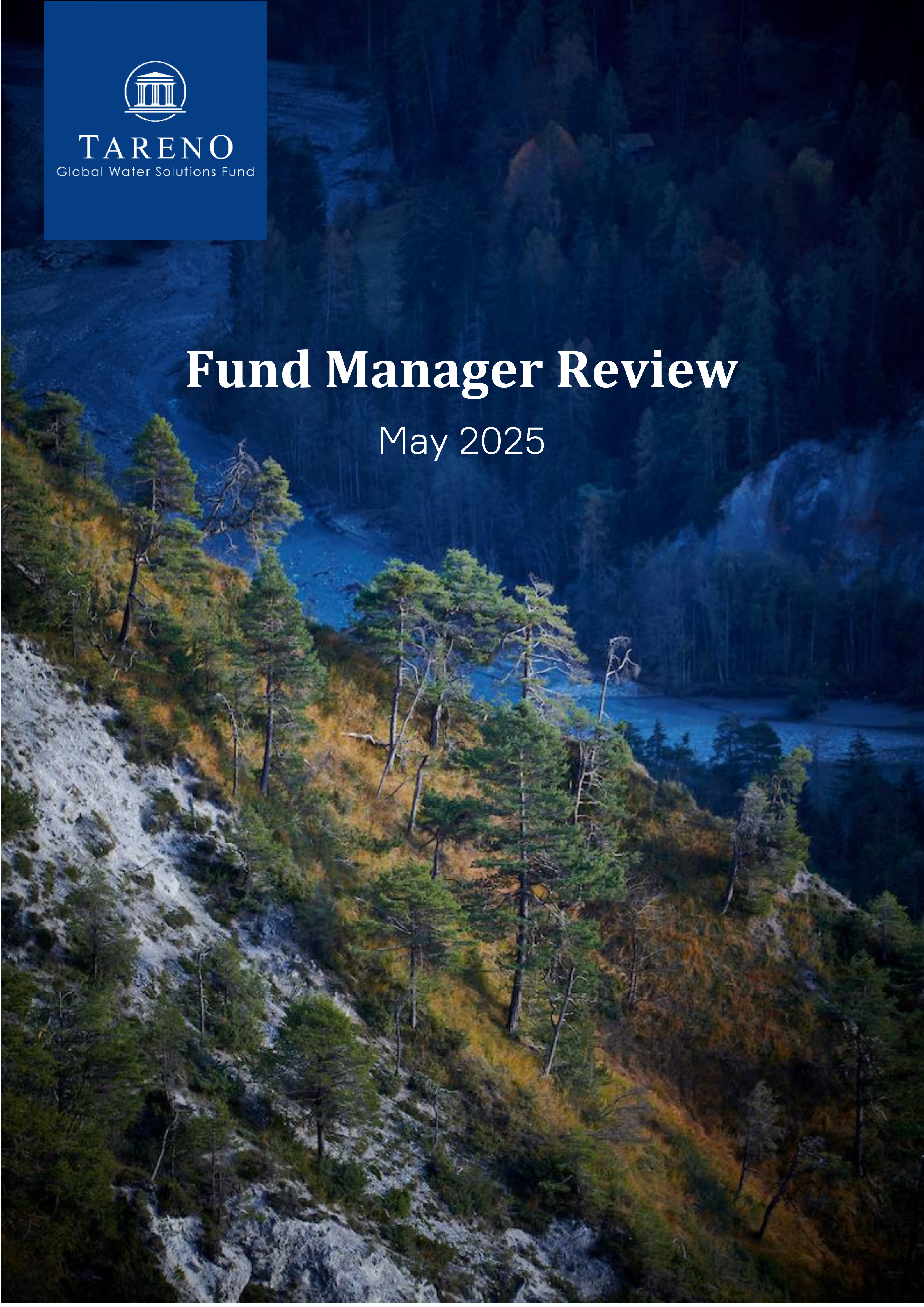
TARENO
Global Water Solutions Fund

Fund Manager Review

May 2025



Rising After the Fall

Equity markets made a strong recovery in May, driven by the US, Europe, and Japan. Growth stocks and small & mid-cap companies outperformed, benefiting from strong corporate results and improving sentiment. In the US, the S&P 500 surged by over 6%, with significant growth in technology, industrials, and consumer sectors. European equities also posted solid returns, supported by trade progress and stable earnings expectations. Japanese markets surged following company updates and a respite in global trade concerns. Defensive sectors lagged in this risk-on environment. In China, the trend was more muted, with selective sector strength. Investors have clearly demonstrated renewed confidence in equities, particularly in small and mid-sized firms with solid fundamentals.

The Tareno Global Water Solutions Fund posted a solid performance of +4.53% in May (W Euro Tranche).

Rising Above the Noise: Water Stocks deliver in Volatile Times

Earnings season ended in May, and the results have exceeded our expectations. The water sector has proven resilient in the face of highly fluid geopolitical landscapes.

Kurita Water, a Japanese supplier of ultra-pure water systems, confidently raised its guidance for the year. Kurita won two major projects, one in the US and the other in Europe, from clients in the semiconductor industry. After a period of lacklustre order growth, this clearly points to an increase in bidding activity around semiconductor manufacturers, an important market for water technology providers.

Watts Water smashed expectations by a wide margin and restated its guidance for the year. Watts is without a doubt one of the best run companies around, and the management team is adept at navigating the volatile macro landscape. The US construction market is still burdened by high interest rates, but other geographies are improving. As more than a third of their revenues are made in Europe, the weakness of the USD is a strong tailwind.

Down but not out: A comeback in the making

It is clear that the cuts in federal spending had a particularly severe impact on environmental consultants. Shares in companies like **Stantec, WSP, Arcadis** and, most significantly, **Tetra Tech** were sold heavily during the first quarter of 2025. The results of the pack were undoubtedly going to be eagerly anticipated. There are clear signs of improvement, with multiple contracts being awarded over the last couple of weeks. Tetra Tech's backlog fell 13% after ending USAID work, but new contracts and a shift to higher-margin sectors will make the company profitable in the long term, despite challenges in the near term. Stantec, WSP and Arcadis mentioned similar dynamics and saw their share prices rise strongly. It is clear that the sector was the strongest contributor to the performance during the reporting period.

Our month in water

We met with several companies in our sector. **ACEA**, the leading Italian water utility and one of our top holdings, is a prime example of this. We are convinced that, despite the stock's solid performance, there is still significant upside. Italy will insist on higher investments in the water grid to deal with water leakage. Suez, so the rumour goes, could reduce its stake in ACEA. This will increase the free float. This would be a clear positive.

Another convincing meeting was held with **Webuild.** The company is synonymous with infrastructure, specialising in roads, bridges, tunnels and high-speed rail across the globe. Webuild is a global leader in the water infrastructure sector. Its group company Fisia Italimpianti is a major player in this field. Together, they cover the entire cycle, from supplying drinking water (desalination) to wastewater treatment.

Georg Fischer's announcement that they have acquired the VAG Group from PE-Fund Aurelius is yet another positive development. VAG is a leading supplier of metal valves, a critical component of utility water networks. The acquisition is a key step in strengthening GF's infrastructure flow solutions offering. The next catalyst for the stock will be the closing of the sale of its machining solutions business. This will happen within the next couple of weeks.

Holding the cards

We are asking ourselves: What next? Markets have made a strong recovery, even in the face of significant uncertainty. We are retaining our underweight position in US names, as valuations remain extended. Meanwhile, there is growing optimism in Europe, as shown by money flowing into the region. Mario Draghi's words on competitiveness will certainly be heard. This would lead to investments in infrastructure, which is a key driver for water technology. We are not pessimistic, but cautious. In times of heightened uncertainty, we believe that some protection is warranted. We are currently holding around 6% of cash.

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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