CAYMAN ISLANDS

Cayman Islands Investment Funds

TRAVERS THORP ALBERGA

BIO

Lucy is a senior member of the firm's Corporate and Investment Funds team, based in Australia and working with clients in the United States, China, Japan, Australia and the region, on matters concerning Cayman Islands and British Virgin Islands corporate law and investment funds law.

Lucy has extensive expertise in the structuring and formation of Cayman Islands investment funds, and advising on the associated ongoing legal and regulatory issues, having commenced her Cayman Islands funds practice more than 17 years ago in the Cayman Islands with a leading funds team. Lucy's practice also covers downstream corporate law advice, with a focus on preferred equity financings, mergers/acquisitions, restructurings and IPOs.

Lucy has been practising law for over 25 years, including 10 years as a partner of Travers Thorp Alberga.

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ATTORNEYS-AT-LAW

Large streams from little fountains flow, Tall oaks from little acorns grow…[i]

To put the remarkable history of the Cayman Islands in perspective, it was not until 1966 that Grand Cayman welcomed its first telephone service.[ii] Following this key event and others, years of hard work and entrepreneurship created the two pillars of the Cayman Islands economy – financial services and tourism.[iii] In the present day, the gross domestic product of the Cayman Islands has reached US$7.2 billion,[iv] and the value of Cayman Islands regulated open- and closed-ended funds is estimated at around US$8.2 trillion.[v]

Over recent years, despite focused competition from other jurisdictions, the Cayman Islands has continued to be the leading offshore jurisdiction for the establishment of private equity funds and hedge funds. According to data gathered by the United States Securities and Exchange Commission from Form PF and Form ADV filings, the Cayman Islands dominates that market as the offshore jurisdiction of choice, with 31.6% of all private funds being domiciled in the Cayman Islands (53.6% domiciled in the U.S.) and 53.6% of all qualifying hedge funds being domiciled in the Cayman Islands (35.5% domiciled in the U.S.). To put this in context, the next largest domicile in each case is Luxembourg, with 5% of private funds and 2.9% of qualifying hedge funds.[vi]

Currently, there are over 17,000 closed-ended private funds, around 9,000 open-ended investment funds and over 3,000 master funds regulated by the Cayman Islands Monetary Authority (CIMA).[vii] There are also 1,400 'registered persons' conducting securities investment business (typically, entities engaged in fund management and advisory services).[viii]

Private funds were brought into the CIMA registration regime in 2020, and the growth in their numbers reflects the strong performance of private equity, particularly over the period 2020 to 2022. Registered mutual funds have shown more modest growth, evidencing the challenging conditions for hedge funds in what was, up to 2022, a low interest-rate environment. The number of registered persons (known as 'excluded persons' until 2020) has dropped from a peak in 2018. The most likely explanation for this is the introduction of the Cayman Islands economic substance (ES) requirements in January 2019, which imposed ES obligations upon Cayman Islands-domiciled fund managers (but not those engaged in an advisory-only role).

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Overview of relevant laws

There are several Cayman Islands statutes that govern investment funds, including the Private Funds Act (PFA), the Mutual Funds Act (MFA), the Securities Investment Business Act (SIBA) and the Directors' Registration and Licensing Act (DRLA).

Introduced in 2020, the PFA brought all closed ended funds (i.e., those that do not provide the investor with a right to redeem), including private equity funds, under a CIMA registration regime. A private fund is a company, unit trust or partnership that offers or issues investment interests, the purpose or effect of which is the pooling of investor funds with the aim of enabling investors to receive profits or gains from investments, where the investments are managed by or on behalf of the operator of the fund and investors do not have day-to-day control over the investments. Funds regulated under the MFA are specifically excluded from the scope of the PFA, as are certain 'non-fund arrangements', among them, joint ventures, proprietary vehicles, holding vehicles, preferred equity financing vehicles and individual investment management arrangements.

The MFA regulates open-ended funds in the Cayman Islands. A Cayman Islands-based pooled fund (whether formed as a company, unit trust or partnership) that offers redeemable equity interests to investors must register with CIMA under the MFA. In addition, certain trading subsidiaries of registered funds are defined as 'master funds' and are also required to register.

SIBA governs the registration and licensing of fund managers and fund advisors that are domiciled, or have established a place of business, in the Cayman Islands. Most Cayman Islands fund managers and fund advisors take advantage of the 'registered person' pathway under SIBA, which is available to (among others) those providing services to sophisticated and/or high net worth clients (including investment funds that meet this definition). Registration under this category is simpler and quicker than obtaining a full licence under SIBA, and has been the traditional route for fund managers and fund advisors for many years.

i. Version of a common proverb often attributed to D. Everett, in *The Columbian Orator*, 1797
ii. Craton and the New History Committee, *Founded upon the Seas: a History of the Cayman Islands and Their People*, Ian Randle Publishers, 2003, p 355
iii. For further reading, see Craton and the New History Committee, *Ibid*.
iv. https://data.worldbank.org/indicator/NY.GDP.MKTP.CD?locations=KY
v. Michael Klein, IFC Review, ifcreview.com, 05/06/2025
vi. U.S. Securities and Exchange Commission, Division of Investment Management, Analytics Office, *Private Fund Statistics: First Calendar Quarter 2024*, p 13
vii. cima.ky/investment-statistics
viii. cima.ky/securities-statistics

The DRLA and its accompanying regulations require registration or licensing of directors of, among others, a registered Cayman Islands mutual fund. Non-professional directors (those acting for less than twenty of such entities) must be registered, and professional directors (those acting for twenty or more covered entities) and corporate directors, must be licensed. The registered office of the relevant fund will receive a unique identification number for each director of the fund. Registration or licensing is then undertaken by the relevant director via CIMA's web portal.

Directors of Cayman Islands funds that are structured as corporate vehicles, and directors of corporate general partners, are subject to common law directors' duties. These duties are derived from principles of English common law, which have been substantially confirmed by various decisions of the Courts of the Cayman Islands. Broadly, directors' duties fall into two categories: fiduciary duties, and duties of care and skill.

The anti-money laundering and combatting of terrorist financing regime of the Cayman Islands applies to all Cayman Islands-based funds. The regime also applies to fund managers, advisors and placement agents licensed or registered under SIBA. The regime requires the implementation of procedures for the identification and prevention of money laundering and the combating of terrorist and proliferation financing. In the case of Cayman Islands based funds, typically the procedures are delegated to the administrator or manager of the fund after suitability and legal review.

Additionally, Cayman Islands funds and SIBA registrants and licensees are required to have regard to financial sanctions in force in the Cayman Islands, which include all United Nations and United Kingdom sanctions.

Typical organisational forms

Cayman Islands funds may be formed as companies (including exempted companies, segregated portfolio companies and limited liability companies), partnerships or unit trusts. The choice of organisational form and the broader fund complex structure will be driven by the legal, tax, regulatory and marketing requirements of the fund promoter, the location of the investors and the nature of the target investments. The Cayman Islands legal and regulatory regime allows maximum flexibility in the structuring of funds to meet these commercial imperatives.

That said, hedge funds and other open-ended funds are usually structured as exempted companies, with the segregated portfolio company form sometimes being utilised where ring-fencing of assets and liabilities within separate cells is desirable. It is also certainly possible, and often preferred, to use an exempted limited partnership or a unit trust as an open-ended fund. Closed-ended funds, including venture capital and private equity funds, are usually structured as exempted limited partnerships because they offer the ability to make distributions more flexibly, in line with capital accounts arrangements. However, again, it is permissible and sometimes desirable to use another type of legal entity for a closed-ended fund.

Fund structures may be as simple as a single legal entity, or comprised of multiple entities, such as a master-feeder structure, or a single fund entity that makes its investments through separate special purpose vehicles.

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Legal and regulatory developments

Companies Act amendments

On 1 January 2026, the Companies (Amendment) Act, 2024 came into force, increasing flexibility in several areas relevant to investment funds, including new provisions that facilitate conversions between Cayman Islands entity types, including limited liability companies, foundation companies and exempted companies. There is also a streamlined “out of court” capital reduction procedure, and expanded continuation provisions, which allow a body corporate without a share capital to migrate to the Cayman Islands as a company.

New requirement for Cayman Islands-resident PPoC

Under the automatic exchange of financial account information regime, each Cayman Islands financial institution (FI) must appoint a Principal Point of Contact (PPoC) whose role is to liaise with the Department for International Tax Cooperation (DITC) and receive regulatory communications. Most Cayman Islands funds are FIs.

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> New FIs (registered from 1 January 2026) must appoint a Cayman-based PPoC upon registration.

From 1 January 2026, the PPoC must be resident in the Cayman Islands. Existing FIs (registered on the DITC Portal on or before 31 December 2025) have the benefit of a transition period until 31 January 2027 to move to a Cayman Islands-based PPoC. New FIs (registered from 1 January 2026) must appoint a Cayman-based PPoC upon registration.

Prudential Information Survey for Registered Persons

From January 2026, CIMA requires SIBA Registered Persons to submit a Prudential Information Survey. The information collected will be used by CIMA to assess sector-specific activities, exposures and associated risk areas. For the 2025 calendar year, submission is due on or before 31 March 2026 via the REEFS Portal. Notably, the Prudential Information Survey does not replace the Annual Declaration for Registered Persons.

Cases:

The Grand Court of the Cayman Islands tries most types of civil disputes. The Financial Services Division of the Court was established in 2009, in order to handle more complex civil cases arising out of the financial sector. Special procedures were adopted by the Financial Services Division in acknowledgement of the needs of litigants in this area. Decisions of the Grand Court may be appealed, first to the Cayman Islands Court of Appeal, with the final appellate level being His Majesty’s Judicial Committee of the Privy Council.

The *Aquapoint LP v Xiaohu Fan* case, a decision of the Judicial Committee of the Privy Council in late-2025, is now the leading Cayman Islands case on the availability of just and equitable winding up relief in relation to exempted limited partnerships. It will also be relevant in other jurisdictions in which just and equitable winding up is available. Travers Thorp Alberga represented eminent cancer scientist Dr Frank Fan, who was ultimately successful in this case.

Dr. Fan had developed a ground-breaking therapy for the treatment of myeloma. In anticipation of an IPO, Dr. Fan’s employer gave him repeated assurances that his 10% economic position in Aquapoint LP would roll over into the listed vehicle and be released from lock-up 6 months after the IPO. These promises were breached after the IPO when the general partner of the ELP refused to release the shares. At the initial trial in the Grand Court in 2022, the Court held that the GP’s conduct entitled Dr. Fan to wind up the ELP on just and equitable grounds. The Court of Appeal dismissed the GP’s appeal in 2023. On 27 November 2025, the Judicial Committee of the Privy Council dismissed the GP’s final appeal.

This is an important judgment for establishing, among other things, that the ability to wind up on just and equitable grounds does not depend on the establishment of a “quasi-partnership”, and that a court may intervene notwithstanding entire agreement clauses and non-reliance language, where it is equitable to do so.

Fund strategy trends

Naturally, fund investment strategies are very sensitive to market conditions. Investment strategies adapt in response to, and in anticipation of, developments in global markets, major political events and macro-economic factors. Factors influencing fund trends at the time of publication include the U.S. tariffs announced in 2025, continuing geopolitical instability and structurally higher interest rates in many markets.

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From our perspective, private credit remains a top strategy for Cayman Islands funds, together with secondary market funds. Notably also, funds targeting generative AI and blockchain-related investments have surged in recent years. The Cayman Islands supports such innovation, and imposes no limitations on the investment strategies that funds may adopt.

There has been an increased interest from private equity sponsors and investors in evergreen funds. These structures combine the features of traditional private equity funds, including having long-term strategies, with hedge fund-like entry and exit mechanisms. Market conditions have made evergreen funds more attractive in recent years, because they offer the ability for managers to pivot investment strategy and risk approach to address volatility. Evergreen funds need to be structured carefully to meet the requirements of Cayman Islands funds legislation.

Fund structuring trends

In contrast to investment strategy, the preferred choice of legal structure is more static and, for the most part, not influenced by market developments. In the structuring of Cayman Islands funds, many considerations are relevant, although familiarity remains of prime importance to promoters and investors. For that reason, most fund managers tend to adopt a market-standard legal structure, which is slow to adopt change.

An example of such market preference for maintaining the status quo is the introduction of limited liability companies (LLCs) in the Cayman Islands. A Cayman Islands LLC is a body corporate with separate legal personality, which confers limited liability upon its members. Upon introduction, the LLC form was of great interest to funds lawyers because it has many flexible features, while retaining legal and equitable concepts familiar to users of Cayman Islands exempted companies and exempted limited partnerships. The Limited Liability Companies Act was in-part modelled on the Delaware equivalent legislation. For that reason, LLCs can enable the establishment of an offshore fund vehicle that is a close parallel to an existing Delaware counterpart. However, currently only 253 out of over 17,000 registered private funds are structured as LLCs, showing general hesitancy in the market to adopt novel legal forms for fund vehicles, even where there may be many benefits to doing so.

As previously noted, by far the most popular structure for venture capital, private equity and other less-liquid alternative assets is the exempted limited partnership. A trend that continues strongly, especially for start-up fund managers, is the use of a simple and efficient version of this structure. In this model, typically the general partner of the fund will be a Cayman Islands exempted company, and there will be no separate investment manager in the structure. The benefits of this way to organise a smaller fund are that it is simple – which minimises costs – and it is well-understood and -recognised in the market. There is a cost saving in having the general partner hold management discretion over the investment of the fund's assets, as opposed to establishing a separate regulated entity for this purpose. The key documents for this type of fund are an exempted limited partnership agreement and a subscription agreement. An offering memorandum is not essential for a private fund, as certain limited mandatory disclosures may be simply attached to the subscription agreement.

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Conclusion

The Cayman Islands continues to be a premier domicile for investment funds. The broader legal system and fund-specific laws strike a careful balance between sponsor flexibility and investor protection, and the jurisdiction is well-known and trusted worldwide. In addition, the Grand Court of the Cayman Islands offers an experienced and sophisticated venue for disputes when they arise. We look forward to continuing to work with our clients to establish and maintain high-quality investment fund structures that will support the success of fund sponsors and investors alike.