

## Manager's Comment

March brought a third month of recovery from the lows of December, with broad-based strong performance across the major equity markets. BTEM's NAV gained +1.6% for the month, for a quarterly NAV total return of +8.5%. The portfolio benefitted from favourable currency movements relative to sterling as well as positive NAV and share price performance from the portfolio; these benefits were tempered slightly by an 83 basis points (bps) widening in the weighted average discount to 32.2%. Major contributors included Swire Pacific 'B', EXOR, Tetragon Financial, Third Point Offshore and Oakley Capital; major detractors included Riverstone Energy, Jardine Strategic and Pargesa Holding.

Swire Pacific was the largest contributor over the month, adding 57bps to returns. The share price returned +9%, with a NAV return of +6%, buoyed further by a tightening of the discount from 46% to 44%. Swire Pacific's two major listed holdings – Swire Properties (77% of NAV) and Cathay Pacific (12% of NAV) – posted share price returns of +7% and +4%, respectively.

Swire Properties had a particularly strong 2018 which was reflected in its results for the year. Realisation of several large assets and fully-funded developments for the next phase of growth led the company to increase its dividend by 9%. Trading on a 35% discount to its own NAV, Swire Properties offers compelling value. Elsewhere in the portfolio, Cathay Pacific posted a HKD2 billion profit for FY2018 (the first since FY2015), harvesting the first fruits from its turnaround program intended to help lower its cost base while still retaining its premium brand. Increased competition from low-cost Chinese carriers remains a threat, but the recent proposed acquisition of Hong Kong Express should help address this.

We view Swire Pacific B shares as being fundamentally undervalued: the 'B' shares trade on a 44% discount to NAV (or a 'look-through' discount of 60% when we factor in Swire Properties' 35% discount); on a 22% discount to the A shares; and have a negative stub value. In other words, the market is ascribing a negative value to the non-property assets in Swire Pacific – which we view as extraordinary, given the quality of its underlying assets. We remain excited about the prospects for future growth.

*"OCI's portfolio is held at a sub-13x EV/EBITDA multiple and grew EBITDA by +39% over the year, metrics which compare very favourably to its peers in the listed private equity sector."*

Oakley Capital Investments (OCI) contributed 23bps to returns in March, with the NAV increasing by +1% and the discount tightening from 32% to 30%, giving share price returns of +5%. OCI released FY2018 results during the month and, although the NAV had already been disclosed in a trading update in January, the report served to spotlight some of the attractive features of OCI's portfolio. We believe that this, along with a +24% increase in the share price of listed Time Out (10% of NAV) over the month, contributed to the narrowing of the discount.

OCI's portfolio is held at a sub-13x EV/EBITDA multiple and grew EBITDA by +39% over the year, metrics which compare very favourably to its peers in the listed private equity sector. Looking forward, we remain optimistic about OCI's portfolio, which is currently invested in high-quality consumer, education, and TMT assets with attractive rates of revenue and earnings growth, and limited capex requirements. The acquisition of Ekon, a Spanish ERP software provider, announced in March bears all the classic hall-marks of an "Oakley 2.0" deal: a complex carve-out of a non-core asset selling business-critical software in an under-penetrated market with secular growth drivers (transition from on-premise licenses to SaaS; cross-selling) similar to those found in HgCapital's core investments. We note HgCapital Trust trades at a sub-1% discount to NAV. We believe OCI's 30% discount to be too wide given the steps taken by the Board and management to address it, which include ruling out dilutive share issuance; a recent buyback for cancellation (albeit very small); increased management ownership; a commitment to review the listing; an energetic marketing campaign; and improved transparency on the portfolio. There remains much work to be done, but we see the discount as a clear anomaly that reflects past corporate governance transgressions rather than current reality.

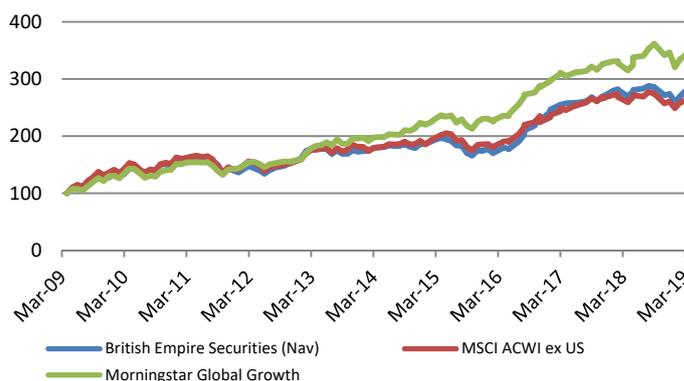
**Investment Objective:** To achieve capital growth through a focused portfolio of investments, particularly in companies whose share prices stand at a discount to estimated underlying net asset value.

## Performance Total Return

This investment management report relates to performance figures to 31 March 2019.

	Month	Financial Yr* to date	Calendar Yr to date
BTEMNAV <sup>1</sup>	1.6%	-3.0%	8.5%
MSCI ACWI Ex US <sup>3</sup>	2.8%	-2.1%	7.9%
MSCI ACWI Ex US Value <sup>1</sup>	1.7%	-3.0%	6.0%
MSCI ACWI <sup>1</sup>	3.4%	-1.8%	9.8%
Morningstar Global Growth <sup>1</sup>	3.0%	-3.5%	10.1%

Performance Total Return MAR 2009 - MAR 2019



## Top Ten Equity Holdings

Holding	%
Japan Special Situations***	14.9
Pershing Square Holdings #	10.3
EXOR	6.0
Tetragon Financial	5.5
Fondul Proprietatea	5.5
Swire Pacific Ltd 'B'	5.3
Jardine Strategic	5.1
Third Point Offshore	5.0
Oakley Capital Investments	4.9
Symphony International	4.6
<b>TOTAL</b>	<b>67.1</b>

\* 45% of this position (4.5% of NAV) is hedged, partially reducing BTEM's overall exposure to Pershing Square Holdings

Riverstone Energy (RSE) was the largest detractor over the month, detracting 32bps from returns on the back of a widening discount (24% to 30%). Over the past six months, sentiment in the sector has been negatively impacted by the decline in the oil price, which has served to drag on returns for investors. This has been compounded by a poor performance from sole listed holding Centennial Resource Development (-60% over six months), where negative/confused production guidance was poorly received by the market. We would expect the recovery in the oil price (+40%) and in the US E&P sector (+18%) since year-end to have had a positive impact on RSE's Q1 valuations.

Jardine Strategic (JS) reduced returns by 15bps, with a NAV decline of -2% exacerbated by a move in the discount from 32% to 34%. Overall, the share price fell -5% over the month. Performance was somewhat varied in the underlying portfolio, with major listed holdings Hongkong Land, Dairy Farm, and Jardine Cycle & Carriage posting share price movements of +1%, -4% and -3% respectively.

Hongkong Land (26% of NAV) posted another year of record profits in FY 2018, driven by increased rental income and sales from the development portfolio. The full-year dividend was increased by +10%. Prospects for growth remain good, with rental reversions expected in the central Hong Kong office, and increasing contributions from the (primarily Chinese) property development portfolio. Dairy Farm (27% of NAV) had a difficult 2018. While performance was good for the health & beauty segment (double-digit sales and earnings growth), the hypermarket segment - accounting for 50% of sales - took write-downs of USD450 million as the company embarks on a "multi-year transformation programme" to restructure the business. Finally, results from Jardine Cycle & Carriage (22% of NAV) were mixed, with key holding Astra International posting lower margins and market share in its automobile division, and warning of further headwinds in 2019.

Pargesa Holding was the final significant detractor, reducing returns by 13bps. The NAV fell by -2% over the month which, combined with the discount moving from 32% to 34%, resulted in share price returns of -5%. Positive performance from adidas and Pernod Ricard (19% / 18% of NAV) were more than outweighed by Imerys (11% of NAV), the stand-out detractor whose share price declined -11% over the month. Imerys, a provider of minerals to industrial customers, has had a difficult period, with its share price down -42% over the past twelve months. There have been problems on various fronts, including: (a) a poorly performing Energy Solutions & Specialties division (28% of sales); (b) uncertainty about the success of the group's strategic shift towards higher-margin, value-add minerals; and (c) the overhang from ongoing litigation against Imerys regarding asbestos in talc products. Imerys' new CEO will present an update on the company's strategy at its Capital Markets Day in London in June, which we expect to be a positive catalyst for the shares.

The spread between Pargesa and Groupe Bruxelles Lambert's discount widened from 7% to 11% over the month. Given that the two companies own the same portfolio of assets, we view this discrepancy as inefficient and believe that the spread will narrow over time, adding another element to returns from Pargesa.

Trading activity was limited over the month. A new position has been initiated in the portfolio, the name of which will be disclosed when the desired stake has been accumulated.

## Contributors / Detractors (in GBP)

Largest Contributors	1 month contribution bps	Percent of NAV
SWIRE PACIFIC LTD-CL B	57	5.3
EXOR NV	44	6.0

Largest Detractors	1 month contribution bps	Percent of NAV
RIVERSTONE ENERGY LTD	-32	4.2
JARDINE STRATEGIC HLDGS LTD	-15	5.1

#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>	726.0	1.5	6.1	64.8	65.5
Net Asset Value TR <sup>1</sup>	798.5	1.6	4.4	57.4	55.3
MSCI ACWI ex US TR <sup>3</sup>		2.8	3.6	41.3	48.7
MSCI ACWI ex US Value <sup>1</sup>		1.7	2.5	40.4	38.9
MSCI ACWI TR <sup>1</sup>		3.4	11.1	52.0	79.7
Morningstar Global Growth TR <sup>3</sup>		3.0	9.7	60.0	85.9

Fiscal Yr Total Returns (%)	2018	2017	2016	2015	2014
Price <sup>1</sup>	12.0	18.7	34.3	-9.5	8.9
Net Asset Value <sup>1</sup>	10.0	18.8	31.0	-8.3	6.8
MSCI ACWI ex US (£)3	5.2	16.3	28.0	-5.6	5.1
MSCI ACWI ex US Value <sup>1</sup>	3.9	18.4	25.5	-9.8	5.7
MSCI ACWI <sup>1</sup>	13.5	15.5	31.3	0.4	11.8
Morningstar Global Growth <sup>3</sup>	16.7	21.3	26.9	3.7	8.7

## Capital Structure

Ordinary Shares	129,526,165
Shares held in Treasury	18,621,612
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
2.930% Unsecured Note 2037	€20,000,000

## Gross Assets/Gearing

Gross Assets	£986mil.
Debt par value	£87.7mil.
Actual Gearing (Debt less cash divided by net assets)	5.3%

<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.

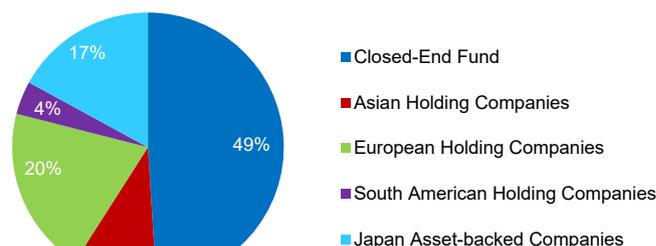
<sup>3</sup> From 1<sup>st</sup> October 2013 the lead benchmark was changed to the MSCI ACWI ex US (£) Index. The investment management fee was changed to 0.7% of net assets and the performance related fee eliminated.

\* 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.

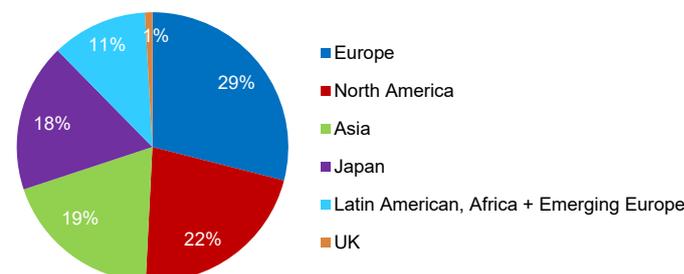
\*\* Last audited figure updated annually

\*\*\* A basket of 18 stocks: Fujitex Co, Kato Sangyo, Tachi-S, Nishimatsuya Chain, Pasona Group, Daiwa Industries, SK Kaken Co, Kanaden Corp, Toshiba Plant, Nissan Shatai, Teikoku Sen-I, Nakano, Mitsubishi Belting, Sekisui Jushi Corp, Nufilare, Toagosei, Konishi, Digital Garage.

## Sector Breakdown (% of invested assets)



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



## 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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