

## Manager's Comment

AGT's NAV fell by -0.4% during May, driven by both declining NAVs and widening discounts as the portfolio discount moved from 32.1% to 33.4%. Currencies were a positive contributor over the month, with GBP being particularly weak against JPY, EUR and USD. Good performance was generated from the Japan Special Situations Basket, Fondul Proprietatea, and Cosan Ltd. Detractors included Riverstone Energy and Tokyo Broadcasting.

The Japan Special Situations Basket contributed 50 basis points (bps) to returns over the month, making it the largest contributor to AGT in May. Four stocks, out of a total of eighteen in the basket, generated the majority of the returns. Fujitec (share price +5% in JPY) appointed another new director to its Board, leading to a Board of Directors that is now majority independent; another strong contributor, SK Kaken (+4%), abolished its poison pill. For the other two major contributors (Kanaden, Digital Garage), there was little major news over the month, although Kanaden bought back 4% of its outstanding shares in February. Since we initiated the Japan basket in June 2017, we have observed a continuation of the trend towards increasing levels of dividends, buybacks and shareholder proposals, which we interpret as confirmatory evidence of our initial thesis – that corporate Japan is undergoing a secular change in its attitude to governance and capital allocation. We believe that the potential risk-adjusted returns from such a shift in attitudes will be highly attractive.

Fondul Proprietatea (FP) was one of the largest contributors for the second month running, adding 45bps to returns. The NAV rose +1% over the month which, together with a +4% increase in the share price, led to a tightening of the discount from 33% to 31%. The recent European elections saw a good performance from the pro-business, pro-EU, reform-minded USR (Union to Save Romania) party, indicating that Romania is not veering towards a Hungary- or Poland-style drift from the EU and, furthermore, that the potential for USR to take seats in the upcoming local and general elections will goad the dominant political parties to adopt more pro-business and anti-corruption policies. The Bucharest Stock Exchange Index rose +6% from its May lows on the back of these developments. The potential for an IPO of key assets such as Hidroelectrica (40% of NAV) and Bucharest Airport (9% of NAV) is arguably now more likely than before, which we believe would lead to a large amount of value being unlocked for shareholders. With a high dividend yield comprised of recurring ordinary and special dividends, attractive valuations for the unlisted assets, a steep discount, and a policy of distributing realisation proceeds, we continue to believe that FP offers considerable value.

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Cosan Ltd (CZZ) was the third-largest contributor over the month, adding 26bps to AGT's returns. Cosan's NAV rose by +5% in May, although this was tempered somewhat by a 1% widening of the discount, with an overall share price gain of +3%. Cosan SA (71% of NAV) posted consensus-beating EBITDA growth of +11%, although sugar prices continue to weigh on the company's results. Comgás posted EBITDA growth of +14% and the fuel distribution business continues to grow volumes strongly and outperform peers. On a look-through basis (i.e. valuing the holding companies underneath CZZ at NAV rather than market price, as these companies too attract discounts), CZZ trades on a 49% discount to NAV. We view this as

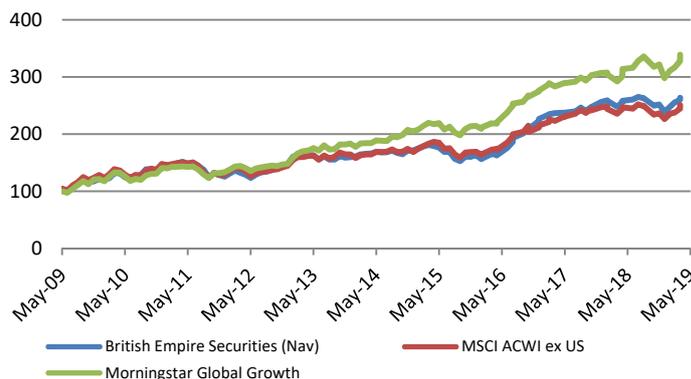
**Investment Objective:** To achieve capital growth through a focused portfolio of investments, particularly in companies whose share prices stand at a discount to estimated underlying net asset value.

## Performance Total Return

This investment management report relates to performance figures to 31 May 2019.

	Month	Financial Yr* to date	Calendar Yr to date
AGTNAV <sup>1</sup>	-0.4%	-1.2%	10.5%
MSCI ACWI Ex US <sup>3</sup>	-2.0%	-1.5%	8.6%
MSCI ACWI Ex US Value <sup>1</sup>	-2.2%	-3.1%	5.9%
MSCI ACWI <sup>1</sup>	-2.6%	-1.2%	10.5%
Morningstar Global Growth <sup>1</sup>	-3.4%	-3.6%	10.0%

Performance Total Return MAY 2009 - MAY 2019



## Top Ten Equity Holdings

Holding	%
Japan Special Situations***	18.7
Pershing Square Holdings #	10.1
Fondul Proprietatea	6.1
Tetragon Financial	5.4
Oakley Capital Investments	5.3
Jardine Strategic	5.2
Swire Pacific Ltd 'B'	5.1
Third Point Offshore	5.1
EXOR	4.9
Wendel	4.7
<b>TOTAL</b>	<b>70.6</b>

\* 45% of this position (4.5% of NAV) is hedged, partially reducing BTEM's overall exposure to Pershing Square Holdings

extraordinary given the quality of the underlying businesses and management's ongoing attempts to tackle the discount. Examples of management's adept capital allocation include share buybacks, cancelling a large proportion of treasury shares, and the recent tender offer by Cosan SA for the portion of Comgas that it does not own. Over the medium-term, we estimate that the returns from de-complexifying CZZ's holding structure would be in the order of 49% which, together with NAV growth from the underlying holdings, would result in compelling returns for shareholders.

The oil price (WTI) declined -16% over the month, hitting Riverstone Energy (RSE) which was the largest detractor from returns over the month, reducing AGT's NAV by 52bps. RSE released a quarterly NAV at the end of April, which contained write-downs that were somewhat unexpected given the recovery of oil prices from December lows. Sole listed holding Centennial Resource Development (CDEV; 9% of NAV) continued to perform poorly, down -25% over the month. We commented previously that negative/confused production guidance from CDEV's management was poorly received by the market, and recent oil price declines have evidently compounded negative sentiment against the company.

Tokyo Broadcasting System (TBS) detracted 37bps from returns over the month, in a month where Japanese equities performed particularly poorly (TOPIX down -9%). Overall, the share price fell by -14% in May driven by a -6% decline in the NAV and a widening of the discount from 35% to 40%. TBS' underlying holdings – Tokyo Electron (20% of NAV) and Recruit Holdings (21% of NAV) – had mixed months, being down -16% and up +4% respectively. In addition to the weak background and poor performance of its holdings, TBS also reported a negative outlook for next year's profitability. The headline dividend payout ratio of 23%, below the stated policy of 30%, also appears to have caused some consternation despite its decline being solely the result of a distortion from one-off gains and being previously flagged by the company. While the recent performance has been underwhelming, it is important not to lose focus of the fact that TBS' balance sheet is replete with cash (13% of NAV), listed securities (54%), and prime Tokyo real estate (29%). While TBS has to date been distinctly ambiguous about what it plans to do with these assets, we firmly believe that were it to announce a definite strategic policy to reduce its massively over-capitalised balance sheet, the market would reward the company with a much higher share price. To that end, we remain in constant dialogue with TBS' Board of Directors to produce a desirable outcome for all stakeholders.

Trading activity was limited over the month, with profit-taking in some positions.

## Contributors / Detractors (in GBP)

Largest Contributors	1 month contribution bps	Percent of NAV
JAPAN SPECIAL SITUATIONS***	50	18.7
FONDUL PROPRIATEA	45	6.1

Largest Detractors	1 month contribution bps	Percent of NAV
RIVERSTONE ENERGY LTD	-52	3.7
TOKYO BROADCASTING SYSTEM	-37	3.8

<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.

## Statistics

	Value	% 1 mo	% 1 yr	% 3 yr	% 5 yr
Price (£) TR <sup>2</sup>	735.0	-0.5	0.8	68.8	62.2
Net Asset Value TR <sup>1</sup>	813.1	-0.4	1.0	60.2	53.8
MSCI ACWI ex US TR <sup>3</sup>		-2.0	-0.5	42.4	45.4
MSCI ACWI ex US Value <sup>1</sup>		-2.2	-1.5	40.4	34.4
MSCI ACWI TR <sup>1</sup>		-2.6	4.8	52.3	76.3
Morningstar Global Growth TR <sup>3</sup>		-3.4	1.1	58.7	83.2

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 (£)3	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	18,621,612
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
1.031% <sup>#</sup> JPY Revolving Credit Facility	¥4,000,000,000

## Gross Assets/Gearing

Gross Assets	£1bn.
Debt par value	£122mil.
Actual Gearing (Debt less cash divided by net assets)	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.

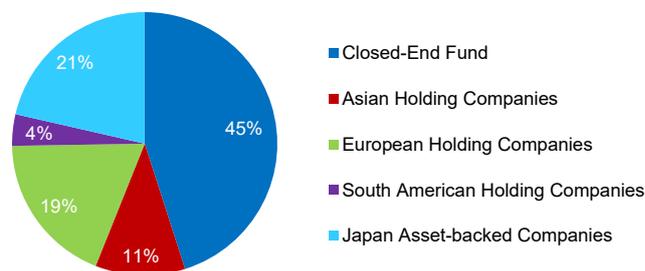
\* British Empire Trust financial year commences on the 1<sup>st</sup> October. All figures published before the fiscal results announcement are AVI estimates and subject to change.

\*\* Redeemed on 3<sup>rd</sup> June 2019

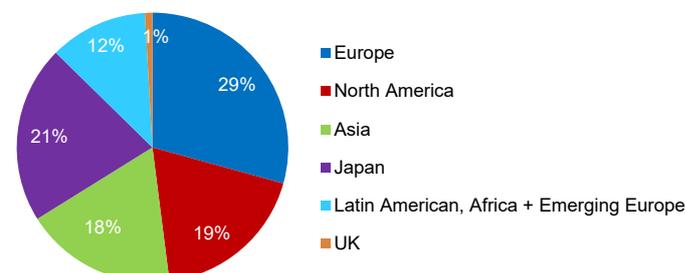
\*\*\* A basket of 18 stocks: Fujitec Co, Kato Sangyo, Tachi-S, Nishimatsuya Chain, Pasona Group, Daiwa Industries, SK Kaken Co, Kanaden Corp, Toshiba Plant, Nissan Shatai, Teikoku Sen-I, Nakano, Mitsubishi Belting, Sekisui Jushi Corp, Nufiare, Toagosei, Konishi, Digital Garage.

# Fixed all-in rate for first six months (to 7<sup>th</sup> November 2019)

## Sector Breakdown (% of invested assets)



## Risk Region Breakdown (% of net assets)



## 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.aviglobal.co.uk](http://www.aviglobal.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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