



TARENO

Global Water Solutions Fund



PERFORMANCE REPORT SEPTEMBER 2020



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Tareno Global Water Solutions Fund September 2020

Global equity markets fell more than 3% in September as a second wave of Cov-19 infections swept across Europe, forcing a return to earlier pandemic protocols. US growth stocks, which had previously benefited from the shift caused by Cov-19, came under some pressure in early September when concerns about stock valuations being too high resurfaced.

The U.S. elections are getting closer and while Biden is still well ahead in national polls, there is some evidence that Trump has gained ground in some major swing states such as Florida and North Carolina. In addition, there is still uncertainty regarding the agreement between Democrats and Republicans on an additional fiscal stimulus package, with the likelihood of reaching an agreement before the U.S. presidential election currently appearing low. On a more positive note, economic data have continued to exceed expectations and Cov-19 vaccine trials have made further progress.

The Tareno Global Water Solutions Fund achieved a performance of +3.1% (R1 EUR). Among the best performing stocks were Advanced Drainage Systems and Kingspan, both of which are among our top 5 holdings. The strong US-dollar has also contributed positively during the reporting period.

Regarding newsflow from our universe it has been a quiet month. This will for sure change once earnings season starts in mid-October. Probably the most exciting matter going on currently is Veolia's attempt to gain control over its rival Suez. Veolia's management recently seized every opportunity to persuade key backers for the deal. According to Veolia, the merger will create a "world super-champion" in environmental services, best placed to tackle global pollution and climate change issues. Veolia's plan identifies €500 million in cost savings, achievable within four years of closing the deal. This would come on top of Veolia's and Suez's current cost cutting programs, each of which aims to save €1 billion between 2019 and 2023.

Suez on the other hand is speeding up its asset disposal plan in order to free up cash. In attempt to fend off Veolia's bid, Suez has created a foundation and made it a shareholder of its Water France subsidiary. The foundation is expected to have a veto right over the sale of Suez Water France (which Veolia wanted to execute in order to prevent antitrust issues). It always needs two to tango – will be interesting to see if Veolia has something up their sleeve.

We had the opportunity to attend a utility conference mid-September to meet with most publicly listed water utilities in the US. The discussions held circled around the lessons learned from the pandemic, growth opportunities through consolidation of municipality owned utilities, the influence of low rates on allowed ROEs for public utilities, investments and the reporting practice of ESG metrics.

We came away convinced, that the regulatory environment is in general favorable. All the companies we were talking to, stick to their long-term capital planning with a focus on maintenance of the distribution systems and investments into technologies around it, like advanced metering, leakage detection and wastewater treatment. With regard to ESG, we engaged with some of the smaller companies in order to encourage them to report their sustainability profile to the relevant rating agencies.

We made several adjustments to the portfolio during the month of September. We sold our position in Veolia, which performed poorly in our valuation model and is still facing uncertainty regarding its



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attempt to gain control over Suez. We also reduced our positions in other utilities like A2A, Essential Utilities and Waters Corporation and invested the proceeds into more cyclical names like Wienerberger and Emerson Electric.

Best regards

A handwritten signature in blue ink, appearing to read 'Stefan Schütz'.

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).