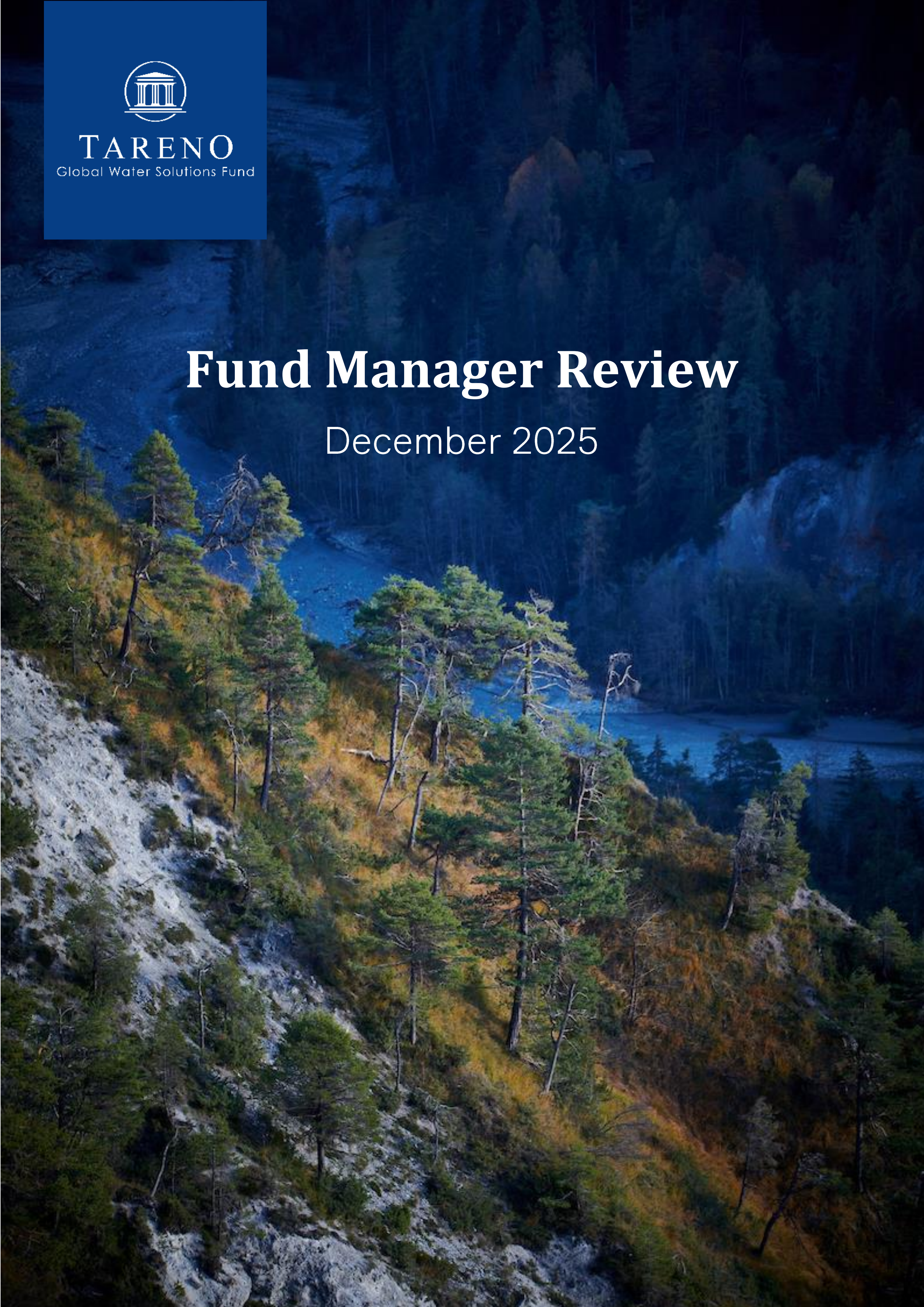
TARENO
Global Water Solutions Fund

Fund Manager Review

December 2025



Tareno Global Water Solutions Fund – December 2025

Keeping it flowing: key sector updates and market movers

Newsflow in December confirmed robust municipal water infrastructure spending. This validates the thesis that regulatory drivers, aging infrastructure, lead service line replacement, and PFAS remediation combined with federal funding through the U.S. Infrastructure Investment and Jobs Act and state revolving funds are sustaining demand despite broader economic uncertainty.

Within the industrial vertical, data centres continue to be a pocket of strength. Liquid cooling continues to gain share over air-cooling, creating opportunities for water-related companies. In addition, permitting typically requires state-mandated fire suppression infrastructure and drainage systems, making pumps the biggest near-term beneficiary.

Regulatory environment

No significant regulatory developments affecting multiple portfolio holdings emerged during December 2025. However, the sustained strength in municipal markets referenced by multiple companies suggests that regulatory implementation of the U.S. EPA's revised Lead and Copper Rule, which requires lead service line inventory and replacement, and emerging PFAS regulations continue to drive project pipelines and budgets at the utility level.

Engineering and consulting: WSP expands U.S. footprint

WSP Global announced the acquisition of TRC Companies for USD 3.3 billion. The transaction transforms WSP into the largest U.S. engineering firm with approximately 27,000 employees and establishes leadership in the Power & Energy sector, which will represent 34% of U.S. net revenues. The TRC acquisition significantly expands capabilities across the water value chain, particularly in environmental consulting and program management for water utilities, strengthening WSP's position to benefit from sustained infrastructure investment driven by aging water systems, regulatory requirements, and climate adaptation needs.

Read-across for the water sector

The WSP transaction, combined with recent management commentary and corporate actions across the sector, reinforces several themes relevant to water infrastructure investing.

The power-water nexus continues to strengthen. WSP's acquisition rationale explicitly highlighted Power & Energy as a growth driver, with water infrastructure capabilities positioned as complementary. Gorman-Rupp similarly emphasised data centre fire protection and cooling system opportunities during their recent commentary. This reinforces the structural linkage between electrification trends and water demand, particularly in data centre and industrial applications where cooling, process water, and fire protection requirements are expanding.

M&A remains a strategic imperative for scaled water infrastructure players. Both WSP's USD 3.3 billion acquisition and Core & Main's Canada Waterworks purchase underscore that industry leaders view consolidation as essential for expanding addressable markets, capturing synergies, and meeting client needs for integrated solutions. Valuations remain disciplined, with WSP paying 12.5x EBITDA including synergies while Core & Main pursues tuck-in geographic expansion.

Municipal visibility through 2026 provides a supportive backdrop. Management commentary from Core & Main and Gorman-Rupp suggests municipal infrastructure demand remains well-supported through at least mid-2026, offering earnings visibility for companies with substantial public sector exposure. This contrasts with mixed signals in residential and certain industrial end markets, reinforcing the defensive characteristics of utility-linked water infrastructure investments.

Shareholder returns priorities reflect balance sheet confidence. Core & Main increased its buyback authorisation by USD 500 million, while Gorman-Rupp announced its 53rd consecutive dividend increase. Both demonstrated commitment to shareholder returns despite active M&A pipelines—a balance between growth investment and capital return characteristic of maturing infrastructure platforms with confidence in cash generation capacity.

Margin expansion trajectories support profitability improvements across the sector. Core & Main's 60-basis-point gross margin expansion (latest filing for Q3 2026) demonstrates that water infrastructure distributors and manufacturers can improve returns even in mixed volume environments through operational discipline, private label penetration, and pricing architecture. Gorman-Rupp reported similar margin improvement through operational leverage and facility optimisation, suggesting the sector is structurally improving profitability following post-pandemic supply chain normalisation.

Residential exposure remains a near-term headwind. Both Core & Main and Gorman-Rupp highlighted residential market softness, with Core & Main noting low double-digit residential decline expectations for Q4. This cyclical pressure is offset by municipal and non-residential strength but underscores the importance of end-market diversification within water infrastructure holdings.

Portfolio positioning

December developments support the portfolio's core thesis that water infrastructure benefits from multi-year regulatory and replacement cycles largely insulated from near-term economic volatility. The quiet month with only two material earnings events and one M&A announcement across our holdings is consistent with typical seasonal patterns for industrial and infrastructure companies.

The WSP-TRC transaction merits particular attention through Q1 2026 as integration planning progresses and financing is completed. Near-term share price volatility related to the equity raise and leverage profile should be viewed as a tactical consideration within a structurally sound strategic transaction.

In December, the Tareno Global Water Solutions Fund recorded a performance of -1.31% (W-EUR share class), thereby concluding an overall challenging year with a full-year performance of -1.46%.

The portfolio's geographic and sub-sector diversification across engineering consultants, product manufacturers, distributors, and regulated utilities continues to provide balance, with municipal-heavy exposure offsetting residential cyclicality.

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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