

GUIDE TO LAUNCHING YOUR FIRST CAYMAN MUTUAL FUND



TOP TIPS TO ASSET MANAGERS LAUNCHING THEIR FIRST FUND IN CAYMAN

Whilst your skills and experience are with asset allocation, security selection and investor relations, a mutual fund structure can provide you with a means to pool multiple investors within a single vehicle, leading to economies of scale that bring benefits to both you and your investors.

These benefits include:

- reduced operational costs
- asset diversification
- audited performance published on pricing services such as Bloomberg
- increased efficiency in your operational processes.

Therefore as you take your first steps to setting up your offshore fund, here are a few things you will need to consider.

BUILD FLEXIBILITY INTO YOUR FUND

One of the most common mistakes that investment managers make is creating a fund that is perfect for their current clients and existing market environment. We have seen only too clearly the impact of market changes over the last five years, and the difficulties that some funds have experienced, especially those created with insufficient operational flexibility.

As part of the fund set-up process ensure you consider and discuss different scenarios that may play out in the future and decide how best to structure the new fund so it will continue to meet investor expectations in terms of investment strategy and liquidity options throughout the fund cycle. Many investment managers introduce restrictions such as what the fund may or may not invest.

This is an ideal way of ensuring that, for example, illiquid securities do not amount to more than 10% of a liquid fund.

However, any limitation could become an onerous restriction if markets change, so unless driven by investor wishes it is often best to avoid them. There are no limits or restrictions imposed by law on a Cayman Islands fund with regards to investment strategy.

CHOOSING YOUR JURISDICTION - WHY CAYMAN?

When considering the jurisdiction in which to launch your fund there are a number of criteria that will be very important to the success of your fund.

The Cayman Islands offers many of the key criteria you will be looking for including:

- political stability
- a good supply of experienced and globally recognised service providers
- an established legal framework within which to operate your fund and regulatory flexibility.

In addition both the Registrar of Companies and the Cayman Islands Monetary Authority (CIMA), through which a fund is incorporated and regulated, provide a straightforward and timely registration process. In practice the speed a fund is created and launched is driven more by your own timetable than the response time of the regulators or service providers.

Further, under present legislation there is no income, corporation, capital gains or other taxes in effect in the Cayman Islands which would be applicable to your fund. The fund may apply to the Governor in Cabinet of the Cayman Islands for an undertaking that in the event of any change to the taxation legislation, for a period of twenty years (or fifty years in the case of a partnership) from the date of the grant of the undertaking, the fund will not be chargeable to tax in the Cayman Islands on its income or its capital gains arising in the Cayman Islands.

SELECTING YOUR SERVICE PROVIDER

Selecting your service provider is a very personal decision and involves forming a relationship which will be supportive through both the launch process and long term. The initial service and speed of response to those early questions will help you determine how you will be treated once the fund is launched.

There will be times when circumstances outside of your control need very personalised or time sensitive assistance beyond the routine administration services. At such critical times you should ensure you will be able to speak with your relationship manager and team and expect constructive suggestions directly and innovative solutions to any more unusual issues that arise. Further, the administrator needs to understand your product and make sure that their own processes and controls are designed to minimise the risk of operational errors in your fund.

PRODUCT & FUND STRUCTURE

The structure of your fund itself is very important. Decide whether you wish for your fund to be set up as a trust, a partnership, or a company?

Other considerations are:

- In the case of a company, the most common structure for mutual funds, who do you want to sit on the Board of Directors?
- Is the investment strategy better suited to an open or closed ended fund vehicle?
- How often do you need to have the fund valued?
- Is this important criteria to potential investors?
- Does the frequency of pricing underlying investments match the valuation frequency of your fund?
- How often do you want to allow investors to subscribe for shares/interests?
- How frequently do you want them to be able to redeem their shares/interests?

Bear in mind that the more frequent the fund permits investor transactions, the more frequent the fund will need to be valued, which in turn will impact on the administration fees charged.

- Do you want to pay for unutilised valuation frequency or instead allow for ad-hoc valuations which give investors the option to redeem at regular intervals without the associated cost burden to all investors of a fixed schedule of valuations?
- What about voting rights?
- Do you want to hold the voting rights in relation to some or all matters, or will investors also hold voting shares/interests?
- Will the fund have an indefinite life or, as more often the case with private equity funds, will it have a set period in which to operate?
- Will such period be capable of extension and, if so, by whom?
- What exit plan is envisaged for investors?

FEES & EXPENSES

Typically, the administrator will be compensated based on a set percentage of the net asset value of the assets held by the fund. The administrator may impose a minimum annual fee to ensure adequate compensation whilst the fund is growing. You may wish to impose a cap on administration fees so that as assets held by the fund grow, the administrator is not earning higher fees that are not commensurate with the level of work undertaken. Realistic discussions regarding the potential size of the fund will help both parties negotiate these fees prior to launch.

You will naturally compare administration fees between service providers. However, make sure that the package of services is comparable. Some administrators charge separately for services that traditionally fall under the administration fee. These include:

- registered office services
- secretarial services
- preparation of financial statements for audit purposes
- reporting and amendments to fund contracts.

It is important to make sure these additional costs are disclosed up front.

Some of the key costs to consider when setting up a fund include:

- the set-up fee charged by an administrator (or lawyer to prepare the fund's offering prospectus and service contracts, as well as to incorporate the fund vehicle and pay initial statutory expenses)
- mutual fund registration fees
- directors' fees
- annual audit fees
- transfer agents fees
- registered office and secretarial fees.

CHEMISTRY IS CRUCIAL

Choosing your administrator should be like choosing your future spouse. Make sure that you spend time getting to know each other and make sure the chemistry works.

Problems with resolving issues at an early stage in the relationship do not bode well for the future. Keep an open line of communication and be sure that both parties are ready to commit to the launch deadline. Discuss expectations of the roles to be played by each party and be up front with discussions regarding the basis for any changes in fees.

Taking the time to understand each other's needs and having in-built flexibility within the fund structure and service agreements to handle unexpected issues that may arise, will help to ensure a smooth and mutually beneficial relationship.

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ABOUT JTC

We are JTC, an independent, award-winning provider of fund, corporate and private wealth services to institutional and private clients.

Established in 1987, we have a global presence with around 600 people working in our offices and assets under administration of c.US\$85 billion.

Our independence and shared ownership culture means we share the same priority: the best interests of our clients.

OUR CORE SERVICES

- Accounting Services
- Citizenship & Residency Services
- Corporate Services
- Employee & Executive Services
- Family Office Services
- Fund Services
- Marine & Aviation Services
- Private Wealth Services
- Real Estate Services
- Treasury Services

WHAT MAKES US DIFFERENT

We value shared ownership.

We operate around the simple but effective principle that if our people have a stake in the business, they will do a better job for our clients. So, in 1998 the JTC Employee Benefit Trust was created, turning our employees into shareholders. In 2014 this belief in shared ownership was embedded further into our culture with the Equity for All scheme, allowing all permanent members of staff the opportunity to invest in the future of their company.

We put relationships first.

We handpick the best team to look after each client's needs and aim to work with clients who share our belief in the importance of building strong relationships over time.

We don't do 'one size fits all'. We put together teams that create effective, purpose-built solutions consistently delivered to the highest standards. We anticipate clients' needs by listening and ensuring a deep understanding of your circumstances and objectives. We seek cost-effective solutions for you and prioritise long-term relationships over short-term financial gain. We evaluate our performance in order to maintain standards and improve where possible.

We invest in our people.

We have in excess of 600 people across the business, over 70% of whom are professionally-qualified individuals, or working towards a relevant professional qualification. We also established the JTC Academy, which offers professional development programmes for staff, driven by a focus on service excellence.

We embrace technology.

We believe technology is the future and the present; we invest accordingly. JTC Fund Services uses a variety of leading systems to ensure and maintain an impeccable standard of administration. JTC Edge is a state-of-the-art, market-leading technology, purpose-built for (U)HNW clients and single/multi-family offices.



FUND SERVICES | CORPORATE SERVICES | PRIVATE WEALTH SERVICES

REGULATION AND TERMS OF BUSINESS

JTC Group entities that carry on regulated business are (respectively): regulated by the British Virgin Islands Financial Services Commission; the Cayman Islands Monetary Authority; the Guernsey Financial Services Commission; the Jersey Financial Services Commission; the Commission de Surveillance du Secteur Financier and the Ordre des Experts-Comptables (Luxembourg); the Financial Services Commission (Mauritius); De Nederlandsche Bank (Netherlands), the South African Financial Services Board as an authorised financial services provider; chartered and regulated to provide trust services by the South Dakota Division of Banking in South Dakota (USA); a member of l'Association Romande des Intermédiaires Financiers (Switzerland); licensed by the Isle of Man Financial Services Authority and authorised and regulated by the Financial Conduct Authority (UK).

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For JTC Group's full terms of business, please visit: www.jtcgroup.com/terms-of-business.