St Christopher Health Fund: Investment Policy (IP)

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1. Introduction

The St Christopher Health Fund is a discretionary fund set up to provide mutual aid to its members – staff and pensioners of the Bank of England – by assisting with the payment for certain medical expenses. The Fund also makes charitable donations to hospitals and medical charities from time to time.

The Fund is managed by a Committee elected by members at the Fund's AGM. The Committee is responsible for exercising the duties and discretions set out in the Rules and the Rules are the governing document for the Committee. The Rules include information on membership and the way in which requests from members for assistance are considered by the Committee. Changes to the Rules are taken to the AGM for approval by the membership.

This policy has been adopted by the Committee and the membership informed of the updated strategy at the 2026 AGM. Decision making on operational investment matters is delegated to the Investment subcommittee. There are no restricted funds.

2. Investment Objectives

The St Christopher Health Fund has a portfolio of liquid reserves which is a combination of cash and investments to support the longevity of the Fund and the support it provides members. The financial objectives for these assets are:

- capital preservation – preserve the real value in line with CPI inflation;
- liquidity and flexibility – given variable demand for grants we need the flexibility to draw income if needed to meet payments and we wish to avoid the negative implications of selling assets at the wrong time to meet urgent funding requirement;
- modest returns reflecting our risk appetite and to enable real capital preservation and a source of income to maintain the level of reserves (and support grant giving where appropriate) e.g. a <u>minimum</u> target of CPI+2% pa after expenses;

- to take a 'total return' investment approach treating all funds as one pool which means that capital gains can be spent as well as regular income to fund grant giving if needed. It is expected that if in any one year the total return is insufficient to maintain the real value of the Fund and meet grant making expenditure, subscriptions will be adjusted so that in the long term the real value of the Fund will be protected (and if necessary returning it to earlier levels); and
- risk management in line with our aims above and reflective of the Bank's reputation (see section below).

3. Reserves policy and liquidity management

The Fund aims to maintain free reserves in the range 3 to 5 times expenditure of the previous financial year. The aim is to ensure longevity of the Fund (currently aiming to exist in perpetuity) and to provide members with confidence. The target free reserves will vary with the performance of the Fund and not fall below the value required to wind up the Fund. While the Fund aims to cover grants and costs with subscriptions on a 3-year rolling basis, in-year deficits occur and these are temporarily covered by free reserves.

The free reserves goal should be reviewed at least annually by the Committee by considering the risks facing the Fund and their potential impact. It is not an exact science but a reasonable minimum target for the free reserves could be around 2 times annual turnover – this allows for sequential annual shocks of a medium to significant magnitude. Should free reserves fall below this level the future of the Fund and/or how to rebuild reserves should be considered.

Management and monitoring are detailed at the end of this policy.

4. Risk

(i) Attitude to risk

The Committee accept that some investment risk is unavoidable to achieve the Fund's objectives, but it aims to ensure that the overall level of risk remains consistent with the Fund's balanced risk appetite and its need to meet claims reliably.

The most significant of these is inflation, as medical costs and grants tend to rise over time and may increase faster than CPI. To maintain the real value of the Fund and support future members, the portfolio therefore includes assets whose values may fluctuate in the short term but which are expected to provide real returns over the longer term.

The Committee understands that losses may occur. The Committee have discussed their tolerance/capacity for loss and agree that they would not expect a drop of more than around 35% in the value of the overall portfolio over any 12-month period but recognize that this cannot be guaranteed.

To support clear decision making, the Committee groups the Fund's investment risks into three categories: key risks, secondary risks, and other risks. Risks and allocations will be monitored on a regular basis so that appropriate adjustments can be made to the composition of assets.

(ii) Key risks (primary drivers of strategy)

- Liquidity risk – ensuring sufficient readily available assets to meet claims and running costs without selling longer term investments at unfavourable times.
    - The short and medium-term buckets are designed to manage this.

- Inflation and liability risk – the risk that the real value of the Fund erodes over time, particularly if medical cost inflation exceeds CPI.
    - The long-term bucket aims to provide real returns to offset this.

- Market and investment risk – the risk of volatility and loss of value in the investment portfolio.
    - This is managed through diversification and maintaining a balanced overall risk profile.

- Counterparty risk – the risk of failure of a bank, custodian, or issuer of securities.
    - This is mitigated by using well rated institutions, diversified pooled funds, and investment grade bond exposure.

(iii) Secondary risks (important but not primary drivers)

- Duration and interest rate risk – bond values can fall when interest rates rise.
    - The Fund avoids concentrated exposure to long dated fixed interest bonds.

- Concentration risk – over exposure to a single asset class, sector, geography, or manager.

- Currency risk – overseas investments incur direct currency exposure and UK investments may incur indirect currency exposure e.g. large global UK firms.
    - The Fund accepts this as part of long-term diversification.

- Governance risk – including unclear responsibilities or inconsistent decision making.
    - Regular monitoring by the Investment sub-committee and clear reporting to the Committee help mitigate this.

- ESG and reputational risk – the risk that investments conflict with the Fund's values or reflect poorly on its association with the Bank.
    - The Fund primarily invests through diversified pooled funds and avoids exposures inconsistent with its purpose.

(iv) Other risks (operational and cost related)

- Operational risk – administrative errors, fraud, or key person dependency.

- Drift from investment benchmarks or strategy – the risk that allocations move outside intended ranges without corrective action.

- Cost and fee risk – the risk that investment charges erode returns, particularly in low return environments.
    - The Committee considers value for money when selecting funds or managers.

5. Investment Asset Framework

To align with the Fund's risk appetite and operational needs, we have adopted a three-bucket investment model. Each bucket reflects a different investment time horizon and risk profile, allowing for optionality around taking funds from the portfolio to support volatile grant claims and to allow a response to significant volatility across asset classes. The amounts allocated to each bucket are subject to change based on cashflow forecasts.

Target range for the fund is 3-5x expenditure of the previous financial year – currently £1.4m to £2.4m, but the target range is likely to rise over time with inflation. The aim is that subscriptions cover claims over a 3-year rolling period. To be able to cover any volatility in claims we would look at several previous years' liquidations and evolving risks to help assess our short + medium term buckets. For example, in 2022 £175k was liquidated (the highest ever amount) and in other years about £50-60k and in 2024/25 £27k. In nominal terms 4-year data suggests about £250-£300k for the short + medium buckets.

Operating bounds: allocations might vary +/- 20% to avoid frequent minor adjustments.

Buckets	Short term	Medium term	Long term
Purpose	Liquidity reserve – 6-12m operating needs Even if subscriptions are broadly matching claims there may be month-to-month fluctuations so the aim is to maintain cash within a £25-75k corridor). Add another £35-50k in a near cash instrument so it is easy to respond to any shocks.	Potential expenditure in next 1-3 years. As we do not have capital projects to fund, this bucket is effectively the next buffer for any cash needs arising from shocks or volatile claims/grants.	A diversified portfolio to deliver long-term returns above inflation - 3 to 5+ years with some generation of income that can either be reinvested in the fund or used to fund grants/cash balance.
Assets	Cash or near cash instruments, only sterling. Assume we do not invest directly into gilts or TBs as too onerous.	Only sterling. Short duration £ gilts and £ bonds.	Primarily equities (including overseas) and fixed income assets, but may also include a minority of other assets to ensure resilience and diversification
Size	In total about 2x average annual requirement (excl 2022) or **20-25% of total annual claims of the preceding year.** Currently total c£100k. O/w: • Cash range is £25-75k. • Near cash range £35-50k. • So this bucket is £60-£125k.	A suitable way of calculating this bucket is to cover say **6-9m or 50-75% claims cashflow of the preceding year.** Currently £250k would represent 7.5m or 60%. Taking short + medium buckets would represent £350k or 10.5m of claims cashflow.	This bucket is the **residual: total fund less the short and medium buckets.** Currently with a fund around £1.35m this bucket would be c£1m.
	Amount allocated to each bucket has a +/-20% range around it to avoid having to do too many small transactions.		

The aim of this approach is to allocate resources in a way that is transparent and free from individual bias. Funds may be managed via investment in passive funds which attract relatively low charges or outsourced to an investment manager at higher charges. Both approaches must meet our investment objectives and provide value for money i.e. deliver returns or risk management that warrant the fees.

6. Management, reporting and monitoring

Whether the Committee has appointed external fund managers or is using an interactive platform and a range of passive funds to manage the fund, there is a requirement to provide valuations and report on performance at regular intervals during the year.

The Investment sub-committee has responsibility for agreeing strategy and monitoring the investment assets. It is therefore essential that it has the requisite capability and capacity to do so with ideally at least 3 individuals with the relevant expertise. The sub-committee meets at least three times a year to review the portfolio, including an analysis of return (and fees), risk and asset allocation. Performance will be monitored against agreed market benchmarks, and against an ambitious investment objective of CPI inflation plus 3% over the long term.

The Investment sub-committee reports formally to the Committee on at least an annual basis. This report could include a review of the investment policy, asset allocation strategy, performance, risk profile and consistency with long-term investment objective. Any changes to the investment policy or to the firm chosen as asset managers should be approved by the Committee.

7. Approval and review

This investment policy was prepared by the Investment sub-committee of the St Christopher Health Fund to provide a framework for the management of its investment assets. It will be reviewed on an annual basis to ensure continuing appropriateness.

Date approved by Investment subcommittee: 21.4.26
Date approved by Committee: 21.7.2026
Review frequency: annual