

## Manager's Comment

BTEM's NAV fell by 16bps in June after adjusting for the 2p dividend paid. FX detracted from returns (costing 46bps), as did Aker, Wendel, Pargesa, Fondul, and Exor. Strong contributions came from Kinnevik, Aberdeen Private Equity, Better Capital 2009, Tokyo Broadcasting System, Toyota Industries, Hudson's Bay, and Toshiba Plant Systems.

Kinnevik was our top contributor despite its NAV falling as a result of share price weakness in top holding Zalando and across its listed telecoms businesses. Having remarked last month on Kinnevik's very wide discount relative to its Swedish holding company peers, we did see it narrow dramatically in June albeit due in part to a declining NAV. Kinnevik also announced the long-awaited appointment of a new CEO, Georgi Ganev, who will leave his role at Dustin Group, a technology products retailer, to join Kinnevik later this year. Having worked at and sat on the board of Tele2, a key Kinnevik portfolio company, he is familiar with Kinnevik's investment style and culture.

Better Capital 2009 announced the completion of the Gardner Aerospace sale, and returned the proceeds to shareholders at the end of the month resulting in 83% of our holding being redeemed at NAV. Our investment, initiated in Dec-14, has registered a 27% IRR to date driven by the upside we identified in Gardner at the outset in addition to discount narrowing.

Real-estate backed department store operator Hudson's Bay (HBC) had another volatile month, ending with a gain of 14% after being down as much as 17% at one point. The sell-off was prompted by further declines in its retail sales; the recovery followed the publication of a letter from an activist investor, Land & Buildings, calling for the company to accelerate the monetisation of its valuable real estate assets. The letter contained no information or ideas that are unfamiliar to anyone who knows HBC well and our concerns are not that management is unwilling to take further steps in this direction but that the company may now be in a position where it is unable to do so. There is unquestionably an enormous amount of value tied up in the company's real estate, but sales and margins have deteriorated faster than we had anticipated and there are now serious questions over whether further monetisation of the real estate can take place at valuations acceptable to management given market concerns around retail-exposed commercial property. Furthermore, our thesis relied in part on an in-specie distribution of the property JVs following their anticipated listing. Not only is the timeframe for their IPO now more uncertain, but we now believe the dividends from HBC's stake in them are too important to the company's finances for an in-specie distribution to go ahead. Land & Buildings' letter called for retail stores to be closed down and the property repurposed for alternative use. While this would be a clear route to unlocking the trapped value, we do not believe the Chairman Richard Baker, who together with his family owns 18% of the company, would countenance such a move in the foreseeable future. HBC is a polarising stock and we have up until recently been in the bull camp, but our concerns are now sufficient that we reduced our position following the share price spike towards the end of the month.

*"Japan has long been a market with a glut of value opportunities, but we are now seeing genuine and tangible changes in attitudes from management and boards towards corporate governance and capital allocation."*

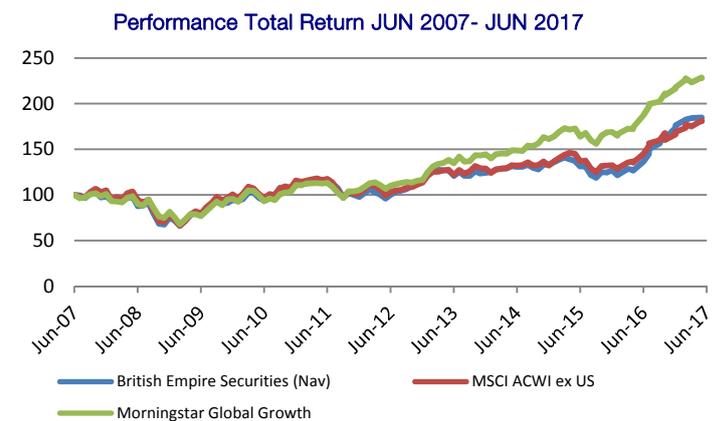
Three Japanese holdings - Tokyo Broadcasting System, Toyota Industries, and Toshiba Plant Systems - featured in our top contributors for the month. Japan has long been a market with a glut of value opportunities, but we are now seeing genuine and tangible changes in attitudes from management and boards towards corporate governance and capital allocation. This year is the first in which Japanese institutions must disclose how they have voted at each of their holding's AGMs, while the shareholder advisory service ISS now recommends that directors are not re-elected if their company has failed to hit minimum ROE targets. Increasing numbers of independent directors are being appointed, and distributions via buybacks and dividends are at record levels. We are also seeing a spate of parent companies buying out their (typically over-capitalised) listed subsidiaries, while recent activist successes are fuelling a virtuous circle with greater amounts of capital being devoted to actively fighting for good governance and shareholder value.

**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 30 June 2017.

	Month	Financial Yr* to date	Calendar Yr to date
BTEM NAV <sup>1</sup>	-0.2%	17.4%	7.5%
MSCI ACWI Ex US <sup>3</sup>	-0.3%	13.1%	8.9%
MSCI ACWI Ex US Value <sup>1</sup>	-0.0%	15.2%	6.0%
MSCI ACWI <sup>1</sup>	-0.1%	13.3%	6.4%
Morningstar Global Growth <sup>1</sup>	0.1%	16.7%	12.9%



## Top Ten Equity Holdings

Holding	%
Wendel	6.4
Pargesa Holdings	5.8
Jardine Strategic	5.5
Riverstone Energy	5.3
Tetragon Financial Group	5.0
Symphony International	4.8
Adler Real Estate	4.8
JPEL Private Equity	4.7
Investor AB	4.7
NB Private Equity	4.2
<b>TOTAL</b>	<b>51.2</b>

We recently began building a basket of Japanese “net cash” stocks that consists of 11 names and now amounts to just over 4% of NAV and takes our overall Japanese weighting up to 16%. This basket has an aggregate level of net cash that covers 55% of its market cap, with net financial value (including cash) equal to 73% of market cap. Importantly, these are all sound businesses as shown by the aggregate compound annual growth in operating profits of 6.3% over the last 10 years and operating margins of 6%. This is crucial as it allows time to be our friend as value is not being eroded while we wait for the latent value to be unlocked. We have already engaged with management and boards of several of these new holdings to make our views clear, and will be meeting with them on our next visit to Tokyo in July. The aggregate free-cash flow yield of 7.3% on our Japanese basket is attractive in its own right, but the potential for value creation is staggering when one considers that the free-cash-flow yield stripping out cash on the balance sheet (i.e., FCF yield on enterprise value) would be 30.4% and that the aggregate EV/EBIT is just 2.7x. It is difficult to conceive that a portfolio with anything like these characteristics could be constructed today outside of Japan.

We initiated a new position in Pershing Square Holdings (PSH) in early June. The manager’s reputation has been damaged by the catastrophic losses experienced in their out-sized position in Valeant Pharmaceuticals, but the flip-side of this is that we were able to make our investment at a 15% discount to NAV despite the manager’s long-term track record still being outstanding (14.8% annualised return since inception vs 8.1% for the S&P 500 index). While PSH does not reveal its portfolio weights directly, SEC filings can be used to construct an accurate model of its highly concentrated portfolio in which we see considerable scope for upside. Adjusting for the geared effect of options, PSH’s position in Mondelez accounts for an effective economic exposure of over 40% of NAV and we agree with the manager’s thesis that the company is a prime candidate for a takeover by 3G Capital-backed Kraft Heinz. Mondelez has a compelling collection of brands with enviable emerging market exposures, and its sub-par margins (notwithstanding improvements over the last few years) offer a purchaser huge scope for efficiency gains. Despite having similar levels of sales (Kraft Heinz’s \$26.5bn for FY16 vs Mondelez’s \$26bn), Kraft Heinz’s enterprise value is 1.6x that of Mondelez. Furthermore, we suspect Kraft Heinz would view Mondelez’s emerging market and snacks exposures as an obvious way to reinvigorate their own portfolio of brands which is arguably over-exposed to lower growth US food categories. If a takeover does not materialise, pressure will be on Mondelez’s management and board to dramatically increase margins, the benchmark for which has been raised to new highs by 3G’s entry into the sector. In this regard, we view favourably reports that the company has begun a search for a new CEO. With Valeant gone, we see PSH’s overall portfolio - consisting of more durable businesses/consumer franchises - as much more attractive.

We also believe it is untenable for Bill Ackman, manager of Pershing Square, to preside over a public vehicle trading at a wide discount to NAV given his high profile and vocal championing of shareholder rights during his various activist battles over the years. We are pleased to see that steps have been taken to address the rating (improving voting rights, moving to a main market London listing, introducing a buyback), but we will expect further discount control measures to be implemented should the rating not improve materially. To fund the purchase of PSH, we sold out of our highly successful investment in AP Alternative/Athene (44% IRR in USD; 52% in GBP since first investing in mid-2012).

## Statistics

	Value	% 1 mo	% 1 yr	% 3 yr	% 5 yr
Price (£) TR <sup>2</sup>	685.0	0.9	40.2	47.6	89.7
Net Asset Value TR <sup>1</sup>	761.1	-0.2	34.7	40.7	80.4
MSCI ACWI ex US TR <sup>3</sup>		-0.3	24.5	36.7	75.0
MSCI ACWI ex US Value <sup>1</sup>		0.0	27.9	29.9	68.9
MSCI ACWI TR <sup>1</sup>		-0.1	22.9	54.1	104.8
Morningstar Global Growth TR <sup>3</sup>		0.1	30.2	56.2	111.2

Fiscal Yr Total Returns (%)	2016	2015	2014	2013	2012
Price1	34.3	-9.5	8.9	13.8	6.2
Net Asset Value1	31.0	-8.3	6.8	13.1	9.6
MSCI ACWI ex US (£)3	28.0	-5.6	5.1	16.6	11.0
MSCI ACWI ex US Value1	25.5	-9.8	5.7	17.1	10.2
MSCI ACWI1	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	11,343,631
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	£977mil.
Debt par value	£71.1mil.
Actual Gearing (Debt less cash divided by net asset value)	0.4%

1 Source: Morningstar. All NAV figures are cum-fair values.

2 Source: Morningstar. Share price total return is on a mid-to-mid basis, with net income re-invested.

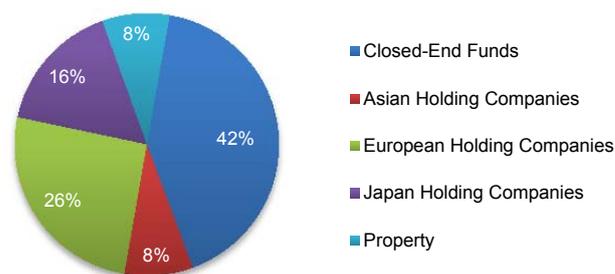
3 From 1<sup>st</sup> October 2013 the lead benchmark was changed to the MSCI ACWI ex US (£) Index.

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

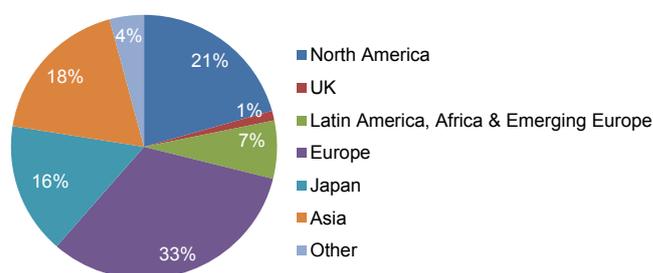
\* British Empire Trust financial year commences on the 1<sup>st</sup> October. All figures published before the fiscal results announcement are AVI estimates and subject to change.

\*\* Last audited figure updated annually

## Sector Breakdown (% of invested assets)



## Risk Region Breakdown<sup>#</sup> (% of net assets)



## Contributors / Detractors (in GBP)

Largest Contributors	1 month contribution bps	Percent of Assets
KINNEVIK AB	23	2.5%
ABERDEEN PRIVATE EQUITY	22	4.1%

Largest Detractors	1 month contribution bps	Percent of Assets
AKER ASA-A SHARES	-38	2.8%
WENDEL	-23	6.4%

<sup>#</sup>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

Investment Manager – Joe Bauernfreund, AVI Ltd.  
+44 20 7659 4800 [info@assetvalueinvestors.com](mailto:info@assetvalueinvestors.com)

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.

British Empire Trust plc, Beaufort House, 51 New North Road, Exeter, EX4 4EP. Registered in England & Wales No: 28203

All figures as at the period under review unless otherwise stated. All sources Asset Value Investors Ltd unless otherwise stated. Asset Value Investors Limited ("AVI") is authorised and regulated by the Financial Conduct Authority of the United Kingdom (the "FCA") and is a registered investment adviser with the Securities and Exchange Commission of the United States. While the Investment Manager is registered with the SEC as an investment adviser, it does not comply with the Advisers Act with regard to its non-U.S. clients. This document does not constitute an offer to buy or sell shares in the British Empire Trust plc (the "Trust"). The contents of this message are not intended to constitute, and should not be construed as, investment advice. Potential investors in the Trust should seek their own independent financial advice. AVI neither provides investment advice to, nor receives and transmits orders from, investors in the Fund.