



TARENO
Global Water Solutions Fund

Fund Manager Review

April 2024

April Fool

After a strong start to the year with solid gains during the first quarter, April was a rough ride, especially in fixed income markets. The reason was a sharp repricing of inflation and rate expectations. When Jay Powell announced in December that the Federal Reserve planned to cut rates by 0.25% three times in 2024, investors interpreted this as potentially leading to six rate cuts. As the year progressed and inflation did not ease as much as expected, the market's expectations changed radically. In the course of April, discussions even arose about a possible interest rate hike. This concern took hold of people's minds, so that the statement from the Fed was awaited with greater anticipation. It was a relief when Powell came out saying that "it's unlikely that the next policy rate move will be a hike". While it was by no means a prank, it certainly shows how radical market views can change. Having said that, it is astonishing that the stock markets have managed to digest everything reasonably well. The S&P 500 for example was down only 3%.

The Tareno Global Water Solutions Fund posted a performance of -1.57% (W-Euro Tranche) in April.

Our month in water – It's all about earnings

The reporting calendar was quite busy, and while most results were in line with expectations, there were some companies that pleasantly surprised with positive outcomes. While these companies were rewarded with sometimes significant price jumps, less optimistic reports did result in some stock price declines. Here are a few examples:

- **Gorman Rupp** earnings missed consensus as they saw a large order from a customer delayed. The stock sold off by -14% on the news, which we view as overdone. According to the management it is only a timing issue, the order will be shipped later in 2024. Apart from this order, they see no slowdown on the horizon. Gorman Rupp is a well-run player in the fluid handling space, where they are a leader in many niches. We decided to add to our position accordingly.
- **A.O. Smith** reported a 4% rise in sales of its water treatment products but lowered its full year forecast for this segment. Looking at water heaters (80% of sales), Management is convinced, that replacement demand will remain robust and sales into new residential construction will improve. They took a cautious approach to China (30% of sales), as they face higher marketing cost to launch new products short term. We still view the company as a compelling growth story, despite the shares selling off by 5%.
- **Badger Meter** posted once again blow-out numbers as EPS were up 50% year-over-year. Management discussed robust order pacing and a strong bid pipeline indicating further adoption of smart water metering technology across utilities in the US. The shares are up 20% since reporting, which brings their PE up to 48. While we very much like Badger Meter, we are aware of the fact that this business can be lumpy from one quarter to another. We decided to take half of our chips off the table.

Our European holdings did well in April, but one stock clearly stood out: Kemira.

Kemira is a supplier of water treatment chemicals to various industries. Earnings for Q1 2024 have clearly beaten estimates and management sounded convinced, that this does not seem to be an outlier. Demand has clearly improved into Q2 according to management. An import building block of their strategy was the divestment of their oil and gas business during the

quarter, to enhance margins. The “Industry and Water” segment’s margin was up 340Bp excluding the divestment. The market cheered the results and Kemira’s share price is up more than 20% since the report.

PFAS: The next big thing?

It made headlines in April: The U.S. Environmental Protection Agency has established mandatory drinking water standards for some of the most hazardous PFAS chemicals. Public health advocates have praised these regulations as "historic," highlighting their significant role in enhancing the safety of the country's water supply.

The agency's action marks the first time in 27 years it has put in place new drinking water limits for contaminants, and the rules are part of the Biden administration's broader effort to rein in PFAS pollution.

While it is still early to call it a major driver for the water treatment industry, we found some positive comments from companies positioned to thrive from PFAS related demand. Tetra Tech, a leader in environmental consulting and engineering, expects a significant increase in PFAS-related work due to the regulatory changes. Specifically, they anticipate that the annual PFAS-related revenues could double, driven by heightened demand for their investigative and consulting services in light of the new regulations.

Sell in May and go away?

I have to admit, the thought of taking some profits is tempting given the performance since the start of the year. The key question is if the April pattern will continue or whether the bullish momentum seen in Q1 will be back at the forefront. From my perspective, underlying dynamics remain supportive for the water industry. Most recent releases of business surveys do not point to a material slowdown. Yet, US valuations remain stretched, which puts kind of a cap on expectations going forward. On the other hand, there are some very attractive valuations to be found in Europe and Japan. In my view it makes sense to keep a balanced portfolio in terms of growth and value, with a solid diversification along geographies and industries. As we repeatedly point out: the water universe offers a wide range of opportunities stretching from defensive to cyclical names. To cut a long story short: Stay invested.

We seized opportunities to take some profit in names like Mueller Industries, Badger Meter and Kemira and invested on the other hand in Itron, a US supplier of water metering systems, the Italian utility ACEA and Georg Fischer, a Swiss supplier of plastic pipes to municipal and industrial clients.

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).



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