

## Manager's Comment

AVI Global Trust (AGT)'s NAV fell by -3.4% in August, driven primarily by underlying NAV declines. Currencies were mixed over the month, but a marginal net positive. Major contributors included Third Point Offshore Investors, Pershing Square Holdings, Kinnevik and Fondul Proprietatea. Major detractors included the Japan Special Situations Basket, Swire Pacific 'B', Riverstone Energy and Jardine Strategic.

Third Point Offshore Investors (TPOU) was our largest contributor, adding 23 basis points (bps) to returns with a 5% increase in its share price due to discount contraction in to 26%.

We are encouraged by moves taken by TPOU this year to address the wide discount to NAV at which its shares trade. These actions include a buyback programme which has seen c. 8% of outstanding shares bought back since Dec-18, and the appointment of a well-regarded Chairman. However, we believe that the persistently wide discount may prove difficult to resolve without further measures being taken to address it.

Kinnevik was also a significant contributor in August, adding 23bps to NAV, as the share price rose +8% in SEK terms (+6% in GBP). Returns were driven by a combination of NAV growth (+2%) and a 4% tightening of the discount to 23%. Key holding Zalando (41% of NAV) reported better-than-expected Q2 results and raised full-year guidance, resulting in the share price increasing +8% over the month. Tele2 and Millicom (27% and 20% of NAV respectively) also performed positively, with share price gains of +4% and +1% in SEK terms. We will attend Kinnevik's Capital Markets Day later in September and are hopeful that the market will be given further insight into the potential distribution of Millicom shares. We added a small amount to Kinnevik over the month at an average discount of 28%, which compares favourably to the long-term average of 19%.

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The Japan Special Situations basket was AGT's largest detractor, reducing returns by 101bps over the month, accounting for approximately one-third of AGT's NAV decline. August was a difficult month for equities generally, and Japan specifically, with the country being hard-hit by the US-China trade war. Many of our companies suffered seemingly irrational declines in their share prices, which we believe is reflective of the illiquid and often inefficient nature of Japanese small-cap stocks. Following the turbulent summer months, the basket of 18 Japanese cash-rich stocks now trades on a 55% net cash to market cap ratio, and an EV/EBIT multiple of just 2.2x. To our mind, these metrics are remarkable and we have been adding to several names on weakness. As fundamental investors, it is imperative to remain focused on valuations and the long-term. Following the month end, there have been several encouraging signs: the TOPIX has increased by +8% since the nadir in late August (outperforming the MSCI ACWI Index), and foreign purchases of Japanese stocks turned net positive in the first week of September. We continue to believe that there is tremendous upside in this portfolio.

Swire Pacific was the second-largest detractor over the month, reducing returns by 66bps. A combination of NAV declines (-7%) and the discount widening from 42% to 46% resulted in share price returns of -14%. The civil unrest in Hong Kong has continued to weigh on the company. Key holding Cathay Pacific (11% of NAV, -8% share price decline) spent an uncomfortable amount of time in the headlines. CEO Rupert Hogg and COO Paul Loo stepped down from their roles, a move which appeared to appease the Chinese Aviation Authority which had previously questioned Cathay's commitment to safety and security. These moves came after Swire Chairman, Merlin Swire, visited Beijing with the obvious read-across being that he was told to resolve the situation swiftly. While appeasing the Chinese authorities reduces pressure in the short term, it remains to be seen what effect this policy of acquiescence will have in the long-term – not just on Cathay, but on

**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.

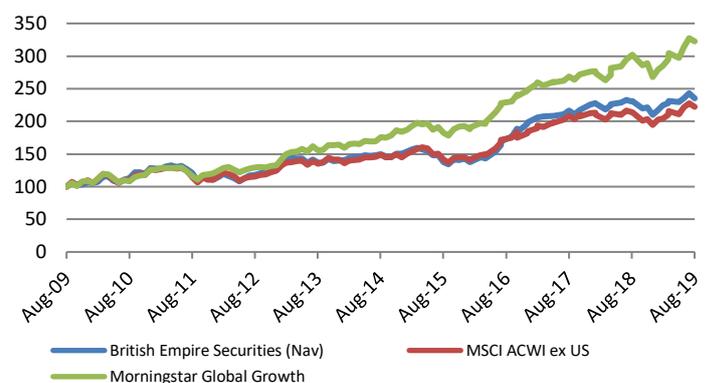
## Performance Total Return

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

Share Price (pence)	740.0
NAV (pence)	829.3
Premium / (Discount)	(10.8)

	Month	Financial Yr* to date	Calendar Yr to date
AGTNAV <sup>1</sup>	-3.4%	1.0%	13.0%
MSCI ACWI Ex US <sup>3</sup>	-2.5%	3.6%	14.2%
MSCI ACWI Ex US Value <sup>1</sup>	-3.9%	-1.2%	8.0%
MSCI ACWI <sup>1</sup>	-1.8%	6.9%	19.5%
Morningstar Global Growth <sup>1</sup>	-2.1%	10.3%	25.6%

Performance Total Return AUG 2009 - AUG 2019



## Top Ten Equity Holdings

Holding	%
Japan Special Situations**	18.4
Pershing Square Holdings <sup>#</sup>	10.9
Oakley Capital Investments	6.1
Eurocastle Investment	5.6
EXOR	5.4
Sony Corp	5.1
Third Point Offshore Investors	5.0
Jardine Strategic	4.6
Tetragon Financial	4.5
Fondul Proprietatea	4.3
<b>TOTAL</b>	<b>69.9</b>

\* 47% of this position (5.1% of NAV) is hedged, partially reducing BTEM's overall exposure to Pershing Square Holdings

businesses across the board in Hong Kong if senior management need to be “approved” by the Chinese. Following these departures, Swire Pacific further attempted to draw a line under the sand as Chairman John Slosar stepped down at the beginning of September after comments made at the interim results were construed as being supportive of the demonstrators.

Swire Properties (74% of NAV, -9% share price decline) has been at the epicentre of the recent demonstrations, with its large Pacific Place mixed-use scheme located beside Admiralty, where the protests originally took place. Indeed, demonstrations led the centre to lose some trading time to closures. The demonstrations have had and will have a big impact on this scheme. Tourist numbers are down significantly (-50% according to some reports), reducing retail spending in their high-end retail exposure at Pacific Place. Decreased tourist numbers will also have an impact on the hotel occupancy here with Swire managing and leasing numerous hotels at Pacific Place. The extent of these problems will be revealed in results for the third quarter.

The ‘B’ shares still ascribe an efficient-market-hypothesis-busting negative valuation to the ex-Swire Properties businesses. While this situation has now persisted for well over a year, it seems unlikely the family will let this persist indefinitely, with half their economic holding in Swire Pacific held through the ‘B’ shares.

Jardine Strategic (JS) reduced returns by 36bps over the month, with a NAV decline of -6% and a 2% widening of the discount to 38% resulting in an -8% decline in the share price. JS has similarly been affected by the civil unrest in Hong Kong, although we hasten to remind readers that the Jardine group does not derive profits solely from Hong Kong and China. Hongkong Land (23% of NAV) has c. 60% of its asset value in Hong Kong, but other key holdings – such as Dairy Farm (25%), Mandarin Oriental (5%) and Jardine Cycle & Carriage (23%) – can be more properly said to have pan-Asian and European exposure. Earnings for the Jardine group also came out during the month and were mixed, which has further impacted on share prices at the underlying level. While the current prognosis is less than rosy for the region, we believe that JS’s current 38% discount places too much emphasis on the current unrest in Hong Kong and short-term operational issues. Indeed, we added a small amount to JS on weakness during the month.

## Statistics

	Value	% 1 mo	% 1 yr	% 3 yr	% 5 yr
Price (£) TR <sup>2</sup>	740.0	-4.6	-0.8	39.1	62.5
Net Asset Value TR <sup>1</sup>	829.3	-3.4	1.6	38.0	55.2
MSCI ACWI ex US TR <sup>3</sup>		-2.5	3.8	29.5	49.5
MSCI ACWI ex US Value <sup>1</sup>		-3.9	0.3	23.7	33.4
MSCI ACWI TR <sup>1</sup>		-1.8	7.0	42.2	83.2
Morningstar Global Growth TR <sup>3</sup>		-2.1	10.0	54.1	93.6

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	18,815,152
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	£106mil.
Actual Gearing (Debt less cash divided by net assets)	6.9%

<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.

\* AVI Global 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.

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

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

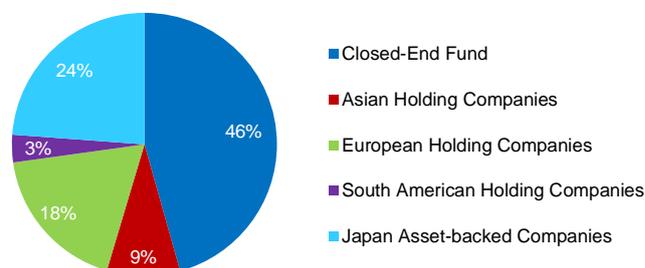
## Contributors / Detractors (in GBP)

Largest Contributors	1 month contribution bps	Percent of NAV
KINNEVIK	23	3.8
PERSHING SQUARE HOLDINGS	23	10.9

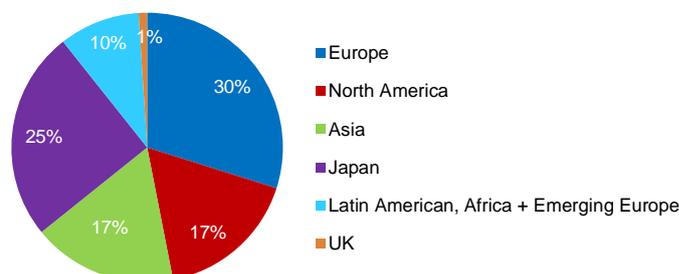
Largest Detractors	1 month contribution bps	Percent of NAV
JAPAN SPECIAL SITUATIONS**	-101	18.4
SWIRE PACIFIC LTD-CL B	-66	4.2

<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.

## Sector Breakdown (% of invested assets)



## Risk Region Breakdown



## 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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