**UPDATE** 30 April 2018

BRITISH EMPIRE TRUST
INVESTING IN UNDERVALUED ASSETS

## Manager's Comment

Despite a widening portfolio discount (out by 66bps to 28.3%), BTEM registered a solid NAV return for April of +3.4%. FX was a small net positive despite a weaker Pound versus most currencies, as the strengthening US dollar aided that portion of our portfolio exposed to the US on a look-through basis.

Aker led the list of largest contributors, followed by Pargesa, Pershing Square Holdings, EXOR, Tokyo Broadcasting System, the Japan Special Situations Basket, Symphony International, and new addition Oakley Capital Investments. The only detractor of any note was GP Investments, which fell -14% on the last day of the month due to a clumsily executed trade only to recover substantially all of that day's losses in the next trading session.

Aker's portfolio companies had a very strong month, with E&P-focussed Aker BP (77% of Aker's NAV) up +25%, and oil services provider Aker Solutions (10% of NAV) up +30%. While the rising oil price was unambiguously positive for both companies, specific good news arrived for Aker Solutions with the announcement of a strong order intake that has seen its backlog increase by 40% over the last six months. Aker's share price (up +14%) failed to keep pace with its NAV (+19%), and its discount expanded to 26% as a result.

Pargesa's anomalously wide discount has finally started to narrow. To recap, Pargesa is a Swiss-listed holding company jointly controlled by the Frère and Desmarais families. Its only asset is its 50% stake in Groupe Bruxelles Lambert (GBL), a Belgian-listed holding company with stakes in European blue-chip companies including Imerys, Adidas, and Pernod Ricard among others. In the ten years up until early-2015, Pargesa's discount to NAV was on average 1 percentage point tighter than GBL's. Beginning in April 2015, Pargesa's shares de-rated and, since then, its discount has averaged 11 percentage points wider than GBL's. It is difficult to be certain why this discount widening has occurred, but possible theories include confusion regarding how the Swiss Franc-Euro devaluation in 2015 impacted on Pargesa, and the existence of a bond exchangeable into Pargesa shares which created an overhang. Regardless of the reasons, we owned a position in GBL at the time and were quite happy to switch into a security higher up the holding structure in order to own the same underlying portfolio at a significantly wider discount. The spread between the two discounts narrowed by 3.6 percentage points over the month, leaving Pargesa on a still-very-wide discount to (look-through) NAV of 31%. We continue to be impressed by the management team, and their revived strategy which for the last few years has focussed on taking large stakes in smaller companies than in the past and using their influence to drive returns.

*"OCI's Board and Management deserve credit for recognising past mistakes and have unveiled various measures aimed at reducing the wide discount to NAV. We are supportive of these steps, intend to be a constructive and engaged shareholder, and believe there are several other levers that the Board and Manager can pull to help OCI trade at a rating more reflective of its differentiated investment offering and track record.'*

Pershing Square Holdings (PSH) had a good month with its NAV return of +3.3% accompanied by a narrowing of its discount (in from 23.7% to 20.8%), and BTEM's returns on the position boosted further by a stronger US dollar. PSH's NAV performance was driven by Chipotle Mexican Grill (CMG) whose share price rose by 31% over the month, most of which occurred following an upbeat Q1 earnings call with the new CEO, ex-Taco Bell supremo Brian Niccol. It is possibly an understatement to say that this investment in CMG has until recently not gone to plan, with unfortunate food safety scares and reports of rodents falling from the ceiling at a Dallas-based outpost delaying the turnaround in consumer sentiment on which Pershing Square's investment case was in part predicated. The recent share price rise has put PSH back in the black on the investment and, while it is hard to argue that CMG shares look cheap on a near-term multiples basis, the business has been under-managed for years and has compelling scope for growth given its relatively limited footprint in its home market of the US, and its attractive per-unit economics achieved despite hitherto limited opening hours and ineffective marketing spend. PSH's tender offer concludes this month, and our base case for where we expect it to be struck would generate accretion to NAV per share of c. 2%.

EXOR's NAV advanced by +10%, with Fiat Chrysler (FCA)'s share price up +13%, Ferrari up +5%, and CNH up +4%. EXOR's share price, however, failed to keep pace with NAV growth, and the discount finished the month 3% wider than it started, at 30%. As CEO John Elkann noted in a recent shareholder letter, this means one is effectively receiving their investment in unlisted PartnerRe for free. We continue to believe the market is under-estimating and under-appreciating the expert stewardship of both

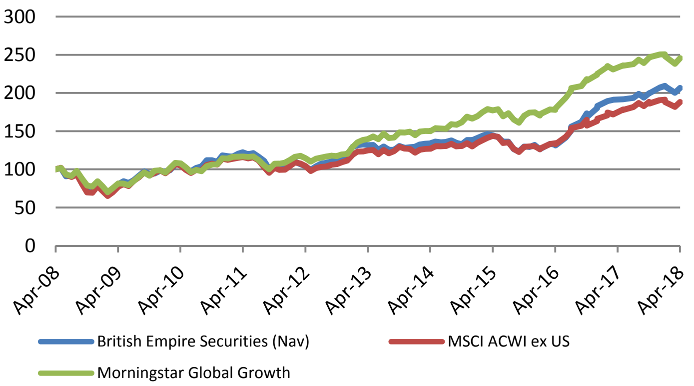
**Investment Objective:** To achieve capital growth through a focused portfolio of investments, particularly in companies whose share prices stand at a discount to estimated underlying net asset value.

## Performance Total Return

This investment management report relates to performance figures to 30 April 2018.

| | Month | Financial Yr* to date | Calendar Yr to date |
|---|---|---|---|
| BTEM NAV[1] | 3.4% | 5.7% | 0.4% |
| MSCI ACWI Ex US[3] | 3.6% | 2.9% | -1.2% |
| MSCI ACWI Ex US Value[1] | 4.5% | 2.8% | -0.7% |
| MSCI ACWI[1] | 2.9% | 3.3% | -1.6% |
| Morningstar Global Growth[1] | 3.5% | 5.5% | 1.2% |

Performance Total Return APR 2008 - APR 2018




## Top Ten Equity Holdings

| Holding | % |
|---|---|
| Japan Special Situations*** | 12.4 |
| Exor | 6.5 |
| Pargesa | 6.0 |
| Tokyo Broadcasting System | 5.9 |
| Fondul Proprietatea | 5.4 |
| Symphony International | 5.4 |
| Riverstone Energy | 5.3 |
| Pershing Square Holdings | 5.1 |
| Wendel | 4.9 |
| Third Point Offshore Investors | 4.9 |
| TOTAL | 61.8 |

John Elkann at EXOR, and Sergio Marchionne at FCA (39% of EXOR's NAV). FCA's results released in April highlighted a company on track to meet Marchionne's target of having in excess of €4bn of net cash by end-2018 (from net debt of €10bn when the five-year plan was originally announced), while FCA's buoyant US sales figures for April published shortly after month-end showed the company's decision to focus on high-margin, high-growth Jeeps and SUVs is paying off. We view the spin-off of auto-parts manufacturer Magnetti Marelli - now approved by FCA's board for later this year - as being another important catalyst to unlock the market's excessively discounted valuation of FCA.

We initiated a new investment in Oakley Capital Investments (OCI) towards the end of the month with the acquisition of a 10% stake in the company. OCI invests in and makes co-investments with private equity funds managed by Oakley Capital. With a focus on acquiring businesses via their strong entrepreneurs' network, and through corporate carve-outs and bolt-on deals, Oakley have managed to navigate a high-price environment and have constructed a fast-growing portfolio carried at reasonable valuation multiples. Oakley has built up a strong performance track record but investors in OCI have not enjoyed similarly impressive returns over the years, as equity issuances at discounts to NAV have diluted returns and contributed towards the 30% discount at which we were able to acquire our position. That said, OCI's Board and Management deserve credit for recognising past mistakes and have unveiled various measures aimed at reducing the wide discount to NAV. We are supportive of these steps, intend to be a constructive and engaged shareholder, and believe there are several other levers that the Board and Manager can pull to help OCI trade at a rating more reflective of its differentiated investment offering and track record.

Aside from the purchase of OCI, we added to several of our Japanese holdings. Sales came from Adler Real Estate, and Digital Garage. We fully exited our position in the latter during April, after making sales in each of the past four months. Our selling patience paid off, with an average exit discount of 10% against an average purchase discount of 31%. Over our two year holding period, Digital Garage returned +74% against the TOPIX return of +37%, with strong growth in NAV contributing approximately half of our returns as a result of rapid growth in their unlisted businesses.

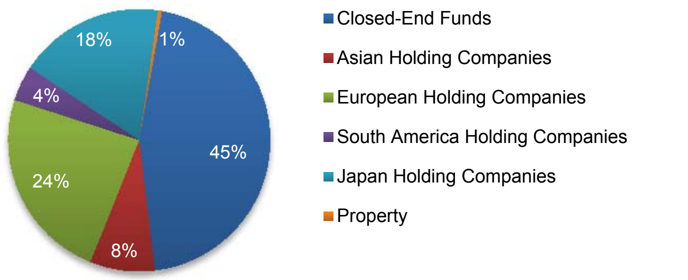
BTEM ended the month 104% invested.

## Contributors / Detractors (in GBP)

| Largest Contributors | 1 month contribution bps | Percent of Assets |
|---|---|---|
| AKER ASA-A SHARES | 72 | 4.3 |
| PARGESA HOLDING SA-BR | 46 | 6.0 |

| Largest Detractors | 1 month contribution bps | Percent of Assets |
|---|---|---|
| GP INVESTMENTS LTD - BDR | -39 | 1.2 |
| WENDEL | -6 | 4.9 |

### Sector Breakdown (% of invested assets)



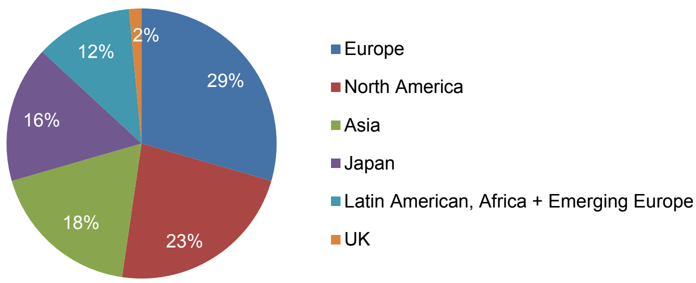

## Statistics

| | Value | % 1 mo | % 1 yr | % 3 yr | % 5 yr |
|---|---|---|---|---|---|
| Price (£) TR[2] | 717.0 | 2.9 | 9.3 | 41.8 | 61.2 |
| Net Asset Value TR[1] | 803.9 | 3.4 | 8.5 | 41.9 | 54.8 |
| MSCI ACWI ex US TR[3] | | 3.6 | 9.4 | 31.0 | 50.8 |
| MSCI ACWI ex US Value[1] | | 4.5 | 8.1 | 27.5 | 44.8 |
| MSCI ACWI TR[1] | | 2.9 | 7.8 | 40.6 | 76.9 |
| Morningstar Global Growth TR[3] | | 3.5 | 13.9 | 49.5 | 92.1 |

| Fiscal Yr Total Returns (%) | 2017 | 2016 | 2015 | 2014 | 2013 |
|---|---|---|---|---|---|
| Price[1] | 18.7 | 34.3 | -9.5 | 8.9 | 13.8 |
| Net Asset Value[1] | 18.8 | 31.0 | -8.3 | 6.8 | 13.1 |
| MSCI ACWI ex US (£)3 | 16.3 | 28.0 | -5.6 | 5.1 | 16.6 |
| MSCI ACWI ex US Value[1] | 18.4 | 25.5 | -9.8 | 5.7 | 17.1 |
| MSCI ACWI[1] | 15.5 | 31.3 | 0.4 | 11.8 | 18.0 |
| Morningstar Global Growth[3] | 21.3 | 26.9 | 3.7 | 8.7 | 18.9 |

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
*** A basket of 17 stocks: Amuse Inc, Yamato Kogyo, Kato Sangyo, Tachi-S, Nishimatsuya Chain, Pasona Group, Denyo Co, Matsui Construction, Daiwa Industries, Melco Holdings Inc., SK Kaken Co, Kanaden Corp,Toshiba Plant, Nissan Shatai, Teikoku Sen-I, Chofu Seisakusho, Nakano.

### 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.*

| Capital Structure | |
|---|---|
| Ordinary Shares | 129,526,165 |
| Shares held in Treasury | 15,626,973 |
| 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 |
| 2.930% Unsecured Note 2037 | €20,000,000 |

| Gross Assets/Gearing | |
|---|---|
| Gross Assets | £1bn. |
| Debt par value | £88.5mil. |
| Actual Gearing (Debt less cash divided by net asset value) | 4.2% |

## 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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