

## Manager's Comment

For the second consecutive month, the portfolio discount ground tighter to end the month 50bps narrower at 30.4%. BTEM's NAV was down -0.39%; the benchmark was down -0.96%.

Aker's discount narrowed from 41% to 35% over the month to make it our largest contributor for a second month running. This contribution came despite headwinds from the weak Norwegian Kroner and a fall in its NAV with strong performance from E&P player DetNor insufficient to offset weakness in the other underlying listed holdings. We have been pleased to see this NAV weakness reverse in early June to continue Aker's good run. A number of transactions took place at the beginning of June. The divestment of Aker's 20 year holding in Havfisk which has appreciated in value by 371% over the past 5 years in favour of a new investment in Solstad Offshore (down 88% over the same period) highlights Aker's disciplined and opportunistic approach to capital allocation in a sector in which they have great experience. Aker's strong family holding structure allows it to capitalise on these opportunities. We believe the current 35% discount does not reflect management's history of strong value creation, the 5.3% dividend yield, nor its high quality portfolio.

In terms of contribution, Better Capital was second largest after Aker as its discount tightened ahead of its results update due in late June, while Ecofin Water & Power Opportunities was not far behind as its discount reduced in the run up to its continuation vote also scheduled for late June. Our three German real estate plays added to returns, with DIC, Adler, and Conwert all contributing meaningfully despite a weaker Euro. All three still trade on wide discounts and could be beneficiaries of M&A activity.

Again the largest detractor, Hudson's Bay (HBC) deducted 50bps from NAV with a near-11% fall in its share price exacerbated by a weak Canadian dollar. HBC, a Canadian retailer with substantial property assets, reported slightly negative Q1 same-store-sales growth figures which were superior to its peers and did not lower guidance. We believe the market is punishing HBC indiscriminately along with the rest of the North American department store sector, and is failing to appreciate the international nature of its assets.

*"Aker's strong family holding structure allows it to capitalise on these opportunities. We believe its 35% discount does not reflect management's history of strong value creation, the 5.3% dividend yield, nor its high quality portfolio."*

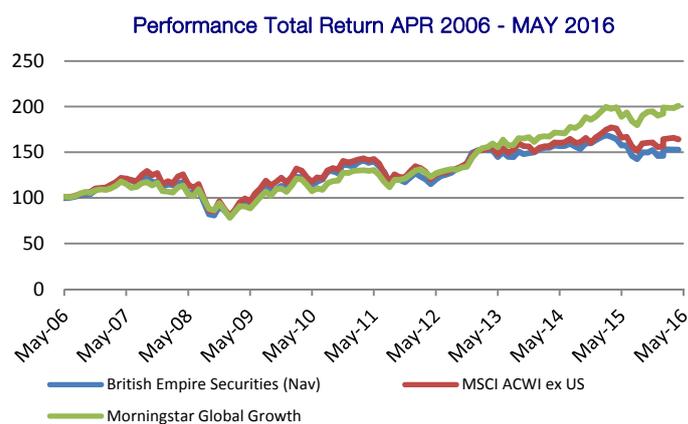
Moreover, our investment thesis rests on further monetisation of the company's majority-owned property assets including its Saks Fifth Avenue store. While painful in the short term, the market reaction provided an opportunity to add to our position on a near-60% discount to our estimated NAV, and we were pleased to see the company recover over half of the month's losses in the early part of June. Other detractors were much smaller in impact, and included GP Investments, BlackRock World Mining, and Bollere.

**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 May 2016.

	Month	Financial Yr* to date	Calendar Yr to date
BTEM NAV <sup>1</sup>	-0.4%	5.6%	0.4%
MSCI ACWI Ex US <sup>3</sup>	-1.0%	8.4%	2.1%
MSCI ACWI Ex US Value <sup>1</sup>	-2.0%	6.6%	2.1%
MSCI ACWI <sup>1</sup>	0.9%	11.8%	3.4%
Morningstar Global Growth <sup>1</sup>	1.4%	9.3%	0.7%



## Top Ten Equity Holdings

Holding	%
InvestorAB-ASHS	6.2
Wendel	5.8
Pargesa Holding	5.3
Aker ASA	4.8
Symphony International	4.8
JPEL Private Equity	4.7
InvestmentAB Kinnevik - BSHS	4.7
NB Private Equity Partners	4.6
DWS Vietnam Fund	4.6
AP Alternative Assets	4.4
<b>TOTAL</b>	<b>49.9</b>

Turnover was again low, reflecting the completion of the portfolio transition a couple of months ago. The most notable change was a sale of our position in Brookfield Canada Office Properties on a sub-20% discount following the payment of a special dividend. The proceeds were used to add to Hudson's Bay as described above, DIC, and Riverstone Energy amongst others.

BTEM ended the month as it started with an investment level of 108% invested (i.e. 8% geared).

## Statistics

	Value	% 1 mo	% 1 yr	% 3 yr	% 5 yr
Price (£) TR <sup>2</sup>	462.2	-1.8	-9.8	-1.3	-0.4
NetAsset Value TR <sup>1</sup>	535.8	-0.4	-8.1	-1.5	8.7
MSCI ACWI ex US TR <sup>3</sup>		-1.0	-6.7	6.2	16.3
MSCI ACWI ex US Value <sup>1</sup>		-2.0	-9.9	1.1	10.2
MSCI ACWI TR <sup>1</sup>		0.9	-0.3	23.2	49.5
Morningstar Global Growth TR <sup>3</sup>		1.4	-1.2	25.1	46.8

Annual Total Returns (%)	2015	2014	2013	2012	2011
Price <sup>1</sup>	-8.6	8.3	5.1	17.8	-12.8
NetAsset 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	30,157,985
8 1/8% 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	£774mil.
Debt par value	£67.7mil.
Actual Gearing (Debt less cash divided by net asset value)	8.1%

<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

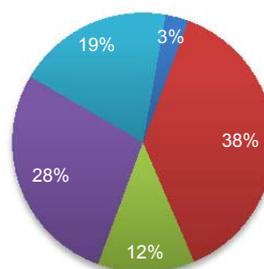
# Book Values updated annually

## Major Movers (in local currency)

Largest Risers	1 month TR%	Percent of Assets
DIGITAL GARAGE INC	13.8%	0.9%
AKER ASA-A SHARES	7.5%	4.8%

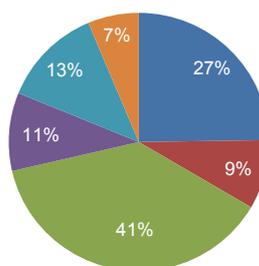
Largest Fallers	1 month TR%	Percent of Assets
HUDSON'S BAY CO	-11.2%	3.4%
BLACKROCK WORLD MINING	-10.0%	1.9%

## Sector Breakdown (% of invested assets)



- Conglomerates
- Closed-End Funds
- Asian Holding Companies
- European Holding Companies
- Property

## Risk Region Breakdown (% of net assets)



- Americas
- EM
- Continental Europe
- Japan
- Pacific ex Japan
- UK

(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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