



UAE vs Cayman Islands: The Strategic Shift in Fund Domiciliation

Executive Summary

The global fund management landscape is experiencing a paradigm shift. While the Cayman Islands has dominated offshore fund domiciliation for over five decades, the United Arab Emirates—through its Dubai International Financial Centre (DIFC) and Abu Dhabi Global Market (ADGM)—is emerging as a compelling alternative that combines traditional tax efficiency with strategic regional advantages.

For legal counsel advising fund managers, this evolution represents both opportunity and complexity. The choice between these jurisdictions is no longer purely about regulatory convenience or cost optimization—it has become a strategic decision that impacts capital access, operational capabilities, and long-term growth potential.

The Cayman Foundation: Strengths Under Pressure

The Cayman Islands' position as the world's leading fund domicile rests on solid foundations. With approximately 30,000 registered funds and over 50 years of precedent, Cayman offers legal certainty through well-established case law and standardized documentation that international counsel can navigate confidently. The jurisdiction's legal framework has been stress-tested across multiple market cycles, providing predictable outcomes for complex structures.

Operationally, Cayman's minimal substance requirements have traditionally allowed fund managers to operate remotely while maintaining compliant structures. This approach has enabled cost-efficient scaling and global distribution, particularly beneficial for funds targeting US institutional investors where Cayman structures enjoy deep familiarity and seamless integration with American tax planning strategies.

However, regulatory evolution is eroding some of Cayman's traditional benefits. Economic substance regulations now mandate genuine local presence for certain activities, increasing compliance costs and operational complexity. Ongoing pressure from other international bodies continues to challenge the jurisdiction's tax-neutral status, while geographic distance from emerging markets and limited access to Middle Eastern and Asian capital pools increasingly constrains growth opportunities.

The UAE Alternative: Strategic Advantages Beyond Tax Efficiency

The UAE's most compelling advantage lies in its proximity to regional capital. Sovereign wealth funds managing trillions in assets actively seek co-investment opportunities with qualifying funds. Government initiatives like Hub71 in ADGM demonstrate this commitment. This isn't merely geographic convenience—it represents structural access to decision-makers and capital that offshore jurisdictions cannot replicate.

Both DIFC and ADGM have developed sophisticated regulatory frameworks that go beyond traditional offshore approaches. DIFC's recognition of Venture Capital Funds as a distinct category from Private Equity reflects nuanced understanding of different investment strategies and their regulatory needs. Both jurisdictions operate under English common law frameworks, providing familiar legal territory for international practitioners, while regulatory efficiency enables fund establishment in one to two weeks.

The Passporting Agreement (implemented in 2019) between DIFC, ADGM, and the onshore Securities and Commodities Authority creates unprecedented regional market access. UAE-domiciled funds can now distribute across the entire Emirates without additional licensing—an exclusive advantage as foreign funds face increasing restrictions in accessing UAE retail investors.

From a tax perspective, the UAE matches Cayman's zero percent corporate tax rate while providing additional advantages. The November 2024 introduction of VAT exemptions for fund management services creates an immediate 5% cost advantage, while over 137 double taxation agreements and 106 bilateral investment treaties (compared to Cayman's limited agreements) enable efficient international investment structures.

Comparative Analysis and Strategic Considerations

The financial comparison reveals important trade-offs. Setup costs favour Cayman with an estimated 20,000-50,000 USD versus the UAE's estimated 30,000-75,000, USD and setup times favouring the UAE at 1-2 weeks versus Cayman's 3-4 weeks. The real differential emerges in annual running costs, where Cayman's estimated 50,000-100,000 USD looks attractive against the UAE's estimated 200,000-500,000 USD—until you factor in what that additional investment provides.

Unlike Cayman's minimal presence requirements, the UAE mandates genuine substance. Funds must maintain real offices with actual employees, detailed reporting requirements, and regular regulatory examinations. This translates to higher operating costs but provides strategic advantages including government co-investment opportunities, regional market access, and operational capabilities that pure offshore structures cannot match.

Choose Cayman when your primary investor base consists of US/European institutions, fund size below 50 million USD as this makes UAE substance costs prohibitive, or traditional private equity and hedge fund strategies benefit from established frameworks. Choose the UAE when target fund size exceeds 50 million USD, regional investor access is a strategic priority, or you're building substantial local investment teams focused on technology, innovation, or real assets.

Sophisticated fund managers increasingly adopt dual structures leveraging both jurisdictions' strengths through master-feeder architectures or parallel fund structures. These approaches require careful structuring to avoid double taxation and regulatory conflicts while maximizing each jurisdiction's benefits.

Future Outlook and Recommendations

Several developments will continue shaping this landscape. Global tightening of economic substance rules will further erode pure offshore advantages, while additional passporting arrangements are expected across emerging markets, favouring onshore financial centres. Environmental, social, and governance factors increasingly question traditional offshore structures' appropriateness, and blockchain-based fund structures favour innovation-friendly regulatory environments.

For legal practitioners, this evolution demands sophisticated analysis that goes beyond traditional regulatory and tax considerations. The choice between UAE and Cayman—or the decision to employ both through hybrid structures—requires deep understanding of clients' strategic objectives, target markets, and long-term growth plans. Those who recognize and adapt to this shift will find themselves better positioned to serve clients in an increasingly complex and opportunity-rich global fund management landscape.

The emergence of the UAE as a credible alternative to Cayman represents more than jurisdictional competition—it signals a fundamental shift in fund management philosophy from pure offshore structuring toward strategic domiciliation that aligns with business objectives, investor bases, and growth markets.

About us

7 key practices

- Corporate/M&A
- UAE Financial and Free Zones structuring and advisory services
- Private Capital and Private Wealth
- Banking and Finance
- Capital Markets
- Real Estate & Projects
- Energy and Natural Resources



Best-in-class legal advice

We are an independent boutique international law firm headquartered in the UAE. We work with clients doing business across the Middle East, the CIS and Asia, drawing on our thirty years of experience advising on many of these regions most innovative corporate, finance, and capital markets transactions.

We deliver best-in-class legal services, individually tailored to your commercial requirements, through partner-led advice backed by a core team of experienced lawyers and other professionals.

We are great at what we do and we work closely with you to ensure that you have access to everything that you need, when and where you need it, and with an individually-agreed pricing model that works for both of us.

We predominantly provide English, Russian, ADGM and DIFC legal and strategic advice across the Middle East, CIS, Asia and Africa. We will provide advice relating to other UAE freezones. We focus on structuring, regulatory and complex transactional advice, and frequently work with our clients on their most sensitive and complicated transactions.

We have an affiliation with Stonebridge Legal, which is the successor firm to Freshfields Bruckhaus Deringer in Moscow, with whom we are able to field joint teams where appropriate. This arrangement positions us to leverage the experience and expertise in that office and does not require any additional engagement with Stonebridge Legal or any other entity.

Our Team

Our core team has decades of experience in leading international law and consultancy firms.

We have lawyers admitted to practice law in England, the state of New York (USA), and UAE special economic zones - DIFC (Dubai International Financial Centre) and ADGM (Abu Dhabi Global Market) - the British Virgin Islands and Ireland.

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