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PRIVATE EQUITY AND VENTURE CAPITAL IN THE UAE: KEY DIFFERENCES FOR INVESTORS AND FOUNDERS

At a glance: PE usually involves larger, control-oriented investments in established businesses. VC typically backs earlier-stage companies through minority investments and staged funding rounds. Those commercial differences drive the legal terms, governance rights, fund regulation and exit mechanics.

The UAE has become a regional center for private capital. DIFC and ADGM offer common law frameworks, independent courts and specialist regulators, making them popular platforms for PE and VC funds, holding companies and investment structures.

Structure matters: a mainland operating company, a DIFC fund and an ADGM VC Manager each raise distinct regulatory, tax and enforcement issues.

PE AND VC: THE BUSINESS DIFFERENCE

Both strategies invest in private companies, but they differ mainly by the target's maturity, risk profile and capital needs.

Target Companies and Risk

VC typically funds early-stage, high-growth businesses that may not yet be profitable.

PE usually targets mature businesses with established trading histories, with value created through operational improvement, acquisitions and margin growth.

As a result, VC carries higher company-stage risk and is often funded in rounds. PE is generally more capital-intensive and focused on control, governance and execution of a business plan.

Equity Stakes and Deal Structure

VC investors usually take minority stakes, often through successive funding rounds. UAE VC deals may be made directly into the operating company or through DIFC or ADGM holding companies, SPVs, SAFEs, convertible instruments or preferred shares, depending on tax, licensing, enforceability and investor requirements.

PE investors often seek control or significant governance rights. Deals are commonly structured as buyouts using a new acquisition vehicle, with founders or management rolling over part of their proceeds so that they remain aligned with the new owners.

KEY CONTRACTUAL DIFFERENCES

Because the commercial objectives are different, PE and VC deal documents use similar concepts in different ways. The key points are below.

Leaver Provisions

Leaver terms protect value if a founder or manager leaves before exit.

In PE, good leaver definitions are usually narrow, and pricing consequences are used to keep management committed. In VC, leaver terms focus on founder retention and are commonly linked to vesting, compulsory transfers, buybacks or conversion of shares, depending on the relevant company law regime.

Vesting

Vesting is central in VC. Founders typically earn equity over time, often over four years with an initial cliff, with possible acceleration on a sale or wrongful termination.

In PE, traditional founder vesting is less common. Management equity is more often managed through leaver provisions, ratchets, hurdles, escrow arrangements or forfeiture mechanics.

Ratchets

In PE, ratchets reward management if agreed performance targets are met. In VC, ratchets usually operate as anti-dilution protection, giving investors additional shares or economic adjustment if a down round occurs.

Drag-Along Rights

A drag right lets specified shareholders force a sale by the minority. PE investors usually want broad control over the drag. VC investors often require investor-majority consent, giving them both influence over an exit and protection against being forced into a sale they do not support.

DIFC FUND FRAMEWORK

Fund Categories

DIFC PE and VC funds are typically structured as Exempt Funds or Qualified Investor Funds (QIFs), offered only by private placement to Professional Clients.

Feature	Exempt Fund	Qualified Investor Fund
Investors	Professional Clients only	Professional Clients only
Investor cap	No current DFSA cap	No current DFSA cap
Minimum subscription	USD 50,000	USD 500,000
Offer type	Private placement only	Private placement only

DFSA TREATMENT: PE VS VC

Private Equity Funds:

- DIFC Private Equity Funds are usually closed-ended, reflecting the illiquid nature of the portfolio.
- They are subject to the 25% single-venture concentration limit unless the fund is established to invest in a single venture.
- Related-party transactions are controlled and generally require prior investor approval by special resolution.
- If no eligible custodian is appointed, an investment committee is required.

Venture Capital Funds:

- A DIFC VC Fund must be an Exempt Fund or QIF that invests at least 90% of committed capital in qualifying unlisted ventures incorporated for no more than 10 years at first investment.
- Permitted investments include shares, convertible debt and instruments with equity participation rights issued by the portfolio company.
- VC Funds are not subject to the PE single-venture concentration limit.
- The regime is lighter: internal audit and finance officer appointments are not mandatory, self-custody is permitted, and an investment committee is optional.
- DIFC VC-only managers may benefit from lighter capital treatment, but the precise capital, liquidity and financial resources position should be checked against the manager's licence and current DFSA PIB requirements.
- Subsidised DFSA and DIFC Registrar fees may also be available

AVAILABLE DIFC STRUCTURES

- Limited Partnership (GP/LP): the usual PE and VC vehicle
- Investment Company: useful for multiple share classes
- Variable Capital Company (VCC): introduced in February 2026 for proprietary investment and asset-holding structures with segregated or incorporated cells, rather than as a regulated fund vehicle unless regulated activity is undertaken
- Prescribed Company (DIFC SPV): quick to establish and commonly used for PE and alternative investment structures

ADGM FUND FRAMEWORK

Fund Categories

ADGM offers broadly comparable private fund categories, including Exempt Funds and QIFs, generally for Professional Clients by private placement.

VC Fund Manager (VCFM) Regime

ADGM's VCFM regime is a lighter licensing route for managers of venture-focused funds, reducing certain capital and operational requirements where the eligibility criteria are met.

ELIGIBILITY CRITERIA

- Each fund must invest only in securities of early-stage, unlisted companies.
- Each fund must be closed-ended.
- Total subscriptions must not exceed USD 100 million, unless the FSRA approves a higher amount.
- The fund must be available only to Professional Clients.
- The fund will usually be a Domestic Exempt Fund or QIF; Domestic Feeder Funds and Foreign Funds may be permitted with FSRA approval.

KEY RELAXATIONS

- No ongoing base capital or expenditure-based minimum applies under the VC Manager Framework, although the manager must disclose this position and maintain adequate financial resources.
- Internal audit, independent administration, separate custody and independent valuation requirements may be relaxed where FSRA conditions are met.

- Authorisation is streamlined and fees may be reduced, subject to the ADGM fee schedule at the time of application.
- At least two Approved Persons are required: an SEO with at least 10 years' relevant experience and a Licensed Director or Partner with at least 5 years' relevant experience. Compliance Officer and MLRO functions remain required and may be combined or outsourced where permitted.

PROPOSED STFM AND IFM FRAMEWORKS

The FSRA has consulted on extending lighter regulation to other private fund strategies through Sub-Threshold Fund Manager (for managers with up to USD 200 million in committed capital across closed-ended funds) and Institutional Fund Manager categories, with the existing VC Manager Framework proposed to be folded into the new Sub-Threshold category. These remain proposals at the time of writing, so final rules and timing should be confirmed before relying on them.

AVAILABLE ADGM STRUCTURES

- Limited Partnership (GP/LP): common default for PE and VC
- Investment Company supports multiple share classes
- Special Purpose Vehicle (ADGM SPV): requires a UAE or GCC nexus
- Protected Cell Company and Incorporated Cell Company: umbrella structures

UAE MAINLAND CONSIDERATIONS

Mainland reforms have improved the structuring toolkit. Federal Decree-Law No. 32 of 2021 on Commercial Companies, as amended by Federal Decree-Law No. 20 of 2025 (in effect since October 2025), recognises drag-along and tag-along rights and permits multiple share classes in LLCs, supporting preferred share economics often used in VC deals. Implementation still depends on constitutional documents, shareholder arrangements, registration mechanics, licensing authority practice and implementing decisions.

Mainland companies are subject to UAE federal civil law and the 9% corporate tax regime. By contrast, DIFC and ADGM vehicles may access the 0% Qualifying Free Zone Person corporate tax rate on qualifying income, and investment funds may benefit from specific exemptions, subject in each case to detailed conditions that should be confirmed for the chosen structure. From 1 January 2026, the CMA replaced the SCA as the securities regulator outside the financial free zones under Federal Decree-Laws No. 32 and 33 of 2025. The new regime can also capture offering, marketing or solicitation directed at onshore UAE clients even where conducted from a financial free zone, so fund promotion into the UAE should be checked against the CMA perimeter. DIFC or ADGM Courts will only be available where jurisdiction is validly agreed and accepted.

KEY TAKEAWAYS

The UAE offers strong options for PE and VC, but the right structure depends on the investor base, strategy, target jurisdiction, regulatory perimeter, tax profile and exit plan.

For founders raising venture capital: expect minority investment through preferred or convertible instruments, with vesting, leaver terms and investor consent rights (including over any drag) negotiated up front.

For investors and sponsors deploying PE capital: control, governance and exit mechanics drive the documents, and the acquisition structure should be tested early against tax, licensing and enforcement.

For fund sponsors choosing a domicile: DIFC offers an established and familiar funds framework. ADGM offers a flexible regime, including the proportionate VC Manager Framework. Mainland reforms have made operating-company structuring more flexible, but implementation should be checked early.

BLK Partners advises founders, investors and fund sponsors across DIFC, ADGM and mainland UAE structures. Please contact us to discuss how these developments affect your transaction or fund.

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