

INTRODUCTION TO THE CYPRUS INVESTMENT FUND AND ASSET MANAGEMENT INDUSTRY

UNIVERSITY OF CYPRUS

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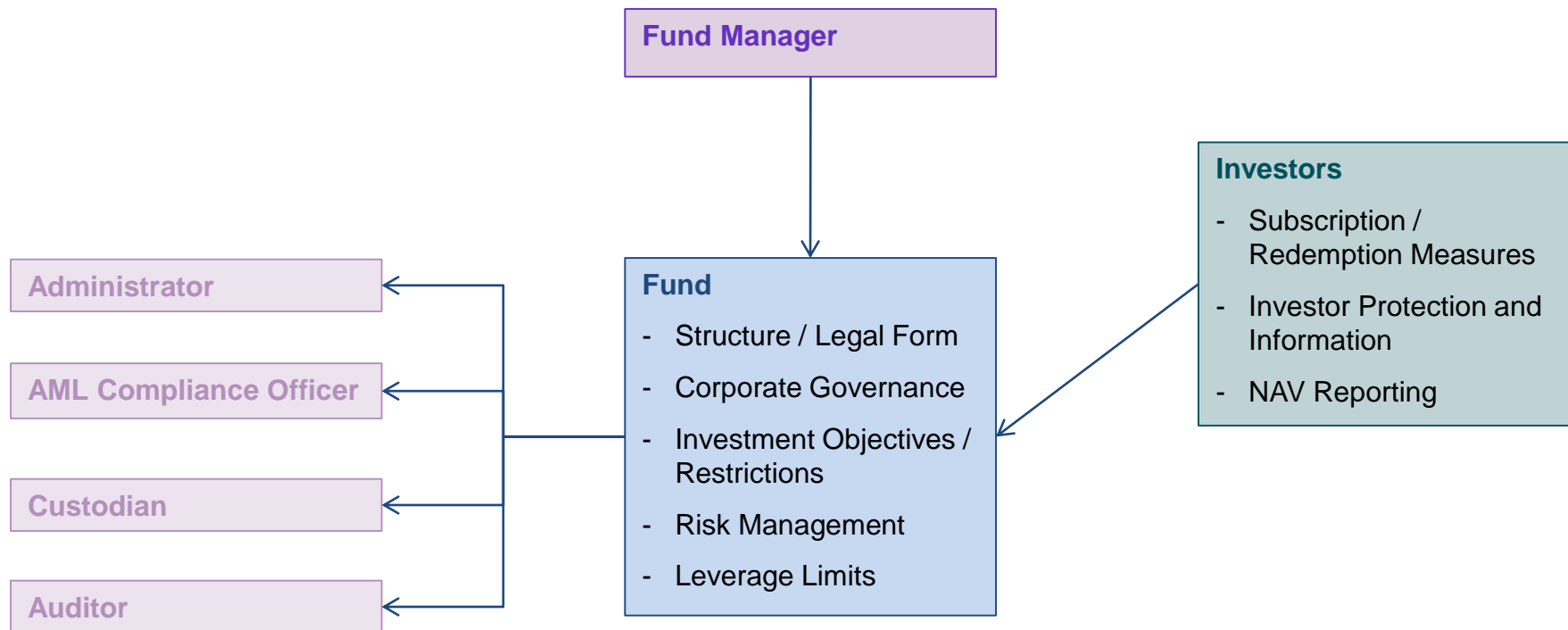
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1.0 CYPRUS INVESTMENT FUNDS AND ASSET MANAGEMENT FRAMEWORK

1.1 Typical Fund Structure



1.2 Legal Framework – Investment Funds

- **Proposed Alternative Investment Funds Law** to replace the International Collective Investment Schemes Law 47(I)/1999.
 - Two categories:
 - Limited number of persons (75) – may be marketed to professional / well-informed investors;
 - Unlimited number of persons – may be marketed to either retail or professional / well-informed investors.
 - Available legal forms:
 - Variable and Fixed Capital Company;
 - Limited Partnership;
 - Common Fund (only for unlimited number of persons).

- **Open ended Undertakings for Collective Investment UCI Law of 2012** (transposing the UCITS Directive 2009/65/EC).
 - Available legal forms:
 - Common Fund;
 - Variable Capital Company.
 - Changes are being proposed:
 - In addition to credit institutions, to allow other legal entities subject to capital adequacy requirements, prudential regulation and ongoing supervision to act as depositary;
 - Frequency of valuation to at least every two weeks instead of daily.

1.2 Legal Framework – Investment Funds

1.2.1 AIFs

| | Current – Private ICIS | New –AIF with limited number of persons ¹ | New –AIF with unlimited number of persons ¹ |
|--|--|---|---|
| Regulatory Authority | CBC | CySEC | CySEC |
| Limitation on No. of Investors | 100 | 75 | Not applicable |
| Available Structures | IVCC, IFCC, IILP, IUT | IVCC, IFCC, IILP | IVCC, IFCC, IILP, CF |
| Segregation Possibility | Contractually with IILP and IUT | For all structures | For all structures |
| Min. Share Capital | Not applicable | Not applicable | EUR 125,000 (EUR 300,000 self-managed) |
| Manager Licensing Requirement (if external) | Yes, if investments in financial instruments | Yes, if investments in financial instruments | Yes, under AIFMD, UCITS IV or MiFID |
| Directors Requirements (if self-managed) | Fit and proper | Fit and proper | Fit and proper; at least one person must be appointed responsible for portfolio management who possesses CySEC license for portfolio management |
| Custodian Localisation Requirement | Must be Cyprus based; Exemption may be obtained from CBC as it relates to an internationally reputable credit institution overseas | Either based in Cyprus, EU or third country with which Cyprus has signed cooperation agreement; exemption under certain circumstances | If AIFM, must be based in the EU until 2017 and in Cyprus thereafter; otherwise, either based in Cyprus, EU or third country with which Cyprus has signed cooperation agreement |

1. Based on consultation paper EZ(2013-01) regarding the proposed legislation for “Alternative Investment Funds and Collective Investment Schemes with Limited Number of Persons” issued by CySEC on February 26, 2013 and the Feedback Statement published on June 10, 2013.

1.2 Legal Framework – Investment Funds

1.2.1 AIFs

- **“Professional”** Investor is defined as:
 - A Professional Investor under the basis of the requirements of MiFID which includes:
 - Authorized entities (i.e. credit institutions, investment firms, insurance companies, funds, etc.); or
 - Large undertakings being companies meeting two of the following: balance sheet total of EUR 20 mm, net turnover of EUR 40 mm, or own funds of EUR 2 mm; or
 - National and regional governments, public bodies, central banks, international and supranational organisations, etc.; or
 - Other institutional investors whose main activity is to invest in financial instruments, including entities dedicated to the securitisation of assets or other financing transactions.
- **“Well-Informed”** Investor is defined as:
 - If he qualifies as such under the following two requirements:
 - Confirms in writing that he is a qualified investor and that he is aware of the risks involved with an investment in the relevant AIF; and
 - Either:
 - His investment in the AIF in question will be at least EUR 125.000 (or the equivalent in the base currency of the AIF); or
 - He has obtained an attestation from either (i) a licensed bank/credit institution, or (ii) an investment firm authorised under MiFID, or (iii) a Management Company authorised under the UCITS IV Directive, certifying the investor’s experience and knowledge in order to evaluate the investment opportunity.
- **“Retail”** Investor is defined as an individual who does not fulfill the requirements of a “Professional” or “Well-Informed” investor.

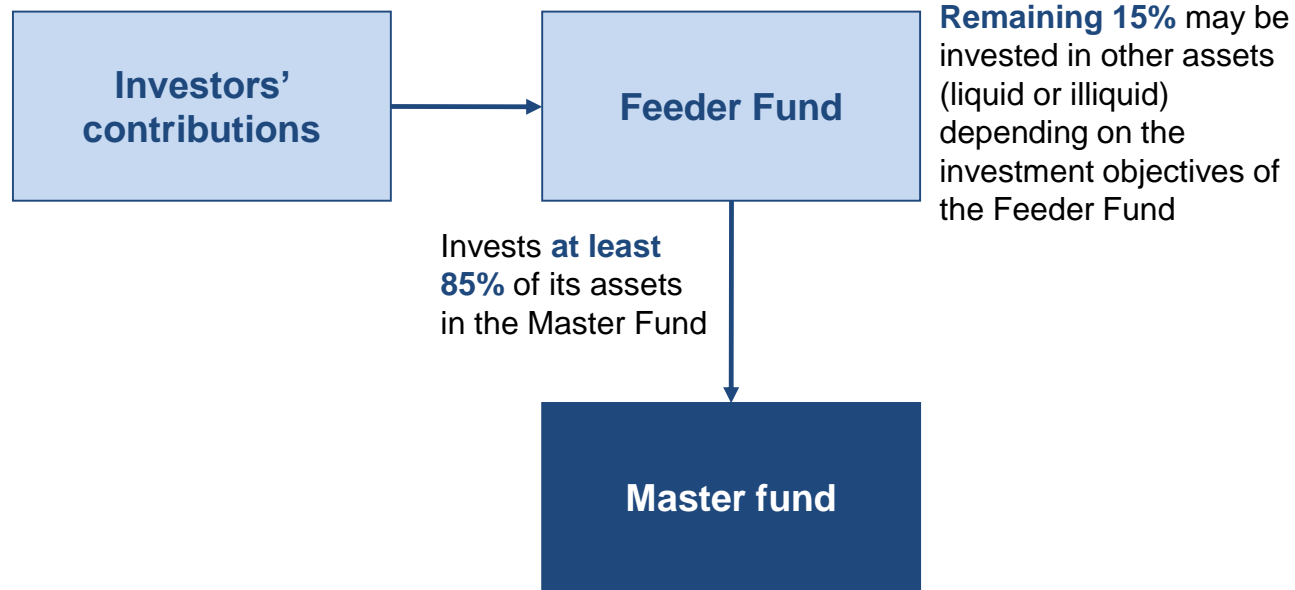
1.2 Legal Framework – Investment Funds

1.2.2 UCITS

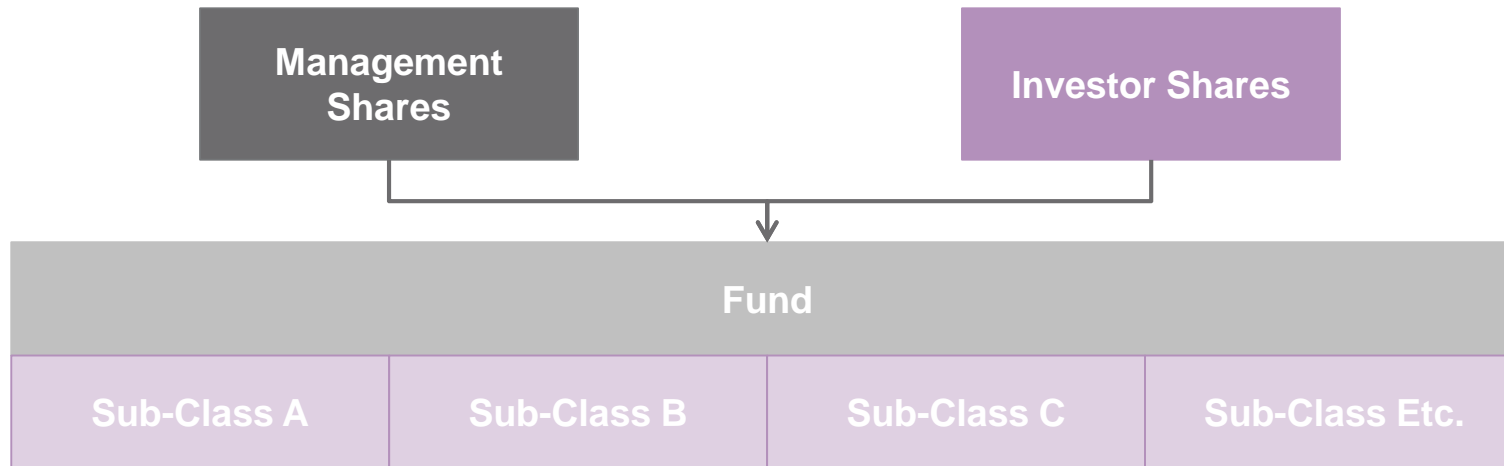
| | UCITS Characteristics |
|---|---|
| Legal Form | Variable Capital Company or Common Fund |
| Share Capital Requirements | 3 rd Party Managed – EUR 200.000 Self-Managed – EUR 300.000 |
| Minimum Subscription Amount by Investors | Not applicable |
| Investment Restrictions / Diversification Requirements | Strict rules at EU Directive level regarding investment solely in transferable securities or other liquid financial assets |
| Leverage | Strict rules at EU Directive level regarding use and exposure to leverage |
| Valuation Frequency | Daily (publication every next business day in two daily newspapers with wide circulation in Cyprus) ¹ |
| Redemption Possibility | Any time upon investor request |
| Reporting Requirements | Six-monthly (unaudited) and Annual report (audited) |
| Other | Defined redemption settlement periods of no more than 4 business days; Reduced risk exposure in light of statutory leverage limits, diversification parameters, transparency and risk management requirements; Possibility to have sub-funds, with full segregation and cross-investment allowed. |

1. Legislative amendments pending approval will amend this to at least every two weeks.

1.3 Master-Feeder Funds

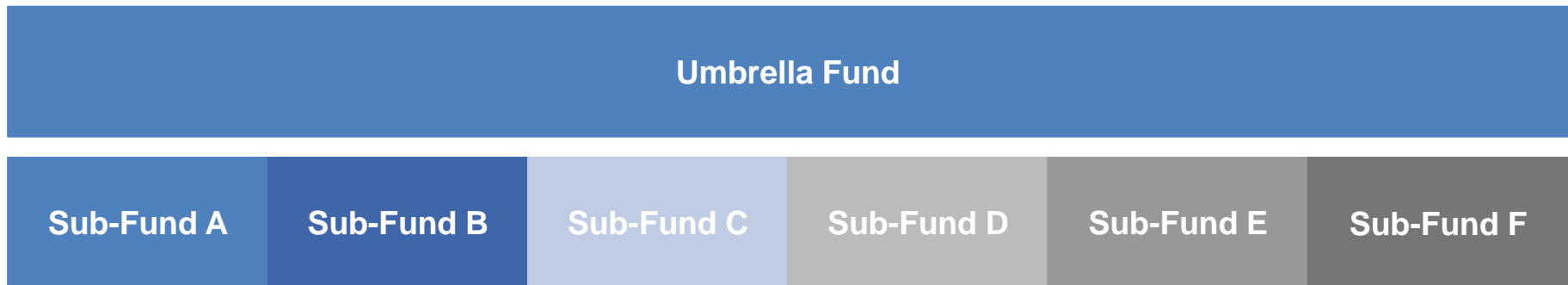


1.4 Multi-Class Funds



- A Multi-Class Fund has the following characteristics:
 - Each sub-Class will have its own investments, investors, and separate NAV calculation for purposes of determining share price for subscriptions / redemptions;
 - There is possibility of conversion to another sub-Class;
 - It is not a “segregated portfolio company” or equivalent; as such the sub-Classes will be subject to “cross-class liability” meaning that all the assets of the Company are available to meet all the liabilities of the Company, regardless of the sub-Class to which they are attributable;
 - In practice, cross-class liability will usually only arise where any sub-Class becomes insolvent and is unable to meet all of its liabilities;
 - Any loss in one sub-Class will affect the profits of the other sub-Classes.

1.5 Umbrella Funds



- Umbrella Funds have the following characteristics:
 - Established with several investment compartments (sub-funds), each constituting a separate pool of assets; the AIF / UCITS fund constitutes a single legal entity;
 - Each investment compartment has its own separate NAV calculation and issues units corresponding to its assets;
 - Unitholders of a specific compartment only have rights arising from the assets of such compartment; each compartment is liable for the obligations arising from its constitution, operation or dissolution;
 - A compartment of an umbrella fund may invest in another compartment (target) of the same umbrella fund subject to certain restrictions (e.g. diversification strategies, exposure, no circle investment);
 - Each compartment may be dissolved or liquidated separately without affecting the operations of the others;
 - The compartments are segregated and are not subject to “cross-class liability”.

1.6 Key Players in the Funds Industry

1.6.1 Investment Manager

- Legal Framework reflects close harmonisation with the respective EU Directives:
 - Management of investment funds (including their administration and distribution) under either:
 - The **Alternative Investment Fund Managers Law of 2013**, transposing the Alternative Investment Fund Managers Directive (Directive 2011/61/EU; “AIFMD”);
 - The **Open-Ended Undertakings for Collective Investment Law of 2012**, transposing the Undertakings for Collective Investment in Transferable Securities Directive (Directive 2009/65/EC; “UCITS IV”).
 - Management of mandate based segregated accounts under:
 - **Investment Services, the exercise of Investment Activities, the Operation Regulated Markets Law of 2007**, transposing the Markets in Financial Instruments Directive (Directive 2004/39/EC; “MiFID”).
 - May act as delegate of the appointed fund manager, but in the case of Cyprus AIFs may also be appointed as the AIF’s manager.
- Needs to be approved by the Regulator based on the “fit and proper test”.
 - If not self-managed, the fund needs to appoint a licensed manager¹ (under national laws transposing AIFM, UCITS or MiFID Directives). Certain exemptions may apply for AIFs.
- Asset managers in Cyprus include:
 - AIFMs (applications currently pending with CySEC);
 - UCITS Management Companies (two firms originating from Greece and Belgium);
 - MiFID IFs (include locally based IKOS and boutique players, as well as branches of international asset managers originating from Western Europe, Russia, Asia and Middle East such as Aton, Gazprom Bank, Dragon Capital, Metropol Group and Renaissance Capital).

1. For UCITS, if externally managed may only be managed directly by an authorised UCITS Management Company.

1.6 Key Players in the Funds Industry

1.6.2 Administrator

- Funds must appoint a Cyprus based company to carry out the administration tasks which include:
 - Administrative, accounting, bookkeeping services;
 - Registrar services required in connection with the Fund's operations (i.e. processing of subscription and redemption requests, maintenance of unit / shareholder register, recordkeeping, etc.);
 - Calculating NAV.

- Fund administrators in Cyprus include:
 - Representation of international service providers such as Alter Domus, Apex Fund Services, Citco Group, etc.;
 - Big Four and mid-tier audit firms; and
 - Local boutique firms.

1.6 Key Players in the Funds Industry

1.6.3 Depositary / Custodian

- Funds must appoint a single and independent Depositary / Custodian whose responsibilities include:
 - **Safekeeping** the Fund's assets comprising:
 - Holding in custody all financial instruments, which can be registered in the Depositary's books and those that can be physically delivered;
 - For other assets, verifying the ownership of the Fund and maintaining an up-to-date record of those assets;
 - **Cash flow monitoring** with regard to investors and service providers, ensuring that the Fund's cash flows are booked at eligible entities and are properly monitored; and
 - **Oversight** functions, ensuring compliance with the Fund's rules and instruments of incorporation, valuation procedures and with applicable law and regulation.
- The Depositary / Custodian must be either based in Cyprus, any other EU Member State, or any 3rd country with which Cyprus has signed a cooperation agreement.¹
 - Eligible entities include: credit institutions, MiFID IFs, or other subject to capital adequacy requirements, prudential regulation and ongoing supervision for assets that can be held in custody.
 - Possibilities to subcontract safekeeping duties to a foreign licensed custodian who shall be acting as sub-custodian.
- Custodians in Cyprus include:
 - Local banks and MiFID IFs;
 - Branches of foreign banks such as Eurobank EFG, Piraeus Bank, Societe Generale.
- Overseas reputable banks – including Citigroup (London), Credit Suisse (Dublin), Deutsche Bank (Dublin) – also act as custodians of existing ICIS.

1. For UCITS must be based in Cyprus. For AIFs managed by an AIFM, may be based in any other EU Member State until 2017 and in Cyprus thereafter.

1.6 Key Players in the Funds Industry

1.6.4 Auditor

- Funds must appoint a Cyprus qualified audit firm, responsible for:
 - Carrying out specific reporting duties;
 - Expressing an audit opinion on the financial statements based on IFRS and applicable law.

- Audit firms in Cyprus include:
 - All Big Four audit firms;
 - Mid-tier audit firms such as Nexia, Baker Tilly, BDO, Grant Thornton, etc.; and
 - Local boutique firms.

1.7 Tax Considerations

Taxation of the Fund

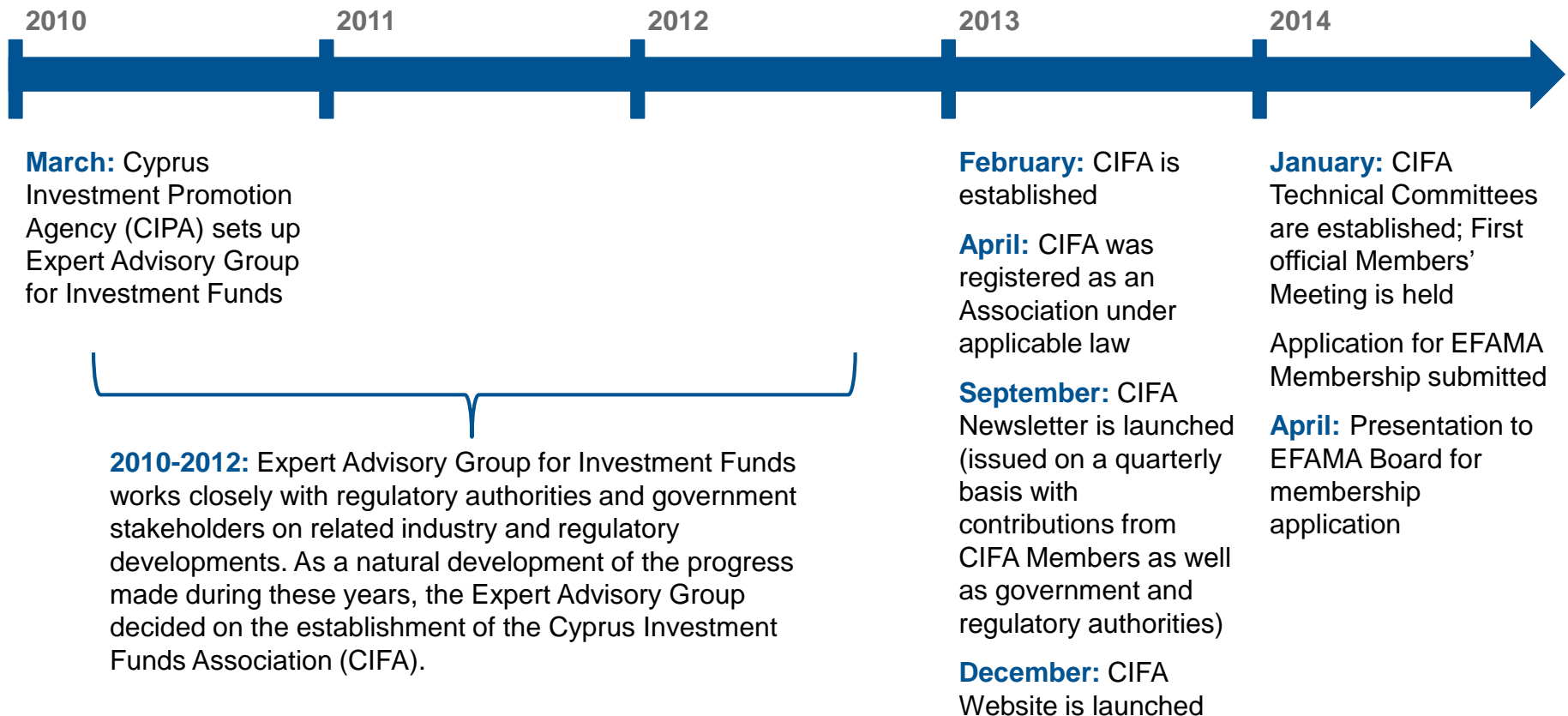
- Corporation tax at 12,5% on profits
- Excluded from tax:
 - Dividends received
 - Profits on sale of securities
 - Capital gains arising from sale of property abroad
 - Capital gains from sale of shares of foreign property companies
- No subscription tax on the net assets of the fund
- Effectively only interest received is taxed at 12,5%
- Fund management services provided to ICIS are not subject to VAT

Taxation of the Investors

- Foreign investors:
 - No withholding tax on dividends
 - No taxation on redemption of units
 - No deemed distribution restrictions
- Resident investors:
 - A withholding tax of 17% if the investor is a physical person
 - No taxation on redemption of units
 - No withholding tax if investor is a company
 - Deemed distribution of 3% instead of 17%

2.0 ABOUT CIFA

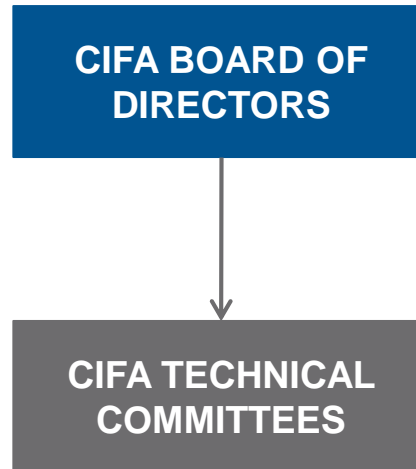
2.1 History



2.2 Structure

13 members comprising highly reputable industry professionals experienced in all aspects of the industry, including fund management, administration, advisory, banking, audit and legal

Chaired by and comprised of industry participants with direct experience and expertise in the related fields of the respective committee in which they participate



Nine Technical Committees:

- UCITS & AIFs Committee
- Fund / Asset Management Committee
- Cyprus Investment Funds Distribution Committee
- Fund Administration / Custodian Committee
- Legal and Regulatory Committee
- Ethics and Risk Management Committee
- Tax Committee
- Statistics and Fund Research Committee
- Training / HR Committee

2.3 Mission and Role

- CIFA's **Mission** is to:
 - Provide support to its members;
 - Encourage maintenance of industry standards and professionalism;
 - Be engaged in the development of related regulatory aspects;
 - Promote and support the development of the Cyprus Investment Fund industry.

- The **objectives** of CIFA include:
 - Promoting and projecting Cyprus as an international centre for the management of investment funds;
 - Cooperating with the competent governmental authorities in order to contribute and influence the development of the regulatory and legislative framework;
 - Upgrading the professional qualifications, the credibility, professional ethics and quality of services provided by its members;
 - Review and analyse developments to identify opportunities and challenges;
 - Preserve and strengthen the confidence of investors in the investment funds sector.

2.3 Mission and Role

- CIFA has established a **Code of Conduct** providing directors of Cyprus investment funds/asset managers with a framework of high-level principles and best practice recommendations, such as:
 - Ensuring that investors are properly informed, acting fairly and independently in their best interests;
 - Ensuring high levels of corporate governance are applied at all times;
 - Identifying and managing conflict of interests and ensure appropriate disclosures;
 - Complying with applicable laws, regulations and related constitutional documentation.
- Adherence to such Code of Conduct is recommended to be confirmed in the annual financial statements of the fund or asset manager.
- CIFA acts as the **single representative body of the industry in Cyprus**, representing the sector in economic missions organised by the Cyprus government around the world, and taking active part in principal meetings of the global industry.

2.4 CIFA Members

- CIFA started accepting members in December 2013, and is currently actively promoting the association to industry participants in Cyprus.
- CIFA currently has:
 - 25 “legal members”, including:
 - The Institute of Certified Public Accountants of Cyprus;
 - Cyprus Investment Promotion Agency;
 - Audit firms including Big Four, mid-tier and boutique firms;
 - ICIS funds recognised by the Central Bank;
 - UCITS Management Companies authorised by CySEC;
 - MiFID Investment Firms authorised by CySEC;
 - Fund Administrators, including both international and boutique firms;
 - Fiduciary service providers;
 - Credit institutions, including local banks and branches of internationally reputable banks.
 - 83 “individual members”, comprising representatives of:
 - Legal members noted above;
 - Other service providers from the categories noted above;
 - Law firms;
 - University of Cyprus.

2.5 Attributes of Cyprus as a Fund and Asset Management Jurisdiction

- Strategic geographic location and access to new markets:
 - At the crossroads of three continents - namely Asia, Europe and Africa - and a gateway to the Middle East;
 - Significant experience with the markets of Russia and Central and Eastern Europe;
 - In recent years have gained a strong foothold in Asian markets, particularly India and China.

- Lengthy experience in the investment funds sector:
 - International Collective Investment Schemes Law has been in place since 1999:
 - Investor protection is a key parameter in the law through requirements such as the appointment of a custodian, transparency and effective reporting;
 - Initiatives taken recently to modernise this framework;
 - Legal framework reflects harmonisation with related EU Directives (AIFMD, UCITS IV and MiFID);
 - Established local and international service providers service the industry, offering a wide range of customised services.

- Investment Funds amount to total Assets Under Management (AuM) of EUR 9 billion, of which ICIS and UCITS are EUR 3,1 billion.

2.5 Attributes of Cyprus as a Fund and Asset Management Jurisdiction

- Other attributes of Cyprus include:
 - More than 30 years experience as an International Business Centre including the presence of International Banking Units and multinational companies;
 - EU / Eurozone Member State; held the EU Presidency in 2012;
 - Significant economic memberships such as WTO, World Bank, IBRD, and IMF;
 - Modern and transparent legal system based on common law;
 - Financial reporting system based on IFRS;
 - Ranked 39th worldwide by the World Bank in its Doing Business 2014 report;
 - MONEYVAL and Deloitte Financial Advisory performed a review in December 2013, and found that the Cypriot legal framework is in line with the relevant EU Directives regarding Anti-Money Laundering Measures and the Financing of Terrorism, while banks established and operating in Cyprus are performing their customer due diligence procedures in compliance with such relevant legislation;
 - Following the signing of the MOU in April 2013, all subsequent reviews of the Troika have been positive; most recently Cyprus was characterised as “best in class”;
 - Fitch and Moody’s have recently upgraded the ratings of Cypriot banks with a positive outlook;
 - Standard and Poor’s raised its rating on Cyprus this month while Fitch revised its outlook to stable from negative.

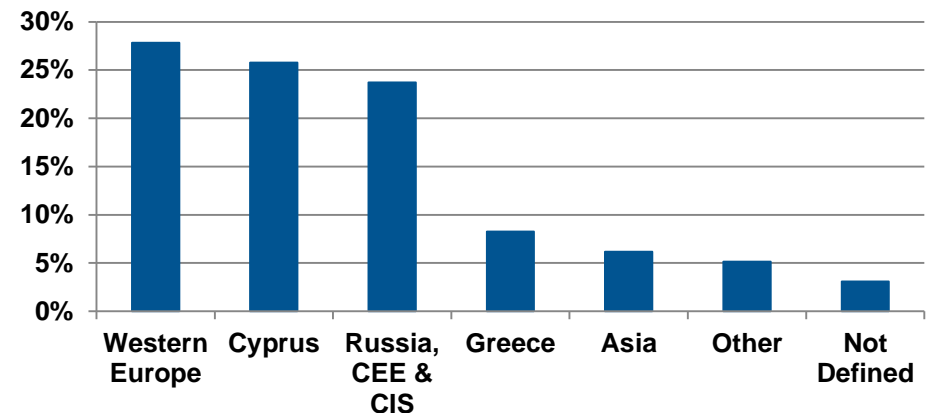
3.0 INDUSTRY STATISTICS

3.1 Statistics – Investment Funds

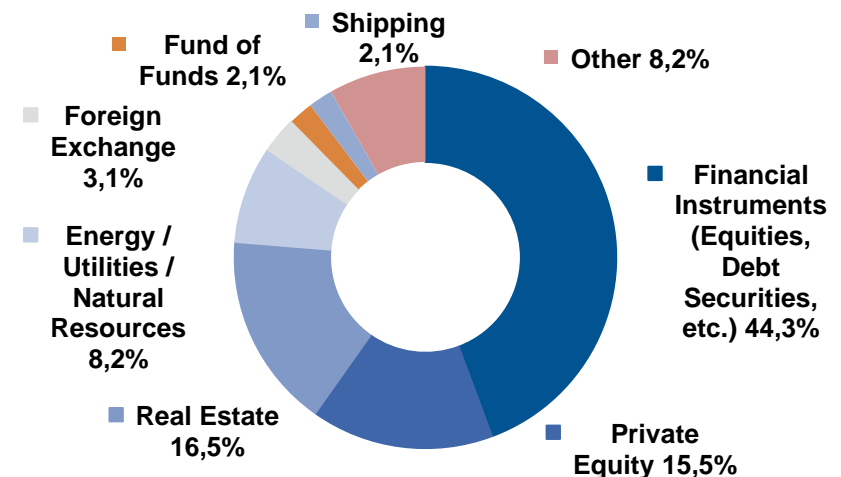
3.1.1 International Collective Investment Schemes

- There are 98 ICIS recognised by the Central Bank of Cyprus as of February 2014.
 - More than 50% were incorporated since 2011.
 - The Central Bank currently has another 16 applications pending.
- These ICIS have a total AuM of EUR 3,0 billion as of December 2013 (up from EUR 1,4 billion in December 2012).
- Most of the non-local fund promoters / managers originate from Western European countries (such as the UK and Germany), while Russia, the CEE and the CIS regions follow close behind:
 - More than 20% of ICIS recognized in the last three years originated from Russia, CEE and CIS region;
 - In 2012 and 2013, a significant number of funds have been set-up for investment into Asia, primarily in debt and equity securities as well as real estate.
- A majority of the ICIS recognized are focused on investments in Financial Instruments (debt and equity securities) Real Estate and Private Equity.

Origin of Fund Promoter / Manager



Investment Focus



3.1 Statistics – Investment Funds

3.1.2 UCITS

Authorised:

- There are currently three UCITS funds authorised and regulated by CySEC; one of these is an umbrella fund with a total of 14 sub-funds. These UCITS have a total AuM of approximately EUR 40 million as of March 2014.
 - Two of these UCITS were admitted for trading on the Cyprus Stock Exchange in March 2014.

Pending:

- One UCITS fund application is currently pending approval from CySEC.

International Activity:

- There is a total of 38 foreign UCITS approved by CySEC for marketing of their units in Cyprus:
 - Such UCITS are established and regulated in countries including Luxembourg, Ireland, France and Greece;
 - Promoters of these UCITS include international financial institutions and investment managers, such as: JP Morgan, UBS, BNP Paribas, Julius Baer and Invesco.

3.1 Statistics – Investment Funds

3.1.3 Pension / Provident Funds and Insurance Assets

Pension / Provident Funds:

- This category of funds amounts to EUR 4,0 billion comprising:
 - Pension Funds of semi-governmental organisations: EUR 1,5 billion;
 - Provident Funds of private sector: EUR 1,5 billion;
 - Provident Funds of banking sector: EUR 1,0 billion.
- It is, however, anticipated that the Provident Funds will decline by approximately EUR 1,5 billion during 2014 in light of dissolutions.

Insurance Assets:

- Estimated at approximately EUR 1,9 billion as of year-end 2012 (EUR 1,6 billion for life insurance and EUR 300 million for non-life).

3.2 Statistics – Asset Management Firms

3.2.1 AIFMs and UCITS Management Companies

AIFMs:

- There are currently four applications pending approval from CySEC for the authorisation of Alternative Investment Fund Managers.

UCITS Management Companies:

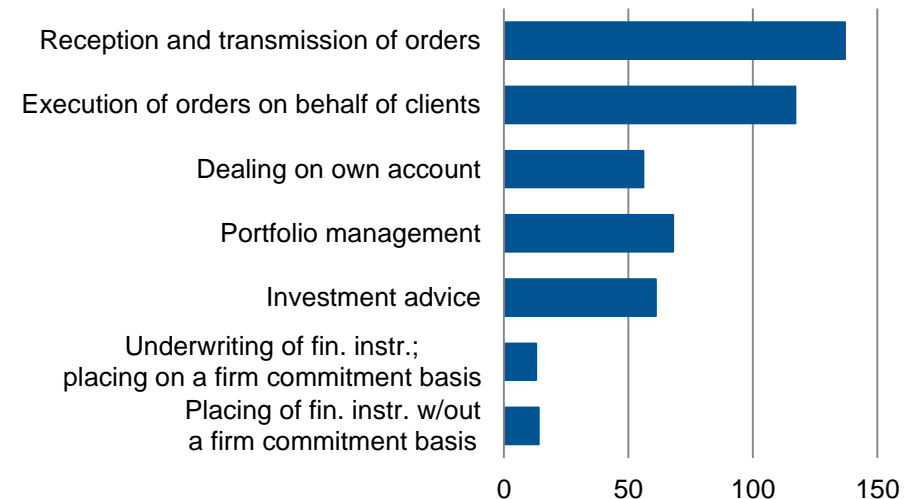
- There are currently two authorised UCITS Management Companies licensed and regulated by CySEC.
 - One is of Belgian origin and was authorised in November 2012.
 - The other is of Greek origin and was authorised in May 2013.

3.2 Statistics – Asset Management Firms

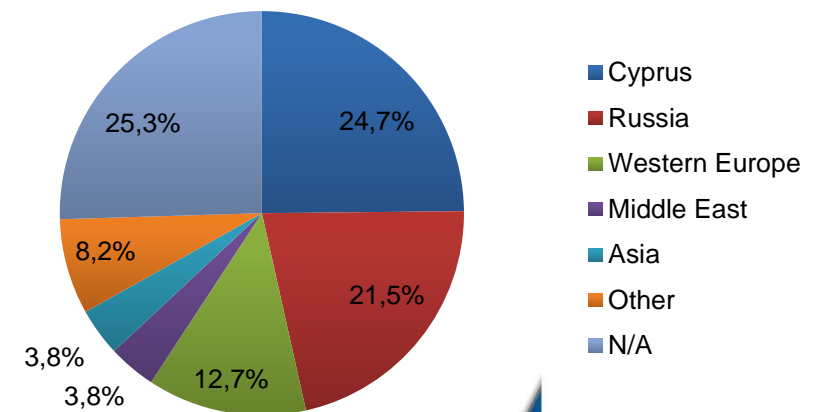
3.2.2 MiFID Investment Firms

- As of March 31, 2014, there are 158 licensed IFs in Cyprus, regulated by the Cyprus Securities and Exchange Commission (CySEC):
 - Approximately 50% obtained their license in the last three years, with an average of 24 licenses granted per annum.
- Approximately 60% of the licensed IFs are mainly traders / brokers and also deal with foreign exchange:
 - Just over 30% of the licensed IFs deal exclusively with foreign exchange;
 - 9% of licensed IFs are active in the Binary Options market.
- The remainder are licensed for a variety of other services, including portfolio management and investment advice.
- A majority of the non-Cypriot owned IFs originate from Russia (34) and Western Europe (20).

Investment Services Offered



Origin



THANK YOU