A COMPARATIVE PERSPECTIVE OF FUNDS
(LUXEMBOURG – IRELAND – MALTA - CYPRUS)

Angelos Gregoriades, Bsc, FCA
CIFA President
12 June 2015
1. Size of the Industry and projected growth
2. Competing Centres
3. Cyprus Legal and Tax Framework
4. Establishment of CIFA and way forward
1. Size of the Industry

- Investment funds assets **Globally** amounted to approximately EUR 28 trillion (as of December 2014);

- Net assets of investment funds in **Europe** amounted to approximately EUR 11 trillion (as of December 2014) demonstrating an increasing trend;
  - UCITS account for approximately EUR 8 trillion;
  - Non-UCITS account for approximately EUR 3 trillion.

Sources: EFAMA.
1.1 Top 10 Countries/Regions of Worldwide Investment Fund Assets (Market share at end Q4 2014)

<table>
<thead>
<tr>
<th>Country</th>
<th>Market Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>USA</td>
<td>51.20%</td>
</tr>
<tr>
<td>OTHER</td>
<td>0.90%</td>
</tr>
<tr>
<td>CANADA</td>
<td>3.70%</td>
</tr>
<tr>
<td>JAPAN</td>
<td>3.10%</td>
</tr>
<tr>
<td>REP. OF KOREA</td>
<td>1.00%</td>
</tr>
<tr>
<td>EUROPE</td>
<td>28.2%</td>
</tr>
<tr>
<td>AUSTRALIA</td>
<td>4.7%</td>
</tr>
<tr>
<td>BRAZIL</td>
<td>4.4%</td>
</tr>
<tr>
<td>CHINA</td>
<td>2.1%</td>
</tr>
<tr>
<td>SOUTH AFRICA</td>
<td>0.5%</td>
</tr>
<tr>
<td>INDIA</td>
<td>0.4%</td>
</tr>
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</tr>
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<tr>
<td>CHINA</td>
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</tr>
<tr>
<td>INDIA</td>
<td>0.4%</td>
</tr>
<tr>
<td>OTHER</td>
<td>0.90%</td>
</tr>
</tbody>
</table>

Sources: EFAMA.
1. Top 10 Domiciles of Worldwide Investment Fund Assets (Market share at end Q4 2014)

- **USA**, 51.2%
- **LUXEMBOURG**, 9.3%
- **IRELAND**, 4.5%
- **FRANCE**, 4.1%
- **BRAZIL**, 4.4%
- **AUSTRALIA**, 4.7%
- **JAPAN**, 3.1%
- **UNITED KINGDOM**, 3.5%
- **CANADA**, 3.7%
- **OTHERS**, 10.4%
- **SWITZERLAND**, 1.2%

Sources: EFAMA.
1.3 Composition of Worldwide investment fund assets, 2014: Q4

<table>
<thead>
<tr>
<th>Category</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Money Market</td>
<td>13%</td>
</tr>
<tr>
<td>Equity</td>
<td>40%</td>
</tr>
<tr>
<td>Other/Unclassified</td>
<td>13%</td>
</tr>
<tr>
<td>Balanced/Mixed</td>
<td>12%</td>
</tr>
<tr>
<td>Sources: EFAMA.</td>
<td></td>
</tr>
</tbody>
</table>
1.4 Composition of Worldwide investment fund 2014: Q4

- Money Market: 3%
- Equity: 32%
- Balanced/Mixed: 21%
- Other/Unclassified: 27%

Sources: EFAMA.
Recent industry studies predict that:

- Global assets under management will increase by more than 40% by 2020.

- The growth will be primarily driven by:
  - the increase in global wealth which will lead to further globalisation of the funds industry, and
  - the rise of middle classes and investor base in emerging markets.

- Even if emerging markets are expected to attract the larger part of this growth, Europe is estimated to see average growth of 3% per annum in the coming years.

Sources: Central Bank of Cyprus, Cyprus Securities and Exchange Commission, EFAMA.
## 2. Competing Centres

<table>
<thead>
<tr>
<th>Region</th>
<th>Fund Centres</th>
</tr>
</thead>
<tbody>
<tr>
<td>Europe</td>
<td>Luxembourg, Ireland, United Kingdom, Malta</td>
</tr>
<tr>
<td>Asia</td>
<td>Hong Kong, Singapore, Mauritius</td>
</tr>
</tbody>
</table>
### 2.1 Luxembourg Funds Industry - Key Statistics

<table>
<thead>
<tr>
<th>Total no. of Funds (as of April 2015)</th>
<th>3,888 (13,910 incl. Sub-Funds)</th>
</tr>
</thead>
<tbody>
<tr>
<td>No. of UCITS &amp; No. of non-UCITS</td>
<td>1,891</td>
</tr>
<tr>
<td>(as of April 2015 / excl. sub-funds)</td>
<td>1,997</td>
</tr>
<tr>
<td>Net asset value (as of April 2015)</td>
<td>3.5 trillion</td>
</tr>
<tr>
<td>Authorize AIFM’s</td>
<td>189</td>
</tr>
<tr>
<td>UCITS Management Companies</td>
<td>385</td>
</tr>
<tr>
<td>Custodian Banks/Depositaries</td>
<td>61</td>
</tr>
<tr>
<td>Promoters</td>
<td>757</td>
</tr>
</tbody>
</table>

**Total number of funds (incl. sub-funds) AND TOTAL NAV:**

**Sources:** ALFI and CSSF
“...Sophisticated but pragmatic legal and regulatory framework”

“...Luxembourg offers flexible business models to rapidly achieve a competitive positioning in international markets.”
2.3 Luxembourg - Total net assets in Euros by type of fund as of 2014:Q4

Sources: EFAMA.
## 2.4 Ireland Funds Industry - Key Statistics

<table>
<thead>
<tr>
<th>Total no. of Funds (as of April 2015)</th>
<th>1,170 (5,929 incl. Sub-Funds)</th>
</tr>
</thead>
<tbody>
<tr>
<td>No. of UCITS &amp; No. of non-UCITS (as of April 2015 / excl. sub-funds)</td>
<td>516 (3,623 incl. Sub-Funds) 654 (2,306 incl. Sub-Funds)</td>
</tr>
<tr>
<td>Net asset value (as of April 2015)</td>
<td>1.8 trillion</td>
</tr>
<tr>
<td>Authorize AIFM’s UCITS Management Companies Custodian Banks/Depositaries Promoters</td>
<td>83 (49 registered AIFMs) 78 23 440</td>
</tr>
</tbody>
</table>

**Total number of funds (incl. sub-funds) AND TOTAL NAV:**

![Graph showing the total number of funds and NAV from 2003 to 2015](image)

Sources: IFIA
2.5 Ireland - Total net assets in Euros by type of fund as of 2014:Q4

Sources: EFAMA.
“The primary strength of the Irish funds industry, lies in **the strength of the service providers and the integration of those providers across disciplines**. There is, amongst these providers, a “can-do” attitude which serves clients very well.”

*Managing Director, UK Boutique Asset Manager*

“We found **Ireland’s tax offering to be the most attractive** and beneficial to our fund range. For us it was a key motivating factor in locating our fund platform in Ireland.”

*CFO, leading US Asset Manager*

“Ireland’s Regulator is respected for the **firmness and clarity** of its regulation but also for its **approachability and willingness to show flexibility where it is allowed** to within the European regulatory framework on matters of form rather than substance.”

*Japanese Asset Manager*
# 2.7 Malta Funds Industry - Key Statistics

<table>
<thead>
<tr>
<th>Total no. of Funds (as of May 2015)</th>
<th>251 (excl. Sub-Funds)</th>
</tr>
</thead>
<tbody>
<tr>
<td>No. of UCITS &amp; No. of retail non-UCITS</td>
<td>25 &amp; 8</td>
</tr>
<tr>
<td>No. of Professional Investor Funds (PIFs)</td>
<td>205</td>
</tr>
<tr>
<td>Alternative Investment Funds (AIFs) = non-UCITS! (as of May 2015 / excl. sub-funds)</td>
<td>13</td>
</tr>
<tr>
<td>Net asset value (as of June 2014)</td>
<td>€9.7 billion</td>
</tr>
<tr>
<td>Authorize AIFM’s Management Companies Custodian Banks/Depositaries Promoters</td>
<td>32 15 7 109+</td>
</tr>
</tbody>
</table>

## Total number of funds (incl. sub-funds) AND TOTAL NAV:

Sources: MFIA
2.8 Malta - Total net assets in Euros by type of fund as of 2014:Q4

<table>
<thead>
<tr>
<th>CATEGORY NAME</th>
<th>VALUE</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Sources: EFAMA.
“...The high growth results are being driven by a number of key factors which include the **high standards of regulatory oversight, the presence of an accessible regulatory body**, the availability of highly qualified and multilingual human resources as well as the competitive set up and ongoing operational costs.”

*Kenneth Farrugia, Chairman of the Malta Funds Industry Association*

“...We found Malta to be a **friendly place for fund business**. Moreover, the **costs are significantly lower** when compared to other more established EU fund domiciles.”

*Chairman, leading Asset Manager*

“...Implementing directives they have proved themselves to be **extremely efficient and industry friendly** in implementing them.”

*Professional Services Provider*
## 2.10 Cyprus Funds Industry - Key Statistics

<table>
<thead>
<tr>
<th>Total no. of Funds (as of 2014)</th>
<th>122</th>
</tr>
</thead>
<tbody>
<tr>
<td>No. of UCITS &amp; No. of non-UCITS (as of 2014)</td>
<td>17 (incl. sub-funds) 105</td>
</tr>
<tr>
<td>Investment firms (as of June 2015)</td>
<td>196</td>
</tr>
<tr>
<td>Net asset Value (as of December 2014)</td>
<td>€3.05 billion</td>
</tr>
<tr>
<td>Authorize AIFM’s Management Companies Custodian Banks/Depositary</td>
<td>11 1 6</td>
</tr>
</tbody>
</table>

### Total number of funds (incl. sub-funds) AND TOTAL AuM:

![Graph showing the total number of funds and total AuM from 2010 to 2014](image)

*Sources: Central Bank of Cyprus, CySEC*
2.11 Cyprus – Investment funds total assets/liabilities, by nature of investment as of 2014: Q4

Sources: Central Bank of Cyprus.
## 2.12 Cyprus Funds Industry

<table>
<thead>
<tr>
<th>Region</th>
<th>Fund Centres</th>
</tr>
</thead>
<tbody>
<tr>
<td>Europe</td>
<td>United Kingdom,</td>
</tr>
<tr>
<td></td>
<td>Luxembourg, Ireland,</td>
</tr>
<tr>
<td></td>
<td>Malta, Cyprus</td>
</tr>
<tr>
<td>Asia</td>
<td>Hong Kong, Singapore,</td>
</tr>
<tr>
<td></td>
<td>Mauritius</td>
</tr>
</tbody>
</table>

How do we get Cyprus on this list?
2.13 A Comparative Analysis

Luxembourg – No. of Funds

Ireland – No. of Funds

Malta – No. of Funds

Cyprus – No. of Funds

Sources: ALFI, IFIA, MFIA, Central Bank of Cyprus.
3. Attributes of Cyprus - General

• CIFA aims to address the lack of awareness but also aims to install Cyprus in the list of competing centers in the very near future for the following reasons.

• Strategic geographic location and access to new markets:
  - Strategically located in the eastern Mediterranean Sea in the middle of three continents, namely Asia, Europe and Africa;
  - A gateway to the Middle East;
  - Significant experience with the markets of Russia and Central and Eastern Europe.

• We do have experience in the investment funds and asset management sectors:
  - Legal framework has been in place since 1999 although replaced by the Alternative Investment Funds Law which was enacted in 2014;
  - A significant number of investment firms have been authorised by CySEC since 2003 that are affiliated with international asset management groups;
  - Legal framework reflects harmonisation with related EU Directives.

• An efficient, effective and approachable regulatory authority responsible for the creation of a dynamic regulatory framework which is market sensitive.
• 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;

- Multilingual and highly educated workforce possessing international professional qualifications;

- Highly skilled service providers specialized in servicing the fund industry, offering a wide range of customized services in fund and acquisition structuring, fund administration, custody and audit services;

- Highly competitive professional services fees compared to other European jurisdictions, without compromising the level of quality of the service provided;

- Significant economic memberships and today we are actively involved with the OECD and the EU in modelling global regulatory policy;

- Full compliance with EU and OECD standards for anti-money laundering and insider dealing, favourably rated by MONEYVAL;

- Modern and transparent legal system based on common law;

- Financial reporting system based on IFRS.
3.2 Attributes of Cyprus Legal Framework – Investment Funds

- Extensive Product range of funds available under:
  - Undertakings for Collective Investment in Transferable Securities (UCITS) which funds are allowed to invest only in transferable securities
  - Alternative Investment Funds (AIFs) which Law regulates all non-UCITs Funds.

Both UCITS and AIFs are supervised by CySEC.

- Major features of both laws include:
  - Flexible structures;
  - Subscription / redemption measures;
  - Investor protection and information;
  - Corporate governance and risk management;
  - Anti-money laundering compliance;
  - Eligibility and liability of custodians;
  - Investment objectives / restrictions and leverage limits (in certain cases).
3.3 Attributes of Cyprus Legal Framework – Investment Funds (Cont’d)

In particular, the AIF Law has introduced the following new concepts/characteristics:

- **Investor base**: retail, institutional, professional investors.
- **Legal Forms**: corporate or contractual type.
- **Umbrella structures** with multiple investment compartments which allow the management of segregated portfolios of assets and liabilities such being ring fenced.
- **Possibility of listing** which increase the potential investor base.
- Can accommodate a number of **investment objectives** including: Private Equity, Infrastructure, Real Estate, Venture Capital, Funds of Funds, Debt and/or Equity Securities, Loan Origination funds etc..
- **Confidentiality** as Investors details are not filed with the Registrar of Companies or other public authorities.
- Flexible **subscription and redemption terms** – allows subscriptions and redemptions in kind.
- Flexibility as to the **terms of calculation of the Management & Performance Fees** calculation.
- Transparency to investors through disclosure and reporting requirements.
3.4 Attributes of Cyprus Legal Framework – Asset Managers

• Depending on the type of fund the manager may be authorised under the:
  - Alternative Investment Fund Managers Law of 2013;

OR

• The manager may be a Cyprus Investment Firm authorised under the CIF Law of 2007;

• Major regulatory aspects affecting such managers include:
  - Corporate governance and risk management;
  - Minimum capital requirements;
  - Eligibility of directors and personnel;
  - Liability issues;
  - Increased transparency towards regulators and investors and enhanced investor protection;
  - Access to EU passport.
### 3.5 Attributes of Cyprus Tax Framework

<table>
<thead>
<tr>
<th><strong>Investment Funds</strong></th>
<th><strong>Tax Rate</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Gains on the disposal/redemption of units</td>
<td>Tax exempt</td>
</tr>
<tr>
<td>Profits arising from the trading of securities</td>
<td>Tax exempt</td>
</tr>
<tr>
<td>Tax on interest income</td>
<td>12.5%</td>
</tr>
<tr>
<td>Withholding tax on payments of dividend/interest for non-residents</td>
<td>0%</td>
</tr>
<tr>
<td>Subscription tax on the net assets of the fund</td>
<td>None</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Asset Management Companies</strong></th>
<th><strong>Tax Rate</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporation Tax</td>
<td>12.5%</td>
</tr>
<tr>
<td>Withholding tax on dividends/interest for non-residents</td>
<td>0%</td>
</tr>
<tr>
<td>VAT Liability</td>
<td>Tax exempt</td>
</tr>
</tbody>
</table>
### 3.6 Attributes of Cyprus Tax Framework

<table>
<thead>
<tr>
<th></th>
<th>Tax Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Non-Tax Resident Investors</strong></td>
<td></td>
</tr>
<tr>
<td>No withholding tax on dividends</td>
<td>0%</td>
</tr>
<tr>
<td>No taxation on redemption/disposal of units</td>
<td>0%</td>
</tr>
<tr>
<td>No deemed distribution restrictions or taxes</td>
<td>0%</td>
</tr>
<tr>
<td><strong>Tax Resident Investors</strong></td>
<td></td>
</tr>
<tr>
<td>Withholding tax on dividends (physical person)</td>
<td>17%</td>
</tr>
<tr>
<td>No taxation on redemption/disposal of units</td>
<td>Tax exempt</td>
</tr>
<tr>
<td>No withholding tax if investor is a company</td>
<td>0%</td>
</tr>
<tr>
<td>Reduced tax if no distributions are made</td>
<td>3%</td>
</tr>
</tbody>
</table>
3.7 Fund Managers Relocation Incentives

• Special scheme for “Carried interest” income:
  – Flat 7% tax on income earned for a 10-year period with minimum tax liability set at €7,000. (AMT provision).

and

• 50% exemption of income earned for a 10-year period from date of first employment in Cyprus if his salary is over EUR100,000;

• Up to year 2020 incentive for first employment in Cyprus: 20% on gross salary or €8,550 (lower of) is exempt for three years following year of employment.
Establishment of CIFA…
4.1 History and Recent Achievements

February: CIFA is established
April: CIFA was registered as an Association under applicable law.
September: CIFA Newsletter is launched (issued on a quarterly basis with contributions from CIFA Members as well as government and regulatory authorities).
December: CIFA Website is launched.

January: CIFA Technical Committees are established; First official Members’ Meeting is held
Application for EFAMA Membership submitted.

April: Presentation to EFAMA Board for membership application.
June: EFAMA Board approved application; granted Observer status.

November: First AGM is held.

April: Engagement of KWM.
September: Investment Fund Conference.
4.2 Structure

- The Board Members represent the whole industry

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

Chaired by 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.
4.3 Mission and Role

• CIFA’s **Mission** is to:

  - Act as the *single unified representative body of the industry in Cyprus*, representing the sector in economic missions to promote and support the development of the Cyprus Investment Fund industry;

  - Provide support to its members in knowledge building;

  - Encourage maintenance of industry standards and professionalism;

  - Be engaged in the development of related regulatory aspects by being the back office knowledge centre of the Ministry of Finance and CySEC.
4.4 Objectives

Targets Set – Short Term

• The identification of practices which may negatively influence the economic interests of fund managers and investors and suggest changes;

• Generate awareness of the funds industry in the Cypriot market;

• We have opened dialogue with universities, and are planning to do the same with IT companies for knowledge building;

• Increase membership of CIFA to support marketing efforts (currently we are 202 members);

• Continue publication of relevant promotional material;

• With the support of EFAMA, organize annually an International Funds Forum in Cyprus, bringing together Fund Managers from Europe and the Middle East the first being planned for April/May next year.
CIFA is currently cooperating with law firm King & Wood Mallesons LLP, for the purpose of the preparation and implementation of an action plan for the promotion of Cyprus as a financial services and investment funds center.

The project will address the following:

• Development of a strategy for the promotion of the investment funds sector;

• Study of the current legislation and relevant regulatory and legal framework with a view to introduce improvements, where necessary, and which are in line with best practices;

• Submission of recommendations based on the strategy to be determined and preparation of additional legislation, where necessary covering:
  - The laws on investment funds and fund managers;
  - Relevant tax provisions for investment funds and investment managers;
  - Corporate legislation as it relates to investment funds.
4.6 Objectives

Targets Set - Ongoing

- Promoting and projecting Cyprus internationally as a centre for the set up and management of investment funds;

- Cooperation with government and regulatory authorities in Cyprus for the continued modernisation of our legal and tax frameworks following international trends;

- Cooperation with service providers, including banks, to ensure our service deliverables are of international standard;

- Upgrading the professional qualifications, the credibility, professional ethics and quality of services provided by its members;

- Review and analyse developments in other competing centers to identify opportunities and challenges;

- Preserve and strengthen the confidence of investors in the investment funds sector through regular educational programs.
In the building up of the industry, the CIFA Board and its members have worked hard to reach this level and aim to continue to work closely with the government, legislators and industry participants to ensure that we support the Cyprus fund industry and the wider economy as a whole in a constructive way.

THANK YOU.