UPDATE 31 May 2018

BRITISH EMPIRE TRUST
INVESTING IN UNDERVALUED ASSETS

Manager's Comment

May saw BTEM's NAV increase by +1.8% despite the headwind of a widening portfolio discount (out 101bps to 29.3%), with local currency losses more than offset by gains from Sterling's weakness against most currencies (in particular, the US Dollar and the Yen).

The most significant contribution came again from Aker, followed by Pershing Square Holdings, Symphony International, and the newest addition to the portfolio, Oakley Capital Investments. Wendel and Cosan were the largest detractors.

While the WTI oil price benchmark drifted back over May (-2%), the increase in Brent is more relevant for Aker and its +3% move to $78 per barrel by month-end helped push Aker's shares higher. While the commodity price boosted Aker's largest holding (Aker BP, up +13%), the latter's Q1 results also proved supportive with capex coming in below forecasts and management reaffirming guidance for the year. In contrast to last month, Aker's share price growth overshot that of its NAV and we took advantage of the tightening discount to sell a small part of our position. Aker ended the month on a 22% discount to NAV.

Pershing Square Holdings (PSH) was amongst the largest contributors for the second consecutive month with its NAV rising by +10%. Within its portfolio, ADP (PSH's largest holding), Restaurant Brands International, and new investment Lowe's Corp were the star performers. ADP's quarterly results were impressive, and there is growing recognition of the company's enormous potential for operating margin improvements. We continue to believe that Pershing Square have won the argument in this regard despite losing the proxy battle for seats on ADP's board, and ADP's investor day scheduled for mid-June could well see the company raise guidance. Along with solid Q1 results, Restaurant Brands International unveiled a new plan to resolve franchisee discontentment at its Tim Horton's business in Canada, and this was well-received by the market. A new investment in Lowe's Corp, which rose +15% over the month, was revealed. While we are yet to hear Pershing's investment thesis, Lowe's operates in what is essentially a duopoly in the US home improvement market with Home Depot (HD) but has been underperforming its competitor in terms of both sales growth and margins. The recent appointment of a former Home Depot employee as the new CEO at Lowe's following pressure from an activist shareholder has given the market grounds for optimism that these issues will be addressed.

"Oakley Capital Investments (OCI) continued its positive performance since we initiated our position in April, with its share price rising +6% in May and now up +13% at the time of writing since our initial purchase".

PSH's tender offer concluded in mid-May, with the clearing discount of 20.5% in line with our forecast and suggesting capitulation on the part of some long-standing shareholders. We did not participate in the tender and thus benefitted in full from the +2% per share accretion generated for continuing shareholders. We added to our position at a discount of 25% shortly after the tender offer completed, and continue to see the current 23% level as unsustainable for a portfolio of large-cap, liquid, listed securities. It was announced after month-end that Bill Ackman has purchased $160m of PSH shares in the market. While we welcome this increasing alignment and the nascent recovery in NAV, the managers will find themselves under increasing pressure if this discount level persists. We note Fitch has changed its outlook for PSH's credit rating to negative, but the level of gearing they state would trigger a downgrade does leave some headroom for further share repurchases and/or tender offers, notwithstanding the question of whether investment grade status is deemed essential given the constraints it places on discount control. In any event, there exists scope for more innovative solutions to the wide discount than simply buybacks and tenders.

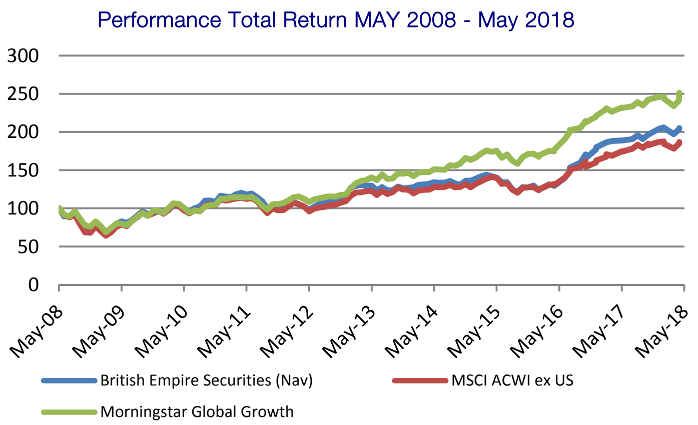
Oakley Capital Investments (OCI) continued its positive performance since we initiated our position in April, with its share price rising +6% in May and now up +13% since our first purchase. OCI held its Capital Markets Day during the month which gave investors a chance to speak with the management of investee companies and Oakley's partners. The various presentations helped convey to a wide audience Oakley's genuinely differentiated approach, in particular the considerable advantages that flow from their entrepreneurial network and willingness to embrace complex acquisitions. In an increasingly competitive and highly-priced private equity market, these features should allow Oakley to continue to unearth compelling acquisition opportunities at below-market multiples. The day after the event, Oakley announced the sale of their stake in Italy's leading price-comparison website, Facile, to Swedish private equity house EQT for a 3.8x gross multiple of cost and +51% IRR since investing in the business in 2014, resulting in a +58% uplift on carrying value and boosting OCI's NAV

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 2018.

	Month	Financial Yr* to date	Calendar Yr to date
BTEM NAV[1]	1.8%	7.7%	2.2%
MSCI ACWI Ex US[3]	1.2%	4.2%	0.0%
MSCI ACWI Ex US Value[1]	-0.6%	2.2%	-1.2%
MSCI ACWI[1]	3.7%	7.1%	2.0%
Morningstar Global Growth[1]	4.8%	10.5%	6.0%



Top Ten Equity Holdings

Holding	%
Japan Special Situations***	13.3
Exor	6.4
Pershing Square Holdings	5.9
Tokyo Broadcasting System	5.7
Pargesa	5.7
Riverstone Energy	5.3
Fondul Proprietatea	5.2
Tetragon Financial	5.1
Third Point Offshore Investors	5.0
Symphony International	4.9
TOTAL	62.5

by +4%. Aside from the impressive returns, the deal serves to highlight key parts of Oakley's strategy: investing alongside entrepreneurs in sectors where they have experienced success in the past with material scope to expand earnings and revenue (under their ownership, Facile has trebled EBITDA since 2014 in part by moving into sectors adjacent to its core automotive insurance market). Oakley has retained a minority stake in Facile and so OCI will continue to benefit from its growth.

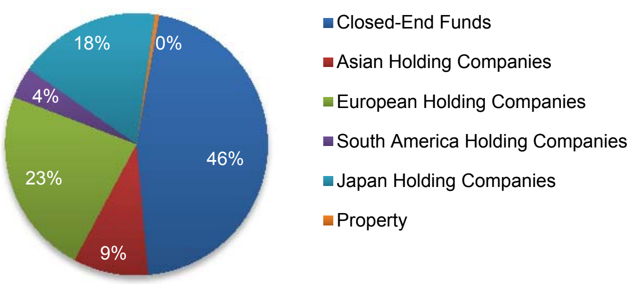
AVI's campaign in Tokyo Broadcasting System (TBS) stepped up a notch in May with the launch of our website, www.improvingtbs.com. The site sets out our proposal calling for a distribution-in-kind of 40% of the company's stake in listed semi-conductor business Tokyo Electron (the value of the entire stake equates to over 25% of TBS' market cap). A revision to the Japanese Corporate Governance Code announced last week adds weight to our arguments, calling as it does for companies to now disclose polices for reducing their cross-shareholdings rather than simply explaining why they are held. Our proposal will be voted on at TBS's AGM in late-June, and we do not think it overly dramatic to label the vote as the first major test of how far corporate Japan has travelled. We believe any institution voting against our proposal is implicitly voting against both the Stewardship Code and the Corporate Governance Code.

Wendel was the greatest detractor from performance in May on the back of further discount widening (NAV flat; share price down -8% after adjusting for the dividend). There was no news, but the shares continued their de-rating which began in March following the announcement of changes to currency accounting policies at IHS, their African Towers business. We covered this in detail in our March newsletter, and have not changed our view that the share price reaction is unwarranted. Wendel now trades on a 35% discount to our estimated NAV, but we believe the market may need to see a significant realisation from their private equity portfolio to restore (somewhat unfairly-lost) faith in management.

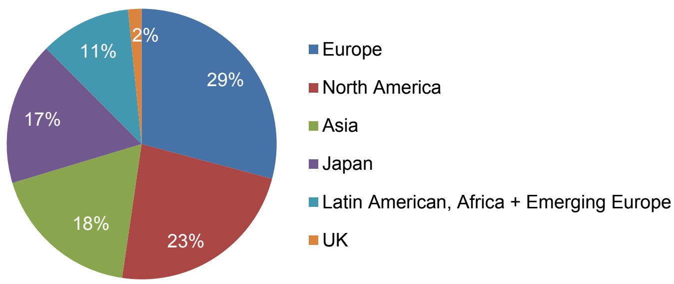
Cosan Limited, the US-listed holding company of two Brazilian holding companies, was the second most significant detractor from performance, as a truckers' strike over fuel prices paralysed the Brazilian economy. During May, the Brazilian Real weakened-6.5% against the US dollar contributing to a -9% NAV decline. In spite of this short-term pain, the company remains an extremely attractive investment trading at a look through discount of 58% with the potential for a major corporate restructuring.

Purchases over the month included additions to the Japanese basket, Pershing Square Holdings (as mentioned earlier), Swire Pacific, and Wendel.

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.

Contributors / Detractors (in GBP)

Largest Contributors	1 month contribution bps	Percent of Assets
AKER ASA-A SHARES	73	4.4
PERSHING SQUARE HOLDINGS	54	5.9

Largest Detractors	1 month contribution bps	Percent of Assets
WENDEL	-41	4.6
COSAN LTD	-38	4.0

Statistics

	Value	% 1 mo	% 1 yr	% 3 yr	% 5 yr
Price (£) TR[2]	743.0	3.6	11.0	51.2	65.4
Net Asset Value TR[1]	818.6	1.8	8.8	45.8	56.2
MSCI ACWI ex US TR[3]		1.2	6.9	33.7	52.0
MSCI ACWI ex US Value[1]		-0.6	5.0	28.4	44.0
MSCI ACWI TR[1]		3.7	9.1	44.9	79.1
Morningstar Global Growth TR[3]		4.8	15.0	54.0	95.0

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 18 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, Mitsuboshi Belting.

Capital Structure	
Ordinary Shares	129,526,165
Shares held in Treasury	15,829,289
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)	4.6%

Further Information

Investment Manager – Joe Bauernfreund, AVI Ltd.
+44 20 7659 4800 info@assetvalueinvestors.com

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.

British Empire Trust plc, Beaufort House, 51 New North Road, Exeter, EX4 4EP. Registered in England & Wales No: 28203