

The German Master-KVG model

Guide for entering the German
market as **foreign asset manager**

MAY 2025



Contents

Introduction	3
1 Master-KVG Market in Germany	
Types of investors	4
Purpose of the Master-KVG model	4
2 Structure of the Master-KVG model	
The structure at a glance	7
Who are the parties?	7
3 How does the structure work in practice?	
Set-up process	9
(Foreign) asset manager perspective	10
4 What is the legal framework?	
Overview: Contractual relationships	11
Contractual basis	11
Liability	12
5 What are the most important regulatory requirements?	
Regulatory background	13
What does it mean from a contractual perspective?	13
What does it mean in practice?	13
Will the asset manager be subject to disclosure requirements under the European Sustainable Finance Disclosure Regulation?	14
6 Noteworthy upcoming legislation and guidance	
AIFMD 2.0 – delegation	15
BaFin guidance – investor influence on investment decisions	15
7 Key contacts	16

Introduction

This note provides an overview of the structure, legal framework and set-up of the so-called 'Master-KVG model' in Germany. In the past, there has been significant growth in the use of the Master-KVG model and this growth is likely to continue.

The Master-KVG model is the preferred investment platform for German institutional investors, predominantly insurance companies, that already have a German (special) fund in place. The Master-KVG model provides such investors with a useful instrument to elect the best or preferred asset managers for each of their asset classes.

Foreign asset managers frequently use the Master-KVG model to manage a German investment fund without establishing a German management company.

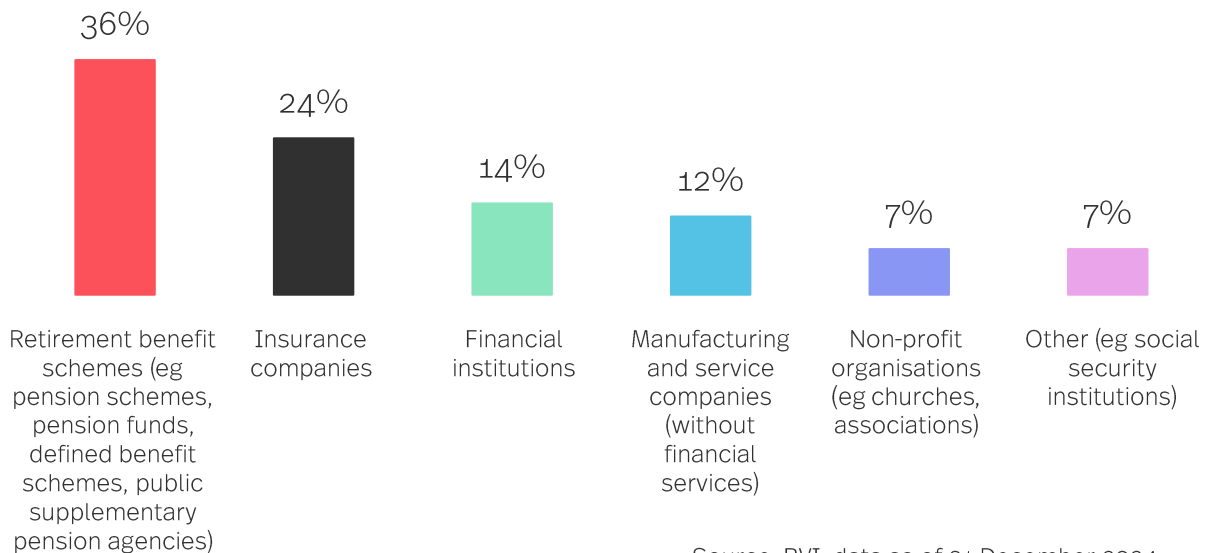
In this note we examine the structure of the Master-KVG model and provide answers to the most frequently asked questions.

Master-KVG Market in Germany

Types of investors

The Master-KVG model is particularly suitable for the management of German special funds. The majority of managed assets in German special funds are held by two types of investors: insurance companies and retirement benefit schemes. The total amount of assets under management in Germany dated June 2024 was EUR 3,064 billion.

Investor groups in German special funds



Source: BVI, data as of 31 December 2024

Purpose of the Master-KVG model

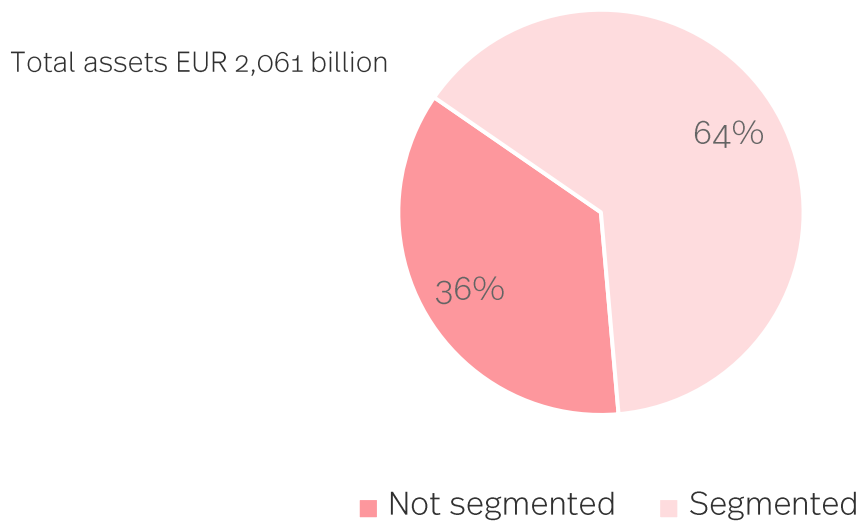
An investor in a German special fund may establish a number of fund segments for different asset classes (such as equities, fixed income, alternatives) and will elect its preferred asset manager for the portfolio management of each asset class. Legally, the investor has a single special fund and the Master-KVG will delegate the portfolio management of the fund segments to different asset managers. Consequently, the portfolio management services will be rendered by different asset managers.

The Master-KVG processes the administrative services for the German special fund and its segments; thus, the risk and administrative responsibilities remain with only one entity, the Master-KVG. For German institutional investors, the Master-KVG model is a very effective way to consolidate its investments on one administrative platform. This is known in Germany as “fund segmentation” and is used by most special fund investors (64% of all German special funds are “segmented”).

As referred to in the graphic below, the German special fund volume has a broad spectrum of unit holders, the majority of which are retirement benefit schemes (36%) and insurance undertakings (24%).

Master-KVG Market in Germany

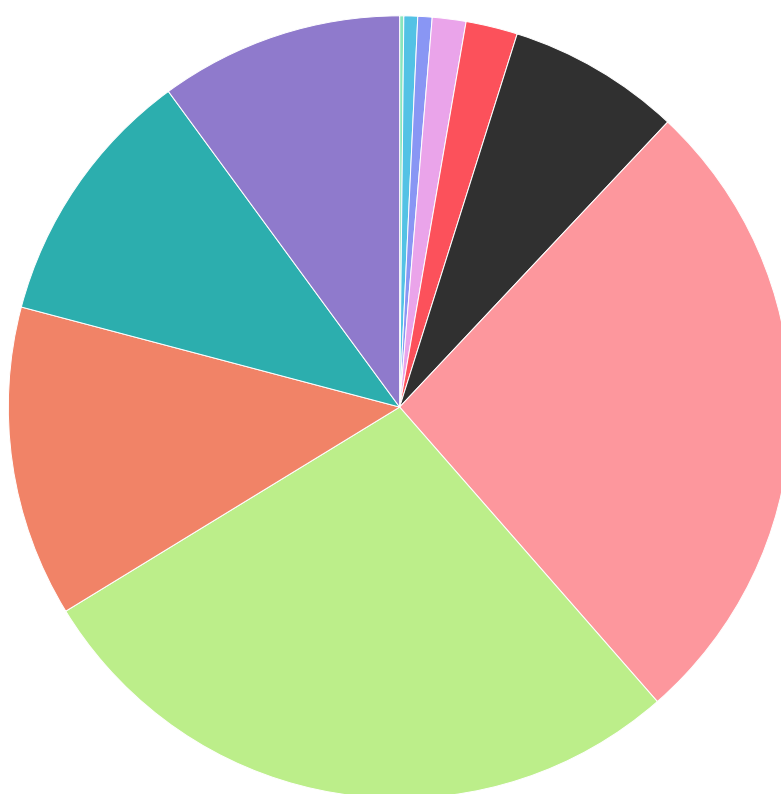
Fund segmentation



Source: BVI, data as of 31 December 2022

Master-KVG Market in Germany

Breakdown of the special fund volume by unit holders



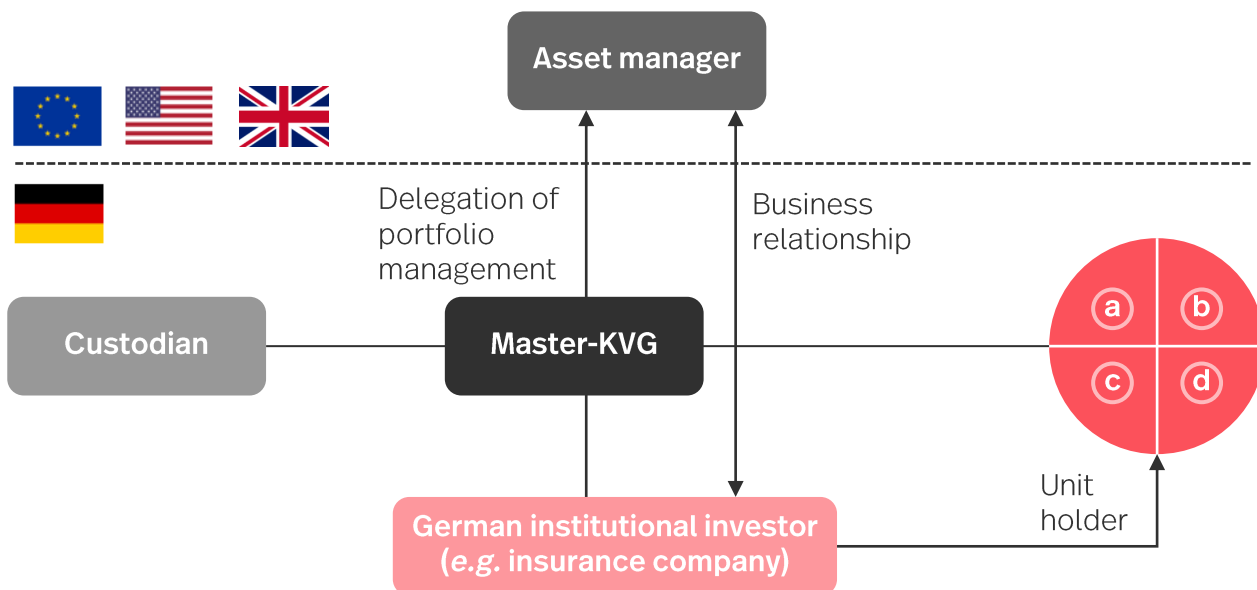
<p>■ Foreigners 3.484 billion euros, 0.2%</p> <p>■ Federal, state and local authorities 12.097 billion euros, 0.6%</p> <p>■ Other financial intermediaries 43.845 billion euros, 2.1%</p> <p>■ Insurance companies 543.697 billion euros, 26.6%</p> <p>■ Private organisations 263.226 billion euros, 12.9%</p> <p>■ Non-financial corporations 206.078 billion euros, 10.1%</p>	<p>■ Credit and insurance supporting institutions 11.731 billion euros, 0.5%</p> <p>■ Social security 28.387 billion euros, 1.4%</p> <p>■ Public & church related insurance undertakings 146.441 billion euros, 7.2%</p> <p>■ Retirement benefit schemes 567.579 billion euros, 27.7%</p> <p>■ Credit institutions 221.668 billion euros, 10.8%</p>
--	---

Source: Deutsche Bundesbank, Investmentfondsstatistik, data as of 11 April 2024

Structure of the Master-KVG model

The structure of the Master-KVG model comprises a minimum of five parties: (1) one or more (German) investor(s), (2) the Master-KVG, (3) the custodian, (4) one or more asset manager who seeks to provide portfolio management services to German investor(s) and (5) the investment fund in corporate or contractual form (including its possible fund segments).

The structure at a glance



Who are the parties?

Investor

The investor is usually an institutional investor (either a regulated or unregulated corporate entity). The investor must be a professional or a so-called semi-professional investor within the meaning of German investment law. A professional investor is a professional client within the meaning of MiFID II. A semi-professional investor is, in particular, any investor who commits to investing at least EUR 10 million, or who commits to investing at least EUR 200,000 and has a sufficient level of experience/expertise (assessment and documentation by the Master-KVG is required).

The investor holds shares/units of the investment fund. Depending on the legal structure of the fund, the assets are owned by the Master-KVG or jointly by the investor(s).

Master-KVG

The Master-KVG is a German regulated investment management company (UCITS management company and/or AIFM) licensed under the German Capital Investment Code (*Kapitalanlagegesetzbuch*, *KAGB*) and supervised by the German Federal Financial Supervisory Authority (*Bundesanstalt für Finanzdienstleistungsaufsicht*, the *BaFin*). From a statutory law standpoint, the Master-KVG is the manager of the investment fund (including its segments) and holds ultimate responsibility for the portfolio management, risk management and administrative services. In practice, the Master-KVG usually delegates the portfolio management to third-party asset managers, thereby focusing its services on tasks such as pre-trade controlling, monitoring investment limits, risk management and administrative services. Despite such delegation, the Master-KVG retains ultimate responsibility for ensuring compliance with the applicable regulatory laws across all these services, including the fund's (delegated) portfolio management.

Structure of the Master-KVG model

Who are the parties?

Custodian

The custodian is a (German) regulated entity (usually a German credit institution/bank supervised by BaFin and the German Central Bank (Deutsche Bundesbank) and licensed under the German Banking Act (*Kreditwesengesetz*)) appointed by the Master-KVG for the safekeeping of the assets. The applicable German investment law, as well as the written depository agreement concluded between the Master-KVG and the custodian, outline a number of rights and duties.

In addition to safekeeping, the custodian has several monitoring and controlling rights and obligations with respect to the supervision of portfolio management. The custodian is involved in technical matters with respect to trading and settlement. Therefore, the custodian is an important player for the asset manager in the course of rendering the portfolio management services. The asset manager, in particular its back-office, is required to collaborate and work with the custodian not only during the set-up, but also during the day-to-day running of the business.

Asset manager

The asset manager typically is a regulated legal entity and responsible for the portfolio management of the fund (i.e., in particular, for making the investment decisions). The asset manager can be an entity licenced under the AIFMD, the UCITS Directive or MiFID II. If the asset manager is domiciled in a non-EU country, it must be licensed or registered for the purpose of asset management or financial portfolio management, subject to supervision, and the cooperation between the BaFin and the respective supervisory authority of the non-EU asset manager must be assured.

Unregulated asset managers (e.g. real estate asset managers without the aforementioned licence or registration) may be appointed by the Master-KVG as delegated portfolio managers only with prior approval from the BaFin.

In practice, the institutional investor will select the asset manager. From a legal perspective, however, the Master-KVG appoints the asset manager and enters into a delegation agreement, known as the investment management agreement (*IMA*). Usually, such IMA is based (more or less) on the template IMA provided by the German Investment Funds Association (the *BVI*).

Investment fund

The investment fund under the German Master-KVG model is very often a contractual fund which has no legal personality. In this case, the Master-KVG acts for the (joint) account of the investors of the investment fund and the asset manager acts on behalf of the Master-KVG. However, the investment fund may also be structured in corporate form (which is then an investment company).

How does the structure work in practice?

Set-up process

In practice, the Master-KVG model is usually established as follows:

Step 1: Election of an asset manager

The institutional investor usually selects an asset manager. In practice, an asset manager may either actively pitch or will be invited to pitch for the portfolio management function. In either case, the asset manager will submit a request for proposal to the institutional investor which provides information on its competences, resources and know-how, amongst other things.

‘Selection’ in this regard does not mean that the institutional investor enters or will enter into an agreement with the asset manager. Rather, ‘selection’ means that the investor will instruct the Master-KVG to delegate the portfolio management function for the respective investment fund in whole, or in part, to its preferred asset manager at a later stage.

Step 2: Set-up of a German investment fund

The Master-KVG sets up (or has already set up) an investment fund in Germany for institutional investors. The investment fund can, generally, be any type of fund within the meaning of the KAGB. In Germany, the special AIF with fixed investment rules (*Spezial-AIF mit festen Anlagebedingungen*) is the most widely used vehicle as its greater flexibility and fewer regulatory requirements means that it can offer a range of opportunities wider than a mutual fund.

Step 3: Appointment of a custodian

The Master-KVG appoints a custodian (typically a German bank) for the assets of the investment fund. The appointment of a custodian is mandatory under the KAGB.

Step 4: Due diligence process

Prior to the delegation of portfolio management to the asset manager, the Master-KVG must conduct a comprehensive due diligence on the asset manager. The purpose is to assess whether the asset manager is authorised and capable of fulfilling the delegated responsibilities, particularly from a regulatory perspective.

In the course of the due diligence process, the Master-KVG will request information, documents and evidence to demonstrate that the asset manager is a duly licensed entity and complies with the applicable regulatory requirements.

Such due diligence is, in practice, very time consuming. After the delegation, the Master-KVG is obliged to conduct a similar process at least on an annual basis.

The due diligence process is audited and monitored by external auditors as well as by the BaFin and is subject to close supervision. The Master-KVG takes – and must take – this very seriously. If a Master-KVG concludes that the relevant asset manager is not a reliable partner due to regulatory reasons, it will not hesitate to reject entering into an IMA with the asset manager irrespective of the institutional investor’s selection.

Step 5: Delegation of portfolio management

Finally, the Master-KVG will, from a legal perspective, appoint the selected asset manager and delegate the portfolio management function in whole or in part to it. Such appointment takes place by entering into an IMA.

How does the structure work in practice?

Please note that the five-step approach described above is not cast in stone. The investment fund could already be established or the custodian already appointed. However, the Master-KVG must complete the due diligence process before the asset manager is appointed.

(Foreign) asset manager perspective

The Master-KVG model provides (non-German) asset managers approaching the German market with the opportunity to set-up a German fund without the need to establish a German regulated management company. The (non-German) asset manager must collaborate with a German Master-KVG which has the necessary licence and the administrative platform in place to set up and manage a fund. The asset manager will be expected to comply with the regulatory provisions applicable to the Master-KVG when performing the portfolio management. In sum, the above-mentioned process remains the same.

What is the legal framework?

Overview: Legal relationships

The legal relationship between the Master-KVG and the institutional investor is governed by the fund rules (i.e., general and special rules; *Allgemeine und Besondere Anlagebedingungen*), the investment guidelines and the applicable German investment law. Legally, the institutional investor and the Master-KVG enter into an investment agreement (*Investmentvertrag*) pursuant to which the Master-KVG manages the pooled assets of the investment fund.

If the investment fund is a special fund, the investor will usually sign a so-called tri-party-agreement (*Dreier-Vereinbarung*) with the Master-KVG and the custodian, in which it may deviate from the applicable German investment law, or agree on special, individual, investor-orientated provisions to the extent legally possible.

The Master-KVG and the asset manager enter into an IMA and affiliated documents. Pursuant to the IMA, the asset manager renders portfolio management services on behalf of the Master-KVG.

From a legal perspective, the IMA is an outsourcing agreement which must meet a number of regulatory requirements (e.g. if portfolio management or risk management is outsourced to a company domiciled in a third country, cooperation between the BaFin and the local competent supervisory authority must be ensured, typically by way of a Memorandum of Understanding (*MoU*)).

The Master-KVG enters into a custodian agreement (*Verwahrstellenvertrag*) with the custodian. Pursuant to this agreement the custodian is obliged to take responsibility for the safekeeping of the assets. Under German investment law, the custodian has certain control and monitoring rights and obligations.

Contractual basis

There are a number of documents with which a German domiciled Master-KVG will provide the asset manager prior to rendering the portfolio management services – these include an IMA, operating memorandum and service level agreement (the *OM/SLA*), general and special fund rules, investment guidelines and other operational documents.

Such agreements and documents contain numerous references to the applicable German investment law. Many of the general and specific references pursuant to German investment law are required both legally and in a regulatory context. In such cases, negotiation of these clauses is limited to a certain extent (and often not negotiable at all).

However, it is often possible to soften the language. Other references, in particular the references to German civil law, are fully negotiable between the parties. We typically provide non-German clients with a memorandum explaining the general references to German laws and regulations that are contained in the IMA and/ or the other documents mentioned above, and the impact of these rules for our clients as non-German asset managers.

Such regulatory requirements are, in particular, the KAGB, the Delegated Regulation (EU) No. 231/2013, the German Securities Trading Act (*Wertpapierhandelsgesetz, WpHG*), German Data Protection Act (*Bundesdatenschutzgesetz, BDSG*) in connection with the General Data Protection Regulation (*Datenschutz-Grundverordnung, DSGVO*), the Derivate Ordinance (*Derivateverordnung, DerivateV*), the German Capital Investment Conduct and Organisational Regulation (Kapitalanlage-Verhaltens- und *Organisationsverordnung, KAVerOV*), the Minimum Requirements for Risk Management in Asset Management Companies (*Mindestanforderungen an das Risikomanagement von Kapitalverwaltungsgesellschaften, KAMaRisk*).

What is the legal framework?

Liability

The Master-KVG is merely a fund administration platform and responsible only for fund accounting and other administrative functions not linked to portfolio management. However, from a regulatory perspective the Master-KVG is responsible for the observation of German investment law requirements and takes charge of, for example, fund accounting, controlling or risk management.

Furthermore, the Master-KVG is required to install a compliance function. When a Master-KVG manages an investment fund, it acts in its own name but for the joint account of the investors of the investment fund. This means that the Master-KVG is liable for breaches of investment limitations and other errors. In this case, liability claims by the investors may arise.

The asset manager will be liable towards the Master-KVG if its investment decisions breach the investment restrictions and the investment fund suffers damage. It is difficult to rely on the concept of contributory negligence of the KVG and very often KVGs refuse to limit the liability of direct and foreseeable damages.

Generally, when a KVG purchases securities for or the joint account of the investors of an investment fund it manages it will not be liable if the broker through which the securities are bought defaults on its payment or delivery obligation. A liability can only arise if the KVG has failed properly to instruct the broker or to monitor the broker's performance. Nevertheless, most Master-KVGs try to impose on the asset manager full liability for a default of a broker instructed by the asset manager. There is a range of ways by which liability may be mitigated, including liability only for a failure to properly instruct the broker, an exclusion of liability should the broker default because of insolvency or a complete exclusion of liability if only brokers on a pre-approved list are used.

What are the most important regulatory requirements?

Regulatory background

When a German Master-KVG delegates functions that are essential for providing its services (i.e., portfolio management or risk management), such delegation must not adversely affect the orderliness of such business or services, the Master-KVG's managers' abilities to manage and monitor them, or the BaFin's right to audit and ability to monitor them.

A delegation must not prevent the Master-KVG from giving further instructions to the asset manager, or from withdrawing such delegated responsibilities with immediate effect if such step is considered necessary to preserve the interests of the investors.

The delegation must also not interfere with the effectiveness of supervision by the Master-KVG. In particular, it shall neither interfere with the Master-KVG acting in the best interests of its investors nor impair the management of the investment funds which is in the interests of its investors.

Certain German institutional investors like smaller insurance undertakings, pension funds and pension schemes (Versorgungswerke) need to comply with provisions of the German Ordinance on the Investment of Restricted Assets of Insurance Undertakings (Anlageverordnung) and the respective BaFin guidance thereto (Kapitalanlagerundschreiben). If that ordinance applies, additional requirements must be met by a fund in order to qualify as an eligible investment for the investor.

What does it mean from a contractual perspective?

A Master-KVG must contractually ensure that it can give instructions to the asset manager and must integrate the outsourced areas in its internal monitoring and audit processes.

As a consequence, most Master-KVGs impose rules of conduct on the asset managers. Under these rules, the execution of securities transactions is subject to clear principles which ensure settlement in line with market conditions and equal treatment of all investors.

The IMA and the OM/SLA contain provisions pursuant to which the Master-KVG can take over the management of the investment fund if it is necessary to protect the investors' interests.

The KAMaRisk sets specific requirements on Master-KVGs when investing into loans. These requirements will also be contractually forwarded to the asset manager in the IMA.

What does it mean in practice?

The Master-KVG is entitled and obliged to audit and monitor the asset manager. In the course of their ongoing and ad hoc supervisions the Master-KVG may ask for reports on the portfolio management and internal control processes, information on conducted internal and external audits of the asset manager, data for investor reporting (e.g. reporting for certain types of investors such as insurance undertakings), data for regulatory reporting (e.g. under EMIR or AIFMD). Ultimately, the Master-KVG reserves the right to enter the premises of the asset manager.

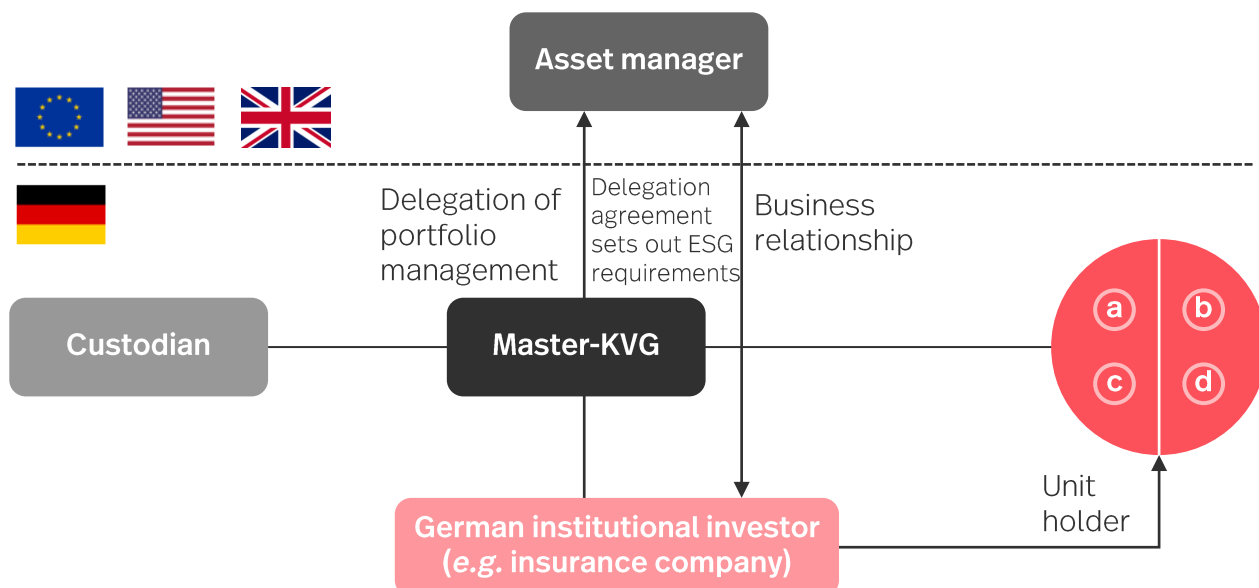
There is no standard in Germany with respect to the scope of monitoring and supervision. After the implementation of the AIFMD, a number of German Master-KVGs started to foster their monitoring set-ups and controlling systems. Consequently, asset managers were obliged to disclose more information than before. Even confidential information, e.g. information from an internal or external audit report, might be disclosed to a Master-KVG.

Will the asset manager be subject to disclosure requirements under the European Sustainable Finance Disclosure Regulation?

As capital management company, the German Master-KVG is subject to the disclosure requirements of the European Sustainable Finance Disclosure Regulation (SFDR). Consequently, the Master-KVG shall disclose ESG information on an entity and product level.

From a German regulatory law perspective, the delegation of the function of portfolio management from the German Master-KVG to an asset manager is deemed to be financial portfolio management within the meaning of MiFID II. This understanding applies to all delegation agreements concluded between a German Master-KVG and a German asset manager. Against this background, asset managers domiciled in Germany providing financial portfolio management services to the German Master-KVG are subject to the relevant SFDR disclosure requirements.

Non-EU asset managers are, however, generally not subject to the SFDR. With regard to delegation agreements between European and especially non-European asset managers, the Master-KVG is obliged to contractually agree that the asset manager will provide the relevant ESG information. This ensures that the Master KVG can comply with its regulatory obligations.



For example, if a German Master-KVG considers principal adverse impacts of investment decisions on sustainability factors (PAI) at an entity level, the German Master-KVG shall consider PAI for its own investment decisions in relation to all funds managed by it. To comply with the Art. 7(1) SFDR disclosure requirements, the German Master-KVG must collect PAI metric data across all managed funds (irrespective of whether a fund complies with PAI at product level pursuant to Art. 7(1) SFDR). Where a German Master-KVG delegates the portfolio management in relation to a fund to an external asset manager, the German Master-KVG will request PAI metric data from that asset manager in the preparation of the PAI disclosure, in particular, if the data is publicly not available.

In addition to the entity-level disclosure requirement a German Master-KVG shall take into account PAI in its investment due diligence process (e.g. Art. 18(6) AIFMD DR). In light of this requirement, the BVI recommends in its guidelines published 9 September 2022 that a German Master-KVG ensures in a scenario where it delegates the portfolio management to an external asset manager that this manager also takes into account PAI in its investment due diligence process. Again, this is generally covered in the IMA.

Noteworthy upcoming legislation and guidance

AIFMD 2.0 – delegation

The directive to amend the AIFMD was published in the Official Journal of the European Union on 26 March 2024 but are only coming into force in the EU Member States once implemented (likely not before 2026).

The changes are not as wide ranging as was once thought likely. Nevertheless, some are significant and AIFMs – both EU and non-EU – should familiarise themselves with them and assess their possible impact in good time. Among the issues agreed was a set of amendments to the AIFMD delegation regime.

AIFMs which are fully authorised under the AIFMD are subject to detailed rules regarding delegation of their functions, which are set out in Art. 20 AIFMD. These requirements have been both:

- refined, to now refer to any of the functions listed in Annex I of the AIFMD; and
- broadened, so it also includes delegation of any of the ‘top-up services’ referred to in Art. 6(4) AIFMD – portfolio management, investment advice etc.

As a result, the AIFM (e.g. German Master-KVG) must now be able to demonstrate that the delegate (e.g. an asset manager) is qualified and capable of not only undertaking the functions in question (as was already required) but also of providing the relevant services.

Regardless of the regulatory status or location of any delegate or sub-delegate, it is the AIFM which must ensure that the delegated functions or services comply with the requirements of the AIFMD.

BaFin guidance – investor influence on investment decisions

Institutional and other professional investors often seek to retain full control over their invested assets and thus may approach the Master-KVG and / or the asset manager to influence investment decisions. According to BaFin’s consultation on a draft new guidance, significant investor influence on investment decisions is not compatible with the Master-KVG’s ultimate responsibility for portfolio management. While direct instructions and veto or approval requirements by investors concerning individual investments are prohibited, unbinding recommendations or ideas regarding the general investment strategy are generally permitted. To ensure full compliance with the applicable regulatory rules, Master-KVGs expect (non-German) asset managers to document and record relevant communication with investors. While BaFin’s draft guidance is not final yet and subject to ongoing consultations, it provides valuable insight on the German regulator’s stance. For details, please also read our [client briefing](#) BaFin’s consultation on the draft guidance.

Key contacts



Dr Harald Glander LL.M. (University of Cape Town)
Partner | Financial Services

T +49 69-506 072-037
E harald.glander@simmons-simmons.com



Daniel Lühmann, LL.M. (University of Edinburgh)
Partner | Financial Services

T +49 69-506 072-023
E daniel.luehmann@simmons-simmons.com



Betül Kohlhäufel
Supervising Associate | Financial Services

T +49 69-506 072-061
E betuel.kohlhaeufl@simmons-simmons.com



Yaprak Ağırman, LL.M. oec. (Universität Halle-Wittenberg)
Supervising Associate | Financial Services

T +49 69-506 072-024
E yaprak.agirmann@simmons-simmons.com



Bastian Kaufhold
Associate | Financial Services

T +49 69-506 072-077
E bastian.kaufhold@simmons-simmons.com



Helen Dick
Associate | Financial Services

T +49 69-506 072-046
E helen.dick@simmons-simmons.com

simmons-simmons.com

© Simmons & Simmons LLP and its licensors. All rights asserted and reserved. This document is for general guidance only. It does not contain definitive advice.

Simmons & Simmons LLP is a limited liability partnership registered in England & Wales with number OC352713 and with its registered office at Citypoint, 1 Ropemaker Street, London EC2Y 9SS, United Kingdom. It is authorised and regulated by the Solicitors Regulation Authority and its SRA ID number is 533587. The word "partner" refers to a member of Simmons & Simmons LLP or an employee or consultant with equivalent standing and qualifications. A list of members and other partners together with their professional qualifications is available for inspection at the above address.