

## Mutual Fund

# A Guide to Mutual Fund Returns



When we select a mutual fund, we assess a scheme based on its performance. The returns generated by a mutual fund scheme signify how well the fund is performing and this number plays a vital role in our fund selection process. However, there are various types of returns associated with mutual funds. Here's a glimpse of the key mutual fund returns an investor should know:

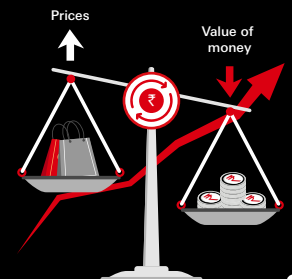


### 1. Real Rate of Return

Real rate of return tells you how much real wealth you are creating after accounting for inflation.

Instrument	Rate of Return	Inflation Rate	Real Rate of Return
Traditional deposit	5%	6.5%	-1.41%
Equity Mutual Fund	12%	6.5%	5.16%

Disclaimer: The data is for illustration purpose only.



### 2. Absolute Return

Absolute return is used when you are investing for less than one year and does not take into account the number of years you are invested. Say for example, you invested Rs 10,000 in a mutual fund in April 2020. The value of your investment in October 2020 is Rs 15,000. Here, your absolute return is 50%.

$$(15,000 - 10,000) / 10,000 = 50\%$$

Disclaimer: The data is for illustration purpose only.

Oct 2020



Today



April 2020



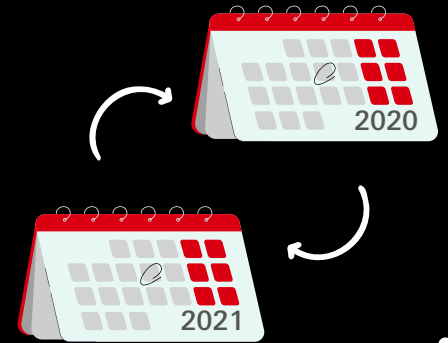
### 3. Calendar Returns

Calendar returns are calculated from 1st January to 31st December every year. This tells us how a fund has performed in different market rallies in various years.



### 4. Rolling Returns

Rolling returns give a picture of how a fund has performed for a given time frame at regular intervals like daily, weekly, monthly or annually. Thus, Rolling Return of a fund is the indicator of the consistency in the performance improvement of that fund. One can use 3, 5 or 10-year periods at various intervals and see how a scheme performed over that period.

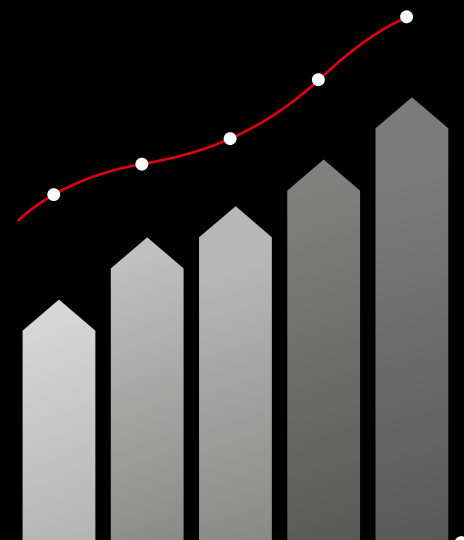


### 5. Annualised Return or Compound Annual Growth Rate (CAGR)

CAGR tells you the average return your mutual fund has generated every year. Suppose you invested Rs 10,000 in a mutual fund for 3 years and its value after 3 years is Rs 20,000. Your actual annual (per annum) return is 25.99%\*.

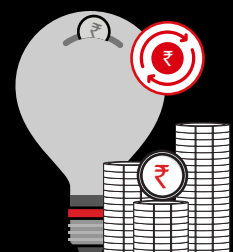
$$\text{CAGR} = [(20000/10000)^{(1/3)}] - 1$$

\*It is the annualized average growth rate over the given period.



### 6. Extended Internal Rate of Return (XIRR)

XIRR is ideal for assessing performance of mutual fund scheme when you are investing via Systematic Investment Plans (SIPs) as it calculates average returns earned by every cash flow that you invest during a particular period.





Mr A starts a monthly SIP of Rs 10,000 in a mutual fund. Lets say the value of his SIP at the end of 3 years is Rs 4.5 lacs.



Using absolute returns, your return on investment (ROI) is 25%.



Using CAGR, your return on investment is 7.72%.



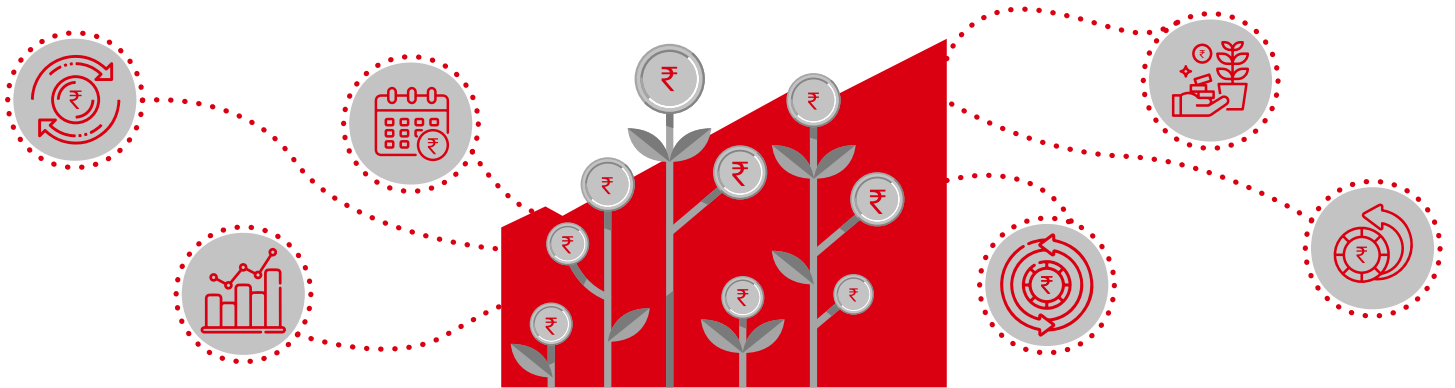
XIRR generated by Mr A's SIP is 14.98%\*.

\*XIRR is calculated in the excel using a standard XIRR formula: XIRR (values, dates, [guess]) | Returns calculated are for illustration purpose only.

## Check list:

Investment period and mode	Returns to check
Less than 1 year	Absolute Return
More than one year and lump sum	Compound Annual Growth Rate (CAGR)
More than one year via SIP	Extended Internal Rate of Return (XIRR)

As an investor, it is important for you to understand different types of mutual fund returns to assess the performance of your mutual fund schemes to make smarter and sound investment decisions.



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