

CANOPUS INVESTMENTS Limited

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

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Investment Directions

26 January, 2009

Overview

After hitting an all time high of 465 basis points during the height of the credit freeze on 10 October last year, compared to its long term average of 30 – 50, the "TED Spread" is now back around 100, indicating a significant thaw in interbank lending. TED Spread measures the difference between the interest rate on 3 month US Treasury Bills (virtually "risk free") and the 3 month London Interbank Offered Rate (Libor), the rate at which banks lend unsecured US dollars to each other. Hence TED Spread is regarded as a useful measure of perceived risk in the global economy, traditionally moving in the opposite direction to share market indices and regarded by many as a leading indicator of forthcoming share market direction.

If the TED Spread can hold or even push lower, perhaps we will see improvement in the share indices later this year, but short term the markets can expect another pounding as global economic malaise strikes at corporate profits, dividends and employment. Banks in particular look set to endure another round of weakness. Revelations of further major bank losses should come as no surprise but this quarter may be pivotal in revealing whether central banks finally have a real handle on the extent of the financial crisis and the scale of additional support needed to shore up the international banking system. Questions over ultimate effectiveness of bailout funding and worthiness of recipients are bound to arise. Taxpayers will want their dollars spent on real moves to relieve the crisis such as buying in distressed mortgages – not acquisitions and big bonuses.

The broader measure Conference Board Indicators have yet to turn positive but the next report, due 26 January, is awaited with interest.

2008 commenced without expectations of the drama to follow. 2009 opens with expectations of worse to come. Historically the unexpected carries most impact.

Liquidity wars continue. This month the Bank of England cut its official rate to 1.5%, reportedly the lowest since the Bank's inception in 1694. European Central Bank cut the base Euro rate to 2% on 15

January. US Treasury Bills have struggled off their December lows of zero % but the rise looks unconvincing. RBNZ is expected to clip the OCR another 1% to 4% 29 January, with more cuts to follow before benefits start to show. New Zealand inflation dropped sharply to 3.4% for the year ended December '08 thanks largely to big declines in oil and petrol prices, down from 5.1% for the September year. Recent fuel price increases don't augur well for the trend to continue.

Interest Rates and Finance Companies

Deposit rates as shown at <http://www.debentures.co.nz/2YearDebentureStock.pdf> continue to fall but rate of decline is slowing. Investors should be aware of factors likely to provide upward pressure on rates over the next 12 months rather than expecting deposit rates to slavishly follow OCR reductions:

1. The New Zealand Government will be forced back to borrowing in order to meet proposed infrastructure stimulation spending and tax cut promises. For those billions it will be in competition for limited funds – and will have to pay for them through higher interest rates.
2. Banks and corporates, unable to find or rollover offshore debt, should go to the market with even more unsecured bond issues, having to offer attractive rates to offset their lack of Government Guarantee.
3. Finance companies, benefiting from the Government Deposit Guarantee, currently have more funds coming in than they can effectively use but many report high quality lending opportunities are starting to emerge. Even a very modest upturn in activity could see finance companies once again actively seeking funds as demand grows and expiry of the Government Retail Deposit Guarantee approaches. Possible extension of the Government Deposit Guarantee seems unlikely to alter the trend.
4. A number of listed blue chip companies, now selling at bargain basement prices, offer prospective dividend yields above current fixed interest returns. Those companies able to maintain past dividend rates offer the rare triple treat of good income, prospective capital growth and possible tax imputation credits. Traditional income seeking investors may well be persuaded away from fixed interest – at least in part.

Hence expect OCR pressure to produce further limited deposit rate declines in the short term, but upward pressures might well dominate later in the year.

Managed Funds

Liontamer founders, Laetitia Peterson and Janine Starks have repurchased the entire Liontamer structured products business from KBC Asset Management NV after parent, Belgium-based KBC Bank, decided to review non-core operations outside of its home markets owing to global turmoil in the banking sector. KBC Asset Management NV bought a 51% share of Liontamer in 2007.

Existing Liontamer capital protected funds will not be affected but the current offer, Fallen Angels Series 2, will be withdrawn and all subscriptions returned to applicants along with accumulated “early bird” interest. Announcing the decision, Liontamer said they were unable to lock in the minimum participation rate of 90% at present owing to low prevailing interest rates and extreme market volatility in the banking sector. To extend the offer period would require re-issuance of the prospectus and investment statement to reflect shareholder changes and then achieving the minimum 90% participation rate could still not be assured.

Fallen Angels Series 1 is not affected and remains on track for a re-estimate of its starting index early in February.

How low can banking stocks go?

Liontamer's "Smart Start" feature will see the base level of Capital Protected Fallen Angels Series 1 Index recalculated early in February. The Index was set at 100 on 23 July, 2008, consisting of 16 major international stocks considered by Liontamer and KBC Bank to have been oversold at that time, half being major banks and financials. The first recalculation, early in November 2008, saw the index fall to about 65% of its starting value but since then the continued global financial crisis, including Bernard Madoff's giant Ponzi scam, has left the financials reeling. By my calculation the index now stands at under half its opening value, with original shareholder value in two of the components, Fortis and Bank of Ireland, nearly wiped out. Terms of agreement between the fund asset provider and Liontamer apparently provide for substitution of any component that disappears completely. The next recalculation is due early in February and, should this prove to be the lowest of the three results, will become the base index level for the Fund. Even a modest recovery of the index over the next five years could then see investors achieve outstanding results.

Liontamer Global Series 6 carries the same "Smart Start" protection feature in addition to capital protection.

Investors hoping to access the financial sector at historically low levels via Fallen Angels Series 2 will be disappointed but other attractive investment options exist.

A number of well-performed managed funds require only very modest initial investments, enabling investors to access a wide spread of top shelf international and local companies at very low prices. Contact me to discuss your requirements.

Equities

Despite January's sharp falls, major sharemarkets remain above their November lows. Was December's rise just another bear market rally or do present lows offer the last chance to get in at firesale prices? Although some supposed leading indicators look promising and so much bad news has already been discounted, a string of nasty and unexpected profit downgrades from major corporates should keep the lid on market indices in the short term. One would have to think the international banking sector has reached its nadir by now.

Contact Energy has forecast an after tax profit decline of 20% – 23% for the 2009 year, claimed to be the result of extreme weather variations in the South Island and transmission restraints, particularly reduction of power cable transfer capacity between the North and South Islands. Without an efficient grid such variations in supply and demand cannot be balanced by transferring cheaper power north or south to where it is needed. Recent high rainfall and reduction of aluminium smelting at Tiwai Point have seen southern hydro lakes spilling water and power generation decreasing while Contact has been obliged to sell electricity at a loss elsewhere in the country.

Skepticism has been aired over Contact's motive in announcing the profit downgrade well after the drivers should have been known to Directors. Could another takeover attempt be in the offing? Nevertheless, it does seem clear that neglect of New Zealand's vital infrastructure during the boom years is coming home to roost. Grid operator Transpower is not due to commission a new Cook Strait link until 2012. Until that time we will just have to hope for favourable weather in both Islands. Hopefully this project will benefit from the new Government's "fast forward" infrastructure plans.

Contact's earnings over 2006, 2007 and 2008 have been consistently just above 40 cents per share, with dividends rising from 26 to 28 cents per share. A reduction of 23% would bring earnings down to around 31cents per share, meaning nearly all after tax profits would need to be paid out to shareholders just to maintain last year's dividend. Possibly directors will view 2009 as one-off exceptionally poor year and maintain the 2008 dividend – but odds would be against it. Interim dividend, due for announcement in February, will attract much interest. Last year it was 11 cents per share.

In any case, Contact is not a high yielding stock and is not suitable as an income prospect at this time. But after the initial knee jerk fall of -9.6% to 660 cents, expect share price growth to resume.

NZX listed Cynotech Holdings, covered in our last issue, has since provided written advice and instructions to Convertible Preference shareholders concerning conversion of the Convertible Preference Shares to ordinaries, enabling preference shareholders to take advantage of both the preferential and ordinary dividends over the next few months. Cynotech appears to be capable of maintaining its current annual dividend of 1 cps, giving a yield of 6.25% at a share price of 16 cents. Returns from Cynotech are now exceeding the market, in contrast to many larger companies hid hard by economic woes.

As with many listed investment companies, the Fisher stable of Kingfish, Marlin and Barramundi tend to reflect related indices of the markets in which they operate plus a discount factor which historically widens in downturns and reduces as markets rise. On this basis, at 48 cents, Marlin offers the best value with a 40% discount to NAV of 79.91 cps.

Telecom has reportedly written off millions more of shareholders' funds in closing its failed online shopping portal "Ferrit". New Zealand's largest listed company has a savage history of destroying investor wealth. Although outperforming the market over the past few weeks it would take a leap of faith to think this long term dog could yet become the market darling.

Are share markets finally developing immunity to the continuous onslaught of negative news? Every day media commentators vie for most dramatic headline predicting yet greater doom and gloom in relation to housing, retailing, unemployment, banking, commodities, world GDP, China, the US, emerging markets, race horses or whatever you may have. Bad news sells. Despite all this, major indices such as the Dow Jones, S&P 500 and FTSE 100 have not yet repeated the extreme volatility or lows of November and December last year. Technically at least, the charts look more promising. Chances are we've already seen the bottom but don't expect a quantum recovery while major corporate profit downgrades still loom.

Current issues featured this month

Something of an hiatus this month with the withdrawal of Lontamer Fallen Angels Series 2 (see Managed Funds for details):

1. GoldmanSachs JBWere Trans Tasman Equity Unit Trust
2. Marac Cash Pie Fund
3. New OM-IP fund

1. 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
- 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 or download from http://www.debentures.co.nz/TTEUT_IS.pdf

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 rate:

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 January 2009.
- 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. New OM-IP AHL-based fund expected soon

Man Investments Australia is expected soon to launch a new capital protected OM-IP hedge fund based solely on the AHL Diversified trading program which underlies the OM-IP 220 series and

many other successful OM-IP funds. Man's existing fund also based solely on this program, Man AHL Diversified (AUD) Limited, produced an outstanding result of +35% for the year ended 31 December 2008, a year destined for financial infamy with major sharemarket indices plunging -30% to -50%.

Contact Canopus info@canopus.co.nz if you would like to receive a copy of the prospectus when available. Applications will not be accepted unless made on the application form that accompanies the prospectus.

Commodities

Commodities including crude oil, copper and aluminium now sell at massive discounts to prices ruling just a few months ago as demand falls and stockpiles rise. Exploration and production are being wound down or closed worldwide. The supply taps cannot be turned on again easily once demand starts to increase, meaning a whole new price cycle is likely to commence.

Investors interested in adding these cyclical commodities to a portfolio have a number of investment avenue options. Contact me to discuss.

Kiwisaver

Unrivalled benefits of the Kiwisaver scheme make this an essential starting point for new investors and an important diversification for all others meeting eligibility criteria.

Most Kiwisaver funds, particularly "balanced" and the more aggressive "growth" funds, have a large exposure to equities resulting in lower valuations over the past year but which should see investor value rise again quite rapidly in a general share market recovery. With shares so low at present, now is a good time to open a Kiwisaver account or contribute any outstanding amount needed to make up the \$1042 investor contribution eligible for the Government "tax credit" subsidy.

Canopus can assist with advice and information regarding the Kiwisaver Scheme, including how to open an account.

Contact Canopus: info@canopus.co.nz

Portfolio review

Little good news to report for the December quarterly portfolio review - said to be the worst sharemarket quarter for over 50 years. Our model portfolio declined 13% over the quarter, a somewhat better performance than the ASX 200 down -21% and the NZX 50 down -15% during the same period. Losses from our exposure to equities have been mitigated to some extent by diversification into capital protected products and the well performed OM-IP hedge funds.

Over the year to date, (9 months), our model portfolio has declined -16%, compared to the ASX 200 on -30% and the NZX 50 on -23%. Some fund managers would claim this as an "out performance" of +10.5% over the combined average ASX/NZX loss of -26.5%!

Debex website development

Mentioned in our last newsletter, but maybe still causing some confusion, please note that 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

Fresh sharemarket falls during January cause us to concentrate even more intensely on major corporate shares selling at firesale prices. Defensive large-cap companies able to maintain dividends and in sectors likely to benefit from fiscal stimulus packages deserve attention - Contact and Fletcher Building being two obvious examples in New Zealand with the ASX offering broader scope. Smaller companies in vital service sectors such as Ryman Health should also be considered. Expect rough justice to be served on those announcing unexpected profit and dividend downgrades – and there are still some to come – so keep a good portion of powder dry. Any purchases should be small, staggered and highly selective. Particularly watch out for investment and property writedowns that could savage reasonable looking operating profits.

Now is a good time for us to be topping up our Kiwisaver contributions to the maximum \$1042 per year, eligible for the Government “tax credit” subsidy. At a 100% Government subsidy, nothing beats this.

Income-seeking investors wanting to participate in new fixed interest issues carrying the Government Deposit Guarantee or corporate bond issues offering higher rates and liquidity but no Government Guarantee, should advise me of their requirements as soon as possible. Well priced issues are likely to close fully subscribed almost as soon as they open, offering investors little chance to think about it. Providing an indication of interest, including likely dollar investment amount, does not commit an investor to accept any offer which may be available, but does help Canopus estimate requests to the issuer for an allocation.

Diversification remains vital to any income or growth portfolio. Although limited in number, today’s featured issues offer diversity across equities, fixed interest and commodities. Check them out again.

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

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

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

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Investment Directions

25 November, 2008

Overview

A solid election win, but not outright majority, has seen John Key able to form a broadly based and stable government in record time – in contrast to the drawn out grandstanding and horse trading of earlier MMP years. Dumping of MMP through a promised referendum is no longer assured. Why exchange two votes for one?

Michael Cullen's tenure as finance minister will be noted for the introduction of KiwiSaver and the Cullen Superfund – both bold attempts to address New Zealander's historic reluctance to save for retirement. The new and future governments will be happy to leave both these initiatives in place providing Dr Cullen with a lasting legacy in contrast to many of his peers.

John Key has written off a cabinet position for Roger Douglas on his return to Parliament under Coalition Partner Act's banner on the grounds of "extreme views". However, as with both Labour and National Governments before, one can be sure he won't reverse Douglas' major historic reforms, consolidated over 30 years, including: GST, floating exchange rate, abolition of exchange controls, increased Reserve Bank independence and reform of an unworkable public service.

On the world scene, hopes for a base formation in equity markets unraveled as the Dow failed to hold strong rebounds above 9000, collapsing to a new leg down of more than another thousand points as concerns mount over the future of gigantic US auto makers GM, Chrysler and Ford. With massive obligations to past and present US pensions plus employment implications for industries both upstream and down, this troika looks to be in the "to big to fail" basket. In contrast to viable Government rescue package equity stakes taken in historically profitable banks, taxpayer funds thrown at the questionable auto industry may well disappear down a black hole. What other sick industries may be able to claim similar consideration for US Government cash?

Despite interbank lending being thawed somewhat via concerted reserve bank injections of liquidity, concern over a global recession continues to dog equity, currency, property and commodity markets worldwide.

Concern over financial markets has given way to worries about the wider global economy as investors consider the longer term effects widespread recession may have on employment and company profitability. Wild market gyrations continue but eventually a significant rebound will not be cancelled by another collapse, marking the turning point. Unfortunately we won't know it has happened until after the event.

Current issues featured this month

1. Allied Nationwide Finance Debenture Stock, 10.75% p.a., Government guaranteed.
2. PGG Wrightson Secured Bonds, Government guaranteed.
3. Liontamer Fallen Angels Series 2, capital protected.
4. Man OM-IP 220 2008, capital protected.
5. GoldmanSachs JBWere Trans Tasman Equity Unit Trust

1. Allied Nationwide Finance Secured Debenture Stock

Allied Nationwide Finance has undertaken to hold its current advertised secured debenture stock rates until 30 November 2008. Other finance companies gaining approval under the Government Deposit Guarantee Scheme have immediately dropped their deposit interest rates but Allied Nationwide has given investors a chance to obtain the Government Guarantee at the higher rates prevailing up until now, namely:

Term	Call	6 mth	12 mth	18 mth	2 yrs	3 yrs	4 yrs	5 yrs
% p.a.	7.90	9.50	10.50	10.75	10.50	10.00	10.00	10.00

Key features:

- Investments up to and including 18 months qualify fully for Government Deposit Guarantee of NZ\$1 million maximum (applies to New Zealand citizens and New Zealand tax residents only).
- Current interest rate offer will terminate strictly on 30 November, 2008.
- Minimum application NZ\$1000.
- Nil brokerage on applications made through Canopus Investments Limited.
- Contact Canopus, info@canopus.co.nz, telephone (09) 444 8055, fax (09) 444 8059, for an allocation.
- Download the investment statement and application form from http://www.debentures.co.nz/AlliedPrime_IS.pdf or contact Canopus for a paper copy.

2. PGG Wrightson Finance Secured Bond Issue

PGG Wrightson Finance Limited has announced an offer of up to \$100m fixed rate, first ranking secured bonds. PGG Wrightson Finance Limited is an approved issuer under the Government Deposit Guarantee Scheme.

Key features of the issue:

- Interest rate minimum of 8.25% p.a.
- Maturity date 8 October 2010 (falls entirely within Government Deposit Guarantee)

term) with issuer's option to extend term to 8 October, 2011.

- Quarterly interest payments commence 8 January, 2009.
- Minimum application NZ\$5000 with multiples of NZ\$1000 thereafter.
- Closing date for applications is 19 December, 2008.
- Application has been made to list the Bonds on the NZDX, providing liquidity.
- Nil application fee on applications made through Canopus Investments Limited.

For a copy of the prospectus plus application form and a firm allocation please contact Canopus, info@canopus.co.nz , or telephone (09) 444 8055, fax (09) 444 8055. Requests will be handled on a first in, first served basis.

The Prospectus and application form can be downloaded from http://www.debentures.co.nz/PGWFBonds_ISP.pdf .

3. 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 19 December, 2008. The offer may close early or be extended.
- 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.

4. Man OM-IP 220 2008 now open for subscription – special offer

Canopus is offering a special deal on applications for the latest in the series of Man OM-IP 220 hedge funds.

Not only will investors pay nil entry fee on applications, but applications made through Canopus and carrying the Canopus stamp will receive the full up front brokerage received by Canopus relating to that application (less any bank fees and exchange rate variations). With standard up front brokerage being 4% on these longer term investments, investors can expect to receive a payment of about \$400 on a \$10,000 investment.

As with any investment, these market trading funds have their ups and downs, but here the gains are dependent on the degree of volatility in markets traded plus the trend – either up or down. During October, Man OM-IP funds produced another impressive performance, gaining 10 -11% as global sharemarkets slumped another 16%.

See <http://www.canopus.co.nz/managedfunds.html#futures> for more information or contact Canopus on (09) 444 8055 or by email at info@canopus.co.nz for a copy of the prospectus and application form.

The prospectus and application form can be downloaded from http://www.maninvestments.com.au/220/index.cfm?r_id=CANOPUS&CFID=1566807&CFTOKEN=26221570

5. 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, Fundsources 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

With sharemarket losses now surpassing 1987 and challenging 1929, market participants understandably seek any sign of a bottom, but in equity markets there's no such thing as "can't" and possible bases have so far proven only to be further steps down. Comparisons with previous collapses have some validity but the incalculable extent of "deleveraging" necessary to restore confidence in 2008 gives this rout a momentum all of its own.

At some stage a market bounce will go uncancelled and the recovery will be underway. Although the bottom will only be recognizable with hindsight and with equities already deeply discounted, many potential investors feel they can afford to wait until the future looks more settled. So far the policy has been rewarding but limited purchases around these depths should allow one to participate profitably in the eventual upswing.

With governments worldwide committing to infrastructure spending as the road to economic recovery, selective investment in this sector seems the obvious choice to bring early investment returns. The financial sector, well into its own deleveraging and in a unique position to demand ongoing government support as necessary, presents another opportunity. Liontamer's current "Fallen Angel's" fund offers entry to a diversified group of top international financial shares selling at deep discounts to perceived value – and with a capital guarantee.

Interest Rates and Finance Companies

Deposit interest rates are tumbling.

Our benchmark 2 year deposit rate chart at <http://www.debentures.co.nz/2YearDebentureStock.pdf> shows the debenture rate margin over bank deposits as nearing a whopping 3.75% - and with a Government Guarantee in many cases. Understandably income investors are hurrying to lock in "sale of the century" returns while they last.

Expectations of a large OCR cut by the RBNZ on 4 December now predominate, with a 1.5% drop to the 5.00% level quite possible as rapidly falling fuel prices obviate inflation worries and recession demands economic stimulus.

In contrast to just a few months ago, finance companies now report vastly improved reinvestment rates along with new investment money, providing healthy liquidity levels. However, a concentration on only top quality lending opportunities as the recession bites, along with a desire to maintain high

liquidity, sees finance companies remaining in conservative mode. Expect to see further significant falls in debenture term deposit rates, maybe at a slightly slower rate than the OCR and corresponding bank deposit rates.

St Laurence Limited and the Hanover Group have both released repayment proposals involving significant injections of new capital by current shareholders aimed at preserving the companies as operating entities while paying debenture holders back over an extended time period. Actual value of some assets to be contributed by owners as new equity remains arguable, but these proposals do seem to offer an advantage over the likely alternative of receivership. Some “columnists” do investors a disservice by representing receivership as offering a more immediate payout option to the repayment proposals. In reality a receiver would be unlikely to be able to realise asset value in the current environment any more rapidly than the proposed management structures and new equity would not be forthcoming at all. Investors need to consider the alternatives in relation to their individual circumstances before voting.

North South Finance, subsidiary of Dominion Finance Holdings (Administrators Appointed) has proposed a Moratorium which does not offer any new capital and seeks a waiver for possible breaches of the Trust Deed relating to potential issues surrounding shared loans and related parties (p.6 of Explanatory Memorandum). The company hopes to repay all principal comprising debenture and bank borrowings by 30 June 2011, with an option to extend the Moratorium period to 30 June 2012 if principal repayments cannot be completed by the earlier date. The Company proposes to retain two existing directors (unpaid) and key staff in addition to appointing Korda Mentha, insolvency specialists, in a management capacity to oversee ongoing operations while reporting to the Trustee. Debenture holders may require the Directors to answer a number of questions before deciding whether the Moratorium or receivership would better suit their own personal circumstances.

Strategic and Dorchester have yet to present Moratorium or repayment proposals to debenture holders.

KiwiSaver update

John Key’s new National led Government is committed to reducing the minimum KiwiSaver contribution for both employees and employers to 2% of salary. This should make the scheme accessible for some who cannot afford membership at the 4% contribution level. Otherwise, National proposes little change to the scheme apart from abolishing the employer tax credit. The \$1000 initial “kick start” Government contribution remains along with the Government “tax credit” subsidy of up to \$1042 per year.

Getting children started in the scheme should be seen as a priority for parents. Generous Government contributions and the mortgage diversion option provide a sound basis for future home ownership.

Contact Canopus on 09 444 8055 or email info@canopus.co.nz for more KiwiSaver information or to request an investment statement.

Strategy

Income seeking investors still have a chance to lock in some very attractive interest rates carrying the Government Guarantee, but rates should continue to fall. Those seeking liquidity as well as the Government Guarantee and an attractive interest rate should consider the current PGG Wrightson Finance Secured Bond issue.

Cautious allocation to high quality equities on an averaging basis over the next few months should provide eventual growth rewards although reduced company profitability may well limit upside for a year or two. More downside looks likely for listed property trusts in the medium term but this sector could offer the chance to participate later in a recovery if one misses an initial surge.

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

Regards,
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