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All you need to know about: **Net Asset Values (NAV)**

Definition

The Net asset value, usually abbreviated to NAV, is worked out by adding up the current value of everything the company owns and deducting anything it owes. They are usually quoted as an amount per share.

The NAV is the most important bit of information you need to help you decide whether an investment company is attractive or not.

Usually daily

Many, but by no means all, investment companies publish their NAVs daily.

But not always – check!

For some companies though it is harder to value their investments. Investment companies investing in things like property or private equity (companies that aren't traded on a stock exchange), calculate their NAVs less frequently – maybe once, twice or four times a year. Remember to check how old the NAV is before you use it to decide if an investment company's share price looks attractive or not.

More than one type

Now here's the confusing bit - Investment companies may publish a range of NAVs:

Including and excluding income

The first two types of NAV are **NAVs including current year income** and **NAVs excluding current year income**. In days past the usual practice was to publish the NAV excluding current year income (*Current year income is all the dividends and interest earned by the investment company in its current accounting year LESS all the expenses of running the investment company that are charged against income*). The assumption used to be that investors would get paid most of the current year income as a dividend so they were only interested in seeing how the underlying capital (*everything that isn't income*) value of their investment was doing. However there are times in the year when for some funds the current year income figure is quite large – maybe three or four per cent. of the net asset value. The powers that be decided that excluding current year income was misleading so they asked investment companies to publish net asset values including current year income. Some investment companies publish both however – so check which one you are looking at.

Adjusting for the market value of debt

The next two types of NAV are **NAVs with debt at fair or market value** and **NAVs with debt at par**. The par value of the debt is simply the amount that the company borrowed. The concept of fair value of debt needs some additional explanation however.

NAV with debt at fair value (also called NAV with debt at market value) is a net asset value adjusted for an estimate of the cost of repaying the debt today.

What is the market value of debt?

Some companies borrow money for a long time. The people who have lent the company this money know they can rely on a predictable level of income until the loan is repaid. They could sell the debt on to someone else but, if the market rate of interest has changed since they lent the money, the debt is more (if interest rates have fallen) or less (if interest rates have risen) valuable in the eyes of the buyer. The fair value of the debt is simply its value if you adjust the value of the debt so that a buyer would be earning the market rate of interest.

An example

For example, say I lend £100 for a year at 10% interest, then say the market rate of interest immediately halves to 5%. If I now sell the loan, a buyer is going to get £110 from owning my loan compared to £105 for making a loan in the open market. My loan is worth more to the buyer so he should pay me more. The price he should pay is 110/105 = £104.76.

Our website

Everywhere we can in our website we use **NAVs calculated including current year income and with debt at fair value**. We do this because this is closest to what you would get the company sold all the assets in the fund today and gave you the money back. BUT remember that in the real world there may be costs associated with selling off the assets and winding up the company and the company may not be able to get bid price for their investments, especially if the assets are being sold off in a hurry.