

Key Facts Fund Services

Cyprus offers the international alternative investment community a cost-effective onshore EU location with the option of European passporting, a stable legal and regulatory framework and attractive tax incentives for fund managers.

A Cyprus Alternative Investment Fund (AIF) may be legally formed as:

- a common fund
- an investment company
- a limited liability partnership, with or without separate legal personality

An AIF may be established as:

- an open-ended fund, where investors can acquire or redeem units at any time, according to the procedure and frequency defined by its rules, M&A or prospectus
- a close-ended fund, defined as any other case

In addition, a Cyprus AIF may be formed as a Limited Number of Persons AIF, an Unlimited Number of Persons AIF or a Registered AIF, depending on the number of investors they can accept and whether they are managed by an authorised EU Alternative Investment Fund Manager (AIFM).

The formation of Cyprus-domiciled funds is governed by the Cyprus Alternative Investment Funds Law of 2018 L.124(I) of 2018.

Key Positions in the Fund Industry

Depending on the fund's scope of activities, the following key positions are required for a fund to operate in Cyprus:

- the fund manager
- the depositary
- the fund administrator
- the investment advisor
- the investment committee
- the distributor
- the legal advisor
- the compliance officer
- the auditor

Common Funds

As per Section 45, AIF Law 124(I) of 2018, CH 8 Part I, a common fund has no legal personality and it consists of a pool of assets.

- By subscribing to units of the common fund, investors participate in the pool of assets, which they co-own, and are liable only for the amount they contributed.
- The common fund is managed by an external manager.

Key Facts Fund Services

- By subscribing in units, the fund investors are deemed to have accepted the “Common Fund Rules”, which will govern their relationship with the fund and with the other investors.
- Investors’ units of the common fund are recorded in a unit holders’ register.

Investment Companies

An Investment Company may take the form of a Variable or Fixed Capital Investment Company (VCIC/FCIC), and has the following characteristics.

- It may be internally or externally managed
- It has the legal form of a company limited by shares, with the exclusive purpose of managing its investment portfolio (whether self-managed or via an appointed external manager)
- It is governed by the AIF Law and supplemented by Cyprus Company Law
- Its registered office must be located in the Republic of Cyprus
- It must appoint a depositary for the safekeeping of assets
- Its shares are fully paid, issued in the name of the unit holder and registered in a Shares Register

Limited Liability Partnerships (LLP)

The LLP is regulated by the AIF Law. In respect of matters not covered by the AIF Law, then the provisions of the Law on General and Limited Partnerships and Business Names apply. The following characteristics apply to an LLP.

- It may or may not have a separate legal personality.
- An LLP with a separate legal personality may be internally managed, where the investment management duties and obligations are carried

out by the General Partner, or externally managed, where the General Partner appoints an external manager.

- An LLP with no separate legal personality is always externally managed. Investment management duties and obligations are carried out by the General Partner.
- An LLP has only one General Partner who:
 - exercises management of the partnership and represents it against third parties;
 - is responsible for the debts and liabilities of the partnership; and
 - is a legal person.
- The limited liability partners are not liable for the debts and liabilities of the partnership beyond the amount of their contribution and do not interfere in the management of the partnership and do not represent the LLP towards any third party.

Single Fund or Umbrella Scheme

A fund may be formed as a single fund or an umbrella scheme.

An AIF structured as an umbrella scheme has the following characteristics.

- It consists of a number of investment compartments/sub-funds
- Each separate compartment is subject to the provisions of the AIF Law as a separate AIF; this means that it may own its own assets and has its own investment policy
- Investors invest in the sub-fund and each sub-fund issues its own units which correspond to the assets of each compartment
- Rights of the unit holders derive from the assets of the relevant sub-fund

Key Facts

Fund Services

- Authorization of a sub-fund may be revoked without revoking authorization for the rest of the compartments
- An umbrella AIF may be converted to a single fund subject to the provisions of the AIF Law

Registered Alternative Investment Fund (RAIF)

An AIF may be formed as a RAIF, which has no local approval or supervision requirements. However, a RAIF can only be managed and monitored by an authorised EU AIFM. In addition:

- An AIF may operate as a RAIF, as long as it is registered in the special register which is kept by CySEC.
- An AIF can operate as a RAIF if:
 - it is externally managed;
 - it exclusively deals with professional/ well-informed investors; and
 - its instruments and rules expressly provide that it is subject to the application of the provisions of Part VIII of the AIF Law 124(I) of 2018.
- A RAIF does not receive an authorization from CySEC; it is only registered in the RAIF Register.
- The RAIF always appoints as external manager an authorised EU AIFM. A Limited Partnership RAIF may appoint as an external manager one of the Section 6(2)(b) entities. Where the Section 6(2)(b) entity is not an AIFM:
 - the RAIF invests at least 70% of its assets in not easily liquefied assets; and
 - the RAIF is a closed-ended AIF.
- A RAIF can be open- or close-ended and may take the form of a common fund, investment company, or limited partnership. A RAIF can also operate as an umbrella-type RAIF.

Key Facts Fund Services

Summary: Limited Number of Persons (LNP) vs. Unlimited Number of Persons (UNP) AIF vs RAIF

Characteristic	LNP AIF	UNP AIF	RAIF
Number of Investors	Maximum 50 investors (including any sub-funds)	Unlimited investors	Unlimited investors
Umbrella Structure	Allowed	Allowed	Allowed
Type of Fund	Investment company or limited partnership	Investment company, limited partnership or common fund	Investment company, limited partnership, or common fund
Management Type	Can be self-managed if a VCIC/Limited Partnership with separate legal personality and if its assets do not exceed the thresholds set out in AIFMD (i.e., (a) assets in total do not exceed €100 million, if they include assets acquired through leverage or (b) assets in the portfolio do not exceed €500 million where no leverage is employed, and unit holders have no redemption rights for five (5) years)	Self-managed or externally managed	Always appoints a fund manager
Minimum Initial Capital	Minimum initial capital of €50,000 (in cash or assets that can be immediately converted to cash)	- If externally managed there is no minimum initial capital - If self-managed €125,000	Not subject to minimum capital requirements
Minimum Assets	- Minimum assets of €250,000 within 12 months of obtaining authorization - This may be extended for a further 12-month period	- Minimum assets of €500,000 within 12 months of obtaining authorization - This may be extended for a further 12-month period	- Minimum assets of €500,000 within 12 months of obtaining authorization - It may be extended for a further 12-month period
Investors	It may be marketed only to professional or well-informed investors	It may be marketed to retail investors, or professional or well-informed investors	It may be marketed only to professional or well-informed investors

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