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Opalesque Roundtable Series '17

CAYMAN

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Editor’s Note

With about 1,230 new CIMA fund registrations in 2016, the Cayman Islands remain the undisputed leader in offshore funds. A closer look at the numbers reveal that 2016 has seen an interesting shift in geographical regions for Cayman fund launches. For example, the numbers from Europe are down but they increased a lot from Asia to the point where Asia now represents almost half of the new launches Cayman’s PwC unit is taking on as audit clients.

This growth is coming from two sides. With the creation of new wealth in China as an overriding mega trend, many of the new rich are looking for partners to manage money in different asset classes. New launches are also on the rise from Hong Kong as assets continue to go through Hong Kong and a lot of managers on the ground there collect capital from Mainland China. Historically an early adopter of alternative investments, Japan is the other region with high demand for Cayman products. Particularly large institutions sponsor preferably Cayman fund products for distribution in Japan. This area has not slowed down for some years, and their AUM is considerable. (pages 6-8).

With investors in the driver’s seat, customization is key

Investors are really in the driver’s seat now more than ever, and investment managers have to find new and innovative ways to differentiate themselves. More and more funds of one are created, typically in the $50-100 million range, but also as low as $10 million and as large as over one billion. There is also an increased use of side letters in commingled vehicles and fee pressure across all service providers.

Creative fee schedules in particular on incentive fees are agreed on as managers seek to retain and attract capital. Whereas you can’t prevent investors from withdrawing capital in an open-ended structure, managers will offer alternative arrangements such as redemption replacement arrangements whereby an existing or incoming investor can step into the shoes of a departing investor *as if it were receiving a transfer of the departing investor’s interest in the fund.* Along with any such customization, investors are still getting a full institutional quality product (pages 9-11).

The Opalesque 2017 Cayman Islands Roundtable took place in George Town, Cayman Islands, with:

1. Ingrid Pierce, Global Managing Partner, Walkers
2. Craig Smith, Partner, PwC
3. Christopher Bodden, Director, The Harbour Trust Co.

The group also discussed:

- At which point consider investors entering into passive vehicles? (page 11)
- Success model: New Cayman LLC adopted by many institutional US managers, mostly as carry vehicles (page 12)
- Why more professional conferences are coming to Cayman (pages 12-13)
- How will Cayman’s AIFMD equivalent regulatory framework look like? (page 14)
- Where does Brexit leave Cayman? (pages 14-15)
- Why is the adoption rate of governance standards is much slower in PE? (page 16)
- Around 80% of all new regulated funds now have a split board: Meaningful improvement or a fad? (pages 16-18)
- How will Cayman benefit from the global infrastructure boom? (page 18)
- How Cayman assists startup managers in launching their products (pages 19-20)
- How is Cayman participating in the global FinTech boom? (pages 20-22)
- Why will digital identities play a role in alternative investments? (pages 21-22)

Enjoy!

Matthias Knab
Knab@Opalesque.com

Participant Profiles

(LEFT TO RIGHT):

Matthias Knab, Christopher Bodden, Ingrid Pierce, Craig Smith

Introduction

Ingrid Pierce
Walkers

My name is Ingrid Pierce. I am the Global Managing Partner of Walkers, an international law firm with offices in ten jurisdictions, practicing six laws; we are over 600 staff.

Craig Smith
PricewaterhouseCoopers

My name is Craig Smith. I am an assurance partner with PricewaterhouseCoopers in the Cayman Islands, which is about 200 people strong. We are a professional services firm providing audit, tax and advisory services. Our client base is mostly financial services and I focus on the asset management industry.

Christopher Bodden
The Harbour Trust Co. Ltd.

My name is Christopher Bodden and I am a director at The Harbour Trust Co. Ltd. ("Harbour"), where I provide fiduciary services to alternative investment funds, including serving as an independent director to such funds. Harbour has been providing fiduciary services to alternative investment funds for over 20 years. Harbour is a wholly owned subsidiary of the Cayman Islands office of Rawlinson & Hunter, which is a licensed and regulated professional services firm with 4 partners and over 70 staff locally, as well as access to multi-jurisdictional resources.

I started my career in 1996 working for Goldman Sachs in their fund administration business and subsequently as a Managing Director with State Street. I am a Chartered Alternative Investment Analyst and joined the Harbour team in 2015.

Matthias Knab Let's start look at what happened with Cayman as a jurisdiction and servicing center. Craig, you may have a good overview on that, do you have an update for us?

Craig Smith: Yes, Cayman continues to be in a strong position overall. There are always challenges and changes, but I think the industry here is doing a good job of facing them.

Looking at recent data, the number of CIMA fund registrations from January through December 2016 was about 1,230, slightly down from the same period in the prior year but we are holding up very well compared to other jurisdictions.

When I look at our internal PwC statistics, we also see lower number of launches and also, interestingly, there has been a shift in geographical regions for Cayman fund launches. For example, the numbers from Europe are down but they increased a lot from Asia, to the point where **Asia is somewhat bucking the trend and now represents almost half of the new launches** that we are taking on as far as audit clients at PwC.

Christopher Bodden Although recent industry statistics show a decline in the number of hedge fund launches, Cayman continues to be the jurisdiction of choice for offshore alternative funds, we still have a very strong and globally recognized product.

Matthias Knab That marked increase in demand from Asia is a really interesting trend. What types of products and services are in particular demand from Asian clients?

Craig Smith: We tend to see hedge fund products in a variety of structures, whether they are limited companies or trusts, but generally they tend to be smaller in AUM versus their counterparts from North America. The dynamic behind this phenomenon is that there is a lot of new wealth being created in Asia, which certainly is a big factor when it comes to the demand for alternative investment products and funds coming out of Asia.

Ingrid Pierce On the Asian side, we have continued to see big demand from large institutions in the alternative space sponsoring Cayman fund products for distribution in Japan. This area has not slowed down for some years and their AUM is considerable.

Matthias Knab I understand there is also a lot of demand for funds of one. I wonder, where are the managers of those funds of one tend to be based?

Ingrid Pierce: By and large, the managers are in the US.

There are some in the UK, and many are the household names you would expect to operate in this space. This leads into another global trend that, essentially, the large firms are getting even larger.

Christopher Bodden: We have observed a similar trend where our large clients continue to grow both in assets under management and the variety of products offered. Unfortunately new managers launching with comparably lesser assets under management are finding it increasingly difficult to attract and retain capital.

Craig Smith: I have to echo that sentiment, especially with what we're seeing from Japan. We are seeing a lot of institutional managers there, and quite often we see that some of the products are being distributed onwards on almost a retail scale for investors.

Japan has historically been an early adopter of alternative investments and continues to be, and now the non-Japan region of Asia is showing a healthy interest as well. From discussions with our clients, the Japanese market is familiar with and continues to favor the Cayman product.

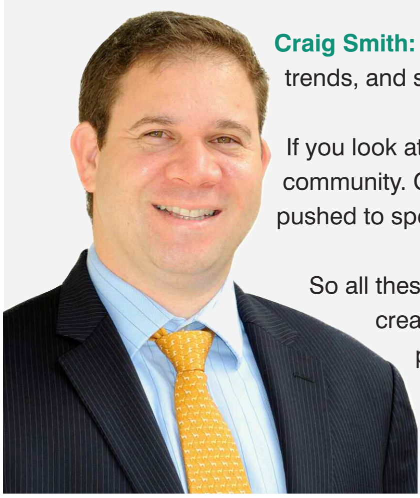
Matthias Knab What exactly do you see happening in China, Hong Kong?

Craig Smith We continue to see new launches on the rise from Hong Kong. We also see assets going through Hong Kong and a lot of managers on the ground there collecting capital from Mainland China.

Matthias Knab I was recently in Shanghai and Hong Kong and produced interesting Roundtables there. One statistic that was mentioned by a platform operator at the Hong Kong Roundtable was that while the Eurekahedge hedge fund database lists about 10,000 hedge funds gobally, in China there are now about 7,000. These global 10,000 hedge fund managers trade on 150 exchanges, in 50 currencies, and in dozens of strategies, in China there is one currency, one time zone, two exchanges and much fewer strategies, but that market hosts those 7,000 managers which are out-competing themselves. So, competition is fierce, and there is real investment skill there. There are a lot of people that have cut their teeth in Western companies and came back to China with the aim to set up an asset management business.

There are cases where a manager has grown within 18 months from $100 million to $2 billion. The larger mainland managers are now also going offshore and create offshore products to attract foreign investors. There are platforms in Hong Kong, where PRC-based managers can launch offshore products, building an offshore track record so that they in the end can compete globally but also capture the mainland Chinese assets that are going out of the country.

One comment at our Hong Kong Roundtable was that if a manager can wear a T-shirt that says "I survived the 2015 crash in China", then those managers are very well positioned and successful in collecting assets.



Craig Smith: In Asia, particularly in China, the **creation of new wealth** is one of the overriding mega trends, and so people are trying to look for partners to manage money in different asset classes.

If you look at the generational aspect, there are also a lot of younger participants in that investor community. Of course, you also hear about the Ferraris and the art buying and so on, but they are also pushed to spend money not just on a flashy asset, but to look longer term.

So all these mega trends as far as urbanization and people moving from the countryside to the cities, creating a new middle class and becoming more sophisticated, are still happening. At some point it's also about gaining more access to professional, alternative investment managers. These factors still feed into the increase in demand for managed investment products.

Ingrid Pierce Are you seeing that investment mostly inward into China or the region or are you mostly seeing assets leaving mainland China?

Craig Smith: It's a mixture, I probably can't speak accurately to the mix, but there is certainly a high amount outward as well, for example for acquiring Western companies and Western stocks listed in Europe and America.

At the same time a lot of US investment managers are seeking opportunities to invest in such emerging markets including China, however there is no shortage of publicity around the widely differing views regarding the future economic outlook in China.

Matthias Knab How else do some of these global mega trends affect Cayman, or how are you trying to further capitalize on those?

Christopher Bodden: Just to echo a point raised by Ingrid a little earlier. We are observing more funds of one driven by the need and desire of managers to differentiate themselves from others in the market. **The theme here is customization. Managers are creating additional options for their investors,** both current and prospective, to meet the increasing level of specialized terms that investors are in a position to demand. Typically these revolve around lower fees or flexible redemption terms. However we have observed managers offering structures that afford the investor some control over certain investment related decisions. In general this level of customization has been restricted to our larger managers who can scale their operations to offer multiple funds of one, catering to the very different needs of their investor population.

Craig Smith: I have to echo that, customization is a big thing now. If you have the right capital you can get a product created for you based on whatever you are asking for, including allocations and fee structures.

And it goes without saying that along with that customization investors are still maintaining a full institutional quality product, despite it being a fund of one, which includes the governance around it, the control, the operations and protocols surrounding that product is still at the same high institutional level that you would find for a product catering to hundreds of investors, for example.

Matthias Knab I wonder, what's the minimum asset size for a fund of one and around where would the average size be?

Craig Smith: The assets in fund of one vary greatly. I have seen some as low as 10 million and I have seen over a billion. It depends of the investors and also on each manager. Certainly the new managers or perhaps those with less AUM might be willing to consider funds of one at the lower end of the size spectrum.

And, once more, the established managers tend to get the large mandates as the larger investor types see them fit to manage those large chunks of money that they have to allocate. Of course, we have to keep in mind that all those managers, small and large, already have existing products and an existing infrastructure, so that adding on additional custom mandates or funds generally fit seamlessly into their operations.

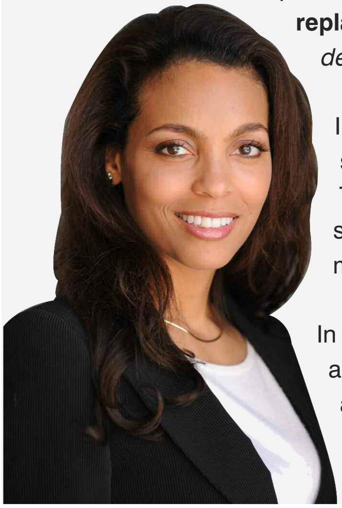
Christopher Bodden Typically we see managers launching funds of one for investors seeking to place capital in the $50-100 million range. As has been mentioned, it is usually an existing large manager expanding their relationship with a large allocator or other large asset manager.

Matthias Knab What other trends do you see within the investor community?

Christopher Bodden: I do not think the investor demographics have changed dramatically in recent years. Obviously, each one of us will have a different experience given the variety and diversity of our various clients. However with some investment managers finding it increasingly difficult to deliver adequate returns, **investors are really in the driver's seat now more than ever.** Investment managers have to find new and innovative ways to differentiate themselves. In addition to funds of one mentioned earlier, we are also seeing **increased use of side letters in commingled vehicles and fee pressure** across all service providers. We continue to see creative fee schedules in particular as it relates to the incentive fee as managers seek to retain and attract capital.

A theme that is discussed throughout the industry is the significant concern amongst managers on the subject of raising and retaining capital.

Ingrid Pierce: That's correct. In addition to single managed accounts and funds of one we have also seen commingled funds trying to do some more creative things to retain their capital base. Whereas you can't prevent investors from withdrawing capital in an open-ended structure, managers will offer alternative arrangements such as **redemption replacement arrangements** whereby an *existing or incoming investor can step into the shoes of a departing investor as if it were receiving a transfer of the departing investor's interest in the fund.*



In fact, the way the arrangement is structured, the incoming investor is making a brand-new subscription, but getting the benefit of the terms that applied to the departing investor's shares. This could include the benefit of an existing high watermark, the partial expiration of a lockup or similar benefits which are something of an incentive to place capital with the manager. For the manager, this means their asset base will remain stable.

In our experience incoming investors tend to be *repeat investors* who like the manager's strategy or are otherwise loyal to the manager, but at the same time need something to entice them to make an additional subscription. So both sides are being creative.

Matthias Knab That is probably a good process for managers that can help raise more assets or at least, as Ingrid said, keep them stable. As we all know there is a big global trend towards more passive and low fee quantitatively managed investments like factor or risk premia based offerings. What's your observations regarding these mega trends?

Christopher Bodden: We have seen some evidence of this as investors are reevaluating their investment opportunities, as they should. Increasingly investors are less willing to pay management and incentive fees usually associated with an actively managed hedge fund only to receive low single digit performance. In some cases they can achieve equivalent performance at a reduced cost, with increased liquidity by investing in passive strategies.

Matthias Knab The question is how is the industry reacting? Certainly what Ingrid said before about redemption replacement arrangements and offering more flexibility is part of that. What else do you see?

Craig Smith: Whilst I haven't seen this extensively in our clients, we have had discussions with managers who are focused on these trends and who are discussing how to address this with investors and trying to frame what they do in a different light.

In the context of a hedge fund being part of a bigger portfolio, I think it's a common theme, and the risk return ratio also has to be seen in a larger context rather than looking at a hedge fund investment by itself. But in fact managers have also expressed a lot of confidence that the capital flow will return in the future. Many point to the fact that the rising tide lifts all boats at the moment, however **when performance turns negative or flat, investors will begin to reconsider whether they want to enter into a passive vehicle.**

Matthias Knab This is an interesting discussion, some people say that we either have reached or are about to reach that tipping point between passive to active investment again.

At our 2016 Miami Roundtable a manager shared an interesting statement from Cliff Asness from AQR who some people call an uber-quant given that AQR manages now $170 billion. Asness said that *when a portfolio reaches a certain concentration, he trusts more a human than a machine.* I think we all agree this is a very interesting statement coming from Cliff Asness, considering that there is a lot of support for the thesis that concentrated portfolios outperform diversified ones.

Let's come back to Cayman, what are some of the recent innovations or new products launched or worked on here?

Craig Smith: The most significant new product is certainly the **new Cayman LLC structure.** Ingrid can probably speak better on structuring. There is a demand for a Cayman LLC from a lot of US managers and hence it was modeled after the Delaware LLC Law.

We have seen a few of those come through in terms of new audit clients, not an extensive amount, although this product remains in its infancy having launched only 6 months ago. My view is, I think they will be used more for private equity vehicles and structured products, but perhaps Ingrid can shed more light on that.

Ingrid Pierce: Over 200 LLCs have been formed since the new law came into force a few months ago. By and large these are being used as carry vehicles – SPVs and GPs – and a few are fund vehicles.

It's good for Cayman to have another product in the inventory of structures available to be deployed in a variety of ways.

Craig Smith If I could ask, do you see these being formed for Cayman-based managers?

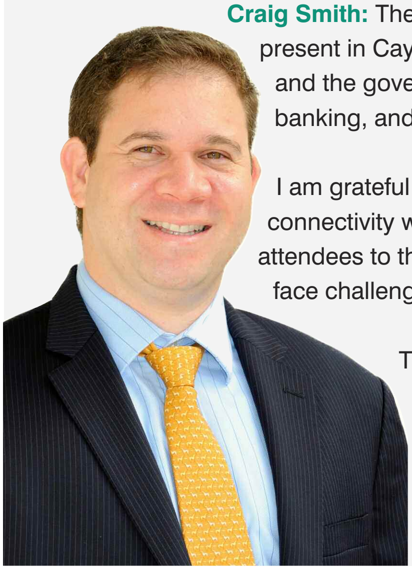
Ingrid Pierce Not yet. For the most part the demand is coming from institutional managers in the US.

Christopher Bodden: From a director's perspective, and to echo Ingrid's point, we have also observed some LLC structures used in transactional type vehicles with limited use in the traditional hedge fund space. Bearing in mind the ink has only recently dried on this particular piece of legislation, we do expect to see its use increase in the not too distant future.

I should note where we have observed a LLC being used for the offshore fund, we are also seeing independent directors being appointed to the management boards in order to preserve the governance structure already familiar in the offshore world.

Matthias Knab For a leading jurisdictions like the Cayman Islands, conferences and industry events are an important occasions to showcase your strengths, to network work with the global community and to promote your businesses.

I remember having attended the inaugural GAIM OPS conference here many years back in 2009, which was a good conference right from the start and which has grown since then. I'm also aware of the Cayman Alternative Investment Summit, what else is happening here?



Craig Smith: These conferences and others help to show the strengths of the professional services that are present in Cayman, which are far reaching and include all the service providers, such as auditors, lawyers, and the governance industry, which is growing. Also represented of course are fund administration, banking, and insurance industries.

I am grateful for those conferences for the chance to demonstrate our local expertise as well as our connectivity with the major financial centers, and for bringing high numbers of international conference attendees to the island to share the points of view, discuss concerns and also understand how we can face challenges that are in front of us now.

There are a few things in the marketplace which are facing the financial industry globally where it's helpful to come together to deal with them. Our ability to combine forces in that regard also locally, whether it's bodies like Cayman Finance or AIMA, has been a strength as well, and the conferences are making a great contribution from that perspective as well.

Ingrid Pierce: There are several industry conferences taking place in Cayman, including the Cayman Alternative Investment Summit and the GAIM Ops Conference, which is aimed at CFOs, CCOs, endowments and institutional investors.

There are **significant insurance and reinsurance conferences** which are very well-attended and also bring in people from overseas. There are conferences covering the economic outlook and this year the STEP conference for those in the banking and trusts industry will take place in Cayman.

Matthias Knab Craig, when we talked about the value of conferences, you also mentioned challenges that Cayman or the global financial industry face, what are some of those and what are some of the ways to deal with it?

Craig Smith: Over the past two years we have had increased regulatory demands, and I think we have managed those fairly successfully. FATCA has been implemented. The Common Reporting Standards are underway, and personally, I think we are doing very well in that regard.

Some of the newer regulatory demands are **beneficial ownership** demands coming out of Europe, as well as the AIFMD, related to which ESMA is conducting the its review of all non-EU countries, including Cayman, to ascertain if they are eligible for the AIFMD passport and to determine the timeline that such passports, if granted, would come into effect. This is an important point as such an **AIMFD passport** would allow Cayman funds to be eligible for marketing directly into Europe. Whilst this remains under review, Cayman funds remain able to enter Europe via existing private placement rules.

I think our regulatory bodies as well as our industry advocates have done a good job of discussing these issues together and crafting resolutions to what's being asked of us by the foreign regulators and other bodies.

My understanding for AIFMD is that there are some small points remaining after the last review in the summer of 2016. The two challenges pointed out by ESMA relate to the ability for CIMA to issue administrative fines and also have a macro review of the systematic risk. I believe we are in good shape and that we fully expect to be granted this passport in the near future. *I think this is a question of when and not if.*

Matthias Knab How exactly would your AIFMD equivalent regulatory framework look like from the perspective of a manager?

Ingrid Pierce It will be an opt-in regime which allows a manager to elect to have that additional layer of regulation which will permit Cayman funds to be marketed into Europe as EU-Connected Funds.

Christopher Bodden In your own opinion how could Brexit impact these developments?

Ingrid Pierce: We could be talking about a wholly different regime.

The UK could effectively become a third country and FCA approval, which you would now ordinarily get so that the UK would be your member state of reference and allow you effectively to passport into the EU, may no longer be an option.

Matthias Knab Theresa May seems to be very adamant with her hard Brexit course. Where does this leave Cayman?

Ingrid Pierce: We'll see. At this point I don't think that Cayman or many of the Crown Dependencies or Overseas Territories will to be directly affected by Brexit. There will be some indirect impact, no doubt. But they will probably be better positioned and perhaps more attractive to the UK.

For managers marketing into Europe, Cayman should either have the ability to passport or the manager could potentially go through to another jurisdiction, like Ireland. So, I don't think it's going to have a massive direct impact on the Overseas Territories.

Craig Smith

I think the impacts are unknown until UK decides exactly how it will execute its exit from the European Union. There seems to be quite a bit of uncertainty remaining there.

Matthias Knab

Craig, you mentioned beneficial ownership as one of the newer regulatory demands that are coming up. Could we please add more details on this requirement?

Craig Smith: There is pressure to conform and have a full transparency on beneficial ownerships, and allow me to add that I am proud of our government for the stance that they have taken and for the reaction as far as attempting to get to a sensible solution.

My understanding on the latest development is that there will be a common platform available to appropriate regulators and allow them to access and perform inquiries following the proper process and protocols. I think this has to be fine-tuned but it is important that there is an **equal playing field** and that we are not asked to do something which is different from other participants in the industry.

Christopher Bodden: The matter of implementing the beneficial ownership platform, as described by Craig, also affords an opportunity to highlight an attractive attribute of the jurisdiction, specifically the collaborative approach employed by the Cayman Islands Government when introducing new or amending existing legislation. There is an ongoing public consultation regarding the implementation of the platform previously mentioned, with input being collected from the various industry stakeholders.

The industry is cautiously optimistic that should this feedback be included, the end result will address the external concerns of the international regulators, and at the same time result in a process that is not overly burdensome for the jurisdiction or its users.

We all understand and accept that there will be an uptick in the administrative effort required to comply, however in my opinion it is best to be at the negotiating table when these decisions are being made and driving the decisions versus being told what to do. There are many examples where the Government has afforded industry the opportunity to participate and provide feedback which has resulted in practical and effective solutions.

Craig Smith

I have to agree with that.

Matthias Knab

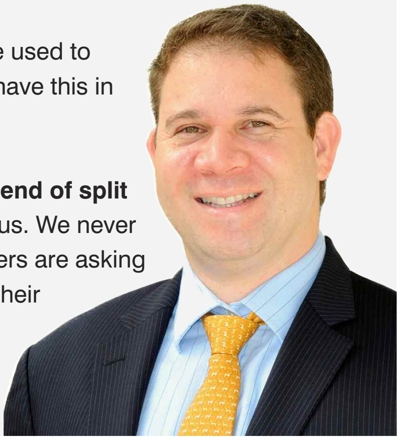
Looking at the governance sector and independent directorships, what's happening there?

Christopher Bodden: We continue to observe managers seeking to appoint Directors who are independent of other service providers and not affiliated or employed by the same firm. Of interest we are seeing hedge funds increase the use independent advisory committees for their US and Cayman LP structures in order to ensure an equivalent standard of governance across their onshore and offshore vehicles. There is some interest in this among private equity funds, however, the **adoption rate of such governance standards is much slower in PE.** In my opinion, until there is a cultural shift on the part of PE managers or greater pressure from the investor community, adoption will continue to lag behind what has become very familiar in the hedge fund community.

Matthias Knab That's interesting because when you look at hedge fund and the liquid alternatives space so much of the innovations and the changes have been driven by investors, right? And there in private equity it seems to be less so. Do you have any explanation for this divergence?

Christopher Bodden: Given the open ended nature of a typical hedge fund, investors, in particular those in offshore funds, expect and value the independent directors to ensure the manager, other service providers and the fund in general is operating in their best interest. Given a private equity fund is typically a closed end vehicle, holding illiquid investments with longer term durations, the demand for independent oversight throughout the life cycle of the fund has been slow to gain acceptance. However *with greater regulatory and investor focus around conflict resolution and expense allocations in the private equity world we are seeing an increased, albeit small, use of independent directors.*

It was also mentioned earlier in our discussion where some investors are shifting from active to passive investment strategies. We are observing another shift in investor behavior where hedge fund investors, some being disappointed with hedge fund performance, are expanding their asset allocation to include private equity funds. Those investors we find are seeking similar independent oversight and governance as they enjoyed in the hedge space. This however has not caused a material shift in the private equity world. If you look back several years at the offshore hedge fund space, governance has certainly evolved over time. We see private equity trending in a similar direction.



Craig Smith: Christopher, you mentioned crossover earlier and I agree that investors who are used to having certain procedures in one product then take it to themselves and ask why shouldn't I have this in more of my products?

Chris is the expert in the governance area but I do have to echo his thought on the **upward trend of split boards** and the increasing regularity and spectrum of questions that are being addressed to us. We never used to have much discussion around this, but increasingly investors and investment managers are asking us what we are seeing and for any recommendations regarding directors as they reconsider their models. So I think it's a growing area of focus, which is echoed in what Chris just said.

Ingrid Pierce: In the private equity space a Limited Partner Advisory Committee – i.e. an LPAC - comprised of limited partners with vested financial interests in the fund has to date effectively acted as the governance check. So while it's not the same role as would be taken by an independent fiduciary sitting on the board of the general partner, LPs have been pretty comfortable with their own representative sitting on an advisory committee without an additional layer of governance. Having said that the cost is really small compared to the assets under management and thinking on this has begun to evolve.

Christopher Bodden: While an LPAC can be effective, in many instances it is comprised of the largest limited partners in the fund. We have received some industry feedback where a limited partner or LPAC as a whole has inserted themselves in certain decisions which has resulted in the investor being viewed as part of management, which although unintentional can be problematic for the LP.

We have also heard some concern in the industry regarding the ability of an LPAC to make an impartial decision when that decision may not align with their own interests but is in the best interest of the fund as whole. While appointing independent directors will go a long way to resolve this perceived risk, I think the market will find the right balance, as it always has.

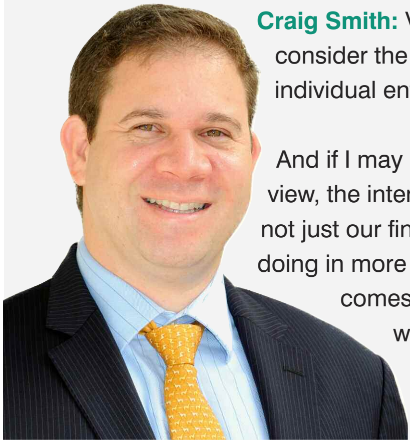
Ingrid Pierce: In terms of new funds in the hedge fund space, **around 80% of all new regulated funds we set up have a split board.**

I have a slightly different view as to whether that is best practice. It may well be an advancement in governance, but not all funds should follow the same model. There is also something of a herd mentality.

Craig Smith: In consideration of split boards, it's useful to also consider the skill-set that is brought to the table by each of the directors chosen.

And therefore instead of just choosing to split from different firms, ask yourself based on the nature and activities of your fund who do I want to see in the governance seat and advising and considering the risk to investors.

Ingrid Pierce Exactly, and that's the whole point. *Just because you go to a different firm doesn't mean you are bound to receive effective and efficient levels of governance or that you are bound to get different expertise.*



Craig Smith: Very true, Ingrid, and so that's one of the things we encourage when we get asked, is to consider the skill-sets for each director and how that compliments / enhances the specific needs of the individual entities.

And if I may go back to governance and the evolution of governance, speaking from an auditor's point of view, the interaction with us has increased and we welcome that as the boards are actually asking about not just our findings, but also about our **risk assessment activities.** We are being asked what we are doing in more detail and discussing the additional ways we add value. So at the end of the day when it comes time to present the accounts, we are being asked to also explain what we have done and what we have found, and I think that's a positive development and healthy interaction.

Matthias Knab Do you see a lot of activity around infrastructure investments and infrastructure funds?

Ingrid Pierce: I think infrastructure is going to be significant this year, partly because there have been a lot of new developments in the US which are bound to push a lot of money into infrastructure. We have also seen some large projects which have been channeled through joint ventures and some M&A deals, and I expect to see quite a lot more of that in the next year or two.

Matthias Knab A listed infrastructure fund manager who participated at our recent Australia Roundtable had shared that the B20, the business arm of the G20 in terms of government organizations, estimated that something like US$60 trillion needs to be spent on infrastructure by 2030 globally.

Ingrid Pierce: Well, if you look at the cities, unless they make a positive effort to build and grow further, the lack of infrastructure will become a bigger problem for the population in many places. There's a pressing need to put money into infrastructure, and for that a lot of capital has to be raised, allocated and managed.

Matthias Knab We already spoke about Brexit, the new LLC and other developments here on the Cayman Islands' financial sector. What else is important from that perspective?

Craig Smith: This is a global industry, so communication and transparency have become very important. Maybe Cayman hasn't always told a story in the past, but that has changed over the last few years led in large part by **Cayman Finance.** A prime example of that is the two-week tour they have just completed in Europe, and I do think it's important that we don't let others define us as sometimes other jurisdictions try to do.

Matthias Knab I think Cayman Finance has been founded in 2003 – the year Opalesque started to publish – and I believe it's very positive and helpful that the body is now taking a more active approach that's also more outward directed.

Craig Smith: We have seen their activities locally for a while and now I think that their engagement with external, international parties is a lot more visible. In recent years I think that they have engaged a lot more with external institutions resulting in getting the message to the right people, which has been key to promoting the jurisdiction. This is particularly helpful as we continue to be faced with a lot of scrutiny, such as being painted as a tax haven, which is inaccurate. We are a **global financial hub** and I think our purpose of connecting capital with investors serves a good purpose to populations onshore.

So I think Cayman Finance is engaging appropriately with regulators, media and external interested parties and doing a great job presenting Cayman positively in the global market place.

Matthias Knab Let's try to look into the future. What trends do you see, how else is the industry changing here and globally?

Ingrid Pierce: I think we are going to see fewer funds in absolute numbers, but at the same time I believe that we will also continue to see startup managers looking to launch as enthusiasm hasn't waned in that space.

At Walkers, we continue to assist **startup managers** in launching their products, and the reality is that it

takes a lot longer, it costs more money, the regulatory burdens are tougher and therefore the barriers to entry keep getting higher. Unless there is a significant reduction in the regulatory compliance burden, which I don't see happening anytime soon, this new reality is not going to change.

Craig Smith Transparency is the new norm, and those that embrace it will advance and outlast. Cayman has been on this path for a while and I think we are continuing to march along and do the right things and take on these challenges. Transparency will surely be further embraced and will be a strength for us going forward.

Christopher Bodden: I agree that the jurisdiction must continue to innovate and evolve if we wish to preserve a robust and successful financial services industry. While there are challenges ahead, our future is bright. Given the large number of talented and highly specialized professionals resident on the island and the continued willingness of the local industry to come together in order to solve a given problem this should mean the jurisdiction will remain an important participant in global finance.

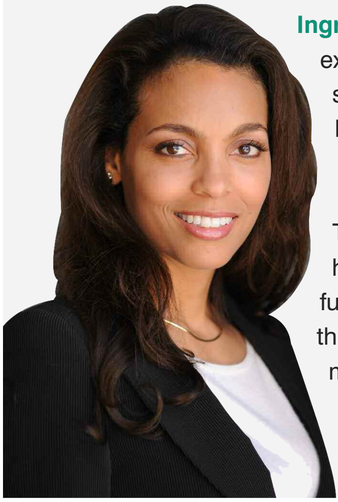
Matthias Knab Right, Craig gave the numbers, 1,230 new funds formed is an achievement, and it was also interesting to hear about the huge interest from Asia for Cayman products.

Ingrid, you just made a few comments on emerging managers, could you maybe give us more background where those managers are located and what type of strategies they are launching?

Ingrid Pierce: We are seeing some new activism in the market, which is always interesting. There has been quite a bit of interest in **FinTech,** and I think we continue to see some **overlap there with the VC space** coming into the fund space. We will also see more in the PE downstream spend doing interesting deals.

From a geographical perspective, while most of us will obviously deal with other parts of the globe as well either through our corresponding offices or networks, the Cayman market is primarily US facing, so the people we mostly interface with are US based, even if they are distributing globally.

Craig Smith When you say "FinTech", specifically is that investments into the sector or is that about client assets managed by FinTech companies?



Ingrid Pierce: It's both. **Entrepreneurship is at an all-time high.** Although we don't have the explosion that we had around the dot.com sector, the FinTech evolution is happening in our industry, so I think this is an extremely exciting period. More people have the ability to get into this space because the technology is widely available, allowing new generations to develop solutions and offer some interesting new products.

These days crowdsourcing, social media and app stores can help launch a product and achieve a high level of market penetration in a short time. Start-ups still need seed capital and if they get funded this creates further interest in the new companies and in due course allows them to prepare them for sale. While most of this activity is onshore, it is equally attractive to non-US investors, which means that at some point it becomes worthwhile setting up a structure in Cayman to facilitate distribution to those investors.

Matthias Knab

You pointed to the overlap which is happening between the venture capital and tech space with the money management industry which is happening in FinTech and something called robo-advice. The iPhone or smart phone became a global product category in just ten years with just about almost every human now using one, so we know how fast and exponentially new technologies can grow. These things can potentially be very big and significant going forward. Do you have any more insights on the FinTech sector and what's happening there?

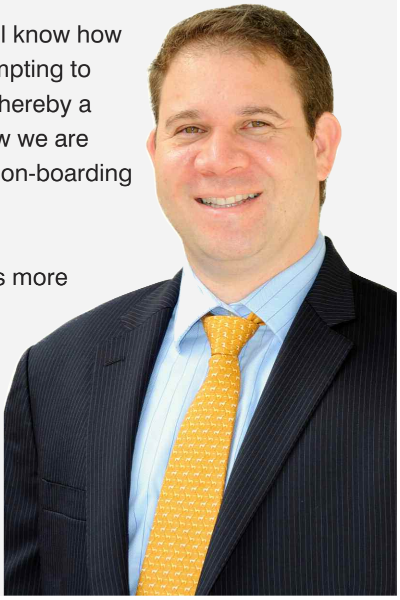
Ingrid Pierce

There are some Bitcoin funds that have launched and other digital currency funds being considered. So there is a kind of a collision of ideas around these products which is very interesting.

Craig Smith: One of these technical innovations I have read about is **digital identities.** We all know how important the KYC (Know Your Client) and anti-money laundering space has become. In attempting to solve issues there, the concept of a digital identity is starting to emerge in certain countries whereby a person has a digital identity which has been verified by an external service provider. Right now we are seeing digital identities being used for government services, but it could be used for banking on-boarding for on-boarding of investors into funds.

The combination of **assurance provision along with biometrics** is helping to make identities more secure and concerns over money laundering becoming addressed through this technology.

To provide this independent verification from a trusted service provider is something that other PwC offices are doing some work on. It's also about enabling applications across borders and across institutions and a host of transactions rather than its current form and limited scope, which is mainly within governmental and healthcare services.



Christopher Bodden I think that as digital identities become more readily shared and verifiable, we will see the application of FinTech really start to increase within the alternatives industry.

There is already increasing use of advanced technologies, such as artificial intelligence applications, in the retail banking sector and it is likely that this will eventually spill over into alternatives. As with any new technology, the stumbling block is going to be educating the users. In the case of digital identies this will involve education of not only the managers and administrators who gather and use the information, but also the investors whose data is being captured in the digital format. Once users get familiar with the concept of digital identities, then the industry can really benefit from the efficiencies offered by this new technology.

Harvest is partnering with OpalesqueTV to offer the 'must-have' marketing bundle for hedge fund managers.

VIDEO

OpalesqueTV produces hundreds of manager videos for the industry's biggest names. Enhance your brand and SEO through highly engaging, professionally produced video content.

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Seamlessly distribute your content across both Opalesque and Harvest - increasing your exposure to over 100,000 institutional investors, RIAs, consultants, family offices and HNW investors.

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Universe Insight Consulting

Go to www.hvst.com/info/opalesque or contact sales@hvst.com to learn more

What happened in Week 3?

Hedge fund manager A has produced a custom video with Opalesque.TV and it has been online for a few weeks. As with manager A, we sometimes notice that the weekly views of a video can jump several hundred percent from one week to the other.

Weekly video views	Week 1	Week 2	Week 3
of Manager A:	110	101	376

There are a range of different reasons for such a sudden jump in views, for example manager A could have:

– won a prestigious award or was nominated to it
– been included in some industry ranking
– been written up in the press / hedge fund media
– just launched a new fund that gained a lot of attention
– posted a (very) good month or year
– etc.

It is safe to assume that on any given day, someone or many will google any hedge fund manager's name, fund name, or company name. Good for those who have a custom made, targeted video online that investors can access any time, and at their time.

Unexpected long-term effect

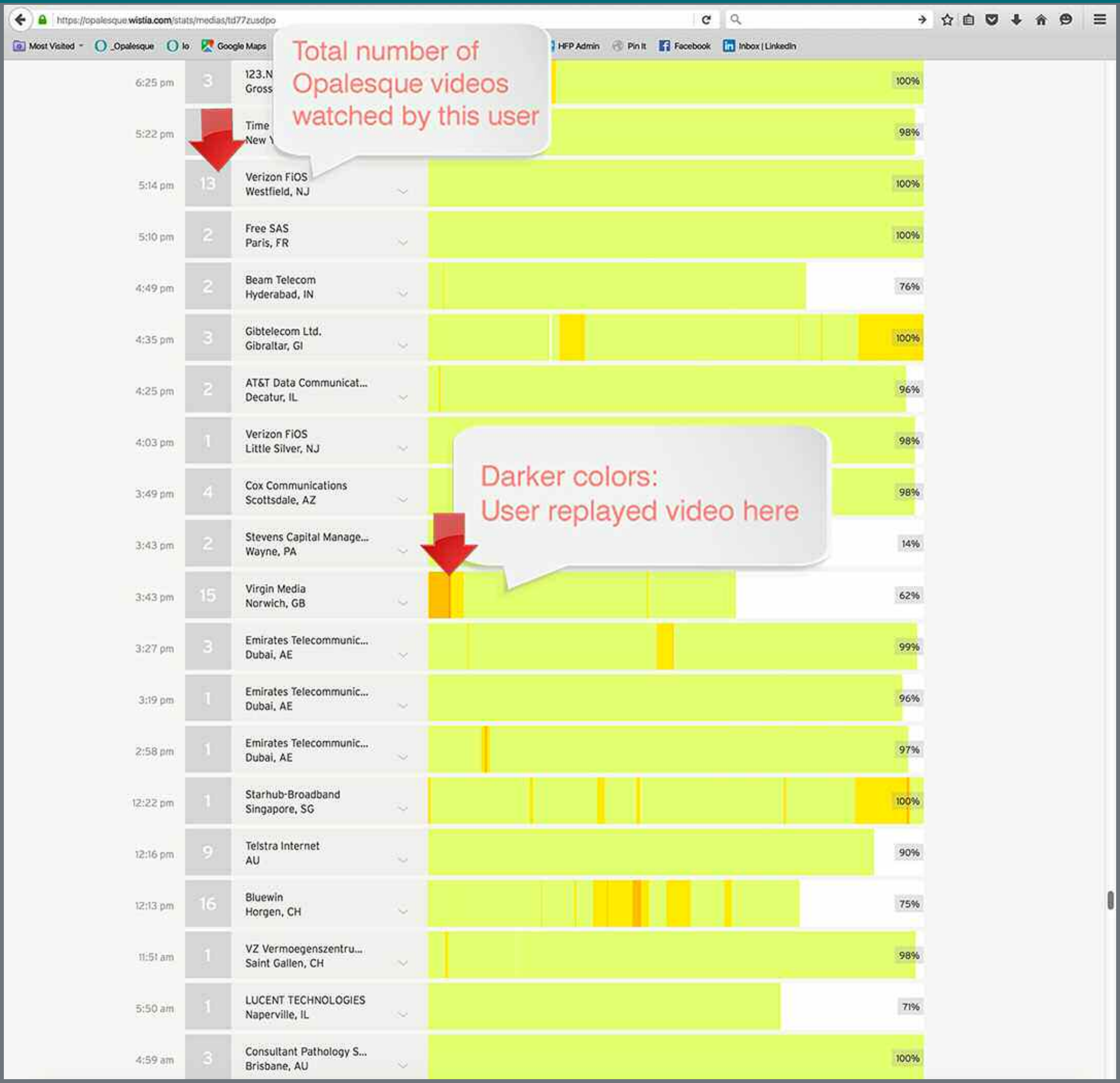
Opalesque has detailed viewer stats on 280+ videos since 2009. What's most interesting is that **video views do not drop significantly over time**, no matter how long the video has been online.

Taking Meetings over Christmas and while you're sleeping

Opalesque.TV videos are designed to simulate a first time meeting with a prospective investor. Many of these allocators will watch a video when they see that there's one available on the manager they are researching (like the viewers of manager A). All 280+ managers who have produced a custom Opalesque.TV video can therefore actually make business (or "have a meeting") while sleeping. Or when it's Christmas.

This video was watched 104 times over the 2016 Christmas holidays:
http://www.opalesque.tv/hedge-fund-videos/patrick-stutz/1

Take a look at the next graphic, especially at the hours (which are Central European), the locations, and the completion (how many viewers watched the video until the end):



We therefore believe there are real **opportunity costs** for managers who do *not* use videos to explain what they do.

Save up to 50% in travel costs by making your first meeting the second one

Have you ever spent time and money to take a trip to present your fund, only to hear, *"Thank you for coming to our office, and please keep sending me your reports ..."?*

What if you had known before that the investor is looking for something else?

By sending their video to prospects **before the meeting,** the manager wins twice. Should the investor be looking for something else, the manager can focus his efforts on those investors who watched the video **and liked** what they saw.

In these cases, managers tell us that the first real meeting becomes more like a 2nd meeting (the 1st one being the video) as the groundwork has been laid and the meeting will be much more successful and achieve much more compared to a regular first meeting. By better **qualifying your leads**, you can basically halve your travel budget and raise more assets quicker.

Compliant

- Opalesque.TV videos are produced to comply with your regulatory requirements
- Allow for true reverse solicitation

You're in control

When you're doing a custom Opalesque.TV video, you have full control about any aspect of your message. This is not a given in any other regular media coverage.

A manager portrait on Opalesque.TV is generally designed to simulate a first time meeting with a prospective investor, meaning that questions like the following will be discussed:

- Please introduce yourself and your firm
- What is special about your strategy?
- How are you different from your competitors?
- What else is important regarding the asset class?
- Opportunities you focus on

Working with a trusted partner

Over 1.2 million people have watched one or more Opalesque.TV videos, which means that the people you may be targeting will already be familiar with Opalesque.TV videos.

Managers like **Julian Robertson, Izzy Englander, Jim Chanos, Jeffrey Ubben, Elena Ambrosiadou, Anthony Scaramucci,** and many others have done Opalesque videos, as well as institutions like **Morgan Stanley, State Street Global Advisors, M&G Investments.**

Broad distribution

You can either produce a private video with us, which will only be hosted on the non-public part of your website, or we can offer you the broadest possible multi-channel distribution on Opalesque.TV and our partners like Reuters and other leading platforms. Contact us to discuss your custom distribution package.

Managers have **quadrupled assets** thanks to our video ($700m to $2.4bn in 1 year) and also received a book contract or **invitation to speak at the World Economic Forum or at TED** through our video:

- View count: Over 1.2 million views (hundreds of thousands of people)
- Thousands of investors will view your presentations
- Longterm effect: views do not drop significantly over time
- Without investing a single additional minute of your time - time required to record a video is approximately 90 minutes.

Costs

For a 10 minute video the all-inclusive package price is US$4000 which includes: travel (Europe and NY tristate), full production at your office, multiple edits (cuts), provision of the final video file, and a global, multi channel distribution package. A 15 minute video is $5000, so $1000 will be billed for each additional 5 minute segment above 10 minutes. The client determines the final length of the video.

Links

Opalesque.TV video which got 104 views over 2016 Christmas:
http://www.opalesque.tv/hedge-fund-videos/patrick-stutz/

Opalesque.TV videos sorted by number of views:
http://www.opalesque.tv/most-viewed-hedge-fund-videos/

Opalesque.TV videos sorted by number of social media shares:
http://www.opalesque.tv/most-shared-hedge-fund-videos/

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