



The Association of Real Estate Funds

# **AREF FUNDaamentals**

## **Training Series – Session 1**

### **‘Introduction to Funds Foundation**

**17 June 2025**

**#AREFFUNDaamentals**

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The Association of Real Estate Funds

**Welcome from our Sponsor**  
**Ben Grainger**  
**Aztec**



# NXTGEN

Private Markets' Future Leaders



AZTEC GROUP





## About Aztec NxtGen

NxtGen is an Aztec Group initiative for young professionals within the private funds industry.

The aim of the group is to provide members with opportunities for networking, creating meaningful connections and supporting professional growth for the future leaders in our industry.

### Aztec NxtGen journey so far

- May 2024 - Rooftop drinks – The Madisson
- In September 2024 - Breakfast Networking – The Happenstance
- December 2024 Breakfast networking - Duck & Waffle
- March 2025 – Networking drinks - Oche The Strand,
- March 2025 NxtGen panel event (Luxembourg)
- July 2025 – Rooftop drinks (London)
- September 2025 – Breakfast Networking with guest speaker (London)



Scan the QR code to join our Aztec NxtGen LinkedIn group today!



**168+** members on LinkedIn



Initiative rolled out in our UK, Luxembourg, Jersey and Guernsey offices



**5** successful events across the UK and Lux, hosting **126** attendees



# Presenters



**Darren Stolzenberg**

**Partner, CMS**

**Chair Education & Training  
Committee**



**Charles Crowe**

**Head of Investment, PGIM**

**Member Education & Training  
Committee**

# Agenda

09:00 Welcome and housekeeping

- 09:05
- Setting the Scene
  - Open v Open v closed ended funds
  - Authorised v unauthorised funds
  - Common fund vehicles
  - Basic fund structuring
  - Fund manager considerations
  - The role of leverage
  - What fund managers invest in

10:00 Q&A

10:15 Close

# The FUNDaamentals Series

**Session 1**      **Introduction to Funds Foundation**

**Session 2**      **Introduction to Fund Regulation & Structures (Q3 2025)**

**Session 3**      **Introduction to Fund Taxation (Q4 2025)**

**Session 4**      **Introduction to Fund Terms (Q1 2026)**

**Session 5**      **Introduction to Fund Financials & Performance (Q2 2026)**

**Session 6**      **Introduction to Fund Transactions (Q3 2026)**



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# Setting the scene

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## Challenges

1. Challenging fund raising market
2. Decline of DB in favour of DC pension schemes
3. ESG / Stranded assets
4. Global economic outlook

“Difficulties mastered are opportunities won” – Winston Churchill

## Opportunities

1. Falling interest rates
2. Stable UK environment
3. Influx of international private capital
4. Government aim to encourage pension capital to invest domestically.
5. Regulatory change / RIF

# AIFMD – A quick recap

- Alternative Investment Fund Managers Directive - EU regime for unregulated funds (AIFs)
- Implemented into national law – e.g. UK AIFM Regulations / Lux AIFM Law.
- UK currently proposing simplification to funds regime
- AIFM, not fund, is regulated – in UK by FCA / in Lux by CSSF
  - Responsible for risk and portfolio management
  - Delegation permitted subject to letter box entity rule
- Marketing rules vary depending on where fund and manager are located:
  - EU AIF and (full scope) EU AIFM: marketing within EU under passport
  - Non EU AIF or non-EU AIFM: marketing only under NPPRs.
  - Brexit: Passporting rights not available in respect of UK AIFs and/or UK AIFMs.
  - Varying degrees of flexibility under NPPRs, e.g.:
    - UK / Lux quite flexible
    - Germany / Denmark – gold plating requirements
    - France / Italy / Spain – very difficult



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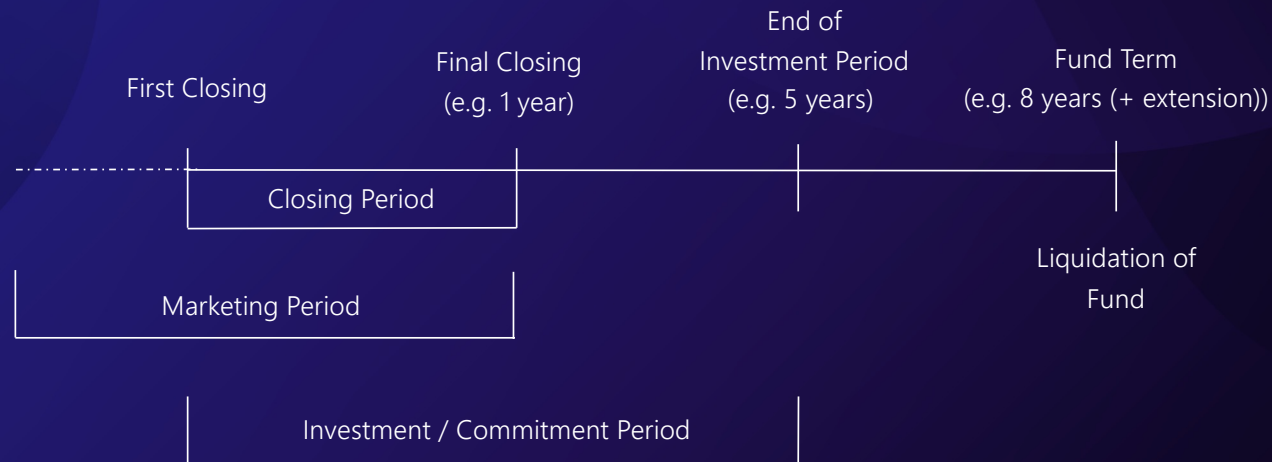
# Open v closed ended funds

# Open-ended funds

- Perpetual life
- Interests priced on NAV:
  - Pure NAV pricing
  - Bid offer spread
  - Capitalisation and amortisation
- Regular subscriptions / redemptions
- Recycling of capital
- Fees typically based on valuations (i.e. NAV / GAV)
- Liquidity management
- Promote / Carry

# Closed-ended fund

- Finite life with limited subscription window- manage multiple closes
- Equalisation
- Investors have no right to withdraw – secondary market in fund interests- can create sub opportunity
- Issues around end of fund life / market cycles
- Promote / Carry
- Fund of “One” increasingly common





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# **Authorised v unauthorised funds**

# Authorised & Unauthorised funds

- **Authorised funds**

- Fund supervised by a regulator (e.g. FCA or CSSF)
- Prescriptive rules – e.g. governance / assets / leverage / derivatives
- UK: OEIC, AUT, ACS, PAIF, LTAF
- Luxembourg: SIF, SICAR, ELTIF
- European Union: UCITS
- Usually used where aiming at retail investors BUT note LTAF

- **“Unauthorised” funds**

- All other funds including RIF
- Predominantly institutional / professional investors
- NOTE still indirectly regulated through AIMFD



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# Q&A

**Please raise your hand to ask a Question and we will  
unmute you**



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# **Common private fund vehicles**

# UK / Lux Limited Partnership (LP)

- **Legal form**
  - Partnership, constituted by limited partnership agreement
  - ELP / Lux SCSp (no legal personality) v SLP / Lux SCS (separate legal personality)
- **Key players**
  - General partner (GP) – responsible for management and liable for all debts
  - Limited partners – limited liability but cannot take part in management
  - Fund manager / investment adviser – appointed by GP, typically in same group
  - Carried interest partner – receives carry (performance related profit share over a “hurdle”)
- **Tax treatment**
  - Tax transparent for income and gains – investors taxed as though making direct investment.
- ELP still commonly used for UK funds and where Europe is not a significant target market.
- Lux SCSp / SCS now first choice for pan-European funds.

# Real Estate Investment Trust (REIT)

- **Legal form**

- Can be a UK or offshore company
- But **MUST** be UK tax resident
- Prior to April 2022 required listing or technical listing e.g. on TISE. However the listing requirement for private REITs no longer applies from April 2022 provided certain conditions are met.

- **Tax treatment**

- Must distribute 90% of income
- 75% of its business must be from property rental
- Tax exempt on **income** from its property rental business and **gains** on sale of properties and property-rich companies.
- A 20% withholding tax applies to distributions of property income and gain, but the rate of withholding may be eliminated or reduced depending on the tax profile of the relevant investor.

- **Essentially a closed ended vehicle**

- Typically used as asset owning vehicle below a fund (“private” / “captive” REIT)

# Jersey Unit Trust (JUT)

- Legal form – Offshore contractual trust arrangement, no separate legal personality
- Key players
  - Trustee (offshore – usually professional)
  - Manager (offshore – often combined with trustee role)
  - Investment adviser (usually onshore)
- Tax treatment
  - Tax transparent for income (if structured as “Baker” trust)
  - Since 2019, subject to CGT on disposals of UK property (or on disposal of UK property rich entities), but may be able to take advantage of exemption or transparency election
  - No transfer tax on the issue, transfer or redemption of units
  - Management and operation must remain offshore
- More often used as a structuring vehicle within fund structures, rather than fund vehicle itself
- Allows efficiencies on exit

# Reserved Investor Fund

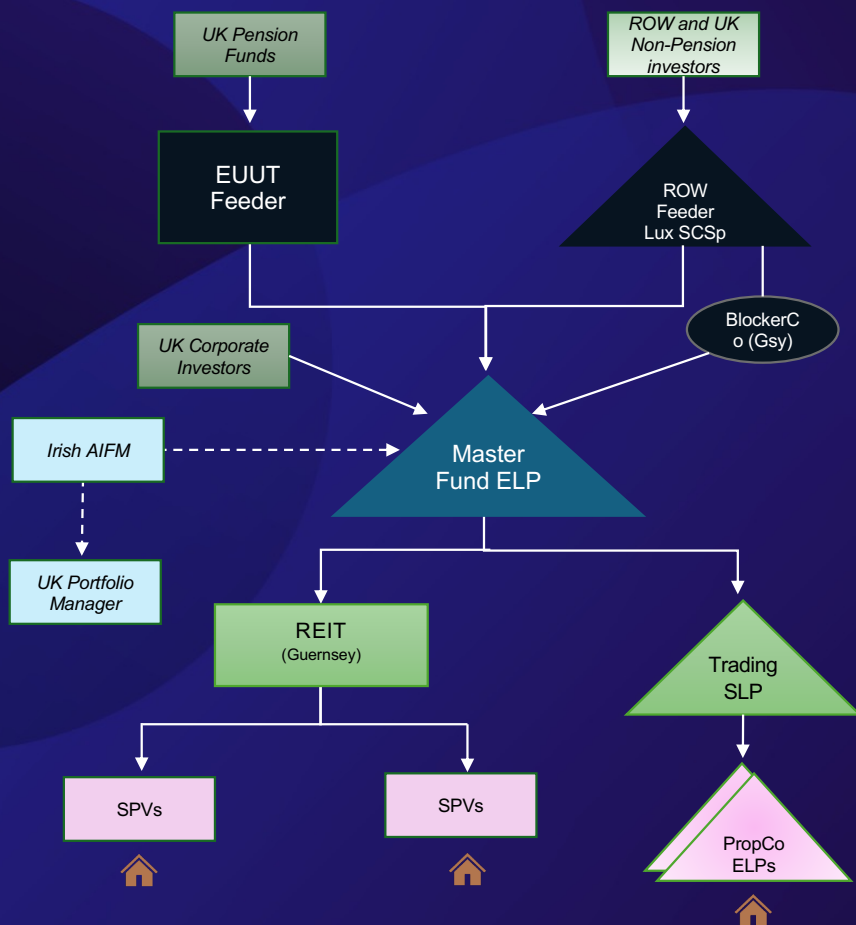
- Available from 19 March 2025
- Legal form
  - Unregulated fund
  - Contractual arrangement - no legal personality: needs an AIFM
  - Similar to Lux FCP or Jersey unit trust
- Tax treatment
  - Tax transparent for income and gains
  - Exempt from capital gains (investors taxed on disposals subject to status)
  - Opaque for UK stamp duty purposes
  - Free from UK stamp/transfer taxes on secondary trades
  - Seeding relief available for transfers of property
- Why all the fuss?
  - Fully onshore
  - Unregulated so likely to be quicker and cheaper to market and operate than, say, LTAF, ACS or PAIF
  - To be seen but may only end up being used in limited cases eg open ended UK funds with perpetual life / investment purpose



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# Basic fund structuring

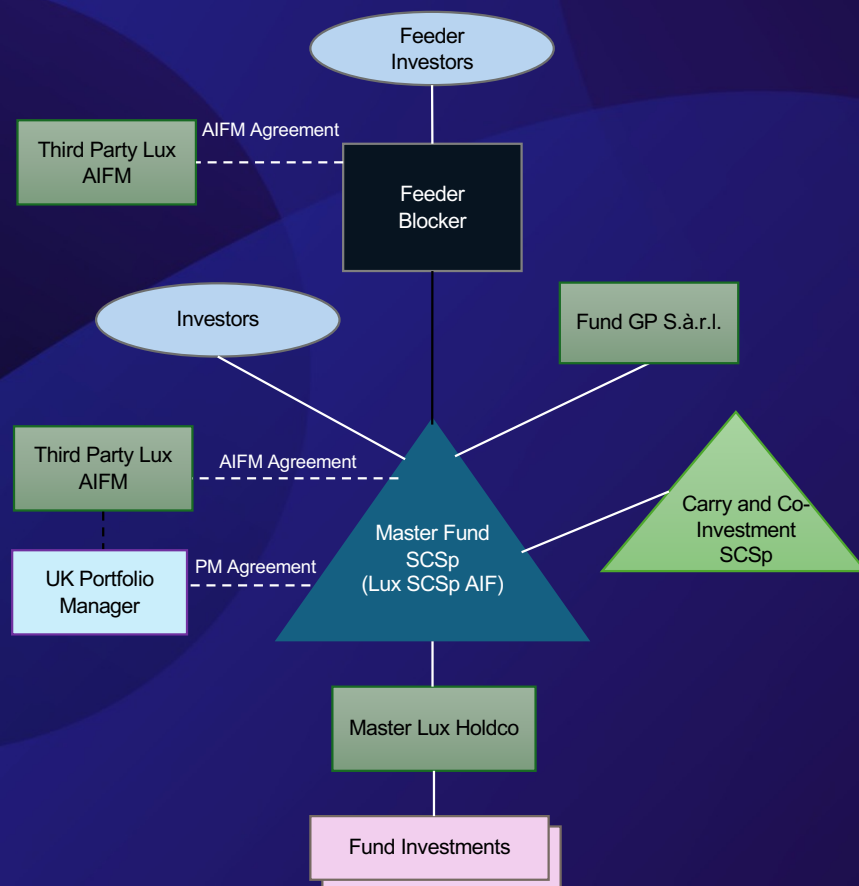
# Structure 1 – UK Affordable Housing Fund



- Closed-ended UK affordable housing fund, undertaking both investment and development for sale activity. Targeting mix of UK and international tax-exempt and corporate institutional investors (but limited EU investors):

- Master Fund constituted as an ELP, with Guernsey GP (note not subject to AIFMD and no passport, but VAT savings on fees).
- UK tax exempts invest through the EUUT. Other non-tax exempt UK and overseas investors invest via Master Fund ELP or Lux Feeder SCSp.
- REIT (and its group) tax exempt on its underlying property investment business.
- Development trading activity subject to 25% limit in REIT, so undertaken through separate Trading LP structure.
- Trading income from Trading LP is streamed via A and B tracking units and “blocked” by BlockerCo and EUUT

# Structure 2 – Pan-European real estate fund



- Closed-ended pan-European property fund. Targeting global mix of institutional investors, including EEA and US.
  - UK based fund manager looking to access EEA and US investors post-Brexit.
  - GP appoints third party Lux AIFM, with portfolio management delegated by the AIFM back to the UK based client.
  - EEA investors are marketed to under the AIFMD marketing passport (as EEA AIF with EEA AIFM).
  - Most investors invest directly into Master Fund.
  - A feeder fund is offered for certain investors who require a “blocker” (i.e. tax opaque fund vehicle) for tax purposes.
  - Properties are held by a number of SPV portfolio companies, all aggregated under a Master Lux Holdco.
  - UK Portfolio Manager provides portfolio management services to Master Fund and portfolio companies



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# Q&A

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# **Fund manager considerations**

# Structuring considerations

## 1 Planning

Strategy

Competition

Investors

Structure

Advisers

Approvals

## 2 Capital raising

Investor presentations and pitch books

Soft marketing

Check documents and regulatory approvals

PPMS and other fund documents complete

Onboarding investors

Fee arrangement for seed investors

## 3 Deployment and running your fund

Investment period

Drawdowns (Multiple ?) and deployment

Stock selection

Debt

Client reporting and presentations

LPAC/IAC



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# **The role of leverage**

# Leverage

- Fund level
- Subscription facility
- Portfolio level
- Asset level
- Enhance returns/ Stretch Capital/ "Stay in the Market"



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# **What fund managers invest in**

# What's hot and what's not?- Structures

## HOT

- Thematic investing
- Vertical integration
- Platforms
- Seeded funds
- Roll over Funds
- Secondaries

## NOT

- Diversified funds
- UK Open Ended Fund
- Allocator funds
- Blind pool funds

# The Market Environment- Asset Classes

## Established

Offices

Retail- shopping centres/ high street

Retail Warehouses

Industrial- traditional multi let/ logistics

Alternatives – lease model

## Establishing

Industrial- ULI

Alternatives- operating model (Student/ Residential/ Hotels)

## Newcomers

Data centres

Self Storage

Real estate infra

Senior Living/ Healthcare

Leisure/Hotel

Concepts

LDI Structures

# The Market Environment- Business Structures

## Changing concepts of management

Vertical Integration – driven by operating businesses

Internal management solution

- Employ all functions in house

External Management Solution

- Platforms
- Create or buy
- Fund owns a stake in platform but costs outside the business/ fund cost



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# Q&A



**Thank you to our speakers**

**Thank you to Aztec for sponsoring**

**Thank YOU for attending**