

INVESTMENT REVIEW / INVESTMENT MANAGER'S REVIEW

OVERVIEW OF AVI'S INVESTMENT PHILOSOPHY

BRITISH EMPIRE IS MANAGED BY ASSET VALUE INVESTORS LIMITED

The aim of AVI is to deliver superior investment returns. AVI specialises in investing in securities that for a number of reasons may be selling on anomalous valuations.

AVI's investment philosophy is to:

AVI

Our focus on buying high-quality businesses trading at wide discounts to their net asset value has served us well over the long term. There are periods of time, however, when our style is out of favour and the types of companies in which we invest are ignored by the broader market. This requires us to be patient and to remain true to our style, so that when other investors begin to appreciate the value in those companies, we are well placed to benefit. In the short term, this means that there could be some volatility in our returns. However, we are confident that we own high-quality businesses, which are trading on cheap valuations.

Members of the investment team at AVI invest their own money in funds which they manage. As at 30 September 2018 AVI's investment team owned 236,122 shares in British Empire Trust plc.

1 IDENTIFY GOOD QUALITY UNDERLYING ASSETS WITH APPRECIATION POTENTIAL AT COMPELLING VALUATIONS.

There are many companies trading at discounts to net asset value. Our aim is to identify companies that own attractive businesses where there is not only a wide discount, but also where we consider there to be a reasonable likelihood of those businesses appreciating in value.

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2 INVEST IN COMPANIES TRADING AT DISCOUNTS TO NET ASSET VALUE.

Our focus is to find listed companies that own assets such as listed securities, property, cash and other businesses. We then estimate the value of all of those assets. After deducting any liabilities such as debt or pension liabilities, we arrive at an estimate of net asset value for that company. We will consider investing in companies where the discount between the current share price and our estimate of the value of that business is wide.

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3 LOOK FOR EVENTS TO NARROW DISCOUNTS.

Once we find a good quality business on an attractive valuation, we then consider whether it is likely that the discount will narrow. Many companies trade at a discount for a reason and if that reason persists, then the discount may persist. Catalysts differ for the various types of company in which we invest. For example, in the case of a closed-end fund, where we are a large shareholder we can influence a board to pursue a strategy for discount narrowing. In the case of a family controlled company, we would rely on the family to be the activist. Our analysis would involve trying to understand the interests and objectives of the controlling shareholder, and whether our interests were aligned with theirs.

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4 FOCUS ON BALANCE SHEET STRENGTH.

Debt works very well when markets are appreciating. However, debt can also destroy a lot of value when markets are falling and the business environment for a particular company deteriorates. We consider very carefully the balance sheet strength of the companies in which we invest. Factors which we look at include the actual quantum of debt relative to the assets of the companies, the maturity profile of the debt and the cashflows that the businesses generate.

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5 FOCUS ON BOTTOM-UP STOCK PICKING.

We are not asset allocators attempting to invest a pool of money across various asset classes. We are equity investors focusing on a particular style of value investing. We do not hug benchmarks and we will not own a company just because it is in a benchmark. We seek to invest in companies that meet the criteria described above.

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6 ESG INTEGRATION FOR A BROADER RISK PERSPECTIVE.

Integral to our investment process is the belief that good corporate governance will help to deliver sustainable long-term returns for shareholders. In addition to financial performance, the board's oversight of operational performance, environmental and social risks and the robustness of the management structures will affect the valuation we assign to a stock. AVI expects the boards and executives of the companies in which we invest to review the quality of the internal controls, strategy and operating performance in order to produce strong returns.

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