CANOPUS INVESTMENTS Limited

Investment Advice Sharebroking Managed Funds Fixed Interest Property Company Formations Trade Mark Registration

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Investment Directions **21 April, 2009**

"Transforming opportunities into outcomes"

In this Issue

1. Overview

The US Federal Reserve's "Beige Book" April economic summary noted a continuing decline in activity across all sectors surveyed, but a slowing rate of decline in some regions. US leading economic indicators slipped to be marginally negative at -0.4 in February (Australia - 0.6, Japan -5.4).

However, credit easing resumes as interbank lending rates again head lower after tightening during March, with 1 month LIBOR down to 0.4475% vs March end of 0.50% and TED Spread back at 0.97 after reaching highs of 1.12 four weeks ago.

Reserve banks have mostly exhausted the interest rate monetary lever, now relying instead on Government-initiated stimulus packages, bailouts and "quantitative easing" (effectively printing money) to reignite economic growth. New Zealand and Australia remain exceptions with scope for further reductions from present levels of 3.00%. The Reserve Bank of New Zealand will almost certainly cut again in an attempt to counteract recent borrowing rate rises, but any success should be short lived – the factors we reported back in January as pushing up local deposit interest rates this year impact lending rates as well. Reserve Bank of Australia may not feel so compelled to act, leaving the AUD with a higher base rate than NZ and making AUD currency investments more attractive. NZ fiscal stimulus measures have been puny compared to Australia and will remain so in light of the bare coffers bequeathed to the new Government and ongoing unproductive consumption of resources by bloated local and national government sectors.

Deposit and lending rate rises seemed to catch many (including RBNZ Governor Bollard) by surprise, leading to a jump in demand for new home mortgages (+38% c.f. March 2008) and putting a brake on, but not stopping, falling house prices. Property development however, remains in the pits with an overhang of unfinished commercial, residential and industrial projects all being pushed onto an unresponsive market by receivers, liquidators and trustees of failed developers, finance companies mortgage trusts and funds.

Equities continue to provide a main investment focus, the DJIA typifying recoveries with a 23% rise in only a month, but still 38% down on the level set 10 months ago and 43% below the all time highs of 2007. Could this be just another "dead cat bounce"? Despite similarities in origin the major difference marking this event from predecessors must be the unprecedented willingness and ability of governments and reserve banks, acting in concert, to shore up financial institutions in an extraordinary attempt to do whatever they believe necessary to save the banking system and restore global growth. Historically, sharemarket recovery has always preceded economic recovery by six months or more.

US equities reacted favourably to Obama's plan to buy toxic bank loans via public/private partnerships, boosting bank balance sheets and hopefully stimulating lending. Hardly a surprise as nearly all risk seems to remain with the US taxpayer while potential gains go to the participating institutions. Global equities rose following G20 proposals, including US$1T of new IMF funding.

Investors though, need to remain exceptionally vigilant as markets improve – volatility persists and wider economic impacts of the "Great Recession" have yet to be fully felt. Also, quality and sustainability of much trumpeted recent "profits" from US banks such as Wells Fargo, Goldman Sachs and JP Morgan Chase appear suspect owing to their being one-off beneficiaries of huge AIG bailout payments to liquidate untenable market positions, abandonment of "mark to market" asset value accounting, questionable provisioning and selective reporting periods. Nevertheless, reported profits will give US banks the opportunity to raise new capital through bond and equity issues.

The US Dollar continues to be undermined by US Federal Reserve plans to purchase $300B of US Treasury Stock in addition to other huge stimulatory measures and bailouts, interspersed with brief troughs and rallies as risk aversion ebbs and flows. Although positive for equities, overall USD trend is down on big new US Government debt and possible inflationary effects of packages plus fears China may start selling some of its vast US$740B holdings of US Treasury Stock to limit losses. Japan lies second with US$620B. Both countries appear no longer willing or able to purchase more US Treasury Stock as their manufacturing exports collapse. US Fed may do a deal to purchase some of their holdings but either way, US dollar looks headed for further weakness.

Breakup of giant General Motors looms closer, although outright bankruptcy would be problematical for the US economy in general and Obama's United Auto Workers Union support base in particular. Maybe jobs and pensions will be housed in a taxpayer-supported "good" GM with losses cast into a "bad" GM earmarked for extinction. Overall effect on markets could actually be positive once the outcome is known.

Gold has little part to play in a climate of recovery and increased risk acceptance, apart from as a residual hedge against a falling US dollar and hence should continue to trend downwards. Recent rampant base metal prices appear anomalous in the face of strongly rising inventories (outside China) and have been put down to Chinese imports and restocking. What proportion of Chinese purchases graduates to usage should determine mid term price trend, but in the short term even China's appetite for more copper, aluminium and zinc is unlikely to hold prices against falling global demand. Expect high base metal volatility but not necessarily any clear trend. Significant crude oil price recovery awaits broader global economic recovery but could be huge when it arrives.

2. Equities

Major New Zealand blue chip, **Fletcher Building** (FBU), forecasts a net profit of $289 - $301m for the June 2009 year but predicts more job losses and plant closures as it restructures to meet expected economic conditions. Final dividend is reduced to 14 cps (24.5 cps, 2008) and a major capital raising of up to $505m new equity is underway. The company has moved early to strengthen its balance sheet and should be a major beneficiary of government stimulatory packages in both New Zealand and Australia, including highway construction and home insulation. Favourable market reaction to equity and bond issues has seen the share price up 12% in two weeks. At today's price of $6.76, on a fully diluted basis and valuing all new shares at the issue price of $5.35, the ex-entitlement market price would be $6.56, representing a gain of 22.6% on subscribed issue funds.

Coming off low bases, Fisher companies **Kingfish** (KFL), **Barramundi** (BRM) and **Marlin** (MLN) are reacting strongly to snippets of good news. Marlin benefiting from its City Telecom holding in Hong Kong and Barramundi from a substantial holding in successful coal seam gas developer Arrow Energy in Australia. The Fisher stable still sells at discounts of 25% - 45% to NAV, margins likely to narrow as gains consolidate. Expect investment companies with mainly listed portfolios, such as the Fisher stable, to react quickly to a general market improvement while investment companies with high portfolio components of unlisted holdings, such as **GPG** and **Infratil**, should take longer to react, relying on general economic improvement and positive company results.

Investors reacted negatively to **Contact Energy**'s relatively poor result (influenced by weather and transmission constraints), power pricing outlook, directors' remuneration fiasco and, more recently, rejection of consent for a big wind farm south east of Dannevirke. However the company retained its 11 cps interim dividend and remains a well-capitalised major player in the NZ energy sector. Expect vocal opposition to new Clutha hydro dam proposals, but NZ has to decide if it's really serious about "clean green sustainable energy". Either way Contact should be an eventual winner. Current opportunity for low priced entry may not last long.

Allied Farmers (ALF) is next up in the Johnny-come-lately equity raising stakes amongst good second tier stocks that left it far too late to preserve shareholder value. Now, faced with a share price down more than 80% from its peak and 57% in the past year, Allied Farmers is scrambling together a six for seven rights issue at 40 cents to "re-finance arrangements relating to the acquisition of Speirs Finance Limited, to reduce core debt and provide additional working capital for the Company's rural sector business divisions". Ignoring the associated options, theoretical ex-issue price is just 51 cents at a market price of 60c. At a market price of 50c, the theoretical ex-issue price drops to 45c. From adversary comes opportunity. Price movements for both rights and shares could reflect the recent heavily diluting **Nuplex** issue, providing good gains to new investors. What in the world can we expect from **Fisher and Paykel Appliances** (FPA), desperate to raise capital on a share price down 80% to under 50 cents in a year? In the absence of a new cornerstone shareholder, this one is worth watching.

Market minnow, **Cynotech Holdings** (CTY), has reported a NPAT of $2.28m for the year ended 31 December, 2008, up 26% on the previous year, and declared a 0.75 cps dividend, bringing the annual total to 1.25 cps, up 150%, and giving a yield of 7.6% at a share rice of 16.5 c. All divisions except Findata look capable of making increased contributions in the year ahead.

3. Managed Funds - Equities

Managed equity funds can provide access to a well diversified share portfolio for a relatively modest investment. Reflecting major index declines, entry prices for many equity funds now hover around multi-year lows. Specialised funds exist for nearly any particular requirement – local, regional, international, sector specific, ethical, currency hedged, unhedged etc. Well established funds with a history of superior performance should be included in every investment portfolio and current entry prices will soon disappear with even a modest market upturn.

Contact me to discuss your particular requirements.

Capital protected funds and those with additional protection features such as Liontamer's "Smart Start" re-setable index have proven invaluable over the past 18 months in preserving investor wealth, but such features come at a cost. With markets taking a more positive view of the future, investors could well consider reducing costs of protective cover in some instances in exchange for greater potential returns.

Liontamer's Fallen Angels Series 1 index was reset on 2 February 2009 to just 50.415% of its initial value, with the re-set value becoming the base against which future fund performance will be measured. As of 17 April I calculate the index at 60.945, a gain of over 20%, sufficient to put both tracker and booster units into profit.

4. Property

For those not wanting the hassle of investment property management, listed property trusts (LPTs) offer convenient access to the sector. Historically, returns have been comparable to direct property ownership with capital appreciation of properties being reflected in unit prices. Apart from no direct management duties, LPTs offer investors the major advantages of liquidity, access to top class properties and professional management.

Listed property trusts report appreciation or depreciation of property values as profit or loss, which does not necessarily affect their ability to make distributions. Most local LPTs are now showing highly attractive dividend yields against unit prices which represent a significant discount to reported Net Asset Value.

Caution is necessary however, because LPTs are also reporting very high occupancy rates at present, a situation that could well deteriorate as the broader economic recession drags on. Loss of tenants would certainly affect the ability of LPTs to make distributions, further depressing unit values and investor income. Listed property trusts present good opportunities but also considerable downside risks in the short term. Best to watch and wait at the moment.

For investors wanting to access the capital gains and full range of tax deductions available to direct property investors, but without the management involvement, proportionate ownership schemes provide an answer. Typically the scheme invests in a small selection of properties or just one multi-tenanted building and so risk is more concentrated than a listed property trust but the quality of building and range of strong tenancies available via the proportionate ownership scheme is likely to be superior to that which an individual investor could achieve through acting alone.

See our "New and Current Issues" section for a scheme that may suit your requirements.

5. Current and New Issues

5.1 Rabobank PIE Capital Securities – Perpetual Preference Shares
5.2 Liontamer Australia Series 1
5.3 GSJBWere Trans Tasman Equity Unit Trust
5.4 Proportionate Ownership Scheme, 13 William Pickering Drive, North Harbour
5.5 Senior Retirement Village Trust

5.1. Rabobank PIE Capital Securities

Rabo Capital Securities Limited (Rabo Capital), a wholly-owned subsidiary of Rabobank Nederland, is making an offer of up to NZ$200m of PIE Capital Securities to New Zealand investors (with the option to accept unlimited oversubscriptions).

Key features of the issue:

- Minimum dividend 8.00% p.a.
- Dividends will be paid in cash and are expected to be fully imputed by Rabo Capital.
- Initial rate set date 25 May 2009 for first five years at fixed margin over benchmark swap rate, with first reset date being18 June 2014.
- First call date 18 June 2019 at which time the issuer has the option to redeem the shares.
- Quarterly dividend payments on 18 March, 18 June, 18 September and 18 December are expected to be fully imputed.
- It is expected the PIE Capital Securities will be assigned a rating of AA- from Standard and Poors and Aa2 from Moody's.
- Application has been made to list these securities on the NZDX.
- Issue is expected to open on 27 April 2009.

The issue is expected to be popular owing to Rabobank's credit rating and the attractive dividend yield. **To reserve a firm allocation, please have your request to Canopus before 12 Noon, Tuesday 28 April.**

Applications will only be accepted when made on the application form that accompanies the Investment Statement.

To receive an Investment Statement, contact Canopus info@canopus.co.nz or download from http://www.debentures.co.nz/RaboPIE_IS.pdf

5.2. Liontamer Australia Series 1

New equities fund from Liontamer. Click here for Pre-launch statement.

LIONTAMER PROTECTED INVESTMENTS

Only the pre-launch statement may be published at this stage.

To register your interest in this issue and to receive an investment statement when available, contact Canopus info@canopus.co.nz

5.3. GoldmanSachs JBWere Trans Tasman Equity Unit Trust

A fund with an excellent track record and well placed to achieve strong gains from a sharemarket recovery. Managed by Goldman Sachs JBWere Asset Management (NZ) Limited, based in Auckland, the Trust invests in listed companies or companies that intend to list in Australia and New Zealand with the intention of achieving capital growth in rising share markets and protecting capital in flat or falling markets. The Fund is actively managed (not an index fund) and provides access to a portfolio of carefully selected Australian and New Zealand shares which may include some of the larger listed companies such as Contact Energy, Fletcher Building and BHP Billiton.. For a copy of the latest report contact Canopus.

Key Features of the GS JB Were Trans Tasman Equity Unit Trust:

- Established September 1998
- Low minimum initial investment NZ$2000
- Low minimum additional investment NZ$1000 or NZ$250 with regular savings plan
- Entry fee discounted from 3% to 1.0% by Canopus Investments Limited
- Management fee 1.0% per annum
- Fund size NZ$30.5 million
- Fund rating, Fundsource 5 star
- Registered as Portfolio Investment Entity (PIE)
- New Zealand dollar denominated – not currency hedged
- New Zealand domiciled – no foreign investment tax complications

For an investment statement and application form contact Canopus info@canopus.co.nz or download from http://www.debentures.co.nz/TTEUT_IS.pdf

5.4. Proportionate Ownership Scheme, 13 William Pickering Drive, North Harbour

St Laurence Realty Limited (the Offeror) is offering investors an opportunity to acquire a proportion of the ownership of a fully leased office/warehouse complex located at 13 William Pickering Drive, North Harbour, Albany, approximately 17 km north of the Auckland CBD. The Scheme, Property and leases will be managed by St Laurence Funds Management Limited which manages a large portfolio of commercial and industrial properties throughout New Zealand. The Property is to be purchased from St Laurence Properties Limited for $7,575,000, funded by $4,550,000 of public subscriptions and $3,408,750 bank debt.

Key Features of the issue:

- 182 interests offered at $25,000 each
- Individual investors may purchase one or more interests for $25,000 each, effectively acquiring a proportionate beneficial interest in the Title to the Property.
- Forecast cash return of 9.85% p.a. paid quarterly*.
- The Property is fully leased to two tenants – Lexicon Systems Limited and Blue Star Print Group (New Zealand Limited)
- Closing date for applications 15 May 2009 or such later date as the Offeror may determine (being no later than 27 May) unless earlier subscribed in full.
- Nil application fee on applications made through Canopus Investments Limited.

* This return is the rate for a full one year period, calculated solely on the basis of the cash distributions of profit. The return does not take into account any retained profit or loss that may result from trading, or any increase in the value of the property, or any preliminary expenses or issue costs. It also does not take tax into account. The Manager intends to distribute almost all of the Scheme's

annualised profit to investors in quarterly instalments. Actual results may vary from the projections, and those variations may be material. The Offeror's Statement contains details of how the return for this investment will be calculated and the risks associated with the investment and the returns.

Applications will only be accepted on the application form which accompanies the Offeror's Statement.

For a copy of the Offeror's Statement and application form, contact Canopus info@canopus.co.nz or download from http://www.debentures.co.nz/13WPD_OS.pdf

5.5 Senior Retirement Village Trust

Promoted by experienced retirement village operator, Vision Securities Limited, the Senior Retirement Village Trust aims to provide an above average and secure return by combining an investment in the surety of first mortgages over retirement villages with PIE regime tax advantages.

Key features of the issue:

- 10% p.a. yield with quarterly interest payments
- 3 year term
- First mortgage security
- Limited issue, $3.5 million being sought
- Minimum investment $5000
- PIE tax regime qualifying investment
- Closing date 30 June 2009, unless filled earlier
- Nil application fee on applications made through Canopus Investments Limited

For a copy of the investment statement and application form contact Canopus info@canopus.co.nz , or telephone (09) 444 8055, fax (09) 444 8059 or Download from here.

6. Fixed Interest and Finance Companies

Our debenture stock Yield Curve at http://www.debentures.co.nz/YieldCurve.pdf continues to steepen and will continue to do so, with "the wall" coming closer while future of the Government Deposit Guarantee Scheme remains in doubt. Parliament's Finance and Expenditure Committee spends effort debating the merits of an enquiry into finance company failures – bound to tell us what we already know – and what Reserve Bank supervision should largely overcome - while the urgent issue of the Government Deposit Guarantee remains unresolved. Meanwhile billions in local savings sit idle in deposit taking institutions instead of boosting recovery.

Resolution of the future of the Government Deposit Guarantee Scheme remains the most important issue facing the finance company sector.

RBNZ looks set to again lower the OCR, by 0.5%, on 30 April, but effect on broader interest rates should be muted. Benchmark 2 year deposit rates shown at http://www.debentures.co.nz/2YearDebentureStock.pdf look to be in a state of hiatus for now but poised to move up on any signs of recovery and, hopefully, resolution of the Government Deposit Guarantee Scheme future. Reduced OCR may temporarily drag down bank rates but have little, if any, effect on other deposit takers.

Craig Norgate's Rural Portfolio Investments helped instill confidence in the local market by repaying nearly $46m of redeemable preference shares, including all due interest and an 8 cps redemption premium, after earlier reporting breach of a banking covenant and wide speculation that repayment may not be possible on the due date.

Top current deals with Government Deposit Guarantee from major finance companies are:

Issuer	Term	Rate	$ Minimum	Interest Payment
PGG Wrightson	6 months	4.65% p.a.	$10,000	quarterly
Marac Finance	12 months	5.50% p.a.	$ 1,000	quarterly, +0.25% loyalty bonus
NZF Money	15 months	6.25% p.a.	$ 1,000	quarterly, +0.25% loyalty bonus

7. Kiwisaver

I just cannot understand how anyone with only a very modest amount (or even nothing) to invest can let this golden opportunity go past. The sooner you join, the greater the advantages. With Government and employer subsidies matching or exceeding the member's own contributions, no other investment comes close. Depending on personal circumstances there is an optimum amount to contribute to achieve maximum benefits in each member's case.

Hence I repeat the major advantages.

KiwiSaver is open to all permanent New Zealand residents under the age of 65.

All members, including children under 18, receive the standard $1000 kick-start from the Government. There is no cost to join and babies can be signed up as soon as born. Even if you or your child make no additional contributions, at age eighteen your child will be entitled to investment returns from the initial $1000 compounding up to 18 years, plus, from age 18 on:

- Government matching contributions up to $20 per week ($1042.86 per year).
- Employer contribution of 2% salary minimum for employees.
- A first home subsidy of up to $5000.
- Entitlement to withdraw all your own contributions, employer contributions and investment returns to put towards a first home (or subsequent home in some circumstances).
- If paying off a mortgage, after 12 months membership, the ability to divert half your own contributions towards paying off that mortgage (an option not available in all funds).

Canopus Investments Limited is an accredited agent for the Huljich KiwiSaver Fund, one of the top performing KiwiSaver funds to date in New Zealand and one that offers the mortgage diversion option. For full details of the Huljich KiwiSaver Fund, contact Canopus for a copy of the Investment Statement info@canopus.co.nz or call (09) 444 8055 for more information.

8. Portfolio Performance Review

The year to 31 March saw the DJIA fall 38%, the major slice of a 54% decline from 9 October 2007 to 9 March 2009 – second only to the 89% decline of 1929-32 in sharemarket crash history.

Little surprise then our reference portfolio suffered accordingly, taking a 21.57% hit over the March year, -5.31% in the last quarter. Equity losses to some extent were mitigated by a measure of diversification into the OM-IP hedge funds and the capital protected Liontamer funds plus some high yielding fixed interest that survived the year. Best gains have been recorded on a few selective equity purchases made during the most fearful months of October 08 to March 09. Worst results came from writing off two equity holdings.

This year has started better with the NZX 50 up 5.7%, DJIA +6.42% and our reference portfolio +4.77% over the first two weeks. Clearly, volatility remains high. Capital protected investments that mitigated portfolio losses over the worst times will act to hinder portfolio gains in a broader market recovery as a number of fund base indices still sit deeply in negative territory and look likely to remain so, with the eventual maturity value relying on the capital guarantee to deliver 90% or 100% of the original investment. Solid European and Australasian banks providing our capital guarantees appear to be in no danger.

9. Investment Strategy

The rapid rise in global equities during early April looks over done and demands caution. Based largely on "not so bad" financial news, strong commodity prices and short covering, technical oscillators for indices and major individual stocks lie solidly in the "overbought" zones at present, causing us to stay away from general on-market purchases for now. However, the oscillators tend to be very short term indicators and do not signal a "sell" for base portfolio holdings as prices and indices remain way below long term averages.

Current conditions do bring their own opportunities, foremost being the Fletcher Building offer of new shares at $5.35, a 21% discount to current market price of $6.76 and a potential gain of 22.6% on subscribed funds at theoretical ex issue rice of $6.56. RPI Securities repayment of redeemable preference shares enables our portfolio to participate.

Manufacturing companies have been hit hard during the current recession, with poor capital management compounding problems for the likes of Nuplex and Fisher and Paykel Appliances. With its 23 cps share issue completed, Nuplex may become attractive on any downturn to the mid 20 cent range. Better to watch is Fisher and Paykel Appliances, struggling to attract a cornerstone shareholder. Lack of success in the search should see FPA forced into a heavily discounted share issue as per Nuplex. At a current market price of just 47 cps, issue price will have to be very low and dilutionary effect on existing shareholdings very high for an issue to succeed. We await any announcement before making a decision. Both companies should benefit quite quickly from an improvement in global economic conditions.

In 1929 worldwide governmental reaction to the initial crash generally compounded the problem by introducing protectionist measures, restricting trade and failing to provide any significant reserve banking liquidity functions, resulting in the major second leg down of 1932 and the Great Depression. Today's reaction has been quite different with reserve banks, governments and now the IMF acting in a huge and concerted "lender of last resort" capacity through corporate bailouts and stimulus packages. Protectionism is being shunned. The outcome should be better than 1932.

Hence we will continue to participate in a few selected opportunities as they arise.

Bond issues from major corporates continue to prove very popular with investors. Funds raised are generally being used to repay upcoming due debt (expensive to roll over on world wholesale markets) to strengthen balance sheets and provide for growth.

Income investors wanting to participate in good quality bond (and similar) issues must ensure they apply for firm allocations early.

Latest is the proposed PIE Securities issue from Rabo Capital Securities Limited, a wholly-owned subsidiary of banking giant Rabobank Nederland, rated AAA by S&P, a major European bank well established in New Zealand. See our "Current and New Issues" section.

For all expressions of interest, investment statements and application forms, contact Canopus info@canopus.co.nz . Indications of interest do not involve an obligation of any kind.

Regards,
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Financial Adviser Disclosure Statement available on request, free of charge.

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