



Hornet Infrastructure – Water Fund (EUR)

General market review

The stock markets continued to trend positively in May as well, although the volatility, especially in technology stocks, has increased. The European stock markets were able to grow at an above-average rate of +2.4% compared also to most of the Asian markets. The increased inflation figures from the USA, measured with the CPI (Consumer Price Index) of +4.2% year-on-year (+3.6% expected), as well as the lower Durable Goods Orders of -1.3% in April and those in line with expectations coming economic data have led to a further weakening of the USD of around -1%. In contrast, the currencies in many important emerging markets were able to appreciate, and this with positive equity markets in the regions of South America, e.g. in Brazil with +5.6% or in China with +3.3%. The oil price remains in the range of USD 66-67/bbl in the month of May with increased volatility.

Investment Portfolio

In this environment, the NAV of the Hornet Infrastructure - Water Fund (EUR) remained unchanged at EUR 978.42 and is stabilizing in line with the water utilities in the UK and the positions in Brazil, such as Cemig. In the month under review, Cemig achieved the highest performance contribution with +0.32%, ahead of Pennon Group with +0.28% and United Utilities +0.22%, both UK. In contrast, the positions in Hong Kong / China are still suffering due to the economic situation, such as the water utility Guangdong Investment -0.26% and China Everbright Intl. with -0.22%, but also the Japanese position Metawater Co. Ltd -0.28%, whose good company figures are still little noticed by the market. We expect significantly higher performance contributions from China in particular, especially since the important portfolio positions are already entering the 7th year of consolidation and the valuations are well below those of the developed markets.

Market review Infrastructure

The infrastructure sector continues to reflect the global uncertainties of the COVID-19 pandemic with the associated economic constraints in certain areas and sectors. However, the infrastructure transport and infrastructure energy subsectors have benefited to an above-average extent from the relaxation of the COVID-19 measures announced and already implemented in many places. In contrast, the infrastructure communication and infrastructure utility sectors have suffered from emerging interest rate concerns. However, May showed again that, according to the "script", the currencies, such as the USD must first weaken significantly before the central banks respond with an appropriate interest rate policy and other monetary normalizations. Nevertheless, the global infrastructure sector fell slightly by -0.6% in EUR in the month under review.

Why are we reducing Kurita Water Industries?

The Japanese share Kurita Water Industries has developed impressively and very well over the last few years thanks to its focused corporate strategy and its innovative strength in the area of water treatment and services as well as thanks to international growth. We have built up the share since 2013 thanks in part to the company's good impact in the area of water treatment, at an average cost of JPY 2'495. The stock is now trading at JPY 5'030. Our valuation model is currently showing a difference or premium compared to the fair value. As a result, we have started to reduce the position, also because of its more cyclical character, and thus to place the current focus in this investment cycle even more on the water utilities.