Reserved Investor Fund – new UK fund structure explained

The Reserved Investor Fund ('RIF') is a new type of structure introduced to enhance the existing UK funds regime. Primarily targeted at professional and institutional investors, the RIF is expected to be particularly attractive to investors in commercial real estate, ***Sarah Fuller*** *and* ***Shane Hatch*** *explain.*

The UK government introduced the Reserved Investor Fund (RIF) to attract both domestic and international capital by providing a flexible and cost-effective investment vehicle for investors. The final regulations were published in February and come into force on 19 March 2025.

The RIF provides a UK-based unauthorised contractual scheme (UCS), offering lower costs and more flexibility than authorised contractual schemes. A UCS is a type of UK investment vehicle that is not authorised by the Financial Conduct Authority (FCA). These schemes are typically designed for professional and institutional investors who are considered to have the expertise and resources to understand and manage the associated risks. This means they can offer greater flexibility in terms of investment strategies and asset classes compared to authorised schemes, as well as being exempt from certain regulatory requirements, which can reduce costs and administrative burdens. Also, like other investment vehicles, such as, qualifying asset holding companies (QAHCs) designed for sophisticated investors, they often benefit from favourable tax treatment.

Competitive onshore option

RIF's regulatory flexibility and cost efficiencies can be particularly advantageous for specific investment strategies, such as private equity, real estate, and hedge funds. For the UK government a RIF's specific properties make it much more competitive with offshore alternatives and so help retain investments within the UK. The structure has also been designed to facilitate investments in illiquid assets like commercial real estate to help drive growth, create jobs, and support infrastructure development.

Properties of a RIF

- **Classification** – it's classed as an alternative investment fund (AIF) and must have a UK incorporated operator and a Depositary.
- **Investment strategy** – it can invest in any asset class, giving investors in an onshore fund access to illiquid assets like real estate, derivatives, and other sophisticated financial instruments.
- **Lighter regulatory burden** – the simplified regulatory requirements for the RIF mean it can respond more dynamically to market changes and investment opportunities.
- **Tax efficiency** – a RIF is transparent for income tax purposes and opaque for Capital Gains Tax (CGT). This means that an investor will only be charged on their gain in the RIF units, rather than CGT being charged on the underlying assets. The RIF itself will not be subject to CGT, meaning enhanced after-tax returns.
- **Stamp duty treatment** – a RIF will be treated as a company for Stamp Duty Land Tax (SDLT) purposes, so no SDLT is payable on the transfer of units in a RIF. The RIF will be subject to SDLT on the acquisition of a relevant asset. There are also Stamp Duty Reserve Tax (SDRT) and Capital Allowance advantages for a RIF.

5 steps to set up a RIF

1. Define the fund's investment objectives, target assets, and investor base.
2. Engage service providers, such as an Alternative Investment Fund Manager (AIFM) and a depositary to oversee the fund's assets.
3. Prepare the fund's constitutional documents, including the marketing material, partnership agreement, and third-party agreements. Submit to the FCA or other relevant regulatory bodies for approval.
4. Consult with experts to ensure the fund's structure is tax-efficient and establish how you manage the administration, including accounting, reporting, and compliance systems.
5. Once all approvals are obtained and the infrastructure is in place, launch the RIF and begin marketing it to potential investors.

6 steps to convert a fund into a RIF

1. Assess the eligibility of the current fund, including the types of assets held and the investor base.

2. Engage key parties, such as an AIFM and a third-party depositary.
3. Prepare the legal and regulatory documents and submit them to the relevant regulatory authorities for approval.
4. Inform existing investors about the conversion process.
5. Transfer the current fund's assets into the new RIF structure.
6. Once all approvals are obtained and assets are transferred, officially launch the RIF and begin operations under the new structure.

How RIFs and QAHCs are complementary

One of the benefits of RIFs is how they can be combined with QAHCs to enhance investor benefits further. A QAHC is a non-listed, UK tax resident holding company that can also take advantage of significant tax benefits. Like a RIF, newly incorporated companies can register for QAHC status, though the legislation does also allow for the regime to be applied retrospectively to existing companies. There has been a growing interest in QAHCs since legislation was introduced on 1 April 2022.

Both RIFs and QAHCs are designed to enable institutional investors and funds domiciled in the UK to hold assets in various private market investment strategies in the most tax efficient and flexible way. Below are some examples of how RIFs can be used together with QAHCs to deliver better outcomes for investors.

More investment flexibility

A pension fund looking to invest in commercial real estate can use a RIF to pool capital from various institutional investors. The RIF can then establish a QAHC to hold the real estate assets. This structure allows the pension fund to benefit from the flexibility and tax advantages of both the RIF and the QAHC.

Tax efficiency

An investment fund using a QAHC to hold assets can benefit from the tax-neutral treatment of income and gains. When combined with a RIF, the fund can ensure that investors are taxed as if they had invested directly in the underlying assets, without incurring additional tax liabilities. This minimises tax leakage and ensures more of the gains are retained by the fund.

Simpler compliance process

A RIF managed by a UK-authorised AIFM can use a QAHC to hold assets, ensuring compliance with UK regulations. The QAHC can streamline reporting and regulatory requirements, making it easier for the RIF to operate within the legal framework. This helps managers reduce administrative burdens and costs.

Enhanced transparency and reporting

A RIF can leverage the reporting capabilities of a QAHC to provide detailed and frequent updates to investors. This transparency means investors have access to accurate and timely information about their investments, building more confidence in the fund manager's capabilities

Risk management

A RIF investing in illiquid assets can use a QAHC to manage liquidity risk. Effective risk management using a QAHC helps protect investor capital and ensure the stability of the fund. This can lead to more consistent returns and reduced volatility, benefiting investors in the long term.

Below compares the characteristics of these two tax-efficient structures.

	QAHCs	**RIFs**
Target audience	Aimed at institutional investors, including pension funds, sovereign wealth funds, and certain qualifying funds.	Targeted at professional and institutional investors, particularly for investments in commercial real estate.
Structure and flexibility	A streamlined and beneficial tax regime for eligible companies, allowing for tax-efficient buybacks and management of UK interest deductibility.	A more flexible and cost-effective structure compared to authorised contractual schemes.

Tax benefits	Exempt from UK corporation tax on income and gains arising from non-UK real estate.	Designed to enhance the existing funds regime with potential tax efficiencies, but specific tax benefits may vary based on the structure and investments.

Examples of similar structures in other jurisdictions

In Europe, similar investment options include the Long-Term Asset Fund (LTAF), aimed at professional investors and focusing on long-term investments and Real Estate Investment Trusts (REITs), common across many European countries for real estate investments.

In the US, comparable options are private equity funds, which invest in private companies not listed on public exchanges; Real Estate Investment Trusts (REITs), like those in Europe and focusing on real estate; and hedge funds, offering a range of investment strategies for high-net-worth individuals and institutions.

With the express purpose of giving professional and institutional investors more onshore options in the UK, RIFs are an alternative lever that investors can pull to diversify their portfolios and access unique investment opportunities. For more on how Aztec Group can help, get in touch below