

# British Empire

Securities and General Trust p.l.c.

Investment Objective: To achieve capital growth through a focused portfolio of investments, particularly in companies whose share prices stand at a discount to estimated underlying net asset value.

## Performance

This investment management report relates to performance figures to 30 November 2014.

	Month	Financial Yr* to date	Calendar Yr to date
<b>BTEM NAV TR<sup>1</sup></b>	4.1%	2.6%	6.6%
<b>MSCI ACWI Ex US TR<sup>3</sup></b>	2.9%	3.3%	5.9%
<b>Morningstar Global Growth TR<sup>1</sup></b>	4.2%	6.0%	10.3%
<b>MSCI World TR<sup>1</sup></b>	4.3%	6.4%	13.4%

## Manager's Comment

This was a good month for us as markets continued to recover from their recent lows in mid-October. Importantly some of the key contributions to performance came from corporate events. The first was Forterra Trust, which although not a particularly large investment, nevertheless was able to inflict a fair amount of pain as its share price fell by 36% during the 2014 financial year. Since the end of September, it has jumped by 57% as its largest shareholder, Nan Fung, launched two attempts to take the company over. The first attempt was launched in October and was set at a price of \$1.85. This received an unenthusiastic response and has since been followed by a second offer at \$2.25. This won the support of the second largest shareholder and allowed Nan Fung to increase its ownership above the 50% level. Subsequent purchases in the market have taken their control to 90%, which includes the c. 4% stake held by AVI funds.

The second corporate event over the month was Hudson's Bay (HBC), the Canadian retailer that owns the majority of its property assets. Hudson's Bay was a fairly muted performer during the 2014 financial year however, its shares jumped by 24% during the month as the company announced details of the valuation on one of its major assets – the Saks 5th Avenue store in New York. Part of our investment thesis was that HBC's property assets were significantly undervalued by the market and thus when they managed to monetise or prove valuations the stock would re-rate to reflect this. In the second half of November the company announced an agreement with Merrill Lynch to provide finance against the SAKS 5th Avenue store. Under this agreement Merrill Lynch appointed a third party appraiser who valued the building at US\$3.7bn, well above market consensus of US\$1.5bn. The company has stated by April 2015 they will announce plans for the remaining real estate portfolio, which we believe will prove further upside from the current share price.

There were strong performances from Investor (up 6.6%), Tui AG (up 12.1%) and WM Morrison (up 15.3%).

The main detractor from performance was Aker, whose shares fell a further 7.3% during November, further compounding the sharp falls suffered by the company since the oil price started to fall in June. With a portfolio of assets dominated by oil related businesses it is unlikely that Aker's share price will move in a different direction to that of the oil price in the near term. However, with a prospective dividend yield of over 9%, a discount of over 40% and financially sound assets there is a strong case to be made that Aker's shares will at some point bounce very sharply from these very depressed levels.

The effect of Japanese Yen weakness was mitigated by the hedge we have in place, which largely eliminated any negative impact of the fall against Sterling over the month.

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## Major Movers

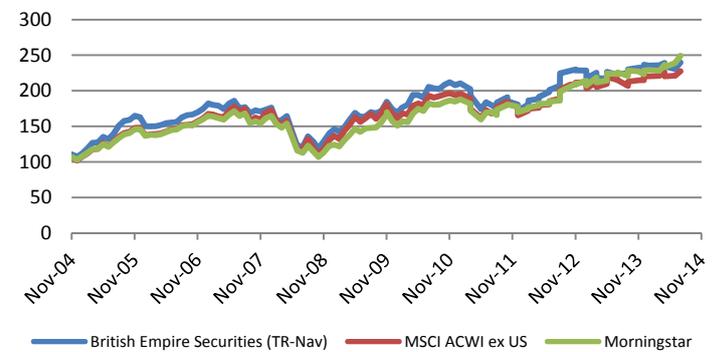
Largest Risers	Percent change	Percent of Assets
Forterra Trust	40.63%	0.85%
Hudson's Bay Co	23.57%	2.93%

Largest Fallers	Percent change	Percent of Assets
Aker ASA-A Shares	-7.29%	3.09%
Ecofin Water & Power OPP-ORD	-4.68%	2.42%

## Top Ten Equity Holdings

	%
Investor AB-A SHS	6.79
Jardine Matheson Hldgs Ltd	5.87
Groupe Bruxelles Lambert SA	5.02
Sofina	3.87
NB Private Equity Partners	3.64
Harbourvest Global Private	3.39
Tui AG	3.22
Aker ASA-A Shares	3.09
Hitachi Ltd	2.94
Hudson's Bay Co	2.93
TOTAL	40.76

## Performance November 2004 - November 2014



## Statistics

	Value	% 1 mo	% 1 yr	% 3 yr	% 5 yr
Price (£) TR <sup>2</sup>	526.0	3.7	8.2	25.6	45.8
Net Asset Value Total Return <sup>1</sup>	590.8	4.1	7.1	31.5	47.5
MSCI ACWI ex US TR <sup>3</sup>		2.9	5.7	35.2	40.9
Morningstar Global Growth TR <sup>3</sup>		4.2	11.6	49.4	69.5
<b>Annual Returns (%)</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>
Price TR <sup>1</sup>	5.1	17.8	-12.8	18.5	27.9
Net Asset Value TR <sup>1</sup>	7.6	19.6	-13.6	21.0	25.1
MSCI ACWI ex US (£)TR <sup>3</sup>	13.6	12.2	-12.7	15.1	26.6
Morningstar Global Growth TR <sup>3</sup>	21.6	12.7	-9.4	19.0	24.6

We made two new investments over the month, and added to some of the recent investments we made in Europe.

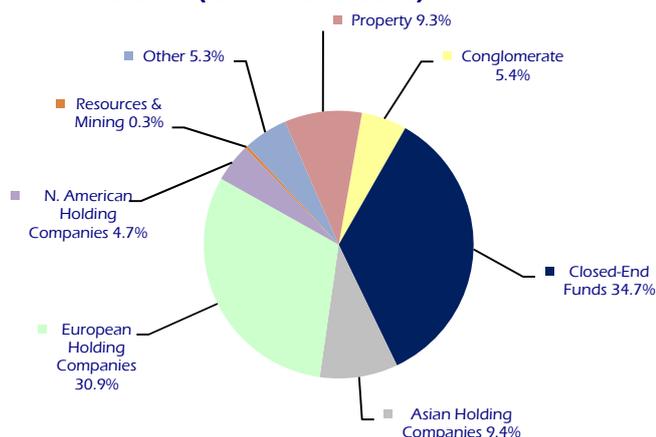
We initiated a position in Inmobiliaria Colonial, a Spanish listed property company, with assets in Madrid and Barcelona CBDs and a 54% stake in the French listed SIIC, Societe Fonciere Lyonnais. Since the financial crisis Spanish property has been subject to large write downs and Colonial has not been immune despite the prime nature of their office portfolio. A perfect storm of rising capitalisation rates, decreasing rents and decreasing occupancy led to capital values falling nearly 50% in Colonial's portfolio. In addition the company was over levered with debt expiring during 2014. However, at the beginning of 2014 the company completed a €1bn equity raise which significantly reduced debt and allowed them to retain their stake in SFL. We believe we are now buying prime office assets in Barcelona and Madrid on very depressed capital values and within a well-capitalised company. New supply is virtually non-existent in these markets so as the Spanish

economy slowly begins to improve we would expect Colonial's prime office assets to benefit first from increasing rents and from capitalisation-rate compression.

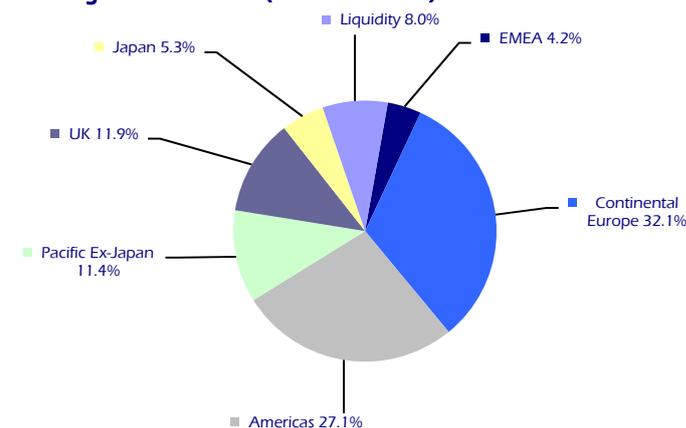
We acquired a position in private equity fund SVG Capital over the month on an attractive discount to NAV. The portfolio has become more balanced as its stake in Hugo Boss has been reduced, following sales in the secondary market. As the portfolio is reshaped in line with the new investment policy of investing in a concentrated portfolio of private equity funds run by leading GPs, we expect the discount to NAV of over 20% to narrow. We also believe there is potential for further capital returns once the current distribution programme is completed in Q1-15.

The weighted average discount on the portfolio at month end was 26.2% and net cash was 8%.

### Sector Breakdown (% of invested assets)



### Risk Region Breakdown (% of net assets)



### Capital Structure

Ordinary Shares	160,014,089
8 1/8% Debenture stock 2023 <sup>#</sup>	£15,000,000

### Gross Assets/Gearing

Gross Assets	£853mil.
Debt par value	£14.9mil.
Actual Gearing (Debt less cash divided by net asset value)	-7.8%

- 1 Source: Morningstar
  - 2 Source: Morningstar. Share price total return is on a mid-to-mid basis, with net income re-invested.
  - 3 From 1<sup>st</sup> October 2013 the lead benchmark was changed to the MSCI ACWI ex US (£) Index. The investment management fee was changed to 0.7% of net assets and the performance related fee eliminated.
- \* British Empire Securities & General Trust financial year commences on the 1st October. All figures published before the fiscal results announcement are AVI estimates and subject to change.
- \*\* Last audited figure updated annually
- # Book Values updated annually

### Further Information

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The share price can be found under 'INVESTMENT COMPANIES' in The Financial Times, The Times, The Daily Telegraph, The Scotsman and The Evening Standard.

Information may be found on the following websites.

[www.british-empire.co.uk](http://www.british-empire.co.uk) or [www.assetvalueinvestors.com](http://www.assetvalueinvestors.com)

### Risk Factors you should consider before investing

Investment in the British Empire Securities and General Trust plc (the "Trust") carries risks, which are more fully described in the Key Features Document. Listed below are some of the key risks:

Investors are reminded that past performance is not a guide to future performance and that their capital will be at risk and they may therefore lose some or all of the amounts that they choose to invest in the Trust.

The Trust utilises gearing techniques (leverage) which exaggerate market movements both down and up and which could mean sudden and large falls in market value.

Movements in exchange rates can impact both the level of income received and the capital value of your investment. If the currency of your residence strengthens against the currency in which the underlying investments of the fund are made, the value of your investment will reduce and vice versa.

As with all stock exchange investments the value of investment trust shares will immediately fall by the difference between the buying and selling prices.

Where investments are made in emerging market, unquoted securities or smaller companies, their potential volatility may increase the risk to the value of, and the income from the investment.

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