

Investment funds in the Cayman Islands

Last reviewed: March 2024

The Cayman Islands is one of the world's leading offshore jurisdictions for the establishment of investment funds. As at the end of Q4 2023, there were over 12,800 open-ended funds registered with the Cayman Islands Monetary Authority (CIMA) under the Mutual Funds Act (as amended, the **Mutual Funds Act**) and over 16,550 closed-ended funds registered with CIMA under the Private Funds Act (as amended, the **Private Funds Act**). This guide will refer accordingly to 'mutual funds' and 'private funds' and give a general overview of both. For in depth detail on each, please see our guides to [Mutual funds in the Cayman Islands](#) and [Private funds in the Cayman Islands](#).

Key features of the Cayman Islands as a jurisdiction for investment funds include:

- The flexibility of the investment fund regime within a clear and effective regulatory environment.
- The quality and experience of the legal, administrative and accounting service providers.
- Ease of registration procedures.
- No requirement to have Cayman-based directors or officers, managers, administrators or custodians.
- No restriction on commercial matters such as investment objectives, trading strategies or leverage, trading or diversification limits. Such commercial matters are for the fund's sponsor to determine provided that full disclosure of such matters (and all associated risk factors) is made in the offering document.

Regulation of investment funds

The Mutual Funds Act and the Private Funds Act are the principal pieces of legislation relevant to the regulation of mutual funds and private funds respectively in the Cayman Islands. All regulated investment funds must also comply with relevant anti-money laundering legislation and regulation. CIMA is the regulatory body responsible for compliance with these regulations and has broad powers to ensure the protection of investors.

Key definitions

A **mutual fund** is defined by the Mutual Funds Act as a company, unit trust or partnership incorporated or otherwise carrying on business in the Cayman Islands that issues equity interests¹, the purpose or effect of which is the pooling of investor funds with the aim of spreading investment risks and enabling investors to receive profits or gains from investments. The scope of regulation extends to Cayman Islands established or incorporated master funds which have one or more CIMA regulated feeder funds and hold investments and conduct trading activities for the principal purpose of implementing the overall investment strategy of the regulated feeder fund.

¹ **Equity interest** means a share, trust unit, partnership interest or any other representation of an interest that: (a) carries an entitlement to participate in the profits or gains of the company, unit trust or partnership; and (b) is redeemable or repurchasable at the option of the investor.

A **private fund** is defined by the Private Funds Act as a company, unit trust or partnership that offers or issues or has issued investment interests², the purpose or effect of which is the pooling of investor funds with the aim of enabling investors to receive profits or gains from such entity's acquisition, holding, management or disposal of investments, where:

- the holders of investment interests do not have day-to-day control over acquisition, holding, management or disposal of the investments; and
- the investments are managed by or on behalf of the operator of the private fund, directly or indirectly, but does not include any non-fund arrangements.

Exemptions

Mutual funds

The following vehicles are excluded from the scope of the Mutual Funds Act:

- single investor funds, which fall outside the definition of a 'mutual fund' as there is no pooling of investor funds; and
- single asset investment funds, which fall outside the definition of a 'mutual fund' as there is no spreading of investment risk.

Private funds

Single investor funds will also fall outside the definition of a 'private fund' as there is no pooling of investor funds. Additionally, the definition of 'private fund' excludes certain **non-fund arrangements** which are listed in the Private Funds Act and further defined in the related CIMA Statement of Guidance on Non-Fund Arrangements³. These include, among others:

- pension funds
- securitisation SPVs
- joint ventures
- proprietary vehicles
- holding vehicles
- individual investment management arrangements
- debt issues and debt issuing vehicles
- structured finance vehicles
- sovereign wealth funds
- single family offices.

Categories of regulation

The Mutual Funds Act contemplates five categories of regulated mutual funds:

- **Registered mutual funds and master funds** – This is the most common type of mutual fund (and master fund⁴). They are exempt from the requirement to be licensed or administered on the basis that either:
 - each investor must subscribe for equity interests in an amount not less than US\$100,000; or
 - the equity interests of the mutual fund are listed on a stock exchange recognised by CIMA.
- **Limited investor funds** – These are mutual funds with fifteen investors or fewer, the majority of whom have the power to appoint or remove the operator of the mutual fund (ie the directors, the general partner or the trustee, as applicable). There is no minimum subscription amount for equity interests.

² **Investment interest** means a share, LLC interest, trust unit or partnership interest that: (a) carries an entitlement to participate in the profits or gains of the company, unit trust or partnership; and (b) is not redeemable or repurchasable at the option of the investor, but does not include debt, or alternative financial instruments as prescribed under the Banks and Trust Companies Law (2021 Revision).

³ CIMA's Statement of Guidance on Non-Fund Arrangements can be found at [here](#).

⁴ **Master fund** means a company, partnership or unit trust that: (a) is established or incorporated, as the case may be, in the Islands; (b) issues equity interests to one or more investors; (c) holds investments and conducts trading activities for the principal purpose of implementing the overall investment strategy of the regulated feeder fund; (d) has one or more regulated feeder funds either directly or through an intermediary entity established to invest in the master fund; and (e) is not licensed under the Banks and Trust Companies Act (2021 Revision) or the Insurance Act, 2010, or registered under the Building Societies Act (2020 Revision) or the Friendly Societies Act (1998 Revision). **Regulated feeder fund** means a regulated mutual fund that conducts more than 51% of its investing in a master fund either directly or through an intermediary entity.

- **Licensed mutual funds** - This is the least common type of regulated mutual fund and applicable to retail mutual funds.
- **Administered mutual funds** - Instead of applying for its own licence, a mutual fund may seek to rely on the licence of a mutual fund administrator licensed pursuant to the Mutual Funds Act. This is the only type of regulated mutual fund that must appoint a Cayman Islands licensed mutual fund administrator to provide its principal office in the Cayman Islands.
- **EU connected funds** - For the purpose of Cayman Islands funds qualifying for AIFMD passports, CIMA has an 'opt in' regime for mutual funds that wish to market in the EU or EEA.

The Private Funds Act only provides for a single category of regulated private fund.

Offering documents

Mutual funds

All mutual funds, other than master funds, must have a current offering document which describes the equity interests of the mutual fund in all material respects and contains all material information to enable a prospective investor to make an informed decision as to whether or not to subscribe. Mutual funds are required to file their offering document with CIMA, together with the prescribed particulars. Any offering document filed with CIMA must contain the information required under the CIMA Rule on the Contents of Offering Documents for Regulated Mutual Funds⁵.

Master funds, which have no offering document, need only submit prescribed particulars to CIMA. The 'prescribed particulars' are set out in forms which summarise certain details from the offering document.

Private funds

Private funds registering with CIMA must file an offering memorandum, a summary of terms or marketing materials which outline the terms of the offer to investors as its 'offering document' with CIMA. Any offering document filed with CIMA must contain the information required under the CIMA Rule on the Contents of Market Materials for Registered Private Funds⁶.

Structures available

Mutual funds

Exempted companies are the most common vehicle used as mutual funds. The majority of Cayman Islands exempted companies issue shares of a stated par value (although no par value shares are permitted). Dividends or other distributions are payable to investors from amounts standing to the credit of an exempted company's share premium account, subject to the exempted company being solvent, even if no profits are available. Shares in a Cayman Islands exempted company may also be redeemed or repurchased out of capital, again subject to solvency considerations.

Directors of CIMA-registered mutual funds structured as exempted companies have annual registration or licensing requirements under the Directors Registration and Licensing Act (as amended, the **DRLA**), depending on their status in each case. Please refer further to our guide on [The Director Registration and Licensing Regime in the Cayman Islands](#) for further information.

It is also possible to structure the mutual fund using other Cayman Islands vehicles such as limited liability companies, unit trusts or exempted limited partnerships. Master funds will commonly be established as exempted limited partnerships.

Private funds

An exempted limited partnership (**ELP**) is the typical vehicle of choice for a private equity fund domiciled in the Cayman Islands and will be formed under, and subject to, the Exempted Limited Partnership Act (as amended). This Act adopts principles similar to those enshrined in the Delaware Revised Uniform Limited

⁵ The CIMA Rule on Contents of Offering Documents for Regulated Mutual Funds can be found [here](#).

⁶ The CIMA Rule on Contents of Marketing Materials for Registered Private Funds can be found [here](#).

Partnership Act and these similarities to the Delaware model make the ELP particularly attractive to managers and investors in the US.

A minimum of two natural persons are required as directors for companies or to be named in respect of a general partner or corporate director. There is no requirement for directors to be registered or licensed under the Directors Registration and Licensing Act, as is the case for directors of mutual funds.

Continuing obligations

Below is a brief summary of the on-going obligations for mutual and private funds. For more detailed information, please refer to our guides on [Continuing obligations of Cayman Islands mutual funds](#) and [Continuing obligations for Cayman Islands private funds](#).

The key continuing obligations for regulated investment funds are to:

- pay an annual fee to the Cayman Islands Registrar of Companies or ELPs (as applicable) (the **Registrar**)
- pay an annual fee to CIMA
- file a Fund Annual Return Form with CIMA
- file an annual economic substance notification with the Cayman Islands Tax Information Authority
- have the fund's accounts audited annually by a CIMA-approved auditor, together with an obligation to file audited accounts with CIMA within 6 months of the fund's financial year end;
- notify the Registrar and CIMA of any change to the fund's registered office
- for mutual funds:
 - notify the Registrar and CIMA of any change to the fund's directors or officers
 - notify CIMA of any material changes to the information contained in any offering document or the relevant CIMA form containing prescribed particulars for the type of mutual fund in question
 - directors to maintain their registration or licence under the DRLA
- for private funds:
 - notify the Registrar of any material changes to the ELP's name, nature of business, duration or general partner
 - notify CIMA of any material changes to the information submitted in the registration application or the fund's offering document or prescribed details filed with CIMA (as applicable)
 - maintain, at the registered office of the ELP, a record of the address at which the register of limited partners is maintained.

Both mutual and private funds are required to comply with Cayman Islands anti-money laundering legislation and automatic exchange of financial information requirements. They are also required to comply with regulatory measures in relation to corporate governance, internal controls, calculation of net asset values, segregation of assets, outsourcing, cybersecurity and retention of records.

Fees

The initial application fee for both mutual and private funds is US\$366. An annual fee of US\$4,270 is also payable upon licensing or registration (as applicable), and on or before 15 January of each subsequent year. The annual fee for registered master funds under the Mutual Funds Act is approximately US\$3,050.

Taxation

The Cayman Islands has no direct taxation of any kind. There are no income, corporation, capital gains, withholding taxes or death duties. Under the terms of relevant legislation, it is possible for the fund vehicle to apply to the Cayman Islands Government for a written undertaking that it will not be subject to direct taxation for a minimum period, which is currently 20 years for an exempted company and 50 years for an ELP, limited liability company or unit trust.

Contacts

A full list of contacts specialising in investment funds law can be found [here](#).

This guide is only intended to give a summary and general overview of the subject matter. It is not intended to be comprehensive and does not constitute, and should not be taken to be, legal advice. If you would like legal advice or further information on any issue raised by this guide, please get in touch with one of your usual contacts. You can find out more about us, and access our legal and regulatory notices at [mourant.com](#). © 2024 MOURANT ALL RIGHTS RESERVED