

Leicestershire County Council Pension Fund

Local investment

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Session focus

Purpose	Debate key pillars of local investing and establish beliefs
Discussion points	Appetite for local and impact investing; and Implementation approach – now vs future
Outcome	Use beliefs to draft local investment strategy statement

Original ‘Fit for the future’ requirements

The [government’s latest publication on Fit for the Future](#) requires administering authority to:

- **Set out their approach** to local investment
- **Work with relevant Strategic Authorities** to identify suitable local investment opportunities.
- **Report** on the extent and impact of their local investments.

It also requires **pools to develop the capability** to carry out due diligence on local investment opportunities, take the final decision on whether to invest, and manage those investments.

Draft guidance

Setting clear targets	<p>Set a clear target range for local investments, expressed as a percentage of the Fund's total assets.</p> <p><i>This ensures transparency and accountability in supporting local priorities.</i></p>
Defining "Local"	<p>Local investment should focus on the Fund's own region or the area covered by its investment pool, not the whole UK.</p> <p><i>This approach helps ensure that investments deliver real benefits to the communities the Fund serves.</i></p>
Working Together	<p>Funds are expected to work closely with their investment pool and partner funds to develop a consistent and effective approach to local investment.</p> <p><i>Collaboration helps achieve greater impact and efficiency.</i></p>
Supporting Local Growth	<p>When planning local investments, Funds must consider the priorities set out in Local Growth Plans by strategic authorities.</p> <p><i>Where Local Growth Plans exist, they should guide investments; if not, Funds should consult local authorities to identify community needs.</i></p>
Balancing Returns and Impact	<p>While local investments can deliver social and economic benefits, Funds may choose to accept a lower financial return or higher risk for these investments, but this is at each Fund's discretion.</p> <p><i>The primary duty remains to ensure pensions can be paid when due.</i></p>
Reporting and Accountability	<p>The investment pool is responsible for implementing the Fund's local investment strategy and reporting annually on the value and impact of these investments.</p> <p><i>This ensures transparency for members and stakeholders.</i></p>

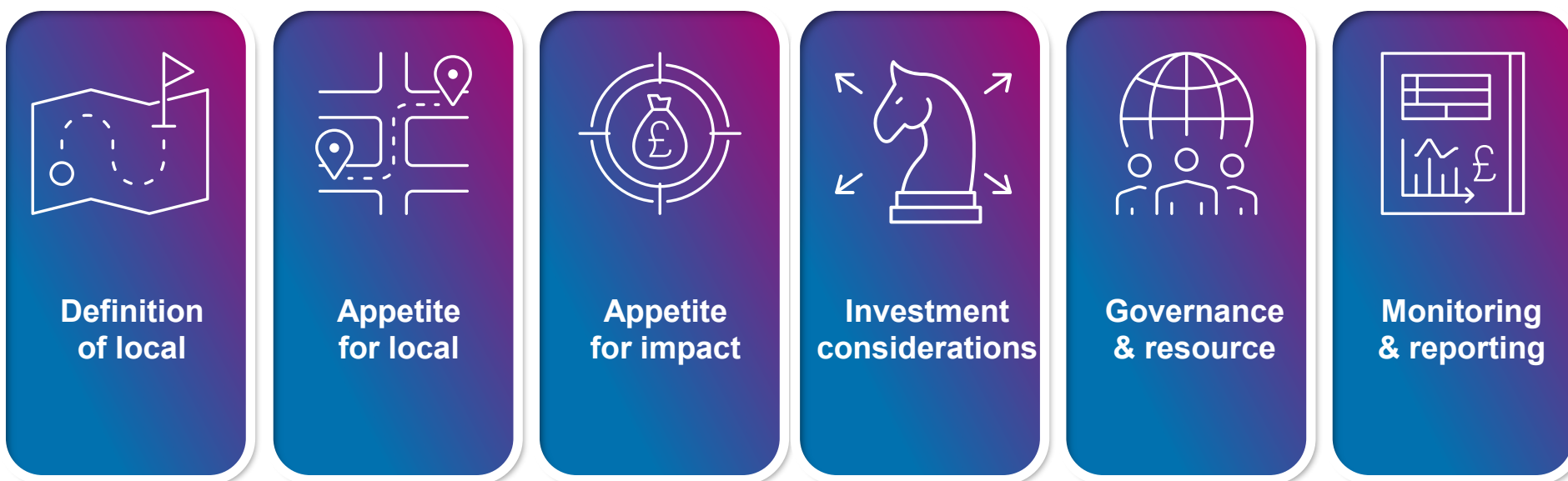
Local investing key components

Local investing process

Guidance supports the Fund collaborating with Partner Funds and the Pool on local investing to establish a consistent approach where possible.

Objectives	Strategy	Implementation	Monitoring	Reporting
<ul style="list-style-type: none"> • Local: Decide how to define local? • Target range: Your level of ambition depends on how broad you are defining your local area, amount of resource/capacity, and the size of the local opportunity set. • Risk and return: you will likely allow for no compromise on returns. 	<ul style="list-style-type: none"> • Impact ambition: Set your level of ambition for robust impact standards and metrics. • Themes: Decide if you'll select priority themes (e.g. climate, health). Most likely linked to own and local growth ESG priorities • Sub-fund: Decide whether you will have a separate local sub-fund, or incorporate local into the existing asset classes. 	<ul style="list-style-type: none"> • Governance, pools and due diligence: Clarify roles across all parties and ensure robust due diligence • Collaboration with Local authorities: Models for working with Local Authorities (LA) are evolving. • "Skin in the game": determine whether projects proposed by LA need to have LA investment as well as yours. 	<ul style="list-style-type: none"> • Target ranges: compare current local investment amounts to the target range. • Impact metrics: if you decided that you had a high level of impact ambition, you may have set target amounts of impact. • Escalation: under which circumstances do you escalate to engagement with the pool? 	<ul style="list-style-type: none"> • Pool reporting : Pools will report amounts invested locally and impact metrics, and you can reuse this. Engage clearly with pools to ensure that they can support you with this government requirement. • Impact metrics: consider whether you want these to be externally verified by someone other than an asset manager or pool.

Key pillars of local strategy



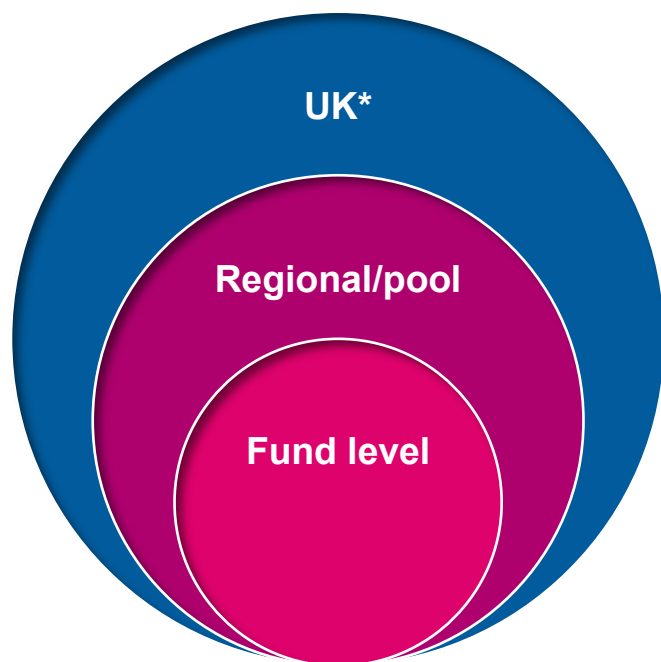
Your strategy will be informed by these pillars and today's discussion

Your local investing strategy



Definition: how local is ‘local’?

Within the consultation, the term ‘local investment’ was used to include investments local to any of a pool’s partner AAs, or investments in their region (ie pool).



<£1trn

An estimated £1trn of pension fund capital is allocated to UK-domiciled assets, but some of that might not be suitable for local investments, e.g. it may be government debt

* Ruled out by draft guidance.

<£125bn

Investments at pool level will, on average, be less than 6x smaller than the whole of the UK. There will be 6 pools in E&W. This is an average – some will have more, some less.

<£2bn

Investments at Fund level will, on average, be less than 86x smaller than the whole of the UK. Again, this is an average. Care is needed.

The definition selected by the Fund will influence other local strategy pillars



Leicestershire Pension Fund local definition

Within the consultation, the term 'local investment' was used to include investments local to any of a pool's partner AAs, or investments in their region (ie pool).

Definition	Leicestershire assessment
UK wide (no longer an option under draft guidance)	Broader geography offers larger opportunity set and increases the likelihood that Central can identify projects that meet risk / return requirements at sufficient scale
Leicestershire Pension Fund Area	Adopting a narrower definition will allow for greater impact in local community but opportunity set meaningfully reduced and carefully management of conflict of interest is needed
Pool Area	Increases the opportunity set relative to LPF Area while still offering the potential to support the local community. Need to be mindful of growth in Pool geography following the inclusion of new partner funds.

Adopting a pragmatic approach which focusses initially on Pool area remains sensible. Scope to explore Fund specific opportunities over time as expertise develop



Definition: local = which asset classes?

The choice of asset classes is also an investment consideration, which should be influenced by:

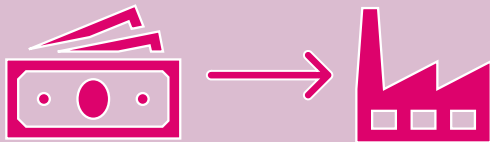
- **Broader investment strategy.** How does local investment complement the broader goal?
- **Opportunity set.** Breadth of asset classes for local investment and ability to achieve diversification.
- **Themes/target outcomes.** Some themes, eg homelessness, can be better satisfied in some asset classes (housing) than in others.
- **Demand.** Investment could be focused towards where there is financing need.

Choice of “local” asset classes links to several investment considerations



Leicestershire Pension Fund

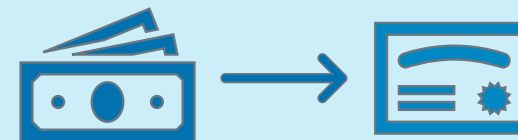
**Primary investment in private markets =
injecting money into a company**



Without your investment, the company
might not be able to do the activity

Higher benefit

**Secondary investment in listed markets =
moving share certificates between investors**



Without your investment, business largely unchanged –
the company already received the money

Lower benefit

- Consultation highlights that local investment should have quantifiable external benefits to this area
- LGPS Central required to report on impact – this means that the focus will be on private markets

Local investment will sit across private equity, private credit, property and infrastructure



Defining risk/return

Local investment strategy should consider financial objectives and impact objectives

Returns

Local portfolio level

Asset class level



Risk

Minimum asset size

Concentration risk

Local strategy must align with principles in Fund's Investment Strategy Statement



Leicestershire Pension Fund financial requirements

- Investment strategy statement highlights that the long-term investment strategy aims to maximise investment returns of the Fund whilst maintaining an acceptable level of risk
- Expected long-term returns, levels of volatility and correlation in the performance of different asset classes will all have a role to play in setting the local investment strategy
- Investments must fulfil the Fund's fiduciary duty and therefore the overall risk / return profile should not be compromised when exploring local investment opportunities
- Liaising with LGPS Central is key to ensure appropriate risk / return objectives are set and met.

The local investment allocation must achieve appropriate commercial returns and should maintain or improve the Fund's overall risk / return profile.



Local investing target allocation

- Broader definition of “local” allows for higher appetite
- Detailed knowledge on local investment opportunities can help set appetite:
 - Some areas have more scope for local investing than others
- Easier to start with low ambition and increase aspiration over time rather than the other way around
- The less consensus you have on your appetite for local investing, the broader you want your range to be



You will need to set a local investment target range. Your appetite will drive this range



Leicestershire Pension Fund target allocation

- Fund can adopt a low / medium / high appetite for local investing

Commentary to support Leicestershire target allocation	
Low	This would translate to a target range of 0-3%. Adopting a target towards the lower end of this range could result in increased scrutiny from the government.
Medium	This would likely translate to a target range of 4 - 6%. This would demonstrate commitment to local investing but acknowledge the nascent nature of this space
High	This would likely translate to a target range of 7-10%. This would represent the preference to be a market leader in this space and have high conviction in existing capabilities of LGPS Central.

- Given the definition adopted by the Fund – local will be achieved across the Pool area via private markets – any target allocation will be built up incrementally.
- Adopting a broad target range and clear articulation of the preference to gradually build up this allocation over time is our recommended approach.

We recommend the Fund targets a low appetite for local investing initially



Impact

Local and impact are separate concepts

- An investment can be local, impact, both or neither.
- Local investments are more likely to be targeted to have some impact and you can target investments to support particular themes or outcomes

- **Possible themes for local investment include:**
- **Homelessness** and housing stock, including affordable housing
- **Social infrastructure** (healthcare, nurseries, etc)
- **Regeneration**, attracting further private investment and job creation
- Promoting **innovation** (eg commercialising IP from universities)
- **Climate**: eg upgrading property through refurbishment or repurposing



Leicestershire Pension Fund impact

- The impact being targeted should be clearly articulated at the outset of the project
 - Specific KPIs should be set for each investment
 - Monitoring Dashboard should be set by LGPS Central to assess progress
- A standardized framework should be followed to avoid the possibility of impact washing
 - **Additionality** – assessing whether the positive impact would not have happened without Leicestershire's capital, engagement or influence
 - **Intentionality** – ensuring that the positive impact was an intended consequence of the actions taken
 - **Measurability** – ensuring that the impact generated can be quantified and reported using credible and reliable metrics based on agreed outcomes.

LGPS Central should provide specific KPIs to enable the Fund to track impact



Investment considerations: standalone allocation?



- The embedded approach could, potentially, make you more likely to use the same asset managers for your local and non-local allocations.
 - Leveraging existing asset manager relationships can reduce your governance burden.
 - Using separate managers can better use specialist skills.
- A standalone allocation may lead to a greater allocation to private markets, which could add liquidity risk.

If you have more “local” ambition, a standalone allocation may be better



Leicestershire Pension Fund implementation approach

- The approach followed will be influenced by the offering from LGPS Central
- Local could be viewed as the 10th asset class categorization within the government's strategic asset allocation template or it could be embedded within the existing 9 asset classes. Embedding seems most likely under current draft guidance
- Reflecting the developing nature of this area, we believe that focusing initially on a standalone allocation would be sensible
- A standalone approach would enable a more targeted investment approach to be followed.
 - This will further emphasize the importance of the Pool having dedicated resources to local investing which is essential in ensuring the local investing goals are achieved.
- The Fund recognises that achieving this goal requires partnership, including working closely with other partner funds to align the Fund's approach and develop a framework that supports LGPS Central's management of local investment.

An initial standalone allocation to local will ensure greater transparency and visibility



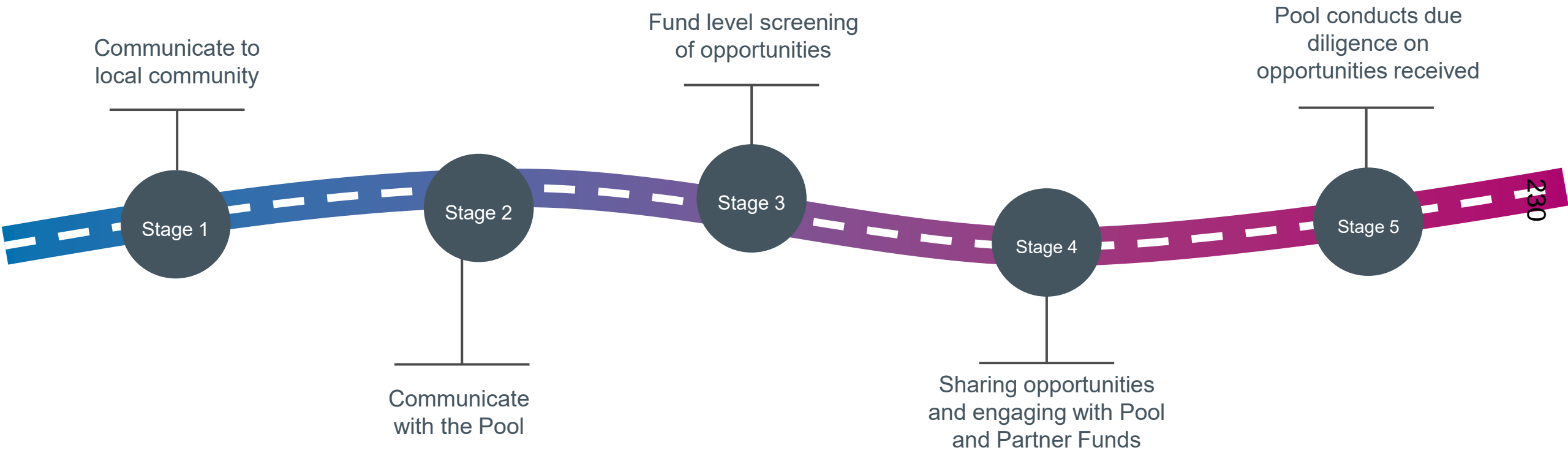
Roles and responsibilities

Objectives	Strategy	Implementation	Monitoring	Reporting
Fund <u>Committee</u> is responsible, supported by <u>officers</u>	Fund <u>Committee</u> is responsible, supported by <u>officers</u>	<u>Pool</u> is responsible for investing locally. <u>Committee</u> retains overall responsibility for success of the Fund's investments	Fund <u>Committee</u> is responsible for their local strategy, and therefore need to monitor against it, including monitoring pool performance	Fund <u>Committee</u> is responsible for reporting. <u>Pools</u> will also report on their local investments, but responsibility is with the Fund

Pools have some roles; ultimate responsibility is with the Committee



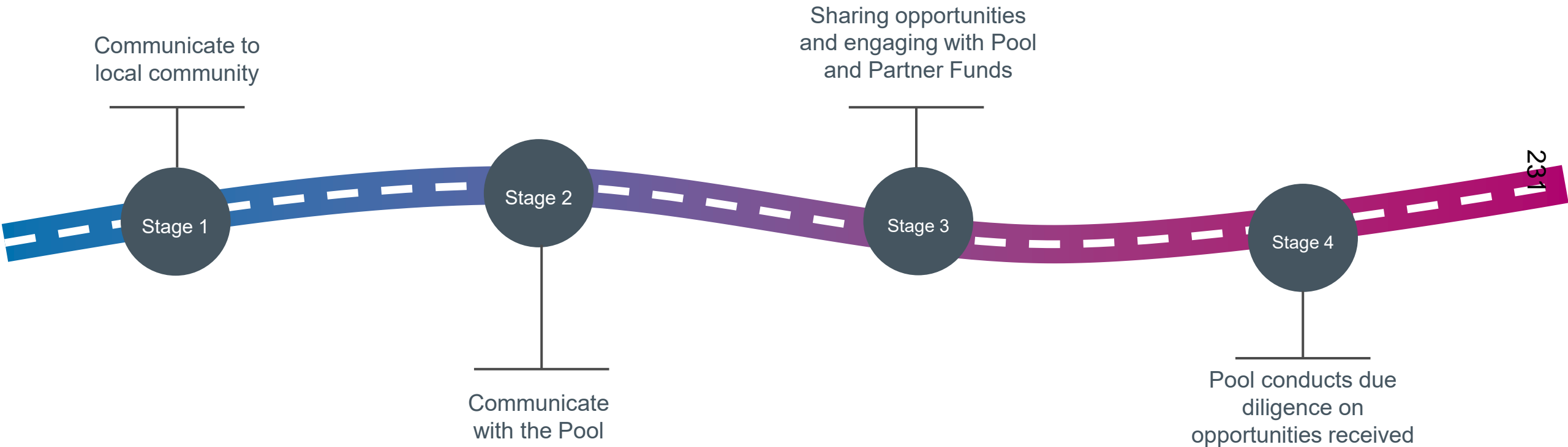
Illustrative local investment process



What government might expect based on approach adopted by larger partner funds



Illustrative local investment process



Likely approach for most partner funds reflecting resource availability



Leicestershire Pension Fund roles and responsibilities

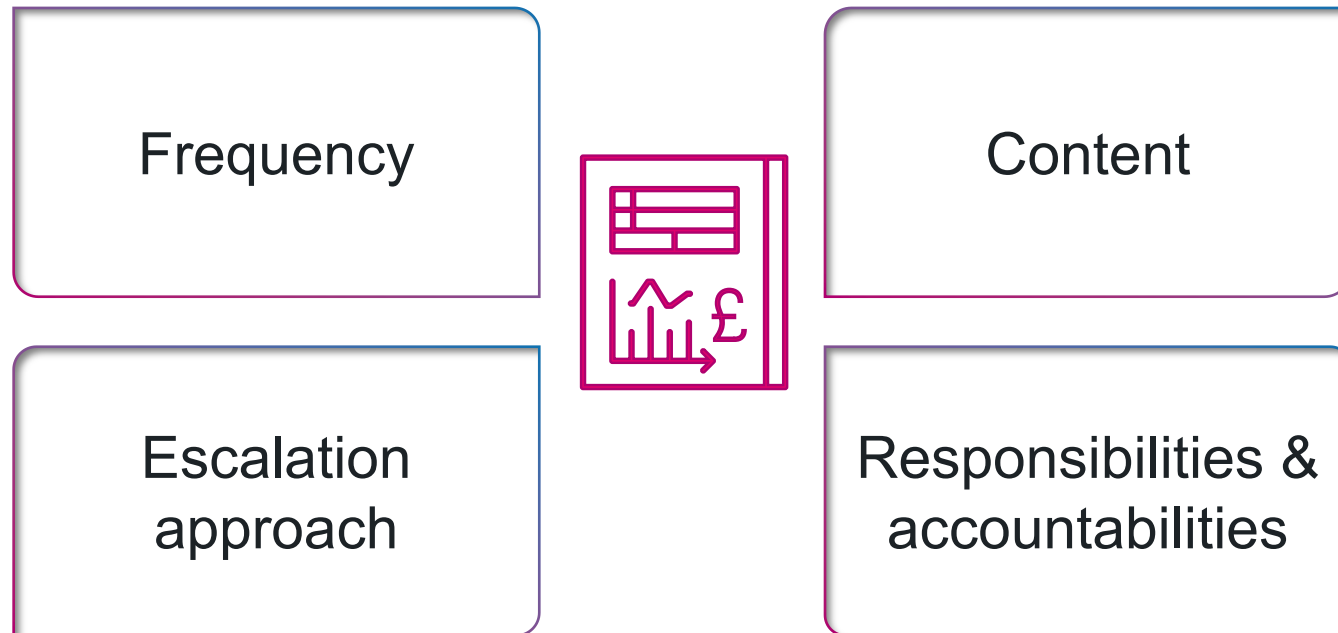
- The Fund will engage with the local community and demonstrate that they are a source of funding
- The Fund will share a “prospectus” of Fund’s local investment principles
- The Fund will work with strategic authorities to ensure collaboration on local growth plans.
- The Fund will engage with Pool on preferred themes and asset classes to target
- The Pool will carry out the necessary screening of investment opportunities
- The Pool will carry out the due diligence on the investment opportunities
- The Pool will make the final decision on whether investment is made

Clear articulation of Fund roles and Pool roles is required to achieve desired outcomes



Monitoring and reporting

Considerations to incorporate into your monitoring and reporting plan:



Engagement with the Pool is needed to ensure monitoring and reporting needs are met

Key takeaways and next steps

Summary

- **Having a local investment strategy is a government requirement**
- **The strategy depends on your beliefs, the following beliefs have been discussed in depth with the committee:**
 - **Definition of local investment:** Based in the authority areas of your pool primarily focused in private markets
 - **Investment/risk-return considerations:** Target same risk/return profile as the overall requirement for the Fund
 - **Governance:** Pool conducts due diligence based on guidance from Fund
 - **Monitoring/reporting:** Agree objectives at the outset, receive progress updates against these metrics and agree escalation plans

It is important to set beliefs on local and impact investment. Discussion today has helped to shed a light on your appetite to these and in drafting your local investment strategy these will be included.

- **Your appetite for local investment:** *Ambition to invest locally will likely evolve. Starting with low/medium ambition and increase aspiration over time*
- **Your appetite for impact:** *Similarly approach should be adopted with clear articulation of what is being targeted and how it is going to be measured at the outset of any project.*

- **Next steps**
 - Produce local investment strategy, including target allocations to private market assets.

Thank you



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