

Asset Allocation And Financial Performance Of Retirement Benefits Funds In Kenya: A Theoretical Review

Victor Ochieng Ochola And Jagongo Ambrose

PhD Fellow In The Department Of Accounting And Finance At Kenyatta University

Associate Professor In The Department Of Accounting And Finance At Kenyatta University

Abstract

The financial performance of Kenyan retirement benefit funds remains a significant issue in ensuring income security for retirees in retirement. The 2023 industry report of the Retirement Benefits Authority highlighted that average returns fell to 1.3% in 2022 from 11.3% in 2021, indicating increased market volatility. The purpose of this study is to investigate how asset allocation affects the financial performance of Retirement Benefits Funds (RBFs) in Kenya by examining the four primary asset classes: term deposits, corporate bonds, equities and government securities. In addition, it will examine how asset allocation and the financial performance of Retirement Benefits Funds (RBFs) in Kenya are related, as well as the moderating influence of fund size. Three main financial theories: Modern Portfolio Theory, Risk Return Trade Off Theory and Liquidity Preference Theory, will be the foundation of the study. The study will use a positivist research methodology framework and analyze secondary panel data across a five-year period, from 2019 to 2024. The audited financial accounts of the pension funds that were filed to the Retirement Benefits Authority (RBA) and the reports of the registered fund managers will be the sources of the financial information. The study will also examine the relative importance of each asset class in relation to financial success, in addition to fund size. The study will include diagnostic tests, descriptive statistics and appropriate inferential procedures to verify the validity and reliability of the findings. It is anticipated that the results will be a useful manual for altering asset allocation plans in Kenya's retirement benefits industry. The study's findings will be very beneficial to fund managers, trustees and regulators and help them understand how to build more stable retirement plans. This would support better financial planning in Kenya's retirement system.

Key Words: *Asset Allocation, Financial Performance, Retirement Benefits Funds, Modern Portfolio Theory, Fund Size.*

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I. Background Of The Study

Pension funds are essential for promoting economic development and protecting pension savings in developing countries like Kenya (RBA, 2022). Despite the continent's expanding pension assets, a variety of legal restrictions, a lack of creative financial products, and restricted investment opportunities have constrained the potential function of pension funds (Twalib & Jilenga, 2024). Despite Kenya's improved governance, there are still barriers to adopting alternative assets to achieve meaningful portfolio diversity. Structural constraints, inconsistent application of investment regulations and varying degrees of trustee competency continue to be the main causes of poor performance, which mostly impacts smaller schemes (Ndung'u, 2022; Wekesa, 2021). The Kenyan pension sector serves as evidence that institutions operating under broad and well-managed investment regimes outperform those that are more limited or stagnant (Muriuki, 2023).

Combining fixed stocks, bonds and alternative assets reduces the impact of market volatility and liquidity shortages while simultaneously increasing the possibility of larger returns (Otieno, 2022). To increase the schemes' potential longevity and financial performance, it is crucial that the asset distribution rules of the funds accurately reflect the long-term goals of the schemes and the state of the market. One of the main determinants of retirement benefit plans' financial results is how they distribute assets among investment categories. Asset allocation affects both the expected returns and the level of risk to which the fund is exposed, as seen through the lens of portfolio risk, which clarifies the ambiguity around those decisions (Nyabuto, 2022). Fund size significantly affects the relationship between asset allocation and financial performance; larger pension plans have more access to market possibilities and a bigger variety of diversification alternatives, whereas smaller funds are often limited by scale (Wanjohi & Kariuki, 2021).

According to the Thinking Ahead Institute, the global value of pension funds is expected to reach \$55 trillion by 2024. However, there are still noticeable variations in fund performance, mostly because different asset allocation strategies are employed in different regions. The importance of portfolio structure in lowering risk and producing consistent long-term returns is shown by these discrepancies. Although a cautious asset allocation is used to lessen the negative effects, the study by Kandie, Macheru and Osoro (2023) found that shifts in macroeconomic variables like volatility significantly affect the financial outcomes for the Eastern African region. These findings further highlight the importance of asset allocation in comprehending fund performance and give Kenya's retirement benefits industry even more incentive to research it. In the Kenyan context, Weru, Kithinji and Mutegi (2024) found that strategic cross-sector diversification is associated with improved pension fund performance, particularly in adapting to business cycle fluctuations.

Statement of Problem

The financial performance of retirement benefit funds in Kenya has become a critical issue, especially as pension liabilities continue to increase faster than assets. The Retirement Benefits Authority (2021) has indicated that this situation is mainly caused by the fact that people are living longer, which has increased the long, term commitments of pension schemes. While some sectors have witnessed corporate growth, quasi, government organizations have generally failed to properly fund their pension obligations or have suddenly stopped the payments, thus, destabilizing the industry. The COVID, 19 pandemic and other global shocks have escalated the levels of market uncertainty and put into question the sectors capacity to generate stable performance over time (Feher & de Bidegain, 2020). In addition, these problems have been further intensified by poor investment choices and excessive dependence on one or two asset classes, resulting in reduced portfolio resilience.

Some governance related shortcomings have also aggravated the problems of the sector. However, cases such as the misappropriation of employer contributions, political interference by trustees, pension fund assets not getting enough investment, delayed payment to members and corruption cases have led to the loss of pensioners' funds (Njeri, Mburu, & Kamau, 2024). Such episodes reveal the sharp vulnerabilities in the governance and oversight of pension funds, thus emphasizing the necessity for tighter regulations as a buffer to shield the contributors and beneficiaries.

The Retirement Benefits Authority Industry Report (2023) has data that illustrates fluctuations in the Return on Assets (ROA) of retirement benefit funds over time. The average ROA was 5.2% in 2021, it then dropped to 4.1% in 2022 due to inflationary pressures, stock market volatility, and poor diversification strategies. In 2023, the ROA bounced back slightly to 4.7%, thus showing a sector which is resilient but at the same time vulnerable to external shocks and suffers from poor governance (Retirement Benefits Authority, 2023). The variable trend essentially points to the fact that pension funds have grown in nominal terms, however, their efficiency and profitability, which is measured by ROA, are still erratic and susceptible to both internal inefficiencies and macroeconomic instability. Against this backdrop, this study seeks to investigate the effect of asset allocation on the financial performance of retirement benefit funds in Kenya.

Objectives of the Study

The study will be guided by one general objective and five specific objectives

General Objectives of the Study

The study seeks to investigate the effect of asset allocation on the financial performance of retirement benefits funds in Kenya

Specific Objectives of the Study

The specific objectives of the study will be:

- i. To determine the effect of term deposits on financial performance of Retirement Benefits Funds in Kenya
- ii. To determine the effect of corporate bonds on financial performance of Retirement Benefits Funds in Kenya
- iii. To establish the effect of equity on financial performance of Retirement Benefits Funds in Kenya
- iv. To determine the effect of government securities on financial performance of Retirement Benefits Funds in Kenya
- v. To establish the moderating effect of fund size on the relationship between asset allocation and financial performance of Retirement Benefits Funds in Kenya

Research Hypotheses

The study will seek to test the following null hypotheses:

H₀₁: Term deposits have no significant effect on financial performance of Retirement Benefits Funds in Kenya

H₀₂: Corporate bonds have no significant effect on financial performance of Retirement Benefits Funds in Kenya

H₀₃: Equity has no significant effect on financial performance of Retirement Benefits Funds in Kenya

H04: Government securities have no significant effect on financial performance of Retirement Benefits Funds in Kenya

H05: Fund size has no significant moderating effect on the relationship between asset allocation and financial performance of Retirement Benefits Funds in Kenya

Scope of the Study

The primary emphasis of this study is how asset allocation affects Kenyan retirement benefit funds' financial performance. It mostly explores the four main asset classes of government securities, corporate bonds, equities and term deposits in addition to taking into account the moderating impact of fund size. Fund management reports and audited financial statements covering the years 2019 to 2024 are the study's main sources. In addition to offering insights that can be applied to more general discussions regarding pension fund administration, the study's focus on the Kenyan pension sector guarantees that its conclusions are directly applicable to the nation's institutional and regulatory structure.

Significance of the Study

Several stakeholders in the retirement benefits industry may find value in the research. It assists fund managers in risk, liquidity, and performance management by demonstrating to them the influence of different investment strategies on returns. The findings could be applicable to trustees and regulators, particularly the Retirement Benefits Authority, to refine the criteria of investing and solidify governance structures. The research moves beyond mere governance or compliance to concentrate on asset allocation dynamics and thereby, fills the scholarly gaps in pension literature. In a broader sense, through the provision of practical recommendations which safeguard the participants' funds and enhance long, term financial stability, the research nurtures the viability of retirement systems.

Organization of the Study

The paper is structured to facilitate understanding and provide a logical flow of ideas. Among the first sections are the declaration, dedication, acknowledgements, and abstract, which briefly outline the research problem, objectives, and methods. Chapter one presents the study's setting, problem formulation, objectives, hypotheses, scope, importance, limitations, and structure. Chapter two, using the Modern Portfolio Theory, Risk, Return Trade, Off Theory and Liquidity Preference Theory as examples, discusses theoretical and empirical literature and locates the study in the framework of previous research.

II. Literature Review

Theoretical Literature Review

This section outlines the theoretical frameworks that guide the relationship between asset allocation and financial performance, drawing on Modern Portfolio Theory, Risk–Return Trade-Off Theory and Liquidity Preference Theory.

Modern Portfolio Theory

Modern Portfolio Theory (MPT), introduced by Markowitz (1952), provides a foundational structure for understanding how retirement pension plans develop their investment approaches. MPT posits that by organizing assets in a particular manner, investors can achieve the highest possible return for any level of risk they undertake, or conversely, minimize risk for a specific target return, thereby ensuring optimal returns. The central tenet of MPT is diversification. The theory suggests that the overall risk or fluctuation of an investment portfolio is determined by the correlation between its individual assets.

This theoretical concept is evident in Kenya through the regulatory guidelines issued by the Retirement Benefits Authority, which mandate portfolio diversification and the development of Investment Policy Statements as essential elements of sound fund management. Despite facing critiques for its assumptions of investor rationality and its disregard for practical constraints such as transaction expenses, MPT remains a valuable tool for determining the allocation of real assets within regulated pension funds. This study employs an MPT framework to investigate the impact of various asset allocations on the financial performance of retirement benefit funds, particularly in contexts where risk is a significant consideration.

Atandi and Bosire (2023) contributed to the ongoing discourse on Modern Portfolio Theory by examining the extent to which company-specific factors influence the financial resilience of pension schemes in Kenya. Their research, utilizing survey data and econometric models, identified governance quality, organizational size, and adherence to regulations as key determinants of a pension fund's capacity to absorb financial shocks. Their findings indicated that pension plans with robust governance structures and those that adhered to investment guidelines set by the Retirement.

Risk-Return Trade-Off Theory

The fundamental principles of risk-return trade-off theory are established by the work of Samuelson (1969) and Merton (1971) concerning high-yield bonds. Modern investors seek returns that are commensurate with the risks involved, primarily due to concerns about overpaying for assets, which could jeopardize their financial security. Consequently, individuals remain amenable to taking on risk over extended periods, provided that anticipated returns adequately reflect the associated volatility. This theory is universally applicable, even though distinct markets exist for managing retirement funds, where stable member growth and the long-term preservation of benefits are paramount.

Empirical investigations into risk-taking behaviors, such as those by Schultz and Turner (2014), also lend support to such investment strategies. Nevertheless, it is important to acknowledge that market dynamics and the specific asset composition of a pension fund significantly influence its performance.

Liquidity Preference Theory

Keynes (1936) first proposed the liquidity preference theory, which posits that because investors prioritize liquidity, they require compensation for investing in assets that are not easily converted to cash. This preference arises from various needs, including the transaction motive, precautionary motives and speculative motives. The theory offers valuable insights for pension fund management, guiding individuals in establishing the optimal portfolio liquidity to meet both long-term investment objectives and pressing cash requirements. Given that pension plans inherently generate future obligations, it is vital for fund managers to select assets capable of satisfying these demands as they emerge.

Contemporary research by Broeders et al. (2023) and Mwangi and Karanja (2022) indicated that liquidity limitations significantly influence asset allocation decisions, particularly when contrasting short-term assets like government bonds and deposits with longer-term or less liquid investments such as infrastructure or private equity. In Kenya, legal limitations on investments in illiquid asset classes impede the achievement of diversification and optimal returns. Nevertheless, liquidity preference remains a pivotal consideration in portfolio construction, necessitating a balance between long-term appreciation and immediate cash availability. A notable absence of empirical investigations into the actual impact of liquidity preferences within the current East African regulatory landscape is evident. This study aims to address this empirical deficiency.

Empirical Literature Review

This section focuses on how different investing plans impact fund outcomes in diverse domestic and international contexts and critically evaluates empirical research addressing the relationship between investment allocation decisions and the financial performance of retirement benefit funds.

Retirement Benefits Funds in Kenya

Kariuki, Otieno and Jagongo (2025) undertook an investigation into the efficacy and sustainability of retirement benefit funds within the Kenyan context. This research adopted a quantitative methodology and was primarily based on secondary data derived from the audited financial statements of authorized retirement benefit schemes, in conjunction with reports issued by the Retirement Benefits Authority. Employing regression analysis, the study aimed to ascertain the correlation between fund investment allocations, specifically in government securities, equities and fixed income instruments and overall performance metrics of the funds such as returns on investment and sustainability ratios. The results showed that retirement benefits funds yield higher returns when the investments are diversified. In contrast, over-dependence on equities results in fluctuations, which have an adverse effect on the stability of the fund in the short run. Moreover, the research highlighted that issues such as pension adequacy, delayed contributions, and governance gaps hinder the sustainability of the fund.

Weru, Kithinji and Mutegi (2024) analyzed information from surveys and regulatory documents to explore sectoral diversification and its effects on pension returns. The research was limited by a lack of asset-type breakdown and did not investigate how diversification influences fund outcomes, despite confirming the advantages of multi-sector investment approaches. By categorizing investments at the asset class level and assessing the performance model through the lenses of scheme size and portfolio risk, this study addresses these limitations.

In a similar vein, Ondieki (2022) explored how regulatory compliance influences the relationship between pension fund characteristics; such as scheme type, size and asset allocation and financial performance. Utilizing a decade's worth of archival data, this study provided valuable insights into structural factors but adopted a broad perspective on asset allocation, neglecting mediation effects. By modeling specific asset class compositions and assessing how fund size and portfolio risk impact financial outcomes within Kenyan pension plans, the current research enhances this approach.

Akwimbi, Ochieng, Lishenga and Ogutu (2024) conducted a study on the determinants of pension fund performance in Kenya from 2012 to 2020. They utilized panel regression analysis to accommodate both cross sectional and time series variations. Their research primarily revolved around the structures of corporate governance and the prevailing macroeconomic conditions. Results showed that the governance mechanisms, board independence, accountability and transparency, not only greatly enhanced fund efficiency and reduced agency conflicts but also led to more robust financial results. In addition to governance, the research brought out the effect of macroeconomic factors such as inflation, interest rates and GDP growth. It was found that inflation impairs the real returns of investments, whereas stable interest rates and a growing economy help the expansion of the funds' portfolios. The study emphasized that the performance of pension funds does not depend only on the decisions related to asset allocation but is also affected by the governance quality and the ability to respond to the macroeconomic environment.

Asset Allocation and Financial Performance

The performance and asset allocation of portfolios made from Kenyan unit trust funds were examined by Njoroge (2024). Financial products such shares, Treasury securities, fixed deposits, and real estate were the study's main focus. Government securities and scheme size were determined to have positive benefits using time series data from 2018 to 2022. However, the researcher's examination did not center on the pension funds. By including intermediary mechanisms into the asset allocation framework utilized in the pension market, the current study investigates the effects of fund size and portfolio risk on performance results.

Ouma (2022) compared the asset allocation techniques of pension plans by looking at five categories: integrated, liability-driven, strategic, and dynamic. In order to identify the primary allocation styles, the study employed factor analysis, taking into consideration primary data obtained from fund managers through structured questionnaires. Although the study was helpful in identifying tendencies in decision-making, it did not explicitly link these strategies to financial performance outcomes. But a quantitative model will be used in the current study.

Ochieng and Mwenda (2022) investigated asset allocation and the financial performance of retirement funds in Kenya using data from 40 funds. Their analysis claims that performance is actually controlled by quadrant decisions that divide factors between two asset classes. However, the transfer of risk was not examined in this investigation. By assessing how portfolio risk mediates outcomes and interacts with asset allocation, the current study will take things a step further.

Term Deposits and Financial Performance

The association between bank deposits and the financial performance of Kenyan deposit-taking institutions was investigated by Wanjiru, Jagongo and Muchira (2024). The study, which took a quantitative approach, was supported by regulatory reports from the SACCO Societies Regulatory Authority and the Central Bank of Kenya. It also employed secondary data from the audited financial accounts of deposit-taking SACCOs. To ascertain whether deposit levels and financial performance metrics like return on equity and return on assets were related, regression analysis was used. The findings demonstrated that greater deposit mobilization significantly enhanced financial performance, liquidity, and capital adequacy. Conversely, institutions with a small deposit base were less profitable and more vulnerable to financial problems.

Ngware and Muluka (2024) investigated deposit compositions and regulatory control in Kenya's commercial banking sector and discovered that a variety of deposit techniques are indicative of improved financial outcomes. The analysis was still limited, though. The current study will investigate how internal allocation strategies mediate or attenuate effects by using this type of diversification paradigm to pension funds.

García and Morales (2020) assessed the makeup of deposit portfolios in the Spanish banking sector and their effect on financial performance. Their findings showed a correlation between time and savings deposits that leads to improved financial stability and cost effectiveness. Although instructive, the study is restricted to banking institutions and solely concentrates on deposit structure. With a focus on retirement benefit plans, the current study attempts to examine how asset variety affects fund performance through the mediation of portfolio risk.

In order to investigate how different deposit categories affect the profitability of Sharia-compliant banking institutions, Abdullah and Khan (2021) conducted a study on the deposit structure and financial performance of Islamic banks in Pakistan. The study included 15 Islamic banks and used panel data spanning a ten-year period from 2010 to 2019. The authors examined the effects of current savings and fixed deposits on financial performance as determined by Return on Equity and Return on Assets using panel regression models. The results demonstrated that savings and current deposits significantly increased profitability, whereas fixed deposits had no discernible impact. This finding was explained by the profit-sharing principles that are central to Islamic finance. Investment portfolios and internal fund-level risks were not included in this analysis, despite the fact that it provided insightful information about deposit dynamics under Islamic banking rules. Building on this, the current study models how risk exposure and institutional scale influence financial results and assesses asset allocation across investment classes inside pension funds.

Corporate Bonds and Financial Performance

The effect of corporate bonds on the financial performance of companies whose shares are listed on the Nairobi Securities Exchange was examined by Omware, Atheru and Jagongo (2020). They used a quantitative research approach and gathered secondary data from the Nairobi Securities Exchange (NSE), the Central Bank of Kenya, and the listed companies' financial statements. The impact of corporate bond issuance on return on equity (ROE) and return on assets (ROA) was examined using regression analysis. The results showed that effective debt management and corporate bond issuance improved the company's liquidity and business continuity, which in turn led to better financial performance.

The impact of corporate bond allocations on US pension fund performance was examined by Smith and Anderson (2021). They found a positive correlation between bond holding ratios and risk-adjusted returns, but that during those periods, increased credit risk due to economic downdrafts increased return volatility. Although they emphasized the importance of tactical allocation, their study only looked at one asset class. The current analysis takes one step further by looking at a diverse-volume asset allocation model and accounting for fund size moderating effects and risk mediation.

In their study on Corporate Bond Exposure and Mutual Fund Performance in European Markets, Müller and Schmidt (2022) investigated the effects of different levels of corporate bond investment on mutual fund return and volatility outcomes. The study used a fixed-effects regression model to analyze the performance effects of bond allocations using data from 450 mutual funds from 2012 to 2021. The findings showed that funds with a moderate exposure to corporate bonds performed better than those with a large concentration in government securities or stocks. Overall risk-adjusted returns were increased by the bonds' consistent income streams and greater diversification. Overexposure to lower-rated corporate bonds, especially during market downturns, could increase default risk, the report warned. Although this study advances our knowledge of bond-driven diversification, it ignores fund-level features like scale or risk structures unique to a certain portfolio. To explain differences in financial performance, the current study, on the other hand, goes beyond single-asset analysis to model multi-asset allocation within pension funds and incorporates internal risk pathways and size dynamics.

In a study titled on the Impact of Government Bond rates on Pension Fund Investment Returns in Europe, Smith and Johnson (2023) examined the effects of falling government bond rates on pension funds' overall investment performance. A sample of 100 pension funds was chosen for statistical analysis from data spanning 500 pension funds throughout Europe between 2016 and 2021. The study discovered a negative relationship between declining bond rates and fund performance using multiple linear regression approaches. The study was limited to yield fluctuations without analyzing internal fund characteristics or risk pathways, even if the findings highlight the influence of fixed income markets on fund performance. The current study, on the other hand, broadens the analytical focus by looking at particular asset class allocations within Kenyan pension plans and evaluating the moderating effect of fund size.

Equity and Financial Performance

The effect of equity investments on the financial performance of Kenyan listed investment firms was investigated by Kimorop, Jagongo and Waweru (2024). The significance of strategic allocation choices was highlighted by the study's finding of a statistically significant correlation between business performance and equity asset allocation. Accordingly, the current study will not only improve comparability but also adhere to data-driven research methodologies, which will result in asset allocation guidelines for retirement benefit funds that are more precise and supported by evidence.

The research study focused on the average length of equity ownership in Dutch pension funds and its relationship to long-term performance (Vermeulen, De Jong & Bakker, 2022). The authors hypothesized that extended stock ownership did not significantly impact performance outcomes, despite the fact that the evidence might not be applicable elsewhere. Aside from that, the paper mostly addressed risk horizon, but it utterly ignored the degree of investment allocation and developing market integration. By examining the asset class composition and performance in the Kenyan pension market, the current article seeks to close these discrepancies.

Garcia, Lopez and Martins (2023) examined how the stock and bond markets impacted pension fund returns in Europe while gathering secondary data from the European Pension Fund Association. According to their findings, the bond market had a major impact on the funds' performance, while the stock market had a minor effect. However, neither the internal features of specific funds nor the asset distribution within large asset classes were taken into account in this study. By examining Kenyan pension plans' internal asset allocation choices and how they relate to fund size, the current study advances this field.

Government Securities and Financial Performance

Otieno, Mwangi and Jagongo (2025) investigated the effects of government securities on Kenyan commercial banks' financial results. Using a quantitative study approach, the researchers gathered secondary data from the Central Bank of Kenya's records and the audited financial statements of the commercial banks listed on

the Nairobi Securities Exchange. The impact of government securities holdings on financial performance as determined by return on equity (ROE) and return on assets (ROA) was examined using regression analysis. The findings showed that government securities had a substantial effect on financial performance by guaranteeing consistent returns, boosting liquidity, and reducing the risk associated with owning high-risk assets. Nonetheless, the research warned that too much dependence on government securities might limit banks growth, as it could result in reduced lending to the private sector.

In their analysis, Kenga, Banafa and Ali (2023) investigated how bond diversification might affect Kenyan pension plans' performance after adjusting for the moderating impact of exchange rate movements. They chose 72 pension plans for their analysis using stratified random sampling. The findings demonstrated that bond investment diversity improves financial performance, especially when taking exchange rate swings into account. However, the study only looked at bond investments, utterly ignoring the rest of the investment mix. By examining wide multi-asset allocation and including fund size in its methodology, the current study aims to close that gap.

In a study titled *Impact of Government Bond Yields on Pension Fund Investment Returns in Europe*, Smith and Johnson (2023) looked at how lower government bond yields affect pension funds' overall investment performance. Data from 500 pension funds in Europe between 2016 and 2021 served as the basis for the study, of which 100 funds underwent statistical analysis. The study found a negative correlation between dropping bond yields and fund performance using multiple linear regression models. The study primarily examined yield movements and ignored internal fund characteristics and risk mechanisms, despite the fact that the data demonstrate the impact of fixed income markets on fund performance. On the other hand, the present research broadens the scope of the analysis by investigating the asset class allocations of Kenyan pension schemes and assessing the moderating effect of fund size.

In research titled *Determinants of Pension Fund Financial Performance in Kenya*, Kamau (2023) examined the impact of different investment choices made by pension plans as well as how stakeholders' perspectives impact the schemes' results. Three main factors: investment in government securities, listed stocks, and guaranteed funds and their effects on the pension fund's financial performance were the focus of the study. A qualitative instrument was also utilized to collect feedback from stakeholders in the pension sector. The study methodologies used to give a deeper knowledge of the performance driving elements included both objective financial data and perceptual analysis. The findings showed that only a small portion of the variability in fund returns could be explained by the statistically selected investment routes, suggesting that other factors may be at play. The study covered a topic that had not been adequately covered in the literature before by fusing stakeholder perspectives with financial data. Nevertheless, it did not include institutional features or internal risk variables that could serve as moderating variables in the model. By incorporating investment allocation and fund size as a single case, the publication explores the existing research of pension fund performance making a comprehensive analysis of the efficiency and performance determinants.

Asset Allocation, Fund Size and Financial Performance

Mwangi and Wambua (2022) examined the connection between fund size and pension plan performance in Kenya. Their data showed that, generally speaking, medium-sized funds performed better than either smaller or larger funds. This implies a cutoff point for economies of scale. Nevertheless, size effects within an interaction model were not examined in this study. Therefore, this issue is taken into consideration in the current research, which treats fund size as a moderating variable in the relationship between financial performance and asset allocation.

Nyabuto (2022) examined the impact of scheme size, fund liquidity, and portfolio diversification on the disposal voices of pension funds using panel data from 2017 to 2021. Multiple regression analysis was used in the study, and the findings showed that diversity and liquidity had a beneficial effect on fund performance even though the fund size outcomes were not always consistent. Nevertheless, the model does not address portfolio risk, which serves as a mediating variable between real fund returns and those predicted from mean variance analysis, or how portfolio-based risk mechanisms affect the observed connections. The current study expands on this strategy by using fund size as a moderating variable.

Chen and Park (2024) investigated the connection between developing market financial performance and fund size. Although scale benefits can be attained by larger funds, they pointed out that this does not always equate to higher returns. Their research emphasized the importance of fund management quality, despite the fact that it did not address internal allocation patterns. The current study will investigate how fund size affects how asset allocation techniques affect Kenyan pension fund performance based on this view of the effect of fund size.

Conceptual Framework
Independent Variables

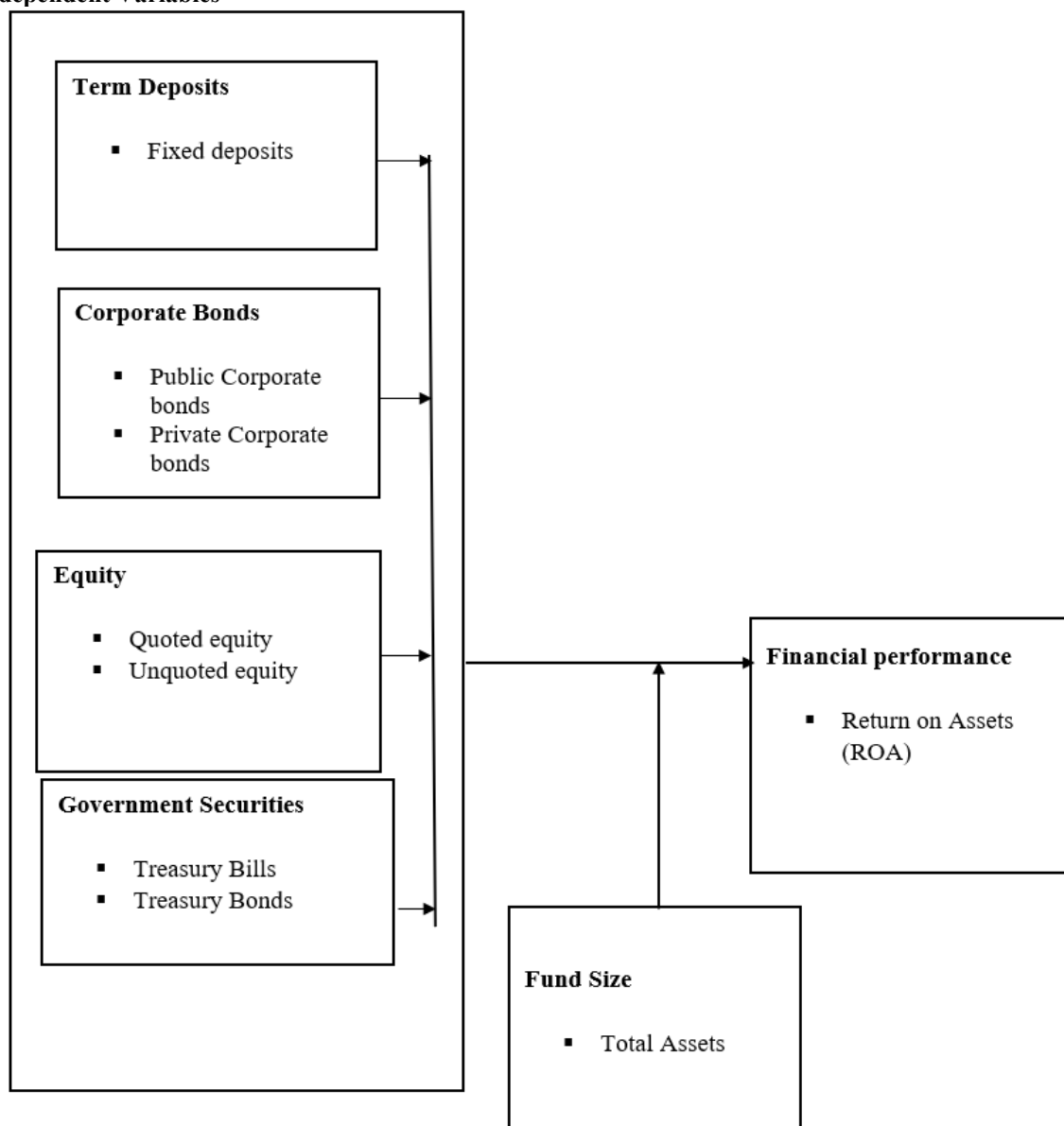


Figure 1: Conceptual Framework

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