TARENO
INDEPENDENT WEALTH & ASSET MANAGER

Keeping it flowing: Record Earnings, Regulatory Tailwinds, and Strategic Consolidation

February 2026 was among the most data-dense months of the year, concentrated almost entirely around year-end and quarterly earnings. The overwhelming majority of the fund's portfolio reported results, and the overall picture is one of structural resilience in water-specific end markets, partially obscured by macroeconomic and cyclical noise.

Earnings quality: broadly strong in water-pure names

The companies most directly aligned with the water investment thesis — Veolia, Sulzer, Xylem, Veralto, and the majority of the fund's water-pure holdings — nearly all delivered record or above-expectation results. Common themes include consistent volume growth in municipal water and wastewater markets, expanding margins through operational leverage and pricing, and robust free cash flow generation. This confirms that structural demand drivers — ageing networks, water scarcity, tightening regulation — remain fully intact and are translating into financial outcomes.

Municipal infrastructure spending is accelerating

Multiple US holdings (Mueller Water Products, Gorman-Rupp, IDEX, Essential Utilities, California Water Service) described resilient or growing municipal market conditions, supported by US infrastructure legislation. Regulated utilities are investing at record levels (Essential Utilities' $1.4 billion, California Water Service's $517 million). In the UK, Severn Trent confirmed record AMP8 capital investment at the top end of guidance. This cross-geography pattern of elevated public-sector water infrastructure investment is a powerful validation of the thematic premise.

Strategic consolidation and technology integration

Three holdings executed or confirmed major strategic transactions: Veolia's $3 billion Clean Earth acquisition, the Essential Utilities/American Water shareholder merger approval, and ADS's $1 billion NDS acquisition. Additionally, Stantec was named preferred bidder for the Scottish Water enterprise. Kemira acquired SIDRA Wasserchemie, a German coagulant producer, to strengthen its Water Solutions offering. The aggregate message is that the water sector is consolidating, with scale, technology, and geographic diversification rewarded.

Technology is increasingly intersecting with the water theme. Itron's record Outcomes backlog, Veralto's In-Situ water analytics acquisition, and the multiple management references to data centre water demand illustrate that digitalisation and advanced analytics are becoming embedded in water infrastructure — elevating margins, improving asset utilisation, and creating recurring revenue streams.

TARENO
INDEPENDENT WEALTH & ASSET MANAGER

Divergences and risks

Not all holdings performed equally well. Kemira and Arcadis reported genuine fundamental headwinds: Kemira from pulp and paper market weakness, Arcadis from leadership transition and project underperformance in Canada and real estate markets. Both represent positions where the near-term earnings trajectory is negative and management execution is being tested. Sika and Aalberts face cyclical construction and semiconductor headwinds respectively, though their strategic positions remain intact. Toray's EV battery impairment creates headline noise unrelated to water but draws attention to conglomerate risk. Masco's significant tariff exposure introduces earnings risk that is not water specific. The capital market days of Wienerberger and Georg Fischer failed to convince investors, as the recovery of the European housing market may still be some way off.

Water industry & regulatory context

The portfolio-level earnings picture played out against a month of significant regulatory and industry developments that reinforce the structural investment case.

In the EU, the Council formally adopted on 17 February a directive updating priority pollutant standards for surface water and groundwater, expanding monitoring to include pharmaceuticals, PFAS, bisphenols, and pesticides, and introducing cumulative risk assessments for chemical mixtures for the first time. Member states must comply by 2033 (revised surface water) and 2039 (full scope).

Bluefield Research estimates European PFAS-related drinking water treatment spending alone at €3.6 billion over 2026–2036 — directly benefiting holdings such as Veolia, Kemira, Kurita, and Veralto. In a related ruling, the General Court dismissed lawsuits by pharmaceutical and cosmetics companies against Extended Producer Responsibility provisions in the recast Urban Wastewater Treatment Directive, upholding the requirement for producers to cover at least 80% of quaternary treatment costs.

EurEau met with Environment Commissioner Roswall on 16 February, highlighting an annual EU water investment gap of €23 billion under the next Multiannual Financial Framework (2028–2034).

In the US, the AWWA's 2026 outlook flagged the convergence of infrastructure renewal needs (EPA estimates $1.3 trillion over 20 years) and expiring IIJA funding as the sector's defining financial challenge.

GWI and XPV Water Partners released a joint report (19 February) identifying four high-growth investment themes for 2026–2030: mobile treatment systems, AI-driven data centre water management, advanced contaminant removal, and water reuse. Roland Berger's Water M&A Report confirmed that global water sector transaction volume rose 8% in 2025, reversing three years of decline.

Outlook

February 2026 reinforced our core thesis: structural demand for water infrastructure remains durable, the highest-quality water-pure companies in the portfolio continue to compound value, and strategic consolidation is creating larger, more capable platforms with stronger technological and geographic reach. During the reporting

period, the **W-EUR tranche returned +3.66%**, reflecting the resilience of the portfolio's core holdings. The macro backdrop remains complex — the ongoing war in the Middle East adds uncertainty to an environment already marked by tariff discussions and broader economic concerns, inevitably creating volatility across global equity markets.

As long-term investors, we recognise that short-term disruptions are an unavoidable feature of markets, and such phases have historically provided attractive entry points into high-quality companies. We remain invested and constructive: aging infrastructure, tightening regulation, technological innovation, and rising global water stress continue to underpin the long-term demand picture. Disciplined portfolio construction and a focus on quality will, in our view, continue to create value over time.

Learn more: [Website Tareno Water Fund]

Stefan Schütz

Fund Manager, Tareno AG

Stefan Schütz joined Tareno's investment team in 2007 shortly after the launch of the Tareno Global Water Solutions Fund. He has been fund manager since July 2021 and is also responsible for fundamental equity research within the investment team. The Certified International Investment Analyst (CIIA) has been working in the financial industry since 1997.