UPDATE 30 June 2018

BRITISH EMPIRE TRUST
INVESTING IN UNDERVALUED ASSETS

Manager's Comment

BTEM's NAV increased +0.8% in June, aided by a tailwind from discount narrowing. Notwithstanding the move this month, the month-end portfolio discount of 28.4% compares to the significantly narrower level of 24.2% at which we began the calendar year. Happily, superior underlying NAV growth over the year-to-date has more than offset this drag on returns, and we continue to believe the current elevated discount level represents a valuable future store of deferred performance from our portfolio. FX aided the monthly return to a small extent with gains against Sterling from the US Dollar, Euro, and Norwegian Krone being largely - but not entirely – offset by weakness in the Japanese Yen and Swedish Krona.

Aker and Pershing Square Holdings were again amongst the top contributors, but were edged out this month by Tokyo Broadcasting System. NB Private Equity Partners, Wendel, Swire Pacific, Riverstone Energy, and Fondul Proprietatea were also solid contributors. Cosan and EXOR were material detractors from returns, while Pargesa and Tetragon also fell but to a much lesser extent.

Tokyo Broadcasting System Holdings (TBS) was our strongest contributor with a share price increase of +8% driven mainly by discount narrowing in the run-up to the company's end-June AGM. At the meeting, shareholders voted on our proposal that the company distribute 40% of its stake in Tokyo Electron (equivalent to a distribution yield on share price of 14%). We understand that our proposal was the first - and we believe is unlikely to be the last - time a Japanese company has been asked to make an in-kind distribution. This approach strikes at the heart of Corporate Japan's problems, directed as it is specifically at cross-shareholdings.

Considerable effort was put into our campaign. We launched a dedicated website, www.improvingtbs.com; received endorsement for our proposal from ISS; held two press conferences; hosted an information session attended by 70 domestic representatives from banks, insurance companies, asset managers and corporations; met with regulators; and had over 150 press articles mentioning the campaign. With that in mind, we were disappointed that our proposal was only supported by 11% of those voting, but will continue to engage with TBS to explore ways in which to improve its corporate value for the benefit of all shareholders. We believe the facts clearly show that TBS' excessive "strategic" shareholdings: (1) impair TBS' corporate value, as reflected in the ¥200 billion gap between TBS' asset value and market value; (2) have nothing to do with TBS' core broadcasting business; (3) reduce the accountability and discipline of TBS management; and (4) conflict with the principles of the Corporate Governance Code. We are encouraged that TBS management has acknowledged that its policies on strategic holdings need to be reconsidered in light of recent changes in the Code.

> *"We are encouraged that TBS management has acknowledged that its policies on strategic holdings need to be reconsidered in light of recent changes in the Code."*

While unsuccessful this year, we always saw the proposal as the start of a process rather than an end in itself, and - given the high profile nature of the company - our campaign in TBS has the potential to become an annual barometer on the extent to which Corporate Japan is willing to embrace the Corporate Governance and Stewardship Codes. More broadly in Japan, our now-elevated public profile and the experience gained in this campaign has built the foundations for us to engage successfully with companies be it in public or private.

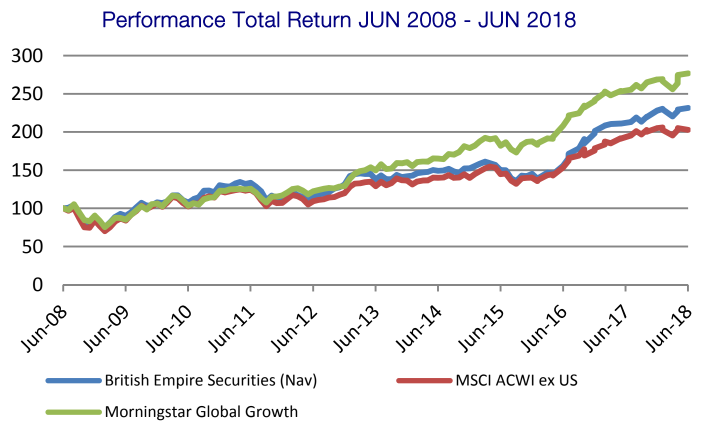
A trip in June to Tokyo and Osaka, during which we met with management of many of our investee companies as well as potential new investments, confirmed to us that there is genuine change afoot and that managements of almost all companies are now acknowledging their duties to reduce cross-shareholdings and improve the efficiency of balance sheets. Meetings with regulators and officials were encouraging and it is clear that top-down pressure on corporate governance reform will far more likely be ratcheted up than eased off (witness the recent revisions to the Corporate Governance Code). It is apparent to us from such meetings that there is a deliberate yet unspoken policy of empowering (particularly foreign) shareholders to pressurise companies to more stringently apply the various corporate governance provisions. The pace of change has been and will likely continue to be slower than we would like, but the prize in the form of latent value trapped on corporate balance sheets is so great that one can afford to be patient, particularly given our focus on companies with solid and growing operating businesses.

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 June 2018.

	Month	Financial Yr* to date	Calendar Yr to date
BTEM NAV[1]	0.8%	8.6%	3.0%
MSCI ACWI Ex US[3]	-1.1%	3.1%	-1.1%
MSCI ACWI Ex US Value[1]	-1.4%	0.8%	-2.6%
MSCI ACWI[1]	0.3%	7.4%	2.3%
Morningstar Global Growth[1]	1.5%	12.2%	7.6%



Top Ten Equity Holdings

Holding	%
Japan Special Situations***	13.6
Pershing Square Holdings	6.6
Tokyo Broadcasting System	6.1
Exor	6.0
Pargesa	5.6
Jardine Stategic	5.5
Riverstone Energy	5.5
Fondul Proprietatea	5.0
Tetragon Financial	5.0
Third Point Offshore Investors	5.0
TOTAL	63.9

There was little in the way of stock-specific news for Aker during the month and its underlying holdings were only up a small amount, but positive sentiment towards oil following an under-whelming increase in OPEC production targets helped push Aker's discount in materially (420bps to end the month at 20.3%). We sold a portion of our holding in Aker at these levels. Similarly, there was no news specific to Riverstone Energy, but the significant increase in WTI pricing (more relevant than Brent for its portfolio) helped push its discount in by over 200bps.

The NAV of Pershing Square Holdings (PSH) continued its recovery (+2.5% in June) with investor returns amplified by discount narrowing (in from 23.7% to 21.4%). We speculated in last month's newsletter that the investor day to be held in June by PSH's largest holding, pay-roll and employer services behemoth ADP, would likely see the company raise guidance and this proved to be the case. While management now expects revenue to grow by 7-9% per annum for the next three years accompanied by an accelerated pace of margin expansion, Pershing Square Capital Management continue to contend that even these raised forecasts are too low and that management is being unnecessarily conservative in both their estimates and their appreciation of the scope for operational and margin improvements. ADP's share price responded well, and gains elsewhere in PSH's portfolio (from Mondelez, Howard Hughes, and Restaurant Brands) added to NAV returns.

Swire Pacific contributed positively over the month on the back of a +4% increase in its share price, with losses at the NAV level comfortably outweighed by discount narrowing. We have long believed that the large discount and implied negative stub value of the ex-Swire Properties assets were unlikely to persist indefinitely, and that the company would feel compelled to address/take advantage of the situation. With an overhaul of the Board in 2017 and the appointment of Merlin Swire as Chairman, we thought a more robust and active capital allocation strategy would be forthcoming to drive performance and close the discount. Evidence of the new approach came in June with the announcement that Swire Properties (74% of NAV) had sold two properties, City Plaza 3 and 4 in Hong Kong, for a combined HK$15bn. The sale price is well above the company valuation of HK$9.3bn, and reflects an estimated gross rental yield of 3.1%. Swire Pacific also announced the proposed privatisation of HAECO, the HK-listed aircraft maintenance and service company. While HAECO is a relatively small holding at just 5% of NAV, and details on future plans for the company are yet to be revealed, this transaction and those at Swire Properties are encouraging signs of the long-awaited more dynamic approach to capital allocation.

Other positive contributions included NB Private Equity Partners (discount narrowing), Wendel (NAV growth, largely due to Bureau Veritas' share price performance), and Fondul Proprietatea (dividend-adjusted NAV growth due to strong performance from largest-listed holding OMV Petrom).

Cosan Ltd (CZZ) was the most significant detractor, as its share price and NAV fell by -15% each (4% due to FX - CZZ is US-listed despite being entirely Brazil-exposed) over the month. Despite a truckers' strike over fuel prices continuing to rock the Brazilian economy and market, we believe the investment case for CZZ remains intact. The prospects for long-term NAV growth are good and with CZZ's look-through discount of 58%, the opportunity for returns from simplifying the double-holding company structure - as management have indicated is their ultimate intention – is still extremely attractive.

Concerns around trade and tariffs hit EXOR via its large holding in Fiat Chrysler (FCA) (now 37% of NAV), which fell -16% over the month and contributed to EXOR's NAV decline of -8%. The sound and fury of the Trump Administration around trade is obviously unhelpful and volatility may well continue for some time, but we are cognisant of the need to remain focussed on fundamentals. EXOR's wide discount (34% at the time of writing) and FCA's cheap valuation help support such a mind-set.

Purchases over the month included Jardine Strategic on a near-40% discount, and additions to the Japanese special situations basket; there were no material sales other than the Aker top-slicing referred to earlier.

Contributors / Detractors (in GBP)

Largest Contributors	1 month contribution bps	Percent of Assets
TOKYO BROADCASTING SYSTEM	38	6.1
PERSHING SQUARE HOLDINGS	37	6.6

Largest Detractors	1 month contribution bps	Percent of Assets
COSAN LTD-CLASS A SHARES	-53	3.5
EXOR NV	-37	6.0

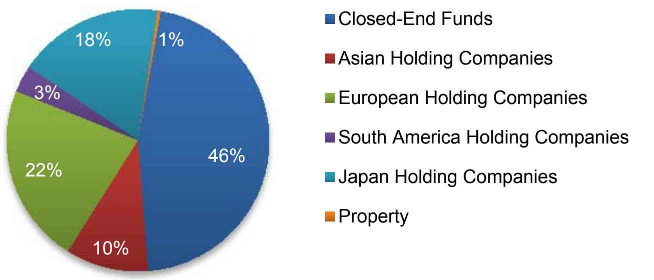
Statistics

	Value	% 1 mo	% 1 yr	% 3 yr	% 5 yr
Price (£) TR[2]	753.0	1.6	11.8	60.5	76.8
Net Asset Value TR[1]	823.3	0.8	9.8	53.8	65.5
MSCI ACWI ex US TR[3]		-1.1	6.1	40.1	57.2
MSCI ACWI ex US Value[1]		-1.4	3.6	34.5	49.0
MSCI ACWI TR[1]		0.3	9.5	53.3	85.0
Morningstar Global Growth TR[3]		1.5	16.6	63.6	104.6

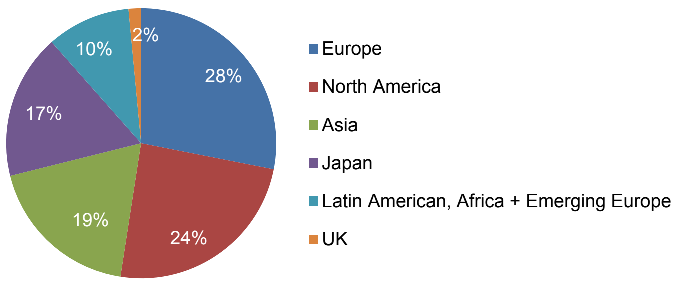
Fiscal Yr Total Returns (%)	2017	2016	2015	2014	2013
Price[1]	18.7	34.3	-9.5	8.9	13.8
Net Asset Value[1]	18.8	31.0	-8.3	6.8	13.1
MSCI ACWI ex US (£)3	16.3	28.0	-5.6	5.1	16.6
MSCI ACWI ex US Value[1]	18.4	25.5	-9.8	5.7	17.1
MSCI ACWI[1]	15.5	31.3	0.4	11.8	18.0
Morningstar Global Growth[3]	21.3	26.9	3.7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

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.

Capital Structure	
Ordinary Shares	129,526,165
Shares held in Treasury	16,605,454
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	£88.8mil.
Actual Gearing (Debt less cash divided by net asset value)	5.7%

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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