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Opalesque Roundtable Series '16

CAYMAN

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Editor's Note

Global regulations hit all jurisdictions alike: Cayman is keeping its edge, but practical implementation remains/is a major challenge for managers

There is no doubt that Cayman Islands remain the favorite domicile for alternative investment funds globally. Cayman is a full service jurisdiction complying with all international standards, but it's also business-friendly, with a lot of demand to have all relevant industry services located there: 184 banks, 149 trust companies, 108 mutual fund administrators, and 739 insurance companies operate from Cayman. And, of course, over 10,000 funds are registered with CIMA, the Cayman regulator.

Looking at data from the US Securities and Exchange Commission (SEC) for both hedge funds and private equity funds, just under 50% of the funds that are registered with the SEC are domiciled in the US, and almost 38% are registered in the Cayman Islands. After that there is a huge drop-off with other jurisdictions such as Ireland, Luxembourg and Bermuda garnering between 1% and 5%, with Cayman actually increasing its market share over the recent past.

Cayman has also stepped on the governance side. Through the new Directors Registration and Licensing Law, CIMA has now contact details and up-to-date information and can monitor and know every single director serving Cayman funds. Approximately 8,000 directors were registered either as professional or registered directors right after the law came into effect, and that number keeps growing.

New regulations keep coming in faster than vendors can develop their systems

Global regulatory initiatives like AIFMD, Annex IV, Dodd-Frank, Form PF, US and UK FATCA as well as the upcoming Common Reporting Standard (CRS) are hitting all fund and investment jurisdictions in the same way, so every jurisdiction ends up dealing with the exact same issues. The issue is that all of these regulatory efforts involve massive amounts of data that is collected. That data needs to be aggregated, calculated, reconciled, disaggregated, and transmitted. Even the submission of the reporting itself is highly technical.

Meeting all of these new requirements is not a simple matter of printing out a report and emailing it off. Even some of the Extensible Markup Language (XML) formats which are used in reporting threw people for a loop last year when the first FATCA reporting came around.
The assumption was that you could just easily produce an XML file, but you cannot. It takes months of development. New regulations keep coming in faster than vendors can develop their systems to track everything accurately, which creates additional challenges.

FATCA and CRS data has never been collected before

Roundtable participants say they cannot stress enough how difficult the practical implementation challenges will be for managers. The complexity and education involved in addressing all reporting and logistical details has been highly underestimated. FATCA and CRS data has never been collected before. These are classifications that are more challenging than what was initially expected when the rules were being written, partly due to the nuances across all of the IGA (intergovernmental) jurisdictions. A major education and outreach process has to reach tens of thousands of investors to explain the relevance of these regulations.

In some ways Cayman probably has an advantage over other jurisdictions because there are an estimated 23,000 entities which are already registered as financial institutions with the Tax Information Authority (TIA) here in Cayman. That is one of the highest numbers across any jurisdiction in the world.

The 2016 Opalesque Cayman Roundtable took place end of 2015 in George Town, Cayman Islands, with:

1. Craig Smith, Partner, PwC
2. Jason Allison, Partner, Walkers
3. Karen Watson, Global Head of Fund Operations, MaplesFS
4. Leanne Golding, Senior Vice President, The Harbour Trust Co. Ltd.
5. Peter Huber, Global Head of Fiduciary Services, MaplesFS

The panel also discussed:

- What is driving the growth of alternative investments? Which regions are growing the strongest? (pages 7-10)
- Why Cayman domiciled hedge funds have a market share of almost 100% in Hong Kong (page 10)
- What benefits is Cayman Enterprise City offering investment managers and service / technology providers? (page 9)
- Why and how are institutions getting more “hands on” in seeding and forming new funds? (pages 11-12, 15)
- Why advisory boards on master funds set up as Cayman limited partnership are becoming more common (pages 12-13)
- Will the new Cayman LLC law increase or decrease the number of governance committees? (page 13)
- What support are Cayman based service providers offering start up funds (page 15)
- The pros and cons to institutionalization of alternative investments (page 16)
- Why Cayman’s strong public-private partnership is a massive strength of the jurisdiction (pages 7, 18)
- How are blockchain and virtual currencies entering the world of alternatives? (pages 20, 22)
- How large US managers deal with cyber security threats (page 24)
- Will Cayman’s new EU Connected Funds be a game changer for the industry? (page 19).

Enjoy!

Matthias Knab
Knab@Opalesque.com

Participant Profiles

(LEFT TO RIGHT)

Jason Allison, Peter Huber, Karen Watson, Leanne Golding, Craig Smith, Matthias Knab.

Introduction

Peter Huber
MaplesFS

My name is Peter Huber. I am the Global Head of Fiduciary Services at MaplesFS and a member of the Executive Management team. MaplesFS is a market leader in the provision of fiduciary, fund administration, and corporate formation services to investment funds, structured finance vehicles, and private clients. Our directors and our client service professionals ensure that the companies that we serve comply with all relevant legal and regulatory requirements, and also adhere to all necessary standards of corporate governance.

MaplesFS operates in 13 jurisdictions around the world with over 500 employees.

I am a Canadian Chartered Accountant, I have a Master's Degree in Business Administration, and I am also a CFA charterholder. I originally came to Cayman as a chartered accountant with Ernst & Young back in 1995 and have worked in various areas of the industry. In 2015 I celebrated my 20th year in the Cayman Islands and my 10th Anniversary with the Maples group.

Karen Watson
MaplesFS

My name is Karen Watson. I am the Global Head of Fund Operations at MaplesFS and am representing Maples Fund Services which is the fund administration arm of the MaplesFS group. I am responsible for overseeing all operational elements of the fund services side of our business, including our policies, procedures, processes, product development, regulatory implementation, and client onboarding.

I have been with MaplesFS for the last ten years and I am a Chartered Accountant and a CFA charterholder. Before joining MaplesFS I worked for Fortis Bank here in Cayman and also for Ernst & Young.

Leanne Golding
Harbour Trust

My name is Leanne Golding. I am a Senior Vice President at The Harbour Trust Co. Ltd., and we provide fiduciary services to alternative investment funds. I serve as a Director to Harbour's fund clients.

Harbour has been in the business of providing fiduciary services for over 20 years. We currently have 18 staff members within our group, six of whom act as Directors. Harbour is a wholly owned subsidiary of Rawlinson & Hunter, which is an international grouping of accountancy firms with offices in Cayman, London, Zurich, Singapore, the British Virgin Islands, Bermuda, and the Channel Islands.

I am Canadian by origin, and I have a Bachelor of Economics degree with honors. I am a CFA charterholder and an Accredited Director. I am also about to celebrate my 20th year here in Cayman. When I arrived in 1996 I worked for Goldman Sachs in the fund administration business for close to 10 years, and was the Global Investor Services Manager responsible for the investor services teams in Cayman, Dublin, Ireland and Princeton, New Jersey. I joined Harbour in 2009.

Jason Allison
Walkers

My name is Jason Allison and I am a Partner in the Investment Funds Group at Walkers specializing in hedge funds, private equity funds, mergers & acquisitions and financing transactions. Walkers is one of the top two law firms headquartered in the Cayman Islands advising on hedge funds. I mention hedge funds specifically because that is what I understand we are going to focus on in our Roundtable today although our firm is ranked in the top tier of all of the main corporate and commercial law practice areas.

I moved to the Cayman Islands in 2004 and prior to that I practiced as a mergers & acquisitions lawyer in the corporate department of Freshfields Bruckhaus Deringer LLP in London.

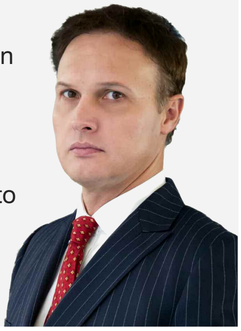
Craig Smith
PricewaterhouseCoopers

My name is Craig Smith, and I am an Audit Partner with PricewaterhouseCoopers (PwC) in the Cayman Islands. We offer audit, tax and advisory services, and I consider PwC to comprise the largest network of audit and advisory firms in the alternatives sector. PwC Cayman enjoys a close relationship with the US firm of PwC and with other PwC firms around the world. The firm has been on the ground in Cayman for over 45 years and our local practice employs nearly 200 people.

I'm from Cayman and I started my career locally. I have over 16 years of experience in the financial services industry, which includes a four year stint with PwC in New York. I have experience working on a range of investment company structures and related entities, including investment managers and fund administrators.

Matthias Knab This panel has about 75 years of direct professional financial services experience right here on Cayman, which is really amazing. Given your expertise, where is Cayman heading right now? What has most affected the alternative investment industry recently, either positively or in a challenging way?

Jason Allison: We recently held a conference in New York, and one of the slides that we put up was a set of stats of all private funds that are registered with the Securities and Exchange Commission (SEC) in the United States (both hedge funds and private equity funds). **Just under 50% of the funds that are registered with the SEC are domiciled in the US, and almost 38% are registered here in the Cayman Islands.** After that there is a huge drop-off with other jurisdictions such as Ireland, Luxembourg and Bermuda garnering between 1% and 5%.



It is interesting to observe and analyze this data, which shows Cayman is by far the most preferred offshore jurisdiction among US-based sponsors in particular. I think that this is a good starting point for our discussion on how the Cayman Islands is doing as a jurisdiction because the majority of our fund instructions in the Cayman Islands office tend come from the United States.

From a recent historical standpoint, the breakdown of fund domiciles has been fairly steady. It is interesting to note that the Cayman Islands has actually been increasing its market share.

Craig Smith: I will echo Jason's point that the evidence we see does suggest that we are the offshore domicile of choice. Of course, we cannot take this point for granted, and must continue to do everything we can to make Cayman as appealing as possible as the premier offshore jurisdiction.

Looking at specific statistics, **a quick view of the Cayman Islands Monetary Authority's (CIMA) website yesterday showed that in the six months leading up to September 30, 2015, nearly 500 net new funds had launched here.** That is a very healthy indicator of our industry and of our growth, specifically because the number is net, meaning it includes funds that have wound up or closed.

That growth reflects what we are able to observe in our audit practice. 85% of our clients are hedge funds, and I believe that hedge funds are the biggest part of the financial services industry here. Their continued migration reflects a continued faith from investment managers in our proven track record of responding to challenges, along with the high quality and experience of our service providers, such as the representatives in the room today.

A key element in dealing with new challenges and appealing to global hedge funds is active communication, which is a major value-add to the Cayman jurisdiction. CIMA has increasingly taken steps to engage in a healthy dialogue with the private sector to inform their policy making. We as service providers work with them in many capacities to engage and educate our clients. One highly productive body that facilitates better communication is Cayman Finance, which has been very beneficial to our industry.

Cayman Finance is an organization that connects with various industry bodies, regulators and others to promote the development of the Cayman Islands financial services industry. While the Cayman Islands Society of Professional Accountants (CISPA) exists for accountants and lawyers have their own industry body, and the directors have their own as well, Cayman Finance acts as an umbrella, connecting all of these industry bodies.

They have done a particularly good job of communicating with all of those collective bodies and individual member entities in gathering their feedback and talking to CIMA, as well as the Ministry of Financial Services.

Cayman Finance responds to the consultation process which CIMA likes to employ, and is effective in making our clients and our voices heard at the different levels of government.

That is an element of our financial services community that I believe is probably unique to Cayman. Speaking to my counterparts in other jurisdictions, especially in New York where I still have many ex-colleagues and friends, the active engagement of CIMA with the industry, and the role that Cayman Finance plays in facilitating that communication are benefits that we enjoy that are not as prevalent elsewhere.

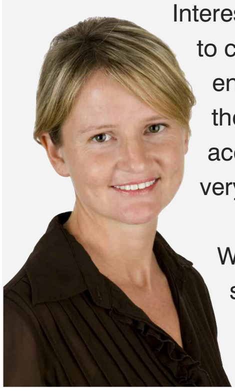
Leanne Golding: I would like to build off of Craig's point, because I feel that we are reaching a new level of maturity in the Cayman fund industry. The industry has evolved over time, and has survived multiple financial crises and challenges. The service providers have seen all of the market cycles impacting alternative investments, and their level of engagement with clients has never been stronger. Communication has also taken a giant step forward.

I will also re-emphasize what Craig said about the engagement of the regulator, CIMA. Just last week there was a new public consultation paper issued for something as granular as figuring out when a fund can receive an audit waiver. CIMA engages the local industry in getting direct feedback, with the goal of improving the end-product that we are delivering to the Investment Managers and Investors who domicile their funds here. The goal of both CIMA and the local industry is to make conditions flexible and investor friendly to ensure that the investors' interests are maintained and protected, the service providers are able to adapt to the new regulatory policies, and appropriate regulatory procedures are in place so we can end up with a product that is beneficial for all parties.

To give a few more illustrations of my point, there is a new LLC law that is expected to be released in January 2016. Just recently, the Exempt Limited Partnership Law was also updated. There have been various initiatives within both the government and the private sector to improve our product and to keep us competitive. Cayman is still the offshore jurisdiction of choice and we cannot let critical outside influences distract us from the importance of the growth of the industry, because the numbers speak for themselves.

Karen Watson: The numbers are certainly interesting. You mentioned the 500 net new funds in the six months leading up to September of 2015; we had actually gone back and looked at 2014 and there were 897 net new funds for the year. The data Craig highlighted sets us on target for 2015 to exceed the growth that we saw as an industry in 2014.

One of the drivers behind that growth is a continued increase in allocations to alternative investment funds coming from institutional investors, including some of the big pension funds. Family offices and ultra-high-net-worth investors are also increasing their allocations to the space. Emerging markets continue to institutionalize in many ways and we are seeing them move into the alternative funds space at an increasingly rapid pace.



Interestingly, when you talk about the breadth and the depth of the service professionals that are here, you have to consider the legal specialists who have been heavily involved in developing the regulatory and legal environment that exists here. They have fostered the growth of the industry over the last 20 to 30 years. That theme extends across the spectrum to the other professionals, including the auditors, fund administrators, accountants, directors, and corporate service providers. Here you'll find a remarkably high concentration of very highly skilled professionals who are recruited from top firms in major financial centers around the world.

We view Cayman as the jurisdiction of choice, not only in terms of a fund's domicile but in terms of the service and operations.

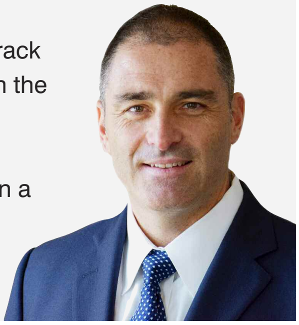
Cayman is a full service jurisdiction and there is a lot of demand to have all relevant industry services located here. There are various drivers behind that, particularly from emerging markets players who are looking for the one-stop shop offering in Cayman.

Peter Huber: I will add that the entrepreneurial spirit in the United States and elsewhere is alive and well, which continues to drive our industry's growth. We see fund formations in our various businesses on a day-to-day basis and this spirit is also thriving on a global scale. The majority of funds using Cayman originate from the US but the migration is also indeed global.

There are a number of reasons why that is and many of them have been mentioned, such as Cayman's strong legal framework and our stable economy. We have been generally correct with our cost structure to service and create these funds. However, we cannot be complacent on that point as there are competitor jurisdictions as well who are nipping at our heels and who would love to take our place with the fund formation, legal, fiduciary and the administration business that comes from the creation and the operation of an investment fund.

One thing that we have not yet mentioned and where Cayman continues to distance itself from the competition is the creation of Cayman Enterprise City. This is the special economic zone that a number of investment managers and ancillary service providers, primarily in the technology space, are able to utilize to fast-track incorporations, work permits and the like, to allow them to operate and maintain a physical presence in the Cayman Islands with a very simple and cost-effective structure and framework.

This is just one example of many of how we have been able to differentiate ourselves as a jurisdiction in a competitive global marketplace.

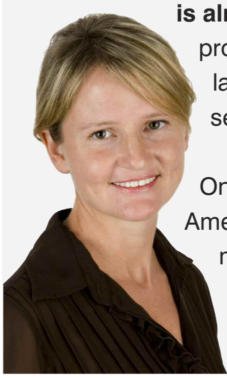


Matthias Knab Last year we actually had a manager participate on our Cayman Roundtable. Do you foresee more managers coming here and actually operating here, and is that a trend that will continue?

Karen Watson Yes, we are certainly seeing more managers do that, particularly in recent years. Some of our largest clients are actually set up and running their management shops out of Cayman which is a testament to the strength of the jurisdiction.

Matthias Knab Karen, you mentioned emerging markets which are still building out their globalization and are on a growth course and doing business in Cayman. As a personal observation, when I moderated our Opalesque Asian Roundtables very recently, people were telling me that when you are a start-up manager in Hong Kong or anywhere in Asia, the first thing you will do is set up an offshore hedge fund before you even think about UCITS to reach the European market. What are your observations regarding the Asian market of managers and funds from other emerging markets that are domiciling in Cayman?

Karen Watson: We have one of our largest operational offices located in Hong Kong to service Asian managers. **The market is almost 100% Cayman-domiciled funds** and it is growing at a remarkable rate. Our Hong Kong presence provides clients with on the ground resources from time zone and language perspectives but they are indeed largely Cayman-domiciled funds. We also have a full operational office in Singapore which also primarily services Cayman-domiciled funds.

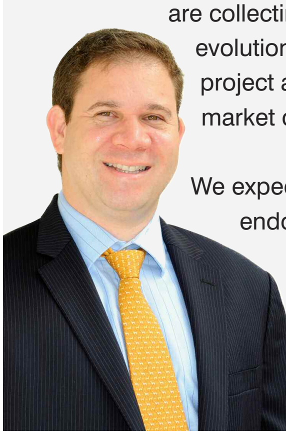


On this side of the world we have witnessed an influx of start-up managers coming from South and Central America. The reason for this increase is largely due to changing laws within their own countries that now allow many of these LatAm managers to invest externally. Alternatively, we are seeing investment in infrastructure-type funds in the private equity space as well as in some hybrid funds.

Jason Allison: We also continue to see growing demand from emerging markets and funds that are coming from those regions. One that I will mention specifically is Mexico. For a long time Mexico did not use Cayman structures because we were on some kind of a blacklist. A Tax Information Exchange Agreement was signed not that long ago and we are seeing an increased number of Cayman vehicles being established on instructions from clients in Mexico.

Regarding both funds that originate in emerging markets and also funds that invest into emerging markets, for both sets of clients Cayman must focus on where the specific fund instructions are coming from, because that determines the legal precedents and how the fund should be structured. When you look at recent investment trends and where investors are looking for returns, in 2012 most of the funds we set up were established to invest into emerging markets because there was a higher risk potential and the end investors were looking for higher returns. What we find now some three years later is that the opposite is true; the funds are actually investing back into the more mature markets because they are getting equivalent returns but with less risk. This trend could reverse itself in the coming years, but it is interesting to be in a position to observe that and see where a lot of the investment flows are going year on year.

Craig Smith: PwC's recent global research studies indicate that South America, the Middle East and additional parts of Asia are collecting capital and launching investment management firms and are looking to deploy globally. This evolution will contribute to the growth of the alternative investment industry overall. Our studies have led us to project a much larger industry size which will occur most certainly by 2020 thanks in part to this emerging market capital.



We expect this global evolution to continue to drive growth, which will be supported by pension funds and endowments who are also expected to increase their allocations to the space. With the equity markets stretched and bond yields so low, we project that those institutional investors will increase their risk tolerance in the search for yield, particularly among public plan sponsors. We think that they will also continue to shift from their views that hedge funds are too risky, and with greater education will increasingly recognize hedge funds are useful places to invest within a greater portfolio.

Leanne Golding: As Craig mentioned there is certainly increased interest in alternatives from pension and endowment funds. The bulk of large tickets going into new launches or fund expansions are coming from US pensions and endowments, but we are also seeing more activity from European pension plans as well.

That institutionalization has meant a great deal for us in our roles as directors. It increases the level of due diligence that occurs at the onboarding stage when that investor is making the decision to allocate to the fund. On the directorship side, we spend a lot of time on due diligence questionnaires and on-site visits with these investors who want to get to know who is responsible for the governance of the fund. There are also usually extensive side letters that have to be entered into when these investors come into the fund. Typically these investors are not asking for exceptional terms, but when you are dealing with a pension fund there are certain representations and warranties that have to be made that are usually outside of the terms of the regular agreements.

We have relationships with many of these larger investors and often see their allocations spread across several different funds. It is definitely worth your while as a service provider to get to know them, and to let them get to know you. When you create those relationships as a director, it eases the process for other clients of yours down the road. If the investor already knows the fund administrator, the director, or the auditor, then that relationship is already in place and gives them great comfort when they are investing in a new fund. Their trust in us is important, because many of these pensions and endowments also act as large seed investors when a new fund launches

Having been in this industry for a long time, I have seen a drastic switch in the paradigm in the relationship between investors and managers. The primary drivers of the industry are now directed by investors, who are far more active and involved than they have ever been in the past.

Craig Smith: I agree with Leanne. After the credit crisis the whole advent of operational due diligence was really spawned. Since then we have seen a significant increase in requests where we are asked to confirm our audit relationship with funds.

There really has been a sea change over the last five or six years, and I expect that will continue to evolve in a more technical manner to best serve the end investors and the industry overall.

Karen Watson: Regarding Leanne's point, we have deep relationships with some of the large institutional investors in the funds that we service and we also find that it is the investor that is driving a lot of the fund structuring. In some instances we have seen investors that will only work with a particular manager if the manager agrees to change their fund to fit into the investor's chosen structure, which includes a specific set of service providers.

Historically, from the fund administration perspective, your relationship is typically with the manager. However, we now have a number of platforms that are driven by the institutional investor who selects both the manager and the service providers. That is an interesting paradigm shift and shows the control and level of involvement that certain large investors now want and are afforded.

Peter Huber: We are seeing a similar shift on the fiduciary side.

There are a number of allocators who, when they are ready to make an investment into a new fund, will make it a condition that a person from a shop like ours which is similarly institutional in nature, sits on the board of that fund vehicle. Larger investors are driving a lot more of the decision-making in the entire service provider landscape, including board composition. I am certain that Leanne sees this as well.

Matthias Knab You mentioned that these investors are asking for the involvement of certain people on the Board. What else are they asking for from a structuring standpoint?

Leanne Golding: Investors are moving the needle in terms of structuring, and I will give you a first-hand example. As a bit of background, a very common fund structure is for the master fund to be set up as a Cayman limited partnership as opposed to a Cayman company. However, that then creates the question of where the independent governance is going to come from at that master fund level. Often you will see an investment manager using their own General Partner (GP) entity as the GP of the Cayman LP.

Five years ago we started having discussions with legal counsel and with investment managers about the concept of **advisory boards on LP's.** The consensus amongst many of us in the industry was that you can create an advisory board or a governance committee at that LP level to overlay an independent oversight of the structure. At the end of the day the investment decision making and the investments are held at the master level, which is really where a lot of the crucial decisions are going to be made.

At first we got a fair amount of pushback from managers and counsel thinking that it was unnecessary, and that all parties were comfortable with the industry-standard structure, so there was no need to insert the advisory board. There were some investment managers who bought into the idea early on, but the majority did not. Eventually, it was the investors who started to drive this shift, because they began to insist on an advisory board or governance committee as a condition of their investment.

The governance committees are typically tasked with high level decisions like suspending the fund, changing a service provider, or changing the investment objective on a very material level. The committee will handle the key decisions that a Board would approve in a typical company structure. In the last few years we have had more managers agreeing that this is the right way forward for a limited partnership structure. Once an investor says they want this oversight in the structure, we find that everything else falls into place and the managers agree that it is the right way to go. That is one concrete example of how the investor drive has pushed change in the industry for the better.

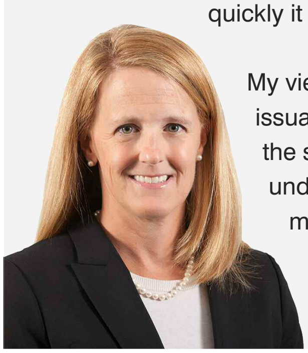
Peter Huber: We wrote a white paper on that subject back in 2012 and received some initial pushback as well on the content of that paper. The paper was based on our direct experience and discussions that we had been having with institutional investors at the time. Those investors told us that when they were evaluating fund structures, they thought there was a gap in the overall governance framework of the fund and that there was a need for symmetry across the structures, for all the reasons Leanne mentioned earlier.

Since then, we have not only observed more of a discussion around the topic but have seen a greater acceptance in the way that the industry looks at advisory committees and advisory boards. Specifically, we have seen a clear uptick over the last 18 months with funds incorporating advisory committees into their governance structures. While smaller startups or funds who are watching their expenses and have a smaller investor base are not embracing them yet, advisory committees are now being considered with the larger and more sophisticated funds and by those whose investors have specifically stated that they want an advisory board in place. The consultant community appears to be generally in favor of advisory boards as well.

Craig Smith: We recently surveyed about 200 people in the local governance industry and one question focused on the introduction of the new LLC law. We asked respondents how they think that the independent governance role will apply for LLCs formed under the new law. Will the power remain centered with the managing member or will we see independent governance committees as we see in the corporate world?

About 63% of respondents said they think that there will **be an increase in governance committees in the industry due to the new LLC law in Cayman,** and that the practice of committee implementation will become more prevalent. It is interesting to hear the views of the other participants, because I am wondering if you all see this spreading from the larger institutions down to the smaller ones, and if you think it will take a while for the fund market to saturate with that trend?

Leanne Golding: Regarding the LLC law, it will be interesting to see what kind of take-up it gets once it comes out, and how quickly it gets on-boarded by the legal teams. I am interested to hear Jason's thoughts on that.

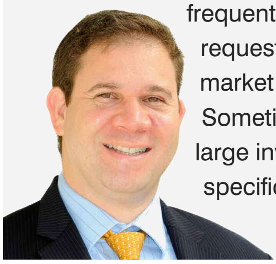


My view is that the LLC law is appealing because it gives managers flexibility and the ability to bypass the issuance of shares and the concept of share premium. Investors can have their capital account which is the structure they are accustomed to in Delaware structures; so on that level it is very appealing. From my understanding it also gives flexibility to establish a management committee or a group of managing members who can oversee the fund entity, in the same manner as a Board or an advisory committee. Jason what is your view?

Jason Allison: What we have seen even for Delaware LLCs is that the Cayman Islands-based independent directors often control those vehicles. This trend evolved principally so that some of our clients could navigate the Volcker Rule, so independent boards based in Cayman are already controlling those Delaware LLC entities. I expect that this trend, which is already in place, will translate very easily over to the Cayman LLC Statute when that becomes available early in 2016.

I would like to circle back to add a few points on the influence of large investors in driving their agendas and influencing fund structures. The Advisory Board is obviously one way of requiring a selected representative on the Advisory Board. We see that requirement being added through side letters very frequently. We have also seen a great increase in the creation of co-investment vehicles, specifically for large investors who control those vehicles and receive a significant break on the fees. They are investing alongside the main fund, but they get a much better deal because they get better returns because of the reduced fees.

Craig Smith: That is a good point, we are seeing far more customization with co-investment vehicles, more funds of one, and frequent requests for bespoke funds to be created for specific investment strategies. Quite often there is a request to extract a subset of an investment strategy, whether it is long only or a particular section of the global market where large investors want exposure. A fund can be set up to house just one particular investor. Sometimes the fund does grow to take on more investors down the line, but it starts off as a silo to cater to a large investor's need for whatever subset of the strategy that they desire. The creation of bespoke products with specific investment strategies as demanded by investors is on the rise, and I see that continuing in the future.



Karen Watson: Private equity structures, in particular, are traditionally limited partnerships, so in that space there are similar issues to the ones we have been discussing such as the direction by a general partner and potential governance issues.

Private equity firms are engaging far more with independent administrators than they did in the past because investors are realizing there are some very complex issues, such as carried interest waterfall structures, that are related to governance. They look to administrators to independently translate the legal documentation and ensure that the calculation of those profit allocations and how they are working is equitable and in line with the rights of the LPs.

We are seeing investors push private equity funds as well because they want that additional oversight.

Matthias Knab I wonder, those 500 funds net new Cayman fund launches and other new firms setting up, what issues are they dealing with, such as with governance or operational and developmental challenges?

Leanne Golding: The barriers to entry for startup managers are clearly much higher than they were in the past, and as a result I see a see a bifurcation of two kinds of startups who are essentially going in two different directions.

There are the startups that exit or spinout from a very large firm. They have quite a strong pedigree behind them, and right out of the gate they attract a large seed investor who is willing to help them launch and commit to two years of capital and a few hundred million dollars. Then you have the other type of startup, which might launch with $50 to $75 million and has a tougher road to reach the AUM level that will attract the larger investors.

From my seat as a director, I have great interest in both types of startups. The key for both sets of managers is to help them realize that if they want to get to the billion dollar range eventually, they must set up their fund in the right way from day 1 and structure it with the right service providers. The right systems and the mindset are critical from day 1. If they are cognizant of those requisite structural components at the earliest stage they can lay the groundwork for long-term success.

It is definitely harder for the smaller firms, and in those cases there is often significant fee pressure from investors, and also on all of us around this table offering reduced rates to help new managers get off the ground. But if we have a like mindedness with them in terms of the right approach to their growth, including their fund administration, governance, audit, and legal support from the launch, then I am far more confident about them having a shot to make it to the next level if the performance is there.

Peter Huber: I agree with Leanne, and that is exactly what we see in our business regarding firms with a long-term plan to succeed and grow assets. A really productive move we made a few years ago to help the smaller managers was to hire a dedicated operational due diligence (ODD) professional to assist our individual directors in fulfilling their duties. Her primary mandate is to perform ODD visits with managers where our directors serve on a fund's board.We thought it would not only help mitigate risk at the director level but also provide a value-added, no fee service to promote and distill best practices, in addition to generally being a productive step for the industry.

What we found is that the startup managers, including both the spinouts with seed capital and those without the benefit of that seed allocation, really value having our ODD professional visit early on. It is a low risk proposition for all parties. There is no subscription money at stake and it does not cost the manager anything. Our ODD specialist is able to provide a proper due diligence report for the manager and the board highlighting items that they should consider to improve their operations so that when a serious due diligence visit occurs, with money at stake, the manager is better placed to secure that investment.

Ultimately, every investment manager is looking for a large stable institutional investor base that is committed to their funds and this service helps them to attract that type of investor.

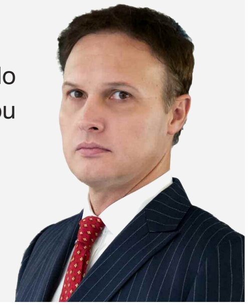
Karen Watson: We handle a fair number of startups, some whom are launching with a very small AUM. Some of our biggest clients today started with us as very small clients so we can appreciate the challenges these new funds face and try to accommodate their growth in every way possible.

We approach our work with managers holistically at the Maples Group, and we have an incubator offering where we combine all of the services that are available across the group into a product that gives discounted legal, fiduciary, and fund administration fees. When they are closely held or have only a seed investment, we give them all of the elements that they need to get off the ground to launch and to establish a track record.

Whatever a manager's background, if they are coming from one of the bigger trading houses or the banks in the US or if they are closely held or have only a seed investment, they can establish a track record under a lower cost, all-inclusive service support system while they are getting started. When they have attracted capital or are ready to market and raise new capital, we will continue servicing them on the fund administration side and would call another fiduciary specialist to step in because we do not offer fiduciary services when there are external investors involved in an open-ended fund.

Jason Allison: One theme that I see regarding the institutionalization of the industry is that a lot of these big institutional clients of large funds are helping groups from within those funds to establish smaller managers.

Often there will be a spin out of a smaller group within the main institutional fund manager, and the smaller shops are able to get funding because they have the reputation of the larger manager behind them. If you do not have that kind of backing, it is difficult to launch and gain a track record, and without the track record you are not necessarily going to get significant further funding. Institutionalization is therefore becoming the key driver for a lot of the alternatives industry, particularly for most of the funds that are growing and raising significant capital.



Craig Smith: The observations of the panel about institutionalization are spot-on. We see that regulatory and compliance costs have become especially burdensome to managers, creating barriers to entry. What we are seeing is that some managers are borrowing this talent from elsewhere or paying to outsource those services until they can bring the capabilities in-house.

Unfortunately, possibly due to the increased operational costs, we are also seeing more fund failures than we did in the past, which has led to the accelerated growth of the larger investment managers, because investors look to them for safety. Another trend is that there are more acquisitions occurring. In the future, this could lead to some large mega-managers as assets trend away from the smaller players.

Matthias Knab Do you mean that investors are turning away from the boutique nature of hedge funds, which is how historically this industry was characterized?

Craig Smith To some extent yes but while we will see more mega-managers emerge, I believe that there will always be a place for smaller boutique managers as they serve a role in the industry and often employ niche strategies. This entrepreneurial spirit was and is an important factor in the industry and we remain hopeful that the smaller managers continue.

Peter Huber: There are pros and cons to institutionalization but from my perspective it has made it more difficult for smaller tartup managers.

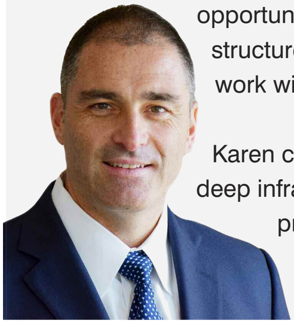
There are a number of very large hedge fund managers in today's market who started with US$5 or US$10 million and a limited, low cost infrastructure. They also frequently set up Cayman-domiciled funds. When they started, their costs and barriers to entry were both relatively low and as they grew their infrastructure, they grew into their regulatory framework. Now, against the backdrop of investors' expectations of institutional infrastructure, as well as the rising cost of regulatory compliance and downward pressure on fees, it is far more difficult to survive with a low AUM. A lot of very talented managers simply cannot afford the operating costs required to meet the demands of institutional investors.

Matthias Knab How are global trends and regulations further affecting Cayman and your particular industry and service offerings? The Foreign Account Tax Compliance Act (FATCA) was recently implemented, for example. What else is coming that you have to be aware of, and how are you preparing?

Peter Huber: We have seen the major regulatory changes that have occurred primarily in the US, but also in Europe, as more of an opportunity than a threat.

A good example is the Volcker Rule and what Jason talked about earlier in terms of setting up independent GP structures. We have been involved in creating a number of independent GP structures with legacy fund platforms impacted by Volcker.

The other regulation that presented an opportunity was the CFTC Rule in 2012 that brought a number of funds under theCommodity Pool Operator (CPO) regulation. For us as a jurisdiction and for our business, we saw an opportunity to create our own regulated CPO entity which gave us the ability to serve as the CPO in a fund structure, either for an individual fund or on a fund platform. This offering has helped the managers that we work with address their new CPO obligations and adhere to Volcker Rule regulations.



Karen can speak to FATCA and the opportunities this has presented in Cayman. I would add that Cayman's deep infrastructure and talent base makes it well-placed to take advantage of the opportunities that have been presented to us. We have been on the leading edge of many dynamic initiatives as an industry and as new regulations have come on board.

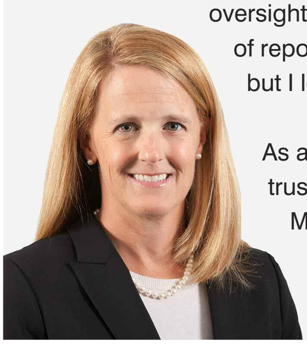
Karen Watson: Regulatory compliance is the top priority on everybody's list, and a lot of the burden on the manager really comes down to the ongoing operational challenges of the fund. Stronger compliance practices are a natural extension of the governance and operational sides of this business and can add significant value for a fund these days.

The funds industry is beginning to comprehend the full scope of the technological challenges brought on by all of this regulation and the associated transparency and reporting requirements, whether it be through AIFMD, Annex IV, Dodd-Frank, Form PF, US and UK FATCA, and the Common Reporting Standards (CRS) that are coming into effect in January 2016. The issue is that all of these regulatory efforts involve massive amounts of data that is collected. That data needs to be aggregated, calculated, reconciled, disaggregated, and transmitted. Even the submission of the reporting itself is highly technical.

Meeting all of these new requirements is not a simple matter of printing out a report and emailing it off. We found that even some of the Extensible Markup Language (XML) formats which are used in reporting threw people for a loop last year when the first FATCA reporting came around. **The assumption was that you could just easily produce an XML file but you cannot, it takes months of development.** These are huge technological challenges. Managers need the skill and the expertise to fully understand this data, and the ability to manipulate and aggregate it to end up with a report that has the integrity that the regulators need.

As Peter mentioned we have seen this change as an opportunity and do an extensive amount of work around all of this regulatory reporting to help our clients stay compliant.

Leanne Golding: As a director, I am not executing the FATCA report or carrying out the investor remediation. My role is one of oversight and to act as an advisor to the manager, making sure they are aware and on top of all of these facets of reporting. I will review the agreement that they are going to enter into with their FATCA Services provider, but I leave the reporting to some of the other experts in this room.



As a director, I like to think of us as a sounding board for our managers and want them see us as a trusted advisor, whom they can rely on if they have new ideas or initiatives they are considering. Managers now recognize the need and the benefit of our involvement. The days of a Board consisting of a group of people whom you speak with over the phone a few times a year; those days are over.

As Peter mentioned, the industry here is very good at keeping us all educated and on the leading edge of what is going on in the regulatory world. As an example, there was a seminar put on for Common Reporting Standard (CRS) a couple of weeks ago. It took place in a large ballroom here on the Island, and was filled with standing room only. That is an indication of the genuine desire of all of the professionals on the Island to be up to speed on the latest developments occurring within the industry.

All of us are very involved with the local professional organizations on the Island, and it is indeed a very cooperative group. Many of us are competitors, but we all come together to make sure that we are educated and contributing to efforts keep the industry growing. The environment consists of a collaborative working group consisting of the service providers, CIMA, and the managers, to make sure that everyone stays on top of all issues.

Craig Smith

From a global perspective, client feedback has been positive in their assessment of the Cayman industry's response to FATCA. The experience has subsequently inspired confidence that we can take on the next series of regulations and issues that come down the pipeline. UK FATCA and Common Reporting Standards are the next in line. Overall, there is confidence from our clients that we will continue to successfully address any future challenges from the European Union and United States.

Jason Allison: Cayman continues to actively engage with international parties to make sure that we and our fund clients are compliant in all respects. We interface with them directly, and once we explain our views and perspectives, sophisticated parties in the regulatory sphere do understand that what we are doing here in an offshore jurisdiction is in no way illegal or sinister, which is sometimes a perception that is out there.

So **we comply completely with international standards, but we are also a business-friendly jurisdiction.** Companies and professionals want to do business here, and that is really the true nature and attraction of Cayman. The environment here is built to encourage efficient cross-border flows of capital, and to provide flexible and useful structures that are not overly-complicated.

Just a few days ago I spoke with a client on the phone who wanted to set up a structure. She found it very refreshing that it is so easy to work with us to become compliant with all of these international regulations in an efficient manner and within a short timeframe. Simplifying the process is one of our core competencies, because we have been serving the alternative investment industry as a group for so many years.

Peter Huber: I discussed this a bit earlier, but want to re-emphasize what a thorough job the Cayman Islands Monetary Authority is doing. There has historically been a **very strong public-private partnership** here in Cayman. That is a massive strength of the jurisdiction and it is a clear advantage and a differentiator of the Cayman model.

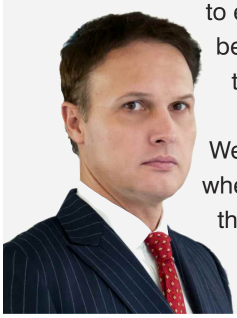
I can give you one of many clear examples to illustrate this point. After the credit crisis, when a lot of investors were in contact with the Authority, CIMA remained open to hearing all relevant perspectives and feedback but they were also measured in their response. There was not a knee jerk reaction or rush to judgement following the crisis. CIMA consulted with the Cayman Islands Directors Association, spoke with relevant stakeholders, including investors, and within a relatively short period of time, established the CIMA Statement of Guidance, which is now the baseline expectation or code of conduct for independent directors of CIMA-registered funds.

In my view, CIMA's measured and thoughtful reactions post-crisis, after seeking out relevant perspectives from multiple, often conflicting parties, exemplify why Cayman remains a leading hedge fund jurisdiction.

Leanne Golding: That Statement of Guidance forces us all to hold ourselves to a certain baseline standard in regards to the requisite corporate governance activities. The bulk of us actually do a lot more than these required baseline activities in order to hold ourselves up to the highest standard possible. The Statement of Guidance really does establish a foundation for the integrity of our industry.

I will add that the Directors Registration and Licensing Law that came into effect in 2014 was an intelligent response from CIMA to monitor and know all of the industry players. It enabled them to have contact details and up-to-date information on every single director. The numbers circulated after the initial registration indicated **approximately 8,000 directors were registered either as professional or registered directors.** Recent reports at local industry events have indicated that number continues to grow. Clearly there is a very large pool of people out there acting as directors to regulated products.

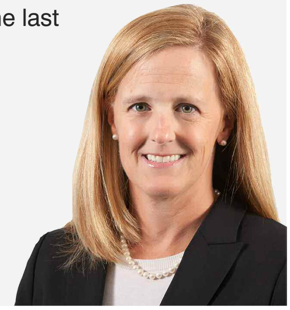
Jason Allison: Another relevant theme to be aware of is that the European Securities and Markets Authority (ESMA) is currently assessing the Cayman Islands for the AIFMD equivalency regime to enable funds to opt into a separate regime. If passed, this would enable the funds to passport across the European Union. Obviously we would like that to happen. Some amendments have already been made to the Mutual Funds Law and the Securities Investments Business Law here in Cayman to enable specific regulations to be made, and the regulations are currently being written. Essentially there will be a separate opt-in regime for funds which are called EU Connected Funds, and those funds are the ones that are going to be subject to this regulatory regime, which is equivalent to what is required under AIFMD.



We are now waiting on ESMA for their assessment. That is obviously going to be an exciting development when it becomes available for hedge funds, but also for closed-ended funds who might want to make use of the European passport instead of the national private placement regimes when distributing fund interests in Europe.

Leanne Golding: Yes, the hope is that when that is in place, it will make things a lot easier for our clients. At this point most Managers who are actively marketing into Europe, and not relying on reverse solicitation, have to do it on what I would call a patchwork basis. They determine the exact jurisdictions of interest, and then execute the registrations in those areas. When this AIFMD equivalent regime is in place, it will enable everyone to expand their marketing efforts and exposure within the EU on a more comprehensive level. We are optimistic that ESMA will give us the green light to move forward.

Another main theme that we have been seeing is that for many of our clients, performance has been challenging in 2015. The industry has seen performance ranging from -20% to +20%. It is possible that in 2016 a number of managers, both big and small, will have to reflect on their future and consider returning capital or closing. Just in the last few weeks there have been some announcements such as this from large established firms. It will be interesting to see what impact those big fund closures have on the industry.



Some existing managers have been around for 15 to 20 years and have accumulated a lot of personal wealth. If they are shutting down and returning outside investor capital, both the outside capital and managers' personal wealth will need to go somewhere. Will that then lead to an increased proliferation of family offices, which has been occurring more frequently in the recent years?

Peter Huber: Whenever a large established manager decides to wind down a fund, there is an inevitable shake out that follows. Out of this comes a natural opportunity for a new fund manager or several managers to spin out and start their own firms.

In observing the growth of the hedge fund industry and having seen a number of market cycles and even when looking back at past challenges that have presented themselves, I do not see an industry in decline. To the contrary, the industry continues to thrive. Hedge funds are now firmly part of the mainstream asset management industry.

Provided the barriers to entry do not become insurmountable, I remain optimistic that we will continue to see growth in the hedge fund space with new startup managers continuing to use Cayman structures.

Karen Watson: The different asset classes that we are starting to see come into fund structures in this space are also fascinating. In particular, we are seeing the elimination of traditional intermediaries. Two such classes that come to mind are **virtual currencies and peer-to-peer lending.**

To a certain extent, mainstream culture reflects the proliferation of virtual currencies as a medium of exchange. Amazon now accepts Bitcoin, for example. We have recently begun to hear reverberations about funds being structured to invest speculatively in virtual currencies. Regarding peer-to peer lending, the banks are cut out of the process, and funds can invest directly and provide credit. We are seeing funds built to provide bulk investments into some of these platforms.

There are significant technological challenges for us as a fund administrator in dealing with these new asset classes for various reasons. On the peer-to-peer lending side it is very difficult to handle the sheer volume of investments and get full transparency to report the underlying volume of microloans and cash flows. There are also issues with virtual currencies for us because so much of our responsibility as an administrator is to prove that assets and numbers exist. How do you prove that something virtual exists?

Virtual currencies are not strategies that we have taken onto our platform at this point but we are actively looking to the future because of their potential to become more mainstream. We are currently building platforms and technology solutions that are specifically designed to deal with the volume challenges presented by peer-to-peer lending. These asset classes are areas that fund administrators and auditors in particular will have to be prepared for.

Craig Smith: As Leanne mentioned we are seeing an increase in the different types of asset classes that are under consideration for new funds. A number of them are still on the fringes for now, but it is leading to some interest in areas like rare art or wine investments. I don't think that these types of unusual asset classes will shift into the mainstream spectrum of investments, but we will see.

In general, as managers are searching for alpha they are moving toward more illiquid products. As a result, they are looking for more sticky capital and investors that will not pull out at slightest dip in the market. These managers are promoting the thesis of taking a longer-term outlook.

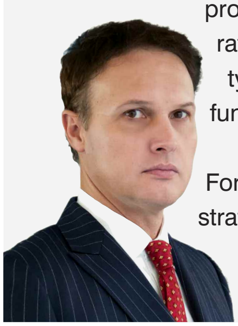
Karen Watson: I agree with Craig that managers are looking for illiquid assets and stickier capital in fund structuring and that is certainly the case among our clients. Another trend that we are seeing is in the growth of hybrid vehicles that have elements of both private equity and open-ended hedge fund structures.

We are seeing funds that are perhaps not fully closed-ended, but may have abnormally long lockups, provide a certain amount of liquidity available after a long lockup, or that are open-ended at the front-end where subsequent investors can come in at fair market value and not have the traditional participation through the life-to-date profit of the fund.

From an operational perspective these types of new structures can sometimes be very challenging. The structuring of the funds ranges so that you can both allow for the mechanics of equitable profit-sharing, as well as allow fair market value with new capital coming into the fund or liquidity that is exiting. Valuation therefore becomes critical. We are often seeing this type of flexible structuring with credit strategies where the assets can be more difficult to value and are not entirely liquid.

Again, investor sentiment is driving these types of complex structuring changes. In some scenarios, investors want to limit their exposure and in others they want to have more liquidity and control. The bottom line is that they want flexibility. Funds are incorporating these characteristics and we, as service providers, have to adapt our offering accordingly to appeal to both parties.

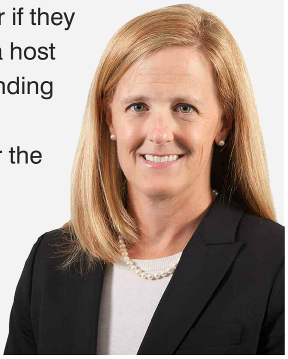
Jason Allison: Regarding asset classes, we are seeing the majority of funds investing in the traditional asset classes, but as Karen alluded to, we are also seeing an uptick in the number of credit funds which are investing into distressed credit products and also into direct lending funds. The movement into direct lending has happened because interest rates are so low right now. The spreads are so narrow that banks are having difficulty making money on those types of loans. Banks are also subject to such stringent capital maintenance regimes, so these direct lending funds are able to step in and capitalize on the opportunity.



For quite a while now, direct lending funds have been filling this gap in the US, but that has not been an active strategy in Europe for very long. Now we are definitely beginning to see that change, with funds filling the gap which was traditionally occupied solely by European bank lending.

Leanne Golding: One significant aspect of these non-traditional asset classes that I want to pay extra attention to is the valuation component. We find that in our investor meetings, discussion of valuation policy and valuation committees takes up far more time than it may have previously. The area was always covered thoroughly in the past, but now the investors and we collectively spend a lot **more time on the discussion of valuations.**

It is important to look closely at the third-party valuation agents used by managers. We need to consider if they are the right people or organization for the specific asset classes that a fund trades, because there are a host of providers out there and you want to make sure that they are the right fit for the fund. We are also spending a lot of time with the auditors in discussing the audit plan and throughout the audit process. It does get more complex when you have unique asset classes that you have not seen before. We have to consider the valuation process that is followed by the Administrator and the Manager, and ultimately reviewed and confirmed by the Auditor. To reiterate, as the industry evolves into these interesting new asset classes, the valuation component becomes interesting but also challenging, so more of our time is devoted to this area.

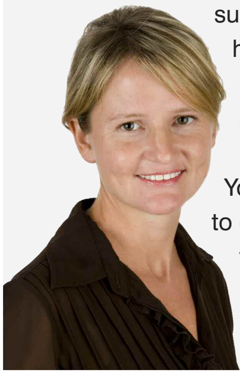


Matthias Knab Karen, you mentioned virtual currencies. The basis of virtual currency is the block chain, which is a major innovation that provides amazing potential to change how the industry operates going forward. In 2015 I was invited to produce a Gibraltar Roundtable with Gibraltar Finance. They are looking at the block chain to try to figure out the role of virtual currencies going forward, and how they as a jurisdiction can be involved. Is that an area that you Cayman specialists are also watching, or speculating about how you want to participate in block chain's evolution?

Karen Watson: I see it in two different contexts. I read an article recently looking at the block chain technology as a potential replacement or alternative to the international wire system. As I said earlier, it is becoming somewhat more mainstream as a medium of exchange though it is still on the fringes as an investment class. There has been discussion that the technology could replace SWIFT (Society for Worldwide Interbank Financial Telecommunication) wire transfers and even credit cards. From a fund perspective this has no operational impact because it is merely a payment method.

The component of the evolution which is more important to me relates to investment strategies where the **virtual currencies** are held as a speculative investment. There is a great deal of debate over what the currency even is, currency or commodity? Some countries allow Bitcoin and others do not so the picture going forward is rather murky. The last time I checked there were about 50 countries that were writing regulations and tax legislation specifically around virtual currencies.

I do think it is an asset class that is here to stay. There will unquestionably be challenges with speculators who use it as an investment in an asset class that they are looking to hold. When we look at most of the so-called "unique" asset classes like wine or art investing which Craig mentioned earlier, valuation is the key issue because they are such esoteric and subjective asset classes. However, in those cases you know that the asset exists and you can look at it and have the physical proof that you need, but you don't really know how to value it. In virtual currencies I think that the exact opposite is true. There is a liquid marketable price, however it is difficult to document and prove how the asset is held and the ownership rights to that asset.



You cannot see it and it is also very complex. You need IT coders who understand coding and programming to even begin to get evidence that this asset exists and that is the real challenge facing service providers to funds who are looking to hold this as an asset class.

Matthias Knab Is there anything else the group would like to discuss which is relevant to your business and our industry?

Karen Watson: Last year we saw the first reporting for US FATCA and the impact it had on the industry. In 2016, **UK FATCA** will face its first reporting deadlines and **CRS** will also come into play. **I cannot stress enough how difficult the practical implementation challenges will be for managers.** The complexity and education involved in addressing all reporting and logistical details has been highly underestimated. I talked about the collection, aggregation, calculations and manipulation of data for Annex IV and Form PF reporting. But that type of data is generally available within a fund's systems and the potential challenges lie in capturing extra information and addressing how a manager manipulates all of this into the required reporting.

If you look at FATCA or CRS, this is data that has never been collected before. These are classifications that are more challenging than what was initially expected when the rules were being written, partly due to the nuances across all of the IGA (intergovernmental) jurisdictions. There are also nuances and variances of classifications based on where the end investors reside. Investors do not understand why they have to provide all of this information and there is a palpable resistance to providing a deeper level of information than they have before. There is a whole education process which has to reach tens of thousands of investors to explain the relevance of these regulations.

On our end there are massive amounts of data and we have to develop a new system to supplement the new regulation. The system development cycle is burdensome to manage, especially because the new types of data do not have fields in the management systems for FATCA classifications. T**he system development cycle from vendors is outpaced by the regulatory development cycle.** New regulations are coming in faster than vendors can develop their systems to track everything accurately and this does not take into account the implementation time for upgrades once development by the vendor is complete.

This is especially true because we are talking about primary systems, which also house the investor data of the funds, that need to be updated.

This is vitally important to the industry and a very real practical challenge that is escalating with the UK FATCA and the CRS looming. I think that keeping pace with these changes will be the biggest challenge funds face in 2016.

Craig Smith: We should point out that FATCA and CRS are not Cayman-focused initiatives, they are global initiatives. We are one of the many jurisdictions that are dealing with implementation, and I think Karen pointed out some legitimate challenges, but the first year of implementation is always going to have some hiccups. Overall, I think that as an industry Cayman is in great position to move forward having already effectively implemented FATCA adjustments.

Despite the idea that some critics have predicted a wide scale flee from Cayman, it is important to point out that this has not happened. There has not been a flight to onshore domiciling or any highly concerning trends building. To echo some earlier points, I think our industry experience and modern reaction has helped to put us in a good position to demonstrate that we can take on these challenges.

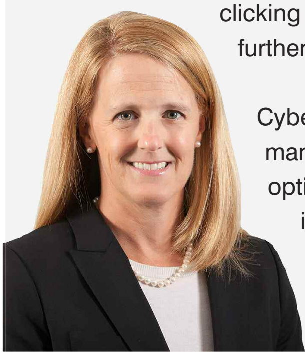
Karen Watson: I completely agree. I think every jurisdiction is dealing with the exact same issues so these challenges we have spoken about here today are not unique to Cayman. In some ways we probably have an advantage over other jurisdictions because there are an estimated 23,000 entities which are already registered as financial institutions with the Tax Information Authority (TIA) here in Cayman. That is one of the highest numbers across any jurisdiction in the world and dealing with such volume for so long has provided us with familiarity.

There are real challenges but experience yields expertise. An interesting operational reality is that for the first time we are operating as a jurisdiction on united fronts. *It is the first time I have ever really seen anything like that in our industry.* I chair the CIFAA FATCA Committee and all of the Cayman administrators meet in this boardroom here once a month to work through these practical challenges. There is a whole industry of people who are normally competing with each other and are working well together to address these market developments.

Jason Allison We have spoken a great deal about regulation and we have spoken about technology. Cybersecurity is one topic we have not yet discussed, and some people think that it presents the biggest single risk to the financial system because of the reliance on technology. People have even spoken about code being weaponized so that it can destroy infrastructure. This is a very real risk, and a threat that Boards are considering regularly now to ensure they have the right systems in place.

Leanne Golding: We have been talking about cybersecurity at almost every board meeting for the last 12-18 months. Where I see gaps in awareness are with the smaller shops. Some clients do not realize that they must shut down access to social media within their office networks. There are specific protocols to keep in place that managers have to follow diligently to prevent an outside threat from penetrating a Manager's systems. If they do not, the consequences can be severe, for example a manager being held for ransom and unable to access their systems until they answer a hacker's demands.

So we do bring up that topic, and want to know about our client's systems and what protocols they have put in place. We also aim to have an onsite visit with each of our managers every year to review their operations. Although I am not a computer expert, I can spend time with the IT specialists and their compliance team to find out what kind of training is provided and discuss their preparedness and reaction to any security breaches. I know of one Manager who actually conducts a different **surprise system test on their staff** every month. Any employee who gets caught failing the test, either through clicking on the wrong link or file or otherwise, does not get in trouble, but goes through training and receives further education on how to avoid those sort of breaches in the future.



Cybersecurity is a continually evolving and ongoing process. It is also another barrier to entry to new managers, because there is a cost to providing adequate IT infrastructure and their security. It is not optional; having appropriate systems and measures in place is requisite. Whether you build the system in-house or outsource it as Craig mentioned earlier, it has become an essential part of a manager's business infrastructure.

Karen Watson As mentioned, we are receiving a growing number of due diligence questionnaires and the questions used to be focused on disaster recovery plans. Now most of the questions revolve around cybersecurity because investors realized that the investor registers are maintained within the administrator systems, including balances, names, addresses and account balances.

Jason Allison: To highlight the level of the cyber-threats and measures that are being taken, it's worth mentioning a cautious approach of a large hedge fund manager in the US. They do not allow their employees to have any access to their computer systems from a mobile device, including BlackBerrys, iPhones, or anything that can interact with their computer systems remotely. Logging onto the system from home is also not allowed. You work in the building and you leave your work there, so they eliminate a lot of risk with that process.

Matthias Knab I'd love to work there...

[laughter]

Jason Allison But they spend a lot of their time in the building...