UPDATE 31 December 2018

BRITISH EMPIRE TRUST
INVESTING IN UNDERVALUED ASSETS

Manager's Comment

BTEM was by no means immune from December's downwards lurch in equity markets, not helped by a headwind from a widening portfolio discount (31.5% to 33.0%). Weak Sterling provided only a minor offset. BTEM's NAV fell -6.5% with the largest detractors including the Japan Special Situations basket, Tokyo Broadcasting System, Pershing Square Holdings (PSH), Symphony International, Fondul Proprietatea, Riverstone Energy, and EXOR. The reflexive strength in the Yen that typically characterises weak global equity markets helped offset a portion of the local currency losses from our Japanese equity holdings, with the currency gaining +3.6% against Sterling. The only two investments to register a positive return were Pargesa, and the hedged portion of our position in PSH.

Japanese small-caps were some of the worst-hit stocks globally over the month, and it was therefore no surprise to see our Japan Special Situations basket (in aggregate, our largest holding at 15% of NAV) top the list of detractors for December with a weighted average share price decline of -13% (in line with the TOPIX Smallcap Index). 15 of the 20 stocks in the basket fell by more than -10% with six of these declining by more than -15%. As commented upon in past newsletters, such price moves are inconsistent with an efficient market given that these companies began the month with 55% of their market caps covered by cash on a weighted average basis. The basket's fall in line with the index means the market is implicitly marking down their operating businesses by significantly more than their less well-capitalised peers. As value investors, we relish the opportunities provided by such inefficiencies and look forward to accruing outsized returns when the market moves to being a "weighing" rather than "voting" machine over the longer term. At the end of December, the weighted average free cash-flow yield of the basket was 7%, which would rise to 38% were cash and listed securities excluded from the equity base.

Our investment in Tokyo Broadcasting System (TBS), which sits outside the basket, experienced the single greatest fall in share price across our portfolio, down -18% with weak performance at its two largest listed holdings (Tokyo Electron and Recruit) exacerbated by a widening discount. At a 41% discount to our estimated NAV and with its market cap covered 1.2x over by cash and non-core assets, we see the stock's valuation as compelling particularly given the potential for improvements in capital allocation at the company.

"Of much greater concern in terms of potential for permanent value impairment was the Emergency Government Ordinance approved by the Romanian Government in late-December."

We discussed in our October newsletter our initiation of an additional hedged position in Pershing Square Holdings (PSH). PSH was already our largest single holding and, while we still saw (and continue to see) a lot of value in PSH's portfolio from multiple idiosyncratic drivers of returns, our rationale was that an incremental investment on a hedged basis had the potential to produce equity-like returns without taking additional equity market risk. At month-end, 30% of our total long position in PSH was hedged by selling short an appropriate amount of the underlying holdings - in doing so, 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. PSH's NAV fell -11% in December, in line with the S&P 500 index move if one adjusts for PSH's gearing, with the holdings in United Technologies, Platform Specialty Products, and Howard Hughes falling the most. While the unhedged position in PSH was thus our second largest individual detractor behind TBS, the hedged position registered a small gain on the back of a marginally tighter discount.

Having previously been on course to register its first positive full-year return since inception, the Q4 sell-off meant PSH's NAV finished the year -0.7% down. While this was still some way ahead of the S&P 500 (-4.4%), the very poor (relative and absolute) returns in prior years mean the manager has a lot of catching up to do to restore their reputation. The portfolio has enjoyed a strong recovery in the early days of 2019, but we maintain that a discount of 24% for a portfolio of liquid large-cap listed holdings is unsustainable.

Symphony International's NAV held up well (down just 2%), but - as is often the case with this off-the-radar illiquid stock - small clumsy sell orders had a disproportionate impact on its share price with the discount widening to 36% (from 28%). We are fairly sanguine about such moves given their tendency to correct themselves relatively quickly and, indeed, SIHL's discount has narrowed to 32% at the time of writing.

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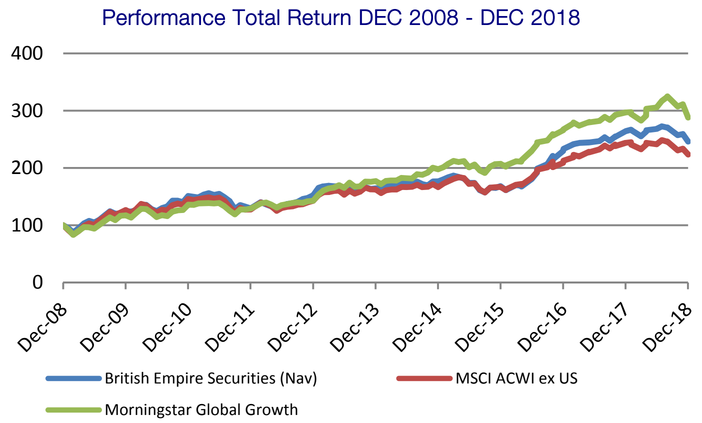
Investment Objective: To achieve capital growth through a focused portfolio of investments, particularly in companies whose share prices stand at a discount to estimated underlying net asset value.

Performance Total Return

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

	Month	Financial Yr* to date	Calendar Yr to date
BTEM NAV[1]	-6.5%	-10.6%	-6.6%
MSCI ACWI Ex US[3]	-4.3%	-9.3%	-8.4%
MSCI ACWI Ex US Value[1]	-4.3%	-8.5%	-8.1%
MSCI ACWI[1]	-6.8%	-10.6%	-3.3%
Morningstar Global Growth[1]	-7.2%	-12.6%	-2.8%



Top Ten Equity Holdings

Holding	%
Japan Special Situations***	15.1
Pershing Square Holdings [#]	8.6
Fondul Proprietatea	5.9
Jardine Strategic	5.8
Pargesa	5.7
EXOR	5.6
Tetragon Financial	5.5
Riverstone Energy	5.2
Third Point Offshore	5.2
JPEL Private Equity	5.2
TOTAL	67.8

[#] 30% of this position (2.6% of NAV) is hedged, partially reducing BTEM's overall exposure to Pershing Square Holdings

Romanian Government in late-December. This package of measures which include a 2% tax on turnover for companies operating in the electricity and gas sectors, and a cap on gas prices (set at 25% below current market rates for the next three years) and electricity prices (at a level yet to be set), affects much of Fondul Proprieteatea (FP)'s portfolio. Some of these measures (the cap on gas prices, for example) contravene Romania's obligations under EU law, and will be contested vigorously. FP's listed holdings responded immediately, with integrated oil & gas producer OMV Petrom falling -20% over the month. With a multi-billion funding decision still under review for Project Neptun, OMV Petrom's massive gas discovery in the Black Sea, it is hard to characterise the Government's decision as anything other than taking a blunderbuss to its own foot. We expect OMV and its Project Neptun JV partner Exxon will be making their views known to the key decision makers in government.

The full impact on Hidroelectrica (FP's largest positon with a weight of 35% of NAV at the beginning of the month) is uncertain until the level of the electricity price cap is announced later this month, but there is at least a substantial buffer to its valuation given its exceptional financial performance for the 9m-2018 period was not reflected in its stale valuation in FP's NAV. Indeed, post-year-end, Hidroelectrica was revalued upwards by +21% (this adjusts for its 2018 results, but not for the impact of the new turnover tax nor the as-yet-unknown electricity price cap.

Riverstone Energy continued its slide on the back of a further drop in the oil price, while EXOR's NAV declined in line with share price falls at its listed holdings (Fiat Chrysler, Ferrari, and CNH Industrial). Pargesa, the Swiss-listed holding company, saw its discount narrow materially from 39.5% to 33.7% which was sufficient for it to register a positive return for the month despite a falling NAV.

Our engagement with portfolio companies has had further success, with the announcement by Third Point Offshore Investors (TPOU) of a base fee cut from 2% to 1.25% and the initiation of a buyback programme. We first invested in TPOU in Jul-17. Since then, the company has moved to a Premium listing; cancelled half of its shares held by the Master Fund; begun repurchasing its shares; committed not to re-issue repurchased shares at a discount to NAV; launched an active marketing programme; made changes to its Board of directors; and - most recently - reduced its management fees as outlined above. While we believe these measures mean the company is in a better place now than it was before we appeared on the register (although there is more scope for further improvements), NAV performance has been disappointing and the managers need to turn this around if they are to justify TPOU's continued existence given the current discount remains comfortably in excess of 20%.

Just after month-end, NB Private Equity Partners (NBPE) also announced a share buyback programme along with the sale of a portion of its legacy third party funds interests. We have been keen to see the company take this step for some time now, although the key question is of course how aggressive (or not) this programme proves to be in practice. As a long-term shareholder of NBPE (our first investment was made in early 2013), we have benefitted from outstanding NAV performance and, as with TPOU, the company today is in far better shape than it was before our arrival. Measures introduced over our holding period include the introduction of full voting rights that accompanied a move to a Premium listing; a reduction in the number of non-independent directors from two to one; greater clarity on the dividend policy (now set at a minimum 3% of NAV with an upwards bias); as well as the recent sale of a part of the legacy funds portfolio, and the announcement of the buyback programme as referred to above.

Trading activity was limited over the month.

Contributors / Detractors (in GBP)

Largest Contributors	1 month contribution bps	Percent of NAV
PARGESA	20	5.7
PERSHING SQUARE HOLDINGS (Hedged)	1	2.6

Largest Detractors	1 month contribution bps	Percent of NAV
JAPAN SPECIAL SITUATIONS***	-156	15.1
PERSHING SQUARE HOLDINGS (Unhedged)	-61	6.0

[#]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.

Statistics

	Value	% 1 mo	% 1 yr	% 3 yr	% 5 yr
Price (£) TR[2]	666.0	-5.8	-6.4	54.0	52.5
Net Asset Value TR[1]	735.9	-6.5	-6.6	45.6	46.0
MSCI ACWI ex US TR[3]		-4.3	-8.4	33.9	37.7
MSCI ACWI ex US Value[1]		-4.3	-8.1	35.4	31.2
MSCI ACWI TR[1]		-6.8	-3.3	42.5	64.6
Morningstar Global Growth TR[3]		-7.2	-2.8	44.9	69.1

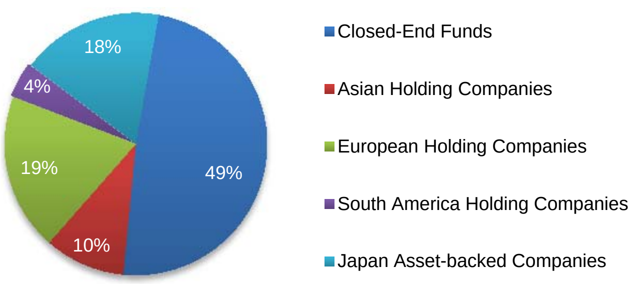
Fiscal Yr Total Returns (%)	2018	2017	2016	2015	2014
Price[1]	12.0	18.7	34.3	-9.5	8.9
Net Asset Value[1]	10.0	18.8	31.0	-8.3	6.8
MSCI ACWI ex US (£)3	5.2	16.3	28.0	-5.6	5.1
MSCI ACWI ex US Value[1]	3.9	18.4	25.5	-9.8	5.7
MSCI ACWI[1]	13.5	15.5	31.3	0.4	11.8
Morningstar Global Growth[3]	16.7	21.3	26.9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

Capital Structure	
Ordinary Shares	129,526,165
Shares held in Treasury	18,544,527
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

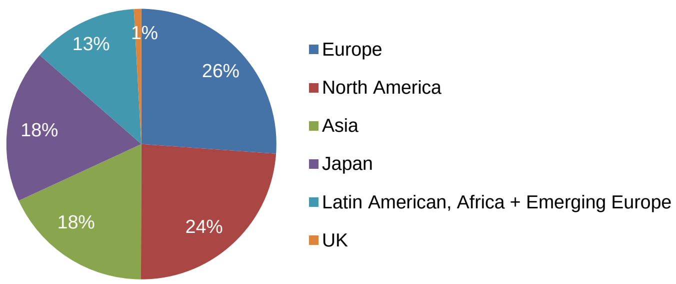
Gross Assets/Gearing	
Gross Assets	£916mil.
Debt par value	£89.5mil.
Actual Gearing (Debt less cash divided by net assets)	8.5%

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 20 stocks: Fujitec Co, Yamato Kogyo, Kato Sangyo, Tachi-S, Nishimatsuya Chain, Pasona Group, Daiwa Industries, SK Kaken Co, Kanaden Corp, Toshiba Plant, Nissan Shatai, Teikoku Sen-I, Nakano, Mitsuboshi Belting, Sekisui Jushi Corp, Nuflare,Toagosei, Konishi, Nippon Kanzai, Digital Garage.

Sector Breakdown
(% of invested assets)



Risk Region Breakdown[#]
(% of net assets)



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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