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Europe's clean power transition – an opportunity among the challenges

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Introduction:

It's no secret that Europe has ambitious carbon reduction plans. Such an initiative – and the scale of investment required to achieve it – represents an enormous challenge for the EU, individual governments and industry participants. It also, in our view, creates a potentially substantial opportunity for private markets investors.

Europe's regulatory backdrop has been consistently supportive of a low-carbon energy transition. This is, at least in part, driven by a greater desire for energy security in addition to achieving emissions reduction. The scale of the investment required to meet targets, however, means that private capital will need to play a role. This type of investment is not just welcome; it's essential.

The need for investment goes beyond just supporting clean power generation. There is also a pressing requirement to invest in and support the grid, developing infrastructure that will support growing demand for electrification.

In this paper, we'll look at this pressing need to finance Europe's energy transition. We'll also explore Europe's consistent support for clean power infrastructure and the requirement to upgrade its power grid.

Lastly, we'll address the implications for investors and how we believe private market capital can take advantage of this opportunity.

Key takeaways:

- There is a pressing need to support Europe's ambitious emission reduction targets, particularly given the increasing demand for electrification.
- The continent has provided a continually supportive regulatory backdrop for clean power, something that looks set to continue as concerns about energy security persist.
- To support the greater role electrification will likely play in Europe's energy transition, modern infrastructure will need to be developed with existing facilities upgraded.
- We believe, with careful asset selection, energy infrastructure may have the potential to offer attractive risk-adjusted returns coupled with possible environmental benefits.

Source: L&G and NTR views, as at January 2026.

All investing involves risk

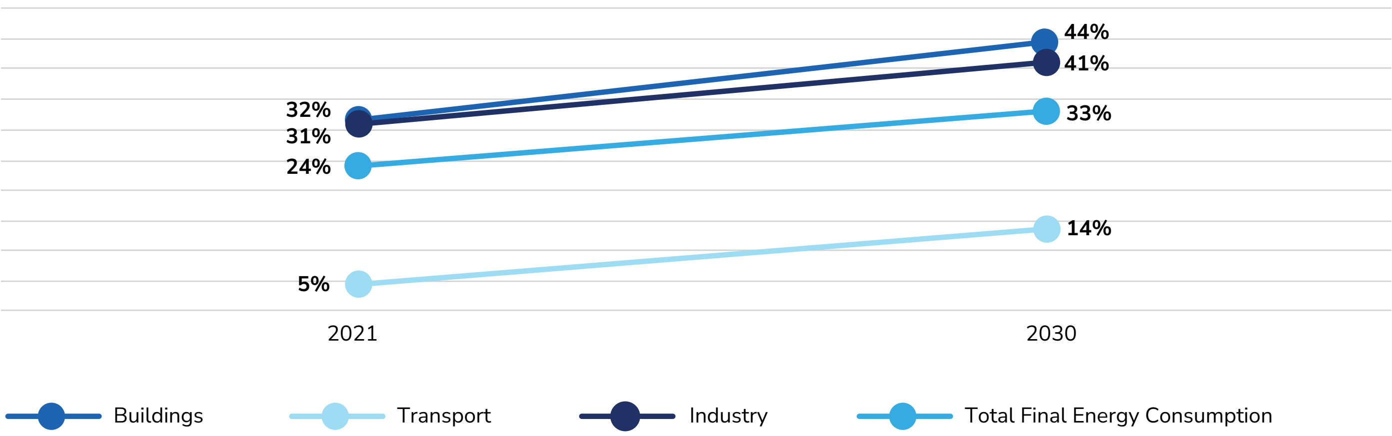
A pressing need to support Europe's energy transition

As per the objectives of the EU's Green New Deal[1] approximately €1tn in investment will need to be mobilised by 2035 to match the bloc's emission reduction targets. This includes power generation and the manufacturing of green technologies.

It's also been forecast that a significant amount of investment will be needed in grid upgrades and supporting technology by 2030 to enable the transition and keep up with growing electricity demand. The World Economic Forum has suggested €584 billion[2] in grid investment is needed this decade to achieve the European Commission's target of deploying 42.5% renewable power into the grid by 2030[3]. BNEF suggests that Europe will need to spend $458 billion on grid digitalisation by 2050 to achieve its net-zero emissions scenario[4].

Part of the reason for this required investment is the forecast increase in demand for electricity over the next few years. In Europe, this could climb by as much as an additional 280 terawatt-hours by 2030, according to one study5. Among the drivers of this demand are the increasing digitalisation of the economy, the desire to electrify transport and heating, and a concerted effort to move away from fossil fuels.

Pace of electrification is ramping up across sectors



EU27 electrification rate relative to final energy consumption in transport, buildings and industry and in total (Decarbonising Energy Scenario)

Source: IRENA, June 2025

1. European Commission, Finance and the Green Deal, 2020
2. World Economic Forum, October 2025
3. European Commission, 2023
4. BNEF, 2024
5. McKinsey & Company, 2025

Assumptions, opinions and estimates are for illustrative purposes only. There is no guarantee that any forecast will come to pass.

Europe's consistently supportive environment

The EU and its members have provided a consistent and continually supportive regulatory backdrop for clean power and energy transition infrastructure.

While this has been in part due to the desire to meet emissions reduction targets, it has also been strengthened in recent years by a want for greater energy security. In other words, Europe's transition plans are not just about environmental aims. They are central to the continent's future economy and national interests.

There has been an acceptance across the EU that a failure to make clean power a core policy objective may create vulnerability to swings in traditional energy prices and overarching geopolitical risks.

Europe's desire to achieve greater energy stability – if not security – can be seen in its recent ratifying of a previously tabled proposal to reduce dependency on Russian oil and gas by 2027[6]. We believe greater adoption of clean power may represent an efficient and cost-effective way of achieving this.

A need to modernise infrastructure

The EU27 has set an ambitious target to roughly double the share of clean energy in its gross energy use by 2030[7]. It's also anticipated that two-thirds, or thereabouts, of Europe's greenhouse gas emissions reductions between now and 2050 will come from electrification.

What this means is that there is a pressing need for investment in clean energy infrastructure. Investment is needed for modern, smart power grids and advanced energy storage systems, while existing facilities will also need upgrading. This, of course, is in addition to funding clean power generation.

Such modern infrastructure is essential in unlocking the required growth in clean power. It also ensures that electricity that is already being produced can be deployed at the right time and in the right locations when needed.

Investors' view

While European governments have provided a supportive backdrop for the energy transition, private investment is necessary for plans to come to fruition.

Private capital shouldn't just be seen as a mechanism for funding. It can also provide the patient capital, technical expertise, and government discipline needed to deliver complex, multi-decade projects at speed. When partnering with energy infrastructure specialists, these institutions can bring a distinct understanding of the risks inherent in such initiatives.

There are a variety of ways in which private capital can access energy transition infrastructure investments. Closed-end funds are one option. These offerings typically support the construction of new projects, followed by an exit event.

If there is high-conviction in large-scale projects, investors may seek out co-investment opportunities, allowing them to invest alongside pooled funds. A number of investors opt for a combination of pooled funds and co-investments, providing them with diversification but equally the ability to scale their exposure to particular themes or projects. For those seeking a pure yield strategy, opting for evergreen funds may be an effective way of accessing the asset class.

As always, we believe there is significant value in careful asset selection. Appropriate stewardship and alignment between stakeholders is essential.

Overall, we believe clean power infrastructure has the potential to offer compelling risk-adjusted returns given the secular tailwinds present in the European market. In our view, the asset class delivers a tangible societal benefit. This is not just through the potential for environmental impact through emissions reductions; such investments also have a role in improving energy security, supporting economic growth and stability, and offering the opportunity for the creation of skilled jobs.

Assumptions, opinions, and estimates are for illustrative purposes only. There is no guarantee that any forecast will come to pass. It should be noted that diversification is no guarantee against making a loss in a declining market.

6. Financial Times, EU agrees full ban on all Russian gas imports by 2027, December 2025
7. IRENA, June 2025

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Key risks

The value of an investment and any income taken from it is not guaranteed and can go down as well as up, and the investor may get back less than the original amount invested.

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