

The green switch is only the first step

The demand for green power, driven by the electrification of all kinds of processes, is growing faster than ever. For investors, there are significant opportunities for financial returns as well as sustainability outcomes.

By Michiel Pekelharing

Last year, roughly 47% of European electricity consumption¹ came from green sources. For the first time in history, the share of electricity derived from solar power surpassed that from coal. However, it is very premature to think that the rise of green energy - and the investment opportunities associated with it - is losing momentum. 'Electricity is at the heart of our modern economy,' stresses Rosie French, Head of Sustainability at Schroders Greencoat, 'That's quite a change with the past, when fossil fuels were the engine of economic activity. But with the electrification of transport, heating and industrial processes, as we seek to decarbonise our economy, electricity is increasingly becoming the dominant form of energy.'

Energy transition in three steps

In addition to achieving the climate goals set by the European Union, the energy transition is also crucial for macroeconomic stability and independence. Consider the geopolitical tensions around gas supplies or the impact of oil prices on inflation.² According to Jamie Milne, responsible for Schroders Greencoat's private markets' investor relations, there is a significant opportunity for investors who look beyond traditional asset classes.

'When you consider the vast capacity and infrastructure that is required to support the energy transition - from wind farms to grid reinforcement and battery storage - you realise that this is an investment story that is going to play out over several generations,' Milne says. 'We are currently in the midst of this process. The initial phase involves transitioning electricity generation from

fossil fuels to renewables. Subsequently, there will be an increasing demand for applications of that green power. Finally, you will see that renewable and low carbon energy investment solutions will also be found in sectors where it is difficult to reduce carbon emissions.'

In Milne's view, investors don't need to be concerned that the low-hanging fruit of the energy transition has now been picked: 'Initially, natural gas was seen as an energy source for the intermediate phase from fossil fuels to renewable power. However, with the war in Ukraine, Europe is pushing hard to reduce its dependence on Russian natural gas. As part of this effort, countries and consumers have also taken various measures to reduce energy consumption, marking a significant step towards improved energy efficiency. The shift from fossil fuels to electrification is now gaining momentum. A good example is the rise of electric vehicles. Meanwhile, electrification is becoming more prevalent across the economy. In both residential and commercial properties, fossil heating systems are being replaced by heat pumps. The demand for electricity is also increasing rapidly due to technological trends such as the rise of artificial intelligence. This requires substantial computing power and data storage capacity. Many major global technology companies have set clear targets to reduce net CO₂ emissions to zero, leading new data centres to increasingly rely on low-carbon electricity. Consequently, the demand for new capacity in solar, wind and energy storage is expected to rapidly increase in the future.'

Expertise and experience prevail

However, investors would be wise to not focus solely on building new solar and wind infrastructure as quickly as possible. Rosie: 'The new capacity must be connected to existing energy infrastructure. As the grid is already congested in many areas, we must navigate local regulations while contending with a shortage of technicians, making the process more complex than it appears. Schroders Greencoat has been active in this space since 2009. Our team consists of over 60 technical specialists with backgrounds in turbine development, engineering, utilities, and many more specialist areas. This diverse skill set has enabled us to establish a strong track record in the acquisition, development, and operation of renewable energy generation and energy transition infrastructure. Furthermore, we pay close

attention to environmental and social considerations, including biodiversity. While measuring biodiversity impacts is more challenging than assessing CO₂ emissions, we focus on the presence of habitat management plans in projects within sensitive areas. These plans are essential for minimising the impact on local species and enhancing biodiversity. Additionally, there is growing awareness of natural risks in the private investment market. For bioenergy and green hydrogen projects, water is crucial for processes like cooling or electrolysis. We assess how climate change affects long-term water supply on a regional basis. This is very important, as nature and water risks are directly linked to the operational and therefore financial performance of renewable energy projects.’

Financial returns and sustainability outcomes do not stand in isolation at Schroders Greencoat. Milne: ‘At Schroders Greencoat, sustainability is deeply embedded in the investment model. Every euro invested contributes to reducing carbon emissions, advancing our progress towards net-zero targets and fostering the development of the European economy. First and foremost, an allocation to energy transition infrastructure should be financially attractive, with specific characteristics (contracted cashflows, inflation protection etcetera) that cater to the needs of many institutional investors. Initially, we cast the investments in a private form that fits well with the long-term commitments and cash flow needs of these investors. Over time, we’ve expanded access to a broader client

base through other structures, including two investment vehicles that are listed, enabling retail and wealth investors to take direct positions in them. We also offer semi-liquid structures, tailored for the wealth segment. Traditionally, we have invested in operational renewable energy capacity, such as wind and solar farms, which helps us mitigate the operational risks associated with the construction phase. We enter into long-term contracts that include an inflation component. Thanks to the indexation of energy contracts, the future revenue stream is very easy to plot. As the sector matures, we are also exploring opportunities into the electrification of demand, such as district heat networks, electric vehicles, datacentres, as well as the decarbonisation of carbon-intensive industries, aviation and agri-chemicals. These sectors require investments at earlier stages of development and expert knowledge in power; the key lies in treating these nascent sectors with the same rigor we apply to building a conventional solar farm, ensuring thorough planning consent, creditworthy off-takers, contracted cash flows, and low technology risk.’

Attractive investment

From the perspective of predictable financial returns and asset/liability matching, renewable energy generation has long been an attractive investment. However, the landscape of sustainability has dramatically transformed since Schroders Greencoat’s inception over 15 years ago. Today, sustainability is firmly embedded in the policies of professional investors across much of the globe. A good example of this >



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Schroders Greencoat: financial and sustainable returns go hand in hand

Schroders Greencoat Capital is a specialist asset manager offering institutional investors access to the market for renewable electricity generation and infrastructure, such as wind, solar and bioenergy projects. It was founded in 2009 and has been part of Schroders since 2021. Schroders Greencoat manages nearly € 12 billion worth of assets in the UK, Europe and the US. Meanwhile, the total capacity of the more than 400 projects comes to 7.4 gigawatts, or enough to power almost half of all Dutch households. A key feature of the projects is that in addition to robust financial returns, they also make a significant impact in sustainable terms. By 2023, Schroders Greencoat’s green energy generation avoided 5.8 million tonnes of CO₂ emissions.

Schroders Capital

Schroders Capital is the private markets arm of Schroders. The division manages more than € 76.3³ billion across private debt/credit alternatives, real estate, private equity and infrastructure investments, among others. Within these activities, Schroders Greencoat is the renewable energy and infrastructure specialist for the energy transition. Globally, within Schroders Capital, there are more than 370⁴ investment professionals in 26⁵ locations worldwide looking for the most favourable risk-return ratio within private markets. In doing so, major macro trends such as reducing carbon emissions, demographics, deglobalisation and the rise of artificial intelligence are used as investment compasses. Schroders Capital offers clients several options for taking positions in private markets. Solutions range from co-investments, different building blocks for institutional portfolios, to semi-liquid funds, which offer clients much more flexibility.

shift is the introduction of the Sustainable Finance Disclosure Regulation (SFDR) in continental Europe. French: 'In the UK, it is already mandatory for asset managers, pension funds and other asset owners to report on climate related risks and opportunities for their portfolios, and many have set targets to reduce carbon emissions to net zero over time. Even in the absence of such regulations, asset managers have a fiduciary responsibility to account for climate change risks in their investment policies. This expectation is unlikely to change soon.'

For now, the backlash towards SRI from the United States is not yet working its way into the sustainability goals of European governments and companies. French: 'Recently, I attended a global conference of chief sustainability managers, where a survey of attendees showed that while all companies are dedicating similar amounts of time and resources to sustainability initiatives, they are not putting the spotlight on them as much for the time being. In my view, this presents a risk. If we don't talk about sustainability risks and opportunities, we fail to communicate to consumers and governments that these issues are significant. As an industry, we must strike the right balance. Incidentally, US President Donald Trump's policies are obviously having a major impact on the economy in several ways. By way of background, the US administration's activity in the first 100 days has created considerable uncertainty in the US. However, we believe that operational and late-stage construction assets in the region will demand a premium in the coming years. We also feel there could be a Trump premium or greater interest in Europe and Asia-Pacific because of investor uncertainty in North America.'

In the longer term, the challenge lies in developing sustainable alternatives for CO₂-intensive activities where it is still difficult to reduce emissions. In this context, green hydrogen could potentially offer a solution in the long run. French: 'Take paper and pulp production as an example. This process requires significant amounts of energy and heat, currently sourced from natural gas. Electrolysers are being developed to convert electricity into hydrogen using renewable energy. By utilising hydrogen produced from green electricity, we can drastically reduce CO₂ emissions across various industrial processes.' 'More is possible in this respect

than one might think,' Milne stresses: 'We are exploring participation in a project that converts renewable energy into green hydrogen. The next step is to use that hydrogen to make methanol, which can serve as fuel for shipping – a fast-growing market for which long-term supply contracts can be concluded. Recently, one of the larger cargo shipping companies informed us that they already have more than 20 ships running on methanol. This illustrates the expanding opportunities for investors in green energy infrastructure and capacity.'

This places an increasing emphasis on sustainable impact. At Schroders Greencoat, our funds implement an impact framework that is systematically embedded in the investment process and based on internationally recognised impact standards such as the Operating Principles for Impact Management and IRIS+. The first step involves identifying in what way impact is being sought through the investment: what is the sustainable intention? It is then crucial to identify the current and future impact and to look at how that impact is generated. In addition to that, we also consider potential factors that might hinder the achievement of the intended impact. With this approach, we are actively contributing to the pursuit of the SDGs, in particular SDG 7 (affordable and sustainable energy), SDG 9 (industry, innovation and infrastructure) and SDG 13 (addressing climate crisis) through investing in renewable energy and energy transition infrastructure.' ■

- 1 Source: European Electricity Review 2025, EMBER (2025): <https://ember-energy.org/latest-insights/european-electricity-review-2025/2024-at-a-glance/>
- 2 Source: Second-Round Effects of Oil Prices on Inflation in the Advanced Foreign Economies, Federal Reserve (15 dec 2023): <https://www.federalreserve.gov/econres/notes/feds-notes/second-round-effects-of-oil-prices-on-inflation-in-the-advanced-foreign-economies-20231215.html>
- 3 Source: Schroders Capital as of 31 December 2024
- 4 Source: Schroders Capital as of 31 December 2024
- 5 Source: Schroders Capital as of 31 December 2024

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For more information about Schroders Capital, and its various Private Markets investment opportunities, contact the team.

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SUMMARY

The switch from fossil energy generation to renewable power is the first stage in a much larger energy transition.

With the electrification of transport and heating, the demand for renewable electricity is rising sharply.

The need for green electricity is growing in the longer term as carbon-intensive industrial processes also make the switch.

The energy transition provides considerable investment opportunities for investors seeking both financial returns and sustainability outcomes.

Schroders Greencoat has over 15 years of experience in the energy transition sector, with one of the largest teams of technical experts managing the operational risks involved.