What is XIRR in Mutual Funds - Definition & How to Calculate

When you think of investing in any asset class, be it property, equities, mutual funds or gold, what is the first thought that comes to your mind? Yes, you got it right – it is the estimate returns that you can look forward to. No one wants to invest in an asset incapable of offering robust returns – after all, we want our money to work as hard as possible and the biggest measure of success, in any investment, is the rate of return it earns you, at the end of the tenure. If you are thinking of investing in mutual funds such as equity funds, debt funds and hybrid funds, by way of either a lumpsum or a systematic investment plan or SIP, a major question you should ask revolves around XIRR in mutual funds. Let us take a look at XIRR meaning in mutual fund, XIRR full form in mutual fund and average XIRR for mutual funds, to ensure that you pick the best scheme for your investment journey.

What Is XIRR?

As we have already established, returns act as the barometer for assessing the impact of an investment, indicating how much your asset has gained or lost, during its tenure. One of the most optimal ways to measure returns is through XIRR or Extended Internal Rate of Return. So, what is XIRR in MF? Here is all you need to know about the meaning of XIRR in mutual fund. The term XIRR refers to a single rate of return that you can apply to every instalment and redemption, if applicable, to arrive at the present value of your total investment. Therefore, in simpler terms, the XIRR of mutual fund is the actual return you realise on your mutual fund investments. XIRR is especially useful when calculating returns on investments which feature multiple transactions, as is noticeable in the case of mutual fund SIPs. Now that you know what is XIRR in mutual fund, let us go through the other considerations.

Why is XIRR important in mutual funds?

We established how XIRR is an effective means to arrive at the actual returns offered by mutual funds. To clarify the matter further, let us consider a simple example – suppose you have been investing in a mutual fund scheme for five years, through SIPs of various amounts such as INR 8000, INR 6000, INR 7500, INR 9000 and INR 7000 and receive INR 60,000 at the end of the duration, then your rate of return would stand at approximately 14.5%. This rate of return is also known as IRR or Internal Rate of Return and helps you arrive at the return you have earned, as long as the instalments are spaced equally. However, with SIPs, you need not space your instalments equally – you have the option of choosing and changing your investment frequency at will. In such scenarios, both the invested amount and the time of such investment need to be considered while arriving at the actual rate of return and this is where XIRR makes its importance known.

Calculation of XIRR

As an investor, you need to have your investments and their corresponding returns at arm's length, to ensure that you are always prepared for quick decision-making and portfolio rebalancing, when required. To calculate the XIRR on your mutual fund investments, you can leverage Microsoft Excel, which comes with an inbuilt function to make this journey simple for you. All you need to do is –

- Organise your data: Arrange your data in columns. Typically, you'll need two columns: one for the dates of each cash flow and another for the corresponding amounts. Make sure to list negative values for your investments and a positive value for the final received amount.

A	B
Date	Cash Flow
2023-01-01	-4000
2023-02-01	-9000
2023-03-01	-5000
2023-04-01	-4000
2023-05-01	-6500
2023-06-01	53000

- Calculate XIRR: In an empty cell, use the formula =XIRR (value, dates, guess)
- Format the result: Format the cell containing the XIRR result as a percentage if needed. To do this, select the cell, right-click, choose "Format Cells," go to the "Number" tab, and select the "Percentage" category.

Can we use CAGR instead?

In addition to the XIRR, you may have noticed another abbreviation, while looking at mutual fund returns. Yes, we are talking about Compounded Annual Growth Rate or CAGR, which refers to your schemes' returns in point-to-point terms, such as the past 3 years or 5 years. You can arrive at the CAGR of the scheme by using the formula –

CAGR = ((Ending Amount/Beginning Amount)^(1/No. of years)) – 1

While CAGR is used to indicate point-to-point returns, it is not the best way to arrive at returns wherein your investment is in the form of instalments. With XIRR, you can arrive at the singular rate of return, which can be used to calculate the actual returns you earn, over the course of multiple investments and instalments in a mutual fund scheme.

Now that you know all the major aspects pertaining to XIRR of mutual funds, what is the XIRR your SIP is offering you? Once you assess this detail, you will find it easier to navigate your investment goals effectively.