



# TARENO

## Global Water Solutions Fund



Performance Report  
March 2019



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### Tareno Global Water Solutions Fund March 2019

Renewed macro concerns made stock markets take a breather in March. With central banks largely coming out dovish during the last couple of weeks, markets were nevertheless well supported. The Tareno Global Water Solutions Fund managed to achieve a performance of +3.41% during the reporting period.

While the general macro picture looks a little clouded actually, the key macro data for the water sector remain constructive. Indicators for the industrial sector are solid with many end markets having to invest to bolster growth. In particular healthcare, biopharma, energy and food & beverage are demanding solutions to manage their process water. We have met with the management of Xylem recently and came away convinced, that the company is outstandingly positioned to capitalize on this. The outlook for the construction sector might improve as well, thanks to a combination of wage growth and lower interest rates. Still, Q1 numbers of companies selling into this vertical (Franklin Electric or Watts for example) could be at the lower end of expectations due to the harsh weather and oversupply in commercial construction (mainly hotels and offices). However, this should be a temporary effect. Municipal, especially Utilities had a very strong performance recently. With the Fed signaling a pause (or even the end as some might think) to its intention to raise interest rates, dividend stocks came back to investors "most favorite" lists again. Massive inflows into utility ETF's are an ongoing factor supporting the widening of water utilities P/E's. Some names in the space trade as far as 40 times earnings, with the peer group average close to 30 times. We recently increased our exposure to the group, as the elevated valuations have proven sustainable in the recent past. As the saying goes: "It's not over until the fat lady sings".

We made several adjustments to the portfolio during the month. We initiated a position in Aqua America (WTR) as its valuation came under pressure versus the peer group, after they announced their acquisition of Peoples Gas. Once the sizable capital raise (about USD 2MM) is complete, there should be room for WTR's valuation to close the gap, which in our view is not justified given the strong execution track record the management has. As mentioned earlier, we have a positive view on the construction end market. To reflect this, we initiated a number of positions (Masco, Georg Fischer and Polypipe) with relevant exposure. Going into the reporting season for Q1 2019, our view on the water industry in general remains optimistic. After having met several companies during March, we found that the demand for water technologies is strong across all verticals.

Best regards

Stefan Schütz



Stefan Schütz leads the equity research team consisting of 6 analysts, and is responsible for the European and US industry sector. He has over 20 years of experience in equity research and asset management. Stefan Schütz started his career in the finance industry in 1997 at Bank CIC. He joined the Tareno Investment Team shortly after the inception of the Tareno Global Water Solutions Fund in November 2007. Stefan Schütz is Certified International Investment Analyst (CIIA).