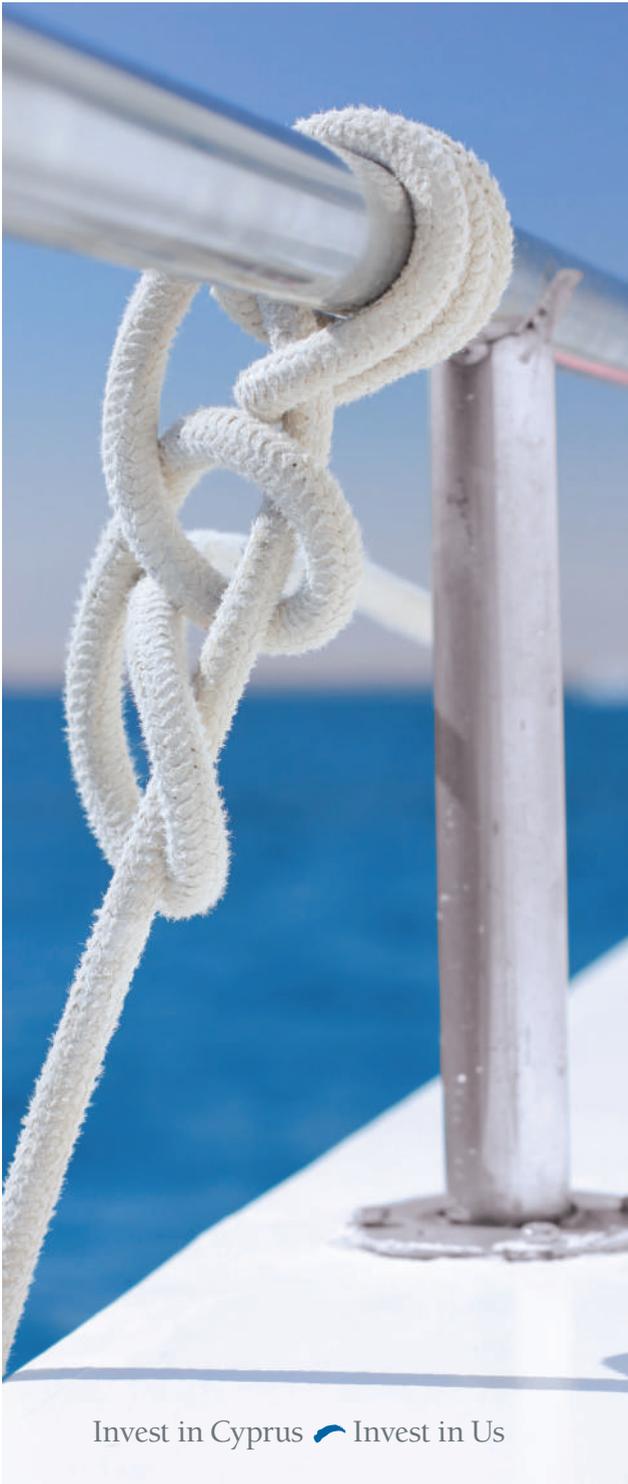


Cyprus:
Solutions for an
evolving global funds
industry



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CYPRUS: AN ATTRACTIVE FUNDS JURISDICTION

TODAY'S FOREIGN INVESTOR REQUIRES A STABLE, WELL-REGULATED AND COST-EFFICIENT ENVIRONMENT IN WHICH TO DO BUSINESS

In a highly competitive market, it is increasingly crucial to manage international investment flows in a way that maintains attractive yields and safeguards growth prospects against undue risk.

At a time of regulatory flux on a global scale, Cyprus is well-positioned to support the full operational lifecycle of an investment fund, providing foreign investors as well as fund promoters a uniquely competitive entry point to Europe's deep capital markets, and the necessary financial instruments that serve to protect, promote and enhance investment value.

At a glance

Cyprus is strategically located at the crossroads of three continents, positioning international investment fund promoters and specialist service providers at the nexus of Europe, Middle East and Africa. Cyprus has operated an increasingly developed global fund distribution network for more than ten years bolstered by the support of sophisticated legal, professional and financial services. A full member of the European Union, Cyprus benefits from:

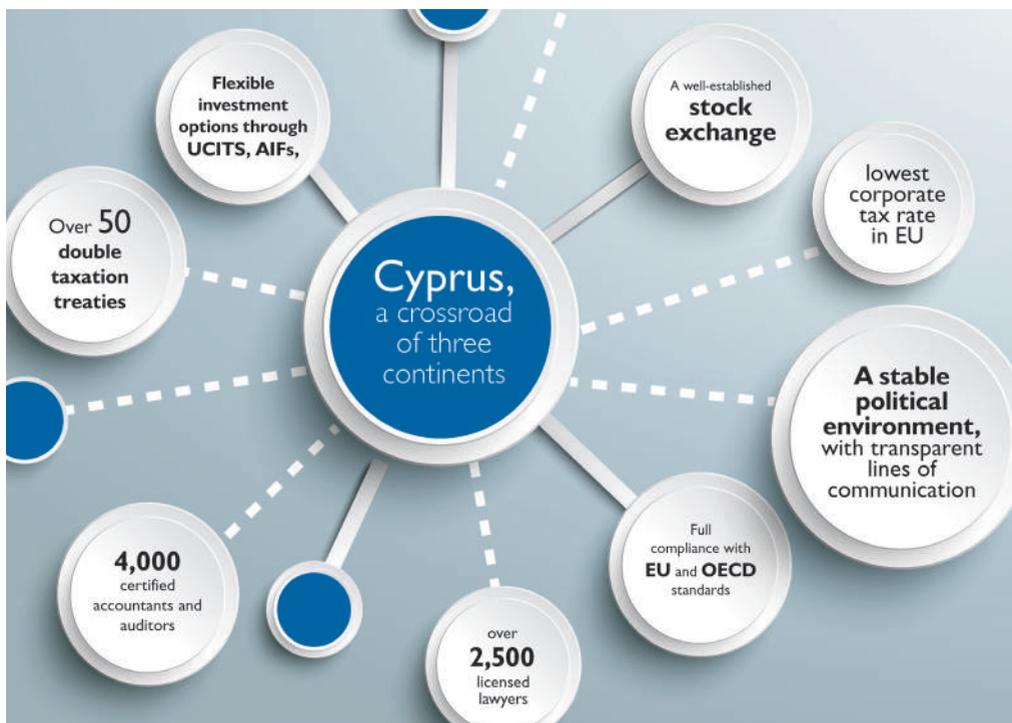
- One of the lowest corporate income tax rates in the Eurozone at 12,5%;
- Over 50 double taxation treaties with the world's leading financial centres allowing for tax efficient structuring of investments globally;
- Highly regulated environment in line with European Directives on UCITS, AIFMs, MiFID investment firms and Alternative Funds;

- Full compliance with EU and OECD standards for anti-money laundering and insider dealing, favourably rated by MONEYVAL;
- A well-established stock exchange;
- A stable political environment, with transparent lines of communication between the European Commission, the Cypriot Ministry of Finance, the Cyprus Securities and Exchange Commission (being the regulator of funds and asset managers), the Cyprus Stock Exchange, the Cyprus Investment Promotion Agency, the Cyprus Investment Funds Association (observer in EFAMA) and the private sector;
- A highly educated, multilingual workforce made up of over 2,500 licensed lawyers and 4,000 certified accountants and auditors.

A robust and resilient domicile since 1999

Whilst Cyprus' macro-economy was adversely affected by the restructuring of the domestic retail banking sector in 2013, the funds' industry has remained resilient. The response by the Cypriot authorities to the European financial crisis has been swift and decisive, safeguarding Cyprus' current and prospective managers, administrators and ancillary support services against financial harm. The recovery in the banking sector is underway, and is tracking an unexpectedly shallow shrinking of the overall economy.

Since the introduction of the law for International Collective Investment Schemes in 1999, Cyprus has become a regional domicile for investment funds and their managers, with total AuM more than doubling in the last five years to reach €2.9 billion as of year-end 2013.



CYPRUS: SOLUTIONS FOR AN EVOLVING GLOBAL FUNDS INDUSTRY

THE GLOBAL FUNDS INDUSTRY IS EVOLVING. THE SOLUTION LIES IN THE ABILITY TO BREAK DOWN BARRIERS TO ENTRY AND MAXIMISE INTERNATIONAL INVESTOR POOLS IN AND OUTSIDE EUROPE. CYPRUS OFFERS A PRIME ALTERNATIVE TO OTHER COMPETITIVE EU JURISDICTIONS TO ACHIEVE THIS SOLUTION.

I. Breaking down the barriers to entry and maximising investor pools

In a rapidly changing funds industry, Cyprus is committed to evolving its regulatory and compliance regime to maintain the comprehensive support network it offers to foreign investors and promoters.

Cyprus' legal framework is all-encompassing and at the same time attractive enough to establish investment funds which meet varied investor requirements. An investment fund may be set up in Cyprus as either an Alternative Investment Fund (AIF) or an Undertaking for Collective Investment in Transferable Securities (UCITS).

AIFs may be set up and marketed to:

1. Retail investors or
2. Professional and/or well-informed investors, in which case it can be established either as unlimited AIF with more stringent regulatory requirements or as limited AIF under a more flexible regime.

The EU Alternative Investment Fund Managers Directive (AIFMD 2011/61/EU) offers EU-based managers of EU hedge funds, private equity funds, real estate funds and other non-UCITS schemes – referred to in aggregate as AIFs – the possibility to manage and market such funds throughout the EU via a standardised electronic regulator-to-regulator notification procedure, or passport regime.

For non-EU AIFs marketing in the EU, however, the AIFMD imposes a barrier to entry. Unauthorised to access the passport regime until 2015, even then non-EU AIFs and their managers will be subject to more onerous regulatory conditions than EU AIFs. As a result, the movement of non-EU AIFs to the EU is an increasingly attractive option to gain the same market accessibility as EU-based schemes. Cyprus is at the gateway to the EU to allow AIFs to capitalise on the investment opportunities in Europe.

1

UCITS, being EU-branded products with high levels of regulation, requirements for the establishment of risk management procedures, and investment restrictions, which collectively achieve high levels of investor protection

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AIFs, being regulated under national law, also encompassing transparency, reporting and risk management requirements similar to UCITS, aiming at investor protection

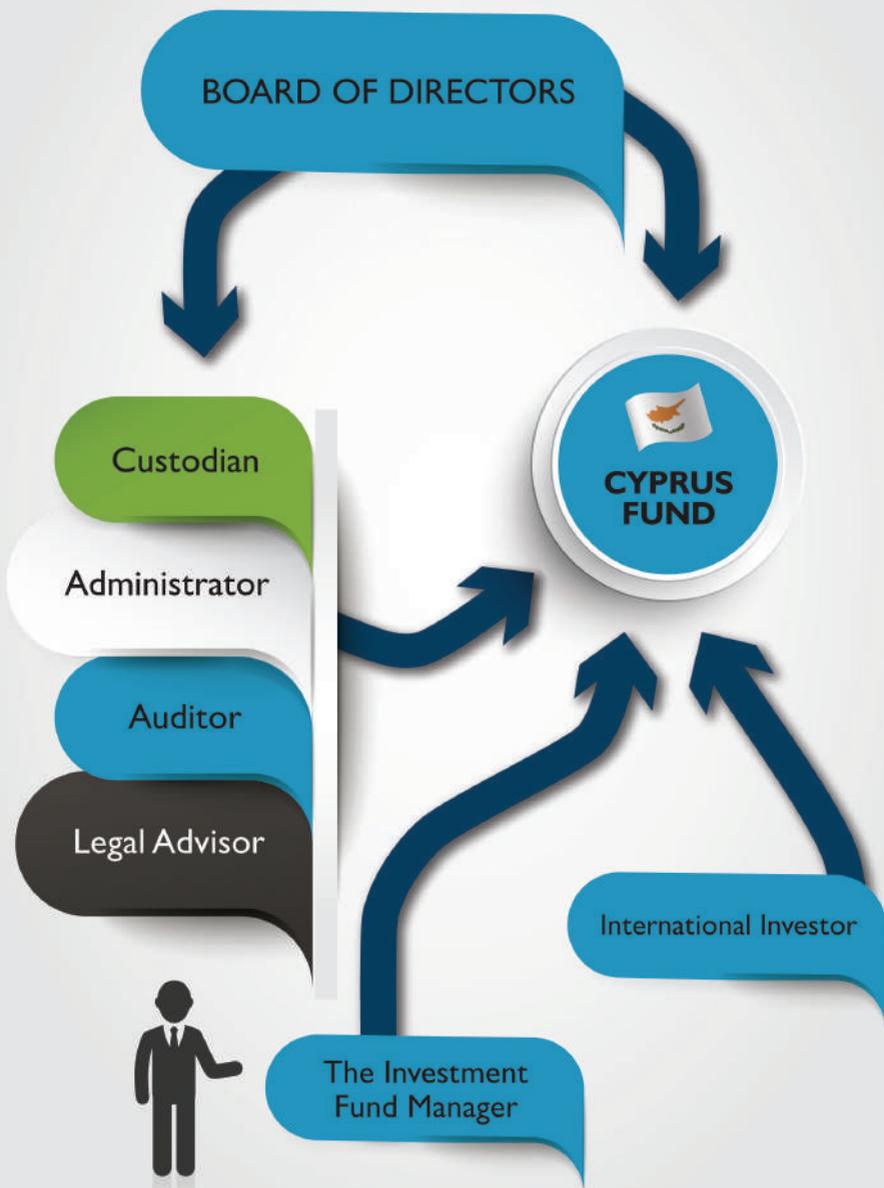


The Undertakings for the Collective Investment in Transferable Securities IV Directive (UCITS IV 2009/65/EC) meanwhile, has sought to balance the investment landscape for retail investors. As a rationalisation of the industry dawns, managers will favour a more consolidated portfolio of funds to take advantage of fiscal benefits. Bringing asset management value to new investors through the globally recognized UCITS brand is a viable strategic option.

Thanks to the country's long standing relationships with wealthy countries from the Middle East, Asia and the CIS region, Cyprus has become the most accessible bridge for managers of these countries to enter either the AIF or UCITS universe, depending on their strategy and needs. Cyprus administers all internationally recognised legal forms of both AIFs and UCITS funds, including Common Funds and Variable Capital Investment Companies.

The legislative framework also permits both AIFMs and UCITS management companies to extend the scope of their investment services to perform MiFID portfolio management and investment advice.

Overseeing these fund type is the Cyprus Securities and Exchange Commission (CySEC), the national competent authority responsible for the supervision of the securities capital market. CySEC is a member of ESMA and IOSCO. An authorized AIFM and/or UCITS management company can access developed capital markets via established AIFs and/or UCITS funds, supervised by CySEC. Such supervision ranges from the prudential regulation requirements, administrative and accounting procedures to internal control mechanisms, conflict of interest and risk management.



All types of investment funds are regulated and supervised by the
Cyprus Securities and Exchange Commission.
www.cysec.gov.cy

2. Benefiting from offshore, onshore

Tax efficiency, asset pooling, and cost management have historically been the natural harbours of domiciling funds offshore. But access to more diverse, uniformly regulated pan-European investment products is favoured by the foreign investor following recent events in the international financial sector, making it inherently difficult for offshore markets to cater to. Following the EU member states' transposition of the AIFMD, it will become more cumbersome and onerous for offshore funds to raise capital from professional investors in the EU. Regulators and tax authorities are becoming more stringent in overseeing the activities of offshore domiciled investment funds and entities in general. Industry analysis has shown that a volume of offshore funds is likely to consider re-domiciling to the EU, wanting the same competitive benefits of offshore, onshore.

In addition to its comprehensive regulatory framework which is fully harmonized with European laws and the *acquis communautaire*, Cyprus also offers substantially lower operating costs than comparable EU fund centres.

Furthermore, Cyprus' tax regime tax laws are designed to support the development of the country as an international financial and business centre, to promote international investment and to support the development of financial services, both in Cyprus and throughout the continent. Indeed, Cyprus' 12.5% corporate income tax rate is one of the lowest in the European Union, while the tax legislation has evolved to provide further tax incentives to managers setting up and operating funds, including:

- Tax exemption from (i) trading securities (ii) foreign dividends (iii) withholding tax on income repatriation;
- Interest received by open and closed ended collective investment schemes is considered 'active' interest income and taxed only at 12.5% corporate tax (hence, no defence tax);
- There is no minimum participation on inbound dividends to qualify for tax exemption;
- The liquidation of open- and closed-ended collective investment schemes is not taxable if the unit holders are not tax residents of Cyprus;
- The extension of the Cyprus Double-Tax Treaty (DTT) network has created a competitive tax and corporate environment compared with other jurisdictions. There are currently more than 50 DTTs in force with 38 others being negotiated.



Funds can collect dividend and interest from Cypriot treaty partners at the withholding tax rates provided under the DTT. Under most treaties profit generated from the sale of securities is only subject to tax in Cyprus and hence tax exempt;

- Fund management services offered to Cyprus authorized investment funds are not subject to VAT; while ancillary management services are subject to a 19% VAT rate, the lowest in the European Union.

For Cypriot tax residents who invest in a fund there is:

- A 17% defence tax on actual dividend distribution by the Fund
- A 3% defence tax borne by the Fund itself on deemed dividend distribution on 70% of the collective investment scheme accounting profits, which are attributed to the Cypriot investors only, payable within a two-year period from the tax year to which the profits relate in case no actual dividends are distributed within this two year period.

3. A passport to Europe via Cyprus

The adoption of both the AIFM and UCITS IV Directives into Cypriot national

law allows managers to passport funds to the rest of the EU, offering a powerful alternative and an all-important link to European capital markets.

A fully recognized trading venue by the UK's HM Revenue and Customs and Russia's Federal Financial Markets Service (FFMS), listing on the Cyprus Stock Exchange (CSE) also gives managers of collective investment funds, custodians and fund administration providers access to Europe with the full suite of cost-effective benefits Cyprus brings. The CSE offers a competitive pricing policy in the dissemination of Net Asset Value (NAV) and periodical financial reporting.

Europe has long been a favourable investor destination for its robust regulatory regime, deep capital markets and competitive investment services. Balancing this attraction, with the low-costs and tax efficiency of offshore destinations has brought with it a strategic decision for the fund manager and fund promoter. The industry needs viable solutions to bring the advantages of both Europe and offshore domiciles together, and as it evolves, Cyprus is well-positioned to meet such diverse requirements.





About CIPA:

The Cyprus Investment Promotion Agency (CIPA) was established as a registered not-for-profit company limited by guarantee, funded by the Cyprus government. The Agency has operated since January 2008 and follows a threefold mandate:

- To promote Cyprus as an attractive international investment centre in key priority growth sectors;
- To advocate reform in Cyprus required to improve the regulatory and business environment and infrastructure;
- To provide investor support with aftercare and further development services.

The Agency has further established memberships with the World Association of Investment Promotion Agencies (WAIPA) as well as the Mediterranean Investment Network, ANIMA. Memberships in these and other fora provide a platform for best practice sharing and learning in FDI promotion and strategy implementation.

For further information please visit:

www.investcyprus.org.cy

About CIFA:

The Cyprus Investment Funds Association (CIFA) is the registered trade body for the fund and asset management industry in Cyprus. It was established by the Cyprus Investment Promotion Agency (CIPA) in February 2013 and accepted as an Observer into the European Fund and Asset Management Association (EFAMA) in June 2014. For further information please visit: www.cifacyprus.org

About CySEC

The Cyprus Securities and Exchange Commission (CySEC) is the independent public supervisory Authority responsible for the overall supervision of the securities market transactions in transferable securities as well as the funds and fund management companies in the Republic of Cyprus. For further information please visit:

www.cysec.gov.cy

CIPA Network

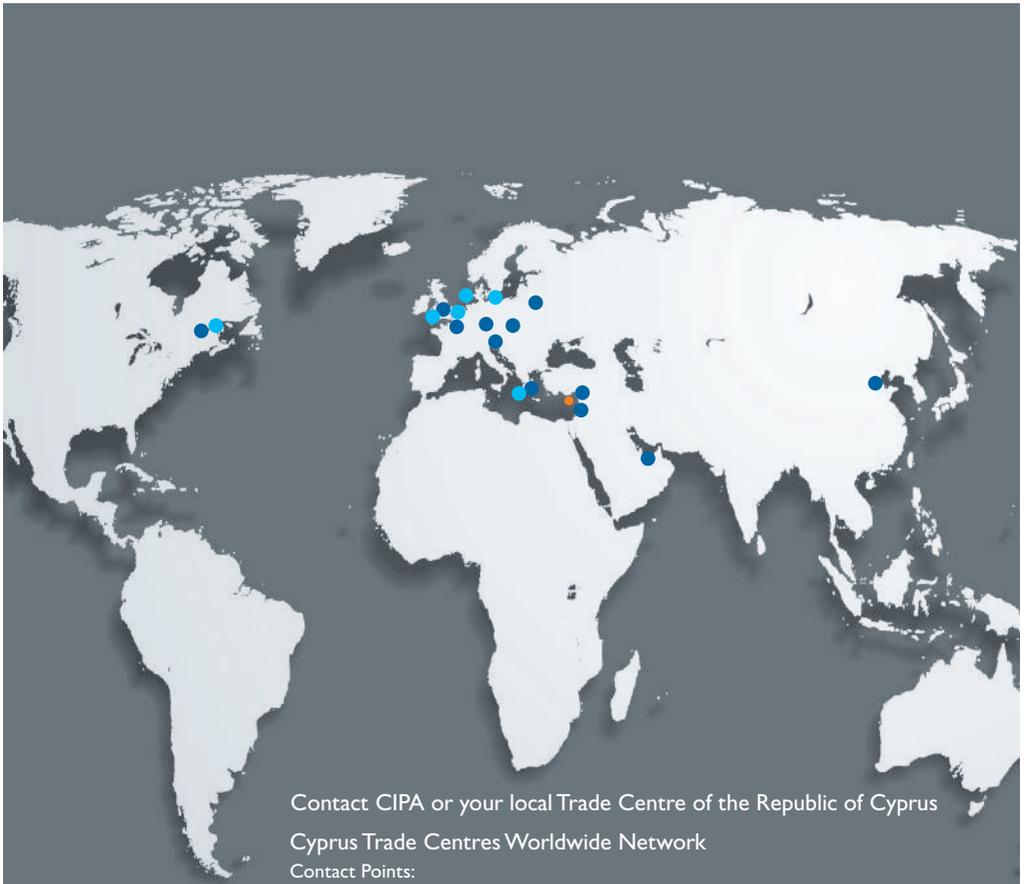
The Agency collaborates closely with the commercial centers of the Ministry of Energy, Commerce, Industry & Tourism (ECI&T), which can also be used as a first point of contact.

For information and guidance on investments in Cyprus, please contact the Cyprus Investment Promotion Agency at:

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Contact CIPA or your local Trade Centre of the Republic of Cyprus

Cyprus Trade Centres Worldwide Network

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Disclaimer: The information available in this guide intends to only provide a general introduction to fund regulations in Cyprus and every reasonable effort is being made to ensure its accuracy and timely amendment. In no circumstances shall CIPA be legally bound as a result of any information contained in this guide.



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