

## Manager's Comment

BTEM's NAV added to its recent gains with another 3.5% rise in August, with the portfolio discount contracting slightly to 32%.

Riverstone Energy (RSE) was our top contributor, up 18% over the month as the market reacted favourably to two deals. The first, which was actually announced in late-July, saw Riverstone intervene in the IPO process for Permian Delaware Basin player Centennial Resource Development (CRD) to acquire the company from its private equity owners. Riverstone then transferred the holding to its US-listed SPAC, Silver Run Acquisition Corp (SRAQ), managed by "Godfather of Shale" Mark Papa of EOG Resources fame, in return for SRAQ shares. By structuring the deal in this way, CRD has begun life under its new management debt-free and with a substantial cash balance, and has achieved a listing without any IPO discount being required. For investors in RSE, the added NAV transparency of having a listed holding is helpful at the margin, and SRAQ's share price is already almost 30% higher than the price Riverstone is paying for its shares which adds 2% to our estimated NAV after taxes and performance fees.

Early August saw the first exit from RSE's portfolio with the sale of Rock Oil (c. 25k acres in the Midland sub-basin in the Permian) at a 55% uplift to carrying value and a 2.08x multiple on cost. The sale adds a further 3.2% to our estimated NAV after taxes and performance fees. Aside from the uplift, the deal is significant for two reasons. Firstly, the substantial uplift over carrying value validates Riverstone's valuations, about which there had been some (we believe largely mis-placed) scepticism. Secondly, it shows that returns are not dependent on the oil price. The capital invested in Rock Oil was drawn down at an average WTI-price of \$51 vs \$42 at the time the sale agreement was signed. While we believe RSE's performance fee structure is flawed (deal-by-deal rather than based on NAV), this is mitigated somewhat by the requirement that performance fees are reinvested in RSE shares to be acquired in the market. Reinvestment of the performance fee from the sale of Rock Oil will add another 1.3% to Riverstone's existing 5.9% stake in RSE. We still see RSE as a compelling investment despite its re-rating - the Managers have assembled a high quality portfolio focussed on low-cost basins with attractive IRRs from drilling at current spot prices, with the headline average WTI "in-price" of \$52 for the portfolio rendered even more appealing by the collapse in oil service costs and also drilling & completion costs from technological breakthroughs. We first acquired a position in RSE ten months ago and have added since for an average purchase price that has given us a +33% return to date.

*"The portfolio is heavily pregnant with potential events and, as our investment theses play out in positions such as conwert, we are able to recycle the proceeds by adding to other event-driven holdings where we still see potential for material upside."*

The next biggest contributors included Hudson's Bay (improving numbers from North American department store sector), Wendel (discount in from 40% to 36%), and Aker (continued NAV strength; strong Norwegian Kroner). Just behind was JPEL Private Equity, which posted a strong June NAV (+5%) and has now delivered +13% NAV growth in Q2 2016 as the attractively-priced and fast-growing investments made over the last couple of years bear fruit. In our view, the shares are mis-priced, trading on a discount of 28% despite the company now being in run-off.

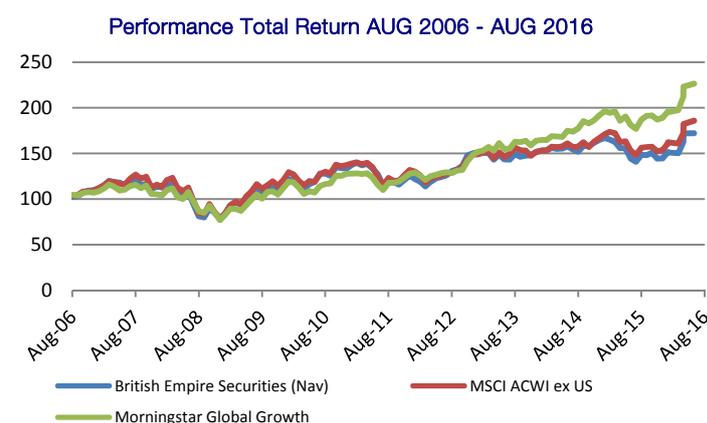
Next in line of the positive contributors was conwert, which announced results containing improved guidance and confirmation of strong NAV growth. Far more significant news came after month-end as Vonovia, Germany's largest listed residential landlord, announced a bid for the company. At the time of the announcement an all share transaction valued the offer at €17.58 per conwert share, a 7% premium to last reported NAV. Part of our original thesis for investing in conwert was continuing M&A activity in the sector. With an ex-Vonovia employee installed as CEO of conwert we believed Vonovia were the strongest candidate if a bid was to be launched. At the time of writing, we have recorded an impressive 50% return in Sterling on our average purchase price. We began acquiring in November last year, adding substantially to our position on price weakness in early 2016. Adler, another of our holdings, has a 22% stake in conwert (on an undiluted basis plus an option to purchase an additional c. 6%) and have agreed to tender their shares to Vonovia, which will see them record a large profit on their investment, and also provide them greater ability to strengthen their balance sheet.

**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 August 2016.

	Month	Financial Yr* to date	Calendar Yr to date
BTEM NAV <sup>1</sup>	3.5%	25.4%	19.2%
MSCI ACWI Ex US <sup>3</sup>	2.0%	25.4%	18.1%
MSCI ACWI Ex US Value <sup>1</sup>	3.1%	23.3%	18.2%
MSCI ACWI <sup>1</sup>	1.8%	29.4%	19.7%
Morningstar Global Growth <sup>1</sup>	2.3%	23.6%	13.9%



## Top Ten Equity Holdings

Holding	%
Aker ASA	6.7
Wendel	5.9
Investor AB-A SHS	5.9
AP Alternative Assets	5.1
DWS Vietnam Fund	4.9
NB Private Equity Partners	4.8
JPEL Private Equity	4.7
Pargesa Holding	4.7
Symphony International	4.7
Investment AB Kinnevik - B SHS	4.5
<b>TOTAL</b>	<b>51.9</b>

The portfolio is heavily pregnant with potential events and, as our investment theses play out in positions such as conwert, we are able to recycle the proceeds by adding to other event-driven holdings where we still see potential for material upside.

The largest detractors were Digital Garage, which we added to on weakness, and Ecofin Water & Power Opportunities (ECWO). ECWO announced it would be increasing the upcoming tender offer from 35% to 50% of NAV. The market took the news well and the discount narrowed into 10% before selling off again towards the end of the month-end on the back of a couple of sizable sell orders.

Ocean Yield (22% of Aker's NAV) conducted a capital raise of \$100m to fund further acquisitions of vessels and diversify their current portfolio. Aker committed to underwrite 50% of the issuance with an agreement to scale back based on demand. The issuance was strongly oversubscribed and thus Aker did not participate allowing them to be diluted to improve the free float. We are encouraged that Ocean Yield is still able to find attractive deals and the continuing diversification of the portfolio should help to reduce the overly high risk premium on its shares implied by the market.

Portfolio turnover was quite limited, with the only material transactions of note being additional purchases in Digital Garage and Toyota Industries. We exited Blackrock World Mining, and reduced our exposure to Bollre and Hitachi.

## Statistics

	Value	% 1 mo	% 1 yr	% 3 yr	% 5 yr
Price (£) TR <sup>2</sup>	564.0	2.9	22.9	25.1	32.8
NetAsset Value TR <sup>1</sup>	633.6	3.5	21.0	22.7	38.7
MSCI ACWI ex US TR <sup>3</sup>		2.0	21.5	27.2	49.7
MSCI ACWI ex US Value <sup>1</sup>		3.1	18.3	20.5	43.1
MSCI ACWI TR <sup>1</sup>		1.8	26.7	46.0	90.5
Morningstar Global Growth TR <sup>3</sup>		2.3	20.8	42.8	81.6
<b>Annual Total Returns (%)</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>
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	32,127,578
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	£894mil.
Debt par value	£70.2mil.
Actual Gearing (Debt less cash divided by net asset value)	7.7%

<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

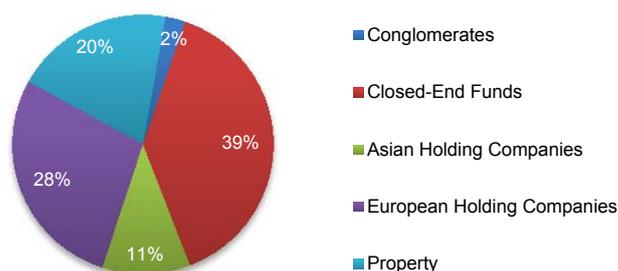
# Book Values updated annually

## Major Movers (in local currency)

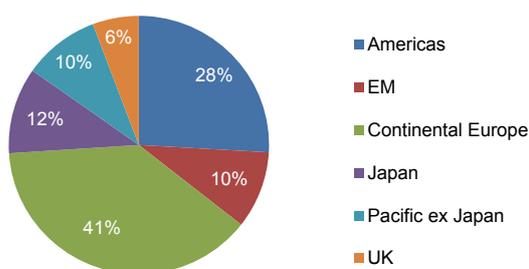
Largest Risers	1 month TR%	Percent of Assets
RIVERSTONE ENERGY LTD	18.2%	4.0%
GP INVESTMENTS LTD - BDR	12.1%	1.9%

Largest Fallers	1 month TR%	Percent of Assets
DIGITAL GARAGE INC	-10.9%	2.0%
ECOFIN WATER & POWER OP	-5.6%	2.8%

## Sector Breakdown (% of invested assets)



## Risk Region Breakdown (% of net assets)



(Liquidity -7%)

## 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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