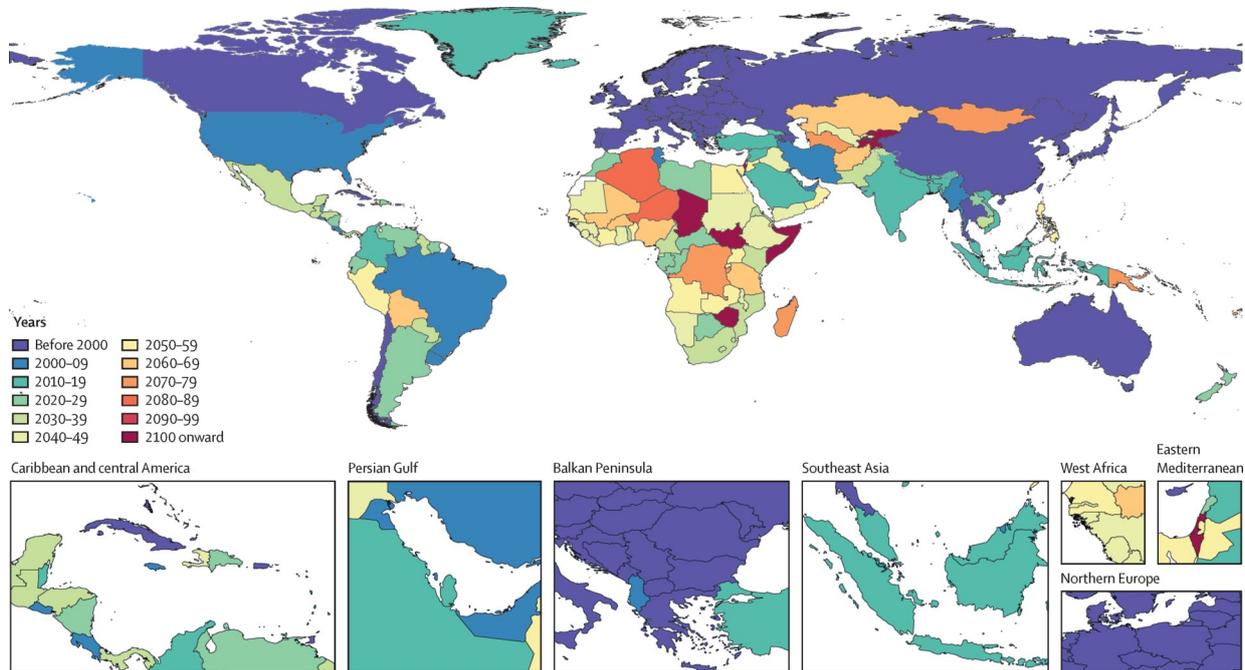


Too few births: Is current sustainability policy aligned with new working age population projections?



1. Year that the net reproduction rate falls below the replacement level.

Image Source: The Lancet¹

Alongside COP26, Glasgow hosted some expert gatherings of thought leaders. One of the most challenging discussions was in the Longevity Forum. The focus was on sustainability, but with some surprising evidence and conclusions. World population may not be on the upward trajectory built into current long-term planning.

Immediately ahead lie two or three decades of growth, mainly from longer lifespans. But the long-term trend will see numbers stabilise and fall. Stark evidence pointing to sharply declining fertility around the world means that many nations are already destined to shrink in the second half of the century. And in 80 years' time, the world population total might be little changed from today, heading down. Without intervention, this will be a shock for many nations, both western and developing. The result will be a very different demographic profile.

There are no quick fixes. Around the world, direct incentives to have children have generally not worked. In the past 70 years, the global fertility rate has nearly halved, and this century will see a collapse in the population of several nations, including China. Half of the world population lives in nations with sub-replacement fertility. New thinking is needed.

While the ageing problems of Japan and Italy are well known, births are also falling in the UK. Births registered in the UK in 2020 were the lowest since records began in 1855. Although that was an unusual year, the last quarter pre-pandemic also set a record low. The pattern is of a steady decline in births, with fertility below replacement rate.

The factors involved are a mix of good and bad. Better access for women to education and careers brings delays to family formation and new views on family size and life/work balance. Surprisingly it is not just a feature of a few Western societies; women in every developed country have taken up more tertiary education. All of this is good news, but it interacts with declining fertility to impact population trends.

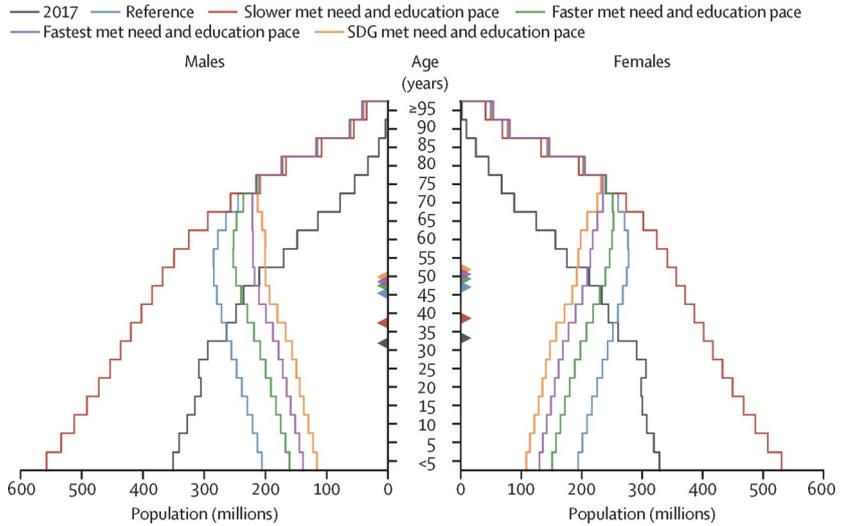
For reasons not entirely clear, male fertility has been declining for two generations, now estimated at around 50% of the level of 1970. Plastics, and plasticisers seem the most likely suspects. It is not simply about urbanisation - the chemical impact is widely embedded in food and soils. Added to pollution of the environment are some lifestyle issues. More research on all this is needed; current understanding of the population challenge seems to be at the stage where global warming was thirty years ago.

The COP26 approach to reduce pollution and adverse chemicals in the environment is undoubtedly right. But even if world population is currently too high - and for perhaps two or three decades might grow further - does it really help to have fewer births? There is mixed evidence on the impact children have on emissions. Against the claims that the greenest thing we can do is stop having children, other academics argue that these carbon calculations are effectively double counting with parents' consumption. Assessment of future impact depends a lot on assumptions made about human behaviour on the planet in the decades ahead. Looking at the carbon footprint of children seems the wrong way to approach climate change and sustainability. They are the resource for change and tomorrow's taxpayers.

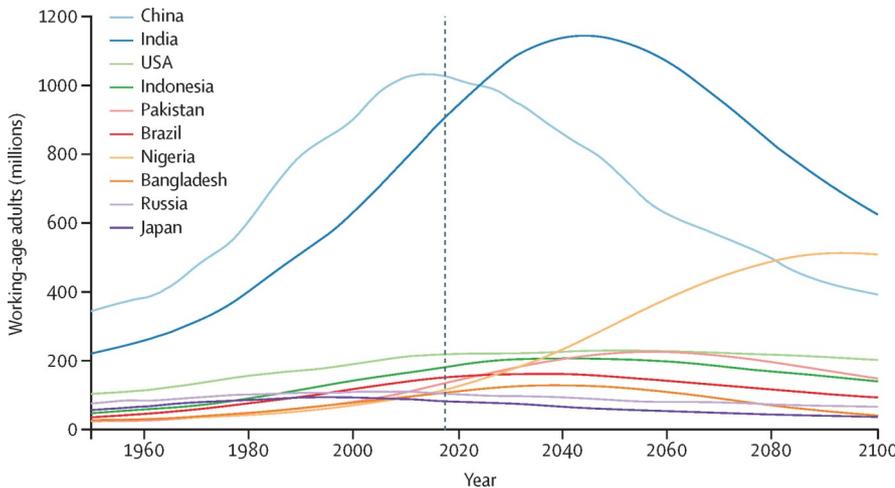
Economic uncertainty seems also to be a factor; in many countries the 2008 financial crisis triggered a new phase of the decline in births. Now Covid has added a downward shock to the numbers. For example, US births over the pandemic are down 7%. Some of Europe shows a similar pattern, worse in countries with poorer family support.

Risk seems to have shifted onto families and children. Young adults delay leaving home and it is a much longer route to independent adulthood. The UK has one of most expensive childcare systems in the world; a recent OECD analysis found that, relative to average wage, only Switzerland and Slovakia cost more. Addressing this economic insecurity needs to be embedded in new policies, with reforms to housing and wealth. The aim should be affordable childcare and education without debt. Raising families should be seen as an asset to society; a struggle to be shared. Helping to raise the next generation should be an investment.

In the future, more of the world may look like Japan. A study in the Lancet journal last year challenged existing UN population estimates. That is likely to mean a shrinking working age population and labour shortages, possibly with countries competing for migrants to boost their populations. Migration already masks some of the underlying trends, so the UK is not exempt. Our fertility rate has not been at replacement levels since 1973. Even before population numbers change much, the demographic shape will start to make the economy look very different.



2. Global population age structure in 2017 and in 2100 in the reference, slower, faster, fastest, and SDG pace scenarios. Image Source: The Lancet¹



3. Number of working-age adults from 1950 to 2100 in the reference scenario in the ten most populous countries in 2017. Image Source: The Lancet¹

The solution will be social change, recognising the importance of lowering opportunity costs for women in having families. There are signs that good support for working mothers, with high quality affordable childcare certainly helps. Indeed, some of the Nordic countries have already shown that slowing the trend with good family support is possible. In Sweden, this involves heavily subsidised day care and generous shared parental leave. This goes along with a culture ordered around community and family life. Even so, Swedish birth rates are still declining, but the trend has been much improved with social change.

The decline of reproduction rates below replacement rates will have social, political, and economic implications that should not be ignored. Even if sustainability means a lower world population, what is happening is not being thought through. The challenge needs much more research and to be given a central place in business and public policy. Demographics is a slow moving but powerful force. Policy and planning must look decades ahead, well beyond the timeframe of most public or business planning. It does point to the urgency of addressing food supply and pollution, but also to some key long-term benefits of progressive social policies.

¹ Fertility, mortality, migration and population scenarios - The Lancet - 14th July 2020 [https://www.thelancet.com/article/S0140-6736\(20\)30677-2/fulltext](https://www.thelancet.com/article/S0140-6736(20)30677-2/fulltext)

Holding businesses accountable to intermediate targets essential to achieving long-term sustainability

We have now contacted all our investee companies with the aim of assessing the extent to which they are aligned with the aims of the Paris agreement. We have asked in all cases for details of initiatives and targets in place with regard to reducing emissions, as well as the efforts being made to reduce overall energy usage and again any targets set. This information has historically been published in annual accounts and sustainability reports, but more recently ad hoc announcements call for a more regular analysis. We are currently assessing all the responses and will, over time, have a clear and most importantly, up to date picture, not only of the individual holdings, but also an aggregated portfolio level assessment of progress being made. This in turn will drive our engagement efforts over the coming months.

While target setting can be a useful yardstick both for investors and the companies concerned there is a danger that long term ambitions such as net zero by 2050 will not have the full attention of those responsible as success or failure does not fall within their tenure. Short to mid-term targets can alleviate this problem and we encourage, where possible, that senior management pay packages are aligned to the outcomes. While long-term targets can set out a statement of intent both for internal and external stakeholders, we are also using the information we receive to test the credibility of the stated ambitions. A breakdown of the actions required to meet the targets often reveals gaping holes in the proposed strategy.

Prompted by our enquiries we conducted a meeting with European airline Ryanair in November. According to the International Energy Association the airline industry is defined as being "Not on track" as far as their Net Zero Emissions by 2050 scenario is concerned. Emissions for the industry have dramatically increased from 674 MtCO₂ in 2000 to 1,027 MtCO₂ in 2019. As a result of the global pandemic passenger numbers contracted by almost 50% in 2020 and emissions followed suit, falling to 606 MtCO₂. Despite this, a strong recovery in passenger numbers is forecast, returning to their 2019 levels by 2023.



4. Ryanair passengers have the option of carbon offsetting their journey, however only 2-3% take up this offer.

Image Source: Pexels

As the largest airline in Europe in terms of passenger numbers Ryanair will have a key role to play in bringing the industry on track for 2050, and a plan is in place to achieve this ambition including intermediate targets for 2030. For 2050, 32% of carbon reductions will come from technical and operational improvements, 34% from the use of sustainable aviation fuel, 10% from SESAR (a European project aiming to extract efficiencies from air traffic control) with the remaining 24% coming from carbon offsetting.

The plan is far from flawless. Sustainable aviation fuel is not yet available in sufficient quantities and the technical improvements Ryanair list rely on innovative new aircraft yet to be invented in an operational form. But what particularly drew our attention was the large component of the improvement coming from carbon offsetting. This is something already offered to Ryanair passengers on a voluntary basis but the take up is low at only 2 - 3% of the total. The current cost of offsetting per passenger return flight is a mere €7.00. This raises the question why the company does not make this mandatory not only contributing strongly to their environmental ambitions but also allowing for a strong marketing message

regarding their efforts on this front. Unfortunately, management were not immediately receptive to this idea citing their low average fare in 2020 of only €37.00.

This stance critically undermines the credibility of Ryanair's commitment to their 2050 net zero target. Carbon offsetting is central to their ambitions representing 24% of the total emissions reduction. Such a move taken now would put the company firmly back on track and could indeed be an astute commercial move. We will continue to engage with the company to seek progress

² Aviation - IEA - November 2021 <https://www.iea.org/reports/aviation>

Featured Stocks

Delivery Hero

The employment conditions of workers for delivery companies represent a key social risk when assessing the ESG credentials of the companies in this sector. We wrote to Delivery Hero in September asking the following question:

"We view the employment conditions of the logistics teams as a material cause for concern with regard to ESG risk within your company. Would Delivery Hero consider more disclosure on Human resources for example average earnings, staff turnover, complaints data, etc?"

The company replied making no formal commitment to further disclosure accompanied by some bland statements on how important their employees were to them while pointing out their "riders" were freelancers.

The European Commission has now voiced support for our concerns setting out new rules that mean so called gig workers should be considered employees regardless of what their contract refers to. Nicolas Schmit, EU Jobs Commissioner, spoke of companies "trying to get around their social obligations". These are ominous words, and the subsequent actions may prove more costly than were these companies to have acted on their own initiative or as suggested by concerned shareholders such as ourselves.

Axo

We reported last month on our request to the insurers such as Axa to produce more information on the claims process they adopt including the percentage of successful claims with sector breakdown.

The issue continues to hit the headlines with Axa this month facing a lawsuit from the owners of the Wolseley restaurant in London's Piccadilly over their failure to pay-out over a claim for loss of earnings as a result of Covid-19 induced lockdown.

The case will reach the courts next year and may prove costly for Axa serving to underline the urgency for these companies to be more open, and perhaps, fair over these matters and certainly give investors the opportunity to form their own judgements.

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