

# CANOPUS INVESTMENTS Limited

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

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## Investment Directions

22 June, 2010

*"Analysis to action. Opportunities to outcomes"*

### In this Issue

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### 1. Overview

The global economy has recently been a "game of two halves" – not in the traditional first half/second half rugby analogy but more as two separate games being played in different halves of the same field, both at the same time. Our Asian-American half has its problems but generally the recovery remains positive. In contrast, the Eurozone ECB ref tries desperately to make up new rules as the game goes on, just to keep players on the field – some of whom look to have been specially coached as to how to cheat in the first place. Understandably, more honest Euro-players are now reluctant to pass them the ball – but they don't have any choice.

Spillover from the Eurozone half to our game is likely to impact as renewed tightening of credit markets on which Australasian banks still depend heavily for short term funding. While Australia should pause OCR rises for now at 4.5% in response, New Zealand has just kicked off its tightening round with a +0.25% rise on 10 June to an OCR of 2.75% - with more expected, punishing those on floating mortgage rates. Add in a 20% GST rise compounded by the pointless but hugely expensive and all-pervasive Emission Trading Scheme and Kiwis can look forward to effective rates of price inflation not experienced for years. A mid-2011 target of 6% seems likely. Tremors from a Greek (or

other) sovereign debt default could give the RBNZ cause for pause insofar as rate rises are concerned but in reality these price rises are not the type RBNZ has control over. Rather than input price driven, next year's big rises will result purely from a Government grab for more of the Gross National Pie and the nonsensical Emissions Trading Scheme experiment.

Counterbalancing, from a nationwide perspective, is the continued demand and price strength for our major commodity exports with prices up a whopping 10.3% for the March quarter, led again by dairy products jumping nearly 33% and boosted by increased volumes of fruit, forestry products, petroleum products and meats. Terms of trade jumped 5.9% in the March quarter following +5.8% in the December period. The ANZ commodity price index at the end of May, in NZD terms, is up 16% since January and + 29.6% for the May year. That so much of the benefit will be confiscated for non-productive Government largesse is a tragedy in itself.

All in all, Australia's proposed mining super-tax, halt in interest rate rises and predictions of slowing Asian demand for hard commodities should see the Kiwi remain firm or make modest gains against the AUD from its current level of around A\$0.80, usefully below long term averages. Probably a good time to shift a few AUD over to this side of the ditch.

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

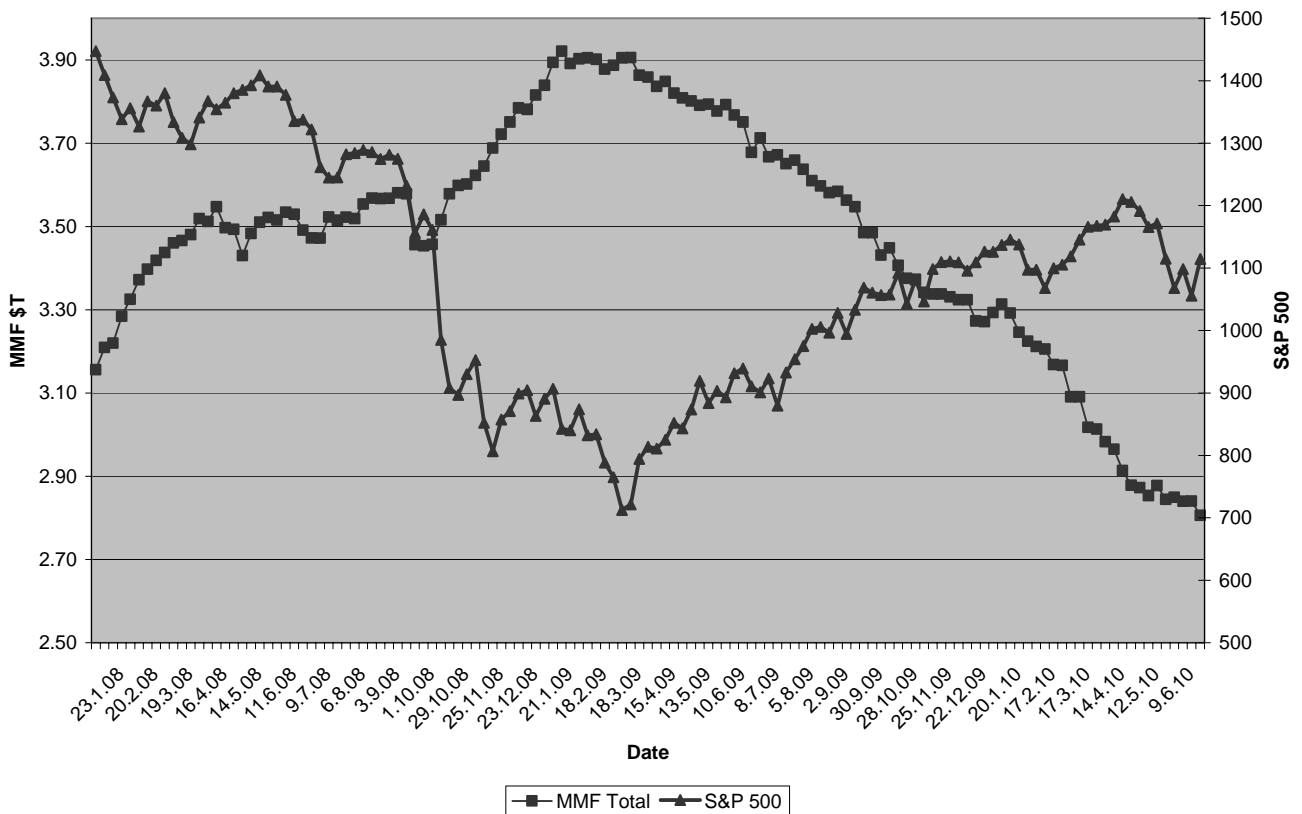
	Latest	May 10	Apr 10	Mar 10	Feb 10	Jan10	Dec09
3 month LIBOR	0.53894%	0.35%	0.29%	0.25%	0.25%	0.25%	0.26%
TED Spread (points)	44.9698	38.4113	19.2392	15.926	13.7089	18.0104	20.2972
VIX equity volatility	25.05	32.07	22.05	17.59	19.50	24.62	21.68
US LEI		+0.4%	0.0	+1.4%	+0.4%	+0.6%	+1.2%
Japan LEI			-0.1%	+2.4%	+1.0%	+2.5%	+2.0%
Eurozone LEI			+0.9%	+1.2%	+0.5%	+0.9%	+0.9%
Australia LEI				+0.3%	-0.1%	+0.1%	+0.6%
United Kingdom LEI			+0.6%	+1.1%	+0.6%	+0.8%	+0.4%
China LEI			+1.7%	+1.2%	+0.4%	+0.8%	+0.4%
US Money Market Funds \$T	2.806	2.840	2.872	2.983	3.166	3.224	3.293

Leading economic indicators from major economies, including the Eurozone, continue to show improvement although Japan recorded an uncharacteristic negative for April. All latest monthly results can be subject to a small degree of revision. Eurozone growth is likely to be impacted by increased taxes and reduced government spending as member states struggle to rein in sovereign debt and past profligacy. Risk aversion has retreated with sharemarket volatility (VIX) backing off its recent high of 45.8 reached on 20 May, opening the way for further gains in equity markets and commodity currencies such as the NZD, AUD and Canadian dollar.

Tightening liquidity in international debt markets, reflected in persistently high LIBOR and TED Spread figures, could well spill over into higher Australasian bank lending rates – already underpinned by the increasing OCR in NZ.

Overall, continuing but patchy global growth, still led by China and other Asia, looks sufficient to prevent the feared second leg of a “W” global recession. European sovereign debt remains the major problem but, notably, markets appear to be tiring of the news, as evidenced by little reaction to Greece's further rating downgrade.

MMF vs S&P 500



US Money Market Funds failed to predict the May equities market fall – or is the chart really saying that it was mainly a Eurozone problem we should not be too concerned about? For now, Money Market Funds continue to be liquidated, theoretically boosting equities.

China’s exports and imports both rose nearly 50% in the year to 31 May, driving confidence that strong Asian growth is still on. US bond yields are up (prices down) indicating risk aversion is waning for now.

In Europe, the ECB kept its base rate at 1% in May as the UK prepared major budget cuts. Successful auctions of European sovereign bonds, especially Spain, helped confidence and the Euro.

**2. New and Current issues**

- 2.1 Man OM-IP AHL 2010
- 2.2 Liantamer Gold Series 1
- 2.3 Devon Trans-Tasman Fund (ex GoldmanSachs JBWere Trans Tasman Equity Unit Trust)
- 2.4 Mint Asset Management New Zealand Australia Real Estate Investment Trust
- 2.5 Elevation Capital Value International Equities Fund
- 2.6 Man AHL Diversified (AUD)
- 2.7 Man AHL Alpha (AUD)
- 2.8 Man AHL Gold (AUD)

## 2.1 Man OM-IP AHL 2010

Latest managed futures fund from Man Investments Australia, invested exclusively in the Man AHL Diversified Program.



Contact Canopus [info@canopus.co.nz](mailto:info@canopus.co.nz) or telephone (09) 444 8055 for a copy of the Prospectus and application form.

## 2.2 Liontamer Gold Series 1

At this stage only the pre-launch statement is available, in accordance with Section 5(2CA) of the Securities Act 1978.

For a copy of the Pre-launch Statement, click here [http://www.debentures.co.nz/Gold1\\_PS.pdf](http://www.debentures.co.nz/Gold1_PS.pdf)

## 2.3 Devon Trans-Tasman Fund

Goldman Sachs JBWere Asset Management (NZ) Limited has been purchased by Devon Funds Group Limited, established by Paul Glass, thus transferring ownership of the GS JBWere Trans Tasman Equity Unit Trust which has now changed its name to the Devon Trans-Tasman Fund. 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. Under the new ownership, investment style, objectives and management of the fund will remain unchanged

This fund has an excellent long term track record, placing it amongst the best performing New Zealand and Australian equity funds. 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 Devon Trans-Tasman Fund

- Established September 1998
- Low minimum initial investment NZ\$2000
- Low minimum additional investment NZ\$1000 or NZ\$100 per quarter with regular savings plan
- Nil entry fee on applications through 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](mailto:info@canopus.co.nz) or download from [http://www.debentures.co.nz/DevonTTF\\_IS.pdf](http://www.debentures.co.nz/DevonTTF_IS.pdf)

## 2.4 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](http://www.debentures.co.nz/Mint_IS.pdf) or contact Canopus [info@canopus.co.nz](mailto:info@canopus.co.nz) or telephone (09) 444 8055 for a copy.

## 2.5 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](mailto:info@canopus.co.nz), or telephone 09 444 8055.

## 2.6 Man AHL Diversified (AUD)



24 hour access to more than  
170 international markets

Provides direct access to the AHL Diversified Program, anchor trading program of the OM-IP hedge funds. Click here to access the PDS and application form

[http://www.maninvestments.com.au/ahldiversifiedaud/index.cfm?r\\_id=CANOPUS&CFID=682401&CFTOKEN=57794096](http://www.maninvestments.com.au/ahldiversifiedaud/index.cfm?r_id=CANOPUS&CFID=682401&CFTOKEN=57794096)

## 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.



AHL - a world leader in managed futures

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](mailto:info@canopus.co.nz) or telephone (09) 444 8055 for a copy.

## 2.8 Man AHL Gold (AUD)

An investment targeting the AHL Diversified program and gold.



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

### 3. Fixed Interest and Finance Companies

As with other finance companies approved under the Crown Retail Deposit Guarantee Extension, Fisher and Paykel Finance now offers both Government Guaranteed and non-Government Guaranteed debenture stock. The new rates are posted at [http://www.debentures.co.nz/debenture\\_stock.html](http://www.debentures.co.nz/debenture_stock.html).

Although not covered by the Crown Retail Deposit Guarantee, “excluded” debenture stock issued by these companies is still first ranking, i.e. debenture holders retain a charge over all the assets of the issuing company except for relatively minor prior charges allowed by law. Under the extended guarantee, qualifying depositors will have their guaranteed investments protected up to a maximum of \$250,000 until 31 December 2011. For full details of the New Zealand Government Deposit Guarantee Scheme and the Extension, visit [the New Zealand Treasury website](#).

Should the Crown Guarantee be activated in regards to any of these companies (through some event or default) eligible holders of Government Guaranteed debenture stock in that company would then be paid out all capital and interest due, up to the time of default, from Government resources. The Government would then rank in equal priority to other first ranking secured debenture holders as charge-holders over the finance company’s assets.

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
Fisher & Paykel	Call	4.50%	\$500	quarterly
Fisher & Paykel	3 months	5.00%	\$1000	quarterly
UDC Finance	4 months	4.70%	\$5000	on maturity
Equitable Mortgages	6 months	5.50%	\$2000	quarterly
Marac	6 months	5.50%	\$1000	quarterly(Canopus exclusive rate)
Fisher & Paykel	9 months	6.00%	\$1000	quarterly
Fisher & Paykel	12 months	6.75%	\$1000	quarterly
PGG Wrightson	16 months	6.25%	\$10,000	quarterly

**N.B.** Finance companies may offer special rates, adding up to 0.5% p.a., to existing investors, for rollover of current deposits, for large amounts or for investments made through Canopus Investments Limited. International investors applying for New Zealand domiciled debenture stock may qualify for the “Approved Issuer Levy” deduction of just 2% of interest earned, in lieu of non-resident withholding tax which would otherwise be deducted at a rate of 10% or 15%. Contact Canopus for details [info@canopus.co.nz](mailto:info@canopus.co.nz) or call (09) 444 8055 for more information.

For the full range of finance company debenture stock deposit rates and finance company ratings see [http://www.debentures.co.nz/debenture\\_stock.html](http://www.debentures.co.nz/debenture_stock.html)

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

Oxford Finance, New Zealand’s only non-bank owned finance company holding an investment grade rating from Standard and Poors, (BBB-) is not intending to apply for the Crown Retail Deposit Guarantee as it feels investors already have sufficient security through the parent company guarantee. Reinvestment rates remain high. Oxford may review its stance nearer October when the current Crown Guarantee expires.

According to Sandy Maier, **South Canterbury's CEO**, as at 9 June, South Canterbury Finance had debentures outstanding of \$1.326b of which \$225m mature outside the Crown Retail Deposit Guarantee of 31 December 2011. In addition, approximately \$300m in secured bonds also remain outstanding. The debenture book has been reduced by about \$200m in the last two months and is said to be reducing by about \$100m per month. Debenture stock maturing in October this year has been reduced to \$250m but 50% of debenture holders have yet to respond to SCF's offer of 8% to roll over their investments into 2011. The company is sitting on \$77.3m in cash. Rollover rate of maturing debenture stock is running at greater than 50% and new investments stand between \$1m and \$2m per business day. Maturity of investments across 2011 is reasonably well spread, without a major "wall of maturities" developing for December 2011. Chairman for Life, Allan Hubbard, is aiming to raise \$180m in new equity before 31 August this year.

South Canterbury has nominally been split into three divisions: a "good" division holding the performing loans, a "bad" division holding impaired assets (mostly property loans) and an "investment" division holding the businesses acquired from Allan Hubbard in exchange for new equity plus other non-core assets. Long term the "good" division is intended to comprise the ongoing entity with assets of about one billion dollars. The "bad" division has a specialist recovery team in place to realise impaired assets at the best possible price while the "investment" division is likely to prepare its holdings for sale as these are not seen as comprising core business of the finance company in future. Since January, \$210m has been recovered in sales, mainly from the "bad" division. After write downs, about \$500m of potential recoveries remain in the "bad" division and \$400m in the "investments" division. Under this scenario South Canterbury would still be one of New Zealand's largest finance companies once the restructuring is complete.

Latest news is that several entities controlled by Allan Hubbard and his wife have been placed in statutory management. SCF CEO Sandy Maier says the matters under investigation are separate from and not related to South Canterbury Finance. Treasury has confirmed that eligible investors will remain covered by the Extended Crown Retail Deposit Guarantee out to 31 December 2011. However, South Canterbury is amending its Prospectus to reflect the events as Allan Hubbard remains "President for Life" of the company to which he has devoted so many years. What effect the Statutory Management order has on Allan Hubbard's ability to raise more capital for South Canterbury remains to be seen. He has claimed a major deal is already close. Long term, South Canterbury's future depends on acquiring new equity, timely sale of the non-core assets and retention of a reasonable debenture investment rate.

#### **4. Equities**

US share markets had their worst May since 1962, dragging all others with them but creating opportunities for contrarian investors. Both growth and income oriented portfolios could well benefit from major Australasian shares selling at attractive levels now compared to just six weeks ago.

**Pyne Gould Corporation (PGC)** has announced a proposed merger between Canterbury Building Society, Southern Cross Building Society and Marac Finance, intended to create the only New Zealand – owned listed bank. The initial asset base of approximately \$2.2b is expected to provide the scale and diversity to support an application for a banking licence. The intention is for CBS and SCBS to merge initially, then purchase Marac from PGC in exchange for shares in the new entity. PGC would be the largest shareholder. The aim is to more than double the asset base over five years and achieve shareholder returns greater than would be available separately.

If all approvals are granted, the new entity is expected to commence trading by early 2011 with a banking licence application being made by the middle of the year.

If merging company shareholders get offered shares in the proposed banking entity, it may represent a very rare opportunity for private investors to acquire shares in a high quality NZX float at the IPO stage.

**Devon Funds Management** has appointed Mel Firmin, Chris Gasken and Slade Robertson, all ex-Brook Asset Management, to its investment team. In addition Nick Dravitski, an experienced analyst, and Neill Hartigen, currently on secondment from Goldman Sachs, are also joining Devon. This must create one of the most experienced fund management teams in the country. In addition to managing the Devon Trans Tasman Fund (ex GS JBWere Trans Tasman Equity Unit Trust) Devon has recently established the Devon Alpha Fund, an actively managed Australasian equity fund that may include shares outside Australasia and short selling of shares expected to decline in value.

The Devon funds are listed on Debex at [http://www.debentures.co.nz/managed\\_funds.html](http://www.debentures.co.nz/managed_funds.html)

**BHP** (amongst others) has gone on the offensive over the Australian Rudd Government's plan for a super tax on mining profits, criticising the absence of consultation and publishing figures directly contradicting numbers used by the Rudd Government to justify the tax. Many Australians credit the mining industry with being the reason they largely avoided the Global Economic Crisis. Any major negative move against the huge amount of export income, direct jobs and service industries the mining industry creates will not be welcomed across the board, from labour unions, investors, service businesses, state politicians and the mining companies themselves. The Rudd Government seems to have misjudged populism of the mining super tax in much the same way as New Zealand's Key Government has misjudged populism of its Emissions Trading Scheme. In each case the respective Government has painted itself into a corner that will likely see each scheme implemented in some form or another despite its obvious deficiencies and dangers – purely to save political face.

Whether or not the Rudd Government persists with the mining super tax in its present form, a later government is likely to scrap or greatly amend the legislation. Hence the current depressed BHP share price could be viewed as a buying opportunity for one of the world's leading blue chips.

**GPG** now intends to split in two - one entity holding the Australian assets with the other retaining NZ and UK assets plus the major Coats investment. The intention is to sell Coats via an IPO in about two years. ASB Securities calculates a NAV for GPG of \$1.33 with a 12 month target price of \$1.10. The latest GPG price of 64 cents represents just 48% of the estimated NAV and 58% of the target price, posing a quandary for shareholders. Given the recent bad publicity and heavy discount, best option is probably to hold for now.

**British Petroleum** looks to be losing its kingdom for want of a horseshoe as the Gulf oil disaster drags on. From an engineering perspective an effective shut off valve, activated on loss of power, should be a relatively simple device to build and install at the pre-production stage – even a mile under the sea. BP's billions may yet prove insufficient to save its tarnished brand.

## 5. Kiwisaver

Kiwisaver members not receiving employer contributions need to act before the end of June if they wish to claim the dollar for dollar government "tax subsidy" available on contributions up to a maximum of \$1042.86 per year. To receive the maximum government subsidy you need to contribute at least that much to your Kiwisaver account during the year that ends on 30 June. A 100% government subsidy on savings is too good to miss. Contributing when share markets are low is an added bonus.

For those who joined Kiwisaver during the year, the maximum government subsidy available is

calculated on a pro-rata basis with respect to the number of months you have been in a Kiwisaver scheme. Hence someone who joined at the beginning of April 2010 would only be entitled to receive  $3/12 \times \$1042.86 = \$260.72$  this year but will be eligible for the full subsidy next year provided they maintain Kiwisaver membership throughout the full year and contribute at least \$1042.86.

Kiwisaver members do not have to take any particular action to claim the government subsidy as it will be paid automatically into their Kiwisaver accounts.

If you are eligible but have not yet joined Kiwisaver, you are missing out on arguably the best investment available.

Contact Canopus [inf@canopus.co.nz](mailto:inf@canopus.co.nz) for more information about Kiwisaver.

## 6. Investment Strategy

Investors wanting to derive income from their investments should be turning attention to the shape of their portfolios after the Government Retail Deposit Guarantee initially expires on 12 October this year, with final expiry of the Extension on 31 December 2011. Already many will be considering withdrawal from finance companies where the Government Guarantee expires on 12 October. Only five finance companies offer debenture stock covered by the Crown Retail Deposit Guarantee Extension out to 31 December 2011: Equitable Mortgages, Fisher and Paykel, Marac, PGG Wrightson and South Canterbury. Although eligible to apply for the Extension, Oxford Finance and UDC have, so far, chosen not to apply for coverage.

Hence opportunity for well-rated diversification within the finance company sector will be limited after the initial Crown Retail Deposit Guarantee expires on 12 October and income seeking investors need to consider alternative investments offering good security with reasonable returns.

As always, higher return entails higher risk (in a market not distorted by the Government Guarantee) and diversification can help achieve better security while increasing returns. A reasonably conservative income portfolio post the Government Guarantee might look something like this:

Asset Class	Portfolio weighting	Expected Income %	Income return	Expected Growth %	Growth Return	Portfolio Return %
NZ cash	2 %	4.00	.00080	0.00	0	.00080
NZ debentures	5 %	6.72	.00336	0.00	0	.00336
NZ Corp. Bonds	30 %	7.00	.02100	0.00	0	.02100
International Bonds	5 %	7.50	.00375	0.00	0	.00375
NZ Gov. Stock	3 %	5.75	.00173	0.00	0	.00173
Listed property	25 %	8.20	.02050	1.50	.00375	.02425
Australasian equities	15 %	6.50	.00975	4.00	.00600	.01575
International equities	15 %	7.50	.01125	2.00	.00300	.01425
Expected Return	100%		.07214		.01275	.08489
Expected Return % p.a.			7.214%		1.275%	8.49%

Utilising PIE funds and securities where appropriate, little tax should detract from the expected return. Adjusting weightings and including some higher return/risk investments may increase overall returns. This allocation assumes bonds are not perpetual and held to maturity, returning the original capital.

If you would like to discuss assembling a diversified income portfolio *not* dependent on the Government Guarantee, contact me now, [alan@canopus.co.nz](mailto:alan@canopus.co.nz) . Building a sound portfolio takes time, so don't leave it until the Government Guarantee is about to expire.

Growth portfolio investors have been handed an unexpected opportunity through the sharp market downturn during May and early June to add top quality shares at reasonable prices. We intend to take advantage.

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

Regards,

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

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