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

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Investment Directions

22 February, 2010

"Analysis to action. Opportunities to outcomes"

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1. Overview

The US Federal Reserve's raising of the discount rate from 0.5% to 0.75% on 18 February did little to dampen a nascent sharemarket bounce. Despite cries of surprise, the rise had been signaled a little earlier, along with the possible intention to target the discount rate rather than the Federal Funds rate as the main monetary tool. The move is intended to encourage banks to borrow from the market rather than the Federal Reserve and is not expected to affect private borrowers and mortgages. However, investor concern that the move could be seen as the start of a tightening cycle saw indices retreat initially.

On a broader perspective, steep equity market declines in January and February reflect concerns that the second "vee" of a "W" shaped global recession may be about to commence, fanned by a raft of bad news including sovereign debt worries – particularly over the PIIGS of Europe (Portugal, Ireland, Italy, Greece and Spain). So far the decline has been modest – less than 10% - with market downtrends more recently being broken after more favourable US corporate results and outlooks.

Negative news (for equities):

- Federal Reserve raises discount rate from 0.5% to 0.75%
- Eurozone sovereign debt worries, Greece in particular
- Growth in Germany unexpectedly came to a halt in Q4 2009
- Eurozone industrial production unexpectedly fell 1.7% from November '09 to December '09, versus expectations of a small expansion
- Eastern European countries still in recession
- US jobs still declining but unemployment lower than expected

- Central bank of China increasing bank reserve ratios, curbing liquidity and reducing lending
- US housing market and commercial property loans still in trouble

Positive news:

- IMF and major Eurozone countries now willing to help Greece with huge budget deficit
- France produced slightly higher growth in Q4 '09 than expected
- US wholesale inventories fell, meaning real recovery taking hold as restocking demands increased production
- US GDP growth surged to annual growth rate of 5.70% p.a. for Q4 '09
- Australian employment much stronger than expected, unemployment down to 5.3%
- Corporate results and outlooks improving
- US housing tax credit scheme extended to April

Hedge funds have reportedly been speculating against debt issued by the PIIGS, via Euro currency shorts, bonds and Credit Default Swaps (CDS). The situation could reverse rapidly if support for Greece crystallises and the big speculative positions have to be closed out quickly. Hence currency, bond and equity markets remain potentially volatile.

Risk aversion predominates when bad news outweighs good, boosting safe haven currencies such as the USD and Yen while equity markets and commodity currencies get hammered.

Obama's plans to restrict proprietary trading by US banks hit financial stocks. Proprietary trading is where banks enter share trades on their own behalf - not for clients. The practice can be highly profitable but risky. Some sections of the 1930's Glass-Steagall Act could be restored, forcing separation of banks' commercial and investment activities.

Keeping our finger on the pulse of major Leading Economic Indicators (LEI) and leading data:

	Latest	Jan10	Dec09	Nov 09	Oct 09	Sep 09	Aug 09
3 month LIBOR	0.25%	0.25%	0.26%	0.28%	0.29%	0.35%	0.48%
TED Spread (points)	16.2788	18.0104	20.2972	20.9916	23.6014	17.938	22.073
VIX equity volatility	22.25	24.62	21.68	24.51	30.69	25.61	26.01
US LEI			+1.1%	+1.0%	+0.3%	+1.2%	+0.4%
Japan LEI			+1.3%	+1.7%	+2.0%	+2.7%	+3.1%
Eurozone LEI			+0.9%	+0.6%	+0.4%	+0.9%	+1.9%
Australia LEI				-0.3%	-0.3%	-0.1%	+1.1%
United Kingdom LEI			+0.4%	+0.9%	+1.1%	+1.1%	+1.1%
China LEI (normalized)			-0.1%	+0.1%	+0.2%	+0.2%	+0.4%
US Money Market Funds \$T	3.198	3.218	3.293	3.324	3.373	3.431	3.563

The US Federal Reserve has been in talks with Money Market Funds to help drain up to US\$1b from the US financial system. Action on this scale could well upset the recent inverse relationship between Money Market Funds and level of the S&P 500. Although the relationship appears holding for now, reliability for the immediate future must be in doubt.

In New Zealand, Prime Minister John Key opened Parliament on 10 February with a broad vision to increase GDP through growth of infrastructure, research, high tech industry, exports and jobs. Resurrection of an old idea to establish Godzone as a financial hub was even wheeled out again as new. Having already abandoned ideas of his own Government's Task Force on catching Australian living standards by 2025 as unachievable and limiting tax reform to a hit on property investors and GST to fund personal tax rate reductions, Key's broad vision will remain just that. Under this scenario New Zealand's main exports could soon constitute jobs, skilled people and capital. Key's Government shies away from essential moves to reduce Government's massive share of GDP

as endangering the big middle political ground recently wrested off Labour. But governments consume only – not produce, so inaction commits us to a future of mediocrity and underperformance. It seems unbelievable that National's lame duck, 100% industry-pervasive Emissions Trading Scheme will actually be activated – now that the world has realistically failed to follow suit in favour of cleansing the atmosphere by more rational means. Potential damage to the New Zealand economy and living standards is immense - and all for no discernable benefit to the planet. In comparison, the European ETS model reportedly covers only 4% of Eurozone industry and is itself fraught with difficulties and open to major abuse.

Perhaps as a sign of face-saving things to come, Trade Minister Tim Groser will now handle international climate change negotiations instead of ETS architect Nick Smith. Also, in his parliamentary address John Key forecast “..significant investment in the Domestic Centre for Agricultural Greenhouse Gas Research and in the Global Research Alliance, to drive much-needed research on agricultural greenhouse gas emissions”. One would have thought it logical to investigate the science *before* committing the country to a complicated and expensive ETS that could devastate our agricultural industry.

Government intentions to clobber depreciation on investment properties is already affecting house sales and prices on the downside. Fairer access to capital markets is required if small time, aspiring property investors are to divert savings into productive business and business ownership. Private investors need to have confidence in capital markets and their operators for any hope of a change to occur. Words in this direction from the Capital Markets Task Force have so far fallen on deaf ears in both Government and the NZ Stock Exchange.

Investors need to adjust strategies according to the conditions.

2. New and Current issues

- 2.1 South Canterbury Finance – 8% with NZ Government Guarantee
- 2.2 Liontamer Global 7 International Equities Fund – Pre-launch statement only
- 2.3 Auckland City Council Secured Fixed Rate Bonds
- 2.4 Man AHL Gold (AUD)
- 2.5 Mint Asset Management New Zealand Australia Real Estate Investment Trust
- 2.6 Elevation Capital Value International Equities Fund
- 2.7 Man AHL Alpha (AUD)
- 2.8 GoldmanSachs JBWere Trans Tasman Equity Unit Trust

2.1 South Canterbury Finance Limited



South Canterbury Finance

Key points of the issue:

- 8.00% p.a. interest rate
- NZ Government Retail Deposit Guarantee applies for full term
- Maturity date 11 October 2010
- Nil application fee on applications lodged through Canopus Investments Limited

Download the Investment Statement and application form by clicking here http://www.debentures.co.nz/SCF_IS.pdf or contact Canopus info@canopus.co.nz or telephone (09) 444 8055 for a copy.

2.2 Liontamer Global Series 7



To download the Liontamer Global Series 7 pre-launch statement, click this link http://www.debentures.co.nz/LiontamerG7_PS.pdf

2.3 Auckland City Council Secured Fixed Rate Bonds

Auckland City Council is issuing \$350M with the Bonds secured by a charge over the rates and rates revenue of Auckland City Council. The security is first ranking except to the extent that other security is preferred by law (including security interests that may have priority ranking under the Personal Property Securities Act). The Bonds will rank equally with all other secured indebtedness of the Issuer.

Key points of the offer:

- Requests for firm allocations to be with Canopus by 5.00 pm, Wednesday, 24 February.
- Closing date for applications 19 March 2010.
- Interest rate set date 19 March.
- Interest rate to be the maximum of a pre-set rate or a margin over the 5 year swap rate on the day on the Interest Rate Set Date.
- Maturity date 24 March 2015. 5 year term.
- Interest payments semi-annual on 24 March and 24 September.
- Minimum application NZ\$5000 with NZ\$1000 increments thereafter.
- Rating AA-, S&P.
- No brokerage payable on applications made through Canopus.

Application has been made to NZX for permission to list the Bonds on the NZDX and all the requirements of NZX relating thereto that can be complied with on or before the date of distribution of this document have been duly complied with. However, the Bonds have not yet been approved for trading and NZX accepts no responsibility for any statement in this document. NZX is a registered exchange under the Securities Markets Act 1988.

For a copy of the Investment Statement contact Canopus contact Canopus info@canopus.co.nz or telephone (09) 444 8055.

2.4 Man AHL Gold (AUD)

A new investment targeting the AHL Diversified program and gold.

Contact Canopus info@canopus.co.nz or telephone (09) 444 8055 for a copy of the prospectus.

2.5 Mint Asset Management New Zealand Australia Real Estate Investment Trust



PIE registered New Zealand Unit Trust predominantly investing in property companies and trusts listed in New Zealand and Australia. MANZREIT provides access to a portfolio of major property trusts and companies in a sector just starting to emerge from the Global Economic Crisis.

Key points of the issue:

- Objective return gross 90 Day Bank Bill Rate + 3% p.a.
- Total return asset class providing a combination of income and growth
- Liquidity – no restriction, open ended fund
- Unit pricing daily
- Actively managed, currency hedging at manager's discretion
- Minimum investment NZ\$5000, \$2000 each subsequent investment
- Nil entry fee on applications lodged through Canopus Investments Limited

Download the Investment Statement and application form from http://www.debentures.co.nz/Mint_IS.pdf or contact Canopus info@canopus.co.nz or telephone (09) 444 8055 for a copy.

2.6 Elevation Capital Value International Equities Fund



New Zealand domiciled PIE registered unit trust managed by Elevation Capital Ltd., established by Chris Swasbrook, former partner of Goldman Sachs JBWere PTY Ltd. The fund invests primarily in listed international equities with a maximum of 10% assets in unlisted equities. The trust is "long only", i.e. it does not invest in short positions or derivatives nor does it utilise leverage. A single currency exposure equal to or greater than 10% of total assets may be currency hedged back to New Zealand dollars. Hence the Elevation Capital Value Fund offers a genuine international equities investment for New Zealand investors with PIE regime tax advantages.

Key features:

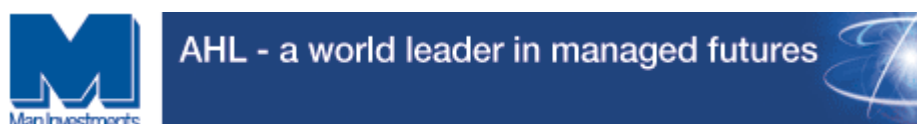
- Target return of NZCPI + 5% p.a.
- Minimum investment of just \$2500 on investments made through Canopus Investments Limited (normal minimum \$5000).
- Open to New Zealand and Australian investors (see Investment Statement for taxation rules applying in Australia).
- PIE regime tax advantages available for New Zealand investors.
- Security of funds being invested in name of trustee.
- Uncommitted cash held in New Zealand dollars.
- Open ended trust - no closing date.
- Ongoing liquidity. Investors can invest for any period although units are only redeemable on a Valuation Day. See Investment Statement for details.

- Units may be sold or transferred to a third party.
- Nil Entry fee on applications made through Canopus Investments Limited.

For a copy of the Investment Statement and Application Form [click here](#), or contact Canopus info@canopus.co.nz, or telephone 09 444 8055.

2.7 Man AHL Alpha (AUD)

Fund from Man Australia structured as a unit trust, based on the AHL Alpha Program and allowing investors to choose between distribution of annual profit or reinvestment. Fund is available only to New Zealand and Australian residents.



For full details of the Fund and access to the PDS and application form, follow this link <http://www.maninvestments.com.au/manahlalpha/adv/canopus> or Contact Canopus info@canopus.co.nz or telephone (09) 444 8055 for a copy.

2.8 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.

Latest news - Goldman Sachs JBWere Asset Management (NZ) Limited has just been purchased by Devon Funds Management, established by Paul Glass. Paul Glass was one of the founders of Brook Asset Management and during his 20 years in the business has managed a succession of successful managed funds.

Key Features of the GS JBWere 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\$24.1 million
- 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

3. Fixed Interest and Finance Companies

PGGW Finance and Fisher and Paykel Finance have both received BB ratings (with stable outlook) from S&P, entitling both companies to apply for the Extended Government Retail Deposit Guarantee Scheme which will extend the government guarantee on retail deposits out to 31 December 2011. For more details of the Extended Scheme see

<http://www.beehive.govt.nz/release/government+extend+retail+deposit+guarantee>

In light of the high fees (150 basis points on insured deposits) payable by BB-rated finance companies for inclusion in the extended scheme, those making successful application are likely to all offer investors the choice of guaranteed or non-guaranteed deposits. Those finance companies already offering the choice have both rate schedules shown on the Debex Primary Market at http://www.debentures.co.nz/debenture_stock.html.

So far these “dual offer” finance companies have shown little inclination to provide an attractive premium for non-guaranteed deposits, but this should change as expiry draws near for the current Guarantee Scheme on 12 October this year. Non-guaranteed deposits are reportedly attracting little support at the current rates. Finance companies approved for the Extended Retail Deposit Guarantee Scheme will have the flexibility of offering guaranteed or non-guaranteed deposits and adjusting deposit rates to suit, in order to maintain liquidity over the next two years. In addition all finance companies achieving the coveted BB rating to date have the benefit of strong shareholder support, offering the possibility of diverse equity and debt capital sources if required.

Of the other Debex-listed finance companies, few have any real chance of achieving the BB rating.

Time to expiry of the existing Government Retail Deposit Guarantee Scheme is now just over 7 months. Top finance company current debenture stock rates with a minimum deposit of \$10,000 or less and with a full term Government Deposit Guarantee are:

Issuer	Term	Rate p.a.	\$ Minimum	Interest Payment
PGG Wrightson	3 months	4.65%	\$10,000	quarterly
South Canterbury	5 months	7.00%	\$100	monthly, quarterly
South Canterbury	6 months	6.00%	\$100	quarterly
NZF Money	7 months	7.00%	\$1000	quarterly or mat.
South Canterbury	11 Oct. 2010	8.00%	\$100	quarterly

For the full range of finance company debenture stock deposit rates see

http://www.debentures.co.nz/debenture_stock.html

Applications will only be accepted when made on the application form that accompanies the investment statement for each issue. Contact Canopus for a copy of the Investment Statement info@canopus.co.nz or call (09) 444 8055 for more information.

Bank and government guaranteed finance company deposit rates are converging slowly as shown at <http://www.debentures.co.nz/2YearDebentureStock.pdf>. New Reserve bank core funding ratios will oblige banks to seek a greater percentage of funds on the local market and for longer terms. Theoretically this should raise deposit rates as banks compete with each other and other institutions for funds. In contrast, government guaranteed finance company deposits will be seen as increasingly attractive relative to bank deposits, especially if the major banks decline to participate in the Extended Government Retail Deposit Guarantee Scheme – as seems likely.

Convergence should result from higher bank deposit rates and relatively steady government guaranteed finance company debenture rates in the short term.

4. Equities

Global equity markets fell in January and early February as concerns over sovereign debt mounted, particularly in relation to Greece, and some early US corporate results in the current reporting round disappointed. A string of better results and outlooks, based on increased productivity and profits rather than downsizing, together with reduced concern over Greece and reappointment of Ben Bernanke as Federal Reserve Chairman, has coaxed indices to break out of downward channels over the past few days.

Locally, New Zealand's biggest listed company Fletcher Building, led the way with a better than expected 6 month NPAT to 31 December, 2009, albeit down 10% on the previous year. CEO Jonathan Ling was upbeat about the current year saying operating earnings in the first half of the 2010 financial year were 15 per cent higher than for the second half of the prior year. FBU shares quickly jumped 7.5% to 802, leaving a big gap in the process. Any move back to "fill in the gap" should be seen as a buying opportunity.

Sky City finally seems to have got its ducks in a row, following a few years in the wilderness under the previous Board and management, with NPAT, up 30% for the 6 months to 31 December 2009. Steady profits at Auckland Casino provided the bulk of revenues but gains came from Australian operations. A full year result up 15% is expected (excluding the \$10m profit from sale of Sky City Cinemas). Again the share price gapped up but looks to be now seeking to fill the gap – providing another buying opportunity.

Opus International Consultants is another good performer with NPAT up 6.3% to \$18.3m for the full year. Annual dividend is up 17.5% to 6.7 cps. Shares surged to \$1.80 on the news but have since retreated a little.

Opportunities to purchase leading local shares at reasonable prices during the early stages of an economic recovery are rare and shouldn't be ignored. For the technically minded, stochastics for both the ASX and NZX indices have just moved out of the oversold zone.

The offer by Allan Hawkins' privately-owned Cynotech Securities Group for Cynotech Holdings appears to hold little benefit for the ordinary shareholders of the listed entity. The disadvantages seem to outweigh any advantages by a considerable margin. Hopefully the offer will lapse and the little company will be able to employ its remaining resources to consolidate activities in its field of expertise to the eventual advantage of *all* shareholders.

5. Property

New Zealand house sale volumes dropped sharply in January to 3666, the lowest in 20 years, although prices were only down 1.6%. Uncertainty over the effect of tax proposals due out in the May budget and rising mortgage rates contributed to the falls.

NZ home building is starting to improve but consents are still low, even after recovering 45% from the exceptional lows of 2009. Commercial building is stronger but is being sustained by public sector projects. Private sector commercial building – hotels, offices and malls – is expected to be weak for the next couple of years.

Auckland CBD office space is said to be heavily over-supplied with 13% of existing space reportedly empty and vacancies possibly reaching 25% within 3 years as current developments reach completion and businesses limit expansion. Wellington also has a glut which could see a 10% vacancy rate within 3 years if all planned developments go ahead.

Under these conditions rents should fall, pushing property values into another round of declines.

Listed and unlisted property trusts can't help but be hit – particularly those with major exposure to the main CBD's. AMP Office Trust looks particularly vulnerable.

6. Investment Strategy

John Key's preference for populist politics over production substantially raises regulatory risk for private investors in New Zealand with consequential risks also rising in proportion. Prohibition of partial SOE floats denies benefits to both state and investors. Shrinkage of the NZX limits the range of local companies to just a few that could be regarded as "investment grade" with an increasing number of those potentially subject to regulatory control or interference.

Thus we expect our investment focus to increasingly shift offshore – Australia being the logical beneficiary.

Although limited, local opportunities do exist but need to be hand picked as to timing, sector and individual security. We retain our watch on the listed property trusts but feel this sector has some more work to do around the bottom before joining the recovery. Forthcoming changes to taxation treatment of depreciation and exposure to over-supplied CBD office space demand caution.

Holding New Zealand and Australian shares individually as part of a diversification strategy is important, providing access to the occasional well-priced special issue capable of adding real value to a diversified investment portfolio - value that will most likely be lost (to a manager's benefit) if shares are held exclusively through managed funds, wrap accounts or nominees.

Current sharemarket weakness provides some attractive buying opportunities amongst blue chip local shares, but heed the warnings above. A second bout of general market weakness, following strong positive reaction to several good results and outlooks, would enhance buying opportunities further.

A diversified growth portfolio should comprise all the major asset classes – fixed interest, equities, property, cash and some alternatives. Canopus can advise on allocations across all asset classes to compile an individual portfolio.

For income seeking investors, 8 or 9 finance companies should be eligible to apply for the Crown Retail Deposit Guarantee Extension, with rates on guaranteed debenture stock attracting little premium over bank deposits of the same term. Investors should be thinking now about transition to a non-guaranteed fixed interest rate environment as the extended scheme is scheduled to terminate on 31 December 2011 without any form of replacement. Possible diversification into corporate bonds needs to be handled with care as these securities may fall in value during a time of rising interest rates such as we currently face.

Canopus can help assemble a diversified income portfolio customised to each individual's requirements.

Regards,

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

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