

MONEY MARKET FUND DIVERSIFICATION AND INVESTMENT PERFORMANCE OF MUTUAL FUNDS IN KENYA

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ABSTRACT

When investors participate in investment activities, wealth maximization remains their primary objective. Money market fund diversification is therefore a critical consideration in investment decision-making because it determines the extent to which investors are willing to commit their financial resources to available investment opportunities. The purpose of this study was to establish the effect of money market fund diversification on the investment performance of mutual funds in Kenya. The study was anchored on Liquidity Preference Theory, A descriptive research design was adopted, and a census approach was employed involving all 40 mutual funds licensed and operating in Kenya. Secondary data were collected from Capital Markets Authority reports and the respective mutual fund websites for a ten-year period from 2015 to 2024. Data were analysed using STATA version 18. Descriptive statistics were used to summarize the data, while inferential analysis was conducted using Pearson correlation analysis and panel regression techniques. The findings revealed that money market fund diversification had a positive and statistically significant effect on investment performance

($\beta = 0.3586$, $p < 0.05$). The model summary results indicated an R^2 of 0.3750, implying that equity fund diversification explained approximately 37.50% of the variation in investment performance among mutual funds in Kenya, while the remaining 62.50% was attributable to other factors not included in the study. The study concludes that money market fund diversification significantly enhances the investment performance of mutual funds in Kenya. The study recommends that mutual fund managers adopt optimal portfolio allocation strategies that maintain an appropriate balance between growth-oriented, income-generating, liquidity-enhancing, and passive investment assets in order to maximize risk-adjusted returns. The findings provide valuable insights for investors, fund managers, policymakers, and regulators seeking to improve portfolio performance and promote the growth, stability, and sustainability of the mutual fund industry in Kenya.

Key words: Money Market Fund Diversification, Investment Performance, Mutual Funds in Kenya.

INTRODUCTION

Background of the Study

Investing is a strategic journey; therefore, making the best financial decisions requires financial managers to have a thorough understanding of how a company's investments contribute to or hinder the company's ability to meet its financial objectives (Milenova, 2022). According to Brown (2023), comprehending returns, controlling risk, diversifying prudently, and maintaining vigilance in tandem with the financial journey are all necessary for negotiating the complexity of investment performance. The financial manager may assist the company in achieving its financial objectives by making well-informed judgments by understanding these core ideas (Brown 2023). Financial managers consider investment returns as a critical measure of financial performance when deciding how to proceed with the company's expansion, internal operations, and competition (Li, Feng, Zhao & Carter, 2021).

According to Preuss (2021), investment performance, or investment returns, is a financial metric that is used to track a company's success by examining the quantity, cost, and benefits accrued from the investment. Brown (2023) defines a firm's investment performance as the total amount of money that an investor makes or loses from their investment in the company, including dividends, capital appreciation, and realized and unrealized profits over a given time. Kurnia (2021), on the other hand, defines investment return as a gauge of how well a company's management is handling its investments. Investors will assess the performance of the company and determine whether or not to invest by examining the value of the investment return (Ngunjiri 2016). By spreading risk across several sources, diversifying revenue streams lessens the impact of any one source going bankrupt (Barros 2024).

Money market fund investments are a category of mutual fund allocations that mainly make investments in short-term, highly liquid, low-risk securities such as commercial papers, certificates of deposit, treasury bills, and repurchase agreements (Carlsson 2020). Mutual funds, also referred to as unit trusts, are investment vehicles that combine the resources of multiple participants and distribute them among diversified investment portfolios in an effort to reduce risk through professional management and lower average costs per investor (Ombogi, 2017). According to Hamdi et al. (2017), mutual funds are more diversified than a typical individual's portfolio, thereby reducing investors' comparative risk and, consequently, increasing their comparative return. Extant literature suggests that revenue diversification enhances the performance of several business types, including commercial banks (Hamdi et al., 2017), credit unions (Vieira et al., 2022), nonprofit organizations (Hung and Hager, 2019; Ahmad et al., 2019), and savings cooperative societies (Mathuva, 2016). This study adds contributions to the body of literature as follows. First, in contrast to most early research on market fund diversification that concentrated on the banking industry and its financial performance, this study investigates the relationship between money market fund diversification and investment returns of mutual funds in Kenya.

Second, by establishing this relationship between money market fund diversification and mutual fund investment returns, managers of mutual funds will have a better comprehension

Statement of the Problem

Mutual funds in Kenya have grown significantly, attracting investments from the expanding middle class seeking higher returns with lower risk (Odira, Miroga & Otinga, 2020). Although traditionally viewed as secure and profitable (Odira, Miroga & Otinga, 2020), recent evidence shows otherwise, with CMA (2023) reporting that mutual fund disbursements remain insufficient relative to available investment capital. For instance, in 2022, the fund's assets under management rose by 8.68 % to Kshs. 597.43B from Kshs 478.18B in 2020, but the funds paid out to the beneficiaries decreased by 12% (CMA 2023). An analysis of the annual performance on investments of mutual funds indicated a declining rate of 11% in 2015 to 4% in 2016. In 2017, it rose to 11% only to drop to 5%, 1.9 %, and 1.10% in 2018, 2019, and 2020, respectively (CMA 2022). In 2021 and 2022, mutual funds' performance on investment rose to 3.2% and 4%, and in 2023 and 2024, it slumped again to 3.4% and 1.6% (CMA 2024). CMA (2023) report also shows that Kenya's total mutual fund assets have been steadily growing from KSh. 625.913B, Ksh. 691.709B, Ksh. 709.758B, and Ksh. 740.362B between 2020 and 2023, respectively. Despite the growth, stakeholders, particularly savers, have been generally concerned about fluctuations in the rate of return of these assets (Ebichinji 2024). A review of recent data reveals a consistent underperformance of Kenyan mutual funds relative to market benchmarks. For instance, the Britam Equity Fund underperformed the NSE 20 Share index in 2017, 2022, and 2023 (Britam, 2023), while the CIC Equity Fund lagged behind the NASI over a similar period (CIC Asset Management, 2024). The Old Mutual Equities Fund demonstrated mixed results, alternating between outperformance and underperformance of the market (Old Mutual Investment Services, 2024), whereas African Alliance persistently underperformed for three consecutive years (African Alliance Asset Management, 2023). Collectively, these cases highlight a recurring challenge within Kenya's mutual fund sector, where returns often fall short of benchmarks and even alternative investments such as bank deposits (CMA, 2022). Despite the growing importance of money market fund diversification in enhancing the stability and performance of mutual funds, existing empirical studies reveal a lack of consensus on its impact. While some research reports positive contributions, Kamau and Maina (2019); Kimoropm, Jagongo, and Waweru (2024); Hassan (2025) and Widyaningrum (2023), while Carlsson (2020) and Alqadhi (2023), others document negative or insignificant effects, Wahyudi (2020); Udofa (2024); Adams (2022); Kamunyu (2025), Okeyo (2025); Adams (2022), while Belkhir (2025); Kioko and Ochieng (2020) established no meaningful impact. This inconsistency highlights conceptual deficiencies. Consequently, contextual gaps also persist, since most existing evidence, such as Carlsson (2020), Alqadhi (2023), Widyaningrum (2023), and Belkhir (2025), among other studies, originates from developed economies, whereas markets such as Kenya, with their distinct structural characteristics, regulatory frameworks, and market inefficiencies, remain underexplored. Methodological shortcomings further compound the problem, as prior studies have often relied on small or

narrowly defined samples (Kioko & Ochieng, 2020). For investors, fund managers, and policymakers, the absence of broadly applicable and comparable results raises questions about how revenue diversification affects mutual fund performance. A study with a focus on Kenya that employs robust econometric techniques, harmonized performance metrics, and a solid theoretical foundation was required to close this gap and offer solid evidence of the relationship between money market fund diversification and mutual fund performance.

Objectives of the Study

The objective of the study was to establish the effect of money market funds on the investment performance of mutual funds in Kenya

THEORETICAL REVIEW

This section examines the theoretical, general, and empirical research on money market fund diversification on investment performance.

Liquidity Preference Theory

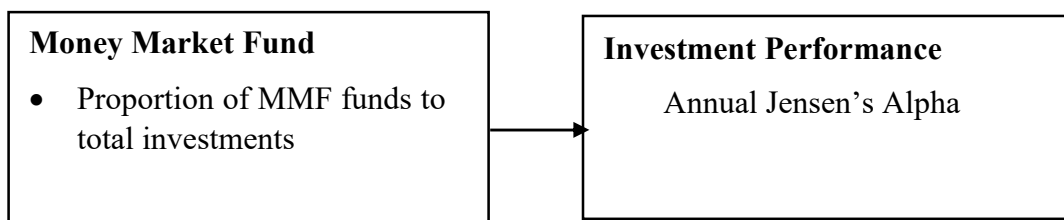
Liquidity Preference Theory (LPT) was developed by Keynes in 1936. According to the theory, individuals prefer liquidity and will only part with it when compensated by interest, which represents the price of foregoing liquidity. The transaction motivation (for everyday purchases), the precautionary drive (for unforeseen requirements), and the speculative motive (to prevent capital losses in turbulent markets) are the three reasons Keynes highlighted for money demand. The theory has been subject to critiques. By presuming a linear, steady demand for money, scholars contend that LPT oversimplifies the connection between liquidity and interest rates (Laidler, 1984). The explanatory power of classical LPT has been weakened by innovations like digital banking, money market securities, and derivatives that have blurred the distinction between money and near-money instruments in contemporary financial systems (Goodhart 2008).

Furthermore, empirical data indicate that risk aversion, credit spreads, and macroeconomic uncertainty may have a greater impact on liquidity preference than interest rates alone (Hordahl, Tristani & Vestin, 2008). Despite these critiques, LPT continues to provide a compelling framework for interpreting investor behavior in times of uncertainty, particularly during crises, when the demand for liquidity spikes dramatically. Due to the perception of MMFs as safe havens, investors redirected their money from long-term bonds and stocks during the 2008 Global Financial Crisis (Kacperczyk & Schnabl, 2013; Gorton & Metrick, 2012). To preserve liquidity during credit market disruptions, institutional investors in industrialized economies raised their MMF holdings, as Baba, McCauley, and Ramaswamy (2009) further showed. In a similar vein, Chernenko and Sunderam (2014) reported that when banks were limited, MMFs offered corporate borrowers short-term liquidity backstops.

MMFs act as stabilizers for retail investors in emerging nations, reducing the risks associated with currency volatility and undeveloped capital markets (Ferreira & Matos, 2012). In the Kenyan context, LPT is highly relevant to the performance of MMFs. Maana, Owino, and Mutai (2010) noted that during the post-election crisis of 2007–2008, money market instruments, especially Treasury bills, attracted substantial demand, indicating a heightened preference for liquidity among institutional and ordinary investors. As investors sought safety and liquidity during times of stock market volatility, MMFs in Kenya regularly outperformed, according to Ochieng and Oriwo (2012). More recently, Maina and Mwangi (2020) noted that MMFs served as safe havens during COVID-19-related concerns, while Wanjiru and Muturi (2021) verified that inflows into MMFs increased anytime the Nairobi Securities Exchange saw downturns. The theory was used to establish the effect of MMF on the investment returns of mutual funds in Kenya

Conceptual Framework

The conceptual framework illustrates the manner in which the independent variable and the dependent variable under investigation are related.



Independent Variable

Dependent Variable

Figure 2.1: Conceptual Framework

Empirical Review

Belkhir (2025) analyzed the impact of money market funds on the financial performance of investment firms in China. ROA served as a metric to assess financial performance. Ordinary Least Squares (OLS) regression was used to assess performance, and the study was based on the Efficient Market Hypothesis (EMH) and the Fama–French Carhart factor model. The findings showed that money market funds had no statistically meaningful impact on the financial performance of businesses. This implies that money market funds in China did not considerably increase profitability or returns on equity during the study period, despite their function in supplying liquidity and stability.

Adams (2022) conducted a study on the prediction of money market fund performance in South Africa, focusing on whether such funds could outperform their respective benchmarks. The study was conducted between 2010 and 2019. Fourteen bond funds were examined in order to compare the funds' performance over time. Jensen's alpha (1968), the Sortino ratio (1980), the Information ratio (1973), and the Sharpe ratio (1965) are used to measure these funds. The results show that

none of the funds in the sample outperformed their respective benchmarks over the sample period. Because no fund was able to outperform its relevant benchmark, money market funds exhibited noticeable negative alphas.

Udofa (2024) examined the effect of money market funds on the financial performance of mutual funds in Nigeria. The research design used for the study was ex-post facto. The study used the Financial Intermediation Theory and Portfolio Theory as guiding concepts and used ROA to quantify performance. A total of twelve mutual funds that are listed on the Nigerian Stock Exchange were examined. The Nigerian Stock Exchange, the Central Bank of Nigeria, and the National Bureau of Statistics provided the data, which were then subjected to ordinary least squares (OLS) multiple regression analysis. It was found that investment in money market securities does not significantly influence the return on assets of mutual funds in Nigeria.

Okeyo (2025) investigated the impact of money market diversification on the financial performance of unit trust funds in Kenya. The study used an explanatory non-experimental research design and the positivist worldview. By the end of 2023, the population will consist of 36 unit trust funds in Kenya. The research employed a census methodology. Using a data collection plan, secondary data was gathered from the 2013–2023 audited reports. The mean and standard deviation are part of the descriptive analysis that was performed. Panel regression was one of the inferential statistics used. Normality, heteroskedasticity, multicollinearity, stationarity, and model specification were among the diagnostic tests that were carried out. The results indicated no significant effect of money market funds on the financial performance of unit trust funds in Kenya

RESEARCH METHODOLOGY

This study will adopt a descriptive correlational research design. A descriptive research design approach was deemed appropriate for this study in order to encompass a broad range of variables and have the capacity to establish correlations among them. The target population for this study was therefore 40 mutual funds in Kenya that are active and registered by the CMA as of December 2024. This research adopted the census method of data collection, where data were collected from all 40 mutual funds in Kenya. The researcher extracted and compiled the necessary secondary data from the financial statement using a secondary data collection sheet for a period of 10 years (2015–2024). The data for all the variables in the study were extracted from CMA, annual published reports, audited annual reports, and financial statements of all 40 mutual funds in Kenya. Benchmark variables data were obtained from the NSE and the CBK websites, respectively.

The data were coded and then imported into STATA 18 software for analysis. The data were analyzed using descriptive and inferential statistics. The descriptive statistics included the mean, minimum, maximum, standard deviations, skewness, and kurtosis. Inferential statistical tools were

utilizing Pearson's correlation analysis and the panel regression analysis. The study employed a panel regression model. The analysis of variance with the F-statistic at the 95% confidence level was used to assess the overall significance of the model. The coefficient of determination (R-squared) was utilized to illustrate the effect of independent variables on the dependent variable. The panel regression analysis model will be expressed as follows.

$$Y_{it} = \beta_0 + \beta_1 MMF_{it} + \varepsilon_{it} \dots \dots \dots \text{Equation 3. 1}$$

Where,

Y is the investment performance of mutual funds

β_0 represents the constant or coefficient of intercept

β_1 represent the coefficients of independent variable

MMF represents money market funds

it represents indices for individuals and time

ε_{it} represents the error term

RESEARCH FINDINGS AND DISCUSSION

This section presents the data analysis, results, and discussion on the effect of money market fund diversification on the investment performance of mutual funds in Kenya using panel data for 40 mutual funds over the period 2015–2024.

Descriptive Statistics

Descriptive statistics are employed to summarize and describe the basic characteristics of the data used in the study. Table 4.1 summarizes the descriptive statistics results.

Table 4.1: Descriptive Statistics Results

Statistics	Obs	Min	Max	Mean	SD	Skewness	Kurtosis
Money Market Funds	400	0.1173	0.7598	0.2760	0.1657	0.5205	-0.4100
Investment Performance	400	-0.0915	0.0576	-0.0150	0.0443	-0.0910	-1.2217

The money market fund recorded a mean of 0.2760, suggesting that approximately 27.6% of portfolios were allocated to short-term, low-risk instruments. This substantial allocation reflects the importance of liquidity management and capital preservation. Similar findings were reported by Ochieng and Waweru (2020) and Kamau (2021), who attributed the popularity of money market instruments in Kenya to their low volatility and stable returns. For the dependent variable, investment performance (Jensen's Alpha) recorded a mean of -0.0150, indicating that, on average, mutual funds underperformed the market on a risk-adjusted basis. This finding aligns with studies by Waweru and Kimani (2018) and Kamau (2020), which reported persistent underperformance of Kenyan mutual funds. However, this contradicts findings from developed markets such as Malkiel (2019), who found that some funds achieve near-market or slightly positive abnormal returns, particularly through passive strategies.

For money market funds, the minimum value of 0.1173 and maximum value of 0.7598 indicate significant differences in liquidity management strategies. Some funds maintain low liquidity exposure to pursue growth, while others prioritize capital preservation and liquidity. The standard deviation of 0.1657 reflects relatively high dispersion compared to other asset classes. For investment performance, Jensen's Alpha ranged from -0.0915 to 0.0576 , indicating substantial variation in risk-adjusted returns. Some funds significantly underperformed, while others generated positive abnormal returns. The standard deviation of 0.0443 confirms moderate dispersion in performance, reflecting differences in fund management efficiency, cost structures, and asset allocation strategies (Ngunjiri, 2022). For money market funds, the skewness value of 0.5205 indicates moderate positive skewness, while the kurtosis value of -0.4100 reflects a platykurtic distribution, suggesting fewer extreme observations and a relatively flatter distribution. For investment performance, Jensen's Alpha recorded a skewness of -0.0910 , indicating near symmetry, and a kurtosis of -1.2217 , suggesting a platykurtic distribution. This implies that extreme performance outcomes are less frequent and the distribution is relatively flat. Similar findings were reported by Waweru and Kimani (2018), while contrasting evidence from developed markets shows more peaked distributions due to higher performance dispersion (Fama & French, 2010).

Trend Analysis

The study employed trend analysis to examine the direction and pattern of changes in money market fund diversification components and investment performance of mutual funds in Kenya over the period 2015–2024.

Trend Analysis for Money Market Fund

The trend analysis of money market fund investments examines how mutual funds allocate resources to highly liquid, low-risk instruments over time. The results are presented in Figure 4.1

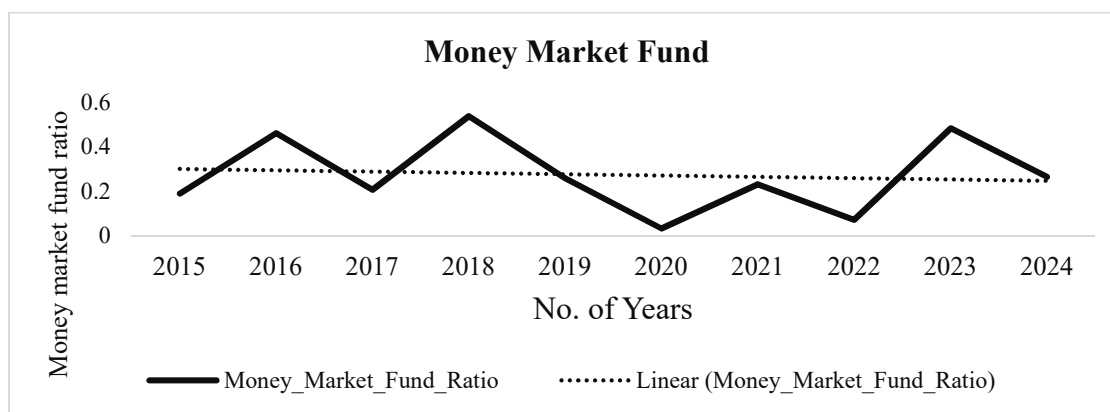


Figure 4.1. Trend Analysis for Money Market Fund

In 2015, the money market fund ratio was relatively low, indicating limited allocation to highly liquid instruments. The ratio increased sharply in 2016, signaling a shift toward liquidity and capital preservation. In 2017, the ratio declined, suggesting reduced reliance on money market funds. The ratio peaked in 2018, marking one of the highest allocations during the period conceding with tightening monetary conditions and subdued equity market performance, leading fund managers to prioritize liquidity and stable returns over capital appreciation. In 2019 and 2020, the ratio declined significantly, suggesting a gradual shift back toward riskier assets as economic conditions and the onset of the COVID-19 pandemic. In 2021, money market fund investments rebounded moderately only to decline again in 2022, reflecting reduced allocations to money market instruments.

A sharp increase in the ratio occurred in 2023, indicating a renewed emphasis on liquidity and capital preservation. In 2024, the ratio declined moderately but remained above early-period levels. Overall, the trend analysis indicates that money market fund investments among Kenyan mutual funds are highly responsive to macroeconomic and market conditions. While such responsiveness enhances short-term stability, it also underscores the trade-off between liquidity and return generation. This reinforces the study's central concern that portfolio diversification, particularly when heavily skewed toward low-risk assets, does not automatically guarantee improved investment performance.

Trend Analysis for Investment Performance

The trend analysis was employed to examine the direction and pattern of changes in investment performance from 2015 to 2024, thereby providing insights into the consistency and sustainability of mutual fund returns. The results are shown in Figure 4.2

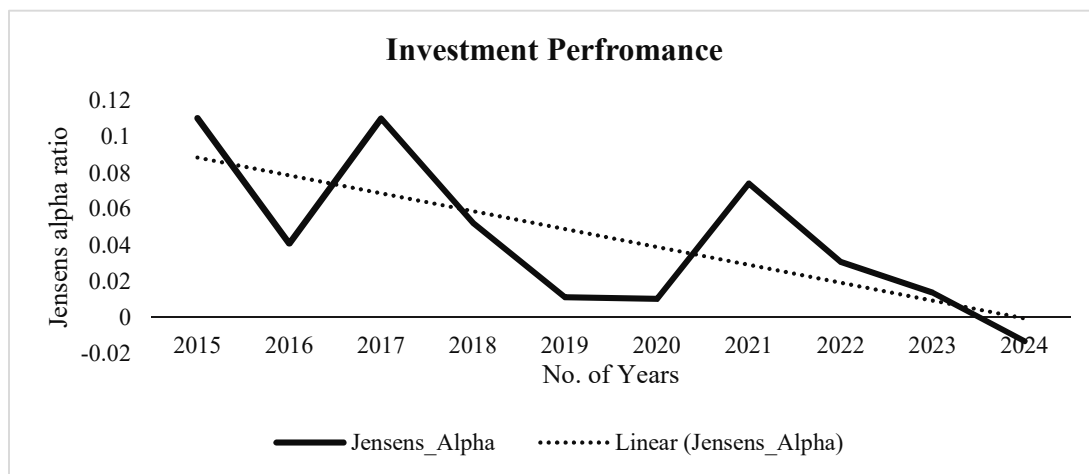


Figure 4.2. Trend Analysis for Investment Performance

In 2015, Jensen's Alpha was relatively high and positive, indicating that mutual funds outperformed the market on a risk-adjusted basis. In 2016, Jensen's Alpha declined sharply, reflecting a deterioration in risk-adjusted performance. The drop suggests that diversification

strategies were less effective in shielding portfolios from market-wide shocks. Investment performance rebounded strongly in 2017, with Jensen's Alpha reaching one of its peak values during the period. This improvement aligns with a recovery in equity markets and improved investor sentiment following relative political stability. In 2018, 2019, and 2020, Jensen's Alpha declined again, signaling weakening investment performance and the severe impact of the COVID-19 pandemic on financial markets. A notable recovery occurred in 2021, but it did not last as it declined once more in 2022 and 2023, reflecting renewed challenges such as global inflationary pressures, tightening monetary policy, and increased interest rates. By 2024, Jensen's Alpha turned marginally negative, indicating overall underperformance relative to the market. This outcome highlights the cumulative effect of prolonged economic uncertainty, elevated interest rates, and structural inefficiencies in portfolio diversification strategies.

The observed trend demonstrates persistent volatility and eventual decline in investment performance, culminating in negative risk-adjusted returns directly justifies the problem statement, which argues that portfolio diversification has not guaranteed superior investment performance among mutual funds. Consequently, the trend analysis underscores the need to empirically examine how individual diversification components influence investment performance, rather than assuming diversification automatically enhances returns. Overall, the trend analysis reveals that while mutual funds occasionally achieve positive abnormal returns, such performance is not sustained over time. The declining linear trend in Jensen's Alpha reinforces concerns regarding the effectiveness of existing portfolio diversification strategies and strengthens the rationale for the regression analysis undertaken in this study.

Inferential Analysis

Inferential analysis was conducted to examine the relationship between money market fund diversification and the investment performance of mutual funds in Kenya.

Correlation Analysis

Correlation analysis was conducted to establish the direction and strength of the relationship between money market fund diversification components and investment performance of mutual funds in Kenya. The results are presented in Table 4.2

Table 4.2: Correlation Matrix

Variables	Investment Performance	Money Market Fund
Investment Performance	1.0000	
Money Market Fund	0.6124	
Sig P Values	0.0001	1.0000
N	400	400

According to Table 4.2, correlation analysis results revealed a strong positive and statistically significant relationship between money market fund diversification and investment performance

($r = 0.6124$, $p = 0.0001$). The positive correlation coefficient indicates that an increase in money market fund diversification is associated with a corresponding increase in the investment performance of mutual funds in Kenya. The findings therefore suggest that money market fund diversification is an important component of portfolio diversification strategies adopted by mutual funds in Kenya. Similar findings were reported by Ochieng and Waweru (2020), who established that money market investments contribute positively to portfolio stability and overall fund performance.

Model Summary

The model summary was used to assess the overall explanatory power of the regression model in determining the effect of money market fund diversification on the investment performance of mutual funds in Kenya. The results are presented in Table 4.3.

Table 4.3: Model Summary

Model	Multiple R	R Square	Adjusted Square	R Std. Error of Estimate
1	0.6124	0.3750	0.3734	0.3734

The model summary results indicate a Multiple Correlation Coefficient (R) of 0.6124, signifying a strong positive relationship between money market fund diversification and the investment performance of mutual funds in Kenya. This suggests that higher allocations to money market fund investments are associated with improved investment performance. The coefficient of determination (R^2) of 0.3750 indicates that money market fund diversification explains approximately 37.50% of the variation in investment performance among mutual funds in Kenya. This finding demonstrates that money market fund diversification is a major determinant of investment performance. However, the remaining 62.50% of the variation is attributable to other factors not included in the model, such as equity fund diversification, bond fund diversification, index fund diversification, fund management expertise, operating efficiency, market conditions, macroeconomic factors, and investment strategies.

The Adjusted R^2 of 0.3734 indicates that after adjusting for the sample size and the number of explanatory variables, approximately 37.34% of the variation in investment performance is explained by money market fund diversification. The small difference between R^2 and Adjusted R^2 suggests that the model is stable and provides a reliable estimate of the relationship between money market fund diversification and investment performance. The standard error of estimate of 0.0342 indicates that the model has relatively low prediction errors, implying that the regression model provides a good fit to the observed data. Overall, the findings demonstrate that money market fund diversification is an important predictor of investment performance among mutual funds in Kenya and therefore warrants further examination through ANOVA and regression coefficient analysis.

Analysis of Variance (ANOVA)

The Analysis of Variance (ANOVA) was conducted to determine whether the regression model provides a statistically significant explanation of the relationship between portfolio fund diversification and investment performance of mutual funds in Kenya. The null hypothesis states that portfolio fund diversification variables have no joint effect on investment performance, while the alternative hypothesis states that at least one of the explanatory variables significantly influences investment performance.

Table 4.12: ANOVA Results

Source of Variation	Sum of Squares	df	Sum of Squares	F	Sig.
Regression	0.2876	1	0.2876	238.30	0.000
Residual	0.4792	398	0.0012		
Total	0.7668	399			

The Analysis of Variance (ANOVA) was conducted to determine whether money market fund diversification significantly predicts the investment performance of mutual funds in Kenya. The ANOVA results revealed an F-statistic of 238.30 with a corresponding p-value of 0.000, which is less than the 0.05 level of significance. This indicates that the regression model is statistically significant and that money market fund diversification significantly explains variations in the investment performance of mutual funds in Kenya. The regression sum of squares of 0.2876 indicates the proportion of the total variation in investment performance explained by money market fund diversification, while the residual sum of squares of 0.4792 represents the unexplained variation attributable to other factors not included in the model. The large F-statistic demonstrates that the regression model provides a substantially better prediction of investment performance than a model without money market fund diversification. The findings imply that money market fund diversification is a significant predictor of investment performance and contributes meaningfully to improving the risk-adjusted returns of mutual funds in Kenya. The results support the Liquidity Preference Theory, which posits that liquid, low-risk investments play an important role in maintaining portfolio stability and enhancing investment performance through efficient liquidity management and capital preservation.

Consequently, the null hypothesis that money market fund diversification has no significant effect on the investment performance of mutual funds in Kenya was rejected. The statistically significant ANOVA results justified proceeding to the regression coefficient analysis to determine the magnitude and direction of the effect of money market fund diversification on investment performance.

Regression Coefficient

Regression analysis was conducted to determine the individual effect of money market fund diversification components on the investment performance of mutual funds in Kenya. The results are presented in Table 4.5.

Table 4.5: Regression Coefficients Results

Variables	Unstandardized Coefficient (β)	Std. Error	t-value	p- value	Lower Bound (95%)	Upper Bound (95%)
Constant	0.0648	0.0189	3.429	0.001	0.0277	0.1146
Bond Fund	0.3586	0.0232	15.437	0.000	0.3129	0.3034

Regression

Model

$$Y_{it}=0.0648+0.3586X_{1it}$$

Where:

Y represent investment performance (Jensen's Alpha)

X_1 represent money market fund diversification

it represents indices for individuals and time

The regression results indicate that the constant coefficient is 0.0648 and is statistically significant ($t = 3.429$, $p = 0.001$). This implies that when money market fund diversification is held constant, mutual funds are expected to record an investment performance of 0.0648 units. The positive constant further suggests that investment performance is also influenced by other factors not included in the model, such as equity fund investments, bond fund investments, index fund investments, managerial expertise, operational efficiency, and prevailing market conditions. The findings further reveal that money market fund diversification has a positive and statistically significant effect on investment performance ($\beta = 0.3586$, $t = 15.437$, $p < 0.05$). This implies that, holding other factors constant, a one-unit increase in money market fund diversification results in a 0.3586-unit increase in the investment performance of mutual funds in Kenya.

The positive coefficient demonstrates that increased allocation to money market instruments enhances portfolio performance by strengthening liquidity management, preserving capital, generating stable returns, and reducing exposure to market volatility. Consequently, the study rejected the null hypothesis that money market fund diversification has no significant effect on the investment performance of mutual funds in Kenya and concluded that money market fund diversification significantly enhances the investment performance of mutual funds in Kenya.

The findings are consistent with the correlation analysis, which established a strong positive relationship between money market fund diversification and investment performance. They also support the Liquidity Preference Theory, which argues that maintaining adequate liquid investments enhances portfolio stability and enables investors to respond effectively to changing market conditions while preserving returns. The findings are consistent with those of Ochieng and Waweru (2020), who established that money market investments contribute positively to the performance of collective investment schemes through effective liquidity management and capital preservation. Similarly, Kamau (2021) found that mutual funds with adequate allocations to money market instruments are better able to withstand market fluctuations and maintain stable returns. Comparable findings were reported by Mutiso (2022), who concluded that money market investments improve portfolio efficiency by providing liquidity and reducing exposure to investment risk.

SUMMARY, CONCLUSIONS, AND RECOMMENDATIONS

This section presents a summary of the study findings, conclusions, and recommendations based on the research objectives.

Summary of Findings

The descriptive findings revealed that money market funds constituted a substantial proportion of mutual fund portfolios, demonstrating their importance in liquidity management and capital preservation. The correlation analysis established a strong positive relationship between money market fund diversification and investment performance, indicating that mutual funds with higher allocations to money market instruments generally recorded superior performance outcomes. The regression results further confirmed that money market fund diversification positively and significantly influences investment performance. The findings suggest that money market investments enhance portfolio performance by improving liquidity management, reducing exposure to market volatility, and ensuring stable returns.

Conclusions of the Study

The findings demonstrate that money market investments contribute significantly to portfolio stability, liquidity enhancement, and capital preservation, which collectively improve risk-adjusted returns. The strong positive effect observed suggests that mutual funds that maintain adequate allocations to money market instruments are better positioned to achieve sustainable performance while minimizing exposure to adverse market fluctuations. The study further concludes that money market investments play a strategic role beyond liquidity management by contributing directly to portfolio performance. Therefore, money market fund diversification should be viewed as an important component of portfolio diversification strategies aimed at enhancing investment performance among mutual funds in Kenya.

Recommendations of the Study

Based on the finding that money market fund diversification positively influences investment performance, the study recommends that mutual fund managers maintain adequate allocations to money market instruments as part of their overall portfolio diversification strategy. Fund managers should strategically utilize money market investments to enhance liquidity management, stabilize portfolio returns, and protect portfolios against short-term market uncertainties. In addition, regulators and industry stakeholders should continue supporting the development of money market products and investor awareness initiatives to encourage effective utilization of money market investments within diversified portfolios.

Areas for Further Research

Future studies should examine the effect of other investment categories such as real estate funds, exchange-traded funds (ETFs), alternative investments, offshore investments, infrastructure funds, and commodity-based investments on mutual fund performance. Such studies would provide a more comprehensive understanding of how different asset classes contribute to portfolio performance. Future research should investigate the moderating or mediating influence of factors such as fund size, fund age, management expertise, operating expenses, portfolio turnover, market timing ability, and corporate governance practices on the relationship between portfolio diversification and investment performance. Such studies would provide deeper insights into the mechanisms through which diversification affects performance.

This study was limited to mutual funds operating in Kenya. Future studies should undertake comparative analyses involving other institutional investors such as pension funds, insurance companies, investment banks, and collective investment schemes. Comparative studies would establish whether the effects of equity fund diversification differ across different types of investment institutions and investment environments. The findings of this study are based on mutual funds operating in Kenya and may therefore be influenced by country-specific market conditions and regulatory frameworks. Future studies should conduct regional or cross-country analyses involving mutual funds operating in East Africa, Africa, or other emerging markets. Such studies would facilitate comparison of diversification strategies across different financial markets and enhance the generalizability of findings.

This study measured investment performance using Jensen's Alpha as a risk-adjusted performance indicator. Future research should utilize alternative performance measures such as the Sharpe Ratio, Treynor Ratio, Information Ratio, Sortino Ratio, and Return on Investment (ROI) to determine whether similar results are obtained under different performance evaluation frameworks. Such studies would enhance the robustness of empirical evidence relating to portfolio diversification and investment performance.

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