



TARENO

Global Water Solutions Fund

FUND MANAGER REVIEW – OCTOBER 2022



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Recovering from September weakness

After a bumpy start, stock markets ended October on a more positive footing. While geopolitical risks remain elevated, there are reasons for optimism. Global supply chain constraints continued to ease, and European governments took further steps to mitigate the impact of elevated energy prices. Increasing confidence in the ability to avert a harsh recession and resilient corporate earnings helped European stocks to move higher in October.

The Tareno Global Water Solutions Fund achieved a performance of +7.84% (R1 Euro) during the reporting period.

Solid earnings in general

Earnings season is coming to an end, and we are in general pleased by its outcome. Corporate profits in the water universe continue to show resiliency.

A couple of reports worth mentioning:

Lindsay (irrigation) posted strong results for the quarter and sees continued support from agriculture fundamentals such as corn prices.

Valmont (irrigation) impressed investors with an initial 2023 guidance above analysts' expectations. This shows that water scarcity is driving investment towards efficient irrigation.

Badger Meter (metering) posted another solid quarter with revenues growing 15% year-on-year against expectations of +7%. With 80% of revenues in the US, Badger Meter is a relative pure play on the North American metering market. Metering technology plays a key role in reducing leakage, which is a major task of utilities, not only in the US.

Mueller Industries (pipes and fittings) saw its revenues dipping by about 4% (due to destocking at distributors). Thanks to solid operational execution, the operating margin increased by over 300Bp to 21.7% and EPS for the quarter easily beat expectations. The company continues to invest in expanding its copper recycling capabilities which makes them a compelling circular economy story that could contribute to future P/E expansion. The stock currently trades around 6 times earnings, well below the peer group average.

Andritz (water treatment) reported strong and improving results, well ahead of expectations. For the fourth quarter in a row, order intake exceeded the EUR 2MM. The book-to-bill ratio stands at a whopping 1.42, underpinning the strong demand for Andritz's offering.

Everybody deserves a good scare on Halloween

There were of course some reports with rather restrained applause. These did not come out of the blue, but in some cases against rather elevated expectations. The market responded to the disappointment with more (Guangdong, Advanced Drainage Systems) or less (Danaher, Thermo Fisher) pronounced share price reductions.

Guangdong, the water utility of Hong Kong, fell almost 19% on the day of its reporting, but has recovered most of the losses since then. Investors have been concerned with the Honk Kong property market for a while now, but we don't expect Guangdong to be affected the same way as other developers. Real estate accounts for only 10% of revenues and we believe, that backing from the



government (the ultimate parent of the company) will continue. We will get more clarity when meeting with management mid-November.

Advanced Drainage Systems fell almost 20% after reporting their numbers. Management noted, that destocking at distributors started to negatively affect sales during the third quarter and that they would have to cut their sales guidance. This alone would not be that bad, but the cut came only 3 months after they issued a bullish outlook with their earnings release for Q2.

A year-end rally and an inflection point for European stocks?

A year-end rally is still likely to materialize. We acknowledge that central banks remain constraint by inflationary pressures and that rising stock markets are probably against their objectives, as this creates wealth and fuels demand. For the time being we stick with the winners (US, agriculture), but we feel like an inflection point for European stocks might be close. Valuation is attractive and a lot of bad news appears to be priced in. We therefore decided to increase our exposure to Europe by adding to positions in utilities like Veolia, Hera and A2A. On the other hand, we continued to take profits in water-testing names like Thermo Fisher and Danaher.

Best regards,

Stefan Schütz



Stefan Schütz has been managing the Tareno Global Water Solutions Fund since July 2021. In addition, he is responsible for fundamental equity research in the investment team. Stefan Schütz started his career in the financial industry in 1997 at Bank CIC before joining the Tareno Investment Team shortly after the launch of the Tareno Global Water Solutions Fund in November 2007. Stefan Schütz is a Certified International Investment Analyst (CIIA).