UPDATE 31 July 2018

BRITISH EMPIRE TRUST
INVESTING IN UNDERVALUED ASSETS

Manager's Comment

While BTEM's NAV increased by +1.6% over the month, this return lagged broader markets due to a widening portfolio discount (out to 29.1% from 28.4%) and weakness in a few key holdings. The largest contributors were Jardine Strategic (+56bps), Wendel, Oakley Capital Investments, Investor AB, Cosan Ltd., Pershing Square Holdings, and Tetragon Financial (+21bps); the largest detractors were Tokyo Broadcasting System (-45bps), Riverstone Energy, Third Point Offshore Investors, and EXOR (-10bps).

Having added to Jardine Strategic (JS) in early June when its discount widened out to 39% (close to its 5y high), we were pleased to see a re-rating over July (albeit partially given back post-month-end) as its discount ended the month at 29%. During the month, both JS and a number of its underlying holdings reported half-year results. The share price of Jardine Cycle & Carriage (23% of JS' NAV) increased +6% with largest holding Astra reporting strong results at its Heavy Equipment and Mining division, and improvements at its underperforming Autos division. A +5% increase in Jardine Strategic's interim dividend was well-received, and highlights the stability of the group which has increased or maintained its dividend every year since 2000.

Wendel was a solid contributor over the month as its discount narrowed materially (moving in 430bps to 32.4%). While NAV performance was marginally negative, as its out-sized position in Bureau Veritas (46% of NAV) fell -3% and stymied improvements elsewhere, Wendel's share price advanced +6%. It was a busy month in Wendel's unlisted portfolio, with the sale of two small holdings: packaging company CSP Technologies (3% NAV), and industrial baking firm Mecatherm (1% of NAV) at +70% and +93% uplifts to their carrying values respectively. While making minimal contribution to NAV growth given their size, the sales help clear up the tail and demonstrate the conservative nature of Wendel's valuation methodology. In an environment where private equity deals are being struck at high multiples, one attractive way of deploying capital effectively is via bolt-on deals for existing investments where synergies can help lower the effective price paid. As such, it was pleasing to see AlliedUniversal (a US-focussed security firm in which lead investors Wendel and Warburg Pincus own 33% each) announce a $1bn acquisition of US Security Associates. The headline multiple paid is 10.5x, but this falls to 6.7x when annual synergies expected to be realised within 24 months are factored in. The deal is being partly funded by a follow-on investment of up to €80m from Wendel.

> *"We believe Mr Marchionne should and will be remembered as one of the all-time great CEOs and capital allocators, and his role in saving firstly Fiat, than Chrysler, will live long in the memory."*

Oakley Capital Investments (OCI) had another good month with the announcement of the sale of Damovo Group, and the release of a trading update which included an estimated range for the end-June NAV. While only a small holding, Damovo bears many of the hallmarks of an Oakley deal: a sector in which they have proven expertise (B2B communications); a country where they have had past success (Germany); an acquisition made off market (a complex carve-out) brought to them by a member of their entrepreneur network (Matt Riley); a shorter holding period than is typical of most PE houses (c3.5 years); and a high rate of return (5.4x cost; 57% gross IRR). The mid-point of the estimated NAV range contained in the trading update translates to a respectable NAV total return of +6% for the first half of 2018, a result rendered even more impressive when one considers the drag on returns from the weak performance (-30%) of its sole listed holding, Time Out, over this period.

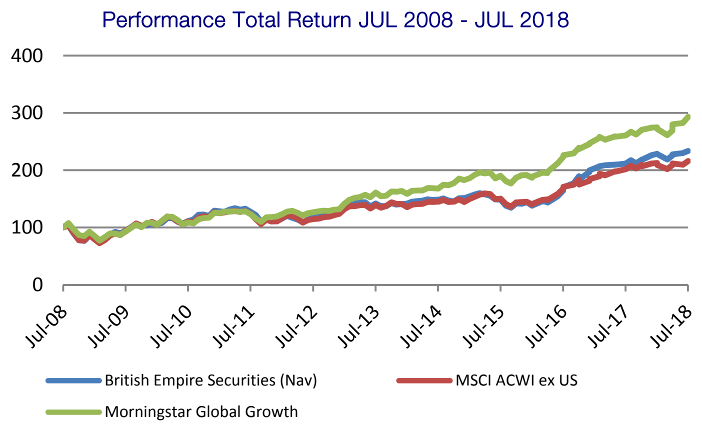
Investor AB saw impressive NAV growth of +6% over July. A number of Investor's listed holdings reported positive Q2 results, most notably orphan drug manufacturer SOBI (6% NAV) which beat expectations with +36% sales growth following successful new product launches earlier in the year. SOBI's shares were up +24% over the month, bringing their year-to-date return to +116%. On the unlisted side, Molnlycke (17% of Investor's NAV), the specialist wound care manufacturer and jewel in Investor's crown, reported strong organic sales growth and improved profitability with a 30% EBITDA margin. We believe the market had become worried about Molnlycke's growth prospects following relatively weak operational performance in 2017, so these improved numbers should be helpful in assuaging these concerns. Investor's discount ended the month at 30% which compares to a 5y average of 21%, and we see scope for further discount narrowing as the market's faith in Molnlycke's growth trajectory is restored.

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 July 2018.

	Month	Financial Yr* to date	Calendar Yr to date
BTEM NAV[1]	1.6%	10.3%	4.7%
MSCI ACWI Ex US[3]	3.1%	6.3%	2.0%
MSCI ACWI Ex US Value[1]	3.8%	4.6%	1.2%
MSCI ACWI[1]	3.7%	11.4%	6.1%
Morningstar Global Growth[1]	2.1%	14.8%	10.1%



Top Ten Equity Holdings

Holding	%
Japan Special Situations***	14.0
Pershing Square Holdings	6.7
Jardine Strategic	6.0
EXOR	5.9
Pargesa	5.5
Tokyo Broadcasting System	5.4
Tetragon Financial	5.1
Riverstone Energy	5.1
Wendel	5.1
Fondul Proprietatea	5.0
TOTAL	63.8

Other material contributors included Cosan Ltd. despite its widening discount (NAV up +12% due to discount narrowing at both of its intermediate level holding companies, robust performance at underlying asset Rumo, and FX gains); Pershing Square Holdings (NAV +4%); and Tetragon Financial (discount narrowing).

We wrote extensively on Tokyo Broadcasting System (TBS) in last month's newsletter in the wake of the company's AGM at which our proposal for an in-specie distribution was (expectedly) defeated. TBS's share price was then weak over July, falling -6.9% in local currency. We estimate that 70% of this decline was due to discount widening and, in the absence of other news, would attribute this move to continued disappointment in the level of support for our proposal. As we explained in last month's newsletter, we do not intend to walk away quietly, and continue to engage with management. TBS' valuation is still compelling, with the shares trading at a 30% discount to our estimated NAV (54% in listed securities; 25% in real estate; 7% in net cash; 14% in core broadcasting business), and we believe Japanese institutional shareholders will find themselves under increasing pressure to justify supporting the company's intransigence regarding its egregiously overcapitalised balance sheet.

Third Point Offshore (TPOU) (weak NAV, widening discount) also detracted from returns. While we welcome the announced move to a Premium listing, we regard the Board's inaction on the discount (c20% at month-end, calculated with shares held by the Master Fund treated as cancelled) as unconscionable given that buybacks are now purportedly at their discretion. We note that Third Point Reinsurance (TPRE), the US-listed vehicle whose assets are also managed by Third Point has been and continues to be an aggressive buyer of its own shares with the CEO of TPRE commenting on their recent earnings call that "*buying back shares below book is an appropriate use of our capita*l" and re-iterating that shares will be bought back "*when we trade at or below 95% of diluted book value per share*". We own an 8% stake in TPOU, and continue to engage with the Board on issues surrounding capital allocation.

It was with great sadness that we learnt of the death in late July of Sergio Marchionne, the dynamic and highly-respected CEO of Fiat Chrysler (FCA) and Ferrari, and the Chairman of CNH. We believe Mr Marchionne should and will be remembered as one of the all-time great CEOs and capital allocators, and his role in saving firstly Fiat, then Chrysler, will live long in the memory.

FCA (32% of EXOR's NAV) suffered an -11% share price decline over the month, with most of the decline following Mr. Marchionne's passing. Q2 results saw reduced guidance for the year amid on-going trade-war-related concerns. While Q2 results were indeed disappointing, they were primarily a localised problem relating to China and should not detract from strong performance in NAFTA and Latin America where the Jeep brand continues to perform very well. In the US, July sales were up +6%, with Jeep increasing +15% and RAM Trucks reporting its highest ever July sales figure. Despite recent weakness, FCA's share price is still up +43% in the last year yet still trades at a marked discount to peers. We believe the proposed spinoff of auto-parts supplier Magneti Marelli later this year may provide a catalyst for FCA to re-rate and its valuation anomaly to reduce. The impact of FCA's share price decline on EXOR was tempered by the performance of CNH (18% of EXOR's NAV) which climbed +10% as it reported its strongest quarterly earnings since 2014 and raised guidance for year-end. Moreover, management also re-iterated the possibility of future structural reforms which we believe may include a potential spin-off of the IVECO trucks brands.

Riverstone Energy also detracted from returns due to a widening discount, out to 21%. The company has sufficient capital to fund a share buyback programme, and we would like to see the Board act.

Purchases over the month were all in Japan, while further sales of Aker were made at low-double-digit discounts.

Contributors / Detractors (in GBP)

Largest Contributors	1 month contribution bps	Percent of Assets
JARDINE STRATEGIC HLDGS LTD	55	6.0
WENDEL	32	5.1

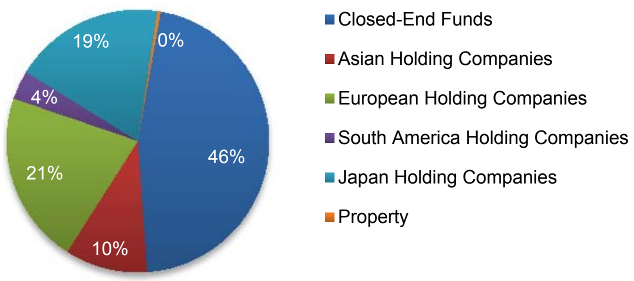
Largest Detractors	1 month contribution bps	Percent of Assets
TOKYO BROADCASTING SYSTEM	-44	5.4
RIVERSTONE ENERGY LTD	-29	5.1

Statistics

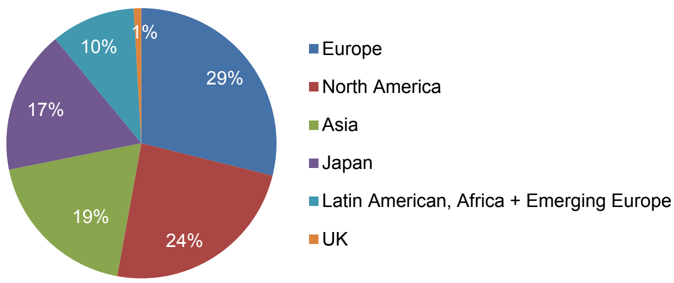
	Value	% 1 mo	% 1 yr	% 3 yr	% 5 yr
Price (£) TR[2]	762.0	1.2	12.2	63.1	69.7
Net Asset Value TR[1]	836.5	1.6	10.3	55.9	62.4
MSCI ACWI ex US TR[3]		3.1	7.0	43.7	55.2
MSCI ACWI ex US Value[1]		3.8	5.0	39.6	47.1
MSCI ACWI TR[1]		3.7	12.1	56.4	83.0
Morningstar Global Growth TR[3]		2.1	16.9	64.2	98.4
Fiscal 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: Fujitec Co, 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	16,900,935
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	£89.2mil.
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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