



ESG for DC providers

How ESG practices are evolving in the UK defined contribution market

October 2025



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EY Parthenon

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Introduction

As the UK defined contribution (DC) market continues to grow, through both Master Trusts and occupational workplace pension schemes, environmental, social and governance (ESG) factors remain important for providers seeking to make themselves stand out within the market.

Over the next decade, we will see transformational change in the DC market following the introduction of the Pension Schemes Bill in June 2025. With the Bill requiring DC providers to have at least £25bn in their default fund by 2030, we will see a DC market that is more consolidated and scaled. This means those providers who are able to reach the scale requirements will have an even more important role than they do today in driving standards in ESG and ensuring that sustainability risks and opportunities are managed appropriately to deliver positive outcomes for the members they serve.

Furthermore, demand-side pension reforms are seeking to improve member engagement with pensions and provide better support to savers and retirees. If the reforms have their stated intent and more members engage with their retirement savings, ESG and sustainability practices will come into greater focus and become a potential differentiator when savers, trustees and employers choose their DC provider.



Small DC schemes, which do not take appropriate action to protect savers' retirements, from climate risk should think about quitting the market.

The Pensions Regulator

Purpose of our report

This report will give you a brief overview of how ESG practices are evolving in the UK DC market, with insights based on the results of our second industry-wide survey.

The survey covers nine DC providers that collectively manage around £400bn of assets and focuses on their ESG activities over the last 12 months to June 2025. The DC providers vary in size and profile and include Master Trusts. We assessed participating DC providers across five key areas: governance, risk management, investment integration, stewardship and reporting.

1 Governance

2 Risk management

3 Investment integration

4 Stewardship

5 Reporting

We hope this survey provides insights to help you navigate the market and evolving ESG practices.

Scope

5 key areas

9 DC providers

£400 billion of asset in the UK

Survey highlights

What questions should stakeholders be asking?

Providers have varied approaches to integrating scenario analysis results into the investment decision-making process.

Are you keeping up with ESG investment integration best practice?

Carbon commitments in place for the default strategy are common amongst providers, but not all have in place a robust climate transition plan.

Are you confident that you can achieve your carbon and ESG commitments?

Engagement and stewardship are important tools to bring about positive change. Leading providers are defining their stewardship approach about both climate and nature.

Do you understand and effectively engage with your members' ESG needs?

Providers offer a range of ESG-focused funds to self-select members so that they can invest in line with their values and many providers have funds in their default proposition.

Do your ESG-focused funds reflect your members' needs?

Challenges in measuring progress and impact in ESG reporting remain, particularly in certain asset classes and geographies.

Have you carried out third-party assurance on ESG data and reporting?



Governance

How ESG is embedded into the decision-making processes and how it permeates through the business, culture and staff of a DC provider is critical to good governance. Having robust ESG governance in place increases the likelihood of achieving any decarbonisation, or other ESG targets, the provider may have.

Key themes over the year

- All providers have governance processes, controls and procedures in place to monitor and manage sustainability-related risks, although the robustness of these differs.
- Internal sustainability-related training is provided by eight of the nine respondents, with varying levels of detail, topics covered, and frequency provided.
- Top ESG priorities for providers span various topics, with climate change and nature being the most popular topics.

ESG priorities

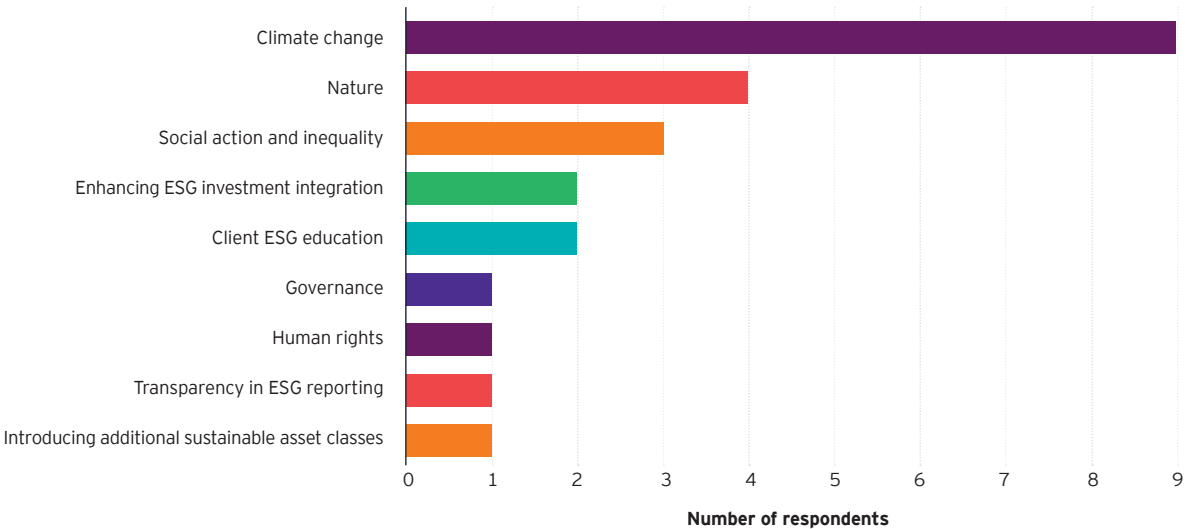
We found that ESG priorities are in place for all respondents, with a variety of ESG priorities for 2025. These range from more thematic and strategic through to practical priorities focusing on implementing responsible investing into the wider investment process and customer experience. Climate change is the most common priority across respondents, with all nine respondents prioritising climate change and working towards net-zero goals and commitments. ESG priorities are shown in the chart below.

ESG training for staff

Most respondents provide their staff with ESG training, covering a range of topics such as understanding the organisations’ ESG principles and commitments, ESG reporting, regulatory updates, and diversity, equity and inclusion (DEI). Training frequency varies, with some respondents providing ongoing training through online learning platforms and others providing periodic workshops and seminars alongside mandatory annual training sessions.

7/9 respondents have provided their staff with ESG training in the last 12 months.

ESG priorities



An aerial photograph of a beach. The top half of the image shows the ocean with white foam from waves washing onto the shore. The beach is made of golden-brown sand, which is heavily littered with plastic waste, including numerous clear and blue plastic bottles, green plastic caps, and other small debris. A person wearing a bright orange jacket and dark pants stands on the sand in the lower right quadrant, looking out towards the ocean. Their shadow is cast long and dark on the sand. The overall scene conveys a message of environmental pollution and its impact on natural spaces.

Risk management

ESG risk management covers the approach to use data and other modelling techniques to identify, assess, manage and mitigate ESG (including climate and nature) risk. Estimating the potential future impacts of climate change relies on complex scenario modelling and climate metrics, with evolving levels of data available. Providers are also beginning to address nature-related and social factors.

Key themes over the year

- All respondents have a decarbonisation strategy in place for their default strategy, but less than half of respondents have published a climate transition plan.
- Nature is an emerging area, with respondents having a range of nature-related commitments in place.

approach of how an entity intends to transition and align itself with global climate goals, particularly the targets set by the Paris Agreement, and any other sustainability targets it may have committed to. A credible climate transition plan is time bound, with tangible short and medium-term targets. Having a credible and practical approach mapped out to achieve any carbon commitments made is crucial to achieving these commitments.

Carbon commitments

All nine respondents apply net zero commitments to their default strategies. Some have set more ambitious interim targets than others, and some respondents are also aiming to reach net zero at an earlier date, e.g., by 2040.

4/9 respondents have published climate transition plans.

Four out of nine respondents have published climate transition plans, with one more respondent intending on publishing their first climate transition plan over the next 12 months. A climate transition plan sets out the strategic

Nature-related commitments

All respondents have some form of nature-related commitments in place. EY-Parthenon teams have observed a range of nature-related commitments by providers, including supporting initiatives such as the Finance for Biodiversity Pledge and Taskforce on Nature-related Financial Disclosures (TNFD), publishing separate biodiversity and nature reports, and others only beginning to explore the subject.

Social policies

All respondents have modern slavery and DEI policies in place, with seven out of nine respondents having a policy on human rights.





Investment integration

Investment processes cover the investment strategy setting approach, portfolio construction, manager or security selection, and ongoing monitoring. Providers may provide their members with explicit ESG or impact funds as part of the default strategy and self-select fund range or incorporate their approach to ESG in their process and not explicitly in their fund range.

Key themes over the year

- All respondents offer a range of ESG-focused funds to self-select members so that they can invest in line with their values, while eight out of nine respondents include funds with an explicit ESG link in their default strategy.
- Respondents have varied approaches to integrating scenario analysis results into the investment decision-making process, with more advanced providers using results for risk assessment, to inform strategic asset allocation and stewardship activities, and monitoring progress against decarbonisation commitments.

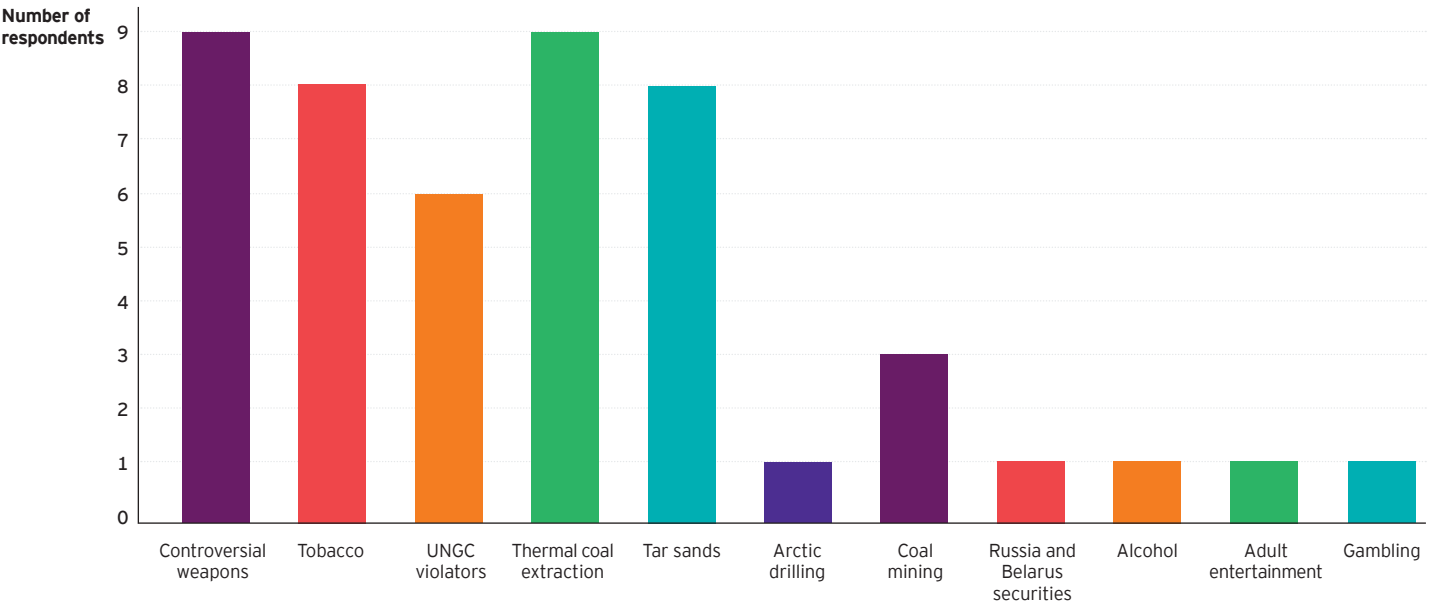
Investment process

Most respondents have minimum ESG requirements for investee companies directly managed or managed through third parties. Five out of nine respondents indicated that sustainability factors had led to “deal breakers” in investment decisions that have been made in the last 12 months.

Popular ESG exclusions and screens applied by respondents are set out in the chart below.

5/9 respondents indicated that they had instances where sustainability factors led to “deal breakers” in investment decisions.

ESG exclusions and screens



Pension providers have real power to shape the economy our members retire into. Sustainability isn’t a compliance exercise; it must inform where capital flows. The Impact Investing Principles for Pensions show what’s possible when we move from that intention to actual implementation. For DC schemes, that means aligning investment beliefs, member outcomes and sustainability goals, so capital delivers for people, planet and portfolios.

Charlotte O’Leary, CEO, Pensions for Purpose



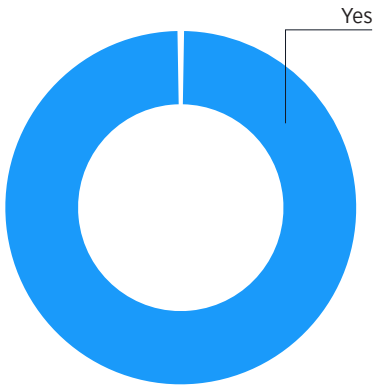
Stewardship

Stewardship represents the use of influence by investors to maximise the long-term value of the assets they invest in and ultimately create value for pension scheme members. Stewardship, including engagement and voting on ESG issues that pose a risk to investments, forms one of the most important tools by which providers can bring about positive change within the industry.

Key themes over the year

- Although the FRC’s UK Stewardship Code is voluntary, it is widely adopted amongst DC providers (100% of respondents) to demonstrate their commitment and approach to good stewardship and engagement practices. In order to retain signatory status to the Code, providers need to submit an annual submission that needs to meet certain standards to be accepted by the FRC.
- Various respondents are investigating the interplay of climate and nature and defining their stewardship approach to nature.

Are respondents signatories to the UK Stewardship Code?



Member engagement

All respondents use regular member surveys to support them in developing their views on ESG, with three respondents making use of third-party resources such as Tumelo to facilitate this.

Some providers conduct annual surveys to track sentiment on sustainability-related topics and factor this into solutions for members that embody those topics important to members.

Respondents also host webinars and make educational resources available to members with the aim of increasing member engagement on ESG.





Reporting

In conjunction with the regular reporting provided to both trustees and members, there should also be the inclusion of high-quality, digestible, and meaningful reporting that both informs and, if necessary, promotes actions around ESG considerations, risks, and outlooks within the default strategy and self-select fund options.

Key themes over the year

- Many respondents have interactive ESG tools and media available to enhance member engagement with ESG reporting.
- Leading respondents conduct third-party assurance on ESG data and reporting.

ESG reporting for members

All respondents have ESG reporting available for members. Many providers use interactive tools and media in ESG reporting for members, including reporting hubs / dashboards, TV channels and dedicated websites. Leading providers are hosting ESG webinars, allowing members to engage with the provider directly on ESG topics.

All respondents provide ESG reporting to their members.

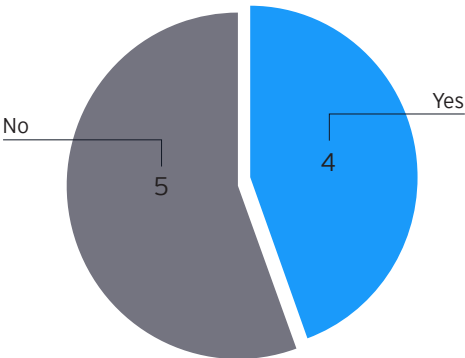
Challenges to measuring ESG progress and impact

Although ESG data quality and coverage has generally continued to improve, there are still challenges including lack of standardisation, accuracy and availability of climate, biodiversity, and other ESG data. Leading providers are actively engaging with their data providers to address material data gaps, enhance data methodologies, and improve insights.

ESG data assurance

Receiving assurance from third-party providers on ESG data quality is a risk mitigation technique used by leading providers. Four of the nine respondents seek independent third-party assurance for the ESG data they use, while one respondent carries out internal ESG data control and audit procedures.

Seek third-party assurance for ESG data and reporting



In closing

At a time of political headwinds for ESG in some parts of the world, scientific findings on the state of climate and nature clearly show the urgency of acting to mitigate the risks of climate change and nature loss. In the UK, the Pensions Regulator highlighted in its Climate Adaptation Report 2025, “Climate change remains a major systemic financial risk and a threat to the long-term sustainability of the UK’s occupational pensions.”

ESG, including climate, is a key consideration in the investment industry, and it is positive to see that all UK DC providers that participated in this survey have in place various initiatives to achieve net zero and continue to develop their approach to broader sustainability topics. Throughout the last twelve months, we have also seen pension providers in the UK and Europe raise the bar of expectations from their investment managers as it relates to responsible investments, with large divestments on grounds of poor responsible investment credentials.

With a 20+ year legacy in sustainability and ESG services, EY-Parthenon teams combine deep technical skills across a breadth of business issues to help businesses create value for sustainability as well as help sustainability create value for businesses.


We would like to thank all respondents who participated in the 2025 annual survey.

How EY-Parthenon teams can help

- We support trustees, corporates and providers navigate ESG and climate change and help them confidently meet their ESG objectives by assessing whether their approach is aligned with emerging and leading practices.
- We support numerous stakeholders to select and monitor pensions providers and help trustees and corporates assess how their ESG processes and reporting compare with the wider industry.
- We help DC schemes (whether a Master Trust, contract-based, or other) to set ESG and climate objectives and strategies.
- We help measure employee pension adequacy and identify actions corporates can take to improve this where necessary, including considering the role DC schemes plays within human resources (HR) reward strategies, and how contribution levels compare to the rest of the market.
- We conduct value for money reviews on pension providers and help trustees and corporates navigate the DC market to explore whether their employees could receive better net-of-fee retirement outcomes with another provider.

If you are also interested in ESG in the UK defined benefit market, we have conducted a similar review of fiduciary managers. Please visit our page on sustainable finance at Sustainable Finance in Financial Services | EY - UK to read more or get in touch with the pensions team (contact details on the next page) for information on how we can help you.





Key sustainability questions that we help pension scheme clients, their sponsors and providers to address

Stewardship, reporting and disclosures

Benchmarking

How is our stewardship and governance approach vs. market practice?

Are we ahead or behind?

Gap completion

As an FRC Stewardship Code Signatory, what gaps do I need to fill?

How do I fill those gaps?

Disclosure compliance

How do I meet ESG climate and TCFD reporting hurdles?

How do I fulfil corporate carbon accounting demands?

Net zero and strategy

Net-zero strategy

What is the plan and timeline for my scheme to reach net-zero?

How do I “justify” design and execute this transition?

Management actions

What is my joint company-trustee plan for net zero?

How do I best measure, monitor and manage this plan?

Financed emissions

As the primary enterprise-wide source of financed emissions, how do I measure the scheme’s contribution to this key metric?

Risk-led transformation

Risk appetite

How do I set controls and risk appetite for ESG considerations?

How do I measure and manage climate risk?

Integrated frameworks

How do I design an integrated ESG and climate risk framework?

How do I implement this in a practical manner?

Modelling and understanding

How do I raise stakeholders’ familiarity with climate risk exposure?

How can modelling or stress testing help?

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Our unique combination of transformative strategy, transactions and corporate finance delivers real-world value – solutions that work in practice, not just on paper.

Benefiting from EY's full spectrum of services, we've reimagined strategic consulting to work in a world of increasing complexity. With deep functional and sector expertise, paired with innovative AI-powered technology and an investor mindset, we partner with CEOs, boards, private equity and governments every step of the way – enabling you to shape your future with confidence. EY-Parthenon is a brand under which a number of EY member firms across the globe provide strategy consulting services. For more information, please visit ey.com/parthenon.

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