

Local investment in private companies

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.

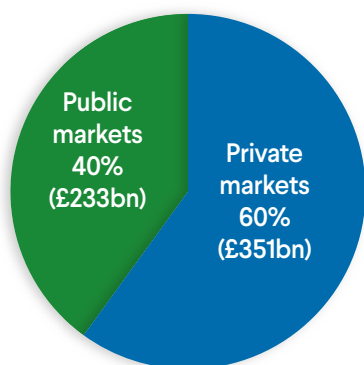
This article outlines the options for investing in private companies and how LGPS funds can fit this in their strategies. You'll find another article that covers investing in real assets [here](#).

How are local companies funded?

If you look around your local area or the nearest industrial estate, the chances are you'll notice one of the 2.6 million small and medium enterprises (SMEs) or the 18,000 middle-market companies a lot more than one of the 965 large companies in the UK. That's because SMEs and middle-market companies make up 83% of total company turnover and employ 84% of the private sector workforce in the UK.¹

In the UK, more capital has flowed into SMEs and middle-market companies than into larger listed companies in recent years. Capital flows to the best opportunities and this data supports the potential for SMEs and middle-market UK companies to provide good returns for investors.

£584.0 billion of new capital is deployed per year in the UK (average from 2020–2024), of which 60% is through private markets¹



Private equity £49.5bn

Bank lending £268.8bn

Venture capital £17.8bn

Private credit £14.9bn

¹ UK Finance 'UK Public and Private Markets' Report, March 2025

An interesting point to note is that the largest volume of finance for such companies is (in order) bank lending, private equity, venture capital and private credit. This reflects the size of funding that companies need as they grow. In the initial stages, when a company has just started or is growing organically, it tends to have more equity and less debt on its balance sheet. The amount of equity required is usually smaller than the minimum offered by public markets, which is why such companies look to private markets to raise this capital.

How can LGPS funds invest in local companies?

Given how local companies are funded, the most accessible opportunities for LGPS investors are in private equity, venture capital and private debt. To help understand these further, we've provided a table that shows the typical returns for each of these investment strategies, their ability to make local impact and how easy they are to access.

Investment strategy	Private equity		Private credit	
	Venture capital	Growth capital and buyouts	Venture debt	Private credit
Type of companies targeted	New or fast-growing companies that may not have any revenue, all the way through to profitable businesses with proven success	More mature companies that require finance to grow their business or replace an existing shareholder	Similar to venture capital, although venture debt is only available to businesses with proven success	More mature companies that can prove their ability to repay the debt and interest comfortably
Expected returns over the long term	20%+ net IRR	15%+ net IRR	12%+ net IRR	7%+ net IRR
Ability to make local impact	High	Medium	High	Medium
	Additional financing for local companies helps them to grow, increasing employment and local economic output and ensuring these jobs/skills remain in the local area	Fewer businesses progress to the growth and buyout stage so might be more clustered in certain regional areas	Additional financing for local companies helps them to grow, increasing employment and local economic output and ensuring these jobs/skills remain in the local area	Fewer businesses are large enough to access private credit so might be more clustered in certain areas
Accessibility	Medium	High	Low	Medium
	Large number of funds that invest across the UK but few that focus on a specific region	Large number of UK-focused funds. Some regional funds have already created scale, while others may require a bit more work	Few funds that invest across the UK and none that focus on a specific region	Large number of funds with a high allocation to the UK but few that focus on a specific region

The government has made it clear that it also wants to see these investments have a positive impact on a fund's local area. The positive impact of investments in local companies will largely be from the economic growth (including jobs growth) created by financing the expansion of these companies. Providing financing to businesses in local areas, where they otherwise may not get it, can help to ensure they stay in that local area. The positive impact can be further boosted if the companies' output includes products and services that positively impact the world.

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

Evaluating an £80 million private equity fund focused on making small investments (£1–5 million) in a region of England.

How we helped: Our client was concerned about whether the strategy could deliver on its goals and how it would fit in with their pool's investments.

Our due diligence provided assurance that the manager had the skillset to execute the proposed investment strategy. Our analysis demonstrated that the proposed investments were unlikely to overlap with the pool's private equity holdings. Given the breadth of our research coverage, we were also able to compare fund fees among peers and provide assurance that the fund offered good value for money.

Case study 2

Evaluating a UK-focused private debt fund financing UK lower-to-middle market companies (average earnings of £5–25 million).

How we helped: Our client was concerned about the strategy's ability to deliver on its goals and if a UK-only focus could achieve diversification.

Our due diligence confirmed that the manager should be able to meet the target returns and diversification with its unique sourcing capability.

We were able to compare the fund to other UK-focused private debt strategies as well as peers investing across Europe in terms of expected returns, risks and fees.

What actions can we take now?

A lot of work is needed to prepare for the pooling deadline of 31 March 2026.

While we wait for the 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 the fund's beliefs, requirements and resources.

We also believe that investing in private companies provides interesting opportunities and can play a key role in local investments. In some cases, they can also create positive impact. There are opportunities to invest across the risk spectrum using equity or debt, and by committing to businesses in different stages of their lifecycle.

In our view, the core components of a successful local investment strategy will include:

- Flexibility in the definition of what is 'local'. While some funds may be able to source regional investments easily, others may need to allow a UK-wide investment universe in certain asset classes, with the expectation that investment will focus on the local region (to the extent that the government will allow this).
- Partnering with specialist asset managers. Outsourcing the necessary due diligence to your pool and specialist asset managers allows funds to achieve their investment goals in a resource-efficient manner.
- Appropriate legal structures around investments. Governance challenges can often be overcome by ensuring that there are appropriate legal wrappers that segregate investments being made on behalf of the funds.
- Seeking advice to ensure the local investment fits in with your investment strategy and provides value for money. The toughest part of making local investments is evaluating whether the investment will meet the financial risk and return requirements of the portfolio, whether the terms on offer are good value for money and what the expected impact will be. Given our broad coverage of LGPS funds, we can provide such comparisons easily and can help with negotiating terms or providing alternative investment options.

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.



Asad Rashid

Senior Investment Research Consultant

asad.rashid@hymans.co.uk



Iain Campbell

Head of LGPS Investment

iain.campbell@hymans.co.uk

This communication has been compiled by Hymans Robertson LLP® (HR) as a general information summary and is based on its understanding of events as at the date of publication, which may be subject to change. It is not to be relied upon for investment or financial decisions and is not a substitute for professional advice (including for legal, investment or tax advice) on specific circumstances. HR accepts no liability for errors or omissions or reliance on any statement or opinion. Where we have relied upon data provided by third parties, reasonable care has been taken to assess its accuracy however we provide no guarantee and accept no liability in respect of any errors made by any third party. Hymans Robertson LLP is a limited liability partnership registered in England and Wales with registered number OC310282. Authorised and regulated by the Financial Conduct Authority and licensed by the Institute and Faculty of Actuaries for a range of investment business activities. © Hymans Robertson LLP 2025. All rights reserved.

London | Birmingham | Glasgow | Edinburgh

T 020 7082 6000 | www.hymans.co.uk

Hymans Robertson LLP (registered in England and Wales - One London Wall, London EC2Y 5EA - OC310282) is authorised and regulated by the Financial Conduct Authority and licensed by the Institute and Faculty of Actuaries for a range of investment business activities. A member of Abelica Global. © Hymans Robertson LLP.