

Manager's Comment

BTEM's NAV was up +1.8% in December, and closed the calendar year up +14.6%. With FX moves netting out to almost zero over the month, the gains came from local currency moves in key holdings. Our largest contributors were Aberdeen Private Equity, Aker, the Japanese Special Situations basket, Adler Real Estate, NB Private Equity Partners, JPEL Private Equity, Tetragon, Wendel, and Cosan Limited. Detractors were Jardine Strategic, GP Investments, Riverstone Energy, and Swire Pacific.

Aberdeen Private Equity (APEF)'s share price climbed +16% upon the announcement that an agreement had been reached to sell its entire investment portfolio at a modest premium to NAV. We made our initial investment in APEF in Apr-17 at a 20% discount to the prevailing NAV, and built up a stake in excess of 25% over the following months at tighter discounts. Having worked with a specialist private equity secondaries broker on a line-by-line valuation of APEF's portfolio before investing, we had established that the portfolio - which has a bias to smaller, less well-known GPs - would most likely fetch a low-single-digits discount in a secondary sale, but that a competitive process (the ultimate route taken) could well result in a sale at par or a small premium to NAV. We expect the sale proceeds to be distributed to APEF's shareholders at the end of Q1-18, and despite USD weakness versus GBP detracting from our returns, we estimate a total return of +21% and IRR of +25% over the holding period to Q1-18 using current FX rates (+28% total return and +34% IRR in USD).

Aker's oil services and E&P holdings had a strong month, aided by a rising oil price (+5%) and new contract wins at Aker Solutions whose share price increased by +12%; Aker BP's shares were up a more modest +3%. The supportive backdrop saw Aker's discount narrow by 400bps to end the month at 28%. While a higher oil price is unambiguously good for Aker, our investment case is predicated less on a directional view on the commodity than on the attractive valuations and growth prospects of its underlying businesses; the family's proven track record at adding value through M&A over the cycle; and the wide discount to NAV at which Aker trades.

"The Japanese Special Situations basket was again a significant contributor, up +5% in aggregate to extend its run of very strong absolute and relative performance."

The Japanese Special Situations basket was again a significant contributor, up +5% in aggregate to extend its run of very strong absolute and relative performance. The share price performance of Pasona, a basket holding we covered in our last newsletter, continued to impress with the stock up another +32% in December.

Adler Real Estate's shares strengthened on hopes for a clearer strategy following the promotion of its CFO to CEO and renewed M&A activity in the German residential space; Fondul Proprietatea announced a tender offer for 14% of its shares at an as-yet-undisclosed price; NB Private Equity Partners benefitted from a narrowing discount (in from 21% to 16%); JPEL Private Equity completed its mandatory redemption of 17% of its shares at NAV; and Tetragon completed its tender offer at a level that suggests there are fewer willing sellers at current levels than the market had perhaps assumed.

We discussed our investment case for Cosan Limited in last month's newsletter, and there were several further positive developments during the month. To recap, Cosan Limited (CZZ) is the US-listed holding company of two Brazilian holding companies - Cosan SA (CSAN3) and Cosan Logistica (RLOG3) - and now trades at an extraordinarily wide look-through discount of 57%. The underlying businesses are of high quality and modestly valued, with the largest exposures being to fuel distribution, railroads, and sugar/ethanol production.

In December, it was announced that advisors had been hired to look into a potential spin-out of Cosan SA's stake in Comgas, its Sao Paulo-focused gas distribution business which accounts for 23% of its NAV. Spinning this stake up the chain to Cosan Limited should remove one level of discount being applied to it. The second event came with the sale of Cosan SA's legal claims against the Brazilian government (relating to the setting of the ethanol price) for R\$1.3bn (6% of its NAV); the in-flow of cash will provide more flexibility for buybacks, special dividends, and may help facilitate

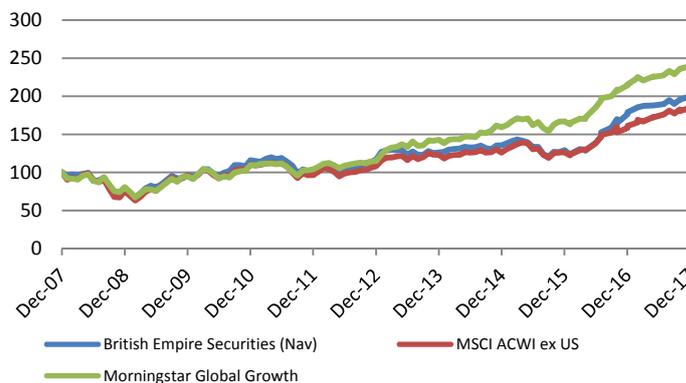
Investment Objective: To achieve capital growth through a focused portfolio of investments, particularly in companies whose share prices stand at a discount to estimated underlying net asset value.

Performance Total Return

This investment management report relates to performance figures to 31 December 2017.

	Month	Financial Yr* to date	Calendar Yr to date
BTEM NAV ¹	1.8%	5.4%	14.6%
MSCI ACWI Ex US ³	2.3%	4.2%	16.7%
MSCI ACWI Ex US Value ¹	2.4%	3.5%	12.7%
MSCI ACWI ¹	1.7%	5.0%	13.8%
Morningstar Global Growth ¹	1.4%	4.5%	22.6%

Performance Total Return DEC 2007 - DEC 2017



Top Ten Equity Holdings

Holding	%
Japan Special Situations***	10.6
Pargesa	6.1
Tokyo Broadcasting System	5.7
Exor	5.1
Riverstone Energy	5.1
Third Point Offshore Investors	4.9
Tetragon Financial	4.9
Pershing Square Holdings	4.6
Wendel	4.6
Adler Real Estate	4.4
TOTAL	56.0

further group restructuring. Lastly, the CEO and CFO at Cosan SA were replaced by their counterparts at parent Cosan Limited. With the same management team now in place at Cosan Limited and Cosan SA, our suspicions that an outright collapse of the holding structure is the ultimate goal have been reinforced. Cosan Limited's shares were up +5% over the month, yet its discount widened significantly as its NAV increased +18%. We added to our holding.

Detractors were few and far between and were generally due to discount widening rather than NAV declines. These included Jardine Strategic, GP Investments, Riverstone Energy, and Swire Pacific. We added to Jardine Strategic and Swire Pacific, and trimmed our holdings in Digital Garage, Investor, and Wendel.

BTEM ended the month 104% invested. The portfolio discount was 24%. While this is narrower than the extreme levels of 2011, it is much wider than the 10% discount level reached in 2006. In addition, the portfolio today contains several holdings where, like APEF, we expect our exit discounts to be zero.

Statistics

	Value	% 1 mo	% 1 yr	% 3 yr	% 5 yr
Price (£) TR ²	724.5	1.0	16.0	50.3	71.1
Net Asset Value TR ¹	801.0	1.8	14.6	48.6	68.2
MSCI ACWI ex US TR ³		2.3	16.7	46.5	70.8
MSCI ACWI ex US Value ¹		2.4	12.7	40.9	62.0
MSCI ACWI TR ¹		1.7	13.8	53.0	106.1
Morningstar Global Growth TR ³		1.4	22.6	59.2	113.2

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	14,154,998
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 Private Placement Note 2037	€20,000,000

Gross Assets/Gearing

Gross Assets	£1bn.
Debt par value	£88.9mil.
Actual Gearing (Debt less cash divided by net asset value)	3.7%

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

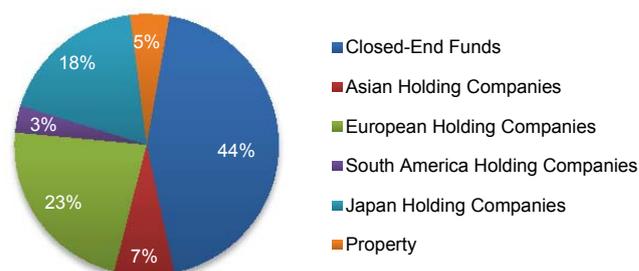
*** A basket of 20 stocks: Amuse Inc, Enplas Corporation, Yamato Kogyo, Nippon Road, Kato Sangyo, Hirano Tecseed, Tachi-S, Nishimatsuya Chain, Pasona Group, Toa Corporation, Denyo Co, Takamatsu Construction, Dai-Dan, Nakano Corporation, Matsui Construction, Daiwa Industries, Melco Holdings Inc., SK Kaken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

Contributors / Detractors (in GBP)

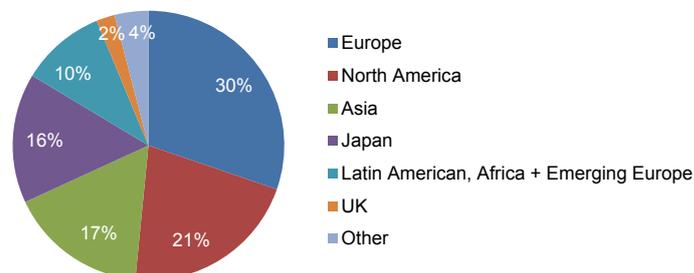
Largest Contributors	1 month contribution bps	Percent of Assets
ABERDEEN PRIVATE EQUITY	60.0	4.3
AKER ASA-A SHARES	44.0	4.3

Largest Detractors	1 month contribution bps	Percent of Assets
JARDINE STRATEGIC HLDGS LTD	-20.0	4.3
GP INVESTMENTS LTD	-19.0	1.5

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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