

What will determine the subscription and redemption price of a fund?

In general, a subscription price or the price at which units of a fund will be issued is calculated by reference to the Net Asset Value (“NAV”) per unit as at a specified valuation point of the relevant dealing day by adding the initial charge (if any and applicable). Similarly, a redemption price, or the price at which units of each fund will be redeemed will be calculated by reference to the NAV per unit as at a specified valuation point of the relevant dealing day less the redemption charge (if any and applicable).

The method of establishing the NAV of a fund is normally covered in a fund’s offering documents or respective Trust Deeds. Broadly speaking, the NAV per unit of each fund is calculated by dividing the value of the assets of the fund less its liabilities, by the total number of units in issue of that fund as at the close of business on the immediate preceding dealing day.

$$\text{NAV} = \frac{\text{Assets} - \text{Liabilities}}{\text{Total number of units in issue}}$$

For a daily dealing fund, the daily valuation would normally reflect the change in market price from the previous dealing day only. A fund’s NAV sometimes does not reflect the market closing price, due to further dealing orders arriving at the end of day after the market has closed. Fund managers can only trade these orders the following day. If the market levels move significantly between the close on the dealing day (“D”) and the opening on dealing day + 1 (“D+1”), a fair pricing adjustment is required to reflect the price the fund managers will be able to trade on D+1. The rationale behind this is basically to protect the interests of the fund’s existing unit or shareholders. A fund’s offering document should cover this point usually under the “NAV/Price Determination” section or “Calculation of NAV methodology” section.

In addition, the valuation point which is the time to calculate the fund’s NAV for various fund houses in different markets will not be at the same point in time. Luxembourg domiciled funds usually have a different valuation point versus funds domiciled elsewhere such as Cayman Islands, Dublin or Hong Kong etc. For example, the valuation point of a Luxembourg domiciled Global Equity Fund approximates to the opening of the US markets. Therefore, the price of a security at the time of the Luxembourg range valuation point, may not necessarily be the same price at the Hong Kong valuation point. Hong Kong valuation point is performed in next day morning Hong Kong time and therefore can capture the movement and the closing of the US markets. When US markets dropped in the morning and rebounded in the afternoon or, vice versa, the valuation of a Luxembourg domiciled Global Equity Fund and HK domiciled Global Equity Fund traded on the same dealing day may differ.

A fund’s offering document should also cover the details about the determination of the fund price under “NAV/Price Determination” section or “Calculation of NAV methodology” section.

(Investment involves risk. Please refer to the offering document for further details including the risk factors.)

Hong Kong Investment Funds Association