INSTITUTIONAL CHARACTERISTICS AND FINANCIAL PERFORMANCE OF COLLECTIVE INVESTMENT SCHEMES IN KENYA

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ABSTRACT

The purpose of this study was to explore the effect of institutional characteristics affecting financial performance of Collective Investment Schemes in Kenya. Specifically, the study looked into the effect of fund size, expense level, portfolio composition, and liquidity on the financial performance of Collective Investment Schemes in Kenya. The scope of study was confined, geographically, to Nairobi Kenya. Since all Collective Investment Schemes and regulatory bodies are headquartered in Nairobi and are relatively few, a comprehensive survey is considered feasible. The theories that guided the study are Markowitz Portfolio Theory, Liquidity Preference Theory, Social Facilitation Theory, and Capital Asset Pricing Model (CAPM). The research design employed in this study was descriptive research design inform of a survey. The sample frame of the study comprised of the 11 Collective Investment Schemes registered by CMA operating in Kenya. The study was based on a five year study period from the year 2018 to 2022. The researcher used secondary data as the main data collection instrument from income statements, statements of financial positions, records of interest rates, amount of money invested in mutual fund institutions, interests paid by mutual fund institutions, Nairobi Securities Exchange reports, among others. All these documents were sourced from the funds institutional portal and the CMA. The descriptive data was coded to enable the responses to be grouped into various categories. Descriptive statistics such as means and standard deviation were used to help in data analysis. Tables and other graphical presentations as appropriate were used to present the data collected for ease of understanding and analysis. Regression analysis was also used as it provided a mean of objectively assessing the degree of the relationship between the independent variables and the dependent variables in the prediction of the dependent variable. The study found that fund size (β=0.695, p-value=0.041<0.05), expense level (β=0.858, p-value=0.003<0.05), portfolio composition (β=0.703, p-value=0.034<0.05), and liquidity level (β=0.921, p-value=0.002<0.05) affect the financial performance of Collective Investment Schemes in Kenya significantly. The research concluded that liquidity level had the greatest effect on the financial performance of Collective Investment Schemes in Kenya, followed by expense level, then portfolio composition while fund size had the least effect on the Financial performance of Collective Investment Schemes in Kenya. The study recommended that the for fund managers to actively engage in more robust diversification policies that will help in strengthening the institutional characteristics within the firms. To maintain and enhance financial performance, the study recommends the Collective Investment Schemes to diversify the investment portfolio further. CMA can provide guidelines for diversified investment options that align with the risk profiles and expectations of investors. A well-diversified portfolio can mitigate risks and boost ROE. The declining trend in liquidity may raise concerns about the scheme's ability to meet short-term financial obligations. To address this, the research therefore recommends that CMA can promote best practices in liquidity management. The research also recommends Collective Investment Schemes in Kenya to rigorously comply with the regulations and guidelines set

forth by the Capital Markets Authority. This includes meeting the legal requirements, reporting obligations, and operational standards prescribed by the regulatory authority.

Key Words: Financial Performance, Collective Investment Schemes, Institutional Characteristics, Fund Size, Expense Level, Portfolio Composition, Liquidity.

INTRODUCTION

Organizational performance is one of the most important constructs in achieving the goals of the organization. Organizational performance is generally referred to as organizational effectiveness to achieve the objectives (Nanda, & Atahau, 2020). The organizational performance is viewed differently by different organizations. For measurement of organizational performance various objectives and subjective approaches are employed. When organization measure performance by taking some objective measures they consider financial perspectives while when view it by subjective measures then a nonfinancial perspective is considered (Gartenberg, Prat, & Serafeim, 2019). Many factors affect organizational performance including institutional characteristics.

Institutional characteristics relate to structures in the organization. These include rules, policies, procedures, norms, shared beliefs and routines of behavior in an organization. According to Rosati and Fariah (2019), institutions are social structures that have attained a high degree of resilience and they include cultural elements, normative and regulatory factors. As such institutional characteristics are important for they govern how organizations are run. Institutions can be formal or non-formal. Formal institutions arise from laws, regulations, rules and other statements formulating sanctions, while non-formal institutions arise from interactions with the formal institutions. Collective Investment Schemes are formal institutions governed by such rules and procedures.

“MMMFs” are investment funds whose main purpose is capital preservation and provision of daily liquidity, while simultaneously offering returns that are consistent with the prevailing money market rates. As a result, MMMFs are an integral component of short-term money markets that play an important financing role for different agencies including in; banks, governments, and non-financial companies. For instance, non-financial companies can use MMMFs in investing excess cash. On the other hand, financial companies, may use the MMMFs in managing their liquidity demands such as margin calls or collateral management. However, MMMFs are not uniform across various jurisdictions and thus they demonstrate various characteristics based on their structure, as is reflected by each jurisdiction’s regulatory approach.

Investment companies such as MMMF’s are mainly involved in investing activities of their clients’ monies in assets such as equity, bonds, special property market or money. Such investors secure their portion of fund assets thus gaining returns from portfolio diversification. As a result of the delegated investments concept, where fund managers act as agents and investors are principals, adequate institutional characteristics, its control and contracts are to be designed appropriately, to

prevent agent principal conflicts and ensure their financial performance. Some of the important institutional characteristics affecting MMMF's financial performance include fund size, expense, portfolio composition and liquidity level.

Fund size also referred to as net assets under management affect the performance of a mutual fund hence the importance of such mutual funds establishing a minimum fund size so as to derive sufficient returns that justify the related costs of information acquisition and trading (Graham et al., 2020). However, the marginal returns are negative in instances where the mutual fund goes beyond its appropriate fund size. According to Kaur (2018), portfolio allocation focuses on investment allocation across various assets since asset allocation is a preferred strategy for investors who seek to distribute their investments in diverse asset classes including, debt, equity, and real estate.

Moreover, for an MMMF, "liquidity" refers to the extent to which the fund's holdings can be quickly converted to cash. Liquidity is a particularly important attribute of a money market mutual fund, as it measures the fund's ability to meet near-term shareholder redemptions (Yusoff, 2017). Even though there are differences in how different jurisdictions regulate funds, regulatory schemes share common aspects including assets valuing standards, broad disclosure, diversification or investments standards. Moreover, regulatory schemes share common practices related to investors protection provisions including leverage limitation or limiting the relationship between funds and theirs sponsors (Alvi, and Rehan, 2020). According to KPMG (2013), the Capital Markets Act, Income Tax Act, Retirement Benefits Act, and Companies Act regulate and govern Kenya's money market fund institutions.

An expense is a cost investors pay for the management of a fund, including administrative, marketing, and management fees. Haslem (2018) observes that actively managed mutual funds have a higher expense level than passively managed funds since managers and researchers actively acquire and sell assets. All fund fee ratios, passive and active, have been moving decreasing for 20 years. Morningstar's 2020 U.S. Fund Fee Study found that the asset-weighted average expense ratio declined from 0.93 in 2000 to 0.41 in 2020 (Manda, Rani & Polisetty, 2021). Passively managed ETFs have low costs because they match the market, not beat it. Actively managed funds had an asset-weighted average expense ratio of 0.62% in 2020; passive funds had 0.12%. Index funds are popular passively managed funds because they monitor a stock index and match its return (Manda et al., 2021).

Variable fund expenses can cause a fund's expense ratio to change. Carrier (2018) asserts that the main expense for every fund, active or passive, is the fixed management fee. It's higher for active fund managers. Accounting, registration, reporting, and other variable costs are incurred by funds. The SEC requires that a fund's marketing expenses not exceed 1% of its average assets (SEC). Some funds, often index or passively managed funds, collect only a tiny management charge. A fund can lend its shares to short sellers to collect interest for other expenses.

Statement of the Problem

While Money Market Mutual Funds (MMMFs) have often been considered a safe and lucrative avenue for investment, recent observations in the Kenyan financial market paint a different picture. Despite the rapid growth in MMMFs, the industry is facing significant challenges that are indicative of poor performance. In fact, there is growing concern over the subpar performance of Collective Investment Schemes (CISs) in Kenya. Money market mutual funds in Kenya have witnessed a significant growth in the last decades and the rapidly growing middle class has gained interest in them. The MMMFs offer returns on investments ranging from 7.0% to 10.6%. The current portfolio composition is at 6.5%, meaning that the returns from the MMFs are inflation beating. They also provide higher returns than bank deposits. For example, the average returns for MMFs are 8.9% while average returns on bank deposits are 6.4% (Capital Markets Authority, 2020). The growth was attributed to an increased level of subscription due to higher effective annual yields recorded by the individual fund managers ranging between 5%-11% in the past year (Mwaniki, 2019). Moreover, there was a 15% increase in the value of assets held in Kenyan mutual fund schemes during second quarter of 2020 as reflected by a shift from KSh 76.5 billion by the end of the first quarter to KSh 88.1 billion (Wangui, 2020).

A closer look at the data reveals a disheartening trend. Studies and reports consistently show that Kenyan CISs are underperforming their benchmarks. For instance, data from the Capital Markets Authority (2018) indicates that between 2017 and 2018, several notable unit schemes experienced alarming declines in their funds. Equity Investment Bank's unit scheme plummeted by 57.48%, British American Unit Trust Scheme saw a drop of 16.97%, and Old Mutual Unit Trust Scheme decreased by 7.03%. Even the unit schemes that recorded growth, such as CIC Unit Scheme, ICEA Lion, and CBA Unit Trust, failed to exhibit exceptional performance, with marginal increases of 26.92%, 10.46%, and 7.29%, respectively (Capital Markets Authority, 2018). Furthermore, it's not an isolated incident; it extends beyond unit trusts. For instance, Britam Equity Fund underperformed the benchmarks for three consecutive years (2015, 2016, and 2017), as reported by Britam (2017). CIC Equity Fund followed suit, failing to outperform the market during a similar period (CIC Asset Management, 2018). These instances indicate a recurring problem in the Kenyan investment landscape, where CISs struggle to match the performance of alternative investment options like bank deposits (Britam, 2017; CIC Asset Management, 2018).

This prolonged trend of low returns on asset classes pooled into various CISs suggests that the growth potential of Kenya's capital markets is stifled. Not only does this concern investors and stakeholders, but it also raises questions about the understanding of the market by investors and the effectiveness of fund managers in attracting investments. As a result of this poor performance, investors may lose faith in unit trusts as a viable investment option. This study therefore sought to establish the effect of institutional characteristics affecting financial performance of Collective Investment Schemes in Kenya.

With no much study on funds' performance in Kenya in the past, investors may not be fully informed on the various collective Investment Schemes and their characteristics which affect performance of money market mutual funds and later in making rational investment decision effort

vainness. It was therefore important from the onset to establish the effect of institutional characteristics affecting financial performance of Collective Investment Schemes in Kenya.

Research Objectives

The general objective of the study was to assess the effect of institutional characteristics on financial performance of Collective Investment Schemes in Kenya. The specific objectives were:

i. To assess the effect of fund size on the financial performance of Collective Investment Schemes in Kenya.
ii. To establish the effect of expense level on the financial performance of Collective Investment Schemes in Kenya.
iii. To determine the effect of portfolio composition on the financial performance of Collective Investment Schemes in Kenya.
iv. To ascertain the effect of liquidity level on the financial performance of Collective Investment Schemes in Kenya.

THEORETICAL REVIEW

It was important to choose an appropriate theory for the current study about institutional characteristics affecting Collective Investment Schemes financial performance because a theory offers a framework that determines the perception of the meaning of financial performance and its institutional characteristics. The theories that guided the study were, Social Facilitation Theory, Capital Asset Pricing Model (CAPM). Markowitz Portfolio Theory and Liquidity Preference Theory and Social Facilitation Theory.

Social Facilitation Theory

Social facilitation theory was developed by psychologist Robert Zajonc. The main assertion of the social facilitation theory states is that the simple existence of others generates arousal, as a result intensifying the probability of the occurrence of the main response. A correct dominant response results in the better performance of a task while an incorrect main response results in the poor performance of a task (Guerin, 1983). It is for this reason that social facilitation theory is used in studying the portfolio performance concept and in relation to an investment group's size of membership.

Zajonc (1965) further argued that a correct main response results from a task being done quite easily, or an individual having learnt to do the task very well, and therefore increased arousal due to the presence of others increases portfolio performance. In disparity, an incorrect main response occurs when a task was hard or had not been well studied since the resulting arousal would increase the probability of incorrect main response occurring leading to a drop in portfolio performance.
Subsequent researchers found that performance improved as a result of the presence of others (social facilitation) whilst others found that it was impaired (social inhibition). Whether or not social facilitation occurs depends on the type of task: people tend to experience social facilitation when they are familiar with a task or for well-learned skills. However, social inhibition (decreased

performance in the presence of others) occurs for difficult or novel tasks (Zaconj, 1965). Similarly, investment groups commonly face tasks that are high-difficulty, therefore, it is imperative for them to learn when to decrease or increase their membership size thus preventing a drop in their portfolio's performance.

The Social Facilitation Theory, as discussed by Zajonc (1965), posits that the presence of others can affect individual performance. When applied to the specific objectives, it suggests that the size of a fund (i.e., the number of investors or members) can influence the financial performance of Collective Investment Schemes (CISs) in Kenya. Specifically, the theory suggests that the interaction and dynamics among the members within a CIS, influenced by the fund size, can impact the collective performance of the investment. In situations where a fund size is too large or too small, it may result in a negative effect on the CIS's financial performance, akin to the theory's notion of the effect of the presence of others on task performance.

Capital Asset Pricing Model

The capital asset pricing model was developed by the financial economist (and later, Nobel laureate in economics) William Sharpe, set out in his 1970 book Portfolio Theory and Capital Markets. His model starts with the idea that individual investment contains two types of risk: Systematic Risk which are market risks that is, general perils of investing that cannot be diversified away. Interest rates, recessions, and wars are examples of systematic risks. Unsystematic Risk, also known as "specific risk," relates to individual stocks representing the component of a stock's return that is not correlated with general market moves (Sharpe, 1964).

As the market moves, every individual resource is pretty much influenced. To the degree that any advantage takes an interest in such broad market moves, that benefit involves efficient hazard. Particular risk is the hazard which is one of a kind to an individual resource. It speaks to the segment of a benefit's arrival which is uncorrelated with general market moves (Lintner, 1965). Unsystematic hazard is the hazard to a benefit's esteem brought on by elements that are specific to a relationship, for instance, changes in senior organization or product offerings.

Criticisms of CAPM include assumptions of homogeneity of access to information, its inability to explain stock returns volatility, and investor unevenness of risk appetite (Barnes, 2009). Owners of surplus financial resources channel them to earning assets through lending them out to borrowers, either directly or indirectly. Stock market crashes in the past, sector underperformance, bankruptcies, liquidations, development of portfolio theories, and enhanced investor awareness have all contributed to the need for investors to diversify their investment holdings and therefore reduce catastrophic risk. Yet discerning what investments to hold in a large menu in a vast market is increasingly a specialized task (Stewart, Piros, & Heisler, 2011).

The Capital Asset Pricing Model (CAPM), as developed by William Sharpe, is pertinent to understanding the impact of expense levels on the financial performance of Collective Investment Schemes (CISs). CAPM is built on the concept of systematic and unsystematic risk. In the context of the objectives, expenses can be seen as a component of the unsystematic risk. The model assumes

all investors are price takers and trade without transaction costs, which relates to the expenses involved in investments. High expenses can contribute to unsystematic risk, affecting the financial performance of CISs as investors aim to maximize returns while minimizing risk.

Markowitz Portfolio Theory

Harry Markowitz proposed the Markowitz Portfolio theory in 1952. According to the theory, an optimum portfolio comprises of a portfolio of all risky investments. The rational is that the advantages derived from diversification are largely dependent on the investments behavior comparative to each another as opposed to the sum of investments making up a portfolio. This implies that lower their inter- associations, the higher the probability of risk reduction due to the possession of the appropriate combination of risky investments (Markowitz, 1952).

Elton and Gruber (2011) points out that all investors yearn to take part in a successful mix of investments. Moreover, for a portfolio to be considered optimum, it should provide either the maximum anticipated return in relation to a given degree of risk or it should provide the least degree of risk for an anticipated return that is known. Markowitz (1952) observes that the efficient frontier indicates the group of portfolios having the maximum projected return for every known level of risk, hence no portfolio within such a frontier is superior to the other. As a result, based on the financier's level of risk acceptance, they select hypothetically, only one, proficient portfolio in the frontier (Markowitz, 1952).

Fama (1992) observed that for a portfolio to be considered efficient, it must give an investor a higher anticipated return with a risk level that is the same or lower as another investment (Fama, 1992). Additionally, an efficient frontiers often illustrates a plots of efficient portfolios relative to the levels of risk and return, however, each of the efficient portfolios is sometimes not appropriate for each investor. This brings about the importance of considering the main objectives of an investment policy, which is return and risk. To illustrate an investor's risk profile, indifference curves are adopted. To identify an optimal portfolio, one should focus on the point that is "tangential to the investor's highest indifference curve" on the efficient frontier.

The theory was relevant to the current study because, generally speaking, an investor does not invest in individual securities, instead, investors want to combine many assets into well-diversified portfolios in order to reduce the risk of their overall investment and increase their gains. The theory emphasizes the significance of diversification and portfolio composition in optimizing investment performance. It highlights that the composition of a portfolio, particularly the inter-relationships and correlation between assets, plays a pivotal role in determining risk and return. In the context of the objectives, the theory implies that the way assets are structured within a CIS's portfolio can significantly influence its financial performance. An optimal portfolio composition, based on the theory, should provide the maximum expected return for a given level of risk, or the least level of risk for an expected return, making it crucial for analyzing CIS performance.

Liquidity Preference Theory

Liquidity Preference Theory was developed by Keynes introduced in his book "The General Theory of Employment, Interest and Money". Liquidity Preference Theory is generally a model that premises suggests that investors should demand a higher premium or interest rate on securities that have long-term maturities in addition to carrying greater risk because, when all other determinants are equal, investors preference is cash or other holdings that are highly liquid.

Furthermore, Keynes argues that the demand for liquidity rests in speculative power, thus it is easier to cash in liquid investments for full value since cash is generally accepted as the most liquid asset. Additionally, the liquidity preference theory notes that short-term securities interest rates are lower than those for medium or longer-term securities because investors do not sacrifice liquidity for prolonged time frames.

Therefore, Keynes basis of the theory is three main motives determining liquidity demand: the transactions motive which states that individuals prefer liquidity to have sufficient cash on hand for the sustenance of basic or day-to-day needs. Therefore, stakeholders level of demand for liquidity is high to enable them meet their obligations in the short-term. The second motive is the precautionary motive that concerns individual's preference for extra liquidity upon the occurrence of an unexpected cost or problem requiring a substantial cash outlay. The third motive is the stakeholders speculative motive whereby during low interest rates period, there is a high demand for cash leading stakeholders to prefer to hold assets until such a time when interest rates rise. Therefore, the speculative motive relates to an investor's reluctance to tie up investment capital due to the fear of missing better opportunity in future. The theory suggests that investors have preferences for highly liquid assets. In the context of the objectives, it implies that the liquidity level within a CIS's investments can influence its financial performance. High liquidity levels may imply that a CIS holds a significant portion of its investments in cash or liquid assets, which could affect its overall performance as these assets may not generate optimal returns. Conversely, low liquidity levels may also have implications for the CIS's ability to meet investor redemption requests, which can impact performance.

Conceptual Framework

The study was based on a conceptual model developed by the researcher so as to help identify the answers in the study. The dependent variable for the study was financial performance while the independent variables were fund size, expense, portfolio composition, liquidity. The framework supposes that the presence or absence of the indicated independent variables determines the ability of businesses to perform financially well.

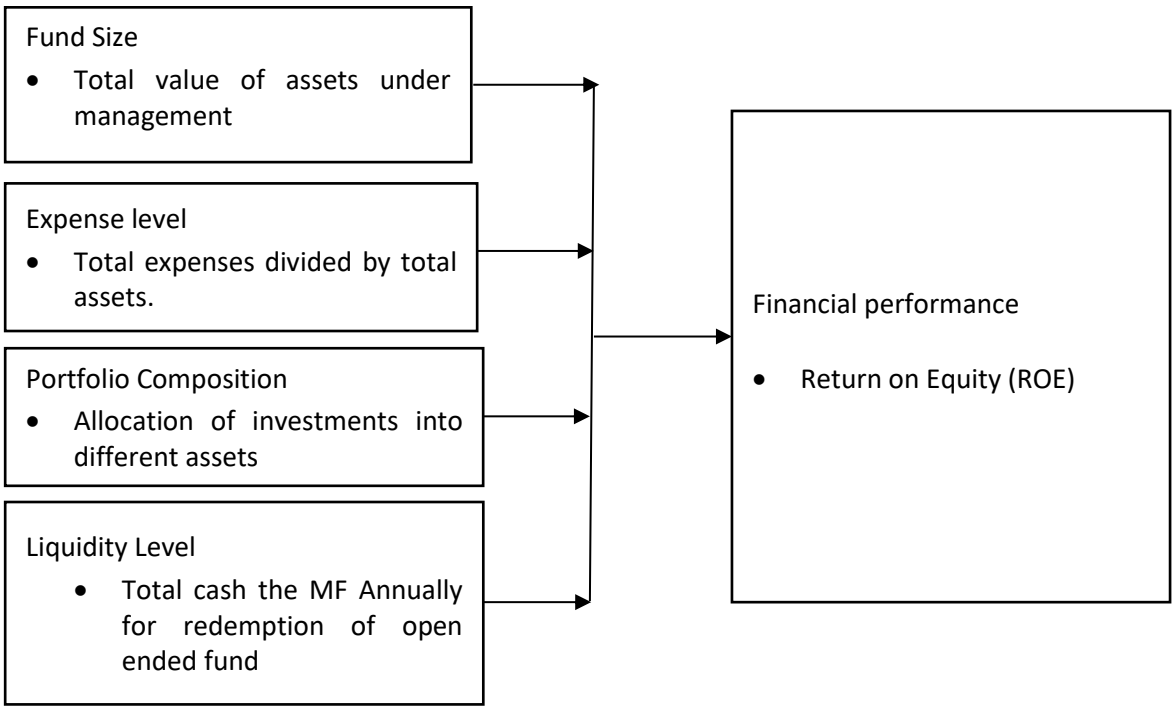

Figure 2.1: Conceptual Framework
(Source: Author, 2023)

RESEARCH METHODOLOGY

The research design employed in this study is descriptive research design inform of a survey. The population of interest of this study was senior and middle level employees in finance and investment departments of the MMMFs in Kenya. The target population for this research project was 11 Mutual fund registered by CMA. These firms included: African Alliance Kenya Unit Trust Scheme, British American Unit Trust Scheme, Old Mutual Unit Trust Scheme, Commercial Bank of Africa Unit Trust Scheme, Zimele Unit Trust Scheme, Stanbic Unit Trust Scheme, Insurance Companies of East Africa (ICEA) Unit Trust Scheme, CIC Unit Trust Scheme, Suntra Unit Trust Scheme, Dyer and Blair Unit Trust Scheme and Standard Unit Trust Scheme. The major reason for choosing firms was due to accessibility to the required data. All the 11 Collective Investment Scheme registered by CMA and operating in Kenya formed the sample size thus making this a census survey which is a non-probability technique that involves the entire population participating in a study. The study was based on a five year study period from the year 2018 to 2022.

The researcher used secondary data as the main data collection instrument from income statements, statements of financial positions, records of interest rates, amount of money invested in mutual fund institutions, interests paid by mutual fund institutions, Nairobi Securities Exchange reports, among others. All these documents were sourced from the funds institutional portal and the CMA.

Descriptive and inferential analysis was employed. The descriptive data was coded to enable the responses to be grouped into various categories. Descriptive statistics such as means and standard deviation were used to help in data analysis. Tables and other graphical presentations as appropriate were used to present the data collected for ease of understanding and analysis. Inferential statistics regression was done to determine the relationship between the institutional characteristics and financial performance of Collective Investment Schemes in Kenya. Thereafter, data was presented in form of tables, and pie charts which are reader friendly formats. The study also undertook a regression analysis which provided an objective approach for determining the degree of the relationship between the independent and dependent variables in predicting the dependent variable.

RESEARCH FINDINGS

The researcher sought to collect secondary data from 11 Mutual fund registered by CMA and operating in Kenya between 2018 to 2022. This represented 100.0% which was within a response rate of 50% which is sufficient for analysis and reporting. According to Martins, DA Cunha and Serra (2018), a rate of 60% is good, while a rate of 70% and above is exceptional.

Inferential Statistics

The researcher conducted both the Pearson correlation analysis and the multiple regression analysis. The regression analysis was used to establish the relations between the independent and dependent variables while correlation was conducted to assess the degrees of association between the variables.

Pearson Moment Correlation Results

This was conducted to assess the degrees of association between the variables. A Pearson moment correlation is a number between -1 and +1 that measures the degree of association between two variables. A positive value for the correlation implies a positive association while a negative value for the correlation implies a negative or inverse association. Table 1 shows the results for the Pearson moment correlation.

Table 1: Correlation Coefficients

		Financial performance of Collective Investment Schemes in Kenya	Fund size	Expense level	Portfolio composition	Liquidity level
Financial performance of Collective Investment Schemes in Kenya	Pearson Correlation	1				
	Sig. (2-tailed)	.				
Fund size	Pearson Correlation	.672	1			
	Sig. (2-tailed)	.001	.			
Expense level	Pearson Correlation	.889	.213	1		
	Sig. (2-tailed)	.011	.008	.		
Portfolio composition	Pearson Correlation	.732	.228	.483	1	
	Sig. (2-tailed)	.007	.004	.000	.	
Liquidity level	Pearson Correlation	.932	.313	.435	.522	1
	Sig. (2-tailed)	.013	.000	.000	.000	.

The analysis of correlation results between the financial performance of Collective Investment Schemes in Kenya and fund size shows the correlation coefficient is 0.672 and a p-value of 0.001 which significant at $\alpha = 5$. It indicates that the result is significant at $\alpha = 5\%$ and that if the fund size increases it will have a positive impact on the Financial performance of Collective Investment Schemes in Kenya. The correlation results between Expense level and financial performance of Collective Investment Schemes in Kenya also indicates the same type of result where the correlation coefficient is 0.889, with a p-value of 0.011%.

The results also show that there is a positive association between portfolio composition and financial performance of Collective Investment Schemes in Kenya where the correlation coefficient is 0.732, with a p-value of 0.007. Further, the result shows that there is a positive association between liquidity level and financial performance of Collective Investment Schemes in Kenya where there is a positive coefficient 0.932, with p-value of 0.013. Nevertheless, the positive relationship indicates that when the practice of the afore-mentioned factors is in place the levels of financial performance of Collective Investment Schemes in Kenya increases.

Overall, liquidity level had the greatest effect on the Financial performance of Collective Investment Schemes in Kenya, followed by expense level, then portfolio composition while fund size had the least effect on the Financial performance of Collective Investment Schemes in Kenya.

Multiple Regression Analysis

The researcher conducted a multiple linear regression analysis to ascertain the relationship between financial performance of Collective Investment Schemes in Kenya and the four independent variables namely: fund size, expense level, portfolio composition, and liquidity level.

Table 2: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.951	0.904	0.840	3.276

The results in Table 2 indicate an adjusted R^2 of 0.840. This means that 84.0% of variation in financial performance of Collective Investment Schemes in Kenya is explained by liquidity level, fund size, expense level and portfolio composition in the model and that 16.0% of the variation is due to factors not considered in this model. The results also reveal that these institutional characteristics affect financial performance of Collective Investment Schemes in Kenya significantly. The results are supported by Nyanamba, Muturi, and Nyangau (2015) who portrayed that there existed a statistically significance influence of regulatory framework and financial market liquidity, on the growth of the mutual funds linked with assets under management. On the other hand, portfolio diversification and investors' perception had an equal influence on the growth of the studied mutual funds institutions linked with asset under management. Further findings were that, financial market liquidity and investors' perceptions statistically significantly influenced the growth of the studied mutual fund institutions linked with return on investment.

Table 3: ANOVA Results

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	909.918	4	227.480	14.133	3.28E-03
	Residual	96.572	6	16.095		
	Total	**1006.49**	**10**			

The results in Table 3 show that the overall significance of the model was statistically significant at F=14.133 and P-value=3.28E-03<0.05. This means that the model was statistically significant at 95% confidence level. The findings also imply that there was a significant effect of the institutional characteristics used in the study. Consequently, the findings indicate that for the effective financial performance, the Collective Investment Schemes should incorporate the four variables so that the desired objectives can be achieved. The results are in agreement with Sajnetdinov (2016) stated that less liquid mutual funds in the UK do not translate to a higher average return. Additionally, there exists no monotonic relation between the liquidity of the fund in relation to its performance.

Table 4: Regression Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	0.723	0.228		3.171	0.025
	Fund size	0.695	0.254	0.543	2.736	0.041
	Expense level	0.858	0.163	0.732	5.264	0.003
	Portfolio composition	0.703	0.242	0.604	2.905	0.034
	Liquidity level	0.921	0.156	0.817	5.904	0.002

a. Dependent Variable: Financial performance of Collective Investment Schemes

Based on the results, the predictive model was formulated as:

$Y = \beta_o + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon$

Financial performance of Collective Investment Schemes = $0.723+0.695\mathbf{x_1}+0.858\mathbf{x_2}+0.703\mathbf{x_3}+0.921\mathbf{x_4}$

Where, $\mathbf{X_1}$= Fund size

$\mathbf{X_2}$= Expense level

$\mathbf{X_3}$= Portfolio composition

$\mathbf{X_4}$= Liquidity level

The coefficient results in Table 4 revealed that the relationship between the fund size and financial performance of Collective Investment Schemes in Kenya was statistically significant (β=0.695, P-value=0.041). This implies that for one unit increase in fund size, financial performance of Collective Investment Schemes in Kenya will increase by a factor of 0.695 when holding other factors constant.

Similarly, the relationship between expense level and financial performance of Collective Investment Schemes in Kenya was statistically significant (β=0.858, P-value = 0.003). This implies that an increase of expense level by one unit is expected to increase the financial performance of Collective Investment Schemes in Kenya by a factor of 0.858. The findings differ with Carlsson and Eikner (2020) who argued that that Total Expense Ratio was the only adjusted performance determinants mutual equity funds accessible to Swedish investors.

The relationship between portfolio composition and financial performance of Collective Investment Schemes in Kenya was also statistically significant (β=0.703, P-value=0.034). This implies that an increase in portfolio composition by one unit will lead to an increase in financial performance of Collective Investment Schemes in Kenya by a factor of 0.703 when holding other factors constant. The results disagree with Alvi, and Rehan, (2020) who indicated that management quality rating insignificantly but positively affected returns while risk-free instruments had a significantly negative effect on fund returns (FRs).

Further, the relationship between liquidity level was statistically significant (β=0.921, P-value=0.002). This infers that an increase in liquidity level by one unit will lead to an increase in financial performance of Collective Investment Schemes in Kenya by a factor of 0.921 when holding other factors constant. This is accordance with Sajnetdinov, (2016) argues that market

liquidity affects transaction costs by lowering them and also investors are never affected by large negative price movements upon initiating individual securities transactions.

Overall, the liquidity level had the greatest effect on the financial performance of Collective Investment Schemes in Kenya, followed by expense level, then portfolio composition while fund size had the least effect on the financial performance of Collective Investment Schemes in Kenya. All the variables were significant since their p-values were less than 0.05.

Conclusions

The study concluded that fund size positively and significantly affects performance of Collective Schemes. The study deduced that the increasing trend in the Fund Size suggests that the assets under management have been growing steadily. This growth can potentially have a positive impact on financial performance (ROE) as a larger fund size often provides opportunities for diversification and economies of scale.

The study concluded that expense level positively and significantly affects performance of Collective Schemes. The research deduced that expense has remained relatively stable, with minor fluctuations over the years. The negative values indicate that expenses are a small percentage of the total assets. A consistent expense ratio can be a positive sign as it suggests cost control and efficient management.

The study concluded that portfolio composition positively and significantly affects performance of Collective Schemes. The study further concluded that the increasing trend in portfolio composition suggests that the allocation of assets in different types of investments has changed over time, with a notable increase in 2021 and 2022. Changes in portfolio composition can significantly impact ROE, as different investments carry varying levels of risk and return.

The study concluded that liquidity level positively and significantly affects performance of Collective Schemes. In line with the study objective, the study also concluded that declining trend in liquidity implies that the fund's liquidity position has been decreasing over the years. While liquidity is essential for meeting short-term financial obligations, a decline in liquidity alone does not necessarily imply a negative impact on ROE.

Recommendations

The study recommended that the for fund managers to actively engage in more robust diversification policies that will help in strengthening the institutional characteristics within the firms. This will inherently foster the financial outcomes of the investment schemes. Further, through aligning their investment strategies to the market, investment schemes will be able to mitigate systemic risk by optimizing their portfolios to various investment classes that offer better financial returns.

For Collective Investment Schemes in Kenya, the continuous growth of the fund size is a positive sign, indicating an expanding investor base and confidence in the scheme. To maintain and enhance

financial performance, the study recommends the Collective Investment Schemes to diversify the investment portfolio further. CMA can provide guidelines for diversified investment options that align with the risk profiles and expectations of investors. A well-diversified portfolio can mitigate risks and boost ROE. Additionally, CMA should encourage Collective Investment Schemes to remain vigilant about their asset growth, ensuring it does not compromise the quality of investments. CMA can introduce stress tests to gauge the fund's ability to manage its growing asset base efficiently and make informed decisions to safeguard the interests of investors.

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The declining trend in liquidity may raise concerns about the scheme's ability to meet short-term financial obligations. To address this, the research therefore recommends that CMA can promote best practices in liquidity management. It can require Collective Investment Schemes to create liquidity buffers and investment strategies that balance liquidity with potential returns. Effective liquidity management can ensure that the schemes are well-prepared to meet redemption requests and unexpected financial challenges without adversely affecting ROE.

The research also recommends Collective Investment Schemes in Kenya to rigorously comply with the regulations and guidelines set forth by the Capital Markets Authority. This includes meeting the legal requirements, reporting obligations, and operational standards prescribed by the regulatory authority. Moreover the schemes should regularly engage with the regulatory body to seek guidance and ensure that the fund's operations align with evolving regulatory changes and standards.

The study recommends further that the Capital Markets Authority should strengthen the governance framework of the Collective Scheme, emphasizing transparency and accountability. This will build trust among investors and promote financial stability. They could also foster an environment of open dialogue with stakeholders, including investors, fund managers, and regulatory authorities. Regularly share financial and operational updates, as well as strategies for enhancing ROE.

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