

Manager's Comment

Despite the headwind of a widening portfolio discount (out to 25.4% from 24.2%), BTEM's NAV fell by just -0.3% in a month where global equity markets wobbled. In a reversal from last month, FX aided returns, but there was also solid performance in local currencies from Fondul Proprietatea, Swire Pacific, Adler Real Estate, and Aker. Detractors included Riverstone Energy, Pershing Square Holdings, Wendel, and Exor.

February was marked by the reappearance of volatility in equity markets, with the month recording twelve daily moves of +/-1% versus just ten for the whole year to 31-Jan-18. Aside from the Swedish Krona, all of BTEM's currency exposures were strong versus Sterling with the Japanese Yen strengthening by +5.4%.

The Japanese Special Situations basket provides an intriguing insight into market (in)efficiency - all seventeen constituents were more volatile than the broad Japanese market over the month despite having an aggregate net cash level equating to 59% of market cap. We acknowledge liquidity and size factors are making their presence felt here, but it also reinforces to us the Japanese market's tendency to overlook and undervalue asset backing. With the changes in Japanese corporate behaviour we have discussed in previous newsletters starting to take hold, we believe the mis-pricing is unlikely to continue indefinitely. Indeed, we have already benefitted from a pronounced re-rating of several of our investments in this area. Despite its heightened volatility, the Japanese basket registered an above-market return of -1.8% in local currency (+3.4% in Sterling) versus -3.1% for the TOPIX Small Index.

It was a good month for Fondul Proprietatea (FP), the Romanian (and London) listed closed-end fund. FP's dividend was increased by 36% over last year's payment, and the tender offer for 14% of its shares was completed. The tender offer was highly accretive and adds just over 4% to NAV per share. While it appears increasingly likely that the IPO of Hidroelectrica (36% of FP's NAV) will be delayed until 2019 at the earliest, we think FP is compellingly valued on a near-30% discount to estimated NAV given the likelihood of a positive outcome from the sales process for its stakes in the ENEL Romania subsidiaries (ENEL has announced a strategy of looking to consolidate its subsidiaries globally, but is unable to do so in Romania without FP's consent). These ENEL subsidiaries account for 14% of FP's NAV, have very high levels of net cash, and it is possible they will pay out special dividends before or as part of any sale of FP's stakes. In addition, FP's main listed holding, integrated oil player OMV Petrom, trades on a way-above-peer-average free cash flow yield of 19% and has scope to raise its dividend pay-out level (c45% pay-out ratio; dividend yield of 6.5%) and/or fund a special dividend from its robust balance sheet. Part of OMV Petrom's discounted valuation is due to its limited free-float and perception of an overhang given FP's previous partial sales of its stake. The share price should be supported by the management of FP's recent announcement that, given the anomalously cheap valuation, they have no plans to sell their stake down any further.

"February was marked by the reappearance of volatility in equity markets"

Adler Real Estate, Swire Pacific, and Aker all performed well over the month. The announcement by Adler of its acquisition of 41% of Brack Capital and tender to take it above 70% was well-received by the market given the positive impact it will have on Adler's LTV once fully consolidated. While Swire Pacific's B shares were up on the month, their discount to NAV is above 40% with the B's share price not even covering the value of the stake in Swire Properties. At these valuation levels, we see a compelling case for the company to use partial sales of its Swire Properties stake to fund share repurchases, and have made our views known to management. In addition, the Swire family has signalled their increased involvement in the company by appointing Merlin Swire as Chairman, the first time in two decades a family member has been appointed to the role. This comes on the back of changes to the Board last year which we believe will lead to a robust review of capital allocation going forward. Aker benefitted from a sharply tighter discount on the back of another increase in its annual dividend.

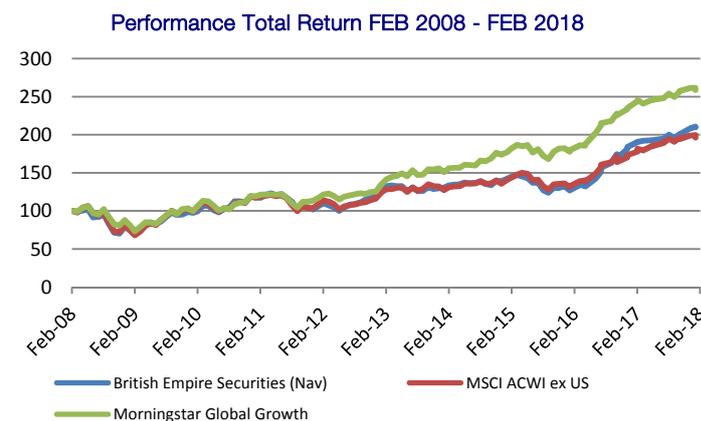
Riverstone Energy was our most material detractor, as its discount widened out to 20% (from 14%) in a month which saw a reminder of management's prowess. Three Rivers III (Delaware sub-basin of the Permian; 11% of NAV) was sold for a gross IRR of 49% and a multiple on cost of 2.2x. While the lack of uplift to carrying value was disappointing, the sales process had been going on for some time and the asset had been valued on that basis. In the specific case of Three Rivers III, tax losses elsewhere in the portfolio meant that no tax was payable upon its sale, but - more generally - RSE is a beneficiary of US tax reform and future sales of assets will see significantly less gross-to-net tax leakage than was previously the case. After month-end, RSE made a partial sale of its successful investment in listed Centennial Resource Development, the proceeds from which we believe are

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 2018.

	Month	Financial Yr* to date	Calendar Yr to date
BTEM NAV ¹	-0.3%	6.7%	1.2%
MSCI ACWI Ex US ³	-1.6%	2.9%	-1.2%
MSCI ACWI Ex US Value ¹	-1.9%	2.3%	-1.1%
MSCI ACWI ¹	-1.1%	4.4%	-0.6%
Morningstar Global Growth ¹	-0.9%	6.0%	1.6%



Top Ten Equity Holdings

Holding	%
Japan Special Situations***	10.8
Exor	6.3
Pargesa	5.6
Tokyo Broadcasting System	5.0
Fondul Proprietatea	5.0
Aker ASA	4.9
Third Point Offshore Investors	4.9
Pershing Square Holdings	4.8
Riverstone Energy	4.8
Tetragon Financial Group	4.6
TOTAL	56.7

likely to be used in part to support the restructuring of Fieldwood, RSE's investee company active in the Gulf of Mexico. We continue to see material scope for upside in the two investments in RSE's portfolio on which we have most transparency, Hammerhead Resources, and Centennial Resource Development, which also happen to be its largest positions.

We discussed our investment in Pershing Square Holdings (PSH) at length in last month's newsletter, outlining our thoughts on the proposed \$300m tender offer by Pershing Square Capital Management (PSCM) and the concessions later conceded by the Board/Management in the face of shareholder opposition. Given our views, we were pleased with the announcement in February that the tender is being abandoned in favour of a self-tender (also for \$300m) by PSH. The benefits of this are two-fold: 1) a company-led tender is accretive to NAV per share, unlike one conducted by management and 2) it eliminates the possibility of the company being "front-run" for cheap stock (although this issue had already been substantially mitigated by the concession of a tighter discount range for the proposed management-led tender). It is our understanding that PSCM is instead likely to accumulate shares in PSH in the open market.

At the very end of the month, it was reported that Pershing Square is winding down its only short investment in Herbalife. While the investment has been a failure, we view its closing as a positive move given its disproportionately high profile and demands on management time relative to the size of its exposure in PSH's portfolio. At the same time, Pershing announced a new investment in giant conglomerate, United Technologies, whose CEO recently discussed the possibility of a break-up. At PSH's AGM in Apr-18, shareholders will vote on the removal of the 5% ownership limit cap; a vote in favour will allow the company-led tender to go ahead, and gives the necessary flexibility for future returns of capital. PSH was our second-largest detractor over the month on the back of weakness in largest holding ADP (on no news) and a widening discount (out to 20% from 16.5%). Since month-end, PSH's discount has expanded further to 23.5% at the time of writing, a level which is frankly untenable given the high-profile nature and investment style of the manager. We added to our holding at these elevated levels. While the company-led tender is likely to help the rating, we continue to believe that a more structural solution may be required.

Over February, we added to a new position in a European holding company, and made some sales from holdings in the Japanese basket that had risen substantially.

Statistics

	Value	% 1 mo	% 1 yr	% 3 yr	% 5 yr
Price (£) TR ²	721.0	-1.8	9.5	45.3	56.7
Net Asset Value TR ¹	810.9	-0.3	10.7	44.5	57.5
MSCI ACWI ex US TR ³		-1.6	10.4	36.4	53.0
MSCI ACWI ex US Value ¹		-1.9	7.5	32.2	46.3
MSCI ACWI TR ¹		-1.1	7.9	45.0	82.8
Morningstar Global Growth TR ³		-0.9	17.7	53.3	95.5
Fiscal Yr Total Returns (%)	2017	2016	2015	2014	2013
Price ¹	18.7	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	14,746,497
8 ½% 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	£88.9mil.
Actual Gearing (Debt less cash divided by net asset value)	6.2%

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.

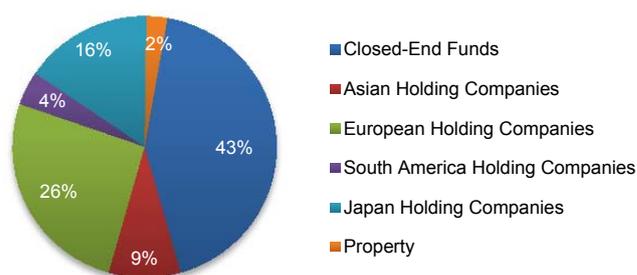
* British Empire Trust financial year commences on the 1st October. All figures published before the fiscal results announcement are AVI estimates and subject to change.

Contributors / Detractors (in GBP)

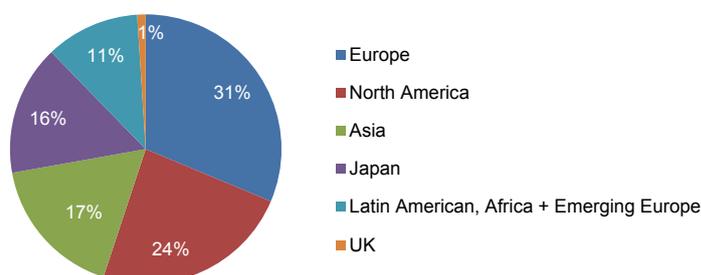
Largest Contributors	1 month contribution bps	Percent of Assets
JAPAN SPECIAL SITUATIONS***	37	10.8
FONDUL PROPRIETATEA	23	5.0

Largest Detractors	1 month contribution bps	Percent of Assets
RIVERSTONE ENERGY LTD	-30	4.8
PERSHING SQUARE HOLDINGS	-27	4.8

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

** Last audited figure updated annually

*** A basket of 17 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, Nakano Corp, Toshiba Plant.

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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