

# CANOPUS INVESTMENTS Limited

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

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## Investment Directions

18 May, 2009

*"Transforming opportunities into outcomes"*

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### 1. Overview

Unsurprisingly, RBNZ's lowering of the Official Cash Rate to 2.5% on 30 April has not been matched by declines in lending or deposit rates offered by both bank and non-bank institutions, as New Zealand remains in the credit squeeze grip. A small initial dip in bank deposit rates was soon reversed and finance company rates continue an upward bias as shown by our bench mark 2 year deposit rate chart at <http://www.debentures.co.nz/2YearDebtStock.pdf> . The NZ Government is to introduce long bonds, 12 years, to help fund a big increase in Government spending and debt.

Australia's OCR remains at 3.00%.

Although Australasian banks have weathered the "Great Recession" in relatively good shape thanks to limited exposure to "sub-prime" loans, they remain heavily dependent on funding from tight international markets and local depositors to maintain liquidity. Non-bank financial institutions, particularly larger finance companies, have diversified their funding lines substantially but still also rely on local depositors for cash liquidity. New Zealand's overwhelming concentration of private wealth into property, including highly leveraged dairy farms, means the economy remains vulnerable to any new deterioration in credit markets (hence house prices) and agricultural commodity prices. For now though, both seem to be holding (median house price up for 2-3 months) or showing some

improvement on a global scale. New Zealand's trade deficit for the March quarter was just \$165m, the lowest since 2002, owing to a major decrease in imports while exports declined only modestly. Unemployment rose less than expected in NZ and actually fell in Australia. Hence the NZD remains relatively stable with a strengthening bias compared to the Greenback.

Nevertheless, New Zealand is headed for its fifth quarter in a row of negative growth (recession), with a further quarter of recession still likely. Concern remains over the high NZ debt with respect to GDP, but most borrowing is by banks, not the State.

Government and Reserve Bank both need to recognise the urgent need to determine the future of the Government Retail Deposit Guarantee Scheme. While indecision remains, many millions of dollars of cash sit idle in bank and non-bank finance institutions doing no more than providing a liquidity reserve buffer against potential elimination of the scheme in its entirety. Despite these reserves, "cold turkey" removal of the guarantee, without sufficient warning, could well create another round of financial chaos of which Government and Reserve Bank must be aware, so expect an announcement on the scheme's future long before the scheduled 12 October 2010 expiry date. This may come as early as in the budget or during June. Market expectation is for a continuation of the scheme in some form, perhaps including a reduction in the \$1 million guarantee limit and at least a 1 year extension to match Australia. See Section 4, Fixed Interest and Finance Companies, for more analysis of the implications.

Determining the scheme in a manner that allows financial institutions to plan for the future would do far more to relieve credit blockages than lowering the OCR another 0.5% with more jawboning. Again though, lower interest rates do not necessarily follow as liquidity demands will continue.

To keep our finger on the global pulse, today's market sensors stand at:

3 month LIBOR	0.84417%	(April 1.19%, March 1.26%)
TED Spread	0.85438	(April 0.9573, March 1.10292)
VIX (equity market volatility)	33.12	(April 36, March 43)

Reduction in all figures indicates improved credit availability and confidence in global equity markets. However, latest leading economic indicators from the US, dated 20 April, show a continuing decline in economic activity, -0.3%, for March while corresponding leading economic indicators from the world's second largest economy, Japan, show a continuing large contraction of -3.5%, bringing the total to -26.4% over the past 6 months, the largest 6 monthly decline in the record's 44 year history.

Management of Chrysler and (almost-certain) General Motors bankruptcies could prove crucial to US economic direction over the next 6 months, with huge numbers of jobs, pensions, suppliers and distributors dependent on an orderly restructure or wind down in each case. Even more US Government support will probably be necessary, but whether redistributing the cake in this manner can help end the recession remains to be seen – it certainly won't help the cake grow. US GDP contracted -6.1% in the March quarter, much worse than the -4.7% expected. However, most recent figures show US consumer sentiment and the manufacturing index rising while production contracted less than expected during April.

Also on the positive side, leading economic indicators for the Euro area increased by 0.2% in March (vs -0.2% February, +0.7% January). Unfortunately figures for China are not available.

Overall then, recent surges in equity and commodity markets, while having some justification, appear overdone as the broader economic outlook in the world's two largest economies remains depressed.

Commodity prices, including crude oil, precious metals and base metals, all traded internationally in US dollars, seem to be rising more from hedging against a potential US dollar decline than from actual physical demand. Hedging positions are often taken via derivatives such as futures contracts where usually no stock changes hands, hence inventories are not affected but prices are. With crude oil and base metal inventories full to overflowing, and with more gold and silver available than ever, traditional analysis says prices should fall - but these are not normal times. Massive increases in the US Federal Budget from new debt, bailouts, quantitative easing etc, justify the concern.

## **2. Equities**

Swine flu, potentially a market show stopper out of left field, failed to make an impression despite populist news media's best efforts. The morning of 28 April saw Al Jazeera rebroadcast TV1 news from the previous night on its World Service as an example of news media whipping up swine flu hysteria, commenting that the treatment was even more remarkable, coming from a state-owned broadcaster.

Several worse-than-expected US bank Stress Test results, released via carefully managed leaks, actually saw US bank stocks climb modestly. Where new capital is raised through large new placements and conversion of Government held preference shares to ordinaries, elimination of former shareholder value from just a couple of years ago will effectively be complete, destroyed by massive dilution and huge share price falls.

But sharp rises in global equity markets, despite the obvious continuing economic concerns, mark a change in sentiment from the all-pervasive doom and gloom of just three months ago. After gains of 19% by the NZX 50, 25% by ASX 200 and 31% on the DJIA over six weeks from early March, recent modest declines look more like a healthy consolidation rather than the start of a new major leg down.

Several major NZX-listed companies have taken the opportunity to raise more capital from institutional placements and modest share purchase plans aimed at existing shareholders, the object being to repay some existing debt, ease refinancing of future maturing debt obligations and strengthen balance sheets for possible acquisition activity. Generally these companies should represent winners coming out of the recession as opposed to those forced into heavily dilutionary issues at pitiful prices simply to stay afloat.

At \$5.35 the Fletcher Building share offer (now completed) hands participants an immediate gain of 24% at the recent market price of \$6.63 - too good to miss. Heavily oversubscribed, applicants can expect to receive about 60% of their issue request. New shares are due for allotment on 21 May. Scaled back allocations and limited size of the issue should see any stalling of new shares having little impact on the market price.

At a \$2.44 issue price, the Freightways Share Purchase Plan gives shareholders another good opportunity, a 21% gain with the head shares at \$2.95. Again the issue is relatively small, \$5m in total, so heavy scaling of applications can be expected.

Sky City's Share Purchase Plan is less attractive, the market price of \$2.87 providing a gain of only 10% on the issue price of \$2.61. However, the smaller potential gain could actually see fewer applications and less scaling, resulting in actual dollar gains comparable to the Fletcher Building and Freightways issues.

These issues are all "non-renounceable" meaning rights cannot be sold or transferred. All

shareholders are entitled to apply for the same dollar amount, so purchasing a small holding before the ex-entitlement date is a viable method of accessing each issue.

Keep an eye out for further attractive offers from top quality companies.

Diversified but small investment group Cynotech Holdings (AGM, 22 April) remains well positioned to continue growth, having largely escaped the economic devastation all around. Pre-tax profit to 31 December 2008 increased by over 100% and NPAT increased to \$2.28m from \$1.143m. Dividends for the 2008 year increased 150% from 0.5 cps to 1.25 cps. Equity at \$13.06m was up 20%, funding 42% of total assets. The Company has been paying down bank facilities and still has cash reserves but will probably seek new capital from a preference share issue or similar in the near future as it intends to begin lending again through its Budget Loans subsidiary. However, an ordinary share rights issue to raise cash is not intended. More likely is a preference share issue with priority of participation being offered to existing share holders. Cynotech is well positioned to maintain growth in both profit and dividends but at least should equal 2008 achievements for 2009, giving a yield of 7.2% at 17.3 cps for the ordinaries.

### **3. Property**

Listed property trusts potentially offer future capital gains and high income yields but are currently suffering from high debt servicing obligations, property devaluations and possible loss of rental income as the economic downturn hits tenants, particularly those in retail shopping malls.

In response, AMP Office Trust has led the pack with a renounceable 9 for 20 rights issue at 65 cents, compared to the last cum-entitlement head share price of 78 cents. At this level the theoretical ex-issue price is 74 cents, giving a gain of 14% on the newly issued shares, but a decrease of 5% on the existing shares. Unlike the non-renounceable issues from Fletcher Building, Freightways and Sky City, rights to new APT shares can be traded and are allocated strictly on the 9 for 20 ratio. Hence purchasing shares on market to gain entitlement is less attractive than for the other issues. Existing shareholders could gain by taking up their allocation or selling rights on market, but brokerage on a small sale could wipe out profit as rights should only be worth about 9 cents each.

Other listed property trusts might well follow APT's example by making similar issues, but National Property Trust, already in the gun with its major unit holders and selling at a massive 62% discount to net asset backing, would have a very hard job.

Selling properties to help reduce debt may be an option in some cases, but selling into the current market locks in a poor outcome for unit holders and may well prove impossible for the larger properties where buyers are said to be completely absent.

Apart from problems in the retail areas, according to reports CBD office vacancies are expected to rise sharply in Auckland (7.5% to 15%) and Wellington (5% to 11%), with owners having to offer more rental holidays and reduced rentals to attract or keep tenants.

Retail sales were down more than expected at -2.9% for the March quarter, with obvious implications for big mall owners, notably Kiwi Income Property Trust, owner of Auckland's giant Sylvia Park Shopping Complex. KIP has reduced distribution from 8.00 cpu to 7.50 cpu with property devaluations producing a loss of -\$168.9m for the year to 31.3.09.

Where listed property trusts can maintain reasonable distributions, yields will remain attractive and at some time in the future, property revaluations will again work to boost the trusts' bottom lines.

#### 4. Fixed Interest and Finance Companies

Although Reserve Bank Governor Allan Bollard reduced the Official Cash Rate to 2.5% from 3.00% on 30 April, banks have been reluctant to pass on the reduction to borrowers, partly at least because of indecision over future of the Government's Retail Deposit Guarantee Scheme. Bank deposit rates have shown no decline and finance company debenture rates have continued a slight increase as shown on our 2 year benchmark deposit rate chart at <http://www.debentures.co.nz/2YearDebentureStock.pdf> .

In this environment, well rated bonds from financially strong issuers continue to find favour with investors. Such is the number of issues that investors need only cherry pick the best.

Rabobank Pie Capital Securities, closing on 22 May, is a case in point, offering an attractive yield on a highly rated and potentially liquid bond. Interest rate (coupon) will be set on 25 March at the then 5 year swap rate plus 3.75%. On 29 April the 5 year swap rate was 4.77%, which would have given a coupon of 8.52% p.a.

Investors should note that the Government Deposit Guarantee does not apply to these bond issues.

To reserve an allocation in any forthcoming issue, contact Canopus, [info@canopus.co.nz](mailto:info@canopus.co.nz) .

Time to expiry of the Government Retail Deposit Guarantee Scheme is now 16 months.  
Top finance company current debenture stock rates with Government Deposit Guarantee are:

Issuer	Term	Rate	\$ Minimum	Interest Payment
PGG Wrightson	6 months	4.65% p.a.	\$10,000	quarterly
Fisher & Paykel	9 months	4.75% p.a.	\$ 1,000	quarterly, +0.25% loyalty bonus
FAI Finance	12 months	6.35% p.a.	\$ 1,000	quarterly, monthly
Finance Direct	14 months	6.75% p.a.	\$ 1,000	quarterly
Equitable Mortgages	15 months	6.25% p.a.	\$ 500	quarterly
UDC Finance	16 months	4.75% p.a.	\$ 5,000	quarterly

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

An announcement regarding the Government Retail Deposit Guarantee could be made in the Budget on May 28 or shortly thereafter. From an administrative point of view and assuming abandonment of the scheme altogether on 12 October 2010 is judged to be unwise, a simple rollover of the existing scheme would be attractive to the Reserve Bank. Apart from simplifying administration (no need to write and publish new rules) rolling over the scheme for say, another 12 months would give finance companies the extra time needed to obtain an official credit rating before facing an open competitive market for funds under the new Reserve Bank supervisory regime without the benefit of the Guarantee.

Before an announcement is made we just do not know the outcome but it is worth considering the investment scenario under the situation of a scheme extension, say for a further 12 months to 12 October 2011.

Given the finance company sector experience of massive and rapid inflows immediately after the Scheme's introduction, a similar development is likely for deposit periods within any extended Scheme time limits, i.e. finance companies (and other non-bank deposit takers) would receive large inflows for term deposits out to the new scheme termination date.

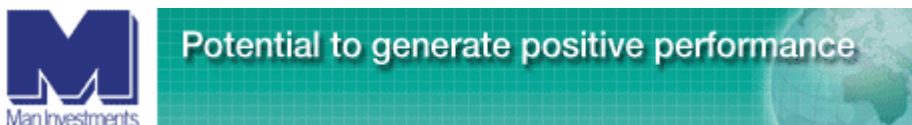
Although finance companies report improving numbers of high quality lending opportunities, overall the scope is still limited and finance companies are generally sitting on cash reserves more than adequate to meet current lending opportunities while providing a potential liquidity buffer. Hence they do not require more short term funds just now and extension of the Government Retail Guarantee Scheme would almost certainly see finance company debenture rates reduced immediately for terms within the new Guarantee limits. Current 2 year rates could drop immediately by 1% - 2% across the board.

Deposit rates for terms remaining outside the Guarantee should remain intact, with a slight upward bias developing as lending opportunities improve and finance company demand for cash increases.

## 5. New and Current Issues

- 5.1 Man OM-IP 2AHL
- 5.2 Lontamer Australia Series 1
- 5.3 GSJBWere Trans Tasman Equity Unit Trust
- 5.4 Senior Retirement Village Trust
- 5.5 Proportionate Ownership Scheme, 13 William Pickering Drive, North Harbour

### 5.1. Man OM-IP 2AHL



New capital protected OM-IP managed futures fund based solely on the AHL Diversified trading program which underlies the OM-IP 220 series and many other successful OM-IP funds. AHL Diversified (AUD) Limited, also based solely on this program, produced an outstanding result of +35% for the year ended 31 December 2008 while major sharemarket indices plunged -30% to -50%.

Contact Canopus [info@canopus.co.nz](mailto:info@canopus.co.nz) or if you would like to receive a copy of the prospectus. Applications will only be accepted when made on the application form that accompanies the prospectus.

### 5.2. Lontamer Australia Series 1

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



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](mailto: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, 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](mailto:info@canopus.co.nz) or download from [http://www.debentures.co.nz/TTEUT\\_IS.pdf](http://www.debentures.co.nz/TTEUT_IS.pdf)

### **5.4 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](mailto:info@canopus.co.nz), or telephone (09) 444 8055, fax (09) 444 8059 or [Download from here.](#)

## 5.5 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 27 May 2009 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](mailto:info@canopus.co.nz) or download from [http://www.debentures.co.nz/13WPD\\_OS.pdf](http://www.debentures.co.nz/13WPD_OS.pdf)

## 6. Kiwisaver

KiwiSaver members are reminded that the KiwiSaver year ends on 30 June, so those wanting to top up contributions to gain the maximum Government tax credit of \$1042.86 per year should act soon. Contributions can take up to a couple of weeks to be deposited and recorded, so don't leave it until the last days of June.

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.

KiwiSaver's major advantages:

- 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 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](mailto:info@canopus.co.nz) or call (09) 444 8055 for more information.

## 7. Investment Strategy

Attention remains centred on equities with the oft-quoted “never waste a good recession” proving prescient. The rare opportunity to acquire top quality shares at bargain levels now exists through the various share purchase plans, temporary weakness from rights issues and simply attractive on-market prices. Investors wanting to add blue chips to a diversified investment portfolio can do so via direct purchases or through a well performed managed fund including “leaders”. Of course second line stocks can also recover rapidly from recession – maybe even more rapidly than the leaders, but it is the unique conditions applying to leaders just now that deserve attention.

As noted earlier, the recent run up in equities appears overdone, causing us to hold off market purchases while the short term indicators all point to an over bought situation. But these indicators can change rapidly - and the larger trend remains positive. Also causing uncertainty is the New Zealand Budget, due for delivery by Finance Minister Bill English on 28 May. A stinker is expected and should be delivered, but we may well see a reverse case of “buy the rumour, sell the fact”. Applied to an expectation of bad news instead of good, the rule becomes “sell the rumour, buy the fact”. We will be watching for alignment of favourable factors before actioning pending client purchases.

Participation in share purchase plans and rights issues is independent of market indicators and needs to be judged solely on the merits of each case as it occurs.

Investors with fixed interest investments maturing in the near future and seeking further income should consider possible future of the Government Retail Deposit Guarantee Scheme as examined in Section 4 of this issue. Diversification across bonds, debentures and other securities is just as important for an income portfolio as for a portfolio aimed at growth.

Should an announcement be made to extend the Government Deposit Guarantee in the Budget, or at any time, it is most likely investors will have only a day or two thereafter to submit application forms to capture today’s deposit rates on deposit terms falling within the new Guarantee term.

In effect, investors should have application forms already prepared and ready to submit - fast.

For all expressions of interest, investment statements and application forms, contact Canopus [info@canopus.co.nz](mailto: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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