UPDATE 31 October 2018

BRITISH EMPIRE TRUST
INVESTING IN UNDERVALUED ASSETS

Manager's Comment

In a challenging month for equity markets, BTEM's NAV fell by -4.9%. This decline was less than broader markets despite a headwind from portfolio discount widening (from 30.4% to 30.8%). A favourable outcome in the Brazilian election (for markets if not human rights) translated into exceptional returns from our two Brazilian holdings, Cosan Limited and GP Investments, which topped the contributors table over October. A weakening of the Pound on the back of continued Brexit uncertainties also helped given BTEM's very low look-through weighting to Sterling (c1% of NAV). Fondul Proprietatea's share price was flat over the month, putting it in third place, while JPEL Private Equity also held up well (down just -1%). The largest detractors were the Japanese Special Situations basket, EXOR, Wendel, Tokyo Broadcasting System, and Pargesa.

A convincing victory for the "Trump of the Tropics" Jair Bolsonaro in the Brazilian presidential elections and - more pertinently for markets - the appointment of Chicago-trained economic adviser, Paulo Guedes, to his cabinet sparked a sharp rally in what had been one of the year's worst performing markets with both the local market (up +9%) and the Real (up +11% vs GBP) staging a pronounced recovery. Cosan Limited (CZZ)'shares, which are traded in USD, soared by + 24% while GP Investment (GP)'s were up +11%.

For CZZ, there were key idiosyncratic drivers in addition to the political and broader market developments. As a reminder, CZZ's complex corporate structure has resulted in a huge amount of value being trapped in the double discounts that prevail between CZZ and its investments in two other listed group holding companies, Cosan SA and Cosan Logistica, and in turn between these latter two companies and their underlying investments (Raizen Energia, Raizen Combustiveis, Comgas, Moove, and Rumo). CZZ's look-through discount was an astonishing 56% at month-end. Alongside the attractive underlying assets, our investment case for CZZ is predicated on our conviction that the family's ultimate goal is to collapse the structure.

During the month, it was announced that Cosan SA would acquire Cosan Logistica in an all-share deal. While this would have simplified the corporate structure to a degree and allowed Cosan Logistica shareholders to benefit from the above-market bid, the greater discount on which Cosan SA trades relative to Cosan Logistica would have resulted in heavy dilution for Cosan SA shareholders. Furthermore, as we communicated to management, it did little to eliminate the double discount. It would appear our views were shared by other shareholders as, just following month-end, the plans were abandoned.

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The receptiveness to shareholder feedback and regard for minority shareholders reflects well on management and the family. While this specific transaction was sub-optimal, it confirmed to us that a simplification of the structure is a top priority and we expect work is already underway on alternative transactions. On a broader point, it also provided support for our typical strategy across all our holding company investments (whether in South America, Europe, or Asia) of seeking to align ourselves with the controlling families where possible (in this case, in CZZ rather than either of its two holding companies further down the structure).

We expect GP - an internally-managed private equity investment company - to be a beneficiary of more supportive Brazilian equity markets to the extent they facilitate IPOs and trade sales of its portfolio investments. In the near-term, we would highlight its investment in Centauro (13% of NAV at reported values).

While Centauro filed for an IPO in Oct-17, the process has been on hold pending the results of the Brazilian elections. Centauro is a successful omni-channel sports retailer which we estimate is held at 9x EV/EBITDA in GP's NAV. Listed peers trade at materially richer multiples, and our base case for Centauro's valuation upon listing suggests considerable upside. Furthermore, a successful IPO of Centauro would result in an even larger proportion of GP's market cap being covered by listed securities which would serve to shine more light on GP's anomalously wide discount of 49%.

The Japanese basket, which consists of 16 individual cash-rich and over-capitalised Japanese operating companies that are in aggregate our largest holding, was our biggest detractor over the month as it fell in line with the Japanese small-cap market. Such price moves serve to further highlight the inefficiency with which these companies are priced as, given their cash backing of 52% of market cap, the market is implicitly marking down their operating businesses by significantly more than their less well-capitalised peers.

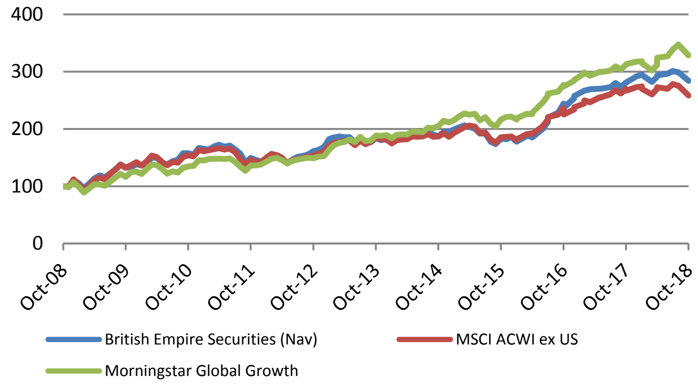
Investment Objective: To achieve capital growth through a focused portfolio of investments, particularly in companies whose share prices stand at a discount to estimated underlying net asset value.

Performance Total Return

This investment management report relates to performance figures to 31 October 2018.

	Month	Financial Yr* to date	Calendar Yr to date
BTEM NAV[1]	-4.9%	-4.9%	-0.7%
MSCI ACWI Ex US[3]	-6.2%	-6.2%	-5.3%
MSCI ACWI Ex US Value[1]	-4.9%	-4.9%	-4.5%
MSCI ACWI[1]	-5.6%	-5.6%	2.1%
Morningstar Global Growth[1]	-7.5%	-7.5%	2.8%

Performance Total Return OCT 2008 - OCT 2018



Top Ten Equity Holdings

Holding	%
Japan Special Situations***	13.9
Pershing Square Holdings #	8.6
Fondul Proprietatea	6.1
Riverstone Energy	5.5
EXOR	5.5
Jardine Strategic	5.5
Pargesa	5.5
Tetragon Financial	5.3
Third Point Offshore	5.0
Wendel	4.9
TOTAL	63.9

1.5% of this position is hedged, partially reducing BTEM's overall exposure to Pershing Square Holdings

Over the long-term, our research does indeed show that these over-capitalised companies outperform on average in down months, but irrationality is certainly a feature over shorter periods which, of course, creates opportunities for fundamental investors.

EXOR suffered on the back of a falling NAV (-10%) and widening discount (out to 35.6% from 33.1%). Fiat Chrysler (FCA)'s shares fell by 11%; Ferrari was down 13%; CNH was down 11%; and the small holding (as a percentage of NAV) in Juventus fell 36% following allegations made against star player Cristiano Ronaldo.

We wrote in detail in last month's newsletter of speculation that KKR would acquire Magnetti Marelli, the auto parts manufacturer owned by FCA (35% of EXOR's NAV). These reports proved well-founded when it was announced in October that this had indeed come to pass, with the purchase price of €6.2bn coming in slightly above expectations. FCA subsequently announced that it will use part of the proceeds to pay a special dividend of €2bn (which equates to a 9% yield), and will begin paying a regular dividend each year set at a 20% pay-out ratio (a 4% yield at current levels). EXOR has since committed to using half of its special dividend receipts from FCA for share buybacks, a wholly appropriate use of cash given the very wide discount to NAV at which EXOR's shares trade.

While FCA's shares rose on the news, it was nowhere near enough to recover the losses recorded in the first few weeks of the month, and the share price ended the month down -11%. We continue to believe the noise around trade and tariffs is masking the remarkable progress at the company, which now finds itself in a positive net cash position of €1.5bn having been indebted to the tune of €5bn just three years ago. While the industry in which it operates will always be cyclical, FCA's robust balance sheet and lean cost structure makes it better placed than most to withstand a downturn.

We continue to see compelling value in FCA, which trades on just 3.3x EV/2018 EBIT versus 6.7x for General Motors and 5.2x for Ford. Furthermore, we see the ultimate game-plan from EXOR's perspective as being the sale of FCA to a larger competitor. Given their 29% stake in the business, EXOR are well positioned to drive this process.

Former FCA CEO Sergio Marchionne's seminal 2015 presentation, "*Confessions of a Capital Junkie - An insider perspective on the cure for the industry's value-destroying addiction to capital*", lambasted the auto industry's wasteful duplicative expenditure and called for industry consolidation to drive up returns on capital. John Elkann, EXOR's CEO, is a keen student of Warren Buffet and his only major new investment during his reign so far at EXOR was the 2015 acquisition of PartnerRe, a US-based reinsurance business as far removed from the capital autos business as possible. It thus does not require much imagination to paint a scenario under which FCA is sold to a rival, most likely - we believe - after the turn-around of FCA's European business is completed, and possibly sold, so as to better reveal the valuable and thriving core US business centred on high-margin SUVs and Jeeps.

Trading activity was fairly limited over the month, with the most notable trade being an addition to our existing position in Pershing Square Holdings (PSH) but accompanied by hedges placed on the underlying holdings. We continue to see a lot of value in PSH's portfolio with multiple idiosyncratic drivers of returns but, with over 7% of our NAV invested in the company already, we believe that an incremental investment on a hedged basis has the potential to produce equity-like returns without taking additional equity market risk. By selling short an appropriate amount of the underlying holdings, we are seeking to isolate returns from the discount narrowing in from the 24% level at which we purchased the additional PSH shares and placed the hedges. At month-end, our investment in PSH represented 8.6% of NAV, of which 1.5% was hedged, leaving net exposure to PSH's portfolio of 7.1%.

Statistics

	Value	% 1 mo	% 1 yr	% 3 yr	% 5 yr
Price (£) TR[2]	716.0	-6.3	1.4	61.5	59.6
Net Asset Value TR[1]	793.2	-4.9	1.0	55.0	53.0
MSCI ACWI ex US TR[3]		-6.2	-4.2	39.4	39.5
MSCI ACWI ex US Value[1]		-4.9	-3.5	39.4	33.3
MSCI ACWI TR[1]		-5.6	3.9	53.7	74.02
Morningstar Global Growth TR[3]		-7.5	4.4	57.7	80.8

Fiscal Yr Total Returns (%)	2018	2017	2016	2015	2014
Price[1]	12.0	18.7	34.3	-9.5	8.9
Net Asset Value[1]	10.0	18.8	31.0	-8.3	6.8
MSCI ACWI ex US (£)3	5.2	16.3	28.0	-5.6	5.1
MSCI ACWI ex US Value[1]	3.9	18.4	25.5	-9.8	5.7
MSCI ACWI[1]	13.5	15.5	31.3	0.4	11.8
Morningstar Global Growth[3]	16.7	21.3	26.9	3.7	8.7

Capital Structure	
Ordinary Shares	129,526,165
Shares held in Treasury	17,990,809
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	£982mil.
Debt par value	£88.9mil.
Actual Gearing (Debt less cash divided by net asset	5.9%

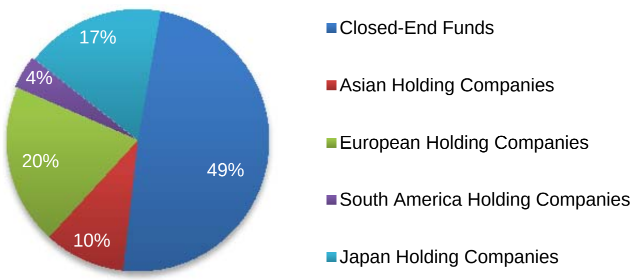
1 Source: Morningstar. All NAV figures are cum-fair values.
2 Source: Morningstar. Share price total return is on a mid-to-mid basis, with net income re-invested.
3 From 1st October 2013 the lead benchmark was changed to the MSCI ACWI ex US (£) Index. The investment management fee was changed to 0.7% 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 16 stocks: Fujitec Co, Yamato Kogyo, Kato Sangyo, Tachi-S, Nishimatsuya Chain, Pasona Group, Daiwa Industries, Melco Holdings Inc., SK Kaken Co, Kanaden Corp, Toshiba Plant, Nissan Shatai, Teikoku Sen-I, Nakano, Mitsuboshi Belting, Sekisui Jushi Corp.

Contributors / Detractors (in GBP)

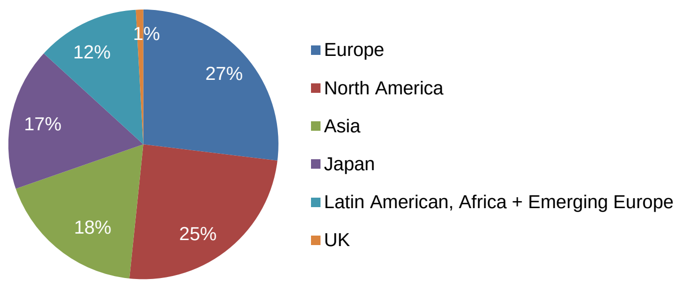
Largest Contributors	1 month contribution bps	Percent of NAV
COSAN LTD-CLASS A SHARES	86	4.3
GP INVESTMENTS LTD - BDR	22	1.3

Largest Detractors	1 month contribution bps	Percent of NAV
JAPAN SPECIAL SITUATIONS***	-121	13.9
EXOR NV	-84	5.5

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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