TAKE BITTER WITH THE SWEET IN NYC

THE SHORT CUT with ROGER MONTGOMERY

MY VERY good friend Nick makes some of the best ice cream in the world and his Elvis-the-fat-years flavour is a personal favourite.

His irreverent style is a huge hit in Melbourne and Sydney and I know it will be a massive success globally. Even in New York, where there are more gelato connoisseurs than anywhere else, I suspect his ice cream, would be a smashing success.

If hip gelato stores are likely to succeed in suburbs in and around New York, it is because hipsters are moving in there too. When that happens real estate prices tend to rise. This in turn is something that we as investors might benefit from.

We started hunting around to find out if there was a way we could benefit from a long slow recovery in real estate prices.

We uncovered an ASX-listed real estate investment trust (REIT) that has been structured to take advantage of a recovery in US residential real estate.

One of our first ports of call as an investor in someone else's listed fund is an understanding of the fees we would be charged.

According to the product disclosure statement for a capital raising in early 2013, the responsible entity (RE) of the fund had been provided with the ability to charge up to 5.5 per cent as an application fee by the constitution of the fund.

While it may seem magnanimous to charge only 4.4 per cent, we think this was a very high fee charged at the time of the offer.

This fee was split between a structuring and arranging fee (2.2 per cent) and a fee for "handling" the applications for the offer (2.2 per cent).

As we didn't invest at the time of the offer however, this fee wasn't a concern, but meant that the fund would have to recover these costs from future profits before they could show a true gain to those unit holders.

In terms of ongoing fees, there is also a management fee. "The Constitution of the Fund provides that the Responsible Entity will charge management fees (also called Responsible Entity and Administration fees) up to 0.55 per cent per annum."

So far so good — 0.5 per cent isn't particularly egregious but, while it had been decided at the time of the float to charge a total fee of circa 0.363 per cent per annum, the RE can raise it to 0.55 per cent without seeking unit holder approval.

But wait, there's more. The total of other paid, payable and possible fees includes 1) a joint venture ongoing management fee of 0.1 per cent; 2) an investment manager fee of 1.24 per cent; 3) an asset acquisition fee of 1.99 per cent; 4) an asset disposal fee paid by the REIT to the manager of 2.49 per cent of the sale price of the assets; 5) a leasing fee payable by the REIT to the manager of one month's gross rent on leases; 6) a debt arranging fee payable to the manager by the REIT of 2 per cent of the gross amount of the gross debt finance arranged; and 7) "other expenses" paid by the fund and the REIT to the RE for registry fees, tax, custodian and audit fees.

If all the fees were fully charged on the debt-funded acquisition and subsequent disposal of a residential property, it is not just the 1.703 per cent you would be paying but the amounts the REIT would pay to the RE foregone by you the investor, that needs to be considered.

There is no such thing as perfect alignment between manager and investor because the manager has costs associated with staff and premises, plus legal and regulatory costs the individual doesn't have but must be willing to bear for access to the opportunity.

But the higher the fees the harder it is for the fund's performance to reflect the performance of the underlying asset.

At the capital raising in early 2013, the units were issued at $1.77. As at October 31, the net tangible assets per unit after tax was $1.63 and the unit price $1.98.

In this case, we still like the theme but thought the fees were too high and decided to pass. We bought a round of gelatos for the team instead.

Roger Mongomery is the founder of Montgomery Investment Management

Rush already on

But China trade deal sends the right signals

COMMERCIAL PROPERTY
OLGA GALACHO

COMMERCIAL property experts are divided on whether investment concessions to private Chinese companies under the free-trade agreement will spark a rush for Australian property assets.

The new deal recommends that only purchases greater than $1.08 billion will require Foreign Investment Review Board approval, up from a present threshold of $248 million. Chinese state-owned enterprises are yet to be included under the terms.

Jones Lang Lasalle's James Kaufman said interest among Chinese investors was already high and that, even when the "red tape blocking some deals" was removed, it was unlikely to spur greater activity.

"Of the 20 or 30 sales that I have seen over the past few years apply for FIRB, not one of them has been knocked back, so I cannot see that the new thresholds will affect the market one way or the other," Mr Kaufman said.

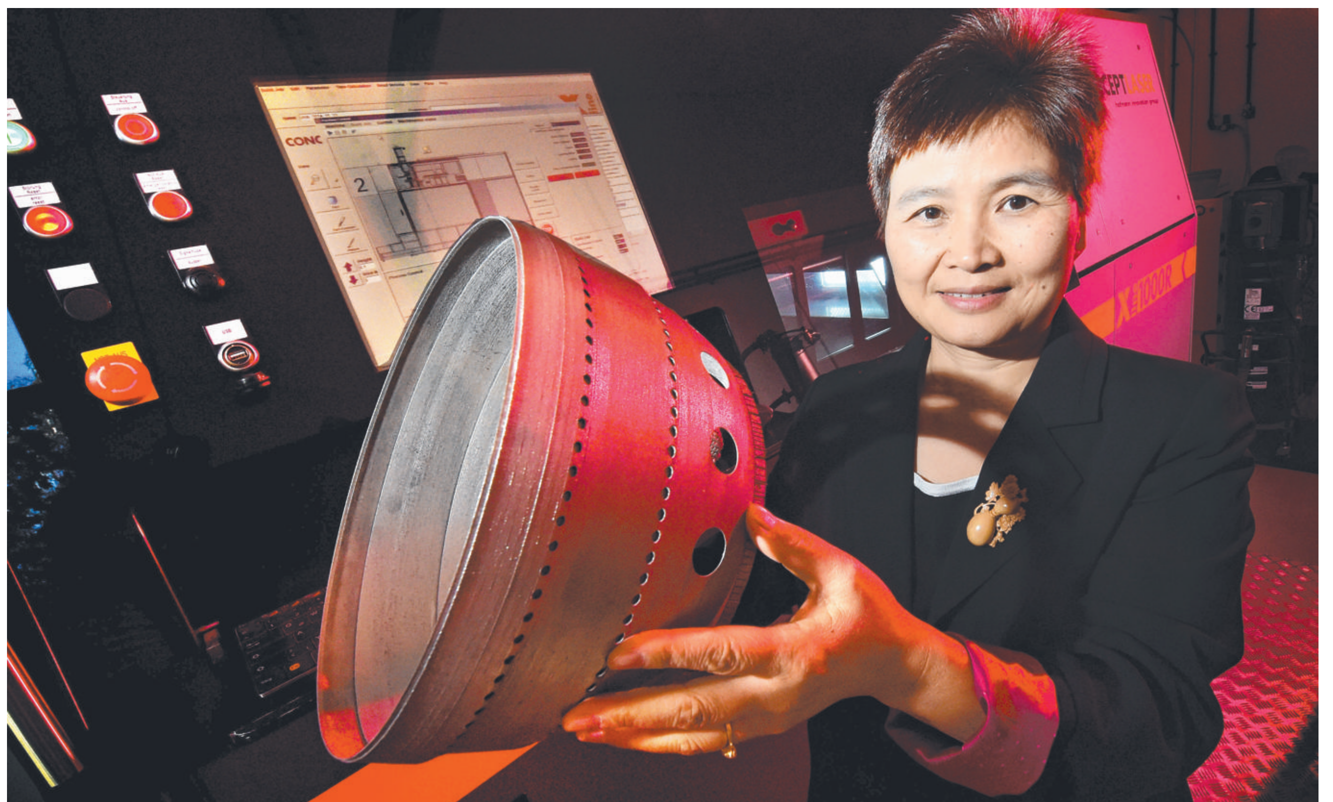
CBRE's Mark Wizel said direct Chinese investment in Melbourne's CBD and immediate surrounds will exceed $3 billion this year, up from $2.41 billion last year and just $300 million five years ago.

Savills' Clinton Baxter said the deal sent a powerful signal to Chinese investors.

"Coupled with the Aussie dollar weakening, a reduced scrutiny of investments suggests to all investors, not just those spending more than $248 million, that they should feel confident and welcome in buying Australian assets," Mr Baxter said.

Mr Kaufman said Jones Lang Lasalle's China division employs 8000 Chinese nationals, with a new office opening every few weeks to service what is already a booming demand for Australian commercial property.

The Property Council of Australia welcomed the new threshold, saying Chinese investors would now have the same level of access enjoyed by South Korea and Japan.


Professor Xinhua Wu demonstrates the 3D printer at the Monash Centre for Additive Manufacturing. Picture: TONY GOUGH

Just print me off another jet engine

JOHN DAGGE
MANUFACTURING

RESEARCHERS at Monash University have used a 3D printer to make a jet engine in what they are hailing as a world first.

The university's Centre for Additive Manufacturing in Clayton has also signed off on a deal with French aerospace group Safran to print out a bigger, more complex engine for commercial testing by the end of next year.

The deal comes as Monash today opens a $9 million research hub which aims to breathe new life into the nation's manufacturing sector via 3D printing technology.

The hub will test applications for 3D printing in the emerging field known as additive manufacturing.

The technology uses high-powered laser beams to fuse metal powders, plastic or other materials, forming an object layer by layer. Monash professor Xinhua Wu said the hub would provide Australia with a leading position in a field that has the potential to transform manufacturing globally.

"Aerospace, biomedical and automotive industries are just a few of the sectors that are looking for new and innovative techniques to produce high-performance, complex engineered components," she said.

Intricate shapes which traditionally need to be assembled from many different parts can be formed as a single object using a 3D printer.

The process cuts down on wastage and speeds up production by eliminating the need to create casting moulds. US multinational General Electric last week announced it would build a new $37 million 3D printing facility in the US to test making aeroplane parts.

GE had previously printed out a model jet engine but Monash claims it is the first to make a full-size version.

The Monash research hub was set up with a $4 million grant from the Australian Research Council and will also involve staff from Deakin University and the University of Queensland.

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FOR MILK AND MONEY

DEALS

MILK producer Australian Dairy Farms Group has paid $1.87 million for a Victorian farm to support its grazing and haymaking activities.

The 244-hectare property is close to its existing Brucknell Farms property near Warrnambool in the state's southwest, and will be used to accommodate young cattle stock and stock that have reached the end of their milking cycle.

The purchase will help increase milking capacity at its other farms, the company said. The group's expansion strategy is continuing, with due diligence being conducted on other dairy farms in the region.

Shares in the group shot up 21 per cent, or 6c, to 33.5c.

Holding for out big rain

AGRIBUSINESS

DROUGHT-busting rains are the missing piece of the Ruralco puzzle after the agribusiness nearly doubled its annual net profit and said the trade accord with China had brightened the prospects of farmers.

Ruralco's net profit grew 86 per cent to $10.57 million in the year to September 30. Revenues rose 21 per cent at $1.36 billion.

Managing director John Maher said most livestock producers were hoping for replenishing summer storms.

"The immediate priority is a genuine northern season to relieve drought-affected regions of Queensland and northern NSW, given the depleted cattle herds and reduced summer cropping in recent seasons."

Ruralco shares rose 1c to $3.45.