

## Manager's Comment

BTEM had another strong month with a 6% increase in NAV. We saw very slight discount contraction as the portfolio discount narrowed from 33.4% to 33%. Overall, discounts across the portfolio remain wide both in absolute terms and relative to historic levels.

Aker was once again our largest contributor with another month of strong share price performance – up 18% in local currency terms. This was driven by a combination of both NAV growth and discount contraction, although the current level of discount (32%) remains far too wide in our view. Whilst no major news was out, the market is still rewarding the company for the DetNor- BP Norway transaction announced last month, the latest in a series of value enhancing transactions the company has carried out.

Our second largest contributor over the month was Adler, the German residential property company, which was up 17.7% in local currency during July on two noteworthy developments. The company had previously announced the intention to issue a convertible bond, but had to delay in the lead up to the Brexit vote. However, in July they successfully placed 10m convertible bonds, raising €138m at an interest rate of 2.5%. This is another step taken to reduce the company's cost of financing as proceeds will, in the main, be used to refinance expensive historical debt. In addition the company announced they have agreed, via an option, to potentially purchase a further 6m shares in conwert Immobilien, which we also own. This would take their stake up to around 28% and we believe gives them greater flexibility in the future of conwert and any potential M&A activity.

Kinnevik was a strong performer over the month as Zalando, which accounts for 35% of Kinnevik's NAV, was up 43%. Zalando's Q2 numbers surprised the market on the upside with full year guidance raised and stronger than expected EBIT margin. While we await further information to be released in the full Q2 earnings report it was an encouraging development after a period of poor relative performance to its online retail peers.

As mentioned in the June newsletter we have been adding to names where we have seen discount widening. In this regard we added significantly to AP Alternative Assets (AAA) on weakness. This Euronext-listed closed-end fund, which has for a number of years now effectively been a mono-holding company for unlisted Athene Insurance, is now our 5th largest position. We have consistently valued Athene at a significant premium to its carrying value in AAA's NAV, and envisage material upside upon its New York IPO which should occur later this year. The majority of our additional purchases of AAA in July

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were at levels that implied a price/book for Athene of less than 0.9x while our analysis suggests a ratio of 1.5x can easily be justified. Shortly after month-end, AAA increased its carrying value for Athene by almost 20% due in part to guidance received during its IPO process. We continue to see significant potential for outsized returns even from this written up value, and more so from AAA's share price which is at a 20%+ discount to this figure.

The recent share price weakness in Digital Garage allowed us to add to our relatively small position following substantial widening of the discount (from 17% to 35% over the month). We think this was likely caused by arbitrage traders exiting their positions following the changing of listing from the JASDAQ to the First Section of the Tokyo Stock Exchange. In these situations, we are invariably happy to acquire additional stock at what we believe to be attractive levels from non-fundamentally-orientated sellers.

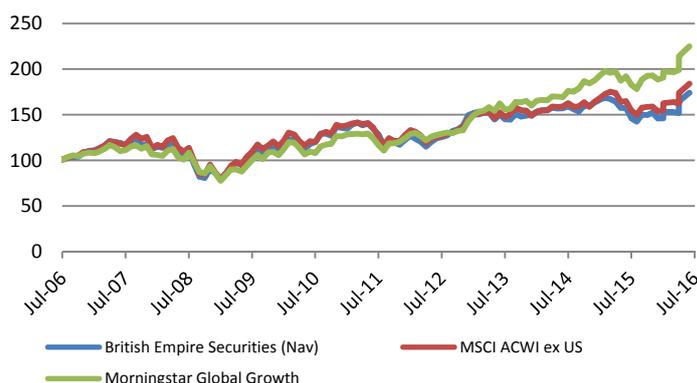
**Investment Objective:** To achieve capital growth through a focused portfolio of investments, particularly in companies whose share prices stand at a discount to estimated underlying net asset value.

## Performance Total Return

This investment management report relates to performance figures to 31 July 2016.

	Month	Financial Yr* to date	Calendar Yr to date
BTEM NAV <sup>1</sup>	6.0%	21.1%	15.1%
MSCI ACWI Ex US <sup>3</sup>	5.7%	22.9%	15.8%
MSCI ACWI Ex US Value <sup>1</sup>	5.8%	19.6%	14.7%
MSCI ACWI <sup>1</sup>	5.1%	27.1%	17.7%
Morningstar Global Growth <sup>1</sup>	6.1%	20.9%	11.3%

Performance Total Return JULY 2006 - JULY 2016



## Top Ten Equity Holdings

Holding	%
Aker ASA	6.6
Investor AB-A SHS	5.8
Wendel	5.7
Pargesa Holding	5.2
AP Alternative Assets	5.0
DWS Vietnam Fund	4.9
NB Private Equity Partners	4.8
Investment AB Kinnevik - B SHS	4.7
Symphony International	4.7
JPEL Private Equity	4.6
<b>TOTAL</b>	<b>52.0</b>

At the end of the month LMS Capital announced proposals to pivot away from returning capital from realisations, and to instead reinvest exit proceeds in private equity opportunities under a newly-appointed external manager, Gresham House. We had been made aware of the proposals some time ago. Our preference had been for the status quo to remain in place, deeming a run-off policy to be demonstrably the best way of eliminating the wide discount on the shares. Considerable support for the changes made winning a vote highly unlikely, and our attention turned to negotiating concessions. The final outcome, which will see £17m returned to shareholders in tenders in which the Rayne Concert Party will not tender any of their 34% stake, represents a material improvement on the terms originally offered.

Following its exit from the insolvency process that allowed it to shed loss-making power supply contracts, Hidroelectrica - Fondul Proprietatea's largest investment - was written up by 23%. An IPO of Hidroelectrica, which will be the only listed pure-play hydropower company in Europe, is scheduled for Q4 - while there is a reasonable chance this may slip into 2017, the listing when it comes will result in over half of Fondul's portfolio being quoted and is likely to release more of the hidden value in Hidroelectrica, a unique asset. Fondul also announced the price for its tender offer which, while still an 8% premium over the prevailing share price at the time of the announcement, represents a considerably wider discount (27%) than the previous tender (8%). However, the flip-side of this is higher NAV accretion, and we estimate the tender will add 1.6% to NAV per share.

## Statistics

	Value	% 1 mo	% 1 yr	% 3 yr	% 5 yr
Price (£) TR <sup>2</sup>	548.0	9.6	12.7	17.3	21.6
Net Asset Value TR <sup>1</sup>	612.0	6.0	10.0	14.6	28.0
MSCI ACWI ex US TR <sup>3</sup>		5.7	11.6	20.5	35.3
MSCI ACWI ex US Value <sup>1</sup>		5.8	7.4	13.2	27.5
MSCI ACWI TR <sup>1</sup>		5.1	17.7	37.7	75.0
Morningstar Global Growth TR <sup>3</sup>		6.1	12.1	35.5	65.6

Annual Total Returns (%)	2015	2014	2013	2012	2011
Price <sup>1</sup>	-8.6	8.3	5.1	17.8	-12.8
Net Asset Value <sup>1</sup>	-4.7	5.2	7.6	19.6	-13.6
MSCI ACWI ex US (£) <sup>3</sup>	0.2	2.6	13.6	12.2	-12.7
MSCI ACWI ex US Value <sup>1</sup>	-4.4	1.3	13.5	12.5	-12.1
MSCI ACWI <sup>1</sup>	3.8	11.2	21.1	11.7	-6.2
Morningstar Global Growth <sup>3</sup>	7.2	8.8	23.1	13.9	-9.3

### Capital Structure

Ordinary Shares	160,014,089
Shares held in Treasury	31,619,537
8 ½% Debenture stock 2023*	£15,000,000
4.184% Series A Sterling Unsecured Note 2036	£30,000,000
3.249% Series B Euro Unsecured Note 2036	€30,000,000

### Gross Assets/Gearing

Gross Assets	£868mil.
Debt par value	£70.0mil.
Actual Gearing (Debt less cash divided by net asset value)	8.0%

<sup>1</sup> Source: Morningstar. All NAV figures are cum-fair values.

<sup>2</sup> Source: Morningstar. Share price total return is on a mid-to-mid basis, with net income re-invested.

<sup>3</sup> 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 Trust financial year commences on the 1<sup>st</sup> October. All figures published before the fiscal results announcement are AVI estimates and subject to change.

\*\* Last audited figure updated annually

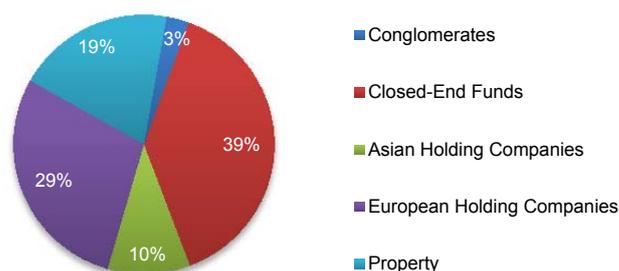
# Book Values updated annually

## Major Movers (in local currency)

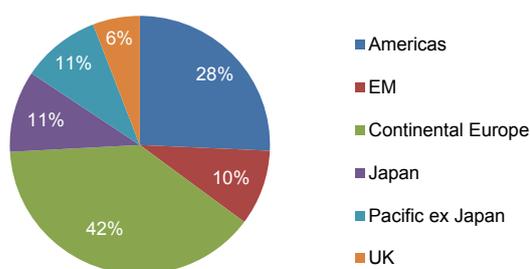
Largest Risers	1 month TR%	Percent of Assets
AKER ASA-A SHARES	18.8%	5.8%
ADLER REAL ESTATE AG	17.7%	3.0%

Largest Fallers	1 month TR%	Percent of Assets
DOLPHIN CAPITAL INVESTORS	-18.9%	0.6%
DIGITAL GARAGE INC	-17.7%	1.2%

## Sector Breakdown (% of invested assets)



## Risk Region Breakdown (% of net assets)



(Liquidity -8%)

## 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)

# IMPORTANT INFORMATION

## **Risk Factors you should consider before investing**

Investment in the British Empire 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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