

Local investment in real assets

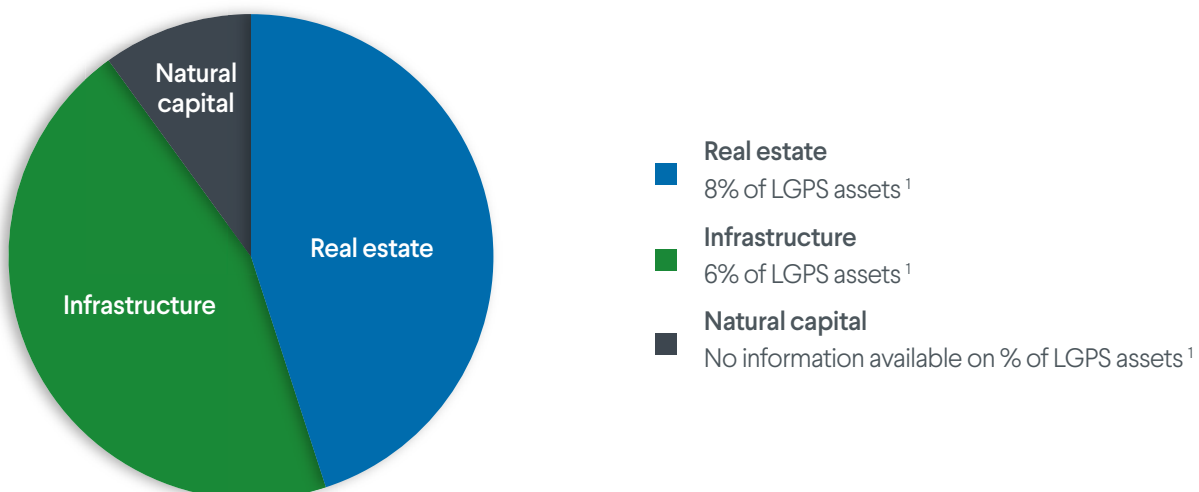
The government expects investment in the UK to increase. This much is clear to all of us. While this will be driven by all areas of the UK pensions market, for the LGPS, there's an additional demand to invest 'locally'.

Investing locally will be new to much of the LGPS. We see the opportunities as being split between investing in real assets and investing in private companies.

This article outlines the options for investing in real assets and how they could fit into an LGPS fund's strategy. You'll find another article that covers investing in local private companies [here](#).

Which real asset opportunities can we access?

To date, LGPS investment in real assets has focused on real estate and infrastructure, with only a small number of funds investing in natural capital (timberland and farmland).¹



¹ LGPS Pension Scheme Advisory Board – England and Wales based on 11 June 2024 data

While the LGPS already invests a large amount into UK real estate, not many funds have a deliberate local focus.

Existing LGPS infrastructure allocations have tended to be global (including some exposure to the UK), so investing locally could mean an allocation to a UK-focused strategy or to regional opportunities. Large infrastructure projects tend to be located where the economic case is the strongest, so they're unlikely to be found in every region of the UK.

But smaller infrastructure projects such as solar or fibre broadband are more likely to be present in many regions.

We expect – and welcome – natural capital strategies to become a bigger proportion of allocations as the LGPS pools continue to develop and grow. However, in our experience, there aren't many UK-focused natural capital funds currently available, and regional allocations will be less feasible in most geographies.

How can LGPS funds invest in local real assets?

Put simply, the most accessible opportunities for LGPS investors are in real estate and infrastructure.

The type of opportunity will vary by region, so we've put together a table with high-level information on the typical returns for each investment strategy, their ability to make local impact and how easy they are to access.

	Real estate		Infrastructure	Natural capital
Asset type	Residential property	Commercial property	UK-focused funds	UK-focused funds
Types of investment	Build to rent / affordable housing	Regeneration projects / decarbonisation and modernisation (change of use) of commercial buildings	Transport & logistics / digital infrastructure / power & utilities / social / renewables & energy efficiency	Farmland / afforestation / financial credits (carbon & biodiversity) / technology supporting natural capital
Expected returns over the long term	4-8% net IRR	6-15% net IRR	6-12% net IRR	6-10% net IRR
Ability to make local impact	High Many regions suffer from a shortage of new housing. Increasing housing supply could lead to more affordable rents for all.	High Modernising commercial buildings could uplift local communities socially and economically. Decarbonising these buildings contributes to real-world change.	High Infrastructure projects create local jobs and revenue for local businesses. Improving local infrastructure would also have social and environmental benefits.	Medium Natural capital solutions have positive impacts on climate and biodiversity that only become apparent over a longer timeframe.
Accessibility	Medium Some readily available UK-focused funds, while regional investments require finding a partner with specialist skills and the ability to scale.	High Large number of UK-focused funds. Some regional funds have already created scale, while others may require a bit more work.	Medium Some readily available UK-focused funds. Regional investments may be difficult to source or small in size.	Low Currently very few funds focus on the UK or on a specific region. Limited options to build bespoke regional allocations.

While local investing may be a new concept for some funds, others have been doing this successfully for many years. The following case studies highlight different challenges LGPS funds might face around local investment, and our approach to supporting our clients through some of those challenges.

Case study 1

Procuring a specialist adviser for local investment in property to promote growth in the region

How we helped: We supported a fund to appoint a local property adviser who could 1) work with various stakeholders to both originate and 'unlock' deals and 2) invest equity or provide debt for the investments.

We supported our client in selecting the right partner for them through a rigorous LGPS procurement selection process. Our advice was tailored to ensure the adviser selected was the best fit to meet our client's objectives.

Case study 2

Assisting a client in evaluating a co-investment in a local infrastructure project

How we helped: An asset manager had highlighted a co-investment opportunity to our client. The financial due diligence provided was already high quality, so we focused our efforts on the expected impact of the investment.

Applying our research expertise in a valuable way, we worked with the asset manager to calculate how many local jobs would be created, the tonnes of carbon emissions offset and the timeframe for achieving these objectives.

What actions can we take now?

We believe real assets will play a key role in local investments. In some cases, they can also create positive impact for people, community and the planet. What's clear is that there are opportunities to invest across the risk spectrum using equity or debt and by committing to projects at different stages.

To create the most impact, it might be necessary to get involved early on in the development phase or by bringing together different forms of capital to create investible opportunities in local assets. In other cases, there will be opportunities to invest in existing assets that require refurbishment or redevelopment to create local impact.

While we're still waiting for final details from the government, the overall trend towards local investing is clear. We believe all LGPS funds will benefit from having a local investment plan in place that is suited to each fund's beliefs, requirements and resources.

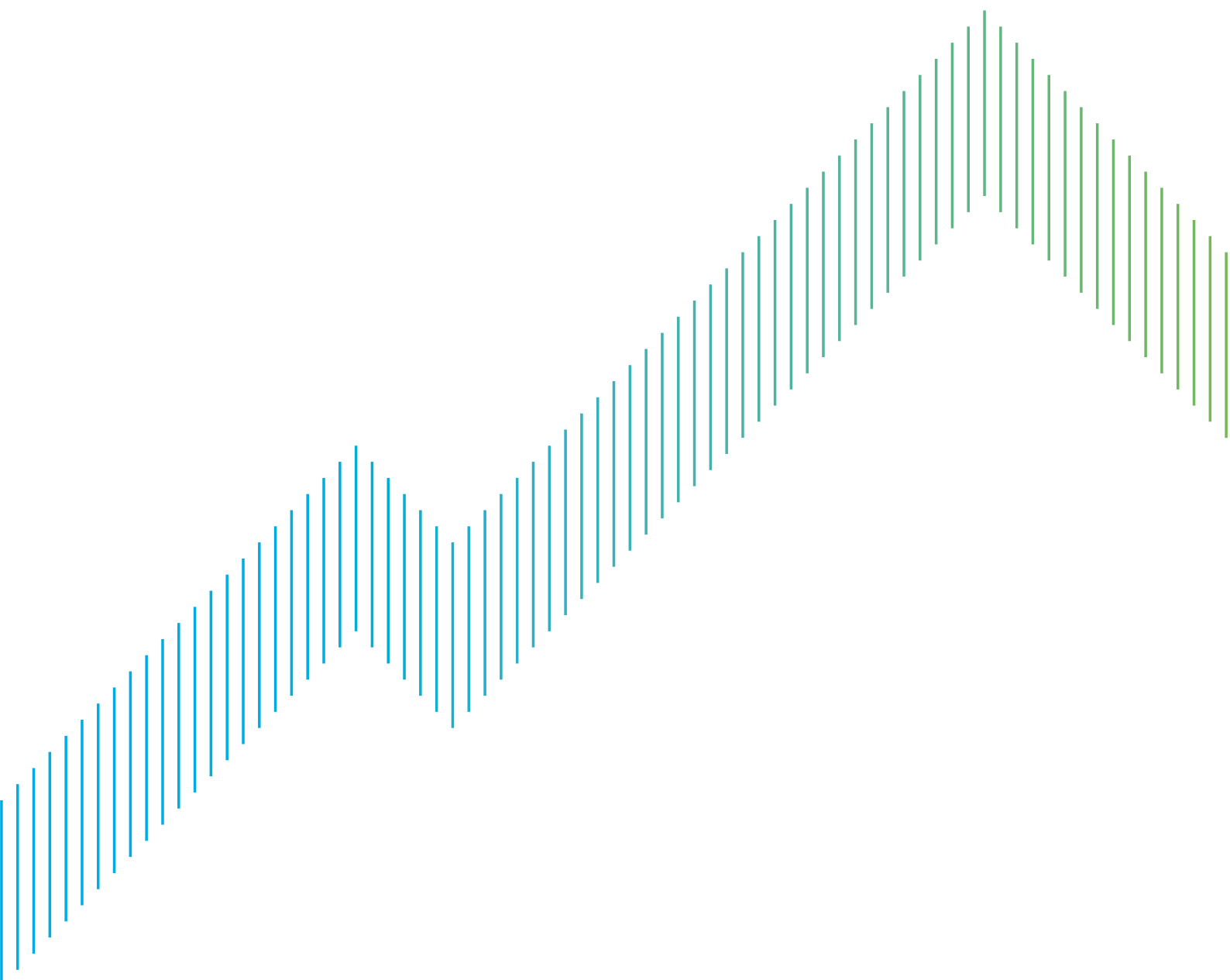
Work is needed to prepare for the pooling deadline of 31 March 2026, but we can all work together to overcome the challenges involved. To find out more about local investing and how Hymans Robertson can help, please contact us directly or get in touch with your regular Hymans Robertson contact.



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