



Chapter 3 – Investment Funds



Establishing a Local Fund

In early 2023, the Securities and Commodities Authority introduced Resolution No. 01/Chairman, titled 'Concerning the Regulation of Investment Funds.'

This resolution outlines the key players responsible for establishing a local investment fund.



Eligible Establishers

A local fund can be established by:



An entity authorized by the Authority to manage investments in Investment Funds.



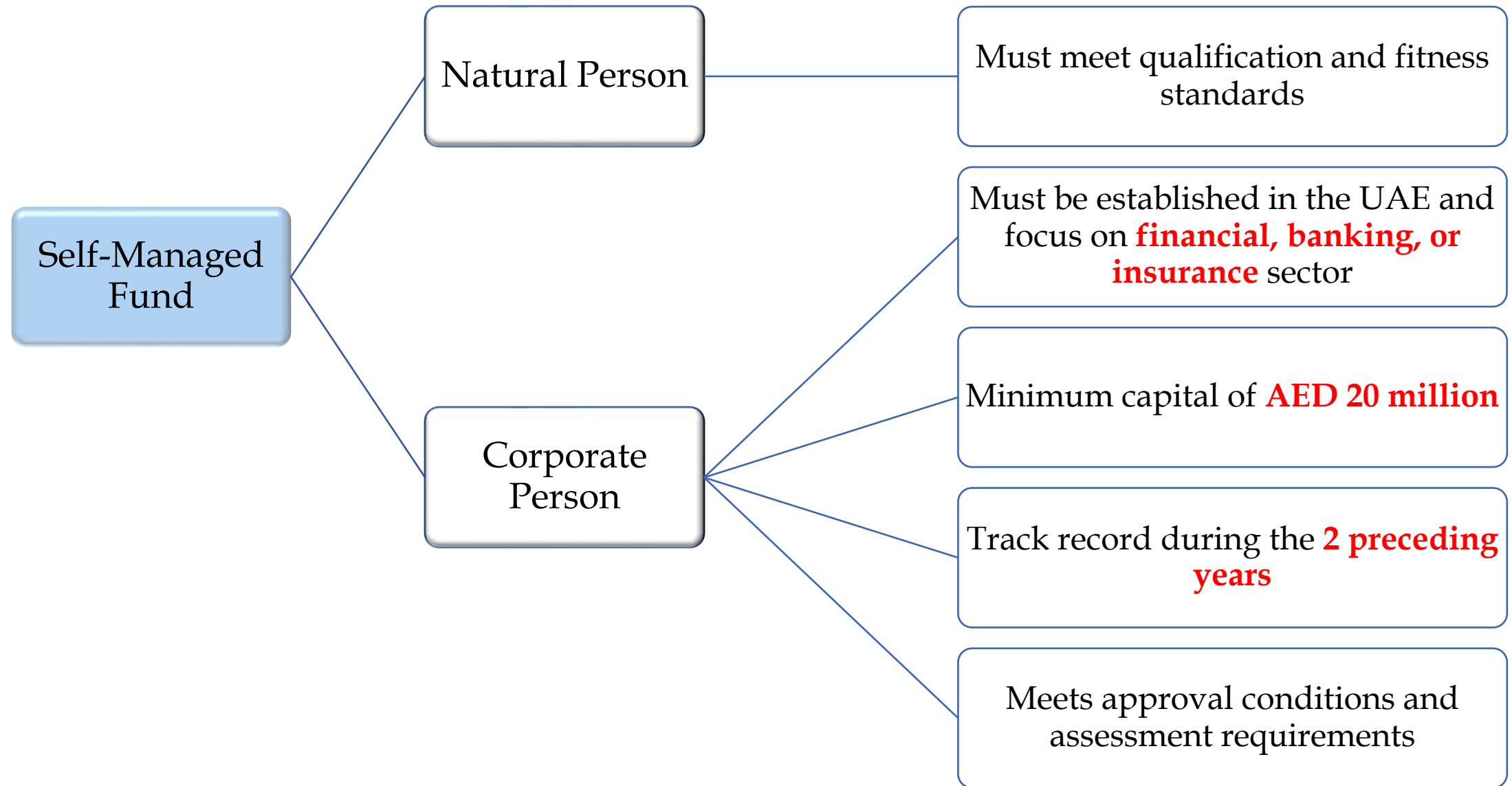
An entity authorized by the Authority for family investment management in the context of a family fund. Fund units must **be 100% owned by one or more family members** and the unit holder must be the beneficial owner.



A **self-managed fund** can be established by two or more natural and/or corporate persons.



Eligible Establishers – Self-Managed Fund



Eligible Establishers – Self-Managed Fund Continued

Additional Conditions:

The founders must collectively subscribe **at least 5 million Dirhams** into the fund.

The founders are restricted from selling their investment units for a minimum period of 6 months from the fund's establishment.

The founders must pay a self-management fee specified by the Authority. All fees become the responsibility of the fund once it is licensed and established.



Approval & Documents

Establishing a local fund requires the approval of the Authority through an application.

The Authority will review it within **ten working days for public funds** and **five working days for private funds**.

The Authority may grant approval with conditions or restrictions and also reject an application if it is not in the public or investor's best interest, or unsuitable for the UAE's investment environment.

Initial approval does not grant the fund the license to operate.

Any actions related to the fund's activities based solely on initial approval are considered invalid.

A fund must wait for the final approval before it can make announcements, initiate procedures for licensing or establishment and other further steps.

Founders of a self-managed fund must ensure that the fund complies with the conditions for managing investments.

Local funds can maintain a corporate identity during the establishment and licensing period in order to perform necessary procedures like acquiring premises, opening bank accounts etc.

Initial Approval



Offering Document Preparation



- The fund manager and founders of a self-managed fund are responsible for creating the local fund's offering document, also known as the **prospectus**, and the offering document information summary, referred to as the **Key Investor Information Document (KIID)**.
- These documents must be in either Arabic or English and should not contain promises, guarantees, or misleading information.

Prospectus Contents



- The prospectus must provide full disclosure regarding any shares provided in kind and the units to be issued against them, including:
 - Comprehensive information about each share
 - A summary of the evaluation report for the shares in kind
 - Conditions under which the shares can be disposed of based on investment resolutions
 - How the values of the shares in kind may change based on **market conditions and evaluation reports**



Offering Documents

Subscription Form:

- Attached to the prospectus, there should be a subscription form containing details about the local fund, such as the investment strategy, capital, and subscription terms. It also requires information about the subscriber, including the desired number of investment units, and acceptances of the provisions and summary of the fund offering document.

Responsibility and Signatures:

- The fund manager and founders must sign the offering document and KIID and take responsibility for the accuracy of the data provided.

Publication on Website:

- The website of the fund manager and self-managed fund must provide unit holders with **constant and regular updates**. These updates must be accessible to unit holders without any charges. Note that **family funds are exempted** from the requirement for publication on the website.



Final Approval

1

Submission of Required Items:

- Within 30 days from the closing of subscriptions, the fund manager and founders must provide:
 - Certificate from the auditor confirming the completion of capital subscriptions.
 - Evidence demonstrating that all subscribers in a family fund are family members and 100% beneficial owners.

2

Issuance of License Certificate:

- Upon payment and submission of the required items, the Authority will issue a certificate for the establishment and licensing of the local fund. This allows the fund to commence its activities.

3

License Term and Renewal:

- **The local fund's license is valid for one year** from the date of the first license issuance and therefore requires annual renewal. This must be done one month before the expiration date.



4

Transfer of Legalities:

- All legal actions performed by the fund manager or founders **must be transferred to the local fund.**
- The fund is responsible for associated expenses except for those related to **offering and promoting public fund units and the preparation of required documents**, which are borne by the fund manager or founders from their own resources.

5

Corporate Identity and Financial Accounts:

- The local fund will have a full corporate identity and maintain independent financial accounts upon issuance of the certificate of establishment.

6

Commencement of Investment Policy:

- The local fund must start implementing its investment policy **within a maximum of 12 months** from the date of obtaining the license.



Reporting Requirements for Local Funds:

Financial Year Specification:

- Each local fund **must define a financial year** in its offering document. The initial financial year should be **between 6 to 18 months** from the fund's licensing date.
- Subsequent financial years will consist of consecutive 12-month periods following the end of the preceding financial year.

Financial Reports Preparation:

- The local fund's administrator is responsible for maintaining the fund's accounts and preparing financial reports.
- Financial reports must adhere to International Financial Reporting Standards (IFRS) and may require the opinion of the Sharia's Supervision Committee.
- The reports include semi-annual and annual financial reports



Reporting Requirements for Local Funds:

Performance Reports:

- **A semi-annual report on the public fund's performance** to be provided maximum 45 days from the end of the semi-annual period. This report should reflect changes such as differences in asset values and adjustments to the investment policy.
- **An annual report on the local fund's performance** to be provided maximum three months from the end of the local fund's financial year. This report must include information on significant changes, related party transactions involving fund units, any breaches of investment restrictions and the actions taken to rectify them, and the performance of fund service providers.



Reporting Requirements for Local Funds:

Language and Distribution:

- All required reports must be published in both Arabic and English languages.
- Additional copies in other languages may be prepared and provided to unit holders free of charge.
- Reports related to **family funds are limited to unit holders** as agreed upon in the offering document.

Submission to Authorities and Markets:

- Copies of the reports must be provided to the Authority, and if the units are listed, they must also be made available to the market.



Promoting Private Funds

All advertisements and promotional materials for private funds must be shared with the Authority.

Materials must clearly describe the private fund's specific nature and include the necessary disclaimer.

Private funds are **prohibited from using public advertising media**, including audio, video, and print media.



Restrictions on Unit Transfers

The transfer of title for units in a private fund is subject to:

- Transfers can be made to existing unit holders.
- Transfers are allowed to professional investors or counterparties, provided that the minimum nominal value of the transferred units is **AED 180,000** or the equivalent amount in other currencies.
- Transfers are permitted to family members or corporate entities fully owned by family members in the case of a family fund.

Units of a family fund must not be sold or pledged to any third party who is **not a family member** or to a corporate entity that is not 100% owned by such a party.



Private Investment Funds

- In order to approve the licensing of a private investment fund, SCA requires the following:
 - The founder must be a management company or other founders that meet SCA's **conditions of competence and integrity**.
 - The **minimum** subscription per investor **must be at least AED 180,000**.



Provisions Specific to Certain Public Investment Funds

Foreign Investment Funds

- Foreign funds **need to be registered** with SCA.
- Each foreign fund needs to **enter a contract with a local promoter** that is licensed in the UAE.
- Foreign investment funds' rules for registration application, term of approval, and renewal application are **similar to domestic funds**.

Private Equity Funds

- A private equity fund consists of a founder referred to as the **general partner**.
- The GP manages the fund, although this could be outsourced to another licensed investment manager.
- In addition to the GP, there will also be other **limited partners (LPs)** who hold shares in the funds but have no role in the management.



Private Equity Funds

Incorporation agreement must include:

The **fund's size and period** for accumulation of contributions.

The **fund's intended investments**.

Whether the investment management will be **outsourced**.

The **remuneration** of the general partner, or of the investment manager.

The **borrowing limits** of the fund for investment purposes.

The **fund's term, dividend distribution dates**, and **withdrawal procedures**.

The **mechanism to liquidate the fund's assets** upon the lapse of its term.

Obligations of the general partner

Calculating the **net asset value** and the **price of its units** at the end of every three months.

Performing a more **detailed valuation** of the fund's assets at least once a year.

Determining the **borrowing percentage** follows the fund's investment policy.

Assuming full responsibility for the **management, projects, investment decisions, and assets** of the fund reflecting the fund's objectives and investment policies.



Venture Capital Funds

Venture capital funds invest in high-risk assets, and must satisfy the following:

- The fund must invest **at least 70%** of its assets in one or more of the following investments:
 - units of **other venture capital funds**, provided that the investments of such funds are **not more than 10%** of their assets in other venture capital funds
 - **equity instruments** issued by companies **not listed** in the regulated primary market or other instruments issued by such companies or their affiliates, which will result in an equity stake
 - lending money to **unlisted companies**, provided that such lending is **not more than 30% of the fund's assets**, and provided that the fund is an investor in the company which issues such instruments
 - lending money to the **new or distressed projects**, provided that such lending is **not more than 30% of the fund's assets**, or the fund may become a partner in such projects.
- The venture capital funds should **not invest more than 30%** of its assets in **public open-ended investment funds**.



Venture Capital Funds

Additional requirements for VCFs with AUM **greater than AED 180 million:**

prepare an annual report in accordance with **IFRS**

appoint a **Risk Management Officer**

not exceed its net asset value in its total exposure to risks

The **same applies** to a VCF with AUM less than AED 180 million; **except for having to appoint a Risk Management Officer**



General and Limited Partnership Funds

A general and limited partnership fund (GP/LP) is an investment fund with a fixed capital, formed in the UAE by one or more general partners, and one or more limited partners, and governed by a partnership agreement agreed between them.

- The general partner **must be licensed by SCA** to manage investment funds.
- The limited partners can be natural or corporate persons capable of the management, follow-up, and protection of their own investments, which includes the following:
 - the federal government and local governments, government institutions and agencies or companies fully owned by any of them
 - general pension funds, corporate pension funds, insurance companies, sovereign funds, endowments, and family companies



General and Limited Partnership Funds

- International agencies and organizations
- persons licensed to exercise a commercial business in the UAE
- natural persons with financial solvency and that declare that their annual income is **not less than 3 million Dirhams**, or that their net equity rights, except for their main residence, is equal to **7 million Dirhams**
- a person who is represented by an investment manager licensed by SCA or by a similar supervisory entity



General and Limited Partnership Funds

Licensing application can only be submitted by the general partner or their representative and should include the following:

- The **trade name, date of incorporation, and headquarters** of each general partner.
- The **full or trade name, nationality, date of birth or incorporation, residence address or headquarters** of each limited partner.
- The **name of the fund** with the addition of the phrase 'GP/LP Fund' at the end of its name.
- The **place and address** of the fund and contact information.
- A **true copy of the partnership agreement** signed between the general partner and limited partner(s), duly notarised.
- A **declaration signed** by the general partner confirming the payment of the required capital.
- **Any other data** or information required by SCA.
- General and limited partnership funds' rules for registration application, term of approval, and renewal application are **similar to all other funds**.



General and Limited Partnership Funds

The general partner must notify SCA **within seven days** of any change to the following:

main locations of practising the business

the name of any general partner or any limited partner

any general partner who becomes a limited partner or any limited partner who becomes a general partner.



General and Limited Partnership Funds

The general partner is also required to keep the documents, instruments, records, and accounting books related to the fund's operations for a period of **at least ten years**, especially in relation to the following:

the **name, address, and details** of each partner in the fund

the **date of entry and exit** of each partner in the fund

the **date and amount of each limited partner's share**, and the date and amount of any payment that represents a return or a portion of his share



Venture capital funds should limit their investment in public open-ended investment funds to:

- A. 10% of its assets.
- B. 15% of its assets.
- C. 20% of its assets.
- D. 30% of its assets.

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Cash Investment Funds

- Cash investment funds are similar money market funds in other jurisdictions.
- They are defined in SCA Decision No. 52 of 2016 as 'public investment funds whose investment policy requires investments to be placed in instruments with **maturity dates extending 397 days or two years**, as the case may be, including treasury notes, commercial papers, deposit certificates, bank acceptances and medium-term bonds'.



Cash Investment Funds

Detailed requirements to meet:

Investing a minimum proportion of **90% of its assets in cash instruments** with high liquidity.

The maximum weighted average of the fund's investment maturity **may not be more than 120 days**.

If a market price is not available, the fund's assets must be evaluated according to the **fair value principle**.

The **credit rating of the debt instruments** where the fund places investments **may not be less than BBB+ or equivalent** by one of the recognised rating agencies.

The fund **must not borrow** or engage in operations entailing liabilities, with the exception of borrowing to cover redemption requests subject to a **maximum limit of 10%** of its net asset value.

The fund's investments in debt instruments of one issuer **may not exceed 10% of the fund's net assets**.



Exchange-Traded Funds (ETFs)

An ETF is an open-ended investment fund that invests its assets in the **components of an index** determined by its investment policy.

An ETF's units **must be listed in one or more** markets in the UAE, after obtaining SCA's approval.

Some or all of the ETF's units **may be listed in a foreign market** subject to SCA approval.



Exchange-Traded Funds (ETFs)

The Index

- The index tracked by the ETF must have a **known and clearly defined target** and must reasonably **reflect the market** it represents.

The Index

- The index must also reflect the **movements of prices and the changes in its components** or its relative weights.

The Index

- The ETF can choose to **fully represent** the index it tracks, or the ETF may represent the index through a **selected sample.**



Prospectus of the ETF must include:

- **details of the index** tracked by the ETF
- mechanism of **investment in and divestment** from the ETF
- mechanism for **issuance and redemption** of the ETF's units
- the **market(s)** where the ETF's units will be listed
- the **name of the authorised agent**
- the spread between **offer and bid prices**
- the **maximum deviation** from the index tracked by the ETF



Participants

- **The investment manager must ensure:**
 - The implementation of the **ETF's investment policy**.
 - The **authorised agent** performs all tasks required.
 - Achievement of the **correlation between the value of ETF's units and the value of the index tracked by the ETF** so that the correlation coefficient is **not less than** the value set in the investment policy.
 - Availability of the **required liquidity** on the ETF's units in the secondary market.
 - The **prices of orders** issued through the authorised agent of the ETF are correlated with the net value of the unit's assets, which is announced on a daily basis or with the indicative value of the net value of the unit's assets, which is announced during trading, provided it may not be greater than the agreed margin as announced in the prospectus.



Exchange-Traded Funds (ETFs)

The administrative services company must:

Review the **daily evaluation of the net value of the unit's assets** at the end of the day and the indicative value of the unit during the day.

Announce the net value of the unit's assets on a daily basis and provide SCA and the concerned market with any statements as required.

Regularly announce the **indicative value** of the net value of the ETF's assets set during the daily trading to the market, related parties and the authorised agent.

Publish the **components of the ETF's index** on a regular basis as stated in the prospectus.

Perform **any other tasks** as stated in the contract signed with the ETF.



Exchange-Traded Funds (ETFs)

Obligations of the authorised agent:

Obtaining the **ETF's units in consideration of the assets** representing the index components that are transferred to the ETF or returning those that are transferred from the ETF.

Provide sell or buy orders for the ETF's units to maintain the **required liquidity** based on the **announced net value of the assets** of the unit or the **indicative value of the net value of the assets** of the unit during daily trading, whichever is latest.

Not to exceed the agreed spread between the selling and buying prices.

Update sell and buy orders according to the timings and mechanism agreed with the concerned market.



Exchange-Traded Funds (ETFs)

The safe custodian must ensure that the orders and documents relating to the exchange of the ETF's units with the index components are executed through the **Administrative Services Company**.

The safe custodian must also ensure the **transfer of ownership** of the ETF's units.

Any **transfer of ownership** from or to the safe custodian must be completed **before any redemption, cancellation or issuance** of the ETF's units.



What is the minimum proportion of highly liquid cash instruments a Cash Investment Fund must have in its portfolio?

- A. 80%
- B. 95%
- C. 90%
- D. 85%

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A real estate investment fund is a public or private investment fund established to invest **at least 75%** of its assets in real estate assets.

A real estate investment fund **shall not invest more than 20%** of the fund's assets in the ownership of a real estate services company and its subsidiaries.

The real estate assets of the fund **must be proven** under an ownership right or usufructuary right.

These rights must not have any restrictions or obligations, and the remaining period of the usufructuary right shall **not be less than seven years**.

At least 75% of the real estate assets held must produce the revenues.

Revenue generated from real estate **must not be less than 90%** of the total revenues of the fund.

The percentage of investment in usufructuary rights – for which the remaining period is **less than 30 years** – **must not exceed 25%** of the net assets of the fund.



Valuation and Borrowing

- Evaluation of the fund's real estate assets must be **at least every six months**.
- The management company of the fund may, after notifying SCA, **postpone** the date of assets evaluation.
- The real estate investment fund **cannot borrow more than 50%** of its assets value.
- Any relationship between the lender and the real estate investment fund or any of the related parties **must be disclosed**.

Distribution of Dividends

- A public real estate investment fund must distribute **at least 80%** of the achieved net profits every year to the shareholders.
- The distributions may be made **more than once a year**.



Obligations of the management company or board of directors:

- **Value any real estate assets** before buying or selling them.
- Enable the **real estate appraiser** to perform its tasks.
- Not rely on any report dating back **more than three months** when dealing in a real estate asset of the fund.
- Assume full responsibility for the fund's **management, projects, investment decisions** and **assets**, and **insure the assets** against any risks.
- Include the details of all of the **fund's assets and any material legal disposals** of such assets made during the period in the annual report.



Obligations of the management company or board of directors:

- Include all of the fund's investments and their **market value, nature, type and location of real estate assets and investments** in the biannual financial reports, along with the **credit rating of any bond investments**.
- Sign a contract with a **legal advisor** to prepare and review all **contracts, obligations, legal dealings** of the fund and its real estate assets.
- Sign a contract with a **real estate appraiser** who has the required experience in the real estate field in order to **evaluate the real estate assets** of the fund.
- Sign contracts with **other parties** associated with its activity **to implement the business plan** of the fund.



Obligations of the real estate appraiser:

The **evaluation approach, method and assumptions** based on which the evaluation was made.

Analysis of the variables related to the real estate market such as offer and demand, property particulars and description.

The **risks related to the property** under evaluation.

Disclosure of any violations or risks related to the assets under evaluation and the proposed or implemented remedial mechanisms.

The real estate appraiser must also **maintain independence** from the fund and any related party to the fund.



Evaluation of In-Kind Shares of Investment Funds

General Requirements

- The shares provided as assets by the investor must be consistent with the **fund's prospectus and investment policy**.
- The in-kind shares **must be valued by two evaluators** at fair value, considering the **lower value for each evaluated asset**.
- **Both evaluation parties** must be financial advisers licensed by SCA if:
 - the in-kind shares are in companies that are **not listed**,
 - there have **not been any announced market prices**,
 - **three months have elapsed** after the last announced price,
 - if trading is **limited and inactive**.



General Requirements

- More generally, an evaluator of in-kind shares **must have obtained a license** or approval from the competent authority
- The evaluator **must have experience of at least five years in evaluation field** and **at least three years in the field of evaluation of an asset provided as an in-kind share.**
- The evaluator must be completely **independent.**
- **An auditor or financial adviser** to a fund **cannot evaluate** the in-kind shares provided to the same fund.



Evaluation of In-Kind Shares of Investment Funds

Obligations of the evaluator:

Preparation of an in-kind shares **evaluation report**.

Evaluate using **sufficient and complete data** and information.

Clarifying whether the in-kind shares provided for the funds can be **liquidated**.

Analysing all risks related to the evaluated asset and conducting the analysis to ensure the inclusion of their impact on the **future expectations and assumptions** on which the evaluation report is based.

Managing the conflict of interests between their tasks and any other financial activities practised by them and **disclosing them**.

Working with **due diligence** according to the provisions of the law. Ensuring the **accuracy and completeness of data** and information of the evaluation report.



Report Contents

- An in-kind shares evaluator **must disclose** any securities related to the evaluation report **owned prior to the preparation of the report.**
- The evaluator must refrain from trading in securities associated with the evaluation subject (including financial derivatives) **15 days before issuing the evaluation report** and **five days after issuing the report.**
- The evaluation report should be based on **valid, clear, not misleading,** and **updated data** of a period of **at least three months** before the evaluation date.
- The evaluator **must not object** the publication of the evaluation report in the fund prospectus and on the website of the management company and the market where the funds units are listed.
- The evaluation report and a complete summary must be provided to SCA before disclosure to third parties, **within three months** of the report's date.



Evaluation of In-Kind Shares of Investment Funds

The summary of the report should include the following:

The **fair value** of the evaluated asset.

Confirmation that there are **no obligations, debts, mortgages, rights, or other guarantees** charged on the asset in favour of third parties.

The **different evaluation methods** used by the evaluator to specify the fair value of the evaluated asset.



Evaluation of In-Kind Shares of Investment Funds – Other Obligations

Ensuring the **feasibility** of accepting the provided in-kind shares.

Making sure that the value of the units allocated to the investor **do not exceed** the value of the in-kind share provided.

Maintaining the evaluation report and all information, documents, and records related to the evaluation process for a period **at least than ten years**.

Disclosing information about **each of the in-kind shares, their owners, value, and the number of the units to be issued against each share** in the fund prospectus.

Summary of the in-kind shares evaluation report, as well as attaching the evaluation report and its complete summary to the prospectus.

The possibility of disposing of the in-kind shares after founding the fund.

The possibility of fluctuation in the values of the in-kind shares after founding of the fund.



Evaluation of In-Kind Shares of Investment Funds

Other Requirements:

- If in-kind shares are provided when the fund is founded, the management company or the self-fund founders **must initially bear the expenses** of the in-kind shares' evaluation.
- These **expenses can then be recovered** once the fund is set up as '**foundation expenses**' or as the fund's auditor deems appropriate.
- If the **subscription fails** then, unless it is agreed with the in-kind shares providers to bear all or any of these expenses, these expenses will fall to the management company or the self-fund founders.



Which of the following is NOT an obligation of an in-kind shares evaluator?

- A. Clarifying whether the in-kind shares provided for the funds can be liquidated.
- B. Managing the conflict of interests between their tasks and any other financial activities.
- C. Analysis of the variables related to the real estate market
- D. Evaluate using sufficient and complete data and information.

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