

Investment Fund ESG Rating Review 2025

Risk of stagnation from
asset managers on ESG

November 2025

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About the Survey

This marks our fifth annual report, designed to help clients identify whether ESG considerations are appropriately embedded into their investments. Each year, we conduct a comprehensive review of all our clients' funds. This report summarises our findings and highlights how investment managers across various asset classes are evolving in their ESG approaches.

This year we have analysed detailed information provided by 41 investment managers covering 170 funds to understand their current approach towards incorporating ESG factors and climate change risk management into their funds.

Key findings

1

Risk of stagnation from asset managers on ESG

- Overall Green ratings increased slightly to 43% (2024: 40%).
- 26% of funds could still not provide any examples of integrating ESG into decision making (2024: 26%).

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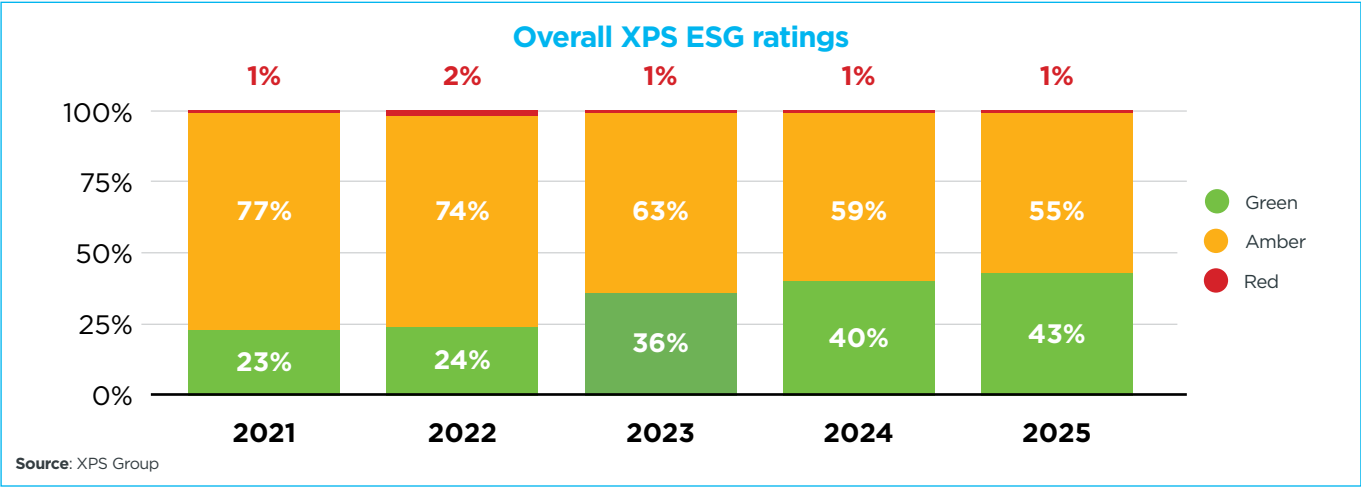
Divergence in investment manager commitment to ESG issues

- 64% of funds rated Green for Philosophy, falling for the second year in a row (72% in 2024, and 85% in 2023). We downgraded a number of managers due to weak firm-level targets on climate change.
- 90% of managers have a policy on diversity and inclusion for their business, but only 61% have firm-level targets on diversity and inclusion.

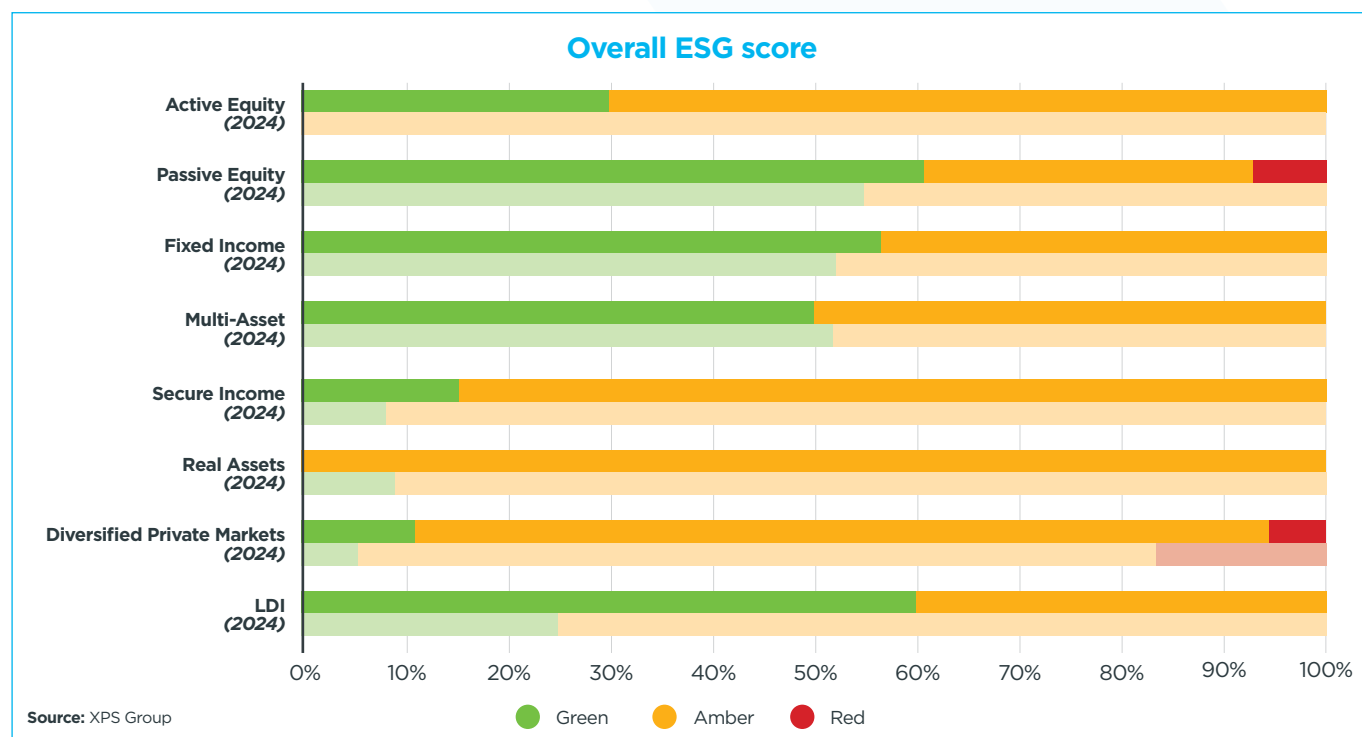
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Engagement on social issues lags behind environmental

- Across equity, fixed income and multi-asset funds, 42% of portfolio holdings were engaged with on environmental issues, but only 17% on social issues.
- 47% of Diversified Private Markets funds rated Red for Stewardship due to weak evidence of engagement and ESG oversight.



1. Risk of stagnation among asset managers on ESG



In 2025, the **proportion of funds rated Green increased slightly to 43%** (2024: 40%). Whilst an increase in the right direction, this suggests relative stagnation from asset managers on average around ESG, and indeed the picture is mixed when looking at the underlying asset classes.

We were pleased to see **stronger responses in Active Equity** following poor responses in previous years. More managers were able to provide clearer evidence of making decisions linked to ESG risks and engaging well with underlying companies, as we would expect. In contrast, Multi-Asset and Real Assets saw reductions in Green ratings, largely due to poor responses on the Integration sub-section.

Across all funds within the Integration section, **26% of funds could still not provide any examples of integrating any ESG factor into an investment decision** (26% in 2024). This continues to be a source of concern and suggests a material portion of managers are not fully capturing the full spectrum of investment risks in their day-to-day management of portfolios.

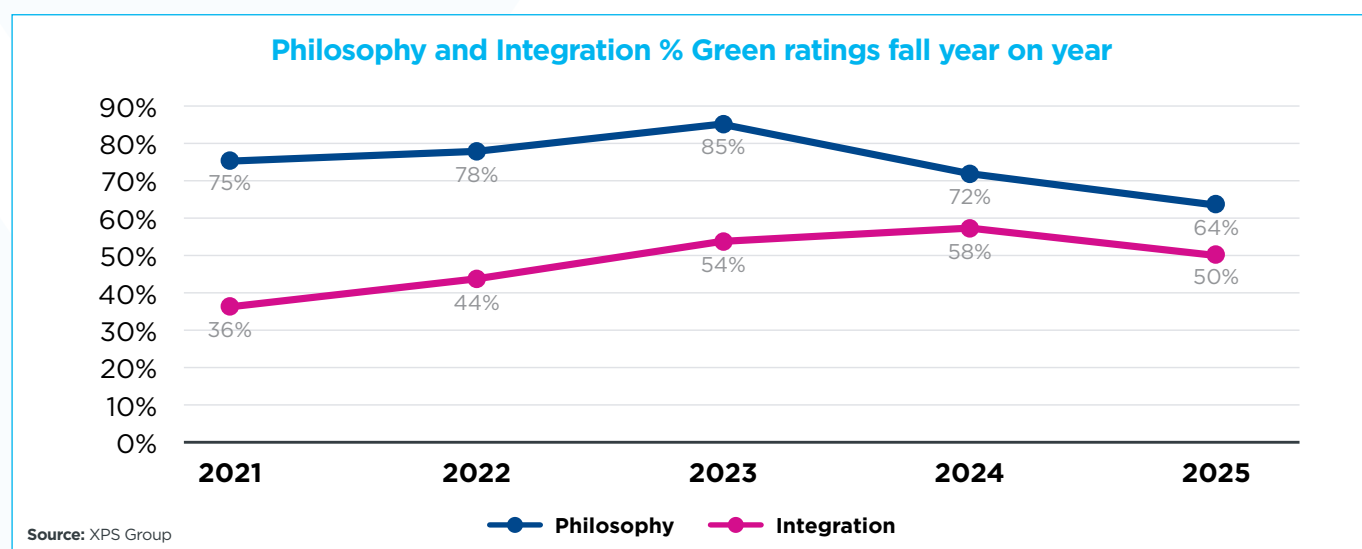
% funds unable to provide any form of example of ESG factors being taken into account:

	Active Equity	Fixed Income	Multi-Asset	Secure Income	Real Assets	Private Markets
Total funds	10 (+5)	62 (-9)	22 (-6)	13 (+1)	12 (+1)	18 (-)
Environmental	10% -57%	18% -6%	36% +25%	23% +15%	75% +25%	67% +20%
Social	10% -57%	26% -3%	32% +20%	38% +31%	83% +33%	61% +14%
Governance	10% -73%	24% -1%	36% +28%	38% +31%	92% +27%	56% +3%
Any of ESG	10% -57%	16% -8%	23% +15%	0% -8%	75% +25%	56% +14%

2. Divergence in investment manager commitment to ESG issues

We reported last year on the fall in Green ratings on firm-level Philosophy. That has continued this year (falling from 72% to 64%), indicating a further divergence in commitment to ESG issues across the investment managers.

Despite the temporary cessation of the Net Zero Asset Managers Initiative (“NZAMI”) earlier in 2025, we expect managers to have clear firm-level targets to manage climate change as a systemic issue. We downgraded a number of managers from Green to Amber because they did not have credible targets around climate change, including managers who had explicitly softened their previous targets.



We also observed that whilst 90% of managers had a policy around diversity and inclusion, only 61% had internal targets on this.

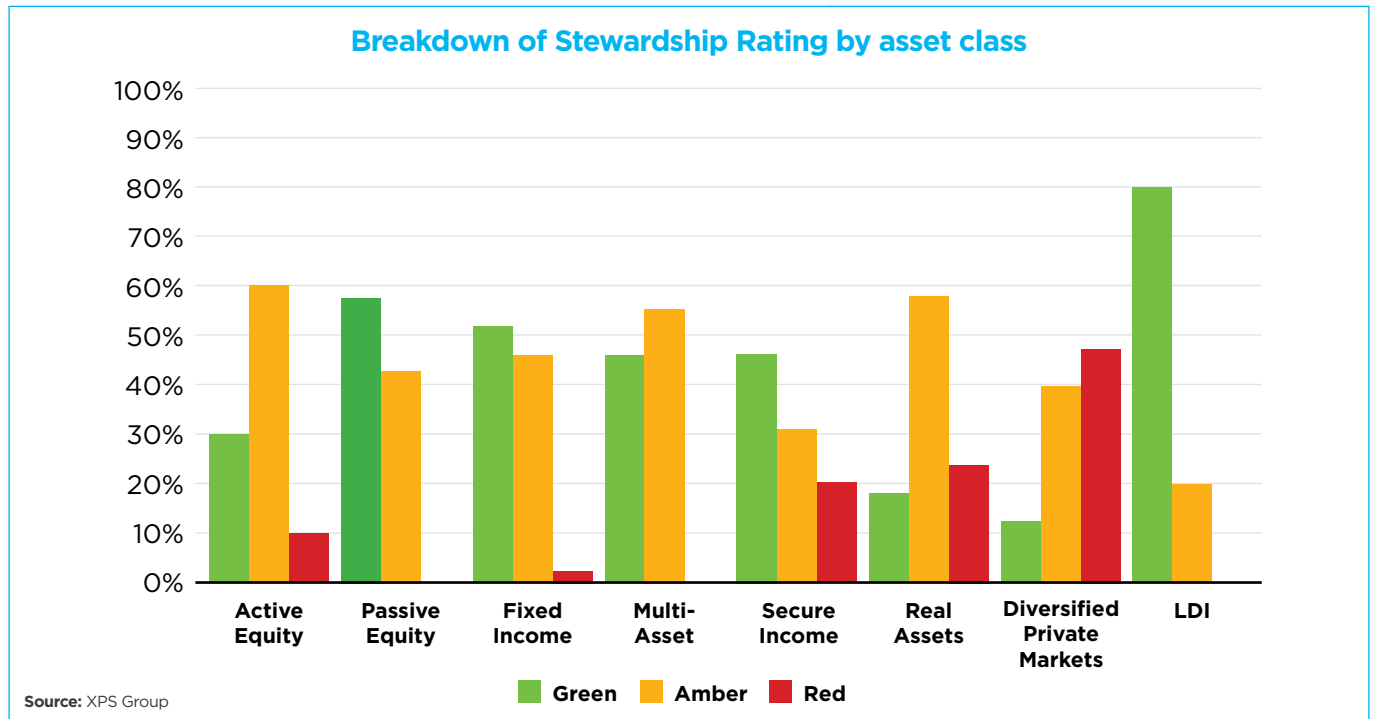
We have seen a corresponding impact in terms of the fund-level approach to ESG, with the % of funds rated Green on Integration falling for the first time in years (50% vs 58% in 2024). This was largely driven by Multi-Asset, Secure Income and Real Assets, where we observed consistently poor responses when we asked for examples of analysis embedding ESG risk factors into investment decisions.



3. Stewardship efforts are mixed

Stewardship has been a hot topic in investment markets for several years. The Pensions Regulator set out clear expectations for pension schemes to be more active in their ownership of investment funds, and hold their investment managers to account when engaging with underlying holdings. We see a mixed approach to stewardship both by asset class and when looking at the topics for engagement.

Private markets continue to lag behind on engagement



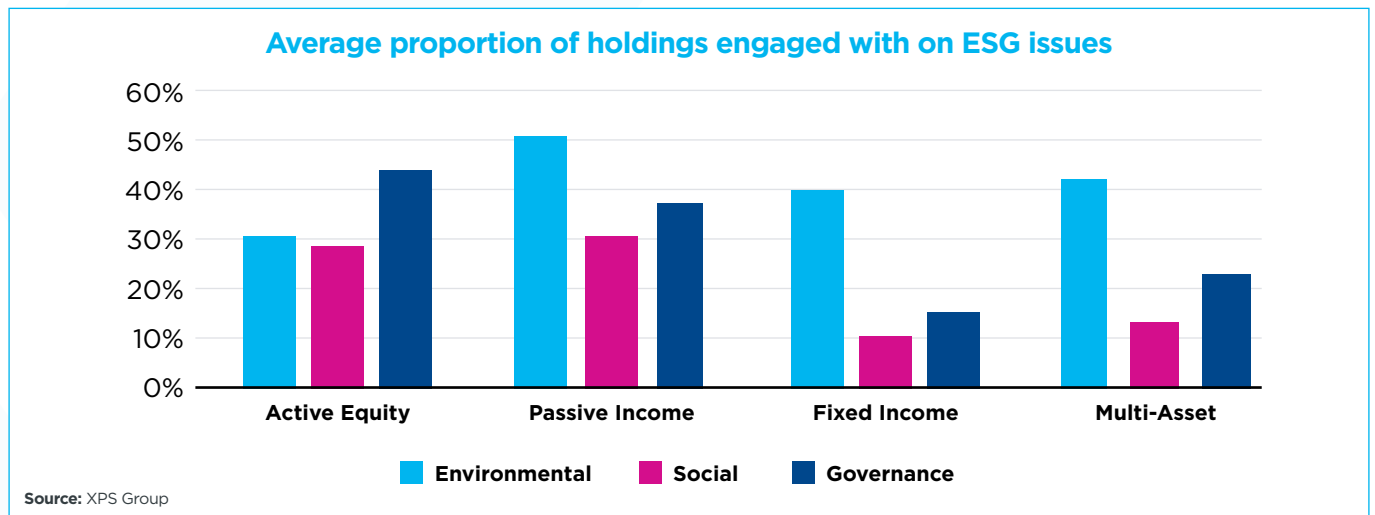
Overall, the proportion of funds rated Green on stewardship continued to increase to 45% (2024: 33%), driven by improvements across listed equity and fixed income. However, we saw a decline in Diversified Private Markets (47% Red vs 33% in 2024), reflecting a lack of evidence of effective stewardship (to identify the issue, undertake engagement, set milestones and escalate engagements where needed). This is an ongoing pattern and highlights the difference between public and private markets. Public companies are subject to disclosure requirements, and in listed equities clearly there is a shareholder voting cycle, both of which create a helpful structure for engagement activity.

We have seen significant progress in secure income and LDI. In secure income we've seen great examples of ABS managers implementing strong engagement programmes with issuers and underlying CLO managers, and in LDI we've noticed growing engagement by managers with the UK government, which is important as a growing portion of institutional capital is invested in government bonds.

Rise in engagement on environmental issues

In previous years, we have found Governance to be the key area for engagement. This year we saw the proportion of holdings engaged on Environmental issues (climate change plus impact on nature, water use) increase.

Passive equity reported the largest increase in % holdings engaged with on any ESG issue (61% vs 41% in 2024).



Despite the encouraging momentum in engagement on environmental issues, the data suggests that social issues continue to receive less attention. Aggregating these asset classes, we see 42% of the portfolio holdings on average engaged with on Environmental issues, with only 17% of the portfolio holdings engaged with on social issues. This will be linked to well-known challenges in measurement and reporting on social risks. Engagement on issues such as health and safety or worker rights is important as part of managing these risk areas, which may otherwise go unnoticed without proper engagement.



Conclusion and next steps

The 2025 Ratings review suggests relative stagnation in progress on ESG issues by investment managers. Against a challenging political backdrop, it's clear that some investment managers continue to understand and embed the financial materiality of ESG and climate change risks across the board, whilst others face difficulty in appealing to a bifurcated investor client base.

Mainstream listed asset classes continue to lead the way, with encouraging improvements in ratings in Active and Passive Equity and Fixed Income. However, in alternative assets such as Real Assets, Secure Income and Diversified Private Markets we still see laggards particularly in terms of climate analysis and stewardship.

Over the next year we'll be looking to see specific attention in the following areas:

- **Clear firm-level strategy on climate change:** NZAMI released its revised commitment statement to asset managers on 29 October 2025. Managers have 3 months to decide whether to commit to the new statement and join the initiative. We will be interested to see the strength of the manager targets being set in response.
- **Evidence of integration:** We saw 26% of funds not able to provide any evidence of integrating ESG risks into decision-making. This is an area we must see improvement otherwise we will have serious doubts about the broader day-to-day management of risk.
- **Stewardship and policy advocacy:** Managers in all asset classes must continue to demonstrate that their engagements are purpose-driven and lead to positive outcomes. There is an important role for the capital markets to engage with policy makers and regulators to support broader change, and we'll be looking to see evidence of that taking place.

Next steps for investors

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

1	Beliefs: Take our free ESG beliefs questionnaire to gather your views and priorities
2	Ratings: Review the ESG rating of your managers and carry out climate analysis on your portfolio to understand their approach and key sources of risk.
3	Engage: Engage with your managers and if necessary, consider alternative investment funds which are better aligned to your objectives.
4	Monitor: Ongoing monitoring using XPS ESG Ratings and sustainability dashboard report.

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	Taking account of ESG risks within investment 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.

Key change to questionnaire in the year:

- In previous years we have asked managers if they are signatory to the Net Zero Asset Managers Initiative (“NZAMI”), as an indication of their commitment to addressing climate risks.
- However, NZAMI temporarily ceased activities early in 2025 in response to many managers withdrawing.
- Therefore, this year we reframed the question to ask managers for specific detail on their firm level targets and commitments around climate change, whether or not they were in NZAMI at the point of cessation.

Find out more

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



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Working Environments & Practices



WINNER
Diversity & Inclusion Excellence Award
XPS Pensions Group



GOLD AWARD WINNER
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STEWARDSHIP CODE



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