XPS Group

Investment Fund ESG Rating Review 2026

Spotlight on Responsible Investment in Private Markets

November 2026

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Executive summary

Welcome to our sixth annual Responsible Investing ratings report. Each year, we conduct a comprehensive review of our clients' funds, and this report summarises how investment managers across various asset classes are evolving in their Responsible Investment approach. By sharing insights on manager practices and trends across asset classes, the report contributes to greater transparency and the progress of Responsible Investment standards across the industry.

We have analysed detailed information provided by 40 investment managers covering 146 funds to understand their current approach towards incorporating ESG factors and climate change risk management.

This year, given the growing interest in private markets across the investment landscape, we have undertaken a deep dive into how this segment of the market is positioned.

In the Appendix we include full detail on our ESG Ratings framework underpinning this analysis.

Key findings

1 Industry as a whole appears to have plateaued, with mixed progress among managers

- Overall, 40% of funds were rated Green (2025: 43%, 2024: 40%).
- Many managers have stepped back from headline commitments and industry initiatives, but we see increased evidence of integrating ESG into investment decisions.
- However, 17% of funds are still unable to provide a single example of ESG factors informing an investment decision.

2 Deep dive into private markets

A. Improvements in ESG integration but evidence demonstrates this isn't happening in the run-off stage of the fund cycle

- Green ratings in private market funds decreased from 10% to 9%, with Red ratings increasing from 3% to 9%.
- 41% of funds are now rated Green for Integration (2025: 16%), showing many funds that are actively managed do increasingly give strong consideration to ESG risks.
- However, for funds in the run-off stage, many managers struggle to demonstrate credible ESG analysis and investment management appears to become very passive, which is concerning.

B. Stewardship lags behind listed markets

- 22% of private market funds are rated Red on Stewardship, compared to 3% in listed markets.
- 34% of portfolio holdings have been engaged with, compared to 52% in listed equity.

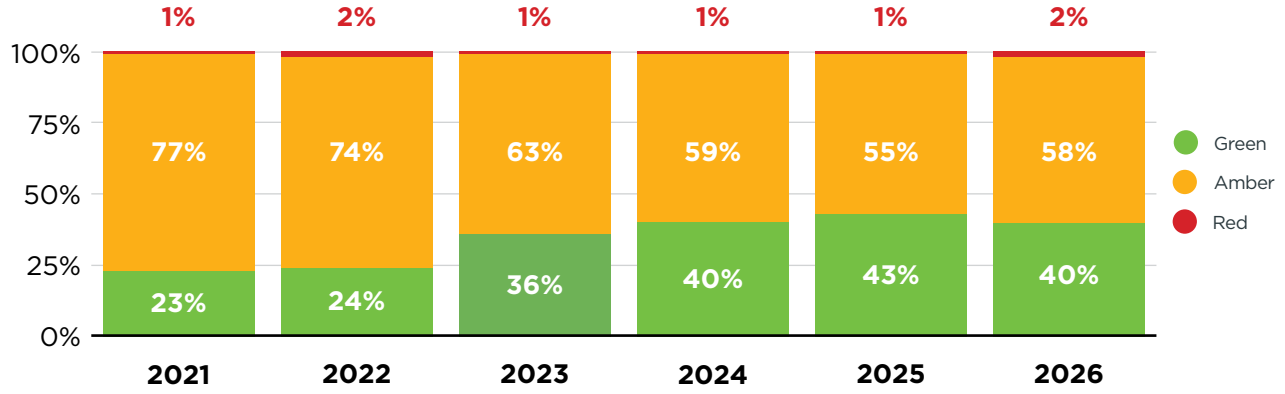
C. Climate change risk analysis needs additional focus

- 31% of funds reported they do not account for physical or transition climate risks.
- 56% do not stress test their portfolios for climate risk.

Questions for investors

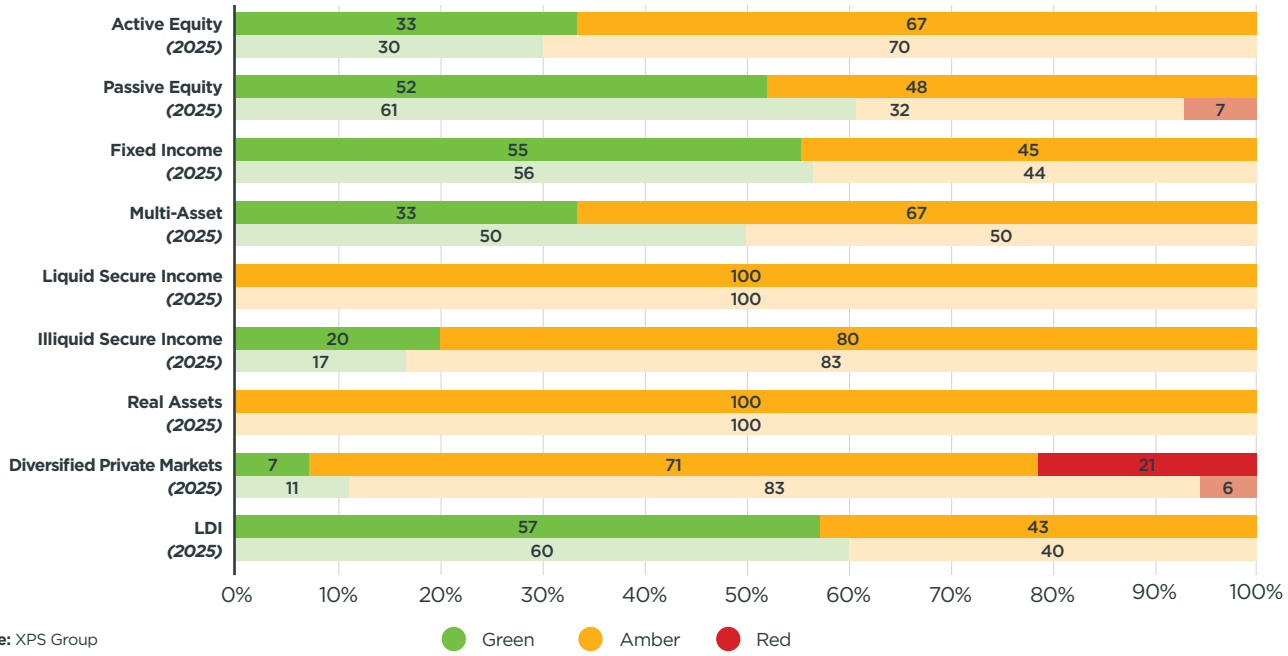
1. **When did you last review your manager's approach on responsible investment?**
2. **Is your manager adequately prepared for the growing physical risks from climate change?**
3. **Have you set stewardship priorities and are your managers delivering against them?**

Summary of fund ratings



Source: XPS Group

Detailed breakdown of ESG ratings across all asset classes 2026



Source: XPS Group

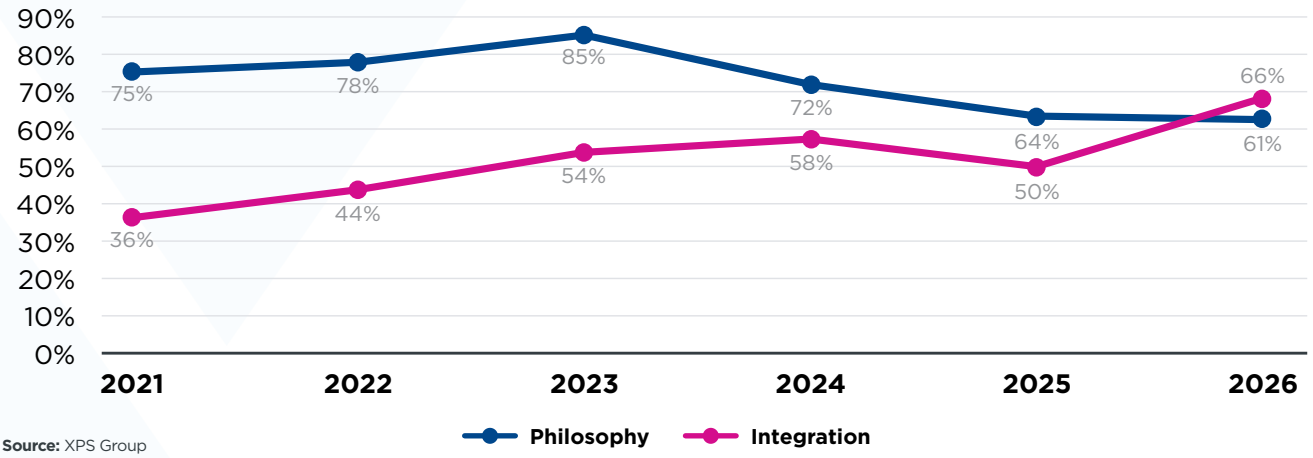


1. Overall ESG integration remains resilient despite decreasing firm-wide commitments

This year we saw the evolution of a pattern we've been seeing for a few years between Philosophy (firm level commitment) and Integration (quality of ESG decision-making within funds).

At a firm level, we continue to see investment managers stepping back from public sustainability commitments. Following the relaunch of the Net Zero Asset Managers Initiative in February 2026, around 250 of the initiative's 330 signatories recommitted to the updated framework. However, of the 44 US-based signatories that were members in January 2025, only 12 recommitted in 2026 - a reflection of the political and regulatory pressure. The proportion of managers receiving green ratings for ESG philosophy declined for the third year in a row.

Philosophy and Integration % Green ratings



Source: XPS Group

While firm level targets may be decreasing, we have seen an increase in Green Integration ratings up to 66%, where we assess how ESG factors feed into portfolio decisions. Although some firms are becoming less vocal about ESG commitments, it's somewhat reassuring to see that many investment managers continue to incorporate these considerations into day-to-day investment decisions.

Despite the continual improvements over recent years, there are still some managers not accounting for these risks within their decision making, as 17% (2025: 26%) were still unable to provide a single example of ESG factors materially influencing an investment decision.

This shows the importance of investors reviewing their fund managers regularly as there is no guarantee that your manager is accounting for these risks in the way you might assume.

Percentage of funds unable to provide any example of ESG factors being taken into account

	All funds	Active Equity	Fixed Income	Multi Asset	Liquid Secure Income	Illiquid Secure Income	Real Assets	Diversified Private Markets
Number of funds	**113**	**6**	**56**	**15**	**4**	**10**	**8**	**14**
Change compared to 2025	-22	-4	-6	-7	-3	+5	-4	-3
Environmental	29%	50%	13%	27%	0%	50%	100%	43%
Change compared to 2025	-3%	40%	-6%	-10%	-43%	30%	25%	-22%
Social	32%	50%	14%	40%	0%	50%	100%	43%
Change compared to 2025	-4%	40%	-12%	8%	-43%	10%	17%	-16%
Governance	31%	33%	11%	40%	0%	60%	100%	50%
Change compared to 2025	-5%	23%	-13%	4%	-43%	20%	8%	-3%
Any examples	17%	33%	4%	13%	0%	30%	75%	29%
Change compared to 2025	-9%	23%	-12%	-9%	0%	10%	0%	-24%

Total funds exclude LDI and passive equity. Negative numbers imply an improvement, as more funds are able to give examples of Integration.

2. Deep dive into private markets

Across the wider investment market, demand for private market investments has been increasing in recent years:

- Some DB pension schemes looking to run-on are embedding longer-term private market allocations within their strategies
- DC pension schemes are being encouraged by policies such as the UK's Mansion House Accord to increase their private market allocation by 2030.
- Insurance companies are looking to take advantage of changes in solvency requirements by investing in alternative forms of private credit and secure income.

Therefore, understanding how ESG risks are assessed and managed in these markets has become increasingly important. Given the long-term nature of private market holdings, effective ESG integration is critical because risks that are overlooked at the outset may take years to emerge and can prove difficult to mitigate once capital has been committed.

We have reviewed the following sectors within private markets: **Illiquid secure income** (including asset backed finance), **real assets** (property and infrastructure) and **diversified private markets** (private corporate equity and credit).

A. Improvements in ESG integration but evidence demonstrates this isn't happening in the run-off stage of the fund cycle

Overall Integration scores in private markets have increased from 16% in 2025 to 41% in 2026. This is positive, and in particular, we see newer funds which are more actively managed increasingly embedding ESG into decisions.

However, this good progress is from a low base, and a significant number of private market managers (41%), mostly in real assets, are still unable to show any examples of ESG integration in practice.

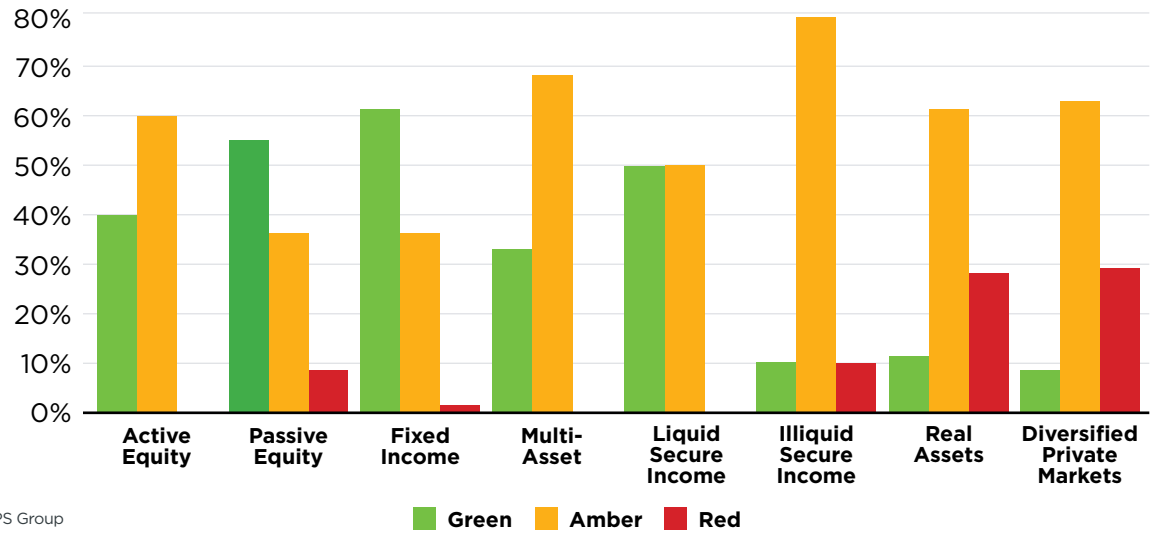
	Illiquid secure income	Real Assets	Diversified Private Markets	Total private markets
% Green Integration 2026	50%	13%	50%	41%
% Green Integration 2025	20%	0%	29%	16%
% unable to provide examples of ESG Integration 2026	30%	75%	29%	41%
% unable to provide examples of ESG Integration 2025	20%	75%	53%	56%

A common explanation is funds in run-off, where no new investments were made during the period under review. While this may limit opportunities to demonstrate ESG considerations in acquisition decisions, we would still expect managers to actively monitor existing holdings across a range of risk factors to ensure an orderly exit, and this monitoring should include ESG factors. The absence of such monitoring raises concerns about the overall level of oversight being applied to the portfolio.

B. More needed on stewardship to manage long-term risks

Active ownership and engagement are particularly important for long-term private market investments as part of the ongoing assessment of risks, adding value to portfolio holdings and exit considerations. Investment managers often have greater influence over (and concentrated exposure to) underlying investments than in listed markets.

Breakdown of Stewardship Rating by asset class



Source: XPS Group

We see a higher proportion of Red rated managers for Stewardship across private markets (22% on average), showing that the level and quality of engagement continues to lag behind listed markets. Diversified private markets frequently respond "not applicable" to engagement related questions, despite having direct access to company management teams.

Where engagement does happen, it is often patchy: on average, private market managers engaged with only around 34% of portfolio holdings compared to an average of 52% in listed equity, and many managers were unable to provide a single example of engagement on ESG issues over the year.

C. Climate change analysis continues to lag other asset classes

Climate remains one of the more challenging areas within private markets, where we continue to see lower proportions of Green ratings than in listed asset classes. Only 77% of managers can adequately report carbon data (compared to 99% in listed markets), and in Diversified Private Markets, the proportion which report they take into account physical and transition risks is low.

As extreme weather events become more frequent and physical climate events become increasingly visible (floods, wildfires, droughts), managers need to demonstrate that they are identifying, quantifying and modelling the impacts. Where transition risks are not adequately considered, there is an increased risk of assets becoming stranded, meaning they lose economic value as policy, regulation and consumer demand evolve.

For investments where capital will be committed for many years, a failure to adequately assess climate risks at the outset and through proactive monitoring will have detrimental implications for returns.

We were pleased to see all real assets fund reporting taking into account physical and transition risks, but diversified private markets in particular showed poor levels of oversight here.

Private Markets Climate metrics

	Illiquid secure income	Real Assets	Diversified Private Markets	Total private markets
Able to report carbon data	90%	75%	75%	77%
Take into account physical risks	80%	100%	64%	78%
Take into account transition risks	80%	100%	50%	72%
Undertake climate stress testing	30%	75%	36%	44%

Conclusion and next steps

Across many investment managers, ESG factors are embedded into decision making. However, we still find 17% (2025: 26%) of all funds unable to provide a single example of ESG factors influencing an investment decision.

This emphasises the **importance of investors reviewing their fund managers regularly and holding them to account,** as there is no guarantee that your manager is accounting for these risks in the way you might assume.

In private markets, stewardship and climate risk management continue to lag listed markets. This is important to monitor given the expected increase in allocation of pension scheme and insurance company assets to private markets.

This is echoed by the Net Zero Asset Owner Alliance who recently released a renewed call to action for private markets managers, hailing "important progress" but noting gaps between investors' ambitions and the integration of climate into investment and engagement decisions.

Next steps for investors

There continue to be instances reported of Asset Owners dropping their investment managers over responsible investment issues, showing that ESG and sustainability are considered key for long-term value creation. Investors who do not currently review this regularly risk falling behind.

We have a clear framework to help investors enhance their responsible investment approach:

1	**Beliefs and objectives:** Take our free ESG beliefs questionnaire to gather your views and priorities.
2	**Ratings:** Review the ESG rating of your managers to understand their approach and key sources of risk.
3	**Engage:** Engage with your managers and make your expectations and priorities clear.
4	**Monitor:** Undertake ongoing monitoring using XPS ESG Ratings and sustainability dashboard report.
5	**Implement:** Consider alternative investment funds which are better aligned to your objectives.

XPS approach to assessing ESG

XPS assess and rate funds either Green, Amber or Red overall based on the following eight key aspects: Parent, People, Product, Process, Positioning, Performance, Pricing and ESG. We refer to this as the 7Ps and ESG. Any fund rated Red on ESG cannot be Green rated overall and recommended to clients. We assess the quality of ESG risk management, utilising the five key areas that we consider to be fundamental when assessing ESG practices:

Key ESG areas	Explanation
1. Philosophy	Firm-level philosophy relating to ESG, stewardship and broader sustainability issues.
2. Integration	Implementation of the firm's ESG philosophy within research and portfolio construction.
3. Climate change	Explicit climate change considerations within the investment and stewardship processes.
4. Stewardship	Approach to voting and engagement to drive positive change in invested companies and underlying managers.
5. Reporting	Transparent communication of activity to stakeholders.

Note: Within passive mandates we do not assess managers on ESG integration or climate change as these managers have less control over stock selection. For these funds our focus is on stewardship.

We request completion of a detailed ESG questionnaire involving over 70 questions.
We score each question +1, 0 or -1 with the scores weighted appropriately to inform a rating for each sub-area and overall based on the below formula, with qualitative oversight to ensure that overall ESG ratings are appropriate:

Weighted score	Rating
Below -0.2	Red
Between -0.2 and +0.7	Amber
Above +0.7	Green

We do not award overall Green ESG ratings to funds which score Red on any individual sub-area, irrespective of how well the fund has scored on other areas.

We provide tailored feedback to every fund manager on their ESG rating to highlight strengths and areas for improvement.

For reference we detail the nature of the funds included in the private market "buckets" we refer to in this paper:

Diversified Private Markets includes private credit, private equity and opportunistic strategies.

Illiquid Secure Income includes primarily income generating private debt investments, including senior secured loan strategies.

Real assets includes infrastructure investments, long lease and balanced property.

Find out more

If you would like to find out more about sustainable investment and ESG, please contact **Alex Quant, Rebecca Helme** or speak to your usual XPS Group contact.



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Award winning

Pensions advisory

Professional Pensions UK Pensions Awards 2026 – WINNER – Run-on Provider of the Year – XPS Group

Professional Pensions UK Pensions Awards 2026 – WINNER – Sponsor Covenant / IRM Adviser of the Year – XPS Group

Professional Pensions UK Pensions Awards 2025 – WINNER – Sponsor Covenant/IRM Adviser of the Year – XPS Group

Professional Pensions UK Pensions Awards 2024 – WINNER – Actuarial/Pensions Consultant of the Year – XPS Pensions Group

Professional Pensions UK Pensions Awards 2024 – WINNER – Sponsor Covenant/IRM Adviser of the Year – XPS Pensions Group

Pensions Age Awards 2024 – WINNER – Sponsor Covenant Provider of the Year

AP Awards – Software of the Year 2024

Investment consulting

Professional Pensions UK Pensions Awards 2026 – WINNER – Fiduciary Evaluator of the Year – XPS Group

Professional Pensions UK Pensions Awards 2023 – WINNER – Fiduciary Evaluator of the Year – XPS Pensions Group

Professional Pensions UK Pensions Awards 2022 (25 Anniversary) – WINNER – Investment Consultancy of the Year – XPS Pensions Group

Administration

Professional Pensions UK Pensions Awards 2026 – WINNER – Third-Party Administrator of the Year – XPS Group

Professional Pensions UK Pensions Awards 2023 – WINNER – Third-Party Administrator of the Year – XPS Pensions Group

Accredited Member – Pensions Administration Standards Association

Corporate

Corporate Adviser Awards 23 – WINNER – Best Pension Adviser

Culture and Sustainability

The Times Top 50 Employers for Gender Equality 2026

FT Adviser Workplace Excellence Awards 2026 – WINNER – Employee Voice Award (Large Company) – XPS Group

FT Adviser Workplace Excellence Awards 2026 – WINNER – Race Equality Champion (Large Company) – XPS Group

Business Culture Awards – Winner 2024 – Working Environments & Practices

UK Company Culture Awards 2024 Winner – Best Diversity, Equality and Inclusion (DEI) Initiative

Stewardship Code

Disability Confident Leader

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