INVESTMENT REVIEW / INVESTMENT MANAGER'S REVIEW

PERFORMANCE REVIEW

Over the financial year the total net asset value return was 10.0%.

Joe Bauernfreund
Chief Investment Officer

Joe is Chief Executive Officer and Chief Investment Officer of AVI. Joe has been British Empire's named portfolio manager since 1 October 2015, continuing the natural progression that has seen only three portfolio managers at British Empire Trust in the last 30 years.

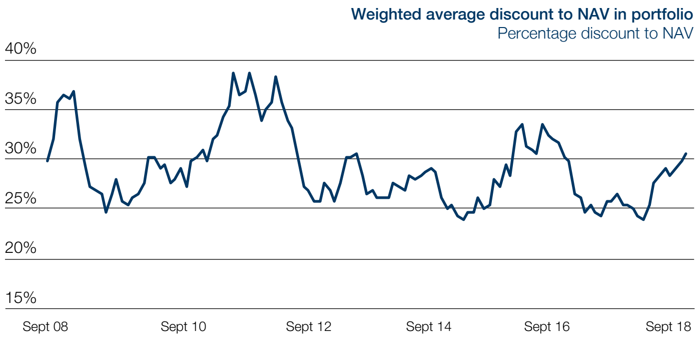
Performance

For the financial year to 30 September 2018, your Company's NAV returned +10.0% on a total return basis in Sterling. This represents an outperformance of +4.8% against the benchmark – the MSCI All Country World ex-US index – which returned +5.2%, also in Sterling terms. Following this, NAV total return is now 71% over the last three years, a 14% outperformance of the benchmark.

Whilst we are very much bottom-up fundamental stock pickers, it is both interesting and important to consider your Company's performance in the context of the wider market environment. As has been the case for much of the past decade, the US was again the standout stock market performer this year. US markets appear unfazed by whatever is thrown at them, with the S&P 500 and NASDAQ Composite returning 21% and 29% respectively in the face of political scandal, fears of a full-blown trade war and further monetary policy tightening. With the US now technically in its longest-ever bull market, the question *du jour* concerns the sustainability of continued US outperformance. Recent setbacks have brought the issue into stark relief, with market participants either taking the view that any setback is a buying opportunity, or fretting about the end of the long bull run. As stock pickers, we focus on the prospects for our investments and try to screen out the distracting noise made by commentators and politicians.

For non-US equity markets, the going was much tougher. In Japan, the TOPIX returned 13%, whilst broad-based European equity indices rose slightly by 3% over the year. There has been considerable pain in emerging markets – most notably Turkey, Argentina, Indonesia and Brazil – which have, amongst other things, suffered from currency weakness against the US Dollar as the Fed delivered its eighth hike of the cycle, with another likely before 2018 is out. The portfolio's major exposure to this trend was in Brazil, where two holdings, Cosan Ltd and GP Investments, underperformed. These are discussed in detail below.

WEIGHTED AVERAGE DISCOUNT



Source / Estimated by Asset Value Investors.

ANNUALISED NAV 10 YEAR TOTAL RETURN PER SHARE

10%

Portfolio Commentary

British Empire's Portfolio

When thinking about the types of companies in which your Company invests, it is important to consider both the NAV and the discount at which the share price trades to that NAV; these two factors will be the key determinants of how your portfolio performs in any given year.

With that in mind, we note that the portfolio's weighted average discount widened from 26% to 30% over the year. While roughly half of this was due to reducing holdings with tight discounts and buying or adding to positions with wider discounts, the portfolio discount movement was nonetheless a drag on returns. However, superior NAV growth more than outweighed this, leading to outperformance.

Performance was particularly strong in European holding companies. In this area of the portfolio, we seek to invest alongside prudent, long-term oriented capital allocators who will actively manage their portfolio of businesses and grow their company's net asset value over time. NAV growth amongst these companies was generally positive, although somewhat offset by discount widening in cases such as EXOR and Investor AB. In holdings such as Pargesa and Jardine Strategic (an Asian holding company), we observe discounts on listed portfolios at levels previously seen at times of heightened economic stress such as 2009 and 2011. That said, discounts did not homogenously increase: Aker, this year's largest individual stock contributor, benefited from significant discount narrowing on top of strong NAV performance. Having traded on as much as a 46% discount within the last three years, we believe Aker is one of the clearest demonstrations of how sentiment can drive wild swings in discounts and provide compelling opportunities for disciplined investors.

Closed-end funds also performed well this year. Of particular note, it was pleasing to see the validation of last year's decision to add to Pershing Square Holdings on continued weakness, leading to a swing from being one of last year's largest detractors to being this year's third most significant contributor. As discussed in more detail below, Pershing Square's NAV performance has been much stronger, although its discount of 24% remains exceptionally wide for a portfolio of liquid, US-listed large-cap equities.

When it comes to closed-end funds, we often take a more activist approach to creating value. Our investment in Aberdeen Private Equity Fund ('APEF') is a case in point, and contributed 0.43% to performance. Having completed detailed pre-investment research into the implied valuation discrepancy between APEF's portfolio in the public and private markets, we built a 25% stake in the company. From this position, our engagement steered the company toward a sale of its entire portfolio at a modest premium to NAV, with the investment generating an internal rate of return ('IRR')[1] of 22% in Sterling over a period of just under 11 months (36% in APEF's reporting currency of US Dollars, with Sterling strength acting as a headwind to returns over the holding period).

One final area of note is Japan, in which 20% of your Company's assets are invested. As a recap, in 2017 our focus on undervalued, asset-backed quality companies led us to Japan, where many companies trade at discounts to the purest asset – cash – and yet also offer value and quality. We built a basket of heavily over-capitalised small-cap Japanese equities, which are attractive businesses in their own right and which we believe are well positioned to benefit from Prime Minister Abe's corporate governance reform agenda.

[1] Refer to Glossary on page 88 for further details.

EXOR /
FIAT CHRYSLER AUTOMOBILES

EXOR, one of British Empire's largest investments, has an indirect stake in Maserati S.p.A. through its holding in Fiat Chrysler Automobiles. Maserati is an Italian producer of luxury vehicles established in the early twentieth century.

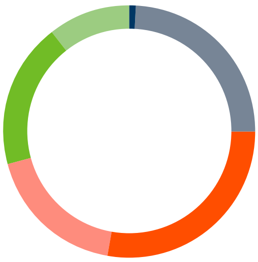
5.6%

% of total assets less current liabilities

Source / Maserati S.p.A

This year saw our first public engagement with a Japanese company. In June, we submitted a shareholder proposal calling for an in specie distribution of 40% of Tokyo Broadcasting System's stake in Tokyo Electron. As discussed in more detail below, we put considerable effort into the campaign, which led to the launch of a dedicated website (www.improvingtbs.com) and the hosting of various information sessions in Tokyo. Through favourable and extensive press coverage – appearing in over 150 articles – we have laid the groundwork on which to engage with the other Japanese companies in your portfolio.

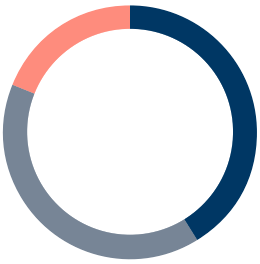
LOOK-THROUGH COUNTRY EXPOSURE



	2018 %	2017 %
United Kingdom	**0.9**	**1.1**
North America	**24.3**	**19.9**
Europe	**27.8**	**32.0**
Asia	**17.9**	**17.4**
Japan	**18.6**	**18.0**
Latin America, Africa & Emerging Europe	**10.5**	**7.8**
Other	**–**	**3.8**

Based on location of companies' underlying assets.

EQUITY PORTFOLIO VALUE BY MARKET CAPITALISATION



	2018 %	2017 %
<£1 billion	**41.8**	43.8
>£1 billion – <£5 billion	**39.5**	23.6
>£5 billion – <£10 billion	**–**	13.0
>£10 billion	**18.7**	19.6

PORTFOLIO VALUE BY SECTOR

	2018 %	2017 %
Investment Companies	**46.6**	42.5
Investment Holding Companies	**34.4**	43.9
Asset-backed Companies	**19.0**	13.6

Source / Asset Value Investors.