

TARENO
INDEPENDENT WEALTH & ASSET MANAGER

Tareno Global Water Solutions Fund

Monthly Report October 2026

Water sector shares on the rise

Equity markets delivered mixed returns in October, with modest gains in Europe and a slight decline in the broader US market. Corporate earnings provided support but concerns about the cost and profitability of artificial intelligence investment weighed on technology shares. Investors increasingly favored defensive sectors such as healthcare and consumer staples, while banks and basic materials lost momentum. Geopolitical tensions and higher energy prices kept inflation concerns in focus, while elevated financing costs remained a challenge for more economically sensitive businesses.

Water thematic overview

Water end markets remained uneven, with industrial opportunities alongside a more cautious outlook for municipal infrastructure and construction. Industrial demand was supported by data centres and related investment, although this strength did not extend equally across all applications. An October report from the American Water Works Association highlighted the importance of cooling technology, water availability and reuse in assessing these projects. For suppliers, exposure to the right applications and the ability to deliver profitably remain important.

Municipal demand was normalising in the US after several years of strong spending, while rising construction costs absorbed much of the increase in European water investment. Infrastructure needs remained substantial, but funding and delivery constraints could delay orders. Construction-related demand also faced pressure from financing costs and affordability, favouring maintenance and replacement activity over equipment tied to new building projects.

Company news

A. O. Smith agreed to sell a majority interest in its China business to CPE, while retaining a minority stake and a long-term brand licensing arrangement. The proposed transaction would reduce exposure to a challenging market while preserving participation in the business through the retained interest and royalties. Completion remains subject to regulatory approvals and other customary conditions. The agreement marks a significant step in simplifying the group's portfolio following its strategic review.

Andritz set out updated medium-term growth and profitability ambitions at its capital markets day. Management's strategy centres on decarbonisation, digitalisation and customer service, with opportunities linked to energy investment and more efficient industrial processes. The investment relevance lies in translating those opportunities into orders, recurring service activity and profitable execution.



Earnings snapshot

The earnings season highlighted differences in demand and execution across the portfolio. Gorman-Rupp delivered particularly strong results, with sales rising almost 12% and profitability improving substantially, supported by higher volumes and operating leverage. IDEX reported organic order growth of 13% and raised its full-year outlook, pointing to improving momentum across its businesses.

Badger Meter showed encouraging progress, with sales increasing 6% from the previous quarter and operating margins strengthening. Management expected further improvement as awarded utility projects ramp up, although project timing remained uneven. Arcadis reported stronger organic growth and profitability, supported by robust water activity, while Veralto raised its earnings outlook following growth in treatment and analytics.

Results were more mixed at Pentair, where weakness in Pool offset growth and improved profitability in Flow and Water Solutions. Management indicated that inventory adjustments at major channel partners were complete, providing a potential basis for recovery, and maintained the midpoint of its full-year adjusted earnings outlook. Xylem, meanwhile, reduced its revenue and earnings guidance as project timing and more cautious customer spending weighed on sales, despite healthy order growth.

Kurita Water Industries provided the clearest warning on project execution. Cost overruns at a large water treatment project for the US electronics industry prompted a substantial reduction in its profit outlook, despite a higher revenue forecast. The contrast with stronger results elsewhere showed how project complexity and cost control can matter as much as underlying demand.

Fund performance

The Tareno Global Water Solutions Fund returned +3.4% in October for the W-EUR share class, bringing its year-to-date return to +6.4% as of 31 October.

Engineering consultancies were prominent among the strongest contributors, led by Tetra Tech and Arcadis. Veralto also contributed positively, with its operational progress reflected in a higher earnings outlook.

Japanese treatment and equipment holdings featured prominently among the largest detractors, particularly Kurita Water Industries, whose project-related setback stood out against the more encouraging updates elsewhere. Ebara and Organo also detracted, as did Sabesp following the election results.



Portfolio activity

We made minor adjustments to the portfolio in October. We took profits in **Sabesp** after the strong rise in its share price. This proved well timed, as the shares subsequently gave back their earlier gains following the elections. We continued to add to our recently initiated positions in **Franklin Electric** and **Interpump**, expanding our exposure to pumps and fluid-handling technologies.

We initiated a small position in **Lindsay**, adding selective exposure to agricultural irrigation. We also established a position in **Badger Meter**. Its improving sales momentum and profitability reinforced our positive assessment of the company, whose smart metering and monitoring solutions help utilities manage their water networks more efficiently.

Learn more: Website Tareno Water Fund



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As ESG analyst, Katja Von Krannichfeldt is responsible for implementing the sustainability strategy in the investment processes. She is also responsible for the management of equity valuation models. Since 2023, Katja Von Krannichfeldt manages the Tareno Global Water Solutions Fund. She holds a Master's degree in International Business Development from the University of Neuchâtel and joined Tareno in 2016. Katja Von Krannichfeldt is a «Chartered Financial Analyst» (CFA) and holds the «CFA UK Certificate in ESG Investing».

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