



The LatAm fund landscape: Q&A with Tim Cone

Insights - 04/04/2022

Tim Cone is a partner in Ogier's Latin American practice team with a particular focus on the Brazil market. He advises hedge funds, private equity funds, asset managers, sponsors and family offices on the establishment, regulation, corporate governance and ongoing operation of investment funds, as well as the establishment of venture capital and other funding structures.

How does Cayman play a role in the LatAm investment funds space?

The rationale for the use of Cayman Islands structures is essentially twofold: (i) we set up Cayman funds to attract investment and facilitate capital flows from within LatAm countries into international markets and products in a cost-effective manner; and (ii) Cayman funds are also established to raise international capital to flow into LatAm for investments within the region. Successful LatAm-based managers also utilise Cayman structures for international fundraising that is then deployed in international markets, without any particular connection to LatAm.

The Cayman funds industry has a long history of working with the largest institutions in Latin America to set up Cayman investment fund structures and there has always been a strong Brazilian presence in Cayman in terms of offshore structuring - eg Banco do Brasil holds one of the oldest banking licences in Cayman (in place since 1976) and the Cayman Islands Monetary Authority (in its role as the regulator of the financial services industry) has had a Memorandum of Understanding in place with its Brazilian counterpart since 1999.

What are you seeing in the LatAm investment funds space?

In recent years we have seen substantial growth in the number of Cayman funds we are setting up as access vehicles for Brazil-based asset managers, sponsors and family offices to invest, or increase their allocation, in international markets and products. This increase in outward capital flows has been driven largely by the impressive and steady growth in Brazil's domestic funds industry, with sustained low interest rates causing investors to diversify their holdings,

reallocating capital from local fixed income products and savings accounts to more sophisticated products, including hedge funds with alternative strategies and exposure to international markets. The rise of digital investment platforms, serving as a distribution channel for local funds, and the consequent wider participation by non-institutional investors in alternative financial products, has also contributed significantly to this growth.

Outside of Brazil, we are seeing a considerable increase in activity and outbound flows from Chile, both on the asset management side, with Chilean managers identifying Cayman as a preferred jurisdiction for their capital raising and international investments, and also on the investor side with the handful of large pension funds continuing to invest in Cayman-domiciled private equity funds.

What about capital flows into the LatAm region?

In Brazil in particular, but other countries in the region as well, we have been seeing venture capital gaining a lot of traction with tech start-ups, particularly in the payment services sector, attracting attention from a wide range of local and international investors. In addition to the traditional VC investors (who are continuing to allocate significant amounts to the region), many of the asset managers, family offices and wealth management platforms we act for are setting up dedicated VC funds, or new VC strategies within their existing Cayman funds, to participate in seed and subsequent series financing rounds.

These start-up companies will typically establish a holding company in Cayman as their preferred equity financing vehicle, with Cayman traditionally being the preferred (and sometimes required) jurisdiction for investors, often raising multiple rounds of series financing on their way to an eventual, or hopeful, IPO. The maturing start-ups are then purchasing other businesses, both competitors and those offering complimentary services, acquiring growth with horizontal and vertical integration, which is often in exchange for the issuance of shares to the founders of the target company, driving further M&A transactions in Cayman.

Are you seeing any other trends in LatAm investment funds strategies?

While public equities strategies remain strong, we have seen a shift towards private equity, distressed debt, litigation financing and venture capital investment strategies, as well as fund of fund strategies, with closed and opened ended funds being set up in Cayman as access vehicles for Brazilian managers to distribute locally often in partnership with larger international asset managers. Established managers are increasingly taking up positions in digital assets (mostly Bitcoin and Ether) and a growing number of emerging managers are setting up funds in Cayman focused on a wide range of digital asset investment strategies as that market and asset class continue to evolve.

Are you expecting any of these trends to change in 2022?

In recent months we have seen nominal interest rates rise sharply in Brazil to combat high inflation, so I would expect to see some increase in investor demand for fixed income products. With 2022 being a presidential election year for Brazil, I would also expect some investors will want to move to safer asset classes. However, Brazil is well accustomed to decades of political and economic uncertainties, so I do not expect that this will dampen the growth in AUM of Brazilian asset managers nor the increased diversification and outbound directional flows of money we have been witnessing. We have certainly not seen any slowing down in Q1 of 2022 in the demand for new Cayman structures for both existing and new managers and the Brazilian start-up and venture capital ecosystem is not showing any signs of simmering down.

In Chile, I expect that the current political and economic uncertainties (with proposed changes to the Chile constitution and a politically-untested newly-elected president) will continue to drive outbound investment and the establishment of fund structures abroad to facilitate these flows, including in Cayman.

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