Ogier

Cayman funds-of-one, private equity structures and US hedge funds

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Why are US institutional investors choosing to establish funds-of-one in Cayman?

Under Cayman law there isn't a managed account concept, so a fund-of-one is the preferred structuring option for large managers. Institutional investors are becoming more demanding in terms of wanting to tailor their investment needs. One way to do that is to set up a dedicated fund for that investor, to reflect whatever investment terms they are requesting.

Additionally, funds-of-one are being used by some US managers to suit the needs of European institutions who prefer the safety of a fund-of-one instead of allocating into an offshore commingled fund structure. A few of our large managers have a number of master funds and have set up various funds-of-one as feeder funds, which feed into the different master funds depending on the strategy.

Are there any emerging trends in the funds-of-one market?

One particular trend we see is Japanese investors, who traditionally have been quite timid investors in hedge funds, becoming more tempted to seek out higher yielding assets as a result of a change in government policy in Japan. US managers recognise this and are setting up structures, sometimes as funds-of-one, to provide an attractive alternative option for Japanese investors.

What about private equity vehicles and/or fully fledged private equity structures?

Another trend is the launch of private equity vehicles by hedge fund managers. We are seeing more hybrid funds being established, where traditional hedge funds are investing some of the portfolio in assets associated with private equity funds. As a consequence, this requires making structuring changes to the fund. It may look in some respects like a regular hedge fund but it may need the ability to establish side pockets or gates for the illiquid assets.

The alternative to the above is a fully-fledged private equity structure. This can be done using a traditional master/feeder structure with a partnership master fund offering two classes of interests and two feeders, one a partnership vehicle linked to illiquid investments, and the other a corporate vehicle linked to the liquid investments.

Some managers think if they have the opportunity, for a defined term, to grow the investments, they can develop a better track record and showcase their investment skills better than they are perhaps able to in the current market (using purely hedge fund structures).

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