The History of British Empire Trust

BRITISH EMPIRE TRUST
INVESTING IN UNDERVALUED ASSETS

Celebrating more than 125 years of growth and success

1889 - 2016

No. 28203.

N.L. 27370.

Certificate of Incorporation

OF THE

Transvaal Mortgage Loan and Finance Company, Limited.

I hereby Certify, That the Transvaal Mortgage Loan and Finance Company, Limited

is this day Incorporated under the Companies' Acts, 1862 to 1886, and that the Company is **Limited**.

Given under my hand at London, this Sixth day of February One Thousand Eight Hundred and Eighty Nine.

Fees and Deed Stamp £ 50.

Stamp Duty on Capital £ 500.

[signature]

Registrar of Joint Stock Companies.

Contents

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The Cannon Street Hotel, London was the scene of many of the company's early Annual General Meetings from 1890 onwards. One of the great railway hotels of its day, it was a popular venue for meetings and conferences, including one in July 1920 during which the British Communist Party was founded, three years after the Russian Revolution. In 1927, while attending a dinner at the hotel, politician David Lloyd George had his coat stolen from his room. The thief was caught in the Lobby but the former Prime Minister was so moved by the "pathetic story of distress related by the thief" that he insisted the man be set free.

By the 1930s the hotel had been converted into offices. The building was largely destroyed in the Blitz, in the early years of World War 2. The replacement Cannon Street Station façade, considered ground-breaking it its day, was designed by the architect John Poulson, who was later discredited and imprisoned for bribing public officials, including a British Rail planning official who had been receiving disbursements of £25 per week and the loan of a Rover car.

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The company's Certificate of Incorporation, 1889.

On the cover: Lombard Street, City of London, c. 1890. The company's first registered office was at number 33. Founding director Joseph (later Sir Joseph) was both born in and lived for much of the year in number 50, above the offices of his family banking firm.

Foreword

> This history of the company, written for us by John Newlands, describes the remarkable growth and success of the company, notably over the past thirty years, following the involvement of Asset Value Investors.
>
> STRONE MACPHERSON, CHAIRMAN

British Empire Trust, notwithstanding its name, is today a globally diversified investment trust with total assets of more than £750 million. Its shareholders, many of whom have held their investment in the company for many years, now number in the thousands.

This history of the company, written for us by John Newlands, describes the remarkable growth and success of the company, notably over the past thirty years, following the involvement of Asset Value Investors, our investment managers, first appointed on 13th February 1984 at which point the company's gross assets had barely topped £6 million.

The tale begins with the formation of The Transvaal Mortgage, Loan & Finance Company, Limited on 6th February 1889. As this account reveals, the 'mortgage and loan company' years between 1889 and 1964 included testing times and indeed spells when survival was paramount. The company did prevail, however, and has overcome every crisis and conflict for more than 125 years.

That the company is in such great heart today is a tribute to the robustness of the principle of the diversified investment vehicle and to the diligence and skill of its managers.

British Empire's story also offers one possible lesson of its own, that there may be little progress without change.

Strone Macpherson, Chairman

September 2016

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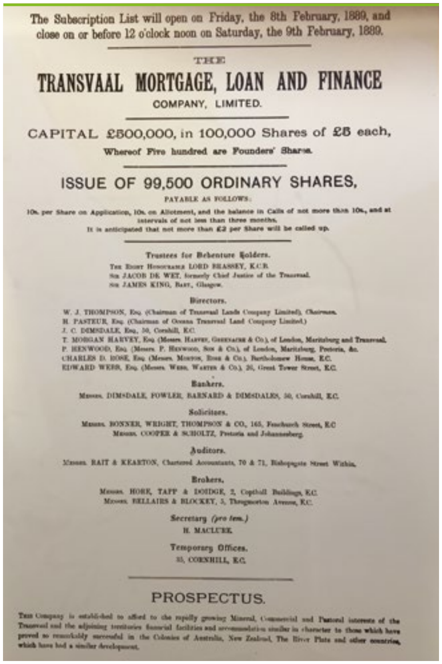
Strone Macpherson, Chairman.

Prologue


The Subscription List will open on Friday, the 8th February, 1889, and close on or before 12 o'clock noon on Saturday, the 9th February, 1889.

THE
TRANSVAAL MORTGAGE, LOAN AND FINANCE
COMPANY, LIMITED.

CAPITAL £500,000, in 100,000 Shares of £5 each,
Whereof Five hundred are Founders' Shares.

ISSUE OF 99,500 ORDINARY SHARES,
PAYABLE AS FOLLOWS:
10s. per Share on Application, 10s. on Allotment, and the balance in Calls of not more than 10s., and at intervals of not less than three months.
It is anticipated that not more than £2 per Share will be called up.

Trustees for Debenture Holders.
The Right Honourable LORD BRASSEY, K.C.B.
Sir JACOB DE WET, formerly Chief Justice of the Transvaal.
Sir JAMES KING, Bart., Glasgow.

Directors.
W. J. THOMPSON, Esq. (Chairman of Transvaal Lands Company Limited), Chairman.
H. PASTEUR, Esq. (Chairman of Oceana Transvaal Land Company Limited.)
J. C. DIMSDALE, Esq., 50, Cornhill, E.C.
T. MORGAN HARVEY, Esq. (Messrs. Harvey, Greenacre & Co.), of London, Maritzburg and Transvaal.
P. HENWOOD, Esq. (Messrs. P. Henwood, Son & Co.), of London, Maritzburg, Pretoria, &c.
CHARLES D. ROSE, Esq. (Messrs. Morton, Rose & Co.), Bartholomew House, E.C.
EDWARD WEBB, Esq. (Messrs. Webb, Warter & Co.), 26, Great Tower Street, E.C.

Bankers.
Messrs. DIMSDALE, FOWLER, BARNARD & DIMSDALES, 50, Cornhill, E.C.

Solicitors.
Messrs. BONNER, WRIGHT, THOMPSON & CO., 165, Fenchurch Street, E.C.
Messrs. COOPER & SCHOLTZ, Pretoria and Johannesberg.

Auditors.
Messrs. RAIT & KEARTON, Chartered Accountants, 70 & 71, Bishopsgate Street Within.

Brokers.
Messrs. HORE, TAPP & DODGE, 2, Copthall Buildings, E.C.
Messrs. BELLAIRS & BLOCKEY, 5, Throgmorton Avenue, E.C.

Secretary (pro tem.)
H. MACLURE.

Temporary Offices.
35, CORNHILL, E.C.

PROSPECTUS.
This Company is established to afford to the rapidly growing Mineral, Commercial and Pastoral interests of the Transvaal and the adjoining territories financial facilities and accommodation similar in character to those which have proved so remarkably successful in the Colonies of Australia, New Zealand, The River Plate and other countries, which have had a similar development.

↑
The company's Memorandum of Association, 1889.

I have written a number of company histories but the story of British Empire Trust is the most intriguing to date.

Launched on the crest of the late 1890s stock market boom, The Transvaal Mortgage, Loan and Finance Company, Limited was effectively formed as a single country fund to invest in the emerging market opportunity of its day.

The potential riches of the Transvaal region of southern Africa were vast, including as they did both diamonds and gold. Yet with hindsight a more politically charged and unsettled part of the world could not have been chosen in which to invest.

Suffice it to say that over its first decade the company was dogged by all manner of local unrest and even Rinderpest, a virulent cattle disease. Matters became still worse with the outbreak of the Boer War in 1899. Even a year before that, the best that the incoming Chairman, Nathaniel Spens, could come up with at the 1898 AGM was that "considering the state of affairs of The Transvaal, we should be grateful that the company is not a dead wreck."

The company struggled on, with ever-diminishing assets, the next major milestone occurring in 1906. At that point the investment remit was widened to include all the countries within the British Empire, as illustrated by the evocative poster on the page overleaf. At the same time the company's name was changed to The British Empire Land Mortgage and Loan Company, Limited.

Over the next half-century or more the company's fortunes periodically improved but also suffered terrible falls, in the most serious case leading to a shareholder revolt, verging on a boardroom coup, in 1928. Thereafter corporate governance, as we would describe the actions and intervention of an independent, 'hands-on' board of directors today, improved out of all recognition.

Changes were duly introduced but times were tough. By 1936, deep in the midst of the Great Depression, total assets had fallen to a miserable £38,794. Set against such a figure – and just to show that bare statistics rarely reveal the full picture – the company's recovery to £250,000 in assets by the early 1950s and to £1 million or more by the early 1960s appears almost meteoric despite the modest totals when expressed in today's terms.

The moves thereafter through the £10 million, the £100 million, the half a billion pound barriers and beyond, overseen by the combination of skilled investment management and of a notably experienced board, provide a more conventional but perhaps even more inspiring tale.

No average company

In short no average company, British Empire, either now or then. I have greatly enjoyed researching its history.

John Newlands, Author

Company titles

1889 – 1906
The Transvaal Mortgage, Loan and Finance Company, Limited.

1906 – 1964
The British Empire Land Mortgage and Loan Company, Limited.

1964 – 2015
British Empire Securities and General Trust Limited (later PLC).

2015 – Present
British Empire Trust PLC.

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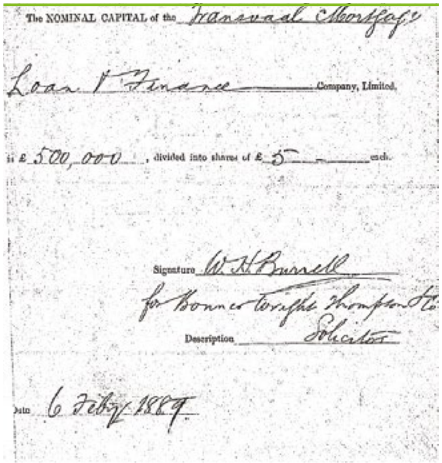
Poster showing the extent of the British Empire at the dawn of the twentieth century.

Formation of the company

London, February 1889


The NOMINAL CAPITAL of the Transvaal Mortgage Loan & Finance Company, Limited, is £500,000, divided into shares of £5 each.

Signature W. H. Burrell
for Bonner Wright Thompson & Co
Description Solicitor

Date 6 Feby 1889

Extract from the 1889 launch documentation.

> This Company is established to afford the rapidly growing, mineral, commercial and pastoral interests of the Transvaal and the adjoining territories' financial facilities and accommodation similar in character to those which have proved so remarkably successful in the Colonies of Australia, New Zealand, the River Plate and other countries.
>
> COMPANY PROSPECTUS, 1889

British Empire Trust was incorporated in London under its original name of The Transvaal Mortgage, Loan and Finance Company, Limited on 6th February 1889. The subscription list opened on Friday 8th February and closed at noon the following day.

The company's initial capital of £500,000 comprised 100,000 shares of £5 each, of which 99,500 were ordinary shares and 500 were Founders' Shares. As was the custom of the day, the company's shares were issued part-paid, ten shillings (50 pence) being payable upon application, ten more shillings upon allotment and "the balance of calls of 10s at intervals of lot less than three months … it is anticipated that not more than £2 per share will be called up."

The board of directors consisted of the Chairman, William Thompson who was already Chairman of the similar-sounding Transvaal Lands Company, Limited, as well as being a partner in his family's tea and commodities broking firm, which dated to 1760. In addition, the directors included Paul Henwood, partner in P Henwood and Son, Limited of London, Maritzburg and Pretoria; Edward Webb, Chairman of New Belgium Land (Transvaal) Limited; C H Pasteur, Chairman of Ocean Transvaal Land, Limited; T Morgan Harvey, director of City Bank Limited and Bank of Africa, Limited and Charles D Rose, a partner in the American firm of Morton Rose, which specialised in raising foreign loans for American railroads and other projects.

Thomas, Lord Brassey, Chairman of the Trustees to the debenture holders.

The directors were required to own at least 100 ordinary shares each and to stand down if they became bankrupt, were declared "lunatic or of unsound mind" or if they absented themselves from board meetings for more than six months without permission.

Two firms of solicitors were appointed to the company: in London, Bonner, Wright, Thomson & Co. of 165 Fenchurch Street and, in Africa, Copper and Scholtz of Pretoria and Johannesburg. The accountancy practice of Rait and Kearton, of 70 and 71, Bishopsgate Street Within, was nominated as auditor, while the two brokers to the issue were Bellairs and Blockey of 5, Throgmorton Avenue and the even more evocative-sounding firm of Hore, Tapp and, Doidge of 2, Copthall Buildings, London EC.

Two of the most interesting founding executives of the company, however, were Thomas, Lord Brassey, Chairman of the Trustees and another director, Joseph (later Sir Joseph) Dimsdale, of the company's banking firm of Dimsdale, Fowler, Barnard and Dimsdales.

Lord Brassey was the son of Thomas Brassey, one of the most important figures in the Victorian industrial revolution. A civil engineer by training, he is estimated to have built one third of the railways in Britain and a substantial percentage of those in France, Russia and other countries, not to mention the Grand Trunk Railway in Canada.

Known for his integrity as well as for the exemplary handling of his workforce, on one occasion Brassey (senior) personally funded the entire rebuilding of a French viaduct, at a cost of perhaps £2 million in today's money, after it collapsed owing to the use of an inferior grade of lime.

His son and future 'Transvaal Mortgage' director Thomas Brassey, among other achievements, served as the Liberal M.P. for Davenport and later for St. Andrews, Liverpool; circumnavigated the globe with his first wife aboard his steam yacht, Sunbeam; was appointed Secretary for the Admiralty in 1884/85 and served as the Governor of Victoria (Australia) from 1895 to 1901. He was created Viscount Hythe and Earl Brassey in 1911.

By way of final aside John Walton, the manager of British Empire between 1984 and 2003, has uncovered a British Pathé news clip from 1918, entitled Memorial Service for Lord Brassey. This short silent film is still accessible via www.britishpathe.com/video/memorial-service-for-lord-brassey and shows people arriving and leaving Southwark Cathedral, the men wearing top hats and the ladies in heavy coats, mufflers and furs.

City life, 19th century-style

The lifestyle and career of the last of the company's founding directors, Joseph (later Sir Joseph) Dimsdale give a fascinating glimpse into the way things were before the era of the motor car and before the mass commuting into the City by public transport that is nowadays taken for granted.

To begin with, Dimsdale was born not in the carefully sterilised environment of a maternity suite but at home, at 50, Cornhill, the house in which he would reside, during the winter months at least, throughout his working life and which was located above the family bank. In summer, on the other hand, he and his family moved out to their country house in Essex, Joseph riding into the city each day and stabling his horse at an inn further along Cornhill.

He was elected Alderman of Cornhill from 1891 to 1902, Sheriff of London for 1893, and Lord Mayor of London for 1901. He was created a baronet in June 1902. He was also elected as the Member of Parliament for the City of London, and served one term until 1906.

What was said to be his proudest achievement, however, was carrying the crystal sceptre of the City of London at the coronation of Edward VII and Queen Alexandra on 9th August 1902.

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A Spy cartoon of Sir Joseph Dimsdale, Lord Mayor of London in 1901.

The 'Transvaal' years, 1889-1906

The 'Transvaal Mortgage' was formed at a time, in the wake of the industrial revolution, when the British economy was generating investment capital as the greatest global expansion in history was taking place. One historian, A.G. Ford, has suggested that UK foreign lending in the late 19th century "completely dwarfed the Bank of England's Reserve which rarely rose above £35-40 million." As a consequence, the promotion and launch of all manner of investment funds was in full flow.

Such was the developing frenzy that on 6th February 1889, the day of the company's launch, The Times contained invitations to subscribe for numerous ventures, many with appealing names such as Panang Central Tin & Exploration, Argentine Republic Land & Trust and, nearer home, The Northwich Salt Company, whose advertisement boasted that "since publishing the Prospectus, the leading firm of rock salt customers in Manchester has expressed the willingness to take 1,000 tons of salt per month from the company."

Such offers appeared inviting yet within two years many of these newly-formed companies had suffered severely or even gone to the wall. The Barings Crisis of 1890-1891 was so serious that even the similarly-named event a century later, involving Nick Leeson, pales into insignificance. The merchant bank's problems were triggered by a revolution in Argentina, where the value of paper currency went into freefall but where Barings had agreed to pay its creditors in gold. The firm was only saved because William Lidderdale, Governor of the Bank of England, set up a rescue fund and basically ordered all key City of London institutions not to refuse Barings' Bills.

Despite Lidderdale's decisive action, which almost certainly prevented Barings' collapse, many UK investment trusts experienced heavy write-downs, especially with respect to their often substantial holdings in South American railways and utility companies. It should be added, however, that those trusts with robust capital structures went on to make a full recovery and many, such as Foreign & Colonial, Merchants Trust and The Law Debenture Corporation continue to operate with considerable success today.

The 'Transvaal Mortgage' also survived and would ultimately thrive as British Empire Trust in the form that we know it now. Structured as a property and loan vehicle, rather than as a diversified investment trust, while the Barings debacle certainly didn't help, that particular crisis would not be the company's worst. In reality, its own problems had hardly begun.

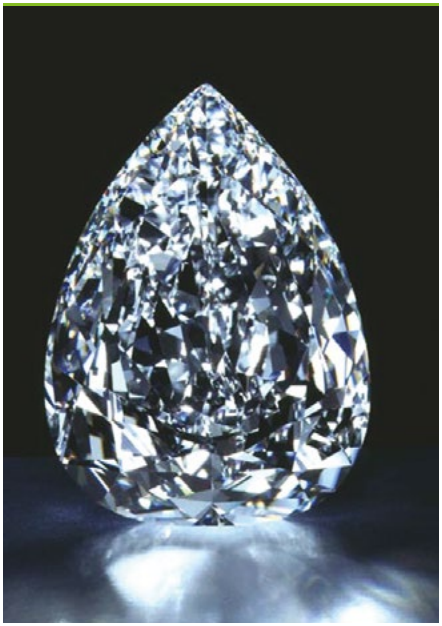
Real estate, diamonds and gold

Far from the ebbs and flows of the London financial markets, not to mention the vagaries of the British weather, out in the heat of southern Africa a gold rush was in full swing. The Transvaal had been a struggling Boer republic until 1886 when two former prospectors, George Walker and George Harrison, spotted gold while walking around the Langlaagte farm where they now worked. Within ten years the Transvaal had become the richest gold-mining area in the world.

↑
The Transvaal Land and Mortgage Building, Pretoria.

←
William Lidderdale, Governor of the Bank of England from 1889-1892.

> It is hoped that as the extraordinary wealth of this country is opened up, the field for the profitable employment of capital will receive considerable extension ... The value of gold exported from the country has risen from £17,962 in 1881 to over £300,000 in 1888, while the revenue of the Transvaal has more than quintupled in the past three years, from £111,600 in 1885 to £882,515 in 1888.
>
> COMPANY PROSPECTUS, 1889



Back at the Cornhill offices of The Transvaal Mortgage, Loan and Finance Company, the plan, as laid out in the prospectus, was for "the company to be managed in England, with the assistance of strong local committees ... In the various districts to which its operations may extend. The friendly relations which exist with the Oceana Transvaal Land Company (Limited) and the Transvaal Lands Company (Limited), possessing between them upwards of 4,000 square miles of what is believed to be among the most valuable land in the Transvaal Republic which, it is hoped, will form the basis of a valuable business."

In short, optimism reigned, large offices were retained in Pretoria and, to begin with, the plan worked.

There was strong initial interest in the company, to the extent that a £150,000 issue of 5% debentures was successfully issued at par in July 1889, just five months after the launch.

New equity was also raised the following spring, in March 1890. Chairman William Thompson presided over an Extraordinary General Meeting at the Cannon Street Hotel to approve an increase in the ordinary capital to £2 million with the issue of 300,000 new ordinary shares at £5 each.

Founders were not obliged to apply for new shares but would still benefit by receiving one half in any increase in profits arising from the issue after the payment of an 8% dividend on the ordinary shares.

The justification for the issue of Founders' Shares, the most extreme examples of which were described by the Economist of 2nd December 1893 as "monstrously inequitable arrangements", was to give added protection to a company's ordinary shareholders. The founders provided a pool of funds to meet the initial expenses of the trust and sometimes to fulfil an underwriting role by guaranteeing to purchase a certain amount of the share capital should the issue be undersubscribed. In return for these responsibilities, the relatively tiny number of founders would receive anything from 10% to 50% of the entire surplus profits of the company, once a certain dividend had been paid in any given year.

This was pretty much what had happened here. Close readers of the February 1889 launch documentation would have found in the small print a clause stating that "The Founders' Shares will receive no dividend in any year until a dividend at the rate of 8% per annum had been paid upon the Ordinary Shares: the respective share classes will then take a moiety of the remaining profits distributable by way of dividend or return of capital."

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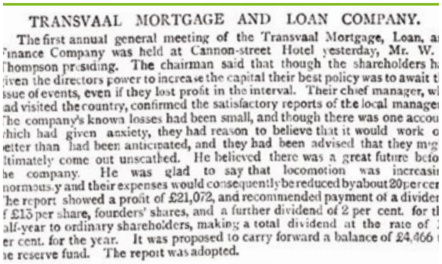
Top: The trust's prospectus described the Transvaal's potential in glowing terms.

Bottom: The Cullinan I or Great Star of Africa diamond (530 carats) forms part of Her Majesty the Queen's Royal Sceptre and is the largest cut white diamond in the world. Pear shaped, with 74 facets, it was cut from the 3,106-carat Cullinan, discovered at the Premier Mine, thirty miles west of Pretoria in January 1905.

The same mine is still being worked, a blue diamond of 122 carats, provisionally valued at $35 million, being found as recently as June 2014.


TRANSVAAL MORTGAGE AND LOAN COMPANY.

The first annual general meeting of the Transvaal Mortgage, Loan, a[illegible] inance Company was held at Cannon-street Hotel yesterday, Mr. W. hompson presiding. The chairman said that though the shareholders h[illegible] iven the directors power to increase the capital their best policy was to await t[illegible] ssue of events, even if they lost profit in the interval. Their chief manager, w[illegible] ad visited the country, confirmed the satisfactory reports of the local manage[illegible] he company's known losses had been small, and though there was one accou[illegible] hich had given anxiety, they had reason to believe that it would work o[illegible] etter than had been anticipated, and they had been advised that they mig[illegible] ltimately come out unscathed. He believed there was a great future befo[illegible] he company. He was glad to say that locomotion was increasi[illegible] normously and their expenses would consequently be reduced by about 20 per cen[illegible] he report showed a profit of £21,072, and recommended payment of a divide[illegible] f £13 per share, founders' shares, and a further dividend of 2 per cent. for t[illegible] alf-year to ordinary shareholders, making a total dividend at the rate of [illegible] er cent. for the year. It was proposed to carry forward a balance of £4,466 [illegible] e reserve fund. The report was adopted.

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Extract from Pall Mall magazine, 11th October 1890.

While the word moiety, meaning an even or half share, can be found in most English dictionaries of repute, there has to be the faintest of suspicions that the above wording was intended to gloss over the fact that if the company produced any decent investment distributions at all, the Founders' Shares would be rewarded to an extraordinarily handsome extent. These skewed arrangements caused unrest among the company's investors all the way through until the shareholders' coup of 1928. Just how generous the Founders' terms were would first be highlighted at the 1890 AGM.

The company's first AGM

The first Annual General Meeting was held on 10th October 1890, once more at the Cannon Street Hotel. It is clear that the euphoria surrounding the company's early months had already begun to subside, given that William Thompson reported to the meeting, rather worryingly as shown below, that "known losses were small … and [the company] might ultimately come out unscathed."

Mr Thompson also talked in slightly more uplifting terms about the great future before the company, before declaring a total dividend at the rate of 10% for the year.

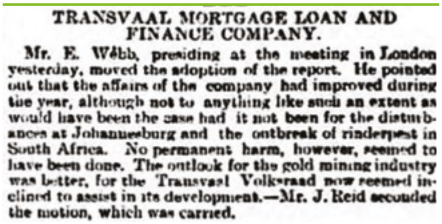
The prudence of such a generous distribution of cash must be open to debate. The reporting standards of the day meant that a company was not required either to reveal its investment portfolio or even its current asset value. We cannot be certain, therefore, that the first full year's dividend distribution was fully covered by revenue receipts. But whether dividends were being partially paid out of capital mattered little to the holders of the Founders' Shares. As the Pall Mall magazine extract above shows, their part-paid initial stake of £2 per share had returned them £13 per share over the company's first year of trading alone.

Ordinary shareholders had also been well rewarded in percentage terms but one has to ask to what extent, even then, the original capital which they had subscribed had been eroded by the costs and unspecified losses incurred in establishing the company's investment portfolio in a part of the world already riven by political strife.

The Transvaal Mortgage Building in Pretoria

For the next piece of the jigsaw that makes up the early history of the company we must offer thanks to the Reverend Tom Davidson Kelly, of Kilmarnock. Upon his retirement from a senior role within the Church of Scotland Tom has made a special study of the nineteenth century Scottish architect, Charles Carmichael. This quest has taken him to Pretoria on more than one occasion. During one such visit Tom learned that one of the most prominent buildings of its day in Church Square, Pretoria was for many years widely referred to locally as the Transvaal Mortgage Building. Unfortunately, the 'TL&M' building is no more; Tom Kelly's final photograph shows its demolition, in 1934.

The General Manager of the company was Mr Stephanus Meintjes (1858-1915). He was the son of a well-known local personality, S.J. Meintjes, who owned the Arcadia farm on the outskirts of Pretoria and laid out the Arcadia township. Although little is known of the day-to-day transactions of the company it is clear that Mr Meintjes can have had no easy task.



TRANSVAAL MORTGAGE LOAN AND FINANCE COMPANY.

Mr. E. Webb, presiding at the meeting in London yesterday, moved the adoption of the report. He pointed out that the affairs of the company had improved during the year, although not to anything like such an extent as would have been the case had it not been for the disturbances at Johannesburg and the outbreak of rinderpest in South Africa. No permanent harm, however, seemed to have been done. The outlook for the gold mining industry was better, for the Transvaal Volksraad now seemed inclined to assist in its development.—Mr. J. Reid seconded the motion, which was carried.

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Top: Extract from The London Daily News, 22nd December 1895, referring to the outbreak of Rinderpest.

Bottom: Nathaniel Spens (Courtesy Barbara, The Dowager Lady Spens).

Even before the Second Boer War broke out in October 1899, the region was beset by political unrest, typified by the Jameson Raid in which an attempt was made to overthrow President Paul Kruger of the Transvaal Republic in December 1895. Another major problem, especially for a company involved with land mortgages, often to farmers, was the outbreak of Rinderpest. This was a viral disease so serious that it was referred to at the time as the great African cattle plague epidemic of the 1890s. In June 2011, the United Nations confirmed that Rinderpest had become only the second disease in history to be fully wiped out, following Smallpox.

Suffice it to say that the company struggled on through the final decade of the nineteenth century with a portfolio of assets, all placed within one of the world's most turbulent hot spots and the true value of which even the private shareholders back in Britain were beginning to doubt.

At this stage the trust's second Chairman, Nathaniel Spens, enters our story. Born in Glasgow in 1850, he was a partner of the Scottish firm of Grahames, Crum and Spens, chartered accountants and stockbrokers, from 1871 until 1890. Spens moved to London, as his 1933 Times obituary put it, "to establish the Railway Investment Company … he was a man of determined character and showed autocratic tendencies, but those who knew him best knew the true amiability of his character". Mr Spens' 'determined character' would serve him well as he guided the company as Chairman for more than thirty years.

> "We should be grateful that the company is not a dead wreck."
>
> NATHANIEL SPENS, AT THE 1898 AGM

The incoming Chairman's first serious test came when he was only a few months into the role. While details are scarce it is clear that word had reached shareholders that the company was by now in financial difficulties, perhaps unsurprisingly given that southern Africa was on the brink of war.

"It would be much pleasanter," the Chairman observed at the 1898 AGM, "to submit a credit balance, but that was impossible … £100,000 of capital was not represented by an asset, and they [had] paid 6% upon a large amount of borrowed money."

The financial press, he continued "had couched their criticisms in impertinent and proper terms, which was due to their want of knowledge of the facts. They alleged that he and his colleagues were submitting the proposals of 'fools' or, what was worse, of 'tools'."

The most upbeat assessment that Mr Spens could come up with was that "considering the state of affairs of The Transvaal, we should be grateful that the company is not a dead wreck."

The Second Boer War

The Second Boer War, described by the historian Thomas Pakenham as "for Britain, the longest, the most expensive and the bloodiest conflict between 1815 and 1914" lasted from 11th October 1899 until 31st May 1902.

Pretoria, the centre of the Transvaal Mortgage's African operations, was embroiled in the military action. The city was held initially by the Boers but was besieged and ultimately captured by Lord Roberts' British forces on 5th June 1900. This led to the release of hundreds of British and Empire prisoners of war being detained in the city. Some had been held a mere 800 yards from the Transvaal Mortgage Building, in the Staats Model School, from which a 25 year-old Winston Churchill had made a daring escape, followed by a nine-day trek to Mozambique, some months earlier.

The British war effort, supported by troops from India, Australia and New Zealand as well as from southern Africa, ended in victory and led to the annexation of both the South African Republic (Transvaal Republic) and the Orange Free State. Both would be incorporated into the Union of South Africa in 1910. Today, Pretoria is a city in the Gauteng Province, South Africa. It is one of the country's three capital cities, along with Cape Town and Bloemfontein.

From Transvaal to Empire

Returning to our tale, peace reigned at last but the company, weakened by the war and by the travails of its mortgage tenants, suffered a series of capital reductions in the early years of the twentieth century, not to mention requiring a call of £1 per ordinary share in July 1902. The disadvantages of being invested entirely in one region, with all the political risk such a policy entailed, had been all too clearly demonstrated.

By 1906 the company had been struggling along for seventeen turbulent years. The time had come to broaden the investment horizon from a single geographical focus to one that spanned the globe, albeit confined to those large portions of it which formed part of the British Empire.

The London Gazette of 6th July 1906 includes a formal notice, posted by the Dickensian-sounding legal firm of Flux, Thompson and Quarrell, amending the company's Articles, wherever necessary, so as to add "or in any other part of the British Empire" to the words "South Africa".

The company was at last freed from the constraints of investing in a single, war-torn, gold-fever driven African country. If anyone thought its worries were over, however, they were sadly mistaken.

↑
Share Certificate for the company's 1896 investment in Sterkfontein Gold Estate.

Broadening the horizon

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Top: The company's first overseas investments outside of Africa were made in 1907 in properties in the Adelaide area of southern Australia.

Bottom: Before the age of air travel, visiting a company's overseas investments required lengthy sea voyages, albeit in some style. © P&O Heritage Collection www.poheritage.com.

The annual report for 1908 lists the total assets of the company at £293,189, made up primarily of its land and mortgage investments, British government stocks, "shares of other London companies" and "cash in hand with bankers in London, Transvaal and Adelaide."

The move towards global or at least pan-Empire diversification, on the other hand, had not advanced a great deal. Even by the end of the first decade of the twentieth century the only overseas portfolio position outside of Africa was the sum of £116,127 invested in southern Australia. These assets had been purchased in 1907 from the Queensland Investment & Land Mortgage Company, of which Nathaniel Spens was also the Chairman. The holdings comprised "the Nalang Station, comprising 20,859 English acres of freehold pastoral land, sheep, stock, &c. and Town and Suburban properties mainly situated in the City of Adelaide or vicinity."

Balance Sheet items listed that year included "office furniture and stationery, £533" and the not inconsiderable sum of £3,437 for "balance set aside for realisations after deducting special remuneration to Directors for visits to Australia and South Africa" – a venture which, in the pre-air travel era must have involved sea voyages of several weeks each way.

The company was by now headquartered at numbers 22 and 23, Laurence Pountney Lane, close to London's Monument and just a short walk from the Cannon Street Hotel, where its Annual General Meetings were still being held.

The capital structure at this point was made up of 96,868 ordinary shares of £1 each, £97,420 of 5% Non-cumulative preference stock and £68,100 of 4½% Debenture Stock, the major proportion of the latter two securities having been issued to fund the new purchases in Australia. Finally, to the continuing annoyance of ordinary shareholders, five hundred of the original 1889 Founders' Shares, of £4 each, remained in issue.

At least the rights of the owners of these shares had been moderated over time. Instead of receiving half of all distributions over a certain amount, from 1898 onwards they had become entitled merely to "10% of the sum actually distributed among the ordinary shareholders in any year." In reality, during and since the Boer War virtually all revenue receipts had been needed to meet the entitlements of the preference stockholders, leaving scant pickings in terms of ordinary dividends. Nevertheless the presence of the Founders' Shares, whose owners had already benefited from handsome rewards over a very long period, would be a source of irritation to other investors in the company for years to come.

Realisations and reality

The details of what happened next are not obvious from the flimsy archives of the era. It is only by scrutinising the events of almost twenty years later that the situation is revealed. As will be related in more detail later, at the Annual General Meeting of 12th September 1928, still being presided over by Nathaniel Spens after three decades in the Chair, a shareholder, Dr Gerald Moody, would stand up and said "Mr Chairman … I do not want an amount represented by a shilling a share to be squandered further in exploiting diamonds. You told us in 1912 that your policy was to liquidate the company … I am strongly opposed to any further frittering away of our money over diamonds."

The above statement helps to explain why the company, which in 1906 had made great efforts to expand its horizons across the British Empire, embarked upon the disposal of all its Australian properties just a few years later.

The company had effectively become over-stretched or, to put it another way, it had sunk the majority of its assets into the Transvaal with terrible timing and its finances had never fully recovered from the Boer War.

As the attached extract from the Yorkshire Post of 11th March 1911 reveals, it was decided – as still periodically happens in the investment trust sector today – that the best solution all round was to realise the portfolio as and when decent exit prices could be obtained. Eventually, it was suggested, investors would get their money back, at as close to net asset value as possible.

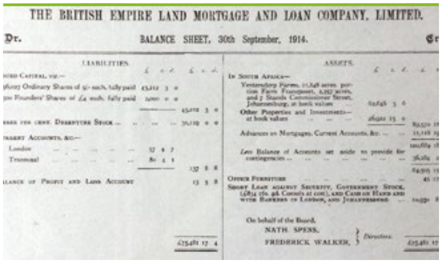
A series of meetings of the British Empire Land Mortgage and Loan Company was held in London yesterday, when the Preference shareholders agreed to surrender their shares, receiving one half the nominal value in cash and the remainder in 4% Debs. Mr. Nathaniel Spens, who was in the chair, explained that this was done as a step towards realising assets and winding up the company. As money was received the Debentures would be paid off. The Preference shareholders would receive the whole of the capital amount of their investment, and there would be enough left for the holders of Ordinary and Founders' Shares also. The Ordinary shareholders agreed to the reduction of the company's capital from £1,676,123 to £1,378,074, caused by the repayment of the capital represented by Preference shares.

Holders of the 4½% Debentures and the 5% Preference Stock would be repaid first, as cash flows permitted. The virtually immutable Founders' Shares, on the other hand, stayed in place.

The upshot of these proposals was that the company's property assets in and around Adelaide were sold down in phases from 1911 onwards. By the start of World War 1 in July 1914, they had all gone.

↑
The above clipping, from the Yorkshire Post of 11th March 1911, describes the restructuring of the company which began that year.

War, Depression and shareholders' coup


THE BRITISH EMPIRE LAND MORTGAGE AND LOAN COMPANY, LIMITED.

Dr. BALANCE SHEET, 30th September, 1914. Cr.

LIABILITIES

ASSETS

On behalf of the Board,
NATH. SPENS,
FREDERICK WALKER, Directors.

The residual Transvaal holdings, generally described as "Ventersdorp Farms, 21,848 acres, portion Farm Franzpoort, 2,357 acres and 7 Stands, Commissioner Street, Johannesburg" were held at book values of £95,003 in 1908 and, at least on paper, were still worth £79,255 in 1919. The Balance Sheet had also been simplified in the 1911 reconstruction and the company's borrowings restricted to a relatively affordable issue of £30,000 of 3% Debenture Stock, 1930.

There was one unintended but fortuitous consequence of the 'back to basics' changes which had been made. Throughout the war and indeed the difficult years after it, the company was largely invested in farmland, mining and real estate assets located thousands of miles from the conflict engulfing Europe and the economic woes in its aftermath.

↑
British Empire's Balance Sheet in the early months of World War 1.

There is little doubt that the drastic surgery which the company's board of directors put in place from 1911 onwards allowed it survive the war to come, the effects of which on the UK stock market have been described as "a bludgeon descending on a watch."

To begin with, too, the company's long-beleaguered ordinary shareholders even started receiving dividends again, albeit peaking at 1s 6d (7½ pence) per 9s (45 pence) nominal per share in 1913.

By the middle years of the conflict the company was back in subsistence mode, meeting the interest payments which were due to the debenture holders but recording overall annual revenue losses which had reached £189 by the end of the war. The company nevertheless subscribed, along with most of its peers, for War Loan securities. British Empire Trust purchased £551 16s 10d in loans during the conflict itself and a further £18,000 in Victory Bonds in 1919, the latter being funded by "Advance by Bankers", as the accounts put it, provided at a fractionally advantageous interest rate.

↑
Peace at last. Even as the celebrations took place in Trafalgar Square, the post-war funding campaign began.

↑
World War 1 War Loan Poster.

By way of a postscript to these years two key figures, William Parker and Vernon Laurie, who between them would be Chairman of British Empire Trust from 1930 until 1981, both served overseas as Territorial Army officers during the war. William Parker commanded the 1/18th London Irish Battalion in the rank of Lieutenant Colonel and was awarded the DSO for operations in the Ypres Salient in 1916.

Vernon Laurie not only served in the First World War as a young Royal Artillery officer in France, Egypt and Palestine, twice being mentioned in Despatches but, as will be seen, returned to military service with the 147th Essex Yeomanry Regiment in the Second.

Reported capital values from South Africa, where the majority of the company's assets lay, had remained fairly constant during the war years. Each successive set of accounts noted that the valuations had been "generally fixed after consultation with the company's local and expert advisers, and the remainder appearing at cost."

In 1921, whether because of the post-war economic decline or because a proper assessment of the portfolio had become possible at last, the holding value of the Ventersdorp and Johannesburg property portfolio was cut from £62,684 to £34,578 at a stroke. As a consequence, the "Balance of Accounts set aside to provide for contingencies", broadly akin to assets held in reserve for a rainy day, had to be slashed too, from £28,548 to a mere £1,790.

The remaining holdings, made up of a mix of other properties, mortgage advances, bank deposits and £17,000 of Victory Bonds, of which £11,906 was still owed to the bank, produced a total assets figure of £84,015 18s 6d. An investment of £2,700 in The Stock Conversion Company, of which Nathaniel Spens was also a director, would be added in 1925.

The company was still on its feet and would continue to function, albeit in a virtually quiescent state, through the middle years of the decade. Interest payments to the debenture holders were kept up but no ordinary dividends had been paid since before the war. In motoring terms, the fuel tank was almost dry and investors in the trust were beginning to fear the worst.

Diamond dreams

Where there is life, there is hope and the chance, however remote, remained of a diamond find on the company's land. Playing to this possibility, attempts were clearly made to pacify investors at the general meetings each year with hints and suggestions that discoveries of gold and diamonds, the very commodities which had taken the company to the Transvaal back in 1889, could still be round the corner.

Some of the news stories of the day probably helped. The discovery of the entrance to Tutankhamen's Tomb in the Valley of the Kings was revealed in November 1922, together with Howard Carter's legendary words "as my eyes grew accustomed to the light, details of the room within emerged slowly from the mist, strange animals, statues, and gold – everywhere the glint of gold!"

To cap it all, just two years after that, one of the greatest diamond fields in history was discovered some 50 miles in Lichtenberg – a speck, in African distance terms – west of British Empire Trust's main portfolio holding, the Ventersdorp Farm. This news must have quietened the stormiest of ordinary shareholders – for the moment.

Within a few years Lichtenburg had become the richest public diggings in the world, with tens of thousands of prospectors swarming over it. The region produced seven million carats of diamonds in its first twenty years alone.

Maddeningly, for the company's early investors, British Empire was sitting on a parcel of Transvaal farmland in the same region of Southern Africa but with neither a decent purchase price nor a diamond in sight.

ANOTHER WILD DAY

Stock Exchange Like a Bedlam

Another wild day was experienced on Wall Street yesterday, but there was no demoralisation.

So late was the tape machine on Thursday that the full extent of the market slump did not reach the general public of America

↑

Top: The cattle dip at Elandsputte farm, Western Transvaal, the digging of which led to the discovery of one of the largest gem fields in the world. British Empire Trust's largest property investment lay a mere 50 miles to the east. The site is now a National Monument.

Bottom: The Courier and Advertiser of 26th September 1929 reported "nerves at high tension" on Wall Street as realisation dawned that the end of the boom could be coming. The worst single day of the crash occurred on 28th October, 'Black Monday', during which the Dow Jones Industrial Average fell 13%.

Rebellion, reconstruction and recovery

By 1928, with markets soaring in the United States and a flurry of fund launches, later referred to as the late 1920s "investment trust mania" taking place at home, investor optimism was riding the crest of a wave. For those of a contrarian disposition, or had simply been around long enough to recall that such euphoria never lasts forever, it was probably time to start battening down the hatches in readiness for storms to come.

Back at British Empire Trust a far from upbeat mood already prevailed. A small group of private investors had lost patience, with some justification given that their capital had been languishing in value for years and no dividends had been paid since 1913.

Some sort of agitation had obviously taken place in 1927 because Nathaniel Spens, still in post as Chairman and now well into his seventies, had sent papers to three individuals, Messrs Stride and Snell and Colonel Parker, informing them of the company's position. Mr Stride, it seems, replied to the effect that he remained unconvinced as to its prospects. He had therefore sold his shares to The Industrial and General Trust, an investment trust which incidentally later became TR Industrial and General and continued to operate until it was acquired and liquidated by the British Coal Pension Funds in 1988.

Colonel Parker on the other hand had decided to remain invested and to press for change. This decision would lead, as we are about to describe, to his appointment to the board and his key role in the fortunes of the trust over the next twenty years.

The showdown came at the Annual General Meeting held on 12th September 1928. Mr Spens began by outlining the cash assets and the value of the Ventersdorp property. The question, he put to the meeting, was whether to develop the mine using what cash remained or to liquidate the company.

The members present, who had been offered the prospect of glittering diamond finds for as long as any of them could remember, were having none of it. As the attached transcript reveals, a number of them made their views of the company's management very plain indeed.

Heated exchange at the 1928 AGM

12th September 1928

DR MOODY: "Mr Chairman, I hold nearly 4,000 shares in this company and I do not want an amount represented by a shilling a share to be squandered further in exploiting diamonds. You told us in 1912 that your policy was to liquidate the company … I am strongly opposed to any further frittering away of our money over diamonds".

THE CHAIRMAN: "Dr Moody is, of course, entitled to his own views but in regard to the liquidation of the company … the long postponement of the liquidation is due, first, to the South African War, which put us back to 1910, or so, and then to the Great War. Since 1921, we have been doing very good work … I believe its capital to be there. I am satisfied that I shall realise the assets much better by doing what we are doing now".

Mr LAURIE: "You asked us to come here to express our views on the subject. I do not think our meeting will serve a useful purpose if you tell us that our powers are nothing as compared with yours. As you asked us here to express our opinions I think these opinions should be received with a little more courtesy. There are assets which you describe as cash … but instead of being cash on deposit with a reputable bank, or Treasury Bills, it is on deposit with another company with which you are associated, The Stock Conversion Company, whose shares are quoted at a 5s 3d discount … I think we should have some explanation of why the money is put on deposit there".

THE CHAIRMAN: "I do not know what you are referring to. The Stock Conversion Company has a certain amount on deposit on good security and that money is at the disposal of the Company when it wants it".

MR LAURIE: "But why is it there?"

THE CHAIRMAN: "Because we know what we are doing and that we are doing the best for the company".

MR LAURIE: "We are not at all convinced that is the best for the company".

A SHAREHOLDER: "I am here representing a considerable number of shares … we are not satisfied with the management of the company".

THE CHAIRMAN: "People make disagreeable statements sometimes when people are serving them very well. As far as The Stock Conversion Co. is concerned, it was the salvation of our company. We get a higher rate of interest with perfect security. To say these ill-natured things is not fair.

ANOTHER SHAREHOLDER: "I take it, Mr Chairman, you called us together in order to find out what we thought. I think you are inclined to hold a pistol to our heads. It sounds very much like this: "I do not care what the devil you say, we are going to do certain things". That leads to acrimonious discussion, which does no good to a company".

←

An extract from the heated shareholders' meeting in 1928, an event which led to the board being supplanted and the structure of the trust being radically revised.

Sweeping changes

Some time after the conclusion of this tempestuous meeting further discussions must have taken place, the outcome of which might be likened to a bloodless coup. By 1931 William Parker, Vernon Laurie and Gerald Moody had effectively taken control of the company. The look and feel of the annual report and accounts had also completely changed, not to mention the said document having expanded from the single back-to-back sheet of foolscap previously considered adequate to a hefty four pages in length.

William Parker had become Chairman the previous year, replacing the incumbent Felix Rose who had been appointed in 1929 upon the retirement of Nathaniel Spens. Laurie and Moody made up the remainder of the board. The only continuity, in managerial terms, between the old and the new regimes was the veteran company secretary, Mr H.T. Ripsher, who remained in post until his death in 1941.

The first problem which the new board was faced with – aside from the Great Depression amidst its darkest years, that is – was the trust's capital structure. A Scheme of Arrangement was drawn up with the twin objectives of strengthening the balance sheet and of finally sweeping away the Founders' Shares, about which shareholders had now been complaining for forty years.

The method settled upon to deal with these matter was first to subdivide each of the 96,027 ordinary shares of 9/- each into nine shares of 1/- each. Existing shareholders were allowed to keep five of the nine new shares thus created per 'old' share. The other four new shares "shall be transferred without payment … as the Directors shall direct." This provided a pool of new, heavily diluted ordinary shares, eighty of which were used to replace and thereby extinguish each of the 500 Founders' Shares. The balance of unallocated new ordinary shares was then cancelled. On completion of these changes, the capital of the company was increased to £1,525,889 by the creation of 369,108 new ordinary shares of 1/- each.

This was an elegant if complex solution which, although made at a time when the company's total assets were a mere £42,759 and still falling, laid the foundation stones for the rebuilding of the company over the decades to come.

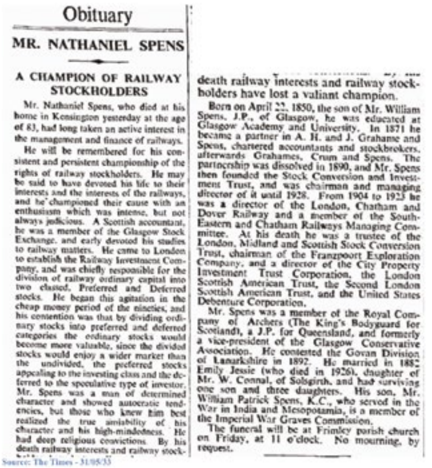
The investment strategy was also completely revised. The portfolio of property and land mortgages was gradually to be disposed of, the proceeds being invested in a range of predominantly London Stock Exchange-listed ordinary shares, government stocks, debentures and preference shares. This basic model would be followed for nearly fifty years, although the company's name, which no longer really reflected the investment objectives, was rigidly maintained.

Farewell to the Transvaal

The 1932 AGM was held, with appropriate frugality given the dire straits of the economy at large, at the company's offices in Dashwood House, Old Broad Street. At the event Mr Parker informed members that "Diamond mining operations at Bruidegomskraal continued to be unremunerative … your Directors decided to cease all trading in South Africa and to close the company's registered offices in Johannesburg … This has already resulted in a considerable saving in management expenses." Nevertheless, liquidity in the local property market was so poor that it would take almost another decade to sever the final ties to the Transvaal.

The death of Nathaniel Spens was reported in an extensive obituary published in The Times of 31st May 1933. Best known as “a consistent champion of the rights of railway stockholders”, Spens led a varied and successful career, first as a chartered accountant in Glasgow and later as a director of a number of railway and investment companies. Further described by The Times as “a man of deeply religious convictions”, his activities and appointments included membership of the Royal Company of Archers, the sovereign’s bodyguard in Scotland.

In the context of British Empire Trust, Mr Spens was Chairman of the company for more than thirty years from 1898 onwards. Some might suggest that in the absence of the various corporate governance diktats which abound today, some great men stayed on a little too long and this was a case in point. The fact remains that Nathaniel Spens served and maintained the company through the most difficult of circumstances including two major conflicts and their grim economic consequences when it might otherwise have gone to the wall.



Obituary

MR. NATHANIEL SPENS

A CHAMPION OF RAILWAY STOCKHOLDERS

Mr. Nathaniel Spens, who died at his home in Kensington yesterday at the age of 83, had long taken an active interest in the management and finance of railways.

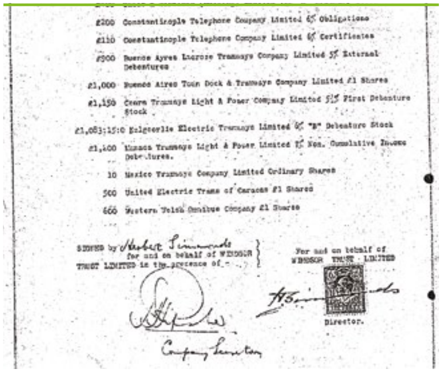
He will be remembered for his consistent and persistent championship of the rights of railway stockholders. He may be said to have devoted his life to their interests and the interests of the railways, and he championed their cause with an enthusiasm which was intense, but not always judicious. A Scottish accountant, he was a member of the Glasgow Stock Exchange, and early devoted his studies to railway matters. He came to London to establish the Railway Investment Company, and was chiefly responsible for the division of railway ordinary capital into two classes, Preferred and Deferred stocks. He began this agitation in the cheap money period of the nineties, and his contention was that by dividing ordinary stocks into preferred and deferred categories the ordinary stocks would become more valuable, since the divided stocks would enjoy a wider market than the undivided, the preferred stocks appealing to the investing class and the deferred to the speculative type of investor. Mr. Spens was a man of determined character and showed autocratic tendencies, but those who knew him best realized the true amiability of his character and his high-mindedness. He had deep religious convictions. By his death railway interests and railway stockholders have lost a valiant champion.

Born on April 22, 1850, the son of Mr. William Spens, J.P., of Glasgow, he was educated at Glasgow Academy and University. In 1871 he became a partner in A. H. and J. Grahame and Spens, chartered accountants and stockbrokers, afterwards Grahames, Crum and Spens. The partnership was dissolved in 1890, and Mr. Spens then founded the Stock Conversion and Investment Trust, and was chairman and managing director of it until 1928. From 1904 to 1923 he was a director of the London, Chatham and Dover Railway and a member of the South-Eastern and Chatham Railways Managing Committee. At his death he was a trustee of the London, Midland and Scottish Stock Conversion Trust, chairman of the Franzpoort Exploration Company, and a director of the City Property Investment Trust Corporation, the London Scottish American Trust, the Second London Scottish American Trust, and the United States Debenture Corporation.

Mr. Spens was a member of the Royal Company of Archers (The King's Bodyguard for Scotland), a J.P. for Queensland, and formerly a vice-president of the Glasgow Conservative Association. He contested the Govan Division of Lanarkshire in 1892. He married in 1882 Emily Jessie (who died in 1926), daughter of Mr. W. Connal, of Solsgirth, and had surviving one son and three daughters. His son, Mr. William Patrick Spens, K.C., who served in the War in India and Mesopotamia, is a member of the Imperial War Graves Commission.

The funeral will be at Frimley parish church on Friday, at 11 o'clock. No mourning, by request.

Source: The Times - 31/05/33



£200	Constantinople Telephone Company Limited 6% Obligations
£110	Constantinople Telephone Company Limited 6% Certificates
£500	Buenos Ayres Lacroze Tramways Company Limited 5% External Debentures
£1,000	Buenos Aires Town Dock & Tramways Company Limited £1 Shares
£1,150	Ceara Tramways Light & Power Company Limited 5½% First Debenture Stock
£1,083:15:0	Kalgoorlie Electric Tramways Limited 6% "B" Debenture Stock
£1,400	Manaos Tramways Light & Power Limited 5% Non. Cumulative Income Debentures.
10	Mexico Tramways Company Limited Ordinary Shares
500	United Electric Trams of Caracas £1 Shares
666	Western Welsh Omnibus Company £1 Shares

SIGNED by Herbert Simmonds for and on behalf of WINDSOR TRUST LIMITED in the presence of

For and on behalf of WINDSOR TRUST LIMITED

Director.

Company Secretary

As the effects of the depression struck, the fortunes of the reconstructed company continued to decline. The low point was reached in September 1936 at which point total assets troughed at a lowly £38,794. The following year, the first move to expand the company was put into action. An agreement was entered into with another investment company, Windsor Trust, also based in Dashwood House. In the deal, British Empire acquired Windsor Trust’s £30,000 investment portfolio of bonds, preference shares, debentures and ordinary stocks in exchange for £20,000 of 5% Convertible Debenture Stock and 80,000 ordinary 1/- shares.

The list of investments being transferred ran to several pages of typewritten text. Domestic securities included everything from ordinary shares in the Holborn Viaduct to Showells’ Brewery 4% Preference Stock to the Western Welsh Omnibus Company. The list of overseas railway, docks, telephone, nitrates, tea and rubber holdings, mainly fixed income, also went on and on. Finally and appropriately – or perhaps not, given the paucity of female staff in the early years – the company had become the proud owners of 250 Ladies’ Empire Club £2 shares.

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Top: Extract from Nathaniel Spens’ obituary published in The Times on 31st May 1933.

Bottom: An extract from the investment portfolio acquired from Windsor Trust in 1937.

"Keep Calm and Carry On"

Probably the greatest turning point in the company's history.

The company, in short, had gained a well-diversified portfolio of its own almost at a stroke, in all likelihood acquired at near-rock bottom prices. This shrewd move was probably the greatest turning point in the company's history.

Aided by a gradual market recovery, the company's assets had grown to £75,183 by September 1939, despite the near-valueless South African portfolio still held. Not only that but the payment of annual dividends had resumed, beginning with a distribution of 3% on the ordinary stock in 1937, increasing to 4% for each of the next two years.

For the company, the tide had indeed turned. The trouble was, just four weeks earlier, on 3rd September 1939, Europe had been plunged into another World War.

The City of London tends to forge on and go about its business whatever calamities are taking place whether domestically or on the world stage. By 1940, however, the brickbats resulting from the war could scarcely be ignored because London's key financial areas had become the target of nightly German bombing during the Blitz.

117, Broad Street, into which the company's offices had moved from Dashwood House in 1939, survived the raids but large areas around the Bank, St Paul's and what is now the Barbican Centre were laid waste.

The records reveal that from 7th September 1940, London was bombed by the Luftwaffe for 57 consecutive nights. Bombs must virtually have rained down around the company's offices during the nights before and after each day's work, as the company's accounts to the end of that same month were being typed up by staff who probably had to climb over rubble to get to their workplace. Yet, few clues were offered in the 1940 annual report that there was a war on at all. "In view of the prevailing conditions", Mr Ripsher reported, "an estimate of [portfolio values] has not been made … though a valuation, if taken, would show that the capital is not intact."

Uncertainty as to true values and, of course to the duration of the conflict led to restricted trading conditions in the early part of the war. There was an irony, therefore, to the fact that the Ventersdorp Farm, which had been owned by the company since the nineteenth century, was disposed of at last. The property was finally sold, for the lowly sum of £5,317, settled in three instalments, the last being received in 1941. Only then had the ghost of the original 1889 single country fund been laid to rest.

↑
Devastation above Bank underground station, only a few hundred yards from the company's Old Broad Street offices, following bombing during the World War 2 Blitz.

A further acquisition was made the following year. In 1942, the company agreed to purchase the assets of another investment company, The Dashwood Trust. In the transaction the investment assets of the moribund vehicle were obtained in returns for £1,500 of 5% Convertible Debenture Stock, 1936 plus 40,000 ordinary British Empire Trust shares. As a consequence, the company's investment portfolio acquired a further spread of sometimes exotically named securities, from the National Railways of Mexico 5-6% Two Year Notes to Fernhill Colliery 5/- First Mortgage Debenture Stock.

In 1943, Miss Marguerite Ford Johnson became the company's first female executive when she was appointed Company Secretary following the untimely death of her predecessor, Mr H.T. Ripsher.

Gerald Tattersall Moody, one of the company's three rebels and ultimately saviours from the late 1920s, died in 1943. In his remarks that year Chairman William Parker described Gerald Moody's "almost unrivalled financial experience, which had been of the greatest value to the company … it will be difficult to find his equal." The Chairman also paid tribute to the indefatigable Secretary, Mr H.T. Ripsher, who died the same year, being replaced by Miss Marguerite Ford Johnson – the first female executive of the company.

Mr Moody was replaced on the board the following year by William Guy Fossick, always known as Guy who, together with his son William (William Gawne Fossick), became central figures in the company's history and development over the decades to come.

For one director, the Second World War meant a remarkable return to active service. Vernon Laurie, who was born in 1896 and, as mentioned, had served in the First World War, must surely have thought that he had hung up his Territorial Army uniform for the last time. But the severity and length of the conflict meant that – as in Afghanistan and other campaigns in recent years – the Reserve Forces were once more required to step into the breach.

There cannot have been many investment trust directors who could say that they have seen active service in two World Wars. Vernon Laurie, known affectionately for the rest of his life as "the Colonel", did indeed find himself back in uniform. He commanded first the 147th Essex Yeomanry and subsequently two LAA (Light Anti-Aircraft) Royal Artillery Regiments in North Africa, Malta and Italy and was awarded the OBE in 1945.

Both Robert Laurie and his father had distinguished war records, in the case of Vernon in both World Wars. In 1945 Robert served alongside Captain Ian Liddell, who was awarded a posthumous Victoria Cross following the action to capture a bridge over the River Ems near Lingen, Germany. Both served in the in the 5th Battalion, Coldstream Guards. Robert Laurie's narrative of the event can be found in Forgotten Voices of the Victoria Cross, Robert Bailey, Random House.

Vernon's son and future British Empire Trust Chairman Robert Laurie was also called up, indeed before his father was, to serve in World War Two. William Fossick remembers being told that Vernon came home one day and called out "Robert, have you been called up yet?" His son was actually in the bath but called out, "yes, I have!" to which Vernon immediately responded "who with?" "The Coldstream Guards", came the reply, rather than the Essex Yeomanry, the expected and very much hoped for response. Robert heard a fairly ventilated shout of "what?" and recalled later that he was rather glad that he was behind a locked door and able to finish his bath while his father calmed down after hearing this unexpected news.

↑
British Empire director Vernon Laurie served in both World Wars.

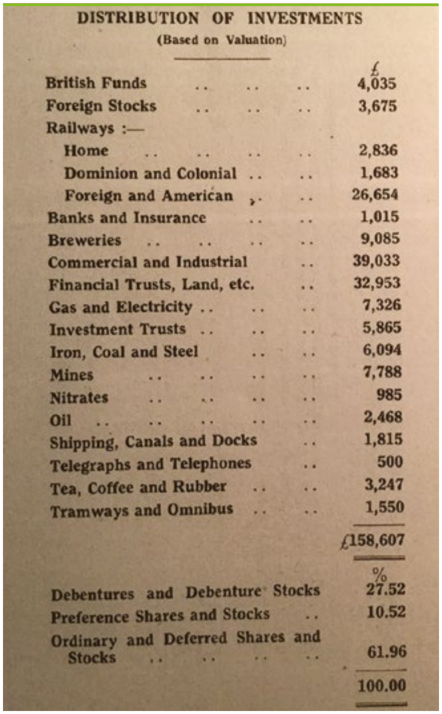
The 1948 Companies Act

Back at the company, the war years were characterised by holding the fort, monitoring the investment portfolio and gradually adjusting it as conditions and fresh opportunities permitted. Very slowly, improvements could be seen. Dividends were paid at the rate of 3½% in 1940, dipping from 4% the previous year. By 1943, it proved possible to increase distributions once more, to 5% and then to 6% in 1944 and 1945.

True capital values were harder to gauge. The Balance Sheet for September 1946 listed “investments at cost, £104,648; Capital Reserve, £41,283” together with a footnote saying in brackets that “the market value of these investments was substantially more than the cost”, though no further details were provided.

The typical level of portfolio disclosure, in short, was still pretty woeful, across all sectors and not just for investment companies. Such practices, which would be swept away with the 1948 Companies Act, stemmed from the belief that true asset values were best kept secret. Full disclosure, it was argued, ran the risk of building investors’ expectations after a good year and having to face their wrath after a bad one.

The first ever published breakdown of the British Empire’s investment assets appeared in 1947. Paper was still in desperately short supply after the war and that year’s entire Report and Accounts fitted onto two sides of one sheet, itself less than A4 in dimensions.



DISTRIBUTION OF INVESTMENTS
(Based on Valuation)

	£
British Funds	4,035
Foreign Stocks	3,675
Railways :—	
Home	2,836
Dominion and Colonial	1,683
Foreign and American	26,654
Banks and Insurance	1,015
Breweries	9,085
Commercial and Industrial	39,033
Financial Trusts, Land, etc.	32,953
Gas and Electricity	7,326
Investment Trusts	5,865
Iron, Coal and Steel	6,094
Mines	7,788
Nitrates	985
Oil	2,468
Shipping, Canals and Docks	1,815
Telegraphs and Telephones	500
Tea, Coffee and Rubber	3,247
Tramways and Omnibus	1,550
	£158,607
	%
Debentures and Debenture Stocks	27.52
Preference Shares and Stocks	10.52
Ordinary and Deferred Shares and Stocks	61.96
	100.00

↑
1947 Portfolio breakdown.

The 1948 Companies Act marked a significant change in the way in which listed companies, including investment companies, were required to present their annual and half-yearly reports. Guidelines were now laid down in such areas as the presentation of the accounts, the conduct of general meetings and even the declaration of directors’ ages, should they wish to stay on after the age of seventy.

↑
In 1948, what were later dubbed the “Austerity Olympics” were held in London under severe cost restraints. The image above shows gymnastic events being contested in Hyde Park.

The 1948 Companies Act
continued

The legislation caused Harley Drayton, Chairman of the 117 Broad Street Group, to write to the Financial Times suggesting that "some directors are useless at forty, while others are still valuable at ninety." There is therefore a link, if a tenuous one, between this communication and British Empire Trust which was by now headquartered in the very same address though not connected with the 117 Old Broad Street Group itself.

One of the requirements of the 1948 Act was that a company's net asset value had to be revealed, at the very least by a footnote to the Balance Sheet. For that reason, while the British Empire Trust's 1947 accounts describe "Investment at cost, £117,096," things had changed a year later. The equivalent entry for 1948 reads "Valuations of investments, Quoted, at middle market value, £177,143; Unquoted at Directors' Valuation, £25,996." This produces a total of £203,139, a vastly higher figure than had previously been revealed. These number add weight to the belief that the true asset value of many investment trusts in the pre-1948 years was often far greater that the 'book' cost recorded on the Balance Sheet, the difference being referred to as the 'inner reserve'.

The 1950s

It is worth taking stock of the company's position at the start of the 1950s. Modest progress had been made during the economically depressed 'austerity years' after World War 2, in addition to which a Rights Issue of 720,000 new ordinary shares was made at 1s 3d per share in March 1948. As at 30th September 1950, the company's total assets had reached a new peak of £216,628. Dividends had been maintained at the same 7% level since 1947. The 0.5% increase achieved in 1951 would prove just to be the beginning of a sustained rally in the company's fortunes as the post-war economic recovery phase gathered pace.

At the start of the new decade the company's issued share capital was made up of £104,018 of Ordinary Stock, £45,000 of cumulative preference shares of £1 each and £45,000 of 4% Debenture Stock, 1975.

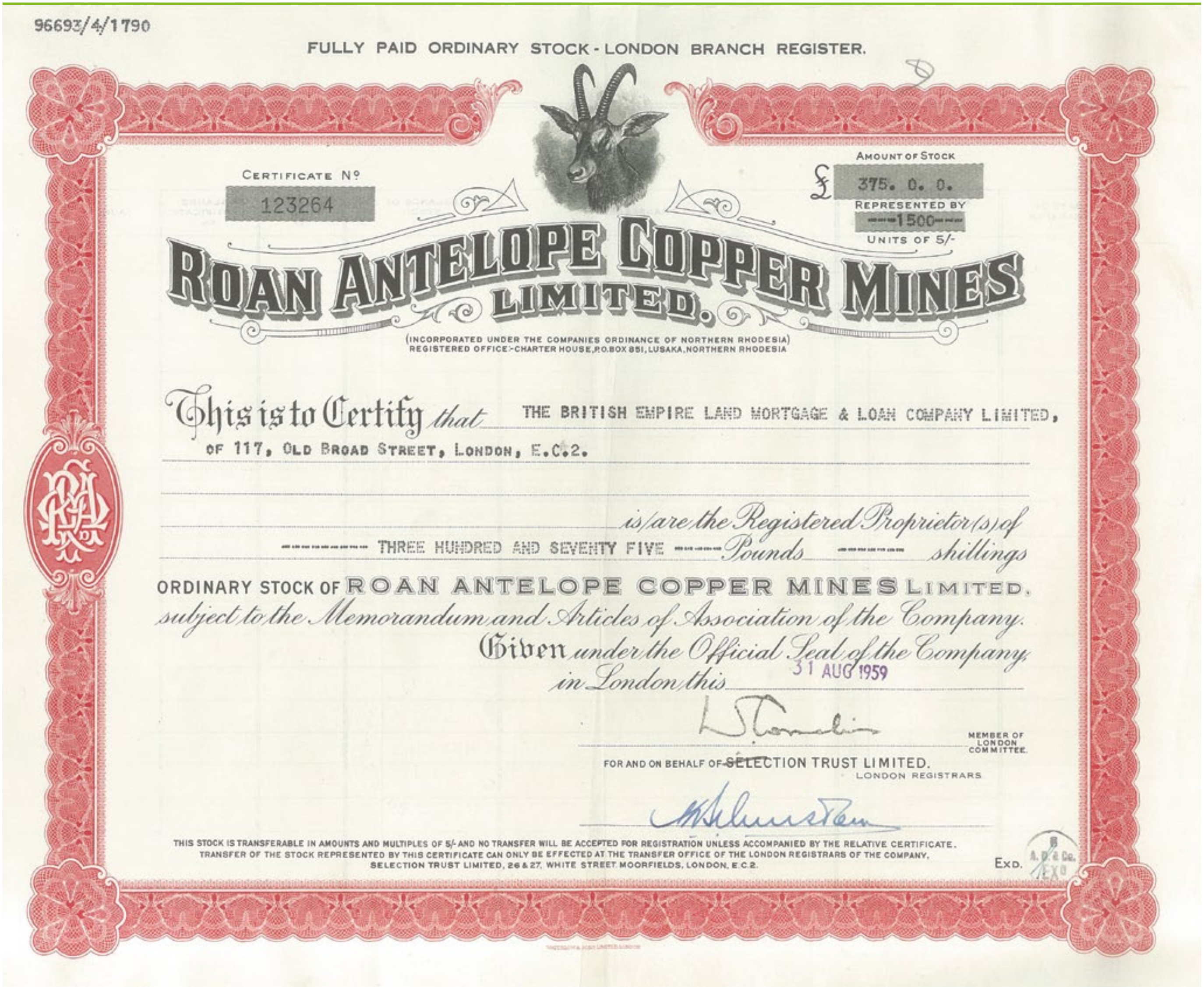
The investment portfolio by now comprised 61% ordinary shares and stocks, 26% preference shares and stocks, 11% debentures and debenture stocks and 2% in British government securities, the latter mainly made up of war loans and defence bonds. £3,929, or 13% of the total, was invested in 'Foreign Stocks'. The overall portfolio encompassed a broad range of industries and sectors not greatly changed from the 1947 breakdown shown in the table earlier.

In the boardroom, Vernon Laurie had been appointed Chairman in 1947, following the death that year of Colonel William Parker who, along with Gerald Moodie and himself had been the driving force behind the restructuring of the company in 1929.

The next generation of directors had begun to make their appearance too, including two future Chairmen. The first, Brian Parker, son of William, was appointed to the board in 1946. Robert Laurie, who had returned from the war to resume his city career, joined him in 1953. In addition, Marguerite Ford Johnson retired in 1952, being replaced by David Loeb.

On a wider front, what became known as the cheap money era had developed in which share prices and earnings began to improve to the point where many quality industrial and other equities yielded 5% or more, in many cases exceeding the cost of borrowing the money to invest in them. As one investment trust industry figure, Donald Marr, later put it, "the equities yielded more than the interest cost (which was fixed), and you actually gained a growth in income from investing in equities!"

It helped that companies which had predominantly been investing in fixed income securities such as bonds, mortgages and debentures for decades had largely maintained the fairly high degree of gearing considered normal at the time. Old habits die hard and, despite a substantial post-war shift into equities, in many cases this gearing had been left in place at levels that would raise eyebrows in the modern era.



↑
Share Certificate showing that by the 1950s, British Empire Trust was investing in Southern Africa once more.

FINAL NIGHT EXTRA

CITY PRICES

Evening Standard

41,187 FRIDAY, NOVEMBER 9, 1956 Twopence

ASK FOR LA RIVA SPAIN'S FINEST DRY SHERRY

NASSER: THE CANAL STAYS BLOCKED

'As long as a single foreign soldier is on our soil'

'WE WON'T BE TAKEN BY SURPRISE AGAIN'

CAIRO, Friday.—President Nasser of Egypt declared today that "Egypt will not allow the clearing and repair of the Suez Canal as long as there is a single foreign soldier

British protest to Moscow

Britain has protested strongly to Russia about the mass demonstrations outside the British Embassy in Moscow on Tuesday.

The protest was made by Lord Reading, Minister of State for Foreign Affairs, to Mr. Malik, the Soviet Ambassador.

Hotels ablaze in new Budapest battle

VIENNA, Friday.—Bitter street fighting with heavy fire from the rebels broke out in Budapest today. Two of the city's best hotels, the Royal and the Continental, are in flames, said Budapest Radio. Firemen could not get

↑
The Suez Crisis of 1956/57 brought the UK to the brink of war and led to the resignation of Sir Anthony Eden as Prime Minister.

British Empire Trust was a case in point. The presence of its 4% convertible redeemable preference shares and 4% and 5% debenture stocks helped to propel the company, its assets and its dividends upwards at rates far in excess of anything which had been achieved in the previous fifty years.

The result was a golden decade for the company, despite a broader backdrop which involved two changes of government, five different Prime Ministers between 1950 and 1957, the Korean War and the 1956/57 Suez Crisis, which for a time put the United Kingdom on a war footing with Egypt.

By the summer of 1959, the company could claim a ten-year track record of dividend growth and capital expansion, as the table below illustrates. A rights issue had already been made that March, on the basis of one new ordinary share at 2s 3d for every three existing shares held. On July 8th of the same year it was announced, via a substantial advertisement in The Times, that applications were invited for the issue of 1,666,000 new ordinary shares "of 1/- each, at 3/- per share payable, giving an estimated initial gross yield of 5%."

Year	Earned %	Paid %	
1949	8.6	7	
1950	11.3	7	
1951	16.3	$7^{1/2}$	And 1 free share for every 10 held
1952	17.1	$7^{1/2}$	And 1 free share for every 20 held
1953	16.1	10	
1954	18.6	10	And 1 free share for every 20 held
1955	19.8	$12^{1/2}$	
1956	23.1	$12^{1/2}$	And 1 free share for every 20 held
1957	23.8	14	
1958	27.3	15	And 1 free share for every 20 held

The announcement stated that "the Directors seek to accommodate the man of moderate means who wishes to spread his investment risks, and they believe that he will be better served by an investment in an old established Investment Trust Company rather than in Unit Trusts, some of which have been offered with estimated yields in the region of 3½%." The notice continued, "at the date of the last Balance Sheet, the break-up value of the 1s unit was 2s 11d per share, since when prices have improved … but there is no intention to propose the liquidation of the company. The Directors always have been and are now far more concerned with earnings power, the record of which is set out below."

It was added that "The Directors anticipate that they will be able to maintain for the year ending 30th September 1960 the rate of dividend of 15% per annum."

The ordinary shareholders who, as we have seen, had previously suffered years if not decades of virtual stagnation, had been handsomely served. They had received sizeable and sharply growing dividends over the period, in addition to which they had benefited from several issues of free shares. In early 1959 they had the opportunity to subscribe for a discounted rights issue. Now, on top of it all, a large issue of new shares was about to take place at 3 shillings per share, which was a modest premium to the cited net asset value of 2s 11d. This was bound to improve the size and liquidity of what was still a minnow in investment trust terms, as well as creating a tiny but perceptible uplift in the net asset value for existing holders.

↑
The company's record of dividend growth and share issuance in the late post-war period.

The 1950s
continued

> The ordinary shareholders … had been handsomely served.

In late 1958 the company's gross assets passed the £500,000 barrier – a figure which, remarkably, had last been achieved in mid-1890. Markets were still rising and, taking into account the above share issuance, this figure had advanced to a new high of £944,396 by the time of the following year's results. For the first time, these were reported to shareholders in London Saddlers' Hall rather than in the firm's offices back in Old Broad Street. The company was hovering on the cusp of the £1 million mark in gross asset terms as the next, rather more testing, decade approached.

On the political stage, Harold Macmillan's Conservative government was elected in October 1959 with an increased majority and a campaign slogan of "you've never had it so good." Yet by 1965 the Labour Party, first under Harold Wilson and then James Callaghan, had not just regained political power but had swiftly introduced a series of measures which would severely test the investment management community in general and the investment trust sector in particular.

The 1965 Finance Act

For investment trusts the most challenging consequence of the change of administration was the 1965 Finance Act which, albeit not intentionally, dealt a series of sharp blows to the sector which would not be unravelled for years to come. The measures imposed by the legislation included foreign exchange controls, the removal of relief from double taxation of overseas dividends and, with the introduction of corporation tax for companies and capital gains tax for individuals, the requirement to record each and every portfolio transaction as a taxable event.

The result was that when individuals sold their investment trust shares, the gains upon which had already been paid, they received tax relief voucher chits, or 'soup tickets' as they soon became known, exempting them from paying further Capital Gains Tax. These rules would eventually be replaced by the more manageable arrangement, still used today, in which the fund manager's portfolio gains are not taxed with the wrapper of the trust. Instead, investors become liable to the said tax only when they sell their investment trust shares.

In the post-1965 years, the cumbersome system in place meant that in downturns, should investors wish to reduce their market exposure they would sell their investment trust shares first. Especially during the bear markets of the early 1970s, this created a "double whammy" of falling markets and widening discounts that hit both the trust sector and its many thousands of private shareholders hard.

Dividend controls

The April 1966 Budget went further and imposed restrictions on UK wages, salaries, prices and dividends. It was bad enough that companies paid corporation tax on their profits, and that any of those profits distributed as dividends were taxed again at source, as shareholders' income. Any dividends which were now paid above a defined "standard amount", broadly linked to 7.5% of the company's share capital in the financial year 1965, plus predefined permitted increases, were even more heavily penalised. Further more formal controls were imposed in 1968.

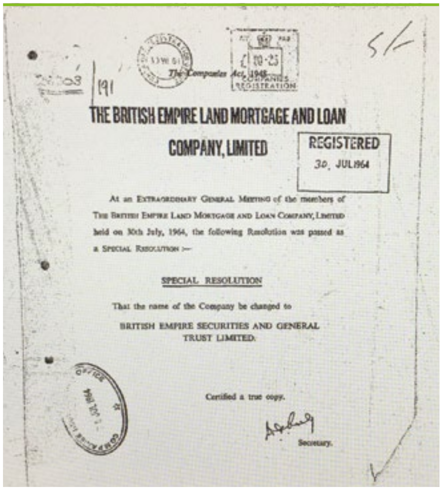
A number of company Chairmen struggled to moderate their expressions of concern during these difficult years and Vernon Laurie was no exception. In his 1968 Chairman's Remarks he fired off a volley at the government of the day, saying, "We are told that wage-earners do not like profits and dividends. If this be so, is it not time that it should be explained to them that, if not shareholders themselves, they indirectly benefit thereby as holder of unit trusts, holders of insurance policies and as beneficiaries of pension funds? Until something is done to correct this fallacy, we must be patient for equity dividend increases."

Name change to British Empire Securities and General Trust

Colonel Laurie did not end there. In the same report he noted that, "We have no real faith in the commercial benefits from political parties but we have made a small contribution, not large enough to require publication, to the party which we hope will do least harm to your Company's affairs." The accounts confirm that donations of either £50 or £100 were made to the Conservative party, in addition to sums of £120 to £150 to various charitable organisations, for several years thereafter. Dividend controls were eased in 1969 but not finally lifted until 1979.

For the investment trust sector at large the latter part of the 1960s was marked by frustration, restrictions upon the normal conduct of investment management and, especially with regard to taxation, an administrative nightmare. For British Empire Trust on the other hand, these years also included a series of positive developments, moving it away from its increasingly outmoded image as a tiny land and mortgage company and towards the objective of becoming a modern and much larger investment trust.

The first and largely symbolic change came in 1962 when, immediately below the company's name the words "An Investment Trust Company" were emblazoned in capital letters virtually as large as those in the line above. Increases in the issued share capital also continued apace, with further scrips issues being made in 1962, 1964 and 1968 plus a 'one for ten' rights issue made in 1966.



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The Companies Act, 1948.

COMPANIES REGISTRATION

THE BRITISH EMPIRE LAND MORTGAGE AND LOAN COMPANY, LIMITED

REGISTERED 30 JUL 1964

At an EXTRAORDINARY GENERAL MEETING of the members of THE BRITISH EMPIRE LAND MORTGAGE AND LOAN COMPANY, LIMITED held on 30th July, 1964, the following Resolution was passed as a SPECIAL RESOLUTION :—

SPECIAL RESOLUTION

That the name of the Company be changed to

BRITISH EMPIRE SECURITIES AND GENERAL TRUST LIMITED.

Certified a true copy.

Secretary.

↑

Top: Annual General Meetings, long held in the company's offices at 117 Broad Street, moved to the glittering surroundings of Saddlers' Hall in 1959.

Bottom: The company's name was changed with effect from 5th August 1964.

Many long-standing investment trusts abandoned their original names in the 1960s and 1970s. In the early days most trusts had been self-managed but, originally because of a desire to pool and thus reduce administrative costs, more and more appointed an investment management company to run their investment portfolios and administrative affairs. These management companies in turn began to acquire 'stables' of investment trusts which they became keen to rebrand with their own name for marketing and publicity purposes. Some boards, Law Debenture and The Bankers' Trust being good contemporary examples, refused to follow suit and stuck with their Victorian names through thick and thin.

British Empire Trust did not as yet fall under the aegis of an external management company. In any case, successive Chairmen from Nathaniel Spens onwards had flatly refused even to discuss a change of name. Nor, given the tone of his comments on the governmental bureaucracy described above, had Vernon Laurie noticeably mellowed over the years.

Eventually, the subject of renaming the company was not just debated but agreed, in the summer of 1964. The new title of British Empire Securities and General Trust was adopted from 5th August that year. This was the first alteration to the company's name since 1906 and only the second since its formation in 1889. The old 'land and mortgage' tag had gone at last.

Name change to British Empire Securities and General Trust
continued

A further technical change was made in 1966. The company had evolved from a real estate and mortgage enterprise into an investment company many years earlier. The decision was now made to adopt the full status of an approved investment trust. This conferred certain tax advantages but also required at least 85% of net revenues to be distributed as dividends, with the balance of up to 15% being placed in the revenue reserve for a rainy day. During the legislative "dividend restraint" years, this caused some trusts to be caught between a rock and a hard place. On the one hand they could only pay out so much. On the other, they had to pay out at least a certain amount.

This quandary was solved by the Association of Investment Companies (AIC, then known as the AITC) asking the Inland Revenue to intervene. As one Association veteran recalled, "I couldn't believe it. The Inland Revenue replied within 48 hours, and on our side! Investment Trusts were exempt from the restraints, we were informed, as they were merely agents, collecting other companies dividends and then handing them out."

William Fossick joins the board

By 1968, British Empire's four-strong board, comprising Vernon Laurie as Chairman, his son Robert, Guy Fossick and Brian Parker had been in situ for fifteen years. Indeed, the appointment of Robert Laurie in 1953 marked the only change since the War. Returning to 1968, that January, future Chairman William Fossick, at that time a 27-year assistant solicitor with Linklaters & Paines joined the board.

As William recalls, "when I presented myself at my first Board meeting, I was greeted by the Colonel (the Chairman) with the statement that the succession was now assured! Although my appointment was down to that now extinct thing called nepotism I had, in the gap between leaving the firm in which I was articled and joining Linklaters, spent some months first of all as a blue button with Heseltines and then with the Debenture Corporation, of which my father was also a director and my grandfather had been a founder director. I therefore had a working knowledge both of the stockmarket and how investment trusts operated in addition to such experience as I had gained through legal practice."

Volatile times ahead

At this stage markets were still in the ascendant and by the second half of 1969 British Empire Trust had advanced once more, both in asset and dividend terms to the point where total assets had reached £1.7 million. At that point the portfolio comprised just 53% in equities and 47% in fixed income securities. This defensive stance, with a significant focus upon income generation rather than capital growth, served to moderate the effects, both upwards and downwards, of the severe market fluctuations to come.

The 1969 Budget, under Chancellor of the Exchequer Roy Jenkins, increased both Corporation Tax and Selective Employment Tax (SET) but "the last straw which broke the Stock Exchange camel's back," as The Spectator of 29th May 1969 put it, "was the disallowance of bank interest as a charge against tax except for house purchase and improvement and 'proper' business expenses." Valuations had also become stretched. The same article estimated that the price/earnings ratio of equities had risen to 21 and that equity shares were yielding 4% less than government bonds. In addition, with a bank rate of 8% the cost of borrowings for businesses was into double figures.

The correction was sharp when it came. During the 1969/1970 bear market the FT-30 Index fell by 31% from a level of 520 in January 1969 to 357 within four months.

Vernon Laurie's final broadside

Ten largest portfolio holdings as at 30th September 1972

	Book Value (£)	Valuation (£)
Robert Warner Ltd	Nil	60,750
Hong Kong & Shanghai Bank	Nil	54,571
Lonrho	4,090	53,111
Standard & Chartered Bank	Nil	40,500
Law Land Ltd	Nil	39,000
Acrow (Engineers) Ltd	Nil	33,759
Joshua Watson & Co.	3,725	32,500
Decca Ltd	Nil	28,400
Nottingham Manufacturing Co. Ltd	Nil	27,000
Land & House Property Corp.	Nil	24,000

Even more challenging times were to come. There was a market rally in the second half of 1970, following the return of a Conservative government under Edward Heath, then a slump in the FT-30 Index to 305 during a period of industrial unrest. This trend was reversed once more with a sharp market upturn, aided by £1.2 billion of tax cuts, to a new Index peak of 543 in May 1972. This market level would not be regained for another seven years.

↑
The table of top ten investments above, all in ordinary shares, demonstrates the way that portfolio holdings used to be written down to nil so as to create an "inner reserve" to be deployed during periods of falling markets. Notwithstanding the sizeable equity holdings shown in the table, the overall portfolio by now comprised no less than 65% in fixed income securities and only 35% in ordinary shares. This was no bad thing given that the worst bear market since the Wall Street Crash was a matter of weeks away.

↑
Vernon Laurie CBE TD in later life.

Vernon Laurie had become increasingly concerned and indeed increasingly vocal over the years about what he saw as grave errors of government policy. His final broadside occurred in September 1972 as he addressed his last AGM after 25 years as Chairman, before being succeeded by his son Robert. Unusually by the standards of today, having relinquished the Chair Vernon remained a director for nine more years, until his death in 1981.

Laurie (senior) began his final remarks to shareholders by reporting the company's first dividend cut for many years, a development driven both by government restrictions and by several portfolio companies postponing their distributions to the following financial year for tax reasons. When it came to wider government policy he was far less restrained, observing that "as ever, the greatest menace are the Reformers, who by sponsoring Nationalisation have turned a number of National Assets into National Liabilities and by abolishing punishments that fit crimes have filled the prisons and vastly increased all forms of misdemeanour. Will common sense prevail?"

UK Bank Base Rates in December 1976

Barclays Bank	14%
Consolidated Credits	14%
First London Securities	14%
C. Hoare & Co.	14%
Lloyds Bank	14%
Midland Bank	14%
National Westminster	14%
Shenley Trust	16%
William & Glyn's	14%

↑
Top: Petrol shortages during the 1973/74 'oil shocks'.

Bottom: Interest rates in a very different era. The above table use the figures as at 16th December 1976, the date of that year's British Empire Trust AGM, held once more in Saddlers' Hall.

Domestic worries were bad enough, including as they did rising inflation, balance of payments problems following worldwide commodity price increases and a rash of industrial disputes so severe that the Heath government was forced to declare a three day week in late 1973. Taken with the effects of the Arab-Israeli war and a major oil embargo, the bear market of 1973-1974 proved so severe that the FT-A All-Share Index fell by more than two-thirds from its May 1972 peak within two years.

The company's weighting towards fixed income securities helped to moderate capital losses during these years. Treasury 6% Stock 1975 and Treasury 8¼% Stock 1977, for instance, had both entered the company's top five holdings by 1974. These holdings also helped to sustain the revenue account which, despite the surrounding global turmoil, had recovered sufficiently to permit increased dividend distributions in not just in the darkest years of 1973 and 1974 but in every year for the remainder of the decade.

The sharp recovery which began in the spring of 1975 proved to be the start of a UK stockmarket rally which not only eventually passed the previous peak but kept on advancing, bar short-term fluctuations, all the way through to the Great Storm and market crash of October 1987.

By 1976 Robert Laurie, who by now had been Chairman for four years, felt strongly enough about the vagaries of the political situation in the United Kingdom to follow his father's example and launch a few salvoes of his own. "The experience of the last twelve months," he said, "has not tempered fear for survival of capitalism nor diminished anxiety for the future of democracy in this country ... although a welcome swing from the left is now apparent." He then noted that "a modest success has been achieved over the years without your company embarking upon any 'new approach' nor by saddling the company with expensive prior charge debts in moments of optimism."

The observation about avoiding expensive debt is noteworthy given that in 1976 the percentage cost of borrowing to invest was safely into double figures, while UK annual inflation had hit 17%. In terms of quality of life, on the other hand, 1976 was described in a recent newspaper survey as "Britain's best ever year", with petrol at 77p per gallon, a pint of beer at 32p, low crime levels, few cars on the road, Concorde making its first commercial flight and a sustained summer heatwave to boot.

At the same meeting, Robert Laurie reported that Guy Fossick was standing down from the board after 32 years' of service to the company and that "his knowledge, sagacity and good humour are hard to replace." In addition David Loeb, Secretary for the past 24 years, would retain that role but would also now join the board.

By the time of the election of the Conservative government under Margaret Thatcher in 1979, British Empire Trust had increased in total assets terms to a new high of £3.4 million. The company's accounts had at last adopted modern practices including the publication of both net asset values and dividends in pence per share, which stood respectively at 16.38p and 0.76p. Broad details of the distribution of investments by region and sector were also included, together with a list of the 25 largest portfolio holdings, headed by the ordinary shares of HSBC, Lonhro and the shipbuilder Yarrow, together with Treasury 6¼% Stock 1977.

Some 82% of the portfolio was invested in domestic securities and 14% in the British Commonwealth. The balance was made up of a modest 2% merely described as "elsewhere", plus 2% in South Africa which, ironically given its geographical and historical links with the company, not to mention the company's name, had become a republic and left the Commonwealth in 1961. By this stage the equity weighting had increased to 64% while the fixed interest element had declined to 26% – the latter, as the future fund manager John Walton found out five years later, including numerous small positions in preference shares of many kinds.

As the 1980s approached, the company had increased in size fifteenfold in little more than twenty years and yet was still a minnow compared with the larger investment trusts of the day, a number of which now exceeded £100 million in total asset terms. That size differential would change drastically over the years ahead.

Post-election boost

The investment trust sector and indeed markets as a whole experienced a considerable boost after the 1979 election, in the wake of which currency exchange controls were swept away, the top rate of income tax was reduced from 83% to 60% and the basic rate from 33% to 30%. Personal tax allowances were also increased. The best news for investment trusts came after the Finance Act, 1980, with the removal of CGT from transactions made within the fund. Not only did this allow institutions such as pension funds or insurance companies to invest in the shares of investment trusts without a tax disadvantage but it removed the need for the CGT credit chits which Vernon Laurie had referred to several years earlier as "tiresome little pieces of paper."

Before moving on to the next phase in the company's history it is important to mark the end of an era dating to the 1920s when a group of shareholders wrested control of a moribund mortgage company which had not paid a dividend since before the Great War. Vernon Laurie, who had been a director since 1929 and Chairman from 1947 to 1972, died on 29th January 1981. William Fossick fondly remembers "the Colonel," as Laurie was still affectionately known by all, "as a true gentleman and a traditional City figure whose work attire, when I joined the company in the late 1960s, included a stiff collar, a top hat and spats."

Stake-building by Imperial Life

> Imperial Life, the insurance group which is part of the huge Laurentian complex of Canada is to take an active role in Britain's rather sedate investment trust business. Imperial, which already owns 24.3% of the British Empire Securities investment trust announced yesterday that it was bidding for the outstanding shares and intended to settle on a 29.9% holding. It is also involved in a shake-up at Shires Investment where it will end up with an 8.5% stake. Mr John Walton, Imperial's investment director in this country is joining both boards.
>
> THE TIMES, 21ST JANUARY 1984

During the first three years of the 1980s British Empire was quietly successful in increasing both assets and annual dividends once more new highs of 25.2p and 0.9p per share. As the size and visibility of the company increased, it began to fall under the spotlight of institutional investors seeking fresh investment opportunities. UK investment trusts became a particular target in this era because many were still trading at wide discounts to their underlying asset value, partially because of their CGT complications described earlier but by now removed. Paradoxically, trusts which had good quality portfolios of readily realisable blue-chip securities caught the eye first.

Are your intentions honourable?

That is exactly what happened here. In the early 1980s John Walton was working in London as an investment manager for The Imperial Life Assurance Company of Canada, part of the larger Laurentian Group. He had spotted significant underlying value in British Empire Securities and General Trust and, on behalf of his employers, began to build a stake. The move would lead to John managing British Empire's investment portfolio for the next 18 years, helping it to multiply in size many times and, together with his later colleagues John Pennink and Joe Bauernfreund, turning it into one of the largest and most prominent trusts in the sector.

↑
John Walton in his early City career.

John Walton takes up the story. "My interest in British Empire was a chance one. A stockbroker rang to say that he knew of a small trust which was standing at a big discount and shares were available. I took a look and noted that the portfolio was dominated by a vast number of preference shares, complemented by a few special situations such as the Welsh miner Clogau Gold, supplier of the wedding ring worn by Princess Diana. The buying went well. There was no shortage of stock, unusually for a small £5 million company."

John continues, "Strangely, I was not contacted by the board until the holding reached 20%. William Fossick, one of the directors, with whom I later became great friends, got straight to the point and asked 'are your intentions honourable or dishonourable?', to which I replied that we would like to manage the portfolio for a fee, thereby developing a new business activity for Laurentian."

The upshot was that the British Empire Trust board, which had already begun a review of the way in which the self-managed portfolio might be run going forward, agreed to outsource their investment management to Laurentian Life, with formal effect from 13th February 1984.

Robert Laurie described the change at the 1984 AGM, telling shareholders that "this year has been a notable one in the ninety-five years of your Company's history and included the transfer of investment management responsibility to Laurentian Financial Services Limited and a change in investment emphasis from income to capital growth … having overseen this transfer, I consider that this is an appropriate time for me to stand down as Chairman. Your Board has elected Roger Wain to succeed me at the close of this meeting."

Given the key change in the primary investment objective from income growth to capital appreciation, it was important to give shareholders a chance to leave if they wished. To that end an Open Offer, underwritten by institutions including Sun Life and Equitable Life, was arranged in which shares could effectively be realised at net asset value.

Laurie remained on the board as a director but Jack Loeb and Brian Parker stood down immediately after the 1984 meeting. As well as Roger Wain, John Walton and his colleague Iain Tweeddale joined the board at that point, as did Clive Gilchrist of Postel, the latter representing the institutions underwriting the Open Offer.

The changes also meant saying farewell to 117 Old Broad Street, the home of the company since 1939, the registered office moving to Laurentian's premises at 16, Buckingham Gate. The scene was set for the next phase of the company's life.

↑

Top: 16, Buckingham Gate, the company's offices from 1985 until 1989. The building is now the German-British Chamber of Industry & Commerce.

Bottom: The company began investing in North Sea Oil in the early 1980s.

A new era for the company

John Walton, supported by the board, wasted little time restructuring the company's portfolio, then valued at some £6 million, so as to increase concentration and to adopt the current strategy of owning assets with a high intrinsic value and a potential for appreciation yet to be recognised by the wider market.

To this end, a large number of small holdings and less marketable securities were sold in March and April 1984, such that by the end of the 30th September financial year the 25 largest investments comprised 62% of invested assets. Some of these core holdings, John recalls, were "excellent existing holdings such as BTR, Hanson, Nottingham Brick and Warner Estate. New purchases included Cadbury Schweppes, Trafalgar House, Coalite and Racal. I did make one whopper of a mistake, though, selling a small holding in Weetabix which went on to great things!"

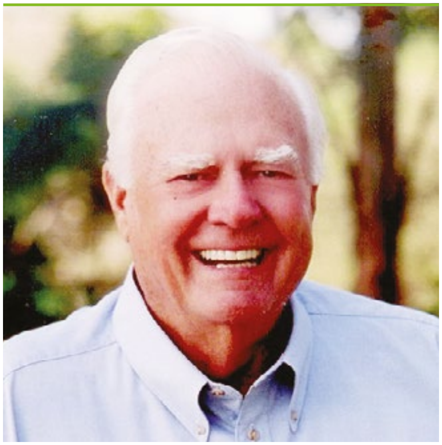
Smaller positions were also taken in a new and increasingly important investment area, both for the sector and for the British economy – North Sea Oil. The first two such investments, both dating to 1984, were made in Charterhouse Petroleum and Saxon Oil.

The second part of the revised strategy involved increasing the capital base to a more meaningful size. As it turned out, suitable opportunities quickly arose, beginning with an link-up with a group of potential investors based in Dallas, Texas.

Dallas connections

A few months after joining British Empire John Walton was approached by Duncan Duckett, a well-known figure in the UK investment trust sector and a partner in the extraordinarily named firm of Prudential-Bache, Down, de Boer and Duckett. It turned out that Duckett was in touch with a larger than life group of wealthy Texans who were keen to invest in UK securities for two reasons. The first was that they wanted to sell dollars for sterling at \$1.25 or even less to the pound. The second reason was that "the men in ten gallon hats," as John put it, "were madly in love with Margart Thatcher!"

Pending the publication of John Walton's memoirs it must suffice to say that a series of eventful meetings took place in the Texan capital, attended by a group of vastly rich oil men, some literally wearing the aforesaid hats. The group was led by the remarkable figure of Delo H Caspary, who was to join the British Empire board in 1985 and remained a director until 1991. The outcome of the deal eventually struck was that the Texan consortium, coordinated by the Dallas- based brokers, Woodruff, not only took a 25% stake in Laurwood, the management company but invested heavily in British Empire itself. The new name of Laurwood, an amalgam of the names Laurentian and Woodruff, was adopted at the same time and which, several name changes later, evolved into Asset Value Investors, or AVI.



Delo Caspary started his working life as lobster fisherman based in Rockport, Texas. One day, in a foggy Gulf of Mexico, his boat collided with an oil rig, though fortunately not heavily. On hearing angry shouts from above, he asked if they liked lobsters and ended up passing a few buckets onboard. This was the unlikely start to a career supplying the oil business which he later sold to Santa Fe for hundreds of millions of dollars.

Returning to our story, negotiations for the capital injection into British Empire Trust from the US took months, culminating in June 1985 with a successful four-for-one Rights Issue allowing fresh investors including the Texans to come onboard and to the 75%/25% division of the management company described above.

↑
Delo H. Caspary, lobster fisherman turned Texan oil tycoon, was a director of British Empire from 1985 to 1991.

Stake-building in undervalued assets

A tenfold increase in assets in three years.

The next move involved stake-building by British Empire Trust in other undervalued investment trusts. By the autumn of 1985, the company had accumulated a 9% stake in the very much larger Scottish Investment Trust and even entered into discussions with advisers at Barings as to the feasibility of takeover – an ambitious proposition given that it would have involved a line of credit to the tune of £200 million. In the end, the combination of the intricacies of the Scottish legal system, the feisty chairmanship of Scottish Investment Trust by Angus Grossart and the possibility of paying up-front bank fees to no avail meant that the deal did not go ahead. Instead, the stake in "Scottish" was disposed of in November 1985 for £25.08 million, making British Empire Trust a healthy profit of £5 million on the sale – so healthy, in fact that it broadly equated to the company's entire net assets of just two years earlier.

The company's next sizeable transaction came in mid-1986 with the successful acquisition of another undervalued vehicle, The Ashdown Investment Trust which, at £55 million, was "only" twice British Empire's new size and thus a more manageable proposition. Once a 19% stake had been acquired through market purchases, a bid was structured, again with the support of Barings, involving equity, cash borrowed "from the exceedingly supportive head office of Lloyds Bank" and £12.8 million of 10 3/8% Debentures 2011. After the usual courtesies, Barings' Charles Irby, a keen British Empire Trust supporter, put a phone call through to Ashdown's Chairman, Richard Baker Wilbraham, offering 95% of net asset value for a recommended offer "or 92% if forced to go hostile" and asked for a response within 15 minutes. "With about ten seconds remaining," John Walton recalls, "the telephone rang. Charles Walton nonchalantly strode over and picked up the receiver. The recommended offer at 95% had been agreed."

Taken in combination with the 1985 Rights Issue, further profitable transactions, the introduction of gearing in the form of the debenture and continuing rising market conditions, 1986 proved to be an extraordinarily successful year for the company. Not only had the company's net assets attained a new peak of £51.3 million – a tenfold increase in three years – but the net asset value per share had risen from 29.3p to 40.4p, a gain of 37.9% over the year, compared with a still notable 23% rise in the FT-Actuaries All-Share Index over the equivalent period.

The 1987 stock market crash

The next financial year proved even more eventful but for different reasons. In a raging bull market, the FTSE-All Share continued to soar through the early months of 1987. By mid-July, the index had risen by 47% since the start of the year helping to produce spectacular end of year financial figures for the company. Yet by the time of the publication of the ensuing annual results, the Great Storm and stock market crash of October 1987 had taken place, making serious inroads into the progress that had been achieved.

Roger Wain cannot have found it easy to phrase his Chairman's Remarks, published that November, not long after the crash but describing such strong numbers for the year ending 30th September. He said that "I can report a satisfactory year of progress … net assets rose from £53.7m to £84.5m and net asset value per share increased by 57% … [but] this result has to be seen in the context of a subsequent collapse around the world … which has contributed to a decline in net asset value during October of 28%, broadly in line with the market."

It would be years before any perspective could be put on what at the time seemed to be one of the sharpest crashes in history. In reality, the FTSE-100 Index ended 1987 a little higher than it had started and indeed by September 1989 virtually all of the losses in the crash had been recovered.

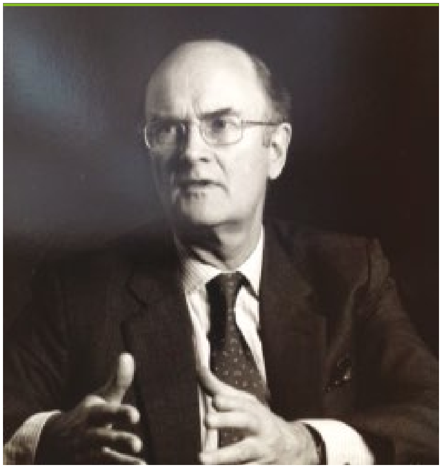
The management team meanwhile had been on the hunt for fresh investments, including a holding in TR Pacific Investment Trust bought "on a substantial discount" and subsequently benefiting from what was described as "superb asset performance from the 'tiger' markets." A further undervalued asset and possible takeover target had also been identified – Schroder Global Trust, which by late 1988 formed the company's largest single holding, at 12.3% of invested assets. Before the transaction was concluded, it was time to celebrate the company's centenary year.

February 1989 – the company's centenary

On 6th February 1989, the company reached the 100th anniversary of its formation as The Transvaal Mortgage, Loan & Finance Company. "As a tangible recognition of your Company's centenary," Roger Wain announced in December 1988 at his final Annual General Meeting as Chairman, "your Board is recommending to shareholders an increased final dividend of 0.46p per share, which together with the interim already paid, represents a 10% increase over last year."

Further celebrations took place at the 100th AGM, held on 15th December 1989 at Saddlers' Hall under the incoming chairmanship of William Fossick. A two-sided leaflet giving an outline of the company's history was distributed with the annual report and, as a more tangible gesture to shareholders, a free issue of warrants was announced on the basis of one warrant for every ten shares held. The warrants permitted the purchase of British Empire Trust shares for 60p per share in each of the years from 1991 to 1996. Last but not least, the calling notice announced, shareholders who attended the meeting would be treated to a buffet lunch.

At the Centenary event, William Fossick took the opportunity to reiterate that the board "remains committed to the policy of investment in companies whose share stand at a discount to net asset value, a policy which we believe will continue to provide a superior performance as values become recognised … your Board, with your support, looks forward to the next century."



A rather good year.

The company's record during the 1980s

Year to 30th September	Earnings per share (p)	Dividend per share (p)	Net assets (£)	Net asset value per share (p)
1980	1.02	0.84	3,459,549	17.02
1981	1.03	0.84	3,530,351	17.37
1982	1.05	0.87	3,987,841	19.62
1983	1.09	0.89	5,123,599	25.22
1984	1.10	0.89	6,030,569	29.68
1985	0.73	0.50	29,749,680	29.28
1986	0.44	0.60	53,749,328	40.41
1987	1.20	0.66	84,495,904	63.53
1988	0.28	0.66	65,938,093	49.58
1989	1.08	0.71	82,315,468	61.89

1989 had been a rather good year. Asset values, that year's accounts reported, had increased by 25%, slightly ahead of the Datastream Investment Trust Assets index. Since the 1985 Rights Issue, the net asset per share had risen by 116%, compared with 84% for the Datastream index and 90% for the FTSE All-Share Index.

The last large deal of the decade, the attempted takeover of Schroder Global, did not reach fruition, although not because at a critical stage, John Walton's brief case flew open at London's Holborn underground station. Worse, some of the confidential offer papers that spilled out fell onto the track. "Amazingly," John recalls, "one of the station staff risked life and limb, not to mention his employment contract, by retrieving them just ahead of the next train."

Rather than accept British Empire Trust's formal offer, the Schroder Global board opted to unitise, or wind up, the investment trust and give shareholders either cash at close to net asset value or a switch into a unit trust with a similar investment objective. Though the takeover had not succeeded, the transaction produced a gross profit of more than £4 million for British Empire Trust, which had bought into Schroder Global at a sizeable discount, contributing to the company's fortunes at a late stage in what had turned out to be a notable decade.

↑
The table above shows the way that earnings and dividends fell as a consequence of the shift from an income focus to an active growth strategy from 1984 onwards. The increases achieved, on the other hand, both in the company's overall size and of its net asset value per share, had proved a significant success, despite the tribulations of the 1987 stock market crash.

↑
William Fossick became Chairman in 1989.

The 1990s

Not mentioned thus far is the extent to which the company had begun to invest in European companies, especially holding companies where significant unrealised value lay on a look-through basis, an avenue which the company's investment management team continues to explore today.

By the early 1990s positions had been taken up in companies such as Rue Impériale, Taittinger and CIR in Italy, some of which would go on to reap handsome rewards. In addition, in April 1990 the company's investment manager, Laurwood, launched a specialist fund, French Property Trust, in which British Empire took a 20% stake in return for its own sub-portfolio of French real estate securities plus a mix of new shares and warrants.

At the same time concerns were growing on a broader front, both about the likelihood of war in the Middle East and, nearer home, soaring costs and wages growth, not to mention the decision that Britain UK should enter the European Exchange Rate Mechanism. Partly for these reasons, the company's portfolio exposure to fixed income securities was increased during the first half of 1990 to 30.8% from 11.5% the year before, a move which helped to moderate the effects of market reaction as global events unfolded.

The top ten holdings for 1990 shown right, includes five UK government securities, some with startlingly high coupons, plus four investment trusts, two of them with split capital structures. The tenth investment, Caledonia Investments, was at that time a holding company though it became an investment trust later. Viewed against a very different interest rate backdrop today, the portfolio looks unusual – but it left the company well-positioned when, following the invasion by Iraq of Kuwait in August 1990, the FTSE-100 index dropped to 2100 from 2400 at the beginning of the year. Net assets fell by 15% for the financial year as against a drop of 23% in the Datastream Investment Trust Assets Index over the same period. The liquidity represented by the gilt holdings also meant that John Walton and his team were well placed to make selective fresh purchases as opportunities arose.

Ten largest portfolio holdings as at 30th September 1990

	Valuation (£m)
The Scottish Investment Trust	7.1
Treasury 10% 1990	5.9
Law Debenture Corporation	4.5
Caledonia Investments	4.4
Treasury 8.25% 1993	4.2
Exchequer 13.5% 1993	4.1
TOR Capital, Capital Shares	4.0
French Property Trust	3.6
Triplevest Capital	2.7
Funding 6% 1993	2.5

→
The company invested in several European holding companies from the late 1990s onwards including Rue Impériale which owned Rue de la République in Lyon, France.

↑
Extract from the 1990 Annual Report.

Caledonia connections

As touched upon on the previous page, by the early 1990s British Empire had begun to build a stake in Caledonia Investments, a company founded as a vehicle for the fortunes of the Cayzer family and with which the same family is still very much involved today. That year, the tie-up between the two investment vehicles became still closer with the purchase by Caledonia of 75% of Laurwood with whom, under its new name of Clan Asset Management, the company signed a new investment management agreement dated 21st June 1991. The second step came with the purchase by Caledonia of 20% of British Empire, joining the two other large shareholders, Sun Life/Axa and Equitable Life. David (later Sir David) Kinloch, the executive director of Caledonia Investments, joined the British Empire board in 1991, upon the retirement of Delo Caspary.

↑
Caledonia Investments acquired a 20% stake in British Empire in 1991.

In 1992, gross income exceeded £4 million for the first time, while total net assets breached the £100 million barrier the following spring. Following a remarkable increase of 57% in the trust's share price and 53% in its net asset value in 1993, worries began to be expressed that markets were becoming fully valued. One way to prepare for possible turbulence was to diversify. That June, the company entered into an agreement to buy a 70,000 square foot property being built in Norwich for government use and with a projected rental yield, in those different times, of 9.25%. Funded by a new debenture, British Empire also paid £5.5 million for "a retail and office property, 62-70 Kensington High Street, let to Tower Records at a net initial yield of 7.75%."

As well as making the move into commercial property, the company was soon on the acquisition trail once more. The Selective Assets deal would be the company's largest yet.

Acquisition of Selective Assets Trust

During 1995, the value of the portfolio remained little changed but for the company and its managers it turned out to be an eventful year. The first development came when Caledonia's stake in Clan Asset Management was sold to Ivory & Sime, the Edinburgh fund management company. Ivory & Sime also bought British Empire's 25% holding in Clan. "Almost immediately," John Walton remembers, "an underperforming Ivory-managed trust, Selective Assets, agreed to be taken over by British Empire … this increased assets by about £80 million to £255 million."

The only snag was that the acquired trust brought with it a £37 million liability in the form of an Equities Index Unsecured Loan Stock, 2013. Being linked, as its name suggests, to the fortunes of the UK equities market, which had risen sharply, this had become an expensive piece of paper but, as will be seen, one from which the company was able to find an exit route a couple of years later. On 6th October, the offer for Selective Assets Trust was declared unconditional, involving the issue of 45.4 million new ordinary shares and 20.2 million units of new British Empire Loan Stock.

Significant changes occurred in the composition of the board the same month beginning, sadly, with the sudden death of Roger Wain at the age of 57 on 22nd October 1995. Robert Laurie, who had been Chairman and manager of the company's investment portfolio from 1972 until 1984, retired from the board later the same month. He had been a director since 1953, "at which point," he recalled, "the trust's assets were £136,000!"

> The top-ranked Global Growth trust over the twelve years to 1st April 1997.

Sir Charles Fraser and Iain Robertson, both directors of Selective Assets Trust, were offered seats on the board as part of the terms of the agreed deal.

Before turning to the onset of the internet and technology boom at the turn of the millennium, it is worth listing some of the transactions and successes which had driven British Empire forward during the decade. One of the most fruitful areas had turned out to be investments made in out of fashion investment trusts trading on wide discounts. To take one example, it seems scarcely credible years later that during the early and mid-1990s it proved possible to buy RIT Capital Partners, the main listed vehicle for the fortunes of the Rothschild family, at 30% or more below its net asset value. Examples of other funds which produced remarkable gains for the company during these years included the East European Development Fund, which produced a gain of 92%, the Value Realisation Trust, up 50% and the more specialist Scudder Latin America, which returned 45%.

THE TIMES 35p

KIDS GO FREE

EMBRACE: HEADING FOR GLORY

LYNNE TRUSS: INQUEST ON ENGLAND

Landslide forecast for Labour

Tories facing worst defeat this century, say TV exit polls

A number of the European holding companies produced spectacular returns too, albeit in a 'lumpy' manner in which an investment could appear static if not moribund for a long time and then suddenly receive a bid or other reason for a sharp re-rating. It did not help that some holding companies suffered from entrenched managements, frequently involving controlling family stakes and it could prove extremely difficult to press for any sort of positive action to enhance shareholder value.

European portfolio holdings such as Ciga Hotels, Marine Wendel and Christian Dior went on to generate substantial positive returns for British Empire during the 1990s. The trust's investment, first made in the late 1980s, in the French company Rue Impériale de Lyon, was a classic case. As the years went by without the company's rating making noticeable progress, John Walton found himself having to defend the holding time and again. Shareholders both private and institutional questioned what this obscure holding was doing in the portfolio at all, never mind being its largest holding. Even John's pleas that underlying discount was at least 60% and yet the net asset value was going up, fell on deaf ears. His continued faith was justified in late 1998 when a colleague burst into a meeting to announce that a Parisian broker was prepared to buy British Empire's entire holding at a significant premium to the market price. The sale went through for £45.9 million, a profit on cost of £25.6 million.

With the exception of a very small fall in assets in 1992, the year in which the UK made its unseemly exit from the ERM, the company produced a series of strong annual returns until 1997, taking total net assets past the £250 million mark and resulting in British Empire being the top-ranked Global Growth trust over the twelve years to 1st April that year.

↑
Based upon early results The Times of Friday 2nd May 1997, the morning after Election Day, correctly forecasts a landslide victory for Labour.

Election day opportunity

After eighteen years in opposition, The Labour Party under Tony Blair was returned to government on 1st May 1997 with a record number of 418 seats. "Although I was agnostic about the likely direction of markets," John Walton recalls, "I felt this was too good an opportunity to miss. We bought back £33 million of the FTSE Loan Stock just as the polls opened on the morning of Labour's election victory. Sun Life/Axa may have expected a fall in UK shares following the expected Labour victory. For us, this substantially eliminated the open-ended risk in the Balance Sheet."

Dotcom mania

The company's record, 1990 to 2000

Year to 30th September	Earnings per share (p)	Dividend per share (p)	Net assets (£,000)	Net asset value per share (p)
1990	0.84	0.78	69,871	52.53
1991	1.05	0.86	85,835	64.54
1992	0.98	0.89	80,429	60.47
1993	1.17	0.93	123,452	92.82
1994	1.03	0.96	140,792	105.83
1995	1.33	1.00	142,198	106.51
1996	1.37	1.03	233,611	123.38
1997	1.85	1.07	256,489	135.45
1998	1.87	1.11	220,352	116.37
1999	1.08	1.13	298,401	159.53
2000	2.15	1.30	356,337	202.11

The Dotcom Super Bowl

Such was the momentum of the late 1990s Internet and technology boom that in January 2000, American Football's flagship event, Super Bowl XXXIV, featured fourteen advertisements for fourteen different "Dotcom" companies, paying an average of $2.2 million per slot. While some of the companies which advertised have survived, several went to the wall in the months after the game, including the online retailer pets.com, which collapsed in November 2000, taking with it $300 million of investment capital.

The two or three years each side of the millennium proved frustrating for all value investors, given the seemingly unstoppable march of the internet and technology boom. Even the most prestigious blue-chip companies with real asset and dividends found their shares being discarded in favour of internet-based start-ups with no track record, no profits and, in some cases, no more of a business plan that a few scribbled lines on paper ripped out of an exercise book.

↑

Top: The trust's performance record from 1990 to 2000.

Bottom: In 2000 the frenzy of the internet and technology boom even extended to American football's flagship Superbowl tournament.

New team members

For asset-based investors such as British Empire it was even more frustrating. The undervalued funds and companies in which they specialised fell more and more out of favour as the frenzy for 'tech' increased. The decision to increase liquidity to more than 25% during these years helped, as did the taking of substantial profits some, like Ciga Hotels and Marine Wendel already mentioned and including the sale of 82-90 Kensington High Street in 1998 at a £2.9 million gain.

By the late 1990s, John Walton was referring in his investment manager's report to 'levitation' to valuation levels seen only once in the previous 30 years." Yet despite a fall of 14% in the trust's net assets for 1997/98, marginally underperforming the FTSE All-Share Index, the long bull market was not over, nor was the company's remarkable decade. As the table, opposite, shows, the company posted considerable gains once more in 1999 and 2000, increasing total net assets to almost £300 million as year 2000 dawned and pushing onwards to more than £350 million a year later.

Two key members of British Empire's investment management team joined the company respectively in 1999 and 2002. John Pennink, the first to arrive, had previously worked as an analyst and a fund manager in Hong Kong with Regent Pacific from 1994 to 1997, after which he spent two years investing in emerging European markets while based in Moscow with Regent Pacific and EPIC Securities. John remembers his first interview with the company, which, he recalls, seemed to go well. "I had recent experience of investing in the Asia Pacific region and in wider emerging markets and I think this helped me to get the job!" John, who has a law degree from the University of British Columbia and qualified as a Chartered Financial Analyst in 1999, worked very closely with John Walton from the point of joining the company and became its lead investment manager in October 2002.

Joe Bauernfreund joined Asset Value Investors in July 2002, initially being employed as an investment analyst. Before joining Asset Value Investors, Joe worked for six years for a real estate investment organisation in London, following his completion of both Bachelors' and Masters' degrees in Finance from the London Business School. At first, Joe worked closely with John Walton in focusing on the European Investment Holding Companies. He then covered the entire portfolio and became joint manager with John Pennink, whom he would succeed as lead portfolio manager on 1st October 2015.

Returning to the final throes of the millennium boom, 1999 was a challenging time to join any company but especially one which had an ethos of seeking long- term value, predominantly from asset-backed traditional companies, rather than identifying the latest 'hot' technology stock. Looking back, John Pennink says that "I joined the company just a few months before the FTSE-100 Index hit its then all-time peak at the end of December 1999. We were all becoming concerned about market levels and valuations by this stage and we had placed almost 30% of the portfolio in sterling cash and short-dated gilts."

↑
John Pennink.

In his Chairman's Remarks of 12th November 1999, William Fossick paid tribute to Iain Tweeddale who had died on 6th October. Iain, was a former Managing Director of Laurentian Life and had served as a director since 1984. Iain had been instrumental in the negotiations and tie up with the Texans in Dallas in 1984 and, William noted, "even in his last illness Iain made every effort to get to our meetings and his thoughts and comments were always to the point. All who knew him will miss him."

William reported further that the share buy-back powers which had been approved at the previous AGM had been used during the year. Some 2.3 million shares had been bought back at an average discount of 16%, with the effect of enhancing net asset value for remaining shareholders. The Chairman also echoed the sentiments being expressed by John Walton about inflated valuations and said that "there remains a feeling that a further correction to the high levels of share prices is likely ... with your support, we intend to stick to what we know best!"

The millennium dawns

> The Company's investment objective is 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.
>
> THE ANNUAL REPORT FOR 2000 RE-STATES BRITISH EMPIRE'S INVESTMENT OBJECTIVE

During year 2000 both the FTSE-100 and the Dow Jones Indices remained at historically high valuations. For internet and technology stocks it was a different story. Having soared to what that year's annual report called "absurd prices and [with] huge fortunes created for their promoters", many dotcom companies suffered bruising falls as the bubble burst.

For British Empire Trust, it turned out to be another twelve months of asset growth, with net asset value per share rising by 26.7%, or 28.3% in share price terms, both figures ahead of the Datastream Net Assets Index, up 24.0% on the same basis, the MSCI Index (£ adjusted), up 19.1% and the FTSE All-Share Index which had increased by 7.3%.

↑

Top: Source: Nasdaq

Bottom: The trust maintained its investment ethos throughout the volatility years of the technology boom.

The liveliest AGM since 1928

By the later months of the same year the prognosis was far less favourable, with an oil price shock, problems for the euro and violence in the Middle East. The 18-year bull market was at an end. In anticipation of just such a reversal, John Walton and John Pennink, working closely with the board, had already introduced significant liquidity into the portfolio as well as accumulating positions in depressed stocks and sectors, among them Japanese smaller companies, Latin America, European hotels and property. "Arguably we were a little early" John Walton noted at the time, "but the character of an investment company dictates such action."

> These moves would prove to be masterstrokes.

These moves would prove to be masterstrokes as the worst bear market since 1973 struck, its severity worsened by the shocking terrorist events of 11th September 2001 in New York. The day before the 9/11 attacks, British Empire's net asset value had been broadly unchanged from the start of the year. By the time of the financial year end on the thirtieth of the same month, the net asset value had fallen by 8% for the reporting period. In comparison the Datastream Net Assets Index, the MSCI Index (£ adjusted) and the FTSE All-Share Index fell respectively by a distinctly worse 31%, 29% and 23% over the same interval.

> "Best Global Trust, 2001 and 2002."
>
> MONEY OBSERVER AWARDS

A similar pattern of strong relative performance occurred a year later. This time the net asset value fell by 7% compared, to take just one leading indicator, with a fall of 26% in the MSCI World Index in sterling terms.

Investors rarely herald negative investment returns when they happen. Yet the company's second outperformance of the leading indices in a row, in sharply falling markets, not only saved shareholders an enormous amount of money on the way down but left them well positioned when the markets turned upwards in the spring of 2003. These achievements undoubtedly contributed to British Empire being named Best Global Trust in both 2001 and 2002 by Money Observer, awarded first place out of 30 funds in Standard & Poors UK Investment Trust Sector in 2001 and, the following year, named the winner of Bloomberg Money International Investment Trust over one and three years.

Notwithstanding the background turmoil in global financial markets, the 2001 Annual General Meeting will be remembered for another reason: the appearance of an activist investor who wanted to have his say and propose certain changes to the trust.

Equitable Life's 16% holding in British Empire had been bought by Millennium Partners, a US hedge fund group. This led to an animated AGM, held on this occasion in London's Grocers' Hall. Millennium's Robert Knapp, though a keen supporter of the company's investment philosophy, felt that the board needed new blood. He therefore proposed a resolution to have himself elected as a director.

Knapp, an Oxford-educated American hedge fund executive, was a little taken aback at the meeting to find himself among about 200 predominantly middle-aged or older British Empire shareholders, virtually all of whom were enthusiastic supporters of the existing regime. They did not seem predisposed towards voting in favour of a youthful intruder but, John Walton remembers, "this did not divert Mr Knapp from his set speech, which was delivered with some aplomb."

Tensions ran high during the meeting and the outcome of the vote remained uncertain to the last minute. One of Millennium's proposals, the need for more aggressive share buy-backs, was agreed by the board. In the end, Millennium only narrowly lost following an abstention from AXA. It had been a close-run thing. The world moved on but the event served as a reminder, as valid now as then, that quality investment trusts that trade at wide discounts to net asset value can throw themselves open to passing predators.

African dotcom disaster

By way of a postscript to the technology bubble, John Walton recalls what he calls “one shocker which has to be owned up to.” This was the company’s investment in African Lakes, which at the time of purchase had been an old style African holding company based in Malawi which could trace its roots to the explorer and missionary Doctor David Livingstone himself. 120 years after its 1878 foundation, however, John ruefully recounts, “African Lakes converted itself into a ‘go-go’ internet play with disastrous consequences, indeed a complete wipe out. Still, as somebody pointed out, if that debacle represented Empire’s total loss from the dotcom/techy nonsense, shareholders could consider themselves fortunate.”

Managerial update

In August 2001, the company’s investment management company, now renamed Asset Value Investors, was sold by Friends Ivory & Sime to Aberdeen Asset Management but with AVI continuing to operate as an independent entity within the Aberdeen group. Just two years later, on 30th September 2003, Aberdeen sold AVI to the executives of AVI, giving the small management group full control of its identity and destiny at last.

In the boardroom Sir Charles Fraser, who had been a board member since the acquisition of Selective Assets in 1995, retired after the 2001 AGM. Clive Gilchrist also stood down, in his case after 18 years’ service, a year later.

In November 2002 William Fossick announced that he, too, would be retiring from the board though, he was at pains to point out, “I do not share the belief that, after a set number of years a director ceases, by the virtue of that fact, to be independent and to have no further useful contribution to make!” He continued, “after nearly 35 years on the Board and 14 as Chairman, perhaps I should admit that I have enjoyed it immensely and am very proud of what has been achieved.” In January 1968, he recalled, British Empire was “an eccentric self-managed minnow” with net assets of £1 million. Those assets were by now more than £275 million and the company was now one of the 300 largest by capitalisation on the London Stock Exchange.

↑
Asset Value Investors’ offices were based in Bennet House, St James’s Street, London, from 2001 until 2012.

William was succeeded a Chairman by Iain Robertson, a chartered accountant who, as well as being Chairman of Corporate Banking and Financial Markets at Royal Bank of Scotland Group, previously worked in the civil service, with posts in the Department of Trade and Industry and other departments was among other appointments, later Chief Executive of the Scottish Development Agency and Chairman of BT Scotland.

Three new directors were appointed following the December 2002 AGM: Rosamund Blomfield-Smith, a director of Arbuthnot Latham, part of the Secure Trust Banking Group, Peter Allen, recently retired as Finance Director of the Corporate Banking and Financial Markets division of the Royal Bank of Scotland and the present Chairman Strone Macpherson, who had been a director of Flemings in London and New York, on the board of trusts at the River & Mercantile Group and Deputy Chairman of the software group, Mysis.

Sir David Kinloch retired from the board after the 2003 AGM, being replaced by John May, an executive director of Caledonia Investments and Steven Bates, of Flemings and later executive director of JPMorgan responsible for emerging market investments, was appointed to the board in 2006.

John Walton steps down from the board

John Walton stood down as a director of the trust in December 2004, a move linked to his concerns that a conflict of interest had been created by the management buyout of AVI in September 2003. Although John would remain Chairman of AVI until June 2007, his departure marked the end of an era dating to the appointment of Laurentian Life as manager of the trust with effect from 13th February 1984.

Chairman Iain Robertson noted that "John's wisdom and passion for investing will be missed by all the Board … it was John's vision that started British Empire on its path of searching for undervalued assets all those years ago. The philosophy is now well proven and robust and shareholders have benefited tremendously from his insights and hard work. The Board is sure that shareholders would like to join us in thanking him for his remarkable 20-year contribution to the company."

↑
Iain Robertson CBE was appointed Chairman in November 2002.

Return to growth

By the spring of 2003, markets had turned upwards at last. Commenting following his first full year as portfolio manager, John Pennink reported that "the combination of wide discounts and equity markets that seemed more reasonably valued, having fallen roughly 40-50% from their peaks, was enough to tempt us to reinvest our liquidity in the markets … we became roughly fully invested at the beginning of January 2003." He went on to list some of the most significant gains, including Dejima Fund (Japan), +149%, Oxus Gold, +113%, Lionore Mining, +88% and Wheelock, +80%. Much further down the same paragraph came the two most significant losers, Fimalac, -35% and the aforementioned total loss, African Lakes.

Over three years … the net asset total return per share had grown by 48.2% per share compared to a fall in the MSCI World Index of 1.4%.

By the end of 2004 these and other portfolio gains had been converted into two successive years of recovery and growth. Iain Robertson was able to report a range of positive figures, including the fact that total net assets had reached a new peak of £431 million, or 269.3p per share. Perhaps the most notable statistic covering the post 2000 era, if not the company's entire history, is that over the three years to 30th September 2004, the net asset total return per share had grown by 48.2% per share compared to a fall in the MSCI World Index of 1.4%.

The 2004/2005 financial year alone accounted for a record increase in net asset value of 43.1%, or 51.2% in share price terms. One of the company's most successful investments at around this time was Australia's MacArthur Coal, which almost doubled increased in share price in 2004 alone. "This stock, the 6 December 2004 edition of Fund Strategy magazine suggested, is typical of the sort of company that Pennink seems so peculiarly successful at finding."

Ten largest portfolio holdings as at 30th September 2005

	Cost (£,000)	Valuation (£,000)	% of Total Net Assets
Hansa Trust, Ordinary and "A" Shares	5,678	18,589	2.87
Prospect Japan Fund	8,692	18,189	2.81
Jardine Strategic Holdings	5,268	16,617	2.56
Law Debenture Corporation	12,257	15,316	2.36
The European Asset Value Fund	3,407	14,549	2.24
Mitsubishi Estate	11,394	14,297	2.20
Fording Canadian Coal Trust Units	6,343	14,296	2.20
PD Ports	13,540	13,851	2.14
Deutsche Wohnen	11,324	12,932	2.00
Investor "A"	8,516	12,832	1.98
Totals	86,509	151,468	23.36

British Empire's track record was starting to be noticed not just by the financial press but by the investing public. At the 2005 AGM, Iain Robertson reported that "John Pennink at AVI has delivered another excellent year and I am sure all our shareholders will join the board in congratulating him. As a result, our shares now trade on a premium … we feel obliged to caution that there is no guarantee that the rating can be maintained."

Similar notes of caution were expressed over the following two years and indeed acted upon by the management team as fears of a slowing US economy, which, John Pennink noted at the time, "could be contagious and cause a general equity decline elsewhere." As a precautionary measure, therefore, liquidity had been increased to a little over 21% by the end of 2006. Although the brief premium to net asset value was, as predicted, not sustained over a range of market conditions, by September 2007 the company had turned in three further successive years of strong positive returns, each representing an outperformance of the MSCI World Index.

↑
The above table shows the extent to which leading portfolio holdings had appreciated since their purchase.

Onset of the banking crisis

It was thus on a high note that Iain Robertson retired as Chairman after the 2007 AGM, having served as a board member for twelve years. “It has all passed too quickly,” he reflected, before sounding something of a warning. “For the future we remain cautious. The drying up of liquidity in the financial markets, as assets are re-priced to reflect more accurately underlying risk, continues to pose a real threat.”

Iain’s call would prove all too correct. For his successor, Strone Macpherson, there were stormy seas ahead. With his background in corporate finance, investment trusts and industry, internationally, he was well prepared. Investment remains in the family genes, with his father, G.P. (Phil) Macpherson who was Chairman of Robert Benson and Company Ltd (later Kleinwort Benson), with Standard Life and a number of investment trusts and industrial companies including Merchants, London Scottish American, Charter and others. At least as importantly, for sports enthusiasts at any rate, ‘Phil’ Macpherson was captain of the first Scottish team to win rugby’s Grand Slam, at the newly-constructed Murrayfield Stadium in 1925.

→

Right: Figures from the 2009 Annual Report, showing a recovery as the global banking crisis came to an end.

Far right: Article by Suzy Jagger in New York, The Times, 2008.

Net Asset Value on a total return basis increases 17.83%.

Net Asset Value on a total return basis outperforms Fundamental Data Index by 8.77%.

Ordinary dividend increased 4.35%.

Wall Street fears as Lehman Brothers teeters on brink

Even a year ago, as the crisis erupted on Wall Street, it would have been inconceivable that one of the world’s biggest banks would be fighting to stave off collapse.

Last night, however, the future of Lehman Brothers - a 158-year-old American investment bank - was in peril as potential rescue buyers walked away.

At the same time, Merril Lynch, one of Wall Street’s most powerful banks, opened talks for a $40 billion(£23.3 billion) rescue bid with a US mortgage bank, Bank of America, to secure its own future.

The two cases from some of the most astonishing developments on Wall Street in living memory as America’s housing crisis, the credit crunch and the recession show no sign of slowing.

The start of the global financial crisis is most commonly traced to the decision by the French bank BNP Paribas in August 2007 to suspend three of its investment funds with exposure to the troubled US sub-prime market. A month later it was revealed that the UK bank Northern Rock, at that time a FTSE 100 company, had requested emergency support from the Bank of England. After a series of failed rescue attempts, the Newcastle-based bank was taken into public ownership the following year and was bought by Virgin Money in 2012.

Northern Rock’s troubles turned out to the tip of the iceberg, in terms of a collapse in confidence and of liquidity on both sides of the Atlantic. The pressure escalated to the point where Lehman Brothers, the US’s fourth largest investment bank, filed for bankruptcy in September 2008. The prevention of the further demise of leading institutions and a decline into a 1930s-style global recession is generally attributed to widespread government intervention. By 2009 if not earlier, market conditions and trading volumes had begun to normalise once more. For fund managers, however, the inability to conduct transactions under anything remotely resembling normal market conditions during the banking crisis must have given many the greatest headache of their careers.

As the crisis deepened during 2008, the company’s net asset value per share initially increased to a record 521.1p per share before the market turmoil caused it to reverse. A similar ‘year of two halves’ emerged during the following equally volatile twelve months. NAV total return per share fell by some 10% in the first half of the 2009 financial year, then gained over 31% in the second half, resulting in a 17.83% total NAV return over the full reporting period.

VAT refund

The company's record, 2001 to 2010

Year to 30th September	Earnings per share (p)	Ordinary Dividend per share (p)	Special Dividend per share (p)	Net assets (£,000)	Net asset value per share (p)
2001	3.37	1.40	0.50	325,970	186.18
2002	2.29	1.50	0.40	277,419	173.30
2003	1.7	1.55	–	348,326	217.59
2004	2.28	1.70	–	429,474	268.28
2005	4.13	2.20	1.40	618,739	386.51
2006	5.32	4.00	1.00	701,291	438.08
2007	5.65	5.00	0.50	815,124	509.19
2008	8.46	5.75	1.50	633,856	395.96
2009	7.98	6.00	1.25	735,188	459.26
2010	7.94	7.50	–	829,670	518.28

In the midst of the banking crisis one piece of good news emerged. Following a prolonged campaign by the Association of Investment Companies, ultimately involving the Association taking the UK tax authorities to the European Court of Justice, it was ruled that the management services for investment trusts were not liable to Value Added Tax. As a consequence, British Empire was entitled to a refund from HMRC going back several years. This welcome if unexpected announcement led to VATs refund of £2,036,939 in 2008, £960,163 in 2009 and a further £396,498 in 2010, the three payments equating in total to 2.24p per share.

The table above shows that over the ten financial years from 2001 onwards, total net assets increased by more than two and a half times, while the net asset value per share increased from 186p to 518p. Total annual dividends increased every single year, from 1.4p to 7.5p over the period from 2001 to 2010, in addition to which no fewer than seven special dividends were paid out. This was despite these years encompassing the internet boom and subsequent collapse as well as the global banking crisis towards the end of the decade. There was, therefore, a great deal to be proud of – even though, it was beginning to be suspected, there might be further uncertain economic conditions ahead.

↑
The trust's growth record during the first decade of the new millennium.

↑
Groupe Bruxelles Lambert SA (GBL), a Belgian holding company, takes an active interest in its portfolio companies. It owns a 19.8% stake in Lafarge, a French cement company that provided materials for the Viaduc de Millau pictured.

Post-crisis years

In the years following the global financial crisis, quantitative easing or QE, involving the purchase by central bank of government securities in order to lower interest rates and increase the money supply has been introduced on a massive scale, the long-term consequences of which are yet to be determined.

In his 2010 managerial report, John Pennink expressed his concerns about 'QE', then in its embryonic phase, as well as correctly forecasting the frustrating times ahead. "It is hard to build sustainable prosperity on this basis ... the equity markets may continue to rise but we foresee periodic sharp corrections as market participants realise that developed economies remain stubbornly weak. Overall, the equity markets may not make much progress."

In the event the scale of QE turned out to be a multiple of the original estimated figures on both sides of the Atlantic. Between March 2009 and July 2012 the Bank of England's Monetary Policy Committee purchased £375 billion of financial assets, mostly UK Government gilts, from investors such as pension funds and insurance companies. To quote from the Bank's own website, "these investors typically do not want to hold on to this money, because it yields a low return. So they tend to use it to purchase other assets, such as corporate bonds and shares. That lowers longer-term borrowing costs and encourages the issuance of new equities and bonds and that should stimulate spending."

In the US the figures for quantitative easing were even more colossal, with asset purchases reaching a mind-boggling $4.5 trillion by their end-date of 29th October 2014. Writing for The Daily Telegraph on 1st November the same year, the economist Liam Halligan noted that "QE was extended again and again, drip- feeding zombiefied financial institutions, keeping them on life support… only future historians will know the real answers."

Throughout these unsettled years, the company has maintained its focus on buying companies on discounts for their long term appreciation potential. In 2011, some £60 million of surplus liquidity was invested both in new portfolio holdings and in adding to existing holdings at wide discounts. Purchases were made, and added to since, in a spread of listed private equity investment trusts, again trading at significant double digit discounts to their underlying value that in one case, namely the ordinary shares of Pantheon International, was estimated at 45%. Firms such as Pantheon can create a way for the great companies of the future to gain the financing they need but the returns to investors are likely to take time – a situation with which British Empire Trust itself is equally familiar.

This set of circumstances led to a frustrating situation, again in 2011, in which, as John Pennink pointed out, "market conditions have given rise to an estimated weighted average discount on your underlying equity investments of 39%, the highest level in our records ... even though we estimate that there was a healthy increase in the underlying value of our portfolio during the year."

Over the years then and since, the board has recognised that 'value investing' has undergone a phase in which it has underperformed 'growth' for probably the longest period on record, creating a significant headwind for returns.

The financial year to 30th September 2012 produced a positive net asset value total return of some 10.3%, a figure which although, underperforming the trust's benchmark return of 13.8%, was accompanied by an increase in total ordinary dividends plus a special dividend of 3.5p. A further special dividend of 2.5p was paid the following year while total ordinary dividends have continued to improve each year, to some 11.7p for the year to 30th September 2015. The net asset value per share has fluctuated over these most recent years but nevertheless – and despite investors' continuing focus on 'macro' themes, to the detriment of managers focusing on securities from the 'bottom up' – improved overall from 395p per share in the midst of the banking crisis in 2008 to 519.5p in the latest 2015 figures. Furthermore, as John Pennink notes, "investment style factors have been shown to move in cycles and the recent headwind will turn to a tailwind eventually… in the meantime, the valuation of the portfolio is attractive."

↑
Top: London's Berkeley Square.

Bottom: The way ahead for London? Electric cars at their charging points in Berkeley Square.

British Empire Trust's offices have moved all of three miles, as the crow flies, from their original Victorian, gas-lit premises at 33 Lombard Street near the Bank of England in 1889 to the bustling thoroughfare of the West End's Berkeley Square today. The journey itself has taken us thousands of miles from the diamond mines of the Transvaal to the secretive offices of family-run companies in continental Europe, through two World Wars and via countless crises from the Boer War to Suez to the Credit Crunch.

As to the contrasting possible modes of transport then and now we are left, on the one hand, with the striking nineteenth century image of a breathless and very probably mud-spattered Joseph Dimsdale arriving into Lombard Street on horseback, having ridden into the City from his summer home in Essex. On the other, the ever-increasing presence in Berkeley Square of rows of small electric cars plugged into their charging points, a likely talisman for the way ahead even if no British Empire Trust board members have yet been spotted clambering from the said vehicles on their way to the company's offices at number 25.

The sheer robustness and durability of the investment trust's structure is hard to overstate. Its diversified investment portfolio, its professional fund management and, the least heralded strength of all, the presence of its independent board ensure that British Empire is as well placed to deal with the opportunities and threats of tomorrow as it has been in the past. As The Spectator's investment columnist, Andrew Brown, put it in a 2014 article, "There are good reasons why they [investment trusts] should be better known. They offer the possibility of high returns at low cost… and a way of spreading risk, if you do not have the time or the inclination to pick individual stocks for yourself. And they are generally cheaper than other vehicles for collective investment."

> British Empire Trust (BTEM) has named Joe Bauernfreund as sole lead manager and successor to John Pennink, who had run the trust since 2002. The IC Top 100 Fund has also changed its name from British Empire Securities & General Trust to British Empire Trust.
>
> INVESTORS' CHRONICLE,
> 18TH NOVEMBER 2015

In the same piece, Andrew described why he liked the slightly quirkier aspects of the trust sector. "Investment trust enthusiasts tend to be obsessive and fundamentally optimistic," he continued, "They believe that the market rewards loyalty. I like this. I also like the fact that trusts have retained their distinctive characters, and stayed out of the hands of the marketing men. You have to dig them up for yourself. All this is interesting. 'Saving' doesn't have to be boring."

British Empire Trust's unique history must surely be a case in point. It has involved some remarkable people and some remarkable events from, to name just two episodes, the 1928 shareholders' rebellion to the rejection by shareholders of an activist hedge fund manager's overtures at the 2001 AGM. It has also evolved from a tiny, eccentrically run and tightly held frontier markets fund paying no dividends for years on end to a large, liquid, globally-diversified investment company, part of the FTSE-250 Share Index and with a large and loyal shareholder base.

Taking stock

Average share price and net asset value total returns of 11.5% and 11.8% respectively between 30 June 1985 and 31 August 2016.*

The company's eventful past has helped it both to forge a character of its own and to develop a value-based style of investment that has served its investors well over lengthy timescales.

There could be little better example of the long-term benefits of the company's philosophy than the fact that British Empire Trust's ordinary shares have generated an average share price and net asset value total returns of 11.5% and 11.8% respectively between 30 June 1985 and 31 August 2016.*

At the time of writing in 2016, British Empire Trust has a portfolio of around thirty-five investments, mostly in stocks which are themselves owners of multiple underlying businesses.

As the data in the right hand column shows, far from being focused on the former countries of the British Empire, the portfolio is spread across many regions and countries, the largest present exposure outside of the UK being in Sweden, Japan, the Netherlands and France.

The four principal categories of investment are holding companies, investment companies, property companies and industrial conglomerates. "Our aim," notes Joe Bauernfreund, "is to identify companies that own high quality businesses where there is not only a wide discount, but also where we consider there to be a reasonable likelihood of those assets appreciating in value … Over the long term we would expect our focus on quality companies and cheap valuations to result in stronger performance than broad market indices and growth investing. This has been the case over the long term, and it is a bad time in the cycle to give up on value investing. History is littered with managers who have capitulated at the wrong time."

Portfolio value by country of listing

	2015 %	2014 %
United Kingdom	29.4	22.8
Sweden	9.9	6.2
Japan	8.9	5.3
Netherlands	8.0	5.8
France	7.5	6.7
Canada	7.0	10.3
Belgium	4.9	8.8
Switzerland	4.4	2.1
Germany	3.9	4.0
Singapore	3.9	7.2
Cayman Island	3.3	2.3
Norway	3.1	4.6
Spain	3.0	0.0
Hong Kong	2.0	2.9
Liquidity	0.8	1.7
Australia	0.0	2.0
Austria	0.0	2.2
Korea	0.0	2.0
Romania	0.0	1.1
Turkey	0.0	2.0

Source Asset Value Investors. Percentages are of net asset value, calculated after deducting liabilities to Debenture Stock 2023.

→
The company's portfolio distribution by country of listing.
Source: 2015 Annual Report.

* Source: Morningstar; data to 31st August 2016.

↑

Top: Wendel owns 40.5% of Bureau Veritas, a global leader in Testing, Inspection and Certification (TIC).

Bottom: A DIC Asset building: MainTor – The Riverside Financial District, Frankfurt am Main.

Listing just three examples from the current portfolio, Wendel is a French listed holding company with exposure to a diverse range of industrial sectors. These include industrial inspection services, building material production and mobile telephone infrastructure through their investments in Bureau Veritas, Saint-Gobain and IHS. The company is trading on a discount of 29%* to net asset value.

DIC Asset is a German commercial real estate owner and operator. The company owns and operates €1.9bn of real estate directly, as well as c. €250m in participations in funds they operate for third parties. The company is selling down directly held assets and increasing the property fund management business as they turn to an asset light model. DIC Asset is trading on a 35%* discount to net asset value.

Lastly JPEL Private Equity is a London listed closed end fund with legacy private equity fund interests and secondary direct co-investments acquired at compelling valuations with attractive growth profiles. The diverse direct portfolio has exposure to an Indian Mobile handset manufacturer; one of the global leaders in animal tagging; a US tax consultancy business; and the leading manufacturer of films for plastic banknotes. Given that no new investments will be made, the 26%* discount to net asset value on which JPEL's shares trade will be eradicated as the proceeds from realisations are returned to shareholders over time.

A glance over the years in which this philosophy has been applied, successively and successfully by John Walton, John Pennink and Joe Bauernfreund shows that over time, this sort of deeply discounted investment can produce a sudden sharp uplift in value. Working out exactly when this might happen is harder to achieve.

Over these many years the investment management process has been underpinned by the strong support of the British Empire Trust board, which was joined in 2008 by Andrew Robson, as Audit Committee Chairman. An accountant by training, he was a leading corporate financier for Flemings and Financial Director of the National Gallery. Nigel Rich, former Chairman of Segro PLC, with a wealth of far eastern experience as managing director of the Jardine Matheson group became a director in 2012. Susan Noble, also appointed in 2012, has a background of investment at Flemings and subsequently as head of Global Equities at Goldman Sachs Asset Management and as a director or Alliance Trust. Rosamund Blomfield-Smith retired from the board the same year having served as a director since 2003.

* Source: AVI. Discounts as at August 2016.

Joe Bauernfreund takes the reins





Continuing the progression that has included only three portfolio managers in the last thirty years, Joe Bauernfreund became the portfolio manager of British Empire Trust with effect from 1st October 2015. Joe was appointed Chief Investment Officer at AVI at the same time, succeeding John Pennink who remained as Chief Executive Officer and Chairman of AVI.

Strone Macpherson marked the change by saying first of all that the board wished to thank John Pennink for his impressive contribution of an average total annual return over his tenure of nearly 10.2% per annum to British Empire's investment portfolio. He went on to note that "The Board is confident that Joe has the skills needed to navigate BTEM's investment portfolio successfully through the volatile and challenging equity markets that we face today. We see his appointment as a natural succession and are confident in his ability, supported by the team at AVI, to produce strong investment returns over the long term."

↑

From left to right:
Strone Macpherson, Independent Non-Executive Chairman.
Steven Bates, Senior Independent Non-Executive Director.
Andrew Robson, Independent Non-Executive Director.
Susan Noble, Independent Non-Executive Director.
Nigel Rich, Independent Non-Executive Director.

↑

British Empire's lead investment manager Joe Bauernfreund

A further development announced in late 2015 was the strategic relationship formed between Asset Value Investors, the company's investment managers and Goodhart Partners LLP, a specialist investment management business, with the potential to provide additional resources to the group and to the company.

As well as reporting this news, Strone Macpherson offered his outlook for the company in 2016 and beyond. "In this difficult and volatile environment," he noted, "your Board strongly believes in careful stock picking and looking for and finding value. This is the core skill of Asset Value Investors, which has been proven over many years. The Board believes that shareholders will be rewarded when growth stocks become less fashionable and investor interest in, and appetite for, good value returns."

In short, there is every reason to believe that British Empire is well positioned to go on applying its core philosophy for another 127 years, if not longer.

John Newlands

September 2016

Appendix

Chairmen, directors and executives

	Director	Chairman
William J. Thompson	1889–1898	1889-1898
H. Pasteur	1889-1896	
J.C. Dimsdale	1889-1891	
T. Morgan Harvey	1889-1892	
P. Henwood	1889-1911	
Charles D. Rose	1889-1898	
Edward Webb	1889-1907	
Reid, James	1896-1906	
Thomas Seaber	1896-1908	
Frederick Walker	1906-1924	
Nathaniel Spens	1895-1929	1898-1929
C.F. MacNicol	1910-1925	
R.W. Shire	1921-1929	
J. Wilson Davie	1925-1929	
Harry Wingfield	1929-1930	
Felix Rose	1929-1930	1929-1930
Gerald T. Moody	1931-1942	
Col. William Parker DSO TD DL	1929-1947	1930-1947
Col. Vernon S. Laurie CBE TD	1929-1981	1947-1972
Herbert Simmonds	1937-1952	
William Guy Fossick	1944-1976	
George Brian Parker	1946-1984	

	Director	Chairman
Denzil Hildred Carlisle	1947-1963	
Robert Laurie OBE JP DL	1953-1995	1972-1984
William Gawne Fossick	1968-2002	1988-2002
David Jack Loeb	1976-1984	
Clive Gilchrist	1984-2002	
Iain Tweeddale	1984-1999	
Roger Wain	1984-1995	1984-1988
John Walton	1984-2004	
Delo H. Caspary	1985-1991	
Patrick Garner	1986-1987	
J.G. Cross	1988-1989	
Sir David Kinloch Bt	1991-2003	
Peter Allen	2002-2009	
John May	2003-2011	
Iain S Robertson CBE	1995-2007	2002-2007
Sir Charles Fraser	1995-2001	
Rosamund Blomfield-Smith	2002-2012	
Strone Macpherson	2002-present	2007-present
Stephen Bates	2006-present	
Andrew Robson	2008-present	
Susan Noble	2012-present	
Nigel Rich	2012-present	

Further information on British Empire Trust

British Empire Trust plc is managed by Asset Value Investors Limited ('AVI').

AVI aims to deliver superior returns while managing risks and specialises in securities that, for a number of reasons, may be selling on anomalous valuations.

Your Company continues to seek (and find) investment opportunities with real value and excellent prospects for good medium to long term capital appreciation.

About Asset Value Investors

Asset Value Investors was established in 1985 to manage the assets of British Empire Trust plc (British Empire), then a £6 million London listed investment company.

AVI have managed the portfolio for British Empire Trust for more than 30 years achieving average share price and net asset value total returns of 11.5% and 11.8% respecively over the period.*

Our deep value long only global equity investment strategy is aimed at investing into companies who themselves own good quality, undervalue businesses an whose net value exceeds the share price the company is currently trading on.

* Source: Morningstar; data to 31st August 2016.

The Author

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