Abstract

Closed-end fund (Exchange traded fund) discounts refer to the mismatch of the prices of funds and the values of their component assets, i.e. the funds are traded at discounts to net asset values. Since the presence of discounts may lead to an arbitrage opportunity for investors and this problem has been a perplexing one to investors because it brings a challenge to the hypothesis of investor rationality and market efficiency, it is an important issue to investigate the underlying causes of such discounts. This paper mainly concentrates on analyzing several possible reasons explaining the deviation of the fund prices from net asset values of the component assets in the Hong Kong securities market. Several exchange traded funds (ETFs) linked with Hong Kong stocks as underlying are chosen for analysis and mainly secondary data such as the weekly price and net asset value of each fund are used for this paper.