TARENO
INDEPENDENT WEALTH & ASSET MANAGER

Tareno Global Water Solutions Fund
Monthly Report July 2026

AI is driving up demand for water

July began in cautious optimism, but markets were quickly confronted with a more challenging reality. Renewed escalation in the Middle East pushed energy prices and long-term bond yields higher, while richly valued US technology stocks came under pressure from profit-taking and mounting concerns over how the AI boom will be financed. The Nasdaq declined sharply. Europe proved more resilient: a strong earnings season supported equity markets and encouraged a rotation towards defensive companies, value stocks, and small- and mid-cap names. July was therefore less a month of broad-based gains than one of growing selectivity and a renewed focus on fundamentals.

The month in water

July's dominant storyline in water was the collision between the artificial-intelligence boom and a finite resource. Hyperscale data-centre operators, the firms running the vast server farms behind AI, began opening up about how much water their cooling systems consume, becoming more transparent as they stress water and sustainability strategies in the face of growing public opposition. One Virginia utility is developing an extensive reclaimed-water network to serve the state's vast data-centre cluster, an initiative described as a kind of Silicon Valley for water. For companies selling cooling, monitoring and reuse technology, this shift from opacity to accountability signals a durable new demand stream.

The month's second theme was a paradox of capital. Global Water Intelligence recorded a record first half for water-technology funding, with $687 million in equity commitments, while Bluefield Research counted the strongest run of sector M&A since 2021: 161 transactions in the first half and second-quarter activity up 42% year-on-year. Yet this capital is not necessarily reaching public infrastructure. EurEau's latest figures point to an increasing European investment backlog, as EU water spending continues to lag inflation, while Bluefield has warned of a looming U.S. federal funding cliff as temporary programmes wind down. State and local governments already accounted for approximately 96% of U.S. water-infrastructure spending in 2025. Capital is pouring into water technology and corporate transactions; closing the structural infrastructure shortfall is another matter.

Company news

Pentair delivered the month's sharpest disappointment. A sudden wave of inventory destocking in its Pool business sent second-quarter Pool sales down 42% and group revenue down 17% to $933 million, prompting management to cut its full-year guidance. The speed of the deterioration raised questions about visibility into the sales channel. Yet the wider picture remained more balanced: Flow and Water Solutions achieved record margins, Pentair agreed to acquire Taco Group for $1.425 billion to strengthen its commercial water offering, and the company raised its dividend for a 50th consecutive year. With the shares falling almost 20% after the report, **we used the weakness to add to our position**.

Elsewhere, results were generally more reassuring. **Veolia** raised its full-year outlook after first-half net income increased 10%, supported by efficiency gains and the completion of its $3 billion acquisition of Clean Earth.

Xylem reported a 42% increase in orders, including the largest contract in its history, and lifted its earnings guidance as data-centre-related demand more than tripled. The company also continued its shift towards higher-value software, sensing and control solutions, acquiring the digital-sensing specialist TriOS. Tetra Tech similarly upgraded its outlook as international water activity grew 12% and was selected as lead designer for the largest municipal treatment system for PFAS (persistent 'forever chemicals') in the United States.

Itron was another standout. Record gross margins and a higher full-year earnings outlook highlighted the improving profitability of its metering and grid-software business, sending the shares sharply higher. Andritz reported a record €12.6 billion order backlog, helped by an 82% rise in first-half hydropower orders. Georg Fischer also benefited from strong semiconductor and data-centre demand, while continuing to divest non-core casting operations. Sika raised its full-year guidance as efficiency measures offset subdued construction markets.

Arcadis rejected an acquisition approach from WSP, arguing that the proposal undervalued the company and its prospects. The decision was backed by strong operating momentum, with US water, UK infrastructure and power-grid projects driving record order intake.

The weaker results remained concentrated in familiar areas. Wienerberger lowered its full-year profit outlook after sluggish residential construction in the US, UK and Canada reduced second-quarter earnings by around €30 million. Its infrastructure and renovation businesses, which now account for more than 60% of revenue, remained resilient. A. O. Smith faced similar pressure in China, where sales fell 28%, while its North American boiler operations continued to grow strongly.

Keeping a pulse outside of our holdings, Badger Meter expanded further into digital sewer-network monitoring through the $185 million acquisition of SmartCover and the $100 million purchase of UK-based UDlive. Scottish Water, meanwhile, awarded digital-services contracts worth up to £230 million to Accenture and BT, reinforcing the sector's shift from standalone equipment towards connected monitoring, analytics and network intelligence.

The common thread was clear: municipal water, infrastructure and digital solutions remained robust, while weakness was concentrated in residential construction, discretionary spending and China-exposed markets.

Fund performance

Against this backdrop, the Tareno Global Water Solutions Fund returned -0.74% (W-EUR tranche) in July. The month was marked by a pronounced rotation within the water universe. Several companies that had lagged during the first half of the year recovered strongly, led by engineering and consulting businesses. Arcadis and Tetra Tech contributed meaningfully, alongside Georg Fischer, Andritz and Mueller Industries.

At the same time, some of the strongest performers from earlier in the year gave back ground as enthusiasm around data-centre-related demand cooled. This weighed on Gorman-Rupp, Watts Water and Advanced Drainage Systems. The regional pattern also reversed, with Europe providing the main source of strength, while North America and Japan detracted.

Overall, the portfolio's broad exposure across utilities, industrials, engineering and construction-related businesses helped balance the contrasting trends within the sector.

Positioning and outlook

Looking ahead, the earnings season is in full swing and will keep moving share prices in both directions; we expect volatility to stay elevated, an environment that also creates opportunities. Having learned to live with geopolitical noise, we are now watching the recent rise in interest rates more closely, as it represents a genuine risk. Our approach is unchanged in spirit: diversification and a disciplined focus on fundamentals remain key, and we currently hold a slightly higher cash position of around 5% to preserve flexibility.

As a closing thought on why this theme matters: this summer, even water-rich Switzerland was placed under a maximum drought alert, with national reservoir levels at roughly 51% in late July against a long-term average of 68%, and many municipalities restricting water use. It is a quiet reminder that clean, reliable water is neither guaranteed nor evenly distributed, and that the companies working to secure it are addressing one of the defining challenges of our time.

Stefan Schütz

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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.

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