



ESG and Sustainability Trends for Private Capital in 2026

Private market investors have fundamentally shifted how they use ESG, moving it from marketing and LP engagement to core investment strategy. What was once treated by some fund managers as a compliance checklist or an investor talking point has proven to be a non-negotiable operational discipline, a measurable value-creation lever and an essential element of Limited Partner (“LP”) alignment and transparency.

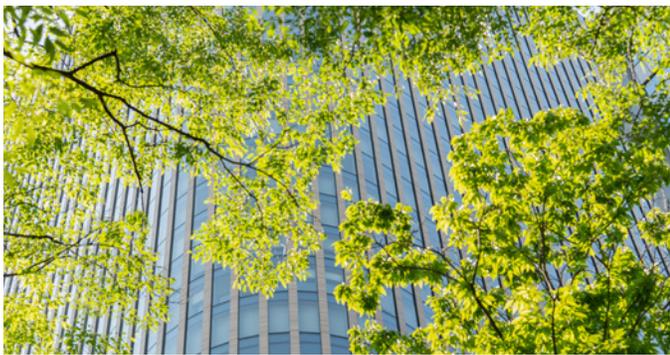
In an increasingly complex regulatory and competitive environment, private equity (“PE”) and private credit firms that recognize and implement ESG as a strategic tool to protect and enhance their margins and position themselves for long-term success. There are three defining ESG and sustainability trends shaping private capital in 2026: compliance, value creation and transparency.



Compliance Is Non-Negotiable

While both U.S. and European sustainability disclosure regulations have undergone several rounds of refinement, we now have clarity on required disclosures. Why does this matter for private equity and private credit? Many PortCos sit at the intersection of multiple regulatory regimes and must now contend with overlapping and sometimes divergent requirements. For example, a manufacturing asset based in the United States might have European subsidiaries that trigger EU reporting obligations. Similarly, supply chain reporting regimes in California, Europe and Canada may require supplier tracing and data collection at unprecedented levels. Meanwhile, greenwashing and circularity regulations are tightening worldwide, and PortCos must now be more mindful of their customer geography, green claims and regulated packaging and materials.

The era when funds and PortCos could wait and see if regulation was real and enforcement was meaningful is over. Regulatory diligence and compliance strategy are essential. Funds must invest in systems, expertise and governance to manage multijurisdictional requirements not just because regulators demand it, but because failure to comply can materially impact exit valuations, restrict growth or introduce litigation risk.



Leading Funds Are Using ESG Strategically for Value Creation

Beyond compliance requirements, 2026 is the year for private equity to embrace ESG as a standard operating strategy for creating value. Leading funds are integrating ESG into investment theses, operating playbooks and exit strategies — and delivering measurable results. According to recent research from BCI PE and Stanford University, ESG integration can enhance financial performance, optimize risk management and contribute to enterprise value uplift in private funds.¹

PE funds are using ESG to drive value, not just report it, through proven strategies such as:

- **Operational Optimization:** Initiatives in energy efficiency, waste reduction and human capital development that reduce cost and risk while boosting margins
- **Supply Chain Resilience:** Stronger labor and environmental practices reduce legal exposure and disruptions that can result in higher costs or lost revenue
- **Commercial Differentiation:** ESG-aligned products and services attract sustainability-conscious customers and strong valuations
- **Focus on Human Capital:** Enhanced employee attraction and retention practices can materially affect performance and growth

These levers often cut across traditional operating playbooks, requiring cross-functional coordination between investment teams, operating partners, sustainability experts and data professionals. Truly effective funds don't treat ESG as an accessory, and that mindset shift is yielding a distinct competitive advantage.



LPs Demand Transparency and Real ESG Performance

While regulation and value creation matter, LPs' demand for transparency remains a top priority for 2026. LPs are no longer satisfied with static dashboards of ESG outputs (e.g., tons of carbon reported, diversity percentages or policy checklists). Instead, they want narratives backed by data that demonstrate how ESG initiatives de-risk investments and amplify returns.

A recent survey from Private Equity International show that LPs continue to consider ESG factors influential in capital allocation decisions.² Even as some public narratives around ESG soften or polarize, many institutional and retail investors say that climate risk, governance practices and other sustainability considerations still materially influence investment choices.



That demand for transparency spans several dimensions:

1. Quality of Reporting

LPs want standardized, auditable data that can feed into their own risk management and reporting processes. This means funds must go beyond self-reported metrics and invest in robust data systems, which can include software. It also requires the implementation of consistent data collection and calculation methodologies, traceability across supply chains and assurance-ready audit trails.

2. ESG as Value Narrative

LPs increasingly ask: *Are you just measuring ESG data, or are you using it to drive better decisions and outcomes?* They want evidence that ESG initiatives are tied to financial KPIs such as earnings growth, cost reduction, customer retention, and exit multiples. Transparency here means telling a financial story about ESG, not just an ethical one.

3. Governance and Accountability

LPs are scrutinizing General Partners' ("GPs") governance structures to understand how ESG accountability is embedded at the fund level. Do investment committees consider climate and social risk as part of deal approval and 100-day plans? Are incentives structured to align with defined sustainability outcomes?

4. Real-Time Data Access

Traditional annual ESG reporting is often insufficient. LPs want closer-to-real-time dashboards and analytics that allow them to track progress, compare across benchmarks, and assess risk on an ongoing basis. This has driven demand for more sophisticated tech stacks, data science expertise, and integrated reporting platforms.

The push for transparency is not merely about disclosure volume. It is about meaningful communication that aligns LP incentives with GPs and clarifies how sustainability performance translates to financial outcomes and risk mitigation.



Conclusion: ESG in 2026 is a Strategic Imperative

For private capital in today's market, ESG and sustainability are core to compliance, value creation and investor trust.

As we navigate 2026, the most forward-looking private capital firms will treat ESG not as a reporting burden or marketing tagline, but as an operating discipline integral to how they create, communicate and capture value across the investment lifecycle.

The era of performative sustainability is behind us. What lies ahead is strategic sustainability.

- 1 Evan Greenfield, Ashby Monk and Dane Rook, "ESG Value Creation in Private Equity: From Rhetoric to Returns," Stanford Long-Term Investing (January 1, 2026), https://papers.ssrn.com/sol3/papers.cfm?abstract_id=6000614.
- 2 <https://www.privateequityinternational.com/esg-a-gap-between-reality-and-perception/>

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