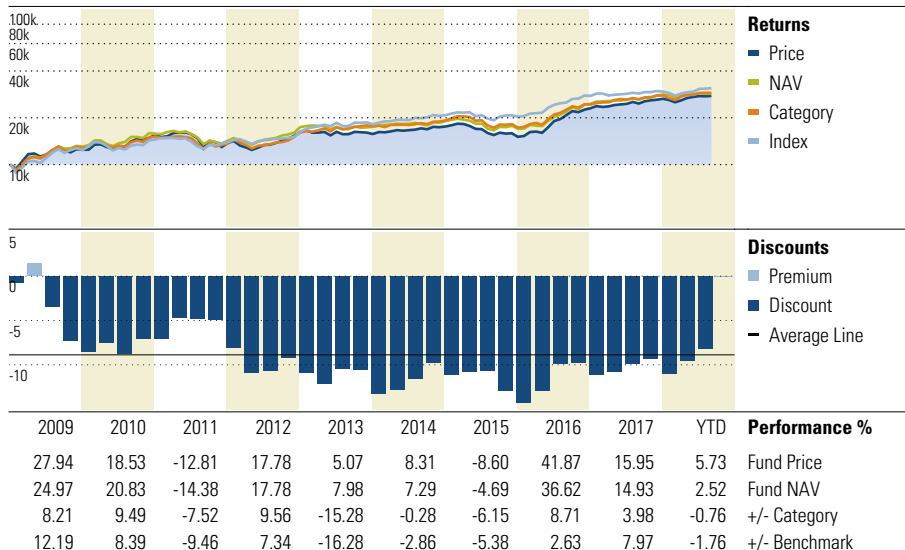


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Morningstar Rating™
★★★

Morningstar Analyst Rating
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Morningstar Benchmark	MSCI World Value NR USD
Morningstar Category™	Global Large-Cap Value Equity
Last Closing Price GBP	719.00
Last Closing NAV GBP	791.16
Discount/Premium %	-9.13
Latest Published NAV	790.75
Latest Published NAV Date	18/10/2018
Traded Currency	GBX
Yield	1.67
Dividend Frequency	Semi-Annual
Total Assets £ Mil	980.0
Net Assets £ Mil	891.4
Market Cap £ Mil	803.3
Net Gearing %	5
Avg Daily Shares Traded Mil (3 month)	0.15
Inception Date	01/01/1889



Morningstar Analyst: David Holder, Senior Analyst

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Executive Summary

People: The team is small but close-knit; John Pennink handed the reins to Joe Bauernfreund in September 2015 and is now a diminishing influence on the investment decision-making process.

Parent: The long-standing investment manager Asset Value Investors Limited has moved to address weaknesses in sales and marketing with a recent arrangement with Goodhart Partners. This should help raise their profile to prospective investors.

Board: The board comprises five nonexecutive directors with extensive experience in financial services and the broader industry including service on investment company boards.

Process: The bottom-up process seeks investments trading below intrinsic value or firms that are misunderstood by other investors. The process has been consistently applied dating back to the trust's origin, from John Walton through Pennink to Bauernfreund.

Performance: British Empire Trust has generated strong long-term returns, but medium-term performance has been disappointing. The style has been out of favour for some time, but performance over Bauernfreund's short tenure shows promise for investors.

Fees: The ongoing charge of 0.87% represents reasonable value for unconstrained and truly active management when compared with the broader universe of global equity funds available to investors.

Role in Portfolio

Given the nature and style of the investment approach returns are likely to significantly deviate from those of broader global equity markets and the peer group. The fund would be a suitable choice to diversify a broader global portfolio.

Morningstar Opinion

19 Jan 2018 | British Empire Trust's objective is 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. The trust's shareholders had a disappointing experience in the latter part of the previous manager's tenure. It is encouraging to see the changes made by Joe Bauernfreund since his sole appointment in October 2015, to sharpen and refocus the investment approach, have been bearing fruit.

The team's strategy is to seek out-of-favour companies whose assets are misunderstood by the market or under-researched and that trade significantly below their intrinsic value, or where AVI can bring pressure to bear to enact change that will help realise shareholder returns. Whilst the value style has been out of favour, AVI has been consistent and resolute in maintaining its investment approach, which we find encouraging.

There are three investment themes employed in the trust: alignment of interest, constructivism, and asset backed. Alignment of interest is expressed through investment in European holding companies or conglomerates investing alongside private family investors. These companies by nature tend to be under-researched, but they can provide access to very high-quality assets that are managed very prudently on a long-term basis. Constructivism is

largely achieved through investment in closed-end funds. As the name would suggest, it involves actively engaging with boards, management, and other shareholders to realise value through buybacks, dividend policy, and changes to strategy. Asset backed involves investing in high-quality assets at a discount to their current net asset value. The trust often invests in Asian or Japanese property in this space.

The team of five is small but close-knit. Joe Bauernfreund, who became CIO and sole manager of British Empire Trust on 30 Sept 2015, has been immersed in the investment culture at AVI for 16 years and has been schooled in the firm's process by AVI's founder John Walton and previous manager John Pennink, who remains as chairman of AVI. Bauernfreund also has experience in real estate investment prior to joining AVI, which is a reoccurring theme within the fund and is thus relevant here.

Bauernfreund's relatively short tenure, has been characterised by a renewed focus and sharpening of the investment approach, which we feel is hugely important. He has reiterated the disciplined and fundamental value approach to investing employed at AVI. Early signs are encouraging, and we will continue to monitor closely the investment approach and performance under his stewardship. For the time being we maintain our Morningstar Analyst Rating of Neutral.

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People

Manager	Joe Bauernfreund
Manager Start	01/01/2013
Avg. Manager Tenure	5.8 Years
Other Funds Managed	—

Asset Value Investors was established by John Walton in 1985 to manage the assets of British Empire Trust. In 1999 John Pennink joined AVI; after working closely with Walton he assumed full responsibility for the management of the trust in 2002. Walton left AVI in 2007. Joe Bauernfreund joined AVI in 2002 as an investment analyst and was named as comanager of British Empire in January 2013; at the end of September 2015 he assumed sole responsibility for its management and was appointed CIO of AVI as well as CEO in September 2016. The investment team consists of Bauernfreund, Scott Beveridge, who has been at AVI since 2005, Tom Treanor (2011), Daniel Lee (2015), and Darren Gillen (2016). Pen-

nink is chairman of AVI, but his day to day involvement in the management of the company has ceased. Historically each one of the team has had an area of specialisation, but team members are now becoming more generalist in nature. The approach remains collegiate and one of robust questioning, but clearly Bauernfreund has the final say in the positioning of the trust. We feel he is well placed to bring together the input from the various analysts, as he has been an integral part of the AVI investment process for 14 years and takes a keen interest in the key areas in which AVI invests such as European holding companies, real estate, and closed-ended funds.

Parent

Fund Advisor	Asset Value Investors Limited
Domicile	UK
Subadvisor	Multiple
Website	www.british-empire.co.uk

As AVI has gone through a number of changes in personnel it has sought to rearrange and broaden the ownership structure to better reflect the changing dynamics within the company and to better align existing employee interests. In part to address these issues and in recognition of shortcomings in how AVI communicated its strategies with potential investors, it has partnered with Goodhart Partners, which has a minority position in AVI (completed third quarter 2016). Goodhart Partners was founded in 2009 and has taken small stakes in a number of small boutiques. It is closely involved with the investment consultant community and has the resources and experience

to improve how the AVI investment philosophy is articulated to institutional and other third-party investors. Goodhart also shares the long-term and value investment approach eschewed at AVI. The board was very keen to ensure that AVI thrive and continue to provide high-quality management for investors, and it has been actively involved and supportive in the Goodhart Partners arrangement. The intention is that this will ensure the long-term viability of AVI and increase assets under management. Joe Bauernfreund believes that the strategy followed at AVI has limited capacity and sees GBP 2 billion as a limit.

Board of Directors

Tender Offer	No
Buyback Authorization	Yes

The board comprises five nonexecutive directors whose average tenure is a little under five years. Long-standing chairman Strone Macpherson stepped down at the AGM in December 2017 and was replaced by Susan Noble. Noble (appointed March 2012) has extensive investment experience, having been a director at Newton, Robert Fleming, and Goldman Sachs. More recently she has served on the board at Alliance Trust Investments. The two most recent appointments were Anja Balfour in January 2018 and Calum Thomson in April 2017. Balfour brings extensive investment trust board experience and 20 years Japanese and international equity investment management experience from her time with Baillie Gifford and AXA Framlington. Thompson is equally

experienced in listed company board directorships, as well as 21 years as audit partner within the asset management sector. Steven Bates is the senior NED, having joined the board in June 2006. He brings long-standing experience in investment management, specifically in emerging markets. Nigel Rich (appointed in March 2012) has a banking background with HSBC and Jardine Matheson. More recently he has served on the board of Segro and Slough Estates, relevant given the fund's focus on real estate at times. Four directors sit on the boards of other listed investment companies, and all bar the two newest appointments are shareholders here. We like to see directors as shareholders as we believe it aligns interests with those of their shareholders.

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Process: Investment Approach

Investment Objective: To generate capital growth through a focused portfolio of investments, particularly in companies whose shares stand at a discount to estimated underlying NAV.

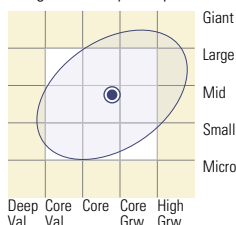
Hedging Policy NULL
Tactical Use of Cash No

The investment process is long term, fundamental, and contrarian. The focus is upon seeking out assets that are out of favour or misunderstood by investors and that therefore trade significantly below their intrinsic value. The team looks for catalysts that will expose the unrealised value in its holdings such as M&A, liquidation, buybacks, manager changes, and special dividends. The managers are patient investors and focus on good businesses with strong balance sheets and robust cash flows that pay dividends, which helps to compensate them as they wait for value to be realised by the wider market. As at November-end 2017 there were 29 holdings (including the Japan special situations basket) with around 25 of these considered core. The residual is in

closed-end trusts, which are being wound up and returning capital to investors. The top 10 holdings account for more than 55% of the overall portfolio. This is a concentrated portfolio, but these holdings themselves will often have many underlying investments, so there is more diversification than may be immediately obvious. Under Joe Bauernfreund the remit will continue to exclude direct investment in the US. AVI considers this market to be too efficient for deep-value investors to be able to add value, and minority shareholders' rights are often overlooked. We applaud AVI for its consistency and in recognising its limitations, but this approach can lead to divergent returns especially against its peer group.

Process: Portfolio Positioning

Morningstar Holdings Based Style Map



As at November 2017 the weighted average discount to NAV across the portfolio was in the region of 25% (September 2016: 32%). The portfolio has 28 positions compared with 33 in October 2016 (not including the 19 stocks in the Japan Special Situations portfolio). During his tenure, Joe Bauernfreund has restructured the fund in line with his preference for a high-conviction best ideas portfolio. Given its core focus on European holding companies, it is of little surprise to see look-through geographic exposure to the region is

30.2% (November 2017). Despite the avoidance of US-listed holdings, indirect exposure to the US is 20.6%, suggesting there is more geographic diversification in the portfolio than immediately obvious. At the sector level, exposure is spread predominantly through the consumer discretionary, industrials, and real estate sectors. The opportunities identified by AVI tend to be across market caps, and in aggregate the fund is significantly more mid-cap-orientated than the peer group and benchmark.

World Regions	Assets %
Greater Europe	45.71
United Kingdom	0.00
Europe-Developed	37.64
Europe-Emerging	8.07
Africa/Middle East	0.00
Americas	12.27
North America	2.69
Latin America	9.58
Greater Asia	42.02
Japan	28.80
Australasia	0.00
Asia-Developed	13.22
Asia-Emerging	0.00
Not Classified	0.00

Asset Allocation	% Assets	Long	Short	Net
Cash	13.6	8.5	5.1	
Equity	70.0	0.0	70.0	
Bond	0.9	9.9	-8.9	
Other	33.9	0.0	33.9	

Top 10 Holdings 31/03/2018	% Assets
EXOR NV	6.29
Pargesa Holding SA	5.79
Tokyo Broadcasting System Holdings	5.73
SC Fondul Proprietatea SA ADR	5.39
Riverstone Energy Ord	5.37
Symphony International Holding Ord	5.24
Wendel Ord	5.17
Tetragon Financial Ord	5.13
Third Point Offshore USD Ord	4.87
Pershing Square Holdings Ord	4.78

Sector Weightings	% Equity
Cyclical	62.9
Basic Materials	2.2
Consumer Cyclical	19.6
Financial Services	31.4
Real Estate	9.8
Sensitive	28.4
Communication Services	0.0
Energy	0.5
Industrials	24.2
Technology	3.7
Defensive	8.7
Consumer Defensive	1.6
Healthcare	0.0
Utilities	7.1

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NAV Performance Analysis

Data as of 30-09-2018

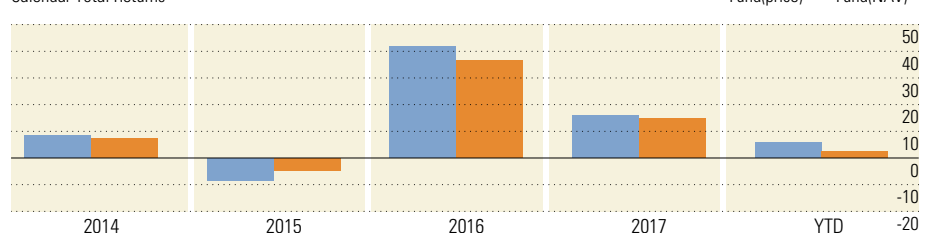
Trailing Returns Price	Total	+/-
	Rtn %	Bmark
3 month	1.46	-3.88
6 Month	9.90	-1.80
1 Year	12.01	3.85
3 Year Ann.	21.32	4.18
5 Year Ann.	11.98	0.13

Trailing Returns NAV	Total	+/-	+/-	%Rnk
	Rtn %	Bmark	Cat	In Cat
3 month	1.36	-3.99	-2.34	87
6 Month	7.60	-4.11	-1.81	74
1 Year	10.02	1.86	2.56	34
3 Year Ann.	19.63	2.49	3.70	9
5 Year Ann.	10.89	-0.96	0.44	43

Performance during Joe Bauernfreund's sole tenure beginning in October 2015 has been encouraging, but it's too early to draw meaningful conclusions. During this period (to the end of December 2017) the fund has returned an annualised 24.6%, which is comfortably ahead of peers (19.9%) and the fund's index (MSCI ACWI ex US Index: 21.6%). During the past 12 months the fund's 14.6% return is ahead of peers' (10.3%) but lags the index a little. Value investing's return to favour in 2016 was reversed in 2017, so

the funds' performance in these market conditions is especially pleasing. The portfolio's investments in special situations and deep-value opportunities where value is unlocked by corporate actions or change in market sentiment means returns can be sporadic in this area. The key is patience and thorough due diligence. Such an example is AP Alternative Assets, which was held from 2012 to 2017 and was one of the key drivers of returns in the past 12 months.

Calendar Total Returns



Discount / Premium

Data as of 19-10-2018

Discount / Premium %	6 Mo	1Yr	3Yr
High	-6.46	-6.46	-6.46
Average	-9.19	-9.85	-10.96
Low	-12.44	-12.44	-15.56
Z-Statistic	0.57	1.08	1.44

There is no formal discount control mechanism in place here, and during the past 10 years to January 2018 the fund has traded from a premium to NAV of 7%, all the way to a discount of 15%. In the past five years the company has bought back some 42 million shares (30.4 million treasury shares were cancelled in December 2016). As at the end of December 2017, there were 14.1 million shares in treasury, which account for some

12% of the issued share capital. Overall, investors are buying this book of assets for a discount of around 35% factoring in the discount of the underlying assets and the current discount of the investment trust to stated NAV. The trust trades at a discount of around 10% (January 2018), a little tighter than its recent average, possibly reflecting greater investor demand for shares in the light of a return to outperformance.

Risk & Return

Data as of 30-09-2018

Morningstar Rating	Return	Risk	Rating
3 Year	High	Avg	★★★★★
5 Year	Avg	Avg	★★★
10 Year	Avg	Avg	★★★
Overall	Avg	Avg	★★★

The fund's unconstrained and niche investment focus means investors should expect that its performance will diverge significantly from those of its peers and broader indexes. This is reflected in its regional and sector exposures. The fund is vulnerable to relative outperformance by the US market, given its lack of exposure there, and also to weak European and Asian markets, where the bulk of assets reside. The fund's standard devi-

ation (a statistical measure of risk) tends to be a little higher than the peer group and index, but the fund's Sharpe ratio is broadly in line with the index, reflecting that risk has generally been used to reasonable effect. Given the idiosyncratic approach to investment here, is it not surprising that tracking error has varied between 3 and 4 percentage points more than the peer group.

Volatility Ratios	3 Yr NAV	5 Yr NAV	Risk vs Index	3 Year	5 Year
Standard Deviation	10.23	9.96	Alpha NAV	2.12	-0.47
Mean	1.56	0.92	Beta NAV	1.04	0.98
Sharpe Ratio	1.10	0.52	R-Squared NAV	74.71	75.67
Sortino Ratio	2.15	0.82	Treynor Ratio NAV	13.29	6.18

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4/11/18 08:43
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Fees

Management Fee %	0.70
Ongoing Charge ex Perf Fee %	0.86

In October 2013 the board simplified the fee arrangements. Asset Value Investors is entitled to receive an annual management fee of 0.7% of net assets (up from 0.6%), taken on a monthly basis. Previously, it was also entitled to a per-

formance fee, but this element has now been scrapped. The fund's ongoing charges for fiscal 2017 were 0.87% (2016: 0.9%), which is in line with the global large-value Morningstar Category average.

Gearing

Total Assets £ Mil	980.0
Net Assets £ Mil	891.4

Gearing in the fund has historically taken the form of a GBP 15 million debenture (8.125%) that matures in 2023. In January 2016 the board arranged additional gearing (for the first time since 1996) in the form of two 20-year loan notes of GBP 30 million and EUR 30 million at an all-in rate of 3.79%. In October 2017 the board arranged an additional facility of EUR 20 million to be redeemed in November 2037 at 2.93%. These facilities give Joe Bauernfreund additional flexibility to take advantage of opportunities; given the large European asset base, denominating some of

the debt in euros makes sense. Prior to the addition of the newer borrowing facility in January 2016 the fund tended to not make material use of gearing, with the debenture offset with cash and bonds. Subsequent to January 2016 we have seen net gearing rise to trend between 5% and 10%. As much of the portfolio is underpinned with good quality assets and decent dividends, we think a relatively modest element of gearing here does not look unreasonable. As at January 2018, net gearing stood at 6%.

Dividends

Dividend History	2016	2017	YTD
Dividend	0.15	0.12	0.02
Special Dividend	0.13	0.00	0.00
Total	0.27	0.12	0.02

The primary aim of the fund is to produce capital growth, and there is no formal income target. That said, the board has managed to maintain, if not increase, the level of dividend payouts in all financial years since 1985, which is an impress-

ive feat. For fiscal 2017 dividends per share of 12p per share (2016: 14.5p) on revenue per share of 10.44p (2016: 14.32p, ordinary and special). The fund currently yields 1.66% (January 2018).

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Morningstar Analyst Rating

	2016	2017	2018
Gold			
Silver			
Bronze			
Neutral			
Negative			
Under Review			
Not Rateable			

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The date shown next to the Morningstar Analyst Rating is the date on which Morningstar Manager Research Analyst assigned or reaffirmed the current rating for the fund based on the analyst's latest review and research report for the fund.

The Five (5) Pillars

Morningstar has identified five key areas that we believe are crucial to predicting the future success of funds: People, Parent, Process, Performance, and Price. Each pillar is evaluated when assessing a fund as well as the interaction between the pillars, which we believe is crucial to understanding a fund's overall merit.

People

The overall quality of a fund's investment team is a significant key to its ability to deliver superior performance relative to its benchmark and/or peers. Evaluating a fund's investment team requires that analysts assess several relevant items including how key decisions are made.

Parent

We believe the parent organization is of utmost importance in evaluating funds. The fund's management set the tone for key elements of our evaluation, including capacity management, risk management, recruitment and retention of talent, and incentive pay. Beyond these operational areas, we prefer firms that have a culture of stewardship and put investors first to those that are too heavily weighted to salesmanship.

Process

We look for funds with a performance objective and investment process (for both security selection and portfolio construction) that is sensible, clearly defined, and repeatable. In addition, the portfolio should be constructed in a manner that is consistent with the investment process and performance objective.

Performance

We do not believe past performance is necessarily predictive of future results, and this factor accordingly receives a relatively small weighting in our evaluation process. In particular, we strive not to anchor on short-term performance. However, we do believe that the evaluation of long-term return and risk patterns is vital to determining if a fund is delivering to our expectations.

Price

To reflect actual investor experience, price is evaluated within the context of the relevant market or cross-border region—for example, the United States, Australia, Canada, or Europe. In recognition of differences in scale and distribution costs in various markets, the level at which a fund is penalised for high fees or rewarded for low fees can vary with region. In Europe, for example, funds are penalised if they land in the most expensive quintile of their Morningstar category and are rewarded if they land in the cheapest quintile. The assessment is made using annual expense ratios, but in the case of funds with performance fees, expenses are evaluated excluding any performance fees and then the structure of the performance fee is evaluated separately.

Morningstar Analyst Ratings

Morningstar Analyst Ratings are assigned on a five-tier scale running from Gold to Negative. The top three ratings, Gold, Silver, and Bronze, all indicate that our analysts think highly of a fund; the difference between them corresponds to differences in the level of analyst conviction in a fund's ability to outperform its benchmark and peers through time, within the context of the level of risk taken.

Gold

Represents funds that our analyst has the highest-conviction in for that given investment mandate. By giving a fund a Gold rating, we are expressing an expectation that it will outperform its relevant performance benchmark and/or peer group within the context of the level of risk taken over the long term (defined as a full market cycle or at least five

years). To earn a Gold rating, a fund must distinguish itself across the five pillars that are the basis for our analysis.

Silver

Represents funds our analyst has high-conviction in, but not in all of the five pillars. With those fundamental strengths, we expect these funds will outperform their relevant performance benchmark and/or peer group within the context of the level of risk taken over the long term (defined as a full market cycle or at least five years).

Bronze

Represents funds that have advantages that clearly outweigh any disadvantages across the pillars, giving analyst the conviction to award them a positive rating. We expect these funds to beat their relevant performance benchmark and/or peer group within the context of the level of risk taken over a full market cycle (or at least five years).

Neutral

Represents funds in which our analysts don't have a strong positive or negative conviction. In our judgment, these funds are not likely to deliver standout returns, but they aren't likely to seriously underperform their relevant performance benchmark and/or peer group either.

Negative

Represents funds that possess at least one flaw that our analysts believe is likely to significantly hamper future performance, such as high fees or an unstable management team. Because of these faults, we believe these funds are inferior to most competitors and will likely underperform their relevant performance benchmark and/or peer group, within the context of the level of risk taken, over a full market cycle.

Morningstar may also use two other designations in place of a rating:

Under Review

This designation means that a change that occurred with the fund or at the fund company requires further review to determine the impact on the rating.

Not Ratable

This designation is used only where we are providing a report on a new strategy or on a strategy where there are no relevant comparators, but where investors require information as to suitability.

For more information about our Analyst Rating methodology please go to

<http://corporate1.morningstar.com/ResearchLibrary/>

Morningstar Star Rating

The Morningstar Star Rating is a proprietary data point that is quantitatively driven. Funds are rated from one to five stars based on how well the fund performed (after adjusting for risk and accounting for sales charges) in comparison to similar funds. Within each Morningstar Category, the top 10% of funds receive five-stars and the bottom 10% receives one-star. Funds are rated for up to three time periods –three-, five-, and ten-years– and these ratings are combined to produce an overall star rating, which is noted within the Report. Funds with less than three years of history are not rated. Morningstar Star Ratings are based entirely on a mathematical evaluation of past performance. Morningstar Star Ratings are in no way to be considered a buy or sell signal nor should be viewed as a statement of fact.

Equity-Related Data Points

The Report lists the fund's top ten holdings as of the dated noted. For each underlying holding, a series of data points is provided including, where applicable, that security's Economic Moat as of the date noted.

Economic Moat

The concept of an economic moat plays a vital role in our equity analyst's qualitative assessment of a firm's long-term investment potential, but also in the actual calculation of its fair value estimate. An economic moat is a structural feature that allows a firm to sustain excess profits over a long period of time. We define economic profits as returns on invested capital (or ROIC) over and above our estimate of a firm's cost of capital, or weighted average cost of capital (or WACC). Without a moat, profits are more susceptible to competition. We have identified five sources of economic moats: intangible assets, switching costs, network effect, cost advantage, and efficient scale.

Companies with a *narrow moat* are those we believe are more likely than not to achieve normalized excess returns for at least the next 10 years. *Wide-moat* companies are those in which we have very high confidence that excess returns will remain for 10 years, with excess returns more likely than not to remain for at least 20 years. The longer a firm generates economic profits, the higher its intrinsic value. We believe low-quality, *no-moat* companies will see their normalized returns gravitate toward the firm's cost of capital more quickly than companies with moats.

For more information about methodology in analysing stocks, please go to

<http://global.morningstar.com/equitydisclosures>.

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The Research Analyst has not served as an officer, director or employee of the fund company within the last 12 months, nor has it or its associates engaged in market making activity for the fund company.

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