



CENTAUR TRUST
– Making Business Simple –

Alternative Investment Funds (AIFs)

THE CYPRUS PERSPECTIVE

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Introduction

Global Environment

The Financial Crisis which started in 2008, brought about great turmoil and change to the global economic environment, but also brought about a period of rapid and large scale regulatory changes, with the aim of averting similar catastrophes in the global financial markets. The result is a Brave New World, where regulation, compliance and transparency dominate all aspects of finance. However, this has also created a trend in the financial industry, turning towards investment fund vehicles.

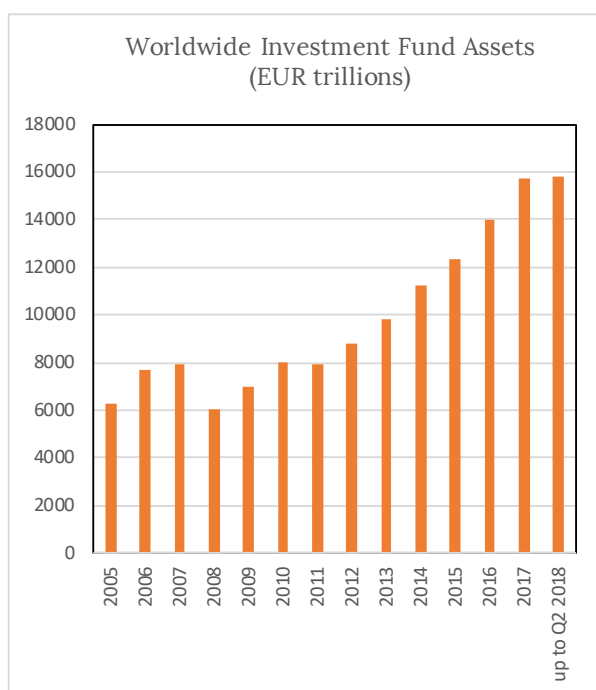
This trend is directly linked to the return of investors' confidence and an increased interest in the capital markets. However, investors are also looking for well-regulated, transparent, cost-efficient investment solutions which offer high levels of investor protection and a stable environment to do business.

At the same time, Technology has changed the way investors access and share relevant information. The application of technology to Investment Fund Vehicles have made automation widely accessible, allowing new levels of information sharing, order processing speed and documentation generation and delivery. Automated transactions have fundamentally changed the way transfer agents operate and e-delivery has dramatically changed the way of doing business in general. Fund managers, as they are today, along with new technologies have delivered economies of scale that never existed in the pre-automation world.

Investment Fund Structures have also introduced new investment strategy opportunities, offering a higher expected Return on Investment, under the continuous supervision of experienced professional fund managers.

Key Figures

- **Global Growth of 19.2% during the past two years for regulated open-ended funds**
- **AuM by EU Investment Fund Industry grew by 12% during the past two years**
- **The Global Fund Industry is expected to grow at 6% CAGR, over the course of the next 5 years.**
- **Growth fueled by attractiveness of funds due to:**
 - **Investor Protection – introduction of more regulation**
 - **Pursuit of higher ROI**
 - **Greater variety of investment strategies**
 - **Risk Return profiles offered by asset managers**
 - **Global financing crisis and reduced liquidity of banks severely restricted bank lending, leading to funds, becoming important source of finance**
 - **4th Industrial Revolution (AI, IoT, VR, etc) > creating new investment opportunities (start-ups etc)**



Why Cyprus

While the Global Funds Industry is evolving, the solution lies in the ability to break down barriers to entry and maximize international investor pools in and outside Europe. Cyprus offers a prime alternative to other competitive EU Jurisdictions to achieve this solution.

The enactment of the Alternative Investment Funds (AIF) Law in July 2014, aligned the Cyprus legal and regulatory framework with EU directives on asset management, with the aim of enhancing transparency as well as investor protection. Following continuous efforts to modernize its fund framework and to further encourage the establishment of funds in the Republic, Cyprus introduced a new law, which was approved by the Cyprus Parliament in July 2018, replacing the previous one. The new legislation offers additional investment structuring possibilities and upgraded guidelines for the authorization, on-going operations, transparency requirements and supervision of Cyprus AIFs, as well as the regulation on the role and responsibilities of the key players, namely; directors, depositaries and external managers.

The most significant development provided for by the new Law, which is proving to be a “game changer” is the **introduction of Registered AIFs**, resulting in a significant reduction in the time and cost required to establish AIFs in Cyprus. **RAIFs do not require authorization from the Cyprus Securities and Exchange Commission (CySEC)**, the regulator of financial services in Cyprus, or subsequent monitoring, but are classified as an AIF by virtue of the Law. They offer new opportunities for a quick and cost-effective fund launch, with only one month required for registration, from the date of filing a duly completed “notification pack” with the regulator. CySEC will then include the AIF in its list of Registered AIFs.



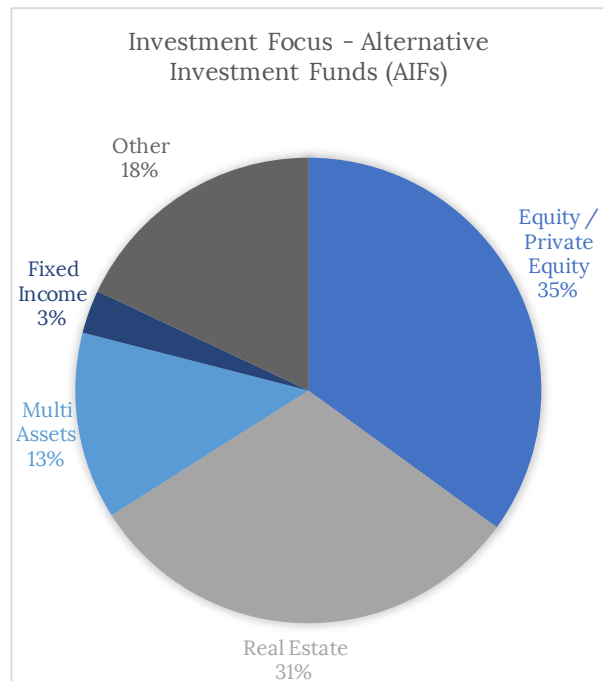
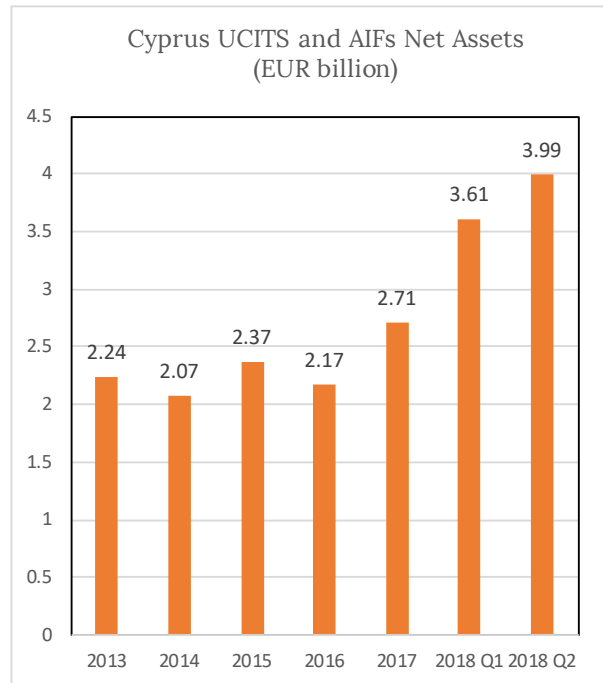
AIFs that are established under domestic Cyprus fund legislation can be sold on a private placement basis or marketed to professional investors across the EU under the Alternative Investments Fund Managers Directive (AIFMD) passport.

The Cyprus funds sector is one of the most dynamic sectors of the Cyprus economy. The industry has become very popular amongst investors in Cyprus, as it provides a broader selection of investment opportunities. The number of funds and Assets under Management is increasing year-on-year, with a significant increase being recorded in the past two years, as a result of the new AIF legislation.

Since 2013, assets under management, as well as the registered funds, have more than doubled. In addition, there is a significant number of funds which are currently waiting to be approved by CySEC.

Investors are attracted to Cyprus as a stable, European, business-friendly jurisdiction with a highly educated workforce, attractive tax regime and low operating costs. Furthermore, the Island is at the crossroads of three continents, is in a convenient time zone, has an excellent communications infrastructure, and uses the English language as the main business language. A further advantage for investors is that Cyprus is a Common Law jurisdiction, thus offering the following to investors:

- **Specificity**
- **Can respond to cases and situations that were unforeseen by legislators**
- **Consistency**
- **Flexibility**
- **Speed & efficiency**
- **Political independence**





Why choose a Cyprus AIF

- Cost-Efficient and simple to set-up, manage and operate.
- English based Legal system (Common Law)
- Modern regulatory framework, fully in line with relevant EU directives (no onerous legal requirements)
- Competitive Legal framework with those of Europe's main investment fund hubs (Luxembourg, Ireland and Malta)
- Support to the industry by sophisticated business focused legal, professional and financial services firms
- Marketability through EU, under EU passport regime
- Increased flexibility as a number, of asset classes can be included in an AIF investment strategy
- Significant tax incentives offered by the country's advantageous tax framework-both for the fund manager and investor, as well as at the level of the fund
- Excellent base for international business, with a skilled workforce and wide network of double-tax treaties with 64 countries
- Full transparency through annual audited reports to CySEC and investors, which include financial statements, borrowing information, portfolio information and Net Assets Value.



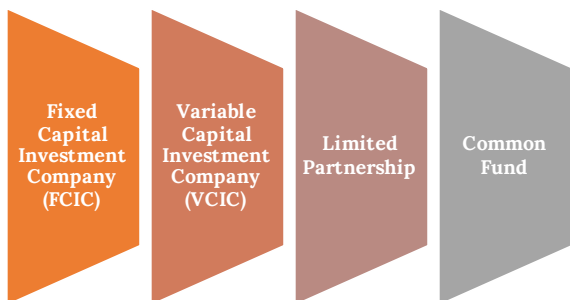
ALTERNATIVE INVESTMENT FUNDS (AIFs) UNDER CYPRUS LEGISLATION

An AIF is a collective investment undertaking which:

- raises external capital from a number of investors
- with a view to investing it in accordance with a defined investment policy for the benefit of those investors, and
- has not been authorized as a UCITs “Undertakings for Collective Investments in Transferable Securities

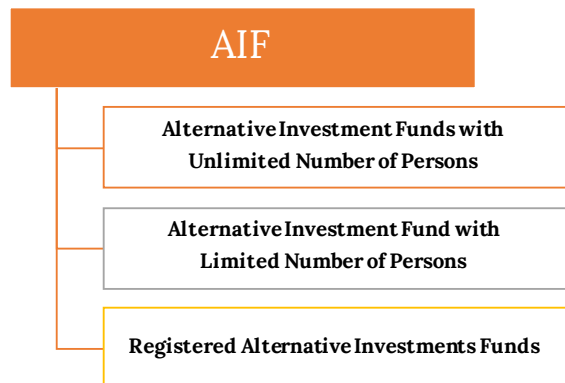
AIFs Legal Structures

An AIF can take the following forms and may be established with limited or unlimited duration.



Types of the AIFs

AIFs are categorized according to the following types:



Regulatory Authority: Cyprus Securities and Exchange Commission (CySEC)



Main Characteristics

Alternative investment funds with unlimited number of investors:

- May be marketed to retail/well informed investors or professional investors;
- Freely transferable Investor shares;
- Must appoint a depositary;
- Can be listed on a recognized stock exchange and AIFs marketed to retail investors can be traded;
- Irrespective of the legal structure of the AIF, minimum share capital requirements are valid only for self-managed funds with the requirement being 125,000 euros;
- May be subject to certain investment restrictions depending on the investor type and the overall investment policy. AIFs addressed to Well-Informed and Professional Investors, (WPIs) shall not be subject to investment restrictions, except Loan Origination Funds, Money Market Funds, Venture Capital Funds and Funds of Funds

Alternative investment fund with limited number of persons:

- May be marketed only to well-informed and/or professional investors (WPIs);
- Maximum number of investors 50;
- Freely transferable to investor shares, with the condition that their transfer does not result in the AIF having more than 50 investors;
- Irrespective of the legal structure of the AIF, minimum share capital requirements are valid only for self-managed funds with the requirement being 50,000 euros;

- May not be required to appoint a licensed manager or a Depositary in certain circumstances such as:
 - total assets do not exceed €5 million (or currency equivalent), including any investment compartments thereof, or
 - instruments of incorporation limit the number of its unitholders (including any investment compartments thereof) to 5 persons, for the duration of the life of the AIF, or
 - 90% of the assets are not subject to custody and the number of investors are limited to 25 and provided each investor subscribes a minimum of €500,000.
- Assets under Management do not exceed thresholds of €100 million (including leverage) or €500 million (without leverage, 5-year lock-up period for investors)

Registered AIFs (RAIFs) – Innovative Solution

The Cyprus Registered AIF is able to market to investors across the EU and be managed by full scope Cyprus or EU Alternative Investment Fund Manager (AIFM). Although the RAIF is not licensed, it is indirectly subject to regulatory oversight through its regulated AIFM. In addition to the full scope AIFM, a sub-threshold AIFM which is subject to prudential regulation, a MiFID Investment Firm and UCITS management company established in Cyprus or any EU Member State may also manage a RAIF, provided it is a closed-ended limited partnership and invests more than 70% in liquid assets. The new vehicle also provides structuring flexibility as it may be organized in any legal form available under Cyprus Law (investment company with fixed or variable capital, limited partnership or common fund). It can be open or closed ended and it can follow any strategy and invest in any type of assets, with the exception that it cannot be established as a Money Market, Loan Origination Fund or Fund of Funds.

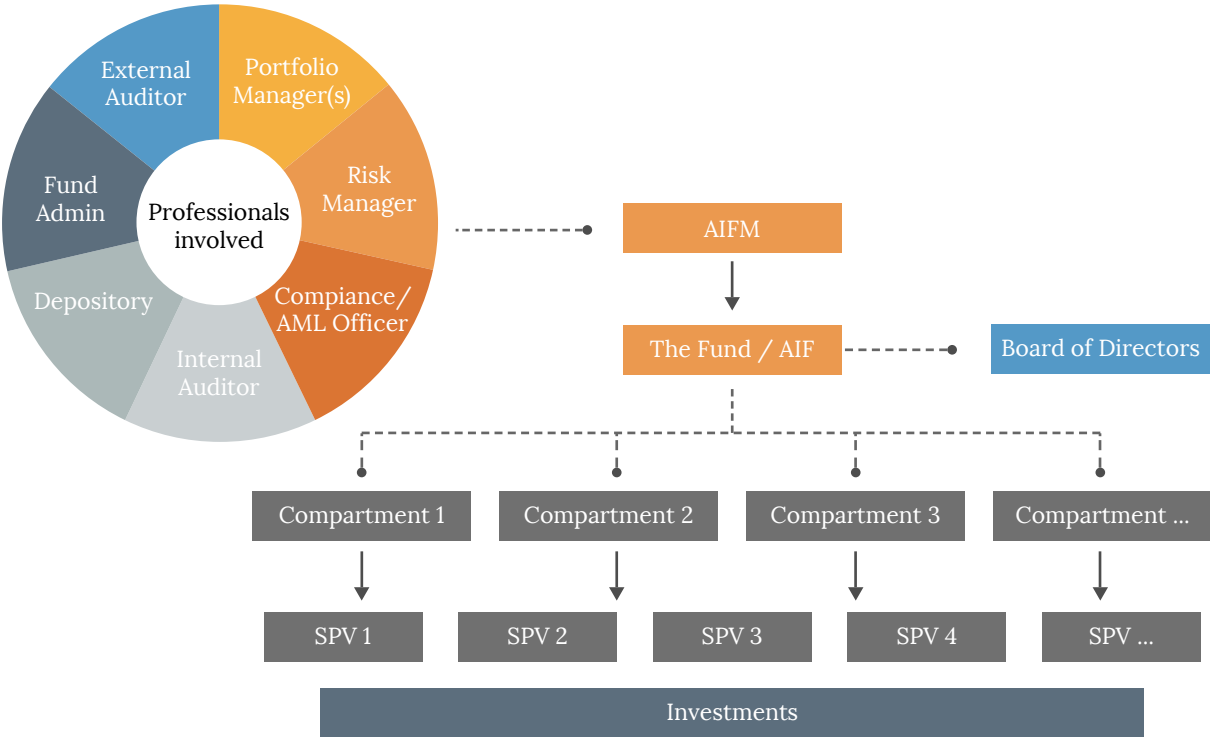


Key Features of a RAIF

- **No licensing required**
- **No minimum capital requirements**
- **No investment restrictions**
- **Geared to Professional and Well-Informed Investors only**
- **Multiple compartments possible (option of umbrella structure)**
- **Can operate as open or closed-ended fund**
- **Units of RAIFs may be listed**
- **Requirement to appoint local Depository**
- **CySEC will register all RAIFs in the Register of RAIFs**
- **Supervision will be only at the level of the AIFM**
- **Can be structured as a common fund, investment company (variable or fixed capital), or limited partnership**
- **Within one month of receipt of all required documents in accordance with the Directive, CySEC shall inform in writing the applicant for its decision to accept the application**



Key Players



A. ALTERNATIVE INVESTMENT FUND MANAGER

Each AIF must have a single AIFM, which is responsible for ensuring compliance with the AIFM Law. The AIFM either be:

- an external manager, which is the legal person appointed by the AIF or on behalf of the AIF and is responsible for managing the AIF (external AIFM), or
- internally managed, i.e. where the legal form of the AIF permits internal management and where the AIF's governing body chooses not to appoint an external AIFM, in which case the AIF itself shall act as AIFM.

The AIFM must at least undertake the following core investment management functions when managing an AIF:

- Portfolio management
- Risk Management



B. AIFM PASSPORT

The Alternative Investment Funds Directive (AIFD), has introduced a ‘passport’ for the distribution of units of AIFs to professional investors in the EU. Cyprus AIFMs, once authorized by Cyprus Securities and Exchange Commission (CySEC), can market their EU AIFs to professional investors in all Member States, using a simplified regulator-to-regulator notification mechanism as opposed to having seek permission from each Member State and comply with different national laws, the so called National Private Placement Regimes (NPPRs). The AIFMD provides a more complex and delayed transportation schedule applicable to non-EU AIFMs and non-EU AIFs wishing to raise capital on the EU. In this case and in view of the uncertainty as to when and if passport will be extended to third countries, the NPPR still remains applicable.

AIF with unlimited number of persons External manager must fulfil the following licensing requirements:	AIF with Limited number of persons External manager must fulfil the following licensing requirements:	Registered AIF (RAIF) External manager must fulfil the following licensing requirements:
Established in an EU member state: must be authorized under AIFM Directive or the UCITS V Directive or MiFID.	Established in an EU member state: an Investment Firm authorized under MiFID or a Management Company authorized under UCITS V	Established in the EU member state: must be authorized under AIFM Directive. Possibility for authorization under the UCITS V Directive or MiFID, if certain conditions met.
Established in Cyprus: must be authorized under the Alternative Investment Fund Managers Law or the Investments Services and Activities and Regulated Markets Law or be a Management Company of the Open-ended Undertakings in Collective Investments Law	Established in Cyprus: a UCITS Management Company authorized under the Open-Ended Undertakings in Collective Investments Law or an Investment Firm authorized under the Services and Activities and Regulated Markets Law or AIFM licensed only for managing portfolios whose assets are exceeding the thresholds of AIFM Law’s article 4(2)	Established in Cyprus: must be authorized under the Alternative Investment Fund Managers Law. Possibility for authorization under Investments Services and Activities and Regulated Markets Law or a Management Company of the Open-ended Undertakings in Collective Investments Law, if certain conditions met.
Established in third country: must be an AIFM of a third country complying with the relevant provisions of Alternative Investment Fund Managers Law	Established in third country: the manager must be licensed for portfolio management and have adequate regulation and supervision in its home country.	Established in third country: must be an AIFM of a third country complying, provided that uses passport services under Directive 2011/61/EU
	AIF not investing in financial instruments: The externally appointed manager may be a company incorporated solely for the purpose of managing the specific AIF, which does not hold any license for portfolio management.	



C. FUND ADMINISTRATOR

Among others, Administration Tasks include:

1. Administrative accounting and book keeping services
2. Calculating Net Asset Value (NAV)
3. Transfer Agent responsibilities (Registrar Services Required with the fund's operations, such as recordkeeping, processing and subscription and redemption requests and maintenance of the shareholder register)

Fund Administration Services are not regulated under the current legal framework; thus, no license is currently required.

D. DEPOSITARY

Main Responsibilities:

1. Safekeeping fund's assets by holding in custody all financial instruments which can be registered in the custodian's books and those that can be physically delivered. Also, for other assets, the Depositary must verify ownership of the fund and maintain an up-to-date record of all assets.
2. Cash-Flow monitoring with regards to investors and service providers, ensuring the fund's cash flows are booked at eligible entities and are accurately monitored.
3. Oversight functions with regards to ensuring compliance with the fund's rules and instruments of incorporation, valuation procedures and that they comply with applicable laws and regulations.

There are also responsibilities of sub-contract safe-keeping duties relating to a foreign licensed custodian acting as sub-custodian. For an AIF with limited number of persons, the Depositary obligations are limited to the Safe-Keeping function described above.

Eligible Providers:

These can be a credit Institution, MiFID investment firm or other entity regulated and supervised as a Depositary, or in case of assets which are not financial instruments within the meaning of MiFID, another entity which carries out depositary functions as part of its professional or business activities.

AIFs managed by an AIFM: depositary of Cyprus AIF must be located in Cyprus

AIFs managed by any other entity: Depositary must be located in Cyprus or any other EU member state or third country with which Cyprus has signed a cooperation agreement, (some other requirements may also apply).

E. BOARD OF DIRECTORS

- **The role of the Board of Directors is determining and monitoring the implementation of the investment policy of the Fund**
- **In practice the majority of the Board should be Cyprus residents to establish tax residency in Cyprus.**

F. EXTERNAL AUDITOR

Annual audit of financial statements (based on IFRS) is required;

- **Audit the Annual Report**
- **Communicate any findings to CySEC (e.g. inconsistencies found in the Annual Report, any fund activities not compliant with the applicable laws).**

G. INTERNAL AUDITOR

Responsible for the internal audit function of the Fund.



H. AML/COMPLIANCE

- **Coordination and monitoring of the fund manager's day-to-day compliance with laws and regulations**
- **In consultation with the Board of Directors, deciding whether to accept or decline an investor based on the money laundering risks.**

The Internal Audit and AML/Compliance Services, are undertaken by the AIFM in most cases.



Alternative Investment Funds at a glance

	AIF with Limited Number of Persons	AIF with Unlimited Number of Persons	Registered AIF (RAIF)
License Requirements	Yes	Yes	No License Requirement
Regulatory Authority	CySEC	CySEC	CySEC
Limitation on Number of Investors	50 (with look through provisions)	Not Applicable	Not Applicable
Available Structures	Variable Capital Investment Company (VCIC), Fixed Capital Investment Company (FCIC), Limited Partnership (LP)	Variable Capital Investment Company (VCIC), Fixed Capital Investment Company (FCIC), Common Fund, Limited Partnership (LP)	Variable Capital Investment Company (VCIC), Fixed Capital Investment Company (FCIC), Common Fund, Limited Partnership (LP)
Umbrella Funds	Possible for all structures	Possible for all structures	Possible for all structures
Minimum Assets Under Management	€250,000 within the first 12 months (possible extension to 24 months)	€500,000 within the first 12 months (possible extension to 24 months)	€500,000 within the first 12 months (possible extension to 24 months)
Minimum share capital	Self-managed funds only €50,000	Self-managed funds only €125,000	Externally managed the RAIF does not require minimum share capital
External Manager Licensing Requirement	No, can be self-managed	No, can be self-managed	Yes, always externally managed
Director Requirements	Fit and proper	Fit and proper	Fit and proper
Depositary Requirements	Based in Cyprus, EU or third country that has cooperation agreement with Cyprus; exemption in specific circumstances.	Based in Cyprus, EU or third country that has cooperation agreement with Cyprus. When managed by AIFM shall be located in Cyprus.	Always based in Cyprus, except for Limited Partnerships managed by MiFID entity.
Reporting	Audited annual report and half-yearly unaudited report to be submitted to CySEC and made available to unit holders	Audited annual report and half-yearly unaudited report to be submitted to CySEC and made available to unit holders	Audited annual report and half-yearly unaudited report to be submitted to CySEC and made available to unit holders



Tax Benefits

Cyprus is a full member of the EU, as well as a member of the Eurozone, having adopted and harmonized with all the relevant EU legislation. As such, it is recognized as a well-regulated and reputable onshore jurisdiction, is included in the OECD white list and is compliant with all international and EU Anti Money-Laundering and transparency regulations. As one of the leading investor friendly EU financial centers, the Island is able to offer a beneficial tax regime which has been fully approved by the EU and OECD. AIFs that are structured in the form of a private limited liability company also enjoy significant tax benefits, as they are treated identically to any other Cypriot entity. Provided that the management and control of the AIF is exercised in Cyprus, it can benefit from the 12.5% flat corporation tax on annual net profits earned worldwide and can also take advantage of a wide range of Double Tax Treaties, now numbering over 64.



Investor Taxation	Fund Taxation
<p>Foreign Investors:</p> <ul style="list-style-type: none"> • No withholding tax on dividends • No taxation on redemption of units • No deemed distribution restrictions 	<p>Gains from trading in securities are tax exempt</p>
<p>Resident Investors – Domiciled</p> <ul style="list-style-type: none"> • Option of 8% flat rate taxation on performance based variable remuneration for certain employees, with a minimum tax payable of €10,000 per year, for a total period of 10 years • A withholding tax on dividends of 17% if the investor is an individual who is both tax resident and domiciled in Cyprus • No taxation on redemption of units • No withholding tax if investor is a legal person 	<p>No subscription tax on the net assets of the fund</p> <p>Fund Management services provided to alternative funds are not subject to VAT</p> <p>AIFs with more than one compartment are treated as one legal entity, however, for tax purposes each compartment is treated separately</p> <p>A wide range network of Double Tax Treaties is in place</p>
<p>Resident Investors – Non-Domiciled</p> <ul style="list-style-type: none"> • Option of 8% flat rate taxation on performance based variable remuneration of certain employees, with a minimum tax payable of €10,000 per year, for a total period of 10 years. • Exemption from withholding tax on dividends of 17% • No taxation on Redemption Units • No withholding tax if investor is a company 	



Benefits of Investment Fund Vehicles over private Investment Company

- Substance for tax residence purposes is not subject to dispute;
- Investment Structure which local and foreign banks are comfortable with;
- Fully regulated and transparent Investment Vehicle, offering a high level of credibility among investors;
- Fully regulated and transparent Investment Vehicle, offering a high level of Investor Protection;
- Transparent, efficient and well-regulated investment structure, appropriate for raising money by multiple unknown investors, who gain advantages they would not have as individual investors;
- Investment Decisions, are always supervised by experienced professional fund managers;
- Daily transactions and provided services are always supervised and executed by experienced professionals which in most cases are licensed service providers; AIFM, Depositary, Administrator, Board of Directors (not just by the Board of Directors, as in the case of a Private Investment Company);
- Variable Capital Investment Vehicles, that can raise capital from potential investors, on a regular basis, pre-defined under the information memorandum, without the need to inform or register any capital changes with any regulatory authority. (CySEC, Registrar of Companies);
- Full liquidity for redeeming shareholders/unit holders, who can easily exit an open-ended fund investment scheme, on an appropriate redemption date, without the need to find a purchaser for their stake;
- Option for umbrella structure with multiple investment compartments (sub-funds), giving a cost-efficient opportunity for different investment strategies under the same ownership structure; (multiple investment companies under the same ownership structure can lead to detailed questions and additional compliance requirements during periodic reviews, in regard to their purpose);
- Still benefit from all tax advantages and double tax treaties, offered under an Investment Company Structure.



Typical Use of Investment Fund Vehicles

Real Estate fund

A real Estate Fund invests either directly or indirectly through SPVs in real estate assets. Such Fund structures usually feature a lock-up period in excess of 5 years under which the investors cannot redeem shares from the fund. Such funds are attractive to investors who wish to obtain real estate exposure without buying individual assets.

Shipping Fund

Shipping Funds invest in vessels mainly through the use of SPVs and/or invest in Forward Freight Agreements (FFAs) or other shipping derivatives. Such funds usually have a lock-up period in excess of 5 years where their investors cannot redeem their shares in the fund. The fund however, may allow distributions to investors as its discretion.

Citizenship Fund

Citizenship funds are set up with the intention to invest in eligible assets as prescribed by the current legislation to enable its investors benefit from such regimes. Subject to relevant authority's approval the investors may obtain the citizenship of the jurisdiction concerned.

Private Equity Fund

A private equity (PE) fund invest primarily in non-listed private companies with the intention of administering a LBO or a MBO. PE funds can vary significantly and can be closed or open-ended, usually with lock-up periods (5-10 years and aim to deliver high IRRs due to higher risk.

Loan Origination Fund

Loan origination funds are set up with the intention to provide credit or acting as a primary lender to borrowers such as small – medium enterprises.

European Long-Term Investment Fund (ELTIF)

ELTIF is pan-European regime for AIFs that channel money capital towards companies and projects in Europe that need long-term capital.

European Venture Capital Funds (ELTIF)

EUVECA regulation covers a subcategory of alternative investment schemes that focus on start-ups and early stage companies. Venture capital investment is an important source of long-term financing to young and innovative companies.

Sovereign Wealth Funds (SWFs)

SWFs raise money from country's reserves which are invested accordingly to benefit the county's economy and its citizens.



Our Services

Centaur Trust can offer investors a One Stop Shop solution, with regards to the establishment, investment and ongoing administration of funds. Our Services include among others:

- **Setting Up and Licensing** – Preparation and submission of an application package to CySEC to obtain a license, including advice on the best way to set up the fund with regards to staffing, organizational structure and costs.
- **Legal and Compliance Services** – Establishment of the Legal Entity, ongoing legal support and compliance regarding the activities, agreements and structuring of the fund and any subsidiary entities.
- **Fund Administration services** – Transfer Agency, Fund Accounting and Net Asset Value Valuation
- **Fiduciary Services** – Provision of fiduciary services to the fund, its subsidiaries and its unit holders including
- **Secretarial Services**
- **Directorship Services**

In order to provide our clients with all the necessary services under one roof, Centaur Trust works closely with a select number of partners, such as Depositaries, AIFMs, tax advisors and audit & legal service providers, so as to provide a complete solution and the assurance that the delivery of all the various services and functions will be seamless and at the same high standard that all Centaur Trust clients have come to expect.

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