

CAYLUX Fund Finance

Insights - 11/12/2019

The Cayman Islands and Luxembourg are two of the world's leading investment funds jurisdictions and as fund structures become more bespoke it is increasingly common to see fund structures that include Cayman and Luxembourg fund vehicles.

Those lending to funds formed in Cayman and/or Luxembourg may wonder why investment managers use these jurisdictions. In this briefing we summarise why they are used and explain one way in which investment managers are using Cayman and Luxembourg fund vehicles together.

Advantages of Cayman funds

Cayman is well-known as an offshore jurisdiction at the forefront of the investment funds industry.

- Cayman's tax neutral regime (there are no personal, corporate income or capital gains taxes in Cayman) provides a tax efficient platform to pool investor capital.
- US and international sponsors and investors are familiar with Cayman investment fund products.
- Cayman has a sophisticated fund ecosystem, including many experienced and efficient service providers who support the Cayman investment funds industry.
- Close proximity to the US and US time zones.
- Cayman is a British Overseas Territory and has a stable political and economic environment.

Advantages of Luxembourg funds

Luxembourg has historically been Europe's preferred jurisdiction for fund sponsors seeking to access European capital.

- Luxembourg is Europe's largest and the world's second largest fund domicile.

- Luxembourg funds provide US (non-EU) sponsors with a gateway to Europe and access to the European passport for marketing purposes, allowing them to attract European investors.
- Sponsor-friendly limited partnership laws, which provide comprehensive functionality comparable to those available in Cayman and other fund jurisdictions.
- Luxembourg offers a flexible and innovative toolbox of investment solutions that provides a wide range of corporate structuring and product options to investment managers.
- Luxembourg is a founding member of the European Union and enjoys economic, political, social and fiscal stability, making it one of the few countries to receive an AAA rating from every major ratings agencies.

The use of Cayman/Luxembourg parallel funds

Parallel funds co-invest and divest in the same assets as the main fund at the same time and on the same terms, usually on a pro-rata basis based on their commitments.

While Cayman fund vehicles are used to pool capital of US tax exempt investors and international investors, there is a growing trend for US managers to utilise Cayman/Luxembourg parallel fund structures together in order to access capital of European based investors. In addition to being able to access a larger investor base, Cayman/Luxembourg parallel fund structures can also provide the following advantages:

- **Customised solutions.** Certain investors may have internal guidelines or may be subject to a tax and/or a regulatory regime which restricts their ability to invest in certain fund vehicles. Parallel funds give investors the ability to choose the fund vehicle that will best suit their particular risk profile, regulatory requirements and tax appetite while ultimately remaining invested in the same target investments. This is likely to meet the needs of a greater range of investors and to provide them with a more customised solution rather than trying to find a 'one size fits all' structure.
- **Scale.** A larger investment pool means that funds can more easily reach their target size and meet their investment objectives faster.
- **Segregation of jurisdiction-specific expenses.** Parallel funds make it possible to segregate certain regulatory costs that are applicable only to certain fund vehicles. For example, any costs associated with the Alternative Investment Fund Managers Directive can be restricted solely to the Luxembourg parallel fund with no correlative financial impact on the non-EU fund.

Ogier's CAYLUX fund finance team is ideally placed to assist clients and their international transaction counsel on fund finance transactions involving funds domiciled in the Cayman Islands and Luxembourg.

Our multi-jurisdictional team includes Luxembourg legal capability in Cayman and therefore within US time zones and Cayman legal capability from Europe, in addition to their respective home jurisdiction. Our CAYLUX fund finance team provides one port of call for all Cayman and Luxembourg fund finance matters. We provide 'transatlantic standard' client service and responsiveness regardless of which jurisdiction is used and the time zone in which the deal takes place.

Find out more, visit our [CAYLUX](#) page or view the [infographic](#).

About Ogier

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