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Research Paper

Effect of Portfolio Management on Performance of Mutual Funds in Kenya

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Abstract— Portfolio management is a precursor for the investment process to be a success. It not only helps investors have a deeper understanding on how to minimize investment risks but it equips them with the knowledge to maximize returns. Mutual funds usually specialize in investment management; however, little is known about portfolio management and performance of mutual funds after post-Covid-19 era in Kenya. The purpose of this study was to determine the effect of portfolio management on performance of Mutual Funds in Kenya. The study adopted ex-post facto research design and positivism research philosophy. The study targeted 14 respondents drawn from 4 mutual funds which include; Cytonn Money Market Fund, CIC Money Market, Zimele Market Fund and Britam Money Market Fund. The study adopted both primary data and secondary data. Primary data was collected using questionnaires while secondary data was collected using secondary data collection sheet. Data collected was analyzed using both descriptive statistics and inferential statistics. The descriptive statistics adopted included percentages, frequencies, mean and standard deviation. Inferential statistics adopted included; correlation analysis and regression analysis. Correlation results revealed that portfolio management has a significant strong positive relationship with performance of mutual funds of ($r = 0.728$, p-value < 0.05). Regression results revealed that portfolio management has a positive and significant effect on performance of mutual funds of ($\beta=0.353$, $p < 0.05$). The study concluded that portfolio management enhances the performance of mutual funds. Performance of mutual funds is affected when mutual funds invest in short to medium term high-risk investments. Short selling overvalued stocks affects performance of mutual funds. The study recommended that mutual funds should only adopt portfolio management approaches that enhance the performance of mutual funds.

Keywords— *Portfolio Management, Performance, Mutual Funds, Kenya*

1. Introduction

The mutual Fund industry in Kenya has developed rapidly over the past two decades. Kenyan mutual fund market is still budding and lately it has not been performing well when a comparison is made to other developed mutual fund markets in the world [1]. Portfolio management as a determinant of financial performance is considered in this study. It is a prerequisite to the growth and financial sustainability of Insurance Companies in Kenya. Portfolio management revolves around the coordinated management of one or more investments to realize organizational objectives [2]. Portfolio management is key in business portfolios management and it helps in the achievement of maximum returns [3]. Portfolio management is widespread in practice for over a decade and its effect on financial performance has been researched on by many scholars however, contradictory results exist on the subject matter [4]. Portfolio management is both active portfolio management and passive portfolio management. Active portfolio management is the process where stocks and other securities are strategically bought and sold to beat the broader market [5]. Active portfolio management helps to beat the performance of an index by buying and selling individual stocks and also other marketable assets.

A portfolio manager who applies an active strategy aims to generate better market returns to a stockholder. Active portfolio management is associated with continuous market assessment so as to buy assets when undervalued and sell them when overvalued [6]. Active portfolio management is advocated for because of the potential to make market-beating returns. Active portfolio management is suitable for investors who are knowledgeable and happen to have a higher risk appetite. Investors who adopt active portfolio management are willing to take on larger risk to get higher returns [7]. Active portfolio management is therefore a situation where active portfolio managers take a hands-on policy when investment decisions are being made [5]. An investor is charged a proportion of the assets managed on their behalf. The aim of such investment is to outperform an investment target set [8].

The proponents of passive portfolio management contribute to the efficient market hypothesis (EMH). Proponents of this investment approach believe that details will always be reflected in the value of the basic asset. Passive approaches are preferred by investors who seek to minimize risk. The easiest way to device a passive policy is to invest in a catalogue fund where daily market analysis is tracked or some other market index [9]. Passive investing incurs inferior cost than active investing. Passive approaches are also known to generate consistently strong long-term gains. Drawbacks of passive approaches are security alertness, foundational cost since the investor gives up the ability to produce market-beating returns and also failure to protect against problem risk since investors are simply trailing the market instead of instability being hedged [10]. Investors also adopt discretionary Portfolio Management. The investment manager makes the entire buy and sells choices on client's behalf and adopts whatever investment approach deemed suitable [11].

Discretionary portfolio management is a type of investment approach that can only be accessible by individuals who possess wide information and investments knowledge [3]. This investment approach is adopted by clients who feel self-assured when their investment choices are made by a professional. Discretionary portfolio management is the process where portfolio managers make expert financial decision on behalf of clients [12]. The discretionary portfolio manager also does all that is required on behalf of the clients which include written and filling. This investment approach is adopted mostly by investors who prefer passing over all their investment choices to a professional [13].

For non-discretionary portfolio management, the account manager happens to be a financial consultant who give the investor the benefits and drawbacks of investing in a certain market or using a certain investment approach [6]. However, the account manager won't implement the investment choice without investor consent. Portfolio management is an important topical issue that helps investors have a deeper understanding on how to minimize investment risks and maximize returns [4]. It helps to increase the chance of making profits. As much as mutual funds specialize in investment management. Little is known about performance of mutual funds after post-Covid-19 era in Kenya. Article structure; section 2 covers literature review and hypothesis development; section 3, materials & methods; section 4, results & discussion and section 5, conclusion and recommendations.

2. Related Work

Portfolio Management and Financial Performance

[14], studied on the effect of portfolio management on the financial performance of Food and Beverage Companies in Nigeria. The study adopted an ex-post-factor correlation research design and used secondary data from Nigerian Food and Marketing Board of quoted companies. Sample size was 10 firms out of 15 food and beverage company in Nigeria from 2010-2021 financial year that were selected using purposive sampling technique. Data collected was analyzed using panel regression analysis. Portfolio management approaches adopted in the study are market share and asset allocation. The study established that market share and asset allocation had a positive relationship with the return on investment. Active and passive investment approaches were not within the scope of the study and hence a conceptual gap exists which was addressed in this study.

[13], examined portfolio management and financial performance of the Rwanda Development Bank. The study adopted a correlational research design. Target population was 80 employees while the sample size was 79 employees who were selected using stratified and simple random sampling techniques. The study adopted primary data which was collected using both questionnaires and interview schedule. Data was analyzed using both descriptive statistics and inferential statistics. Investment approaches adopted in the study include; asset allocation, risk diversification and asset rebalancing. Findings revealed that portfolio management (asset allocation, risk diversification and asset rebalancing) has a positive effect on financial performance of the Rwanda Development Bank. The study was done in the banking sector and therefore a contextual gap exists.

[15], studied portfolio management strategies and returns of Mutual Funds in Kenya. The study used quantitative research design and all the mutual funds licensed by CMA as at 2018 were targeted. Both primary data and secondary data were used. Data collected was analyzed using both descriptive statistics and inferential statistics. The study established that portfolio management strategies have a positive and significant effect on returns of Mutual Funds in Kenya. The study further established that the most preferred strategy is active portfolio strategy. Mutual funds that adopt active and growth portfolio management strategy generate negative returns. Mutual funds that adopt value and passive portfolio management strategies earn positive returns. A conceptual gap exists as the study focused on returns and not the financial performance of Mutual Funds which was the focus of the current study.

[16] studied the effect of portfolio management on performance of listed Deposit Money Banks in Nigeria. The study adopted an ex post facto research design. Target population was 8 listed deposit money banks in Nigeria. The study adopted secondary data which was collected from the annual reports and banks accounts for the period between 2016 to 2020. The study adopted linear regression model in the data analysis. Variables adopted in the study were credit risk management and liquidity risk management. Findings revealed that portfolio management contributes to financial performance improvement. The study was carried out on listed Deposit Money Banks and not mutual funds in Kenya and hence a contextual gap exists which the current study sought to address.

[17] studied on investment strategies and financial performance of private equity funds investing in Kenya. The study adopted descriptive survey research design and targeted all the funds managed by the 20 private equity fund investment management companies in Kenya. Panel data for the adopted in the study was for a period of 5 years, that is,

between 2013 to 2017. The data for the study was drawn from annual reports, CMA website and NSE website. The study used secondary data which was analyzed by use of both descriptive statistics and inferential statistics. Investment strategies adopted in the study were leveraged buyouts, venture capital and mezzanine financing. Findings revealed that investment strategies have a positive and significant effect on financial performance of private equity funds.

[2] studied on project portfolio management and performance of Business Organizations in Enugu Nigeria. The study adopted a descriptive survey research design. Total population was 231 respondents who were all surveyed. Primary data was used which was collected using questionnaires and analyzed using both descriptive statistics and inferential statistics. Findings revealed that project portfolio management has a significant positive effect on market share. The results also revealed that efficient project portfolio management has a significant positive effect on capital growth. The study concluded that effective portfolio management affects performance. The study was carried-out in a different geographical setting and hence existence of a contextual gap. [21] examined the effects of portfolio management strategies on financial performance of investments companies in Kenya. The study was conducted at Centum Investments. This study adopted a survey research method to show the relationship between portfolio management and performance practices. The study used secondary data which was collected from the financial statements of Centum and books to collect information on annual earnings of the Centum. Data collected was analysed using both descriptive statistics and inferential statistics. Findings revealed that portfolio management enhances the performance Centum Investments. [22] studied the effect of portfolio management on the financial performance of Food and Beverage Companies in Nigeria. The study adopted both the ex-post-factor and correlation research design. The study used secondary data from Nigerian Food and Marketing Board of quoted companies. The study adopted purposive sampling technique to select 10 firms out of 15 food and beverage company in Nigeria from 2010-2021 financial year. Data collected was analysed using both descriptive statistics and inferential statistics. Findings revealed that portfolio management has a positive significant effect on the financial performance of Food and Beverage Companies in Nigeria. A contextual gap exists as the study was conducted in a different geographical setting. [23] researched on the effect of portfolio management on performance of listed deposit money banks (DMBs) in Nigeria. The study was anchored on the modern portfolio and shiftability theory. The study adopted ex post facto research design. The study used secondary data which was collected from the annual reports and accounts of banks with international authorization for the period 2016-2020. Data collected was analysed using linear regression model. Findings revealed that portfolio management enhances the financial performance of deposit money banks in Nigeria. [24] studied the effect of portfolio diversification on commercial banks financial performance in Kenya. Target population was 43 licensed Commercial Banks in Kenya from which one hundred and thirty-three (133) managers were randomly selected to form sample size. g. Data was analysed using descriptive statistics and inferential statistics which included correlation analysis and bivariate regression analysis. The study established a positive statistically significant relationship between portfolio diversification and financial performance. A contextual gap exists as the study was conducted on Commercial Banks and not mutual funds. [25] studied the effect of portfolio management on the financial performance of portfolios of investment firms in Kenya. The study adopted a descriptive survey research design and selected 45 firms. The study used secondary data from the financial statements of the investment's firms. The selected period was 5 years. Data collected was analysed using both using descriptive statistics and inferential statistics. Findings revealed that portfolio management contributes to improvement in the financial performance of portfolios of investment firms in Kenya. [26] studied the effect of project portfolio management on the performance of Business Organizations in Enugu Nigeria. This study adopted a descriptive research design. The total population was two hundred and thirty (231) respondents. Data collected was analysed using both descriptive statistics and inferential statistics. Findings revealed that project portfolio management enhances the performance of Business Organizations. [27] studied portfolio management and profitability of Unit Trust Companies in Kenya. The study adopted modern portfolio theory, expected utility theory, capital asset pricing model and financial intermediation theory. The study adopted descriptive research design. Target populations was portfolio managers in 24-unit trust companies. The study did a census study of all these unit trust companies. The study used questionnaires to collect data which was analysed using content analysis, descriptive statistics and inferential statistics. Findings revealed that portfolio management enhances the profitability of Unit Trust Companies in Kenya. Literature reviewed led to the development of the following hypothesis statement:

H_{01}: *Portfolio management has no significant effect on performance of Mutual Funds in Kenya.*

3. Methodology

The study adopted an ex-post facto research design. It is also known as after-the-fact" research and it is defined as a research method that looks into how an independent variable (groups with certain qualities that already exist prior to a study) affects a dependent variable [14]. It is a research design in which the independent variable is something that has already happened or something that cannot be manipulated [15]. Ex-post facto research design attempts to determine a cause-and-effect relationship between an independent variable and a dependent variable [16]. Research philosophy is associated with assumption, knowledge and nature of the study. It deals with the specific way of developing knowledge [14]. In a nutshell, research philosophy is belief about the ways in which data about a phenomenon should be collected, analysed and used [16]. The study adopted positivism research philosophy which is a research philosophy which depends on quantifiable observations that lead to statistical analyses. Target population is the group of individuals that the intervention intends to conduct research in and draw conclusions from [14]. The study targeted 14 respondents drawn from 4 mutual funds which include; Cytonn Money Market Fund, CIC Money Market, Zimele Market Fund and Britam Money Market Fund. These respondents include; head of marketing and clients' relations, head of investment, digital manager and finance manager. The study adopted both primary data and secondary data. Primary data was collected using questionnaires while secondary data was collected using secondary data collection sheet. A 5-point Likert scale was adopted where 1 represented strongly agree while 5 represented strongly disagree. Secondary data was drawn from annual reports of the respective mutual funds for the period between 2017 to 2022. Data collected was analyzed using both descriptive statistics and inferential statistics. The descriptive statistics adopted included percentages, frequencies, mean and standard deviation. Inferential statistics adopted included; correlation analysis and regression analysis. Empirical model adopted in the study was as follows;

$Y=\beta_0+\beta_1X_1+\varepsilon$

Where;

Y is performance of Mutual Funds in Kenya (The study adopted expense ratio which refers to the ratio of the total fund's expenses to its assets.

β_0 is y-intercept

β_1 represents change in y for each increment change in X_1

X_1 is portfolio management

ε is the error term

4. Results and Discussion

Demographic information was in terms of age category, position held and length of service. Findings are presented in Table 1.

Table 1: Demographic information

		Frequency	Percent
Age category	Less than 25 years	1	6.3
	25-35 years	3	18.8
	35 years and above	12	75.0
Position held	Head of marketing and clients' relations	4	25.0
	Head of investment	4	25.0
	Digital manager	4	25.0
	Finance manager	4	25.0
Length of service	Less than a year	1	6.3
	1-5	6	37.5
	5 years and above	9	56.3

Age category was operationalized as follows; less than 25 years, 25-35 years and 25 years and above. Majority of the respondents, 12(75.0%) had 35 years and above, 3(18.8%) between 25 to 35 years and 1(6.3%) had less than 25 years. This implies that majority of the respondents were aged 35 years and above. In regards to position held, 4(25.0%) were heads of marketing and clients' relations, 4(25.0%) heads of investment, 4(25.0%) digital managers and 4(25.0%) finance managers. This shows that the respondents were drawn from from different positions. On length of service, 9(56.3%) had worked for 5 years and above, 6(37.5%) between 1 to 5 years and 1(6.3%) less than a year. Most of the respondents had worked for 5 years and above. Descriptive statistics of portfolio management was presented in Table 2.

Table 2: Descriptive statistics of Portfolio Management

n=16		SA	A	NS	D	S. D	Mean	Std. Dev
The mutual fund focusses on high-risk investment in the short to medium term.	F	2	9	1	2	2	2.5625	1.26326
	%	12.5	56.3	6.3	12.5	12.5		
The mutual fund has a high stock Turnover (Frequent buying and selling of stock).	F	8	3	1	2	2	2.1875	1.51520
	%	50.0	18.8	6.3	12.5	12.5		
The mutual fund short sell overvalued stocks.	F	7	5	1	2	1	2.1875	1.37689
	%	43.8	31.3	6.3	12.5	6.3		
The mutual fund's portfolio mimics the NSE 20 share index.	F	8	5	1	1	1	1.8750	1.20416
	%	50.0	31.3	6.3	6.3	6.3		
The mutual fund buys and holds investments for the long term.	F	4	5	1	3	3	2.7500	1.52753
	%	25.0	31.3	6.3	18.8	18.8		
The mutual fund invests in undervalued stocks.	F	2	9	1	2	2	2.5625	1.26326
	%	12.5	56.3	6.3	12.5	12.5		
The mutual fund invests in fast growing companies.	F	11	2	1	1	1	1.6875	1.25000
	%	68.8	12.5	6.3	6.3	6.3		
The mutual fund invests in stocks that have a high price to earnings ratio.	F	5	8	1	1	1	2.0625	1.12361
	%	31.3	50.0	6.3	6.3	6.3		

On whether, the mutual fund focusses on high-risk investment in the short to medium term, 11(68.8%) agreed while 4(25.0%) disagreed. The mutual fund focusing on high-risk investment in the short to medium term was found to affect mutual fund performance with (mean=2.5625, std. Dev.= 1.26326). The study resembles that of [13] that mutual fund focusing on high-risk investment in the short to medium term affects mutual fund performance. In regards to whether the mutual fund has a high stock Turnover (Frequent buying and selling of stock), 11(68.8%) agreed while 4(25.0%) disagreed. The mutual fund having a high stock Turnover (Frequent buying and selling of stock) was further found to affect mutual fund performance with (mean=2.1875, std. Dev.= 1.51520). Findings resemble that of [14] that the mutual fund having a high stock turnover affects performance of mutual funds. In regards to whether the mutual fund short sell overvalued stocks, 12(75.0%) agreed while 3(18.8%) disagreed. The mutual fund short selling overvalued stocks was further established to affect fund performance with (mean=2.1875, std. Dev.= 1.37689). The study is in agreement with that of [15] that short selling overvalued stocks affects fund performance.

On whether the mutual fund's portfolio mimics the NSE 20 share index, 13(81.3%) agreed while 2(12.5%) disagreed. Mutual fund's portfolio mimicking the NSE 20 share index was further established to affect fund performance with (mean=1.8750, std. Dev.= 1.20416). The study agrees with that of [15] that mutual fund's portfolio mimicking the NSE 20 share index affects fund performance. In relation to whether the mutual fund buys and holds investments for the long term, 9(56.3%) agreed while 6(37.5%) disagreed. Buying and holding investments for the long term by the mutual fund was further established to affect fund performance with (mean=2.7500, std. Dev.= 1.52753). The study agrees with that of [16] that buying and holding investments for the long term affects the performance of mutual funds.

Out of the total respondents, 11(68.8%) agreed that the mutual fund invests in undervalued stocks while 4(25.0%) disagreed. Investment in undervalued stocks was further established to affect fund performance with (mean=2.5625, std. Dev.= 1.26326). [17] also found that investment in undervalued stocks affects fund performance. In relation to whether the mutual fund invests in fast growing companies, 13(81.3% agreed while 2(12.5%) disagreed. Mutual fund investment in fast growing companies was further established to affect fund performance with (mean= 1.6875, std. Dev.= 1.25000). [2] also established that investment in fast growing companies affects fund performance. On whether the mutual fund invests in stocks that have a high price to earnings ratio, 13(81.3%) agreed while 2(12.5%) disagreed. Investment in stocks that have a high price to earnings ratio was further established to affect fund performance with (mean= 2.0625, std. Dev.= 1.12361). The study agrees with that of [17] that investment in stocks that have a high price to earnings ratio affects fund performance. The study conducted trend analysis to ascertain pattern of movement in expense ratio between 2017 to 2022 as shown in Figure 1.

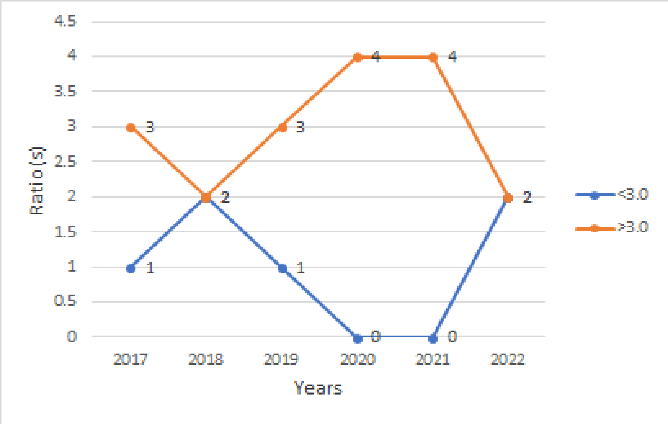

Figure 1: Trend Analysis of Expense ratio

In 2017, the expense ratio of 3 out of 4 mutual funds considered in this study was 3 and above while 1 less than 3.0. In 2018, the expense ratio for 2 out 4 mutual funds was 3 and above while 2 had less than 3.0. In 2019, 3 mutual funds had an expense ratio of 3 and above and 1 had less than 3.0. In 2020, all the 4 mutual funds had an expense ratio of 3 and above. In 2021, all the 4 mutual funds had an expense ratio of 3 and above. In 2022, 2 mutual funds had an expense ratio of 3 and above while 2 mutual funds had an expense ratio of less than 3.0. Correlation analysis was adopted to measure the strength of the linear relationship between two variables and compute their association [14]. It calculates the level of change in one variable due to the change in the other. A high correlation points to a strong relationship between the two variables, while a low correlation means that the variables are weakly related [16]. Correlation tries to identify the relationship, patterns, significant connections, and trends between two variables or datasets [15]. Correlation results were as follows;

Table 3: Correlation analysis

		Expense ratio	Portfolio management
Expense ratio	Pearson Correlation	1	
	Sig. (2-tailed)		
Portfolio management	Pearson Correlation	.728*	1
	Sig. (2-tailed)	.000	

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

Portfolio management has a significant strong positive relationship with performance of mutual funds of ($r = 0.728$, p-value < 0.05). This implies that there is a positive association between portfolio management and performance of Mutual Funds. The more the mutual funds adopt portfolio management, the better their performance. Findings resemble that of [16] that portfolio management has a significant strong positive relationship with performance of mutual funds. Model summary results are presented in Table 4.

Table 4: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.928a	.729	.594	1.60880

a. Predictors: (Constant), portfolio management

R-squared is also called the coefficient of determination and it is used to explain the degree to which predictor variables explain the variation of predicted variables [15]. It ranges from 0 to 1. In this study, the R-squared is 0.729, which indicates that 72.9% of the variation in performance is explained by the input variables. A higher R-squared indicates a better fit for the model [16]. The adjusted R-squared accounts for predictors that are not significant in a regression model [15]. It is therefore a modified version of R-squared. The adjusted R-squared shows whether adding additional predictors improve a regression model or not [16]. A lower adjusted R-squared indicates that the additional input variables are not adding value to the model [14]. A higher adjusted R-squared indicates that the additional input variables are adding value to the model [16]. The adjusted R-square value was 0.594 (Table 4) which indicates that the model explained 59.4% of performance from the predictor variable (i.e., portfolio management). Analysis of variance (ANOVA) was adopted so as to conduct goodness of fit test. The findings are shown in Table 5.

Table 5: ANOVA

	Model	Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	5.824	1	5.824	2.250	.000b
	Residual	5.176	2	2.588		
	Total	11.000	3			

a. Dependent Variable: Expenses ratio

b. Predictors: (Constant), Portfolio management

F test value was, $F(1, 3) = 2.250$, $p<0.05$. This implies that the model was reliable and could be used to predict of performance of Mutual Funds. Regression coefficient results presented the beta that was used to show the extent to which portfolio management affects performance of mutual funds. Findings were as shown in Table 6.

Table 6: Regression co-efficient

		Unstandardized Coefficients		Standardized Coefficients	F	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.471	6.413		.456	.000
	Portfolio management	.353	.235	.728	1.500	.000

a. Dependent Variable: Expenses ratio

Portfolio management had a positive and significant effect on performance of mutual funds of (β=0.353, $p < 0.05$). This implies that an improvement in portfolio management by one unit improves performance of mutual funds by 0.353 units. Hypothesis 1(H_{01}) predicted that portfolio management had no significant effect on performance of mutual funds in Kenya. The findings in Table 6 indicate that portfolio management has a significant effect on performance of mutual funds ($p<0.05$) implying that the null hypothesis was rejected and the study concluded that portfolio management has a significant effect on performance of mutual funds. The study agrees with that of [13]; [14], [15] that portfolio management has a significant effect on performance of mutual funds.

5. Conclusion and Future Scope

The study concluded that portfolio management enhances the performance of mutual funds. The performance of the mutual funds is affected when mutual funds invest in short to medium term high-risk investments. High stock turnover (Frequent buying and selling of stock) affects performance of mutual funds. Short selling overvalued stocks affects performance of mutual funds. The mutual fund's portfolio mimicking the NSE 20 share index affects performance of mutual funds. Buying and holding investments for the long term by mutual funds affects their performance. Investment in undervalued stocks affect performance of mutual funds. Investment in fast growing companies affects performance of mutual funds. Investment in stocks that have a high price to earnings ratio affects performance of mutual funds. The study recommended that mutual funds should only adopt portfolio management approaches that enhance the performance of mutual funds. Mutual fund's portfolio should mimic the NSE 20 share index. Mutual funds should continue to short sale overvalued stocks. Further studies should be conducted on portfolio management and performance of all mutual funds in Kenya. Further studies should also be conducted on trust funds in Kenya.

Data Availability
Online through google scholar and other search engines.

Conflict of Interest
No conflict of interest exists whatsoever.

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The author is the sole financier of the entire research article.

Author's contribution
I have advanced the existing literature on the relationship between portfolio management and performance of Mutual Funds. I have provided evidence of the performance of mutual funds after post-Covid-19 era in Kenya since little had been known about it after the post-Covid-19 era.

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