

## Manager's Comment

In a quiet month for news-flow, BTEM's NAV increased by 2.5% in August, aided by a tailwind from FX but depressed by a widening portfolio discount (from 24.6% to 25.9%). The top contributors were Jardine Strategic, Wendel, Exor, Pargesa, Toshiba Plant, Adler, Digital Garage, and Fondul Proprietatea. Detractors were far fewer, but included Riverstone Energy and Pershing Square Holdings.

While its NAV was up less than 1%, Jardine Strategic's discount narrowed from 29% to 24% over the month. We note that Jardine Matheson, who own 84% of Jardine Strategic, has recently been adding to its shareholding. In addition, it was announced that the company will be included in the Singapore Straits Times Index from mid-September. Wendel's NAV was up +5.6%, benefiting from strong performance at its largest position, Bureau Veritas.

Exor was not far behind Wendel in terms of contribution despite a widening discount. Fiat Chrysler Automotive (FCA), which now accounts for a third of Exor's NAV, was up +24% on rumours that Great Wall Motor had made a bid for FCA's Jeep business. While Great Wall Motor admitted in a statement that they have been looking over FCA, they denied making any contact with its management or board. Regardless of whether anything comes from this specific potential purchaser, we believe the speculation reflects a growing recognition of both the compelling discount at which FCA is trading to the sum of its parts and the stated intent of Sergio Marchionne, its CEO, to unlock the trapped value.

Marchionne has commented on the low multiples at which the entire industry trades: *"From a valuation stand-point, I have never seen an industry which is as little-loved as being an OEM today. For a period of time I thought that banking had reached the bottom but I think we have now surpassed them in terms of dislike"*, but we see FCA as being particularly undervalued trading on just 2.2x 2018e EV/EBIT, versus 7.4x for GM and 6.0x for Ford. It now seems clear that a spin-off of its auto-parts business (Magneti Marelli) is likely to occur in the near-term, with premium-brands Alfa Romeo and Maserati to follow at a later date. We believe the spin-offs will reveal the true value of "Core FCA" which will consist largely of its high-growth and high-margin Jeep and Ram trucks brands.

Other contributors included Pargesa (strong Swiss Franc and Euro), Toshiba Plant (improved sentiment from talks advancing on parent company's sale of its chip business), Adler (traded well ahead of results), Digital Garage (strong Yen, and share price up despite weak NAV), and Fondul Proprietatea (GDRs moving back to a premium to local shares; we had previously taken advantage of the premium eroding to switch substantially all of our holding in local shares into GDRs). Riverstone Energy detracted from returns as its discount widened, while Pershing Square Holding's share price followed its NAV down on weak share price performance at key holdings.

*"From a valuation stand-point, I have never seen an industry which is as little-loved as being an OEM today. For a period of time I thought that banking had reached the bottom but I think we have now surpassed them in terms of dislike."*

Sergio Marchionne, Fiat Chrysler Automotive CEO

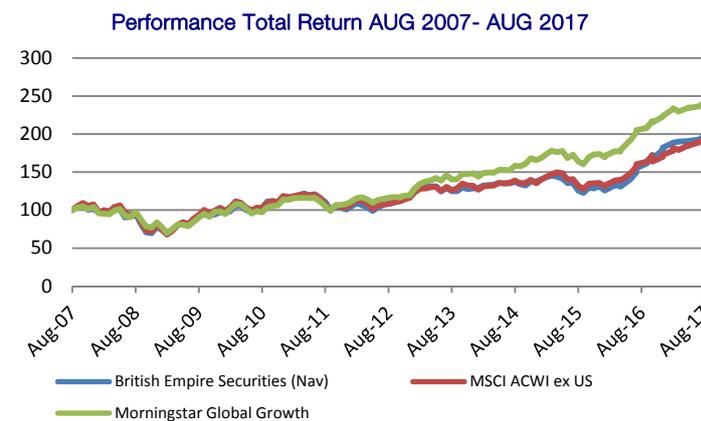
LMS completed its tender offer that saw 29% of our position sold at a 5% discount to NAV, and we subsequently sold the remainder of our holding in the market. Other trades involved increasing our position in Exor, which is now our third largest position, and funding it in part by reducing Wendel, adding further to the Japanese "Net Cash" basket, selling out of our successful investment in DIC Asset (German commercial property), and making additional purchases of the two new positions initiated last month.

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

## Performance Total Return

This investment management report relates to performance figures to 31 August 2017.

	Month	Financial Yr* to date	Calendar Yr to date
BTEM NAV <sup>1</sup>	2.5%	21.8%	11.5%
MSCI ACWI Ex US <sup>3</sup>	2.9%	18.9%	14.5%
MSCI ACWI Ex US Value <sup>1</sup>	2.4%	20.8%	11.2%
MSCI ACWI <sup>1</sup>	2.8%	17.9%	10.7%
Morningstar Global Growth <sup>1</sup>	3.3%	23.1%	19.1%



## Top Ten Equity Holdings

Holding	%
Japan Net Cash Basket	6.7
Pargesa Holdings	6.0
Exor	5.7
Jardine Strategic	5.6
Riverstone Energy	5.3
Wendel	5.0
Tetragon Financial Group	4.9
Adler Real Estate	4.8
JPEL Private Equity	4.8
Symphony International	4.6
<b>TOTAL</b>	<b>53.4</b>

## Statistics

	Value	% 1 mo	% 1 yr	% 3 yr	% 5 yr
Price (£) TR <sup>2</sup>	710.5	2.9	28.9	50.7	88.3
Net Asset Value TR <sup>1</sup>	789.3	2.5	27.2	43.1	78.9
MSCI ACWI ex US TR <sup>3</sup>		2.9	21.4	40.1	79.8
MSCI ACWI ex US Value <sup>1</sup>		2.4	23.0	32.7	73.1
MSCI ACWI TR <sup>1</sup>		2.8	19.7	54.2	108.3
Morningstar Global Growth TR <sup>3</sup>		3.3	26.4	60.6	118.4
<b>Fiscal Yr Total Returns (%)</b>					
	2016	2015	2014	2013	2012
Price <sup>1</sup>	34.3	-9.5	8.9	13.8	6.2
Net Asset Value <sup>1</sup>	31.0	-8.3	6.8	13.1	9.6
MSCI ACWI ex US (£) <sup>3</sup>	28.0	-5.6	5.1	16.6	11.0
MSCI ACWI ex US Value <sup>1</sup>	25.5	-9.8	5.7	17.1	10.2
MSCI ACWI <sup>1</sup>	31.3	0.4	11.8	18.0	17.4
Morningstar Global Growth <sup>3</sup>	26.9	3.7	8.7	18.9	13.7

### Capital Structure

Ordinary Shares	129,526,165
Shareheld in Treasury	12,515,109
8 1/8% Debenture stock 2023**	£15,000,000
4.184% Series A Sterling Unsecured Note 2036	£30,000,000
3.249% Series B Euro Unsecured Note 2036	€30,000,000

### Gross Assets/Gearing

Gross Assets	£1,003mil.
Debt par value	£72.4mil.
Actual Gearing (Debt less cash divided by net asset value)	4.4%

<sup>1</sup> Source: Morningstar. All NAV figures are cum-fair values.

<sup>2</sup> Source: Morningstar. Share price total return is on a mid-to-mid basis, with net income re-invested.

<sup>3</sup> From 1<sup>st</sup> October 2013 the lead benchmark was changed to the MSCI ACWI ex US (£) Index.

The investment management fee was changed to 0.7% of net assets and the performance related fee eliminated.

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

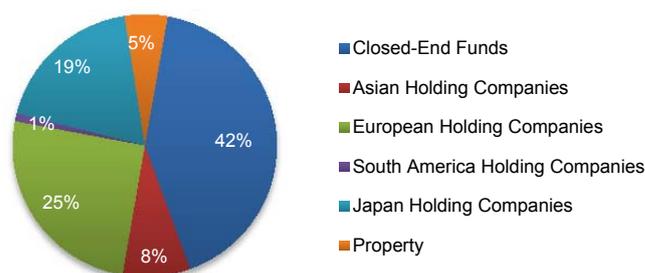
\*\* Last audited figure updated annually

## Contributors / Detractors (in GBP)

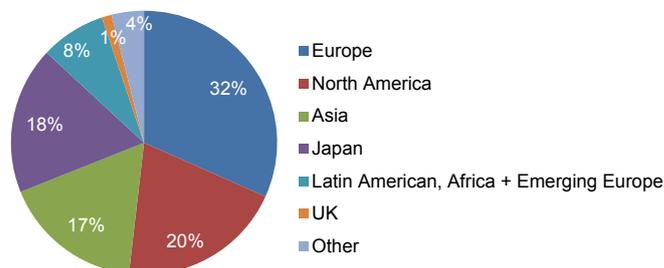
Largest Contributors	1 month contribution bps	Percent of Assets
JARDINE STRATEGIC HLDGS LTD	54	5.7
WENDEL	45	5.0

Largest Detractors	1 month contribution bps	Percent of Assets
RIVERSTONE ENERGY LTD	-36	5.3
PERSHING SQUARE HOLDINGS	-9	4.1

## Sector Breakdown (% of invested assets)



## Risk Region Breakdown# (% of net assets)



#AVI estimate. Previously, this breakdown was calculated by assigning one region to each portfolio company held by BTEM. From the 31-Dec-16 newsletter onwards, this is calculated using the estimated multi-regional exposure for each portfolio company. For listed underlying holdings, the country of listing is used; for unlisted underlying holdings, the exposure is typically assigned according to the country where a majority of sales are made.

## Further Information

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

Information may be found on the following websites.

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

## IMPORTANT INFORMATION

### **Risk Factors you should consider before investing**

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

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

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

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

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

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

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