



TARENO

Global Water Solutions Fund



Performance Report
July 2019



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July was a mixed month with only a few markets able to post gains again. Many markets in Europe, Japan and Emerging Markets generally lost ground. The US enjoyed gains on the back of solid earnings reports, for example from tech-companies that pushed the Nasdaq-100 through the 8'000 point barrier. The S&P500 passed the 3'000 point mark for the first time. July was as well a month with a lot of political noise. Donald Trump imposed new tariffs on Chinese imports, pushing the trade conflict up to a new level. The trade conflict so far did not leave too many marks within the water industry as companies either have pricing power, or are able to adjust their supply chains. With no solution in sight and further escalation looming, it could become a serious drag going forward.

Fundamentals in the water sector continue to show signs of deterioration. The latest data on construction, industrial and agricultural/irrigation channels are confirming ongoing headwinds. The demand in the industrial channel is cooling down (as we have heard from Badger Meter, Georg Fischer or Alfa Laval). Construction saw US home sales falling and inventories of homes rising. Both indicate muted top-line trends for companies exposed to residential building (Masco, Watts). The non-residential side does not look much better with investment into water intense infrastructure projects scaled back (hospitals and hotels for example). The sentiment in agriculture/irrigation remains weak, as the trade dispute is likely to remain a persistent issue for the sector (China is a major end market for US ag-products).

Nevertheless, many stocks were flirting with new highs during July, even if they failed to live up to investor's expectation on earnings. The disconnection between stock prices and fundamentals is especially visible among US water utilities, where a PE of 40 seems to establish itself as the "new normal". We are convinced, that stock picking will be at a premium when the tide finally turns.

Several adjustments were made to the portfolio. We exited our position in United Utilities as profits tumbled at unlisted UK water groups (usually a solid indicator for the listed peers). We initiated a position in Cantel Medical, a US supplier of infection prevention products to the health care industry. Its "Mar Cor" brand is the largest supplier of hemodialysis water systems. For more than 35 years, "Mar Cor" has been providing high-purity water solutions to clients in the pharmaceutical and dialysis markets.

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).