



“Mini Fund Manager” – An Alternative Powerful and Cost-Efficient Vehicle

Cyprus has, over the past decade, made steady yet noticeable steps in what perceived by entrepreneurs and industry players alike, as one of the top and most promising emerging investment fund hubs in the European Union. It is I believe fair to state, that this was achieved due to the persistent call by market players for further and more drastic developments as well as due to the sheer determination and continuous efforts of the technocrats responsible for the development of this sector. The ongoing upgrade and fine tuning of all applicable legislative tools in the fund sector allowed Cyprus to compete on an equal footing with other more traditional investments fund centers in the European Union and in some cases to even have a complete advantage over such jurisdictions.

On 3rd of July 2020, and in an effort to further modernize its legislative regime, the Cypriot Parliament passed a new legislative act namely, Law No. 81(I)/2020 (“**Mini Fund Managers Law**”) allowing for the licensing of sub-threshold alternative investment fund managers also referred to as “**Mini Fund Managers**”.

This new legislative regime reinforces the Alternative Investment Fund Managers Law of 2013 (“**AIFM Law**”) and allows for the creation of a new investment fund management vehicle responsible for the management of Alternative Investment Funds (“**AIFs**”) where the Assets under Management (“**AuM**”) do not exceed the thresholds of the EU Directive 2011/61/EU on Alternative Investment Fund Managers (“**AIFMD**”) as such are replicated within the AIFM Law.

Scope of Application

In accordance with the Mini Fund Managers Law, a Mini Fund Manager shall be established as a limited liability company by shares having its registered office and central administration in Cyprus.

The Mini Fund Managers Law shall be applicable to:

- A) Mini Fund Managers established in Cyprus;
- B) Mini Fund Managers established in the European Union; and
- C) Cyprus Investment Firms authorized by the Securities and Exchange Commission (“CySEC”) for the performance of AIF management functions.

Entities under Management

Mini Fund Managers may be appointed as external managers for the following AIFs:

- A) AIFs established and operating in Cyprus;
- B) 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;
- C) Alternative Investment Fund with Limited Number of Persons (“AIFLNP”); and
- D) Registered Alternative Investment Funds (“RAIFs”).

Further to the above, a Mini Fund Manager shall also be responsible for ensuring 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.

Management Functions

A Mini Fund Manager shall be permitted to provide investment management services which include:

- A) Portfolio management;
- B) Risk management;
- C) Fund administration services;
- D) Marketing Services; and
- E) Other activities related to the assets of an AIF.

Initial Capital

A substantively lower threshold is introduced for Mini Fund Managers when compared with the €125,000 initial capital requirement of an Alternative Investment Fund Manager.

In comparison with an Alternative Investment Fund Manager, a Mini Fund Manager shall have an initial capital of at least €50,000.

Where the value of the portfolios of AIFs managed by the Mini Fund Manager exceeds €125.000.000, the Mini Fund Manager shall provide an additional amount of own funds equal to 0.02 % of the amount by which the value of the portfolios of the Mini Fund Manager exceeds €125.000.000.

Shareholders

The identity of the shareholders whether they have direct or indirect qualifying holdings in the Mini Fund Manager shall always be disclosed to CySEC. The test that CysEC will employ in assessing their suitability is whether such persons are capable of safeguarding the sound and prudent management of the Mini Fund Manager.

Board of Directors

The board of directors of the Mini Fund Manager must consist of at least 4 natural persons, of whom 2 at least shall be Executive Directors.

Executive Directors shall be responsible for performing the management functions listed in the section marked as management functions (above); they must be of sufficiently good repute and have the sufficient knowledge and experience to perform these duties.

Delegation of Functions

A Mini Fund Manager may delegate to third parties one or more of its functions provided that the following conditions are met:

A) The Mini Fund Manager must inform CySEC in writing of the delegation arrangements before such arrangements become effective;

B) The delegation must not prevent the effectiveness of supervision of the Mini Fund Manager and in particular the delegation arrangements must not prevent the Mini Fund Manager from acting, or the AIF from being managed, in the best interests of its unitholders; and

C) The Mini Fund Manager must not delegate its functions to the extent that it can no longer be considered to be the manager of the AIF.

As the reader can appreciate, when implementing delegation arrangements the Mini Fund Manager must ensure that it is able to have a clear picture of the activities of the AIF at all times and if necessary to intervene in order to safeguard the best interests of the investors of the AIF.

In addition, the Mini Fund Managers Law allows for the sub-delegation of a delegated function provided that the following are being adhered to:

- A) The Mini Fund Manager expressly provides its consent prior to the sub-delegation;
- B) The Mini Fund Manager notifies CySEC of the sub-delegation prior to it becoming effective; and
- C) All conditions applicable for the delegation of functions are met *mutatis mutatis* regarding sub-delegation.

What is important to highlight at this point, is that regardless of any delegation arrangements put in place, the liability of a Mini Fund Manager towards its unitholders is not reduced or affected by the fact that the Mini Fund Manager has delegated functions to a third party, or by reason of any further sub-delegation by the third party to another person.

Marketing of Units

A Mini Fund Manager may market the units of the AIFs it manages to professional and/or well-informed investors in Cyprus.

Mini Fund Managers may also market the units of the AIFs it manages to professional investors and/or well-informed investors in the European Union, upon the prior notification to CySEC and by submitting the following:

- A) Information confirming that the marketing of the AIF units by the Mini Fund Manager is permitted by the legislation of the said Member State; and
- B) Information on the arrangements for the marketing of AIF units in the said Member State including the manner in which the Mini Fund Manager complies with the provisions of the legislation of the Member State.

Lastly, a Mini Fund Manager may market the units of the AIF it manages to professional investors and/or well-informed investors of a third country upon the prior notification to CySEC and by submitting the following:

A) Information confirming that the marketing of the AIF units by the Mini Fund Manager of the Republic is permitted by the legislation of the third country; and

B) Information on the arrangement for the marketing of AIF units in the said third country, including the manner in which the Mini Fund Manager complies with the provisions of the legislation of the third country.

Internal Procedures

A Mini Fund Manager is under the obligation to employ sound administrative and accounting procedures in order to minimize 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.

Finally, the Mini Fund Manager shall establish and maintain an internal legal compliance function which must be independent from its other functions.

As it may be appreciated all internal procedures must be documented in writing and be accessible to the employees of the Mini Fund Manager.

Final Remarks

The introduction of the Mini Fund Manager regime allows for the creation of a fully-fledged fund manager with lower setup and operating costs, less regulatory obligations and based on a much more flexible legislative background. This is in fact a very useful legislative tool for aspiring entrepreneurs who want to establish a fund manager business but the costs involved in the setup of such vehicle and its ongoing regulatory compliance and reporting expenses act as a deterring factor.

What must be further highlighted, is the fact that the Mini Fund Managers Law (as with the AIFM Law) allows for the provision of management services to funds established in other European countries and even third countries (if this is allowed by the local legislation) and also allows for delegation and sub-delegation of its management services to third party providers. The inclusion of both these attributes within the Mini Fund Managers Law is essential for entrepreneurs wishing to keep their fund management quarters in Cyprus, due to the vast advantages that Cyprus offers as a jurisdiction, but who also wish to expand their services within the European Union.

Lastly and perhaps equally important is the fact that the Mini Fund Managers Law allows a Mini Fund Manager to be converted into an Alternative Investment Fund Manager once the thresholds specified in the AIFMD are exceeded.

For further information on the types of funds available under Cyprus law, please be referred to the article [TYPES OF FUNDS IN CYPRUS](#) by my colleague Angeliki Epaminonda.

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