AEGON Asset Management

Sustainability Snippets

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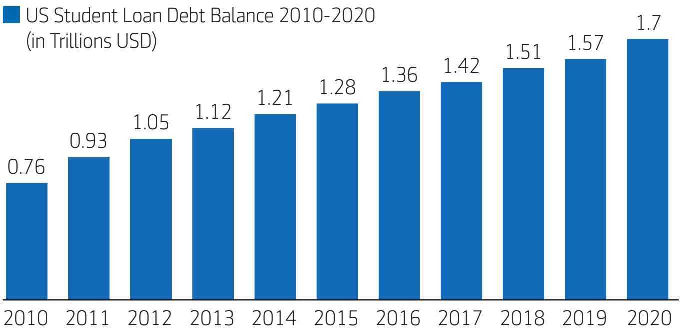
We don't need no education

Education-tech as an investment theme experienced a lot of interest during the Covid-19 lockdowns. However, since we have returned to some form of normality, the sector has faced a tough environment.

But what if we look at the longer-term tailwinds?

The Wall Street Journal reported that 56% of Americans think that earning a four-year degree is a bad bet. Levels of debt now appear unsustainable, and the student debt relief programme Biden has been trying to push through was ruled unconstitutional last Friday.

US student loan debt rose from $760B in 2010 to $1.7T in 2020



Source: Jefferies/Education Data (2021)

Furthermore, across the same timeframe used in the chart, undergraduate enrolment has dropped 15% - and not all because of Covid-19, about 60% of that decline occurred pre-pandemic.

Instead, they're turning to more niche education/upskilling programmes. It's not just at college age, a survey from Jefferies of full-time office workers found that 82% of those who think AI might impact their current role, would consider upskilling platforms like Coursera or Udemy.

And it's also something corporates are looking at more, US training expenditures passed the $100 billion mark for the first time in 2021-22.

ISSB

Any regular reader of these articles will know how much the Responsible Investment Industry loves an acronym – ISSB is one of the many and it stands for the International Sustainability Standards Board. Who (to much fanfare) released the first two IFRS (another acronym: International Financial Reporting Standards) Sustainability Disclosure Standards; IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information and IFRS S2 Climate-related Disclosures.

This really is a new era of sustainability-related disclosures in capital markets worldwide providing a level playing field globally in disclosures. In particular, it will create a common language in terms of the effects of climate related risks and opportunities on the company's future prospects.

The hope is also that this has the impact of improving confidence in disclosures, enabling comparability of companies, and helping inform investment decisions. And for the first time, the Standards create a common language for disclosing the effect of climate-related risks and opportunities on a company's prospects.

These now need to be adopted by corporates. It is not mandatory in most countries, however, there have been commitments to adopt this at national level across the globe.

At a basic level, the aim of these standards is not only to be interoperable with other accounting requirements, but to introduce the proportionality of ESG risks and require the disclosure of absolute Scope 1, 2 & 3 emissions. They will be effective for annual reporting periods beginning after 1 January 2024.

World Energy Investment

Spending on solar power investment is set to exceed investment in oil production for the first time this year, according to the IEAs World Energy Investment 2023 report.

Investment in clean energy has increased steadily since 2020, driven by enhanced policy support, a rebound in economic growth post-pandemic and energy security concerns. In total, clean energy spending is expected to reach $1.7 trillion in 2023 around 1.7x higher than fossil fuel energy spending and up from 1x five years ago.

Whilst this is welcome news, the report also highlights that this investment is not being evenly distributed across sectors or countries, which creates risks to a smooth and secure transition. In addition, significantly more investment in clean energy is still required for Paris Aligned 1.5C scenarios, with the IEA estimating this should reach c$4.5 trillion by 2030.

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Cold reception for the UK's heat pump scheme

The UK's scheme to upgrade household boilers to heat pumps has underperformed in its first year. Aiming to give out 30,000 grants of £5,000 per year in England and Wales, the Boiler Upgrade Scheme managed just half of the target in its first year. In the UK, household heating accounts for 14% of emissions.

Heat pumps are touted as the primary technology to decarbonise global heating requirements. According to the IEA's Net Zero 2050 pathway, heat pumps are estimated to contribute 500 mega-tons of CO2 emissions savings by 2030.

High costs of heat pump units, low availability of trained installers, and a lack of efficiency measures like insulation in homes are cited by the UK's Climate Change Commission as reasons for poor take-up. Heat pumps can cost upwards of £10,000 in the UK, even after the grant is taken into account.

The European Heat Pump Associate highlights 55,100 heat pumps were sold in the UK in 2022 – the Government aims to install 600,000 a year within the next five years.

Sails on boats!?

At the annual meeting of the International Maritime Organization (IMO) earlier this month countries agreed to cut emissions across the industry by 20% by 2030 and 70% by 2040, compared to 2008 levels, and 100% by or around 2050.

Shipping is a highly polluting industry, responsible for nearly 3% of global emissions and generating around one billion tonnes of greenhouse gases each year. There are few alternatives to the carbon intensive technologies used in shipping today, and the industry has been slow to implement and research emissions cutting technologies.

What could net-zero shipping look like? Electrifying fleets could be a solution for near-shore shipping and smaller boats. But 80% of the sector's emissions come from deep-sea shipping, and there are limits to the distances batteries can power. Hydrogen-based fuels and methanol are likely to make up the largest share in the long-term. Wind-power has also been touted as a solution, with wind propulsion considered one of the most promising energy sources available. If only we had thought of putting sails on ships sooner…

Image: Oceanbird