

Opportunities in the UAE for Global Fund Managers: Market Access and Benefits of an Independent Management Company



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The United Arab Emirates (UAE) has emerged as a vibrant and rapidly growing international financial centre, offering a wealth of opportunities for fund managers seeking to expand their operations.

Recent regulatory changes, coupled with increasing private wealth inflows and a diversified economy, position the UAE as an attractive destination for fund management. In this article, we explore why fund managers globally are considering the UAE for growth, the challenges they may face with entering the market, and how an independent management company (ManCo) can facilitate speed to market, compliance and operational efficiency in this evolving landscape.

The UAE: A Financial Hub in Transition

The UAE, a federation of seven emirates, has transformed into a diversified financial powerhouse. There are three fund domiciles in the UAE: 'onshore' funds, the Abu Dhabi Global Market (ADGM) funds, and funds domiciled in the Dubai International Financial Centre (DIFC).

Each fund domicile has separate financial services laws, regulations and regulators. More recently, the onshore regulator – the Securities and Commodities Authority (SCA) – has developed its own regulatory framework for fund management and fund distribution based on international best practice.

With over \$950 billion in private wealth and an influx of high-net-worth individuals¹, the UAE's financial services sector is witnessing significant demand. Recent regulatory updates in onshore UAE, including the 2023 Investment Funds Regulation's introduction of new fund types and reduced capital requirements, have aimed to streamline processes and enhance the country's appeal to attract global investors and fund managers to establish an in-region presence.

Fund managers must now navigate regulatory complexities effectively, making the role of an experienced, independent and local ManCo a key partner for growth and regulatory compliance.

Strategic Rationale for Fund Managers

The UAE's fund market is witnessing unprecedented growth, with over 360 funds domiciled in its financial free zones.² Notably, the registration of funds in DIFC and ADGM surged by 20% annually between 2021 and 2024,

with momentum set to continue into 2025. As sovereign wealth funds increasingly favour domestic investment vehicles, fund managers must adapt to the evolving regulatory landscape to capture these opportunities.

This was further emphasised through the SCA's 2023 regulatory changes to require:

1. Where marketing is to a professional investor, that foreign-domiciled funds be registered by SCA, and that marketing of that fund to the professional investor be conducted through an SCA licenced intermediary; and
2. A full prohibition on promoting foreign-domiciled funds to retail investors.

Since the introduction of the restriction of promotions of foreign funds, we understand that SCA has received over 40 applications for fund management licenses in mainland UAE. This momentum is expected to continue with the release of the draft GCC fund passporting scheme.

Challenges and Regulatory Changes

As the UAE seeks to bolster its local fund market, several challenges and regulatory changes have emerged:

1. Prohibition on promotion of foreign funds: Effective from 1 April 2024, the SCA prohibited the promotion of foreign funds to retail investors unless they are affected through a local fund structure. Further, the exemption permitting promotion of foreign funds to professional investors by unlicensed intermediaries was eliminated other than for promotion to sovereign wealth funds. This significant shift aims to encourage the establishment onshore of more local funds and onshore regulated intermediaries and reduce reliance on foreign vehicles, compelling fund managers to rethink their market strategies.

2. New investment funds regulations: SCA introduced broader fund categories, including family funds, self-managed funds, and specialised fund types like ESG funds. While these regulations create opportunities, they also introduce additional compliance complexities.

3. Operational and capital requirements: Recent amendments have significantly reduced the minimum capital requirements for fund managers and expedited approval processes, allowing for quicker market entry. However, fund managers still face the challenge of navigating these new regulations efficiently and ensuring compliance while operating effectively.

4. Increased monitoring: SCA has intensified its scrutiny of unlicensed activities, particularly concerning the distribution of foreign funds. Fund managers must ensure they adhere to the new guidelines to avoid penalties.

5. Market Competition: With several international asset managers establishing a presence in the UAE, competition for capital and market share is intensifying. Fund managers must differentiate their offerings and demonstrate value-add to attract investors.

Routes to Gaining Onshore Market Access

The recent regulatory and market reforms restrict foreign fund public promotion and offer four main paths for UAE onshore market access:

1. Establishing a SCA-licenced onshore fund manager and registering a UAE public fund;
or
2. Establishing a freezone regulated fund manager in the DIFC or ADGM and registering a freezone based fund which is then passported, with approval from SCA, into mainland UAE;
or
3. Where the target market is UAE professional investors, registering a foreign-domiciled fund and appointing a locally licenced promoter to promote that fund within onshore UAE;
or

4. Utilising the facilities of an independent SCA-licensed ManCo to create, for example, UAE domiciled feeder funds into foreign structures, enabling access to retail investors in the UAE.

Key Benefits of Appointing an Independent ManCo

In this shifting landscape, engaging an independent ManCo can provide a strategic advantage for fund managers looking to establish a foothold in the UAE by accessing the UAE market efficiently, navigating the complexities of the regulatory environment, and streamlining operations and costs:

1. **Optimised Capital Raising and Speed to Market:** An independent ManCo that holds a 'Category 2' (fund management) and 'Category 5' (promoter) licence possesses the necessary regulatory approvals, infrastructure, and expertise, to enable both quicker fund setup and access to the local market. This agility is crucial for fund managers aiming to capitalise on market opportunities.
2. **Expertise and Compliance:** Independent ManCos have specialised knowledge in regulatory compliance, risk assessment, and portfolio management. This expertise allows fund managers to navigate the complex local and global regulatory environment with confidence.
3. **Cost Efficiency:** By appointing an independent ManCo, fund managers can avoid the costs associated with establishing an in-house team.
4. **Independent Oversight:** The impartial nature of independent ManCos fosters investor confidence. They provide transparency and oversight that is appealing to risk-conscious investors, reducing liability exposure for fund managers.
5. **Local Knowledge:** Independent ManCos are well-versed in local regulations and maintain established relationships with regulatory authorities. This local knowledge can significantly reduce the administrative burden on fund managers and enhance compliance efforts.

By leveraging the expertise, infrastructure, and regulatory compliance of a ManCo, fund managers can position themselves for success in this dynamic market. As the UAE continues to diversify its economy and attract global investments, those who embrace these changes will undoubtedly find themselves at the forefront of the region's financial evolution.

How Waystone Can Assist

As a global provider of specialist services to the global asset management industry including 20 years with a locally based presence in the UAE, Waystone's team brings a deep understanding of the UAE market and its regulations. By combining our extensive governance, risk and compliance expertise with the most advanced technology available, we can construct local and global fund management solutions and provide the infrastructure you need for long-term success, allowing you to focus on growth and raising capital.

If you have any queries on the themes raised in this article and operating in the UAE, please contact your usual Waystone representative or us via the below.

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¹ Alternative Investor

² DFSA and FSRA public registers