



# INVESTMENTS STATISTICAL DIGEST 2007



## INTRODUCTION

The Cayman Islands Monetary Authority (CIMA) is pleased to release its 2007 Investments Statistical Digest. This issue not only presents the 2007 aggregate statistics gathered from over 7,000 regulated funds on a stand-alone basis, but also for the first time presents a comparison of the 2007 and 2006 demographic and financial data gathered for all funds that had a 31 December financial year-end. The analytical data tables presented in the Statistical Trend Analysis section of the Digest compare the figures from 2007 against 2006 for all funds with a 31 December financial year-end that filed a Fund Annual Return (FAR) via the E-Reporting system. The changes highlight certain trends occurring in the funds industry. The 2006 comparative figures were taken from the previous issue of the Digest, which can be found on our website at [www.cimoney.com.ky](http://www.cimoney.com.ky). The second section of the Digest presents the Statistical Stand-Alone Analysis, highlighting the results of all funds that filed a 2007 FAR via the E-Reporting system.

### 2007/2006 Statistical Trend Analysis

- 2 Financial Position
- 3 Investment Manager Location
- 4 Investment Manager Region
- 5 Investment Strategy
- 6 Asset Allocation
- 7 NAV Calculation Location / RTA Location

### 2007 Statistical Stand-Alone Analysis

- 8 Highlights
- 9 Financial Position
- 10 Operating Structure
- 10 Accounting Standard
- 10 Legal Structure
- 10 Stock Exchange
- 11 Investment Manager Location
- 12 Investment Manager Region
- 13 Investment Strategy
- 14 NAV Calculation Location / RTA Location
- 15 Asset Allocation
- 16 Minimum Initial Subscription Amount

### 17 Glossary of Terms

# STATISTICAL TREND ANALYSIS

## FINANCIAL POSITION

Figure 1  
**Financial Position (US\$ Billions)**

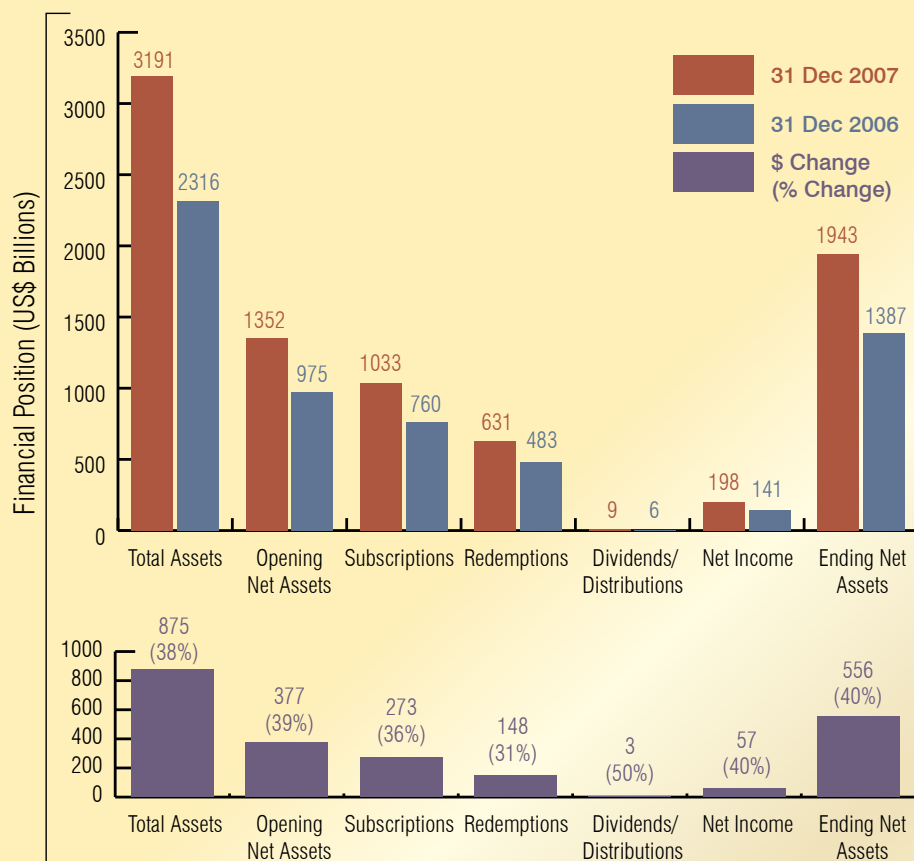


Figure 1 illustrates the significant increase in the funds' opening and ending net assets, subscriptions, redemptions and net income from 2006 to 2007. The increase ranged from 30% to 50% in each line item.

The increase in opening net assets (US\$377 billion) and ending net assets (US\$556 billion) is partly attributed to the increase in number of funds with a 31 December year-end captured in the 2007 Digest compared to 2006 (5,884 for 2007 compared to 5,052 for 2006). An increase in capital also contributed to the overall increase in ending net assets as at 31 December 2007, compared to 31 December 2006. The net capital (subscriptions less redemptions) totalled US\$402 billion in 2007 and US\$277 billion in 2006, for an increase of US\$125 billion (or 45%) from 2006 to 2007. The global hedge fund industry as a whole experienced a very positive year in 2007, reflected in the 40% growth and appreciation of ending net assets compared to the prior period.

Financial Position (US\$ Billions)	31 Dec 2007	31 Dec 2006	\$ Change	% Change
Total Assets	3,191	2,316	875	38%
Opening Net Assets	1,352 <sup>1</sup>	975	377	39%
Subscriptions	1,033	760	273	36%
Redemptions	631	483	148	31%
Dividends/ Distributions	9	6	3	50%
Net Income	198	141	57	40%
Ending Net Assets	1,943	1,387	556	40%

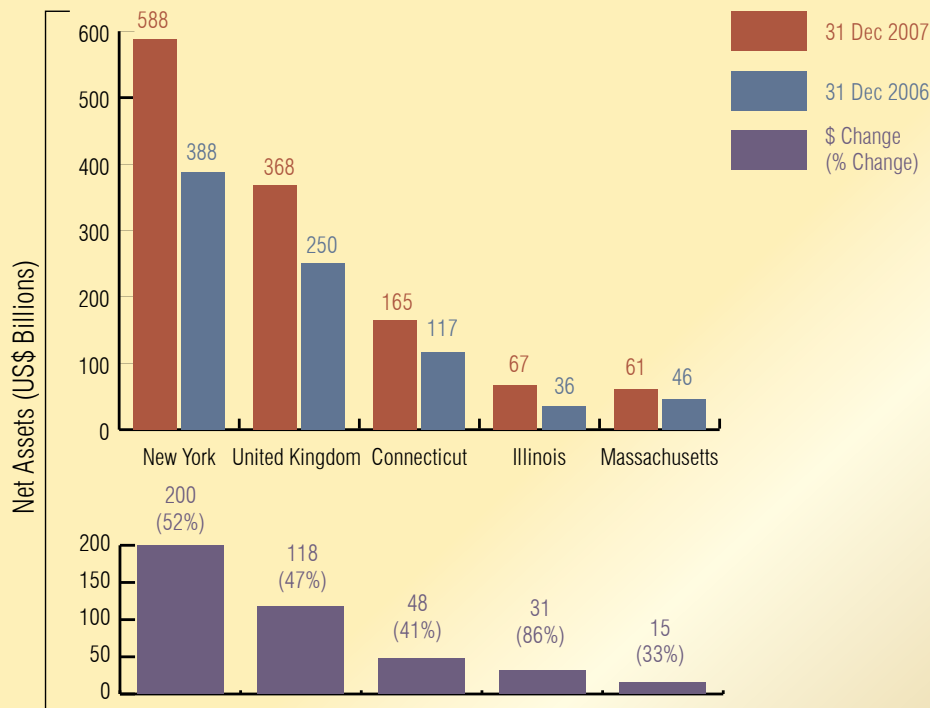
<sup>1</sup>The decrease from the 2006 ending net assets to the 2007 opening net assets was attributed to funds that deregistered with CIMA during the year and therefore were not required to file a 2007 FAR.

# STATISTICAL TREND ANALYSIS

## INVESTMENT MANAGER LOCATION

Figure 2

### Net Assets per Investment Manager Location (US\$ Billions)



The 31 December 2007 and 2006 numbers in Figure 2 illustrate that New York and the United Kingdom (UK) continue to be the preferred locations for investment managers based on the size of net assets under management in these locations.

Net assets under management in New York increased by 52%, while net assets under management in the UK increased by 47%. The aggregate net asset increase for New York and the UK (US\$318 billion) accounted for 57% of the total increase in net assets of US\$556 billion. The same top five investment manager locations identified in the 2006 Digest are reflected again in 2007.

Net Assets per Investment Manager Location (US\$ Billions)	31 Dec 2007	31 Dec 2006	\$ Change	% Change
New York	588	388	200	52%
United Kingdom	368	250	118	47%
Connecticut	165	117	48	41%
Illinois	67	36	31	86%
Massachusetts	61	46	15	33%
Other <sup>2</sup>	694	550	144	26%
<b>Aggregate Net Assets</b>	<b>1,943</b>	<b>1,387</b>	<b>556</b>	<b>40%</b>

<sup>2</sup>Investment manager locations that accounted for 2% or less of the aggregate net assets were grouped as 'Other' and thus, are considered individually insignificant.

# STATISTICAL TREND ANALYSIS

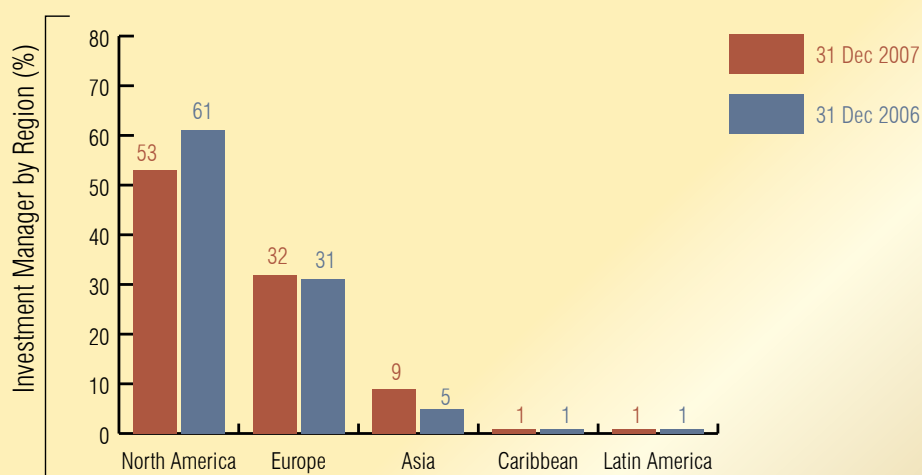
## INVESTMENT MANAGER REGION

Figure 3 shows the breakdown of net assets per investment manager region as a percentage of the aggregate net assets for the 31 December 2007 and 2006 period.

Figure 3 illustrates that North America and Europe continue to make up the two regions where the vast majority of investment managers are situated (85% in 2007 and 92% in 2006).

Net assets under management by investment managers situated in North America decreased slightly in 2007, while net assets under management in Asia increased steadily. Net assets under management in Europe, Latin America and the Caribbean remained relatively consistent.

Figure 3  
**Breakdown of Investment Manager by Region**



Investment Manager per Region	31 Dec 2007	31 Dec 2006
North America	53%	61%
Europe	32%	31%
Asia	9%	5%
Caribbean	1%	1%
Latin America	1%	1%
Other	4%	1%
<b>Total</b>	<b>100%</b>	<b>100%</b>

**North America** - Canada, United States

**Europe** - Switzerland, United Kingdom, Liechtenstein, Jersey, Guernsey, Norway, France, Ireland, Spain, Malta, Luxembourg, Gibraltar, Portugal, Denmark, Sweden, Isle of Man, Netherlands, Greece, Cyprus, San Marino, Monaco, Italy, Turkey, Iceland, Belgium, Germany, Russia, Austria

**Asia** - Bahrain, Mauritius, Israel, India, Indonesia, China, Japan, Singapore, Malaysia, Kuwait, Saudi Arabia, U.A.E., Thailand, Australia, New Zealand

**Caribbean** - Cayman Islands, Anguilla, Bahamas, Barbados, Curacao, Grenada, Nevis, Bermuda, British Virgin Islands, Turks & Caicos Islands

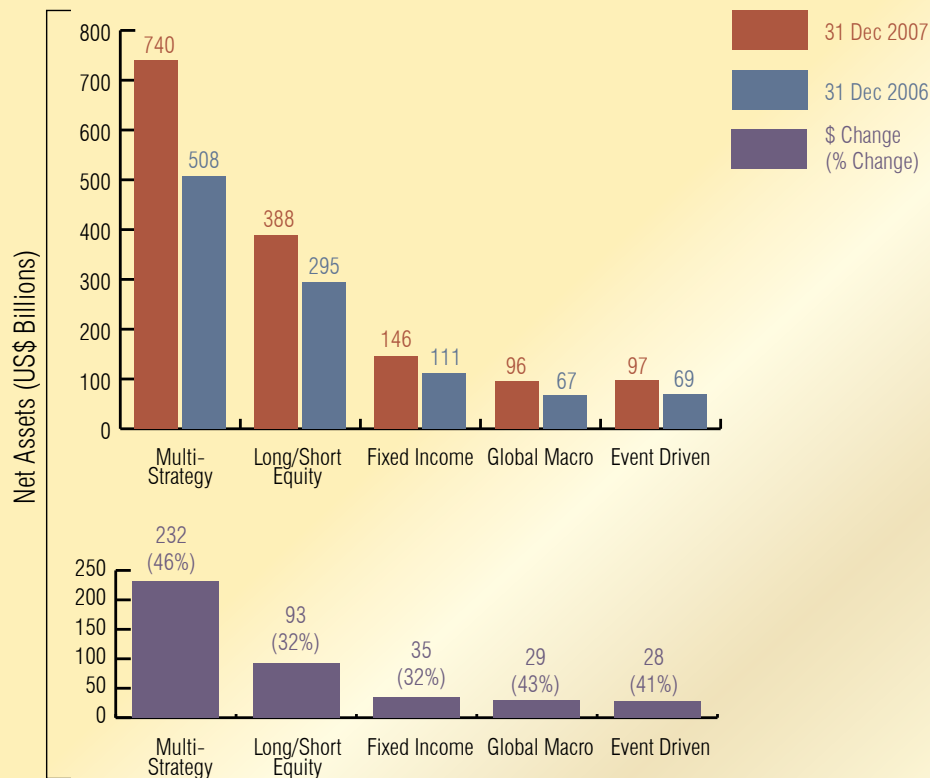
**Latin America** - Mexico, Panama, Brazil, Uruguay, Peru, Belize

# STATISTICAL TREND ANALYSIS

## INVESTMENT STRATEGY

Figure 4

### Net Assets per Investment Strategy (US\$ Billions)



The 31 December 2007 and 2006 statistics in Figure 4 show that Multi-Strategy continues to be the dominant investment strategy used by regulated funds. The net assets of funds that used a Multi-Strategy increased by US\$232 billion, which made up the largest portion (46%) of the overall increase in aggregate net assets from 2006 to 2007 (US\$556 billion). 17% (or US\$93 billion) of the increase in aggregate net assets was attributed to funds that used a Long-Short Equity strategy.

Overall, the top five investment strategies reported in the 2006 Digest remained the most popular in 2007, with the majority of funds having utilised a Multi-Strategy and a Long-Short Equity strategy (collectively making up 58% of aggregate net assets in 2007).

While the net assets of each of the top five investment strategies increased significantly during the 2007 period, net assets per strategy as a percentage of the aggregate net assets remained relatively constant in 2007 compared to 2006.

Net Assets per Investment Strategy (US\$ Billions)	31 Dec 2007	31 Dec 2006	\$ Change	% Change
Multi-Strategy	740	508	232	46%
Long/Short Equity	388	295	93	32%
Fixed Income	146	111	35	32%
Global Macro	96	67	29	43%
Event Driven	97	69	28	41%
Other	476	337	139	41%
Aggregate Net Assets	1,943	1,387	556	40%

# STATISTICAL TREND ANALYSIS

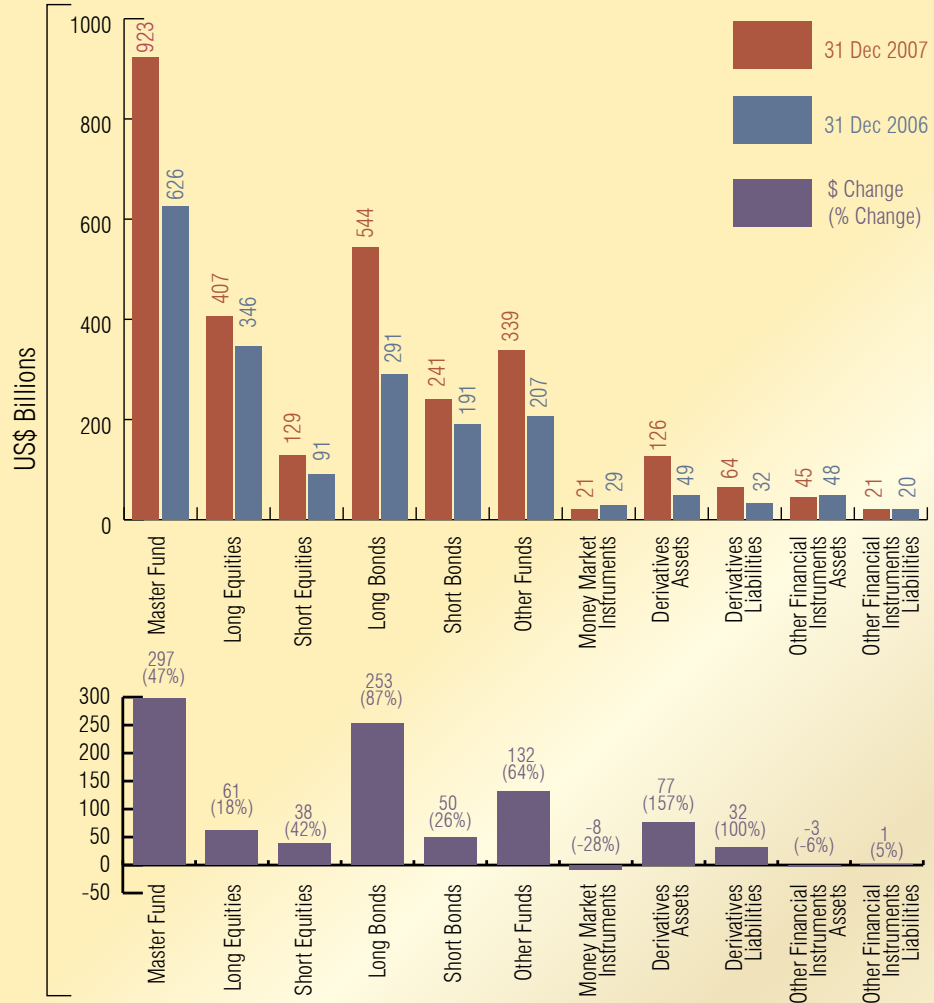
## ASSET ALLOCATION

Significant shifts in asset allocation that occurred in funds with a 31 December year-end from 2006 to 2007 were mainly in assets allocated in Master Funds (US\$297 billion increase), Long Bonds (US\$253 billion increase), Fund of Funds (US\$132 billion increase), and Derivative Assets (US\$77 billion increase).

Derivative Assets and Derivative Liabilities changed the most drastically from 2006 to 2007 in terms of asset allocation per category, increasing by 157% and 100%, respectively, indicating that more funds were investing in derivative-type securities.

The data presented in the asset allocation table was gathered from the funds that elected to fill in the asset allocation section of the FAR, which is an optional section. 91% of funds completed the section in 2007, which is similar to the response level received in 2006 (90%).

Figure 5  
**Asset Allocation (US\$ Billions)**

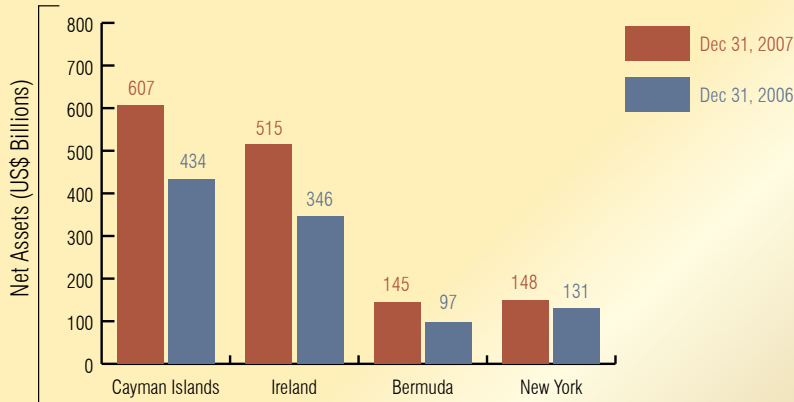


Asset Allocation (US\$ Billions)	31 Dec 2007	31 Dec 2006	\$ Change	% Change
Master Fund	923	626	297	47%
Long Equities	407	346	61	18%
Short Equities	129	91	38	42%
Long Bonds	544	291	253	87%
Short Bonds	241	191	50	26%
Other Funds	339	207	132	64%
Money Market Instruments	21	29	-8	-28%
Derivatives Assets	126	49	77	157%
Derivatives Liabilities	64	32	32	100%
Other Financial Instruments Assets	45	48	-3	-6%
Other Financial Instruments Liabilities	21	20	1	5%

# STATISTICAL TREND ANALYSIS

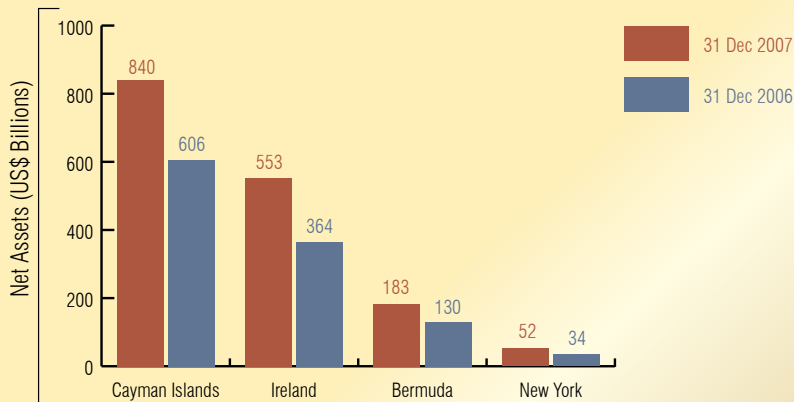
## NAV CALCULATION LOCATION / RTA LOCATION

Figure 6  
**Net Assets by NAV Calculation Location** (US\$ Billions)



Net Assets by NAV Calculation Location (US\$ Billions)	31 Dec 2007	31 Dec 2006	\$ Change	% Change
Cayman Islands	607	434	173	40%
Ireland	515	346	169	49%
Bermuda	145	97	48	49%
New York	148	131	17	13%
Other	528	379	149	39%
<b>Aggregate Net Assets</b>	<b>1,943</b>	<b>1,387</b>	<b>556</b>	<b>40%</b>

Figure 7  
**Net Assets by RTA Location** (US\$ Billions)



Net Assets by RTA Location (US\$ Billions)	31 Dec 2007	31 Dec 2006	\$ Change	% Change
Cayman Islands	840	606	234	39%
Ireland	553	364	189	52%
Bermuda	183	130	53	41%
New York	52	34	18	53%
Other	315	253	62	25%
<b>Aggregate Net Assets</b>	<b>1,943</b>	<b>1,387</b>	<b>556</b>	<b>40%</b>

Figures 6 and 7 represent the four most popular locations for the provision of fund administration services, broken out by net asset value (NAV) calculation and registrar and transfer agency (RTA) services. The tables show that the Cayman Islands, Ireland, Bermuda and New York continued to be the locations of choice for fund administration in 2007. Assets under administration by Cayman Islands based fund administrators providing NAV calculation and RTA services increased significantly in 2007 by approximately 40% and 39%, respectively. As a percentage of the aggregate net assets, the net assets of Cayman administrators providing NAV calculation services remained the same at 31% in both 2006 and 2007. As a percentage of the aggregate net assets, the net assets of Cayman administrators providing RTA services decreased slightly from 44% in 2006 to 43% in 2007.

Ireland, the second most popular location for NAV calculation and RTA services in both 2007 and 2006, increased its assets under administration significantly from 2006 to 2007, by approximately 49% and 52%, respectively.

The overall increase in aggregate net assets from 2006 to 2007 of US\$556 billion (or 40%) is mainly attributed to the increases in net assets administered by fund administrators located in the Cayman Islands and Ireland. Together the Cayman Islands and Ireland accounted for 62% of the total increase in aggregate net assets for NAV calculation services and 76% for RTA services from 2006 to 2007.

# STATISTICAL STAND-ALONE ANALYSIS

## HIGHLIGHTS

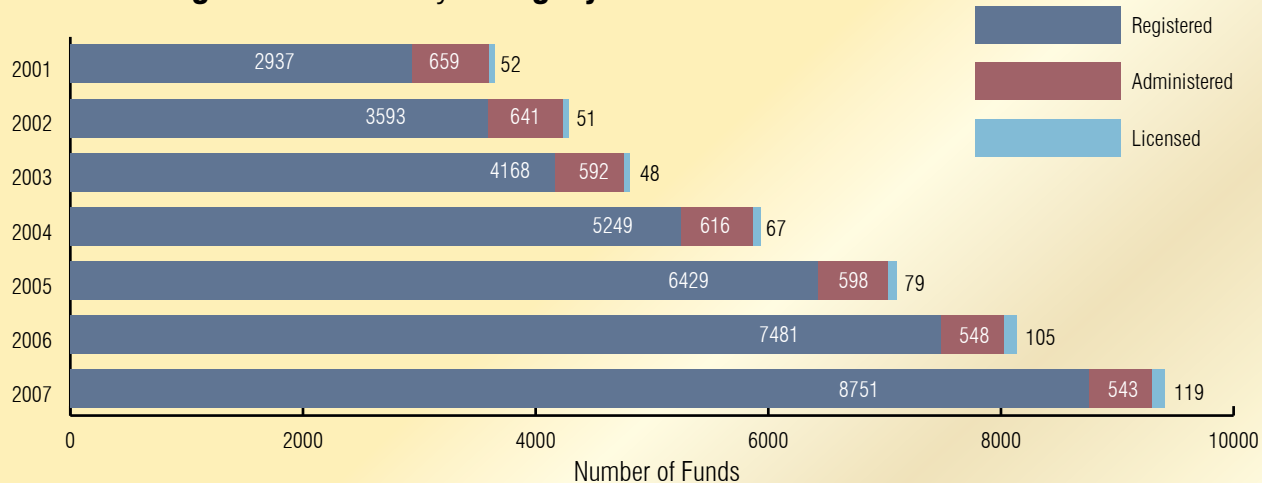
**2.265**  
US\$ Trillion  
Net Asset Value

The data collected represents a significant portion of the regulated hedge funds industry in the Cayman Islands.

The information presented in the following section of the Digest captures all funds that had a financial year-end that fell within the 2007 calendar year. 2007 was the first year that E-Reporting captured this information. There were 7,010 regulated funds that filed a 2007 FAR via E-Reporting. The data collected represents a significant portion of the regulated hedge funds industry in the Cayman Islands.<sup>3</sup>

Net asset value of funds	US\$2.265 trillion
Top location of investment managers by net assets	New York (30% of net assets under management)
Primary location for fund administration services by net assets	Cayman Islands
Percentage of funds requiring a minimum initial investment of US\$1 million or more	44%
Top two investment strategies utilised	Multi-Strategy (38% of funds) Long/Short Equity (22% of funds)
Total subscriptions (and redemptions)	US\$1.235 trillion (US\$782 billion)
Percentage of funds suspending trading	3%

**Total Regulated Funds by Category**



<sup>3</sup> A total of 8,168 funds had a financial year-end that occurred within the 2007 calendar year and thus, were due to file a 2007 FAR via E-Reporting. At the date of compilation of this issue of the Digest, 86% (or 7,010 funds) had filed successfully. Of the remaining 14%, 6% were granted regulatory waivers by CIMA and the remaining 8% are under regulatory review.



# STATISTICAL STAND-ALONE ANALYSIS

## FINANCIAL POSITION

The aggregate total assets of all 7,010 funds that filed a 2007 FAR was US\$3.688 trillion. For these funds, opening net assets were US\$1.588 trillion and ending net assets were US\$2.265 trillion, for a net increase of US\$677 billion (or 43%). Net capital totaled US\$453 billion (subscriptions less redemptions). Growth and appreciation in the value of assets is reflected in the net income figure of US\$234 billion. The return on net assets totalled 10% in 2007.



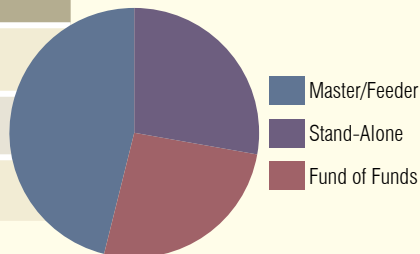
Financial Position (US\$ Billions)	2007
<b>Total Assets</b>	<b>3,688</b>
Opening Net Asset Value	1,588
Subscriptions	1,235
Redemptions	782
Dividends/ Distributions	10
Net Income	234
<b>Ending Net Asset Value</b>	<b>2,265</b>
Return on Gross Assets	6%
Return on Net Assets	10%

# STATISTICAL STAND-ALONE ANALYSIS

## OPERATING STRUCTURE

46% of funds the filed a FAR for 2007 had master/feeder structures. Typically the feeder fund is registered in an offshore jurisdiction, such as the Cayman Islands, and invests into the onshore master fund, which is predominately domiciled in the US. The master fund is often not registered in an offshore jurisdiction, and holds the actual investments of the two-fund structure. 28% of funds had fund of funds structures, which are funds that invest predominately in other funds. Stand-alone funds made up the remaining 26% of funds. These are traditional hedge fund structures that invest directly in securities.

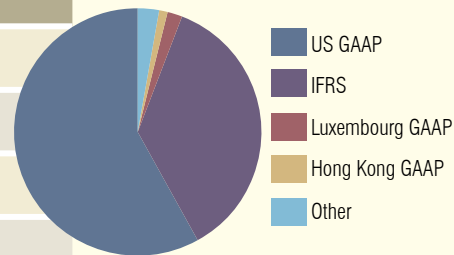
Operating Structure	Percentage
Master/Feeder	46%
Fund of Funds	28%
Stand-Alone	26%



## ACCOUNTING STANDARD

58% of the 7,010 funds that filed a 2007 FAR presented their financial statements using US Generally Accepted Accounting Principles (GAAP). Just over one-third (36%) of funds used the International Financial Reporting Standards (IFRS). The other 6% used principles and standards associated with other jurisdiction, such as Hong Kong, Luxembourg and Canada.

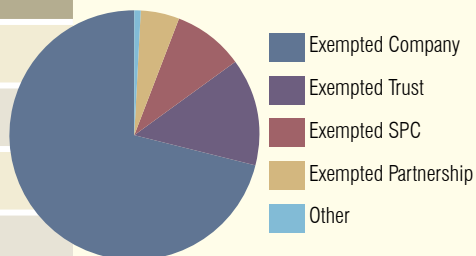
Accounting Standard	Percentage
US GAAP	58%
IFRS	36%
Luxembourg GAAP	2%
Hong Kong GAAP	1%
Other	3%



## LEGAL STRUCTURE

Of the 7,010 funds, 71% were exempted companies, 14% were exempted trusts, and the remaining 15% were attributed to exempted segregated portfolio companies (SPC), exempted partnerships and other legal structures.

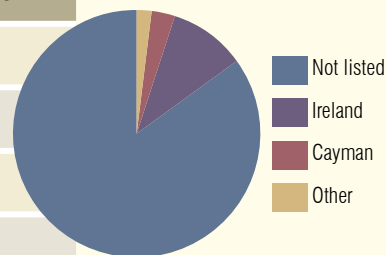
Legal Structure	Percentage
Exempted Company	71%
Exempted Trust	14%
Exempted SPC	9%
Exempted Partnership	5%
Other	1%



## STOCK EXCHANGE

85% of the funds did not list their equity interests on a recognised stock exchange. 10% listed on the Irish Stock Exchange, 3% listed on the Cayman Islands Stock Exchange and the other 2% listed on other recognised stock exchanges.

Stock Exchange	Percentage
Not listed	85%
Ireland	10%
Cayman	3%
Other	2%

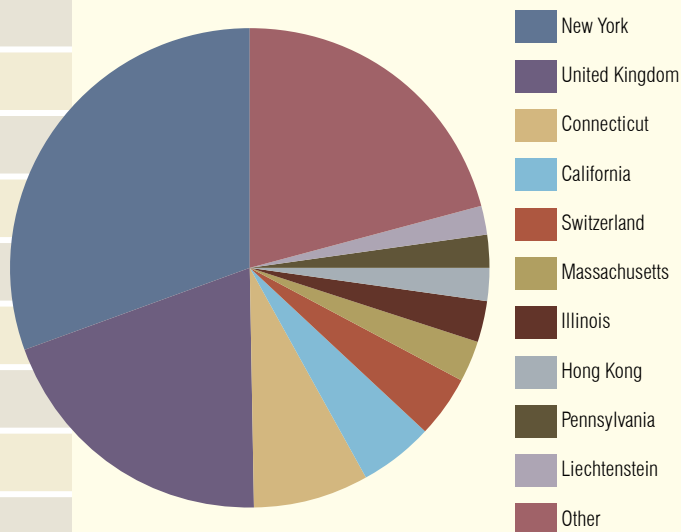


# STATISTICAL STAND-ALONE ANALYSIS

## INVESTMENT MANAGER LOCATION

The table shows the top ten investment manager locations for funds that filed a 2007 FAR. Investment managers located in New York and the UK managed half of the aggregate net assets of the 7,010 Cayman Islands regulated funds that filed a 2007 FAR. Many of these investment managers are regulated in their respective jurisdictions by the United States Securities and Exchange Commission (SEC), Financial Industry Regulatory Authority (FINRA), National Association of Securities Dealers (NASD) and the United Kingdom Financial Services Authority (UK FSA). The remaining eight top locations each made up less than 10% of the aggregate net assets in 2007.

Investment Manager Location (US\$ Billions)	Net Assets	Percentage
New York	686	30%
United Kingdom	447	20%
Connecticut	176	8%
California	113	5%
Switzerland	97	4%
Massachusetts	65	3%
Illinois	60	3%
Hong Kong	54	2%
Pennsylvania	49	2%
Liechtenstein	45	2%
Other <sup>4</sup>	473	21%
<b>Aggregate Net Assets</b>	<b>2,265</b>	<b>100%</b>



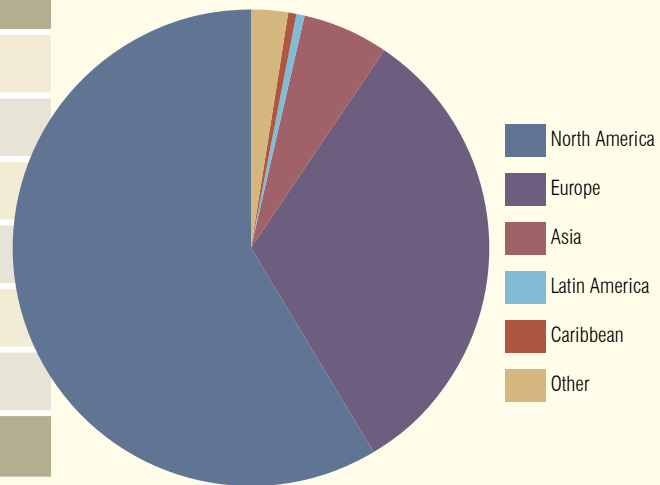
<sup>4</sup>Investment manager locations that accounted for 1% or less of the aggregate net assets were grouped as 'Other' and thus, are considered individually insignificant.

# STATISTICAL STAND-ALONE ANALYSIS

## INVESTMENT MANAGER REGION

The table illustrates the allocation of net assets under management by region. Over half (58%) of the aggregate net assets in 2007 were managed by investment managers situated in North America (Canada and the US). Europe accounted for 32% and Asia accounted for 6%. The remaining 4% of net assets were managed by investment managers situated in the Caribbean, Latin America and other locations.

Investment Manager Region (US\$ Billions)	Net Assets	Percentage
North America	1,324	58%
Europe	726	32%
Asia	131	6%
Latin America	12	0.5%
Caribbean	10	0.5%
Other	62	3%
<b>Aggregate Net Assets</b>	<b>2,265</b>	<b>100%</b>



**North America** - Canada, United States

**Europe** - Switzerland, United Kingdom, Liechtenstein, Jersey, Guernsey, Norway, France, Ireland, Spain, Malta, Luxembourg, Gibraltar, Portugal, Denmark, Sweden, Isle of Man, Netherlands, Greece, Cyprus, San Marino, Monaco, Italy, Turkey, Iceland, Belgium, Germany, Russia, Austria

**Asia** - Bahrain, Mauritius, Israel, India, Indonesia, China, Japan, Singapore, Malaysia, Kuwait, Saudi Arabia, U.A.E., Thailand, Australia, New Zealand

**Latin America** - Mexico, Panama, Brazil, Uruguay, Peru, Belize

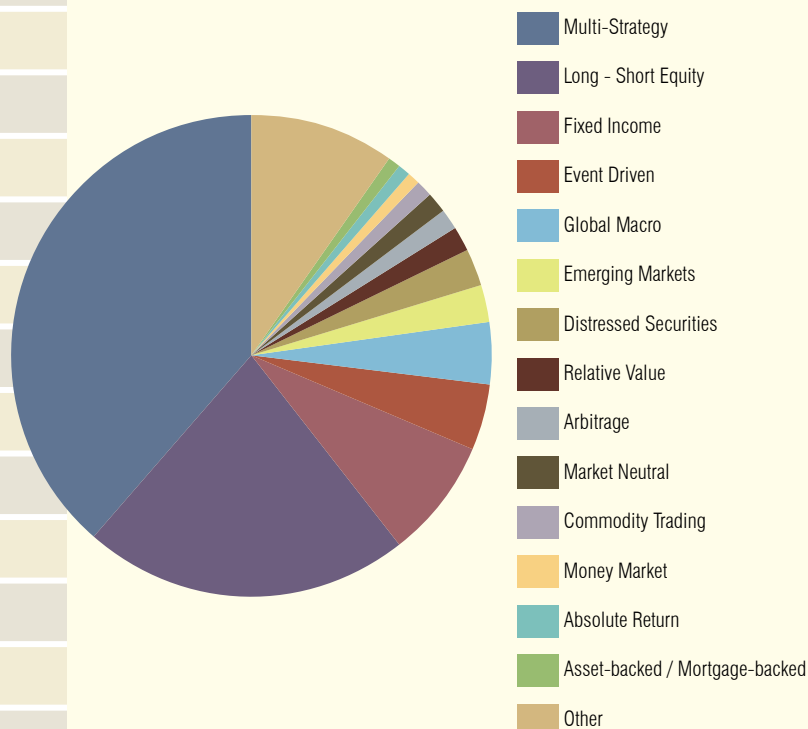
**Caribbean** - Cayman Islands, Anguilla, Bahamas, Barbados, Curacao, Grenada, Nevis, Bermuda, British Virgin Islands, Turks & Caicos Islands

# STATISTICAL STAND-ALONE ANALYSIS

## INVESTMENT STRATEGY

The table shows the most popular investment strategies utilised by regulated funds that are domiciled in the Cayman Islands. The top fourteen investment strategies presented accounted for 90% of the aggregate net assets under management for 2007. Although there was an array of investment strategies utilised, the most popular of these were the Multi-Strategy and Long/Short Equity strategy, which together, accounted US\$1.371 trillion (or 60%) of the aggregate net assets.

Investment Strategy (US\$ Billions)	Net Assets	Percentage
Multi-Strategy	869	38%
Long - Short Equity	502	22%
Fixed Income	179	8%
Event Driven	100	4%
Global Macro	97	4%
Emerging Markets	58	3%
Distressed Securities	54	3%
Relative Value	36	2%
Arbitrage	33	1%
Market Neutral	30	1%
Commodity Trading	28	1%
Money Market	19	1%
Absolute Return	18	1%
Asset-backed / Mortgage-backed	18	1%
Other <sup>5</sup>	224	10%
<b>Aggregate Net Assets</b>	<b>2,265</b>	<b>100%</b>



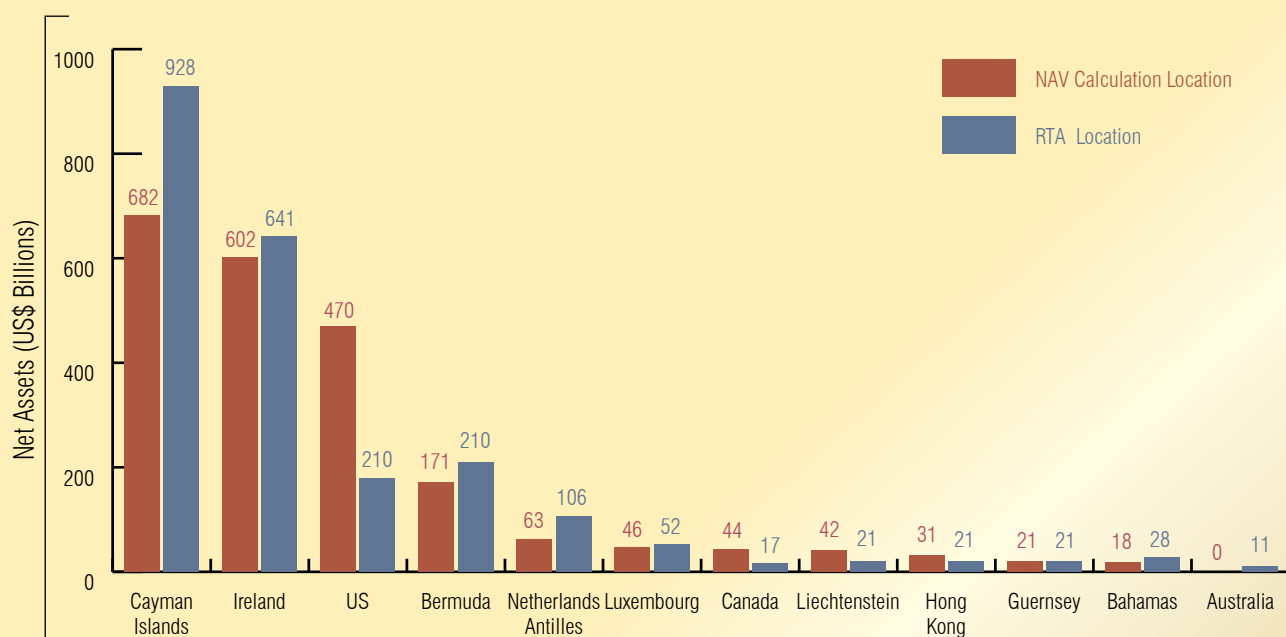
<sup>5</sup>Strategies that accounted for less than 1% of the aggregate net assets were grouped as 'Other' and thus, are considered individually insignificant.

# STATISTICAL STAND-ALONE ANALYSIS

## NAV CALCULATION LOCATION / RTA LOCATION

The Cayman Islands was the leading fund administration location for both NAV services and RTA calculation services among the 7,010 funds filing a FAR for 2007. Cayman-based administrators that provided NAV calculation services had US\$682 billion (30% of net assets) under administration. Those that provided RTA services had US\$928 billion (41% of total net assets) under administration. Following the Cayman Islands were Ireland, US, Bermuda and the Netherlands Antilles. Administrators that provided NAV calculation services from these locations accounted for 58% of the aggregate net assets under administration. RTA services from these same locations accounted for 50% of the aggregate net assets under administration.

### NAV Calculation Location / RTA Location



NAV Calculation Location (US\$ Billions)	Net Assets	Percentage
Cayman Islands	682	30%
Ireland	602	26%
US	470 <sup>6</sup>	21%
Bermuda	171	8%
Netherlands Antilles	63	3%
Luxembourg	46	2%
Canada	44	2%
Liechtenstein	42	2%
Hong Kong	31	1%
Guernsey	21	1%
Bahamas	18	1%
Other	75	3%
<b>Aggregate Net Assets</b>	<b>2,265</b>	<b>100%</b>

<sup>6</sup>Top 5 US States: New York (156), New Jersey (73), Pennsylvania (63), Massachusetts (35), Connecticut (30), Other States (113).

RTA Location (US\$ Billions)	Net Assets	Percentage
Cayman Islands	928	41%
Ireland	641	28%
Bermuda	210	9%
US	178 <sup>7</sup>	8%
Netherlands Antilles	106	5%
Luxembourg	52	2%
Bahamas	28	1%
Hong Kong	21	1%
Guernsey	21	1%
Canada	17	1%
Australia	11	1%
Other	52	2%
<b>Aggregate Net Assets</b>	<b>2,265</b>	<b>100%</b>

<sup>7</sup>Top 5 US States: New York (76), Pennsylvania (54), Massachusetts (19), Connecticut (9), New Jersey (4), Other States (16).

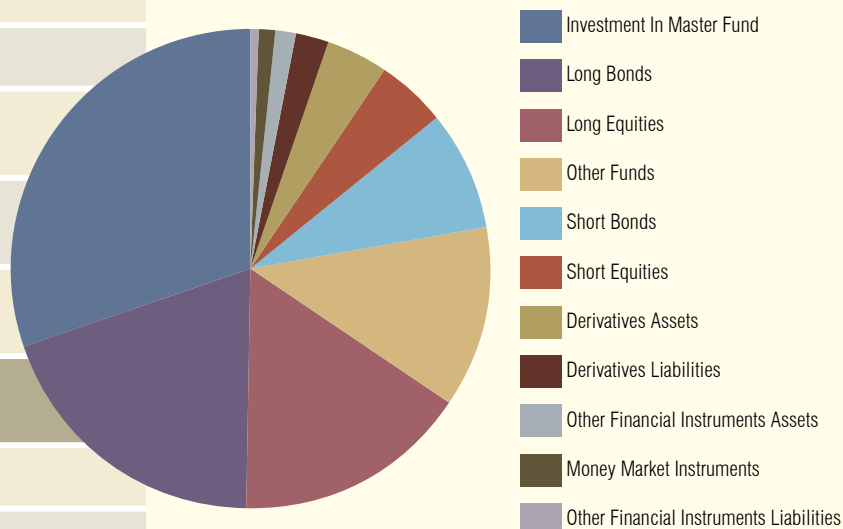
# STATISTICAL STAND-ALONE ANALYSIS

## ASSET ALLOCATION

A significant portion of assets (US\$990 billion or 30%) were invested in Master Funds, the majority of which were domiciled in other jurisdictions located in North America and the UK.

Asset Allocation (US\$ Billions)	Value of Investment	Percentage
Investment In Master Funds	990	30%
Long Bonds	643	19%
Long Equities	527	16%
Other Funds	405	12%
Short Bonds	260	8%
Short Equities	162	5%
Derivatives Assets	136	4%
Derivatives Liabilities	68	2%
Other Financial Instruments Assets	50	2%
Money Market Instruments	32	1%
Other Financial Instruments Liabilities	26	1%
<b>Aggregate Asset Allocation</b>	<b>3,299</b>	<b>100%</b>
<b>Reported Total Assets</b>	<b>3,688</b>	
<b>Percentage coverage</b>	<b>89%</b>	

The data illustrates the preference in asset allocation for regulated funds in 2007. A significant portion of assets (US\$990 billion or 30%) were invested in Master Funds, the majority of which were domiciled in other jurisdictions located in North America and the UK. Other significant asset allocation preferences included long and short securities such as Long Bonds and Long Equities, accounting for another US\$1.17 trillion (or 35%). As this section of the FAR was optional for funds to fill out, the figures reported make up 89% of the total assets reported for 2007.

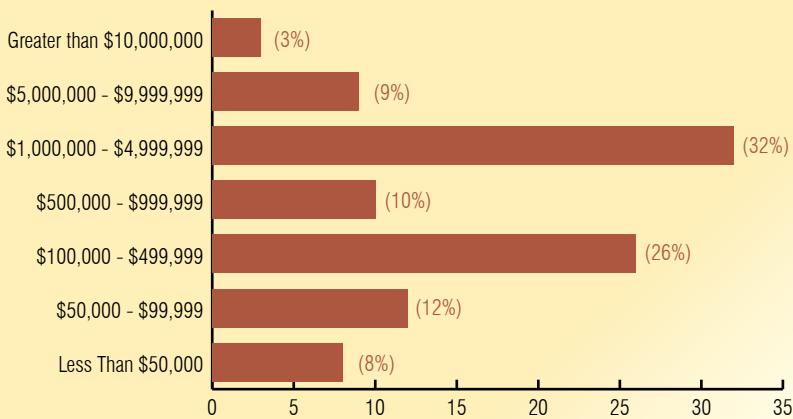


# STATISTICAL STAND-ALONE ANALYSIS

## MINIMUM INITIAL SUBSCRIPTION AMOUNT

The majority of funds regulated by CIMA are registered funds that cater to sophisticated, high net-worth individual or institutional investors. The minimum initial subscription amount required by CIMA is US\$100,000 for registered funds. Of the regulated funds that filed a FAR with CIMA for 2007, 44% required a minimum initial investment of US\$1,000,000 or greater.

### Minimum Initial Subscription Amount



Minimum Initial Subscription Amount	Percentage of Funds
Greater than \$10,000,000	3%
\$5,000,000 - \$9,999,999	9%
\$1,000,000 - \$4,999,999	32%
\$500,000 - \$999,999	10%
\$100,000 - \$499,999	26%
\$50,000 - \$99,999	12%
Less Than \$50,000	8%
<b>Total</b>	<b>100%</b>



# GLOSSARY OF TERMS

**Asset Allocation** – the process of dividing investments among different kinds of assets/liabilities, such as private or publicly traded equities, bonds, currencies, real estate, derivative securities, and over-the-counter contracts.

**Cayman Islands Monetary Authority (CIMA)** – was established as a body corporate under The Monetary Authority Law (2004 Revision). CIMA has four principal functions: 1) Monetary - the issue and redemption of Cayman Islands currency and the management of currency reserves, 2) Regulatory - the regulation and supervision of financial services, the monitoring of compliance with money laundering regulations, the issuance of a regulatory handbook on policies and procedures and the issuance of rules and statements of principle and guidance, 3) Cooperative - the provision of assistance to overseas regulatory authorities, including the execution of memoranda of understanding to assist with consolidated supervision, 4) Advisory - and the provision of advice to the government on monetary, regulatory and cooperative matters.

**Commodity Strategy** – a strategy that invests in commodity securities, usually through futures contracts. The underlying asset or liability in a commodity derivative security is a future quantity of a physical substance, such as food, grains, and metals, that two parties have agreed to trade at a predetermined price.

**Corporate Governance** – the set of processes, customs, policies, laws and institutions affecting the way a corporation is directed, administered or controlled and includes the relationships among the many stakeholders involved and the goals for which the corporation is governed. The objective is to ensure accountability of actions and decisions made during the course of business.

**Distressed Debt Strategy** – a strategy that invests in the security of a company undergoing or expected to undergo bankruptcy or restructuring in an effort to avoid insolvency.

**Dividends/Distributions** – a payment of a portion of a hedge funds' net asset or equity to the shareholders, declared by the fund's board of directors.

**Emerging Markets Strategy** – a strategy that invests in the financial markets of developing countries, usually in small markets with short operating histories.

**E-Reporting** – a secure, web-based system that allows regulated hedge funds to electronically submit a FAR along with a copy of their annual audited financial statements.

**Event Driven Strategy** – a strategy that seeks to exploit relative mispricings between securities whose issuers are involved in mergers, divestitures, restructurings or other corporate events.

**Exempted Company** – a company carrying on business activities primarily outside of the Cayman Islands.

**Exempted Limited Partnership** – the Exempted Limited Partnership Law (2007 Revision) makes it possible to form limited partnerships for offshore investors. Such a partnership may not undertake business with the public in the Cayman Islands, other than as necessary for the carrying on of business outside of Cayman. A partner may be a general or limited partner as well as corporations with or without limited liability.

**Exempted Segregated Portfolio Company (SPC)** – a type of exempted company, which allows the separation of assets and liabilities between different segregated portfolios, established under one company.

**Exempted Trust** – as defined under the Trusts Law (2007 Revision) a trust where none of the beneficiaries are not and are not likely at any time to be resident or domiciled in the Islands.

**Fixed Income Strategy** – a strategy that focuses on purchasing securities with specific interest rates, such as a bond, money market instrument, or preferred stock.

**Fund of funds** – a hedge fund which invests in the shares of other hedge funds. These funds are designed to achieve greater diversification than traditional hedge funds.

**Generally Acceptable Accounting Principles (GAAP)** – a widely-accepted set of rules, principles, conventions, standards, and procedures for reporting financial information. US GAAP was established by the Financial Accounting Standards Board (FASB) in the US

**Global Macro Strategy** – a strategy that invests in securities throughout the world. Additional risks associated with global macro strategies including currency fluctuations and political and economic instability.

**Hedge Fund** – a private investment vehicle, usually owned by high net-worth, sophisticated individuals and institutional investors, which allows for the aggressive use of investment strategies that are typically unavailable to conventional mutual funds, including short selling, leverage, program trading, swaps, arbitrage, and other derivatives. The net assets are managed by an investment manager/advisor or management company, to which investors in the hedge fund pay a performance fee and management fee.

**Industry Best Practice** – a framework or methodology that through extensive analytical research and testing trials, has delivered successful outcomes, and is proven to reliably lead to a most-desired result each time.

# GLOSSARY OF TERMS

**Industry Standard** – an adopted policy or procedure that fulfils the expectations held by industry stakeholders regarding an entity’s use of resources, operational policies or procedures or quality of end-product or service offered.

**International Financial Reporting Standards (IFRS)** – standards and interpretations adopted by the International Accounting Standards Board (IASB).

**Investment Manager** – an individual, group of individuals or entity that performs investment management or advisory services to a hedge fund.

**Investment Strategy** – a investment plan of acquiring and managing the assets and liabilities that is designed to effectively achieve the investment objectives of the hedge fund, while taking into account certain investment restrictions and risk tolerance levels.

**Long/short strategy** – a strategy that focuses on the current and speculative future prices of a security. Having a long position indicates ownership of a security, and appears as an asset on the balance sheet. A short position is the obligation to sell a certain quantity of a security at a particular price in the future, which appears as a liability on the balance sheet.

**Market Neutral Strategy** – a strategy that aims to produce almost the same profit regardless of market circumstances.

**Master/Feeder Fund** – a feeder hedge fund typically raises shareholder capital and invests the proceeds into the shares of a master hedge fund. The master hedge fund conducts the purchasing and selling of portfolio investments using the proceeds received from the feeder fund investor.

**Minimum initial subscription** – the minimum amount an investor must initially subscribe into a hedge fund.

**Multi-Strategy** – a combination of investment strategies used within the same hedge fund to manage the assets and liabilities and generally achieve a high degree of diversification.

**Mutual Fund Administrator** – as defined under the Mutual Funds Law (2007 Revision) means a person who conducts mutual fund administration in or from the Islands and includes a company formed under the Companies Law, a foreign company registered pursuant to Part IX of the Companies Law, a limited partnership registered under the Partnership Law or an Exempted Limited Partnership registered under the Exempted Limited Partnership, that conducts mutual fund administration outside the Islands.

**NAV Calculation Agent** – an administrative service provider that performs the accounting function, including the compilation

and reconciliation of portfolio assets and liability positions and the calculation of the total net asset value of the hedge fund. This also includes verifying, accruing or calculating other operational assets and liabilities, such as cash, prepaid expenses, subscriptions received in advance or fees payable. The NAV calculation agent may also be responsible for independently pricing the investments held in the portfolio, depending on the service contract.

**Net Asset Value (NAV)** – the monetary market value of a hedge fund, based on the fair value of the underlying assets minus the fair value of the liabilities. Net asset value per share of the fund is calculated as the total net assets divided by the number of shares outstanding.

**Net Income** – the amount remaining after expenses and losses are subtracted from a hedge fund’s revenue earned over a period. Revenues include realised gains from the purchase/sale of investments, as well as unrealised gains from the change in fair value of investments held in the portfolio. Revenues also include interest and dividends earned from investments held in the portfolio. Expenses include fees payable to the investment manager, such as performance and management fees, legal fees, and administration fees, accounting fees and audit fees. Losses include those realised from the sale of investments and unrealised losses from the change in fair value of investments held in the portfolio.

**Net Subscriptions** – the total value of subscriptions less the total value to redemptions over a period to result in a net increase or net decrease of cash flows resulting from shareholder activity.

**Relative Value Strategy** – a strategy that measures the value of one security relative to another by comparing the securities using certain measurements, and determining the degree a security is under or over-valued.

**Redemption** – the total or partial return of an investor’s ownership stake in the hedge fund in exchange for proceeds calculated at a price equal to the net asset value per share of the hedge fund.

**Registrar and Transfer Agent (RTA)** – an agent that processes shareholder subscriptions, redemptions and transfers. A register of shareholder ownership is also maintained for the fund on an ongoing basis.

**Registrar of Companies** – a government body that is within the Cayman Island’s General Registry. Registration is governed by the Companies Law (2004 Revision). It is responsible for registration of companies, limited partnerships and exempted trusts.

# GLOSSARY OF TERMS

**Return on Assets** – a measure of a hedge fund’s performance, calculated as the net income of a period divided by the total gross assets, expressed as a percentage.

**Return on Net Assets** – a measure of a hedge fund’s performance, calculated as the net income of a period divided by the total net assets, expressed as a percentage.

**Stand-Alone** – A hedge fund that invests mainly in individual securities.

**Subscription** – the act of institutional or individual investors purchasing equity interests of an hedge fund by subscribing an initial minimum monetary amount or subsequent amount in exchange for ownership of shares or units in the entity at a price equal to the net asset value of the hedge fund.

**Total Assets** – the sum of current and long-term assets owned by an entity. Three characteristics of an asset are that its future benefit of contributing to income generation is probable, the entity can control access to the asset or benefit, and a transaction rise to the transfer of ownership, or risks and rewards associated with that ownership, has occurred.

## Scale:

**US\$1 Trillion = US\$1,000,000,000,000**

**US\$1 Billion = US\$1,000,000,000**

**US\$1 Million = US\$1,000,000**



Copyright (c) 2009 by the Cayman Islands Monetary Authority. All text, designs, graphics and other works in this document are the copyrighted works of the Cayman Islands Monetary Authority. All rights reserved. Any redistribution or reproduction, in whole or in part, without the permission of the Cayman Islands Monetary Authority, is strictly prohibited.

Cayman Islands Monetary Authority  
PO Box 10052  
80e Shedden Road  
Elizabethan Square  
Grand Cayman KY1 - 1001  
CAYMAN ISLANDS

General Office: 345-949-7089

Fax: 345-949-2532

[www.cimoney.com.ky](http://www.cimoney.com.ky)