Schroders capital

Visit https://schro.link/6hgohs to download the full energy-transition report

Schroders greencoat

Three reasons for investors to focus infrastructure exposure on the energy transition

Energy-transition infrastructure provides differentiated exposure to rapidly evolving subsectors with attractive competitive dynamics and is remarkably uncorrelated to traditional infrastructure portfolios.

For more than 200 years, the global economy was dependent on fossil fuels for its energy needs. This is now rapidly changing. Renewable energy, driven by the power trio of decarbonization, affordability and energy security, is becoming a critical factor in meeting future power needs – and, as such, the global energy transition represents a potentially unparalleled and attractive investment opportunity.

Investors recognize this opportunity but often assume that an investment into a wider infrastructure mandate – including exposure to energy-transition assets, as well as utilities, transport and digital infrastructure – would offer a broader opportunity set.

Yet, given that investors' capacity to allocate to alternative assets is finite (on average representing around 14 percent of portfolios, according to Schroders research), and is therefore a scarce resource whose value must be utilized to its full potential, we believe maximizing investment in the energy transition is crucial for a high-performing portfolio, for three key reasons.

Energy-transition allocations are highly differentiated compared to all other investments held in a portfolio

Historical analysis of annualized returns and risk (volatility) during the decade from 2014 to 2024 shows that the overall, long-term risk and return characteristics of energy-transition infrastructure largely align with those of broader infrastructure portfolios. However, this analysis doesn't capture the dynamics of specific, underlying risk exposures within energy-transition infrastructure.

While the overall, long-term risk and return of energy-transition infrastructure has historically been broadly similar to traditional infrastructure, the underlying pattern and drivers of returns are very different. The risks associated with energy-transition infrastructure are highly diversifying, exposing investors to a unique mix of risk premia compared to non-energy infrastructure subsectors and other asset classes:

- **Inflation risk:** Returns are typically linked to inflation, helping to maintain the real purchasing power of a portfolio.
- **Positive power price risk:** Energy-transition assets benefit from increases in electricity prices, while for other asset classes and non-energy infrastructure these are a major cost input.
- **Resource/weather risk:** Few other parts of a portfolio are as meaningfully impacted – positively or negatively – by meteorological factors as renewables assets.
- **Technology risk:** Each renewable technology and asset, whether it is a solar park or a wind farm, carries specific risks – and so diversification opportunities.
- **Geopolitical risk:** Policy and regulation supporting the energy transition continues to develop in most regions – and in the U.S., despite the run-off of certain tax subsidies, renewables remain a cost-efficient source of energy in many areas and build out is expected to continue, albeit at a slower rate.

These differentiated risk premia associated with energy-transition assets result in robust diversification benefits. Correlation data supports this, with energy-transition infrastructure demonstrating low year-on-year return correlation to all asset classes – including diversified infrastructure – and even negative correlations to more economically cyclical equity and fixed income assets.

Private assets correlation matrix

	Equity	Fixed Income	Private Equity	Real Estate	Private Debt	Diversified Infrastructure	Energy Transition
Equity	1.00						
Fixed Income	0.71	1.00					
Private Equity	0.59	0.33	1.00				
Real Estate	0.16	-0.07	0.63	1.00			
Private Debt	0.57	0.19	0.84	0.58	1.00		
Diversified Infrastructure	0.35	0.05	0.49	0.58	0.68	1.00	
Energy Transition Infrastructure	-0.26	-0.24	-0.09	0.27	-0.01	0.39	1.00

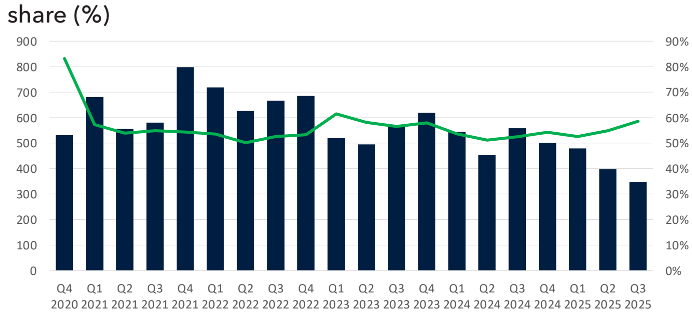
Sources: Schroders Capital, 2025. For illustrative purposes only. There can be no assurance that any objective or intended outcome will be achieved. No strategy can guarantee future results. The views shared are those of Schroders Capital and may not be verified. Based on simulated performance. Simulated performance is no guarantee of future returns. Returns are based off quarterly prices, covering the period from Sept. 30, 2015 – Sept. 30, 2025. Simulated energy-transition returns are constructed using a combined net asset value (including dividend) performance of Schroders Greencoat listed vehicles till December 2023, and then the performance of the Schroders Capital Semi-Liquid Global Energy Infrastructure fund thereafter. All other private asset classes are sourced from Preqin benchmarks for private assets. Public assets are sourced from Refinitiv, September 2025. Global equities returns are calculated from MSCI World Gross USD prices. Fixed-income returns are calculated from Bloomberg Global Aggregate Credit Total Return Index.

Energy investment is a growing, primary focus in infrastructure

Energy-transition assets are the part of the infrastructure market where new capital is expected to be constantly required during the next 20 to 30 years to build out a new, sustainable global energy system and respond to significant ongoing growth in energy demand.

Data shows that renewable energy has consistently accounted for more than half of all infrastructure deals since 2020 (see chart). Add to this the deals that might not be captured in these broad sector definitions, and it is clear that energy-transition infrastructure has become the dominant theme across the private infrastructure landscape over a number of years.

Number of infrastructure deals by sector and energy sector share (%)



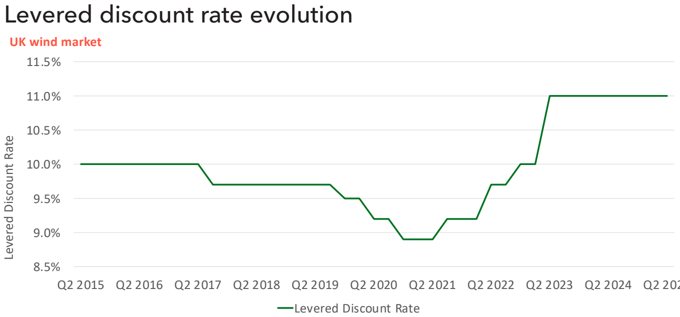
Sources: Schroders Capital analysis of Preqin data, 2025. Assumed renewable share applies the percentage of renewable energy as a share of over deal volumes from the Preqin *Global Infrastructure Report 2025* to wider infrastructure deal volumes, as of Q3 2025. For 2025, the percentage of renewable-energy deals in 2024, the latest figure available, was applied.

The growth in renewable investment opportunities is of crucial importance as it speaks not only to the opportunity set, but also to pricing. As a growing market, the energy sector needs to consistently incentivize and attract capital. New opportunities are consistently being developed, requiring capital at all stages of an investment's lifecycle, from earlier stage of development to investment in assets that developers, utilities or investors have already taken through construction and into operations, allowing them to recycle capital into new projects.

Because many developers are capital constrained, the requirement to recycle capital through the sale of operational assets is particularly pronounced in today's market, contributing to a scenario where there are motivated sellers, which in turn can help to underpin strong returns. To illustrate this in practice, the chart below shows the levered discount rate (effectively the expected rate of return) of a portfolio of wind assets held in a listed investment trust managed by Schroders Greencoat, which shows that the rate today is at a higher level than it has been during the past 10 years.

Given a relatively consistent risk profile over that time, especially over the past three to four years, this rise has primarily been driven by two key factors. The first is increasing bond yields, which necessitate higher returns to maintain risk-adjusted premiums over risk-free rates (returns from low-risk Treasury bonds), while the second, equally important, factor is the market dynamics between buyers and sellers.

Levered discount rate evolution



Sources: Listed Greencoat fund quarterly reports Q1 2015 to Q1 2025. Past performance is not a reliable indicator of future results. There is no guarantee that this rate trajectory will remain the same in the near future. Discount rate refers to UK wind assets.

Why accept sustainability risks if you can avoid them?

While the key rationale for investing into the energy transition is the economic benefits and how it improves an overall portfolio (as demonstrated above), we also believe that there are environmental and sustainability benefits associated with investing in this space. Regardless of an individual's stance on climate change and net zero, it's nearly impossible to dispute that it is a key trend significantly influencing economies, markets and both domestic and global politics.

Crucially, the path to net zero is often drawn by economists as a straight line, but those who follow history will recognize that any economic transformation is not without its volatility; it is likely that there will be energy transition shocks along the way. In those times, which are likely to lead to energy price and inflationary spikes, energy-transition assets are positioned to perform well.

A recent example of this occurred in 2022, when as a result of the Russia/Ukraine conflict and, due to the related energy security issues, we observed global spikes in power prices and inflation. Energy-transition infrastructure strategies performed positively, while other asset classes generally struggled — and equities and bonds both saw negative returns for the first time in half a century.

Annual returns across asset classes in 2022

	Equities	Fixed Income	Private Equity	Real Estate	Private Debt	Diversified infrastructure	Energy Transition Infrastructure
2022 returns[1]	-17.7%	-17%	-1.6%	7.1%	5.4%	9.1%	22.6%

Source: Schroders Capital, 2024. For illustrative purposes only. There can be no assurance that any objective or intended outcome will be achieved. No strategy can guarantee future results. The views shared are those of Schroders Capital and may not be verified. Based on simulated performance. Simulated performance is no guarantee of future returns. Returns are based off quarterly prices, covering the period from December 31, 2021 – December 31, 2022. Simulated energy-transition returns are constructed using a combined net asset value (including dividend) performance of Schroders Greencoat listed vehicles. All other private asset classes are sourced from pitchbook benchmarks for private assets. Public assets are sourced from Refinitiv, September 2024. Global equities returns are calculated from MSCI World Gross USD prices. Fixed-income returns are calculated from Bloomberg Global Aggregate Credit Total Return Index.

Conclusion

Energy transition offers exposures and risk premia that are materially different in a portfolio context, including to diversified infrastructure. These exposures translate into very low correlation in underlying returns and the drivers of returns, even if historic risk and return metrics have been broadly similar. Moreover, there is potential for the unique return drivers within energy-transition infrastructure to produce outperformance as the global energy transition evolves.

In addition, energy-transition infrastructure benefits from unique positioning as both a rapidly growing sector within the global infrastructure landscape, with access to a vast opportunity and often off-market opportunity set, as well as one that boasts inherent attributes that can mitigate broader sustainability risks. This provides further support to the argument that these assets can provide positive portfolio diversification potential and enhance portfolio resilience.

CONTRIBUTOR

Minal Patel
Global Head of Infrastructure

CORPORATE OVERVIEW

Schroders Capital is the global private markets arm of Schroders Group, the UK-listed global investment manager with $1 million in assets under management. Schroders Capital provides investors with access to a diversified range of investment strategies across private equity, private debt and credit alternatives, infrastructure and real estate, with $111 billion under management as of June 30, 2025.

Schroders Greencoat is the specialist energy transition infrastructure manager of Schroders Capital. Founded as Greencoat Capital in 2009, it is one of the most established and largest pure-play renewables and energy transition managers globally.

CORPORATE CONTACT

Hillary Ripley, Head of Business Development, North America | Hillary.Ripley@schrodersgreencoat.com | +1 212 641 3800 | www.schroders.com