Australian Unity Annual General Meeting
29 October 2013

Glenn Barnes: Chairman's Address

Australian Unity is an enduring organisation. As you will all be aware, the company dates back to 1840. We have thrived since that time because of the organisation's ability to respond to external and internal challenges.

During the period we have been in existence, Australia has experienced the birth of its nationhood, wars, depressions (and recessions), and the rise of social infrastructure including Medicare and compulsory superannuation.

Some of the momentous events, such as Federation and the establishment of Australia Day, occurred with the direct and indirect support – and sometimes active urging – of this organisation's antecedents.

Others were environmental factors that required our forebears to adjust their approach and their strategy. Looking back, it could be concluded that what has kept the company in good stead is the relentless focus on what is best for members and customers during those times of dramatic change.

I believe that we are in such a time right now. Australia (and the world) is in a changing economic and political climate.

There are major social shifts involving technology, migration, climate change and even food production.

Overlaying all of this, Australia is experiencing a dramatic rise of chronic disease and an ageing demographic.

Over the past several years Australian Unity has been responding to policy developments and changes by governments who are increasingly finding it difficult to balance budgets and deal with the burgeoning impact of an ageing population inflicted with chronic disease.

We have been urging action on micro-economic reform of the healthcare sector for some years now, but unfortunately all we have to date is increased regulation that transfers the burden back to business and the general public.

If these measures were enough to deal with the challenge, that might arguably be an acceptable response.

But it is our submission that none of the recent reforms that purport to deal with the rising health and ageing costs – or the inadequacies of retirement savings – will reduce personal and government fiscal stress.

It is our intention to proactively respond to these challenges. Our senior managers and directors are actively engaging with other business leaders, in the development of potential solutions to the challenges.

This is connected to our core purpose. As a mutual company, we are not driven by short termism and instead are steadfastly focused on the medium and long term needs of both the business and the broader community at large.

Notwithstanding, we have maintained our strong commercial focus and this year I am again pleased to report a very respectable profit after tax of $29.4 million.

I am particularly pleased about the result because of the challenges we had during the year, in particular government changes to health insurance pricing requirements that were incredibly costly for us to implement.

This didn't sway us too far from our strategic focus, which is supporting members and customers to build their own personal, financial and physical wellbeing.

This is particularly important in the context of inadequate retirement savings and increasing chronic disease.

Our efforts in recent years have involved widening our products and services to encompass the full range of personal, financial and health security needs of our customers.

We continue to aspire to make significant contributions into the future, and have recently set down our aim to enable millions of Australians to enjoy wellbeing.

We won't do this alone. Many of our successes in the past have been forged through strong partnerships.

In one business area, our Investments business, we have built a number of strong joint venture relationships that are core to our results. In fact, 2013 is the 20th anniversary of perhaps our most successful partnership to date, the merger of ANA and Manchester Unity to become Australian Unity. Since then, as you know, we have also merged with Grand United in NSW, Lifeplan in South Australia and, in 2012 we joined our building society with the then Big Sky Credit Union to create Big Sky Building Society. Each of these mergers has added significant strength to the group, and in turn Australian Unity has expanded its offerings to the community.

Some of our achievements this year are:

- Higher customer growth than the industry average for the third successive year – in both health funds
- A doubling in size of our home care operations, where we care for older people in the community
- Significant progress at our key retirement and aged care development sites
- Launch of a platform business to complement our funds management and financial advice services
- Growth of 58 percent in funds under advice in our Personal Financial Services business, which also reported a full-year positive financial contribution to the group for the first time

Each of these business areas have additional plans for expansion, growth and new product development that we look forward to announcing in future months and years.

When considering the company's future, your Board considers both positive and negative risks.

Of course there are many negative risks associated with operating a company such as ours in a changeable economic and political environment.

We endeavour to manage these risks without curtailing the company's ambitions and opportunities, of which we believe there are many.

Part of our risk management approach has included our decision to become recognised as a non-operating holding company by one of the company's main regulators, the Australian Prudential Regulation Authority, or APRA. This means we are regularly engaged in reviewing the company's risk appetite and mechanisms with APRA.

As a result of the Company structure, complex industry environments and the diverse set of our business activities, Australian Unity requires a high level of skill and competence from our managers and directors.

Consequently our remuneration framework plays an important part in driving the successful performance of the Group.

The board, and its Human Resources, Remuneration and Nominations Committee sets remuneration structures that are competitive in the Australian marketplace in order to attract and retain high quality executives and staff.

I mentioned at the beginning of this address that we had some changes to our board during the year. Board renewal is an important part of our governance work.

We believe it is vital that we recruit directors with relevant reputation, experience and skills for implementing our growth strategies and who meet the stringent regulatory fit and proper criteria.

In addition, we seek to manage the timing and replacement of directors who are due to retire – and who have had a long history and understanding of the company – in such a way as to retain appropriate levels of experience and knowledge of the company and its history.

Similarly, our investment in executive leadership continues. At this point I would like to welcome back Rohan Mead from a professional development break at Harvard Business School.

We continue to support leadership development at Australian Unity, and in the past two months Amanda Hagan has been acting as Group Managing Director and I would like to say a personal thank you to Amanda for her sound leadership during this period.

Our commitment to wellbeing does not stop at the services I have discussed.

Throughout Australian Unity's history we have been dedicated to improving community wellbeing, through small and large initiatives designed to have an impact at a local level.

This year our investment in community initiatives totalled $1.2 million and covered broad areas including our sponsorships of Learn to Swim schools, the Australian Unity Wellbeing Index, Bell Shakespeare and The Australian Brandenburg Orchestra.

In addition, we engaged in a number of advocacy initiatives designed to improve public policy in the areas of health and ageing.

The Australian Unity Foundation, which governs much of our community initiatives, also continued the Heritage Fellowship grant program.

This program supports Australian Unity Limited members who have relevant academic skills to undertake post-graduate research into health, ageing, financial security and wellbeing.

The fellowships build on a scholarship fund tradition started from Manchester Unity and the Australian Natives' Association dating back to the 19th century.

During the year, Associate Professor Caroline Marshall, of the University of Melbourne's Department of Medicine and the Royal Melbourne Hospital, became our third recipient of this grant. Associate Professor Marshall's research is into improving antibiotic use in residential aged care facilities.

Members, it is in consideration of all of these business and social activities that my fellow directors and I remain confident that Australian Unity is well placed to meet the needs of customers, present and future.

I will now ask our Group Managing Director, Rohan Mead, to present his report.

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Rohan Mead: Group Managing Director's Address

I add my welcome to the Chairman's to this annual general meeting. As the Chairman has mentioned, we have reported solid financial results this year.

I am pleased to report that the results were solid across all of our divisions, despite the challenging environment—both economically and in a regulatory sense.

For the third consecutive year, our revenues crested $1 billion, reaching $1.21 billion, an increase of 8.2 percent from the previous year.

Our profit before tax result was $35.4 million, up 59.5 percent. Profit after tax increased 31.7 percent to $29.4 million.

The chairman has mentioned that this year for the first time our Australian Unity Personal Financial Services business has made a positive contribution to the company's financial results.

Members will recall we have spoken here for the past few years about the investment decisions we made to diversify our company's products and services to better meet the wellbeing needs of our members, customers and the community. It is pleasing that we have been able to achieve this milestone as planned.

Traditionally, health insurance has been our biggest business, and it remains so today.

But some time ago the company decided that diversification of revenue streams, business capabilities and asset types was the right approach to take in thinking about the long-term sustainability and relevance of the company.

For context, in 2003, Australian Unity had 6 main areas of business. This year we have 13, which we organise into four main business areas. I will discuss each of these later.

Investment income played a strong part in our positive results. Investment income performance varies from year to year and depends upon many external factors such as market sentiment and the performance of the economy as well as the abilities of our funds management team.

This year, the performance of our team occurred in a dynamic market environment, and so the strong result was particularly pleasing. It also allowed us to make some decisions we might not otherwise have had as much freedom to make.

These decisions included investments in exploring growth opportunities. This year, as in previous years, the company invested significant time and effort in business development opportunities, particularly in our chosen sectors.

Some of the opportunities evolved into announcements that we made during the year, such as the acquisition of Melbourne-based home care business Better at Home Care and the launch of our new Federation Managed Accounts platform alliance that I will talk about as we progress.

Others did not come to fruition, but this is part of business life and has not deterred us from our aim to continue to search for ways to provide more and better services.

Our operating earnings, which is profit before tax less investment income and borrowing costs, decreased to $31.6 million, a result that included substantial costs associated with responding to the federal government changes to private health insurance legislation and costs incurred by our decision to simplify some of the entity structures within the group.

This figure is important because it focuses on our trading results, separated from the earnings we receive on investible funds of various sorts.

I would like to make some observation of the external and internal environment.

Recently, we have surveyed global developments in the key areas of policy connected with our operations. While there are some very valuable learnings in certain areas, what is clear is that overall policy development in other industrial nations suffer from economic and political contexts that are significantly adverse to our own.

This is not to say that our circumstances are benign, far from it, but I think it is clear that Australia is not going to have the advantage of following others; we are going to have to set our own course – and soon.

Closer to home, I was a participant in the Business Council of Australia's recent program to set an Economic Action Plan for the nation.

There were nine things the BCA identified that we must get right in order to fulfil the ambition of enduring prosperity for all Australians.

These include improving fiscal policy settings and long-term budget discipline; infrastructure; and regulation.

One I want to focus on is "we must provide the right infrastructure for a modern, liveable, and productive economy." That includes, of course, roads and ports and broadband communications networks.

But importantly, it should also include the structures that support social needs. Structures like aged care, home-based care, dementia care.

Analysis by the Department of Health and Ageing suggests that the residential aged care sector will need to build approximately 74,000 additional places over the next decade. That is 74 facilities, each with 100 beds, each year.

This will require an estimated capital investment in the order of $25 billion over the next decade.

We think that much needs to change to reduce the investment uncertainty in the sector to encourage this kind of growth. But we also think that more needs to be done to support older Australians to stay longer in home and community environments that support their changing needs over time, without the need for full residential aged care.

In our model, retirement villages provide this opportunity. It is far easier to efficiently deliver responsive care support, for example 30 minutes of wound care or even shopping support, into a community of a few hundred people, than to people scattered across geographic areas.

Ongoing interaction with care providers also allows for regular reviews and assessments, and the opportunity for residents to purchase other services, if they choose. All of this can delay or remove the need for residential aged care.

One proposal currently under consideration by Government stems from our submission to what became the Productivity Commission's Caring for Older Australians report in 2011.

Simply, we believe that older people who want to downsize their family home and move to a smaller unit are, under today's laws, penalised.

This is because the family home is an exempt asset under the pension income test, but once it is sold, any equity released becomes assessable, and pension entitlements are lost. We think this is a disincentive against downsizing. This means that a large number of older Australians:

- End up staying longer in a larger home than they want to
- Lose some control over their life – thereby making it more likely that they end up living in an aged care facility, the very situation they want to avoid
- Are precluded from using some of their own resources to make co-contributions to the costs of their home-based community care, and
- Potentially miss out on some of the extra service opportunities for care and living support, along with the community connection, that is offered in retirement communities.

Changing the approach here is an example of the kind of work we want to do to find solutions to Australia's looming demographic challenges.

Likewise, health insurance regulatory changes have done little to address real underlying challenges.

We are hopeful that the new Government will re-look at some of the recent decisions of the previous government under the lens of true sustainability, and work with the industry on proposals to continue to incentivise insurers to support the entire health needs of their populations.

Australian Unity is disturbed by the lack of broader policy attention to the important issues of financial sustainability of our healthcare system, but also encouraged by the opportunities these challenges present.

We believe with the right level of hard work and innovation, we can continue to create products that meet the wellbeing needs of people and significantly improve their wellbeing outcomes.

Australian Unity has a history of this kind of growth and innovation.

Over the past ten years we have increased customer numbers from around a quarter of a million to around 600,000 today.

During this time, we have grown throughout Australia, and through our activities as an investor and asset manager, also connect with world markets.

Our members (and customers) have always played a big part in our company, and they still do today. We believe our customers and members are the kind of people who are, or who have a propensity towards being, self-reliant.

We also believe our customers and members share similar characteristics – independence, inventiveness and fairness – which have been part of the DNA of the company since its earliest days in the 1840s.

Australia faces many challenges. One of the big ones is the challenge of our ageing population. These demographic changes look very dramatic over the long term, but are still incredibly significant for any proper consideration of the next 10 years.
In 2003, 324 people turned 75 every day.

In 2013, that number grew to 366.

By 2023 it will be 595. At the same time, the percentage of people who are working is shrinking, putting extreme pressure on our welfare, healthcare and aged care systems.

Without a radical shift in approach as a nation, we risk being unable to provide Australia and Australians with the kind of community services that are needed.

We believe this is ultimately a problem of social infrastructure. We need to start building, today, the kinds of connected physical and human systems that will sustain our population into the future.

I believe Australian Unity can be part of the solution. In no small measure, this is because we have deep experience in the social infrastructure challenge:

- Investment and savings market understanding
- Capital supply and capital formation processes
- Development and property asset management
- Personal finance and retirement savings
- Healthcare financing and care provision
- Retirement communities' operations
- Chronic disease management

Given this, and our heritage, we have a great opportunity, as well as a great challenge, to extend our activities to meet the needs of many more customers. In this way, our products and services can provide valuable support for the wellbeing of many more people.

I would like now to introduce members to the Australian Unity executive team.

The Chairman has already introduced you to Tony Connon, our Chief Financial Officer and Kirsten Mander, our Company Secretary and General Counsel.

They are joined today by colleagues, and I'll introduce them starting with Amanda Hagan, the chief executive of our Healthcare business. David Bryant is our Chief Investment Officer and the chief executive responsible for our Investments business.

Derek McMillan is the chief executive who heads up our Retirement Living business. Steve Davis is the CEO of our Personal Financial Services area.

Sharon Beaumont is the group executive responsible for Human Resources and Kimina Lyall is group executive of Corporate Development.

Tahir Tanveer is the group executive in charge of Business Technology. Finally, Kevin McCoy is group executive of Strategic Business Development and Deputy CFO.

I now turn to each of our businesses and their performance over the 2012-2013 financial year.

Our healthcare business includes the traditional operations of health insurance, along with our increasing focus on preventative healthcare.

In health insurance, we, like the rest of the industry, continue to adjust to the legislative changes to the federal government's private health insurance rebate.

The latest changes to the rebate on the lifetime health cover loading affects all members affected by the loading, not just those on higher incomes.

The changes continue to add complexity and therefore present a significant challenge to the business and possible upward pressure on premiums for all policyholders.

We continue to do the best we can to keep costs down for members, while focusing on delivering products that provide value and that are simple and useful.

I am pleased to report that Australian Unity's health insurance premium increases have been lower than the industry average for ten of the last 12 years.

This year we also experienced another year of growth in memberships. Our retail health fund increased its number of policyholders by 3.5 percent – well above the industry growth rate of 3.1 percent.

Our corporate fund, GU Health, also increased its policyholders, by 4.5 percent.

We seek to continue to grow our policyholders as this assists in reducing the average age of fund members which in turn reduces the pressure on health inflation and premiums.

One of the side-effects of growth, however, is that it is often the case that 12 months to two years after a growth spurt in a health fund, the total claims costs increases.

This is because of the waiting periods that new members to health insurance are subject to.

Two years ago, members might recall we had a strong growth figure of 6.9 percent, which of course was a positive achievement. But we are noticing the expected pattern in the claims line following that growth, and this impacted on the financial results of our health insurance business this year.

Overall, our healthcare operations recorded an increase in revenues to slightly more than $735 million and adjusted earnings before interest, tax, depreciation and amortisation – or EBITDA – of $47.8 million for the year, down from $55.2 million.

Successes for the business include the membership growth I previously mentioned. We also were able to implement an innovative response to the means testing legislation in our corporate health business that we believe has helped to reduce the impact in that area.

During the year, the retail fund trialled a new program known as Australian Unity Connect with 5,000 customers.

The program involves outbound calls to put customers in touch with community healthcare services in their local area relevant to their age and likely needs.

Unlike a preventative health program, the contact is not driven by a recent claim or medical history. This new service is a further example of the business continuing to create new ways to add value to customers and support them to improve their health.

Members would have heard us in the past talk about our commitment to preventative health and chronic disease management.

This year we invested almost $5 million in chronic disease management programs and health coaching benefits to members.

Our preventative health business, Remedy Healthcare, launched two new programs in the past year for customers with Chronic Obstructive Pulmonary Disease and Peripheral Vascular Disease.

I would like to move on now to our retirement living business. I mentioned earlier the dramatic growth in population of older Australians, and we have discussed the need to solve some of the accommodation and care needs that will become increasingly into sharp focus.

I noticed that many Australians raised questions about the state of aged care in many of the community debates and forums during the recent election campaign.

I wonder if the community has a greater sensitivity to these issues than perhaps attention from politicians would currently suggest?

Australians know that this is an area that requires urgent attention to solve the capital, workforce and funding challenges in this sector.

Australian Unity's retirement living business model is to create service-rich communities that provide a continuum of care to allow older Australians to both age-in-place and age in a community of their choosing.

This means we build and operate retirement villages, and then seek government and community support to provide packages of individualised care for those residents living in the villages.

Where possible, we co-locate an aged care facility. We find residents appreciate the peace of mind knowing that residential aged care is accessible should it be required in the future.

Another piece of the puzzle has been our desire to also provide services to older Australians living in the community, outside of our villages.

I am pleased to report that during the year, we doubled the size of our home care operations, largely through our acquisition of Better at Home Care, a business that operates in the northern suburbs of Melbourne.

Since June 30, we have received another 99 commonwealth-funded packages, which effectively triples the size of that business as compared to the beginning of the financial year 2013.

We continue to strive to improve our existing services. This year, we successfully piloted a new customer-centred care model, which we call Better Together, at our Wahroonga Aged Care facility in Glen Waverley, Melbourne.

The remodelled area that was part of the trial is more home-like with a central open living room, and a domestic style kitchen.

In August the pilot received the prestigious national 2013 HESTA Aged Care Awards for team innovation.

Members will be aware that for some years we have been supplementing our retirement communities with development plans.

I am pleased to report that our site in inner-Melbourne's Carlton, which we have now named Rathdowne Place, is rapidly growing and the aged care facility is on track to be officially opened early in 2014.

Likewise, developments continue in Mornington, Victoria, and Sienna Grange in Port Macquarie.

Overall, our retirement living operations recorded a 14 percent increase in revenues to $73.07 million and adjusted EBITDA of $12.63 million for the year, up from $7.8 million.

I will now turn to our Investments business. As I have already mentioned, it was a positive year for the company in terms of investment income on its own assets, and it was also a positive year for the Investments business as it served external clients.

As members may be aware, the Investments business operates in the direct, retail and institutional markets with in-house asset management skills in property and specialised products. We have also built a boutique asset management structure to provide customers with access to experts in Australian and international equities and fixed interest.

The business reported a 23 percent increase in revenue to $112 million and an increase in adjusted EBITDA to $15.4 million, up from $12.5 million.

This was despite the drop in Funds Under Management to $7.1 billion, which was largely led by the resignation of key employees of Vianova Asset Management, one of the Investments business's joint venture partnerships that operated in the fixed interest asset class.

Given the relatively low margins earned on the fixed interest investments, and our growth in other areas, this resulted in limited impact to the profitability of the company.

In its first full year as part of Australian Unity Investments, Big Sky Building Society was impacted by the low demand for credit in the Australian economy. At the end of the financial year 2013 Big Sky had total on-balance sheet assets of $618 million compared to $655 million the previous year.

During the year the Investments team launched Federation Managed Accounts, an investment platform that allows financial advisers to select a portfolio of complementary investments, including diverse options such as managed funds.

We also launched the Pro-D range of managed funds for financial advisers. These are a cost effective and tax efficient range of diversified investment funds with more sophisticated asset allocation strategies than are generally available with most off-the-shelf managed investment products.

These managed funds are specifically targeted to meet the needs of advisers who have clients with lower investment balances.

Both of these initiatives were put together internally with collaboration between our Investments business and our Personal Financial Services business, which I will now turn to.

Members who regularly attend these meetings will be aware that for the past several years we have discussed the investment the company has put into developing the Personal Financial Services business.

As the Chairman and I have already noted, I am pleased to report that the business achieved a positive contribution as planned during the year under review.

Revenues were $34 million, up 86 percent; and EBITDA increased to just over $2 million, compared to a loss of $2.6 million in the prior year.

This positive result is also reflected in an increase in Funds Under Advice to $3.1 billion.

These financial results reflect a continuing confidence of advisers wishing to join our dealership group.

We believe they are attracted by our compliant, resource-rich and thought-leading environment, which is designed to support them to operate efficiently and confidently.

We also believe our approach in developing relationships with small accounting practices across Australia contributes to our overall success. This approach enables accountants to better meet the broader financial wellbeing needs of their clients.

The environmental, political and demographic environment we have already discussed has implications for all Australians. There has never been a greater and more rapidly growing need for Australians to become financially self-sufficient.

We believe good quality financial advice is one of the keys to this. Recent government changes to regulation in this area, known as Future of Financial Advice, which came into effect on 1 July 2013, have added further red tape burdens on businesses such as ours and – with one or two exceptions – not led to any greater investor protection.

However, our long-term fee-for-service approach should stand the Australian Unity business model in good stead in this regard.

We will however, continue to argue for improvements to government policy in relation to the Future of Financial Advice, and other policy instruments such as MySuper, along with our conversations with government on health and ageing matters.

I would like to make a special mention here to the contribution of our members to some of our activities. The Chairman has mentioned we have been active in arguing against recent changes to private health insurance legislation, believing it to be detrimental to the community.

During the year, we once again contacted some members with health insurance products and asked them to assist us to discuss the then-Government's plans to further impose costs on health insurance customers with their local members of parliament.

Almost one person in five of those whom we contacted took up the opportunity to contact their local member.

Although we were unsuccessful in our arguments with the former Government, it was heartening to see that members were understanding of our intentions to advocate for a better health system and that they were willing to support the company's efforts.

I would like to also make note of the contribution of the company's employees. This has been an exciting year, but also one that has not been without its challenges.

Our regular survey of employees this year indicated that the people who work at Australia Unity are by and large strongly engaged with the company and its activities.

I am privileged to lead a dedicated group of executives, senior managers and staff who are engaged with the company's vision and determined to work hard on behalf of members and customers and I thank them for their efforts.

Ladies and Gentlemen, there is no question that the company continues to operate soundly in a dynamic environment. Our results are solid and reflect our steadfast ambition to grow in a sustainable way. We want to enable millions to enjoy wellbeing. I thank you for your continued support.

END GROUP MANAGING DIRECTOR'S ADDRESS