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Alternative Investment Funds 2025

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1 Regulatory Framework

1.1 What is the key legislation that governs the establishment and operation of Alternative Investment Funds?

Most Alternative Investment Funds will be "AIFs" for the purposes of the UK Alternative Investment Fund Managers regime which regulates the activities of their managers ("AIFMs") and certain other relevant persons. An AIF is a collective investment undertaking which raises capital from a number of investors, with a view to investing it in accordance with a defined investment policy for the benefit of those investors, and which is not a UK UCITS.

An Alternative Investment Fund may also be categorised as a collective investment scheme ("CIS") under the Financial Services and Markets Act 2000 ("FSMA"). A CIS is similar, but not identical, to the Alternative Investment Fund Managers Directive ("AIFMD") concept of a collective investment undertaking.

It is possible for an Alternative Investment Fund to be both an AIF and a CIS or just one of the two. An example of this is likely to be carried interest arrangements structured through a limited partnership, which are unlikely to be AIFs due to the employee participation scheme exclusion from UK AIFMD (defined below), but which are likely nevertheless to be unregulated CISs under FSMA.

The key legislation for AIFs is the Alternative Investment Fund Managers Regulations 2013 with additional measures contained in the Financial Conduct Authority ("FCA") Handbook, particularly the FUND chapter and the UK version of the EU AIFMD Delegated Regulation (together referred to here as "UK AIFMD").

CISs will be subject to the statutory rules under FSMA and related legislation and also FCA rules applicable to CISs.

Other regimes that could potentially be relevant include authorised funds such as Long-Term Asset Funds ("LTAFs"). However, authorised funds are not the focus of this chapter. Other regimes, which are not discussed further, include the Registered Venture Capital Fund and Social Entrepreneurship Fund.

1.2 Are managers to Alternative Investment Funds required to be licensed, authorised or regulated by a regulatory body?

The FCA authorises and regulates persons carrying out "regulated activities" in the UK. Acting as the manager of an AIF is a regulated activity, as is establishing, operating (which includes managing) or winding up a CIS. A suitably authorised person must therefore be appointed to carry out these activities on behalf of an Alternative Investment Fund.

It is a criminal offence to breach this requirement. Any agreement entered into by a person carrying on a regulated activity in contravention of this provision is unenforceable against the other party and the other party is entitled to recover any money paid and to compensation for any loss sustained.

UK AIFMD contains a partial exemption for AIFMs whose total assets under management do not exceed certain thresholds. These sub-threshold firms will not have to comply with the full provisions of UK AIFMD, unlike those firms that are "full-scope" AIFMs. The relevant thresholds are: (i) €500 million, provided the AIF is not leveraged and investors have no redemption rights for the first five years; or (ii) €100 million (including assets acquired through leverage). Sub-threshold firms will need to become a "small authorised AIFM" or, in certain limited circumstances, a "small registered AIFM". The latter category imposes the lowest regulatory burden on firms but is only available for certain internally managed AIFs and certain types of real estate scheme.

1.3 Are Alternative Investment Funds themselves required to be licensed, authorised or regulated by a regulatory body?

Generally speaking, under the current UK framework, an Alternative Investment Fund itself is not required to be authorised or licensed by the FCA. UK AIFMD and the regime applicable to CISs broadly support the traditional position that it is the operator or manager (or AIFM), rather than the Alternative Investment Fund, that is subject to regulation. However, to the extent UK AIFMD applies, the AIFM must comply with certain requirements that, in turn, affect the AIF, including: the appointment of a depositary to have custody of certain assets; organisational controls including in relation to risk management, liquidity and valuation; conduct of business rules; and rules relating to companies in which the AIF has a substantial stake.

1.4 Does the regulatory regime distinguish between open-ended and closed-ended Alternative Investment Funds (or otherwise differentiate between different types of funds or strategies (e.g. private equity *vs* hedge funds))?

The UK regulatory regime, broadly speaking, does not differentiate between open-ended and closed-ended private funds,

although, as noted above, the partial exemption from UK AIFMD for sub-threshold AIFMs will bite at a higher level for non-leveraged, closed-ended funds.

Other regulatory requirements that might apply to a manager of Alternative Investment Funds are linked with the investment strategy being pursued, rather than whether the fund is open-ended or closed-ended (although the relevant strategy might be linked with a particular type of fund). For example, rules relating to market abuse and insider dealing will be particularly relevant to firms investing in listed financial instruments.

1.5 What does the authorisation process involve for managers and, if applicable, Alternative Investment Funds, and how long does the process typically take?

An application for FCA authorisation involves the applicant submitting a considerable volume of information to the FCA. This will include information on the proposed business activities of the applicant, its controllers and individuals who will be undertaking certain core controlled functions, its systems and controls and financial projections. For those applicants applying for authorisation to manage an AIF, the FCA will require further information about the AIF itself as well as details of the depositary arrangements.

The FCA currently has six months to review the application (this is reduced to three months in the context of applications by AIFMs). During the review process, the FCA may raise additional queries in relation to the information submitted.

1.6 Are there local residence or other local qualification or substance requirements for managers and/or Alternative Investment Funds?

A manager applying for FCA authorisation must meet certain threshold conditions. One of these is that, for bodies corporate, the head office or registered office must be in the UK. In certain other cases, the fund manager must carry on business in the UK. Although the FCA will judge each application on a case-by-case basis, a key issue is likely to be the location of its central management and control.

The Economic Crime and Corporate Transparency Act 2023 ("ECCTA"), which passed into law in late October 2023, reforms UK limited partnership law and includes a requirement for UK limited partnerships to have a registered office address in the part of the UK in which the limited partnership is registered. This is in addition to a principal place of business, which need not be in the UK, but often is for UK limited partnerships used in fund structures. The registered office address and principal place of business may be the same. The reforms in relation to limited partnerships are not yet in force (the reforms are expected to start to take effect by the end of 2026). There will be a six-month transitional period for existing limited partnerships to provide an appropriate registered office address to Companies House.

1.7 Are any service providers specifically required to be appointed in respect of Alternative Investment Funds?

Under UK AIFMD, a depositary is required, which will have responsibilities including custody, cash monitoring and oversight of certain processes such as the issue and redemption of units. Under UK AIFMD, the depositary of a UK AIF must be established in the UK and be a credit institution, MiFID investment firm or the equivalent with regulatory permission to act as depositary of an AIF.

Independent valuers may also be appointed pursuant to the provisions of UK AIFMD.

1.8 What rules apply to foreign managers wishing to manage funds domiciled in your jurisdiction?

Establishing and managing funds in the UK are potentially regulated activities under UK financial services legislation. If the foreign manager is considered to be carrying on these activities by way of business in the UK, then it would need to be authorised by the FCA to do so, unless an exemption applies.

1.9 Are advisers (including foreign advisers) to Alternative Investment Funds required to be licensed, authorised or regulated by a regulatory body?

Advising funds in the UK is potentially a regulated activity under UK financial services legislation but will depend on the circumstances. If the foreign adviser is considered to be carrying on the regulated activity of advising on investments by way of business in the UK, then it would need to be authorised by the FCA to do so, unless an exemption applies.

2 Fund Structures

2.1 What are the principal legal structures used for Alternative Investment Funds (including reference where relevant to local asset holding companies)?

There are a wide variety of fund vehicles available in the UK. Certain of these are only available for retail funds, such as the authorised unit trust and the open-ended investment company. Others, such as the investment trust company ("ITC"), are likely to be used for closed-ended structures implementing a traditional investment strategy.

Closed-ended private funds domiciled in the UK and implementing an alternative investment strategy (in particular, those investing in asset classes such as private equity, real estate and infrastructure) are most commonly structured as private fund limited partnerships ("PFLPs") (a limited partnership designated as a private fund limited partnership). This is a form of partnership governed by statute under the Limited Partnerships Act 1907 ("LP Act"). The ECCTA reforms UK limited partnership law through extensive amendments to the LP Act, which will be implemented through (as yet unpublished) secondary legislation. The reforms in relation to limited partnerships are not yet in force (they are expected to start to take effect by the end of 2026). For most of the reforms there will be a six-month transitional period for existing limited partnerships. A closed-ended private fund domiciled in the UK can choose to be structured as a limited partnership without the PFLP designation. A non-PFLP has more administrative burdens.

In common with other jurisdictions, the limited partnership (including the PFLP) will have one or more general partners and one or more limited partners. The general partner is responsible for the management of the partnership (although whether it fulfils this role will largely depend on the regulatory considerations described above), but has unlimited liability for the debts and obligations of the partnership over and above the partnership assets. Conversely, the liability of a limited

partner will be limited to the amount of the partnership property which is available to the general partner to meet the debts or obligations of the partnership, or in the case of non-PFLPs the amount of capital the limited partner contributes to the partnership (there is no requirement for a limited partner to make a capital contribution in a PFLP), provided in both cases such limited partner takes no part in the management of the partnership: to the extent the limited partner does take part in management, it will be treated as a general partner and will lose the protection of limited liability. The LP Act contains a white list of matters that limited partners of a PFLP can take part in without jeopardising their limited liability status. A limited partnership (including a PFLP) registered in England & Wales does not have any legal personality separate from its partners and is not a body corporate.

One of the fundamental attractions in the UK of a limited partnership structure for private closed-ended funds is that the limited partnership is a flexible vehicle in terms of internal governance and control. The constitutional document (the limited partnership agreement) is a freely negotiable document between the fund manager and the investors.

The statutory framework in the UK requires that a limited partnership is registered and for PFLPs designated as such. This entails filing an application for registration with the Registrar of Limited Partnerships, providing certain details including the name of each limited partner and for non-PFLPs details of the amount of capital contributed by each limited partner. Any changes to these details during the continuance of the limited partnership must be registered within seven days of the relevant change. There are also formalities for non-PFLPs that must be followed on assignments of limited partner interests, such as advertising the transfer in specific Gazettes. Under the ECCTA reforms, an application for registration must contain required information on each general partner and limited partner. Existing limited partnerships must within the six-month transitional period deliver a statement to Companies House with the required information. Any change in the required information must be notified within 14 days.

While the focus of this chapter is not on hedge funds, it is worth mentioning that the usual hedge fund structure will generally not include the actual hedge fund being domiciled in the UK, because to set up the fund on-shore would lead to tax inefficiencies since the fund would be treated as "trading" rather than "investing" for UK tax purposes. Instead, hedge fund structures will invariably include a company or limited partnership established in an off-shore jurisdiction.

The LTAF is designed for investing in long-term, illiquid (private) assets and is targeted at defined contribution ("DC") pension schemes. The LTAF is an authorised open-ended AIF so can be structured as an investment company with variable capital ("ICVC"), unit trust or contractual scheme.

Whether a UK Alternative Investment Fund invests in assets via a holding company will depend on a number of issues (including commercial, tax and regulatory considerations). In April 2022, the UK introduced a new tax privileged regime for UK resident qualifying asset holding companies ("QAHCs"). To be a QAHC, a company must comply with a number of requirements including that, broadly, it is at least 70% owned by "category A" investors. Alternative Investment Funds will be category A investors provided certain conditions are met. Please see question 6.1 below for a discussion of tax benefits applicable to QAHCs.

In March 2025, the UK introduced a new form of fund vehicle, the "Reserved Investor Fund (Contractual Scheme)" ("RIF"). Various requirements need to be met by a scheme for RIF status to apply, including that it must be both an AIF for the purposes of the UK Alternative Investment Fund Managers regime and a CIS, and, broadly, must be either (i) sufficiently widely marketed, (ii) not closely held, or (iii) only closely held due to the presence of certain institutional investors. A further condition is that the scheme must, broadly, either (a) not hold interests in UK land (or in UK property rich companies), (b) be UK property rich, or (c) only have investors who are exempt from UK tax on gains (other than by reason of residence). In practice, it is anticipated that the RIF will be primarily of interest to commercial real estate investors (due to its VAT treatment).

In addition, recent changes to the UK real estate investment trust ("REIT") regime mean that that entity can be unlisted where, broadly, it is at least 70% owned by institutional investors, potentially making it more attractive to such investors as a vehicle for holding UK real estate. An Alternative Investment Fund structured as a limited partnership will be an institutional investor for these purposes provided certain conditions are met. The UK REIT is a corporate vehicle for holding real estate that benefits from a tax privileged regime (see question 6.9 below).

2.2 Do any of the legal structures operate as an umbrella structure with several sub-funds, and if yes, is segregation of assets between the sub-funds a legally recognised feature of the structure?

The LTAF can operate as an umbrella fund with sub-funds, with segregated liability between sub-funds. None of the legal structures outlined above typically operate as an umbrella structure.

2.3 Please describe the limited liability of investors in respect of the different legal structures used for Alternative Investment Funds.

In respect of funds structured as PFLPs, under statute, the liability of a limited partner for the debts or obligations of the partnership is limited to the amount of the partnership property which is available to the general partner to meet such debts or obligations, and for non-PFLPs is limited to the amount of capital the limited partner contributes to the partnership, subject always to the caveat that the investor does not become involved in the management of the structure.

This does not relieve the investor of its contractual obligation to advance money, and therefore Alternative Investment Funds operating "just-in-time" drawdown structures will be able to draw the full amount the investor has committed to advance to the fund, notwithstanding the statutory limitation on liability. The UK limited partnership will generally be structured so that the commitment of investors comprises a nominal amount of capital contribution, with the balance being advanced by way of a loan. This structure should avoid amounts distributed to investors being subject to return in the event of the insolvency of the limited partnership.

In respect of PFLPs, as there is no requirement for a limited partner to contribute any capital, the entire funding to be contributed by a limited partner in a PFLP can be in the form of capital that can be contributed and repaid at any time without affecting the extent of the liability. This removes the need for the capital/loan split described above; however, PFLPs typically do split capital and loans in this way.

The other fund vehicles available will provide for the limited liability of investors, such that they will not be required to

contribute more than the amount that they have committed to invest in the fund.

2.4 What are the principal legal structures used for managers and advisers of Alternative Investment Funds?

There are no formal requirements as to the legal structure used for managers and advisers of Alternative Investment Funds. However, the two most common structures seen in the market are the private limited company and the limited liability partnership ("LLP"). LLPs have been seen as the preferred structure for asset managers for some time now, as they offer the tax transparency of a traditional partnership whilst giving limited liability to the members of the LLP. Although an LLP is a body corporate, it is inherently a more flexible vehicle than a limited company and therefore can be adapted to suit the particular circumstances of the fund manager's business and preferred governance structure.

The basic position is that each member of an LLP is treated as being self-employed for income tax and national insurance contribution ("NIC") purposes. This means that LLPs do not need to pay employer's NICs on the remuneration of members, and it also keeps members of an LLP outside of the UK employment-related securities legislation. However, this basic position can be disapplied by the "salaried member" rules. Under these rules, a member of an LLP will be treated as an employee for income tax and NIC purposes if, broadly: (a) at least 80% of the amount payable by the LLP for the services they perform for it is "disguised salary" (broadly, remuneration that is not dependent on the firm's profitability); (b) they do not have "significant influence" over the LLP's affairs; and (c) they make a capital contribution to the LLP that is less than 25% of their annual "disguised salary".

Employees are currently outside of the scope of the income-based carried interest ("IBCI") rules (see question 6.2 below), whereas self-employed LLP members must consider the potential application of these rules to their carried interest returns. However, the government has announced that from 6 April 2026, the IBCI rules will also apply to employees. It is also expected that, from that date, the term "income-based carried interest" will no longer be used in the legislation, and the regime will be referred to as the "average holding period" regime.

2.5 Are there any limits on the manager's ability to restrict redemptions in open-ended funds or transfers in open-ended or closed-ended funds?

Generally, there are no statutory or regulatory limitations on the ability of managers of private open-ended funds to restrict redemptions or on managers of private open-ended or closed-ended funds to restrict transfers, although contractual restrictions are likely to be imposed.

2.6 Are there any legislative restrictions on transfers of investors' interests in Alternative Investment Funds?

There are no legislative restrictions on the transfer of investors' interests; however, contractual restrictions are standard in the market. In the case of UK limited partnerships, certain filing requirements will need to be met, and for non-PFLPs, details of the transfer advertised, before it is deemed effective.

2.7 Are there any other limitations on a manager's ability to manage its funds (e.g. diversification requirements, asset stripping rules)?

UK AIFMD includes a number of portfolio company provisions.

These include requirements relating to the provision of information to the company or issuer, the shareholders, employees' representatives (or employees) and the FCA where an AIF managed by a full-scope AIFM acquires "control" of a UK unlisted company or an issuer of traded securities.

There are also additional requirements to notify the FCA where an AIF managed by a full-scope AIFM holds a significant proportion of the voting rights in a UK unlisted company.

Provisions aimed at preventing asset stripping also contain restrictions on distributions, capital reductions, share redemptions and acquisitions by the company or issuer of its own shares for two years after the AIF acquires "control".

2.8 Does the fund remunerate investment managers through management fee or performance fee/carried interest or by a combination of management fee and carried interest? In the case of carried interest, how is this typically structured?

A fund's remuneration arrangements differ depending upon its structure. Closed-ended private funds structured as limited partnerships typically have a management fee (that may be structured as a priority profit share rather than a fee). The commercial terms vary according to the investment strategy (the market standard in the private equity industry for mid-market buyout funds, for example, is 1.5–2% of commitments during the investment period, stepping down to 1.5–2% of the acquisition cost of unrealised investments following the end of the investment period, but infrastructure and debt strategies are likely to have different terms). The carried interest will be structured as a share in the profits of the partnership and typically entitles the executives of private equity funds to 20% of the fund's overall profits after return of drawn commitments and payment of the preferred return to investors in the fund.

3 Marketing

3.1 What is the key legislation that governs the production and use of marketing materials?

Marketing materials relating to fund units or interests will usually be considered financial promotions and subject to the UK financial promotion regime. Strict rules apply to the promotion of units or interests in funds, particularly unauthorised CISs. There may be limits on the types of investors to whom they can lawfully be marketed and, in some cases, there will also be certain disclosure or other procedural requirements. The relevant legislation is the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 and the Financial Services and Markets Act 2000 (Promotion of Collective Investment Schemes) Order 2001. Certain types of fund communications will also be subject to conduct of business requirements in the FCA Rules.

Specific marketing restrictions are also imposed by UK AIFMD although there are some exemptions to address the overlap between the UK AIFMD marketing regime and the financial promotion regime.

Full-scope AIFMs wishing to market an AIF to investors in the UK are required to apply to the FCA to do so. For the

purposes of UK AIFMD, marketing has a specific meaning and is a direct or indirect offering or placement of units or shares in an AIF by the AIFM to or with investors domiciled in the UK or Gibraltar. Marketing may also be carried out for these purposes by an investment firm acting at the initiative of, or on behalf of, the AIFM. This is a narrower concept than that of a financial promotion, which is an offer or inducement to engage in investment activity. In particular, pre-marketing and reverse solicitation will not be regarded as AIFMD marketing.

As a general matter, marketing materials will need to comply with rules around investor protection, including those in the FCA Handbook, for information provided to be fair, clear and not misleading.

Alternative Investment Funds being made available to retail investors in the UK will also generally need to provide additional detailed disclosures to investors. Currently, this is required under the UK Packaged Retail and Insurance-based Investment Products ("PRIIPs") Regulation, but this is due to be replaced by a new UK retail disclosure regime.

The requirements of the UK's Prospectus Regulation Rules, which catch "offers to the public", will generally not apply to the marketing of Alternative Investment Funds on the basis that the requirements can be avoided if the total consideration of offers in the UK, calculated over a 12-month period, is below €8 million or the offer is made to fewer than 150 persons in the UK. It is worth noting that whilst the UK's prospectus regime will be replaced with a new regime which will take effect on 19 January 2026, many of the existing exemptions applicable to Alternative Investment Funds will remain under the new framework. For example, those relating to offers to qualified investors, or offers to fewer than 150 persons. Offers of relevant securities to the public where the total consideration is £5 million will also be exempt (this will be a change to the current threshold of €8 million). The UK's Prospectus Regulation Rules will also not catch open-ended vehicles, so most hedge funds, for example, would not be caught in any event.

3.2 What are the key content requirements for marketing materials, whether due to legal requirements or customary practice?

There are limited specific content requirements applicable to fund marketing materials although general rules on marketing communications, such as the requirement not to be misleading, will apply and certain rubrics may be needed in order to make lawful promotions under the financial promotion regime.

UK AIFMD also requires prescribed pre-investment disclosures to be made to prospective investors (see section 5 below) and marketing to retail customers may need to include additional detailed disclosures (see question 3.1 above).

3.3 Do marketing documents need to be registered with or approved by the local regulator?

Outside of UK AIFMD, there is no requirement to register marketing or legal documentation with the FCA. A different analysis applies to authorised funds being made available to retail investors in the UK.

Under UK AIFMD, a full-scope AIFM must seek FCA approval for marketing a UK AIF at least 20 working days prior to marketing and notify any material planned changes to the information provided at least one month in advance. Material unplanned changes must be notified to the FCA immediately.

Non-UK AIFMs and full-scope AIFMs marketing non-UK AIFs are required to notify the FCA of their intention to carry out marketing, including confirmation that certain UK requirements in respect of the AIF and additional country co-operation requirements are met.

3.4 What restrictions (and, if applicable, ongoing regulatory requirements) are there on marketing Alternative Investment Funds?

Marketing will generally be subject to the UK financial promotion regime and, where relevant, the UK AIFMD marketing requirements.

Non-UK AIFMs and UK full-scope AIFMs marketing non-UK AIFs wishing to market into the UK will need to rely on the UK national private placement regime.

3.5 Is the concept of "pre-marketing" (or equivalent) recognised in your jurisdiction? If so, how has it been defined (by law and/or practice)?

There is no specific pre-marketing regime in the UK, but pre-marketing activities will often be subject to the UK financial promotion regime.

In its guidance, the FCA has stated that pre-marketing is not regarded as constituting marketing by an AIFM for the purposes of UK AIFMD. Pre-marketing for these purposes includes draft documentation, a promotional presentation or a pathfinder version of a private placement memorandum, provided such documents cannot be used by a potential investor to make an investment in the AIF.

3.6 Can Alternative Investment Funds be marketed to retail investors (including any specific treatment for high-net-worth individuals or semi-professional or similar categories)?

Alternative Investment Funds can only be marketed to retail investors if it is possible to do so under the UK financial promotion regime. Effectively, this means that Alternative Investment Funds may only be marketed to largely sophisticated or high-net-worth retail investors.

The FCA also imposes some additional conduct of business requirements for certain fund marketing to retail investors.

Alternative Investment Funds being made available to retail investors in the UK will also generally need to provide additional detailed disclosures to investors under the PRIIPs Regulation or, once in force, the new UK retail disclosure regime.

The UK Consumer Duty also requires FCA-regulated firms to deliver good outcomes for retail customers. Firms should aim to continuously address issues that risk causing consumer harm, including at the marketing stage.

3.7 What qualification requirements must be met in relation to prospective investors?

There are no "across the board" qualification requirements that apply in relation to prospective investors. However, under the financial promotion regime the fund may only be able to be marketed to certain types of prospective investors.

3.8 Are there additional restrictions on marketing to public bodies such as government pension funds?

Local public authorities or municipalities that do not manage public debt are classified as retail investors but can be opted up to professional status if certain conditions are met. This includes local government pension schemes, which can lead to certain additional restrictions on marketing and distributing interests in such schemes.

3.9 Are there any restrictions on the participation in Alternative Investment Funds by particular types of investors (whether as sponsors or investors)?

Under the current legislative and regulatory regime, there are no firm restrictions on participation in Alternative Investment Funds. However as discussed above, there may be indirect restrictions through restrictions in the types of persons to whom an Alternative Investment Fund may be marketed or as a result of the Alternative Investment Fund's own policy.

3.10 Are there any restrictions on the use of intermediaries to assist in the fundraising process?

There are no restrictions on the use of intermediaries, although if the intermediary is itself carrying on regulated activities for the purposes of the UK regulatory regime, it may need to be authorised by the FCA.

4 Investments

4.1 Are there any restrictions on the types of investment activities that can be performed by Alternative Investment Funds?

Generally speaking, there are no restrictions on the Alternative Investment Fund itself. However, the types of activities that a UK AIFM may carry on are subject to some limitations. The fund manager will need to ensure that the activities it is carrying out in respect of the Alternative Investment Fund are consistent with the scope of permission it has to carry out regulated activities (and with the contractual investment policy of the Alternative Investment Fund).

However, UK AIFMD does impose certain restrictions relating to asset stripping and certain disclosure requirements, as described at question 2.7 above.

4.2 Are there any limitations on the types of investments that can be included in an Alternative Investment Fund's portfolio, whether for diversification reasons or otherwise?

In general, there are no specific regulatory restrictions on the types of investments that can be included in an Alternative Investment Fund's portfolio. Nevertheless, they will need to comply with their investment policy, which may include some restrictions.

4.3 Are there any local regulatory requirements that apply to investing in particular investments (e.g. derivatives or loans)?

There are rules in respect of investment in securitisation positions and, as mentioned below, some limits on leverage may apply.

Alternative Investment Funds will also need to comply with any rules applicable to trading and holding such investments as well as their own investment policy.

4.4 Are there any restrictions on borrowing by the Alternative Investment Fund?

Under UK AIFMD, the FCA may impose limits on leverage on a particular AIFM if it considers it necessary to ensure the stability and integrity of the financial system.

4.5 Are there are any restrictions on who holds the Alternative Investment Fund's assets?

Under UK AIFMD, a full-scope AIFM is required to appoint a depositary to have custody of the AIF's assets. For other Alternative Investment Funds, where the assets include financial instruments, these will generally need to be held by an entity authorised for safekeeping, such as a global custodian.

5 Disclosure of Information

5.1 What disclosure must the Alternative Investment Fund or its manager make to prospective investors, investors, regulators or other parties, including on environmental, social and/or governance factors?

Alternative Investment Funds structured as limited partnerships will need to comply with the registration requirements under the LP Act. PFLPs need only disclose basic details (essentially the fund's name and address). However, the ECCTA reforms will, when in force, require all UK limited partnerships (including PFLPs) to provide additional information about the partners, some of which will be public. There may be a requirement on the general partner of a UK limited partnership to file the partnership's accounts on the basis of the Partnerships Accounts Regulations.

Under UK AIFMD, AIFMs must make pre-investment disclosures of certain information relating to the relevant AIF as well as any material changes to that information.

A manager of Alternative Investment Funds with assets under management broadly over £5 billion must make annual climate-related financial disclosures in respect of the manager itself and the Alternative Investment Funds it manages.

5.2 Are there any requirements to provide details of participants (whether owners, controllers or investors) in Alternative Investment Funds or managers established in your jurisdiction (including details of investors) to any local regulator or record-keeping agency, e.g., for the purposes of a public (or non-public) register of beneficial owners?

Fund houses that have any Scottish limited partnerships ("SLPs"), including those designated as PFLPs, in their fund structures (commonly used as feeder and carry vehicles in UK fund structures) are required to make filings under the persons with significant control regime ("PSC Regime") at UK Companies House. The PSC Regime also applies to LLPs and UK unlisted companies. Failure to comply with the PSC Regime requirements carries criminal penalties. English limited partnerships remain outside the scope of the PSC Regime.

5.3 What are the reporting requirements to investors or regulators in relation to Alternative Investment Funds or their managers, including on environmental, social and/or governance factors?

UK AIFMD requires AIFMs to comply with a range of detailed regulatory reporting obligations. Reporting obligations also apply to AIFMs seeking to market their funds in the UK under its national private placement regime.

Broadly, AIFMs will be required to make periodic reports to the FCA both in respect of the AIFM itself and in respect of each AIF that it manages (including information in relation to investment strategies, main instruments traded and principal exposures). Additional reporting is also required for funds that employ leverage on a "substantial basis" (broadly where the exposure of an AIF exceeds three times net asset value).

Annual reports containing certain specified information must also be provided to investors in an AIF (and also the FCA).

It is also market standard for managers of AIFs to provide quarterly reporting to investors.

As part of the reforms under the ECCTA to UK limited partnership law, all UK limited partnerships, including PFLPs (and not just SLPs, as is currently the case), will have to file an annual confirmation statement, essentially confirming that all information relating to the partnership on the register at Companies House is up to date.

A manager of Alternative Investment Funds with assets under management broadly over £5 billion must make annual climate-related financial disclosures in respect of the manager itself and the Alternative Investment Funds it manages.

5.4 Is the use of side letters restricted?

There are no firm restrictions on the use of side letters. However, UK AIFMD requires disclosures as to how an AIFM ensures the fair treatment of investors and, if side letters are used to provide preferential treatment to investors, a description of the preferential treatment and the type of investors to whom the treatment is made available will need to be disclosed. If the AIFM operates a general most-favoured nations ("MFN") mechanism, this is unlikely to be an issue; however, if no or a limited MFN process is in place, an AIFM will need to consider its use of side letters in light of the disclosure requirements under UK AIFMD.

6 Taxation

6.1 What is the tax treatment of the principal forms of Alternative Investment Funds and local asset holding companies identified in question 2.1?

UK limited partnerships are not taxable entities for UK direct tax purposes (although they do submit tax returns) and are instead fiscally transparent. This fiscal transparency means each limited partner is treated for UK direct tax purposes as owning its proportionate share of the assets of the partnership and is subject to tax on the income and gains allocated to it under the limited partnership agreement (whether or not they are distributed).

The tax treatment of the LTAF will depend on what legal form it takes. Broadly, if it is an ICVC or unit trust, it is subject to corporation tax but potentially enjoys certain tax privileges (such as an exemption from tax on capital gains) provided (i) it is sufficiently widely marketed, (ii) its prospectus was published on or before 9 December 2021, or (iii) at least 70% of its shares or units are held by certain categories of institutional investor (which do not include unauthorised Alternative Investment Funds) or the manager of the fund (in its capacity as manager). If the LTAF takes the form of a co-ownership authorised contractual scheme, broadly, (i) it is transparent for the purposes of income taxation and not subject to tax on its capital gains, and (ii) for capital gains tax purposes, a unit in the LTAF is treated as an asset of the investor (with the investor's interest in the underlying assets of the LTAF being disregarded).

Generally, a UK tax resident holding company will be subject to corporation tax in the same way as for other UK tax resident companies unless it falls within a special tax privileged regime. If the holding company is a QAHC, then a number of tax benefits will apply, including (i) complete exemption from tax on gains on qualifying shares (effectively, all shares apart from those deriving at least 75% of their value from UK land) and on overseas land, (ii) complete exemption from corporation tax on income profits of an overseas property business, broadly, to the extent they are chargeable to tax abroad, and (iii) potentially being able to reduce the other income on which the QAHC is taxable to a very low margin (by the use of profit participating debt). In addition, there are tax benefits for investors, with normal tax rules disapplied to make it easier for returns from a QAHC to be passed to investors in capital form. Please see question 6.9 below for a discussion of the tax position of REITs.

A RIF is transparent for tax on income. It is not subject to tax on capital gains, and its investors will generally only be subject to tax on capital gains when they dispose of their units.

6.2 What is the tax treatment of the principal forms of investment manager/adviser identified in question 2.4?

The tax treatment of the manager or adviser will depend on whether it is constituted as a company or an LLP. If a company, it will be subject to corporation tax on the fees paid by the fund (the current main rate of which is at 25%). The management team takes its remuneration in the form of salary (taxed at the highest applicable income tax rates, with NICs also due) and the excess profit can be extracted as dividend income. If the manager is an LLP, it is fiscally transparent, so the profit arising from the fees paid to the manager is automatically taxable in the hands of its members. As noted above, the salaried member rules will be used to ascertain whether a member should be taxed as a self-employed person or an employee. The apparatus of an LLP is likely to mean that it constitutes a UK permanent establishment of its non-resident members such that all of the members, regardless of where they are resident, must pay UK tax on their share of the LLP's profits arising from its UK trade as an investment manager/adviser.

Under anti-avoidance rules, amounts arising to an individual involved in fund management are taxed as trading income, unless such amounts are already taxed as trading income or employment income or fall into exceptions for carried interest or co-investments. Where amounts from the fund arise to another person – such as a priority profit share/fee income arising to the general partner or manager – these amounts can be potentially imputed to the individual fund managers and taxed in their hands if certain conditions are met.

In terms of funds structured as UK limited partnerships, where the general partner appoints a manager to manage the partnership, the fee payable to the manager will in principle attract value added tax ("VAT"). However, it is common for the manager to be put in the same VAT group as the general

partner of the limited partnership, such that no VAT arises on the fund management fee.

The UK is not typically used as a domicile for hedge funds, but it is a popular location for investment managers of hedge funds, and this is in part because of the Investment Manager Exemption ("IME"). Provided certain conditions are met, the IME ensures that a UK investment manager managing a non-UK fund will not constitute a permanent establishment of the fund in the UK. The IME enables a non-UK resident fund that is trading for UK tax purposes to appoint a UK-based investment manager without the risk of that part of the fund's profit that is attributable to the activity of the investment manager in the UK becoming subject to UK tax.

In relation to the taxation of carried interest, the general "tax transparency" principle is overlaid with: (i) a minimum charge of 32% for carried interest (compared with 24% for most other types of gains); and (ii) rules that can recharacterise carried interest receipts as trading income, taxable at the highest marginal rates, where the fund in question has a short weighted average holding period (the IBCI rules). The IBCI rules are complex, but broadly, where the average holding period of fund investments is less than 36 months, the carried interest returns will be treated as trading income. Where the average holding period is 40 months or more, the returns will be treated as investment gains or income. Where the average holding period is at least 36 months and less than 40 months, the returns are treated as a mix of investment return and trading income. There is an exception from the IBCI rules for carried interest awarded to employees (which the government has said will be removed from 6 April 2026 as part of the significant reform of the UK tax treatment of carried interest discussed further below). These rules relating to the taxation of carried interest do not affect the taxation of the fund itself or external investors.

The government has announced that there will be significant reform to the taxation of carried interest from 6 April 2026, but, at the time of writing, the legislation has not been finalised. Under the proposed reforms, carried interest will be taxed as trading income (regardless of the underlying nature of the return). A discount mechanism will be introduced so that 27.5% of carried interest that constitutes "qualifying carried interest" will not be charged to tax. Trading income is currently taxed in the UK at rates of up to 45% plus 2% NICs. Therefore, when the discount is applied, there will be an effective rate of about 34.1% for highest rate taxpayers on their qualifying carried interest. The government has said that carried interest will be "qualifying", provided it is not IBCI (see previous paragraph). It is also expected that, from 6 April 2026, the term "income-based carried interest" will no longer be used in the legislation, and the regime will be referred to as the "average holding period" regime.

6.3 Are there any establishment or transfer taxes levied in connection with an investor's participation in an Alternative Investment Fund or the transfer of the investor's interest?

There are no establishment taxes levied in connection with an investor's participation in an Alternative Investment Fund. Stamp duty may be payable on the transfer of limited partnership interests if the partnership property includes stock or marketable securities, although there are a number of methods of mitigating the effect of such duty. This position is expected to change as the UK government has announced wide-ranging reform to stamp duty. Under the reforms, it is expected that no stamp duty will be payable on transfers of partnership interests, but that anti-avoidance legislation will be introduced to prevent such interests being used as a method of transferring share ownership in order to avoid stamp taxes on shares. The detail of the reforms, which are expected to take effect in 2027, is yet to be finalised.

A separate tax, stamp duty land tax, may be payable where the partnership property includes land in England or Northern Ireland (with similar taxes potentially applying in relation to land in Scotland or Wales).

6.4 What is the local tax treatment of (a) resident, (b) non-resident, and (c) pension fund investors (or any other common investor type) in Alternative Investment Funds?

The use of tax-transparent limited partnerships as the primary vehicle for Alternative Investment Funds means that income and gains received by the fund are treated as if they had been received by the fund's investors directly. The taxation of the returns depends on whether the fund is treated as trading or investing.

The question of whether or not a fund is carrying on a trade in the UK is largely a question of fact. In practice, this is often determined by applying various criteria derived from case law – often referred to as "badges of trade" – to a fund's transactions. For example, churning investments and investing and divesting opportunistically would be likely to be indicative of a trading activity, whereas holding long for income and capital would be more likely to be considered an investment activity.

Private equity funds (the main users of the limited partnership structure) usually intend to buy and hold securities for the medium to longer term in order to achieve long-term capital appreciation. Consequently, they are more likely to be considered as investing rather than trading.

If the limited partnership is treated as investing then, as a result of its tax transparency, profit distributions from the limited partnership retain their character as capital gains or investment income and are taxed accordingly. The tax payable by a particular investor will depend upon its own tax profile. For example, if the fund receives dividend income, this would be taxed in the hands of a UK-resident individual, but a UK pension fund investor should not be subject to UK tax on such investment income. Most non-resident investors will only be subject to UK tax on UK-source investment income to the extent that it is subject to withholding tax or relates to UK land. Withholding taxes are potentially relevant to both UK interest and UK rental income (but generally not dividends), but there are reliefs from withholding. Generally, non-resident investors should not be subject to UK tax on capital gains unless: (i) they hold their interest for the purposes of a UK trade; or (ii) they fall into specific rules relating to UK property (and property-related) holdings (see below).

If the limited partnership is treated as trading for UK tax purposes, UK resident investors and non-UK resident limited partners will be subject to income tax (or corporation tax on trading income) on their share of the partnership's trading profits. This will be of particular concern for UK pension fund investors (who are only exempt from UK tax on investment income and gains). Non-UK resident investors will be caught because the partnership (or the fund manager) will constitute a taxable presence in the UK through which the non-resident is carrying on a trade, but in many cases the IME may be applicable.

The UK regime for taxation of gains arising to a non-resident from interests in UK land has expanded in scope significantly

from 6 April 2019. Before that date, the UK only taxed non-residents on gains from UK residential property (subject to important exemptions in the context of investment funds). Broadly, the general position now is that non-resident investors are subject to tax on gains arising from disposals of UK land and also on the disposal of substantial interests in relevant entities that derive at least 75% of their market value from UK land. However, the general position is significantly modified by complex specific provisions relating to collective investment vehicles.

Investors should also be aware of the annual tax on enveloped dwellings, which should be considered carefully when a fund invests in UK residential property.

Where a UK limited partnership receives income from non-UK jurisdictions that levy withholding tax, or receives capital proceeds from the sale of an asset situated in a jurisdiction that might tax that gain, then limited partners may seek to rely on the terms of a double tax treaty in order to obtain relief. Whether such relief is available will depend, in part, upon whether that non-UK jurisdiction treats a UK limited partnership as fiscally transparent.

6.5 Is it necessary or advisable to obtain a tax ruling from the tax or regulatory authorities prior to establishing an Alternative Investment Fund or local asset holding company?

Generally speaking, it is not necessary to obtain tax rulings prior to establishing an Alternative Investment Fund or UK asset holding company, although a company entering the ITC regime must be approved by His Majesty's Revenue and Customs ("HMRC") and a company entering the QAHC or REIT regimes must have notified HMRC in advance. In addition, HMRC must be given notification if a contractual scheme is to be a RIF.

6.6 What steps have been or are being taken to implement the US Foreign Account Tax Compliance Act 2010 (FATCA) and other similar information reporting regimes such as the OECD's Common Reporting Standard?

The UK entered into a Model 1 Intergovernmental Agreement with the US in September 2012 in relation to FATCA and subsequently introduced domestic legislation to implement FATCA reporting. Relevant Alternative Investment Funds established in the UK therefore have to carry out the required due diligence procedures and report prescribed information about relevant investors to HMRC.

In addition, the OECD Common Reporting Standard for Automatic Exchange of Financial Account Information has also been implemented into UK law.

Accordingly, UK funds will need to consider these information reporting rules in order to ensure that they are compliant.

6.7 What steps have been or are being taken to implement the OECD's Action Plan on Base Erosion and Profit Shifting (BEPS), in particular Actions 2 (hybrids/reverse hybrids/shell entities) (e.g. ATAD I, II and III), 6 (prevention of treaty abuse) (e.g. the MLI), and 7 (permanent establishments), insofar as they affect Alternative Investment Funds' and local asset holding companies' operations?

Following the publication of the OECD's final BEPS reports on 5 October 2015, the UK has taken the lead in the development and implementation of new rules relating to BEPS. For example, legislation having effect from 1 January 2017 was introduced in order to neutralise the effect of hybrid mismatch arrangements and legislation to restrict the tax deductibility of corporate interest came into force from 1 April 2017. In addition, the UK has implemented Country-by-Country Reporting and committed to implement Pillars One and Two (see question 6.8 below).

The UK signed the multilateral instrument in June 2017 and it entered into force for the UK on 1 October 2018. As expected, the UK adopted the principal purpose test in relation to its covered treaties, but did not narrow its definition of an independent agent or extend the definition of permanent establishment, other than adopting the provisions that prevent a permanent establishment being avoided by means of the fragmentation of activities.

As the UK is no longer a member of the EU, ATAD III will not be implemented in the UK. In addition, the government has not indicated that it will introduce measures equivalent to those contained in ATAD III.

6.8 What steps have been or are being taken to implement the OECD's Global Anti-Base Erosion (GloBE) rules, insofar as they affect Alternative Investment Funds' and local asset holding companies' operations? Do the domestic rules depart significantly from the OECD's model rules, insofar as they affect Alternative Investment Funds' and local asset holding companies' operations?

The UK has enacted legislation implementing much of the GloBE rules. Pursuant to these rules, the UK has introduced an income inclusion rule and domestic top-up tax for accounting periods beginning on or after 31 December 2023 and an undertaxed profits rule for accounting periods beginning on or after 31 December 2024.

The UK rules do not depart significantly from the OECD's model rules, insofar as they affect Alternative Investment Funds, but there are some differences; for example, the UK does not use the concept of "real estate investment vehicle" but instead specifically refers to UK REITs and "overseas REIT equivalents".

6.9 Are there any tax-advantaged asset classes or structures available? How widely are they deployed?

If there is appetite to establish a listed fund, then an ITC or REIT should be considered. As discussed in question 2.1 above, a REIT can now also be an unlisted vehicle where, broadly, it is at least 70% owned by institutional investors.

Provided certain conditions are met, ITCs are exempt from corporation tax on capital gains, can benefit from the general corporation tax exemptions from dividend income and can potentially deduct dividends paid to investors that represent interest income from their interest receipts. Provided certain conditions are met, REITs are exempt from corporation tax on the income profits of their property rental business and on gains arising on disposals of assets used in such business (potentially including interests in certain entities that are UK real estate rich) and can benefit from the general corporation tax exemptions from dividend income.

6.10 Are there any other material tax issues for investors, managers, advisers or AIFs?

The tax position of an investor in a UK Alternative Investment Fund will inevitably depend upon its own tax profile – accordingly

investors should always seek independent advice on the tax implications of participating in the fund, and managers should advise investors of this fact.

6.11 Are there any meaningful tax changes anticipated in the coming 12 months other than as set out at question 6.6 above?

As discussed in question 6.2 above, the UK taxation regime for carried interest is expected to be significantly reformed from 6 April 2026.

As mentioned in question 6.3 above, the UK government may be considering wide-ranging reform to UK stamp taxes on shares.

7 Trends and Reforms

7.1 What have been the main trends in the Alternative Investment Funds space in the last 12 months?

Continuing divergence from EU law, including proposed amendments to the UK retail disclosure regime.

The increased use of NAV facilities by private equity and infrastructure funds was a key trend, and the Institutional Limited Partners Association issued much anticipated guidance for limited partners and general partners on NAV-based facilities last year. These types of facilities are a useful tool in a fund manager's liquidity toolkit to maximise value from a fund's investments, however there are concerns from some investors that these facilities enhance a fund's performance when they are used to accelerate distributions. The guidance seeks to address those concerns.

Continuing trend in demand for liquidity amid slower exits and fund managers using continuation vehicles, cross-fund trades and preferred equity to generate liquidity.

The increased demand for co-investments from fund managers and investors was a trend. As the fundraising market remained challenging last year, fund managers became increasingly dependent on co-investors to get deals over the line. There was also an increase in the demand from investors for separately managed accounts and funds of one as a result of the challenging economic and political environment as these structures allow investors more control of their investments.

The increasing retailisation of private markets – the UK has continued to develop products for the retailisation market.

ESG and sustainable finance also remained a key trend and investor demand for "green products" continued.

Artificial Intelligence ("AI") has been, and continues to be, a trend in investment management as is legal tech. AI is widely seen by managers as key to unlocking new ways to use data to differentiate themselves and to achieving operational efficiency and cost reduction. Managers have been experimenting and continue to experiment with different AI use cases, for example, to answer due diligence questionnaires, deploying it in the back office. In contrast to the EU, which has the EU AI Act, the UK does not, at the time of writing, have specific AI legislation regulating AI, and the approach has been to allow regulators to assess how AI interacts with the regimes for which they are responsible and apply existing law. We expect that there will be some form of AI legislation in the UK, but it will be much narrower than the EU AI Act.

Read our expert analysis chapter for more information on trends in the Alternative Investment Funds industry.

7.2 In your opinion, what reforms (if any) in the Alternative Investment Funds space would be advantageous for the evolution of the private markets?

The UK government has said that it would like to encourage the UK as a leading destination for private markets activity including by simplifying regulation (particularly for Alternative Investment Managers) and facilitating cross-border activity. If adopted, these would be positive developments for the UK Alternative Investment Funds industry.

The FCA and HM Treasury have recently released consultations on changes to the UK AIFMD regime. These are with a view to making the UK AIFMD regime more proportionate and less burdensome. Potential changes could include a new tiered approach to classifying AIFMs with new thresholds and rules applying on a more proportionate basis. Rules which are deemed to be too restrictive could also be simplified or disapplied. For UK AIFMs, any reduction in the regulatory burden would be very welcome.

Draft legislation and rules setting out the framework for a new UK retail disclosure regime have also been published (including the rebranding of PRIIPs as "Consumer Composite Investments"). The stated intention is for a less prescriptive, more user-friendly approach to retail disclosures. Assuming that this is reflected in practice, this has the potential to be helpful for firms dealing with retail clients.

Since taking office in July last year, the UK government's message has been economic growth. It recognises that harnessing private capital can drive and support this mission. It wants to encourage pension funds to invest more by, among other things, increasing scale to facilitate more productive investments, including in UK private markets. The government has recently introduced the much-anticipated Pension Schemes Bill to Parliament. The Bill includes major measures to bring about significant consolidation in the DC pension market and greater asset pooling by the funds that make up the Local Government Pension Scheme in England & Wales. Ahead of this, in May 2025, 17 of the largest workplace pension providers in the UK signed the new "Mansion House Accord". Under the Accord, which is not legally binding, signatories have committed to "allocating at least 10% to private markets across all main DC default funds by 2030" and "within that, at least 5% of the total going to UK private markets, assuming a sufficient supply of suitable investible assets for providers". The government expects new investment of up to £50 billion (£25 billion in the UK) in assets including infrastructure, property and private equity. But this is subject to trustees' fiduciary duties to savers and the Consumer Duty for FCA-authorised firms. There are also significant caveats in the Accord around the government and regulators doing their bit on various "critical enablers". In case this initiative does not produce the desired results, the government has included in the Pension Schemes Bill a regulation-making power that would effectively enable it to require default fund investment in private markets, including in the UK, of at least prescribed percentages.

Fundraising remains challenging in the current economic and political environment and fund managers therefore need to find a way to stand out. Also, as new pools of capital continue to flow into the private markets, fund managers will need to decide whether to pursue this private wealth capital and expanded investor base or stick with their institutional offering.

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