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miles costello

British Empire Trust
It sounds like a relic from days long gone, but the British Empire Trust is far from it. This investment trust and constituent of the FTSE 250 was established in 1889 as the Transvaal Mortgage Loan and Finance Company to develop interests in South Africa during the colonial era. Managed since 1985 by Asset Value Investors, the British Empire Trust now has a very modern approach to making its investments.

It takes positions in other listed investment trusts, as well as quoted, family controlled holding companies and cash-rich Japanese umbrella businesses. The trust aims to pick investments with shares trading at a wide discount to the net value of their assets, and then to use a process of active engagement to get them to adopt policies that narrow the gap.

Its top ten holdings, which account for two thirds of the portfolio, include Pershing Square, the investment vehicle run by Bill Ackman, the hedge fund billionaire, Pargesa, based in Switzerland, and Exor, the Italian holding company for the Agnelli family.

While these names might not trip off the tongue for many investors, they own stakes in some high-profile companies, from Chipotle, the American restaurant chain, and Starbucks, the coffee outlet, to Adidas, the sportswear brand, and Ferrari, the luxury car marque. The trust offers an exceptionally cheap way to get exposure to these companies. While its shares trade at a discount of 8.5 per cent to its net asset value, the gap of its underlying holdings averages about 32 per cent.

While it uses share buybacks as a way of controlling its own discount, any buyer of British Empire Trust's shares is effectively betting on its ability to successfully narrow the trading gap in its portfolio. Its record is pretty strong. It has outperformed its benchmark, the MSCI All Country World Index excluding the United States, by 18.9 per cent over three years, by 6.3 per cent over five years and 10.9 per cent over ten.

The shares, which closed flat at 715p yesterday, were sold off heavily last year, but have recovered strongly since late December. With a yield of only 1.8 per cent, they are probably a better bet for their price appreciation.

ADVICE Hold long term
WHY Solid long-term performer carefully and actively managed