

KEY INVESTMENT METRIC

Relevant for: Indian Economy | Topic: Issues relating to Growth & Development - Capital Market & SEBI

What is Net Asset Value?

The Net Asset Value (NAV) is typically used in the context of mutual funds and exchange traded funds.

NAVs offer a transparent way to arrive at a value for a fund. The value to the investor is arrived at on a per-unit basis.

Why is it necessary?

When you invest in a mutual fund, you are given a certain number of units at a certain value.

Depending on how the mutual fund performs, the value of its assets and liabilities change, reflecting in the price per unit, hence determining the value of your investment.

An investor in the mutual fund can buy more units or can redeem her units for cash. The net asset value per unit determines the value of the transaction.

How is NAV calculated?

Net Asset Value per unit = (total assets — total liabilities) / total number of outstanding units

How often does the NAV change?

Unlike share values that change real-time depending on the price they command in the markets, NAVs for mutual funds are determined by the end-of-day value of the shares in which the mutual fund has invested.

Is the NAV the best indicator of a fund's performance?

While the NAV is a reasonably good indicator of a fund's performance, it is not wholly accurate.

Coupled with the NAV reading, one has to look at the dividend or interest that the fund has paid out to investors over a period.

Mutual funds typically pay out dividends, or interest accrued, to investors.

Since these are 'assets' that go out of the fund's books (unless reinvested), the NAV comes down proportionately.

That does not by itself mean that there has been a dip in the fund's performance. The annual total return is a better indicator of a fund's wholesome performance.

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