

FOCUS ON

CYPRUS

Keen to reap the rewards of investor interest in Ucits-compliant vehicles, and offering access to several key global markets, Cyprus is becoming an increasingly impressive contender among European jurisdictions. *HFMWeek* talks to key players within the Cypriot alternative funds space about what the island has to offer

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was appointed country manager of Barclays Wealth Cyprus in October 2009, having previously served as director of strategy for Barclays Corporate Europe, covering Italy, France, Portugal, Spain and Russia. He holds an MBA from Harvard Business School and a MEng from Imperial College London.

**Christos Vasiliou,**

is a board member of KPMG Cyprus. He joined the company in 1994 and became a partner in the audit department in 1999. He is currently heading the academy department, as well as the financial transactions and risk-compliance units.

**George Rologis**

is a managing director and head of Alter Domus in Cyprus. He brings a strong background in banking and finance with a professional career in London with Credit Suisse, First Boston and JP Morgan, where he worked in the M&A and Capital Markets.

Q HFMWEEK (HFM): HOW IS CYPRUS CONTINUING TO DEVELOP AS A SERVICE CENTRE FOR FUNDS?

A EVAN GAVVAS (EG): We have seen some traction in this sector in Cyprus over the last year or so, given recent regulatory changes. One needs to differentiate between private equity funds, which are establishing tax structures in Cyprus to take advantage of the island's range of over 40 double tax treaties with key growth countries such as Russia and India, and hedge funds, which are looking for opportunities to 'passport' into the rest of the EU. In the case of the former we have continued to see robust activity, while growth in the latter is still somewhat restricted to new hedge funds, as opposed to established funds looking to re-domicile.

A CHRISTOS VASILIOU (CV): Cyprus has adopted a methodical approach regarding its development as a fund service centre, with the main focus centred upon fund structures themselves. This prioritisation applies to both alternative and Ucits funds. A fund

manager needs to be established in a major financial centre, like Paris, London or Frankfurt, in order to be able to monitor the markets and close all investment-related deals. Also, fund administration is about more than obtaining an authorisation and providing the regulator with reports: asset valuation, Nav calculation, and proper execution of the orders given by the investors are fundamental information for a manager. Thus, we are currently developing Cyprus as a fund administration centre.

Q HFM: ARE YOU SEEING ANY SIGNS OF HEDGE FUNDS EAGER TO RE-DOMICILE TO AN ONSHORE DOMICILE?

A EG: Recent regulatory changes have led to an increase in the popularity of Cyprus, particularly by those looking for an EU jurisdiction in which to establish Ucits structures. These enquiries have generally emanated from new funds rather than existing funds looking to re-domicile.

A CV: Cyprus hosts IKOS, a highly reputed hedge fund manager. Furthermore, a series of hedge funds from offshore jurisdictions have expressed interest in re-domiciling to Cyprus, pursuant to the AIFM Directive. It makes sense, since our AIF legal framework offers the same flexibility as offshore jurisdictions regarding the investment and investor policy of a fund. The demand will rise further, since we are a safe harbour for investment professionals and investors from heavily affected Greece, but also a friendly jurisdiction for market actors from financially strong Russia.

A GEORGE ROLOGIS (GR): There has been a lot of talk regarding this matter over the last 12 months but we have not seen any tangible examples yet, at least as far as Cyprus is concerned. Due to the fact that many managers believe they will not make any money out of their existing offshore funds, as they are so far away from their high-water marks, they do not want to spend any money to re-domicile these. Therefore, what we are seeing is managers setting up mirror EU-based funds, perhaps with the same strategies, to attract EU-based investors and rebase the marks.

Q HFM: WHY DOES CYPRUS CONTINUE TO BE ATTRACTIVE AS A PLACE TO ESTABLISH AND SERVICE HEDGE FUNDS?

A EG: Cyprus is an EU member state with a well-educated, English-speaking workforce, good infrastructure in terms of transportation and telecommunications, high-quality professional services, such as legal, tax, accounting and auditing readily available, and it offers a fully liberalised foreign investment regime, low taxation (flat 10% corporate tax rate) and relatively low start-up and operating costs for funds.

A CV: The fact that Cyprus offers accounting, auditing and tax services of a very high standard is considered to be a big plus for the country. What is more, we have recently seen the enhancement and development of high-quality administration services in Cyprus, which has helped to build the country's image

as a fund jurisdiction. The Government of Cyprus has taken the expansion of the fund market very seriously and this is shown by the willingness to harmonise its legislation with the AIFMD.

Cyprus is extremely well placed to attract funds from the Middle East as well as from Russia, and offer advantageous tax treatment, since the vast majority of income derived for a fund (dividends, for example) is not taxable here. Also, Cyprus has signed double tax treaty agreements with around 42 countries including the UK and other European countries.

Last, but definitely not least, Cyprus is seen to be a lower-cost jurisdiction than other fund centres, but at the same time does not fall behind in terms of quality of service.

A GR: Since the end of the credit crisis, hedge funds have been required to rebuild their image and credibility by making improvements in transparency and operations. In addition to these factors is the introduction of the AIFMD and the requirements as a result of it. Therefore the costs of setting up and running a fund have risen dramatically; especially if a fund wants to be in a position to attract the right type of institutional investors, as funds of hedge funds now play a lesser role in the game. Larger managers can perhaps absorb some of this extra cost, but for smaller managers this is more difficult. This is where Cyprus plays a role.

Cyprus offers a cheaper solution to setting up and running a fund than other traditional fund locations, like Luxembourg and Ireland. It offers EU membership, a very attractive tax package, better than that found in the traditional locations, and is a common law jurisdiction like the UK. Finally, it has the right infrastructure in place for those managers that want to relocate to Cyprus: solid service providers (administrators, accountants, lawyers, banks; the pool of talent to hire in case managers want to locate some functions locally; the right telecommunications; transport links to Europe, and attractive personal tax levels when compared to the UK. Last but not least it undoubtedly has the best weather of all other competing jurisdictions!

Q HFM: HOW WILL CYPRUS'S STATUS AS PART OF THE EU HELP TO FURTHER ITS HEDGE FUND AMBITIONS?

A EG: The move towards EU status had a major impact on the development of the island as an international business destination, and led to dramatic growth in corporate services and international banking in particular. The natural extension and potential next phase of this is the development of the funds sector in Cyprus however, and there are still some factors that need to be addressed. For example, regulations are being refined and public sector processes are being developed to ensure that funds provide the same high levels of stability and service that they would in some of the established fund jurisdictions.

A CV: Our full EU member status, favourable tax legislation, and the common intention of all Cyprus-based professionals to promote the alternative investment funds are big pluses. Also, the Ucits IV Directive offers a series of investment structures which are of benefit to us, given our geographical position in particular.



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GEORGE ROLOGIS, ALTER DOMUS

A GR: Cyprus's status as part of the EU will help to further its hedge fund ambitions as regulation is increased and there are more and more demands made on funds that want to attract EU investors. This, however, will not be enough. Cyprus needs to offer a complete package to prospective interested parties in a competitive way, which is the case today.

Q HFM: CAN YOU EXPLAIN HOW THIS STATUS WILL HELP NEGOTIATE THE AIFMD AND MAKE THE MOST OUT OF UCITS STRUCTURES?

A EG: Cyprus is moving rapidly to take advantage of the potential benefits of the AIFMD and Ucits structures, which could contribute to the country achieving its goal of becoming a serious contender as a funds jurisdiction. Regulation is being drafted to streamline the process of setting up Ucits structures, and professionals are making sure they are well informed about the technical and financial considerations and



how these impact their clients. This has led to an increase in the number of funds and Ucits structures in Cyprus, and a large number of first-stage enquiries from potential clients.

A CV: We will make use of the master- feeder structures offered by the new Ucits framework. We will promote the establishment of feeder Ucits in Cyprus, which will invest in other EU master Ucits pursuing hedge fund strategies. This way we will benefit from the management of experienced, fully equipped and multi-head management teams of big banking and investment houses. This will accelerate the development of our own expertise in both hedge funds and their management. At the same time, our feeders will in fact also perform the marketing function for the masters, saving them marketing costs and strengthening their investment potential through monies raised not only from the EU, but also from the Middle East and Russia.

Q HFM: WHAT NEXT FOR CYPRUS – HOW WILL IT CONTINUE TO DEVELOP AS A FUND JURISDICTION?

A EG: The fact that Cyprus is an EU country with a relatively large pool of highly skilled labour and it is situated close to, and has tax treaties with a number of fast-growing emerging markets are key positive indicators to support its development as a fund jurisdiction. The key is for the entrepreneurial private sector to continue to push through competitive improvements to make sure sophisticated funds can be serviced as effectively and efficiently as they are in the major established financial centres. As a next phase, Cyprus must promote itself in a co-ordinated manner and attract funds to what is surely one of the best places

to be based from a lifestyle perspective, but which can also potentially provide serious financial motivations to businesses and funds.

A CV: We are currently transposing the Ucits IV Directive into national law, and this is our top priority. Through the structures offered by Ucits IV, in particular through master- feeder structures and the possibility of remote management, we are aiming to achieve two direct goals: collect money from the region and from Russia through Cyprus feeders; and place it within a master Ucits. This will strengthen our position, making us a strategic partner for big investment houses, and allowing us to acquire further expertise on the grounds of the information exchange agreements and the alignment of the asset valuation and Nav calculation. Through the management company passport we will be able to provide cost-effective administration to Ucits managers, ensuring that we are more than ready to attract alternative fund managers upon implementation of the AIFMD in 2013.

A GR: Cyprus will continue to develop as a fund jurisdiction by educating people about the attractiveness of the jurisdiction and the possible benefits that accrue from managers setting up funds, or indeed businesses, here, in a similar way to Malta's success in becoming recognised as being a credible alternative to Luxembourg and Ireland.

Additionally, outside consultants are being involved to review and continuously update the fund regulation in Cyprus to make sure that it is up to date and competitive with other jurisdictions. Finally, the ability to attract more expertise to the island in banks, fund administrators and other related parties to the industry will be an overall gain for Cyprus. ■