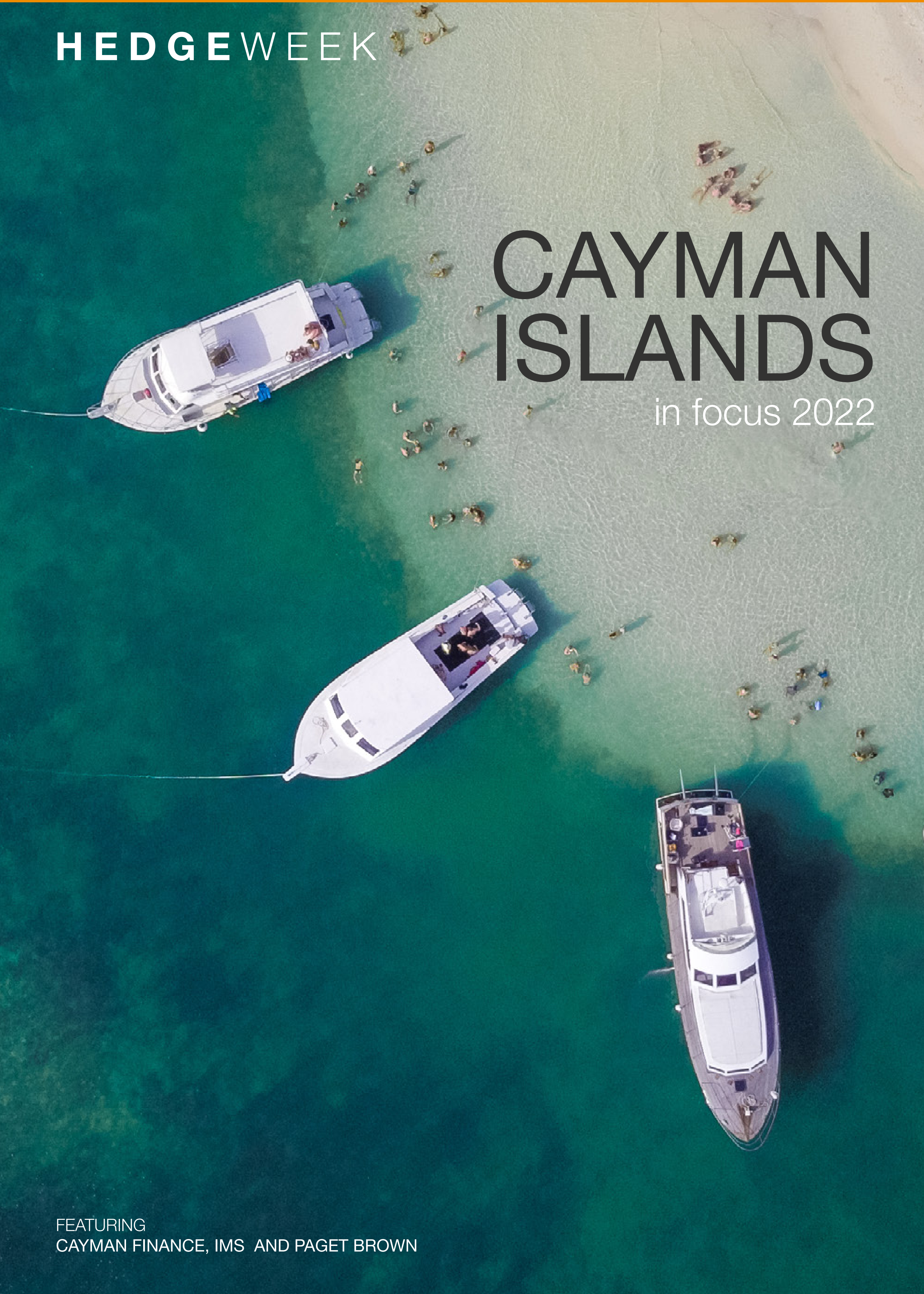
HEDGEWEEK



CAYMAN ISLANDS

in focus 2022

FEATURING
CAYMAN FINANCE, IMS AND PAGET BROWN

Fund Administration

Paget-Brown Trust Company Ltd. (PBTC) is regulated and licensed by the Cayman Islands Monetary Authority (“CIMA”) to provide fund administration services. Our highly qualified and experienced client service team is committed to delivering service excellence and value through accurate and timely reporting .

Registrar and Transfer Agency Services

PBTC provides registrar and transfer agency services to open and closed ended Cayman Islands investment funds. Our client service team will provide accurate and timely reporting to your investors, ensuring they receive the highest level of service.

Our registrar and transfer agency services include:

- Performing investor due diligence in accordance with Cayman Islands regulations;
- Processing subscriptions, capital contributions, redemptions and distributions
- Maintaining the register of investors
- Opening and operating accounts to receive subscriptions and pay redemptions and fees
- Reporting to investors including contract notes, statements and notices
- Providing timely responses to queries from investors

NAV Calculation Services

Our team of professional accountants ensure NAV calculations are carried out with the highest degree of accuracy and timeliness.

Our NAV calculation services include:

- Calculating net asset values and capital account balances;
- Independently validating portfolio values in accordance with valuation policies;
- Reconciling cash and positions to statements, prime brokers and counterparties;
- Allocating P&L across share classes or capital accounts
- Calculating management fees, performance fees, equalisation adjustments and incentive fee allocations;
- Providing portfolio and general ledger reporting; and
- Preparing annual financial statements, including relevant note disclosures under IFRS or GAAP and assisting in the audit process.

For further information on our services, please contact:
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Paget-Brown Trust Company Ltd.
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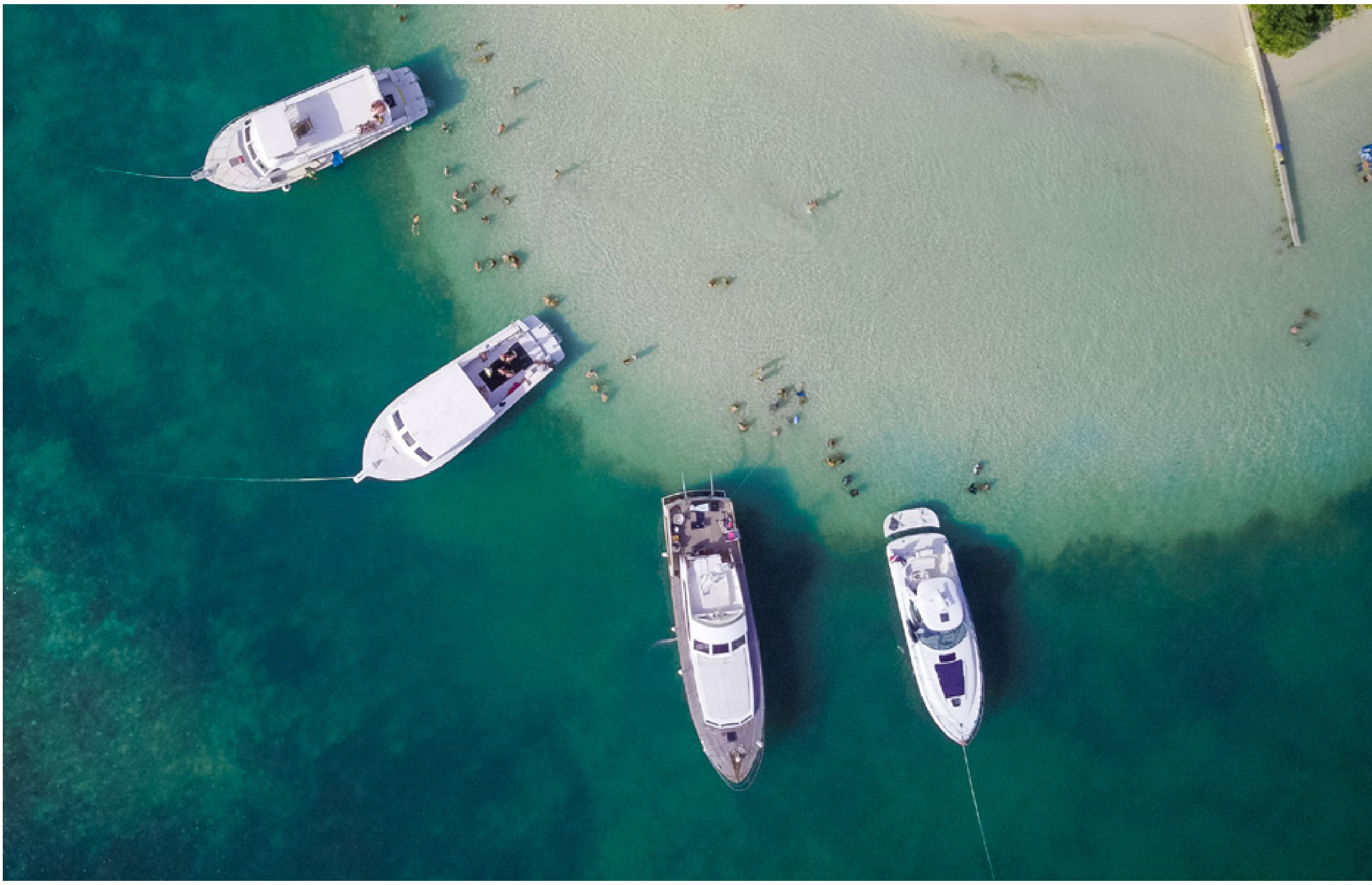
Inside this issue...



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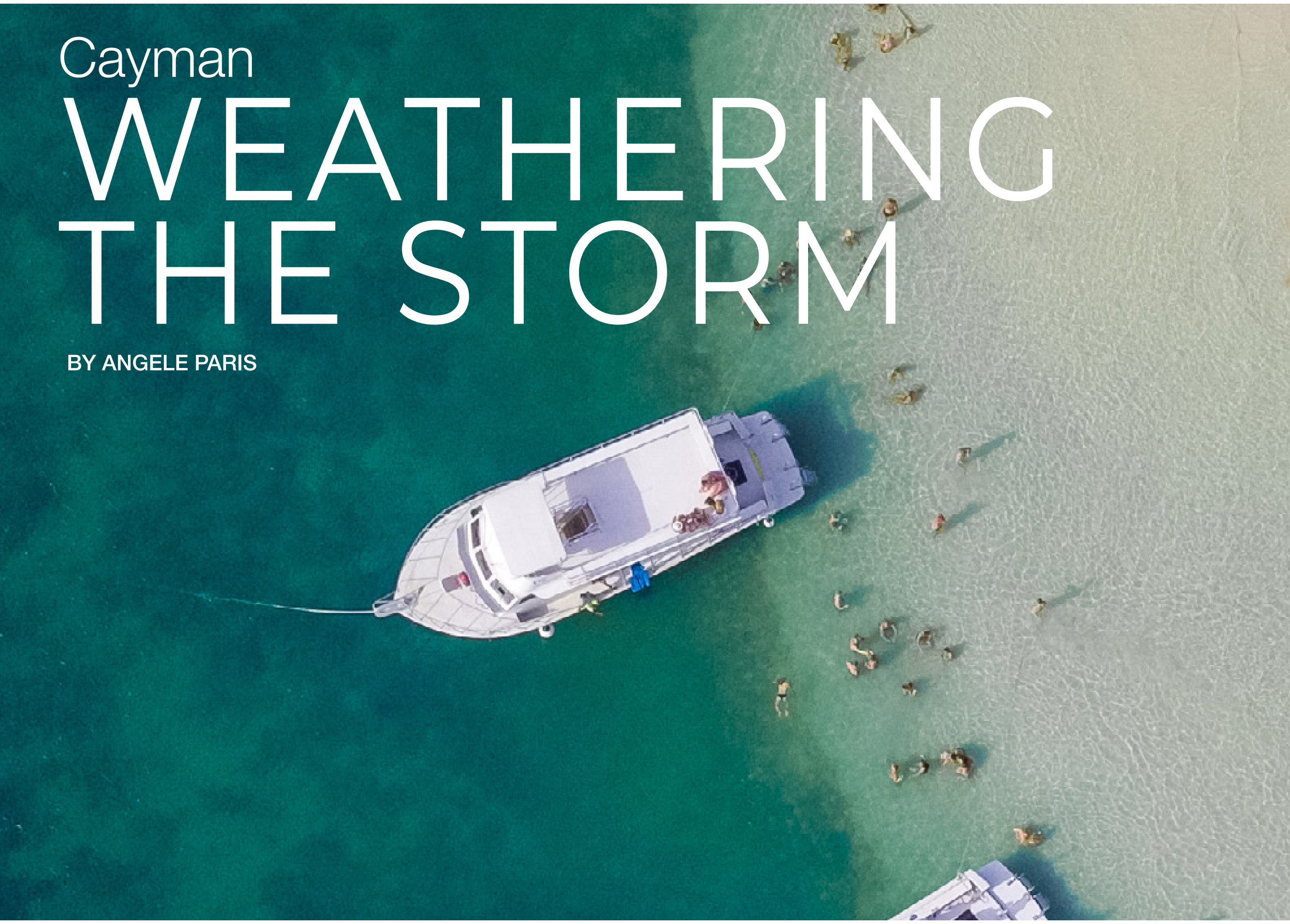


Cayman WEATHERING THE STORM

BY ANGELE PARIS

The past year has been far from straightforward, with a shifting business landscape, sustained fallout from the Covid-19 pandemic plus global uncertainty and volatility causing upheavals. But despite the challenges, the Cayman Islands financial services industry has continued to prove its resilience and flexibility – weathering the storms.

"As of December 2021, there were 27,398 regulated funds, compared to 24,591 the previous year. This increase included a growth in the number of both regulated mutual and private funds of 6.9 per cent and 15.6 per cent, respectively," noted Cindy Scotland, managing director of the Cayman Islands Monetary Authority in her review of last year.

Further, the 2020 Investments Statistical Digest, shows total assets increased 9 per cent between 2019 and 2020 from USD$8.104 trillion to USD$8.869 trillion. In addition, net income was USD$639 billion compared to USD$451 billion the previous year, reflecting another consecutive growth in overall assets managed by Cayman-based funds, thus maintaining its position as a leading jurisdiction in offshore investment funds.

GROWTH IN TOUGH TIMES

This growth however, should be considered against a potentially challenging backdrop which sees the Cayman Islands earmarked for inclusion on the European Union's list of high-risk countries for money laundering.

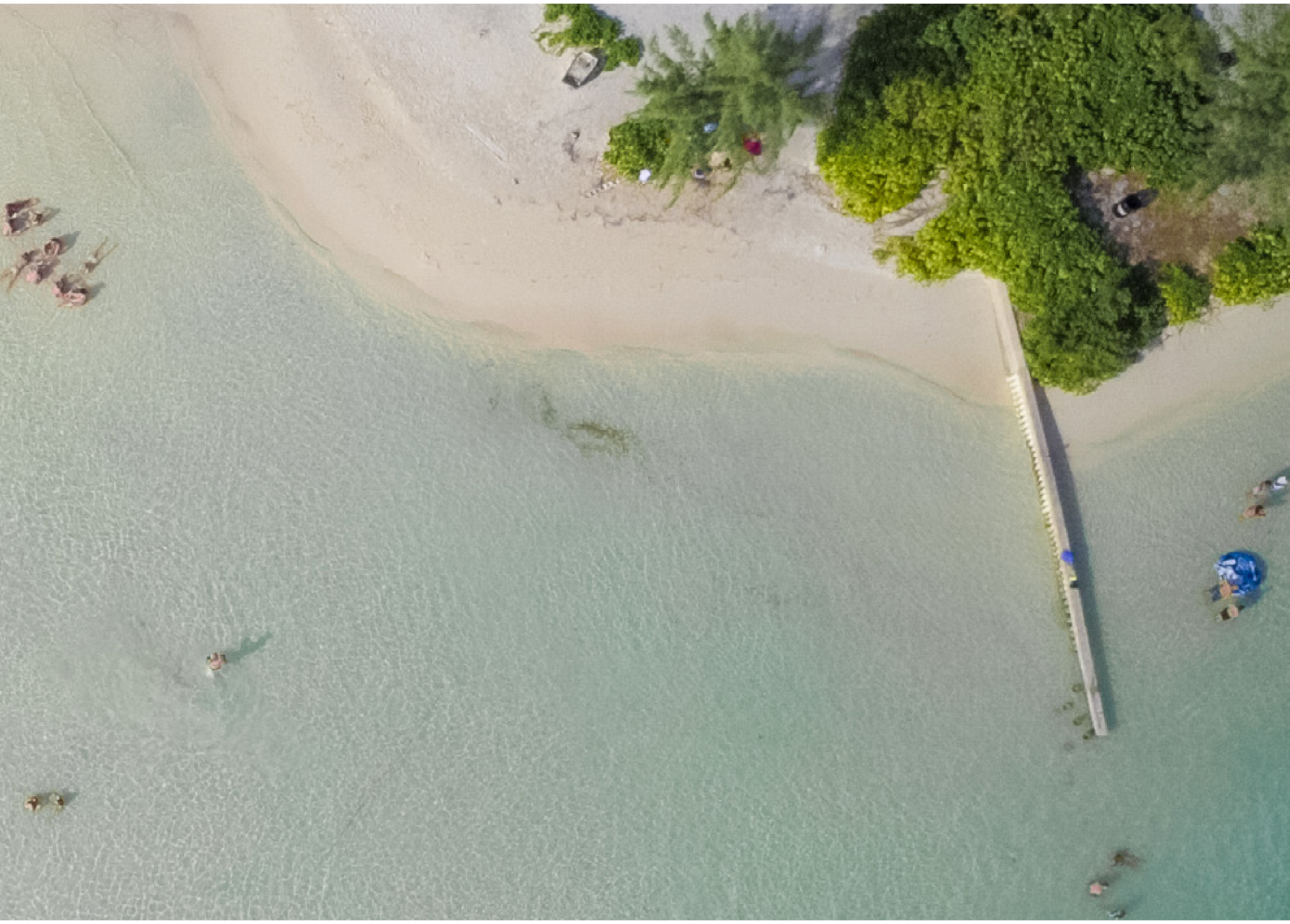
The Cayman Islands is no stranger to additional scrutiny, having been listed by the FATF in February 2021 for discrepancies in its AML framework. Therefore, operators, and even the Cayman Islands government, had been expecting the inclusion in the EU's list given it usually mirrors that of the FATF.

Following the FATF listing earlier last year, the Cayman Islands government committed to addressing the issues and in October 2021, the FATF acknowledged progress made in this regard.

Although this development might seem ominous, the funds industry is anticipated to be unaffected. "There is no immediate or direct impact to private equity or hedge funds formed in the Cayman Islands as a result of the Cayman Islands being added to the EU AML list and it does not otherwise have consequences for investors or clients using Cayman Islands structures. No penalties or sanctions for Cayman Islands entities would arise from the Cayman Islands' placement on the EU AML list," highlights law firm Walkers.

Scotland adds: "CIMA will also continue its vigorous oversight of AML/CFT obligations to promote and safeguard the integrity of the Cayman Islands' financial services industry, thus demonstrating the robustness of our regulatory framework. In the coming months, all regulated entities will be asked to provide various information that will help to inform CIMA's AML/CFT institutional and sectoral risk assessments."

In terms of other developments planned within the jurisdiction, Scotland says future initiatives will include the implementation of measures governing



the liquidity framework of banks, continued work on building issuance and sandbox frameworks, revisions to the way that re-insurance arrangements and investments strategies are undertaken as well as preliminary research into the enhancement of the securities sector. "A key focus will also include the assessment of cybersecurity frameworks which will be conducted through a series of thematic reviews in addition to being assessed through the regular onsite inspections," she continues.

VIRTUAL ASSET FOCUS

Despite these operational challenges, the jurisdiction is firmly focused on supporting growth in new and exciting sectors.

Commenting on the release of an EY report following the firm's global alternative fund survey, Jeff Short, partner at EY Cayman Ltd and regional wealth & asset management leader said: "Alternative fund managers have partnered with their investors to nimbly embrace opportunities during the market turbulence of the pandemic. The industry is undergoing proactive transformation on several fronts, enhancing its value proposition."

The EY report noted that digital assets have become mainstream and this is an area in which the Cayman Islands has sharpened its focus.

According to the third annual Global Crypto Hedge Fund report by PwC and Elwood Asset Management, Cayman is the most popular domicile for crypto hedge funds as 34% are based here, after the United States.

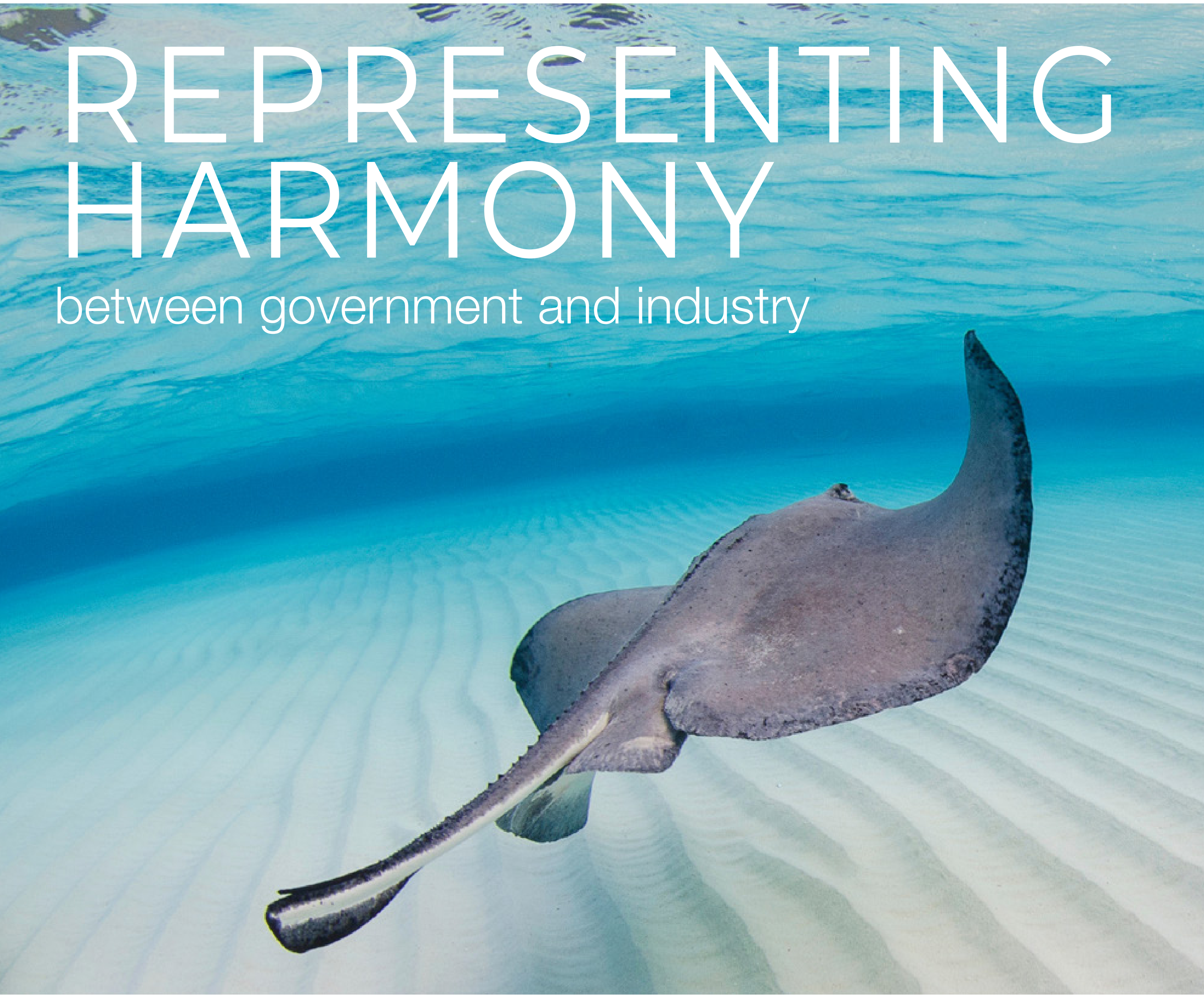
This ranking could be considered the result of legislative changes introduced in 2020, when Cayman issued the Virtual Asset (Service Providers) Act. In February this year, CIMA launched a consultation on draft rules and guidance for the provision of services by virtual-asset custodians and virtual-asset trading platforms.

In its consultation document CIMA notes: "Due to the nascent nature of the VA industry, there are currently no harmonised international standards for the prudential regulation and supervision of virtual assets service providers."

The proposed rule supports the regulatory requirements in the VASP Act by setting out obligations for both custodians and trading platforms in areas such as governance, conduct of business, prudential requirements, risk management as well as IT and cybersecurity. It also separately ascribes obligations to trading platforms and persons providing virtual asset custody services as appropriate to the nature of their business.

The additional work being done to refine the services provided to those managing virtual assets show the jurisdictions dedication to this nascent sector.

"Despite the relentless changes of the financial landscape, CIMA remains committed to playing its part in contributing to the ongoing success of the jurisdiction, while upholding our position as a globally respected financial services centre of excellence for the next 25 years and beyond," concluded Scotland. ■



REPRESENTING HARMONY

between government and industry

One of the most attractive elements of the Cayman Islands. role as a premier tax neutral global financial hub is the cooperation between government and industry to support a modern legislative and regulatory regime and market innovation. One of the best examples of that cooperation has been the 2020 Private Funds Act, which enhanced oversight of funds while offering investors greater transparency and confidence. That public-private collaboration is among the key reasons funds are domiciled in the Cayman Islands and play a critical role in supporting infrastructure improvement, economic growth and expanded tax revenue around the world.

The Cayman Islands has created this government-industry cooperation and works actively to maintain it. It has enabled the kind of advances that have propelled the jurisdiction to global leadership in financial services – especially in Collective Investment Vehicles like private funds. By continuing to ensure Cayman's legal and regulatory regime meet global standards while supporting sound investment and business practices in the funds sector, both the Cayman Islands Government and Cayman Islands financial services industry are preserving the foundation for the jurisdiction's success and generating benefits for investors and countries around the world.

In 2020, the Cayman Islands Government introduced new legislation to modernise regulation of close-ended ("private") funds. The initiative was developed through a consultative process that reflects the cooperation described above. Professionals from the funds industry as well as representatives from service providers like law, accounting and audit firms, funds administrators and allied industry associations, actively participated in the legislation's development. The common objective was to strengthen the Cayman Islands' role as the world's leading jurisdiction for investment funds while improving important regulatory standards like anti-money laundering controls.

According the latest statistics by the Cayman Islands Monetary Authority (CIMA), more than 14,600 private funds are now registered for operations within

the Cayman Islands. In addition to requiring private funds to register, they also now must adhere to a range of investor-friendly requirements, including: appropriate processes for the valuation of a fund's assets; annual audits by a CIMA-approved auditor; and an approved method of holding custodial fund assets. Updates like these keep the Cayman Islands at the forefront of best practices, which has supported its emergence as the global leader in this industry.

The development of Cayman as a leading international financial centre has much in common with the development of other business clusters around the world, where good governance, robust legal institutions and a small number of world-class experts provide a basis for initial development, attracting investment. Over time, this positive foundation attracts additional talent and investment, creating a self-reinforcing engine of innovation and growth. But often, a couple of key differentiators can help one jurisdiction stand out.

Other prominent financial centres have several commonalities with Cayman: good governance, a solid legal system, global expertise, effective infrastructure, and proximity to capital and/or investment opportunities. However, these other jurisdictions generally lack Cayman's specialised legislation and court system (or have different kinds of specialised legislation) – developed through the kind of government-industry cooperation exemplified by the Private Funds Act -- and none is truly tax neutral.

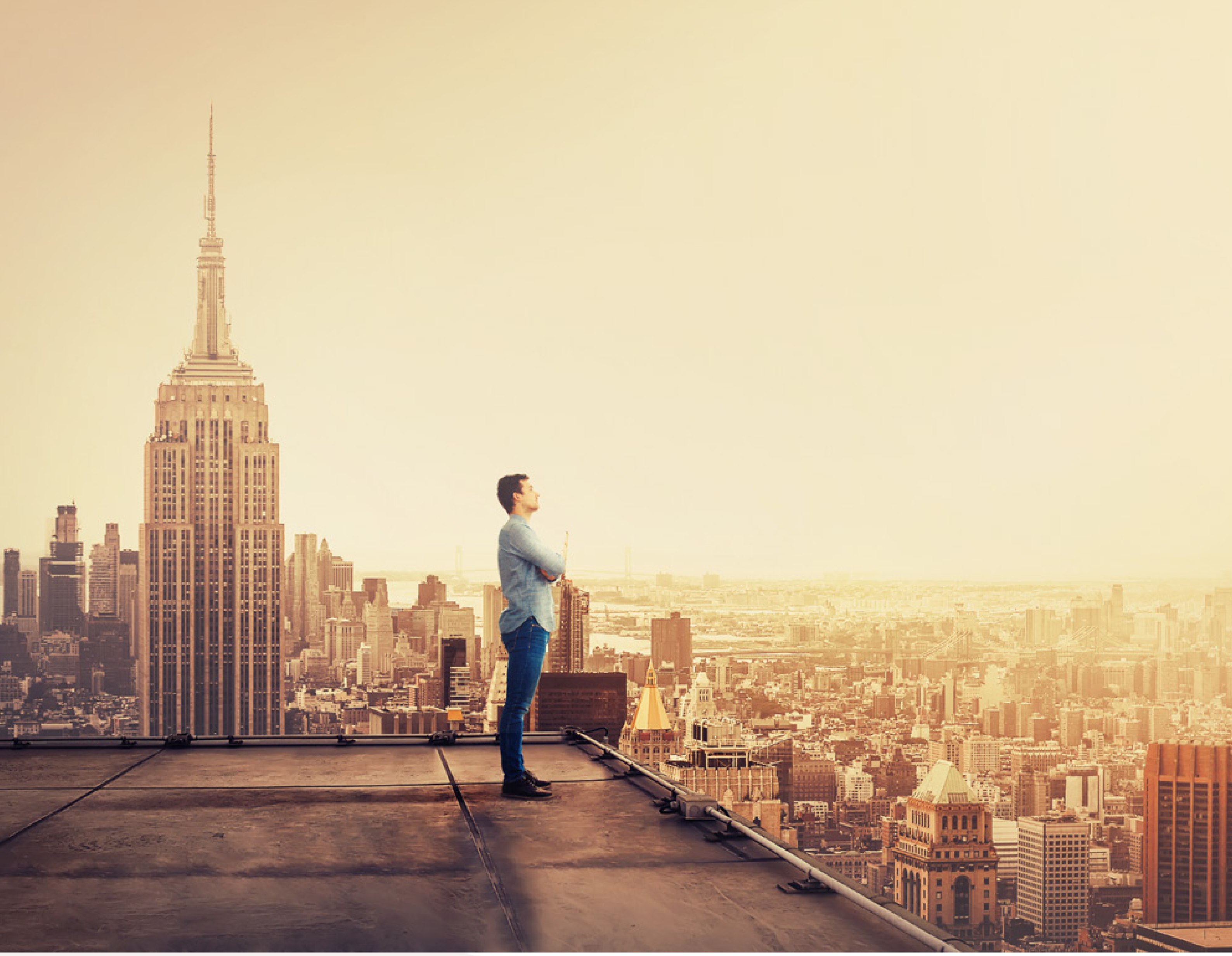
Tax neutrality is the concept that taxes should be structured in such a way that they do not distort investment decisions. Cayman has never imposed taxes on the income of individuals, companies, or capital. The absence of any direct taxes enables Cayman to be tax neutral in a straightforward, simple and transparent way. By contrast, other jurisdictions are at best able only to facilitate a facsimile of tax neutrality through the use of special structures and double taxation treaties; moreover, these special structures are highly limiting and come with additional costs.

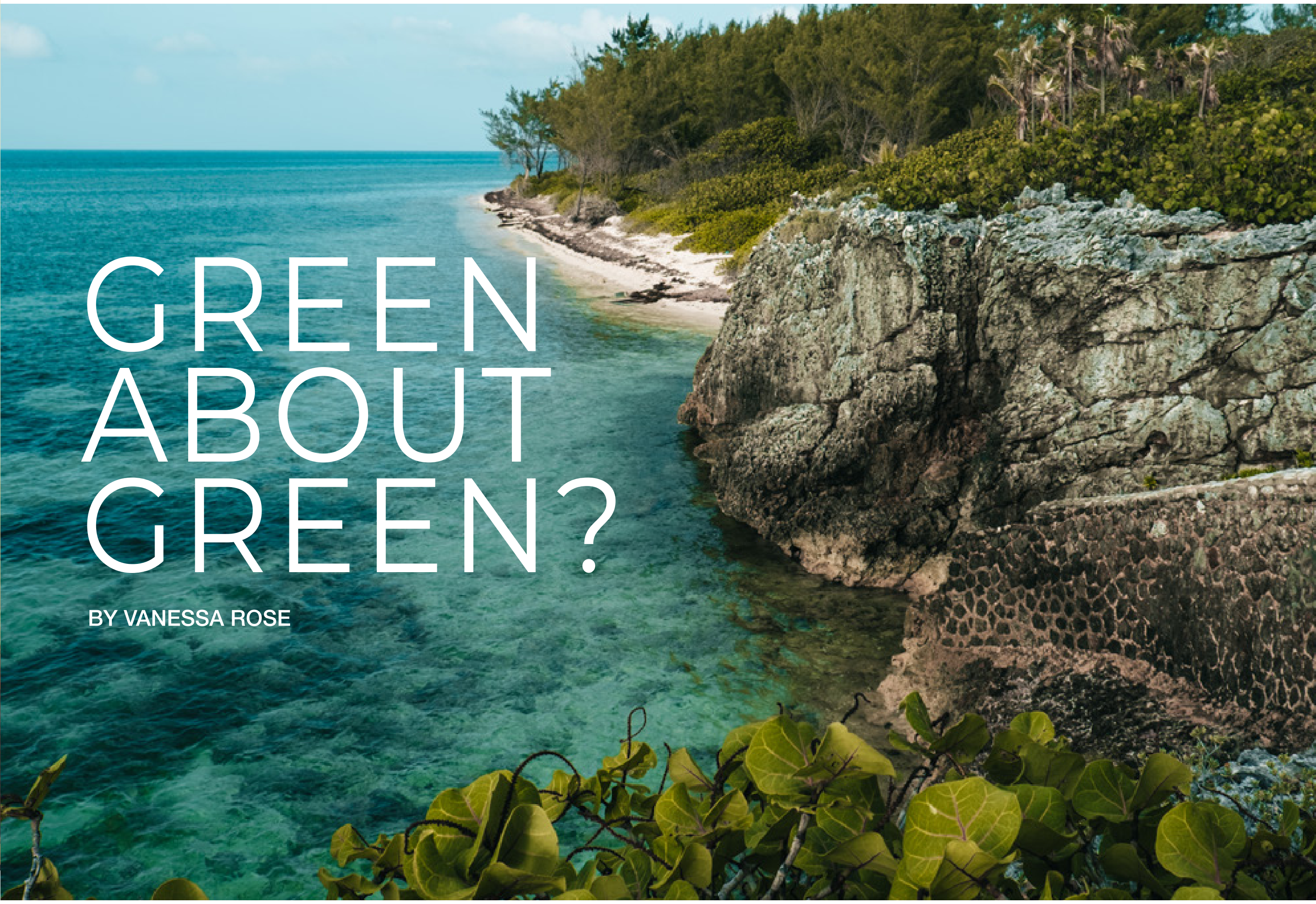
A modern legislative and regulatory framework combined with a true tax neutral regime are key reasons Cayman is domicile to over 23,000 CIVs, including about 80% of all international hedge funds. That global leadership produces critical benefits for individuals, investors and countries around the world.

An example is IFM GIF, a USD14 billion fund domiciled in Cayman that pools assets from Australia, the US and other jurisdictions. Twelve of IFM GIF's twenty-seven assets, representing many billions of dollars of investments, are in the EU. Many of these investments quite literally facilitate trade, through the improvements they have made possible in port facilities, roads and airports. They also generate revenue for governments from tariffs and taxes like DCT Gdansk, Poland's largest port, which is estimated to generate about USD2 billion per year in government revenue. IFM GIF's investments also benefit the millions of individuals whose pension funds it invests, ensuring a more financially secure retirement

By offering a cost-effective way to enable entities to avoid double taxation, while using Tax Information Exchange Agreements (TIEAs) and other agreements to share information on those entities with other tax authorities, Cayman facilitates greater levels of economic activity in the EU and elsewhere than would otherwise be the case – all without tax harm. This additional economic activity leads to increased government revenue through a wide range of taxes, helping facilitate the supply of public goods.

Trade and investment are engines of innovation and growth. Underpinning both are effective institutions: good governance (especially, political stability and the rule of law), a high-quality legal system that protects owners of assets, and effective and adaptive legislation and regulation. Cayman combines all of these attributes with others that make it a premier tax neutral global financial hub and the world's leading jurisdiction for investment funds. ■





GREEN ABOUT GREEN?

BY VANESSA ROSE

ESG (Environmental, Social, Governance) investing is one of the fastest-growing investment themes on the global corporate agenda with 77 per cent of institutional investors considering ESG factors "an integral part of sound investing."

Between 2015 and 2020, ethical investing – to the extent that it can be tracked - grew tenfold. Morningstar reports that ethical ESG focused investors invested USD51 billion in ethical funds in 2020, vastly increased compared to USD5 billion in 2015. The investment world's attitude is evolving from a negative screening approach to positive screening where investors are looking for funds with a robust ESG framework that promotes a proactive approach to making value investments that fuel the green transition and support sustainable economic models, rather than considering funds which seek only to avoid industries with unethical practices to be satisfactory for investment. This, we see, makes having ESG a critical growth factor for companies.

HOW TO IN THE PE ENVIRONMENT

In reflection of the growing focus on ESG investing, the Cayman Islands government is now working on a legislative framework to implement ESG criteria across its financial services industry. As the jurisdiction is home to a significant number of private equity funds, the impact of ESG considerations on these structures is a crucial consideration.

Diverse groups of stakeholders, spanning investors to employees, consider the adoption and implementation of formal ESG policies the norm. In the private equity environment, responsibility for the creation, adoption, implementation, and ongoing evaluation of an ESG policy lies with the general partner. This can be challenging for general partners as there is currently limited guidance on what these policies should incorporate to ensure they adhere to effectiveness expectations while avoiding accusations of greenwashing. Further challenges come with the very specific investment nature of private equity investments, eliminating the ability to use a 'one size fits all' policy and a check-box approach to compliance. There is also an expectation that investor communications, the PPM and LPA, as well as management company websites, will include information on the ESG policy.

A recent survey by PwC noted the largest gaps between concern and action occurring in topics such as emerging technologies, future of work and automation and net zero – all critical in a post-pandemic environment. Meanwhile, regulated issues such as bribery and corruption, and occupational health and safety have relatively small gaps. General partners need to consider policies that will address these gaps and the perception of them.

- In the EU, the Sustainable Finance Disclosure Regulation, phase 1 March 2021, requires compliance with high level disclosure requirements.

- Sustainability risks: ESG events or conditions, such as climate change, that could impact the value of an investment.

> There is currently limited guidance on what these [ESG] policies should incorporate

- Principal Adverse Impacts (PAI): the negative effects an investment decision or advice might have on sustainability, such as carbon emissions and waste, diversity and inclusion, employee well-being, human rights, anti-corruption, and anti-bribery.
- Accurate sustainability claims: anyone marketing and promoting ESG characteristics or sustainable investments must disclose the accuracy of their statements.

Phase 2 is likely to be published sometime in 2022 and will include details on content, disclosure, and indicators.

POLICY V STANDARDS

A general partner needs to set clear and measurable objectives and put in place policies that define and guide its own practices and the incorporation of ESG factors into the investment strategy, due diligence and compliance processes of its funds. The next step is creating detailed, measurable standards around the broad policy goals. Standards make policies actionable.

EXISTING FRAMEWORKS TO CONSIDER:

Global Reporting Initiative (GRI)
The GRI framework covers topics such as environmentalism, human rights, and corruption. It rewards companies that practice healthy supply chain policies, clear communication, and mechanisms for controlling environmental emissions

The United Nations Sustainable
Development Goals (SDGs)
The SDGs was adopted in 2015 to achieve a list of 17 defined goals by 2030 and is the United Nation's manifestation of various sustainable development objectives

EU Guidelines on Reporting Climate-Related Information
Over 6,000 companies within the European Union receive these recommendations for reporting on climate-related activities.

The Task Force on Climate-related Financial Disclosures (TCFD)
The TCFD is an example of where the industry has voluntarily agreed to a set of ESG reporting standards. It largely dealt with in financial markets by the likes insurers and lenders and helps disclose opportunities and risks related to climate. TCFD has since recently been made mandatory as per the UN's Principles for Responsible Investment. ■

VANESSA ROSE

FUND ADMINISTRATION, PAGET BROWN TRUST COMPANY LTD

Vanessa oversees the fund administration services team at Paget-Brown Trust Company Ltd. with responsibility for operational oversight, risk management and business development for the department. Vanessa has over 10 years' experience in the Fund Administration industry, with extensive knowledge in private equity and hedge fund administration.

ADAPTING
in the face of change

BY EBONY MYLES-BERRY

Increasing regulatory scrutiny on an international and political front has put the Cayman Islands' financial services industry under a great deal of pressure. However, as the jurisdiction progresses in strengthening measures to tackle money laundering and terrorist financing and aims to be removed from the FATF monitoring list, the Cayman Islands reinforces its ability to adapt in the face of change and keep its financial sector competitive.

"The Cayman Islands' funds industry continues to face increased pressure and changes in regulatory requirements from international regulatory and political organisations," outlines Ebony Myles-Berry, fund director, International Management Services Ltd, "The demand for Cayman Islands financial services could be impacted should the Cayman Islands remain on the Financial Action Task Force (FATF) monitoring list and be included on the European Union's list of high-risk third countries."

However, she notes the progress made by the Cayman Islands Government and the funds industry to address remaining issues in the AML regime puts the jurisdiction in a good position to be removed from these lists soon. "The Cayman Islands are committed to maintain the highest global standards and best practices and are well placed to retain its position as a leading jurisdiction in offshore investment funds," Myles-Berry emphasizes.

PANDEMIC EFFECT

Like its competitors around the world, the Cayman Islands has had to be nimble in the face of the Covid-19 pandemic and despite the challenges, it fared quite well over the course of this global crisis.

Myles-Berry highlights: "At the start of the pandemic, where possible, many businesses in the Cayman Islands adapted quickly and transitioned to remote working while continuing to be highly responsive to their customers and clients. This agility was demonstrated in the Cayman Islands' financial services industry which proved to be resilient and continued to thrive during the pandemic with a growth in the number of regulated mutual and private funds.

"Two years after the pandemic first broke out, local industry sectors are in recovery mode with many businesses having been forced to recalibrate their business models. The pandemic has triggered changes in how we work, causing many companies to transition from an office-centric culture to more flexible ways of working.

"Where possible, many businesses have switched to working remotely or have adopted a hybrid model of office and work from home. Although the pandemic is not over, the Cayman Islands is optimistic about its future as one of the world's leading financial centres and top tourism destinations."

SECTORS FOR GROWTH

When it comes to types of funds being set up in the Cayman Islands, Myles-Berry identified an increase in certain sectors such as crypto and distressed assets. "Funds focused on climate technology are also on the rise, as environmental, social and governance (ESG) factors are becoming an increasing priority for investors," she says, adding, "The Cayman Islands are well positioned to facilitate the demand to set up these funds due to the ease of entity incorporation, the legal structures available and the range of highly skilled and experienced service providers."

In Myles-Berry's experience, the industry can also expect to see growing demand for experienced and qualified directors in response to pressures from investors and regulatory bodies for independent oversight of these funds: "The pandemic has put a spotlight on the challenges of systemic risk and the need for knowledgeable and responsive boards. The intensification of regulatory requirements and the impact of the pandemic call for stronger governance so that trust and reputation are sustained, and good performance and regulatory compliance are achieved."

> "The Cayman Islands are committed to maintain the highest global standards and best practices"
>
> **Ebony Myles-Berry, fund director, International Management Services Ltd**

She believes ESG, diversity, cybersecurity, valuation, board assessments, regulation and compliance to remain important topics and focus areas for investors, regulators, and fund directors, from a fund governance perspective.

PROMISING OUTLOOK

Although the overall outlook looks promising and areas of growth and progress are clear, the uncertainty around potential COVID-19 variants coupled with increased pressure and changes in regulatory requirements from international regulatory and political organisations will continue to test the Cayman Islands investment funds industry.

"Although it is difficult to predict what the future may hold, I expect significant developments to include the removal of the Cayman Islands from the FATF monitoring list based on the jurisdiction's significant progress in meeting the FATF's plan requirements," Myles-Berry envisages, "I also expect to see an increase in the regulation of crypto assets due to the rapid expansion of the crypto market and the emergence of new digital assets. The evolution and mainstream adoption of crypto assets will continue to lead to an increased focus by regulators as they try to strike the balance between investor protection and not stunting innovation."

In her view, the Cayman Islands has shown its resilience and ability to adapt in the face of challenges over the years and it is expected that its strong legal and regulatory regime and its wealth of expertise in the investment funds space will continue to drive success in 2022. ■

EBONY MYLES-BERRY

FUND DIRECTOR, INTERNATIONAL MANAGEMENT SERVICES

Ebony Myles-Berry is a Fund Director at International Management Services Ltd (IMS) and has served as a director on the boards of investment funds and as a member on governance and advisory committees for over 15 years. She serves on a broad range of investment fund structures and strategies. Ebony is a Certified Investment Fund Director and a Professional Director registered with the Cayman Islands Monetary Authority under the Directors Registration and Licensing Act.

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Since 1981 Paget-Brown Trust Company Ltd. has provided financial services to Cayman Islands funds and structured products for a wide variety of corporate and individual clients that span the globe. We are regulated and licensed by the Cayman Islands Monetary Authority (“CIMA”). Our dedicated and knowledgeable team offers extensive experience in the offshore financial industry. We specialise in tailored solutions that fit specific client needs, partnering with each client to provide valued services as an extension of their own operations.
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