



## **“Spezialfonds” or “Special Fund” in a nutshell**

### **History**

Special funds for institutional investors have a long tradition in Germany. The first funds of this kind has already been established in the 1960ies. In 1990, the "Spezialfonds" or "Special Fund" was implemented into German investment law as a vehicle dedicated exclusively to institutional investors. Since then, assets under management of this funds type as well as the number of funds have been increasing steadily.

### **Legal Framework**

Special funds are set up as German "Sondervermögen". This is a contractual type of fund. They are as well as UCITS open ended funds and redeemable. The regulation is part of the German Investment Law. The fund's assets are owned by the investor, have to be kept strictly separate and are managed for investors' account. This means that the regulation for management companies issuing special funds is identical with companies issuing UCITS. A Special fund may have only one institutional investor or many of them – the number is not limited. Relations between investors and the management company as well as the character of the fund are laid down in the contractual terms and conditions, which can be supplemented by side letters. Given that German investment law already provides for a set of standard rules like risk spreading and limits for borrowing, the terms and conditions can be limited to issues where this standard shall be replaced by individual agreements.

### **Manager, Custodian and Supervisory Authority**

Special funds have to be managed by a "Kapitalanlagegesellschaft", that is a fund management company licensed under German law. For every Special fund there is a depositary bank, which can be either a German bank or a German branch of a foreign banking group. The depositary bank shall control whether the fund is managed in accordance with the law and the contractual terms and conditions.

"Kapitalanlagegesellschaften" are licensed and supervised by Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin). In contrast, no authorization by BaFin is needed to set up a Special fund.

### **Reporting**

According to the law, the management company has to present a short-form annual report for every Special fund at the end of each financial year. The report has to be audited and the auditor must summarize the results in a separate certificate. Practically, the annual report is of little importance to Special fund investors. They usually agree with the management company on an additional reporting that fits their individual needs with regard to form, content and frequency. No prospectus or other issuing document is required for Special funds.