

# British Empire

Securities and General Trust p.l.c.

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

## Performance

This investment management report relates to performance figures to 31 December 2009.

	Qtr	Financial Yr*	Calendar Yr
<b>BTEM</b>	0.6%	0.6%	25.0%
<b>Benchmark<sup>2</sup></b>	3.9%	3.9%	24.5%
<b>MSCI World<sup>1</sup></b>	3.2%	3.2%	16.5%

## Top Ten Equity Holdings

	%
GBL	5.74
Sofina	5.33
Investor AB	5.25
Vivendi	5.17
Jardine Strategic	5.02
Jardine Matheson	4.22
Deutsche Wohnen	3.65
Electra Private Equity	2.99
Paris Orléans	2.52
TOTAL	39.89

## Statistics

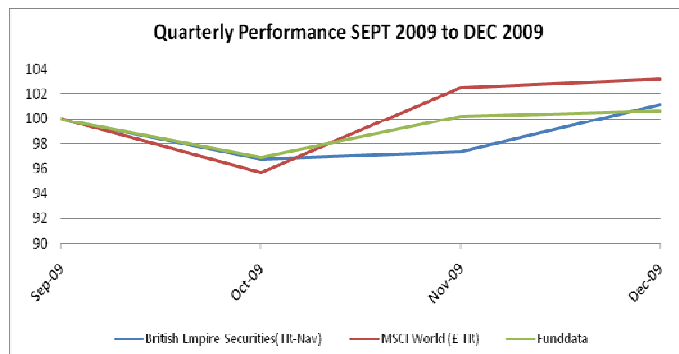
	Value	% 1 qtr	% 1 yr	% 3 yr	% 5 yr
Price (£) <sup>1</sup>	416.6	-2.2	27.9	-3.3	47.1
Net Asset Value <sup>1</sup>	451.1	-0.6	22.9	-0.2	53.5
Net Asset Value Total Return <sup>1</sup>		0.6	25.0	4.6	64.2
Benchmark <sup>1</sup> (£)		4.1	24.5	1.9	47.9

Annual Returns (%)	2009	2008	2007	2006	2005
Price <sup>1</sup>	27.9	-22.3	-2.8	0.3	51.7
MSCI World <sup>1</sup>	16.5	-17.4	7.7	5.8	23.0

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

2 Fundamental Data Investment Trust Global Growth Index official Benchmark from 1<sup>st</sup> October 2008

3 Discounts are AVI estimates



Source: Bloomberg, Fundamental Data

## Quarterly Investment Manager's Review

The equity markets have enjoyed extremely benign conditions over the past quarter. Central banks have kept interest rates low and flooded the banking system with liquidity. Over capacity in many industries and private sector deleveraging has meant that there has been no resultant increase in consumer price inflation. Thus, the markets have been free to concentrate on the prospects for an economic recovery and lots of money has been forced by low deposit rates into equities. This 'sweet spot' for equities may continue for some time but challenges are likely to emerge over the coming months.

Firstly, central banks and governments in developed countries will have to begin removing some of the extraordinary policy support and fiscal stimulus for the markets. This will be difficult for many economies still at stall speed and where the private sector is still concentrating or re-building their balance sheets.

Secondly, the fiscal position of many developed nations, including the US and the UK, is rapidly deteriorating and this could lead to currency and bond market instability.

Lastly, equity market valuations are no longer undeniably cheap as they were this time last year. It was logical for equities to rise when we collectively stepped back from the brink in February of last year and realised the world was not coming to an end. The markets are now going further than that and arguably discounting strong future growth in earnings. If earnings growth disappoints the markets could be setup for a correction.

Thus, while we should enjoy the rally while it lasts, the combination of higher valuations and increasing risks gives us reason to be cautious.

### Performance

During the period the MSCI world increased by 3.2% whilst our portfolio increased in value by 0.6%, an underperformance of 2.6%. We do not invest according to any benchmarks but rather try to build a portfolio of stocks that we believe offer attractive valuations, are on a wide discount and likely to outperform over the longer term. Heading into the yearend investors appeared to favour large liquid stocks and some of our lesser known securities were left behind.

### Discounts<sup>3</sup>

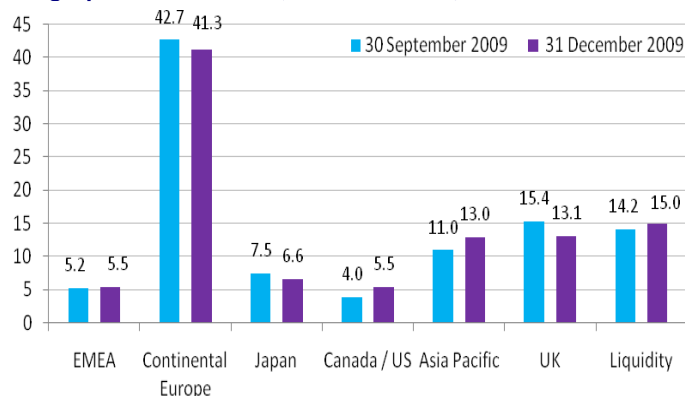
One of the measures we use to study the value on offer in the market is the weighted average discount of the holdings in our portfolio. This currently stands at 23%. To put this into perspective, in March 2006 it was around 10%, and in March 2009 it was a little over 30%. Whilst the discount today is not at the extreme levels of March 2009, it is above average levels and suggests to us that our stocks offer reasonable value. However, we are mindful of the possibility of a market correction and have sought to reduce risk in the portfolio by selling stocks that have benefitted from discount narrowing, and where further upside potential is outweighed by the possibility of discount widening.

### Activity

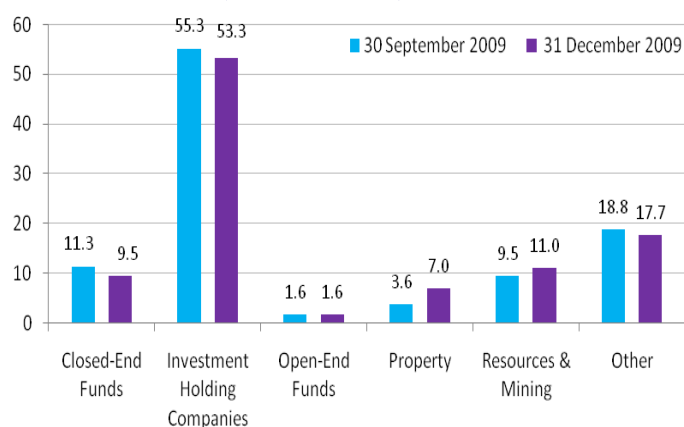
Our investment activity over the quarter has focused on selling stocks that have outperformed and that trade on narrow discounts, whilst investing in those that continue to have attractive valuations. We have reduced exposure to investment trusts by selling those on particularly narrow discounts. We have also realised profits on some European holding companies that were no longer trading on wide discounts. Examples include Ackermans & van Haaren, Heineken Holding and Orkla. At the same time, we have added to those such as GBL, Sofina and Investor, where underlying valuations appear reasonable and discounts are wider than average. Our exposure to the mining and resource sector has increased over the quarter and we have bought both gold mining shares, such as Barrick Gold and Kinross, and energy companies such as Cairn. We have increased our exposure to Asian property with an investment in Sun Hung Kai, which we think will see a continued rise in value on the back of the stimulatory effects of near zero US interest rates.

We will continue to recycle the portfolio in this way, and we retain approx 11.75% net liquidity in the portfolio.

## Geographic Breakdown (% of total assets)



## Sector Breakdown (% of total assets)



## Major Movers

Largest Risers	Percent change	Percent of Assets
Tupras Turkiye	20.93%	2.23%
Aker	9.86%	1.77%

Largest Fallers	Percent change	Percent of Assets
Showa Aircraft	-24.13%	0.50%
Katakura Industries	-23.28%	0.74%

## Capital Structure

Ordinary Shares	160,080,089
10 3/8% Debenture stock 2011 <sup>#</sup>	£8,483,440
8 1/8% Debenture stock 2023 <sup>#</sup>	£15,000,000
Equities index unsecured loan stock 2013 units <sup>**</sup>	2,584,457

## Gross Assets/Gearing

Gross Assets	£753 mil.
Debt	£28.3 mil.
Actual Gearing (Debt less cash divided by net asset value)	-11.8%

## Further Information

Investment Manager – John Pennink, AVI Ltd.  
+44 20 7647 2900 info@assetvalueinvestors.com

The share price can be found under 'INVESTMENT COMPANIES' in The Financial Times, The Times, The Daily Telegraph, The Scotsman and The Evening Standard.

<sup>\*</sup>British Empire Securities and General Trust financial year commences on the 1<sup>st</sup> of October.

<sup>\*\*</sup>Last audited figure updated annually

<sup>#</sup> Book Values

Information may be found on the following websites.

[www.british-empire.co.uk](http://www.british-empire.co.uk) or [www.assetvalueinvestors.com](http://www.assetvalueinvestors.com)

## Risk Factors you should consider before investing

Investment in the British Empire Securities and General Trust plc (the "Trust") carries risks, which are more fully described in the Key Features Document. Listed below are some of the key risks:

Investors are reminded that past performance is not a guide to future performance and that their capital will be at risk and they may therefore lose some or all of the amounts that they choose to invest in the Trust.

The Trust utilises gearing techniques (leverage) which exaggerate market movements both down and up and which could mean sudden and large falls in market value.

Movements in exchange rates can impact both the level of income received and the capital value of your investment. If the currency of your residence strengthens against the currency in which the underlying investments of the fund are made, the value of your investment will reduce and vice versa.

As with all stock exchange investments the value of investment trust shares will immediately fall by the difference between the buying and selling prices.

Where investments are made in emerging market, unquoted securities or smaller companies, their potential volatility may increase the risk to the value of, and the income from the investment.

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