OVERVIEW

Although it can take a variety of legal forms, an investment fund is essentially a pool of capital contributed to by investors which is managed by professional “investment managers” for a fee. Investors in a fund share in the profits made by the investment managers, using the pool of capital, according to the amount they contributed to the fund. The asset classes in which a fund is invested and the “investment strategy” employed by the investment managers is sometimes specified in the founding documents of the fund or advertised in prospectuses for potential investors. Further, depending upon the particular set-up of the fund and the particular regulations of the jurisdiction where the fund is located, the fund might only be open to “sophisticated” investors with a certain level of wealth, although this is not necessarily the case.

An investment fund can be utilized by those seeking to launder money in a variety of ways. Investment funds are particularly suitable for money laundering where a large sum of illicit money is already within the financial system. Due to the nature of investment funds the movement of large sums of capital into or out of a fund would not necessarily be seen as out of the ordinary. Further, if the regulations of the jurisdiction where the fund is located allow for investments in the fund to be redeemed to a third-party, or allow an investor to direct that their shares in the fund are re-registered in the name of a third-party, then the susceptibility of the fund to money laundering is even more acute.

SCENARIO

For example, let us suppose an investment fund is formed in a jurisdiction with relatively lax regulatory standards. The newly formed fund, eager for new investors, is approached by the financial adviser of a “wealthy Russian” who is seeking a high return on an investment. The money transferred into the investment fund on behalf of the “wealthy Russian” comes from a bank account in Cyprus in the name of a company called “Russian Investments LLC”. The managers of the fund are told that this is the “investment company” of the “wealthy Russian”, and, because of the relatively lax regulatory regime coupled with the fact that the fund is new and in need of investors, thorough due diligence is not conducted. Russian Investments LLC is in fact controlled by a criminal organization and the source of the money held in the bank account in Cyprus is in fact the proceeds of internet fraud, drug trafficking, and arms dealing.

The investment fund makes a profit and, on the instructions of the “wealthy Russian”, money is periodically withdrawn from the fund and transferred to a bank account in Monaco. That bank account is controlled by the wife of one of the leaders of the criminal organization and is used to fund a lavish lifestyle. The conspicuous consumption of the husband and wife can now be plausibly attributed to “foreign investment income”.

Further, after several years, the criminal organization behind “Russian Investments LLC” wishes to use the shares held in the investment fund to pay off a significant debt incurred in the course of a major international illegal arms deal. The administrators of the fund are instructed to re-register the shares of the “wealthy Russian” into the name of a corporate investment vehicle, “Mulberry Street LLC”, for “tax planning purposes”. Mulberry Street LLC is in fact controlled by the American mafia.