance managers at the 20 Collective Investment Schemes listed at the Nairobi security exchange as obtained from list of licensees and approved institutions as at December 30, 2016 from the Capital Markets Authority (CMA).

3.3.2.2 Sampling Technique

A sample is the segment or subset of the population that is selected for research and the methods of selection of a sample are referred to as sampling techniques which may be based on probability sampling or non-probability sampling (Bryman, 2012). The key distinction is that under probability sampling every individual or unit has an equal and known chance of being selected (Kothari, 2004).

The complete enumeration of all items in the entire population is known as a census inquiry (Bryman, 2012; Kothari, 2004). Census was used in this study since the population of the licensed capital markets intermediaries is less than one hundred in totality. All the licensed firms were issued with questionnaires for the study. Data for a research study can be collected from primary and/or secondary sources. Kothari (2004) stated that primary data is collected firsthand and used for the intended purposes of research. Secondary data is already published or collected by other researchers and may be used for purposes that may not have been envisaged by those responsible for the data collection in the first place (Bryman, 2012). For this study, data was collected from primary and secondary sources. Sampling was not undertaken in this study as a census inquiry was preferred instead.

3.3.2.3 Sample Size

The sample size of the study included 2 fund managers’ from each of the 20 collective investment schemes. A census was preferred for the study due to the availability of time
and the homogeneousness of the respondents and the high accuracy required by the researcher.

3.4 Data Collection Methods

A structured questionnaire was used to collect data. According to Saunders et al., (2009) 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 are seeking to find answers to the research questions, and the respondents are provided with a list of closed-ended and open-end questions based on each particular objective. The research instrument is designed using measurement variables such as nominal, ordinal, interval and ratio scales as recommended by Kothari (2004). Denscombe (2007) Andrea et al (1999) observes that simple data come from counting things and placing them into a category.

The study conducted descriptive statistics on the various variables considered in the study performing the mean and standard deviations on the set statements. Respondents were asked to respond to a set of statements on a five-point likert scale where 5=strongly agreed, 4= agreed 3= neutral, 2= disagree, 1= strongly disagree. As shown in table 4. 5, in table 4.7, the total aggregate mean on the institutional factors was 4.200 implying that majority of the respondents strongly agreed and while a standard deviation of .2979 implies that their responses were coherent. Lastly in table 4.9, the total aggregate mean on the Challenges Facing Collective Investment Schemes was 4.481 implying that majority of the respondents strongly agreed and while a standard deviation of .3711 implies that their responses were coherent.

Like technical data, however, ordinal data are based on some things assigned to specific groups, but, in this case, the classes stand in some clear, ordered, ranked relationship. This means that the data in each group 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 Collective Investment Schemes 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 is seeking respondents' demographic profile such as gender, age, education, years they have held investment, among others. The second section comprises of Likert Scale questions about the product features to consider before investing in Collective Investment Schemes. Similarly, the third section consists of questions about the institutional features. The last section contains questions concerning the challenges that affect investment decisions on Collective Investment Schemes.

3.5 Research Procedures

According to Bryman (2012), although the terms reliability and validity seem to be almost synonymous, they have quite different meanings in relation to the evaluation of measures of concepts. Reliability refers to the consistency of a measure of a concept and there are three prominent factors involved when considering whether a measure is reliable which include stability, internal reliability and inter-observer consistency. Stability entails asking whether a measure is stable over time, so that we can be confident that the results relating to that measure for a sample of respondents do not fluctuate. Internal reliability is concerned with whether the respondents’ scores on any one indicator tend to be related to their scores on the other indicators. Inter-observer consistency arises when a great deal of subjective judgment is involved where more than one ‘observer’ is involved in a research (Bryman, 2012).

Bryman (2012) noted that validity refers to the issue of whether an indicator (or set of indicators) that is devised to gauge a concept really measures that concept. There are several ways of establishing validity which include: face validity, concurrent validity, predictive validity, construct validity and convergent validity. Though reliability and validity are analytically distinguishable, they are related because validity presumes reliability (Bryman, 2012).

A pre-test is a trial administration of the identified data collection instrument to pinpoint flaws and is carried out by testing of one’s instruments with participants who match the participants to be involved in the actual study (Kothari, 2004). This helps to determine the extent to which the questionnaire communicate and ensure its effectiveness. Feedback from the respondents is reviewed to check convergence of responses and ascertain whether all the questions are interpreted in the same way by the respondents, and if there
is any research bias. Before commencing the main study, a pre-test was conducted on two pre-selected companies. The questionnaires were administered on them and discussions held with them to help determine the validity and reliability of the questionnaires. This helped to correct errors and check the validity of the questionnaire.

3.6 Data Analysis Methods

To analyse data, coding, collection and entering information in the Statistical Package for the Social Sciences (IBM SPSS 20.0) was done. Coding refers to the attribution of a number to a piece of data, or group of data, with the main aim of allowing such data to be analysed in quantitative terms (Denscombe, 2007). Descriptive statistical techniques were then used to present and analyse measures of central tendency. The descriptive analysis gives any researcher the capability to determine and summarize significant quantities of data using reasonable means. The above statement is according to Healey (2005)

This consists 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 technique, which was used, includes mean and standard deviation as well as percentage frequencies. (Gill, J. & Johnson, P. 2006)

Inference on the relationship between variables was drawn using correlation analysis techniques. The correlation method used is Spearman's rank correlation coefficient which, according to Healey (2011), is a statistic which is used to measure the relationship of paired positions assigned to individual scores on two variables. Determining factor structure and the strength of the factors affecting the performance of Collective Investment Schemes was determined using a factor analysis method. This was done to confirm or refute the outcomes of previous research findings. Completeness of qualitative data collected also checked for and cleaned ready for data analysis. In this case, data was coded and entered into the Statistical Package for the Social Sciences and result was then presented in figures and tables.
3.7 Chapter Summary

This chapter presents the research methodology that was used for this study. The chapter covers research design, population, and sampling design, data collection methods, research procedures, data analysis methods. The section also looks at how the study was conducted and how reliable the previous investigations were based on the analysis in the next chapter. The article also states the methods for collecting data to be used, and it is a way to show how reliable and accurate it is analysis stage. The next chapter presents the results and findings of the study.
CHAPTER FOUR

4.0 RESULTS AND FINDINGS

4.1 Introduction

This chapter presented the analysis and interprets the findings obtained from the field based on the objective of the study. The objective of the study was to establish the factors that affect the performance of Collective Investment Schemes in Kenya. To this end, the study administered questionnaires to 40 respondents out of which 39 filled and returned. The findings are presented in tables, pie chart, bar graph, figures, and interpretation thereafter.

4.2 Response Rate and Demographic Characteristics of the Respondents

4.2.1 Response Rate

The total questionnaires issued to respondents were 42, out of which only 39 were fully filled and returned while 2 declined to participate in the study while 1 was absent during the data collection. This implies that there was 92% response rate which is considered a good response rate. The study considered the frequencies and percentages of variables under consideration.

4.2.2 Gender of the Respondents

The study sought to determine the gender of the respondent and therefore requested the respondent to indicate their gender it is evident that most respondents in the study were females who had a representation of 61% while the males were only 39% of the total participants. This is an indication that both genders were involved in this study and thus the finding of the study did not suffer from gender bias.
4.2.3 Age of the Respondents

The study sought to determine the age category of the respondents and requested them to indicate their age category. Majority of the study respondents were aged between 40 and 49 years with 38%, followed by respondents aged between 30-39 years and those who were below between 20-29 years with 33% and 6% respectively; respondents aged above 50 years were 23% of the total population in terms of age. This is an indication that respondents were well distributed in terms of their age and that elderly people are more enlightened with the factors that affect the performance of Collective Investment Schemes in Kenya compared to their elder counterparts.

Table 4.1: Age of the Respondents

<table>
<thead>
<tr>
<th>Age</th>
<th>Freq.</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Between 20-29 years</td>
<td>3</td>
<td>6</td>
</tr>
<tr>
<td>Between 30-39 years</td>
<td>13</td>
<td>33</td>
</tr>
<tr>
<td>Between 40-49 years</td>
<td>15</td>
<td>38</td>
</tr>
<tr>
<td>Above 50 years</td>
<td>9</td>
<td>23</td>
</tr>
<tr>
<td>Total</td>
<td>39</td>
<td>100</td>
</tr>
</tbody>
</table>
4.2.4 Education of the Respondents

The study sought to determine the educational levels of the respondent and requested them to indicate their education level and is summarized below. It is evident that 0% of the respondents were of diploma holders while undergraduate and graduate respondents had representations of 59% and 41% respectively. This is an indication that most of the respondents engaged in this study had attained degree level of profession thus had enough knowledge to understand and respond to the questions.

![Pie chart showing 59% undergraduate and 41% graduate respondents](image)

**Figure 4.2: Education of the Respondents**

4.2.5. Portfolio Size

The study sought to determine the Portfolio size of which the respondents have held in the investment scheme and requested them to indicate the size they have held in the scheme and are summarized below. Only 33% of the respondents in the study have held investment of Kshs 101,000-150,000 while 66% the respondents in the study have held investment Kshs 151,000-200,000 while other categories were zero. This is an indication that most of the respondents engaged in this study had held a significant amount of manageable Portfolio size in a developing country thus had enough knowledge to understand and respond to the questions.
Table 4.2: Portfolio size

<table>
<thead>
<tr>
<th>Portfolio size</th>
<th>Freq.</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kshs 20,000-50,000</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Kshs 51,000-100,000</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Kshs 101,000-150,000</td>
<td>13</td>
<td>33</td>
</tr>
<tr>
<td>Kshs 151,000-200,000</td>
<td>26</td>
<td>67</td>
</tr>
<tr>
<td>Total</td>
<td>39</td>
<td>100</td>
</tr>
</tbody>
</table>

4.2.6 Length of Holding the Investment

The study sought to determine the length of time of which the respondents have held the investment and requested them to indicate the number of years they have held investments and are summarized below that 23% of the respondents in the study have held the investment for 1 – 3 years while 4 – 10 years and more than 10 years had representations of 49% and 28% respectively. This is an indication that most of the respondents engaged in this study had had held the investments for a reasonable number of years thus had enough knowledge to understand and respond to the questions.

Table 4.3: Length of Holding the Investment

<table>
<thead>
<tr>
<th>Length of Holding the Investment</th>
<th>Freq.</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 1 year</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>1 – 3 years</td>
<td>9</td>
<td>23</td>
</tr>
<tr>
<td>4 – 10 years</td>
<td>19</td>
<td>49</td>
</tr>
<tr>
<td>More than 10 years</td>
<td>11</td>
<td>28</td>
</tr>
<tr>
<td>Total</td>
<td>39</td>
<td>100</td>
</tr>
</tbody>
</table>

4.2.6. Frequency of Transacting the Stock Market

The study sought to determine the Frequency of transacting the stock market by the respondents and requested them to indicate their frequencies and is summarized below. As shown in table 4. 4, it is evident that 46% of the respondents in the study of transact in the stock market daily while weekly and quarterly transactions had representations of 36% and 13% respectively only 5% of the respondents transact annually in the stock
markets. This is an indication that most of the respondents engaged in this study have transacted in the stock markets concerning collective investment schemes in Kenya thus had enough knowledge and experience to understand and respond to the questions.

Table 4.4: Frequency of Transacting the Stock Market

<table>
<thead>
<tr>
<th>Frequency transacting the stock market</th>
<th>Freq.</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Daily</td>
<td>18</td>
<td>46</td>
</tr>
<tr>
<td>Weekly</td>
<td>14</td>
<td>36</td>
</tr>
<tr>
<td>Quarterly</td>
<td>5</td>
<td>13</td>
</tr>
<tr>
<td>Annually</td>
<td>2</td>
<td>5</td>
</tr>
<tr>
<td>Total</td>
<td>39</td>
<td>100</td>
</tr>
</tbody>
</table>

4.3 Products Offered in Collective Investment Schemes

This section provides an analysis of the Products offered in collective investment schemes, the participants were asked to respond to a set of statements on a five point Likert scale where 5=strongly agreed, 4= agreed 3= neutral, 2= disagree, 1= strongly disagree.

As shown in table 4.5, the first statement was on whether the current products offered in Kenya by the Collective Investment Schemes are commendable. The mean score for responses was 4.443 indicating that a majority of the participants strongly agree in their responses to the statements. The standard deviation indicates that a majority of the responses did not vary from the mean by more than 0.649. The second statement sought to determine the extent to which they agree on whether the rules set up in the maintenance of Collective Investment Schemes being too stringent. A mean of 2.323 suggests that a majority of the participants were neutral in their responses. A standard deviation of 0.878 indicates that the responses did not vary from the mean score. The third statement asked participants whether the information available on Investment Funds is very helpful and can help one make informed decision on the investment schemes. A mean score of 4.589 implies that majority of the respondents strongly agreed with the statement. The responses did not vary from the mean score by more than 0.6612.
Further the fourth statement sought to establish extent of agreement on the existent manual trading system being capable of handling Collective Investment Schemes and other capital market transactions. Majority of the participants were disagreed with a mean score of 2.000 and standard deviation of 0.8423 implies that they were in cohesive in their responses. The fifth statement sought to establish the extent to which they agree that the Charges imposed on issue and redemption of shares and units are not restrictive for the individual investor. Majority of the participants strongly agree with a mean score of 4.257 and standard deviation of 0.1878 implies that they were similar and did not vary in their responses.

The sixth question sought to determine the extent to which they agree that the information to be contained in the information memorandum is sufficient for investors to make informed decisions. A mean of 2.789 suggests that a majority of the participants were neutral in their responses. A standard deviation of 0.5237 indicates that the responses did not vary from the mean score. More so the seventh question sought to determine the extent to which they agreed in their responses that the timing and manner of valuation of shares/units and determination of income, as prescribed are satisfactory. A mean of 2.130 suggests that a majority of the participants rate it as good. A standard deviation of 0.6186 indicates that the responses did not vary from the mean score.
Table 4.5: Products Offered

<table>
<thead>
<tr>
<th>Statements</th>
<th>N</th>
<th>MEAN</th>
<th>Standard deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>The current products offered in Kenya by the Collective Investment Schemes are commendable</td>
<td>39</td>
<td>4.443</td>
<td>0.6498</td>
</tr>
<tr>
<td>The rules set up in the maintenance of Collective Investment Schemes is too stringent</td>
<td>39</td>
<td>2.323</td>
<td>0.8788</td>
</tr>
<tr>
<td>The information that is available on Investment Funds is very helpful and can help one make informed decision on the investment schemes</td>
<td>39</td>
<td>4.589</td>
<td>0.6612</td>
</tr>
<tr>
<td>The existent manual trading system is capable of handling Collective Investment Schemes and other capital market transactions.</td>
<td>39</td>
<td>2.000</td>
<td>0.8423</td>
</tr>
<tr>
<td>Charges imposed on issue and redemption of shares and units are not restrictive for the individual investor.</td>
<td>39</td>
<td>4.257</td>
<td>0.1878</td>
</tr>
<tr>
<td>Information to be contained in the information memorandum is sufficient for investors to make informed decisions.</td>
<td>39</td>
<td>2.789</td>
<td>0.5237</td>
</tr>
<tr>
<td>The timing and manner of valuation of shares/units and determination of income, as prescribed are satisfactory.</td>
<td>39</td>
<td>3.986</td>
<td>0.9388</td>
</tr>
<tr>
<td>Total aggregate</td>
<td>39</td>
<td>3.484</td>
<td>0.6689</td>
</tr>
</tbody>
</table>

4.3.1 Correlation between Products Offered and the performance of Collective Investment Schemes

Correlation analysis was done to investigate the existence and nature of relationship between products offered and the performance of Collective Investment Schemes in Kenya.

From the analysis, it was noted that there was a significant and positive correlation ($r = 0.813$). The independent variable considered here had a strong positive relationship with dependent variables as explained by adjusted R2 of 0.661. The significance level is 0.000
which is below 0.05 (p< 0.05) implying that the relationship between products offered and the performance of Collective Investment Schemes in Kenya is significant. The finding is consistent Yuta, (2001) who urged that Collective Investment is share–based products run by experts that allow investors to spread the risk over a wide range of companies, sectors, and markets with a limited amount of money. Collective Investment Schemes is especially useful for new investors who are cautious and those that have limited funds. Although many perform well, one of the disadvantages is that their performance will rarely match that of an individual winning company share. On the other hand, they are likely to face large losses. An important feature of CIS is that they are passive investors; they do not usually exercise control over their investee companies and this sense are quite different from holding companies. More so it agrees with Zimele Asset Management, (2000) who argue there are major parties in any CIS, the investors whose assets have been pooled into a fund, the body of fiduciaries who oversee the management and investment of the company.

Table 4.6: Correlation between Products Offered and the performance of Collective Investment Schemes

<table>
<thead>
<tr>
<th>Performance of Collective Investment Schemes</th>
<th>Products Offered</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Pearson Correlation</td>
</tr>
<tr>
<td></td>
<td>R²</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
</tr>
<tr>
<td></td>
<td>N</td>
</tr>
</tbody>
</table>

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

4.4 Institutional Factors

This section provides an analysis of the institutional factors, the participants were asked to respond to a set of statements on a five-point Likert scale where 5=strongly agreed, 4= agreed 3= neutral, 2= disagree, 1= strongly disagree.

The study asked the participants in the eighth statements the extent to which they agree that the level of disposable income influences the investments in unit trusts among retail investors. The majority of the participants agree as indicated by a mean score of 4.001
and standard deviation of .2388. Further the study in the ninth statements sought to rate the extent to which the respondents agree that personal investment objectives (capital growth & reservation) is a key factor investor consider while investing in Unit Trusts. A mean score of 4.571 and standard deviation of .1798 implies that the majority of the participants strongly agree and their responses were in coherent.

The tenth statement was on whether education level has an impact on investment decisions retail investors make while investing in Unit Trusts. As shown in Table 6, the mean score for responses was 3.476 indicating that a majority of the participants agree in their responses to the statements. The standard deviation indicates that a majority of the responses did not vary from the mean by more than 0.1988. Based on the table 4.7 the eleventh statements sought to determine the extent to which they agreed on the reputation of the fund manager being a key factor to consider while investing in Unit Trust Funds. A mean of 4.189 suggests that a majority of the participants strongly agree with the statements. A standard deviation of 0.2199 indicates that the responses did not vary from the mean score. Furthermore, the twelfth statement asked participants the extent to which they agreed on whether the Unit Trust fund past performance has an influence in its future performance too. A mean score of 4.763 implies that majority of the respondents strongly agreed. A standard deviation of .2199 indicates that the responses did not vary from the mean score.
Table 4.7: Institutional Factors.

<table>
<thead>
<tr>
<th>Statements</th>
<th>N</th>
<th>Mean</th>
<th>Standard deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>The level of disposable income influences the investments in Unit Trusts</td>
<td>39</td>
<td>4.001</td>
<td>.2388</td>
</tr>
<tr>
<td>Personal investment objectives (capital growth &amp; reservation) is a key factor investor consider while investing in Unit Trusts</td>
<td>39</td>
<td>4.571</td>
<td>.1798</td>
</tr>
<tr>
<td>Education level has an impact on investment decisions retail investors make while investing in Unit Trust</td>
<td>39</td>
<td>3.476</td>
<td>.1988</td>
</tr>
<tr>
<td>Reputation of the fund manager is a key factor to consider while investing in Unit Trust Funds</td>
<td>39</td>
<td>4.189</td>
<td>.2199</td>
</tr>
<tr>
<td>The Unit Trust fund past performance has an influence in its future performance too</td>
<td>39</td>
<td>4.763</td>
<td>.1522</td>
</tr>
<tr>
<td>Total aggregate</td>
<td>39</td>
<td>4.200</td>
<td>.2979</td>
</tr>
</tbody>
</table>

4.4.1 Correlation between Institutional Factors and the performance of Collective Investment Schemes.

The study further conducted a Correlation analysis to investigate the existence and nature of relationship between Institutional Factors and the performance of Collective Investment Schemes. From the analysis, it was noted that 63% of the dependent variable is explained by the independent variable. There was a significant and positive correlation among the variables considered as shown by the R square of 0.630. The significance level is 0.001 which is below 0.05 (p< 0.05) implying that the relationship between Institutional Factors and the performance of Collective Investment Schemes is significant.
Table 4.8: Correlation between Institutional Factors and the performance of Collective Investment Schemes.

<table>
<thead>
<tr>
<th>Performance of Collective Investment Schemes</th>
<th>Institutional Factors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pearson Correlation R</td>
<td>.794**</td>
</tr>
<tr>
<td>$R^2$</td>
<td>.630</td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td>.000</td>
</tr>
<tr>
<td>N</td>
<td>39</td>
</tr>
</tbody>
</table>

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

4.5 Challenges Facing Collective Investment Schemes

This section provides an analysis of the challenges facing collective investment schemes, respondents were asked to respond to a set of statements on a five-point likert scale where 5=strongly agreed, 4= agreed 3= neutral, 2= disagree, 1= strongly disagree. The thirteenth statement asked participants the extent to which they agreed on whether the Investor protection as provided under the various laws is sufficient. A mean score of 4.571 implies that majority of the respondents strongly agreed. The responses did not vary from the mean score by more than 0.1798. The fourteenth statement sought to establish the extent to which they agreed with the Screening rules for entrants into the CIS industry will limit institution risk. Majority of the participants rate it as very good with a mean score of 4.631 and standard deviation of 0.1988 implies that they had similar responses.

Based on table 4.9 the fifteenth statement sought to establish the extent to which agreed that Legislation clearly addresses and seeks to control compliance risk. Majority of the participants rate it good with a mean score of 4.442 and standard deviation of 0.1998 implies that they were in agreement and did not vary. The sixteenth statement was on the integrity and reputation of fund managers, custodians and trustees are important to investors. As shown in Table 4.9, the mean score for responses was 4.341 indicating that a majority of the participants strongly agreed. The standard deviation indicates that a majority of the responses did not vary from the mean by more than .8410.

The seventeenth statements sought to determine the extent to which they agree that a disclosure requirement as provided for under the various legislations is encompassing a
mean of 2.598 suggests that a majority of the participants were neutral. A standard deviation of 0.7199 indicates that the responses were incoherent with the mean score. The eighteenth question asked participants how there is little chance of machination between the custodian, trustee, board of directors and fund manager, to the investors’ detriment. A mean score of 2.598 implies that majority of the respondents were neutral in their responses. The responses did not vary from the mean score by more than 0.7199. Furthermore, the nineteenth statements sought to establish the extent to which they agreed whether the Capital Market Tribunal will have the judicially independent and competent to enforce and protect investors’ rights. Majority of the participants strongly agreed as shown with a mean score of 4.334 and standard deviation of 4.334 implies that they were cohesive in their responses to the question. The twentieth sought to establish the extent to which they agreed on whether the relevance of the current regulatory framework is not too severe. Majority of the participants disagreed as shown by a mean score of 1.899 and standard deviation of 0.8655 implies that they were in agreement and did not vary as shown
Table 4.9: Challenges Facing Collective Investment Schemes in Kenya

<table>
<thead>
<tr>
<th>Statements</th>
<th>N</th>
<th>Mean</th>
<th>Standard deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investor protection as provided under the various laws is sufficient.</td>
<td>39</td>
<td>4.571</td>
<td>.1798</td>
</tr>
<tr>
<td>Screening rules for entrants into the CIS industry will limit institution risk.</td>
<td>39</td>
<td>4.631</td>
<td>.1988</td>
</tr>
<tr>
<td>Legislation clearly addresses and seeks to control compliance risk.</td>
<td>39</td>
<td>4.442</td>
<td>.1998</td>
</tr>
<tr>
<td>The integrity and reputation of fund managers, custodians and trustees are important to investors.</td>
<td>39</td>
<td>4.341</td>
<td>.2199</td>
</tr>
<tr>
<td>Disclosure requirements as provided for under the various legislation is encompassing.</td>
<td>39</td>
<td>4.571</td>
<td>.1799</td>
</tr>
<tr>
<td>There is little chance of machination between the custodian, trustee, board of directors and fund manager, to the investors’ detriment.</td>
<td>39</td>
<td>2.598</td>
<td>.7198</td>
</tr>
<tr>
<td>The Capital Market Tribunal will have the judicially independent and competent to enforce and protect investors’ rights.</td>
<td>39</td>
<td>4.334</td>
<td>.2144</td>
</tr>
<tr>
<td>The current regulatory framework is too severe.</td>
<td>39</td>
<td>1.899</td>
<td>.8655</td>
</tr>
<tr>
<td>Total aggregate</td>
<td>39</td>
<td>4.481</td>
<td>.3711</td>
</tr>
</tbody>
</table>

4.5.1 Correlation between Challenges Facing Collective Investment Schemes and the performance of Collective Investment Schemes.

Additionally, the study sought to establish the relationship between Challenges Facing Collective Investment Schemes and the performance of Collective Investment Schemes. The results indicate the existence of a strong significant relationship ($R^2 = 0.629$) between challenges facing collective investment schemes and the performance of Collective Investment Schemes.
Based on table 4.10 the significance level is 0.000 which is below 0.05 ($p < 0.05$) implying that the relationship between Challenges Facing Collective Investment Schemes and the performance of Collective Investment Schemes. This finding is in agreement with MacCullah F. and Muhakanizi K (2002) who argued that making sure that only eligible companies participate in the capital markets; this enhances the protection of investors in collective investment schemes.

Table 4.10: Correlation between Challenges Facing Collective Investment Schemes and the performance of Collective Investment Schemes

<table>
<thead>
<tr>
<th>Challenges Facing Collective Investment Schemes</th>
<th>Pearson Correlation</th>
<th>$R^2$</th>
<th>Sig. (2-tailed)</th>
<th>N</th>
</tr>
</thead>
<tbody>
<tr>
<td>Performance of Collective Investment Schemes</td>
<td>.793**</td>
<td>.629</td>
<td>.000</td>
<td>39</td>
</tr>
</tbody>
</table>

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

4.6 Chapter Summary

This chapter presents the characteristics of the respondents’ financial products offers in the financial markets, correlation of financial markets and performance of collective investment schemes, correlation of institutional factors on performance. Finally, the chapter showed the correlation between the challenges faced and performance of CIS.

The next chapter presents summary, discussion and conclusions and recommendation of the study
CHAPTER FIVE

5.0 DISCUSSION, CONCLUSIONS AND RECOMMENDATION

5.1 Introduction

This chapter brings forth the discussion where the findings of this study are compared to previous studies done. In addition, the section also features the conclusions and recommendations done for the findings achieved, and also the recommendations for further studies.

5.2 Summary

The purpose of this study was to investigate the factors that influence the performance of Collective Investment Schemes in Kenya. The study was guided by the following research questions: Do institutional factors influence the profitability of collective investment schemes in Kenya? What are the products offered in Collective Investment Schemes in Kenya? What are the challenges and solutions facing Collective Investment Schemes in Kenya?

The study assessed the factors that affect the performance of Collective Investment Schemes in Kenya with the adoption of a questionnaire data collection tool; data from 46 respondents were used in the analysis Quantitative. Data collected was analyzed using descriptive statistics using. Strategic package for social sciences (SPSS) and presented through percentages, means, standard deviations, frequencies and Karl Person’s coefficient of correlation. From the study findings, there was a good response rate at 92%. The study considered the frequency and percentages of variables under consideration where its s evident that most respondents in the study were females who had a representation of 61% while the males were only 39% of the total participants. Furthermore, most respondents had enough knowledge to understand and respond to the questions as depicted by respondent’s proportions who had attained undergraduate and graduate levels of education having representations of 50% and 41% respectively.

The second objective was to identify the products offered by the Collective Investment Schemes and whether the rules that have been put in place regarding the products were too stringent and most of the respondents were neutral to the matter. A majority of the
respondents agreed that the products offered were commendable and that the information offered in regard to the products offered was sufficient for the investors to make informed decisions.

The third objective was to identify the challenges facing collective investment schemes. Majority of the investors agreed that the laws that protect investors was not sufficient. They also agreed to the statement that there is little machination between the custodian, trustee board of directors and fund managers to the investors detriment.

Furthermore, Correlation analysis to investigate the existence and nature of relationship between products offered, institutional factors, and the challenges facing collective investment schemes with Performance of Collective Investment Schemes was conducted. From the analysis, it was noted that there was a strong significant and positive correlation (R square= 0.661, 0.630 and 0.629) in all respectively and the significance level in all is below 0.05 (p< 0.05) implying that the relationship between them and Performance of Collective Investment Schemes is strong positive relationship.

5.3 Discussion

5.3.1 Products Offered in Collective Investment Schemes

The products offered in the CIS are commendable while the information that is available on Investment Funds is very helpful and can help one make informed decision on the investment schemes though the information available on Investment Funds is usually helpful and can help one make informed decision on the investment schemes. (Faure, 1987). Collective Investment Scheme (CIS) is an umbrella term for pooled investments known by various names such as mutual funds and investment trusts. In recent years such projects have seen their assets under management grow rapidly in the United States, Europe and Asia (Zimele Asset Management, 2000) Collective Investment is share – based products run by experts that allow investors to spread the risk over a wide range of companies, sectors, and markets with a limited amount of money. Collective Investment Schemes is especially useful for new investors who are cautious and those that have limited funds. Although many perform well, one of the disadvantages is that their performance will rarely match that of an individual winning company share. On the other hand, they are likely to face large losses. An important feature of CIS is that they are
passive investors; they do not usually exercise control over their investee companies and
this sense are quite different from holding companies (Collective Investment Schemes, 2009).

Professional portfolio management requires a considerable degree of expertise, time,
resources, experiences, and attributes which individual investors do not possess. Reduced
dealing cost includes pooling money with that of other investor's means that you get a
higher return since you get to buy in bulk. Liquidity of individual investors may need to
finance their investments at short notice to meet financial emergencies. (ICI, 1996). An
open-ended CIS allows investors to cash in some or all their holdings at any time and to
receive the current market value of their investments which is calculated daily. Investors
in CIS have none of the rights connected with the individual investment of the fund. CIS
can be organized in the following legal forms. Depending on the underlying assets, CIS
may have different characteristics. They incorporate a variety of types of investments.
Mutual Funds/Unit Trusts are resources designed to permit thousands of investors to pool
their resources as unit holders, in funds that invest in some securities, such as quoted
stocks, government and corporate bonds, and money market instruments among others
(Zurich Learning Canter, 2002). The funds managed by the professional portfolio
manager belong to the unit holder. He is therefore entitled to a net funds income. This is
made up of the gross revenues generated less the operating expenses, such as trustee and
accounting fees and legal fees, such as stock exchange transaction fee among others. The
funds lose, gains, expenses, and incomes are shared equally by Investors. Hence this
shows that the respondents agree that charges imposed on issues and redemption of shares
are not restrictive for the individual investor.

This is in agreement with Perold and Salomon (1991) who believe that a large asset base
of a mutual fund eroded fund performance because of trading costs that were
associated with liquidity or price impact, whereas a small fund can easily put all of its
money in its best ideas Perold and Salomon (1991) suggest that the maximum fund
size could be in the region of $1.6bn-$2.0bn. this finding is in agreement with ICI
(2015) who argued that there exist a principal agency conflict between the investor
and the fund managers. Most fund managers may maximize fund size to increase their
performance fees. Within the past two decades, the mutual fund industry has grown
globally. Mutual funds had increased from 69,492 to 79,669 in 2010 and 2014
respectively. There has been a growth in the global assets from $4 trillion to $33.3 trillion in 1993 and September 2014 respectively. The above statistics is by four regions Europe, United States, Asia and the world.

Since each fund has its own investment objectives described in the fund’s trust deed. The different funds with different investment objectives are called fund families. In most cases, investors can usually withdraw money from one fund and invest it in another of the same family with minimal or no charge. Funds can be divided into several types some of which are based on the investments that make up the predominant investment of the fund, they include equity or stock funds and Fixed Income or Bond Funds, Money Market Funds and index funds Asset Allocation Fund, Floor or Protection Funds (Solnick, 2000).

OEIC is a relatively recent development in CIS, and are hybrid investment funds that have some features of investment trusts and some of mutual funds/unit trusts. They issue shares and have the option of listing on stock exchanges like investment trusts. Unlike Investment Trusts, the investment expands and contract as investors join and leave the company, thus there is no fixed capital. In OEICs shareholding and participation in the investment fund is one and the same thing. The board of directors to run is elected by shareholders (Zurich Learning Canter, 2002). Their share prices usually reflect the asset value of the fund. They cannot be traded at a discount or premium, and they have to be evaluated daily, and a single price will be quoted to buyers and sellers alike (Collective Investment Schemes, 2003)

The advantages acquire in an OEIC are the same merits got from a mutual fund or unit trust. One can spread his investment and get access to professional management at a lower cost. The OEIC can transfer umbrella funds through stock brokers and financial advisors. This may result in a reduction of trading costs when investors switch from one sub-fund to another. In practice, in the UK, there have been funds changing from unit trusts to OEIC status. This is large because the corporate code of OEICs is more transparent and flexible than relying on unwritten trust deeds underlying the unit trust (Collective Investment Schemes, 2003).

The findings of this study disagree with Zimele (2010) who argue that CIS in Kenya are not fully developed, and the knowledge and operations of CIS are still in its developing stages. The first company in Kenya to establish CIS was the Zimele Asset Management Company and was registered by CMA and RBA. The initiative for them then was to pool
resources together and come up with a substantial amount where they could invest in various interest-earning instruments like treasury bills, bonds, and commercial paper (Capital Markets Authority, 2009). They had three investment portfolios, an offshore portfolio which allows investors to invest in foreign companies, a balanced portfolio which combines both local and international markets and money markets which deal with short-term financial objectives like commercial papers (Michelson & Fortine, 2005).

5.3.2 Institutional Factors

Institutional Factors affect the performance of Collective Investment Schemes in Kenya to a large extend. There always exist a major agency conflict between the investor and the fund managers (Zimele Asset Management, 2000). Most fund managers want to maximize fund size to increase their performance fees. Most small funds managers have abandoned unsuccessful strategies for more successful ones to convince investors not to withdraw. CIS are a unique product in the capital market in that they are organized and operated by people whose primary loyalty and pecuniary interest lies outside the enterprise. Thus, the need for effective governance of CIS cannot be overemphasized, especially when the CIS are repositories of trust and investors' hard-earned money; but the task of providing such protection is a difficult one. This is in line with Zimele (2010) who argue that with CIS in Nairobi appear to have several problems ranging from stiff competitors who make them die before they are even launched or go through a very short life span compared to other businesses.

The governance structure of CIS has the potential for conflict of interest and other kinds of abuses. The CIS legal and regulatory framework has tried to address these issues, but a lot is still needed in this area to achieve protection of the investors. It has been noted that "increasingly everything in the fund industry is favouring the manager at the expense of the shareholder. Mutual funds provide insufficient protection for shareholder interests and no haven from opportunistic behaviour. Finn and Sawicki (2002) earlier found out that low fund was represented disproportionately among top performers but underrepresented among worst performers; indicating fund size may influence performance. Funds belonging to the same family give the family a comprehensive platform to enjoy economies of scale since they share capital expenses. This statement has been supported by McLeod & Malhotra(1997) and others but, as the scale of the fund family increases, the
average costs per fund within the fund family decreases as many of the capital expenses can be spread over a greater number of funds under management.

Maina (2011) reveals that smaller funds are more financially efficient than larger ones owing to the bigger ones sitting on large sums of money and inefficiently investing it. Smaller funds have lower financial resources which they must spend more judiciously. Furthermore, more significant pension funds with huge investments in the stock market are exposed to more risk compared with smaller funds. Fewer pension funds might be more financially efficient than larger ones, but economic efficiency does not necessarily translate into profitability.

Countries with strong legal institutions and strong liquid equity markets have resources that display better performances. It is recorded that non-US funds don't get negatively affected as the funds used to invest in illiquid and small stocks due to strong legal institutions and strong liquid equity markets (Ferreira et al, 2012). The liquidity of property included in the mutual fund portfolio plays an important part in mutual fund returns. Researchers have revealed that the highest cash mutual fund portfolio significantly underperforms the market in contrast to the lowest liquidity mutual fund portfolio, which significantly outperforms the market hence evidence of a liquidity premium in Thai mutual funds. Investors judge mutual fund schemes for investment by their professional expertise, status, performance, and size. Survey have suggested that enterprises should take measures and steps to increase their performance. Also, policy makers and governing bodies should abolish the schemes giving poor performance for an extended period (Ferreira et al, 2012).

Significant funds incurring excessive costs results in diminishing or even negative marginal returns. Initially, growth in fund size provides cost advantages, as brokerage costs for larger transactions are lower while research expenses increase less than proportionately with fund size. After exceeding an optimal size, too large a fund can lead to deviation from original objectives by investing in some lower quality assets, as well as increased administrative costs for additional coordination among staff to manage sub-funds (Indro et al, 1999). Also since the net asset value of the fund is the sole means by which investors can judge the performance of the fund manager, any error in valuation or manipulation of reserve asset prices on which assessments are based may cause existing
or potential investors to take investment decisions based on misleading or even fraudulent information (Pedro & Solomon, 1991)

5.3.3 Challenges Facing the Collective Investment Schemes

There has been a progressive growth in CIS but at a slower rate than expected. However, like other businesses which swim through the waves of business challenges to remain in the right momentum, some CIS in Nairobi appear to have several problems ranging from stiff competitors who make them die before they are even launched or go through a very short life span compared to other businesses (Zimele 2010). Many challenges which prevent them from properly performing, this include insufficient investor protection laws and screening rules for entrants into the CIS industry increases institution risk the regulator must have the power to promulgate and apply regulations and inspect and investigate fund management companies (Thomson, 2007). It should also have adequate powers to protect the interests of investors, including revocation of licenses, suspension of dealing, freezing of fund or fund management companies' assets, levying fines, withdrawing fund authorization, commencing civil proceedings and recommending criminal prosecutions. The CMA, has been given the controls of supervision and intervention in CIS through monitoring them, carrying out inspection visits, investigations, and enforcement of the laws and regulations governing these schemes. (Collective Investment Schemes, 2003 ). To carry out its functions, the regulatory authority requires sufficient staff with adequate training and remuneration. It also needs sufficient legal power and independence to accomplish its investigatory and enforcement missions (Thompson, 2007). The question, however, is whether CMA has the required capacity and technocrats to regulate capital markets ethically and professionally? Many industry players have argued that CMA has no ability to control the financial markets adequately (Capital Markets Authority, 2009)

Some industry players have claimed that CMA does not have sufficient staff to carry out inspections and one such instance is regarding Hurry Finch Investments Ltd which a company was holding itself out as a unit trust and promising investors great returns, but it was not licensed by CMA (Collective Investment Schemes, 2003). Many investors joined it and lost their money. Employees at CMA were informed about the impending fraud, but they failed to investigate and prevent the public from being defrauded. Investors may never recover their money, and this raises doubts about the capacity of CMA to
adequately protect investors who participate in capital markets (Capital Markets Authority, 2009). Also, CMA is facing a severe crisis of credibility after its failure to take firm action against an errand fund management company that is alleged to have defrauded the millions of shillings by under-declaring proceeds from transactions it handled on behalf of the provident fund. (Wakabi, 2008).

A sound legal and regulatory framework is one that encourages the development of an environment conducive to informed risk-taking. There is, however, no universally accepted best legal form for CIS. Most countries, including all countries with well-developed financial markets, have enacted a body of legislation specifying the terms under which CIS may be offered. Such a framework is part of the broader system of capital market organization and oversight (Ferreira et al, 2006). Fundamental laws stipulate the legal forms in which CIS may be provided to the public and determine that an internal governance system must be established for each CIS. A functioning legal system that all parties have faith in is a critical component of investor protection from the findings, it was confirmed that the regulatory framework was not strong enough to offer the investors protection and thus it is inefficient. Without a viable legal infrastructure in place, it is tough to create investor confidence. Market trust is a major factor in creating a vibrant market. If people do not have faith in the system, they will be reluctant to invest.

There is a legal requirement that the schemes are required by law to have a compliance function in place. This means that managers, ACDs, depositaries, trustees and other service providers should have in place internal procedures and systems. They are needed to demonstrate if they are in compliance or not and to enable their management to demonstrate to the regulator that their business and the funds which they manage are operated in agreement with the law and regulations. Some industry players have stated that the eligibility requirements in the law are adequate in that investor protection is emphasized. The eligibility criteria required for the grant of a CIS and the conditions to be fulfilled before registration are somewhat lacking in that they are vague and others need clarification. It has also been argued that the regulations regarding the eligibility requirements are stringent. (Capital Markets Authority, 2009) from the analysis it was observed that the legislation does not fully help control the compliance risk. The screening rules for entrants in the CIS do not limit institutional risk which shows that the legal framework is not strict and should be evaluated as they are vague. This disputes the study done by ILO (2002).
Apart from the obvious factors that affect all firms like erratic infrastructure services, high-interest rates and difficulties in accessing economic justice. There is a more insidious problem that hurts small businesses much more than large enterprises – that of high regulatory costs – the amount of business, time and money tied up in regulatory activities that could otherwise be spent on productive business activities. This is to prevent fund management companies or directors from stealing capital assets, and this also aims at ensuring that investors’ property is protected. In Kenya, the Regulations provide that the property must be held and controlled by the trustee and depositary. (Capital Markets Authority, 2009). Market players have argued that in as much as the law ensures that assets are held by an entity that is separate from the operator, the law poses a challenge in that it does not restrict the operator of unit trusts from providing other services in the capital markets and this situation leads to a conflict of interest (Collective Investment Schemes, 2009).

African Alliance Uganda is a fund operator, but it is also licensed as an investment adviser and a stock broker. This is not accepted in the developed markets like in the USA and other markets since it leads to a conflict of interest. A client should have free services from different service providers to ensure that no conflict of interest arises. For example, Old Mutual Fund is a South African company whose subsidiary Old Mutual in Kenya is licensed as a unit trust operator. It was denied a permit to operate as a stockbroker in Kenya because they were already licensed as a unit trust operator since this would have led to issues of conflict of interest which may be detrimental to the investors. (Collective Investment Schemes, 2003). Besides, being a stockbroker and fund manager at the same time leads to short selling to the detriment of the investor. CIS operators should take great care in constructing and regulating valuation and pricing systems, to ensure that among other things, the pricing and valuation are correctly done and that investors are not misled. Thus, a manager and ACD are required to value the underlying assets of a scheme periodically (CFA, 2010). The evaluation period must be stated in the project particular sand prospectus. However, the assessment points shall not be less frequent than specified in the project details and prospectus and any event not less than once in two weeks. In the case of false valuations, investors can easily be disadvantaged either to the benefit of other investors or more seriously to the interest of the fund management company which may be able to gain in some different ways (Capital Markets Authority, 2009).
5.4 Conclusions.

5.4.1 Products Offered in Collective Investment Schemes

The first research objective was on the products offered in collective investment schemes in Kenya. The findings of this study reveal that the products offered are commendable, the rules set up in the maintenance of the Schemes are stringent and the information available on Investment Funds is very helpful and can help one make informed decision on the investment schemes. This is revealed by the findings that the majority of the respondents agree as shown by the total aggregate mean on the products offered was 3.484 implying that majority of the respondents agreed and while a standard deviation of .6689 implies that their responses were coherent this is in line with.

5.4.2 Institutional Factors

The second research objective was on institutional factors influence on the profitability of collective investment schemes in Kenya. Institutional factors influence the profitability of collective investment schemes in Kenya as shown by the total aggregate mean on the institutional factors at 4.200 implying that majority of the respondents strongly agreed and while a standard deviation of .2979 implies that their responses were coherent.

5.4.3 Challenges and Solutions Facing the Collective Investment Schemes

The third research objective was on the challenges facing the collective investment schemes in Kenya. collective investment schemes in Kenya face a number of challenges which prevent them from properly performing this include insufficient investor protection laws and Screening rules for entrants into the CIS industry limits institution risk as shown in by the total aggregate mean on the of 4.481 implying that majority of the respondents strongly agreed and while a standard deviation of .3711 implies that their responses were coherent.
5.5 Recommendations

5.5.1 Recommendation for Improvement

The study recommends the policy makers to set up sound legal and regulatory frame that encourages the development of an environment conducive to informed risk-taking.

5.5.1.1 Products Offered in Collective Investment Schemes

CIS may be the missing link in increasing the performance and profitability of the country by increasing the returns, and therefore the study recommends the NSE to educate the public and investors on the CIS and how to invest in them to boost performance since the products offered are commendable.

5.5.1.2 Institutional Factors

The study recommends CIS to put in place corporate governance procedures to ensure that investors can judge the performance of the fund managers, preventing errors in valuation or manipulation of reserve asset prices on which assessments are based thus protect existing or potential investors from making investment decisions based on misleading or even fraudulent information.

5.5.1.3 Challenges and Solutions Facing the Collective Investment Schemes

The eligibility requirements in the law are adequate in that investor protection is emphasized. However, the eligibility criteria required for the grant of a CIS and the conditions to be fulfilled before registration are lacking since they are vague and others need clarification and the regulations regarding the eligibility requirements are stringent. The study recommends the policy makers to set up clarify and validate the conditions to be fulfilled before registration, more so relax the eligibility requirements are stringent to encourage the development of an environment conducive to informed risk-taking.

5.5.2 Suggestion for Further Research

From the general objective of the study and the research findings, the researcher suggests further studies be done on the very same topic but to cover a wider scope such as the all
CIS in Kenya in order to confirm if the research findings of this study will be the same further study be conducted based on other performance perspectives
REFERENCES

Alexeeva, E. et al. (2000). Managing Collective Investment Funds *Cadogan Financial*


Capital Markets (Collective Investment schemes) regulation (2001): Kenya gazette supplement no. 91 legal notice no. 181


Ibbotson, R & Kaplan, P (2000). 'Does asset allocation policy explain 40, 90 or 100 percent.


APPENDICIES

Appendix I: Data Collection Letter

Mercy Munee Kyalo
United States International University
P.O. Box 14634 – 00800
Nairobi.
02 February 2017

AIB Capital Limited
P.O Box 11019 – 00100
Nairobi

Dear Sir/Madam,

RE: REQUEST TO CONDUCT RESEARCH ON PERFORMANCE INFLUENCING COLLECTIVE INVESTMENT SCHEMES

I am carrying out a research to determine the factors that influence performance of collective investment schemes. This is in partial fulfilment 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,

Mercy Munee

(0728874231)
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 INSTITUTIONAL FACTORS INFLUENCE INVESTMENT IN COLLECTIVE INVESTMENT SCHEMES.

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

<table>
<thead>
<tr>
<th>Strongly agree</th>
<th>Agree</th>
<th>Neutral</th>
<th>Disagree</th>
<th>Strongly disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. The level of disposable income influence the investments in Unit Trusts among retail investors</td>
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<tr>
<td>2. Personal investment objectives (capital growth &amp; reservation) is a key factor investor considers while investing in Unit Trusts</td>
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<tr>
<td>3. Education level has an impact on investment decisions retail investors make while investing in Unit Trust</td>
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<tr>
<td>4. Reputation of the fund manager is a key factor to consider while investing in Unit Trust Funds</td>
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<tr>
<td>5. The Unit Trust fund past performance has an influence in its future performance too</td>
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</table>

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?

SECTION C: PRODUCTS THAT ARE OFFERED IN COLLECTIVE INVESTMENT SCHEMES

<table>
<thead>
<tr>
<th>Strongly Agree</th>
<th>Agree</th>
<th>Neutral or Undecided</th>
<th>Disagree</th>
<th>Strongly Disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. the current products offered in Kenya by the Collective Investment Schemes are commendable</td>
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<td>2. are the rules set up in the maintenance of Collective Investment Schemes is too stringent</td>
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<td>3. the information that is available on Investment Funds is very helpful and can help one make informed decision on the investment schemes</td>
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<td>4. The existent manual trading system is capable of handling Collective Investment Schemes and other capital market transactions.</td>
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<td>5. Charges imposed on issue and redemption of shares and units are not restrictive for the Individual investor.</td>
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<td>6. Information to be contained in the information</td>
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</table>
Memorandum is sufficient for investors to make informed decisions.

7. The timing and manner of valuation of shares/units and determination of income, as prescribed are satisfactory.

<table>
<thead>
<tr>
<th>SECTION D: CHALLENGES FACING COLLECTIVE INVESTMENT SCHEMES IN KENYA</th>
<th>Strongly agree</th>
<th>Agree</th>
<th>Neutral or Undecided</th>
<th>Disagree</th>
<th>Strongly Disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Investor protection as provided under the various laws is sufficient.</td>
<td></td>
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<tr>
<td>2. Screening rules for entrants into the CIS industry will limit institution risk.</td>
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<td>3. Legislation clearly addresses and seeks to control compliance risk.</td>
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<td>4. The integrity and reputation of fund managers, custodians and trustees are important to investors.</td>
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<td>5. Disclosure requirements as provided for under various legislation are encompassing.</td>
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<tr>
<td>6. There is little chance of machination between the custodian, trustee, board of directors and fund manager, to the investors’ detriment.</td>
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</tbody>
</table>
7. The Capital Market Tribunal will have the judicially independent and competent to enforce and protect investors’ rights.

8. The current regulatory framework is not too severe.

1. KCB Unit Trust Scheme
2. Africa Alliance Kenya Unit Trust Scheme
3. British American Unit Trust Scheme
4. Stanbic Unit Trust Scheme
5. Commercial Bank of Africa Unit Trust Scheme
6. African Alliance Kenya Unit Trust Scheme
7. ICEA Trust Scheme
8. Zimele Unit Trust Scheme
9. Standard Investment Unit Trust Scheme
10. CIC Unit Trust Scheme
11. Dyer and Bliar Unit Trust Scheme
12. Amana Unit Trust Funds Scheme
13. Diaspora Unit Trust Scheme
14. First Community Bank Unit Trust Scheme
15. Genghis Unit Trust Scheme
16. UAP Investment Scheme
17. Pan African Unit Trust Scheme
18. Nabo Unit Trust Scheme
19. Old Mutual Unit Trust Scheme
20. Equity Investment Unit Trust Scheme