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# Portfolio Diversification Practices and Financial Performance of Registered Fund Managers in Kenya

**[1]Kamau Patrick Kahura, [2] Stephene Oloo Magadi, [3] Stella Korir**

*[1,2,3] Faculty of Commerce, School of Business and Economics, Kabarak University*
*Private Bag -20157 Kabarak- Kenya*

**Abstract:** Portfolio diversification has remained an important investment management practice for reducing investment risk and improving financial outcomes. The study examined the relationship between portfolio diversification practices and the financial performance of registered fund managers in Kenya. The study was motivated by the continued growth of Kenya's fund-management industry and the increasing volume of assets managed by professional fund managers, which had heightened the need for effective investment allocation and risk management. The study specifically assessed the effect of portfolio diversification practices on the financial performance of registered fund managers in Kenya. The study was anchored on Modern Portfolio Theory, which emphasized diversification as a strategy for optimizing the relationship between risk and return. The study adopted a positivist research philosophy and a descriptive and correlational research design. The study used a quantitative approach to collect and analyze empirical data. The target population comprised registered fund managers in Kenya, from which respondents were selected using an appropriate sampling procedure. A total of 180 questionnaires were issued, with 160 successfully returned, representing a response rate of 88.9%. Data were collected using structured questionnaires and analyzed using descriptive and inferential statistics. Descriptive analysis involved frequencies, percentages, means, and standard deviations, while inferential analysis employed Pearson correlation and simple linear regression. We conducted hypothesis testing at the 5% level of significance. The descriptive findings indicated that registered fund managers generally adopted portfolio diversification practices, with an overall mean of 3.90 (SD = 1.12). The highest-rated practice was including a wide range of financial instruments to enhance diversification (M = 4.01, SD = 1.10), while regular monitoring and control of portfolio concentration received the lowest mean (M = 3.73, SD = 1.12). Correlation analysis found a strong, statistically significant positive relationship between portfolio diversification practices and financial performance ($r = 0.756$, $p < 0.001$). Regression analysis showed that portfolio diversification explained 57.2% of the variation in financial performance ($R^2 = 0.572$). The regression model was statistically significant ($F(1,158) = 210.759$, $p < 0.001$), while the regression coefficient confirmed a positive and significant effect ($\beta = 0.756$, $t = 14.473$, $p < 0.001$). Consequently, the study rejected the null hypothesis. The study concluded that portfolio diversification practices significantly and positively influenced the financial performance of registered fund managers in Kenya. The study recommended that regulatory authorities strengthen guidelines on portfolio diversification and concentration limits, while fund managers should diversify across asset classes, economic sectors, and financial instruments, and regularly monitor portfolio exposure.

**Keywords:** *Portfolio diversification, financial performance, fund managers, investment management, asset allocation, Kenya.*

## I. Introduction

Investment management has become increasingly important in modern financial systems as institutional and individual investors seek to preserve capital, generate sustainable returns, and manage exposure to changing market conditions. The performance of investment portfolios is influenced by the quality of investment decisions, asset allocation, risk management, and the ability of investment managers to respond to changing economic and financial conditions. In this environment, portfolio diversification remains a fundamental strategy professional investment managers use to balance risk and return. Diversification involves spreading investments across different asset classes, securities, sectors, geographical markets, or investment instruments so that poor performance in one investment does not disproportionately affect the overall portfolio. Recent evidence indicates that diversification can provide important risk-management benefits because investments with different risk and return characteristics may respond differently to market, economic, and

political shocks (Thomas et al., 2022; What explains the benefits of international portfolio diversification? 2023). At the global level, financial markets have become increasingly interconnected, exposing investment portfolios to multiple sources of uncertainty, including inflation, interest-rate movements, exchange-rate fluctuations, geopolitical risks, and market volatility. Consequently, fund managers are required to make strategic decisions regarding the composition and allocation of investment portfolios to achieve competitive risk-adjusted returns. Evidence from international markets shows that diversification can reduce portfolio exposure to individual market risks, with international diversification providing particularly important benefits by mitigating market, political, and inflation risks (What explains the benefits of international portfolio diversification? 2023). Similarly, Thomas et al. (2022) found that investments in frontier markets could enhance the diversification benefits of international portfolios, although such markets may require investors to possess an appropriate risk appetite. These findings show that diversification is not merely a strategy for increasing the number of investments a fund holds but a deliberate approach to constructing portfolios whose constituent investments have complementary risk and return characteristics.

Diversification matters most for professional fund managers because they manage substantial amounts of investors' funds and are expected to make decisions that protect capital while generating acceptable returns. Fund managers therefore play a critical role in allocating pooled resources across investment opportunities and ensuring that portfolios are managed in accordance with specified investment objectives and risk tolerances. In Kenya, collective investment schemes provide investors with professionally managed, diversified investment opportunities and enable those with relatively small amounts of capital to access a range of investment assets (Capital Markets Authority [CMA], 2021). The increasing sophistication of Kenya's investment market has consequently heightened the importance of effective portfolio management and diversification practices among fund managers. The Kenyan investment management industry has also expanded considerably and seen significant product innovation in recent years. The CMA reported that by February 2024, the number of fund managers licensed by the Authority had increased to 41, reflecting growing participation in the fund-management industry. In 2025, the number of CMA-licensed fund managers increased further to 43, while assets under management in collective investment schemes exceeded Sh. 316 billion. This growth has been accompanied by the introduction of new investment products designed to give investors greater choice and diversification. For instance, in 2024, the CMA approved new collective investment schemes and sub-funds covering money-market, fixed-income, equity, multi-asset, global and foreign-currency investments. By July 2025, collective investment schemes had surpassed Sh. 500 billion in assets under management, further demonstrating the growing significance of professional fund management and diversified investment products within Kenya's capital market.

Fund management activity has grown alongside increasing pressure on managers to sustain financial performance. Fund managers operate in an environment where investment returns can vary considerably across asset classes and where concentration in a particular investment may expose portfolios to significant losses. The need to balance risk and return therefore makes portfolio diversification a potentially important determinant of financial performance. Recent Kenyan evidence supports this relationship, although the findings are not entirely consistent. Nyabiba and Kimani (2023), for example, examined portfolio diversification among microfinance institutions in Nairobi County and considered asset-class, risk-profile, income and geographical diversification as dimensions of diversification. Similarly, recent evidence on listed investment firms in Kenya found a strong positive relationship between portfolio diversification and financial performance, suggesting that spreading investments across areas such as bonds, treasury bills, real estate, equities, and mutual funds can contribute to improved performance (Effects of Portfolio Diversification on the Financial Performance of Listed Investment Firms in Kenya, 2025).

Evidence from pension and collective investment sectors also demonstrates the relevance of diversification to financial outcomes. Obwoge (2024), in a study of 119 pension schemes in Kenya covering 2019–2023, found that investment portfolio diversification had a significant positive effect on financial performance. The study reported that diversification, measured using the Herfindahl-Hirschman Index, was positively associated with return on assets, indicating that how investment resources are distributed across portfolio components can meaningfully affect financial outcomes. More recent evidence concerning Kenyan unit trust funds similarly reports a positive effect of investment diversification on financial performance, highlighting the importance of equity, bond, money-market, balanced, and special funds in explaining performance differences among investment funds (Okeyo, 2025). These findings suggest that diversification may help fund managers withstand adverse movements in individual asset classes while maintaining relatively stable returns. Nevertheless, the relationship between diversification and financial performance remains context-dependent. Diversification may reduce unsystematic risk, but excessive diversification can increase management costs, reduce the benefits of specialized investment knowledge, and potentially dilute exposure to high-performing assets. Moreover, diversification's effectiveness can vary with market conditions, asset characteristics, fund size, and the investment strategy managers adopt. Evidence from East African listed investment firms, for instance, found that portfolio diversification had a negative but statistically insignificant effect on financial performance among Kenyan firms during the period examined, while the relationship differed in Uganda and Tanzania (Mwania, 2023). This variation in empirical findings indicates that the effect of diversification cannot be assumed to be uniformly positive and creates a need for further investigation within specific institutional and regulatory contexts.

The Kenyan fund-management sector provides an important setting for examining this relationship because of the increasing volume of assets managed by professional fund managers and the growing range of investment products available to investors. The Retirement Benefits Authority (RBA) reported that assets under management by fund managers increased from Sh. 1,483.37 billion in June 2024 to Sh. 1,714.80 billion by December 2024, representing a 16% increase. However, the industry remained highly concentrated, with the five largest fund managers controlling 91.9% of total assets under management. Such concentration and the increasing scale of assets under professional management make effective portfolio construction and diversification particularly important for both fund-manager sustainability and investor protection.

Against this background, portfolio diversification practices represent an important strategic consideration in determining the financial performance of registered fund managers in Kenya. Although existing studies have examined diversification among investment firms, pension schemes, microfinance institutions, and unit trust funds, relatively little attention has focused specifically on registered fund managers in Kenya as the unit of analysis. Available evidence also varies in the direction and significance of the relationship between diversification and performance. This creates an empirical gap regarding whether and to what extent portfolio diversification practices influence the financial performance of registered fund managers operating within Kenya's evolving investment-management environment. Therefore, this study examines the relationship between portfolio diversification practices and the financial performance of registered fund managers in Kenya, aiming to provide empirical evidence to inform investment-management decisions, regulatory policy, and strategies to improve the sustainability and competitiveness of Kenya's fund-management industry.

**1.1 Statement of the Problem**

The fund-management industry is an important component of Kenya's financial sector because it mobilizes savings and channels investors' funds into various investment opportunities. The industry has grown considerably in recent years, with the number of Capital Markets Authority (CMA)-licensed fund managers reaching 43 in February 2025, while assets under management in collective investment schemes exceeded Sh 316 billion (Capital Markets Authority [CMA], 2025). Similarly, fund managers submitting returns to the Retirement Benefits Authority recorded a 16% increase in assets under management, from Sh. 1.483 trillion in June 2024 to Sh. 1.715 trillion in December 2024. However, the sector remains highly concentrated, with the five largest fund managers controlling 91.9% of total assets under management (Retirement Benefits Authority [RBA], 2025). This concentration raises concerns about investment risk and fund managers' ability to maintain sustainable financial performance through effective portfolio allocation and diversification. Despite growth in assets under management, fund managers operate in an environment marked by market volatility, changing interest rates, inflationary pressures, and differing returns across investment instruments. These conditions make portfolio diversification an important strategy for reducing concentration risk and improving the stability of investment returns. However, diversification does not necessarily guarantee improved financial performance because excessive diversification may increase management costs or dilute investments in high-performing assets. Recent evidence from Kenya presents mixed findings. Okeyo (2025) found that investment diversification positively affected the financial performance of unit trust funds in Kenya, while Kenga and Banafa (2025) also examined the relationship between investment portfolio diversification and financial performance among retirement benefits schemes. More recent evidence has continued to demonstrate the importance of portfolio allocation in explaining differences in investment performance. These mixed outcomes indicate that the effectiveness of diversification may depend on the type of institution, investment strategy, and prevailing market conditions.

Existing empirical evidence, however, has largely focused on unit trust funds, pension schemes, mutual funds, and listed investment firms, rather than registered fund managers as a distinct population. For example, Okeyo (2025) focused on unit trust funds, while Kenga and Banafa (2025) examined retirement benefit schemes. Consequently, empirical evidence remains limited on whether portfolio diversification practices directly influence the financial performance of registered fund managers in Kenya, particularly given the rapid expansion of assets under professional management. This knowledge gap limits fund managers, investors, and regulators from determining whether diversification practices contribute to improved financial outcomes. Therefore, this study assesses the effect of portfolio diversification practices on the financial performance of registered fund managers in Kenya.

**1.2 Objective of the study**

To assess the effect of portfolio diversification practices on the financial performance of registered fund managers in Kenya.

**1.3 Research Hypothesis**

**$H0_1$:** Portfolio diversification practice had no statistically significant effect on the financial performance of registered fund managers in Kenya.

### 1.4 Significance of the study

The study was significant to registered fund managers in Kenya because it provided evidence on how portfolio diversification practices influenced financial performance. The findings enabled fund managers to identify appropriate diversification strategies to manage investment risks and improve returns. The study was also significant for investors because it highlighted the importance of diversification in investment management. The findings enabled investors to better understand how fund managers' diversification practices could influence the performance and sustainability of their investments. The study was useful to regulatory bodies, particularly the Capital Markets Authority (CMA), because the findings provided empirical evidence that could support the development and strengthening of policies and guidelines on portfolio management and diversification among registered fund managers. Finally, the study contributed to academic knowledge and future researchers by providing empirical evidence on the relationship between portfolio diversification practices and financial performance. It also provided a basis for further studies on investment management and fund performance in Kenya.

## II. Literature Review

This section reviewed theoretical and empirical literature on portfolio diversification practices and financial performance of registered fund managers in Kenya. The review drew on Modern Portfolio Theory, which emphasizes diversification as a means of reducing investment risk. Previous studies had reported mixed findings, creating a contextual gap that the study sought to address.

### 2.1 Theoretical Review

#### 2.1.1 Modern Portfolio Theory

Harry Markowitz (1952) advanced Modern Portfolio Theory through his seminal work on portfolio selection. The theory posited that investors could optimize the risk-return trade-off by combining different assets into a portfolio rather than investing in a single asset. Markowitz argued that the risk of a portfolio depended not only on the individual risk of its constituent assets but also on the extent to which their returns moved together. Consequently, selecting assets with low or imperfect correlations could reduce overall portfolio risk while maintaining or improving expected returns. The theory therefore placed portfolio diversification at the centre of rational investment decision-making.

The theory was subsequently advanced through developments in portfolio optimization, particularly the incorporation of more sophisticated measures of risk, asset relationships and investment constraints. Its central principle remained that diversification could reduce unsystematic risk because losses from poorly performing investments could be offset by gains from other investments. However, critics argued that the theory relied on assumptions that were difficult to meet in practice. For instance, the theory assumed that investors made rational decisions, had access to reliable information, and could accurately estimate expected returns, variances, and correlations. In practice, financial markets were characterized by uncertainty, changing correlations, imperfect information, and investor behavioral biases, which could limit the effectiveness of portfolio optimization.

Despite these criticisms, Modern Portfolio Theory remained relevant to investment management because it provided a fundamental framework for understanding diversification's risk-reduction benefits. The theory was particularly relevant to registered fund managers because they allocated investors' funds across different asset classes and securities with varying levels of risk and return. Appropriate diversification could reduce concentration risk and contribute to more stable investment outcomes. The theory was therefore reviewed because it provided a direct theoretical explanation of how portfolio diversification practices could influence financial performance. It specifically supported the study objective of assessing the effect of portfolio diversification practices on the financial performance of registered fund managers in Kenya.

### 2.2 Empirical Review

Portfolio diversification is widely recognized as a key portfolio management practice that affects both risk exposure and return stability, thereby influencing the financial performance of fund management firms. Recent empirical research provides evidence on how diversification practices influence firm-level performance across different market settings. Abdelbadie and Salama (2021) examined the effect of portfolio diversification on the financial performance of registered investment firms in Egypt. The researchers focused on how diversification across assets and sectors affected profitability and risk-adjusted performance. The secondary panel used secondary data; diversification was measured by concentration indices and asset-class spread, and financial performance was measured by return on assets and return on equity. The analyses used fixed-effects regression models. The results showed that greater portfolio diversification strongly improved firms' financial performance by reducing earnings volatility and stabilizing returns.

At the regional level, Menesah, Agyapong, and Premaratne (2023) studied diversification and the performance of investment firms in Africa's emerging and frontier markets. The study collected secondary firm-level data, including annual reports from registered investment and fund management companies. The study used sectoral and asset-class diversification ratios to measure portfolio diversification, and profitability and efficiency indicators to measure financial performance. The analysis used panel regression techniques. The results showed that diversified portfolios were associated with improved financial performance, particularly when market uncertainty was high, suggesting that diversification enhances resilience and earnings sustainability for fund managers.

In the Kenyan context, Muriithi and Waweru (2022) examined the relationship between portfolio diversification and the performance of fund management firms registered with the Capital Markets Authority. The research used secondary data from audited financial and regulatory reports. Asset concentration ratios measured portfolio diversification, while return on assets and operating margin ratios measured financial performance. A multiple regression analysis showed that diversification practices were positively and significantly related to the firm's financial performance. The research concluded that fund managers whose portfolios were well diversified were in better positions to absorb shocks in the market and continue making profits. More recently, Kariuki and Ndungu (2024) analyzed diversification strategies and the financial performance of registered fund managers in Kenya over 2019–2023. The study used secondary panel data, with diversification captured through asset mix dispersion and exposure limits across asset classes. The study measured financial performance using return on equity and earnings stability indicators. The study used panel data analysis and found that portfolio diversification had a significant positive effect on financial performance. However, the study noted diminishing marginal benefits of diversification beyond certain thresholds, especially in relatively concentrated markets such as Kenya's.

Overall, the empirical evidence reviewed suggests that portfolio diversification practices contribute positively to the financial performance of fund management firms by reducing risk concentration and stabilizing earnings. Nevertheless, most studies focus on general investment firms or scheme-level performance, with limited emphasis on registered fund managers as distinct entities. This creates a gap in the Kenyan literature, which the current study addresses by empirically examining how portfolio diversification practices influence the financial performance of registered fund managers in Kenya.

**2.3 Conceptual Framework**

The conceptual framework illustrates the expected relationship between portfolio diversification practices and the financial performance of registered fund managers in Kenya. Portfolio diversification practices represented the independent variable, while financial performance represented the dependent variable. The framework was guided by the reviewed literature and Modern Portfolio Theory, which suggested that effective diversification could reduce investment risk and improve returns.

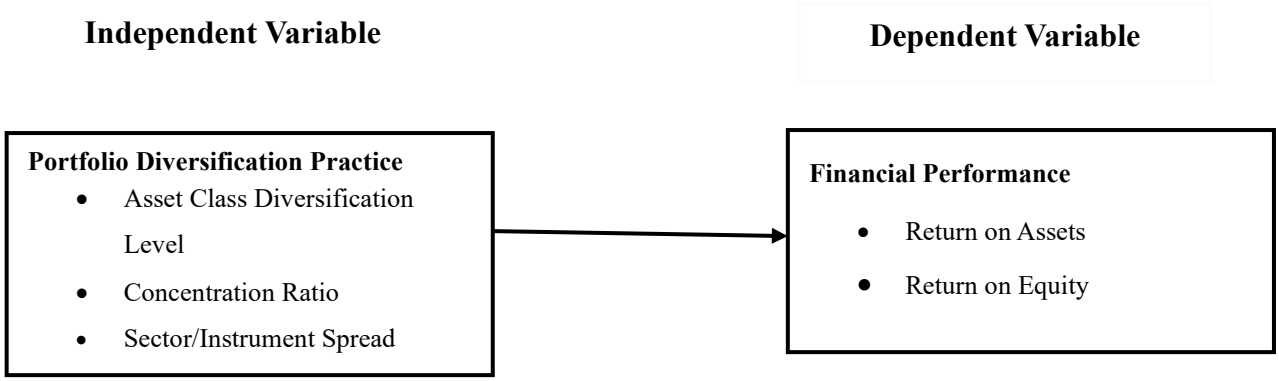



**Figure 1: Conceptual Framework**

## III. Methodology

The study adopted a positivist research philosophy because it sought to objectively examine the relationship between portfolio diversification practices and financial performance using measurable and empirical data. The study adopted a descriptive and correlational research design to describe existing diversification practices and determine their relationship with the financial performance of registered fund managers in Kenya. The study used a quantitative approach, collecting

primary data through structured questionnaires administered to selected respondents from registered fund management firms. The population comprised registered fund managers in Kenya regulated by the Capital Markets Authority (CMA). The study used an appropriate sampling technique to select respondents who were knowledgeable about investment decisions, portfolio management, and financial performance. A structured questionnaire was used as the main data collection instrument. The questionnaire contained statements measured using a five-point Likert scale, ranging from strongly disagree to strongly agree. A pilot study was conducted among respondents who were not included in the final study to assess the clarity, reliability, and suitability of the research instrument. Data collected were coded and analyzed using the Statistical Package for the Social Sciences (SPSS). Descriptive statistics, including frequencies, percentages, means and standard deviations, were used to summarize the data. Inferential statistics involved Pearson correlation analysis and linear regression analysis to establish the relationship and effect of portfolio diversification practices on financial performance. The regression model was specified as:

$$Y = \beta_0 + \beta_1 X_1 + \varepsilon$$

Where:
**Y** = Financial Performance
$\mathbf{X_1}$ = Portfolio Diversification Practices
$\boldsymbol{\beta_0}$ = Constant
$\boldsymbol{\beta_1}$ = Regression coefficient
**ε** = Error term

The significance of the relationship was tested at a 5% level of significance, where a p-value of less than 0.05 led to rejection of the null hypothesis. Diagnostic tests were also undertaken to ensure that the data met the assumptions required for regression analysis. The study observed ethical considerations throughout, including informed consent, confidentiality, voluntary participation, and protection of respondents' information.

## IV. Findings

This section presented the findings on the effect of portfolio diversification practices on the financial performance of registered fund managers in Kenya. The findings were based on data collected from respondents and analyzed using descriptive and inferential statistics. Descriptive statistics summarized the responses using frequencies, percentages, means, and standard deviations, while inferential analysis examined the relationship and effect of portfolio diversification practices on financial performance.

### 4.1Response Rate

The study issued 180 questionnaires to registered fund managers in Kenya. A total of 160 questionnaires were successfully completed and returned, representing a response rate of 89%. According to Mugenda and Mugenda (2019), a response rate of 70% or above is considered very good for statistical analysis. Therefore, the response rate achieved in this study was considered adequate for data analysis and generalization of the study findings.

**Table 1: Response Rate**

| Response Category | Frequency | Percentage (%) |
|---|---|---|
| Questionnaires Returned | 160 | 88.9 |
| Questionnaires Issued | 180 | 100.0 |

Table 1 shows that 160 of the 180 questionnaires issued were completed and returned, yielding a response rate of 89%. This high response rate exceeded the minimum threshold recommended by Mugenda and Mugenda (2019), demonstrating that the data collected were adequate and representative of the target population. Consequently, the responses were considered sufficient for descriptive and inferential statistical analyses, thereby enhancing the reliability and credibility of the study findings.

### 4.2 Descriptive Statistics

Descriptive statistics summarized respondents' views on portfolio diversification practices and financial performance among registered fund managers in Kenya. The analysis presented frequencies, percentages, means, and standard

deviations, providing an overview of the extent to which fund managers applied diversification practices. Respondents were asked to indicate their level of agreement with statements on Portfolio Diversification Practice using a five-point Likert scale, where 1 = Strongly Disagree (SD), 2 = Disagree (D), 3 = Neutral (N), 4 = Agree (A), and 5 = Strongly Agree (SA). Table 2 presents the results.

**Table 2: Descriptive Statistics for Portfolio Diversification Practice (n = 160)**

| Statement | SD n (%) | D n (%) | N n (%) | A n (%) | SA n (%) | Mean | SD |
|---|---|---|---|---|---|---|---|
| Our portfolios are diversified across multiple asset classes to reduce overall risk. | 6 (3.8%) | 16 (10.0%) | 29 (18.1%) | 39 (24.4%) | 70 (43.7%) | 3.94 | 1.16 |
| Investment funds are spread across different asset classes rather than concentrated in one class. | 2 (1.3%) | 18 (11.2%) | 31 (19.4%) | 41 (25.6%) | 68 (42.5%) | 3.97 | 1.08 |
| Asset class diversification is a key consideration in our portfolio construction decisions. | 8 (5.0%) | 11 (6.9%) | 32 (20.0%) | 44 (27.5%) | 65 (40.6%) | 3.91 | 1.16 |
| No single asset or asset class dominates the overall portfolio value. | 5 (3.1%) | 15 (9.4%) | 33 (20.6%) | 38 (23.8%) | 69 (43.1%) | 3.94 | 1.14 |
| The organization sets and adheres to limits on investment concentration. | 9 (5.6%) | 17 (10.6%) | 27 (16.9%) | 40 (25.0%) | 67 (41.9%) | 3.87 | 1.23 |
| Concentration levels in our portfolios are regularly monitored and controlled. | 7 (4.4%) | 19 (11.9%) | 26 (16.2%) | 66 (41.3%) | 42 (26.2%) | 3.73 | 1.12 |
| Investments are distributed across different economic sectors to minimize sector-specific risk. | 3 (1.9%) | 13 (8.1%) | 38 (23.8%) | 63 (39.4%) | 43 (26.9%) | 3.81 | 1.00 |
| Our portfolios include a wide range of financial instruments to enhance diversification. | 4 (2.5%) | 14 (8.8%) | 29 (18.1%) | 42 (26.2%) | 71 (44.4%) | 4.01 | 1.10 |
| Sector and instrument exposure limits are used to guide investment decisions. | 5 (3.1%) | 12 (7.5%) | 34 (21.3%) | 43 (26.9%) | 66 (41.2%) | 3.96 | 1.08 |
| **Overall Mean and S.D** | | | | | | **3.90** | **1.12** |

As shown in Table 2, registered fund managers in Kenya generally adopted portfolio diversification practices. The overall mean score was 3.90 (SD = 1.12), indicating that respondents generally agreed with the statements measuring portfolio diversification. This suggested that fund managers spread investments across different asset classes, sectors, and financial instruments while also applying measures to control investment concentration.

Regarding diversification across multiple asset classes, 70 (43.7%) respondents strongly agreed, and 39 (24.4%) agreed that their portfolios were diversified to reduce overall risk. The statement recorded a mean of 3.94 (SD = 1.16). Similarly, 68 (42.5%) strongly agreed, and 41 (25.6%) agreed that investment funds were spread across different asset classes rather than concentrated in one class, recording a mean of 3.97 (SD = 1.08). This indicated that fund managers commonly spread investments across asset classes.

The findings further showed that diversification was considered during portfolio construction. 65 (40.6%) respondents strongly agreed, and 44 (27.5%) agreed that asset-class diversification was a key consideration, resulting in a mean of 3.91 (SD = 1.16). In addition, 69 (43.1%) strongly agreed, and 38 (23.8%) agreed that no single asset or asset class dominated the overall portfolio. This statement recorded a mean of 3.94 (SD = 1.14), suggesting that fund managers generally maintained balanced portfolios to minimize excessive concentration.

Concentration-control practices were also evident. 67 (41.9%) respondents strongly agreed, and 40 (25.0%) agreed that their organizations established and adhered to limits on investment concentration, with a mean of 3.87 (SD = 1.23). Similarly, 66 (41.3%) agreed, and 42 (26.2%) strongly agreed that portfolio concentration levels were regularly monitored and controlled. However, this statement had the lowest mean (3.73; SD = 1.12), suggesting that although concentration monitoring was practiced, it could be strengthened further.

Sector diversification was also widely practiced, with 63 (39.4%) respondents agreeing and 43 (26.9%) strongly agreeing that investments were distributed across different economic sectors to minimize sector-specific risk. The statement

recorded a mean of 3.81 (SD = 1.00). The highest mean was recorded for including a wide range of financial instruments, with 71 (44.4%) strongly agreeing and 42 (26.2%) agreeing, for a mean of 4.01 (SD = 1.10). This indicated that using different financial instruments was an important diversification practice among the fund managers.

Finally, 66 (41.2%) respondents strongly agreed, and 43 (26.9%) agreed that sector and instrument exposure limits guided investment decisions. The statement recorded a mean of 3.96 (SD = 1.08). Overall, the findings showed that registered fund managers in Kenya generally adopted portfolio diversification practices across asset classes, economic sectors, financial instruments, and concentration limits. The overall mean of 3.90 indicated a relatively high level of adoption, suggesting that diversification was an important component of portfolio management among registered fund managers.

**4.3 Correlation Analysis**

Pearson Product-Moment correlation analysis was conducted to determine the nature and strength of the relationship between portfolio diversification practice and financial performance among registered fund managers in Kenya. The analysis used responses from 160 respondents and a significance level of 0.01. Table 3 presents the results.

**Table 3: Correlation Analysis**

| Variables | Portfolio Diversification Practice | Financial Performance |
|---|---|---|
| Portfolio Diversification Practice | 1 | 0.756** |
| Financial Performance | 0.756** | 1 |
| Sig. (2-tailed) | – | 0.000 |
| **N** | 160 | 160 |

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

Table 3 showed that portfolio diversification practice had a strong, positive, and statistically significant relationship with financial performance (r = 0.756, p = 0.000). This implied that increased application of portfolio diversification practices was associated with improved financial performance among registered fund managers in Kenya. Because the p-value (0.000) was less than the 0.01 significance level, the relationship was statistically significant. The findings therefore suggested that effective diversification across asset classes, sectors, and financial instruments was associated with better financial performance among registered fund managers.

**4.4 Model Summary**

A simple linear regression analysis was conducted to determine the extent to which portfolio diversification practice explained variations in the financial performance of registered fund managers in Kenya. Table 4 presents the model summary.

**Table 4: Regression Model Summary**

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|---|---|---|---|---|
| 1 | 0.756 | 0.572 | 0.569 | 0.676 |

Table 4 showed that the correlation coefficient (R = 0.756) indicated a strong positive relationship between portfolio diversification practice and financial performance. The R-square of 0.572 indicated that portfolio diversification practice explained approximately 57.2% of the variation in financial performance among registered fund managers in Kenya. The remaining 42.8% was explained by other factors not included in the model. The adjusted R-square of 0.569 further indicated that the model maintained a strong explanatory power after adjustment for the number of predictors.

**4.5 Analysis of Variance (ANOVA)**

An Analysis of Variance (ANOVA) was conducted to determine whether the regression model significantly explained the variation in financial performance based on portfolio diversification practice. Table 5 presents the results.

**Table 5: Analysis of Variance (ANOVA)**

| Model | Sum of Squares | df | Mean Square | F | Sig. |
|---|---|---|---|---|---|
| **Regression** | 90.874 | 1 | 90.874 | 210.759 | 0.000 |
| **Residual** | 68.126 | 158 | 0.431 | | |
| **Total** | **159.000** | **159** | | | |

Table 5 showed that the regression model was statistically significant, with $F(1, 158) = 210.759$, $p < 0.001$. This showed that portfolio diversification practice significantly explained variations in the financial performance of registered fund managers in Kenya. Since the significance value was below the 0.05 threshold, the regression model was considered suitable for explaining the relationship between portfolio diversification practice and financial performance.

**4.6 Regression Coefficient**

Regression analysis was conducted to determine the effect of portfolio diversification practice on the financial performance of registered fund managers in Kenya. Table 6 presents the regression coefficients.

**Table 6: Regression Coefficients**

| Model | Unstandardized B | Std. Error | Standardized Beta (β) | t | Sig. |
|---|---|---|---|---|---|
| **(Constant)** | 0.842 | 0.185 | — | 4.551 | 0.000 |
| **Portfolio Diversification Practice** | 0.796 | 0.055 | 0.756 | 14.473 | 0.000 |

Table 6 showed that portfolio diversification practice had a positive and statistically significant effect on financial performance ($\beta = 0.756$, $t = 14.473$, $p < 0.001$). This implied that improved portfolio diversification practice was associated with improved financial performance. The coefficient also indicated that a one-unit increase in portfolio diversification practice was associated with an estimated 0.796-unit increase in financial performance, holding other factors constant.

The regression equation was therefore:

$$\boldsymbol{Y = 0.842 + 0.796X_1 + \varepsilon}$$

Where Y represented financial performance, and $X_1$ represented portfolio diversification practice. The significant p-value of 0.000 confirmed that portfolio diversification practice significantly predicted financial performance among registered fund managers in Kenya.

**4.7 Hypothesis Test Results**

The study tested the null hypothesis to establish whether portfolio diversification practice had a statistically significant effect on the financial performance of registered fund managers in Kenya. The study tested the hypothesis at a 5% level of significance using the regression results presented in the preceding section.

**Table 7: Hypothesis Test Results**

| Hypothesis | β | t-value | p-value | Decision |
|---|---|---|---|---|
| $H_0$: Portfolio diversification practice had no significant effect on the financial performance of registered fund managers in Kenya. | 0.756 | 14.473 | 0.000 | **Reject $H_0$** |

Table 7 showed that portfolio diversification practice had a positive and statistically significant effect on the financial performance of registered fund managers in Kenya ($\beta = 0.756$, $t = 14.473$, $p < 0.001$). Because the p-value (0.000) was less

than the 0.05 significance level, the study rejected the null hypothesis. The study therefore concluded that portfolio diversification practice significantly influenced financial performance. This implied that registered fund managers who adopted effective diversification practices across asset classes, sectors, and financial instruments were more likely to achieve better financial performance.

## V. Summary of Findings

The study examined the effect of portfolio diversification practices on the financial performance of registered fund managers in Kenya. The study issued 180 questionnaires, of which 160 were returned, for a response rate of 88.9%. Descriptive findings showed that registered fund managers generally adopted portfolio diversification practices, with an overall mean of 3.90 (SD = 1.12). The highest-rated practice was including a wide range of financial instruments to enhance diversification (M = 4.01, SD = 1.10), while regular monitoring and control of portfolio concentration had the lowest mean (M = 3.73, SD = 1.12). These findings indicated that fund managers generally diversified investments across asset classes, economic sectors, and financial instruments and used exposure limits to manage concentration risks.

Inferentially, the correlation analysis showed a strong, positive, and statistically significant relationship between portfolio diversification practice and financial performance ($r = 0.756$, $p < 0.001$). Regression analysis further showed that portfolio diversification practice explained 57.2% of the variation in financial performance ($R^2 = 0.572$). The ANOVA results confirmed that the regression model was statistically significant ($F(1,158) = 210.759$, $p < 0.001$). The regression coefficient also showed a positive and significant effect of portfolio diversification practice on financial performance ($\beta = 0.756$, $t = 14.473$, $p < 0.001$). The hypothesis test consequently led to the rejection of the null hypothesis, confirming that portfolio diversification practice had a significant effect on the financial performance of registered fund managers in Kenya.

## VI. Conclusion

The study concluded that portfolio diversification practice significantly and positively influenced the financial performance of registered fund managers in Kenya. The findings demonstrated that diversification across asset classes, sectors and financial instruments, together with appropriate concentration and exposure limits, was associated with improved financial performance. Portfolio diversification was therefore an important investment-management practice for reducing concentration risk and supporting sustainable financial outcomes among registered fund managers.

## VII. Recommendations

### 7.1 Recommendations for Policy

Regulatory authorities, particularly the Capital Markets Authority (CMA), should strengthen guidelines on portfolio diversification and investment concentration among registered fund managers. The guidelines should encourage appropriate diversification across asset classes and economic sectors while requiring effective exposure limits and regular monitoring of concentration risks. Regulators should also strengthen reporting and monitoring requirements to ensure fund managers maintain prudent, well-diversified portfolios.

### 7.2 Recommendations for Practice

Registered fund managers should strengthen portfolio diversification by investing across a wider range of asset classes, sectors, and financial instruments. They should regularly review portfolio concentration levels and establish appropriate exposure limits to minimize risks associated with excessive concentration. Fund managers should also continuously assess market conditions and adjust portfolio allocations accordingly to improve risk-adjusted returns and sustain financial performance.

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