UPDATE 31 May 2017

BRITISH EMPIRE TRUST
INVESTING IN UNDERVALUED ASSETS

Manager's Comment

BTEM posted a 1.6% NAV return for May with performance boosted by a narrowing portfolio discount (in to 24%) and helpful FX moves but held back by weakness in a few holdings.

Over the month, Wendel, Kinnevik, Pargesa, Adler Real Estate, Tetragon Financial, Investor, DIC Asset, NB Private Equity, and Better Capital 2009 contributed the most to returns; Hudson's Bay, Digital Garage, AP Alternative Assets/Athene, Toshiba Plant Systems & Services, and Tokyo Broadcasting were the largest detractors.

Wendel's discount continued to tighten, moving in 460bps to end the month at 26%. Shortly after month-end, the company announced a further sale of part of its holding in St. Gobain, the French-listed construction materials business. St. Gobain is now just 9% of Wendel's NAV, and two-thirds of the remaining position may be called away upon redemption of a Wendel-issued exchangeable bond. We consider a disposal of this cyclical business acquired at the top of the market in 2007 to be a positive move that will allow for greater focus on Wendel's higher quality assets.

Kinnevik appreciated strongly buoyed by solid performance from listed assets Millicom, Tele2, and Zalando. This follows on from a badly-received telecoms acquisition made last month under Kinnevik's interim CEO which was seen by many as a retrograde step in strategy and direction (Kinnevik's telecoms assets are viewed as legacy holdings in a portfolio where its e-commerce assets garner far more attention). We are more sanguine on this acquisition, but accept there will remain some uncertainty surrounding Kinnevik which is unlikely to be resolved until the appointment of a new CEO. In our view, this uncertainty is more than adequately reflected in the current 23% discount which is some 19 percentage points wider than the discount on which its Swedish peers trade.

Adler Real Estate, the owner of 50,000 German residential units, was one of our largest contributors. The discount narrowed to 12%, still wider than its peers, as the German real estate sector rose on the back of potential changes in stamp duty transfer taxes. At present, stamp duty is only payable in Germany when an acquirer buys more than 95% of a company's shares, but it has been proposed that this be reduced to 75%. This brings forward the prospect of further M&A transactions in the German residential space, as potential acquirers may look to do deals ahead of this proposed change (the timing of which is uncertain at this stage).

"NB Private Equity's discount continued to grind tighter ahead of the inclusion of its shares in the FTSE indices, while Better Capital announced an expected completion date for the sale of key asset Gardner Aerospace that was subsequently met in June."

At the beginning of the month, an all-share takeover bid for WCM Beteiligungs was lodged by TLG Immobilien. Our position in DIC Asset, a German commercial real estate company, benefitted as DIC accepted the bid for its 26% stake in WCM. Coming at an 18% premium to its EPRA NAV, the bid for WCM was a good outcome for DIC Asset particularly given that a property deal between the two had hit an impasse and there was uncertainty as to how DIC would extricate itself from the stake. DIC's share price rose 6% in May, and we realised part of our holding at elevated levels.

NB Private Equity's discount continued to grind tighter ahead of the inclusion of its shares in the FTSE indices, while Better Capital announced an expected completion date for the sale of key asset Gardner Aerospace that was subsequently met in June. Pargesa posted a solid return over the month, aided by a tightening discount and NAV growth on the back of strong returns at underlying holdings Pernod-Ricard, LafargeHolcim, and SGS. Tetragon and Investor's returns were helped by narrowing discounts.

The volatility in Hudson's Bay's share price extended into May, and a sharp fall in its share price led to it being our most sizable detractor from returns. Not far behind was Digital Garage which fell 16% over the month. This was driven entirely by discount widening for which we can find little justification. The market seems to view Digital Garage as simply a holding company for listed internet business Kakaku, and as such its shares are traded heavily by arbitrageurs and hedge funds. Digital Garage's results, released during the month, reaffirmed our confidence in the quality of their two largest unlisted businesses (epayments and marketing) with operating profits growing by 25% and 12% year-on-year. In addition, Digital Garage gave a new mid-term plan where they guided for 15% compound annual growth in earnings over the next three years for each of these businesses. We expect that

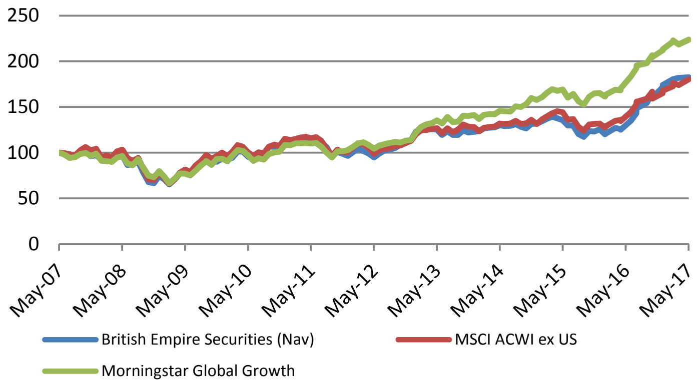
Investment Objective: To achieve capital growth through a focused portfolio of investments, particularly in companies whose share prices stand at a discount to estimated underlying net asset value.

Performance Total Return

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

	Month	Financial Yr* to date	Calendar Yr to date
BTEM NAV[1]	1.6%	17.6%	7.7%
MSCI ACWI Ex US[3]	3.6%	13.4%	9.2%
MSCI ACWI Ex US Value[1]	2.4%	15.2%	6.0%
MSCI ACWI[1]	2.5%	13.4%	6.5%
Morningstar Global Growth[1]	3.9%	16.7%	12.9%

Performance Total Return MAY 2007- May 2017



Top Ten Equity Holdings

Holding	%
Wendel	7.7
Pargesa Holdings	5.9
NB Private Equity	5.6
Jardine Strategic	5.5
Riverstone Energy	5.3
Tetragon Financial Group	5.0
Investor AB-A SHS	5.0
Adler Real Estate	4.7
Symphony International	4.6
JPEL Private Equity	4.6
TOTAL	53.9

Digital Garage will either list one of these assets, or they will become too large a part of NAV for the market to continue ignoring, and that the result will be a materially narrower discount and higher NAV. Athene Insurance was weaker on the back of a follow-on secondary offering of shares, dragging down AP Alternative Assets with it which - combined with our direct holding in Athene - was our third largest detractor.

Amongst other names, we added to Tetragon Financial, Swire Pacific, Pargesa, JPEL Private Equity, and Toshiba Plant Systems & Services. This last holding is one we initiated in April and have since built up. Toshiba Plant (52%-owned by parent Toshiba) designs, builds, and maintains power plants in Japan and across South-East Asia. The company has grown operating profit at a compound annual growth rate of 12% since 2005 and is asset-rich with 55% of its market cap covered by cash. If one strips away this cash, the quality of the underlying business is revealed by its 28% ROE. EV/Trailing EBIT is just 5.6x, and the free cash-flow yield on an EV basis is 9%. Rather than return its excess cash to shareholders, however, Toshiba Plant has instead historically lent it to its cash-strapped parent in return for a miserly 1% interest rate. A recent court battle brought by an activist shareholder was successful in securing the return of this cash to Toshiba Plant and we expect a solution to be found to Toshiba's need for the cash that also advantages Toshiba Plant minority shareholders (a buyback or special dividend).

To fund these investments, we trimmed positions including DIC Asset, Investor AB, and Aker, and ended the month 105% geared.

Statistics

	Value	% 1 mo	% 1 yr	% 3 yr	% 5 yr
Price (£) TR[2]	681.0	2.1	51.0	45.1	94.5
Net Asset Value TR[1]	764.3	1.6	45.8	40.0	88.7
MSCI ACWI ex US TR[3]		3.6	33.9	36.8	82.4
MSCI ACWI ex US Value[1]		2.4	35.7	30.0	77.6
MSCI ACWI TR1		2.5	33.2	54.3	111.2
Morningstar Global Growth TR[3]		3.9	35.7	56.7	118.9

Fiscal Yr Total Returns (%)	2016	2015	2014	2013	2012
Price1	34.3	-9.5	8.9	13.8	6.2
Net Asset Value1	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 Value1	25.5	-9.8	5.7	17.1	10.2
MSCI ACWI1	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	10,209,691
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	£990mil.
Debt par value	£71.0mil.
Actual Gearing (Debt less cash divided by net asset value)	4.7%

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.

* 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.

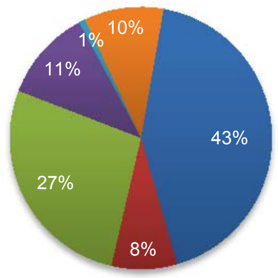
** Last audited figure updated annually

Contributors / Detractors (in GBP)

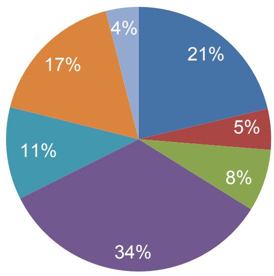
Largest Contributors	1 month contribution bps	Percent of Assets
WENDEL	78	7.7%
KINNEVIK AB	41	3.9%

Largest Detractors	1 month contribution bps	Percent of Assets
HUDSON'S BAY CO	-63	3.0%
DIGITAL GARAGE	-43	2.4%

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 or 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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