UPDATE 31 December 2016

BRITISH EMPIRE TRUST
INVESTING IN UNDERVALUED ASSETS

Manager's Comment

BTEM ended the year strongly with its NAV up +4.8% in the last month of 2016. While Sterling weakness was helpful in December, outsized returns from some of our larger holdings were the main driver. The IPO of Athene Insurance, the sole asset owned by our largest holding AP Alternative, saw the value of our position in AP Alternative increase by a further 15% over the month. Investor AB's discount narrowed significantly (in from 24% to 18%) while its NAV rose 3% to make it our second largest contributor over the month.

December also saw JPEL Private Equity announce the sale of Innovia, the company responsible for the new UK plastic five pound notes, to Canadian firm CCL Industries. Innovia was a co-investment made in 2014 by JPEL alongside lead sponsor Arle, and the impressive returns (3.2x MOIC/IRR of 50%) help validate the renewed investment programme begun by JPEL at the beginning of 2014. The sale of Innovia came at a 100% uplift to carrying value, boosting JPEL's NAV by 3.6% and providing further cash that will ultimately be returned to shareholders under the company's run-off strategy.

Looking back on 2016, BTEM's NAV was up by 36% vs 25% for the MSCI AC World ex-US and 21% for the Association of Investment Companies Global peer group. As with our peers (and the index), we were a beneficiary of Sterling weakness in the wake of the BREXIT vote. BTEM was ranked 1st of the 24 funds in the peer group for the year. The trust's discount started the year at 14% and ended the year at 10%, and there has been an ongoing buyback throughout 2016.

The changes made to the investment approach - running a more concentrated, higher conviction, and fully invested portfolio - have, so far, paid off. BTEM began the year with 38 holdings and with the top 10 accounting for 44% of NAV, and ended it with 32 holdings of which the top ten made up 56% of NAV. The portfolio was 100% invested at the start of the year vs 106% at the end following the decision to take on additional fixed-rate gearing in January.

Aker was the largest contributor over the year, adding 596bps to NAV, followed by AP Alternative Assets (+466bps), JPEL Private Equity (+245bps), Riverstone Energy (+224bps), Symphony International (+205bps), NB Private Equity Partners (+200bps), Vietnam Phoenix (+177bps), conwert Immoblien (+161bps), Investor (+159bps), Wendel (+159bps), and Better Capital (+143bps). Detractors were few in number and relatively small in magnitude, with Dolphin Capital detracting by far the most (-55bps) from returns. The key driver of our strong outperformance this year was events across our key holdings.

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While we engage constructively with management and boards of our portfolio companies to help narrow discounts, particularly in the closed-end fund holdings where we are often the largest shareholder, our investment in Aker demonstrates a type of activist investing found in our portfolio that is often under-appreciated - that being activism on the part of the controlling family shareholders of our holding company investments. As an oil-focussed holding company with investments in both the E&P and Services sectors, Aker unsurprisingly suffered from the collapse in oil price. There was much speculation that Det Norske, Aker's E&P holding whose key low-cost Johan Sverdrup asset (all-in break-even cost of less than $25 per barrel) was years away from first oil, would be unable to fund its share of development costs. Our view was that Det Norske was sufficiently well-capitalised and, perhaps more importantly, had the backing of its 50% shareholder Aker to draw down on if required. We added significantly to our position in Aker at an average 36% discount at the beginning of the year.

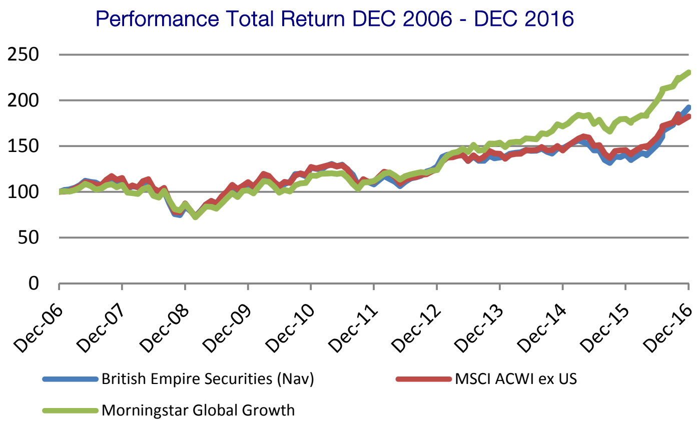
Times of dislocation and uncertainty create opportunities on which long-term owners can capitalise, and this is exactly what Aker's management did in June when they drove through the merger of Det Norske with BP Norway to form Aker BP. The transformational deal doubled production, brought forward by several years the commencement of dividend payments, strengthened the balance sheet and ensured the funding of Johan Sverdrup. Aker BP almost trebled in value over the year, up +183% in local currency (247% in GBP), while our position in Aker increased by 101% in local currency (147% in GBP). At the end of 2016, oil (Brent) stood at $57 per barrel having hit a peak of $115 before the late-2014 collapse. On the same

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 December 2016.

	Month	Financial Yr* to date	Calendar Yr to date
BTEM NAV[1]	4.8%	9.2%	36.0%
MSCI ACWI Ex US[3]	3.7%	3.9%	25.3%
MSCI ACWI Ex US Value[1]	4.8%	8.7%	30.7%
MSCI ACWI[1]	3.3%	6.5%	21.0%
Morningstar Global Growth[1]	3.0%	3.4%	21.3%



Top Ten Equity Holdings

Holding	%
AP Alternative Assets	7.4
Wendel	6.2
Investor AB-A SHS	6.2
Riverstone Energy	5.4
JPEL Private Equity	5.4
NB Private Equity Partners	5.4
Symphony International	5.0
Toyota Industries	4.9
Vietnam Phoenix Fund	4.9
Aker ASA	4.8
TOTAL	55.6

day oil peaked, Aker's share price was NOK240. It ended 2016 at NOK323, a clear demonstration of the value engaged long-term owners can add at the bottom of cycles. Our position size in Aker was reduced towards the end of the year with sales taking place at discounts in the low-20%s.

We first invested in AP Alternative Assets in mid-2012, attracted by the 40% discount and management's unambiguous message that they saw no better investment than buying back their own shares at such a cheap rating. Launched in 2006 at a time when US private equity and hedge fund managers were coming to Europe in search of permanent capital, AP Alternative Assets was established to co-invest alongside Apollo's private equity funds and in its credit and hedge funds, and had just under a third of its NAV invested in a privately-held life insurance company called Athene.

The financial crisis saw sharp mark-downs in its heavily-levered private equity investments exacerbated by further leverage at the AP Alternative level. Apollo's response was aggressively pro-active, buying up debt issued by their portfolio companies at deep discounts to par, and the portfolio had been much stabilised by the time we invested. Late-2012 saw a restructuring under which AP Alternative injected its investments into Athene in exchange for additional shares in Athene to effectively become a single-asset holding company.

We viewed Athene, a pure-play provider of fixed (mainly equity-indexed) annuities, as an attractive high-growth business with clear and embedded cost of capital and competitive advantages over peers. We have held and added materially to our position in AP Alternative since then despite its shares trading at times at premiums approaching 30% to official reported NAVs - our analysis suggested the value of Athene was appreciably undervalued by the official marks at which it was held. Athene's successful IPO in the first half of December saw us reduce our position, and we have since sold some more of our holding. Over the life of our investment to 2016 year-end, the investment in AP Alternative has recorded a return on investment of 106% and an IRR of 46% (134% and 56% respectively in GBP).

JPEL Private Equity had a good 2016. Investments made in the last two years are translating into impressive NAV growth, up 15% over 2016 in local currency (USD). The combination of the improved performance and the move into run-off led to the discount narrowing over the year from 25% to 17%. Further write-ups since year-end have seen an additional 7% increase in share price at the time of writing. Riverstone Energy had a great year due to both NAV growth and discount contraction (in from 28% to 15%), with the first sale (Rock Oil) from its portfolio helping validate both carrying values and the strategy.

Symphony International made a large distribution in the first half of the year for the third year running - despite a flat NAV, our position increased in value by 22% in USD (45% In GBP) thanks to a sharply narrower discount (28% in from 40%) as well as the pay-out to shareholders. NB Private Equity Partners pulled off the dual trick of a narrowing discount (21% in from 26%) and rising NAV to register a total return of 19% in USD (41% in GBP). We continue to engage constructively with the management and board of both Symphony and NB Private Equity given what we deem unacceptably wide discounts.

Our investment in Vietnam Phoenix Fund was restructured at year-end into an open-ended fund (two-thirds of our position) that will realise its investments over the next three months and return cash to shareholders along the way, and a closed-end fund housing the private equity assets that should do the same over the next two years. Better Capital 2009 was a valuable contributor despite, as one of our few UK-focussed investments, not directly benefitting from the sharp fall in the Pound post-BREXIT. The sale of its key asset Gardner Aerospace, if completed, will add further upside to a position that has already generated a 27% IRR over the life of the investment and should lead to a distribution of an amount not much lower than Better Capital 2009's current market cap.

Our investments in European family-controlled holding companies, Investor and Wendel, contributed significantly to returns. It was a relatively quiet year for Investor in terms of transactions, yet the company continued to create value for shareholders with a 14% increase in NAV while its discount remained constant. Wendel has had a transformative year which we believe the market has failed to recognise - Wendel's year-end discount closed wider than the level at which it began 2016. Happily, solid NAV growth more than offset the negative impact of the discount widening.

The two main criticisms levelled at Wendel are its level of debt and the concentration in its two listed holdings - Bureau Veritas and Saint Gobain. Management have been receptive to shareholder feedback on these issues and over the year have actively taken measures to address them. Through asset realisations and cash generation from its portfolio, net debt was reduced from a 37% LTV to a far healthier 20%. We think this is sustainable and is a figure which management have implicitly guided towards as a long-term level.

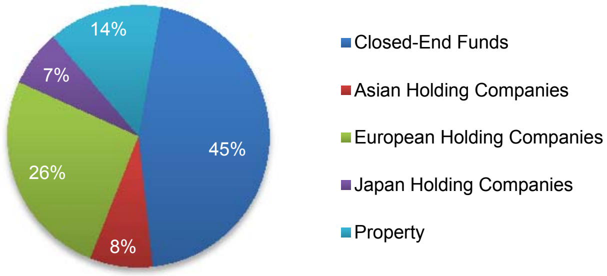
Through the sale of Saint Gobain shares, the combined weight of the two listed holdings is also much reduced and will fall further upon maturity of the exchangeable bond issued against 27% of Wendel's current Saint Gobain position. Given the quality of Wendel's unlisted portfolio and the pro-active measures described above, we find it hard to justify Wendel's wide discount. We are confident that with the prospect of four significant IPOs

Contributors / Detractors (in GBP)

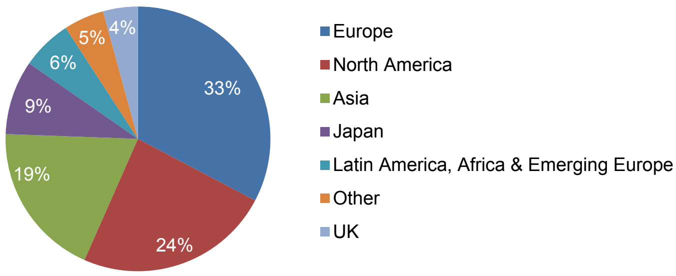
Largest Contributors	1 month contribution bps	Percent of Assets
AP ALTERNATIVE ASSETS LP	168	7.4%
INVESTOR AB-A SHS	72	6.2%

Largest Detractors	1 month contribution bps	Percent of Assets
HUDSON'S BAY CO	-35	3.5%
EMPIRIC STUDENT PROPERTY	-12	0.0%

Sector Breakdown (% of invested assets)



Lookthrough Geography[4] (% of net assets)



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 or www.assetvalueinvestors.com

from its unlisted portfolio over the next two to three years, there is significant scope for the rating to improve.

Our German residential exposure through conwert and Adler contributed 241bps to performance over 2016. We had identified conwert as a potential takeover target and when Adler agreed to sell their stake in conwert to Vonovia, a full takeover offer for conwert was launched. We opted to sell our shares in the market rather than accept a cash offer of €16.16 and sold our position for an average price of €16.91 (vs the year-end share price of €16.22). Adler will benefit greatly from over €400m in cash coming in from this sale in early 2017. Proceeds will be used to pay down debt, improving its balance sheet significantly. While the listed German residential sector sold off in Q4 2016 on rising bond yields, we still believe Adler is undervalued and under-researched compared to its peers. Importantly we are still very positive on the underlying fundamentals of German residential property. Trading on a near 20% discount to NAV, we believe Adler is a great way to access this attractive sector with potential M&A activity.

After a very painful 2015 for Dolphin Capital, poor performance continued throughout the majority of 2016 as the share price fell 41%. In March 2016, with the support of shareholders, Andrew Coppell replaced Laurence Geller as Chairman. Upon taking on the role, Andrew instructed a robust review of all assets which eventually led to the company being put into an orderly wind up with a view to returning all capital to shareholders by the end of 2019. We began to see the fruits of the Board's efforts over this period as their Aristo stake and Playa Grande project in the Dominican Republic were sold. These transactions saw cash inflows and cancellation of debt, but also further reduction of cash outflows alongside reduced base management fees. These changes saw the share price rise 50% in the last six weeks of the year, as optimism grew that the company is now on the right path.

After a successful year for performance marked by events across the portfolio that will see large amounts of cash come back to us in the early part of 2017, it is natural to question whether there is still value in the portfolio, whether the value-driving events in the portfolio have all played out, and whether opportunities still exist to redeploy that cash. We have no such concerns.

With the portfolio discount at 27% (and the double discount at 35% when one adjusts for the discount on British Empire's shares), there is still latent value in our holdings and in British Empire's shares. We also estimate that approximately half the portfolio could be subject to specific events in 2017 that would unlock value, with these ranging from IPOs or trade sales of key underlying assets, to restructuring and wind-ups. There is also no shortage of investment ideas, both existing holdings and new positions, into which we plan to recycle capital as it is distributed to us.

Statistics

	Value	% 1 mo	% 1 yr	% 3 yr	% 5 yr
Price (£) TR[2]	635.5	3.8	41.9	40.5	73.8
Net Asset Value TR[1]	709.6	4.8	36.0	36.4	75.5
MSCI ACWI ex US TR[3]		3.7	25.3	28.8	64.4
MSCI ACWI ex US Value[1]		4.8	30.7	26.7	61.8
MSCI ACWI TR[1]		3.3	29.4	49.5	102.2
Morningstar Global Growth TR[3]		3.0	21.0	41.2	98.1
Fiscal Yr Total Returns (%)	**2016**	**2015**	**2014**	**2013**	**2012**
Price[1]	34.3	-9.5	8.9	13.8	6.2
Net Asset Value[1]	31.0	-8.3	6.8	13.1	9.6
MSCI ACWI ex US (£)[3]	28.0	-5.6	5.1	16.6	11.0
MSCI ACWI ex US Value[1]	25.5	-9.8	5.7	17.1	10.2
MSCI ACWI[1]	31.3	0.4	11.8	18.0	17.4
Morningstar Global Growth[3]	26.9	3.7	8.7	18.9	13.7

Capital Structure	
Ordinary Shares	129,526,165
Shares held in Treasury	6,406,000
8 ⅛% 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	£951mil.
Debt par value	£70mil.
Actual Gearing (Debt less cash divided by net asset value)	6.2%

1 Source: Morningstar. All NAV figures are cum-fair values.
2 Source: Morningstar. Share price total return is on a mid-to-mid basis, with net income re-invested.
3 From 1st 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.
4 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.
* British Empire Trust financial year commences on the 1st October. All figures published before the fiscal results announcement are AVI estimates and subject to change.
** Last audited figure updated annually

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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