

**CONTRIBUTION OF UNIT TRUSTS FUNDS IN THE
GROWTH OF CAPITAL MARKET IN KENYA**

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**Contribution of Unit Trusts Funds in the Growth of Capital
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DECLARATION

This thesis is my original work and has not been presented for a degree in any other University

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DEDICATION

To my parents for the sacrifices, they made in their life for my sake and giving me the foundation in education that has allowed me to reach where I am today. To my children, thank you for your understanding during the entire period of my studies.

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ABBREVIATIONS AND ACRONYMS

ANNOVA:	Analysis of variance
BPO:	Business Process Offshoring
CBK:	Central Bank of Kenya
CDS:	Central depository system
CIC:	Cooperative Insurance Company
CIS:	Collective investment schemes
CMA:	Capital Market Authority
EMH:	Efficient Market Hypothesis
GLM:	General Linear Model
IFF:	Illicit financial flows
IPS	Im-Pesaran-Shin
KIB:	Kenya Institute of Bankers
KLCI:	Kuala Lumpur Composite Index
LIC:	low-income countries.
MDG:	Millennium Development Goals
MINECOFIN:	Ministry of Finance and Economic Planning (Rwanda)
MPT:	Modern Portfolio Theory
MSCIAC:	Morgan Stanley Capital international All Country

NEPAD:	New Partnership for Africa's Development
NPA:	Non-Performing Assets
NSE:	Nairobi Securities Exchange
REIT:	Real Estate Investment Trusts
ROA:	Return on Assets
ROI:	Return on investment
ROK:	Republic of Kenya
SPSS:	Statistical Package for the Social Sciences
SRO	Self-Regulatory Organization
UNODC:	United Nations Office on Drugs and Crime
VIF:	Variance Inflation Factor

DEFINITION OF TERMS

Asset allocation	is diversifying investments in different assets in order to optimize risks (Bryant, 2013).
Capital allocation	Refers to the process of determining the most efficient investment plan for an organization's financial resources, with the goal of maximizing investor equity (Bryant, 2013).
Capital market	Refers to a financial market in which debt instruments or equities are transacted (CMA, 2007).
Diversification	includes adding securities to a portfolio for the purpose of reducing its unique security risk and, thereby, reducing its total risk (Haslem,2003)
Domestic savings	refers to a systematic process of collecting and managing financial resources for a purpose of investment from investors within the country (Economic Commission for Africa, 2012)
Financial markets	is a mechanism that allows people to buy and sell financial securities and commodities (CMA, 2007).
Foreign Direct Investment:	This is the long-term investment by a foreign investor in an enterprise entity in an economy other than that of the foreign investor (IMF, 1999).
Fund managers	are individuals responsible for making portfolio decisions for unit trust funds in line with fund objectives (CMA, 2011)
Growth	is an increase in the value of an investment over time(Brown and Reilly, 2009).
Market capitalization	is the overall value of the shares outstanding of a public company. Market capitalization is a single technique to measure the size of one company in relation to the other. It is also a

measure of what the a typical market thinks the value of the company is, taking into consideration its future position, as the future outlook is built into the price the stock is trading at (Benoit, 2004).

Market Value: The price at which a security is trading and could presumably be purchased or sold. (Pandy, 2007)

Risk management is the orderly use of organization-wide systems of identifying, assessing, managing, and monitoring risks such that accumulated information can be used to protect, release, and create value (Shahbaz, Tabassum, Muhammad, Mansoor, Hafiz & Yasir, 2012).

Unit Trust Fund is an investment arrangement that pools funds together from investors with the similar financial objective and managed by a cluster of professional administrators who capitalize the pooled money in financial markets to accomplish the objectives of the fund (CMA, 2007).

ABSTRACT

Unit trust funds have contributed to the growth of financial markets in Kenya and unquestionably globally. This has been demonstrated by the upsurge in the number of unit trust funds in the capital market. The specific contribution of unit trust in the growth of capital market is not clear despite the growth of this market. Hypothetically it is expected that as unit trust funds grow, capital markets also must grow but empirically there is some substantial growth in capital market though not in equal measure in unit trusts. The study sought to determine the contribution of unit trusts funds in the growth of capital market through mobilizing domestic savings, mobilizing foreign direct investment, capital allocation and risk management. The study was undertaken using explanatory non-experimental research design and analysis were carried out within a panel data estimation framework. A census study for all twenty-three (23) unit trust schemes was carried out on all money market, equity and balanced funds managed by the schemes for the annual period from year 2009 to year 2017. The research utilized secondary data because of the small number of unit trusts companies in the NSE. The secondary data was captured through secondary data collection sheet designed to record all information necessary on unit trust funds from annual reports, surveys and CMA publications for the period 2009 and 2017. The data were also analyzed using descriptive statistics, correlation analysis, and panel multiple regression analysis using SPSS Version 21. Both dependent and independent variables were analyzed using panel data to determine the relationships of the variables. These findings were presented in the forms of descriptive statistics and regression model. The study established that all the four independent variables were statistically significant at five percent level of significance. The study revealed that the joint effect of domestic savings, foreign direct investment, Capital allocation, and Risk management contributed to the growth of capital market in Kenya. Grounded on the findings, the study recommends that the government of Kenya should improve positively the measures to promote investment in unit trust since it positively contributes to the growth of capital market and by extension support the economic pillar in Kenya vision 2030.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Over the last decade, the Kenyan capital market has witnessed a considerable amount of development, and has assumed an increasingly significant position within the overall financial sector. A lot has been done to boost market infrastructure and processes, and to strengthen the regulatory structure during this period, with the Capital Market Authority itself having been at the forefront of such efforts. The capital market has seen momentous growth, with a steady increase in the amount of funds raised(CMA, 2011).

Unit Trust Fund is precisely defined as an investment plan that by design pools together funds from a large number of investors who by default share the same financial goal. These funds are to be managed by a team of registered professional administrators who will in turn invest the joint funds in a carefully selected portfolio of securities which include bonds, shares and money market securities. These securities have to be approved and in line with the fund objectives. The fund issues units to investors in exchange of the money invested and consequently recognize them as unit holders. The fund earns income from capital gains, dividends and interest income which is to be distributed to the unit holders. The common practice of calculating the value of assets in a unit trust involves multiplying the total number of units issued by the unit price then a consideration of management fee charged and any other associated expenses (Maina, 2013).

The investment in unit trust funds is critical in developing an appropriate capital market structures besides mechanisms to support the economic and financial goals of the country as stipulated in the Vision 2030. The vision aims to transform Kenya into a newly industrializing, “middle-income country providing a high quality life to all its citizens by the year 2030”(ROK, 2007). The Vision identifies three main “pillars”: the Economic, Social and Political pillars. The Economic Pillar further identifies six priority key sectors to drive growth towards realizing the particular objective. The

sectors identified are Tourism, Agriculture, Wholesale and Retail Trade, Manufacturing, BPO and Financial services. The main focus of Financial Sector under the Vision 2030 is to create a vibrant then a globally competitive financial sector that will create jobs and advance proportionate levels of savings to finance Kenya's overall investment requirements and makes Kenya the regional financial services hub.

According to CMA (2011) the capital market has played a critical role in mobilizing funds and facilitating economic development in the past. The development of financial requirements of our economy indicates that greater demands will be placed on the capital market in the coming years if the country aspirations is to be achieved. The researcher justifies that there is need to develop a suitable capital market structures and mechanisms to support the economic and financial goals of the country.

Niche markets where Kenya has a comparative and competitive advantage characterize potentially significant areas where the domestic capital market can successfully position itself at the regional front, predominantly where there is largely unexploited potential for such development. Efforts must therefore be taken to advance on the segments of the Kenyan capital markets that have hitherto not developed in tandem with other areas of the market, and where the country has the natural strengths and potential to become a top player. This will extend the breadth of the overall capital market beyond the boundaries of basic conventional products, and the positive implications for broader capital market activity will also contribute to the overall growth of the financial services industry (Nyanchama, 2014).

The Capital Markets Act, chapter 485A points out that a collective investment scheme encompasses an investment company, a unit trust, a mutual fund or other scheme which are incorporated under the laws of Kenya and accumulates funds from the public or part of the public for the main reason of investment and is managed by or on behalf of the scheme by the agent of the scheme. The same act specifies that a unit trust infers to any organized plan in the nature of a trust in involving members of the public who are invited to buy units of investment in a single or a set of stated securities and to participate proportionately in the sharing of incomes or profits resulting from it.

Any unit holder in a unit trust fund, will buy units through the fund manager at the prevailing selling price which is always calculated and changes on a daily basis. The units can be bought any time provided the fund has not achieved its maximum approved size. Unit holders in the other hand can trade on their units back to the fund manager at the prevailing market price. This repurchase characteristic makes the units trust to be referred to as open-ended funds. The fund manager is expected to issues new units to incoming investors and plan to redeem these units from outgoing investors (CMA, 2007).

The unit holders can create value to their investment by either selling the units, through capital gain or dividend income. A single unit in the fund carries a piece or share of the fund's underlying portfolio of securities. accordingly, if the value of the portfolio grows, so does the value of each unit. This is how capital growth or capital appreciation is realized. If a unit holder sells the units at a higher price than they purchased, the net difference is the profit gained. The opposite will mean a loss is realized if the units are sold for less than the price they were bought (CMA, 2007).

The net revenue received by the fund from its investment's prospects may be compensated on to unit holders in the form of dividends. Nevertheless, dividends are not certain if the fund makes no income. Furthermore, a fund that places emphasis on attaining capital growth may have a policy of no dividend. In such situations an investor may have to trade the units if some cash is needed. It is thus imperative on the part of the investor to read the prospectus so as to affirm the category of fund being offered and whether it conforms to individual investment objectives (CMA, *ibid*).

The effective price to be paid by each unit holder or the net proceeds received when the units are sold is directly derived from the net asset value inclusive of other related costs. Several funds commit their investment in different securities; therefore, their performance will be based on the particular investment choices. Hence, a unit holder selling price may well be higher or lower comparative to the stock market's performance when units were bought (CMA, 2007).

1.1.1 Unit Trust Funds in A Global Perspective

Globally, the U.S. unit trust industry by year-end 2015 was the largest in the world with an equivalent of \$19.8 trillion in assets. The growth in the industry has been steady for the past two decades accounting for half of the \$35.4 trillion in unit trust assets worldwide. The growth of unit trust in the U.S. and other high-income countries has stimulated a large and ever-growing literature on unit trusts that can best be used to explain the performances of the industry (Mitton and Gosse, 2017).

Smith (1997) argued from the study of financial markets in USA that Markets enhance growth to the extent that they serve to allocate resources to the place in the economic system where their social return is greatest. Market structures also affect agents' incentives to accumulate various types of physical and human capital, as well as other kinds of assets. Finally, market formation is an endogenous process.

Kreander, Gray, Power and Sinclair, (1998) asserts that one of the fastest growing areas of European equity investment in the last decade involves funds which select securities are formed according to ethical and environmental criteria.

Abdullah, Hassan, and Mohamad, (2007) found out that, In Malaysia Individual investors seeking liquidity, portfolio diversification and investment expertise are increasingly choosing unit trust funds as their investment vehicle. However, these investors do differ in their preferences based on their risk threshold, liquidity needs and their needs to comply with religious requirement.

According to Mitton and Gossel (2017) the collective investment fund industry in South Africa has seen some remarkable growth with three hundred and sixty billion rand invested in South Africa domestic equity fund alone by 2016. The choice and debate among the investors in South Africa now are whether to invest in passive index tracking funds or actively managed funds.

South Africa's first unit trust, Sage Fund, was established in June 1965 with approximately R600 000 under management, R41 million at December 2012 price levels. Since then, there has been huge growth in the unit trust industry in South Africa:

as at the close of 2012, there were 704 South African domestic unit trust funds accessible, with a market worth of R1 160 billion. Equities dominate South African unit trusts, but the relative popularity of general equity funds has been on a decline since the 1970s (Dino and Mark, 2015).

1.1.2 The Performance of Unit Trust in Kenya

In Kenya Unit Trusts are regulated by CMA, a corporate body established in 1989 through an Act of parliament given the mandate to promote, regulate, and facilitate the development of an efficient, fair and orderly capital markets. According to CMA, Unit trusts are the small investor's solution to accomplishing wide investment diversification without the need of unaffordable sums of money (Shikuku, 2012).

The government has put in measures to enhance the capacity of the Capital Market Authority and the Nairobi Securities Exchange to enable the two institutions to play their respective roles. In order to encourage more stock exchange listings, the government has eliminated existing obstacles and encouraged collective savings institutions (mainly collective investment schemes, pension funds and insurance companies) this will increase the potential to increase funds for investments (ROK, 2007).

There are three types of unit trusts in Kenya, namely; blended funds, equity funds and money market. Equity funds have an objective of maximizing returns in the long run. To achieve this, they are fully invested in shares listed on Nairobi Security Exchange (NSE) and selected shares in the regional market. They are diversified across all the sectors of the equity market and are suitable for investors with long-term horizon. Money market and income securities are intended for the stability of the capital. It is invested in treasury bills and short-term bonds. It is also diversified across securities and is best suited for investors with a short-term horizon. Blended fund is a fund invested in both equity and bond and is intended for the stability of both capital and its growth. It is suitable for investors with medium term outlook (Dawe, Pokhariyal, and Mwaura, 2014)

The type of fund selected by an investor to commit his savings depend on the information contained in the particular prospectus which further is influenced by individual goals and amount of capital accessible. The ability to breakdown units into small values has made the unit trust funds to grow in its acceptability and popularity. This is demonstrated by the growth in the number of approved unit trust funds to 23 at the close of 2016. Unit trusts are the small investor's option to achieving diverse investment needs without the need of unaffordable sums of money. As a market becomes intricate and more unstable, unit trusts become attractive for conservative investors in the market place (CMA, 2011).

Although there are laws and guidelines to guide investor protection, it is primarily investor's responsibility to appraise the suitability, profitability and viability of any investment. An investor must evaluate the information which is actually provided in the prospectus and make the decision whether to invest or not, based on their own situation and attitude towards risk (CMA, 2007).

The growth of collective investment schemes has been progressive though at a slower rate than expected. However, like many other firms which swim through the waves of business challenges to remain in the right momentum, some collective investment schemes in Nairobi appear to have numerous challenges ranging from competition, which make some to die before they are even launched or go through a short life span compared to other firms (Zimele, 2010).

Kenya faces a marked slowdown in credit growth to the private sector. At 4.3%, this remains well below the ten-year average of 19% and is weighing on private investment and household consumption. Also, as a net oil importer, the rise in global oil prices compared to the lows of 2016 has a dampening effect on economic activity. This has a negative effect on investment in available investment options including unit trust (CMA, 2017).

Kimani and Kisaka (2016) examined the impact of collective investment schemes in financial inclusion in Kenya. The study resolved that collective investment schemes have not succeeded in positively improving financial inclusion in all categories of investors in Kenya. Therefore, collective investment schemes can improve financial

inclusion by targeting their marketing strategies to different categories of investors to increase awareness.

According to CMA (2017), the total collective investment schemes funds under management as at Dec 31, 2016 stood at KShs 57 billion. Out of this CIC Unit Trust Scheme manages 23% of the total funds. It is also noted that 78% of these funds are invested in the money markets. UAP Investments Unit Trust Scheme is in the process of being wound up.

In this context, it becomes pertinent to study the contribution of unit trust funds in the growth of capital markets in Kenya. The 2030 vision for financial services is to have a vibrant and globally competitive financial sector driving high-levels of savings and financing Kenya's investment needs. The objective will be achieved by raising institutional capital through policy frameworks that are favorable locally as well as tapping international sources of capital.

1.1.3 The Contribution of Unit Trusts.

Based on the assessment of the sources its financial resources and enabling environment there is sufficient evidence that the fundamentals exist for the continent to raise more financial resources domestically to implement its development programmes and projects. In addition to the fundamentals, Africa's resource potential is enormous and strongly confirms that the continent has the means to finance its own development (NEPAD, 2013).

Further NEPAD (2013), argues that one of the features of Kenya's capital and financial services is its degree of diversification of fairly well-established institutions and instruments of mobilization of domestic resources. Kenya's capital and finance market today boasts of one of the oldest and fairly well-established stock exchange markets in Africa; a banking sector with about 43 commercial banks with their 1,143 branch network, and a number of non-bank financial institutions; an insurance industry, ranked 4th in Africa and 71st globally in 2006 in the last few years; a well-established capital market managed under the Capital Markets Authority.

Private savings have increased over the years driven by rising per capita income, higher age dependency ratio, lower share of agriculture in the economy and sustained efforts to strengthen the financial system. It is projected that private savings will have to provide a huge portion of the additional investment-financing requirement, particularly through the increasing role of the capital market (Mohamed and Chze, 2001).

In the research work of Wamburu and Wainaina (2014) on the aspects discouraging the development of an emerging capital market with a specific focus on the Ghana stock market, the study concluded that the most significant factors impinging on the development of the Ghana stock are lack of national awareness, lack of knowledge about stock markets and low incomes of the bulk of the people. This translates into the low number of listed stocks, the low rate of listings, poor patronage in the market and other limitations.

The theory of economic policy as described by Brainard (1967) or Theil (1971) suggests that public policy alone should be used to influence the national savings level. It would seem that the most direct way to raise national savings is through higher public savings since it is subjected to direct control by the authorities.

Capital flows bridged the domestic resource gap by providing the requisite foreign exchange for the import of capital and intermediary goods as well as domestic investments. Official long-term capital inflow consists mainly of borrowing by the Government in the form of loans (Mohamed and Chze, 2001).

While higher domestic saving is needed to finance a faster growth rate, policies aimed directly at mobilizing savings are not necessarily the best instrument to achieve this target. There is also a growing literature which, based on cross-country studies, has found little evidence that policy efforts to boost savings have been very effective. This research suggests that the main policy focus should be on initiating a virtuous growth-saving circle by fostering growth through fiscal consolidation and strong structural reforms, including privatization and financial liberalization. Under such a strategy, initially growth would need to be financed mainly through higher public saving. Private saving, which eventually would have to provide the bulk of additional

investment financing, would follow with a lag, responding to higher growth (Muhleisen, 1997).

It is worth noting that aggressive savings mobilization has positive effects on the vitality of financial systems. This is applicable when financial intermediary is highly dependent on foreign aid or the local government for loanable funds, the intermediary will be very concerned about cultivating the patrons who provide this liquidity. This results in intermediaries spending ample time stroking central bank, donor agency, and government officials, rather than building strong working relationships with their own savers and borrowers (Adams, 1984).

It is the wish of investors to pursue diversification in their asset selections and considering the performance of the stock markets, various investors have sought to diversify their holdings further by investing in unit trusts. Unit trusts are attractive mainly because of the low risk involved including the fact that mutual funds are professionally managed. These funds are invested in shares, bonds and real estate's (Kagunda, 2015).

Based on ones' objectives and constraints an investor has to specify individual asset allocation strategy. The decision is on specific portfolio for investment in each of the asset categories: cash, bonds, stock, real estate, precious metals and others instruments. The conventional wisdom on the asset mix lies in two propositions; other things being equal, an investor with larger tolerance for risk should tilt the portfolio in favour of stocks, whereas an investor with reduced tolerance for risk should tilt the portfolio in favor of bonds (Nyanchama, 2014).

1.2 Statement of the Problem

There is a shift from traditional forms of savings, particularly bank deposits towards managed mutual funds resulting in a change in the focus in the structure and nature of financial services from institutions to individual investor (Rudman, 2008). This drastic growth and the shift in risk bearing have raised concern about the level of investor's knowledge or lack thereof relating to the cost, risk and other factors associated with investment decisions. In addition, the Capital Market Authority through its policy

incentives of 2005/2006 approved that all Income accruing to registered CISs are tax free in order to encourage pooling of resources from small investors so as to boost the demand for securities in the capital markets. Consequently, investors are able to consider a variety of factors when making investment selections in the capital market where unit trusts is one of the options. This leads to the question ‘what is the contribution of unit trust funds in the growth of capital markets in Kenya?’

In Kenya as at 2016 there were 23 registered unit trust funds from virtually none in 2001 compared to 526 funds currently operating in South Africa. This implies that there is huge potential to tap in terms of capital formation in the capital market. In line with Vision 2030, investment in unit trust funds will support in developing suitable capital market structures including mechanisms to support the economic and financial goals of the country. To achieve this objective under Vision 2030, there is need to fashion a vibrant and internationally competitive financial sector that will promote high levels of savings to finance Kenya’s overall investment requirements.

The theory of investment value points out that an investment operation is one which, upon thorough analysis promises safety of principle and an adequate return; operations not meeting these requirements are speculative. Graham (1974) further argues that the market is a pendulum that forever swings between unsustainable optimism and unjustified pessimism however the intelligent investor is a realist.

Kagunda (2015) asserts that the unit trusts are attractive mostly because of the low risk involved as well as professional management. In addition; unit trusts have performed well and the market trail behind the performance of unit trusts. The fact that the unit trust outshines the market can be attributed to the fact that fund managers could be in the position to forecast stock prices based on several essential variables such as initial dividend yield, market capitalization, price earnings ratio and price to book value ratios.

Investment decisions in unit trusts are influenced by behavioral biases of individual fund managers. Anchor and overconfidence are found to be the most dominant factors affecting fund managers investment decisions. Fund managers choose to retain the best

performing portfolios in their current investment in anticipation of continuous better returns suggesting the effect of anchor in their decisions (Shikuku, 2012).

Debasish (2010) found out that the equity based open-ended mutual fund schemes provide relatively superior returns to investors. The researcher argues that small investors are well-advised to analyze the return and risk parameters of the mutual funds, over longer period of time, before their investment decisions.

Investment choices available to investors need to undergo a thorough analysis of the situations prevailing in an economy. Unit trust funds is one of the key pillars in the capital market required to mobilize financial resources to the capital market as recognized in Kenya vision 2030. To achieve this, unit trust funds should guarantee safety of principle and an acceptable return as well as making substantial contribution to the growth of capital market in Kenya.

It is true that when unit trust funds grow, we expect also a growth of capital markets, but this is not necessarily true in all situations. The progressive growth in Unit Trust has been noted but at a slower rate than expected with few firms taking the lion share of the funds. Therefore, there is need to determine the specific contribution of unit trust which is attributed to the growth of capital market in Kenya. This is essential because a comparison of unit trust industry with those of other countries indicate that fewer unit trusts are registered in Kenya and further listed with NSE. It is against this context that this study seeks to fill the gap by bringing out the contribution of unit trust funds in the growth of capital markets specifically in Kenya.

1.3 Objectives of the Study

1.3.1 General Objective

The general objective of the study was to examine the contribution of unit trust funds in the growth of Capital Market in Kenya.

1.3.2 Specific Objectives

- i. To determine the contribution of domestic savings in the growth of capital market in Kenya.
- ii. To establish whether foreign direct investment contribute to the growth of capital market in Kenya.
- iii. To establish the contribution of capital allocation to the growth of capital market in Kenya.
- iv. To determine the contribution of risk management in the growth of capital market in Kenya.
- v. To determine the moderating effect of the legal restrictions on investment of scheme funds on the relationship between the independent and dependent variables

1.4 Research Hypotheses

H₀₁: There is no statistically significant relationship between domestic savings and the growth of capital market in Kenya.

H₀₂: There is no statistically significant relationship between foreign direct investment and the growth of capital market in Kenya.

H₀₃: There is no statistically significant relationship between allocation of capital and the growth of capital market in Kenya.

H₀₄: There is no statistically significant relationship between risk management and the growth of capital market in Kenya.

H₀₅: There is no statistically significant moderating effect of the legal restrictions on investment of scheme funds on the relationship between the independent and dependent variables

1.5 Significance of the Study

The Government of Kenya is keen to have a robust and developing financial sector that will create jobs, boost the level of savings to finance Kenya's overall investment requirements and makes Kenya the regional financial services hub. With this information concerning the contribution of unit trust funds in the growth of capital market in Kenya, the government can articulate policies and introduce regulations geared towards ensuring that the management of unit trust funds match up to the aspirations of its members. Management of unit trust funds would gain from the study as they need to make more informed financial decisions cognizance of the investor's behavior and response to market volatilities.

The outcomes of this research work in addition brings a vital contribution to the body of knowledge by establishing how Kenyans make their choices on where to invest their funds in the capital market as their means of creating wealth. An accurate framework designed to show contribution of unit trust funds in the growth of capital market in Kenya has been shaped to further guide other research, provide an appraisal to existing business practices and offer new strategies for policies used in the dynamic business environment.

1.6 Scope of the Study

The conceptual scope of this study lies on the contribution of unit trust funds in the growth of Capital Market in Kenya. This research work involved all the registered unit trust funds in Kenya for a period of nine years between the year 2009 and 2017. There were twenty-three (23) registered unit trust funds in Kenya according to Capital Market Authority as at December 30, 2016 (as per the appendix 2). The study therefore considers all companies that had been active during the study period. The secondary data was collected from unit trusts relevant annual reports and CMA publications then analyzed by means of panel data.

1.7 Limitations of the Study

The study focused on the contribution of unit trust in the growth of capital market in Kenya. The results have provided insight into the associations among these variables of the study and the results can help a number of stakeholders in decision making. However, the study was faced with certain limitations.

The first limitation relates to the data spread along the period of study and its consistency in aggregate data points. It is worth noting that in 2009 there were 11 registered collective investment schemes and by 2017 the schemes numbers had grown to 22. This in itself brings the challenge of adequacy of data in the beginning and the variability of the same as the years progressed.

The study also made the assumption that the secondary data obtained from Capital Market Authority were accurate and free from any inconsistencies over the period of study. Equally these sources of data had been collected for some other purpose than the study at hand. Therefore, if there were any errors then the same errors were transferred to the study findings.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter presents both theoretical and empirical literature reviews presented in order of fundamental characteristics that define the study variables. Section 2.2 presents the theoretical literature, Section 2.3 discusses the empirical literature, Section 2.4 analyses the contribution of unit trust funds, Section 2.5 is a Critique of the Related Literature, 2.6 is the research gaps and Section 2.7 are the summary of the chapter.

2.2 Theoretical Review

This segment provides a review of four theories linked to investment in unit trusts. The theories reviewed are the Prospect theory, theory of investment value, Modern Portfolio Theory and Institutional herding theory. The endogenous growth model is also reviewed.

2.2.1 Prospect Theory.

Prospect theory was developed by Daniel Kahneman and Amos Tversky in 1979 as a psychologically alternative to the theory of expected utility maximization. The model is descriptive: it tries to model real-life choices, rather than optimal decisions, as normative models do. This theory describes how people make choices in situations where they have to decide between alternatives involving risk. It suggests that people evaluate a prospect on gains and losses rather than on final assets and further that they view gains and losses separately. Prospect theory can be deconstructed into four distinct processes, the editing process, the value function, probability weighting and risk attitude assessment (Cochran, 2001).

Mwenga (2004) argues that value function differs from the utility function in expected utility theory due to a reference point, which is determined by the subjective impression of individuals. According to prospect theory, the slope of the utility

function is upward sloping for wealth levels under the reference point and downward sloping for wealth levels after the reference point. The reference point is determined by each individual as a point of comparison. For wealth levels under this reference point investors are risk seekers, that is, they are prepared to make riskier bets in order to stay above the preferred target level of wealth.

One of the most significant and unique features in Kahneman and Tversky's approach to choice under uncertainty is aversion to loss realization. The behavior pattern of general disposition to sell winners too early and hold losers too long and consideration of other elements including mental accounting, regret aversion, self-control, and tax considerations are consistent with this descriptive model (Shefrin and Statman, 1985).

Regret is an emotion that occurs after people make mistakes. Investors avoid regret by refusing to sell shares whose prices have gone down and willing to sell those that have appreciated. Moreover, investors tend to be more regretful about holding losing stocks too long than selling winning ones too soon (Forgel and Berry, 2006).

Prospect theory may be used to explain the irrationality that is constantly seen in financial markets that goes contrarily to the assumptions of the EMH that prices reflect the intrinsic value of securities. Investors often have an irrational preference for stocks paying high dividends as they do not mind spending the dividend income, but are not inclined to sell a few shares even when the fundamentals demand they sell since they consider shares to be their hard-earned investment (Nyamute, 2016).

Kahneman (1979), further points out that the way economic agents subjectively frame an outcome or transaction in their mind affects the utility they expect or receive. This theory however fails to explain why people are attracted to both insurance and gambling given the levels of risks or uncertainties.

The Prospect theory draws its strength from how people make choices in situations where they have to decide between alternatives involving risk in firms. This theory provides for a non-biased perspective on the relationship between growth of capital market and the contribution in unit trusts variables employed by this study. By providing information that effects investment in unit trusts, the theory offers a neutral

platform to undertake an incisive empirical analysis of this relationship within the capital market.

2.2.2 The Theory of Investment Value

The seminar work of John Burr Williams which was later published in 1938 introduced the theory of investment value. Williams was a security analyst who sought a better understanding of what caused the stock market crash of 1929 and the subsequent great depression. The study focused on the intrinsic value of common stock which was published as the theory of investment value.

According to Williams investment value is the present worth of future dividends, or of future coupons and the principal. In this regard it is of practical importance to every investor because it is the critical value above which he cannot go in buying or holding, without added risk.

The theory of investment value shows how traders would act in the stock market if they were perfectly rational and farseeing. It is noted that gradually as men do become more intelligent and better informed, market prices should draw closer to the values given by this theory since market prices depends on popular opinion, and since the public is more emotional than logical. It is foolish to expect a relentless convergence of market price towards investment value.

Corporations which require large sums for capital developments, as most do today, are caught on the horns of a dilemma with reverence to dividends. If they conserve cash, and make small dividend payments, the investor clearly suffers in respect to return. If, on the other hand, they pay generous cash dividends, and then come back into the market for capital the shareholder may be barely better off. Such firms pay a high-income tax on the dividend received, and if they then subscribe to the new capital issue they will be just where they were before, minus the tax. In the case of many utilities, we showed that this needless shuffling of funds back and forth between company and shareholder has been extremely expensive over the years (Graham, 1974).

This Theory of investment value was made on the position that the government is a poor steward of the economy. According to the theory taxes are a drag on savings, earnings and eventually the worth of the securities. The redistributive nature of excessive taxation and government control of key industries would put government on a path towards socialism.

According to Graham (1974) review on the theory of investment value, common stocks have certain important characteristics including the speculative characteristic. Their investment value and average market price have a tendency to increase erratically but steadily over time, as their total value builds up through the reinvestment of undistributed earnings taking into consideration the effect of inflation. However, to calculate the investment value it requires consideration of factors not limited to future growth of earnings, the proportion of earnings payable as dividends, and an estimated discounting rate applicable.

The theory of investment value focuses on the investment made and the expectations of the saver on the behavior of this investment over a period of time. This therefore forms a foundation to support the third and fourth objectives of this study.

2.2.3 Modern Portfolio Theory

Markowitz (1952) developed the theory of portfolio analysis that provides the basis for scientific portfolio construction that result in an efficient portfolio. The theory offers a clear account on how to maximize expected return of a portfolio considering the magnitude of portfolio risk. It also includes minimizing risk for every level of expected return, by cautiously selecting the proportions of assets classes to invest in.

Essential to modern portfolio theory is the premise that investment decisions are made to achieve an optimal risk or return tradeoff from the accessible opportunities. The primary motivation of holding a portfolio instead of a solitary investment is to get the most out of return while minimizing risk. Portfolio Selection is based on the theory that investors should focus on selecting optimal portfolios as opposed to optimal assets.

According to this theory, it's achievable to create an efficient frontier of best possible portfolios capable to offering the best expected return for a determined level of risk. The method involved in portfolio construction requires a careful and sequential procedures of asset allocation, security valuation, portfolio optimization and performance measurement.

It is worth recognizing that the theory of portfolio selection is a normative theory. A normative theory in this case describes a standard form of behavior that stockholders should follow in constructing a portfolio, in divergence to a theory that is essentially followed. Both asset pricing and MPT theory provide a background to outline and analyze investment risk and to develop associations between expected asset return and risk.

MPT is a concept of diversification formed by investing in different classes of assets because often they change in value in different direction. This finally offers a group of investment assets that has jointly lower risk compared to any individual asset in the market (Bhalla, 2010).

MPT in the context of known assumptions given specific quantifiable definitions of risk and return, clarifies how to select the best possible diversification strategy. Direct test of the concrete performance of professionals who regularly are compensated with strong motivations to outperform the market should epitomize the most competing evidence of market effectiveness. There are a number of assumptions fundamental to this theory in view to investors' behavior and risk tolerance. The investors consider each investment option as being represented by a probability distribution of expected returns over a specified holding period. They then estimate the risk of the portfolio on the basis of unpredictability of expected returns to make the most of one period expected utility (Brown and Reilly, 2009).

Many imaginary and sensible criticisms have been leveled against this theory with the most critical being its approach on measurement of risk in terms of overall risk. This theory additionally describes applicable risk in investment appraisal as a systematic risk whereas the truth is financial returns do not follow a Gaussian distribution.

(Micheal, 1998). This theory recognizes the importance of maximizing the return for investors therefore the theory is of relevance to the study.

2.2.4 Herding Theory

The Herding Theory, is credited to Scharfstein and Stein (1990), arising from classic paper by Grossman and Stiglitz (1976). The theory explains the general behavior involved in decision making where investors mimic each other and trade following the pattern of those considered more knowledgeable rather than investment based on their beliefs or private information.

The theory further paints an investor as a communicator, who issues and receives informative signals and then convey the same information between individuals in different shapes (Maloba, 2012). Institutional herding is a kind of a trading model where institutional investors buy and sell the same set of securities at the specified period. Herding behavior has been frequently regarded as a key feature of institutional trading. According to the model, institutions investors are subjected to reputational risk when they act in a different way from the masses. A justification for reputational herding is that investors consider failing conventionally better for one's reputation than succeeding unconventionally. This is because investors who herd comfortably share the blame and hide in the herd when making unfavorable investment decisions. (Cai, Han, and Li, 2012).

The existing theories explaining why institutional investors might herd indicate that institutions may trade jointly purely because they receive interconnected private information, perhaps from interpreting the similar indicators or share certain preferences for some securities with particular characteristics, such as liquidity, volatility or visibility of the stocks. Institutional investors may also consider private information from the historical trades of knowledgeable institutions and trade in the same pattern, in doing so; they may pay no attention to their private information and trade with the crowd due to the reputational risk of behaving differently from other fund managers (Cai et al., 2012).

Chiang and Zheng (2010) noted that herd behavior in financial markets is a relevant subject of discussion for both practitioners and economists. Economists are particularly interested in herding due to the behavioral effect on stock prices which affect returns and risk characteristics consequently asset pricing models. Practitioners also interested in herding among investors since it creates profitable trading opportunities hence increasing the value of investment on behave of investors.

This theory forms the basis for this study as it explains herd behavior among fund managers and investors which effect the financial decision-making process resulting in price reactions of securities. This in addition brings out the favorable movement of price of assets toward its intrinsic value and consequently stability of the market.

2.2.5 The Endogenous Growth Model

The Endogenous Growth Theory is linked with Rivera-Batiz and Romer (1991) and Grossman (1992). Endogenous growth theory explains long-run growth as emanating from economic activities that generate new technological knowledge resulting from the rate of investment, the volume of the capital stock, and the extra investment in human capital.

Among the proponents of this model is Rebelo (1991), whose model focused on the endogenously generated savings as an important variable that has the capability to foster long-run growth. It is therefore paramount to note that the policy makers should prioritize actions that have the ability to change the fundamentals to save among the general public.

The technical progress of endogenous model makes the long-run growth stable and permanent. The profit maximizing behavior of firms is driven by Innovation, imitation and adaptation as a way to achieve the objective. In so far as externalities might be associated with these activities, the costs of innovation, imitation and adaption are covered by short-term profits that allow to firms to set prices accordingly (Young, 1993).

Endogenous Growth Theory further describe growth in economies which is generated by factors within the production process, such as; economies of scale, increasing returns and induced technological change; contrary to external factors including the increases in population. In all this process Capital accumulation finally becomes a profitable long-run business (Brown and Nyeche, 2016).

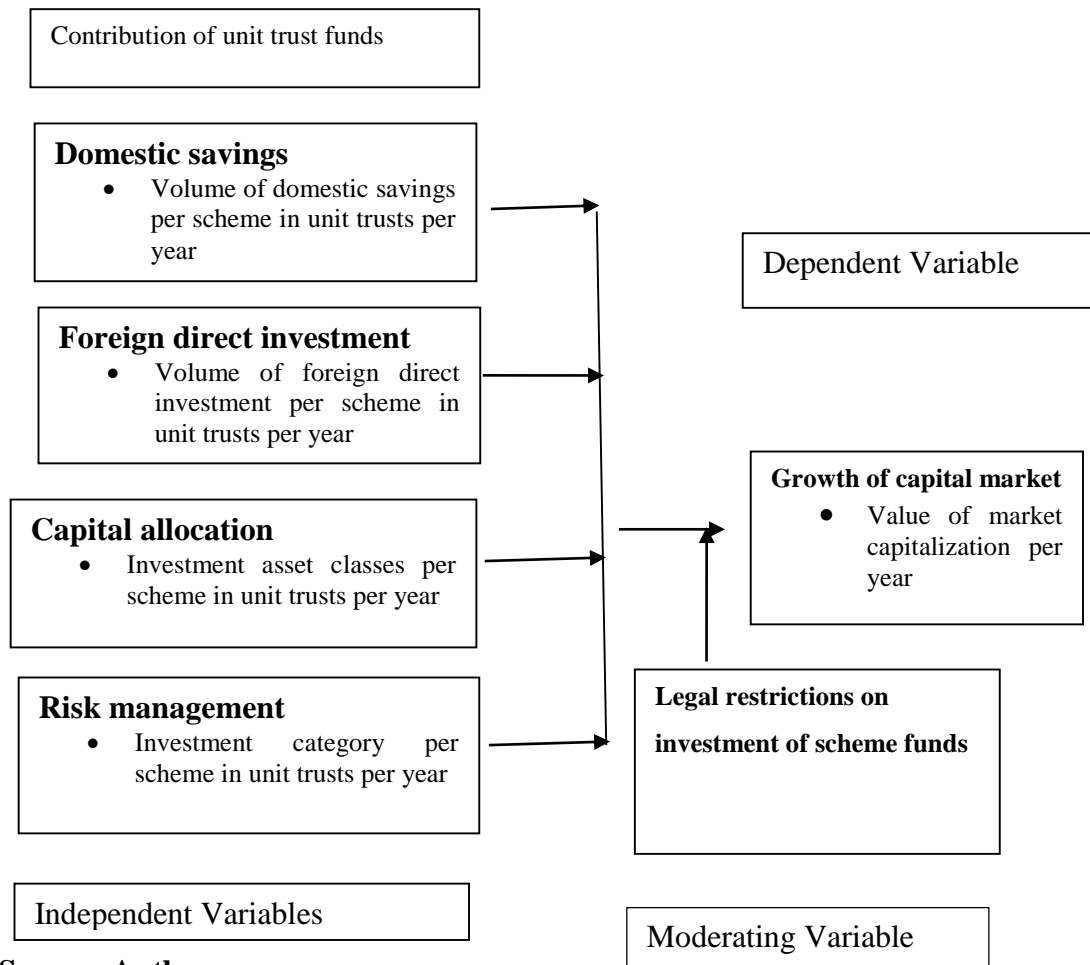
In a broader sense positive externalities are directly linked to capital accumulations which lead to even increasing returns of the accumulable factor (Romer, 1987). Positive externalities shelve the assumption of diminishing returns on capital as stated in the neoclassical model and instead focus on permanent increases in the growth rate. These positive externalities include physical investment, knowledge and human capital accumulation (Romer, 1986).

This theory of economic growth as discussed explains the component of growth of capital market which is as a result of variables stated in the objective of this study. The growth theory emphasizes that economic growth results from increasing returns to the use of knowledge though its limited applicability lies in its assumptions. The theory argues that knowledge is different from other economic goods because of its possibility to grow boundlessly. It is important to note that capital accumulation directly determines future growth. Policy intervention is thus considered necessary to influence growth in the long term. The growth model, therefore, promote the role of government and public policies in complementary investments in human capital formation and the encouragement both foreign and private investments in the capital market.

2.3 The Conceptual Framework

Most research reports cast the problem statement within the context of a conceptual or theoretical framework. A description of this framework contributes to research report in at least two ways because it identifies research variables, and clarifies relationships among the variables. Linked to the problem statement, the conceptual framework sets the stage for presentation of the specific research question that drives the investigation being reported (Waswa, Ndede, and Jagongo, 2013)

The Conceptual framework is based on four independent variables that are directly influencing the dependent variable. The independent variables are the domestic savings, foreign direct investment, Capital allocation, and Risk management



Source: Author.

Figure 2.1: Conceptual Framework

Figure 2.1 shows the conceptualization of the dependent and independent variables of the study. The growth of capital market is the dependent variable of the study measured by value of market capitalization. The independent variables of this study identifies the specific parameters that measures the contribution of unit trust funds in the growth of capital market in Kenya.

2.4 Empirical Review

The work published by Zikmund, Babin, Carr and Griffin (2013), indicates that an empirical literature review is a careful search for relevant published work that explain theory and details empirical findings specific to the area under review. This section therefore considers previous reviews by other scholars on the study's independent variables in relation to the dependent variable.

2.4.1 Domestic Savings and Growth of Capital Market

Wamburu and Wainaina (2014) studied the determinants of Stock Market Development using error correction model to evaluate the elements that lead to stock market development in Kenya. The objects of the study were to measure the effect of institutional features on the stock market development, to explore the effect of macroeconomic features on the stock market development and to explore the social political and economic steadiness on the development of stock. Descriptive approach was used to guide the study. The study provided evidence that capital market structures can help sustain a high level of savings from investors and direct the savings to efficient avenues for investment.

Allahawiah and Al Amro (2012) investigated the factors affecting stock market prices in Amman Stock Exchange. The study focused on firm-specific variables such as dividend policy, management quality, financial position, firm size, and nature of business collected from both primary and secondary sources. All the variables had positive and significant effects on stock market prices. This study therefore revealed that firm-specific factors are important determinants of stock market development.

UNODC (2011) developed a research report on estimating illicit financial flows resulting from drug trafficking and other transnational organized crimes. The report concludes that there are various channels through which IFF negatively affects domestic resource mobilization and, ultimately, economic growth and opportunities for structural transformation. The channels include distortions in the resource allocation from high-yielding investments to investments that run a low risk of detection; distortions of prices, notably in the real estate sector; distortions of

consumption and impact on imports; distortion of exports and potential problems with investment and economic growth; unfair competition; risks of crowding out licit activities and negative impact on foreign direct investment; corruption; risks of real sector volatility; strengthening of skewed income and wealth distribution; distortion of economic statistics and thus potential errors in economic policy decision-making; and undermining the credibility of legal institutions.

Ministry of Finance and Economic Planning [MINECOFIN] (2013) by the Government of Rwanda in their publication on National Savings Mobilization Strategy gave an outline that voluntary saving depends on the capacity to save and the readiness to save. The ability to save hinge on three main factors namely, the level of per capita income, the growth of income and the distribution of income. The ability to save hinge on, the existence of financial institutions, the rate of interest, availability of financial assets, and the rate of inflation. The report further identifies six pillars as the foundation of Rwanda national savings mobilization strategy and creates a culture of savings. These are: Macroeconomic Stability, Institutionalized savings, Expansion of the financial infrastructure and intermediation, Secure and diversified means of savings, Building capacity and efficiency of intermediation, and increased awareness of tangible benefit of savings.

Aduda, Masila and Onsongo (2012) study sought to investigate the determinants of development in the Nairobi Stock Exchange. General linear regression model was used to present secondary data for the period 2005 - 2009 to examine the aspects prompting the development of the NSE. It was noted that domestic savings affects positively the stock market development at 1% level, which is in line with theory as reflecting financial intermediation role of stock market. An increase in domestic savings by one Kenya shillings leads stock market expansion by Kenya shillings 4.209, Indicating that savings are directly related to investment. This has a direct link to the level of investment in the economy as the investors add more investment in stock market and increase their production to meet the increased demand. As the economy grows and investment increases, people invest from their earlier savings

The study by Onuora, Edith, and Onyeonu (2013) focused on Examining the Unit Trust Scheme as a Veritable Vehicle of Investment in the Nigerian Stock Market. The author noted that in spite of the numerous benefits of Trust Fund and its very vital prospect as a veritable instrument for pooling of capital for meaningful investment in Nigeria not many investors within are either aware of this vehicle nor appreciate its prospects. The Nigerian economy needs much domestic investment so as to grow at a double-digit rate. This if achieved can help the country achieve the Millennium Development Goals. In the prevailing economic situation of low per capita income, the unit trust becomes the a very viable vehicle for mobilizing small scale savings for meaningful investment in the real estate.

2.4.2 Foreign Direct Investment and Growth of Capital Market

Dawe (2016) finds sufficient evidence to link foreign investment participation to the performance of funds in Kenya. This is through an analysis of factors in asset performance in East Africa having a case of collective investment schemes in Kenya

Nene and Pasholli (2011), study on the financial incentives and their impact for attracting FDI survey with foreign investitures in Albania. The primary data were analyzed using descriptive statistics. It concluded that application of a favorable tax system helps stimulation of business activities, not only for domestic investors but foreigners as well. Often, foreign investors are attracted from favorable policies of low taxes on businesses. Incentive packages are considered as elements which attract the foreign investors in a country; although, indicators on incentive packages should not be a main factor in investors' motivation.

Kiarie (2012) in his article on investing in Kenya's investment markets through unit trust argues that the opportunity to benefit from portfolio diversification has also helped stimulate the flow of foreign capital, as have improvements in technology and communications. In addition, the privatization of state-owned enterprises has enhanced capitalization and stock market activity by expanding the supply of shares, many of them marketable internationally. Privatization itself has been part of a broader trend of disengaging government from the economy.

2.4.3 Capital Allocation and Growth of Capital Market

The studies conducted by Yeap (2002) on the role of asset allocation in the styles and performance of unit trust funds with a special focus on mutual funds industry in Malaysia confirm the importance of asset allocation. The author results attributed the performance of unit trust funds to respective asset allocation and investment policies in constructing portfolios. Using generic factor model to analyze the relationships the author concludes that the factor which differentiate one fund type and its performance from another is the asset allocation policy.

Bryant (2013) examines the connection between asset allocation and financial performance of mutual funds in Kenya. The goal of the study was to examine whether unit trusts in Kenya have superior performance when compared with that of market portfolio, given their respective systematic risk. Jensen's standard performance measure was used to analyze the secondary data. The study concluded that there is a strong connection between asset allocation and financial performance. The study further established that mutual funds have consistently allocated their assets to obtain favourable financial performance leading to more returns and better performance overally.

Kagunga (2010) did an assessment of asset allocation by fund managers and the financial performance of unit trusts in Kenya. The study narrowed down to one main objective of evaluating the connection between asset allocation by fund managers and the financial performance of unit trusts in Kenya. Jensen's standard performance measure was appropriate to analyze secondary data collected. It was established that based on unit trusts available to Kenyan investors, asset allocation uniquely explained a significant percentage of the variance in returns across time and hence a primary determinant of returns for these trusts. Asset allocation by fund managers and associative financial performance are to a large extend crucial if the fund has to achieve reasonable performance. In addition, asset allocation and financial performance is a very important measurement and mitigation tools if effectively implemented and utilized.

Bryant (2013) points out that strategic and tactical asset allocation are the two main asset allocation strategies. Strategic asset allocation refers to how portfolio funds will be divided given the portfolio manager's long-term forecasts of expected returns, variance and covariance. Tactical asset allocation on the other hand refers to how the funds are to be divided at any particular moment given the investors short-term forecasts. The decision determines what deviations based on current market valuations should be made from the strategic asset allocation. The process of asset allocation allows for the formation of an efficient set and this allows the investment manager to invest in those securities that form the optimal portfolio.

According to Brown and Allen(2012) study on the USA regulatory environment. There is need to have funds to disclose holdings on a quarterly basis with a 60-day lag. Prior to 2004, the frequency requirement was for semi-annual reporting (also with a 60-day lag). By disclosing all holdings, investors would be able to have information about asset allocation and would have more information to monitor whether New Zealand funds are 'true to label'. The researcher also found evidence that funds hiding their true styles may be a problem in New Zealand. They find evidence that New Zealand fund managers deviate from their stated investment objectives, with claimed equity-orientated funds providing returns that are significantly different from equity returns.

2.4.4 Risk Management and Growth of Capital Market

Shano, Ganesh and Mwaura (2014) evaluates the performance of equity mutual funds in Kenya. The objective was to compare fund performance for the period 1st January 2006 to 31st December 2009. The research used both primary and secondary data which was analyzed using composite performance evaluation models. The findings show that there were no portfolio diversifications as shown by lower coefficient of determination. However, the individual funds risks were generally lower compared to that of the market as measured using standard deviations and beta.

In Ghana, Abubakar (2014) studied the performance of collective investment schemes over the period 2007 to 2012 considering the average returns of the schemes. The results revealed that for the period CIS did not earn return in excess of the risk-free

assets (treasury bills). This means that the investors are better off investing in risk free assets than CIS.

Maina (2013) study examined the effects of Capital structure on financial performance of listed commercial Banks in Kenya, a case study of Kenya Commercial Bank Limited. The study adopted descriptive research design to analyze financial and income statements panel data covering five-year period from 2009 to 2013. The author noted that diversification which involves the spreading of a portfolio over many investments to avoid excessive exposure to a few sources of risk is a concept related to how well a manager allocates the portfolio among various asset classes. Market timing or style rotation is the strategic under or overweighting of an asset class relative to its normal weight to capture excess returns from short term fluctuations in asset class prices. Timing is undertaken to achieve incremental returns relative to policy return. Security selection is the active selection of investments within an asset class to achieve superior returns

Chandran (2008) studied behavioral factors and their impact on investors' attitude towards risk and behavioral decision-making process. The study concluded that individual investors suffer from heuristics such as representativeness, overconfidence and anchoring, cognitive dissonance, greed and fear, and regret aversion and mental accounting (drawn from prospect theory) all influence investor's perception of risk and subsequently decision making.

Wilson and Zurbuegg (2003) in their discussion paper undertook a study on whether it pays to diversify in real estates. The study points out that one must be extremely careful when developing optimal portfolios based on correlations, due to the fact that market correlations change over time. This makes the job of designing optimal portfolios not only more difficult, but also problematic. The problem is that of obtaining diversification when you need it most, viz. during periods of crisis and high volatility, and these may also be times when the markets of interest actually become more correlated. This is not a problem specific to real estate markets, but it is an extra burden for the property portfolio manager to consider.

Haslem (2003) argued that diversification is the process of adding securities to a portfolio for the purpose of reducing its unique security risk and, thereby, reducing its total risk. Diversification reduces investor risk below the risk of a single security by combining in a portfolio those securities whose changes in returns offset one another. The basic idea is to combine securities that average out each other's risk because their changes in returns are not strongly positively correlated. The result can be a level of portfolio risk that is less than the weighted average risk of the individual securities.

A single investor in unit trusts can access a wider range of securities than they could when investing on their own. Individuals with small savings can afford small number of shares in a selected company. Unit trust provide an avenue to pool funds from several investors then spread out to many companies. In the event of losses in one counter, the losses can be absorbed by the gains in other active counters. This in the long run reduces risk but this can still be improved further by investing in multiple funds. (CMA, 2011).

According to Haslem (2003) diversification is one of the most important service advantages of unit trust funds generally. This service advantage allows investors with normally limited resources to benefit from the diversification effect to a degree not possible by purchasing individual stocks. Mutual funds provide this advantage because each share represents proportionate ownership in the portfolio. Ownership of one share in the fund provides the diversification effect of holding all stocks comprising the index.

Kagunga (2010) in the study to find out whether unit trust in Kenya produce superior performance over market portfolio under a specified risk, used a number of methods to compare unit trust returns and stock market returns. The measures were not limited to market adjusted return, Jensen's alpha, adjusted Jensen's alpha, t-test statistic and regression tests. The analysis was restricted to the period 2005 to the year 2009 with Jensen's standard performance measure being used. The results of the study proved that unit trust performed well over the market during the period. The reason for this superior performance can be traced to the professionalism of fund managers who could

predict the stock prices from their analysis of dividend yields, market capitalization, price earnings ratios, and price to book value ratios.

2.4.5 Legal Restrictions on Investment of Scheme Funds

The Capital Markets Act, chapter 485A states that a collective investment scheme comprises a unit trust, investment company or a mutual fund which is duly registered or permitted under the law of Kenya to collect and pool funds from the investing public. The main goal of this arrangement is to provide a vehicle for investment under the custody of the promoter of the scheme. The same act refers unit trust as any form of arrangement in the nature of a trust where members of the investing public are notified and allowed to purchase a specified units of investment in one or more groups of securities and to participate proportionately in the incomes or profits derived there from. This regulation guides the operations of all registered unit trust funds on their investment's decisions.

There have also been several legal guidelines put in place by the capital market authority to improve business environment in Kenya which includes, the Capital Markets Regulations, 2011 stipulating the minimum standards of business conduct to be observed by all market intermediaries, licensed under the Capital Markets Act, with the objective of streamlining their business activities. In addition, the Capital Markets Regulations Legal Notice No. 116 of 2013 which specifically targets Collective Investment Schemes and Real Estate Investment Trusts. The REITs regulatory framework is designed to encourage the pooling of funds and channeling the same funds into real estate assets through Real Estate Investment Trusts.

Management Supervision Internal Control Guidelines May 2012 developed to ensure the proper conduct of a licensed or an approved business to ensure, on a continuous basis and on a timetable determined by CMA that licensed entities which are members of a Self-Regulatory Organization (SRO) (exchange or a clearing house) or other entities undertaking licensed activities, are complying with the applicable laws, rules and regulations. Policy Guidance Note on Asset Backed Securities, 2017 provided to assist applicants seeking to structure or issue Asset Backed Securities.

2.4.6 Growth of Capital Market

Sejjaka (2013) study on the impediments to the growth of capital markets in underdeveloped economies used Uganda as a case study to generalize the findings. The data for the period 2003 to 2007 was the basis for determining the hypothetical model. The study concludes that policy changes provide a significant improvement in market development. A rise in incentives aimed at directing domestic savings away from real assets to financial assets yielded more funds for investment. Equally a rise in liquidity by empowering secondary market capacity would also additionally increase the synergies for growth. Therefore, it is essential to have a concerted effort to grow capital markets by reshaping attitudes to share capital formation and share ownership.

Nzoka(2013) did a study on the factors influencing growth strategies of fund management firms in Kenya. The study used primary data which was analyzed using descriptive statistics involving mean scores and was used to show the average effect of the factors under investigation. The author argues that incentives for growth include the need for survival. A firm that does not attempt to grow will not merely standstill but also stagnate and eventually die. On the other hand, well, planned expansion is not stimulating but also present to the executive a challenge similar to the one of difficult climbs in mountaineering. In addition to the managerial stimulus, growth confers tangible financial benefits to the firm. In the short run the productivity of the firm is likely to rise as rate of output increases. As the size of the firm increases, it's likely to reap economies of scale at both production and managerial level.

Nzoka (2013) further argued that, apart from fitting the organization into the changing business environment, organizations pursue growth in order to stretch and exploit the existing competencies and resources as well as meet the expectations created by regulatory and governance frameworks as well as powerful stakeholders. Growth may also be driven by the need to respond to the environment by fitting the business into the environment. Business growth however is not without challenges and constraints.

In a study on whether to invest in domestic as opposed to international markets in Malaysian unit trusts, Abdullah and Abdullah (2009) utilized the Kuala Lumpur

Composite Index (KLCI) as the study's local benchmark. international funds' benchmarks comprised of the Morgan Stanley Capital international All Country (MSCI AC), Asia Pacific and MSCI World Free. The study concludes that there is no difference between international diversified funds and domestic funds so long as the domestic funds are well diversified. The limitation that needs to be considered was the use of risk-adjusted returns for local and international funds which was calculated without taking into consideration the costs incurred in investing in the funds, associated risk and specific benefits of each fund.

2.5 Critique of the Related Literature

Nzoka(2013) studies on the factors influencing growth strategies of fund management firms in Kenya found out that fees charge, education level, product diversification, investment market influenced growth strategies of fund management of firms in Kenya. The researcher further asserts that fund Management regulations, the requirements for the approval of funds, fund management companies, trustees and other service providers are adequate to ensure that investors were protected and that the public were confident that the fund management regulatory framework ensured their protection. The researcher did not take into consideration the fact that laws regulating unit trust funds are dynamic and are bound to change as the economic environment changes.

Maloba (2012) studied the price implications of herding by investigating whether equity returns reveal the presence of herd behavior. The regression produced statistically significant positive beta coefficients which reveal no presence of herding behavior among investors at the NSE. However, there was evidence which supported the predictions of rational asset pricing models and suggests that herding is not an important factor in determining equity returns during periods of price fluctuations in the market. The findings of this study did not take into account institutional investors who might herd together simply because they receive correlated private information, perhaps from analyzing the same indicators or share some common preferences for securities.

In the context of Malaysian unit trust Abdullah and Abdullah (2009), sought to understand whether investing in domestic or international market creates a difference. The outcome of the study confirms that there is no significant difference in the returns to investors in investing domestically against those investing internationally. This study was done under certain contextual scope and variables may have changed.

2.6 Research Gaps

It is important to recognize the various authors who have conducted their studies in unit trust specifically in Kenya. Mbataru(2015) consolidated the issues affecting performance of unit trusts in Kenya. The issues that had no direct influence on performance included age of fund, expense ratio, fund size, and initial investment amount. Kagunga(2010) used Nairobi Stock exchange as abasis to compare performance of Unit Trust with market portfolio of shares. The results which relied heavily on descriptive statistics points out that Unit Trust outperformed the market because of the access to private information by Fund Managers.

Maina(2013) appraised portfolio management by unit trusts in Kenya and points out that performance of equity unit trust is extremely sensitive to the nature besides type of asset selection by fund managers. Kasanga(2011) in a study of determining factor of performance of unit trust funds in Kenya found that forecast ability, market timing ability and security selection techniques to be important determinants of performance.

Shikuku (2012) also carried a study on unit trusts but with specific attention to the aspects of behavioral factors relating to investment decision making by unit trusts. The study was focused on two aspects, behavioral finance and behavioral aspects with special reference on anchoring and herd behavior, representativeness and overconfidence. (Nyanchama, 2014) itemized the elements of financial performance of unit trusts in Kenya. The elements taken into consideration were diversification of funds, expense ratio, equity fund allocation ratio, fund size, fund type, and the minimum investment amount.

Therefore, notwithstanding the growth in both the number and the net asset value of unit trust in Kenya, there is still need to examine the specific contribution of unit trust funds in the growth of capital market in Kenya.

2.7 Summary

The earlier sections reviewed the relevant literature relating to the contribution of unit trusts funds to the growth of capital market in Kenya. The literature review encompasses domestic savings, foreign direct investment, Capital allocation, Risk management and the growth of capital market.

Various theories explaining the independent and dependent variables have been reviewed with specific relevance to each variable. The following theories have been reviewed: Prospect Theory, in respect to capital allocation; the theory of investment value in respect to domestic savings and foreign direct investment; Modern portfolio theory in respect to risk management and the moderating variable, legal restriction; The Herding theory, in respect to the dependent variable, growth of capital market.

The chapter also conceptualized the relationships between the independent, the dependent variables and a moderating variable. In addition, an empirical review has been conducted in line with the following criteria, title, scope, methodology resulting into a critique. From these critiques the research gap was identified.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1. Introduction

This chapter describes the methodological design used to accomplish the purposes and objectives of the study. Part 3.1 outlines the research philosophy and the justification of the chosen research philosophy. Further part 3.2 to 3.6 describes successively the research design, target population, Data Collection Procedure, Data processing and Analysis.

3.2. Research Philosophy

A research philosophy is a belief about the way in which data phenomenon should be gathered, analyzed and used. The choice of a research philosophy determines the research design. Coopers and Schindler (2004) stated that in social sciences, there are two main research philosophies, that is; the positivism (scientific) and phenomenology (interpretivism).

The positivist approach involves scientific principles, causal relationships, highly structured methodology, large samples, quantification and incremental contribution to theory. Adeoluwa, (2016) asserts that the positivist position is characterized by the testing of propositions developed from existing theory, with empirical verification sought through measurement of observable social realities. Phenomenology paradigm (Interpretivism) on the other hand, follows the qualitative tools of observation, questioning, and description. It is associated with qualitative approaches to data gathering.

This study is anchored on the positivist research paradigm which is an approach that seeks facts or causes of social or business phenomena, with little regard to the subjective state of the individual. Considering the purpose of this study, the type of investigation, the extent of researcher involvement, the time period over which data was be collected and the type of analysis, the philosophical foundation guiding this

study was positivism. Under this the existing theories has been used to develop hypotheses.

3.3. Research Design

This study was guided by explanatory non-experimental research design to scrutinize the performance of unit trust firms listed in the NSE, Kenya. From the work of Kerlinger (1973) an explanatory non-experimental research design is suitable where the researcher is attempting to clarify how the phenomenon operates by recognizing the underlying aspects that occasion change in it in which case there is no manipulation of the independent variable.

3.4. Target Population

The target population for this study was 23 unit trust firms registered with CMA as at 31st December 2016. The study accordingly adopted a census approach due to the small number of unit trusts firms registered with CMA. According to (Saunders, Lewis and Thornhill 2007) a census approach enhances validity of the collected data by including certain information-rich cases for study.

3.5. Data Collection Procedure

The study utilized mainly secondary data sources. The required data was collected from relevant annual publications from individual firms and CMA reports of all unit trusts in Kenya. Data on the contribution of unit trusts funds which covers domestic savings, foreign direct investment, Capital allocations and risk management were collected from the respective unit trusts firms for the annual period from year 2009 to year 2017. Data on estimate of returns on investments received on the market portfolio were also collected from published records in the Nairobi Securities exchange (NSE) websites.

3.6. Data Processing and Analysis

The data obtained from the process were analyzed using descriptive statistics, correlation analysis, and panel multiple regression analysis. To test the hypothesis

panel data analysis was employed. The SPSS results output on test between –subjects’ effects on growth of capital market determined whether to accept or reject the null hypothesis.

3.6.1. Model Specification

The study used panel data to carry out the research analysis for 9 years starting from 2009 to 2017. This study adopts a panel data regression due to its ability to increase accuracy from its detailed information as compared to cross sectional data (Blundell and Bond, 1998). According to Sporta (2018), panel data approach provides the researcher with a large number of data points, which in turn increases freedom while decreasing the collinearity. This means that efficiency of econometric estimates is easily achieved in the study. Gujarati (2012) further suggested various estimating methods that are used in the estimation of the panel data that is pooled OLS, Random effect (RE) and Fixed Effect (FE).

The preference of this estimation method is not only because it enables a cross-sectional time series analysis which usually makes provision for broader set of data points, but also because of its ability to control for heterogeneity and endogeneity issues. Hence panel data estimation allows for the control of individual-specific effects usually unobservable which may be correlated with other explanatory variables included in the specification of the relationship between dependent and explanatory variables (Hausman and Taylor, 1981). The framework for panel data regression for this study took the form:

$$Y_{it} = \alpha_i + \beta_1 X_{it} + u_{it} \dots \dots \dots (3.1)$$

Where u_{it} = error term

Y_{it} = growth of capital market for i^{th} schemes in t^{th} year.

X_{it} = representing independent variables for firm i in year t ,

β_1 = Coefficients of the independent variables,

α_i = the intercept for each scheme,

i = 1, 2... 23 (individual unit trust firms),

t = 1, 2 ...9 (time indicator).

Fixed effect model and random effect model are important tests to estimate the parameters. In this case fixed effect model has been found useful to highlight the strength of association between predictor and outcome variables within entities under review. Individual characteristics associated to each entity may have a directional influence on the predictor variable. When applying FE, we make assumption that something within the individual may influence or prejudice the predictor or outcome variables and therefore there is need to control this. This is the justification behind the assumption of the correlation amongst entity's error term with the predictor variables. Fixed effect eliminates the effect of those time-invariant features so as to weigh the net effect of the predictors on the outcome variable. Each entity is diverse, consequently the entity's error term and the constant should not be correlated with the others. If the error terms are correlated, then FE is no appropriate since interpretations may not be precise and you need to model that relationship (Oscar, 2007). The following panel data models capturing the above variables have been estimated in the study:

Fixed effects model therefore took the following form:

$$Y_{it} = \alpha_i + \beta_1 X_{it} + u_{it} \dots \dots \dots (3.2)$$

Where u_{it} = error term

Y_{it} = growth of capital market for i^{th} schemes in t^{th} year.

X_{it} = representing independent variables for firm i in year t ,

β_1 = Coefficients of the independent variables,

Random effects assume that the entity's error term is not correlated with the predictors which allows for time-invariant variables to play a role as explanatory variables. A random effect allows generalizing the inferences beyond the sample used in the model (Oscar, 2007). Random Effect model used in the study therefore followed the equation below.

$$Y_{it} = \alpha + \beta X_{it} + u_{it} + \varepsilon_{it} \dots \dots \dots (3.3)$$

Where u_{it} =between entity error term and ε_{it} = within entity error term

3.6.2. Definition and Measurement of Variables

Table 3.1: Operationalization and Measurement of Study Variables

Variable	Name of Variable	Operationalization	Measurement	Hypothesized direction
Dependent	growth of capital market	Value of assets and total Capitalization in all schemes	Percentage growth rate	Positive/negative
Independent	domestic saving	Volume of domestic saving per annum	Total domestic savings/total market capitalization	Positive/negative
	foreign direct investment	Volume of foreign direct investment per annum	Total foreign direct investment /total market capitalization	Positive/negative
	capital allocation	Number of asset classes	Percentage allocation to asset classes	Positive/negative
	risk management	Investment portfolio	Beta values	Positive/negative

3.6.3. Diagnostic Test

To find out the nature of the panel data and the most appropriate model for analysis, some necessary diagnostic tests were carried out. A summary of the tests which were carried out and the criteria for making the decision used the table presented below in table 3.2.

Table 3.2: Diagnostic Test

Diagnostic Test	Test Used	Conclusion
Use of pooled or random effects model	Breusch Pagan LM test	If P value >0.05, use pooled effects model.
Random or fixed effects	F statistics	If p value >0.05, there are no time fixed effects do not use two-way model or introduce dummy variables
	Hausman test	If p value>0.05, use random effects model
Tolerance and Variance Inflation Factors	1-R ²	If tolerance value > .10 and Variance Inflation Factor (VIF <10) then no violation of multi-collinearity assumptions.
Heteroskedasticity	Modified Wald Test	If P value <0.05, presence of non-uniform variance.
Normality of the data	Kolmogorov-Smirnov and Shapiro-Wilk tests	variables meet the normality condition when (P>.05)
panel unit root test	Im-Pesaran-Shin (IPS) unit-root test	If p value >0.05 then panels contain unit roots
panel cointegration test	Kao Cointegration test	For every case p- value = 0.00 is significant
Test of Independence of Observations	Durbin Watson test	between 1.5 and 2.5, indicate that the data are auto-correlated

3.6.4. Test of Hypothesis

From the theoretical model, the study specified the Pooled, Fixed and Random contribution of unit trust funds in growth of capital market in 23 selected unit trust firms listed on Nairobi Securities Exchange. To test the five hypotheses, the study used a General Linear Model (GLM) to investigate both fixed and random effects on growth of capital using ML (maximum likelihood) estimation. The study model used took the form of;

$$y = \alpha_{1t} + \beta_{1t}x_{1t} + \varepsilon \dots\dots\dots (3.4)$$

$I = 1, 2 \dots 5$ (hypotheses of the study),

The “t” element considers the time when the independent variable was recorded.

The optimal model used to determine the contribution of each variable to the growth of capital market is represented by the panel regression equation below:

In this model: $Y = \alpha + \beta_1 x_1 + \beta_2 x_2 + \beta_3 x_3 + \beta_4 x_4 + \varepsilon$ (3.5)

Where: **Y** is Growth of Capital Market

X₁ Domestic Savings

X₂ Foreign Direct Investments

X₃ Capital Allocations

X₄ Risk Management

CHAPTER FOUR

RESEARCH RESULTS AND DISCUSSION

4.1 Introduction

This chapter introduces the results, interprets and provide a discussion of the findings following the design as stipulated through research methodology. The discussion is structured in different subsections with research findings presented on the basis of the study objectives and hypothesis. Descriptive statistics was used to describe the data on each sub-scale, while the inferential statistics helped to make inferences and draw conclusions. Further, diagnostics tests including multicollinearity test, normality tests, fixed or random effects, panel unit root test, panel cointegration and hausman test were tested to confirm the suitability for the panel data analysis. Panel Data Analysis was used to investigate the relationship between domestic savings, foreign direct investment, capital allocation and risk management on growth of capital market. Multiple regressions model was used to generate a linear model to explain the level at which each variable explains the dependent variable. This was also used to determine the unique variance linked to specific variables. The model further produced a general model encompassing all independent variables linked to the dependent variable. The Secondary data analyzed focused on study variables for the period 2009 to 2017.

4.2 Success Rate.

Secondary data collection sheets were prepared for administration and collection of data from schemes representatives and in available publications targeting all the 23 unit trust schemes. Out of these 23 collection sheets, 19 were fully completed. This represents a success rate of 82.6% which is a high and sufficient for analysis in this study. This falls within the acceptable margins where response rate of over half (50 %) is good while a response of over 70 percent is very good (American Association for Public Opinion Research, 2011).

Table 4.1: Success Rate.

	Target	Actual	Percent of Actual to Target (%)
Total unit trust schemes	23	19	82.6%

4.3 Descriptive Statistics

Descriptive statistics are essential tools necessary in determining the statistical properties of the study model so as to select the proper functional form of the estimation model. Therefore, the study considered the spread of the data overtime and consolidated the averages. This involved finding the mean, Median, Standard deviation, Skewness, and Kurtosis.

The study findings in table 4.2 below show the summary descriptive statistics of unit trust funds. The mean for growth of capital market was 1576.9, the Mean for domestic savings was 38596, capital allocations had mean of 38382.375 while risk management posted a mean 11.98, and results also indicated that foreign direct investments mean was 7732.11. It is important to note that Kenya 's stock market volatility began in 2008 and persisted through 2010, due to uncertainty in global markets that filtered into the local market. Stock market volatility, associated risks among other factors can impair the allocation of funds in the financial system and create funding constraints. The results from the averages demonstrate a clear preference for investment in domestic savings compared to other variables under review.

The Standard deviation for growth of capital market was 647.26, the Standard deviation for domestic savings was 12450.848, capital allocations had Standard deviation of 12099.737 risk management equally posted a Standard deviation 12.7872, and further results also indicated that foreign direct investments Standard deviation was 11546.26. The standard deviation in statistics indicates how the set of data vary or are dispersed from the mean. A low standard deviation shows that the data points are more inclined to the measure of central tendency used which in this case the mean. While high values of standard deviation indicate that the data set are dispersed to a

wider range of values. This disparity could be attributed to the fact that firms in the unit trust sectors are able to attract more funding for investment over time based on their investment performance. Nevertheless, the standard deviation is widely acknowledged as stable measure of dispersion irrespective of sample employed.

The results further indicated that the skewness for the unit trust variable was positively skewed except for risk management which gave a value of -0.773145. This means that the data set fall towards the higher side of the distribution and there are very few low scores. Kurtosis results for all the variables were negative except for risk management which gave a positive value of 0.046218. The kurtosis in this case indicates that the extreme values in the distribution where data may fall on one versus the other tail. It measures the outliers present in the distribution for the purpose analysis and accurate interpretation.

Table 4.2: Panel variables summary statistics

	Growth of Capital Market	Domestic Savings	Capital Allocations	Risk Management	Foreign Direct Investments
Mean	1576.9	38596	38382.375	11.98	7732.11
Median	1596.36	36709	36651.9	14.5	5759
Maximum	56111	56468	55867.10	26.2	25563
Minimum	8324	23383	23383	-12.4	-11583
Std. Dev	647.26	12450.848	12099.737	12.7872	11546.26
Skewness	0.108669	0.547121.	0.570031.	-0.773145.	0.08251.
Kurtosis	-1.790172	- 1.044078.	-0.944005.	0.046218.	-0.240583.
Sum	15769	308768	307059	107.9	69589
Observations	23	23	23	23	23

Unbalanced panel of 23 unit trust firms observed for the period 2009 - 2017.

4.3.1 Trend Analysis

The findings of the study established that the total market capitalization, which is an indicator of domestic saving, progressed across the years as shown in the line graph in Figure 4.1.

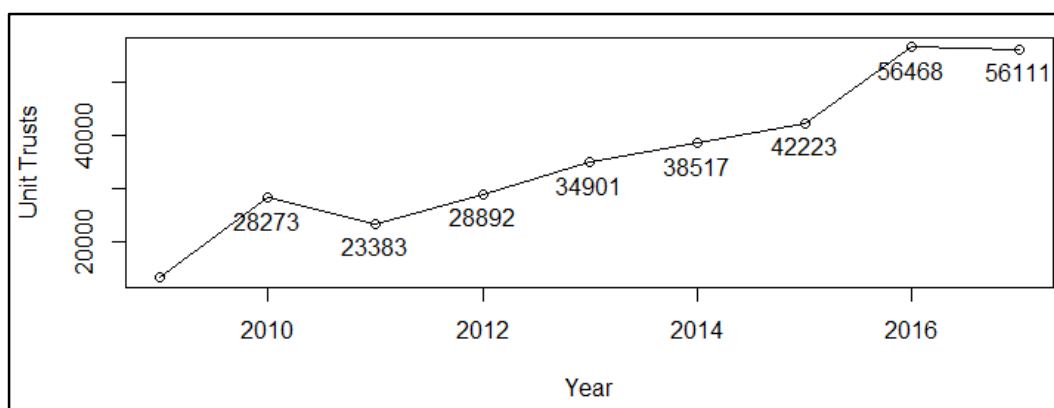


Figure 4.1: Total unit trust capitalization in the market (KSh. "Mn")

The funds in all collective investment schemes increased from a fund value of 20 billion to over 56 billion Kenyan Shillings in a span of 9 years. This means that there has been substantial increase in domestic savings as reflected by the fund statistics. The total unit trust statistic shows consistent increase over the period with few firms winding up.

From the analysis of the secondary data, it was evident that out of the total number of financial organizations that were registered with Capital Market Authority within this period, about three of them took the lion share of the domestic's savings, as shown in the Table 4.3.

Table 4.3: Share of the Domestic Market contributed by large companies

Year	Company	Share (%)	Year	Company	Share (%)
2010	British America	32.7	2014	British America	31.6
	Old Mutual	30.9		Old Mutual	23.1
	Others	36.4		Others	45.3
	Total	100.0		Total	100.0
2011	British America	32.7	2015	British America	22.6
	Old Mutual	28.4		Old Mutual	18.5
	Others	30.9		Others	58.9
	Total	100.0		Total	100.0
2012	British America	32.2	2016	CIC Asset	22.4
	Old Mutual	27.1		British American	19.8
	Others	40.7		Others	57.8
	Total	100.0		Total	100.0
2013	British America	35.7	2017	CIC Asset	26.6
	Old Mutual	25.5		British American	17.3
	Others	38.8		Others	56.1
	Total	100.0		Total	100.0

The summary of findings from Table 4.3, points a trend that British America and Old Mutual had the highest shares of the domestic savings for most of the years, except for the last two years, 2016 and 2017, when CIC Asset emerged in the top, taking 22.4% and 26.6% of the domestic savings, respectively.

The study explored the data on foreign direct investment with regard to growth to capital market from the records of Capital Market Authority. The findings confirm that every year, there was substantial amount of foreign investor net cash flow. The cash flow was mostly positive with the exception of the year 2017 where there was a negative flow. The trend as shows in the Figure 4.2 indicates both the individual year's net cash flow and the cumulative net cash flow over the period. Despite the KES 11,583 dip in 2017, the cumulative net cash flow still remains to be positive in the eight years.

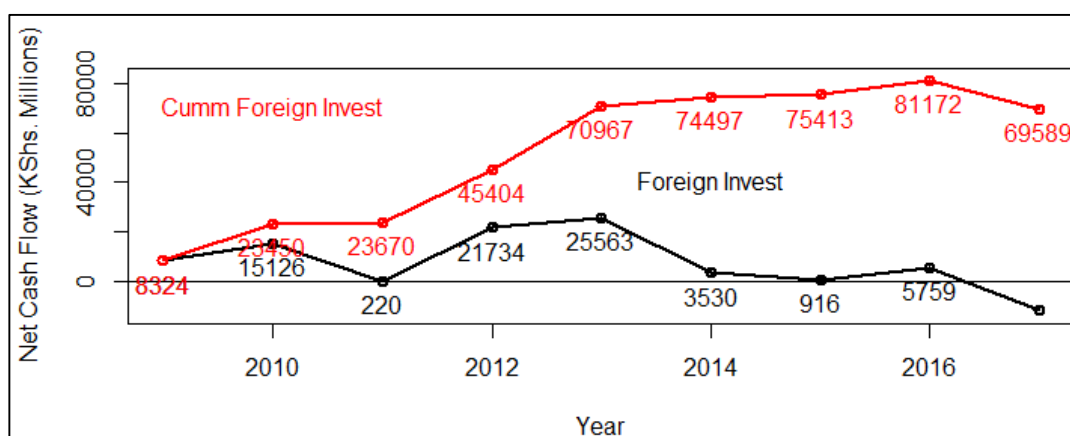


Figure 4.2: Foreign Investor Net Cash Flow

To establish the contribution of capital allocation to the growth of capital market, a line graph was first used to give an impression on how the capital allocation has been changing over time. The line graph shows variability in the capital market allocation but there has been a shift upwards over time.

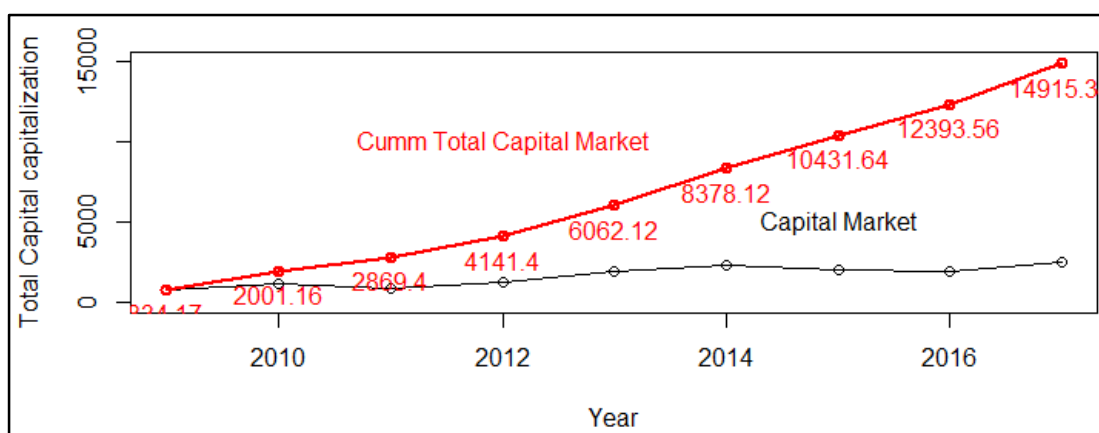


Figure 4.3: Total Capital Market Capitalization for the period 2009 – 2017

The study further explored the secondary data on capital allocation with regard to growth to capital market considering the various avenues for investment choices. For the period under review most funds introduced money market fund, Fixed Income Fund, balanced fund, managed retirement fund and equity fund. Other funds were innovative in naming their funds though the concepts were the same which include Kenya shilling fund, bond fund, growth fund, treasury bill fund, dividend maximizer fund and East Africa fund.

The trend analysis indicate that collective investment schemes registered adopted between three to five options for investment for its clients with little difference in naming the asset classes. This trend was also used for the basis determining the extent of firm's risk management.

4.3.2: Test for Outliers.

To establish the presence of outliers in the data, box plots technique was employed for the variables as presented and the results are as presented by figures 4.4 to 4.6. The line in the box represents the median observation while the whiskers show the largest and least non-outlier observations.

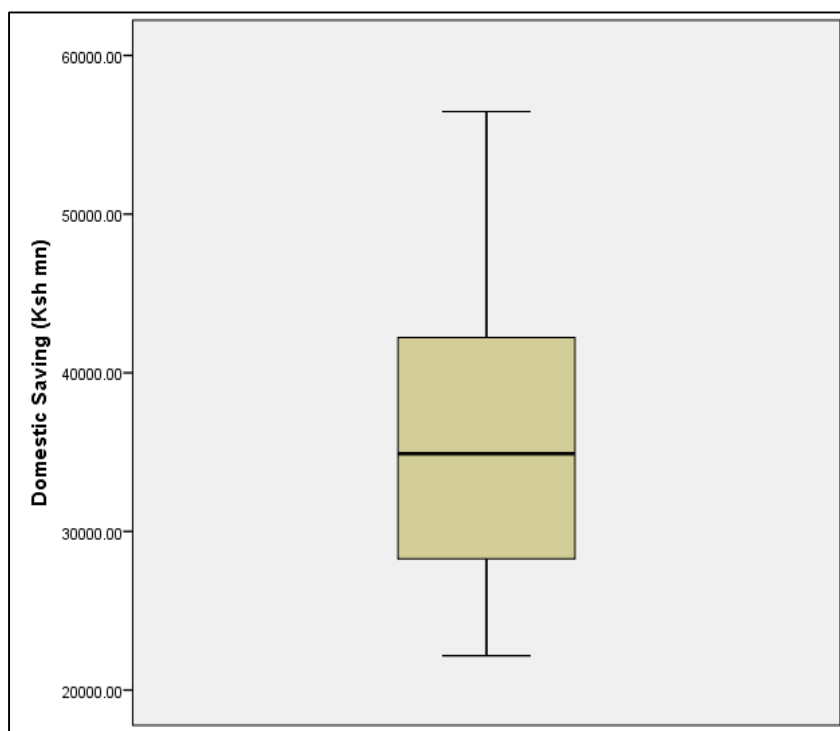


Figure 4.4: Domestic Saving Box Plot

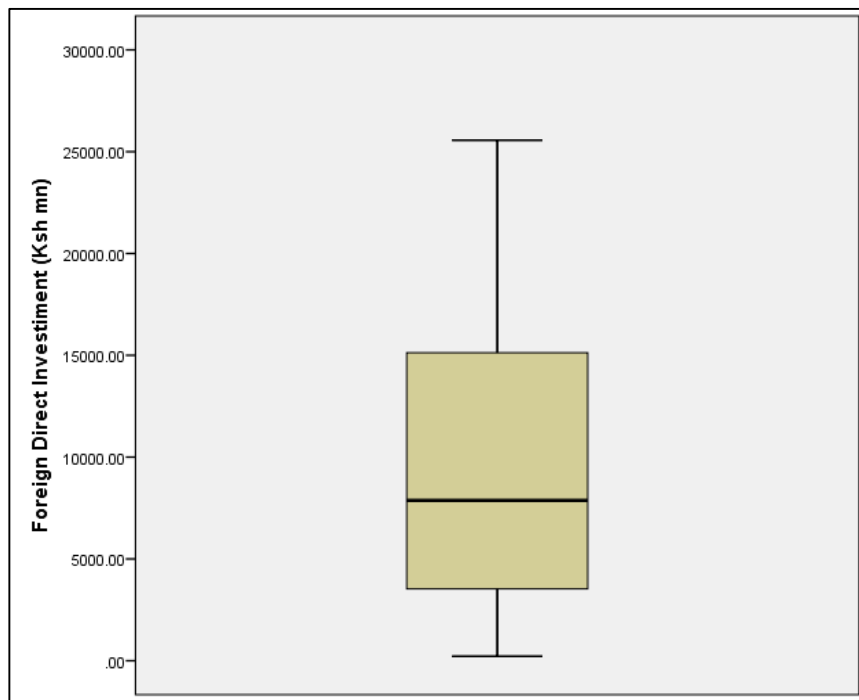


Figure 4.5: Foreign Direct Investment Box Plot

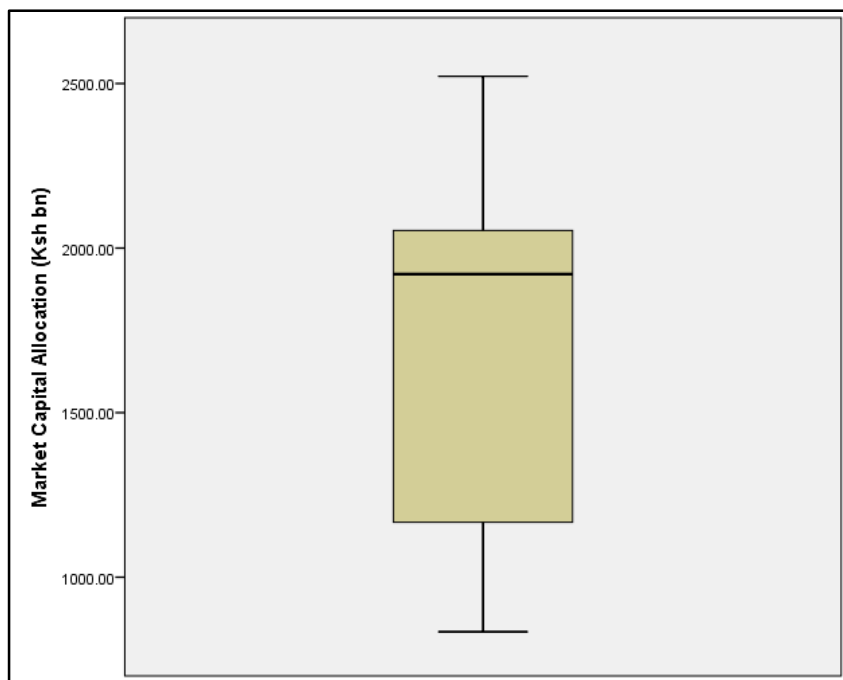


Figure 4.6: Capital Allocation box plot

The box plots indicate that the outliers are not present in this data set for the variables. This is also illustrated in the table indicating summary statistics (Table 4.2) where coefficient of skewedness and kurtosis values were normally distributed. For normal distribution the coefficient of skewedness and kurtosis absolute values falls between 0 and 3. The absence of outliers means that the data was good for analysis.

4.3.3: Correlation Analysis

Leech, Barrett and Morgan (2005) observe that multi-collinearity is unacceptably high level of inter-correlation among the independent variables, in manner that the effects of the independent variables on the dependent variable cannot be separated from each other. This means that when multi-collinearity exists between variables, relative effects of the explanatory variables are exaggerated and therefore unreliable. This study used correlation matrix to check for pattern of inter-relationship among the variables in the study, as shown in Table 4.4.

Table 4.4: Correlation Matrix of the Study's Variables

		1	2	3	4	5
Growth of Capital Market (1)	Pearson Correlation	1				
	Sig. (2-tailed)					
	N	160				
Domestic Savings (2)	Pearson Correlation	.620**	1			
	Sig. (2-tailed)	.000				
	N	160	160			
Capital Allocations (3)	Pearson Correlation	.405**	.414**	1		
	Sig. (2-tailed)	.000	.000			
	N	160	160	160		
Risk Management (4)	Pearson Correlation	.191*	.301**	.821**	1	
	Sig. (2-tailed)	.016	.000	.000		
	N	160	160	160	160	
Foreign Direct Investments (5)	Pearson Correlation	.548**	.803**	.249**	.246**	1
	Sig. (2-tailed)	.000	.000	.002	.002	
	N	160	160	160	160	160

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

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

The summary of analysis on Table 4.4 indicates that all the correlation coefficients were less than 0.9 implying that the population data was free of singularity, meaning that there was no multi-collinearity. Inter-correlation among the independent variable beyond 0.9 is a sign of multi-collinearity and should be put to further scrutiny Gravetter and Wallnau (2000). However, use of correlation matrix of the variables is not adequate sign of lack multi-collinearity among the variables.

4.4 Panel Data Specification Tests

The suitability of the panel data for statistical analysis as used in the study had to be determined by conducting several specification tests. Preliminary analyses (diagnostics tests) were first performed to ensure no violation of the appropriate assumptions. Given that the study used GLM, linear and multiple regression analysis, the assumptions and suitability of the data for the analysis were investigated. First, just to make sure that the scales of the measurement for the variables were suitable for multiple regression analysis, the panel data had been converted into column data. The variables which were in continuous scale were converted into their natural logs to deal with the problem of large numbers. The assumptions investigated include; correlation analysis, normality test, test of independence of observation, heteroscedasticity and homoscedasticity. Where violation to these assumptions were detected, appropriate remedies were applied. This section therefore presents the results of various diagnostic tests carried out on the data together with the relevant remedial treatment undertaken to ensure suitability of the data.

4.4.1 Test for Multicollinearity

The study further assessed the multi-collinearity issues among the variables by examining Tolerance and the Variance Inflation Factor (VIF) which are collinearity diagnostic factors. Multicollinearity is an unacceptable high level of inter correlation among the independent variables, such that effects of independent variables cannot be separated (Garson, 2012). Table 4.5 shows the SPSS output indicating tolerance and Variance Inflation Factors.

Table 4.5: Tolerance and Variance Inflation Factor (VIF) Statistics

Model	Collinearity Statistics	
	Tolerance	VIF
Domestic Savings	.292	3.430
Foreign Direct Investments	.330	3.029
Capital Allocations	.275	3.638
Legal Restrictions	.996	1.004
Risk Management	.309	3.239

a. Dependent Variable: Growth of Capital Market

Tolerance is the percentage of variance in the independent variable that cannot be accounted for by the other independent variables. A small tolerance value may indicate that the variable under consideration is almost a perfect linear combination of an independent variable already in the equation and that it should not be added to the regression equation. Therefore, very small tolerance values indicate that a variable is redundant; therefore, values that are less than .10 may merit further investigation. The variable's Tolerance is $1-R^2$, while VIF is its reciprocal. Hence, a variable whose VIF value is greater than 10 may require investigation. From Table 4.5, it is evident that collinearity conditions were met, given that each of the variables had adequate tolerance (tolerance value $> .10$) and Variance Inflation Factor ($VIF < 10$); indicating that there was no violation of multi-collinearity assumptions which is a requirement for multiple regression analysis.

4.4.2: Normality of The Data

Normality of the continuous data were tested through the use of formal test using Kolmogorov-Smirnov and Shapiro-Wilk tests, as shown in Table 4.6

Table 4.6: Tests of Normality

	Kolmogorov-Smirnov ^a			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	Df	Sig.
Growth of Capital Market	.085	158	.057	.950	158	.053
Capital Allocation	.185	158	.060	.887	158	.055
Domestic Savings	.155	158	.054	.868	158	.051
Foreign Investment	.235	158	.063	.658	158	.570

a. Lilliefors Significance Correction

The research findings on Table 4.6 show both Kolmogorov-Smirnov (K-S) and Shapiro-Wilk test results, this study used the latter to interpret the normality of the variables because Shapiro-Wilk's (W) is recommended for small and medium samples up to $n \approx 2000$, as suggested by Garson (2012). W is analogous to the correlation between a given data and its corresponding normal scores, with $W = 1$ when their correlation is perfectly normal. This implies that a significantly ($p < .05$) smaller W than 1 means that the normality is not met. Hence, the data is normal when Shapiro-Wilk (W) is greater than 0.05. It is evident from Table 4.6 that all the continuous variables met the normality condition ($P > .05$); there were no statistically significant differences noted in any of the variables with their corresponding normal scores.

4.4.3 Panel Unit Root Test.

Agrawal (2015), points out that panel unit root test is superior to unit root test based on univariate time series. This test is used to check whether a time series variable is non-stationary and possesses a unit root. The null hypothesis is generally defined as the presence of a unit root and the alternative hypothesis is either stationarity, trend stationarity or explosive root depending on the test used. An Im-Pesaran-Shin (IPS) unit-root test for the series was performed, which is a prerequisite condition of conducting `xtcointtest`. It was the most appropriate because it allows use of unbalanced panels.

Table 4.7: Test of Unit Roots - Domestic Savings, Foreign Direct Investment Capital Allocation and risk management.

Xtunitroot

Ho: All panels contain unit roots	Number of panels = 8
Ha: Some panels are stationary	Number of periods = 37
AR parameter: Panel-specific	Asymptotic: T/N -> Infinity
Panel means: Included	Sequentially
Time trend: Not included	

ADF regressions: No lags included

Fixed-N exact critical values					
	Statistic	p-value	1%	5%	10%
t-bar	-0.7598		-1.730	-1.670	-1.640
t-tilde-bar	-0.7582				
Z-t-tilde-bar	24.2109	0.0864			

From Table 4.7, the header of the output summarizes the test. The null hypothesis is that the series contains a unit root, and the alternative is that the series is stationary. As the output indicates, each test performed by xtunitroot also makes explicit the assumed behavior of the number of panels and time periods. To estimate the long-run variance of the series, xtunitroot by default uses the Bartlett kernel.

The p-value is 0.0864 (Z-t-tilde-bar statistics =24.21), which is not significant at all the usual testing levels. Therefore, there was no sufficient evidence to reject the null hypothesis and it was concluded that all panels contain unit roots.

4.4.4 Panel-Data Co-Integration Tests

According to Baltagi *et al.* (2005), panel cointegration test in empirical research is used to provide the researcher with a mechanism to determine the long run relationship among the study variables. This was necessary because the data contained many panels hence the need to determine whether the data set are stable and has a long-run

relationships. Agrawal (2015), points out that if two or more series are individually integrated (in the time series sense) but some linear combination of them has a lower order of integration, then the series are said to be cointegrated.

The study performed the Kao Cointegration test as a requirement for panel data analysis. This test was done using Stata statistics software, using the `xtcointtest` command which provide a test for the presence of long-run co-integration relationship. It estimated the long-run relationship within domestic savings, foreign direct investment and capital allocation in each period. It's believed that the capital market is volatile, that it is not stable, that the time series have a unit root, but it's assumed that the unit trusts have a stable long-run relationship. Table 4.8 shows Kao test for Cointegration.

Table 4.8: Test of Test of Co-integration - Domestic Savings, Foreign Direct Investment Capital Allocation and risk management

Co-integrating vector: Same			
Panel means:	Included	Kernel:	Bartlett
Time trend:	Not included	Lags:	3.54 (Newey-West)
AR parameter:	Same	Augmented lags:	1
		Statistic	p-value
Modified Dickey-Fuller t		-1566.966	0.0000
Dickey-Fuller t		-733.2073	0.0000
Augmented Dickey-Fuller t		-388.3211	0.0000

From Table 4.8 Kao Cointegration test the null hypothesis of no Cointegration among the chosen study variables. The outcome led to the rejection of null hypothesis for every case p- value 0.00 confirming that the variables had a stable long-run relationship. The result therefore effectively confirms cointegration among variables used in the model.

4.4.5 The Hausman Test for Model Effects Estimation

So as to set up which estimation effect (between fixed and random) provided superior test results for the study, Hausman test was carried out for all panel regression models asset out in the analysis. The test was led against the null hypothesis that random effect model was the most appropriate model. The test outcomes dismissed the null if the chi-square results were significant at 5% level of significance.

Hausman's specification test, compares an estimator θ_1 that is known to be consistent with an estimator θ_2 that is efficient under the assumption being tested. The null hypothesis is that the estimator θ_2 is indeed an efficient (and consistent) estimator of the true parameters. If this is the case, there should be no systematic difference between the two estimators. If there exists a systematic difference in the estimates, the assumptions on which the efficient estimator is based is doubted. The study presumed that a random-effects specification is appropriate for individual-level effects in the model.

First, a fixed-effects model was fitted to capture all temporally constant individual-level effects, as shown in Table 4.9

Table 4.9: Test of Fixed Effect

<i>Capital Growth</i>						
<i>R-sq: within</i> = 0.133 <i>between</i> = 0.247 <i>overall</i> = 0.176 <i>corr (u_i, Xb)</i> = 0.1367						
		F(2,	21144)			
		=1256.02				
		Prob > F	= .003			
	Coef.	Std. Err.	t	P >|t|	95% CI	
<i>Domestic Savings</i>	-	.000765	-6.46	0.000	-.007232,	-
	.005643				.003456	
<i>Foreign Direct Investment</i>	.004256	.004234	0.67	0.604	-.007213,	
					.014126	
<i>Market Capital Allocation</i>	.037654	.001321	28.68	0.002	.0342211,	
					.041324	
<i>-cons</i>	1.4566	.017872	73.54	0.001	.0358322,	
<i>Sigma_u</i>	.267891				.039765	
<i>Sigma_e</i>	.275642					
<i>rho</i>	.534621					
<i>F test that all u-i = 0: F(5012, 23451)=6.86 Prob > 0.000</i>						

It was assumed that the model is consistent for the true parameters and the results above were therefore stored to be compared with random effects. A random-effects model as a fully efficient specification of the individual effects under the assumption that they are random and follow a normal distribution was computed as shown in Table 4.10

Table 4.10: Test of Random Effect

<i>Capital Growth</i>						
<i>R-sq: within</i> = 0.137						
<i>between</i> = 0.252						
<i>overall</i> = 0.164						
Wald chi2 (2) = 4960.11						
<i>corr (u_i, Xb) = 0</i>						
Prob > chi2 = 0.0003						
	Coef.	Std. Err.	t	P >|t|	95% CI	
<i>Domestic Savings</i>	-	.000712	-8.45	0.001	-.007100,	-
	.005342				.003622	
<i>Foreign Direct Investment</i>	.004344	.004434	0.725	0.601	-.007017,	
<i>Market Capital Allocation</i>	.038051	.001393	31.64	0.004	.013428	
<i>-cons</i>	1.50563	.018212	87.59	0.011	.0312231,	
					.042326	
					1.323223,	
					1.808053	

The results in Table 4.9 were compared to that in Table 4.10 estimates with the previously stored results by using the Hausman specification test shown in Table 4.11.

Table 4.11: Hausman specification test

<i>Coefficients</i>				
	(b) fixed Random	(B)	Difference (b-B)	Sqrt (diag (vb- vB)) S.E
<i>Domestic Savings</i>	-.005643	-.005342	-.030100	0.0032
<i>Foreign Direct Investment</i>	.004256	.004344	-.000088	0.0021
<i>Market Capital Allocation</i>	.037654	.038051	-.000397	0.0045

b = consistent under Ho and Ha; obtained from xtreg

B = inconsistent under Ha, efficient under Ho; obtained from xtreg

Test: Ho: difference in coefficients not systematic $\chi^2(2) = 167.34$

Prob > $\chi^2 = 0.0000$

Under the current specification, the initial hypothesis that the individual-level effects are adequately modeled by a random-effects model is emphatically rejected. This result is based on the rest of the model specification, and random effects were considered to be appropriate for some alternate model of capital growth in the unit trust capitalization in the money market.

4.4.6 Test of Independence of Observations

The study investigated whether the observations were independent, which is one of the assumptions of multiple regressions. The investigation was done through the use of Durbin Watson test whose result is shown in Table 4.12.

Table 4.12: Test of Independence: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.699 ^a	.489	.472	167658.177	2.035

a. Predictors: (Constant), Risk Management, Legal Restrictions, Foreign Direct Investments, Domestic Savings, Capital Allocations

b. Dependent Variable: Growth of Capital Market

Durbin-Watson is appropriate measure of assumptions of independence for multiple regression analysis. Marquardt (2012) suggests that if there is no autocorrelation, that is subsequent observations are related, the Durbin-Watson statistic should be between 1.5 and 2.5. Table 4.7 shows that the Durbin-Watson statistic was 2.035 which is between 1.5 and 2.5, indicating that the data was not auto-correlated, meaning assumption of independence was not violated.

4.5 Panel Regression Analysis

This segment presents the study results thematically in line with the study objectives. The study presents the findings as follows; the null hypothesis is tested using panel analysis to determine the contribution of each variable by finding both the fixed and random effects on growth of capital. Further to appraise the estimates of individual input of the independent variables in capital market growth, parameter estimates was explored.

A parametric test was computed to test null hypotheses, with features of unit trust funds as independent variables and growth of capital market taking the place of dependent variable. The study employed GLM because of its accuracy in investigating fixed and random effects as outlined in panel data. Some of the variables were in continuous scale measurement and the relationship between the variables was expected to have linear relations, which are necessary conditions for the use of GLM, as recommended by Kothari (2004). A correlation coefficient and R square used were interpreted in line with the recommendations by Orodho (2012) correlation coefficients values as shown in Table 4.13.

Table 4.13: Interpretation of Correlation Coefficient Values

r-value	< .30	.30 - .49	.50 - .69	.70 - .89	.90 - 1.00
Interpretation	Very low	Low	Moderate	High	Very high

Source: Orodho (2012)

The prior significant level (p-value) was set at 0.05 such that if the p-value was less than 0.05, the null hypothesis would be rejected and conclusion reached that a significant influence does exist. If the p-value was larger than 0.05, it would be concluded that a significant difference does not exist.

4.5.1 Domestic Savings and Growth of Capital Market in Kenya

The first objective was to investigate the contribution of domestic savings in growth of capital market in Kenya. Domestic savings was measured in terms of volume of savings in the unit trusts schemes registered with the Capital Market Authority spread over the years from 2009 to 2017.

However, to test the null hypothesis that “there is no statistically significant relationship between domestic savings and growth of capital market” panel data analysis was employed. This was necessary because both variables were measured at multiple time points. A General Linear Model (GLM) was used to investigate both fixed and random effects on growth of capital using ML (maximum likelihood) estimation. The independent variable was the variables on domestic savings. This was provided through by fund statistics for different products across the years. The dependent variable was the Capital Market capitalization in the same period. The model produced would take the form of; $y = \alpha_{1t} + \beta_{1t}x_{1t} + \varepsilon$. The “t” element considers the time when the independent variable was recorded. This means that the model was time fixed; this is because some asset statistics did not start on 2009 but delayed. By fixing for the time, the contribution for individual asset funds was ably measured. Table 4.14 shows SPSS results output on test of between –subjects’ effects on growth of capital market.

Table 4.14: Tests of Between-Subjects Effects: Domestic Saving on Growth of Capital Market

Dependent Variable: Growth of Capital Market					
Source	Type III Sum of Squares	Df	Mean Square	F	Sig.
Corrected Model	3345002524592.1 ^a	8	418125315574.0	12.3	.000
Intercept	8141490350851.5	1	8141490350851.5	240.2	.000
Domestic Saving	3287969072457.8	1	3287969072457.8	96.9	.000
Time (Years)	87294755761.8	7	12470679394.5	.36	.920
Error	5118846295134.3	151	33899644338.6		
Total	30943345492816.0	160			
Corrected Total	8463848819726.4	159			

a. R Squared = .395 (Adjusted R Squared = .363)

The findings as shown in table 4.14 shows Type III Tests of Fixed Effects. The results reveals that domestic saving was significant at the 0.05 level [$F(1, 151) = 96.9$, $p = 0.000$], while the fixed factor (time) was not significant ($p = 0.920$). This means that domestic saving is an important predictor of growth of capital market. The resultant figure for calculated p-value = 0.000 is less than the significant level of 0.05, consequently the null hypothesis was rejected. The conclusion arising from this indicate that there is statistically significant relationship between domestic savings and growth of capital market, with improvement in domestic saving resulting into increase in growth capital market and vice versa.

Table 4.15 shows the estimates of fixed effects. It gives estimates of individual parameters, as well as their standard errors and confidence intervals. The results of the study reveal that for every one unit increase in domestic savings, there is subsequent increase of growth in capital market of about 26 units (C.I: 20.7, 31.1) at $p = 0.000$. This is quite sizeable amount of influence on dependent variable. However, looking at “time” factor, none of the coefficients were significant. This further show that time, as a fixed factor, has no statistically significant effect on growth of capital market in Kenya.

Table 4.15: Parameter Estimates: Domestic Saving on Growth of Capital Market

Dependent Variable: Growth of Capital Market						
	B	Std. Error	T	Sig.	95% Confidence Interval	
					Lower Bound	Upper Bound
Intercept	315226.9	42163.2	7.476	.000	231920.9	398533.0
Domestic Saving	25.9	2.6	9.848	.000	20.7	31.1
[Time=2010]	-12857.6	58265.5	-.221	.826	-127978.6	102263.4
[Time=2011]	-47881.5	58236.8	-.822	.412	-162945.6	67182.6
[Time=2012]	-48246.6	58223.7	-.829	.409	-163284.9	66791.7
[Time=2013]	-41974.1	58244.9	-.721	.472	-157054.3	73106.1
[Time=2014]	-63148.9	58306.6	-1.083	.281	-178351.1	52053.2
[Time=2015]	-76494.2	58409.4	-1.310	.192	-191899.3	38910.9
[Time=2016]	-31701.1	58283.9	-.544	.587	-146858.5	83456.3
[Time=2017]	a	.	.	.	.	.

a. This parameter is set to zero because it is redundant.

$$y = 315226.9 + 25.9x.$$

The finding agrees with research work conducted by NEPAD (2014) on mobilizing domestic financial resources for implementing NEPAD national and regional programmes and projects. The study concludes that Africa needs to devise new and innovative domestic resource mobilization instruments and strengthen the effectiveness and efficiency of existing one, to enable countries sustain long term growth. Onuora and Onyeonu, (2013) further examined unit trust schemes as a Veritable Vehicle of Investment in the Nigerian Stock Market, the study concluded that the Nigerian economy stands to gain substantially from the strengthening of institutional and systemic factors to promote the investment around unit trust schemes which brings about vibrancy in stock market.

This study is supported by a study conducted to investigate whether investors are able to derive more profits by investing overseas as compared to investing in the domestic market via unit trusts. It was found out that the mean returns of the local funds appear to exceed those of the international funds. Further when the returns are risk-adjusted

using the Sharpe measure, the internationally diversified funds performed equally well as the domestic funds (Shano, Ganesh and Mwaura, 2014).

4.5.2 Foreign Direct Investment and Growth of Capital Market in Kenya

The second objective sought to investigate contribution of foreign direct investment in growth of capital market. To explore whether foreign direct investment contributed to the growth of capital market, it was essential to test the null hypothesis and panel data analysis was again necessary for this analysis. The independent variable was the foreign direct investment and the dependent variable was the Capital Market capitalization in the equivalent period.

To examine the null hypothesis that ‘there is no statistically significant relationship between foreign direct investment and growth of capital market’ panel data analysis was appropriate. A General Linear Model was used to explore both fixed and random effects on growth of capital market using ML (maximum likelihood) estimation. The model produced would take the form of; $y = \alpha_{2t} + \beta_{2it}x_{2it} + \varepsilon$. The “t” element considers the time when the independent variable was recorded, meaning that in the model time was expected to have a fixed effect. By fixing for the time, the contribution for individual foreign direct investment was well measured. Table 4.16 shows SPSS results output on test of between –subjects effects on growth of capital market.

Table 4.16: Tests of Between-Subjects Effects- Foreign Direct Investment, Time and Capital Growth

Source	Type III Sum of Squares	Df	Mean Square	F	Sig.
Corrected Model	2598730394503.3 ^a	8	324841299312.9	8.3	.000
Intercept	22479496673089.0	1	22479496673089.6	578.7	.000
Foreign Investment	2544279082084.9	1	2544279082084.9	65.5	.000
Time	54451312418.3	7	7778758916.9	.200	.985
Error	5865118425223.0	151	38841843875.6		
Total	30943345492816.0	160			
Corrected Total	8463848819726.4	159			

a. R Squared = .007 (Adjusted R Squared = .039)

Type III Tests of Fixed Effects (Table 4.16) reveals that whereas foreign direct investment was significant at the .05 level [$F(1, 151) = 65.5, p = 0.000$] the fixed factor (time) was not significant ($p = 0.985$). This means that foreign direct investment is a predictor of growth of the market. From the calculated p-value $= 0.000$ being less than the significant level of 0.05, the null hypothesis that “there is no statistically significant relationship between foreign direct investment and growth of capital market” was rejected. Hence, it was concluded that there is statistically significant relationship between foreign direct investment and growth of capital market, with improvement in foreign investment resulting into increase in capital market capitalization and vice versa.

Further, to evaluate the estimate of contribution of foreign investment in growth of capital market, parameter estimates was explored as in Table 4.17.

Table 4.17: Parameter Estimates- Foreign Direct Investment, Time and Capital Growth

Dependent Variable: Growth of Capital Market

Parameter	B	Std. Error	T	Sig.	95% Confidence Interval Lower Bound	Upper Bound
Intercept	261790.6	47483.8	5.513	.000	167972.2	355609.1
Foreign Investment	6.4	.803	8.089	.000	4.9	8.0
[Time=2010]	-27335.1	62329.8	-.439	.662	-150486.3	95816.0
[Time=2011]	-22763.1	62494.5	-.364	.716	-146239.8	100713.4
[Time=2012]	-43871.7	62327.8	-.704	.483	-167019.1	79275.6
[Time=2013]	-19105.0	62329.7	-.307	.760	-142256.0	104045.9
[Time=2014]	-42307.9	62335.0	-.679	.498	-165469.4	80853.6
[Time=2015]	-65482.2	62471.9	1.048	.296	-188914.3	57949.8
[Time=2016]	-22239.3	62357.4	-.357	.722	-145445.0	100966.3
[Time=2017]	0 ^a	.	.	.	.	.

a. This parameter is set to zero because it is redundant.

$$y = 261790.6 + 6.4x$$

The estimates of fixed effects indicate the contribution of individual parameters, as well as their standard errors and confidence intervals. The findings of the study reveal that for every one unit increase in foreign direct investment, there is subsequent increase of capital growth of 6.4 units at 95% C.I (4.9, 8.0), $p=0.000$. This is fairly small amount of influence on growth of capital. Again, looking at time factor, none of the coefficients were significant which further reveals that time as a fixed factor has no statistically significant effect on growth of capital market.

The empirical results are consistent with those of Nene and Pasholli (2011) study on the financial incentives and their impact for attracting FDI which made the conclusion that application of a favorable tax system helps stimulation of business activities for foreign investors.

Kiarie (2012) equally found out that investing in Kenya's investment markets through unit trust provides an opportunity to benefit from portfolio diversification and stimulate the flow of foreign capital. This is also supported by improvements in technology and communications.

4.5.3 Capital Allocation and Growth of Capital Market

To investigate the objective, the capital market capitalization was regressed on the unit trust capitalization. To test the null hypothesis, panel data analysis was yet again used for this analysis, with independent variable being capital allocation and the dependent variable as growth in capital market. To test the null hypothesis that "there is no statistically significant relationship between capital allocation and growth of capital market" GLM analysis was carried out. The model adopted would take the form of

$$y = \alpha_{3t} + \beta_{3it}x_{3it} + \varepsilon$$

Table 4.18 shows SPSS results output on test of between –subjects effects on growth of capital market.

Table 4.18: Tests of Between-Subjects Effects- Capital Allocation, Time and Capital Growth

Source	Type III Sum of Squares	df	Mean Square	F	Sig.
Corrected Model	1450229163929.8 ^a	8	181278645491.2	3.903	.000
Intercept	323263843725.8	1	323263843725.8	6.960	.009
Capital Allocation	1393195711795.5	1	1393195711795.5	29.995	.000
Time	60287926213.3	7	8612560887.6	.185	.988
Error	7013619655796.5	151	46447812290.0		
Total	30943345492816.	160			
Corrected Total	8463848819726.4	159			

a. R Squared = .171 (Adjusted R Square = .121)

From Table 4.18, it is again evident that time was not significant predictor of growth of capital market as signified by $p=0.988$ (ns). However, capital allocation was statistically significant at the .05 level [$F(1, 151) = 29.995$, $p=0.000$]. Agreed, that calculated p -value = 0.000 being less than the priori significant level of 0.05, the null hypothesis was rejected at the 0.05 level of significance. This implies that there was enough statistical evidence to indicate that the more the unit trusts, the more the capital market. Therefore, it was concluded that there is significant relationship between capital allocation and growth of capital market, with rise in capital allocation associated to increase in growth of capital market in Kenya and vice versa. To estimate the contribution of capital allocation in growth of capital market, parameter estimates were computed as shown in Table 4.19.

Table 4.19: Parameter Estimates- Capital Allocation, Time and Capital Growth

Dependent Variable: Growth of Capital Market

Parameter	B	Std. Error	t	Sig.	95% Confidence Interval Lower Bound	Upper Bound
Intercept	156651.7	66148.5	2.368	.019	25955.5	287348.0
Capital Allocation	12.4	2.2	5.477	.000	7.9	16.8
[Time=2010]	-34428.8	68152.6	-.505	.614	-169084.7	100227.0
[Time=2011]	-40736.0	68244.9	-.597	.551	-175574.3	94102.2
[Time=2012]	-54039.1	68156.5	-.793	.429	-188702.7	80624.4
[Time=2013]	-193.7	68320.1	-.003	.998	-135180.6	134793.2
[Time=2014]	-37784.4	68159.5	-.554	.580	-172453.9	96885.0
[Time=2015]	-48367.1	68229.5	-.709	.479	-183175.0	86440.7
[Time=2016]	-18577.3	68194.2	-.272	.786	-153315.3	116160.7
[Time=2017]	0 ^a	.	.	.	.	.

a. This parameter is set to zero because it is redundant.

$$y = 156651.7 + 12.4x.$$

The parameter estimates show contribution of individual predictors, as well as their standard errors and confidence intervals. The findings of the study reveal that for every one unit increase in capital allocation, there is subsequent increase of growth in capital market of 12.4 units at 95% C.I (4.9, 8.0), $p=0.000$. This is fairly large amount of influence on growth of capital. However, none of the coefficients of specific groups of times were significant which further reveals that time as a fixed factor has no statistically significant effect on growth of capital market. The model explained 17.1% of the total variability (R-square) in growth of capital market.

These results agree with Fowler, Grieves, and Singleton (2010) who found in their study that, unit trusts available to New Zealand investors, asset allocation can explain a significant amount of the differences in return across time and between trusts. In particular when analyses were done across time, asset allocation accounted for about 80 per cent of the variation in actual returns. But when the analyses were done between trusts, asset allocation explains about 60 per cent of the variation in returns. From the

perspective, the choice of asset allocation became an important factor in explaining returns.

These findings are also consistent with Olando (2012) who found a significant positive relationship between funds allocation strategy components and growth of wealth in SACCOs' wealth. The effect accounted for a very high variability indicating strong influence of capital allocation strategy on the growth of SACCOs' wealth.

(Bryant, 2013), undertook to study mutual funds in Kenya covering the period 2007-2011, specifically looking at how these unit trusts allocate asset and the impact of their asset allocation decision on the financial performance. The study concluded that given the wish of many investors to pursue diversification in their asset selection and having in mind the performance of the stock markets, a large number of investors sought to expand their holdings further by investing in unit trusts. This behavior among investors supports this study by adding strength to the objective that capital allocation plays an important role in the growth of capital market.

4.5.4 Risk Management and Growth of Capital Market

There were no high-risk asset allocation details that were provided in asset classification fund as documented. Hence, to determine the contribution of risk management in the growth of capital market, risk management was implied on the type of allocation fund invested on. Risk management was akin to testing for the asset allocation; the type of asset indicated the level of risk involved. The risks were categorized as shown in the table below.

Table 4.20: Categorization of Asset Allocation Fund into Risk Management

Asset Allocation Fund	Level of Risk (Initials)	Level of Risk
Money Market Fund	LR	Low Risk
Equity Fund	MR	Medium Risk
Balanced Fund	MR	Medium Risk
Fixed Income /Bond Fund	LR	Low Risk
Dividend Plus Fund	MR	Medium Risk
Diversified Investment	MR	Medium Risk
East Africa Fund	LR	Low Risk
Shariah Compliant Fund	LR	Low Risk

To test the null hypothesis that “there is no statistically significant relationship between risk management and growth of capital market” panel data analysis was employed. The model produced took the form of; $y = \alpha_{4t} + \beta_{4it}x_{4it} + \varepsilon$. Table 4.21 shows SPSS results output on test of between –subjects effects on growth of capital market.

Table 4.21: Tests of Between-Subjects Effects- Risk Management, Time and Capital Growth

Dependent Variable: Growth of Capital Market					
Source	Type III Sum of Squares	Df	Mean Square	F	Sig.
Corrected Model	356790656396.7 ^a	8	44598832049.5	.831	.577
Intercept	15702226166.3	1	15702226166.3	.292	.589
Risk management	299757204262.4	1	299757204262.4	5.583	.019
Time	49450220917.3	7	7064317273.9	.132	.996
Error	8107058163329.6	151	53689126909.4		
Total	30943345492816.0	160			
Corrected Total	8463848819726.4	159			

a. R Squared = .042 (Adjusted R Squared = .009)

From Table 4.2, it is evident that yet again time has not proved to be a significant predictor of growth of capital market ($p=0.996$). This lack of significance in time could be attributed to lack of consistent data on unit trust funds in some organizations for some years. However, risk management was significant at the .05 level [$F(1, 151) = 5.583$, $p=0.019$]. Hence, since the calculated p -value $=0.019$ is less than the prior significant level of 0.05, the null hypothesis that “there is no statistically significant relationship between risk management and growth of capital market” was rejected. Subsequently, it was concluded that there is statistically significant relationship between risk management and growth of capital market, with high-risk management attributed to increase in capital market capitalization and vice versa.

However, to evaluate the estimate of contribution of risk management in growth of capital market, parameter estimates was estimated as shown in Table 4.22.

Table 4.22: Parameter Estimates- risk management, Time and Capital Growth

Dependent Variable: Growth of Capital Market						
Parameter	B	Std. Error	t	Sig.	95% Confidence Interval Lower Bound	Upper Bound
Intercept	98063.468	139779.569	.702	.484	178112.854	374239.789
Risk Management	638388.370	270173.857	2.363	.019	104579.154	1172197.586
[Time=2010]	-35279.383	73273.307	-.481	.631	180052.703	109493.938
[Time=2011]	-43591.028	73608.060	-.592	.555	189025.753	101843.698
[Time=2012]	-51839.183	73276.829	-.707	.480	196619.463	92941.096
[Time=2013]	-8565.773	73659.812	-.116	.908	154102.750	136971.204
[Time=2014]	-35517.626	73284.157	-.485	.629	180312.384	109277.132
[Time=2015]	-36527.041	73315.373	-.498	.619	181383.477	108329.394
[Time=2016]	-10140.780	73298.750	-.138	.890	154964.371	134682.811
[Time=2017]	0 ^a	.	.	.	.	.

a. This parameter is set to zero because it is redundant.

$$y = 98063.468 + 638388.37x$$

The parameter estimates which shows contribution of each predictor, as well as its standard errors and confidence intervals, reveal that for every one unit increase in risk management, there is ensuing increase of capital growth of 683,388 units at 95% C.I, $p=0.019$. However, given that time factor was not significant, none of the coefficients of specific groups of times were significant. The model explained only 4.2% of the total variability (R-square) in growth of market, as signified by R Square of 0.042.

This finding resonates with Bertolis and Hayes (2015) who noted that it is important to have a portfolio of unit trusts to diversify the specific risk of unit trust investment managers. Funds of unit trusts do offer these diversification benefits, but at the cost of an additional layer of fees on the side of the investor. An investor in particular looking for an investment displaying lower systematic risk may consider investing in a diversified basket of South African general equity unit trusts.

The result of this finding contradicts the conclusions made by Shikuku (2012) in the study of effects of behavioral factors on investment decision-making processes of unit trust companies in Kenya. In the study it was noted that very minimal relationship exists between the performance of unit trusts and herding tendency of its managers in making investment decisions. This implies that even with adequate information on risk management by firm still fund managers who followed the mass recorded poor performance.

Further the study of Abubakar (2014) on the performance of collective investment schemes noted that in Ghana most of the schemes are not well diversified or the incompetence of managers results in negative superior returns.

4.5.5 Effect of The Legal Restrictions on Investment of Scheme Funds on The Relationship Between the Independent and Dependent Variables

The last objective was to investigate the moderating effect of the legal restrictions on investment of scheme funds on the relationship between the independent and dependent variables. This objective was investigated by finding out whether legal

restrictions on investments of scheme funds specifies conditions under which unit trust funds influence growth of capital market in Kenya. Moderation implied an interaction effect, where introducing a moderating variable changes the direction or magnitude of the relationship between two variables. The study sought to find out whether legal restrictions on investments of scheme funds enhances or decreases the effect of unit trust funds in the growth of capital. Data on the laws developed was extracted from the Kenyan Judiciary website and Capital Markets Guidelines. The availability of a law was given a score of 1 while the absence of a law affecting finance was given a score of 0, across the years. The score ignored whether the law had a negative or positive impact on either the domestic or foreign saving.

Using the Panel Data Analysis, hierarchical multiple regression was used to assess the effects of a moderating variable. To test moderation, in particular the study looked at the interaction effect between moderator and the independent variables and whether or not such an effect was significant in predicting growth in capital. A lag was set up to test if the laws approved in a given year in any way had a relationship with the next. Table 4.23, shows the model summary and Table 4.24 shows ANOVA output of hierarchical multiple regression.

Table 4.23: Model Summary of testing moderating effect

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.695 ^a	.483	.470	168044.424
2	.699 ^b	.489	.472	167658.177
3	.718 ^c	.515	.496	163731.691

a. Predictors: (Constant), Risk Management, Foreign Direct Investments, Domestic Savings, Capital Allocations

b. Predictors: (Constant), Risk Management, Foreign Direct Investments, Domestic Savings, Capital Allocations, Legal Restrictions

c. Predictors: (Constant), Risk Management, Foreign Direct Investments, Domestic Savings, Capital Allocations, Legal Restrictions, Interracts2

Table 4.24: ANOVA Results on Testing Moderating effect

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	4086814910004.9	4	1021703727501.2	36.181	.000 ^b
	Residual	4377033909721.4	155	28238928449.8		
	Total	8463848819726.3	159			
2	Regression	4135022133197.0	5	827004426639.4	29.421	.000 ^c
	Residual	4328826686529.3	154	28109264198.2		
	Total	8463848819726.3	159			
3	Regression	4362214631090.7	6	727035771848.4	27.120	.000 ^d
	Residual	4101634188635.6	153	26808066592.3		
	Total	8463848819726.3	159			

a. Dependent Variable: Growth of Capital Market

b. Predictors: (Constant), Risk Management, Foreign Direct Investments, Domestic Savings, Capital Allocations

c. Predictors: (Constant), Risk Management, Foreign Direct Investments, Domestic Savings, Capital Allocations, Legal Restrictions

d. Predictors: (Constant), Risk Management, Foreign Direct Investments, Domestic Savings, Capital Allocations, Legal Restrictions, Interracts2

The hierarchical multiple regression analysis shows that when all the independent variables were included (Model 1), they accounted for a fairly small amount of variance in growth of capital $R^2 = 0.483$, $F(4, 155) = 36.181$, $p < .05$. Secondly, addition of legal restriction in the model (Model 2), at least showed some improvement in the amount of variance in growth of capital market, that is, it improved from 4.83% to 4.89%. Although it was small, model 2 was statistically significant, $F(5, 154) = 29.421$, $p < .05$.

However, addition of an interaction term between legal restrictions on investment of scheme funds and the aspects of unit trust funds to the regression model (Model 3), accounted for a significant proportion of the variance in growth in capital, $\Delta R^2 = 0.032$, $\Delta F(6, 153) = 27.120$, $p < .05$. Hence, it was concluded that there is statistically significant moderating effect of the legal restrictions on investment of scheme funds on the relationship between the independent and dependent variables. On examination of the interaction plot showed an enhancing effect, that is, as legal restrictions increased, growth of capital increased.

According to Brown and Allen (2012) research which carried out quantitative examining of the potential impacts of introducing a mandatory portfolio disclosure scheme in New Zealand, concluded that using voluntary holdings disclosures of equity funds as a proxy for mandatory disclosure registered improvements. That the mandatory disclosures provided return benefits for low-performing funds due to the enhanced monitoring abilities by investors, while equally having minimal effect on returns of mid- or high-performing funds. This is in line with the findings of this study.

The Findings of Nzoka (2013) further agree with this study on the role of regulations. The study concludes that the requirements for the approval of funds, fund management companies, trustees and other service providers are adequate to ensure that investors were protected and that the public was confident that the fund management regulatory framework ensured their protection leading to the growth of these funds out of the confidence created.

4.6 Multiple Regression Model.

The study sought to establish a linear model that could be used to describe the optimal level of growth of capital market in Kenya. Given that time, as a factor variable had no statistically significant influence on growth of capital market, standard multiple regression analysis ignoring time was used to develop a regression model. The multiple regression analysis provided information about the relative contribution of each of the variables that make up the model. Each aspect of unit trust funds was evaluated in terms of its predictive power, over and above that offered by all the other independent variables. It enabled the researcher to know how much unique variance, in growth of capital market in Kenya, each of the predictor explained. Table 4.25 shows the regression analysis model.

Table 4.25: Regression Analysis Model Summary Output: Unit Trust Funds on Growth of Capital Market in Kenya.

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
a	.718 ^a	.515	.499	163288.836

a. Predictors: (Constant), Interracts2, Risk Management, Foreign Direct Investments, Capital Allocations, Domestic Savings

In the model summary (Table 4.23) the "R" column represents the value of R , the multiple correlation coefficients. The value of 0.718 indicates a good level of prediction. However, the value of R Square (0.515) indicates how much of the variance in the growth of capital market in Kenya was explained by unit trust funds. This means that the model explains 51.5 percentage of the variance in growth of capital market in Kenya, which is quite a substantial variance. However, to assess the statistical significance of the result it was necessary to look at the ANOVA results shown in Table 4.26.

Table 4.26: ANOVA- Unit Trust Funds in the Growth of Capital

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	4357709243437.1	5	871541848687.4	32.687	.000 ^b
Residual	4106139576289.2	154	26663244001.8		
Total	8463848819726.3	159			

a. Dependent Variable: Growth of Capital Market

b. Predictors: (Constant), Interracts2, Risk Management, Foreign Direct Investments, Capital Allocations, Domestic Savings

Analysis of Variance was appropriately used to test the null hypothesis that multiple R in the population equals 0. The outcome showed that the model was statistically significant [$F(5, 154) = 32.687$, $R^2 = 0.515$, sig. $< .05$]. This infers that the model was highly significant and adequate enough to explain the variance in growth in capital market in Kenya. In other words, the results show that the predictor variables statistically significantly predict the growth in capital market, meaning the regression model is a good fit of the data.

4.6.1: Evaluating Contribution of each of the Predictor

The study sought to investigate the level of contribution of the individual predictors factored in the model in the prediction of the dependent variable. This was shown by coefficients values in Table 4.27:

Table 4.27: Coefficient Output: Unit Trust Funds on Growth of Capital Market

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	628223.9	113577.3		5.531	.000
Domestic Savings	22.2	5.361	.542	4.152	.000
Foreign Direct Investments	3.9	1.162	.338	3.403	.001
Capital Allocations	20.0	3.340	.662	5.991	.000
Risk Management	-1653360.8	341560.1	-.497	-4.841	.000
Interracts2	-1.024E-008	.000	-.367	-3.187	.002

a. Dependent Variable: Growth of Capital Market.

From the coefficient output table above, it is clear that all the features of unit trust funds including the relations with legislation on use of scheme funds had statistically significant influence on growth of capital market. However, they contributed differently in influencing growth of capital market in different measures. For example, capital allocation had the highest impact on enhancing growth of capital market, while foreign direct investment made the least contribution in explaining the variability of the model. The variable “capital allocation” had the largest beta coefficient of 0.662 inferring that it made the strongest unique contribution in explaining the dependent variable. This means that a one standard deviation in capital allocation leads to a 0.662 standard deviation increase in growth of capital market, with the other variables held constant.

On the contrary, the beta value for direct foreign investment was the lowest at 0.338, indicating that it made the least contribution to the model; a one standard deviation increase in direct foreign investment would only leads to a 0.338 standard deviation

increase in growth of capital market in Kenya, with the other variables in the model held constant.

It was noted that the total R squared value for the model (0.515 or 51.5 explained variance) did not equal to the sum of the R Squared for each variable. This was because the part correlation values represented only the unique contribution of each variable, with any overlap or shared variance removed. The total R squared value, however, included the unique variance explained by each variable and also that shared. The predictors were positively correlated hence there were a lot of shared variances that was statistically removed when they were all included in the model.

4.6.2 Optimal Model

A regression model for the relationship between these independent variables and dependent variable is shown below.

In this model: $Y = \alpha + \beta_1 x_1 + \beta_2 x_2 + \beta_3 x_3 + \beta_4 x_4 + \varepsilon$.

Where: Y is Growth of Capital Market

X₁ Domestic Savings (DS)

X₂ Foreign Direct Investments (FDI)

X₃ Capital Allocations (CA)

X₄ Risk Management (RM)

β_1 Coefficients of the independent variables,

ε error term

Optimum level of overall Growth of Capital Market in Kenya was presented by:

$$Y = 628,223.9 + 22.2 DS + 3.9 FDI + 20.0 CA -1653360. RM - 1.024IE-008$$

From the equation, the coefficients explain the degree of variation by capital market in Kenya in relation with an independent variable when all other independent variables are controlled. For example, the unstandardized coefficient, domestic saving is equal to 22.2 means that for each one unit increase in domestic saving, there is a corresponding increase in growth of capital market in Kenya of 22.2 units.

Given that all predictors had some significant change in the model, it was concluded that the model was adequate to predict growth of capital market because it was statistically significant [$F(5, 154) = 32.687$, $R^2 = 0.515$, sig. $< .05$]. About half (51%) of the variability in growth of capital market is explained by aspects of unit trust funds and their interactions with legal policies on unit trusts. However, other factors (not covered in this regression model) accounted for about 49% of the model.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter is designed to present a detailed and consolidated summary of findings on the contribution of unit trust funds in the growth of Capital Market in Kenya. The research work sought to determine the direction of five objectives by testing five hypotheses in line with the plan outlined in the study design. It is on the foundation of these study findings that conclusions are made for each of the research objectives based on the interpretation of output of the analysis. Further, in this chapter, recommendations and suggested areas of future research are consolidated.

5.2 Summary of Findings

The key objective of the study was to bring out the contribution of unit trust funds in the growth of Capital Market in Kenya. More precisely, the objectives were split into the contribution of domestic savings, foreign direct investment, capital allocation, and risk management in the growth of capital market in Kenya including the moderating effect of the moderating effect of the legal restrictions on investment of scheme funds. Both theoretical and empirical literature of unit trust were reviewed in line with the role they play in capital market. Arising from the review, a conceptual framework demonstrating the relationship between contribution of unit trust and growth of capital market was formulated.

The data collection method was secondary research, which essentially involved reviewing data sources that have been collected for some other purpose than the study at hand. Thus, all the relevant data for this study are available in secondary form. The data was extracted from the individual unit trust fund website, unit trust surveys and capital market authority for the period 2009-2017.

The study used correlation matrix to check for pattern of inter-relationship among the variables in the study and found out that there was no multi-collinearity which was further tested by use of Variance Inflation Factor. The test confirmed that there was no

violation of multi-collinearity assumptions. Normality of the continuous data was also tested through the use of formal test using Shapiro-Wilk tests concluding that the continuous variables met the normality condition. Durbin-Watson statistic showed that data was not auto-correlated, meaning assumption of independence was not as well violated. Further panel unit root test and panel cointegration test were conducted which yielded positive results of non-violation of requirements for analysis.

The findings of the study revealed that the joint effect of domestic savings, foreign direct investment, Capital allocation, and Risk management contributed to the growth of capital market in Kenya. The results from the study were presented by use of descriptive statistics and a general linear regression model. In the analyzed contributors of growth of capital, domestic savings, foreign direct investment and Capital allocation had notable positive influence on the growth of capital market.

5.2.1 The Contribution of Domestic Savings in Growth of Capital Market

The first objective of the study was to determine the contribution of domestic savings in growth of capital market. The results from the analysis showed that there has been a steady growth of domestic savings from as low as 20 billion to over 56 billion Kenyan Shillings in a span of 8 years though a few schemes took the lion share of the total funds in the unit trust.

A test for carried out for Fixed Effects reveals that domestic saving was significant for the calculated p-value. This means that domestic saving is an important predictor of growth of capital market. The results led to the rejection of the null hypothesis and by extension confirming the fact deduced that there is statistically significant connection between domestic savings and growth of capital market. The results generated shows that fixed effects results specify that for every single unit upsurge in domestic savings, there is a resultant increase of the growth in capital market by 26 units. In overall domestic savings was the highest contributor to the growth of capital market as shown in the output table. The test results of hypothesis further demonstrate that there is a significant connection of domestic savings with the growth of capital market.

5.2.2 Foreign Direct Investment Contribution in The Growth of Capital Market

The next objective was equally tested using the same procedure to find out whether foreign direct investment contributed to the growth of capital market. A fixed effect test was carried out as a procedure which confirmed the significance of foreign direct investment. The relationship was therefore clear given the magnitude of beta factor. On an observation of calculated p-value from the table, the null hypothesis was rejected once more. This result indicates that an improvement in foreign direct investment results in a rise in market capitalization and consequently the growth of capital market

The findings of the study further reveal that for every one unit increase in foreign direct investment, there is subsequent increase of capital growth of 6.4 units. This is a fairly small amount of influence on growth of capital but still the effect is illustrated.

5.2.3 Contribution of Capital Allocation in The Growth of Capital Market

The analysis on capital allocation indicated that it was statistically significant at the 0.05 level. This was based on the comparison with the calculated p-value, the null hypothesis in this case rejected at the 0.05 level of significance. Therefore, it was concluded that there is significant relationship between capital allocation and growth of capital market, with rise in volumes of capital allocation associated to rise in growth of capital market in Kenya and vice versa.

The parameter estimates further shows contribution of individual predictors, as well as their standard errors and confidence intervals. The findings of the study reveal that for every one unit increase in capital allocation, there is subsequent increase of growth in capital market of 12.4 units. This represents a fairly large amount of influence on growth of capital. Further it was noted that the model explained 17.1% of the total variability (R-square) in growth of capital market.

5.2.4 The Contribution of Risk Management in The Growth of Capital Market

The aspect of risk management in unit trust was tested at the 0.05 level in reference to the value of calculated p-value, the null hypothesis was consequently rejected on this

basis. Subsequently, the results established that there is statistically significant relationship between risk management and growth of capital market, with high-risk management attributed to increase in capital market capitalization and vice versa.

The parameter estimates which shows contribution of each predictor, as well as its standard errors and confidence intervals, in addition reveals that for every one unit increase in risk management, there is ensuing increase of capital growth of 683,388 units from the model of analysis. The model explained only 4.2% of the total variability (R-square) in growth of market, as signified by R Square of 0.042.

5.2.5 The Moderating Effect of the Legal Restrictions on Investment of Scheme Funds on the Relationship between the Independent and Dependent Variables.

The hierarchical multiple regression analysis shows that when all the independent variables were included in the model to test moderating effect, the result accounted for a fairly small amount of variance in growth of capital $R^2 = 0.483$. Secondly, when an addition of legal restriction in the model was added, the result improved from 4.83% to 4.89%. Although it was a small margin, the model revealed that it was statistically significant.

However, addition of an interaction term between legal restrictions on investment of scheme funds and all the aspects of unit trust funds to the regression model, accounted for a significant proportion of the variance in growth in capital, $R^2 = 0.032$. Hence, it was concluded that there is statistically significant moderating effect of the legal restrictions on investment of scheme funds on the relationship between the independent and dependent variables. On examination of the interaction plot showed an enhancing effect, that is, as legal restrictions increased, growth of capital market improved.

5.3 Conclusions of the Study

The analysis of the test results forms a strong basis to make this study's conclusions. The conclusions are in this case a point of reference where generalization can be made with regards to the direction of association considering the variables in the industry.

5.3.1 The Contribution of Domestic Savings in Growth of Capital Market

On the domestic savings the study considered the overall impact of savers within the country and their possible contribution to capital market. The GLM generated gave a coefficients value to indicate a strong predictor to the capital market this is in addition to a confirmation of statistical significance of the variable. The reason behind a positive influence of this savings in the growth may be explained by the fact that higher savings may increase the financial influence on capital market activity. In view of these findings, the study concludes that capital markets should develop a strategy to attract savers to prioritize investment in unit trust hence raising the level of domestic savings and by extension contribute to a more efficient allocation of such savings among competing uses which in turn contribute to the market development.

5.3.2 Foreign Direct Investment Contribution to the Growth of Capital Market

On the part of foreign direct investment, the paper deduced a significant and positive impact on the growth of capital market. This variable had a unique contribution to the growth of capital market. This finding is consistent with the preposition made in the theory of investment value that an individual investor can create value on his investment by considering the value of streams of cash flows. Foreign investors should therefore be encouraged to invest locally if more funds have to be pooled for investment. In line with this study, it was also noted that foreign direct investment with an environment under favorable legal restrictions on investment of scheme funds had an influence on capital market growth. Foreign direct investment with carefully thought legislation contribute to the capital market development and this leads to dependable flow of such funds.

5.3.3 Contribution of Capital Allocation to The Growth of Capital Market

Capital allocation involves distribution of funds from investors to various asset class based on investors selection. The study considered capital allocation as one of the variables that attracts funds from savers and consequently market growth. The overall analysis of the feature classified as capital allocation proved to yield an enhancing effect on the growth of capital market. The variable had the largest beta coefficient

implying that it made the strongest unique contribution to explaining the dependent variable. In view of these findings, the study concludes that capital allocation of funds in collective investment schemes requires adequate attention by fund managers to attract investment through various innovative options available in the capital market.

5.3.4 The Contribution of Risk Management in The Growth of Capital Market

From the interpretation of findings, it was concluded that the aspect of risk should be given a priority in portfolio construction because investors rate it the highest. This is supported by the theories advanced in the prospect theory where investors are more concerned with gains. The coefficients of risk management resulted in a negative effect in the growth indicating the direction of movement. However, it was still concluded that there is statistically significant relationship between risk management and growth of capital market, with high-risk management attributed to increase in capital market capitalization.

5.3.5 The Moderating Effect of The Legal Restrictions on Investment of Scheme Funds on The Relationship Between the Independent and Dependent Variables

Favourable legislation is considered an important catalyst necessary to create conducive environment for investment. The study evaluated the part of legal restriction enacted over the study period confirming the significance of the moderator. This is also in line with the prospect theory which advocate for risk aversion. The moderating effect of the legal restrictions was found to be significant during the period of study. In general, it can be concluded from this empirical study that domestic savings, foreign direct investment, Capital allocation, and risk management are enhanced by legal restrictions on investment of scheme funds in affecting the growth of the market. This becomes a focal point for capital market authority and other agencies tasked by the regulator to provide a roadmap for investment taking into consideration requisite legislation necessary for the country's economy.

5.4 Recommendations of the Study.

A strengthening of the information infrastructure for unit trust should be part of the broader policy strategy needed to develop efficient and liquid capital markets for these financial instruments and securities, as well as to enhance savers access to existing classes of capital markets products. Accurate provision of information is critical in improving investor awareness of the innovative and profitable investment products including proper scrutiny of collective investment schemes.

The relevance of country's internal savings by the public is considered vital if capital market is to grow at exponentially. Hence it is recommended that Managers of collective investment scheme and capital market authority to increase awareness and encourage investment through the expansion programs of mobilizing saving within the country.

The study further recommends that a greater emphasis on domestic saving can help the country to enhance its growth and economic performance, contribute toward increasing its policy space and ownership of development strategies, and reduce aid dependence. Although ultimately the private sector plays the more significant role in the process of mobilizing and investing domestic resources, the key policy and institutional drivers are in the hands of the government.

From the results of this study, we reached the conclusion that foreign direct investment is a predictor of growth of capital market. Such a result was confirmed from the statistical verification of hypothesis on its contributor on the overall model. This finding remains inside the theoretical and empirical literature where FDI is considered to have a great impact on the investment of a country.

A careful examination of the empirical studies linking FDI and technological development suggests that FDI is more likely to be a significant catalyst to overall industrial development and in this case the injection of much needed funds in collective investment schemes. The study therefore recommends promotion aimed at attracting FDI by creating a sound and conducive FDI policy framework and efficient

implementation worked out through provision of a stable and conducive political and economic environment.

5.4.1 Areas for Further Research

This study used secondary data for analysis. Given the relevance of capital market in the realization of vision 2030 in Kenya, it may be beneficial for a similar study to be carried using secondary data on position of unit trust on realization of Vision 2030 and Capital Market Master Plan 2014-2023. The study can also look at whether the capital market implementation plan is realizing the goal of achieving a savings rate of 30% of GDP as stipulated in the Economic pillar of Vision 2030.

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APPENDICES

Appendix I: Secondary Data Collection Sheet

The record survey sheet will be filled in by the researcher himself. All information required in the matrix will be from the quarterly and annual reports of the unit trust schemes for the period 2009 to 2017

VARIABLES	2009	2010	2011	2012	2013	2014	2015	2016	2017
Number of registered unit trust schemes with CMA									
Total unit trust capitalization in the market									
Total market capitalization in the period									
Market rate of return for the period									
Lowest rate declared by unit trust funds for the period									
Highest rate declared by unit trust funds for the period									
British American									
African Alliance									

Old Mutual									
CIC Asset									
ICEA Lion									
Nebo Capital(centrum)									
Zimele Asset									
Equity Investment Bank									
Sanlam (Pan Africa Asset)									
Stanlib Kenya									
Dry Associates									
Genghis Capital									
Apollo Asset									
Madison Asset									
Amana Capital									
Commercial Bank of Africa									
Dyer & Blair									
Suntra Investment Bank									
Standard Investment Bank									
UAP Investment									
TOTAL (KSHS. 'Mn)									

Money Market Fund									
Equity Fund									
Balanced Fund									
Fixed Income /Bond Fund									
Dividend Plus Fund									
Diversified Investment									
East Africa Fund									
Shariah Compliant Fund									
Total (KSHS. 'Mn)									
Money Market Fund									
Equity Fund									
Balanced Fund									
Fixed Income /Bond Fund									
Dividend Plus Fund									
Diversified Investment									
East Africa Fund									
Shariah Compliant Fund									
Total (KSHS. 'Mn)									

Name legislations changes over the period									
Variable affected by the new regulation									
Overall growth of the capital market									
Proportion of growth attributed to each variable.									

Appendix II: List of Licensees and Approved Institutions

(As at December 30, 2016)

Approved Collective Investment Schemes:

1. African Alliance Kenya Unit Trust Scheme, comprising:

- i. African Alliance Kenya Shilling Fund.
- ii. African Alliance Kenya Fixed Income Fund.
- iii. African Alliance Kenya Managed Fund.
- iv. African Alliance Kenya Equity Fund.

2. British-American Unit Trust Scheme, comprising:

- i. British-American Money Market Fund.
- ii. British-American Income Fund.
- iii. British-American Balanced Fund.
- iv. British-American Managed Retirement Fund.
- v. British-American Equity Fund.

3. Stanbic Unit Trust Scheme, comprising:

- i. Stanbic Money Market Fund.
- ii. Stanbic Fixed Income Fund.
- iii. Stanbic Managed Prudential Fund.
- iv. Stanbic Equity Fund
- v. Stanbic Balanced Fund

4. Commercial Bank of Africa Unit Trust Scheme, comprising:

- i. Commercial Bank of Africa Money Market Fund.
- ii. Commercial Bank of Africa Equity Fund.

5. Zimele Unit Trust Scheme, comprising:

- i. Zimele Balanced Fund
- ii. Zimele Money Market Fund

6. ICEA Unit Trust Scheme, comprising:

- i. ICEA Money Market Fund
- ii. ICEA Equity Fund

- iii. ICEA Growth Fund
- iv. ICEA Bond Fund
- 7. Standard Investment Trust Funds, comprising:
 - i. Standard Investment Equity Growth Fund
 - ii. Standard Investment Fixed Income Fund
 - iii. Standard Investment Balanced Fund
- 8. CIC Unit Trust Scheme, comprising:
 - i. CIC Money Market Fund
 - ii. CIC Balanced Fund
 - iii. CIC Fixed Income Fund
 - iv. CIC Equity Fund
- 9. Madison Asset Unit Trust Funds, comprising:
 - i. Madison Asset Equity Fund
 - ii. Madison Asset Balanced Fund
 - iii. Madison Asset Money Market Fund
 - iv. Madison Asset Treasury Bill Fund
 - v. Madison Asset Bond Fund.
- 10. Dyer and Blair Unit Trust Scheme, comprising:
 - i. Dyer and Blair Diversified Fund
 - ii. Dyer and Blair Bond Fund
 - iii. Dyer and Blair Money Market Fund
 - iv. Dyer and Blair Equity Fund
- 11. Amana Unit Trust Funds Scheme, comprising:
 - i. Amana Money Market Fund
 - ii. Amana Balanced Fund
 - iii. Amana Growth Fund
- 12. Diaspora Unit Trust Scheme, comprising:
 - i. Diaspora Money Market Fund
 - ii. Diaspora Bond Fund

- iii. Diaspora Equity Fund
- 13. First Ethical Opportunities Fund
- 14. Genghis Unit Trust Funds, comprising:
 - i. GenCap Hazina Fund
 - ii. GenCap Eneza Fund
 - iii. GenCap Hela Fund
 - iv. GenCap Iman Fund
 - v. Gencap Hisa Fund
- 15. UAP Investments Collective Investment Schemes, comprising:
 - i. UAP Money Market Fund
 - ii. UAP High Yield Bond Fund
 - iii. UAP Enhanced Income Fund
 - iv. UAP Dividend Maximizer Fund
- 16. Sanlam Unit Trust Scheme, comprising:
 - i. Sanlam Money Market Fund (Sanlam Pesa Plus Fund)
 - ii. Sanlam Dividend Plus Fund (Sanlam Faida Plus Fund)
 - iii. Sanlam Balanced Fund (Sanlam Chama Plus Fund)
- 17. Nabo Africa Funds, comprising:
 - i. Nabo Africa Money Market Fund
 - ii. Nabo Africa Balanced Fund
 - iii. Nabo Africa fixed income Fund
 - iv. Nabo Africa Equity fund
- 18. Old Mutual Unit Trust Scheme, comprising:
 - i. Old Mutual Equity Fund
 - ii. Old Mutual Money Market Fund
 - iii. Old Mutual Balanced Fund
 - iv. Old Mutual East Africa Fund
 - v. Old Mutual Bond Fund
- 19. Equity Investment Bank Collective Investment Scheme, comprising:
 - i. Equity Investment Bank Money Market Fund

- ii. Equity Investment Bank Balanced Fund
- 20. Pan Africa Unit Trust Scheme, comprising:
 - i. Pan Africa Money Market Fund
 - ii. Pan Africa Divided Plus Fund
 - iii. Pan Africa Balanced Fund
- 21. Dry Associates Unit Trust Scheme comprising:
 - i. Dry Associates Money Market Fund (Kenya Shillings)
 - ii. Dry Associates Money Market Fund (US Dollars)
 - iii. Dry Associates Balanced Fund (Kenya Shillings)
- 22. Co-op Trust Fund comprising:
 - i. Co-op Balanced Fund
 - ii. Co-op Equity Fund
 - iii. Co-op Bond Fund
 - iv. Co-op Money Market Fund
- 23. Apollo Unit Trust Scheme comprising:
 - i. Apollo Money Market Fund
 - ii. Apollo Balanced Fund
 - iii. Apollo Aggressive Growth Fund
 - iv. Apollo Equity Fund
 - v. Apollo East Africa Fund
 - vi. Apollo Bond Fund