The Cayman Islands segregated portfolio company: Why managers are using SPCs again

Dan Beckett
Partner
Maples Group

The Cayman Islands has long been a global leader in the structuring of investment funds, offering a flexible and robust legal framework that appeals to fund managers and investors alike. Among the various vehicles available, the Segregated Portfolio Company (SPC) has experienced a fascinating journey - rising to prominence, falling out of favour, and now enjoying a resurgence. This article explores the evolution of the Cayman Islands SPC, the reasons behind its decline, and the factors driving its renewed popularity among fund managers.

Understanding the segregated portfolio company

An SPC is a unique form of company incorporated under the Cayman Islands Companies Act (the Act). Unlike a traditional company, an SPC can create multiple segregated portfolios (sometimes referred to as 'cells' or 'sub-funds') within a single legal entity. Each portfolio's assets and liabilities are legally separated from those of the others and from the general assets of the SPC. This structure allows for the efficient management of multiple investment strategies, products, or client accounts under one corporate umbrella, while maintaining strict segregation of liabilities.

Creation and regulation of segregated portfolios

Establishing a segregated portfolio is effected by resolution of the directors, so very quick, and there is no requirement to separately register the SP with the Registrar of Companies. There is an annual filing made with the Registrar of Companies in January each year listing the SPs then in existence. Similarly in a funds context it is the SPC that is registered with the Cayman Islands Monetary Authority (CIMA), not the individual SPs. Although not separately registered, each SP of a CIMA-registered SPC must be notified to CIMA once established and comply with CIMA regulations applicable to a registered mutual fund or private fund. Therefore, single investor segregated portfolios and any other segregated portfolio that does not fall within the definition of a 'mutual fund' or 'private fund' are still required to meet the applicable minimum investment requirements and to submit annual audited financial statements.

Segregation of assets and liabilities; execution of documents
Under the Act it is a duty of the directors of an SPC to establish and maintain procedures to segregate SP assets from the

company's general assets, and the assets of other SPs. Practically this will include opening bank, custody and trading accounts in the name of the applicable SP, and ensuring all contracts are executed in the name of the SP. The statutory segregation of assets and liabilities has been supported in decisions of the Cayman Islands Court.[1] To augment these provisions, it is common practice to also seek to include contractual protection in agreements to limit the recourse of a counterparty to the assets of the applicable SP, and where appropriate, non-petition wording to prevent a counterparty from seeking to wind up the SPC. In addition, any act, matter, deed, agreement, contract, instrument under seal or other instrument or arrangement which is to be binding on a segregated portfolio must be executed by the SPC on behalf of the relevant segregated portfolio. Failure to observe this formality can jeopardise the segregation of assets and liabilities. Particular care must be taken to ensure that any authorised signatory of, or attorney appointed by, the SPC is aware of these execution requirements.

The rise: Early popularity of SPCs

SPCs were introduced in the Cayman Islands in 1998, inspired by similar structures in other offshore jurisdictions. During the early to mid-2000s, SPCs became a favoured structure for multi-strategy hedge funds in particular. Their flexibility and efficiency made them an attractive option for managers seeking to diversify offerings and attract a broad investor base. The legal separation of assets and liabilities between portfolios provided comfort to investors and managers, ensuring that the failure of one portfolio does not impact others. Managers could launch new strategies or products quickly and cost-effectively, without the need to establish a new legal entity for each. The Cayman Islands' regulatory regime allowed SPCs to be used for a wide range of purposes, including hedge funds, insurance vehicles, and structured finance products.

The fall: Challenges and decline in use

Despite their early success, the use of SPCs began to wane in the late 2000s and early 2010s. While the Act provides for the segregation of assets and liabilities, there was limited case law testing the robustness of these protections, particularly in cross-border insolvency scenarios. Concerns arose about whether courts in other jurisdictions would respect the segregation, especially in the event of the SPC's insolvency. Another key hurdle was that the prevailing iteration of the Companies Act during this time provided that if contractual execution formalities were not correctly observed, the directors could be personally liable for the liabilities of the company and the segregated portfolio under the applicable agreement or instrument. Directors were therefore wary of serving on the boards of SPCs. The contractual limited recourse and non-petition language described above was also sometimes hard to include in all counterparty agreements, particularly standard form trading documents.

The rise again: Renewed interest in SPCs

In recent years, however, the SPC has experienced a notable resurgence.[2] Several factors have likely contributed to this renewed interest:

Evolving investor needs. The investment landscape has evolved, with investors seeking more customised and flexible solutions. Family offices, institutional investors, and high-net-worth individuals increasingly demand tailored investment products, co-investment opportunities, and managed accounts. SPCs are ideally suited to meet these needs, allowing managers to create bespoke portfolios for different clients or strategies within a single legal entity.

Cost and operational efficiency. The cost and administrative burden of establishing and maintaining multiple standalone entities can be significant, particularly for managers running a range of strategies or products. SPCs offer a cost-effective alternative, enabling managers to launch new portfolios quickly and efficiently, with shared service providers and streamlined governance.

1 Re Performance Insurance Company SPC (IOL) (Unreported, 6 April 2022).
2 Annual registrations hit 341 during 2007, but fell to 183 in 2011. In 2024, numbers were back up to 412.

Cross-border recognition. Between the statutory regime, limited recourse wording and constitutional documents, the concept of segregation between SPs is now well understood and recognised by foreign courts and has been reflected in a range of insolvency proceedings.[3] Counterparties and lenders are now accustomed to interfacing with SPCs and it is easier to agree limited recourse and non-petition wording, including in trading documents. This has made SPCs a more viable option for managers with global investor bases.

Personal liability. The personal liability provisions of the Companies Act with respect to directors of SPCs who fail to correctly attribute an obligation to an SP have been removed, making independent directors more amenable to the structure.

Recent trends: Examples of how managers are using SPCs today

The SPC has seen a resurgence in the context of Cayman Islands structures that are geared towards the Japanese market. Investors in Japan have long preferred the Cayman Islands unit trust as an offshore investment vehicle.[4] Often such trusts are established as umbrella trusts with multiple sub-funds or series trusts each of which invest in different strategies or have different investors. The SPC mirrors the segregated cell structure of the umbrella unit trust and so can serve as a corporate blocker in the structure. Another advantage is that shares in the SPC are regarded as 'securities' within the meaning of the Financial Instruments and Exchange Act (Act No. 25 of 1948), meaning the unit trust can obtain securities investment trust status in Japan.

Another trend we are seeing SPCs used for is managed account platforms. Sponsors are able to offer investors their own SP which is segregated from the other funds on the same platform. The fixed costs of running the platform are split across all the segregated portfolios and so it is a cost-effective way to establish an SMA. As the infrastructure is all in place, establishing a new SP is very fast, so sponsors and investors can capitalise on new opportunities quickly.

Conclusion: The future of the SPC

The SPC is not the perfect investment vehicle for every scenario. In addition to the practical steps to ensure that the assets and liabilities of each SP are segregated, parties need to think about including contractual terms limiting recourse of counterparties, and make sure that disclosure to investors is clear and comprehensive. In an insolvency situation, the remedy for a creditor is the appointment of a receiver of the applicable SP, but because the SPC is a single legal entity, there is a theoretical possibility that a creditor could seek to wind up the entire SPC even if other SPs are solvent.[5]

However, after a period of decline, SPCs have re-emerged as a useful structure for managers seeking flexibility, efficiency, and robust risk segregation. The combination of evolving investor needs, and regulatory innovation has positioned SPCs at the forefront of fund structuring in the Cayman Islands. As the investment landscape continues to evolve, it is likely that the use of SPCs will expand further, particularly in areas such as digital assets, private credit, and bespoke investment solutions. For managers and investors alike, the Cayman Islands SPC offers a compelling blend of flexibility, protection, and administrative efficiencies - making it a structure whose time has come again.

3 Recent decisions in Hong Kong and Australia have approved the concept of the segregation of assets and liabilities of SPs in different contexts. See: Tjin Joen Joe, Andy Tsjoe and Another v. Oakwise Value Fund SPC [2025] HKCFI 1281; and Coinful Capital Fund, SPC (in Official Liquidation) [2025] FCA 314.

4 See prior AIMA Journal Article on this: https://www.aima.org/journal/aima-journal---edition-141/article/golden-opportunities-in-japan-a-new-era-for-global-asset-managers.html

5 See Re Oakwise Value Fund SPC (Unreported, 16 December 2024)) It is important to note that this case does not in any way call into question the effectiveness of the statutory segregation between the SPC's portfolios