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Abstract

Management fee is a critical factor in the performance of money market unit trusts. Investors expect money market unit trust schemes to deliver above-market financial returns, relying on the expertise of professional managers to justify the fees charged. However, many of these schemes struggle to consistently outperform the market, leading to diminished portfolios and missed investment opportunities. This underperformance can be attributed to various factors, including the impact of management fees on net returns. Thus, this study investigated how management fees impact unit trust yields in Kenya. The study employed an explanatory research methodology, utilizing panel data analysis over the period from January 1st, 2013, to December 31st, 2022. Data were collected from secondary sources, including Capital Markets Authority, Central Bank of Kenya, Kenya National Bureau of Statistics, and unit trust performance reports. The findings revealed that management fees significantly influenced the yield of money market unit trusts in Kenya. Higher management fees were associated with lower yields, highlighting the importance of balancing fees and returns. The study found a consistent negative association between management fees and yield across different types of money market unit trusts, with insurance-affiliated funds showing the strongest negative correlation. Regression analysis indicated that a one-unit increase in management fees was associated with a 0.62176 decrease in yield, with management fees explaining 2.90% of the yield variations. Furthermore, inflation directly impacted fund yields and moderated the effect of management fees on yield performance. Based on these findings, the study recommends that fund managers critically examine and optimize their fee structures, balancing operational costs with competitive returns. Regulators should implement policies to promote fee transparency, consider setting guidelines or caps on management fees, and encourage performance-based fee structures. Investors should carefully evaluate fee levels when selecting funds, considering the trade-off between fees and potential yields. The study concludes that efficiency in fund management, rather than higher fee structures, may be key to generating superior yields in Kenyan money market unit trusts.

Keywords: *Management fee, yield of money market unit trusts, Kenya*

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1.0 Background of the Study

Money market unit trusts play an essential role in financial markets by providing investors with a professionally managed, diversified portfolio of short-term, high-quality debt instruments (ICI, 2022). These funds aim to preserve capital while offering liquidity and modest returns, making them popular among both retail and institutional investors seeking a low-risk cash management tool (Cytonn, 2019). The performance of money market unit trusts is typically measured by their yield, which represents the income return on the fund's investments (Ferreira et al., 2012). As key players in the short-term funding markets, money market unit trusts contribute to economic growth by facilitating capital allocation between surplus and deficit sectors (SARB, 2003). Management fees are a crucial aspect of money market unit trusts, as they directly impact the net returns investors receive. These fees, charged by fund managers for their services, can significantly influence a fund's yield and overall performance.

The relationship between management fees and fund yields has been a subject of ongoing debate and research in the financial industry. This is particularly relevant for money market funds, where even small differences in fees can have a substantial impact on relative performance due to the typically low-yield environment in which these funds operate. Globally, the money market unit trust industry has experienced significant growth and evolution. In developed markets like the United States, money market funds represent a substantial portion of the mutual fund industry, with assets totaling \$4.41 trillion as of 2022 (ICI, 2022). This growth underscores the importance of these funds in the global financial ecosystem and highlights the need for a thorough understanding of the factors influencing their performance, including management fees. Research in developed markets has revealed complex relationships between management fees and fund performance.

Gil-Bazo and Martinez (2004) conducted a study on Spanish mutual funds and found that higher fees do not necessarily equate to better performance for investors. This finding challenges the notion that higher fees are justified by superior management skills or better returns. It raises questions about the value proposition of high-fee funds and the extent to which investors should consider fees when making investment decisions. Further evidence on the impact of management fees comes from Babalos (2011), who determined a negative relationship between fees and the performance of Greek equity funds. This study suggests that higher costs can actually detract from unit trust performance, rather than enhance it. While this research focused on equity funds rather than money market funds, it provides valuable insights into the potential impact of fees on fund performance across different fund types.

In the African context, the unit trust industry has shown significant growth potential, albeit with unique challenges and characteristics. South Africa, the continent's most developed market, had 1,789-unit trust funds with \$183.3 billion in assets under management as of 2023 (Asisa, 2023). This substantial market size provides a rich environment for studying the dynamics of unit trust performance and the impact of management fees in an African context. Rensburg and Krige (2018) conducted an important study on South African equity unit trusts, investigating the high cost of active management. They found that the mean active expense ratio was significantly higher than that of passive benchmarks. This finding highlights the potential impact of fees on investor returns and raises questions about the value of active

management in the African context. While this study focused on equity funds, it provides a relevant perspective on the fee structures in African unit trusts and their potential impact on performance.

In Kenya, the unit trust industry has experienced rapid growth, with assets under management reaching KSh 161 billion as of 2022 (CMA, 2022). This growth reflects increasing investor interest in unit trusts as an investment vehicle. However, the industry faces challenges in consistently delivering superior returns to investors. Understanding the role of management fees in fund performance becomes crucial in this context, as it can help investors make informed decisions and potentially lead to improved industry practices. Shano et al. (2009) evaluated the performance of Kenyan equity unit trusts from 2005 to 2009 and found that they did not outperform the market when considering risk-adjusted returns. While this study focused on equity funds rather than money market funds, it raises important questions about the ability of actively managed funds in Kenya to justify their fees through superior performance. This finding underscores the need for a closer examination of the relationship between management fees and fund performance in the Kenyan context, particularly for money market unit trusts.

Nyanamba et al. (2015) conducted a study specifically investigating the factors affecting profitability of unit trusts in Kenya. They reported a negative correlation between expenses and profitability, further emphasizing the impact of costs on fund performance. This finding aligns with international studies and suggests that the relationship between fees and performance observed in developed markets may also hold true in the Kenyan context. However, more research is needed to fully understand this relationship, particularly in the context of money market unit trusts, which operate under different conditions compared to equity or bond funds. Hence, the current study examined the effect of management fee on yield of money market unit trusts in Kenya. This is because the rapid growth of the Kenyan unit trust industry, coupled with challenges in delivering consistent returns, necessitates a deeper understanding of the factors influencing fund performance.

The Kenyan unit trust industry has experienced significant expansion, with assets under management reaching KSh 161 billion as of 2022 (CMA, 2022), highlighting the increasing importance of these investment vehicles in the country's financial landscape. Previous studies have indicated potential issues with fund performance and the impact of fees in the Kenyan context. Shano et al. (2009) found that Kenyan equity unit trusts did not outperform the market on a risk-adjusted basis from 2005 to 2009, raising questions about the value provided by actively managed funds. Furthermore, Nyanamba et al. (2015) reported a negative correlation between expenses and profitability in Kenyan unit trusts, suggesting that higher fees may be detrimental to fund performance. These findings, although not specific to money market funds, underscore the need for a focused examination of the relationship between management fees and yields in the money market segment. This study aimed to fill this knowledge gap and provide insights specific to the Kenyan money market unit trust sector.

1.1 Statement of the Problem

Unit trusts play a crucial role in the financial ecosystem as vehicles for wealth creation and capital mobilization. They offer investors, particularly those with limited capital or investment expertise, access to professionally managed, diversified portfolios at relatively

low costs (ICI, 2022). In Kenya, unit trusts have become increasingly important in deepening the capital markets and providing alternative investment options for both retail and institutional investors (CMA, 2022). Despite their importance, unit trusts in Kenya have consistently underperformed relative to market benchmarks, leading to a decline in investor wealth and trust. An analysis of Kenyan money market unit trust yields from 2016 to 2022 reveals a concerning trend. The average unit trust yield underperformed three of the four key benchmarks during this period. Specifically, while the average yield of money market unit trusts was 8.0%, the 182-day treasury bill and 364-day Treasury bill yielded 8.91% and 9.86% respectively (KNBS, 2022). This persistent underperformance erodes investor assets and challenges the rationale for using active fund managers who are unable to beat passive investment strategies.

Management fees, often cited as a key determinant of net returns, play a crucial role in this underperformance. Previous studies have presented conflicting findings regarding the impact of management fees on fund performance. Babalos (2011) determined a negative relationship between fees and the performance of Greek equity funds, suggesting that higher costs can detract from unit trust performance. However, Lamphun and Wongsurawat (2012) found mixed results in their study of Thai mutual funds, indicating that the relationship between fees and performance may be more complex. In the Kenyan context, Nyanamba et al. (2015) reported a negative correlation between expenses and profitability of unit trusts, further emphasizing the potential impact of costs on fund performance. However, a comprehensive examination of how management fees specifically affect the yields of money market unit trusts in Kenya is lacking.

This gap in understanding is particularly critical given the unique characteristics of money market funds, where even small differences in fees can have a significant impact on relative performance due to the typically low-yield environment in which these funds operate. Thus, this study aimed to fill a critical gap in the understanding of money market unit trust performance in Kenya by comprehensively examining the effect of management fees on fund yields. By focusing on this specific aspect, the research provides a targeted analysis of how fee structures impact fund performance in the Kenyan context. This approach will provide valuable insights for fund managers, investors, and regulators, potentially leading to improved fee structures, more informed investment decisions, and more effective regulatory policies regarding fund fees.

1.2 Objective of the Study

To establish the effect of management fee on yield of money market unit trusts in Kenya

1.3 Research Hypothesis

Ho: Management fee had no significant effect on yield of money market unit trusts in Kenya.

2.0 Literature Review

The literature review was done in sections.

2.1 Theoretical Review

The study was anchored on cost-plus pricing theory, which suggests that firms set prices above marginal costs to cover expenses and generate profits. This theory assumes that pricing

decisions should be based on internal factors, such as production costs, rather than external variables like customer demand or competitor pricing. While it is widely used in industries lacking pricing expertise, it contradicts the neoclassical economic theory, which emphasizes supply and demand as the primary determinants of price. Critics, such as Nagle and Hogan (2006), argue that cost-plus pricing can lead to inefficiencies, underpricing in strong markets, and overpricing in weak ones, potentially limiting a firm's adaptability to market changes. Despite its limitations, the Cost-Plus Pricing Theory remains relevant in certain contexts, particularly where companies lack market power or face limited control over prices. However, it has been criticized for disregarding customer behavior and market dynamics, often resulting in suboptimal pricing strategies. Scholars like Tzokas et al. (2000) and Dolgui and Proth (2010) warn that cost-plus pricing makes companies less flexible and prone to financial losses. In industries with competitive pressures, such as unit trusts, the theory offers valuable insights into how management fees are determined. By focusing on internal costs, it helps explain the pricing mechanisms behind the management fees charged by money market unit trusts, which are central to the study's analysis.

2.2 Empirical Review

Babalos (2011) examined Greek equity funds' policy on expense ratios for 2000–2006. Using multivariate regression analysis they investigated the effect that these costs have on funds flows and unit trust performance and determined that Unit trusts' performance and costs have a negative relationship. The study contradicts Ippolito (1989) who report no connection between performance and expenses. This study will seek to examine this contradiction, using the Kenyan experience. Mbataru (2012) evaluated variables influencing Kenya's unit trust fund performance. The study analyzed the effect of asset growth, expense ratio, size, fund age on performance of 16-unit trust schemes for 2005 – 2011. Using Jensen's model and linear regression analysis, the study concluded that asset increase hinders performance, while expense ratio and fund size had no impact on performance.

Ma et al (2016) assessed the relation between manager compensation and unit trust performance in 3,400-unit trusts in US for 2006–2011. The study used Carhart four-factor model Regression examine how performance-based fees affect unit trust performance and found that Fund Managers with performance-based pay outperform managers without such incentive. The study focus was United States, a first world country which has different compensation structures from the Kenyan market, which is an emerging market devoid of performance compensation structures. Gil Bazo and Martinez (2004) studied the factors influencing mutual funds empirically by examining 1000 unit trusts in Spain for 1999-2001 using cross-sectional regression and found that paying more fees does not result in investors receiving better performance rewards. The study provided static snapshot for 3 years, which might not lend the results to generalization over a longer period.

Lamphun and Wongsurawat (2012) investigated the economic determinants fees and expenses charged by unit trusts. The study used ordinary least squares regression to evaluate 162 Bond, 172 equity and 88 mixed unit trusts in Thailand from 2005 to 2007. The study found that smaller unit trusts charge higher fees, while high performing unit trusts charged lower fees. The study excluded money market funds and was limited by average age of fund of 5 years. This study focus on money market unit trusts over 15 year period. Nyanamba et al (2015) investigated the factors affecting profitability of unit trusts in Kenya. Using

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Multiple linear regression, the study assessed how 19 Kenyan unit trusts' profitability was affected by assets, liquidity, expenses, and liabilities for 2010 – 2014 and found a negative correlation between unit trust profitability and expenses.

Ferreira et al (2012) assessed factors affecting mutual fund performance across 27 countries. The study examined the impact of fund size, family size, age, fees, expenses, flows, prior returns, and management structure on the performance of equity funds in 27 countries between 1997 and 2007 using the Four-factor Regression (Cahart) method and found that equity unit trusts perform worse than the market globally. The study was done on 27 non-African countries on equity unit trusts, making generalization difficult for African unit trusts. The current study will extend the evaluation to money market unit trusts and include Benchmark variable. Oladele (2021) examined the volatility of unit trust returns in Nigeria. Regression analysis was used to assess the fluctuations in the unit trust's performance from 2016 to 2020. The study found an affirmative correlation between the market's portfolio and the unit trust schemes. Study only used net assets value (NAV) as performance measure. This study extends scope to returns (yield) as a measure of performance.

While investigating the high cost of active management in South African equity unit trusts from March 2007 to February 2015, Rensburg and Krige (2018) reported that the comparable mean disclosed for the passive benchmark was less than 150 percent of the mean active expense ratio on the active managed unit trust. The study had scope limitation as it only covered unit trusts sold to individual investors and excluded fund of funds unit trusts. This study will include unit trusts sold to both retail and corporate investors. Loh (2008) simulated returns of a hypothetical portfolio against active and passive unit trusts Singapore from January 1990 to October 2008 using multi-parameter comparative analysis to assess the fee and return relationship in Unit trusts as compared to exchange traded funds (ETFs). The findings revealed that active funds that do not beat benchmark will lose at least 31.2% of their final portfolio value due to its higher fees. The study is consistent with Riddiough and Wiley (2022) who found that the typical unlisted REIT underperforms the public benchmark annually by 6.5%, with fees accounting for 5% of the difference.

2.3 Conceptual framework

Conceptual framework presents the relationship between independent and dependent variable. Figure 1 thus presents the conceptual framework.

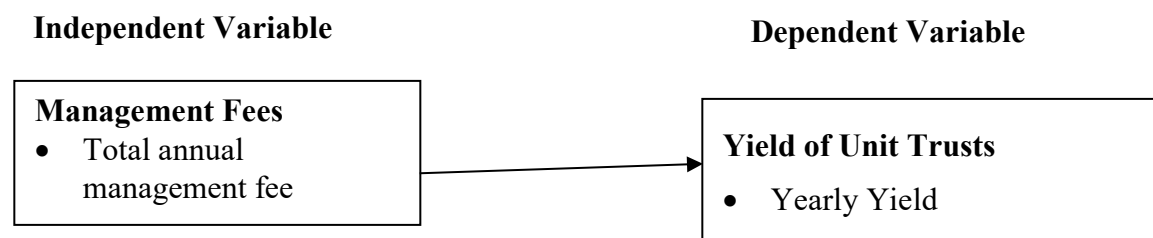


Figure 1: Conceptual framework
 Source: Researcher (2024)

3.0 Research Methodology

The research adopted a positivist philosophy, which focused on developing hypotheses derived from existing theories to objectively analyze the yield of money market unit trusts using quantitative data. This approach enabled the study to maintain an impartial perspective while seeking to understand and test the causal relationship between yield and management fees. An explanatory research design was employed to evaluate these relationships over a 10-year period, from 2013 to 2022, using a panel regression model for detailed analysis. The sampling frame comprised all money market unit trusts licensed by the Capital Market Authority as of December 2022, ensuring a comprehensive evaluation of the industry. Data were collected from reliable secondary sources, including the CMA, KNBS, and CBK websites, through a structured record survey sheet. To analyze the data effectively, the study utilized both descriptive and inferential statistics, employing software tools such as Excel and Stata to organize, analyze, and test hypotheses. This approach allowed for a thorough examination of the relationships between the independent variable and the yield of money market unit trusts. Results were systematically presented using various textual, tabular, and graphical formats to clearly communicate findings and reveal underlying trends, patterns, and outliers within the data.

4.0 Empirical Results, Interpretation

The empirical results and interpretation are presented in sections, beginning with the response rate and descriptive statistics, followed by correlation and regression analyses to explore the relationship between management fees and unit trust yields. The findings are interpreted in the context of Kenyan money market unit trusts, with a focus on how management fees impact yields across different institutional affiliations.

4.1 Response Rate

The study aimed to investigate the effect of institutional affiliation, benchmarks, management fees, and inflation on the yield of money market unit trusts in Kenya over a 10-year period from 2013 to 2022. Out of the 29 money market unit trusts licensed by the Capital Markets Authority as of December 31, 2022, 28 were included in the study, representing a response rate of 96.55%. The high response rate can be attributed to the use of secondary data, which was readily available from reliable sources such as the CMA, CBK, and KNBS websites, as well as the unit trust performance reports. The only exclusion was the Absa Shilling Fund MMF, which had insufficient data for the entire 10-year period. The diverse range of money market unit trusts included in the study ensures that the findings are representative of the entire industry and provide a comprehensive understanding of the factors affecting the yield of these investment vehicles in Kenya.

4.2 Descriptive Statistics

The study examined the descriptive statistics to discuss mean, standard deviation, minimum, and maximum values of the variables. This thorough analysis allowed for a better understanding of the dataset's characteristics, facilitating more accurate predictions and conclusions in the subsequent parts of the study. Table 1 presents the descriptive statistics of yield. By examining these statistical measures, the study aimed to establish a foundational understanding of the yield characteristics across the sector.

Table 1: Descriptive Statistics of Yield

Variable	Mean	Std. Dev.	Min	Max
Yield – Market (Average)	8.8042	2.0435	1.5900	19.1900
Yield – Bank affiliated	8.20949	1.494624	5.18	15.08
Yield – Insurance affiliated	9.080438	1.873675	4.75	18.83
Yield - independent	8.723111	2.381088	1.59	19.19

The descriptive statistics presented in Table 1 provide valuable insights into the yields of money market unit trusts in Kenya, categorized by their institutional affiliation. The overall market yield shows a mean of 8.8042% with a standard deviation of 2.0435%, indicating considerable variability in returns across the sector. This variability suggests that investors face a wide range of potential outcomes when investing in money market unit trusts, highlighting the importance of careful fund selection and the potential for both outperformance and underperformance relative to the market average.

In addition, when examining yields by institutional affiliation, insurance-affiliated funds demonstrate the highest average yield at 9.080438%, followed by independent funds at 8.723111%, and bank-affiliated funds at 8.20949%. This hierarchy of performance suggests that insurance-affiliated funds may possess certain advantages or employ strategies that allow them to generate higher returns compared to their counterparts. The superior performance of insurance-affiliated funds could be attributed to potential synergies with their parent companies, access to specialized market knowledge, or more aggressive investment strategies that leverage the risk management expertise of insurance companies. The relatively lower yield of bank-affiliated funds is noteworthy and may indicate more conservative investment approaches or potential conflicts of interest that could limit their ability to maximize returns for investors.

It was found that while insurance-affiliated funds show the highest average yield, they also exhibit a relatively high standard deviation of 1.873675%, indicating greater variability in their returns. Independent funds show the highest standard deviation at 2.381088%, suggesting they may engage in more diverse or potentially riskier investment strategies in pursuit of higher yields. Bank-affiliated funds, while having the lowest average yield, also show the lowest standard deviation at 1.494624%, potentially indicating a more conservative approach to investment that prioritizes stability over maximizing returns. These differences in yield and variability across institutional affiliations have important implications for investors, as they highlight the trade-offs between potential returns and risk that may be associated with different types of fund affiliations. Investors seeking higher potential returns might be drawn to insurance-affiliated or independent funds, while those prioritizing stability might prefer bank-affiliated funds, despite their lower average yields. Table 2 presents the descriptive statistics of management fee.

Table 2: Descriptive Statistics of Management fee

Variable	Mean	Std. Dev.	Min	Max
Management fee - Market	1.707377	0.4280768	1	2.5
Management fee – Bank affiliated	1.786139	.2862261	1.2	2
Management fee – Insurance affiliated	1.597805	.430515	1	2
Management fee - independent	1.811912	.4455069	1	2.5

The analysis of management fees presented in Table 2 reveals significant variations across different institutional affiliations of money market unit trusts in Kenya. The market average management fee is 1.707377% with a standard deviation of 0.4280768%, indicating a considerable range in fee structures across the industry. This variability in fees suggests that investors face different cost burdens depending on their choice of fund, which can have a substantial impact on net returns over time. Examining the fees by institutional affiliation, independent funds charge the highest average management fee at 1.811912%, followed closely by bank-affiliated funds at 1.786139%, while insurance-affiliated funds charge the lowest at 1.597805%. This fee structure presents an interesting contrast when considered alongside the yield data from Table 2. Insurance-affiliated funds, despite charging the lowest fees, generate the highest average yields, suggesting they may be more efficient in their operations or have access to better investment opportunities. This combination of lower fees and higher yields makes insurance-affiliated funds particularly attractive from an investor's perspective, as it indicates a potential for superior net returns.

Conversely, independent funds charge the highest fees but produce yields lower than insurance-affiliated funds, which may indicate less efficient operations or higher operational costs. The high fees of independent funds could be attributed to the need to cover higher operational costs without the backing of a larger financial institution, or possibly to compensate for lack of economies of scale. Bank-affiliated funds, while charging fees close to those of independent funds, produce the lowest yields, raising questions about the value they provide to investors. These findings have significant implications for both investors and regulators. For investors, they underscore the importance of considering both fees and performance when selecting funds, as higher fees do not necessarily translate to better returns. For regulators, these results may prompt closer scrutiny of fee structures and their justification, particularly in cases where high fees are not accompanied by superior performance.

4.3 Correlation Analysis

Correlation analysis examines the association between independent and dependent variables. The summary of the correlation analysis is presented in Table 3

Table 3: Correlation Analysis (Affiliation-Bank)

	Yield	Management fee
Yield	1.0000	
Management fee	-0.0279	1.0000

The study found that management fees have a consistent negative association with yield across different types of money market unit trusts in Kenya, regardless of their institutional affiliation. For bank-affiliated money market unit trusts, the analysis revealed a negative correlation (-0.0279) between yield and management fees. This finding aligns with the results of Babalos (2011), who identified a negative relationship between fees and performance in Greek equity funds. Although the correlation is relatively weak for bank-affiliated funds, it still suggests that higher management fees may be associated with lower yields, potentially impacting investor returns in the typically low-yield environment of money market funds.

Table 4: Correlation Analysis (Affiliation- Independent)

	Yield	Management fee
Yield	1.0000	
Management fee	-0.0967	1.0000

The study found that independent money market unit trusts exhibited a stronger negative association (-0.0967) between yield and management fees compared to bank-affiliated funds. This result is consistent with the research of Lamphun and Wongsurawat (2012), who observed that smaller unit trusts, which independent funds often are, tend to charge higher fees while high-performing trusts charged lower fees. The more pronounced negative correlation for independent funds could be attributed to factors such as higher operational costs or less efficient economies of scale. This finding underscores the importance of fee structures in the performance of independent money market unit trusts and suggests that investors should carefully consider fee levels when evaluating these funds.

Table 5: Correlation Analysis (Affiliation-Insurance)

	Yield	Management fee
Yield	1.000	
Management fee	-0.174	1.000

The study found that insurance-affiliated money market unit trusts demonstrated the strongest negative association (-0.174) between yield and management fees among all three affiliation types. This finding aligns with the broader trend observed by Nyanamba et al. (2015), who reported a negative association between expenses and profitability in Kenyan unit trusts. The more pronounced negative correlation for insurance-affiliated funds suggests that the impact of management fees on yield is particularly significant for this category of funds. This could be due to various factors, such as different cost structures, investment strategies, or regulatory requirements associated with insurance-affiliated funds. The strong negative association highlights the need for a careful examination of fee structures in insurance-affiliated money market unit trusts and their impact on investor returns.

4.4 Regression Analysis

Regression analysis is a statistical method used to understand the relationship between variables. The regression analysis of management fee and yield is presented in Table 6. This analysis aimed to investigate the relationship between the management fees charged by

money market unit trusts in Kenya and their yield performance. The study sought to quantify the impact of management fees on fund yields, controlling for other relevant factors. By examining this relationship, the research provides insights into whether higher management fees are associated with better or worse yield performance in the Kenyan money market unit trust sector. This analysis is crucial for understanding the value proposition of different fee structures and their impact on investor returns. The results have significant implications for both fund managers and investors.

Table 6: Regression Analysis of Management Fee and Yield

Yield	Coef.	Std. Err.	z	P>z
Management Fee	-0.62176	0.300297	-2.07	0.038
_cons	8.807446	0.32628	26.99	0.000
R square	2.90%			

The R-squared value of 2.90% indicates that management fees alone can explain 2.90% of the changes on the yield of money market unit trusts in Kenya. The study found the coefficient for the management fee variable is -0.62176, with a p-value of 0.038, indicating that the relationship is statistically significant at the 5% level. This negative coefficient implies that higher management fees are associated with lower yields for money market unit trusts. Specifically, the results suggest that a one-unit increase in the management fee is associated with a 0.62176 decrease in the yield of money market unit trusts, holding all other factors constant. The hypothesis (H_0) stated that management fees have no significant effect on the yield of money market unit trusts. The results in Table 6 showed a p-value less than 0.05, leading to the rejection of the null hypothesis. This suggests that management fees have a significant effect on the yield of money market unit trusts in Kenya. The implication of this finding is significant for both fund managers and investors. From a fund manager's perspective, it highlights the importance of carefully balancing the management fees charged to investors with the need to generate attractive yields. Excessive management fees may erode the returns for investors, potentially making the funds less competitive in the market.

For investors, this negative relationship underscores the need to carefully evaluate the management fees charged by different money market unit trusts. While higher fees may be associated with more active management and potentially higher returns in some cases, the findings suggest that, in the context of money market unit trusts in Kenya, higher fees are generally associated with lower yields. Investors should consider the trade-off between management fees and potential yields when selecting their investment options. Hence, the study's findings on management fees provide valuable insights for fund managers and investors alike.

The study results concur with the findings of Babalos (2011) who determined that there is a negative relationship between management fees (expense ratios) and the performance of Greek equity funds, suggesting that higher costs detract from unit trust performance. Mbataru (2012) found that in Kenya, asset growth hindered performance, but expense ratios and fund size did not significantly impact performance. Gil Bazo and Martinez (2004) indicated that higher fees do not necessarily equate to better performance for investors in Spanish mutual funds, reinforcing the idea that simply paying more does not guarantee superior returns.

Lamphun and Wongsurawat (2012) found that smaller unit trusts tend to charge higher fees, while high-performing trusts charged lower fees, suggesting a complex relationship between fund size, performance, and fee levels. Nyanamba et al. (2015) reported a negative correlation between expenses and profitability in Kenyan unit trusts, using return on assets as a performance metric.

5.0 Conclusion

The study concludes that management fees have a significant negative effect on the yield of money market unit trusts in Kenya. This conclusion is derived from the inverse relationship observed between fee levels and fund yields. The consistent negative impact of higher fees on yields suggests that management costs directly erode investor returns. This conclusion challenges the notion that higher fees necessarily lead to better fund performance. Instead, it implies that efficiency in fund management, rather than higher fee structures, may be key to generating superior yields. The conclusion underscores the importance of fee structures in determining the net returns of money market unit trusts and suggests that investors should carefully consider fee levels when selecting funds.

6.0 Recommendations

The study recommends that regulators should implement policies to enhance fee transparency and foster competitive fee structures, which would help investors better understand the costs associated with different funds and make more informed decisions. Regulators should also consider introducing guidelines or caps on management fees to protect investor interests while ensuring fair compensation for fund managers. Additionally, performance-based fee structures should be encouraged to align manager incentives with investor goals. Regular reporting on the relationship between fees and performance would also enable investors to understand the value they are receiving for the fees paid, improving decision-making and overall market transparency. Fund managers should critically examine their fee structures and strive to find an optimal balance between covering operational costs and delivering competitive net returns to investors. This could involve improving operational efficiency, leveraging technology to reduce costs, or adopting performance-based fee structures that better align with investor interests. Managers should also be transparent about their fee structures and provide clear justifications, ensuring that investors understand the value proposition of their funds. Regular fee reviews should be conducted, considering market conditions, fund performance, and competitor pricing. Furthermore, offering different share classes with varying fee structures could cater to diverse investor preferences and needs.

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