



TARENO

Global Water Solutions Fund



PERFORMANCE REPORT OCTOBER 2020



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October will be marked as the month of the second Cov-19 wave hitting the western world. As governments in major European countries started to impose lock-down measures on people and businesses again, investors prepared swiftly for the “brace – brace” alarm signal. While largely dominating the headlines, the pandemic is by far not the only obstacle investors had to face. The ECB met on October 29th and hinted at more stimulus measures to be announced at their next meeting in December. The earnings season is in full swing on both sides of the Atlantic, but investors met the reports in general with “sell the facts” profit taking, despite the results being in-line with expectations. The US did slightly better on the back of renewed hope for fiscal spending on infrastructure, but still did not manage to stay in positive territory. The all-dominant topic of course are the presidential elections taking place on November 3rd. We stay away from any predictions as we were taught better many times in the past. It remains to be seen whether or not a winner has been declared by the time this newsletter is published.

The Tareno Global Water Solutions Fund achieved a performance of +0.37% (R1 Euro Tranche).

What we can be sure is, that the importance of water will not diminish, no matter who rules the house at the end of the day. Looking at the companies in our universe and the quarterly results they have published so far, we are convinced that there are enough pockets of strength going forward. We still favor the residential housing markets as positive readings continue to come in. Existing home sales in the US rose for a third month in a row to a multi-year high of 6.5M units driven by record low interest rates. This is reflected in the reports of companies with exposure to this market like Ferguson, Masco, Uponor or A.O. Smith. We only recently built a position in A.O. Smith again, after staying on the sideline for more than a year. They managed to beat expectations with a solid growth in Earnings of 23% compared to 2019 and consequently raised their guidance. Solid replacement demand for water heaters and a rebound in China (some 30% of their business) affirm our positive view on the company.

Industrials business had a nice recovery into the 3rd quarter of 2020, but with restrictions put in place again, the trend could flatten over the 4th quarter. We still like companies with exposure to health care (water testing platforms like Danaher, Thermo Fisher or Perkin Elmer for example) and companies with short-cycle portfolios such as IDEX Corp.

In terms of M&A, the tale of Suez and Veolia continues. After acquiring Engie’s 29.9% stake in Suez for EUR 4.3MM, Veolia became the largest shareholder of Suez in late October. In a next step, Veolia intends to make an offer to Suez’ shareholders, but without a formal commitment. Suez’ management in the meantime seizes every opportunity to underline their will to remain independent. It still needs two to tango...

We made two adjustments to the portfolio during the reporting period. We exited the position in Waters Corp. and used the proceeds to add to our holding of A.O. Smith.

As far as ESG is concerned, we have initiated dialogues with some companies with relatively low ratings, such as the Danish construction company Per Aarsleff. We appreciate the open communication with the company and look forward to support them in sharpening their ESG profile.

Best regards

Stefan Schütz



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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).