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The Cypriot Mini Fund Manager Regime: An alternative, fully-fledged investment vehicle

Overview

The new regime ("New Law", Law No. 81(I)/2020) allows for the creation of a new investment fund management vehicle responsible for the management of alternative Investment Funds ("AIFs"). This new legislative tool enables fund managers to establish an optimum structure for investments by creating a sub-threshold alternative investment fund manager with many advantages, including but not limited to less onerous compliance, lower setup and administrative costs, and added flexibility. This makes the Mini AIFM ideal for newcomers, aspiring entrepreneurs, and small to medium-sized fund managers.

The law is applicable to Mini Fund Managers established in Cyprus, the EU, and Cyprus Investment Firms. The Mini Fund Managers are allowed to manage portfolios of various types of AIFs. The maximum permitted AuM is either EUR 100m including leverage or EUR 500m with no use of leverage and no investor interest redemption right for 5 years. The Mini Manager can be authorized following an application to the Cyprus Securities and Exchange Commission (CySEC), which is a regulatory body for Alternative Investment Funds. In turn, CySec is governed by the respectable European Securities and Markets Authority (ESMA) is an independent EU authority whose purpose is to improve investor protection and promote stable, orderly financial markets. This form of governance is providing additional confidence to prospective investors.

The initial capital requirements are at least €50,000, as opposed to a whopping €125,000 required for an Alternative Investment Fund Manager. If the value of the portfolios of AIFs managed by the Mini Fund Manager exceeds €125m, the Mini Fund Manager shall provide additional own funds of 0,02% of the amount by which the AuM exceeds EUR 125m. A Mini Fund Manager may also market the units of the AIFs it manages to professional and well-informed investors in Cyprus, and a third country upon the prior notification to CySec.

After establishing a registered and operational office and central administration in Cyprus, there are 4 types of permitted AIFs under management to which Mini Fund Managers may be appointed as external managers

- (1) established and operating in Cyprus
- (2) AIFs established and operating in a member state other than Cyprus or in a third country, if permitted by the legislation governing the said AIF
- (3) Alternative Investment Fund with Limited Number of Persons ("AIFLNP")
- (4) Registered Alternative Investment Funds ("RAIFs"), subject to conditions.

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Authorisation and Operating Requirements

There are multiple conditions and criteria a Mini AIFM is required to meet in order to be authorised by the CySEC, as well as waiting for 6 months for the decision. Some of the key requirements include details of the board and senior management (at least 2 persons must be employed as senior management), identities of directors and shareholders with qualifying holdings, head office location requirements, business plan, and internal operations manual, investment strategy, risk profile, the use of leverage and other characteristics such as procedures for the delegation. On top of these requirements, the Mini AIFM must also meet the €50,000 initial capital requirement, with proof that the senior management is of sufficiently good reputation and sufficiently experienced in relation to the investment strategies the fund hopes to pursue. The good news is that the Mini Manager will not have to apply the AIFMD's requirements to their delegates or agents.

If the CySEC authorises the Mini AIFM, it must also be ensured that appropriate and consistent procedures are established so that a proper and independent valuation of the assets of the AIFs it manages can be performed. There is a broad range of operating conditions required, from having to act honestly, with due skill, care, and diligence to identifying conflicts of interests and keeping and publication of the register. Either way, the Mini AIFM must comply with all regulatory requirements applicable to the conduct of its business activities. This means that at the very least the Mini AIFM must have and employ effective and consistent resources, internal legal compliance function and procedures to help the fund thrive.

Compliance, Regulations, Board of Directors and the Mini Fund Manager

The board of directors shall include at least 4 natural persons, of whom at least 2 must be Executive Directors. The Executive Directors have the following management functions and must be of sufficiently good reputation and have the sufficient knowledge and experience to perform these duties: Risk management, Portfolio management, Fund administration services, Marketing Services, and other activities related to the

assets of the fund.

Further to the above, a Mini Fund Manager shall also be responsible for ensuring legal compliance of the entities listed above with the provisions of the Mini Fund Manager Law, any directives issued thereunder and the legislation governing the AIF. A Mini Fund Manager is under the obligation to employ sound administrative and accounting procedures in order to minimise conflicts of interests, monitor employee transactions, have appropriate procedures dealing with complaints of investors, have sound risk management procedures and establish and maintain an internal audit function which is independent from its other functions and activities so as to supervise the activities of the Mini Fund Manager.

Key advantages of choosing the Mini Fund Manager over the Alternative Investment Fund Manager

On the whole, the Mini Fund Manager provides additional flexibility and competitiveness, adding to the business-oriented Cypriot regulatory framework. Therefore, there is an increasing demand for Mini Managers in Cyprus - a vehicle ideal for newcomers in the fund management industry or smaller/medium scale fund manager. Mini Manager is subject to less onerous compliance, organisational, operational, and reporting requirements as compared to an AIFM - making Cyprus an ideal EU centre for small to medium-sized managers. The Mini AIFM can be also converted to a fully-fledged AIFM at a later stage, either through a business decision or mandatorily in the case where the portfolios under management exceed the AIFMD Thresholds.

The Mini AIFM is a global opportunity. Whilst the required compliance and operating costs can be a deterring factor, the Mini Fund Managers can manage funds that are established in other European and non-European countries (should the local laws allow). Moreover, the Mini Fund Manager law permits delegation and sub-delegation of its management services to third-party providers. This makes the Mini AIFM legislation global and internationally minded because entrepreneurs can establish and maintain their fund management, whilst at the same time or later expand to other European and non-European countries. Of course, as always, Cyprus with its



competitive and attractive jurisdiction, laws, and regulatory framework offers an ideal place as a base for the fund. The Mini AIFM would be a great place for entrepreneurs to start investing, and later should they wish to, convert into an Alternative Investment Fund Manager once the thresholds specified in the AIFMD are exceeded.

Furthermore, having obtained a license for the Mini Fund Manager, the Mini Fund Manager is able to create funds that require a relatively short time to be approved (sometimes as quickly as approximately one month). For instance, the Mini Fund Manager can be appointed as an external manager to Registered Alternative Investment Funds ("RAIFs"), subject to conditions. Most importantly, these funds created by the Mini Fund Manager are subject to much less compliance and regulation requirements, because they operate as if they were licensed by the Mini Fund Manager and not the CySEC.

The legal professionals of Andreas M. Sofocleous & Co are happy to provide specialist and tailored advice to meet your investment needs, including licensing of the Mini Fund Manager, risk consulting, and advisory services, and deliver delivering the specialized and objective advice you need to clearly understand your exposure to risks, options and opportunities.

The content of this article is intended to provide a general guide to the subject matter. Specialist advice should be sought about your specific circumstances.

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