

The Small Registered UK AIFM Regime for Property Funds

I know, it sounds exciting doesn't it! Actually, it's very useful and still surprisingly unknown.

Background

When the European Union introduced the Alternative Investment Fund Managers Directive ("AIFMD"), it brought UK fund managers ("AIFMs") within the scope of European law... all except for "small" ones. Small AIFMs are still within the scope of domestic law and the UK took the opportunity presented by AIFMD shake up to introduce a new, lighter-touch, regime for small AIFMs running property funds.

There are various types of small AIFM for funds of different structures, investing in different asset classes but our focus here is only on property funds. In order for an AIFM to access the lighter-touch regime, various conditions apply:

- Value of funds under management (i.e. what counts as "small"?);
- Fund structure;
- Assets (i.e. what counts as "property"?); and
- Appointment of an FCA Authorised Operator.

Funds under Management

So what does count as a "small" AIFM? There are two thresholds, depending on whether any of the funds being managed by the AIFM contain any debt (leverage / borrowing / gearing—choose your preferred term!). If any of the funds managed by the AIFM contain debt, the threshold is €100m (note Euros, not GBP) of gross assets under management but if none of their funds contain debt, the threshold is €500m. That seems counterintuitive but makes sense when you consider

the intention is to push riskier fund managers (i.e. those who use debt to leverage their investors' returns) into the full scope of European Law. Note that I've said "if ANY of the funds contain debt". This threshold isn't applied at the level of the fund but at the level of the manager and £1 of debt in any of their funds means the lower level threshold applies to their total assets under management (inclusive of that debt).

Fund Structure

This regime only applies to managers of Unregulated Collective Investment Schemes. Without going into the painful detail of this, it essentially means the fund must be structured as a Limited Partnership, LLP or Trust and it rules out funds structured as a limited company (external fund managers of funds structured as investment companies can't access the lighter-touch regime and these AIFMs must be FCA authorised). The good news is that because Limited Partnerships, LLPs and Trusts are all tax-transparent, they're the preferred vehicle for most property investment in the UK.

Assets

The fund can only own property (or shares in a company through which it owns property) and certain types of property-related assets like insurance. It can of course hold cash but must have invested most of it within the first six months and must distribute or reinvest it after selling the property so that the majority of the fund's value remains in property.

Because the fund can't own units in a collective investment scheme, the previous structure permitting SIPP investment (an Exempt Property Unit Trust over a Limited Partnership) no longer works but an alternative, slightly more complicated but still very usable, structure exists.

FCA Authorised Operator

The final requirement is that the AIFM must appoint an FCA Authorised Operator to establish, operate and wind up the funds it manages. This is where Thompson Taraz comes in and we have been appointed as Operator of more than 120 investment vehicles, holding retail, commercial and industrial property assets in multiple countries. For more information on this, please [see our Operator Services](#).

Becoming a Small Registered AIFM

If all the above conditions are met and as long as the management are reputable, the AIFM can "register" with the FCA which is a much lighter-touch, quicker and cheaper process than becoming "authorised" by the FCA.

Once registered with the FCA (which can take up to three months), the fund manager can carry on regulated activities directly related to the management of its funds. This includes the promotion and management of the fund; do note however that restrictions still apply to these activities, it's not an unfettered licence, just a lighter touch regime!

"In 2014, we were faced with changes to fund management regulation which could have been a very significant burden for our business. Thompson Taraz created a solution which allowed us to continue with minimal disruption and they stepped in to provide additional services during the transition."

Simon Lee, Partner, Osprey Equity Partners

"Throughout our 20 year relationship the Thompson Taraz team have provided an expert, flexible service which has strengthened all our funds with excellent advice, oversight and operational support."

**Michael Chicken, Chief Executive
Merchant Place Corporate Finance**



If you would benefit from a partner in the management of your next property investment vehicle, please contact us for an early discussion.