

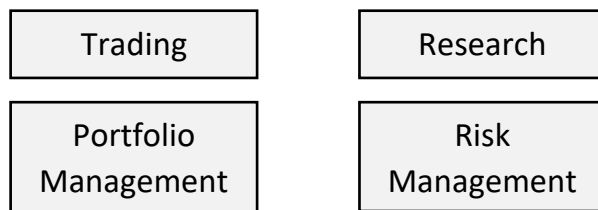
## Investment Management Substance in the Cayman Islands

### What counts as Economic Substance?

First and foremost, there is no need to build your entire investment business in Cayman. You can – but that's not necessary. Many investment management firms divide up specific functions into different jurisdictions and it is unarguable that the essence of division does not destroy the existence of genuine and substantive activity; rather it is a reasonable manifestation of division of labour.

### Business Split

A typical investment manager splits their investment process into four key areas, supported by operational functions such as compliance, middle-office reconciliation etc.



### What might qualify as Substantive Economic Activity

In our opinion, the provision, in full or in part, of one or more of these functional investment business areas, by persons with suitable experience and qualifications and hands-on-industry experience, ought to meet and exceed the Economic Substance tests:

1. A firm that bases its research analysts, who conduct investment research (in whatever capacity) that is central to the investment decision-making process of the investment organisation, is conducting substantive activity.
2. A firm that bases its portfolio managers, who conduct investment decision-making, whether driven by quantitative, qualitative or other factors, and whether they are applying discretion or executing or overseeing an investment algorithm process, is conducting substantive activity.
3. A firm that bases its traders, who execute trades as a result of investment analysis and decision-making, and who are responsible for ensuring best execution and other industry standards are met, is conducting substantive activity.
4. A firm that oversees the trading function, monitoring for compliance with mandate, best execution, market impact and evaluates the trading function to ensure returns are optimised for the investment organisation, is conducting substantive activity.
5. A firm that oversees the portfolio management function in terms of monitoring, assessing or evaluating risks of the portfolio or the business and ensuring those are within parameters set out in offering documents or DDQ documents, is conducting substantive activity.
6. A firm that manages cash, encumbered assets or other collateral with a view to optimising the returns or managing the risk exposures of the client, is conducting substantive activity.
7. A firm that conducts FX, interest rate or other hedging functions, or similar, with a view to controlling risks or optimising exposures of the client, is conducting substantive activity.
8. A firm that conducts portfolio evaluation, benchmark or peer return analysis or a statistical analysis of returns for the benefit of traders, portfolio managers and investors, is conducting substantive activity.

We should note that these illustrations are ones that are immediately obvious to us. This should not, at all, preclude that there may quite reasonably exist a multitude of other scenarios that are equally valid and reasonable and manifestly substantive investment activity.