

FUND STRUCTURING

Open-ended vs closed-ended funds explained

The single most important structuring decision a fund promoter makes is whether investors can redeem at will — and it shapes everything from strategy to valuation to which BVI or Cayman fund category applies.

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Overview

The fundamental distinction between an open-ended and a closed-ended fund is whether investors can redeem their interest in the fund at their own option before the fund terminates. In an open-ended fund, investors typically can request withdrawals during periodic liquidity windows — commonly monthly or quarterly — with the fund calculating a net asset value (NAV) at each valuation point to price redemptions; managers often retain the right to impose redemption gates in stressed markets. In a closed-ended fund, investor capital is locked in for a defined term, typically seven to ten years for private equity-style vehicles, with capital returned to investors only as underlying investments are realised and distributed.

This structural difference maps directly onto strategy. Open-ended structures suit strategies trading in liquid or reasonably liquid instruments, where the manager can realistically fund periodic redemptions without disrupting the portfolio. Closed-ended structures suit strategies investing in genuinely illiquid assets — private equity, venture capital, real estate, infrastructure — where forcing liquidity to meet redemption requests would be impossible or value-destructive. The trade-off for investors is symmetrical: open-ended funds offer conditional liquidity but carry valuation-lag risk during stress, while closed-ended funds offer no interim liquidity but avoid forced-sale risk and let the manager execute a full investment cycle.

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Key features

Feature	Open-ended fund	Closed-ended fund
Redemption rights	Yes — periodic, often subject to gates/notice periods	No ongoing right; capital returned via distributions or secondary transfer
Typical strategies	Hedge funds, liquid credit, multi-strategy	Private equity, venture capital, real estate, infrastructure
Valuation mechanism	Regular NAV calculation drives subscription/redemption pricing	No formal ongoing NAV/redemption pricing; measured at realisation
Capital structure	Investors subscribe and redeem over the fund's life	Fixed commitment, drawn down over an investment period, term-limited

Feature	Open-ended fund	Closed-ended fund
BVI categories	Private, Professional, Public, Incubator, Approved Fund	Private Investment Fund
Cayman categories	Registered, Administered, Licensed, Master Fund	Private Fund (Private Funds Act)

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Regulatory framework

BVI and Cayman have each built parallel statutory regimes that track this open/closed distinction almost exactly. In the BVI, open-ended funds fall under the Securities and Investment Business Act (SIBA) and are tiered by investor sophistication and size, while closed-ended vehicles sit entirely outside this framework in the separate Private Investment Fund regime, with its own governance requirements built around “Appointed Persons” for management, valuation and safekeeping.

Cayman draws the same line through two entirely separate statutes: open-ended vehicles are “mutual funds” under the Mutual Funds Act, defined by redeemable equity interests; closed-ended vehicles are “private funds” under the separate Private Funds Act, defined by non-redeemable interests, registered via a term sheet or summary of terms rather than a full offering memorandum, but subject to more prescriptive requirements around cash-flow monitoring, asset safekeeping and valuation oversight. The practical implication for promoters is that the open/closed decision should be made first, based purely on the underlying strategy's liquidity profile, and the jurisdiction/vehicle choice follows from that.

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Practical considerations

- Let the underlying asset liquidity drive the decision, not investor preference alone — an illiquid strategy forced into an open-ended wrapper risks a liquidity mismatch that can become a crisis in stressed markets.
- Consider a hybrid or evergreen structure for strategies in between — some real asset and private credit strategies now use semi-liquid structures with limited periodic redemption windows and gates.
- Match the vehicle to expected fund size early — BVI's Incubator and Approved Fund categories are excellent for early-stage open-ended launches but require conversion once thresholds are approached.
- Budget for different audit/valuation obligations — Cayman's Private Funds Act imposes cash-flow monitoring and asset safekeeping requirements not mirrored in its Mutual Funds Act regime.
- Recognise that closed-ended doesn't mean zero liquidity for investors — secondary transfers and continuation vehicles provide de facto liquidity routes without altering the fund's legal redemption structure.
- Align the choice with investor reporting expectations — open-ended investors expect NAV-based reporting; closed-ended investors expect capital account statements tied to calls, distributions and realised performance.

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How Berkley can help

Berkley Fund Services provides fund administration tailored to both open-ended and closed-ended structures — periodic NAV calculation and dealing support for open-ended funds, and capital call, distribution and capital account administration for closed-ended funds. Promoters deciding between the two are welcome to discuss their strategy's liquidity profile with Berkley's team at the structuring stage.

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