MAPLES GROUP

CAYMAN ISLANDS HEDGE FUND TRENDS & INSIGHTS

2023 Report

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We are often asked what we see in the hedge fund market in terms of trends and market practice. For over a decade, we have been tracking a variety of the common terms in hedge funds, launched by our Global Cayman Islands Funds & Investment Management practice, in order to discern trends and patterns.

TRENDS AND INSIGHTS

Maples and Calder, the Maples Group's law firm, advised on the establishment and launch of 385 open-ended funds[1] registered under the Mutual Funds Act of the Cayman Islands (MFA), in conjunction with onshore counsel, during 2022 and as of 30 June, have advised on 134 open-ended funds for 2023. Based on the statistics currently available from the Cayman Islands Monetary Authority (CIMA), there were 850 new fund registrations under the MFA as of the end of September 2022.

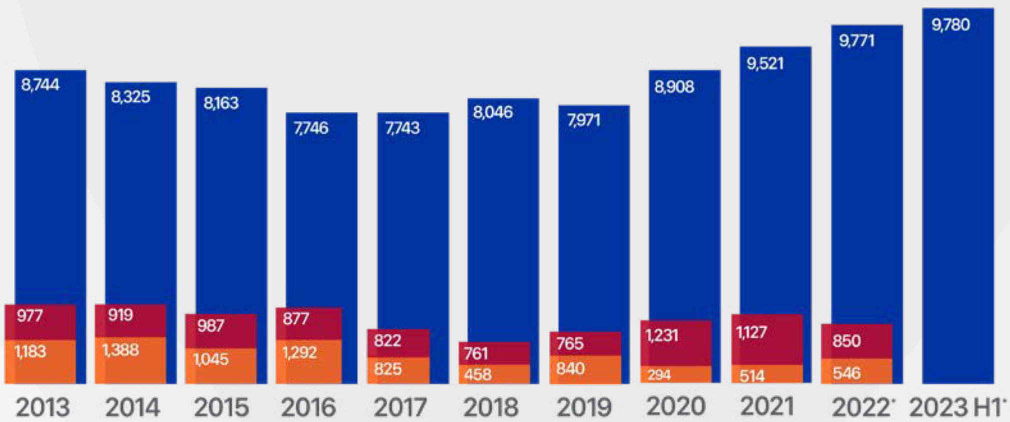
Between 2012 and 2022, we advised on the registration and launch of 33% of the funds registered under the MFA and 2023 numbers are suggesting a similar market share for the Maples Group.

We analysed key terms of those funds to form the basis of the insights into market practice and hedge fund trends set out in this analysis.

CIMA Registered Mutual Funds

Registrations and Terminations

2013 to 2023 H1



There has been a significant increase in the number of terminations following a lull in terminations during 2020.

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[1] Excluding hedge funds registered as master funds.

* Feeder termination figures for 2022 Q4 and 2023 H1 are not provided by CIMA at this time.

Location of Investment Manager

Manager Jurisdictions

2023 H1

We work with managers from many different jurisdictions, the majority of which are based in North America. This analysis focuses on funds launched by managers based on the global market[2].

Since 2018, the North American market share has increased from 52% to 63%. So far in 2023, we have not registered any funds launched by managers from the Middle East or Australia.

This is the third year we have reported the number of fund registrations by UK-based managers separately from European-based managers. In 2022, UK and European-based managers combined represented 21% of the funds we registered with CIMA. As at 30 June 2023, they now represent 22%.

The growth in registrations by UK and European managers corresponds to a drop in the number of funds registered by Asia-based managers. The percentage of fund registrations by managers from the other jurisdictions remains steady.

[2] We have data relating to specific regions as well, which is available on request.

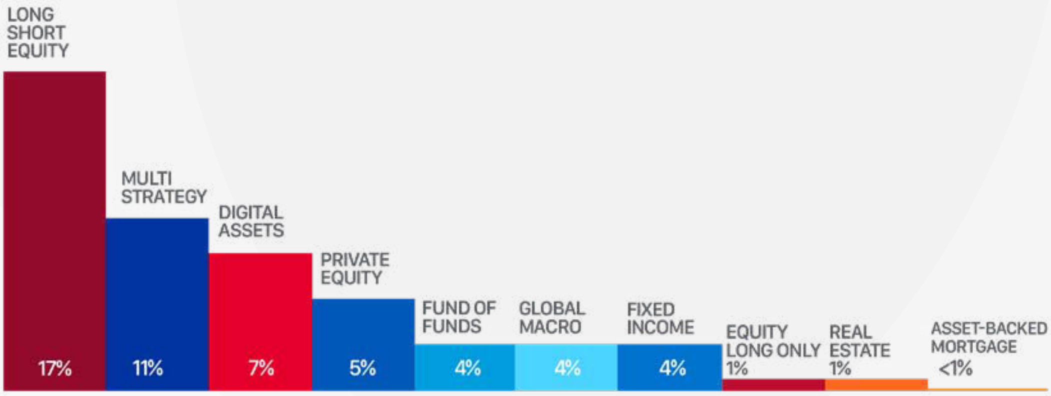
Investment Strategies

Since 2013, equity long-short has consistently been the most commonly reported investment strategy and that trend continued in 2022. In 2022, 12% of analysed funds had equity long-short as their primary or secondary investment strategy. As at 30 June 2023, the trend continues with 17% of analysed funds using equity long-short as their primary or secondary investment strategy.

The figures below may also highlight other key investment strategies of the funds.

Investment Strategies by CIMA Category

2023 H1



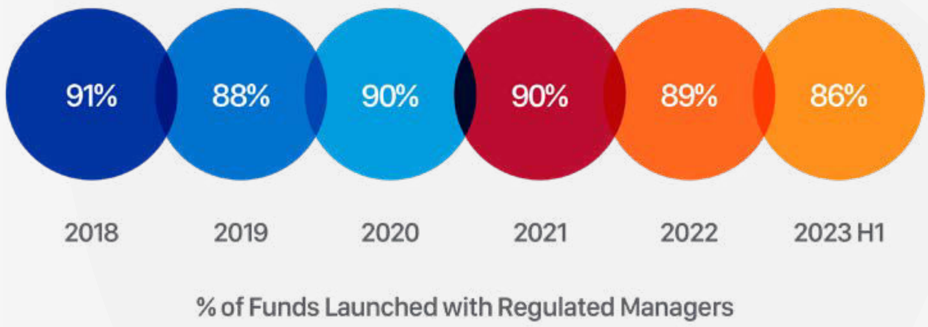
We have seen an increase in the number of funds investing primarily in digital assets and global macro strategies. There continues to be strong representation for fund of funds.

Regulation

Since 2013, we have unsurprisingly, witnessed a steady increase in the number of regulated managers. This is undoubtedly driven by increased and changing regulation in many jurisdictions, including the Dodd-Frank Wall Street Reform and Consumer Protection Act, which removed certain exemptions to registration with US regulatory bodies.

Regulated Managers

2018 to 2023 H1



The number of regulated managers continues to remain relatively stable.

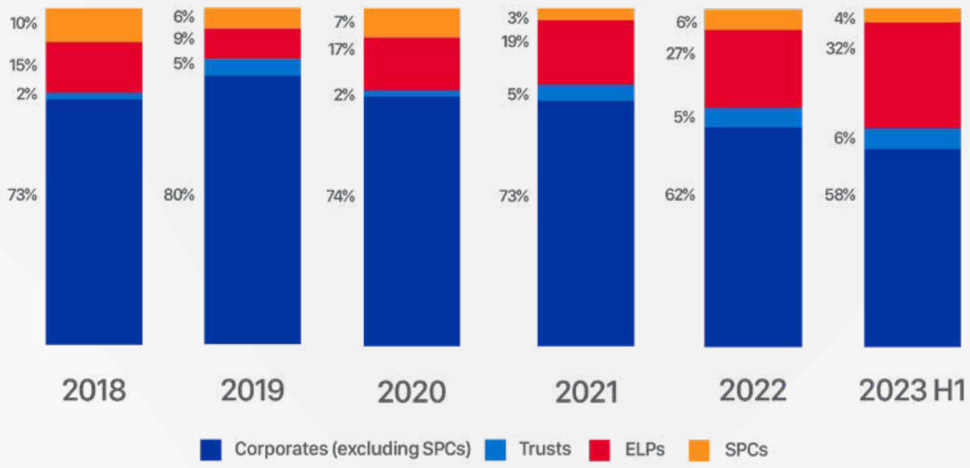
Fund Structures

Vehicle Type – Feeder Funds

2018 to 2023 H1

Corporate feeder funds have dipped to the lowest numbers we have seen. As in previous years, this decrease is reflected in a similar increase in the number of exempted limited partnerships being used as feeder funds.

Of the corporate funds we registered in 2022, only three of those funds were structured as a limited liability company. Accordingly, the use of an exempted company continues to remain the vehicle of choice for a feeder fund. So far in 2023, no funds were structured as limited liabilities companies.

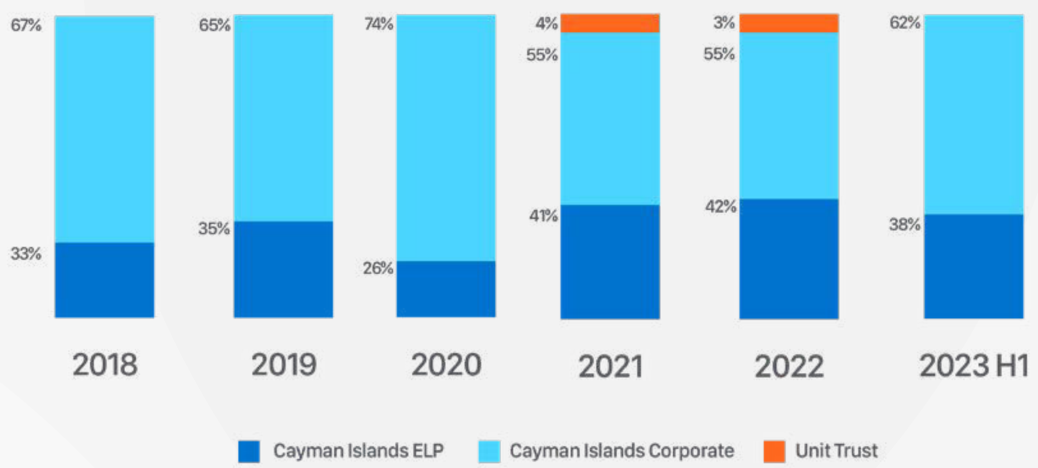


The data on this page excludes any funds that would be classified as master funds under the Mutual Funds Act.

Vehicle Type – Master Funds

2018 to 2023 H1

The use of exempted limited partnerships as master funds stabilised in 2022 after a considerable dip in 2020.

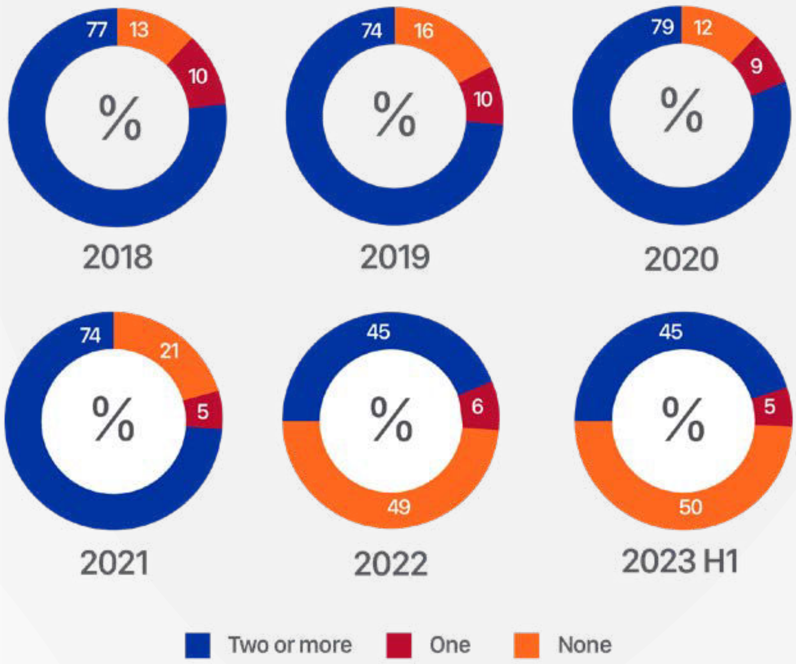


So far in 2023, it seems the trend has moved toward using corporate master funds. We have not seen unit trusts being as popular as master funds this year.

Independent Directors and Corporate Governance

The depth and breadth of operational due diligence conducted by investors on directors has increased dramatically since 2010. Both investors and regulators have pushed consistently for greater transparency and accountability, which has led to changes in board composition. In recent years, it has been common to have a board with a majority of independent directors. This trend has been more marked for funds with promoters in the US than other regions. In 2022, we saw a dramatic shift with almost half of funds having no independent directors. This trend has continued through 30 June 2023.

Independent Directors
2018 to 2023 H1

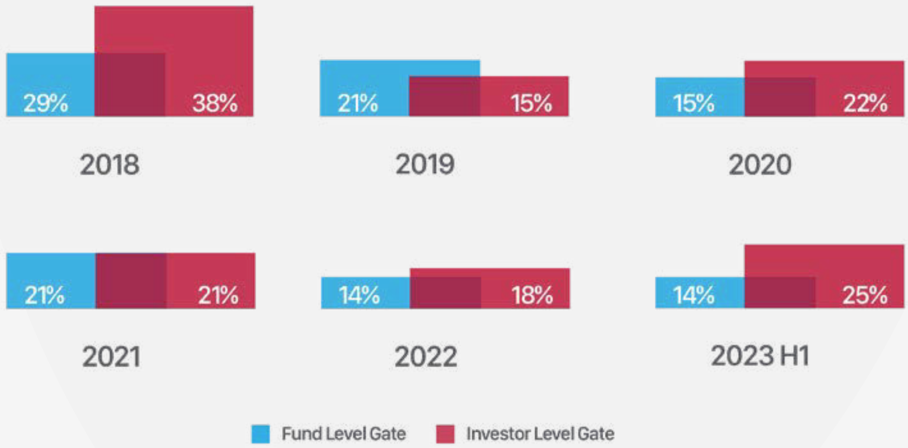


We continue to see some interest in implementing independent advisory committees at the partnership level or independent directors on the boards of general partners where funds are structured as exempted limited partnerships.

Liquidity

Post-2008, preserving liquidity has been of major concern for investors. Requests for different liquidity terms in side letters need to be considered carefully and tailored to the asset class and many investors understand that it is not always better to have greater liquidity. It is crucial to provide clear disclosure on any liquidity restrictions and the reasons for them. We often have discussions at the fund structuring stage on the importance of balancing investors' desire for liquidity with the need to manage the portfolio in a liquidity crunch.

Liquidity Gates
2018 to 2023 H1



There has been continued fluctuation in the use of both fund and investor level gates.

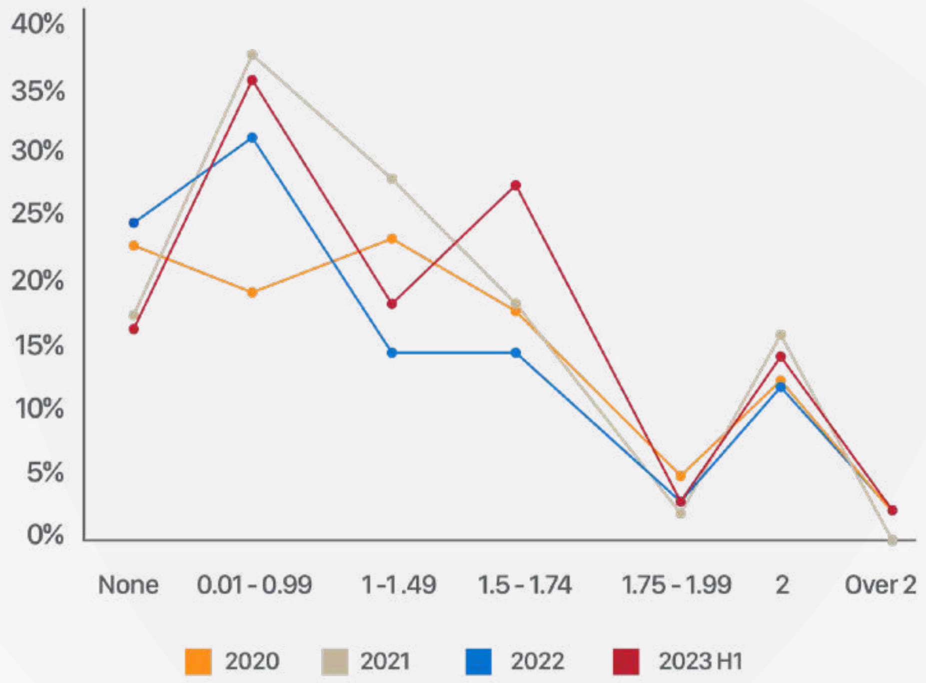
Fees

Since 2010, levels of management fees and incentive fees have come under heavy pressure.

It is important to note, however, that this analysis does not include terms offered pursuant to side letters or special classes issued to key investors. Nonetheless, it appears that investors are more willing to pay for performance than for increased operational cost.

Management Fees

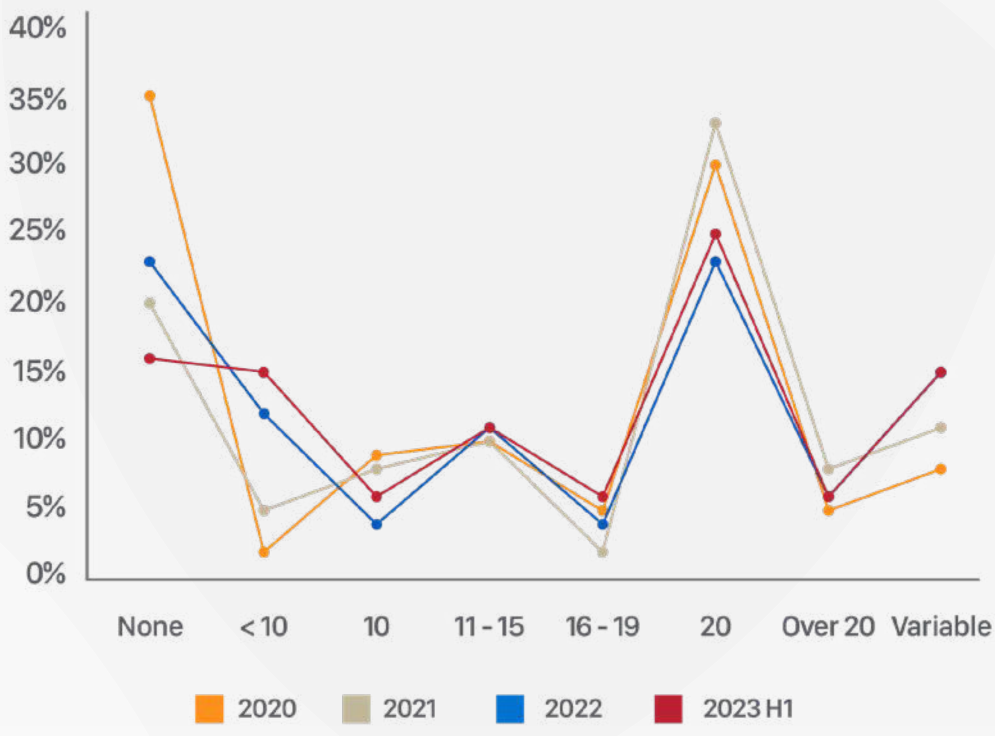
2020 to 2023 H1



In 2022, we saw a return to the 2020 levels for funds launching with no management fees. This number has since decreased for 2023 H1. At the other end of the spectrum, managers charging management fees of 2% and over remained relatively stable. The biggest fluctuation we saw occurred in the middle of the range.

Incentive Fees

2020 to 2023 H1



In 2022, there was no significant change to the levels of incentive fees being charged by managers, except that there was a slight increase in managers charging less than 10% and a corresponding decrease in the number of managers charging 20%. There seems to be a trend in 2023 with fewer funds launching with no incentive fees.

ERISA Investors

Many managers continue to seek ERISA investors and, as a result, need to carefully monitor ERISA investors on a class-by-class basis to ensure they do not breach restrictions.

Fund Type - ERISA Investors

2018 to 2023 H1

The number of funds permitting ERISA Investors has appeared to stabilise since a dip in 2020.

OUTLOOK: 2023 AND BEYOND

Despite recent global challenges, including the economic recovery from a global pandemic, increased volatility in the stock market and the Russia-Ukraine conflict, the Cayman Islands has seen continued confidence in the jurisdiction for domiciling hedge funds.

We are seeing greater diversification in the structuring of hedge funds. In addition to typical master feeder structures, i.e. Cayman Islands master and Cayman Islands and Delaware feeders, we are also seeing some managers preferring to start small and launch mini-masters, i.e. a Cayman Islands feeder into a Delaware master or vice versa, where the strategy and / or investor base permit. In other cases, certain managers require more complicated fund structures, with multiple feeders and / or masters in different jurisdictions and additional blocker, SPV and aggregating vehicles to address strategy, asset class, market, investor, tax and SPV considerations.

There also appears to be some interest in establishing platform structures using SPCs, which permit managers to introduce and ring-fence different investment strategies within the same legal vehicle.

We have launched hybrid funds where one or more classes are structured as capital call and drawdown classes and other hedge funds that are only capital call and drawdown structures. This may partly explain the increase in the number of exempted limited partnerships used as fund vehicles since they are more flexible, allowing for the more straightforward implementation of capital call and drawdown mechanics.

A continuing trend away from the norm can be expected as more and more managers strive to structure their hedge funds to their advantage and to address any strategy, asset class, market, investor, tax and regulatory concerns or issues.

The Cayman Islands continues to be the jurisdiction of choice to structure offshore funds and we have the expertise and experience, as well as insight on market trends, to help our clients launch their funds in these new and challenging, but exciting times.

Clients choose Maples for its “uniformly first-rate performance,” valuing the “good market knowledge, intellectual approach” and “tireless” support of its lawyers.

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