

## Manager's Comment

BTEM's NAV increased by a further 3.1% in February on the back of strength in several key holdings.

Last month's largest detractor was this month's joint star performer as Hudson's Bay (HBC) recovered from its lows, increasing 23% over February as the market responded to speculation that HBC is poised to make a bid for its much larger rival Macy's which, like HBC, owns valuable freehold real estate. Whether HBC can pull off a deal for Macy's remains to be seen, but the news has certainly served to highlight the value in the real estate of both retailers. HBC is much further on the journey to monetising its property holdings, having already spun off a sizable portion of them into private JVs. We continue to believe the ultimate end-game of Richard Baker, HBC's Chairman and largest shareholder, involves a full separation of the retail and property assets with a listing for the latter highlighting their true value. HBC contributed 71bps to BTEM's NAV over the month, justifying our decision to add to the position after it had fallen dramatically during the previous month.

AP Alternative Assets also added 71bps to NAV as the share price of its sole underlying holding Athene Insurance rose 11% on speculation that Athene would bid for Fidelity & Guaranty Life (FGL). FGL had agreed a sale to Anbang Insurance well over a year ago, but the Chinese buyer has struggled to obtain the necessary regulatory approvals. While FGL announced an extension to the deal termination date at the start of the month, the terms of the extension now allow FGL to solicit competing offers. As a mono-line fixed (mainly equity-indexed) annuity business with c\$20bn of assets, FGL is a natural fit for Athene. With \$1.5bn of excess capital and no financial leverage, Athene certainly has the balance sheet strength to support such an acquisition. Athene's ROE has been depressed by the capital it raised back in 2015 to fund acquisition(s) - assuming amongst other things that Athene pays the same price offered by Anbang (c\$1.6bn, roughly equivalent to FGL's GAAP book value), we estimate a deal would boost Athene's ROE by over 200bps and would raise operating EPS by almost 20%. We continue to believe Athene's current price/book multiple fails to fully reflect the significant optionality inherent in its excess capital position, whether or not this is used specifically for a deal with FGL. Although we have reduced our holding in AP from the disproportionately large weight to which it had grown, it is still our fourth largest position reflecting the attractive returns we anticipate from the unwinding of the 8% discount as the Athene shares it holds are freed from lock-up and distributed to AP shareholders, and from a likely upwards re-rating of Athene itself.

Continued discount narrowing (19.5% to 16.2%) saw NB Private Equity add 40bps to BTEM's NAV. The company announced the appointment of a new advisor to assist with the strategic review of its corporate governance and listing structure, and pledged to provide a further update "in the near future". Our view, expressed consistently to the management and board over the duration of our investment, is that a full enfranchisement of shareholders and a Premium London listing are essential steps to take if the company is to enjoy the higher rating we believe it otherwise merits.

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Adler Real Estate moved sharply higher over the month. While much of the rise was seemingly due to misplaced expectations that a capital raise by Deutsche Wohnen would be used to fund a bid for Adler, it is still our contention that the company is a natural takeover target by one of its larger peers. Adler is one of the few companies of meaningful size in the German residential sector to trade at a discount to NAV, and much of the justification for its discount has evaporated as Adler's LTV is now comfortably below 60% following the receipt of cash from the sale of its stake in conwert to Vonovia.

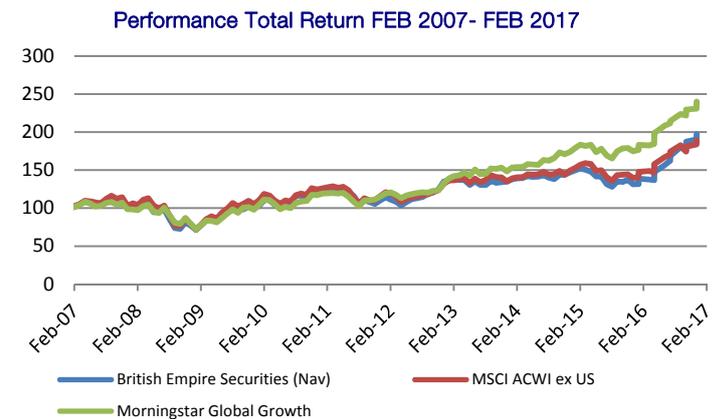
Kinnevik was also a strong contributor, benefitting from solid performance in its listed portfolio (most significantly emerging markets telecoms holding Millicom) and positive sentiment surrounding a further move towards a full

**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 28 February 2017.

	Month	Financial Yr* to date	Calendar Yr to date
BTEM NAV <sup>1</sup>	3.1%	14.5%	4.8%
MSCI ACWI Ex US <sup>3</sup>	2.7%	8.5%	4.5%
MSCI ACWI Ex US Value <sup>1</sup>	2.3%	12.6%	3.6%
MSCI ACWI <sup>1</sup>	4.0%	11.8%	4.9%
Morningstar Global Growth <sup>1</sup>	3.1%	9.3%	5.7%



## Top Ten Equity Holdings

Holding	%
Jardine Strategic Holdings	6.1
Wendel	5.9
JPEL Private Equity	5.6
AP Alternative	5.6
NB Private Equity Partners	5.5
Riverstone Energy	5.5
Symphony International	5.5
Investor AB-A SHS	5.3
Toyota Industries	4.9
Aker ASA	4.7
<b>TOTAL</b>	<b>54.6</b>

exit from its investment in Rocket Internet. While Rocket's life as a listed company has been an unhappy one in terms of shareholder returns, Kinnevik - as a pre-IPO investor - has generated positive returns from its investment and, much more importantly, would not have made its spectacularly successful investment in Zalando were it not for the relationship with Rocket. Toyota Industries and Exor were also healthy contributors over the month.

Detractors were largely immaterial aside from Wendel, which suffered from a widening discount and knocked 31bps off NAV. We took advantage of the weakness to add to our holding and the discount has recovered since month-end. We redeemed 50% of our highly successful investment in Vietnam Phoenix Realisation shares at NAV towards the end of the month, and ended the month 105% invested.

## Contributors / Detractors (in GBP)

Largest Contributors	1 month contribution bps	Percent of Assets
AP ALTERNATIVE ASSETS LP	71	5.6%
HUDSON'S BAY CO	71	3.8%

Largest Detractors	1 month contribution bps	Percent of Assets
WENDEL	-31	5.9%
LMS CAPITAL PLC	-7	0.5%

## Statistics

	Value	% 1 mo	% 1 yr	% 3 yr	% 5 yr
Price (£) TR <sup>2</sup>	669.5	3.2	55.6	46.8	67.2
Net Asset Value TR <sup>1</sup>	743.7	3.1	50.1	41.7	69.7
MSCI ACWI ex US TR <sup>3</sup>	2.7	34.3	35.8	56.3	
MSCI ACWI ex US Value <sup>1</sup>	2.3	39.8	32.4	525	
MSCI ACWI TR <sup>1</sup>	4.0	37.5	57.6	96.1	
Morningstar Global Growth TR <sup>3</sup>	3.1	33.3	47.9	92.3	
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	8,087,500
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	£981mil.
Debt par value	£70mil.
Actual Gearing (Debt less cash divided by net asset value)	5.1%

<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.

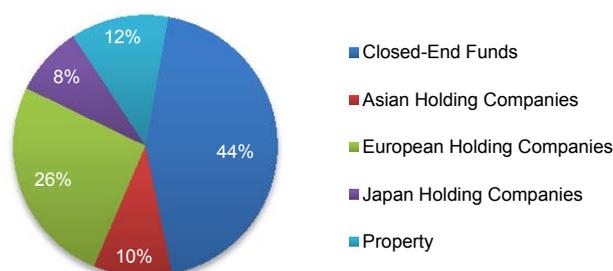
<sup>3</sup> From 1<sup>st</sup> October 2013 the lead benchmark was changed to the MSCI ACWI ex US (£) Index.

The investment management fee was changed to 0.7% of net assets and the performance related fee eliminated.

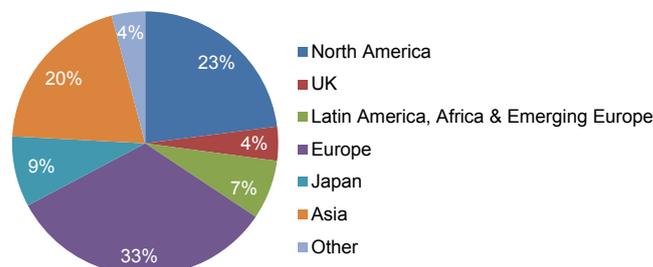
\* British Empire Trust financial year commences on the 1<sup>st</sup> October. All figures published before the fiscal results announcement are AVI estimates and subject to change.

\*\* Last audited figure updated annually

## 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.

## 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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