



**TARENO**  
Global Water Solutions Fund

# Fund Manager Review

October 2025

# **Tareno Global Water Solutions Fund – October 2025 Investor Newsletter**

*Keeping it flowing: key sector updates and market movers*

## **Regulatory Tides: Policymakers and Innovators Drive the Push for Resilient Water**

October saw policymakers and innovators double down on water resilience. In mid-October, EU environment ministers approved Council conclusions backing the Commission's new European Water Resilience Strategy, targeting clean and affordable water for all through integrated, nature-based management. Across the Channel, UK regulator Ofwat launched a consultation on stricter environmental metrics, proposing enhanced calculations for pollution incidents and permit compliance aligned with updated Environment Agency standards.

Technology made headlines too. South West Water secured a multi-million deal for PEDAL, an AI-driven project that combines satellites, drones, and sensors to build the UK's first "digital twin" for predicting toxic algal blooms in reservoirs. The goal? Earlier intervention, cleaner drinking water. Meanwhile, suppliers pushed boundaries: DuPont rolled out a ultrafiltration module promising higher flow and lower costs, while Toray unveiled an advanced UF membrane with finer nanopores that slashes fouling and cuts CO<sub>2</sub> emissions by over 30%. Mass production is already underway in North America and Japan.

Stateside, water reuse took centre stage. New analysis estimates U.S. municipal reuse spending at USD 47 billion from 2025 through 2035, driven by direct-potable reuse and rising industrial demand. Despite subdued M&A activity overall (fewer than 166 water deals year-to-date) the month's blockbuster announcement came from American Water Works and Essential Utilities, whose proposed merger underscores the ongoing consolidation among regulated utilities.

## **Earnings Pulse: Resilience, Reinvention, and the Usual Halloween Scare**

Earnings season delivered its familiar mix of solid results, strategic pivots, and a market overreaction or two. Despite global uncertainty, many companies in our universe reported encouraging momentum, not just in numbers, but in how they're positioning for what's ahead.

## **Xylem and Veralto: Quiet Confidence, Strong Execution**

Xylem continued its steady transformation from industrial stalwart to smart water leader, posting solid growth across all segments, particularly in sensors and digital services. Veralto, still building its standalone identity after spinning off from Danaher, showed it's finding its footing in water quality and lab analytics. Both raised full-year guidance, a sign of strong execution and growing confidence.

## **Pentair: Tech-Driven Growth with an Eye on Homeowners**

Pentair made waves with a strategic acquisition strengthening its valves and controls offering, supporting its push into smart residential water systems. While the broader home improvement market remains soft, Pentair sees opportunity in connected filtration and flow tech for homeowners.

## **A.O. Smith: Cooling in China, Heating Up Elsewhere**

A.O. Smith faced headwinds in China, where demand cooled after last year's government stimulus ended. But in North America, its commercial water heater business held firm, buoyed by rising efficiency standards. Sustainability remains a core growth driver.

## **Mueller Industries and Gorman-Rupp: Infrastructure in Focus**

For Mueller Industries, new U.S. tariffs created both challenges and advantages. With its strong domestic manufacturing footprint, the company may gain market share as competitors scramble to adjust supply chains. Gorman-Rupp, meanwhile, is benefiting from steady upgrades to municipal water systems. Pumps, valves, and treatment equipment remain in demand.

## **Everyone Deserves a Good Scare Around Halloween**

If you've been reading my October updates over the years, you know there's usually a Halloween-style market scare lurking somewhere, and this season delivered.

Arcadis, the Dutch engineering firm, continued to see strong demand for water and environmental consulting services, from coastal defences to urban stormwater systems. It's riding the global wave of climate adaptation. Itron's quarter stood out for record profitability rather than blockbuster sales. Its newest digital platform, bringing real-time intelligence to water and energy grids, is gaining traction, even as some utilities delay orders. The long game? A smarter, more responsive water network.

At first glance, both companies told compelling stories: strong demand, strategic positioning, promising long-term trends. Then came the footnotes. Arcadis missed on free cash flow due to billing delays tied to an ERP rollout and project timing. Itron delivered excellent Q3 results but underwhelmed with a cautious Q4 revenue outlook.

The market didn't wait for nuance. Both stocks were punished with drops north of 20%, a reaction better suited to scandal than scheduling hiccups.

Let's be clear: the fundamentals haven't changed. Pipes are still flowing, utilities remain regulated, and water is still essential. But the market's reaction function? That's another matter. We now live in a world where nuance gets priced like drama, and short-term narrative often trumps long-term logic.

We used the opportunity to add to both positions.

## **Tapping Into Scale: America's Largest Water Utility in the Making**

In late October, two giants of U.S. water, American Water Works and Essential Utilities, announced they're merging to form the country's largest regulated water and wastewater utility. The USD 63 billion all-stock deal spans 17 states and nearly 5 million customers, promising efficiency, scale, and a stronger foundation for infrastructure investment.

But the road ahead isn't without bumps. Regulators in multiple states must approve the merger, and the companies face years of integration work. For long-term investors, this is a bold bet on scale and stability. We'll keep you updated as this deal progresses. In water, big moves take time.

## ESG & Regulatory Landscape

On the sustainable finance front, European regulators offered fresh guidance. Luxembourg's CSSF published feedback from ESMA's SFDR "reality check," noting generally satisfactory compliance but urging funds to avoid generic ESG claims. SFDR-aligned methodologies must be explicitly explained in disclosures—vague references to UN SDGs without detail are deemed inadequate.

Separately, the EU Parliament tackled sustainability reporting rules. In early October, MEPs tentatively agreed to lower CSRD scope thresholds to approximately 1,000+ employees and EUR 450 million turnover, though a plenary vote was postponed. Globally, the ISSB convened a sustainability symposium on October 30 and announced an expanded working group to promote "passporting" of disclosure standards across jurisdictions, aiming to harmonize ESG reporting and reduce fragmentation.

## Cautious Optimism with Defensive Positioning

In October, the Tareno Global Water Solutions Fund recorded a performance of **-0.5%** (W-EUR Tranche).

As we approach year-end, the water sector demonstrates resilient fundamentals anchored by secular growth drivers: aging infrastructure replacement, stringent environmental regulations, water scarcity mitigation, and emerging opportunities in data centre cooling and industrial water reuse. Policy support remains robust on both sides of the Atlantic, with meaningful capital flowing toward sustainable water solutions.

Q3 earnings confirmed that leading companies are successfully navigating a complex landscape marked by trade policy uncertainties, cost pressures, and uneven end-market demand. Management teams have responded proactively through operational efficiency initiatives, strategic portfolio optimization, and disciplined capital allocation. Innovation continues at pace—digital solutions, advanced membrane technologies, and AI-driven monitoring systems are positioning the sector for long-term value creation.

However, we maintain a measured stance given current valuation levels, particularly in U.S. markets where premium multiples leave limited room for disappointment. While we remain constructive on the sector's long-term prospects, near-term positioning emphasizes quality operators with strong balance sheets, visible earnings growth, and reasonable valuations. Selectivity will remain paramount as we enter 2026.

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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