

WHITE PAPER
2025

Fundamentals

Navigating new heights



WELCOME TO OUR

2025 white paper

Each year, we collect a variety of data from the new funds that we establish for our clients, focusing on the strategies and terms of those funds.

Combining this with insights from conversations with our clients over the past twelve months, industry data and data from previous surveys, we can draw together some key themes and thoughts about the key issues facing managers and investors, and how these are being reflected in fund documents.



2025 has seen much for the investment funds industry to think about. Inflation has abated in many countries and interest rates have come down a little in response. Stock markets – propelled in the US by apparently boundless optimism around AI and technology – have risen steadily, but with occasional jitters.

In the private markets, deal activity in the first half of 2025 was 40% higher in valuation terms than the first half of 2024. Hedge funds, especially long/short equity funds, have performed well and attracted new capital after several years of outflows. In September this year the largest-ever take-private transaction was announced, breaking a record that stood since 2007 and capping off a year that has seen a series of outsized ‘mega-deals’.

Yet even the optimists have cause for caution. While the pace of deal announcements by AI companies and the ecosystem of suppliers has continued, commentators have expressed concerns about a bubble emerging. Overall, private investment activity has fallen in the second half of 2025 compared with the first half, reflecting investors’ concerns around trade policy, supply chain pressures and geopolitical tensions.

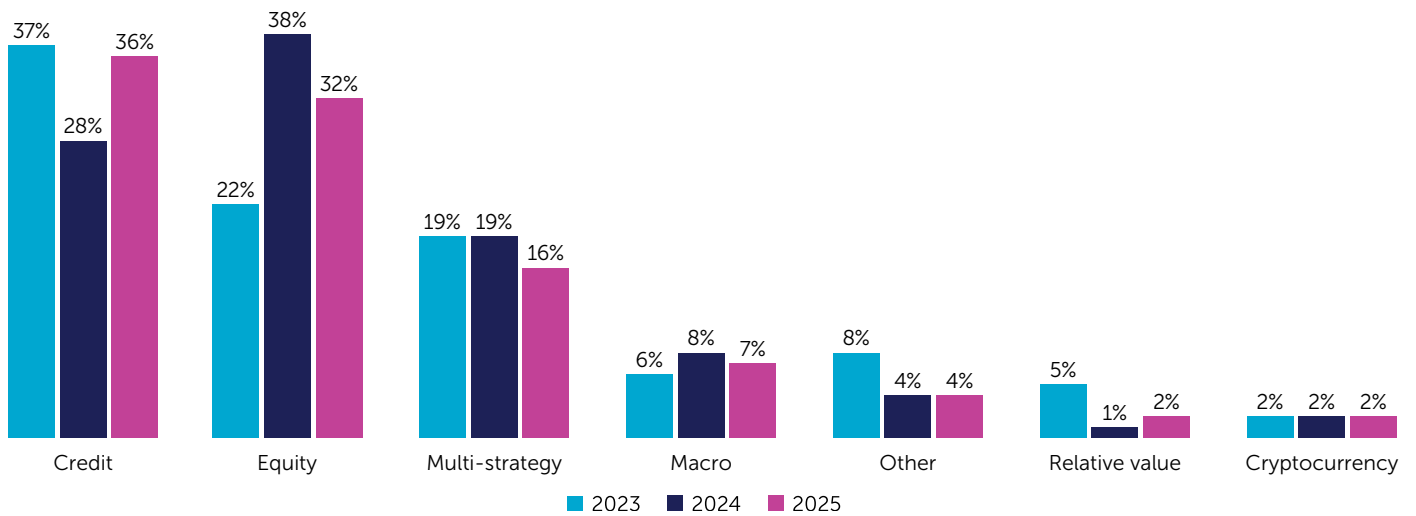
While deals are still being done, the largest have involved companies with strong positions in their domestic markets and therefore less likely to be affected by tariffs, or those that operate in certain industries like energy, AI infrastructure or healthcare. Pressure to return capital to investors in older funds has also slowed the raising of new funds, with funds taking longer to get to launch, and managers expressing concern about the fundraising environment.

This slower pace of capital-raising has also delayed the influence of many of this year’s events on the fund terms, which serve as the core data informing this white paper. It may well be a year or two before the discussions that managers and investors are currently engaged in, are represented in an offering document or LPA.

As in previous years, we have divided our data between open-ended structures (where redemptions are permitted, as seen in most hedge funds) and closed-ended structures (which operate for a fixed term without permitting redemptions, as seen in most private funds), allowing for more direct comparisons.

Should you wish to explore any of these topics further, please do reach out to your usual Walkers contacts.

Investment strategies: interplay between credit and equity



Falling interest rates, trade policy and geopolitical risk affect nearly all sectors of the economy and funds that invest within those sectors.

According to data from Preqin (*Preqin Global Report: Hedge Funds 2025*), in 2024 and early 2025 capital tended to flow towards strategies less correlated with public markets, as investors focused on hedge funds’ traditional roles of mitigating volatility and offering diversity within their overall portfolio.

This year, the mix of strategies among funds that we have helped our clients launch, has remained broadly consistent with prior years. We saw slightly fewer equity funds, slightly more credit funds and – while small in the overall picture – an increase in relative value strategies, all of which we would expect to see if investors were seeking diversity from public markets.

Looking ahead, it will be interesting to see how this year’s markets are reflected in next year’s fund launches. At the time of writing, equity markets in most developed markets have reached record highs, largely propelled by an enthusiasm for AI. We must approach with caution however, many AI and financial industry figures suggest this may be a bubble.

Overall we have seen markets steadily rise in 2025, but not without a handful of sharp corrections which has heightened sensitivity to bad news. Interest rates are also falling slowly, and with the news of several high-profile companies financed by private credit declaring bankruptcy, the conditions insinuate there is more to come.

Disruption for some is an opportunity for others, and we expect the investment funds industry to continue to raise and deploy capital as events unfold.

Liquidity led by strategy

In previous white papers we have seen the management of liquidity among our clients' funds, with increasing use of lock-ups, gates and other mechanisms to ensure a fund's liquidity follows the liquidity profile of its underlying assets.

When asset prices become more volatile, it follows that this balance becomes both more important and more difficult to maintain. It is in neither investors' nor managers' interests to expose their funds to the risk of having to sell assets at a time where markets are volatile.

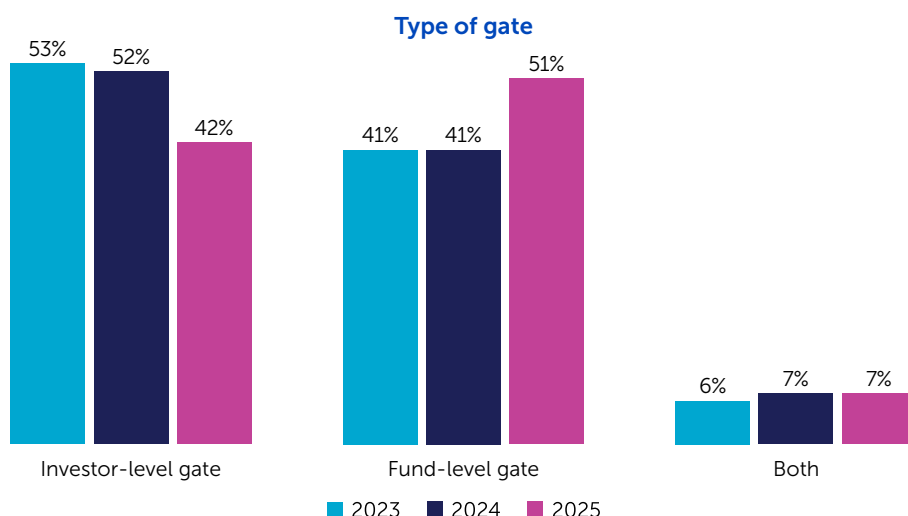
It follows, therefore, that any trends in fund liquidity are likely to have a substantial strategy component. Our data shows that credit strategies have more regular liquidity (monthly, or even daily), equity strategies tend to follow a monthly or quarterly cadence, and more niche strategies (where exiting positions may take longer, or may be conditional on particular events) tend to be quarterly or semi-annually.

Lock-ups and gates are the traditional tools used to mitigate the risk of an asset or fund liquidity mismatch.

Lock-ups prevent investors from redeeming their interests until they have held them for a designated period or may do so but subject to a deduction from their redemption proceeds. Gates limit the amount of redemptions a fund will process on a given redemption date, either on a fund-wide or investor-by-investor basis.

This year, we have seen a slight rise in the percentage of funds using lock-ups (45% vs 35% in 2024), but the duration of those lock-ups has fallen. 57% of funds employ a gate to manage outflows, but there is marked variability between strategies: nearly every crypto fund we helped launch last year used some form of gate, while only half of credit funds, and about 42% of funds following equity strategies did.

Gates are primarily a 'stress management' tool, which allow funds the space to navigate stress, either in their portfolio specifically or in the broader market which they operate. Their prevalence across strategies reflects the challenges that managers perceive in managing portfolio liquidity in the face of broad redemptions.

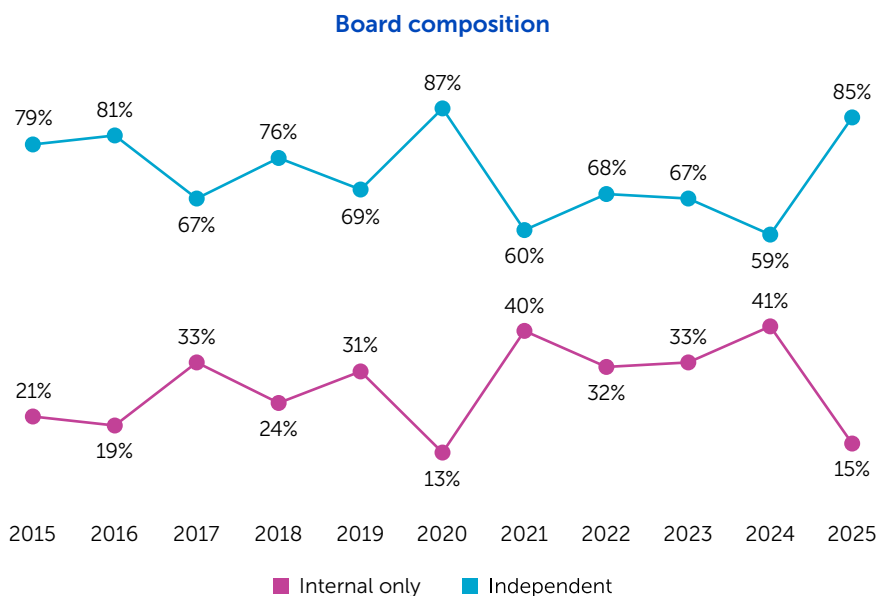


Mutual fund governance: a regional story

For over a decade, we have tracked how many funds appoint at least one independent director to their boards.

While such appointments have never been mandatory in the jurisdiction, their adoption reflects both the value of independent oversight and guidance to investment managers, and the comfort that investors derive from an independent board.

Our board composition statistics have varied surprisingly over the years. This year, 85% of funds have at least one independent director on their boards – significantly more than last year, and at odds with the trend towards fewer independent boards that we have observed since 2021.



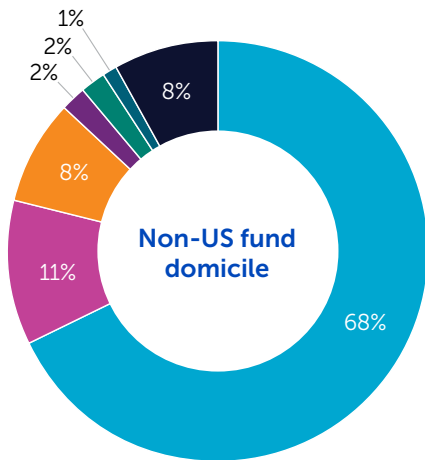
What might be driving this? There is likely to be a strategy component, as different sectors within the industry may derive different value both to managers and investors. Our data suggests, for example, that cryptocurrency funds typically engage independent directors less (75%) than the average across all funds (85%), notwithstanding the growth in recent years of specialist governance solutions in this area.

There is also a scale component: large institutional managers often have sophisticated internal controls and robust governance processes which investors are happy to rely on. There is a regional factor too: virtually every Cayman Islands fund we launched from our London office has independent board members (often on account of UK tax considerations), while in our Cayman Islands office the number is slightly below the global average and in Asia this percentage remains low.

Resilience and adaptability

Despite the volatility experienced by global markets in 2025, the Cayman Islands private funds industry has shown remarkable resilience and adaptability across asset classes, with private credit in particular dominating capital raising and deployment.

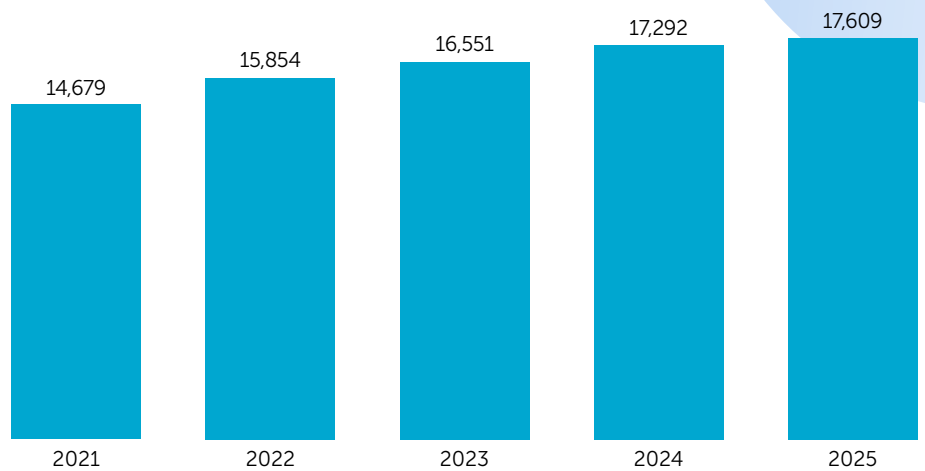
Managers continue to choose the Cayman Islands for private fund establishment, attracted by solid legal and regulatory frameworks which adhere to recognised international standards, while providing a stable foundation for innovation.



- Cayman Islands
- United Kingdom
- Luxembourg
- British Virgin Islands
- Ireland
- Other
- Bermuda

SEC division of investment management analytics office, private funds statistics, Q3 2024

Cayman Islands private funds



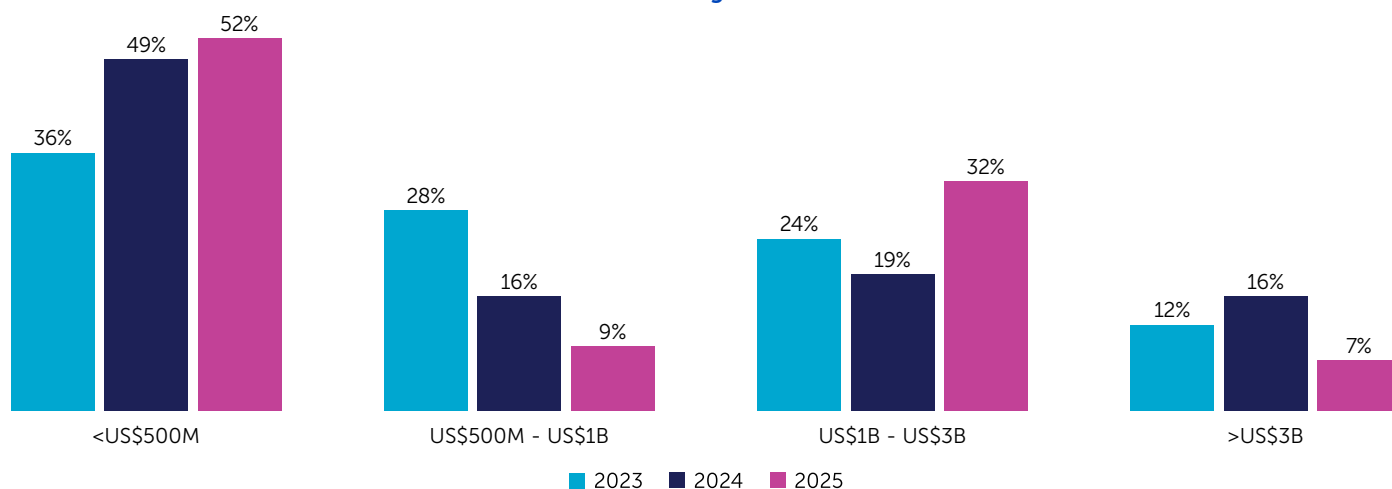
The latest market data reinforces the industry’s continued trust in the Cayman Islands as the pre-eminent fund domicile outside of the United States. SEC figures indicate the jurisdiction remains in a class of its own, with almost 70% of the non-US market when calculated by NAV in the latter stages of 2024. Cayman Islands private fund registrations are likely to exceed 18,000 by year-end, with the total number continuing to increase year on year.

Fundraising remains challenging, but sponsors are tapping into new capital sources, particularly insurance markets and global investors. The goal for sponsors is ultimately to drive deal flow and unlock new opportunities. Managers are also looking to enhance their offering with technology investment, increasingly tailored reporting and other improvements designed to further consolidate LP relationships.

The challenges of 2025 have tested the sector, but also clarified its priorities: resilience, innovation and long-term value.

Capital raising: diverse strategies and new capital sources

Fund target size



The Cayman Islands remains a preferred jurisdiction for both emerging and established managers alike.

Fundraising activity is shifting: 32% of funds now target US\$1 billion - US\$3 billion, up from 24% in 2023 and 19% in 2024. In a more challenging exit liquidity environment, managers and LPs are similarly prioritising building deeper and longer-term relationships.

Funds with a track record, industry relationships and brand recognition have been able to handle the current climate most effectively.

There has, however, also been sustained growth in funds targeting raises of US\$500 million or less over the past three years. This segment of the market often reflects heightened interest in specialist strategies and niche market opportunities, servicing asset classes as specialised as marine technology and fine wine. On a regional basis, smaller fund sizes continue to be more common in Asian markets.

Within this category, the continued arrival of new managers highlights the private fund sector's entrepreneurial energy, as well as its confidence in the Cayman Islands' supportive ecosystem.

The jurisdiction already has a strong reputation for its well-established legal framework, effective court system, tax neutrality and global reputation for fiduciary support.

This robust framework facilitates innovation while simultaneously reinforcing investor confidence. It reflects a growing preference for jurisdictions, most notably the Cayman Islands, that balance pragmatic regulatory rigour with operational efficiency. It also underscores the increasing globalisation of fund management, where emerging players want platforms that support cross-border capital flows and institutional-grade governance from day one.

Sector developments: reinsurance and alternative capital convergence

This shift in fund strategy towards more specialised asset classes is joined by a broader range of capital sources. Most notably, insurance markets are now viewed as standalone sources of capital and not only risk mitigation tools.

The continuing convergence between the insurance and asset management markets has been a significant trend in the last year. Private equity firms are entering the insurance space in an effort to gain access to 'permanent capital', in the form of premiums held to support long-term insurance liabilities, enabling managers to execute sophisticated investment strategies in higher-yielding alternative assets. This is typically seen through the formation or acquisition by a manager, or one of its funds of an insurance vehicle, in relation to which the manager is then appointed to manage the insurance assets.

Alternatively, a manager or one of its funds may invest alongside other investors in a 'sidecar' which is a special purpose reinsurer, typically with a limited lifespan, established to take on certain insurance risks from another insurer. The manager is appointed to manage the assets of the sidecar.

Through these partnerships, insurance companies benefit from the higher returns yielded by asset managers compared with the returns yielded from insurers' traditional investment in fixed-income assets. Managers also benefit from the increased investment profits through the returns on their equity stake, as well as the fee income derived from the investment management relationship.

Outside of these more bespoke relationships, fund sponsors are increasingly utilising rated note feeder vehicles to more readily facilitate investment from insurance companies into their commingled funds.

These rated note vehicles, which employ a favourable mix of debt and equity features to optimise the regulatory capital implications of the investment for the insurance company, provide access points for insurance investors into a wide range of fund structures.

The flexibility provided by Cayman Islands exempted limited partnerships in particular, allows them to efficiently accommodate the structural complexities inherent in these vehicles, creating products which effectively satisfy managers, insurance investors and rating agencies alike.

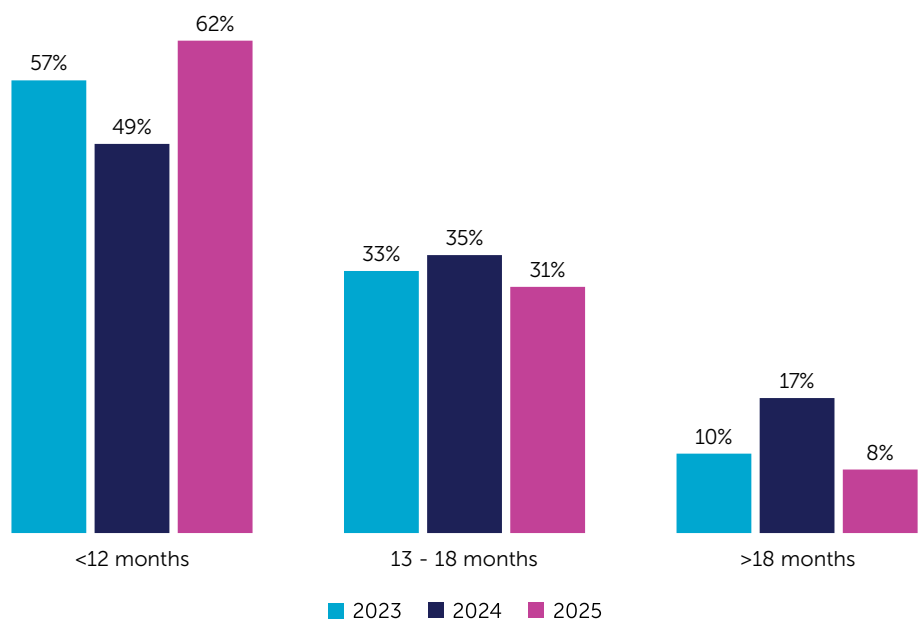
Fundraising periods: strategic pre-close marketing

Despite diverging capital sources and varying strategies, fundraising timelines show signs of resilience.

The headline data indicates a trend towards shorter fundraising periods, with 62% of funds allowing for 12 months to get from first to final close, and some funds seeking to do so in as little as six to nine months. In our experience however, managers are also often balancing speed with a more nuanced capital raising strategy leading to longer, more targeted pre-close marketing phases.

This extended lead-in to first close reflects a pattern in fundraising strategy: fund managers are becoming more deliberate and precise in how they engage with investors.

Fund-raising periods



With capital sources diversifying, GPs are tailoring their outreach to meet the expectations of increasingly varied LP profiles. The extended pre-close phase reflects the more challenging fundraising environment generally, but allows for deeper relationship-building and sharper positioning so that funds launch with clarity and momentum.

This shift therefore signals a maturing, more strategic market rather than one of delay. Managers are using the time to prepare thoroughly, refine messaging and differentiate their offering in a competitive landscape. The result: a longer fundraising process, but one that as a consequence is more focused and investor ready.

Sector developments: private credit and technology dominate

Private credit continues to stand out, drawing strong interest from managers and investors alike: 25% of the funds on which we worked in the last year focused on debt strategies.

The appeal of private credit goes beyond yield; extending to the flexibility and bespoke lending solutions these funds can offer to borrowers, especially as traditional banks remain cautious in certain sectors. Its growth is underpinned by its ability to provide stability and tailored financing options, making it a valuable and positive part of the broader leveraged finance ecosystem.

Technology-focused fund launches have hit a five-year high in 2025. With rapid advances in AI over the past 12 - 18 months, it will be no surprise that technology remains a top investment focus.

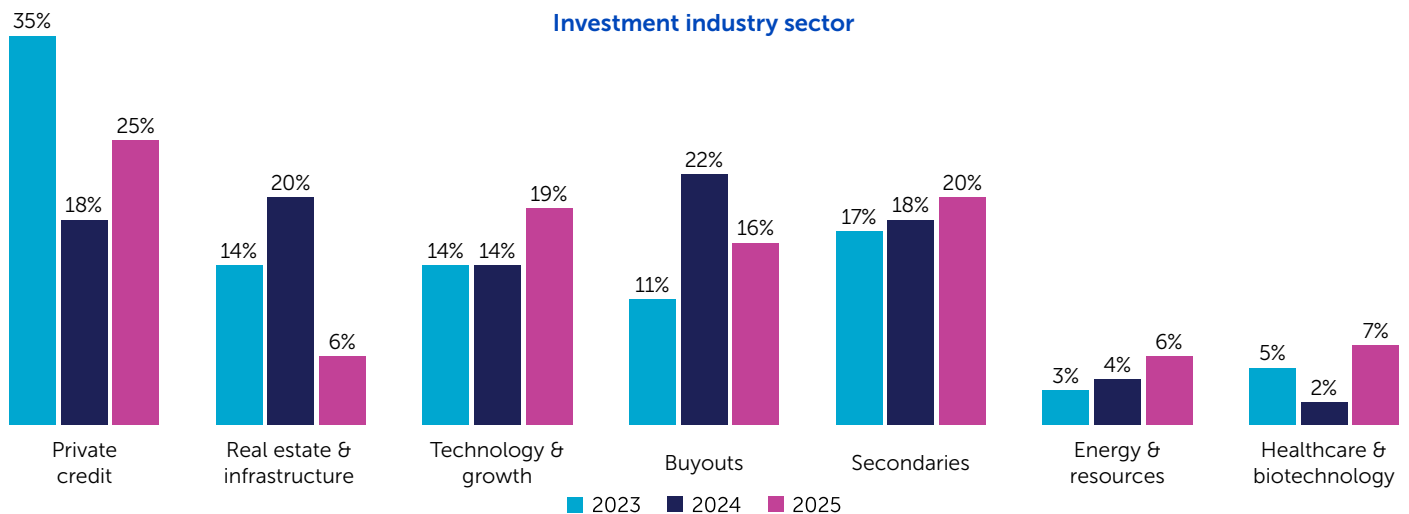
As AI and related technology proliferate even further into the wider economy, we are also seeing the technology sector broaden in a definitional sense such that funds operating technology focused strategies can be expected to pursue opportunities across the market at large.

This interest in technology is therefore two-fold across the funds space: it is no longer just an investment strategy but a theme which cuts across the entire industry. Fund managers are using AI and blockchain technology to improve operations and enhance portfolio company performance. AI is streamlining due diligence and generating predictive insights across portfolios, reducing manual workloads and improving decision-making speed.

Meanwhile, the hope is that blockchain will enable greater transparency and efficiency in fund administration, from real-time NAV calculations to smart contract execution and investor onboarding.

These tools are not only improving operational resilience but also helping managers meet growing LP expectations around data access, reporting and cost. We expect this sector-wide application of technology will continue to deepen and remain a key driver of operational efficiencies in the years ahead.

The insurance sector is also proving to be an attractive source of potential investments. The availability of investment structures like insurance-linked securities (including sidecars), collateralised reinsurance and other structured risk transfer mechanisms, provides fund managers access to deep pools of capital that can be both uncorrelated to traditional financial markets and strategically aligned with long-duration private market exposures. These factors, as well as the sector being safeguarded through regulation, are seeing insurance appeal to investors as an asset class.



Secondaries: strength and liquidity

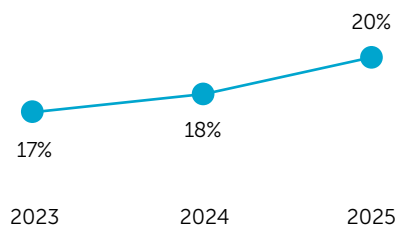
The rise of continuation funds, GP-led secondaries and other innovative liquidity solutions are giving managers more ways to offer flexibility and exit opportunities, even in uncertain markets.

In the first half of 2025 alone, secondaries funds raised a record total of US\$80.8 billion (*Secondaries Investor: Fundraising reports H1 2025*), putting the market on track for another record year. The focus on flexible liquidity solutions has also seen significant interplay between secondaries and evergreen funds, with the obligations of evergreen funds to generate periodic liquidity aligning well with the liquidity generated by secondary transactions. From our own data, 20% of Cayman Islands private funds launched in 2025 were targeting secondary investments.

This trend is not only supporting fund performance but also reinforcing the adaptability of the sector as a whole. In an environment where traditional exit routes such as IPOs or strategic sales may be less favourable, secondaries provide a viable alternative that preserves value and maintains momentum. The increasing sophistication of secondary structures is also helping managers align more closely with LP expectations around transparency and optionality.

As the market continues to expand, secondaries appear to be becoming not just a liquidity solution, but a core component of fund strategy. As the availability of more traditional exit routes rebounds, tracking the progress of secondaries in the next few years will show if they are a short-term solution to a sticky exit landscape, or a valuable and now indispensable part of a GP's toolkit when considering end of life liquidity.

Secondaries as a percentage of other investment sectors



Final thoughts

2025 was a script few could have written. In light of this, we look ahead to 2026, certain only that it will be characterised by the unexpected.

The time-tested innovation, adaptability and focused energy of the investment funds industry will see opportunities arise and prepared managers thrive both within the United States and globally.

Lower interest rates and new sources of capital are likely to reduce financing costs, giving renewed momentum to funds operating buyout strategies in a return of deal making activity that was hard to imagine earlier in 2025. That being said, we anticipate the secondaries market will remain attractive to investors seeking diversification, as well as to general partners and others seeking liquidity in their current holdings.

We are confident that the Cayman Islands will remain popular in the new year among managers and investors alike due to its commitment to stable governance, legal and regulatory consistency and a world-class service offering. We are here to help our clients seize new opportunities with confidence, wherever the year takes them.



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