



# TARENO

Global Water Solutions Fund

## PERFORMANCE REPORT – DECEMBER 2020



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## Tareno Global Water Solutions Fund December 2020

After the astonishing rally in major stock markets during November, we expected the markets to pause and probably lose some ground due to profit taking. After all, the S&P500 just closed its best month since the 1950s. Nevertheless, the market proofed us wrong – the news flow during December was supportive and the major indices ended the year with another positive month. The US congress agreed to a USD 900MM relief package, the EU and the UK agreed on the final terms of the Brexit and with the expected relief from Covid-19 vaccines, expectations of growth in corporate earnings increased as well. The gains were not as impressive as in November, but the Tareno Global Water Solutions Fund achieved a performance of 3.61% (R1 EUR tranche).

In terms of news flow from our universe, December was quiet. The only major news came from Kingspan, a UK construction materials supplier. With their market-leading offering in domestic wastewater and sewage treatment solutions, they do qualify for our universe.

In early December, they became subject to an inquiry over its alleged involvement in the Grenfell Tower fire that caused 72 people dead in 2017. One of Kingspan's products was used as insulation on a small portion of the building. Kingspan has argued that its product was not a causal factor in the spread of the fire, but the stock dropped 20% on the news. After taking some profits in the stock earlier in the month, we significantly trimmed the position in the days following the announcement.

On the other hand, there were some impressive performers during the reporting period. SiteOne Landscape and Badger Meter were both up more than 14%, Per Aarsleff 16%, hydropower-utility Verbund up 18% and Advanced Drainage Systems up almost 20%. The latter being the top performing position within our portfolio for 2020. ADS ended the year with a plus of 116%, adding 300 bps to the funds' performance for the year.

ADS is a great example of a company that offers what we are calling "Environmental Business Advantage". The performance at an operational level was solid this year as EBITDA margin expanded by more than 600 bps and the company has a strong focus on the environment. ADS is the second largest plastic recycling company in North America (550M pounds annually). More than half of all the plastic purchased by ADS to produce a range of water management products (drainage systems and pipes) is recycled.

Of course, this did not save ADS from volatility this year as the stock lost more than 50% during the sell-off in March. The recovery off the lows has been impressive though.

We often got the question on what impact the pandemic would have on our universe. The universe in general proofed to be very resilient. Business continuity was never in danger and companies took measures fast to protect their employees and keep services up and running. With water being so essential to our everyday life, disruptions cannot be tolerated. Now going forward, digitalization will likely get a push (metering, billing) as well as water treatment and testing. We have learned that hygiene is key to condemn any kind of pollution. There is a lot of work to do to improve the quality of water around the globe.

Now these aspects cover the real world, the stock market is a different animal. Investors in the water universe are exposed to volatility like anywhere else. What we have seen this year is that the recovery is not long in coming.



Water has lost none of its appeal during the last year and it will not do so in the future.

We would like to wish you all the best for 2021!

Stay safe



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).