



# Case study RENAIO Infrastructure Water: The path to an Article 9 Fund

Version April 2024

RENAIO Assets GmbH  
Gögginger Str. 105a  
86199 Augsburg

## Table of contents

1.	Introduction .....	2
2.	The prerequisite for the Article 9 standard .....	2
3.	Article 9 is not Article 9 .....	2
4.	Challenges on the way to the Article 9 Fund .....	3
5.	The key figures of our Article 9 report.....	4
6.	The first and second periodic taxonomy report.....	5
7.	Conclusion: It doesn't get any greener than this! .....	6

## 1. Introduction

With effect 1 January 2023, the sub-funds RENAIO Infrastructure Water and RENAIO Solar PPA 21 - were upgraded from Article 8 to the stricter Article 9<sup>1</sup> regulation. In the current market environment for sustainable investments, the fund is thus – using a water related metaphor - clearly swimming against the tide. According to a study by Morningstar<sup>2</sup>, in the period from September to December 2022 307 fund downgraded from Article 9 to Article 8. This corresponds to an asset value of €175bn. The share of Article 9 funds thus fell during this period from 5.2% to 3.3% in a short period of time and has almost halved.

Two periodic Article 9 reports have since then been successfully prepared for the reporting dates 31. December 2022 and 2023, thus demonstrating the portfolio's taxonomy compliance.

This document describes a) why the Article 9 label is not a unique guarantee for sustainable investments, even if the hurdle is relatively high, b) how Renaiio Assets has managed to beat the trend and c) why the combination of Article 9 and hydropower generation makes the RENAIO Infrastructure Water sub-fund so unique.

## 2. The prerequisite for the Article 9 standard

The adaptation of data collection, aggregation and, last but not least, internal processes were important milestones for Renaiio Assets towards the Article 9 standard. They were developed in close coordination with accounting, operations, and risk management. Thanks to the agile processes and lean structure within the company, the requirements were implemented efficiently in close coordination with partners like the AIFM, Reporting Advisory and Legal.

## 3. Article 9 is not Article 9

Financial products that invest in certain industry sectors potentially qualify for Article 9. With this categorisation (EU taxonomy), the regulation is sufficiently transparent. These

---

<sup>1</sup> "Article 9" means Article 9(1) to (4a) of Regulation (EU) 2019/2088 and Article 5(1) of Regulation (EU) 2020/852.

<sup>2</sup> Source Morningstar accessed 26 October 2023 <https://www.morningstar.de/de/news/231440/sfdr-verm%C3%B6gen-von-artikel-9-fonds-nach-welle-von-herabstufungen-fast-halbiert.aspx>

include sectors such as agriculture, forestry, fishing, water supply, manufacturing, energy production storage, transport, construction and real estate, education, health, and entertainment. Energy production from nuclear power and natural gas can also qualify for Article 9. This extension was included in the regulation at short notice and is the subject of controversial debates<sup>3</sup>. Article 9 is therefore not a universal green label. Investors must decide whether the economic activities underpinning the financial product – they span a universe of almost one hundred sectors - are in line with their specific investment objectives and investment guidelines. A blanket branding as "dark green investments" for Article 9 products, which is increasingly being used, is therefore questionable, regardless of the fact that the chosen colour gradation has rather negative connotations. Article 9 categorisation is thus a necessary but not a sufficient criterion for particularly sustainable investments.

The RENAIO Infrastructure Water sub-fund is Article 9 and invests exclusively in small-scale run-of-river power plants, which are superior among all other RE technologies, for a closer discussion see also Section 7.

## 4. Challenges on the way to the Article 9 Fund

Renewable energy funds are not automatically Article 9 compliant. Electricity production from renewable technologies such as PV, wind, hydropower, geothermal energy, solar thermal energy, and bioenergy fall under the qualified category of the 'energy supply sector' according to the Regulation. However, even funds with exclusively direct investments, the proof of taxonomy-compliance is very complex. It covers the levels:

Fund => Holding Company => SPV => sector activity => time period (quarterly)

SPVs with several sector activities, require an analysis for each activity. If one of these activities - irrespective of the share - is not taxonomy-compliant, the investment (SPV) and also the entire fund as a whole are no longer compliant.

In order to perform the analysis relevant data from the two areas accounting and operations are required at all levels. In detail, these include:

- **Accounting:** revenues, opex, capex, fair value, cash, and derivative positions

---

<sup>3</sup> Nuclear power is low in CO2. However, the potential impact on the environment and nature in the event of an incident is not comparable with the risks of renewable energy technologies. These risks are neither reported nor evaluated in the Article 9 regulation. Electricity productions from nuclear power are reported separately in the taxonomy report. The consequences of an incident in a nuclear power plant are not insurable on the market. The risk is carried by the government by Guarantees. Insurance costs are thus not included in the profitability analysis. LCOE calculations for electricity production from nuclear energy are therefore biased. RE technologies which typically include such cost are penalised.

and

- **Operations:** electricity production, own electricity consumption, CO2 emissions by source, compliance with environmental and social standards

All data must be collected, processed, and aggregated. The key figures derived from these basic data are calculated at quarterly levels and reported on an annualised basis.

This step in particular has shown that the necessary regulatory granularity requires considerable effort.

The Renaio Assets business model encompasses both the commercial and technical management of all assets. This guarantees data sovereignty as a prerequisite for adapting processes, methodology and infrastructure (PMI) in an agile manner. This advantage should not be underestimated. Funds that do not have direct access to the necessary data due to their structure are highly likely to fail Article 9 requirements. Even if an investment is potentially sustainable, the proof could not be provided. This is probably one reason for the mass extinction of Article 9 funds in Q3 2022 with a volume of €175bn<sup>2</sup>

A second important aspect on the way to an Article 9 Fund was the experience that the guidelines are not defined down to the last detail and the implementation requires a detailed technical understanding of an economic activity. Renaio Assets has developed a proprietary process that is in line with the guidelines and ensures the practical implementation of measuring, aggregating, and monitoring the required key figures. This process has been subject to external validation<sup>4</sup> in closely coordinated with the AIFM.

## 5. The key figures of our Article 9 report

Two reports are drawn up as part of the Article 9 requirement, the pre-contractual report, and the periodic report. The key data are as follows:

- I) Sustainable investment goal: contribution to climate protection
- II) Each hydropower SPV<sup>5</sup> in the portfolio is:
  - a. a sustainable investment in accordance with SFDR
  - b. a taxonomy-compliant activity

---

<sup>4</sup> A service provider specialising in risk, regulation and reporting was commissioned for this purpose.

<sup>5</sup> The SPV without cash, cash like positions and derivatives is considered here, these components are not sustainable within the framework of the SFDR. They are not taxonomy compliant.

- III) Minimum ratio of taxonomy-compliant investments<sup>6</sup> : 85%
- IV) Measurement and limit monitoring of adverse effects on sustainability indicators:
- V) A set of 21 mandatory key figures (PAIs<sup>7</sup> ) is measured at the SPV => Sector activity => Quarter level and checked for compliance with the predefined limits. Limits must be met at the lowest level. Exceeding a limit cannot be compensated by averaging! Examples of key figures are Scope 1, 2, 3 GHG emissions, the CO2 footprint, percentage of taxonomy-compliant activities in turnover, operating costs, and investments.
- VI) Ranking of investments (top 10 list) according to taxonomy-compliant fair value.
- VII) Comparison with the previous report.

Requirements II) and IV) are already checked as part of the investment process. An investment is only authorised by the AIFM if the prior review proves taxonomy compliance.

## 6. The first and second periodic taxonomy report

The first periodic taxonomy report for the RENAIO Infrastructure Water Fund was prepared for the 2022 reporting period and subsequently for 2023. Renaiio Assets populated the official SFDR EET template with the required data for this purpose. The external service provider benchmarked all key figures against pre-defined limits, aggregated them compiled a report.

The result is:

- 100% of our SPVs are taxonomy-compliant: all the requirements and limits outlined above were met. Overall, taxonomy compliance was therefore demonstrated for all hydropower plants.
- The ratio of taxonomy-compliant investments is 93.1% (2022) and 86% (2023), respectively. The level is caused by cash and derivative positions on fund, holding and SPV level. This ratio can never reach 100% due to nature of the SPVs' operating business.
- Operating costs, sales and investments also achieve a taxonomy ratio of 93.1% (2022) and 86% (2023), respectively.

---

<sup>6</sup> The total investment is considered here. The ratio is broken down into compliant and non-compliant assets, whereby only credit balances and derivatives are permitted as non-compliant activities.

<sup>7</sup> PAIs are the principal adverse impact indicators.

- Of the 29 mandatory PAIs, 21 are fulfilled. The remaining 8 are sector-specific and not suitable for hydropower.
- In addition, a further 10 (2022) and 19 (2023) voluntary PAIs are fulfilled.

In addition to the quantitative criteria, the fund also achieves a very high qualitative standard. We have been certified by our reporting service provider for the 2022 report:

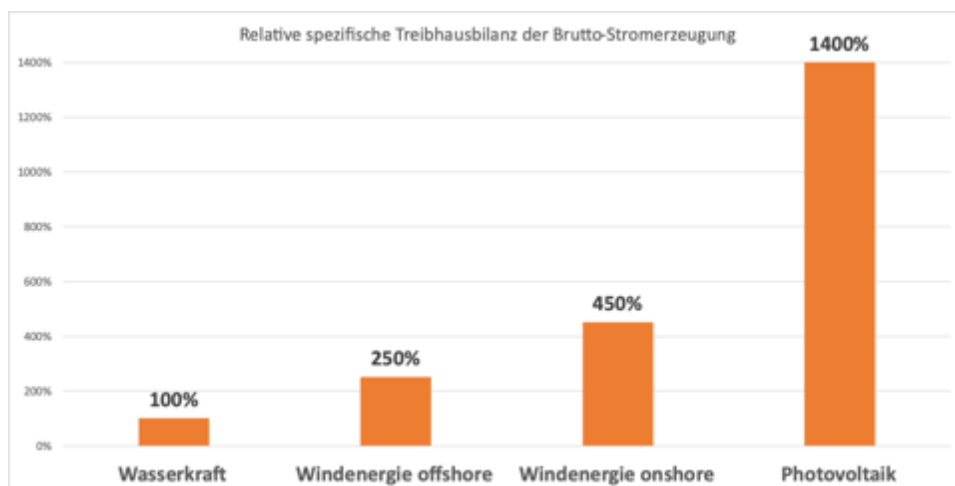
- *In our view the quality of your Fund's EET report can be considered as **very high** compared to the majority of other funds starting the EET generation now ...*
- *Another great news is the coverage ratios are all the same as the invest company eligibility ratio, which means all the assets that are eligible to report PAI KPIs have actually reported and thus no data gap left, **which further supports for the high quality of this EET report.***
- *The periodic taxonomy-alignment investments exceed the pre-contractual commitments, **which is another great news reflected by this EET report.***

## 7. Conclusion: It doesn't get any greener than this!

Compared to other RE technologies, electricity generation from hydropower has the well-known advantages:

- Base load capable
- Long life cycle
- Most efficient form of energy conversion with up to 96% efficiency transforming kinetic or elevation energy into electricity.

More important than these three factors, however, is the carbon footprint as compared other RE technologies. Here too, electricity generation from run-of-the-river hydro power ranks first by a wide margin and far outshines the other RE technologies.



*Figure 1 Relative comparison of the specific greenhouse emissions of gross electricity generation by technology. Source: German Environment Agency (Bundesumweltamt)<sup>8</sup>*

The figure shows that hydropower, for example, is 2.5 times better than offshore wind energy (2nd place). The other technologies like wind and PV are far behind, as is electricity generation from geothermal energy and bioenergy (not shown).

In conclusion, the combination of an Article 9-compliant investment and electricity generation exclusively from hydro power is unique. It doesn't get any greener than this.

## **Dr Dominik Dersch, PRM**

Head of Risk Management, Valuation, Sustainability and Controlling

### RENAIO Assets GmbH

Gögginger Strasse 105A,

D-86199 Augsburg

Legal form of the company: GmbH

Registered office of the company: Augsburg

VAT number: DE308822015

Web: [www.renaio.de](http://www.renaio.de)

---

<sup>8</sup> [www.umweltbundesamt.de](http://www.umweltbundesamt.de) (Retrieved 26 October 2023) Document "Emissions balance of renewable energy sources" File name "2022-12-09\_climate-change\_50-2022\_emissionsbilanz\_erneuerbarer\_energien\_2021\_bf.pdf"