

Manager's Comment

January's adverse FX moves (versus Sterling) failed to overwhelm strong local currency gains from key positions as BTEM's NAV increased by +1.5% despite FX losses of -2.7%.

Our largest contributors were EXOR, Digital Garage, Aker, Cosan Limited, Wendel, Swire Pacific Bs, and GP Investments. The only detractors of note in local currency terms were Tokyo Broadcasting System, and the Japanese Special Situations Basket.

EXOR was our largest contributor with its share price rising by +22% over the month, driven almost entirely by a +31% increase in Fiat Chrysler (FCA)'s shares. At 40% of NAV, FCA is comfortably EXOR's largest holding and we have outlined in previous newsletters our view on the derisory valuation afforded it by the market. We believe the dramatic extent of FCA's re-rating over such a short time period represents the market finally beginning to appreciate the scale of its transformation, and the potential for value to be unlocked by the sale/IPO of FCA's stake in auto-parts manufacturer Magnetti Marelli and the spin-off of its Maserati/Alfa Romeo brands.

It has not paid to underestimate FCA's CEO Sergio Marchionne, who is due to step down in early 2019. If Marchionne's swan-song is to include meeting his 2018 plan guidance, FCA will be trading at a free cash-flow yield to equity of 15% based on the current share price. With Marchionne's hand-picked successor likely to maintain his shareholder-friendly approach to capital allocation, FCA could be in a position to retire 15% of its share count each year. Much more likely, of course, is that there is a further re-rating of FCA's share price to put it closer to fair value if the projected cash flows do come through. EXOR's holdings in Ferrari (22% of NAV) and CNH Industrial (20% of NAV) also chipped in with share price rises of +10% and +7% respectively in January, while EXOR's stubbornly wide discount finally started to tighten (in 450bps to 29.1%) adding a further tailwind to our returns.

Digital Garage's shares climbed +22%. Aside from its stake in publicly-quoted online comparison site Kakaku.com which accounts for 44% of NAV, Digital Garage also owns several unlisted technology investments across the payments and online advertising sub-sectors. The fervour around block-chain has now reached Digital Garage which has some small investments in this area, and this speculation saw the 22% discount on which it began the month shrink to just 4%. We reduced our position at these tighter discount levels.

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Aker's holding in Aker BP (71% of its NAV) benefitted from continued strength in the oil price as it moves ever closer to first oil at Johann Sverdrup; Cosan Limited climbed very strongly (+18%) along with the rest of the Brazilian market, although its discount and look-through discount remain exceptionally wide at 32% and 53% respectively; Wendel benefitted from a narrowing discount (in 310bps to 20.9%) on reports that advisors have been hired to explore an IPO or sale of its stake in speciality chemicals manufacturer Stahl; and the discount on Swire Pacific B shares narrowed over the period, although the shares still trade on a negative stub value (i.e., stripping out the market value of their stake in Swire Properties).

Although not a material contributor to BTEM's NAV return due to FX losses on translation, Pershing Square Holdings (PSH) performed well in local currency terms on the back of a narrowing discount (in 410bps to 17.4%) following the announcement early in the month that the manager, Pershing Square Capital Management (PSCM), is to conduct a \$300m tender offer for PSH shares at a discount range of 16-24%. To facilitate the tender offer, the Board of PSH are granting a waiver to PSCM exempting them from the 5% ownership limit that exists to prevent inadvertent breaches of US tax laws relating to investments in real estate.

While we would ordinarily welcome a manager aligning themselves further with shareholders with such a large personal investment, we had several concerns. Firstly, we believed a vote should be held on whether to restrict PSH's investment in real estate-related holdings (via common stock; positions could still be replicated via derivatives) and thus allow ownership limits to be permanently removed for all shareholders. Secondly, we felt that PSH should be acquiring its own shares in the event ownership limits were removed, thereby generating accretion to NAV per share which is absent from a manager-led tender offer. We also believed that if the discount were to remain wide and a tender were held in future by PSH, then PSCM would have been given an unfair opportunity to acquire cheap stock ahead of the company. Having made these points to the Board and Manager, we were

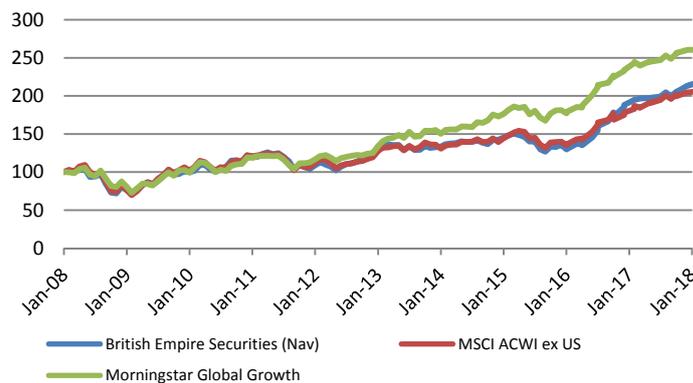
Investment Objective: To achieve capital growth through a focused portfolio of investments, particularly in companies whose share prices stand at a discount to estimated underlying net asset value.

Performance Total Return

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

	Month	Financial Yr* to date	Calendar Yr to date
BTEM NAV ¹	1.5%	7.0%	1.5%
MSCI ACWI Ex US ³	0.4%	4.7%	0.4%
MSCI ACWI Ex US Value ¹	0.8%	4.3%	0.8%
MSCI ACWI ¹	0.5%	5.5%	0.5%
Morningstar Global Growth ¹	2.6%	7.0%	2.6%

Performance Total Return JAN 2008 - JAN 2018



Top Ten Equity Holdings

Holding	%
Japan Special Situations***	11.0
Exor	6.4
Pargesa	5.5
Tokyo Broadcasting System	5.1
Pershing Square Holdings	5.1
Riverstone Energy	5.1
Third Point Offshore Investors	4.8
Fondul Proprietatea	4.8
Aker ASA	4.7
Wendel	4.7
TOTAL	57.2

pleased that an announcement was made giving three key concessions: 1) the PSCM tender offer discount range would be tightened from 16-24% to 10-16%; 2) a vote would be held at the AGM in Apr-18 on restricting investment in real estate/removing ownership caps with PSCM agreeing to vote their shares in favour; 3) ahead of the vote, a waiver to the ownership limit would be granted to any shareholder willing to give the required undertakings regarding real estate investments.

While the PSCM tender will still go ahead before the vote on removing ownership limits is held, we believe the tighter discount range at which the tender will take place substantially mitigates the risk of PSCM effectively "front-running" either PSH itself or other shareholders given the new range represents an uplift on the current discount level. We are sceptical that the \$300m tender by management will be sufficient to materially narrow PSH's discount. At the same time, we appreciate that large-scale returns of capital could impair the value of what is a highly concentrated and activist portfolio in which we continue to see considerable scope for upside, and we are cognisant that more structural solutions to the discount are required. We continue to engage constructively with the Board and Manager.

The two key detractors over the month came from Japan: Tokyo Broadcasting System gave back some of its gains on no news, and the Japanese Special Situations basket had a rare month where it underperformed. Notwithstanding the setback in January, the basket has outperformed the TOPIX by +13.6% and the TOPIX Smallcap by +8.0% since its inception in Jun-17.

We added to Swire Pacific, Pershing Square Holdings, Cosan Limited, Fondul Proprietary, and EXOR amongst others; reduced positions included Adler Real Estate and Digital Garage. At the end of January, BTEM was 107% invested and the portfolio discount was 24.2%.

Statistics

	Value	% 1 mo	% 1 yr	% 3 yr	% 5 yr
Price (£) TR ²	734.0	1.3	15.0	50.8	62.7
Net Asset Value TR ¹	813.2	1.5	14.5	47.8	60.9
MSCI ACWI ex US TR ³	0.4	15.3	42.0	60.7	
MSCI ACWI ex US Value ¹	0.8	12.1	38.2	52.3	
MSCI ACWI TR ¹	0.5	13.4	50.4	93.1	
Morningstar Global Growth TR ³	2.6	22.6	58.9	104.3	

Fiscal Yr Total Returns (%)	2017	2016	2015	2014	2013
Price ¹	16.7	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

Capital Structure

Ordinary Shares	129,526,165
Shares held in Treasury	14,180,835
8 1/2% 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	£88.4mil.
Actual Gearing (Debt less cash divided by net asset value)	7.2%

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

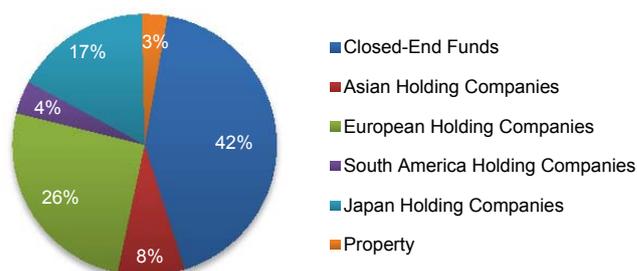
*** A basket of 20 stocks: Amuse Inc, Enplas Corp, Yamato Kogyo, Nippon Road, Kato Sangyo, Hirano Tecseed, Tachi-S, Nishimatsuya Chain, Pasona Group, Toa Corporation, Denyo Co, Matsui Construction, Daiwa Industries, Melco Holdings Inc., SK Kaken Co, Kanaden Corp, Toshiba Plant.

Contributors / Detractors (in GBP)

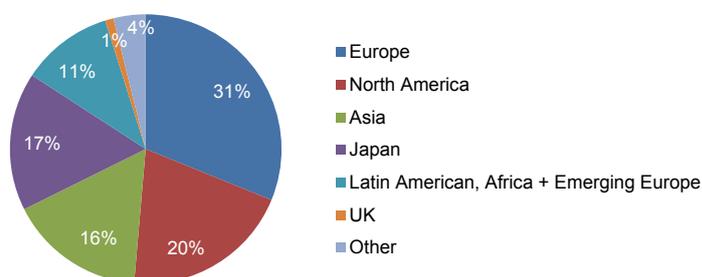
Largest Contributors	1 month contribution bps	Percent of Assets
EXOR NV	105	6.4
DIGITAL GARAGE INC	63	2.4

Largest Detractors	1 month contribution bps	Percent of Assets
TOKYO BROADCASTING SYSTEM	-50	5.1
JAPAN SPECIAL SITUATIONS***	-35	11.0

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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