

**ADDRESS BY PHILLIP MEYER  
CHAIRMAN INVESTMENT COMMITTEE  
TO THE SOUTHERN CROSS MEDICAL CARE SOCIETY'S  
48TH ANNUAL GENERAL MEETING  
26 NOVEMBER 2009**



Last year when I spoke to you, I said that the heart of our Medical Care Society is our members and our staff. The reserves of our balance sheet provide the muscle strength and sustainability for Southern Cross to deliver on its mission of providing consistently reliable quality healthcare for you, our members, at the most affordable price and to protect it from external economic shocks.

Maintaining the Society's reserves in the face of the global financial crisis has been, and continues to be, an enormous responsibility for your Board, Investment Committee and executives. Our strategy has been to maintain the muscle strength of your Society in the face of severe adversity in investment markets and the wider economy. We have addressed this responsibility with our main focus being on stability of returns and valuation risk.

As Chairman of the Investment Committee, I am pleased to report to you that Southern Cross's investment portfolio has again stood the test in the face of the world's worst economic downturn since the Great Depression. Investment portfolios and funds are still seeing negative returns, major right offs, interest and repayment moratoria, freezing of funds and large losses. Only recently have we seen some element of recovery - green shoots as some have been calling it.

Over the past year or so, this global financial crisis has been met with unprecedented responses from Central Banks and Governments around the world to stimulate growth in recessionary markets. In New Zealand, the recessionary impact caused the Reserve Bank to reduce interest rates with unprecedented speed. The Official Cash Rate dropped from 8.25% to 2.5% in just nine months.

In the year under review, our investments were maintained at just over \$411m, slightly less than the previous year, as we paid out some of our investment capital to support members' claims. These investments earned cash income in excess of \$30m, or 7.3%. This income contributed over 42% of the Society's operational costs

for the year, making a major contribution to helping keep premiums as low as possible. By way of example, this income allowed us to set the premium for a 65 year old with a hospital and specialist policy at around \$210p.a. less than it would be without this income.

At 30<sup>th</sup> June last, more than 70% of our fixed term portfolio remained locked in at high interest rates with an average duration to maturity of just on 3 years. So, although market interest rates have fallen rapidly and are now very low, we will continue to reap the benefits of those high interest returns for some time to come, helping maintain our level of cash income to help cushion you our members from increasing claims costs.

In addition, we are required to reassess the capital value of the investments in our books at the year end so that they reflect the current market value. This revaluation produced nett unrealised gains of a further \$8m, achieving a total return of over \$38m or over 9.2% for the year. This total result was an increase of over 92% or \$18m on the previous year and a direct result of our strategy over the past two years to lengthen the duration of our portfolio as much as possible as interest rates reached their maxima in the market.

Although we achieved considerable unrealised gains this year, it must be remembered that these gains will be consumed in returns as maturities approach and reversed somewhat as interest rates inevitably rise.

Notwithstanding this, we believe it is in the best interests of our members that we continue to receive the highest stable income over time.

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 optimize returns while protecting our reserves to maintain that all important muscle strength of your Society for the very long term.