

CANOPUS INVESTMENTS Limited

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

P O Box 101 662
North Shore Mail Centre
Auckland
New Zealand

Phone: +64 9 444 8055
+64 9 444 8056
Fax: +64 9 444 8059
Websites: www.canopus.co.nz
www.debentures.co.nz

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Investment Directions

19 December, 2008

Overview

Compounding massive US Government liabilities from past deficits with current multi-billion dollar bailout obligations and the latest new low Federal Funds target rate of just 0 – 0.25%, may finally trigger the US dollar's long awaited slide. To what extent "safe haven" reputation can save the Greenback from a fall remains to be seen. The US housing market remains very depressed with new starts and permits both hitting new lows during November.

Although equity and commodity markets show some signs of resilience at current depressed levels, contagion from financial markets to the broader economy looks only to have begun. Globally, central bank injections of liquidity and government bailouts of major corporates appear to have averted an even worse market meltdown but now sharply falling property prices, rising unemployment and less spending ("deleveraging" of credit) point to even more depressed local and global economies in the first half of 2009. With the US Fed having effectively exhausted its interest rate weapon to near zero, other measures must be employed to fight recession. Expect to hear more about "quantitative easing" – freeing of banks' balance sheets through central bank asset purchases, thereby increasing the money supply and encouraging lending. Coincidentally, some major governments have announced intentions to pursue huge infrastructure projects to help offset rising unemployment.

In New Zealand, large corporates may have difficulty raising capital or rolling over loans at reasonable rates as credit restrictions persist. A raft of corporate capital note issues to alleviate difficulties is already evident. New Finance Minister, Bill English, says the Government is prepared to inject \$7b into the economy over 2 years through tax cuts and a rescue plan for big firms needs to be considered even though no such problem currently exists. Government accounts have moved into the red and seem set to remain there for some years. Broad consumer index inflation should drop markedly with major fuel price declines but food prices are still rising. The RBNZ has announced further measures to support New Zealand's financial liquidity – accepting a still wider range of securities in exchange for Reserve Bank funding, including Government backed securities, highly rated corporate securities and NZD Asset Backed Securities.

Reserve banks in both Australia (4.25%) and New Zealand (5.00%) still have room to reduce interest rates but the window is rapidly closing. Expect further cuts on both sides of the ditch early next year, posing even more problems for income-seeking investors.

Current issues featured this month

1. Lontamer Fallen Angels Series 2, capital protected.
2. Marac Cash Pie Fund
3. Instant Finance Class A Redeemable Preference Shares, 15% p.a.
5. GoldmanSachs JBWere Trans Tasman Equity Unit Trust

1. Lontamer Fallen Angels Series 2



Right now there is a lot of controversy surrounding the banking sector and this provides an opportunity to invest at very distressed prices. Lontamer believes there is the potential for excellent gains in banking shares over the next five to six years, but full capital protection is essential.

Key features of Lontamer Fallen Angels Series 2:

- Base Units: 90% of rise in the Lontamer Fallen Angels Index[^] (i.e. minimum of 0.9 times the rise) with 100% capital protection at maturity*. This means for each \$1 unit, \$1 is repaid at maturity.
- Term**: 5.5 years +/- 6 months
- Minimum investment NZ\$5000. This is a New Zealand dollar denominated investment.
- No annual management fee charged by Lontamer.
- **Nil Entry fee for applications through Canopus Investments Limited.**
- Closing date extended through January, 2009.
- Early maturity feature. If the financial instruments underlying the fund reach a value of \$1.60 per unit within the first three years, Lontamer will seek to arrange the termination of the financial instruments and the fund will mature early. This provides a way for investors to exit if there is exceptional performance.
- Early bird interest: during the offer period, your investment will be kept on deposit and earn a competitive market rate of interest which is used to buy additional units for you.
- Early exit. This is a hold-to-maturity investment and capital protection only applies at the end of the term. Early exits are possible on a quarterly basis at the discretion of Lontamer. Unless there are exceptional circumstances behind the reason for your withdrawal (or the early maturity feature is triggered) the maximum value of your units prior to maturity is \$1 (less any break costs of the underlying investments held by the fund and a 2% early exit fee). By withdrawing early in these circumstances, you will get back less than you invested.
- Investments in Lontamer Fallen Angels Series 2 are available to New Zealand resident investors and other investors located outside Australia to whom it is lawful to make an offer.
- Contact Canopus info@canopus.co.nz for an investment statement or telephone (09) 444 8055.
- or [download the Investment Statement by clicking here.](#)

^ Liantamer Fallen Angels Index: Initial Index levels are averaged monthly over the first six months and final Index levels are averaged monthly in the last year, which will protect you from any sharp falls in the index. In a rising market averaging lessens returns.

* Capital protection at maturity: means you will receive back 100% of the combined amount invested and early bird interest (earned during the offer period) less any entry fee charged (nil through Canopus Investments) and any exit fee. Capital protection only applies at maturity. Early withdrawals may result in investors receiving back significantly less than they put in, due to market movements, the exit fee and the fund's establishment costs. There is a more detailed description of the capital protection in the Investment Statement and the limited circumstances when capital protection may not be available.

** Term: Liantamer has the discretion to reduce or increase the maturity date by six months, depending on market movements during the offer period. The term will be set on or before the strike date. Investors will be advised of the term on their investment certificate.

2. Marac Cash PIE Fund

Two investment products utilising the PIE structure to provide investors with a competitive cash return and significant potential tax savings, depending on the individual's tax rates:

Key features:

- Marac Call PIE, 7.00% p.a. on call. Income earned daily and compounded monthly.
- Marac Term Deposit PIE, fixed 6.75% p.a. for 12 months, interest paid or compounded quarterly.
- Current rates available until 31 December 2008.
- Marac PIE fund has no fees.
- Minimum investment \$1000.
- No guarantee under NZ Government Deposit Guarantee Scheme, but the Marac PIE Fund invests exclusively in Marac Finance Limited Debenture Stock.
- No brokerage or entry fee charged on applications made through Canopus.

Contact Canopus info@canopus.co.nz for an investment statement and application form.

3. Instant Finance Class A Redeemable Preference Shares

As part of its move to wholesale funding, Instant Finance Limited is seeking to raise \$5 million capital through a very limited offer of Class A Redeemable Preference Shares, paying 15% p.a. with full imputation credits attached to each quarterly payment. Payment of each quarterly dividend will be subject to the Company satisfying a solvency test, which requires that (a) the Company is able to pay its debts as they become due in the normal course of business and (b) the value of the Company's assets is greater than the value of its liabilities (including contingent liabilities).

Key features:

- On winding up of the Company, all liabilities of the Company rank ahead of the Class A Redeemable Preference Shares.
- Class A Redeemable Preference Shareholders rank ahead of other shareholders.
- The NZ Government Deposit Guarantee Scheme does not apply to the Class A Redeemable Preference Shares.
- Closing date for applications is 31 December 2008 or earlier at the Company's discretion.
- Maturity date is 4 years from issue date, expected to be 31 December 2008, but may be repaid after 3 years at the option of the Company.
- Minimum investment is \$5000.
- No brokerage or entry fee charged on applications made through Canopus.

For a copy of the combined Prospectus and Investment Statement with Application Form, contact Canopus info@canopus.co.nz

4. 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.. Annualised growth over the 5 years to 31 August 2008 was 18.44% p.a. For a copy of the latest report contact Canopus.

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

- Established September 1998
- Minimum initial investment NZ\$2000
- 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, Fundsourc 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

Equities

Dividend yields alone may tempt income seekers back to equities but investors need to consider whether previous payments will be sustainable under the new economic reality of rising unemployment and reduced company profits. In many cases they will not. Vital service and productive sectors should, however, continue to attract sufficient revenues to maintain existing levels of dividend payments, making some major listed companies attractive propositions for income as well as growth investors. Canopus sharetrading account holders are welcome to discuss.

Cynotech presents a cheap speculator's punt at around 17 cents. Still based on its finance company activities, the Company has expanded into manufacturing, internet marketing and major event seating. Total assets now exceed \$30m and gearing is reportedly around 40%, a very conservative finance company level. Cynotech does not issue debentures to the public and so has avoided the reinvestment problems formerly besetting other finance companies. Cynotech Convertible Preference shares carry a dividend set at 50% above the RBNZ OCR. Initially set at 12.375% p.a., the dividend

will decline markedly as the OCR goes to 5% and lower. By taking the option to convert their Preference shares to ordinaries during March 2009, holders should be able to pick up a quarterly Preference Share dividend, followed shortly by an ordinary dividend. Shareholders will need to check actual dates carefully, once announced, to enable proper timing for their conversions. A particularly attractive feature of this company is that it generally finances acquisitions from cash flow, not by issuing millions of shares to dilute existing shareholdings as is common practice for many growth companies. Hence the existing warrants (CYTWA, 2.8 cents) have a real chance of being “in the money” by the final exercise date of 27 June 2011, at the exercise price 30 cents.

Liontamer Fallen Angels Series 1 will be looking to its “Smart Start” facility to reset the underlying index to a new, lower base level at the next review in February 2009. This feature has served the initial investors well so far and may increase the potential returns for this fund even more assuming financial equities remain depressed through to February.

Liontamer Fallen Angels Series 2, currently on offer, does not feature the “Smart Start” facility but has the fortuitous timing that should see its starting level being set around the same time as the Series 1 next review.

Commodities and Hedge Funds

Man OM-IP 220 funds have not been affected by Bernard Madoff’s record-breaking US\$50 billion dollar Ponzi scheme fraud. The OM-IP 220 funds, along with most Man OM-IP funds, had no investments with Madoff. Three Man OM-IP funds have very small exposures to Madoff, less than 1% of assets in each case. The funds are OM-IP 15/7 Series 1 & 2 and Series 16/8. Overall, the OM-IP funds continued to provide a genuine hedging function for diversified investment portfolios during October, returning another impressive performance, gaining 10 -11% as global sharemarkets slumped about 16%. During the year from November 2007 to October 2008, as the ASX lost -38.3% the underlying AHL Diversified Program gained +11.2%.

Investors can gain direct access to the Man AHL Diversified Program through Man AHL Diversified (AUD) Limited. The Prospectus is available at http://www.maninvestments.com.au/ahldiversifiedaud/index.cfm?r_id=CANOPUS&CFID=682401&CFTOKEN=57794096.

Base metals and oil continue to plumb new lows and will probably continue to do so into next year on the prospects of declining global economic activity. A falling US dollar is unlikely to provide any meaningful support. After a record run with commodities up to October 2007, the sector has been a non event during the past year but could turn into another winner if global growth starts to emerge late in 2009. A Liontamer capital protected commodities fund with the “Smart Start” feature would create an attractive re-entry to the sector late next year.

Interest Rates and Finance Companies

Finance company deposit interest rates continue to decline across the board, pushed lower by large inflows seeking above-bank rates with the Government Deposit Guarantee. Our debenture yield curve at <http://www.debentures.co.nz/YieldCurve.pdf> now shows a distinct depression at 18 months – a term still entirely covered by the Government Guarantee.

Our benchmark 2 year debenture stock rate at <http://www.debentures.co.nz/2YearDebentureStock.pdf> continues its steep fall. Compounding the situation, finance companies report a real decline in good quality lending opportunities as many homebuyers, consumers, businesses and property developers all unwind debt and shy away from new borrowing commitments. The OCR looks set to fall well below its current 5.00% during the first quarter of next year applying more downwards pressure. This situation could well reverse quite suddenly towards the end of next year should growth and employment start upwards again.

So in the current environment finance companies are able to lock in cheap funding for up to 5 years ahead. Hence investors should be wary of making long term deposit commitments and should be concentrating on terms of up to 2 years. There is always the possibility that the Government Guarantee Scheme will be extended beyond October 2010 – at least in some form such as a reduced upper limit per depositor per institution. However, Government has given no indicator on this so far.

Secured Bond issues from the major finance companies have proven extremely popular, offering competitive rates, first ranking security, the Government Guarantee and liquidity through NZDX listing. The latest from South Canterbury Finance opened and closed on the same day, fully subscribed, including the allowed level of over subscriptions.

Investors wanting to participate in such issues should notify me of their requirements well in advance of the issue opening date. Please do include an indication of the amount you wish to invest as this allows me to seek an early allocation.

I understand South Canterbury Finance may be considering a new Secured Bond issue early next year. Please let me know if you have an interest. The interest rate is unlikely to match the 8.00% just recently gone.

Investors in property financiers Dorchester, St Laurence, North South and Hanover finance companies have all recently voted for moratoriums or schemes of arrangement to repay debenture holders over extended time periods. Unsecured creditors may also receive partial payments. Strategic Finance investors will vote on Monday, 22 December, 10.00am, at the Michael Fowler Centre in Wellington.

Strategic Finance Proxy forms must be in to the Registrar by the end of Saturday, 20 December to be counted. A scanned copy can be emailed to lmsequiries@linkmarketservices.com with the words, “Strategic Finance Proxy” in the subject line. Link Market Services are also able to accept proxies delivered via fax to 09 375 5990.

Despite much caterwauling by the usual self-serving suspects, investors have had little choice but to agree to the rearrangements as the most likely means of maximizing the return on their investments. Representing the receivership option as a viable alternative offering a quick but slightly lower payout is disingenuous in the current climate. Neither receivers nor existing directors will be able to achieve value for partly finished developments in the short term. Possible claims against directors, mooted in some cases, have no guarantee of success, would take years to determine and would cost investors dearly. Schemes of arrangement generally offer more flexibility, lower costs, access to greater management experience and, in some cases, a measure of new capital (even if of debatable value) not available in a receivership. That said, some of the proposals put to investors offer little useful information in the form of current situation and forecasts.

Octaviar in Australia, parent of OPI Pacific Finance (ex MFS Pacific Finance), appears to have avoided liquidation following a creditors meeting in Brisbane on 17 December - the main company creditors opting for a “Deed of Company Arrangement”. This was the option voted for by OPI Pacific Finance as being most favourable to OPI Pacific investors. Another small OPI Pacific

distribution is due in December and investors will be notified of the implications of the recent DOCA in an accompanying letter.

Debex website development

The Debex website has had a minor makeover, renaming the Debenture Stock Primary Market page to http://www.debentures.co.nz/debenture_stock.html . Please bookmark the new page for easy access. A Cash PIE fund page has been added at http://www.debentures.co.nz/pie_funds.html and the secondary markets consolidated onto one page at http://www.debentures.co.nz/secondary_market.html

Strategy

The financial crisis has produced some bizarre suggestions from the usual headline seekers – such as “bring the Reserve Bank back under political control” and calls for finance company receiverships over moratoriums or schemes of arrangement.

But few beat the claim that “Diversification has failed”. Yes the claim has actually been made.

Blue Chip apartment buyers or those big fund managers who entrusted their entire portfolios to Bernard Madoff would not agree.

If anything, the events of 2007 and 2008 confirm once and for all that diversification of a growth or income portfolio is absolutely essential for the private investor. In most cases more diversification in future is likely to improve security and returns, not less. The “Diversification has failed” claim seems to have stemmed from a few columnists extrapolating statements of strategy from the likes of Tony Gibbs of GPG and Warren Buffett of Berkshire Hathaway, both of whom favour detailed research to compile a relatively compact portfolio of investments. Unfortunately few private investors have either the resources or skills to emulate their results, so diversification provides the best alternative – including an allocation to these genuine experts where possible.

Very cautious and limited purchases of equities into 2009 should eventually bring rewards. Income-seeking investors should be wary of published dividend yields that look attractive with respect to current fixed interest rates but which may well not be sustainable in the current economic climate.

A number of listed corporates are currently seeking new capital in the form of capital note issues to assist refinancing obligations as they become due in the short to medium term. Some issues may achieve investment grade ratings, others may not. These capital notes are unsecured and do not carry the Government Deposit Guarantee. Liquidity is achieved through NZDX listing. Yields recently have been around 9.00% p.a. but will most likely reduce for future issues, depending primarily on status of the issuer. Income investors could consider an allocation to the higher quality capital note issues as Government backed deposit rates decline. Contact me for more information.

Private equity has received a lot of bad press over the past year or two, but out of favour sectors offer opportunities for those willing to take a contrarian view. Canopus has access to a New Zealand based private equity fund offering experienced managers with a proven track record, transferable shares, no borrowing, low initial call of just 10 cents per share and alignment of manager’s interests with those of investors. The fund would be regarded as high risk but potentially high reward. Contact me for further information if you are interested.

For all expressions of interest, investment statements and application forms, contact Canopus info@canopus.co.nz

I will be away from 26 December to 3 January, going “bush and beach” for a bit of fishing and tramping.

Do have a Merry Christmas plus a happy and safe New Year.

Regards,
Alan King
Canopus Investments Limited
Email: alan@canopus.co.nz
Tel: +649 444 8055

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

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