UPDATE 28 February 2019

BRITISH EMPIRE TRUST
INVESTING IN UNDERVALUED ASSETS

Manager's Comment

Global equity markets extended their rally into the second month of 2019, with BTEM participating in full with a NAV total return of +3.0%. The portfolio faced a mixed set of head- and tailwinds over the month, being hindered by the strong performance of sterling against most major currencies, while being supported by a tightening of the portfolio discount by 185bps to 32%. Major contributors include the Japan Special Situations basket, Pershing Square Holdings, Tokyo Broadcasting Systems, and Fondul Proprietatea. Major detractors include EXOR and Riverstone Energy.

The Japan Special Situations basket was by far the largest contributor to BTEM's performance in February, adding 91bps to returns. Five stocks, out of a total of twenty in the basket, accounted for the majority of this figure. Kato Sangyo (share price +17% in JPY) announced a buyback of 2% of outstanding shares, which follows on from a 2% buyback conducted in October last year; Daiwa Industries (+14%) announced a two-fold increase in its dividend, the second increase since 1998; Pasona Group (+16%) was the target of activist shareholder AIM&R, which wrote an open letter calling for Pasona to either spin off or merge with listed subsidiary Benefit One; and Kanaden Corp (+13%) bought back 4% of its outstanding shares, in the process reducing its cross-shareholdings with two major banks. This evidence at the individual company level serves to highlight a trend: dividends and buybacks have been rising in aggregate in Japan over the past several years. This, inter alia, leads us to believe that we are in the midst of a paradigmatic shift in corporate Japan's attitude towards governance, with the attendant potential for highly attractive risk-adjusted returns as companies improve governance standards and enhance balance sheet efficiency.

Pershing Square Holdings (PSH) continued to perform well in 2019, outperforming the US market (S&P +3% in USD) with its NAV increasing by 9% in February. Our long position added 48bps to performance, and the hedged position added a further 2bps. As a reminder, 45% of our total long exposure to PSH is hedged by shorting a pro rata amount of the underlying holdings, which provides us with the potential for equity-like returns from discount tightening from the current very wide level, without taking additional equity market risk.

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Chipotle was the star performer in PSH's portfolio this month, with its share price increasing +15% on the back of an earnings report which showed that same-store sales were up +6% (including a +2% boost from traffic) – providing further evidence that the new CEO's strategy is bearing fruit. When we consider that Chipotle's restaurant unit sales remain some 20% below the peak – and we add in the fact that it has only just begun to harness the potential for online sales – the quantum of potential future growth and associated benefits from operating leverage appear extremely compelling.

Hilton Worldwide also reported consensus-beating results in February, resulting in the share price increasing +12%. Other companies within PSH's portfolio performed well, including Automatic Data Processing (+9%), Lowe's (+9%), United Technologies (+7%) and Starbucks (+4%), all of which also posted strong results in the prior month.

Despite the continued strong performance, the discount remains unsustainably wide at c. 25%. PSH announced that it will introduce dividend payments equating to a c. 2.5% yield which, while a marginal positive, will not, we believe, be a major contributor to discount tightening. It remains obvious to us that the company should use the proceeds from the recent sale of Element Solutions to fund a material buyback and/or tender offer.

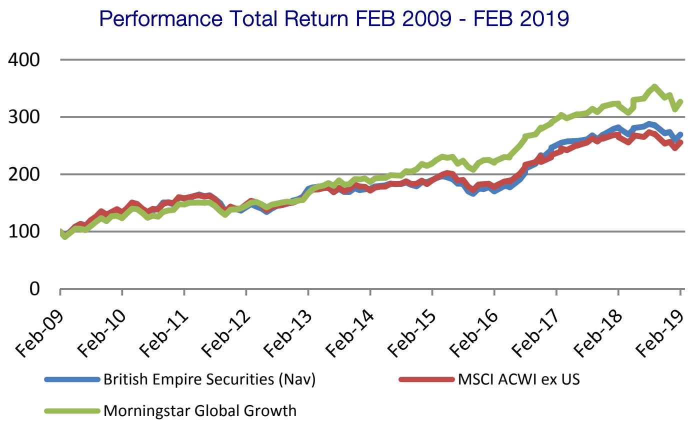
Tokyo Broadcasting Systems (TBS) was the third-largest contributor over the month, adding 36bps to returns as its share price increased +13%. The returns were driven almost entirely by discount tightening, moving from 41% to 33%, as the NAV declined by -1%. During the month, TBS posted third quarter results with sales +3% and operating profits -4% driven by margin contraction; post month-end, TBS announced that it had sold part of its securities portfolio to fund capital expenditure. While the position sold was small relative to the size of TBS' portfolio, we view the move as a positive indicator that management and the Board are beginning to rationalise their balance sheet and reduce the level of over-capitalisation.

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 28 February 2019.

	Month	Financial Yr* to date	Calendar Yr to date
BTEM NAV[1]	3.0%	-4.4%	6.9%
MSCI ACWI Ex US[3]	0.8%	-4.7%	5.0%
MSCI ACWI Ex US Value[1]	0.1%	-4.6%	4.2%
MSCI ACWI[1]	1.6%	-5.1%	6.2%
Morningstar Global Growth[1]	2.2%	-6.3%	7.0%



Top Ten Equity Holdings

Holding	%
Japan Special Situations***	15.2
Pershing Square Holdings [#]	10.0
EXOR	5.7
Jardine Strategic	5.4
Fondul Proprietatea	5.4
Tetragon Financial	5.3
Swire Pacific Ltd 'B'	4.9
Third Point Offshore	4.8
Oakley Capital Investments	4.8
Pargesa	4.6
TOTAL	66.1

[#] 45% of this position (4.5% of NAV) is hedged, partially reducing BTEM's overall exposure to Pershing Square Holdings

Having been the largest single detractor in January, Fondul Proprietatea (FP) became one of the largest contributors this month, adding 36bps to returns. With NAV declining by -2%, the returns came entirely from the discount contracting by 6%. Over the month, we received increased transparency on the impact of the Emergency Ordinance on FP's NAV. As a reminder, in December 2018 the Romanian government enacted an Emergency Ordinance, ostensibly to raise tax revenues and stabilise the State Budget. The measures targeted sectors to which FP has high exposure, and included punitive taxes and levies, and a directive to gas and electricity producers to sell a fixed percentage of electricity production into the (much lower priced) regulated market.

During the month, FP published an official NAV for January 2019, which included an estimate of the impact of the Romanian government's new legislation. Its NAV was written down by -4% which, while negative, was less than investors had feared. This figure included a -9% impairment of Hidroelectrica (38% of NAV) which merely brought the valuation back to where it had been before December 2018. With the results being less bad than expected – along with some dilution/softening of the Ordinance itself, and the announcement of an 11% dividend yield for 2018 – the market (justifiably, in our view) clawed back some of the losses experienced in December and January, and the share price ended the month up +8%. Subsequent to month-end, the Romanian regulator set Hidroelectrica's level of output to be sold on the regulated market in 2019 at just under 10% of total production. This is a far lower amount than first expected, and we expect FP's stake in Hidroelectrica to be revalued upwards as a result.

EXOR was the portfolio's largest detractor in February, reducing returns by 29bps. Here, the majority of returns came from a declining NAV, with the discount being more or less static. Despite some good performance in other parts of the portfolio – Ferrari +4%, CNH Industrial +11% – the NAV performance was overwhelmed by Fiat Chrysler Automobile (FCA, 30% of NAV)'s share price falling by -13%. FCA released FY2018 results during the month, with EBIT coming in slightly below guidance and highlighting some problematic performance in Europe, China and the Maserati brand. On the other hand, the NAFTA and LatAm regions performed very well. FCA has now instated a dividend policy which, at just a 20% payout ratio, equates to a 5% dividend yield at the time of writing.

While we acknowledge that overall the results were not blemish-free, we would argue that: the group trades on a lowly 3x EV/EBIT; has no debt; has a long runway of profit growth ahead as it begins to move away from mass-market cars and into higher-margin product lines; has a track record of asset divestitures to unlock value; and is guided by a family and management team with a philosophy of prudent capital allocation. We continue to believe that FCA is a compelling opportunity.

The other major detractor from the portfolio this month was Riverstone Energy, which reduced returns by 19bps. The NAV declined by -6% over the month, mitigated by a slight tightening of the discount by 2%. While there was a tailwind in the oil price recovering by 6-7%, this was countered by the weakening USD against GBP and a 31% drop in the share price of sole listed holding Centennial Resources (10% of NAV) as it guided down production by more than expected in response to the weak oil price. Centennial's CEO Mark Papa has much work to do to regain the confidence of the sell-side and investors.

Trading activity was limited over the month.

Contributors / Detractors (in GBP)

Largest Contributors	1 month contribution bps	Percent of NAV
JAPAN SPECIAL SITUATIONS***	91	15.2
PERSHING SQUARE HOLDINGS – UNHEDGED POSITION	48	5.5

Largest Detractors	1 month contribution bps	Percent of NAV
EXOR NV	-29	5.7
RIVERSTONE ENERGY LTD	-19	4.6

[#]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]	715.0	2.0	1.0	72.1	62.3
Net Asset Value TR[1]	786.3	3.0	-1.4	63.8	54.6
MSCI ACWI ex US TR[3]		0.8	-2.6	44.3	45.9
MSCI ACWI ex US Value[1]		0.1	-3.1	45.6	38.0
MSCI ACWI TR[1]		1.6	3.3	53.1	75.5
Morningstar Global Growth TR[3]		2.2	2.4	61.8	79.6

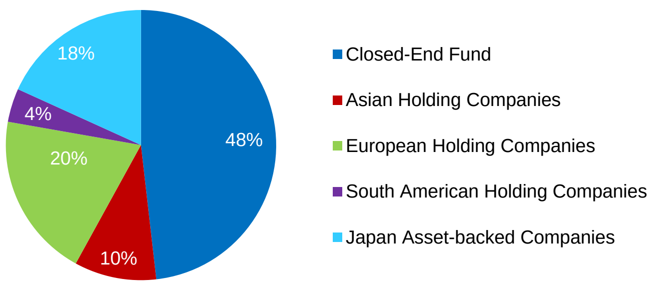
Fiscal Yr Total Returns (%)	2018	2017	2016	2015	2014
Price[1]	12.0	18.7	34.3	-9.5	8.9
Net Asset Value[1]	10.0	18.8	31.0	-8.3	6.8
MSCI ACWI ex US (£)3	5.2	16.3	28.0	-5.6	5.1
MSCI ACWI ex US Value[1]	3.9	18.4	25.5	-9.8	5.7
MSCI ACWI[1]	13.5	15.5	31.3	0.4	11.8
Morningstar Global Growth[3]	16.7	21.3	26.9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

Capital Structure	
Ordinary Shares	129,526,165
Shares held in Treasury	18,621,612
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

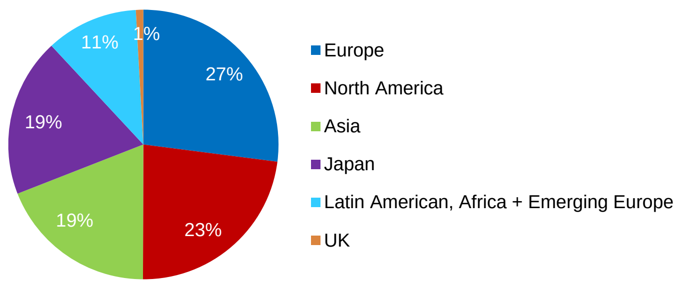
Gross Assets/Gearing	
Gross Assets	£969mil.
Debt par value	£87.4mil.
Actual Gearing (Debt less cash divided by net assets)	6.4%

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, 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, 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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