

**ADDRESS BY INVESTMENT COMMITTEE CHAIRMAN
MR PHILLIP MEYER
TO THE SOUTHERN CROSS MEDICAL CARE SOCIETY'S
47TH ANNUAL GENERAL MEETING
27 NOVEMBER 2008**



Thank you Chairman.

If I might use a human analogy, the heart of our Medical Care Society is our members and our staff, and the muscle strength comes from our reserves. The reserves of our balance sheet provide the endurance or sustainability of Southern Cross to deliver on our mission of providing quality healthcare for our members year in, year out.

In financial circumstances we have had in global and domestic markets recently, your Board, Investment Committee and executives have a special responsibility. That is to maintain the muscle strength of your Society in the face of adversity in the wider economy. We have addressed this responsibility with our main focus on valuation risk and stability of returns.

As Chairman of the Investment Committee, I am pleased to report to you that Southern Cross's investment portfolio has stood the test of a one in 100 year event where equity values have plunged 50-60%, commodity prices have halved and many supposedly safe cash and fixed interest funds have lost a significant portion of their capital.

In the year under review, our investments were just over \$413m, slightly up on the previous year. These investments earned cash income of over \$34.5m, or over 8%, an increase of over 20% or nearly \$6m on the previous year, and this income contributed almost half of the Society's operational cost for the year, making a major contribution to helping keep premiums as low as possible.

As interest rates rose through the year, we lengthened the duration of our portfolio to just over two years as interest rates reached their maximum in the market. Now that interest rates are coming down, we will continue to reap the benefits of those high interest returns for some time, helping maintain our level of cash income to offset the maximum operational costs possible.

As at 30th June each year, we are required to revalue in our books the capital value of our investments so that they reflect the current market. Although we revalued our investments down by \$14.7m as at 30th June 08, \$6.1m of this was reversed as at 31st October and we expect further write ups as interest rates in the market decline over coming months.

I can see from you, our members here today that Southern Cross is in good heart and can confidently report to you that your Board and Investment Committee will continue to maintain the muscle strength of your Society so that it has a healthy body and a sustainable future for the very long term.