

# Quarterly Update: Aqua

## Aqua: Weathered the storm relatively well in a challenging quarter



### Summary

- Outperformance versus benchmark in a challenging quarter
- Low number of transactions underlines our long-term conviction of the investments in the portfolio
- Current droughts in Southern Europe and North America accelerate the urgency for innovative companies to find solutions to water scarcity

**Graph 1: Net performance Vontobel Aqua AMC vs. MSCI ACWI TR Index, in USD**



Source: MSCI, Vontobel. The return of the strategy may go down as well as up due to changes in rates of exchange between currencies. Past performance is not a reliable indicator of current or future performance.

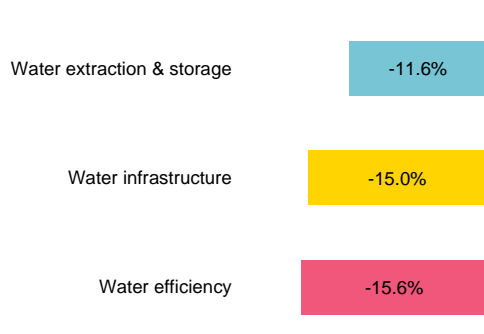
### Performance review

	1M	3M	YTD	1Y	ISSUANCE
<b>Aqua</b>	-8.7%	-15.3%	-26.7%	-18.9%	33.9%
<b>MSCI ACWI Net TR</b>	-8.4%	-15.7%	-20.2%	-15.7%	22.9%

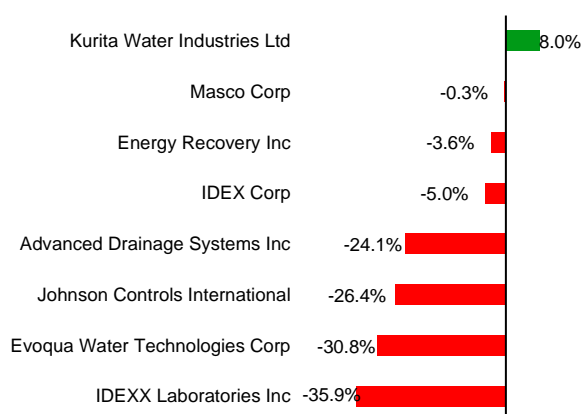
Source: MSCI, Vontobel. The return of the strategy may go down as well as up due to changes in rates of exchange between currencies. Past performance is not a reliable indicator of current or future performance.

From a macroeconomic perspective, the second quarter was marked by interest rate hikes in the U.S. to combat steadily rising inflation at levels not seen in several decades, supply chain issues, and China lockdowns. This was also reflected in recent quarterly results and the expected earnings outlook for water-related industrials and water utilities over the next several quarters. Recession fears in Europe and the U.S. also rose during June. Aqua held up relatively well against the MSCI ACWI in the second quarter and had slightly outperformed by 0.4%. The reasons are the strong underweight and selection in IT and consumer cyclicals, the strong overweight in utilities and the selection in industrials. Since inception of Aqua, the net cumulative outperformance versus the MSCI ACWI is 11%.

Regarding sub-themes, water extraction and storage was the best performer with -11.6%, thanks to the best performer Kurita Water on the back of expected record sustainable earnings. Kurita America's path to profitability and sales revenues from large investments in the ultrapure water supply business make an important contribution to this. Moreover, in the same sub-theme, Energy Recovery, the manufacturer of energy recovery equipment used in the seawater desalination industry, was relatively convincing. But companies in the water efficiency sub-theme, such as Idexx Laboratories, disappointed, which can be attributed to the veterinary business due to fewer veterinary visits in the first quarter. Quarterly sales in the water business (water testing solutions) however increased, posting a 13% gain. Johnson Controls, the water conservation service provider, came under pressure from disappointing quarterly results caused by supply chain issues, especially in the building controls business, and rising costs.

**Graph 2: Sub-themes quarterly performance, in USD**

Source: Bloomberg

**Graph 3: Top/bottom quarterly performers, in local currency**

Source: Bloomberg

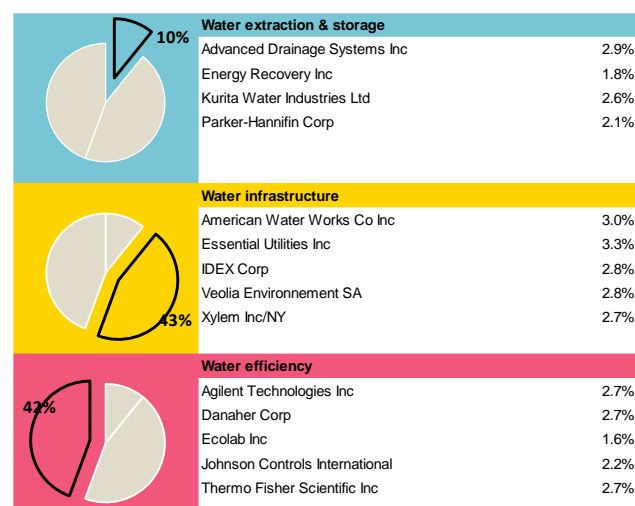
**Transactions in Q2 2022**

We bought U.S. smart water metering solutions provider Badger Meter on the positive outlook and sold U.S. pump manufacturer Flowserve on the disappointing quarterly earnings and outlook. Detailed information on the transactions and the reasons for each transaction can be found in Table 1 at the end of this document.

**Outlook Aqua**

The portfolio invests in companies that seek to address the pressing issues of water scarcity, water quality and inefficient water use through commercially successful solutions. This comprises access to clean drinking water, increasing water efficiency and improving water quality. We aim to leverage the macroeconomic environment, such as infrastructure plans in different regions, by targeting companies with innovative products and services in the sub-themes of water infrastructure (e.g. smart water pumps with adjusted power consumption based on water flow, innovative water supply systems), and water efficiency (e.g. water leakage detection, smart water metering). In addition, in the sub-theme of water extraction and storage, we see a continuing global trend towards sea-water desalination as part of the solution to water scarcity, especially since 40% of the world's population lives in coastal areas. Technological innovations also provide increasing energy efficiency and the use of renewable energy sources in the op-

eration of desalination plants. Climate change, currently noticeable with the droughts in Southern Europe and the USA, population growth and increasing urbanization will also ensure a supply deficit in relation to the steadily increasing demand in the long term. This makes water an attractive investment theme in the long term, especially for companies that make a positive contribution to reducing water scarcity and improving water quality with innovative and economically successful solutions.



**Graph 4: Portfolio excerpt**

Source: Vontobel. Data as of 30.06.2022.

**Strategic Certificate on the Vontobel Aqua Strategy**

Reference Currency	ISIN	Index Fee
CHF	CH0480392239	1.25%
EUR	DE000VF55L25	1.25%
EUR (Italy)	DE000VE2TG69	1.25%
SEK	SE0013233665	1.25%
USD	CH0480387981	1.25%

**Table 1: Transactions in Q2 2022**

<b>POSITIONS BOUGHT</b> 	
Badger Meter	End of June, we purchased Badger Meter, a provider of intelligent solutions for water and wastewater flow measurement (smart meters) for water utilities. The company is well positioned to benefit from the secular shift towards connected technology in the water utility sector. The company offers complete smart meter and data analytics technology solutions. After the quarterly results, management spoke of record sales in the first quarter and growing order intake. It has also initiated appropriate price increases to offset a declining gross margin due to rising inflation in the second half of 2022.
<b>POSITIONS SOLD</b> 	
Flowserve	We sold the pump manufacturer Flowserve at the end of June due to disappointing quarterly results, which were impacted by lockdowns in China and continued shortages of components, which led to negative sales revenue growth. In addition, the adjusted outlook also disappointed and the stronger US dollar could also negatively impact sales revenue outside the US, which accounts for 60% in total.

**Unsubscribe publication:** You can unsubscribe from this publication at any time. Please send us an [e-mail](#).

**Investment Suitability:** This publication is intended for general distribution. It is not part of any offer or recommendation and does not take into account your knowledge, experience and personal situation which is required for personal investment advice.

#### Legal information

This publication is deemed to be marketing material within the meaning of Article 68 of the Swiss Financial Services Act and is provided for informational purposes only. We will be happy to provide you with additional information about the specified financial products, such as the prospectus or the basic information sheet, free of charge, at any time.

This document is not sent to natural persons or legal entities or handed out at their place of residence if they are a citizen or resident of or are located in a jurisdiction where the distribution, publication, provision or use of this information would violate applicable laws or regulations or where Bank Vontobel AG, or Bank Vontobel Europe AG, does not meet applicable registration or licensing requirements. In particular, this brochure must not be distributed or passed on to US persons or within the United States. The valuations are based on research by analysts who make a detailed forecast of a company's future cash flows. Industry- and company-specific factors are taken into account. The income statement, balance sheet and estimates of the enterprise's investing activities are then entered into discounted cash flow (DCF) modeling systems. This document is intended for information purposes only. It is not the product of financial analysis or a market investigation. It is thus not subject to the Directives on the Independence of Financial Research issued by the Swiss Bankers Association, as well as the requirements of the EU Market Abuse Regulation. This document does not constitute an offer, invitation or recommendation to use any service, buy or sell any investment or perform any other transaction. The information and views contained herein are provided for information purposes only and do not take into account individual investment targets, financial situations or needs. The forecasts, assessments, prices, etc. in this document are merely indicative, are specific to a particular date, are based on information sources normally used in the banking industry and reflect the author's own non-binding opinion at the time of writing. They may change without notice or obligation for Bank Vontobel AG. Moreover, services and products may vary in composition or construction and/or be subject to sales restrictions depending on the investor and/or due to legal restrictions. Before making an investment decision, investors should therefore seek independent advice, taking into account their individual circumstances. We therefore recommend consulting your financial and/or tax advisor about potential tax implications or other consequences before investing in any of the products mentioned in this document. Potential investors should note that past performance is not necessarily indicative of future results. Investments denominated in foreign currencies are subject to exchange rate fluctuations. Certain investment products may not sell immediately in a period of market illiquidity. This can make it difficult to quantify the value of your investment and the risk that you bear. Bank Vontobel AG, or Bank Vontobel Europe AG, therefore disclaims any and all liability for any particular asset performance, particularly any loss suffered or the attainment of a particular yield by the investments that the investor makes on the basis of this presentation. Although Vontobel is of the opinion that the information contained herein is based on reliable sources, Vontobel cannot guarantee the quality, accuracy, timeliness or completeness of the information contained in this document. Bank Vontobel AG may, to the extent permitted by applicable laws and/or prudential rules, participate in financial transactions with the issuer(s) of the securities mentioned in this document; invest in their securities; perform services for, solicit business from or conduct transactions with said issuer(s); hold positions in, options on or investments related to their securities; and/or have other material interests relating to their securities. Bank Vontobel AG may, to the extent permitted by applicable laws and/or prudential rules, use and act on the information or investment suggestions contained in this document before they are shared with clients. Bank Vontobel AG may have acted as manager or co-manager in connection with a securities issue for any or all of the issuers mentioned in this presentation, or may currently make a primary market for these issues, or may be providing or have provided in the past twelve months substantial advisory and investment services in connection with the relevant transaction or a related investment.

Details on how we handle your data can be found in our current data protection policy ([vontobel.com/privacy-policy](http://vontobel.com/privacy-policy)) and on our data protection website ([vontobel.com/gdpr](http://vontobel.com/gdpr)). If you would like to receive a hard copy of our Privacy Policy, please contact us at the following e-mail address:

Vontobel Wealth Management  
T +41 58 283 71 11  
[wealthmanagement@vontobel.com](mailto:wealthmanagement@vontobel.com)

[vontobel.com/wm](http://vontobel.com/wm)