

## Manager's Comment

BTEM's NAV increased by 1.2% in July, helped by positive contributions from Riverstone Energy, the Japanese Net Cash Basket, Aker, Exor, Pargesa, Tokyo Broadcasting System, and Fondul Proprietatea. Detractors included Pershing Square Holdings, Aberdeen Private Equity, Jardine Strategic, and Vietnam Phoenix Private Equity. Oil, Japan, sports cars, and Vietnamese pigs all influenced performance over July.

Riverstone Energy (RSE) saw its discount narrow by c. 800bps over the month as a large sell order that had been weighing on the share price completed. In addition, a further recovery in the oil price was not unhelpful. Although unsurprising that sentiment towards RSE will often sway in line with crude prices, the manager's flexible "build-up" investment approach with strategic investments made in the lowest-cost basins, the use of conservative capital structures, and a pragmatic approach to hedging, have seen material outperformance of the underlying commodity price. RSE's NAV is up +23% (in USD terms) since inception to 30-Jun-17, versus a fall in WTI of -15% from RSE's weighted average "in-price" of \$54.

The Japanese Net Cash basket was our next largest contributor. As detailed in our last newsletter, this basket was established to benefit from the expected positive impact of changes in governance and capital allocation practices across corporate Japan on the valuations of a selection of deeply discounted and ludicrously over-capitalised Japanese stocks. The basket comprises 13 names accounting for 5.3% of BTEM's NAV and all share certain characteristics we find attractive: very high cash/financial asset balances as proportions of market cap, high free cash-flow yields, and - crucially - sound operating businesses. Since we initiated the strategy, it is up +9.2% versus +0.5% for the TOPIX, +3.3% for the Tokyo Small Cap Index, +2.5% for the Tokyo Small Cap Value Index, +1.6% for the MSCI World, and +3.3% for the MSCI AC World ex-US (BTEM's benchmark). With a weighted average discount to NAV of 30% and compelling free cash-flow yields, we see scope for further material gains.

Improved sentiment towards oil boosted Aker over the month, with its holding in AkerBP (61% of NAV) rising +20%. We had reduced our holding in Aker in late-2016 on discounts in the low-20% after a run of very strong performance, but added recently deeming the 30%+ discount it has widened out to attractive again.

Exor contributed strongly to returns despite a flat discount, as its investments in Ferrari (25% of NAV) and Fiat (27% of NAV) performed well. Ferrari climbed over +20% ahead of its results on the back of several sell-side upgrades; Fiat's shares rose by 11%. Sergio Marchionne, CEO of both companies, suggested there could be further spin-offs on the agenda for Fiat as he seeks to further rationalise its vehicle portfolio. The market is sceptical that Fiat will be able to meet Marchionne's well-above-consensus targets for 2018, his last year in charge before he retires. In the event these targets are met, Fiat's current valuation will equate to a 25% free cash-flow yield, and we are cognisant that it has not paid to under-estimate Marchionne over the years.

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Pargesa performed well, with its NAV pushed higher by its holdings in Adidas, LafargeHolcim, and Umicore. In an environment of tightening discounts across many of the European holding companies, Pargesa's 32% discount stands out as an anomaly particularly given its near-100% listed portfolio (via its sole asset, a 50% stake in Groupe Bruxelles Lambert - GBL) and the success to-date of GBL's shift in strategy towards a more engaged ownership model. Tokyo Broadcasting System's shares were up on no news but perhaps on the creeping recognition of how chronically undervalued its shares are, while Fondul Proprietatea (FP) announced the sale of its stakes in the Electrica-owned distribution and supply subsidiaries to the parent company. While the sale came at a c. 3% effective discount to carrying value, the proceeds will be used to buy back shares and fund tender offers - given the current 28% discount, the transaction will be accretive to FP's NAV.

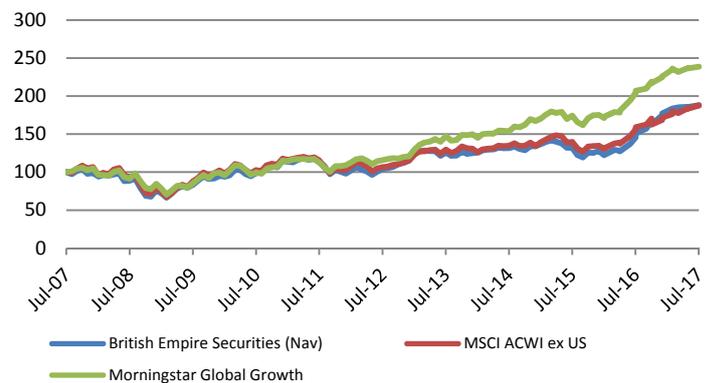
**Investment Objective:** To achieve capital growth through a focused portfolio of investments, particularly in companies whose share prices stand at a discount to estimated underlying net asset value.

## Performance Total Return

This investment management report relates to performance figures to 31 July 2017.

	Month	Financial Yr* to date	Calendar Yr to date
BTEM NAV <sup>1</sup>	1.2%	18.9%	8.8%
MSCI ACWI Ex US <sup>3</sup>	2.2%	15.6%	11.3%
MSCI ACWI Ex US Value <sup>1</sup>	2.4%	18.0%	8.6%
MSCI ACWI <sup>1</sup>	1.3%	14.8%	7.8%
Morningstar Global Growth <sup>1</sup>	2.2%	19.3%	15.4%

Performance Total Return JUL 2007- JUL 2017



## Top Ten Equity Holdings

Holding	%
Wendel	6.1
Pargesa Holdings	6.0
Riverstone Energy	5.8
Japan Net Cash Strategy	5.3
Jardine Strategic	5.2
Tetragon Financial Group	5.0
Symphony International	4.7
JPEL Private Equity	4.7
Adler Real Estate	4.7
Investor AB	4.3
<b>TOTAL</b>	<b>51.8</b>

The largest detractor was Pershing Square Holdings as its discount widened to over 20%, and we continued to build our position at these cheaper levels. Other detractors included Jardine Strategic (slightly wider discount, weak FX), Aberdeen Private Equity (wider discount, negative FX), as well as Vietnam Phoenix Private Equity (VPE). The last of these detractors, VPE, was a spin-off from our successful investment in Vietnam Phoenix (fka DWS Vietnam). VPE's main asset is its 18% stake in Greenfeed, an animal feed company which accounts for 34% of its NAV. Greenfeed was marked down by -16% in VPE's Jun-17 NAV as the impact of China's temporary ban on pig imports from Vietnam weighed on pork prices. Estimates suggest that around 55% of total industry animal feed is sold to pig farms. However, to the extent the fall in pork prices has led to smaller feed producers dropping out of the market, the situation could be positive for Greenfeed over the medium term. China's ban on pork imports was actually lifted in July and pork prices now stand at VND40k-VND49k per kilo, up from an average of VND25k per kilo over the last three months. We estimate Greenfeed is carried very inexpensively in VPE's NAV, particularly given its track record of growing earnings and its strategic positioning.

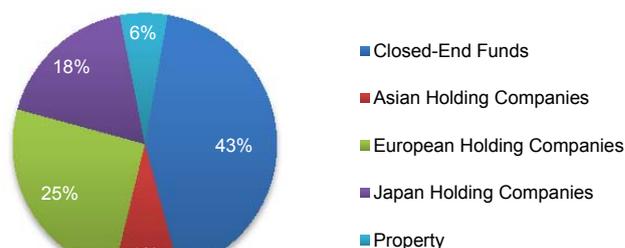
We sold out of our remaining holding in Hudson's Bay (discussed at length in last month's newsletter), and reduced our holdings in Investor and Wendel slightly to fund purchases. These included additions to the Japanese Net Cash basket and to Pershing Square Holdings, as well as initiating two new investments.

## Contributors / Detractors (in GBP)

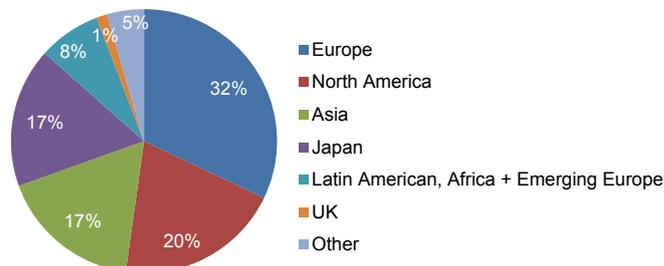
Largest Contributors	1 month contribution bps	Percent of Assets
RIVERSTONE ENERGY LTD	46	5.8
JAPAN NET CASH STRATEGY	46	5.3

Largest Detractors	1 month contribution bps	Percent of Assets
PERSHING SQUARE HOLDINGS	-33	4.2
ABERDEEN PRIVATE EQUITY	-23	3.8

## Sector Breakdown (% of invested assets)



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



#AVI estimate. Previously, this breakdown was calculated by assigning one region to each portfolio company held by BTEM. From the 31-Dec-16 newsletter onwards, this is calculated using the estimated multi-regional exposure for each portfolio company. For listed underlying holdings, the country of listing is used; for unlisted underlying holdings, the exposure is typically assigned according to the country where a majority of sales are made.

## Statistics

	Value	% 1 mo	% 1 yr	% 3 yr	% 5 yr
Price (£) TR <sup>2</sup>	690.5	0.8	29.0	47.6	84.0
Net Asset Value TR <sup>1</sup>	770.2	1.2	28.5	41.9	76.9
MSCI ACWI ex US TR <sup>3</sup>		2.2	20.4	39.3	76.1
MSCI ACWI ex US Value <sup>1</sup>		2.4	23.8	32.0	71.0
MSCI ACWI TR <sup>1</sup>		1.3	18.5	56.0	104.4
Morningstar Global Growth TR <sup>3</sup>		2.2	25.5	61.0	114.8

Fiscal Yr Total Returns (%)	2016	2015	2014	2013	2012
Price <sup>1</sup>	34.3	-9.5	8.9	13.8	6.2
Net Asset Value <sup>1</sup>	31.0	-8.3	6.8	13.1	9.6
MSCI ACWI ex US (£) <sup>3</sup>	28.0	-5.6	5.1	16.6	11.0
MSCI ACWI ex US Value <sup>1</sup>	25.5	-9.8	5.7	17.1	10.2
MSCI ACWI <sup>1</sup>	31.3	0.4	11.8	18.0	17.4
Morningstar Global Growth <sup>3</sup>	26.9	3.7	8.7	18.9	13.7

### Capital Structure

Ordinary Shares	129,526,165
Shares held in Treasury	12,229,806
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	£981mil.
Debt par value	£71.6mil.
Actual Gearing (Debt less cash divided by net asset value)	3.2%

<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

## 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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