

Five essential questions for emerging fund managers in Cayman

FEBRUARY 2023

Are you looking to launch a fund based in the Cayman Islands? In this article, Collas Crill Partner [Natalie Bell](#) summarises the five questions she asks from the outset to set you up for success...

1. What's your background?

Getting to know you is the most important part of the conversation.

Some of our emerging manager clients have spun out of large prestigious managers and are starting out on their own; they know the investment funds industry inside out but may never have been involved in the structuring of the fund before and need our help to guide them through this. Some are absolute experts in the industry in which they are investing but may not have had much prior experience of operating an investment fund and need more guidance on that. Others are managers who have already established successful onshore funds with strong performance and are looking to build on this; for example, they might be looking to add an offshore feeder, convert into a master-feeder structure or create a new stand-alone fund so that they can attract international investors and US tax-exempt investors such as university endowment funds and pension funds.

When we first meet you, there are a few key things we ask – where you are from, where you are resident, what your experience is and why you are considering establishing a fund in Cayman. This background information will already be providing clues as to what structure we are going to need to create and what our role is going to be in the process.

Your location is also critical and will affect the regulatory and tax structuring of the fund and its manager. We ensure that our clients are properly advised on the tax and regulatory implications in their jurisdiction of residence and how these could impact the fund – and, if not, introduce them to advisers.

2. What's your strategy?

We advise managers with diverse strategies from long-short equity hedge funds and quant funds, through to venture capital and private equity funds, real estate investment funds and digital asset funds.

Not only is this the most interesting part of working with managers, and generally what *they* are most interested in, it is absolutely critical to selecting the best structure and regulatory regime for the fund.

Your fund strategy will determine liquidity of the target assets and whether we should be looking to register the fund as a mutual, open-ended fund to give investors the right to redeem their investment at certain intervals; or as a private fund,

This note is a summary of the subject and is provided for information only. It does not purport to give specific legal advice, and before acting, further advice should always be sought. Whilst every care has been taken in producing this note neither the author nor Collas Crill shall be liable for any errors, misprint or misinterpretation of any of the matters set out in it. All copyright in this material belongs to Collas Crill.

which will be closed-ended with returns being distributed to investors on exits as returns are realised.

For liquid funds, which are likely to be registered as mutual funds, we can then discuss liquidity terms for investors, and frequency and terms of redemptions. For illiquid private funds, we can discuss the term of the fund, whether capital will be contributed at the outset or drawn down over time, and whether there will be single or multiple closes.

3. Who and where are your investors?

This is important for us to understand as the type of investors you will be seeking to attract and the size of their investment in the fund may have implications on the regulation of the fund and its manager. In addition, there will be rules on offering securities in each of the jurisdictions in which your investors are based and you will need advice from local counsel in the jurisdictions you are targeting.

Certain investors will have specific requirements in relation to structuring for tax purposes. For example, some US tax resident investors will want to invest in a structure which allows pass-through treatment for tax purposes and we may consider including a U.S. partnership in the structure. Other international investors and some institutional US non-taxable investors need to invest through an offshore vehicle which will act as blocker. If you are attracting a range of different investors, we may need to consider a master-feeder or mini-master structure.

4. What is the target fund raise / what seed capital are you expecting?

This is critical information. It helps us understand the viability of the proposed fund (i.e. what level of cost the fund will be able to absorb). For funds that are starting off small and want to build up a track record, we would be less likely to suggest a full master-feeder structure but would try to provide flexibility so that you could add additional feeders in the future. Some start-up managers may also consider using a segregated portfolio platform initially; alongside your other advisers, we can consider the available options and help you decide which will be most appropriate in your circumstances.

5. Who is on your team?

Making sure that you have the best team around you is essential to a successful launch. As such, it is really important for us to understand who you are working with and what expertise you have in your team.

What functions are you able to perform in house and what will you need to outsource? What additional tax and regulatory advice might you need to obtain?

As well as your direct team, we would want to work closely with your local counsel and, if you have not yet appointed anyone as such, can help connect you with great onshore counsel with relevant expertise. If you are yet to decide which service providers you are working with, we can also introduce you to administrators, auditors, independent directors and other contacts we feel are best suited to you and your needs in terms of scale, technology and expertise.

For an overview of Collas Crill's funds services and key contacts across our jurisdictions, click [here](#).

