

## Manager's Comment

In what was a relatively quiet September in terms of news-flow, BTEM's NAV increased by +0.5% despite headwinds from discount widening (30.0% to 30.4%) and FX to close out the 2018 financial year with a +10% return (+5% ahead of the benchmark). Strong contributions over the month came from Aker (also the largest contributor for the year) and JPEL Private Equity, while EXOR, Symphony International, the Japan Special Situations basket, and Fondul Proprietatea also helped. Detractors included Vietnam Phoenix, and Third Point Offshore Investors.

Aker BP's share price climbed +16% over the month, helping boost Aker's NAV and share price, as the oil price continued to push higher and amid growing excitement around the potential hidden value in Aker's 50%-owned Ghanaian oil venture, Aker Energy. Aker Energy was assembled on the back of exploration licences acquired from Hess Energy in early-2018 at what now appears to be a bargain valuation, and sell-side analysts are beginning to ascribe values to the holding at multiples of the current carrying value.

JPEL Private Equity announced a significant write-up (+59%) in its largest position, US municipal waste business Mr. Bults Inc (MBI), for its end-June NAV. It is unusual to see write-ups of this magnitude unaccompanied by a sales process, and further news in this regard could unlock a considerable amount of value given (i) MBI accounts for 19% of NAV (ii) the proceeds would be returned to shareholders under JPEL's realisation policy, and (iii) that JPEL trades on a 16% discount to our estimated NAV. The net impact of revaluations across JPEL's portfolio was a +7% increase in NAV over the month.

*"BTEM's NAV increased by +0.5% despite headwinds from discount widening (30.0% to 30.9%) and FX to close out the 2018 financial year with a +10% return (+5% ahead of the benchmark).*

Fiat Chrysler (FCA, 33% of EXOR's NAV) and Ferrari (25% of EXOR's NAV) were responsible for EXOR's contribution to BTEM's returns over the month. Ferrari (+5%) held its first investor day under its new CEO, the key take-away from which was the re-iteration that the company will be sticking to its four year plan shaped by former CEO Sergio Marchionne before his passing. FCA (+4%) was buoyed by reports of KKR's interest in Magnetti Marelli (MM), FCA's 100%-owned auto-parts business. While MM has been ear-marked for a spin-off as part of FCA's value creation plan, a trade sale would be preferable (assuming an acceptable price can be achieved) given the immediate injection of cash it would provide for FCA. A sale of the business at the €6bn valuation reportedly being sought would equate to 27% of FCA's market cap, valuing MM at 12x EBIT versus the derisory 3.9x multiple on which FCA trades; and would provide FCA with the firepower to buy back 23% of its shares if it so chose. We continue to believe the market is failing to price FCA's shares correctly.

While Symphony rebounded from the depressed price at which it closed last month-end, its discount remained wide on continued strength from main holding, Thai hotels and restaurants group Minor International. Minor is currently in the midst of a *de facto* takeover bid for Spanish-based hotels group NH Hotels, in which it already owns a 45% stake, and is tendering for additional NH shares at a price which equates to 10.6x e2018 EBITDA (which compares favourably to where historic deals have been struck in the sector). The purchase will accelerate Minor's plan to become a truly global player in the

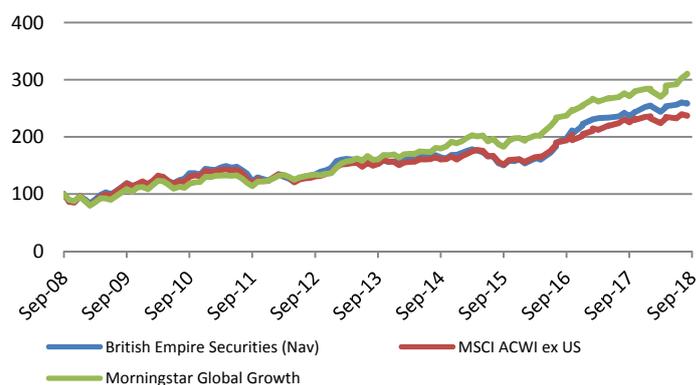
**Investment Objective:** To achieve capital growth through a focused portfolio of investments, particularly in companies whose share prices stand at a discount to estimated underlying net asset value.

## Performance Total Return

This investment management report relates to performance figures to 30 September 2018.

	Month	Financial Yr* to date	Calendar Yr to date
BTEM NAV <sup>1</sup>	0.5%	10.0%	4.4%
MSCI ACWI Ex US <sup>3</sup>	0.2%	5.2%	1.0%
MSCI ACWI Ex US Value <sup>1</sup>	1.5%	3.9%	0.5%
MSCI ACWI <sup>1</sup>	0.1%	13.5%	8.2%
Morningstar Global Growth <sup>1</sup>	-1.0%	16.7%	11.2%

Performance Total Return SEP 2008 - SEP 2018



## Top Ten Equity Holdings

Holding	%
Japan Special Situations***	14.8
Pershing Square Holdings	7.1
EXOR	6.1
Fondul Proprietatea	5.6
Pargesa	5.6
Jardine Strategic	5.6
Riverstone Energy	5.5
Wendel	5.3
Tetragon Financial	5.2
Tokyo Broadcasting System	4.8
<b>TOTAL</b>	<b>65.6</b>

hotels sector and there are clear top-line synergies from a combination, such as re-branding hotels across Minor's enlarged portfolio. Under the stewardship of founder and CEO Bill Heinecke, Minor has a distinguished track record in M&A and has demonstrated a talent for opportunistic and well-timed acquisitions ahead of inflection points in earnings. Minor's shares had been weak on fears that the acquisition would require an equity raise, but the company has announced that co-investors have been lined up to acquire part of the holding should Minor's tender offer be accepted by more than an expected number of NH shareholders. Since this clarification, the shares have rebounded strongly.

Detractors from returns included Vietnam Phoenix, where the discount widened out materially on selling pressure. Vietnam Phoenix is an illiquid OTC-traded closed-end fund in wind-up, and will return the proceeds from its portfolio as and when its investments are sold. Discount widening was also seen at Third Point Offshore Investors, which now sits on a discount of 23% to our estimated NAV. There are many levers available to the Board to tackle the discount which, at the time of writing, remain resolutely un-pulled. We will continue to engage with the Board.

Portfolio turnover was minimal.

## Statistics

	Value	% 1 mo	% 1 yr	% 3 yr	% 5 yr
Price (£) TR <sup>2</sup>	764.0	0.5	12.0	78.6	76.1
Net Asset Value TR <sup>1</sup>	834.5	0.5	10.0	71.2	67.7
MSCI ACWI ex US TR <sup>3</sup>		0.2	5.2	56.7	55.5
MSCI ACWI ex US Value <sup>1</sup>		1.5	3.9	54.4	47.1
MSCI ACWI TR <sup>1</sup>		0.1	13.5	72.2	93.3
Morningstar Global Growth TR <sup>3</sup>		-1.0	16.7	79.9	104.3

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 (£) <sup>3</sup>	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	17,681,674
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	£1bn.
Debt par value	£89.2mil.
Actual Gearing (Debt less cash divided by net asset)	5.2%

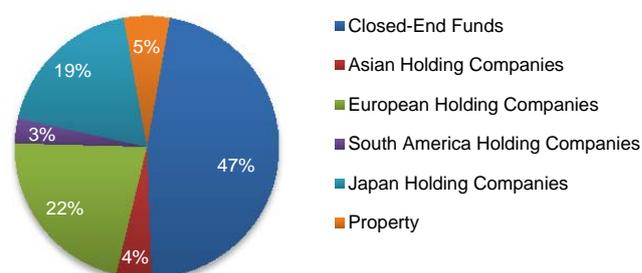
<sup>1</sup> Source: Morningstar. All NAV figures are cum-fair values.  
<sup>2</sup> Source: Morningstar. Share price total return is on a mid-to-mid basis, with net income re-invested.  
<sup>3</sup> From 1<sup>st</sup> October 2013 the lead benchmark was changed to the MSCI ACWI ex US (£) Index. The 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 16 stocks: Fujitec Co, Yamato Kogyo, Kato Sangyo, Tachi-S, Nishimatsuya Chain, Pasona Group, Daiwa Industries, Melco Holdings Inc., SK Kaken Co, Kanaden Corp, Toshiba Plant, Nissan Shatai, Teikoku Sen-I, Nakano, Mitsuboshi Belting, Sekisui Jushi Corp.

## Contributors / Detractors (in GBP)

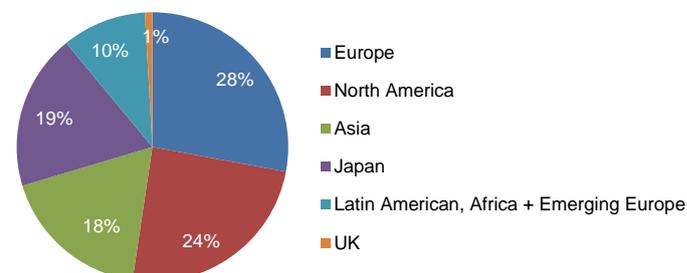
Largest Contributors	1 month contribution bps	Percent of Assets
AKER ASA-A SHARES	30	2.4
JPEL PRIVATE EQUITY LTD	20	4.4

Largest Detractors	1 month contribution bps	Percent of Assets
VIETNAM PHOENIX FUND LTD	-18	2.5
THIRD POINT OFFSHORE	-17	4.7

## Sector Breakdown (% of invested assets)



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



<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

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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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