



Asset Under Management - Meaning and Importance

Have you ever heard your grandparents talk about colony kitties? Kitties were contribution funds that took money from a group of people and then spent it on shared needs, such as a festival celebration, a development project like setting up a basketball court, etc. Mutual fund schemes, although a lot different, follow a somewhat similar approach. They take money from multiple investors. However, instead of spending it on a shared goal, they invest it in the market to serve a shared purpose of capital appreciation. The total value of money held by a mutual fund scheme is its Assets Under Management (AUM). However, this is only a layman's explanation of AUM. Keep reading to know it in detail and why it is relevant.

Understanding the meaning of AUM

AUM is defined as the total market value of the assets or capital held by a mutual fund scheme at a given point in time. In simple terms, it is the money the fund is handling on behalf of its investors. The AUM can fluctuate on a daily basis depending on the changing values of a fund's underlying assets.

For example, if you invest Rs 1 lakh in a target maturity fund, this money will become a part of the fund's AUM. Likewise, if you redeem Rs 50,000 from an ELSS fund, the money will be removed from the fund's AUM.

The AUM is a dynamic value and is useful in understanding the performance of a mutual fund scheme. An Asset Management Company (AMC) calculates a fund's AUM every day based on factors like:

- Investments made into the fund
- Redemptions made from the fund
- Capital appreciation of the fund's assets
- Investment losses incurred by the fund
- Fund closures
- Dividend reinvestments, etc.

To understand the meaning and relevance of AUM better, you should know how it affects different types of mutual fund schemes.

How does AUM affect mutual funds?

The AUM could work differently in the case of different funds. Here's how:

- **Debt funds:** The AUM is critical in debt funds as a high AUM helps the fund distribute expenses across investors, thereby lowering the expense ratio and maximising the return.
- **Equity funds:** Actively managed equity funds depend more on the fund manager's expertise and experience than the value of AUM. Therefore, the AUM may not be as relevant here.

Irrespective of the fund type, the higher the AUM, the better or more successful the fund is typically considered. However, it is important to understand that a fund's performance cannot exclusively be judged on the basis of its AUM. Nevertheless, it is a useful parameter in understanding a fund's size.

A common error that many people make regarding AUM is confusing it with a mutual fund's NAV. However, these are not the same. Here's how.

What is the difference between NAV and AUM?

The Net Asset Value in a mutual fund is the value of the fund's assets minus its liabilities divided by the total number of outstanding shares. On the other hand, the AUM is the value of a fund's total assets.

The NAV tells you the price of each unit, which decides how many units you get to buy for a given amount of money. Contrarily, the AUM tells you about the total value of assets the fund is managing at a time to help you understand its size and worth in the market.

These two only have one similarity - both parameters fluctuate daily.

Conclusion

The AUM can be an indicator of a fund's popularity and help you gauge its size. However, it may not be advised to choose mutual funds on the basis of their AUM alone. So, while you browse the AUM of mutual funds, remember also to check their asset allocation, risk, type, investment strategy, etc.

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