



INVESTMENTS STATISTICAL DIGEST



Introduction

The Cayman Islands Monetary Authority (CIMA) is pleased to release this first edition of the Investments Statistical Digest, which presents never-before-compiled information on the hedge funds industry.

Drawn from the filings of over 5,000 CIMA-regulated funds, the digest provides the most accurate statistical snapshot of the Cayman Islands hedge funds industry available to date.

With the Cayman Islands being the premier jurisdiction for hedge fund domiciliation, the information in this digest is not only relevant to Cayman; it provides crucial insights into the nature, scope and performance of the hedge fund industry worldwide.

It is CIMA's hope that this data will contribute to the transparency and increased understanding of this dynamic global industry.

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1.387

US\$ Trillion
Net Asset Value



Highlights

The data shows the diversification and financial strength of Cayman-domiciled funds

The information presented in this digest is drawn from data that 5,052 Cayman-domiciled funds filed with CIMA via the Authority's new Electronic Reporting ("E-Reporting") System, which was launched in March 2007. The statistics reflect fund activity for the financial year ending 31st December 2006.

The funds from which data was gathered make up 81% of the funds that were due to submit their annual returns to CIMA for the 2006 financial year. The data is thus a significant and reliable representation of the hedge fund industry.

The cumulative position of the 5,052 funds on which the digest is based shows diversification and financial strength of Cayman-domiciled funds. Highlights are presented below and additional details are provided in the pages that follow.

Net asset value of funds	US\$1.38 trillion
Location of largest concentration of net assets held by investment managers	New York (28% of net assets under management)
Primary location for fund administration services in terms of net asset value	Cayman Islands
Proportion of funds requiring a minimum initial investment of US\$1 million or more	49%
Top two investment strategies utilised	Multi-strategy (utilised for 29% of funds) Long/short equity (27% of funds)
Total subscriptions (and redemptions)	US\$760 billion (US\$483 billion)
Proportion of funds suspending trading	0.1%





Yolanda McCoy
Head
Investments and
Securities Division



E-Reporting

E-Reporting has enabled CIMA to provide enhanced aggregate statistics on the hedge funds industry



The implementation of the CIMA E-Reporting system in March 2007 marked the start of a new era of hedge fund regulation in the Cayman Islands. It enabled, for the first time, the online submission and processing of audited accounts and other relevant information from Cayman-regulated funds.

With the new system, each fund regulated under the Mutual Funds Law is required to submit to CIMA a Fund Annual Return (“FAR”) capturing key fund data, along with its audited financial statements, through the office of a local CIMA-approved audit firm (there are currently 32 such firms in Cayman). Filings must be made within six months of the fund’s financial year-end, beginning with those funds that have a year-end date on or after 27th December 2006. The legislation implementing E-Reporting for funds, the Mutual Funds (Annual Returns) Regulations 2006, was passed on 27th December 2006.

The E-Reporting system runs on XBRL (Extensible Business Reporting Language) technology, which is the emerging worldwide standard for reporting business and financial data. The major benefits of E-Reporting have been increased efficiency in the submission and processing of statutory returns, and the ability of CIMA to generate enhanced aggregate industry statistics, such as presented in this report.¹

¹ A total of 6,252 funds had a financial year-ending 31st December 2006 and were thus due to file a FAR in the first round of E-reporting. At the date of compilation of the digest, 5,052 funds, some 81%, had successfully filed using the system. Of the remaining 19%, 520 were granted regulatory waivers by CIMA and 680 were under review.

The Hedge Funds Industry



The Cayman Islands is the global market leader in offshore hedge funds domiciliation

Cindy Scotland

Managing Director
Cayman Islands
Monetary Authority

The Cayman Islands' hedge funds industry became regulated in 1993 with the enactment of the Mutual Funds Law. Over the past 15 years, the jurisdiction has grown significantly to become the global market leader in offshore hedge fund domiciliation.

Funds regulated by CIMA are categorised as registered, administered or licensed under the Mutual Funds Law. A Registered Fund must have either a minimum aggregate equity interest of US\$100,000 purchasable by a prospective investor or the equity interests must be listed on a stock exchange approved by CIMA. An Administered Fund must have a Cayman Islands licensed mutual fund administrator provide its principal office. A Licensed Fund falls under a more prescriptive regulatory regime. Prior to the granting of the licence, the Authority must be satisfied that its operators and promoters are fit and proper persons, that the fund's administration will be undertaken by persons who have sufficient expertise to administer the fund and that the business of the fund and any offer of equity interest will be carried out in a proper way. A Licensed Fund must have either a registered office in the Islands or, if it is a unit trust, a trust company licensed under the Banks and Trust Companies Law as its trustee.



9,413

Regulated hedge funds
as of 31st December 2007

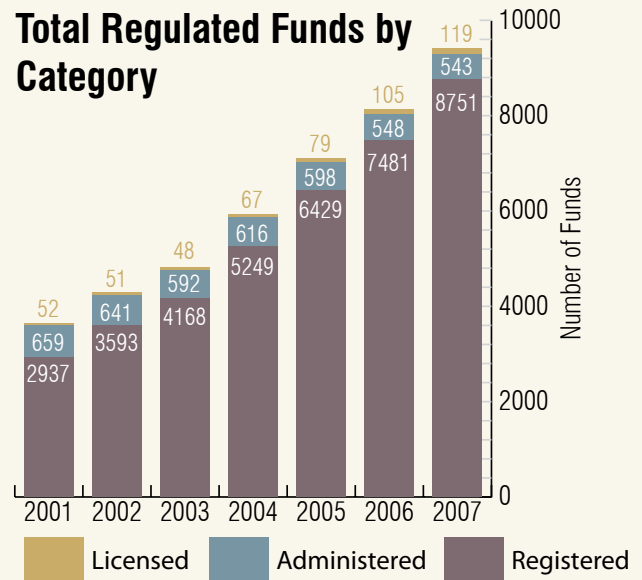
17%

Average annual
growth since 2001



Despite the current turbulence in financial markets, new fund registrations in the Cayman Islands continue to grow at a steady pace. For many in the hedge fund arena, the current credit crisis brings new opportunities. However, the manner in which hedge funds previously existed will inevitably change, as the growing numbers of institutional investors in these funds are demanding greater transparency and corporate governance.

Credible bodies such as the Alternative Investment Management Association (AIMA), the International Organization of Securities Commissions (IOSCO), the UK Hedge Funds Working Group and the US President's Working Group have advocated enhanced industry standards and the establishment of industry best practices. By providing 2006 baseline data, and building on that annually, the Investment Statistical Digest aims to provide greater transparency of the hedge fund regime, which is a key element to the future success of this vibrant industry.



Financial Position



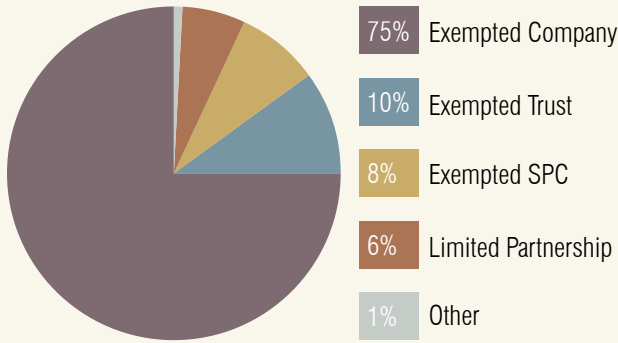
Financial Position	US\$ Billion
Opening Net Asset Value	975
Total Subscriptions	760
Total Redemptions	(483)
Total Dividends/Distributions	(6)
Net Income/ (Net Loss)	141
Ending Net Asset Value	1,387
Return on Gross Assets	6%
Return on Net Assets	10%
Leverage	67%

As at 31st December 2006, the gross assets under management of the 5,052 Cayman Islands-domiciled funds totalled US\$2.316 trillion.² Net asset value was reported at US\$1.387 trillion, increasing by US\$412 billion from the prior period. The funds were, on average, leveraged by 67 percent. Net subscriptions totalled US\$277 billion, demonstrating increased investor confidence and attraction for sophisticated investment structures. Despite the high level of volatility associated with hedge funds, Cayman funds remained extremely stable, netting US\$141 billion in profits for the period. The average return on investments per fund totalled 10% for the period, and the average return on gross assets totalled 6%. Additionally, of the total funds that filed, only 0.1% of funds suspended trading in 2006, and an even smaller amount, 0.003%, were subject to regulatory investigations.



² Figures may include double-counting of assets due to the inter-investing activities of master feeder funds and fund of funds.

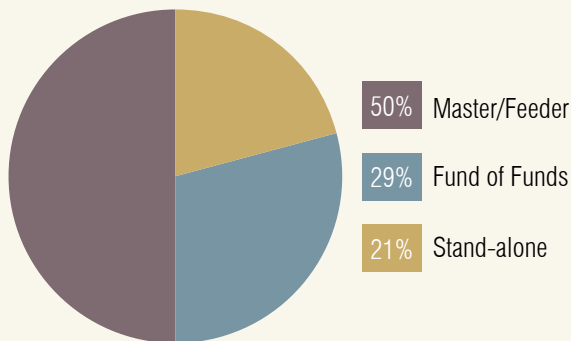
Funds by Legal Structure



Of the multiple legal structures available for the formation of funds, the majority of funds regulated by CIMA (75%) were exempted companies.

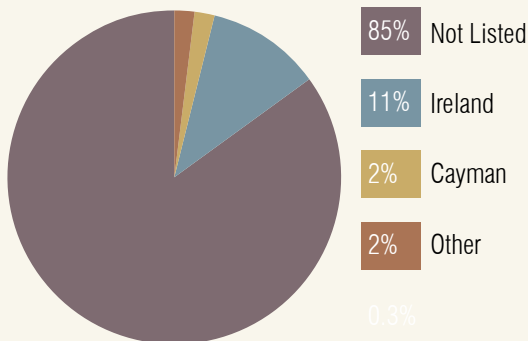
Fund Structure

Funds by Operating Structure



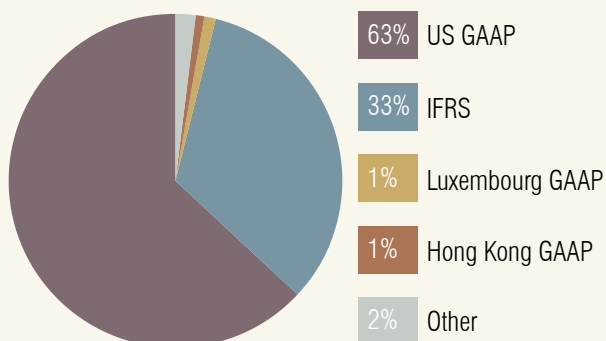
Fifty percent of the funds that filed a FAR were of a master/feeder structure, with the majority being feeder funds. Feeder funds are often incorporated in an offshore jurisdiction, such as the Cayman Islands, while the master fund is often incorporated in an onshore jurisdiction, such as the United States, Europe or Asia.

Funds Listed on a Stock Exchange



Of the funds that filed a FAR with CIMA, 85% did not list their equity interests on a recognized stock exchange. However, of the 15% that did, the stock exchange most utilized was the Irish Stock Exchange. The number of offshore investment funds that list on a recognized stock exchange continues to grow, gaining value, transparency and liquidity benefits.

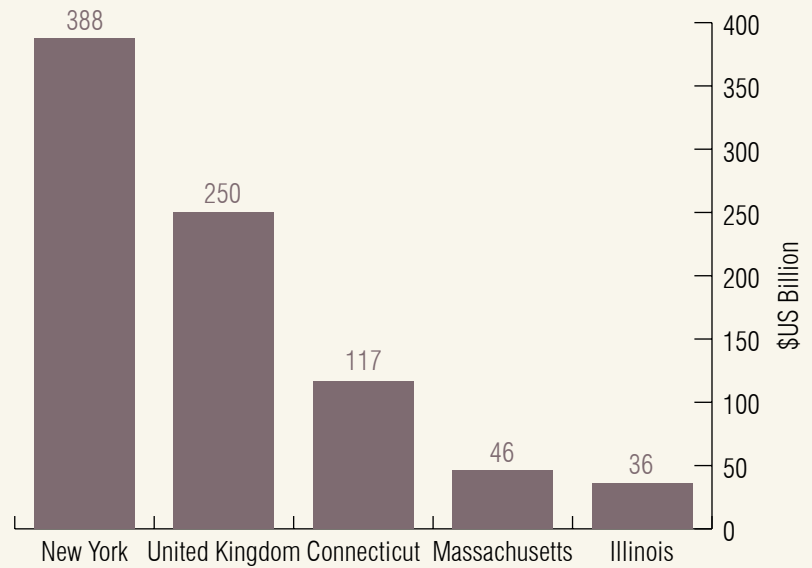
Funds by Type of Accounting Standards



Nearly two-thirds of funds presented their financial statements using US generally accepted accounting principles (“GAAP”). Nearly one-third used International Financial Reporting Standards (“IFRS”). The remaining 4% used principles associated with the jurisdiction where the operators or investment managers of the fund were located.

Investment Management

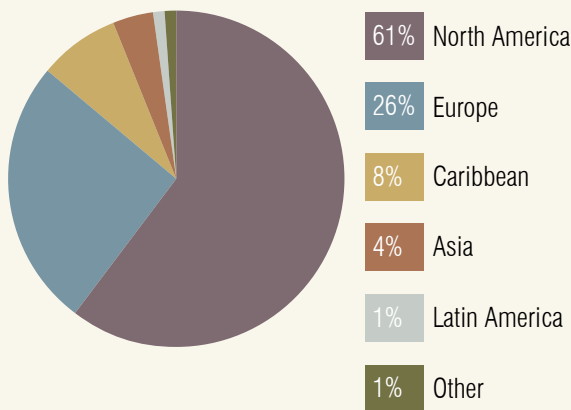
Top 5 Investment Managers by Location



Substantially all fund managers and investment advisors are located outside of the Cayman Islands. The majority of investment managers of Cayman-domiciled funds that filed a FAR were based in the United States, primarily New York. One-third of the total net assets were managed from New York. The second largest concentration of net assets under management was the United Kingdom. Connecticut, Illinois and Massachusetts made up the third, fourth and fifth largest location of net assets under management.

Of the regulated funds that filed a FAR with CIMA, 61% of the total net assets were managed by Investment managers located in North America (Canada and the U.S.).³ Twenty-six percent of the total net assets managed were based in European nations, such as the U.K., Switzerland, and Luxembourg. Managers located in the Caribbean region represented 8% of total net assets under management. Asia, including India and the middle eastern nations, had the fourth largest concentration, totalling 4% of net assets under management.

Investment Managers by Region



3

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

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

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

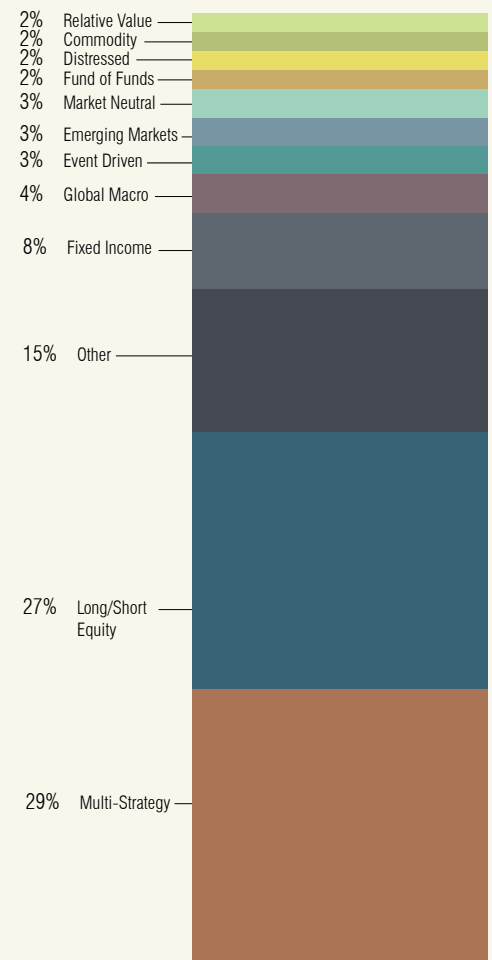
Latin America – Mexico, Panama, Brazil, Uruguay, Peru, Belize





Investment Strategy

Funds by Investment Strategy

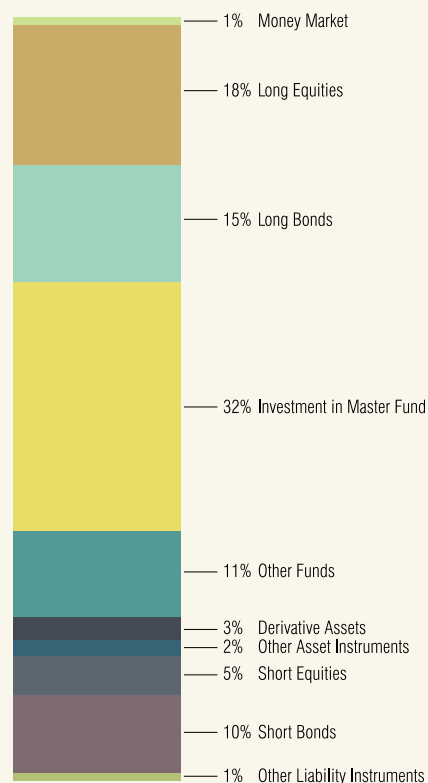


The funds that filed a FAR with CIMA utilised a wide array of investment strategies or combination of strategies to manage their net assets. Twenty-nine percent of these funds applied a multi-strategy approach to asset management. Seventy-one percent used a strategy that focused on a certain security type, sector or event. Of these, 27% focused on a long/short equity strategy and 8% focused on a fixed-income strategy.

Asset Allocation

Of the FARs that filed with CIMA, approximately 90% completed the optional section of the FAR; Section 9 Asset Allocation. It was expected that the majority of regulated funds that filed a FAR with CIMA that use US GAAP (63%) would fill in this section, as US GAAP requires a Schedule of Investments to be included in the financial statements of a hedge fund. The Schedule of Investments presents the allocation of a fund's assets. IFRS does not require hedge funds to include a Schedule of Investments in the financial statements. However, some funds that use IFRS elected to include the schedule. The asset allocation information depicted here as a percentage of total assets aims to provide stakeholders with an indication of the different types of financial instruments into which the Cayman Islands' regulated hedge funds are investing.⁴

Asset Allocation

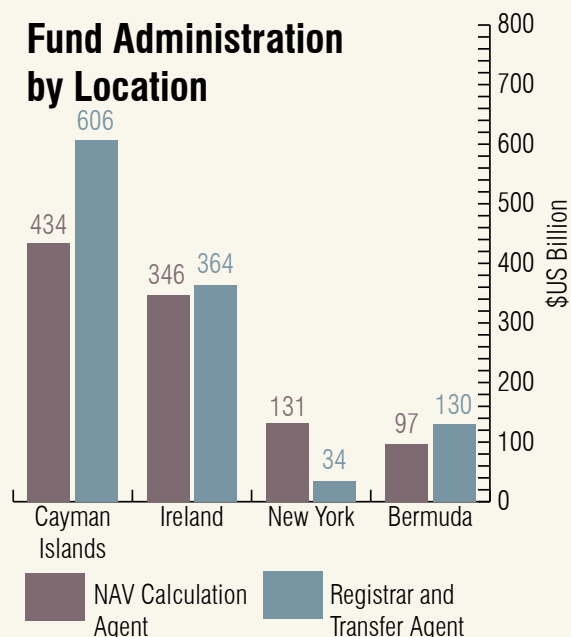


⁴ As the data input into this section was not verified, this section may only represent a portion of each fund's total asset allocation and should not be considered an accurate representation of all regulated funds or the fund industry in total.

Fund Administration

With the consolidation of the fund administration sector in recent years, many institutions are providing varied services to today's hedge funds. Some fund administration companies provide a full range of administrative services, including corporate services, net asset value calculation and registrar and transfer agency services, while others provide niche services, such as independent price verification. As of 31st December 2006, the Cayman Islands was home to 153 licensed mutual fund administrators, some of which are affiliates of the world's largest fund administration service providers, in terms of net assets under administration.⁵

Fund Administration by Location



⁵ Net assets under administration of the NAV Calculation Agent were calculated by NAV Calculation Agent location. A similar process was applied for the net assets under administration of the registrar and transfer agent.





Subscription Information

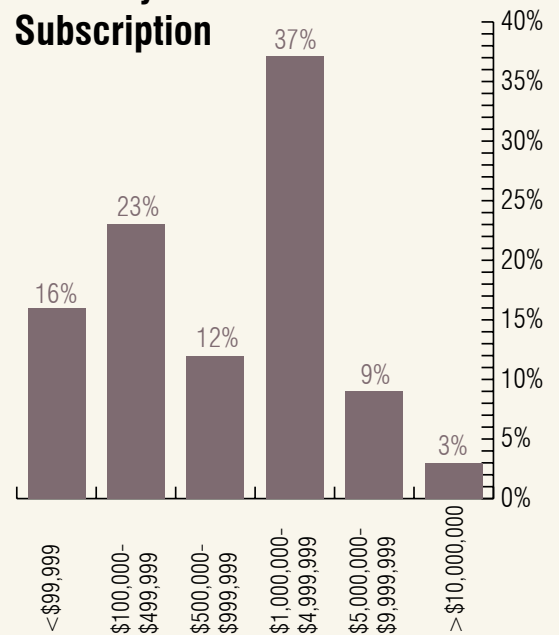


Heather Smith
Deputy Head
Investments and
Securities Division



The vast majority of funds authorised by CIMA are private funds catering to sophisticated, high net-worth individuals or institutions. Private funds that are registered with CIMA are required to have a minimum initial investment of US\$100,000 or have their equity interests listed on a recognised stock exchange. Of the majority of all regulated funds that filed a FAR, 81% required a minimum investment of between US\$100,000 and US\$9,999,999.

Funds by Minimum Initial Subscription



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. U.S. GAAP was established by the Financial Accounting Standards Board (FASB) in the U.S.

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.

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 – 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.

Leverage – the degree to which a hedge fund has borrowed funds to purchase assets or borrowed investments on margin or taken a short investment position on derivative securities. A hedge fund that is highly leveraged and has a significant amount of financial obligations to meet may be at risk of insolvency, especially if a significant portion of the portfolio investments are held in relatively illiquid securities.

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 – 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/(loss) – 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 cashflows 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 – 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.

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.





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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