

Cayman Islands Hedge Fund Services 2008

**Cayman adapts to
new global political
environment**

**Corporate
governance an
investor priority**

**Domicile maintains
appeal for
hedge funds**

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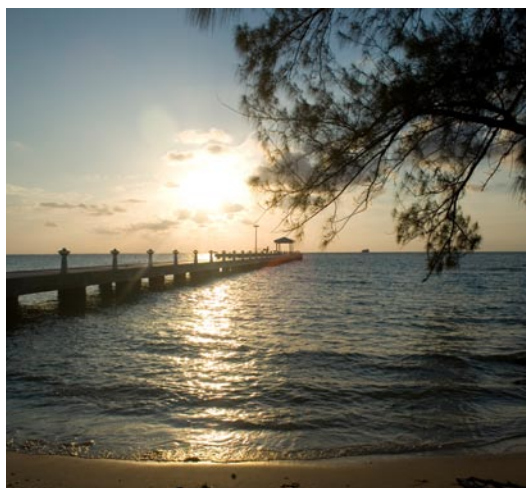
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Cayman waits on new political wind blowing from Washington

By Simon Gray

It's probably true to say that members of the financial services industry in the Cayman Islands are awaiting the inauguration of US president-elect Barack Obama on January 20 with a degree of trepidation, above and beyond the general concern within the global hedge fund industry dominated by Cayman about the likelihood of increased regulatory pressure amid an unfavourable financial and economic environment.

As he prepared for his successful election campaign a year ago, the then senator from Illinois and co-sponsor of the Stop Tax Haven Abuse Act singled out the jurisdiction for particular scrutiny. "There's a building in the Cayman Islands that houses, supposedly, 12,000 US-based corporations," Obama said. "That's either the biggest building in the world or the biggest tax scam in the world. And I think we know which one it is."

As is well known in the offshore world, Obama was referring to Ugland House, the head office of international law firm Maples & Calder. Leaving aside the questionable accuracy of the number of companies domiciled by Maples - the much-quoted figure of 12,748, which dates back to 2004, had apparently risen to 18,857 by March this

year, and more than half of them are entities with no connections to the US - the building has come to symbolise what are widely seen in the US as the pernicious evils of offshore financial centres.

Many people in the industry expect, at the least, that many US-based managers of Cayman funds will come under the supervision of the Securities and Exchange Commission or possibly a US super-regulator that might emerge from a merger between the SEC and the Commodity Futures Trading Commission. But whether that will make an enormous difference to the industry depends on the nature and scope of any regulatory regime for the industry.

Two years ago an initiative to require managers of funds with 15 or more US investors to register and undergo inspection by the SEC was derailed by the courts on the grounds that the regulator had exceeded its powers. But although investment advisers to hedge funds were no longer required to submit to SEC registration, in practice many managers that had already complied with the regime continued to do so.

Despite Obama's threatening rhetoric, there is a belief in Cayman that once in office the ▶ 6



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Collaboration the way ahead for fund leaders

By Wilton G. McDonald II and Oliver Peters

At the recent G20 meeting convened for world leaders to deliberate on the financial crisis, UK Prime Minister Gordon Brown urged his counterparts to work together. "The way forward is not countries working in isolation or against each other, but countries co-operating together," he said.

From the point of view of the funds industry, in the current volatile times it should not be a complete surprise for this way of thinking to be applied to different fund jurisdictions as well. It is only logical that the two leading jurisdictions for investment funds, the Cayman Islands and Luxembourg, should initiate stronger ties to create simpler and broader solutions for investment fund sponsors.

Luxembourg is one of the leading jurisdictions for setting up Ucits-type funds distributed throughout the European Union, whereas the Cayman Islands are the flagship destination for setting up offshore non EU/Ucits funds. These are two very different fund jurisdictions, but Cayman and Luxembourg are not competing head to head; rather, they compete in different markets.

Luxembourg has been very successful in providing onshore investment fund structures compliant with EU regulatory requirements, notably Sicavs (open-ended investment companies) and Specialised Investment Funds, in a low-tax jurisdiction. The Cayman Islands, on the other hand, has become dominant in providing offshore, mainly non-retail, zero-tax fund structures for sophisticated and high net worth investors.

Both jurisdictions have common features, including very high standards of living for its residents and citizens, high per capita income, near full employment, a highly skilled and trained workforce, sophisticated infrastructure and telecommunications,



Wilton G. McDonald II (pictured) is head of investment funds at Truman Bodden & Company and Oliver Peters is a senior associate at Arendt & Medernach in Luxembourg

and thriving financial services, banking and support sectors that complement the investment fund industry.

Given the strengths and common characteristics of the two jurisdictions, it would make sense for both countries – and their respective banking, legal, accounting and fund service providers – to consider developing stronger ties to offer simpler and broader solutions for investment fund sponsors.

Amid a global financial downturn, working together makes even more sense. Many economists would agree that in the face of difficult economic conditions, industry consolidation is on the cards. The investment fund industry, like many others, is set to experience contraction and downsizing. The number of newly incorporated investment funds will decline and some existing funds will be placed in inactive/dormant status or liquidated outright to avoid paying fixed annual fees and overheads.

There may also be increased litigation to settle investor claims and disputes between service providers, directors and other persons and organisations connected with the funds. Should this happen, regulatory bodies and governments may look to impose increased regulatory measures and oversight on the investment fund industry.

Both Cayman and Luxembourg have been careful not to over-regulate and have instead sought a balanced approach to regulation that safeguards investor interests while ensuring that each jurisdiction remains attractive, responsive and affordable to fund sponsors.

It is clear that there would be an obvious synergy created as a result of joint marketing of the two jurisdictions – essentially creating a one-stop shop experience for offshore and onshore fund products. ■

- 3 ▶ president-elect may adopt a more considered stance toward the offshore financial industry. Following last year's Congressional debate, the US General Accounting Office was delegated to examine the role of Maples & Calder in the domiciling of companies involving US individuals and corporate groups, and, perhaps to the surprise of critics of the offshore industry, came back with a more balanced and nuanced report than might have been expected.

The GAO suggested that rather than being simply motivated by tax avoidance or even evasion, US business was attracted to Cayman by factors that included geography and culture, the skills of its financial, accounting and legal professionals, and a stable, flexible, cost-effective and business-friendly regulatory environment, as well as the predictability and familiarity offered by a legal system based on English common law.

The report also quoted the description by the Caribbean Financial Action Task Force, an offshoot of the FATF initiative launched a decade ago by the G7 countries to curb money laundering, of Cayman as having a "strong compliance culture" with regard to combating financial crimes and terrorist financing, and the judgement of the International Monetary Fund that its regulatory regime is generally in compliance with a broad range of international standards.

The report also cast doubt on the jurisdiction's popular image in the US as unco-operative on tax enforcement issues. The GAO investigators were told by the Internal Revenue Service, the US tax authority, that the Cayman government had provided the requested information in a timely manner for all requests made by the US under the tax information exchange agreement between the two countries.

Since the US-Cayman mutual legal assistance treaty, the GAO found, Washington had made more than 200 requests for information regarding criminal cases to the Cayman Islands. Cayman had also been proactive in furnishing details of suspicious financial activity with a US link, had co-operated on the sharing of proceeds from criminal asset forfeitures, and was described as one of the "best partners" among offshore jurisdictions by a senior US Department of Justice official.



The GAO enquiry is important for Cayman, according to government officials and industry practitioners, because it indicates that at closer examination many of the popular assumptions about the jurisdiction encouraging tax delinquency melt away. Even the arrival of Obama in the White House, they believe, will be mitigated by the direct experience of US tax and legal officials who deal with Cayman on a regular basis.

"The General Accounting Office report that followed their team's visit produced some glowing references for Cayman as a stable and well-regulated jurisdiction," says Jonathan Tonge, head of the hedge funds practice at law firm Walkers. "A lot of it is a perception issue. We've had exchange of information treaties for a long time, and where they need to be used, we co-operate fully with the US authorities. There may be more questions being asked [under Obama], but we think we're well positioned to deal with them."

While the Stop Tax Haven Abuse legislation, which was first put forward by Obama with fellow senator Carl Levin and Norm Coleman in 2007, remains on the Congressional agenda, it has twice lapsed at the end of the legislative year. Although the Cayman government expects to see it re-presented to Congress in 2009, it is not convinced that it will gain sufficient traction to complete the enactment process, and that any hostility toward offshore centres in the new administration will be tempered by the experience of career civil servants who have made clear their satisfaction with the co-operation they receive in Cayman.

However, at the same time Cayman must deal with a fresh outbreak of skittishness about offshore financial jurisdictions in the UK, which is itself home to a significant number of managers of Cayman funds – firms that are already supervised, by no means superficially, by the Financial Services Authority in London.

The jurisdiction is about to face a new ▶ 9



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Selecting independent hedge fund directors

By Geoff Ruddick

In today's environment, corporate governance is no longer a luxury but a necessity, and often a requirement. As regulators and investors increase their focus on corporate governance, the requirement for an independent director is more essential. A qualified and experienced independent director will assist in meeting the underlying requirements, but how do you go about the selection process and determine who is the right person for the job?

Independence is the holy grail of effective corporate governance. The interests of the fund may differ from those of its service providers, putting a director provided by, say, the fund's administrator in a position in which they have a conflict of interest whether at establishment, during ongoing operations, or in the case of extreme events.

As has recently transpired, the valuation and liquidity of certain securities can be difficult or even impossible to determine, and the resulting effects have created situations in which an independent director's involvement has been critical. An independent director can assist in making an unbiased determination in the best interests of the fund, its investors, and creditors during these times.

Suitable directors should be experienced – they need not be experts, but should have relevant industry experience and a reasonable understanding of the fund's strategy. They should also be qualified; a designation such as an accounting, compliance, investment or legal qualification will provide an indication of where their expertise lies and how they will add value.

Equal importance should be placed on enquiring about how many boards the director currently sits on, and how many manager relationships they service. The question of capacity is imperative to ensure that a director will be able to



Geoff Ruddick is a senior company manager with International Management Services

devote enough time to fulfil their duties. Consideration should also be given as to whether a director will require the fund to hold directors' and officers' liability insurance or whether the director carries adequate insurance individually.

Ask if the individual, or the entity by which they are employed, have been approved or refused by a regulatory body. Similarly, enquire whether there are any investigations, charges or convictions. Adverse events such as fund blow-ups or fraud can generate negative publicity, so confirm whether there is any potential headline risk and corresponding reputational risk.

And, of course, the questions of references and remuneration should not be overlooked. Directors have personal liability, they are responsible for overseeing the affairs of the fund, and, as such, they should have reputable references and should be compensated fairly – as the saying goes, “you get what you pay for”.

Looking for an independent director should not be an arduous process, but the decision should not be taken lightly. The objective is to find a competent individual with a commercial mindset, who will be responsive to the fund's affairs. A reasonable degree of due diligence should be conducted to find an independent director who holds the knowledge, skills, qualifications, experience and time to make a positive contribution to the board.

Remember, the directors are collectively responsible for the success of the fund by leading and directing its affairs. Effective corporate governance is imperative, and some of the recent problems and outright collapses experienced by funds recently highlight this point. The days of directors with inherent conflicts of interest and of passive (nominee) directors are effectively over. ■



6 ► examination of the offshore financial centres among the UK's dependent territories, a list that also includes the crown dependencies of Jersey, Guernsey and the Isle of Man, Gibraltar, Anguilla, Bermuda, the British Virgin Islands and the Turks & Caicos Islands. The inquiry, to be led by former FSA managing director Michael Foot, will focus on financial supervision and transparency, taxation in relation to financial stability, sustainability and future competitiveness, financial crisis management and resolution arrangements and international co-operation, according to the UK Treasury.

The Cayman government has responded calmly to the UK's announcement, which was in fact largely prompted by the plight of British residents who had placed deposits with the subsidiaries in the Channel Islands and the Isle of Man of failed Icelandic banks. The Cayman Portfolio (ministry) of Finance has promised not just co-operation with the review but an "active role" in examining "the long-term opportunities and challenges" facing each international financial centre.

Leader of government business Kurt Tibbetts says that following discussions with the UK Treasury, the Cayman authorities are satisfied that the review will be "serious and constructive," adding: "It is Cayman's experience that objective, independent reviews are valuable to all parties involved, and we look forward to working with Mr Foot."

Members of the industry share the government's sanguine response. "The UK Treasury enquiry is very much to do with the collapse of the Icelandic banks in the Isle of Man, although it includes Cayman and other dependent territories," says Mark Lewis, chairman of the executive committee of the Cayman chapter of the Alternative Investment Management Association.

Lewis says that the jurisdiction has made strenuous efforts to demonstrate its willingness to co-operate with other countries' efforts to curb tax evasion. "Cayman's efforts with regard to tax information exchange

agreements and mutual legal assistance treaties are well advanced," he says.

"Cayman is expecting to sign at least six tax agreements with various European countries in the first quarter of next year.

"The government has already been in touch with Michael Foot, whose been appointed to chair the UK enquiry, and they are not expecting any particular concerns or surprises. On the regulatory side, our legislation is more advanced than any country in western Europe or the US. Cayman fully believes it has done more than any other offshore jurisdiction to satisfy international regulators, and remains very proactive."

That proactiveness includes an initiative just launched by the industry regulator, the Cayman Islands Monetary Authority, to work together with practitioners to examine areas that could be improved. "Aima has been requested to work with Cima to develop standards and practices and come up with improved regulatory guidelines for service providers such as offshore fund directors and administrators," Lewis says.

For example, he notes, a professional association has been established for independent directors and has drawn up a code of conduct for the regulation of its members, drawing on work already carried out by Aima internationally. The regulator is notably examining how to ensure that individuals do not take on more directorships than they can effectively fulfil.

The Cayman regulatory philosophy is based on effective disclosure to investors rather than rigid prescription and quantitative restrictions, and Cima's initial instinct is to reinforce codes of professional practice with the provision of greater access to its database of information about the industry, facilitating research by investors on fund's investment managers, directors and administrators,

For example, they might be allowed to see how many directorships a particular individual holds and judge the degree of time and effort that they are capable of bringing to each appointment. But Lewis argues that far from this approach demonstrating weakness or laxity, the regulator is always ready to use its teeth where necessary. "Cima is looking for the new standards to be voluntary, but they would bring forward regulation if the voluntary code were not adopted," he says. ■

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Cayman still the domicile of choice

By Darren Stainrod

The ongoing financial unease has spread over the globe and the Cayman Islands are not exempt. In the current market conditions, administrators are playing defence rather than resolving the issues of capacity we were facing only a year ago.

Over the past 12 months we have seen a flight to cash as clients prepared to meet liquidity demands. These cash surpluses are now drained as redemptions are realised and the dollar strengthens – thus realising foreign exchange hedging losses – and we are busy finding solutions for significantly increased demand for credit facilities.

The coming year will be a challenge, with an expected contraction of possibly 30 to 50 per cent in the hedge fund industry, partly offset by new funds seeking to exploit opportunities in the credit markets and possible recovery. With most funds heavily under water, some funds are expected to reset their high water marks if they are to be incentivised to continue.

In the meantime, we are seeing a trend toward centralisation of services in the administration industry to make use of less expensive locations to handle some processes such as cash and position reconciliations, or indeed the entire NAV production. This makes the service more scalable and addresses the issue of scarcity of talent in some of the more traditional centres such as Dublin, although this will be less of an issue as we enter a period of negative growth.

Still, Cayman is poised to keep its dominant position as a hedge fund domicile and recent developments in the industry may bolster this. Recently there have been changes to the Mutual Funds Law to increase the minimum investment to USD100,000, in order better to protect unsophisticated investors.



Darren Stainrod is head of alternative fund services at UBS Global Asset Management

Other changes to the legislation include the removal of the requirement for non-Cayman domiciled funds to be registered simply because the administration is performed in Cayman. This has helped local administrators because, although it is not a large part of the local business, it is important to be able to cater to Delaware entities that form the onshore feeder of master/feeder entities, and to serve large clients with both onshore and offshore products that they want serviced by the same team.

Finally it is now a requirement for registered funds to report non-sensitive data on an annual basis, in addition to the annual audited financial statements. This information is then aggregated and reported by the Cayman Islands Monetary Authority, providing a valuable insight into the industry.

One other non-regulatory development in the Cayman hedge fund industry is the onshoring of parts of the administration function to Canada, the US and other locations, with shareholder and corporate services remaining in Cayman.

The Cayman fund sector will undoubtedly suffer from the general downturn in the hedge fund industry. We are already seeing large redemptions, and widespread fund closures are expected as asset sizes become too low for funds to continue.

However, Cayman is not losing its dominant position as the domicile of choice, despite the increased efforts of other jurisdictions to attract hedge funds. The keys to this are first-mover advantage with a strong infrastructure of industry-leading service providers, coupled with sensible and flexible legislation that does not force funds into operating on the island if that does not fit their business model. ■



Amid slowing growth and restructuring, Cayman's appeal endures

By Simon Gray

The hedge fund industry may be starting to feel the full impact of the global credit crunch and concomitant economic downturn but there is no sign that the sector's difficulties are calling into question the position of the Cayman Islands as the world's pre-eminent alternative fund domicile and a substantial provider of services to offshore funds, according to financial sector professionals.

According to provisional figures from the Cayman Islands Monetary Authority, the jurisdiction's financial regulator, there were 10,271 Cayman-domiciled funds at the end of November, a dip of 21 since the end of September. Industry members point out that while an increased level of fund terminations has contributed to the decline, it also reflects

a regular seasonal rise in fund liquidations and slowdown in new launches in the run-up to the end of the financial year.

The economic and financial upheavals of the past year have nevertheless had their effect on the Cayman financial industry, according to Jonathan Tonge, head of the hedge funds practice at law firm Walkers. "We have been extraordinarily busy, but the nature of the work has changed in that the number of formations and registrations of funds is lower than what we normally expect, but it's been compensated by a lot of restructuring work," he says.

"There have been some fund liquidations, but mostly clients have been looking to restructure and work their way through the

problems. In the meantime a large number of new funds are being formed with different strategies, particularly credit opportunities and distressed debt." The beginning of January, a period that customarily sees a large number of new funds established, will provide a telling indicator of the industry's health, he says.

There is no evidence that Cayman is suffering disproportionately from the current problems in the market, according to Paul Scrivener and Laura Hatfield of law firm Solomon Harris. "There have been closures and blow-ups, some high-profile, but this is inevitable when Cayman has such a large proportion of hedge funds worldwide," they say.

"For some managers these have been particularly stressful times, with redemptions being suspended and gates imposed to maintain stability or, in the case of funds beyond repair, to ensure an orderly wind-down, and there has been increasing use of side-pockets to segregate hard-to-value assets."

The view is similar from Cayman's fund administrators. "Over the past 12 months we have seen a flight to cash as clients prepared to meet liquidity demands," says Darren Stainrod, head of alternative fund services at UBS Global Asset Management. "These cash surpluses are now drained as redemptions are realised and the dollar strengthens - thus realising foreign exchange hedging losses - and we are busy finding solutions for significantly increased demands for credit facilities.

"The coming year will be a challenge, with an expected contraction of possibly 30 to 50 per cent in the hedge fund industry, partly offset by new funds seeking to exploit opportunities in the credit markets and possible recovery. With most funds heavily under water, some funds are expected to reset their high water marks if they are to be incentivised to continue."

Valuation of assets is a key issue for managers, says Ingrid Pierce, another partner in the hedge funds group at Walkers. "Where funds have the ability already to create side-pockets for illiquid assets but haven't already used it, they are now taking advantage of that," she says. "New funds generally have provisions in their offering documents to do this, but older funds may



Jonathan Tonge, head of the hedge funds practice at law firm Walkers

not, in which case introducing side-pockets will require some level of investor consent, which may or may not be forthcoming."

Pierce says Walkers is seeing an increase in funds carrying out redemption in kind as well as measures to slow or delay redemptions in order to avoid having to undertake fire-sales of assets. In return for seeing their capital locked up for longer, or for seeing the fund's assets transferred to a new structure offering greater flexibility, investors are often negotiating a discounted level of management fees.

A key issue for many managers is the fact that the high water marks that they must exceed to earn performance fees are now out of reach for the foreseeable future. "The high watermarks must either be reset, or alternatively the fund is closed and a new one formed," she says. "A fund with a high water mark that is now unrealistic provides no incentive to the manager, which is not in the best interests of investors. In most cases managers find that investors are sympathetic and are prepared to work with them to reset the high water mark."

Nevertheless, practitioners believe that Cayman has taken important steps as a fund jurisdiction over the past couple of years that will serve it well in a more difficult global environment. Stainrod points to recent amendments to the Mutual Funds Law, including an increase in the minimum investment level from USD50,000 to USD100,000 - a fairly academic move, given that the vast majority of Cayman funds already had investment minimums far above USD100,000, but nevertheless a signal of the jurisdiction's commitment to protecting unsophisticated investors.

"Other changes included the removal of the requirement for non-Cayman domiciled funds to be registered simply because the administration was performed in Cayman," he says. "This has helped local administrators because, although it is not a large part of the local business, it is important to be able to cater to Delaware entities that act as the onshore feeder within master/feeder structures, or to clients with both onshore and offshore products that they want serviced by the same team."

These changes have coincided with the introduction by the regulator of a new



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Providing comfort in distressed markets

By Canover Watson

The unrelenting turbulence in the global financial markets is showing no signs of ceasing. Even hedge funds – which were until recently somewhat less affected – have been seeing their performance hit and their investors seeking to redeem significant amounts of capital. With the quest for alpha becoming increasingly harder and fewer new investors in sight, the last thing a fund manager needs is further trouble and distraction from the administration side.

That is why the involvement of an independent fund administrator is critical. The first and foremost mission for fund managers is to keep investors happy, and to attract new investors. In volatile and distressed markets, investors take great comfort that a professional independent service provider is preparing the books and records, and verifying the existence and valuation of fund assets.

In the current environment, redemptions and valuation issues are the primary source of operational risk in the investment management and back-office processes. This is where the independent administrator comes in, making sure that robust procedures and policies are in place, backed up by a quality assurance and internal audit function. The administrator can also conduct an independent review of the fund management fees, produce accurate and timely NAVs, and facilitate the processing of shareholder transactions while checking they are in accordance with the fund's constitutional documents.

But a crucial role for an independent administrator is to assist in the determination and reporting of accurate asset valuations. Industry best practice guides, such as that of the investors' committee of the President's Working Group on Financial Markets in the US, recommend that within the investment manager, portfolio valuation should be segregated from portfolio management



Canover Watson is managing director of Admiral Administration

responsibilities to avoid conflicts of interests. The establishment of a valuation committee is also becoming an increasingly common industry standard. However, these types of control are difficult to implement for a small fund manager without an administrator to assist.

At the recent Gaim conference in Cayman, institutional investors noted that they no longer accept a black box approach from the fund manager regarding valuation, but a sound and transparent methodology backed up by an independent review – all areas where an independent administrator can add value.

Administrators can perform additional functions such as look-back pricing/back testing procedures, which can be a very powerful control activity, especially for illiquid or hard to value securities. Many administrators also review trading volume in individual positions to assess the robustness of month-end prices and systematically compare prices for a particular security across client funds. In addition independent administrators generally send NAV statements directly to investors, reducing the risk of overstatement, which is common to many fraud cases.

In terms of cost, the fund manager can benefit from the economies of scale of an administrator administering hundreds of other funds, utilising expensive state of the art technology and highly experienced fund accountants. Certain administrators have built platforms that facilitate straight-through processing of transactions, which in itself can produce significant efficiencies.

From a risk management perspective, it is prudent to mitigate the risk of committing expensive administrative errors by engaging an experienced administrator with sturdy internal controls. By outsourcing the administration, fund managers can focus on what they do best – managing the portfolio and seeking alpha. ■

13 ► system to collect aggregate data on the industry, in addition to the annual audited financial statements filed by Cayman domiciled funds. The first statistical report from Cima, incorporating data up to the end of 2006, indicated that the island's funds had total assets of USD1.38trn, reinforcing estimates that Cayman accounts for at least half of the global hedge fund industry.

As a policy, Cima has consistently avoided placing additional restrictions and burdens on Cayman funds, considering that constraints are best exerted by market forces, namely investor demand. This – coupled with pressure from national tax authorities on managers of offshore funds, requiring them to demonstrate the substance underlying the funds' offshore status – has prompted a surge in the appointment of independent directors to Cayman funds in recent years.

This development not only makes the jurisdiction more attractive to investors but reinforces the image Cayman wants to convey of expertise and professionalism, says Geoff Ruddick, senior company manager with International Management Services. "In today's environment, corporate governance is no longer a luxury but a necessity," he says. "Independence is the holy grail of effective corporate governance.

"The interests of the fund may differ from those of its service providers, creating a conflict of interests for a director provided by the fund's administrator. The valuation and liquidity of securities can be difficult or even impossible, and often an independent director's involvement has been critical. They can assist in making an unbiased determination in the best interests of the fund, its investors and creditors."

Cayman's fund administration industry continues to benefit from the growing acceptance by US-based managers, under pressure from both investors and regulators, of the independent administration model customary elsewhere in the world. "At the recent Gaim Cayman conference, institutional investors made clear that they no longer accept a black-box approach from the fund manager regarding valuation, but a sound and transparent methodology backed up by an independent review – all areas where an independent administrator can add value,"



Mark Lewis, chairman of Aima's Cayman chapter

says Canover Watson, managing director of Admiral Administration.

However, Cayman administrators are under pressure to keep costs down in order to compete with rivals – or even offices belonging to their own group – in lower-cost centres, which today include onshore locations in the US and Canada as well as countries such as India and Mauritius. "There is some concern about the number of administration jobs being lost to onshore service centres," says Mark Lewis, chairman of Aima's Cayman chapter.

"Many of these administrators have a global presence, and they are carrying out some of the work in other countries. The government is now looking at ways to improve its immigration rules to make conducting business in Cayman more attractive. It has just announced significant changes that will allow work permit applications to be handled in just two days, rather than any time between six weeks and three months at present. There are more than 26,000 work permit holders in Cayman, and the government has recognised there is a real need to speed up the process."

It has also indicated its readiness to interpret more flexibly the provisions of the so-called rollover law, which limits to six years the maximum length of time for which a foreign individual can receive a work permit before leaving Cayman for at least a year. "It has affected people in our industry that are not occupying key positions and are therefore subject to the rollover provisions," says Pierce. "In the case of Walkers, we can second people to offices in other jurisdictions, but it can be a negative factor for firms and industries that don't have this ability."

However, Lewis says that the government has made clear to firms, especially those active in the financial services sector, that they should make it clear if they are experiencing problems. "They would like employers to be more proactive in applying for key employee status, and that more favourable consideration will be given to applications, particularly in the financial services sector," he says. "The government is being very proactive to ensure that a business that is so important for Cayman has the key people it needs." ■