Environmental

CSC partners with Osmosis IM on sustainal

BY RACHEL ALEMBAKIS | TUESDAY, 22 DEC 2020 10:28PM

Commonwealth Superannuation Corporation is partnering with Osmosis Investment Management to launch an equity strategy.

CSC, the $50 billion fund for government employees, will partner with Osmosis to launch a Resource Efficient Core Equ portfolio will aim to mitigate environmental risks while targeting a better risk-adjusted return.

Osmosis uses its in-house research process to standardise unstructured corporate environmental data, enabling the cor investment factor which the firm identifies as being uncorrelated to other common factors. When applied to a diversified resource efficient companies has evidenced stronger risk-adjusted returns, Dear said.

"For an investor who targets certain style exposures in their asset allocation, and is seeking to address environmental ov waste, our approach allows them to do so in a risk-controlled fashion while also targeting better risk adjusted returns," h

Dear noted that just because a company's C02e emissions are lower than their sector peers that this does not mean the their sector. He affirms that when assessing a company's environmental metrics, it is imperative to take a broader and d of a company's use of natural resources. To provide this more nuanced view, Osmosis also look at waste generation and analysis.

"We make a case that a company who effectively manages their environmental balance sheet, is a proxy for quality that' therefore mispriced by the market," Dear said. "We believe that a management team that is measuring, managing and re is an indicator that they will be managing other aspects of their business with similar efficiency. We see a small correlatic would expect, but at best this explains around 15% of our expected return."

"What our approach is proving out is that this is delivering a quality style portfolio, but not through a typical quality target Dear said. "Just targeting quality, we can evidence that you wouldn't end up with the reductions in carbon, water and wa

Of the three factors, understanding water impacts is the biggest challenge, Dear noted. The firm examines water usage company data and looks specifically at the consumptive use of water in producing economic value.

"When you look at water consumption, it tends to be broken down into silos - renewable versus extracted, and the proce needs to be carved out," Dear said. "If a company is paying for it, it's a paid-for commodity. It is non-renewable. If it's ext example cooling water might be used by a utility located close to the ocean, we classify that as a renewable resource. Y data, look behind the numbers and break it down by silo, to bring out exactly how water is being utilised in creating econ relative observations at the sector level."

When asked about the utilisation of data from organisations like Ceres, who provide water stress indicators, he mentione data, but as it stands today the data sets available are not optimal to include within an objectively data driven portfolio cc firm is constantly analysing new sources of data for inclusion in the future.

Standardisation of waste data is also uniquely researched by Osmosis. Where peers consider waste that is recycled a p
a product of the inefficiency of the company, and so through their research process, where applicable, they bring these v
environmental balance sheet.