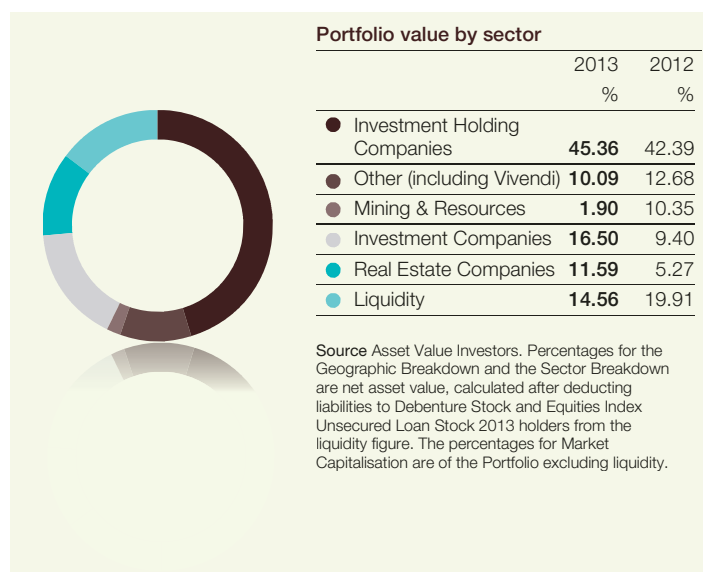
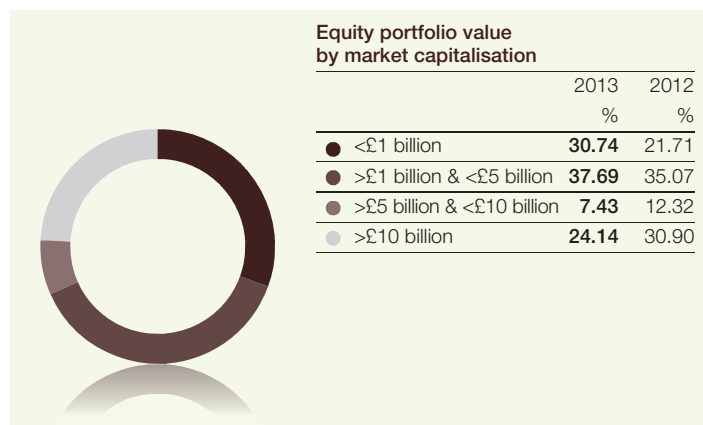
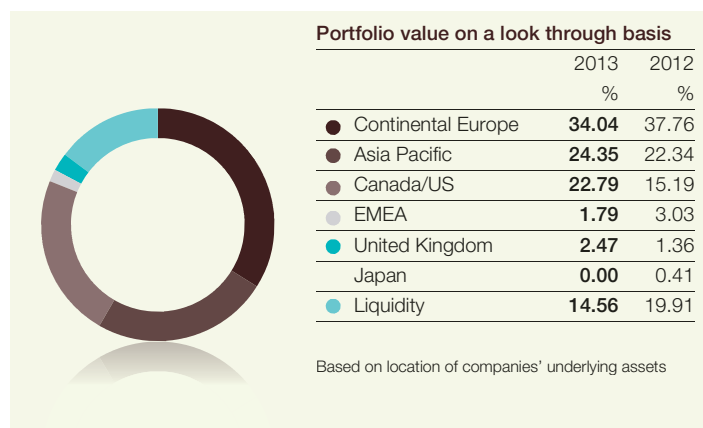


Investment Manager's Review

Portfolio review



Asian holding companies

Asian holding companies returned 8.1% over the year and contributed 1.8 percentage points to overall portfolio returns.

The two Jardine companies, Jardine Strategic Holdings and Jardine Matheson Holdings, have been major contributors to performance in the ten years that we have been invested in them. Since September 2003 their share prices have increased by 878% and 663% respectively and they have generated IRRs of 43.9% and 25.1% for British Empire shareholders.

In May of this year we sold out of our entire holding in Jardine Strategic Holdings. Despite a relatively wide discount, we felt that the share prices of the underlying businesses had become overvalued. Astra international, an Indonesian conglomerate indirectly controlled by Jardine Group, in particular, was trading at extremely high multiples that we felt were no longer supported by the growth prospects of that company. Thus, we realised a substantial profit and effectively halved our exposure to the Jardine group. The timing of this proved fortuitous as the shares subsequently fell by 20%. Over the year, until the date we sold it in early May, Jardine Strategic Holdings shares rose by 19% and we therefore locked in a substantial profit.

Another strong performer within this sector was Shun Tak Holdings, the holding company of the Ho family, with property and gaming interests in Macau. This company has been heavily undervalued by the market and has traded at exceedingly wide discounts to NAV of over 60%. A combination of the continued growth of the casino industry in Macau, the completion of a number of real estate projects in Macau and the receipt of new planning consents has fuelled an increase in share price of 45% over the year.

Vivendi/other

Vivendi's share price rose by 12% over the year. This, together with the dividend income, meant that the company was the second biggest contributor to our performance. There was encouraging news from Vivendi on restructuring. It announced the disposal of two assets – Maroc Telecom and Activision Blizzard. In addition, management has recently indicated that it would be proposing to shareholders that the company be split into two separate companies by way of a spin-off of SFR, the French mobile phone business. The creation of two separately listed companies is expected to lead to a reduction in the conglomerate discount and allow the two businesses to be more appropriately valued by the market.

Closed end funds

Over the past 18 months we have focused our investments in closed end funds in the listed private equity sector. This was the one area of the closed end fund universe where we saw good value. Over the past year, this area of the portfolio has added a lot of value, contributing approximately one third of the overall returns.

The largest contributor was AP Alternative Assets, whose share price rose by 123% over the year. This was driven by a restructuring of the company's assets by way of a disposal to one of the portfolio holdings – Athene Insurance – in return for an increased stake. Subsequently, Athene has made an acquisition in the US which we believe will add enormously to the value of the company and which will be realised by AP shareholders when Athene is ultimately sold.

We sold the majority of our holding in Macquarie International Infrastructure Fund and realised a respectable profit, after management conducted a strategic review to consider ways of narrowing the discount at which the company's shares were trading, and decided to dispose of its three assets and return the proceeds to shareholders. The largest two assets were sold slightly above their carrying values in 2013. Distributions and sale proceeds already received cover our cost base 1.3 times.