



ASSETS UNDER MANAGEMENT

What is AUM in mutual funds? Get all your answers here

Suppose you want to buy a smartphone. Apart from the features and specifications, what is it that can influence your buying decision? It can be the success or popularity of a particular smartphone in your country.

Similarly, in the case of mutual funds, there is a term called Assets Under Management or AUM. To an extent, the AUM of a mutual fund scheme reflects its popularity among investors. A large AUM size indicates that a large number of investors have placed their trust in that particular mutual fund scheme, and vice versa.

Let's learn what is AUM in mutual funds and how it should impact your investment decisions.

First thing first, let's understand what AUM means

When you invest in a mutual fund, you give your money to a professional fund manager who invests it in different securities to earn decent returns for you. And just like you, several other investors give their money to these fund managers. The AUM is the total investment value that a fund manager is managing under a particular mutual fund scheme at a given point in time.

In other words, it is the total market value of the investments that are currently held under a mutual fund scheme. Thus, the AUM will comprise the capital the fund manager has for making investments as well as the returns earned.

Does the AUM matter so much? Find out!

After knowing what is AUM in mutual funds, you must be wondering if it is something you should consider while investing. Let us clear your confusion.

The high AUM of a mutual fund scheme indicates that a high number of people have placed their trust in it by investing their money. Thus, a high AUM reflects better investment inflow, trust, quality, and fund management experience. It also gives an idea about the fund's ability to honour large redemption requests.

So, it is prudent to consider the size of the AUM before investing in a mutual fund scheme. However, that doesn't mean that it should be your sole investing criterion because a high AUM does not guarantee better performance or returns.

Sometimes, the inflows in a mutual fund scheme exceed the redemptions and as a result, its AUM size enlarges. Additionally, a high capital appreciation during bullish markets can also contribute to a greater AUM size. In such cases, the AUM of a mutual

fund scheme can provide a false perception of its overall performance and effectiveness.

Hence, you should always consider several other factors before investing. These include the historical performance of a fund, fund manager's reputation, and expense ratio, among others.

Do you know how a fund house calculates the AUM size?

Different fund houses use different techniques for the calculation of the AUM. Usually, when a mutual fund scheme provides consistent returns for a long period, its AUM rises because the value of the investments under it grows. Also, when a mutual fund scheme performs well consistently, a greater number of investors start to invest in it, causing its AUM size to increase.

On the flip side, when a mutual fund scheme is not doing well, its AUM size decreases. Every time an investor redeems their investment in a mutual fund, its AUM size drops.

Depending on these factors, the AUM of a mutual fund scheme can fluctuate daily.

To sum it up

Now that you know about the AUM and its calculation, you must be in a better position to judge its importance. Although there's no denying that AUM is a crucial factor you should consider while investing in a mutual fund scheme, your decision should be based on several other parameters as well.