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INVESTORS

Diverse Income Trust plc

The problem with correlation concentration, and why this may drive renewed capital allocations to the UK stock market

Thinking ahead of the curve

Investment team

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Gervais Williams
Head of Equities & Fund manager

- Gervais Williams joined Premier Miton in March 2011. He is Head of Equities and manages a number of funds and trusts.
- His fund management career extends over 30 years including 17 years at Gartmore Group Ltd, where he was head of UK Small Companies investing in UK smaller companies and Irish equities.
- Gervais is a member of the AIM Advisory Council, and a board member of the Quoted Companies Alliance. He was a member of the Patient Capital Review panel with the Chancellor of the Exchequer where the recommendations were put into legislation in the subsequent budget.
- Gervais has published three books, 'Slow Finance' in the autumn of 2011 (Bloomsbury), 'The Future is Small' was published in November 2014 (Harriman House) and 'The Retreat of Globalisation' published in December 2016 (Harriman House).

Martin Turner
Fund manager

- Martin Turner joined Premier Miton in May 2011.
- Martin's career began in 1992 with Arthur Andersen where he qualified as a Chartered Accountant.
- He has previously worked at Rothschild and as Head of Pan European Mid and Small Cap Sales at Merrill Lynch. Following this, Martin was Head of Sales at Teathers/Landsbanki before taking the Head of Small/Mid Cap Equities role covering research, sales and trading at Collins Stewart.
- Martin graduated from Warwick University with a degree in Accounting and Financial Analysis.

Agenda

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- The reasons why our multi-cap income strategy differs from others
- Why UK equities haven't attracted renewed allocations despite standing on such low valuations
- Thoughts on the scale of the forthcoming challenges
- Correlation concentration and how it might drive a major portfolio shift
- Is the UK market at danger of becoming irrelevant if the current trickle of UK delistings turn into a flood?

In what ways does a multicap income strategy differ from others?

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- At its core, a multi-cap income strategy comprises a UK equity portfolio that looks to pay not only an attractive yield, but ultimately is one where its stream of dividends has potential to grow more rapidly than most others in the peer group
- Explicitly, if the trust generates better dividend growth than most others, then it is anticipated that this will be reflected in better portfolio appreciation as well, so the trust's total return over the longer term has the potential to outperform its peers
- As the scale of each portfolio weighting is relatively modest in terms of the portfolio, the strategy has the added advantage that it can run with relatively low risk metrics as well as having the potential to deliver some of the best returns of its peer group

One of the features of the UK stock market is that it has a very wide range of market capitalisations

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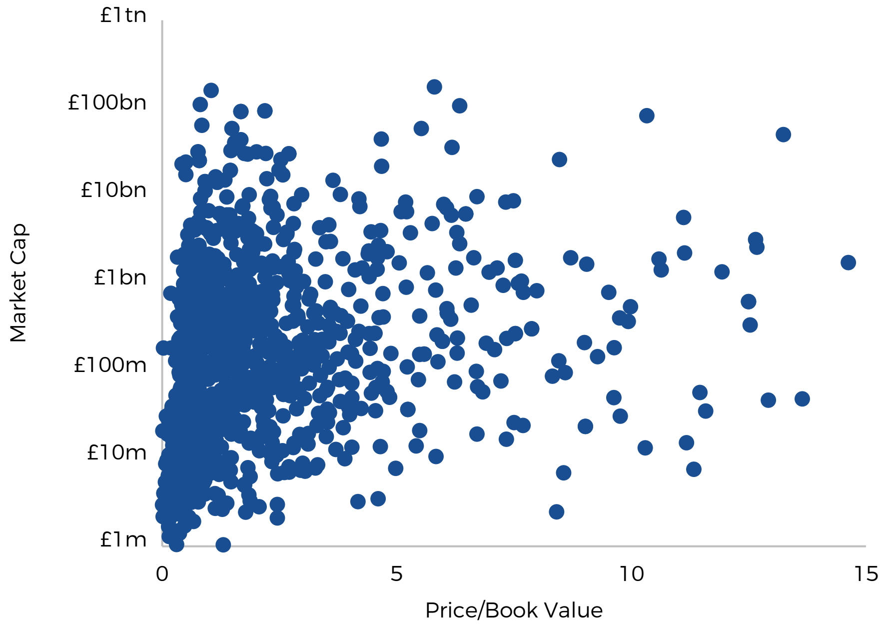
- The Price/Book ratio is calculated by dividing the market capitalisation of an individual stock by its shareholders' funds
- A Price/Book ratio is a measure of the degree of confidence that investors have in the prospects of a quoted company
- The chart indicates that the UK stock market has numerous stocks on very attractive Price/Book ratios
- Alongside, the UK stock market is distinctive in that its investment universe has a particularly wide range of market capitalisations
- Specifically, numerous UK-quoted stocks with low market capitalisations also tend to have very undemanding Price/Book ratios as well

UK Listed stocks valuation vs size



Source: Bloomberg, data as at 28.02.2023.

...and the UK market is overrepresented in stocks that pay good and growing dividends

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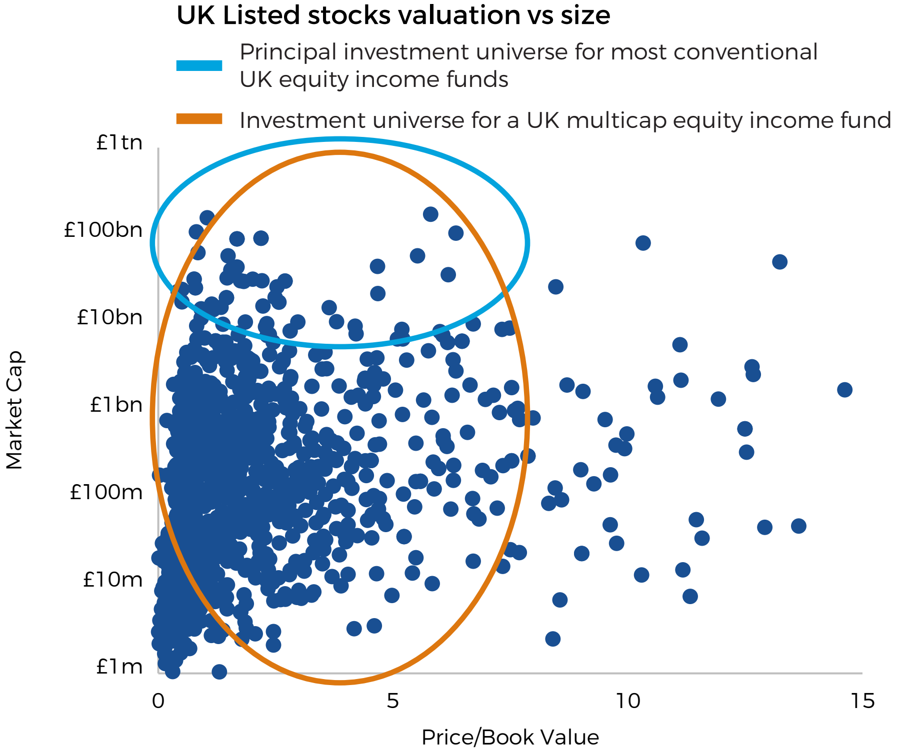
- In contrast to most other international stock markets, UK-quoted stocks employing capital-intensive strategies are numerous, so there are a large number of income generating stocks
- Overall, numerous UK-quoted companies generate a major part of their return via the stream of good and growing dividends, rather than relying heavily on capital appreciation
- This is known to be very much a feature of the largest UK-quoted companies, and hence most equity income strategies principally invest within the blue oval. This overlooks numerous immature equity income stocks which are typically not considered by most professional investors, as highlighted by the orange multicap oval
- Over recent years, when UK OEICs have been in redemption, local sellers of UK majors have often transacted with global investors, and hence their share prices have been relatively resilient. Unfortunately, local sellers of UK AIM-listed stocks have found it harder to transact, and hence their share prices have weakened markedly, including many that are paying good and growing dividends



Source: Bloomberg, data as at 31.03.2023.

There are 5 golden rules of stock picking

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1. Judgements on stock specifics tend to be more valuable than assumptions on forthcoming economic trends
2. Chose your battles
3. Genuine diversification is a stock picker's best friend
4. Be super-sensitive to the risk of a permanent loss of capital
5. Know your blind spots

Importantly, these rules work just as well in volatile markets, as at other times when stock markets are flatlining

A multicap portfolio includes numerous discrete businesses even within individual industry sectors…

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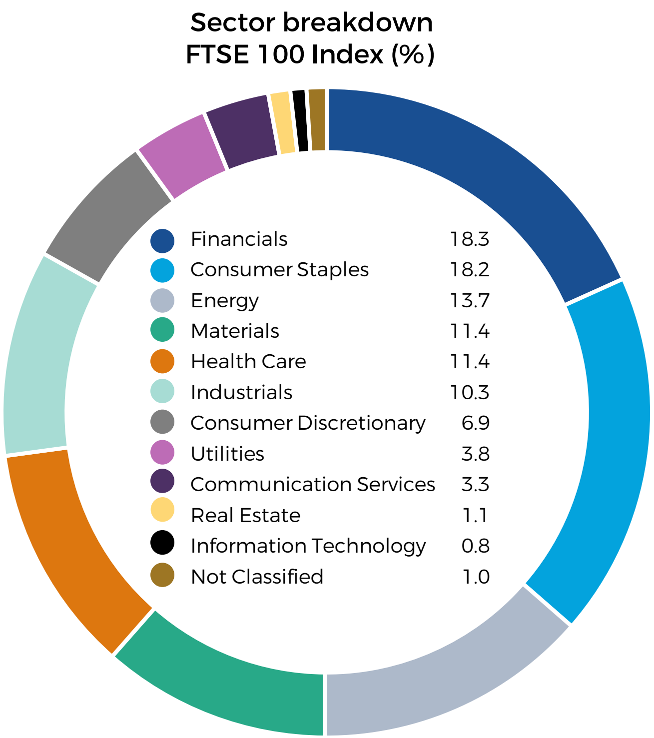

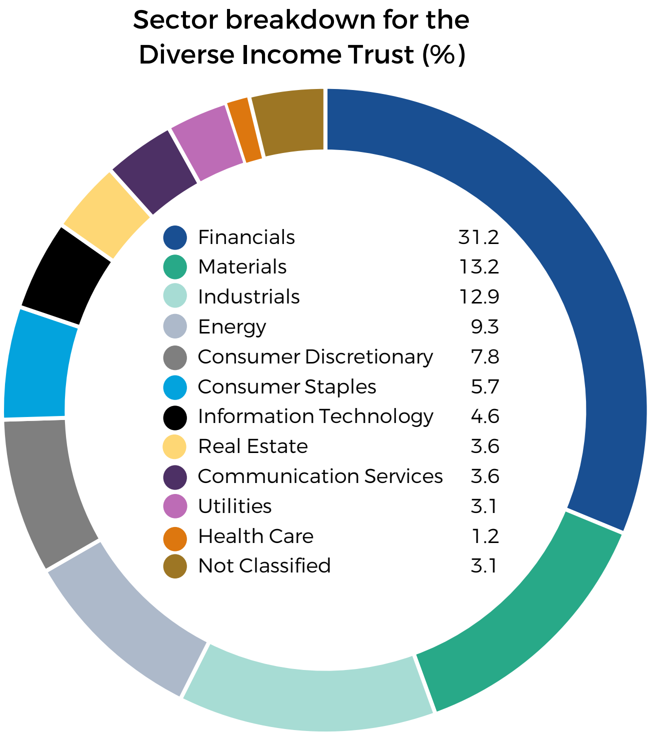

Source: Premier Miton as at 28.02.2023. Please note asset allocation may be above or below 100% due to rounding.

In our view, this all comes together in a portfolio that pays an attractive yield...

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- During recessionary periods there are often fewer stocks that can sustain a record of paying out good and growing dividends.
- A trust investing over a wider opportunity has real advantages at these times, as it can continue to research all the stocks that are continuing to thrive, including many of the overlooked equity income stocks listed on the AIM-exchange
- Overall, we believe that if the trust's revenue per share expands at a faster rate than most others in the peer group, then in time this will also be reflected in premium share price appreciation as well, so the trust can outperform others

Top 20 Trust holdings

		Weight %
1	Kenmare Resources	2.5
2	CMC Markets	2.2
3	I3 Energy	2.1
4	Man Group	2.1
5	XPS Pensions	2.0
6	National Grid	1.6
7	Galliford Try	1.6
8	IEnergizer	1.6
9	Natwest	1.6
10	Legal & General	1.6
11	Phoenix Group	1.6
12	TP ICAP	1.5
13	Hostelworld	1.5
14	Sainsbury	1.5
15	Tesco	1.5
16	Mears	1.5
17	Just Group	1.5
18	Savannah Energy	1.4
19	Drax	1.4
20	Centamin	1.4

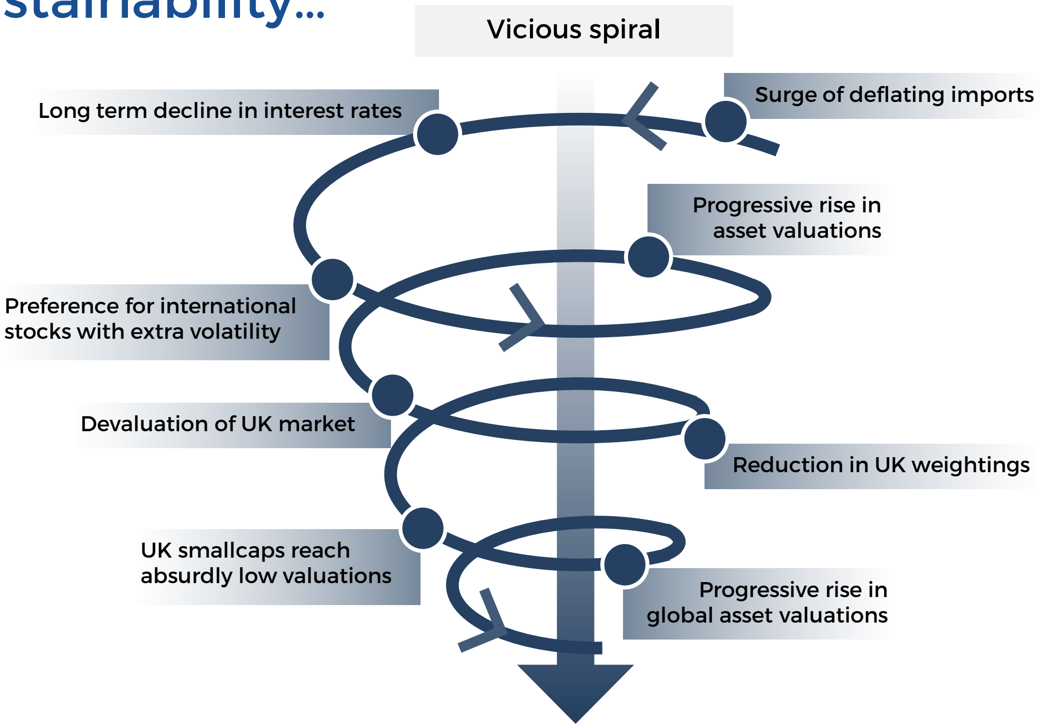
...as well as having the potential to generate better dividend growth than many others

Source: Premier Miton as at 28.02.2023.

Reference to any particular stock does not constitute a recommendation to buy or sell the stock.

During globalisation, most investors reduced their UK weightings very sustainability…

- Globalisation is often defined as a period when abundant low-cost imports offset ongoing inflation in local services, creating a period when few corporates become insolvent whilst their upside was amplified as asset valuations steadily appreciated
- In the absence of inflation, central banks can cut interest rates at will, especially during a crisis, and hence the period of globalisation is typically associated with sustained global growth, along with short economic setbacks which are addressed by central banks injecting additional demand to foster a recovery
- During globalisation, as long term interest rates decline, investors compete to buy the best performing assets, typically those with extra risk, such as high-beta equities, highly-geared balance sheets such as private equity, or those carrying the greatest credit risk such as long-dated bonds or corporate credit risk
- The UK stock market with a heritage of generating good and growing equity income was disfavoured by the globalisation trends, and hence investors progressively reduced their weightings, creating a vicious spiral
- Whilst this was offset in part amongst the mainstream, international stocks, the rise in the cost of capital across the market is most extreme for UK quoted smallcaps



…so mainstream UK equity valuations are now typically well below others, with smallcap valuations at even lower levels

The trust has delivered strong returns since issue, albeit that they're not particularly closely correlated with the peer group…

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- The Diverse Income Trust achieves return by compounding dividend income and recycling capital into overlooked stocks after the advantages of some portfolio holdings have became more recognised
- Since launch in April 2011, the return on the Diverse Income Trust has annualised at 8.4%, ahead of the returns of UK stock market indices
- That said, the current redemptions of UK OEICS have been offset by international interest in UK majors, although this hasn't been a feature of many AIM-listed companies

Cumulative performance

%	1 year	3 years	5 years	Since launch[1]
Trust NAV	-11.9	33.4	12.1	185.8
Trust share price	-13.6	43.6	4.5	161.4
Numis Smaller Co + AIM (ex ICs)	-13.4	45.3	7.0	88.8
Numis All-Share Index	0.8	45.7	24.1	92.4

Discrete annual performance

%	2018	2019	2020	2021	2022	2023 ytd[2]
Trust NAV	-8.4	12.7	7.8	15.6	-13.6	-2.0
Trust share price	-7.7	6.9	8.6	19.5	-16.8	-2.6
Numis Smaller Co + AIM (ex ICs)	-15.8	22.2	4.9	20.0	-21.9	-0.6
Numis All-Share Index	-10.0	18.8	-9.4	17.2	-1.3	2.9

…and specifically it has lagged the returns of the peer group over the past 18 months

Source of performance data: Morningstar, as at 31.03.2023, net income reinvested, bid to bid basis. [1]Trust launched on 28.04.2011. [2]2023 ytd to 31.03.2023.

Past performance is not a reliable indicator of future returns.

Specifically the Diverse Income Trust has a number of features…

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A vehicle that has the potential to deliver premium returns

As investors broaden their strategies to include those that generate return via cash compounding, as well as capital appreciation, then some multi-cap income OEICs may grow beyond their ability to deliver return, whereas an investment trust can ensure it remains the appropriate scale.

Plentiful stock market trading volumes

The trust's capital structure regularly clears the register of overhanging sellers, which minimises the risk of a Mexican stand-off in the daily turnover of the trust's shares (ie buyers not buying until institutional sellers have been cleared).

A share price that trades near the underlying NAV

The trust's Annual Redemption Mechanism encourages short term buyers to become investors if its share price drifts too far from its underlying NAV.

Competitive costs

The board seeks to minimise the annual costs of the trust borne by shareholders with a management fee of 0.9% of the adjusted market capitalisation of the company up to £300m, 0.8% between £300m and £500m, and 0.7% on anything beyond £500m. The ongoing charges figure (OCF) for the trust is 1.05%.

…that we anticipate will help it to fully deliver on the advantages of its strategy

Source: Premier Miton. Trust OCF calculated as at 31.05.2022. The ongoing charges figure (OCF) is not the same as the ongoing costs figure set out in the Company's key information document. The key differences are that gearing costs and portfolio transaction costs are not included in the OCF. In addition costs are calculated on slightly different bases. The OCF figure set out above mirrors that in the Report and Accounts and is based on costs incurred in the year which are likely to recur in the foreseeable future. The ongoing costs figures in the key information document provide investors with the impact costs have had on returns averaged over the five year recommended holding period.

Whilst income from the market has fluctuated, the trust's dividend income has been somewhat resilient…

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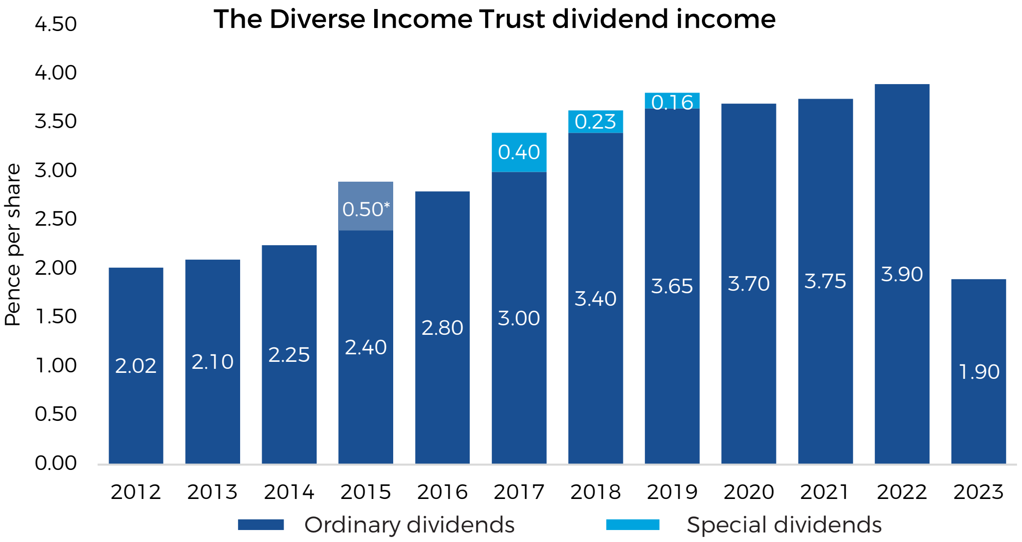
- Following the trust's launch in April 2011, the stream of dividend income grew well over the years up to 2019
- With the pandemic and the numerous dividend cuts the revenue from the trust fell less than that indicated by the Link Dividend Income Monitor, but the board decided to continue to increase the dividend to shareholders given the future prospects
- Furthermore, given the breadth of the business-models of stocks, the dividend on the trust has risen again over the last couple of years
- Despite the long-term strength of the stream of income from the trust over the years, the trust's capital returns have lagged behind those of the peer group, and so the yield on the trust has risen to the extent that it offers new trust buyers an even more attractive dividend yield at entry



…and the portfolio yield has risen as markets have been weak, so for current buyers it now compounds from an attractive yield

Source: Premier Miton. Total distributions paid for each financial year of the Trust, ending 31 May. The income for the 2022/23 financial year represents 2 out of 4 payments *In order to allow shareholders to vote on the dividend, a final dividend was introduced in the year that ended 31 May 2015, resulting in the payment of five dividends for that year. Since then, the Company has paid three interim dividends and a final dividend in respect of each year

In certain market conditions companies may reduce or even suspend paying dividends until conditions improve. This will impact the level of income distributed by the trust. The distribution amount that is paid each year can go up and down and is not guaranteed. Past performance is not a **reliable indicator of future returns.**

Inflation has peaked, so investors are looking forward to fewer interest rate increases...

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- In retrospect, governments ended up adding excess stimulus during the global pandemic, with the impact made worse by problems with global supply at the same time
- Global demand was already in excess of global supply ahead of the Ukrainian conflict, but the reduction in energy supplies from Russia scaled up inflationary pressures
- Since the global economy is heavily indebted after interest rates have fallen to such low levels, modest increases in interest rates, along with the exceptionally high levels of gas prices in Europe, have led to a major global slowdown
- Alongside, the Chinese policy of Zero Covid, has led to a major reduction in demand
- The net effect is that whilst the twelve-month rolling CPI reports remain at high levels, the recent data implies that the inflationary pressures have already fallen back considerably
- The US six-month rolling CPI is already down to target for example as indicated by the chart alongside.

US Consumer Price Index – on a six month annualised growth basis

...albeit the impact of the rate rises may soften demand for a period

Source: MacroStrategy, data from 31.01.2017 to 31.01.2023.

Investment markets are subject to cross-currents, as a recovery in Chinese demand...

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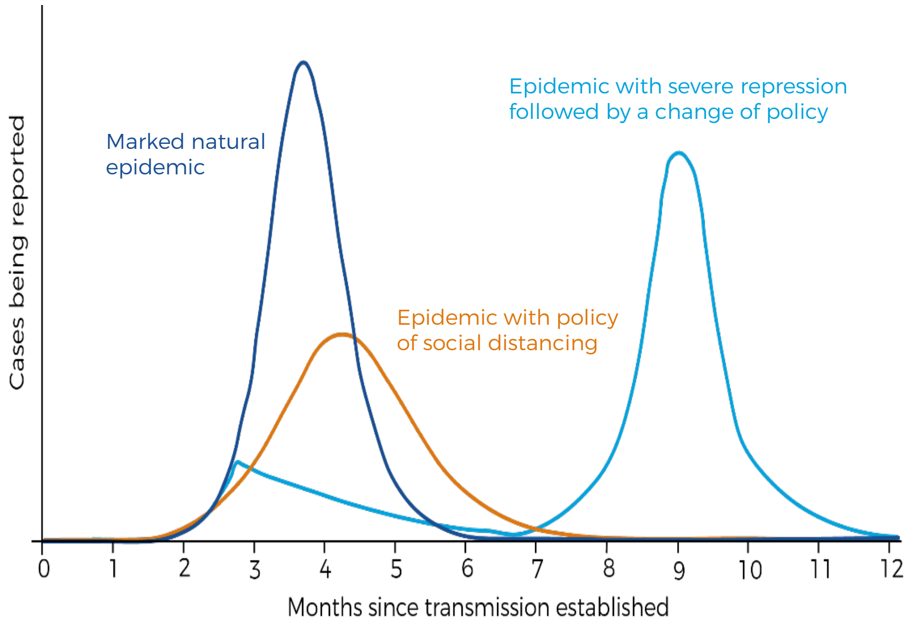
- The Chinese Zero Covid policy has been utilised to keep Covid deaths down to very modest levels, compared with those of other countries
- The problem is that this has had a very substantial impact on the ability of the Chinese economy to operate, as well as being exceptionally onerous for the daily lives of citizens
- Ultimately, the Chinese leadership were obliged to discontinue the Zero Covid policy, and removed restrictions completely
- Despite the scale of the current Chinese epidemic, Larry Summers of Harvard University estimates that the Chinese death rate as a result of Covid will not reach half of that of the US
- Beyond the epidemic, the Chinese economy appears to be recovering well, albeit that it is still subject to additional US trade tariffs and is weighed down by excessive bank debt



....is offset by a liquidity squeeze in the developed world

For illustration purposes only.

Energy inventories were declining even prior to the Russian invasion and the energy windfall taxes...

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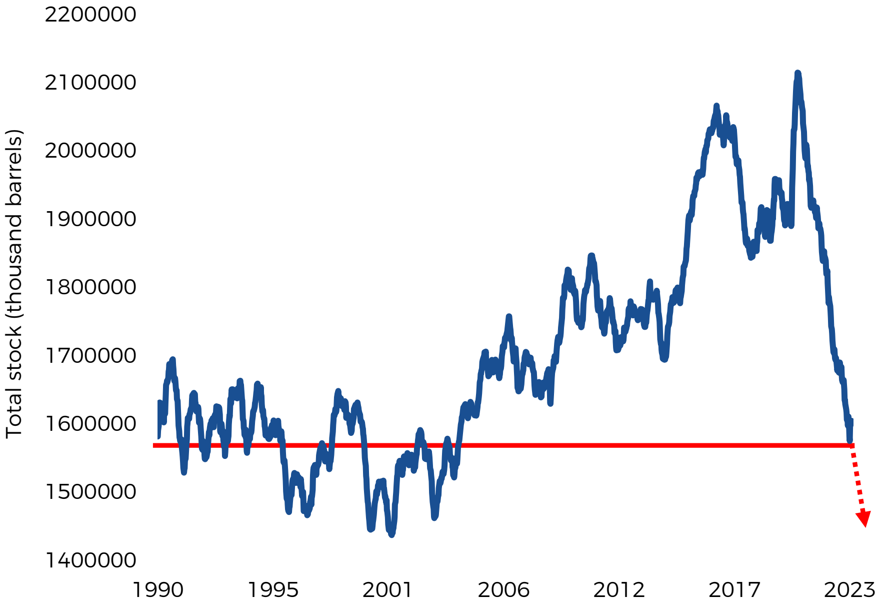
- Following the collapse of the oil price in 2014, energy majors scaled back energy exploration budgets. These were further cut late in the decade due to political commitments to phase out carbon-based energy by 2050. Furthermore, with the pandemic, and declines in global demand, many energy companies reduced their exploration budgets further
- Given this background, there were price spikes and potential shortfalls of European gas supply even prior to the Ukrainian invasion and the Russian sanctions that came with it
- Initially, there was an urgent need to rebuild winter energy inventories that led to global energy prices rising considerably over the middle of 2022, with European gas prices in particular moving up to remarkably elevated price levels
- During the second half of 2022 however, interest rates rises cooled global energy demand somewhat. In addition, President Biden has run down the US's crude oil strategic stockpiles as well, to help reduce US petrol prices, and curry political favour over the Midterm elections
- The bottom line is that a global shortfall of new carbon-based energy could suddenly occur, at a time when global inventories are very depleted. If global demand were to pick up faster than expected, then carbon-based energy prices could spike dramatically from here

US Crude and Product Inventories since 1990



...so if global demand were to increase more than expected from here, inflationary pressures could surprise again

Source: MacroStrategy, data from 05.01.1990 to 27.01.2023.

When risk capital was abundant during globalisation, areas of higher return quickly attracted competition…

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- At this stage it still isn't known if central banks will compromise and loosen their inflationary ambitions, or in their zeal to defeat inflation they will inadvertently end up supressing global growth on a long term basis, and risk an economic depression
- Whatever occurs, it seems unlikely that central banks will be able to recreate the risk capital abundance that has been a feature of asset markets over recent decades (other than potentially for short periods)
- Either way, in our view, risk capital may be scarcer in future, which could precipitate very different asset market trends
- Specifically, an inconsistent and costly supply of risk capital tends to undermine business strategies that rely on shareholders supporting numerous capital issues whilst the business makes losses
- In contrast, capital intensive strategies that invest to generate a stream of cash surpluses will find that competition is limited when risk capital is scarce, adding confidence to their future return profile
- In our view, these trends will favour quoted companies, that have capital structures principally funded by risk capital especially when compared with debt-funded private businesses

…but with inflation and higher interest rates, successful capital-intensive businesses may now have improved earnings over longer time periods

During globalisation, bonds and quoted companies provided diversified returns…

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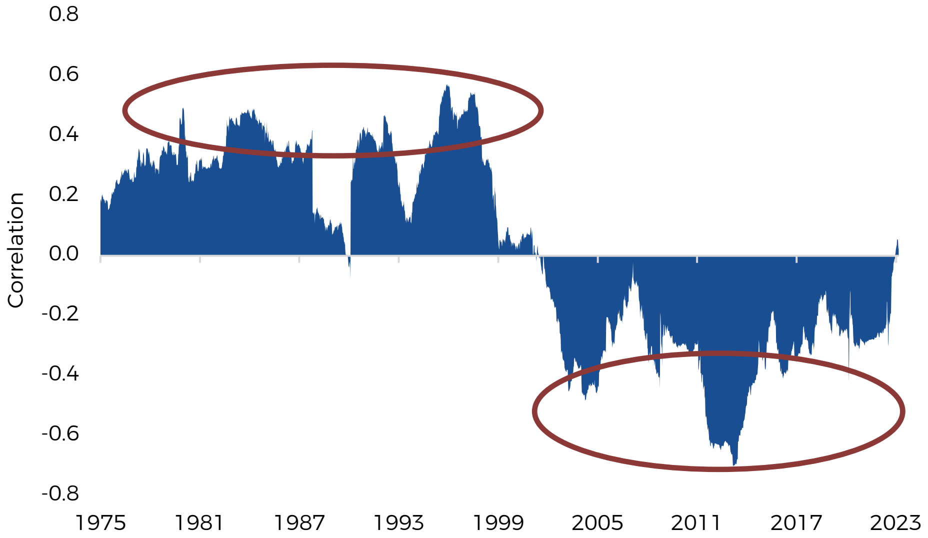
- With globalisation, the developed markets opened up to low-cost suppliers, and as their imports rose, this led to an abundance of hard currency globally that subsequently boosted asset valuations
- Since Consumer Price Index (CPI) inflation was benign during globalisation, any slowdown in global growth could be addressed by additional financial stimulus
- Taking additional risk such as investing in the most volatile equities often delivered additional returns, which was something of a headwind for the capital-intensive businesses listed in the UK
- As institutions reweighted portfolios to participate in the greater upside of international markets, they scaled back UK weightings
- Eventually after decades of a similar trend, UK equities have declined to low valuations when compared with others
- With renewed inflation over the last 12 months, global equities and bonds have both suffered a correlated decline, and investors need to build up their weightings in assets with less correlated return profiles

Correlation between US equities and US treasuries: two very different histories



…but with inflation, there is an urgent need for investors to build up weightings in assets with less correlated returns

Source: Bloomberg, data from 03.01.1975 to 28.02.2023.

Assets generating good and growing income deliver a major part of their return via accrued income…

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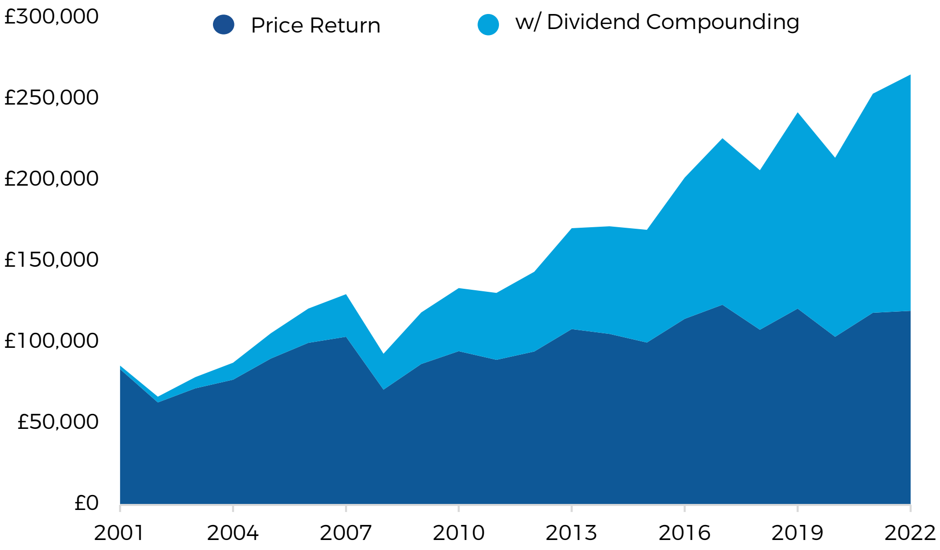
£100k Investment in FTSE 100 Index
Price Increase vs Dividend Reinvestment



- Since the UK economy has a heritage of inflation, the UK stock market tends to have a relatively high weighting of capital intensive stocks, and mainstream UK stocks typically pay an attractive stream of good and growing income
- During globalisation, when risk capital was abundant, many capital intensive stocks only generated significant capital appreciation episodically, as new capital rushed in to crowd out the return
- Specifically, the FTSE 100 Index reached a high of 6930 in December 1999 and despite substantial global growth subsequently it was only 7452 at the end of December 2022
- Despite the absence of FTSE 100 Index appreciation, the total return on the index has generated a return well above inflation, through the compounding of good and growing dividends
- With the potential change of market trends, and the risk that asset appreciation is much more limited in future, we believe that assets that generate a good and growing income will become more popular
- The valuation of the UK stock market has declined to unusually attractive levels over the years when investors have progressively scaled back their weightings so in our view, if the UK stock market were to start attracting new flows, it could outperform for years before becoming overvalued

…which is a particular feature of the UK given its universe of capital-intensive stocks income stocks

Source: Bloomberg, data as at 30.12.2022. **Past performance is not a reliable indicator of future returns.**

Beyond globalisation, to diversify strategy risk we anticipate that the cash compounding of UK equities will attract sustained inflows…

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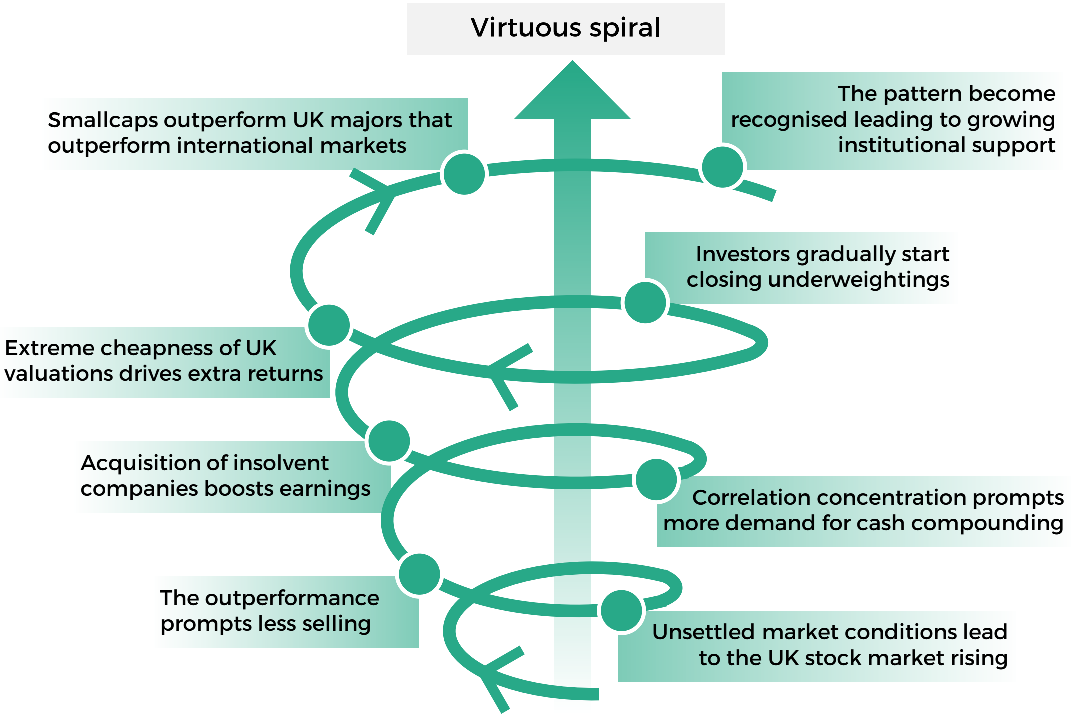
- After some decades of a vicious spiral, few investors are willing to countenance that the adverse trend can come to an end, let alone that it might be displaced by a virtuous spiral
- But in our view inflation changes everything, as concerns over correlation across numerous funds, and numerous asset classes drives investors to actively seek areas with different return characteristics
- In particular, if many stock exchanges flatline in future years, equities paying good and growing dividends won't just continue to deliver attractive returns, but will also will help offset periods of additional inflation, because their dividend income can rise to reflect the increase in fiat money
- Furthermore, companies generating surplus cash not only carry lesser risk of insolvency, but better still can acquire over-leveraged businesses debt-free from the receiver at knock down prices, amplifying their ongoing growth potential
- The greatest upside potential lies with UK small and microcap stocks, as in their cases the acquisitions can sometimes deliver transformational improvements to their prospects
- With the UK market starting at unusually low valuations, and with most asset allocators being underweight, the new trend has the potential to turn into a virtuous spiral that could last decades



…that will not only drive up valuations, but most particularly those of UK smallcaps given their lowly valuations currently

As interest rate rises supress demand, and customers become more price sensitive…

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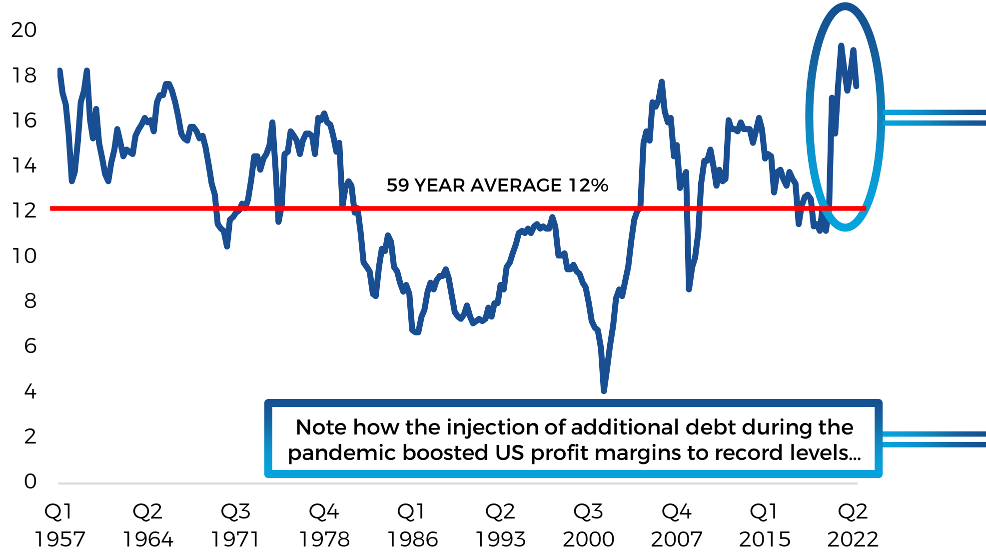
- One of the features of globalisation and the progressive decline in interest rates is that it has encouraged consumers, corporates and governments to spend more than their income
- Credit fuelled demand has a side effect of enhancing corporate profit margins, so the US metrics have risen from around 8% in the early 1990's to 16% by the early 2000's, and over 18% since 2020 - abnormally high levels
- Management teams become accustomed to the current level of profit margins, and don't recognise how dangerous geared capital structures are when profit margins normalise – which we expect will lead to an unusually abrupt end to almost all equity buybacks
- Better still, quoted companies generating surplus cash can fund acquisitions of over-leveraged businesses, at knock down prices, debt-free from the receiver thereby accelerating their growth when others are suffering
- We believe the UK's heritage of preferring stocks generating surplus cash will have the greatest upside potential
- There may be an equally substantial change in active fund management, as risk-embracing strategies that outperformed during globalisation are displaced by more risk-sensitive strategies that outperform in the future

Pretax profits as a percentage of gross product of non-financial corporate business – US



…it will be essential to select stocks that can retain margin – such as those delivering outstanding service levels to their customers

Source: Refinitiv Datastream.

When the cost of capital rises, stocks generating cash surpluses have the advantage....

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- When inflationary pressures are evident, central banks typically raise interest rates to cool demand, to bring it back into balance with supply
- Unfortunately, the combination of a reduction in demand and the price wars that this sometimes precipitates, together with the increased cost of debt, lead to companies being forced to sell parts of the business at distressed valuations, or risk corporate insolvency
- Some of these businesses can change hands for as little as £1, because normally the acquirer has to replace the working capital that has been lost
- Even so, many of these acquisitions can deliver very rapid cash paybacks
- Quoted companies generating cash surpluses are often well positioned to participate in these deals, and when they do they often greatly enhance their earnings

... as they can acquire overleveraged but otherwise viable businesses from the receiver, debt-free at knock down prices

The upside potential of buying distressed assets is greatly enhanced for quoted small-caps

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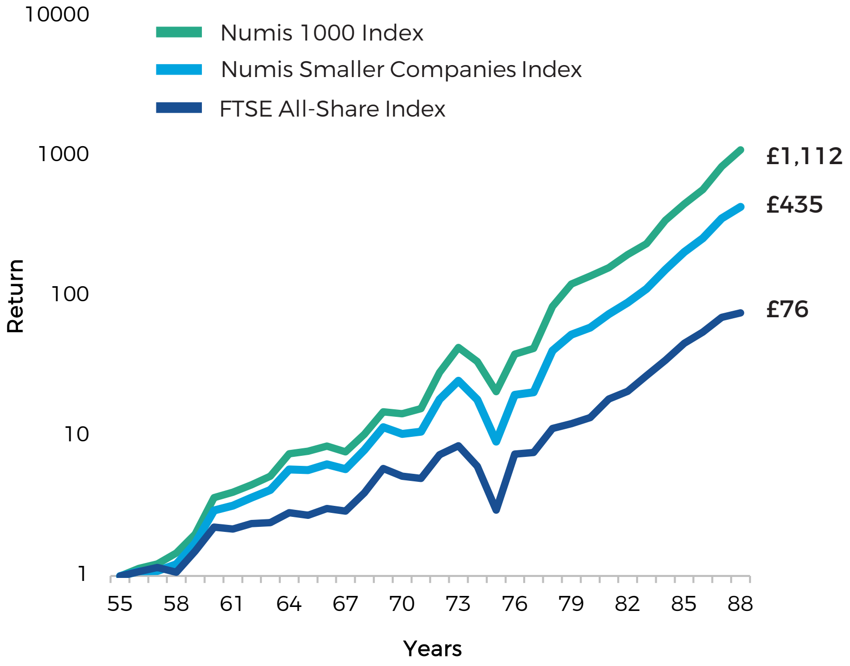
Performance of Numis 1000 Index v Numis Smaller Companies Index[1] vs FTSE All-Share Index 1955-1988



- At times when capital was scarce, often the UK exchange rate was weak, which would typically favour businesses with major international earnings, such as the largest quoted companies in the UK
- Nevertheless, UK-quoted small and micro-cap stocks typically outperformed UK majors because the upside potential of acquiring overindebted but viable businesses, debt-free from the receiver enhanced their earnings prospects to a much greater degree than the larger stocks
- Their diminutive scale prior to such acquisitions, means that sometimes insolvent acquisitions could deliver transformational uplifts to their earnings, especially in the case of quoted micro-caps
- Overall, the inflationary period between 1985 and 1988 was associated with the FTSE All-Share Index being one of the better performing stock markets, along with the best performing part being quoted small-caps (in spite of Sterling weakness at the time, and the need for the UK Government to take International Monetary Fund loan in 1976)

Source: Numis Securities, Elroy Dimson and Paul Marsh of London Business School. [1]Formerly RBS Hoare Govett Smaller Companies Index.

Past performance is not a reliable indicator of future returns.

The current dribble of UK relistings overseas, could quickly become a stream…

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- Over time, some public limited companies have recognised that one way to improve their cost of capital is to move their primary listing, (which also includes their index inclusion) away from London to another stock market – most often the US
- Generally, the early adopters had an additional specific reason for moving, but more recently the flow has accelerated
- Given the potential for a near-immediate uplift in valuation, we believe the current dribble could quickly become a stream, or even a flood, precipitating a step down in the UK's weighting in the global stock market indices
- In the short term, as investors progressively anticipate the increasing number of stocks moving their listing, there is scope for the UK mainstream stock market indices to substantially revalue upwards
- Thereafter, even as the UK's weighting in global indices reduces, we anticipate that institutional interest will continue to increase as they seek diversification away from too much capital appreciation strategy risk to include greater participation in the UK's cash compounding strategies
- Furthermore, we also anticipate that politicians will bear down on the progressive elimination of risk by the regulators, leading to renewed potential to deliver premium returns, with the UK's stock market having the potential to become the leading equity market for quoted, smallcaps in the world

Why stock-market tourists flock to New York
THE WALL STREET JOURNAL.

FirstFT: CRH delivers fresh blow to London's capital market

BHP to delist in London as it centralises in Australia

Arm opts for New York stock listing in blow to London

FCA regulator blamed for Arm's decision to shun London listing

…driving a substantial uplift in the UK stock market, and an equally large change in the mood of regulation

Overall, the Diverse Income Trust strategy is intentionally different...

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The return characteristics of The Diverse Income Trust since launch in April 2011[1]

	Alpha	Beta	Max drawdown	Sharpe	Sortino	Volatility
The Diverse Income Trust	3.6	0.8	-20.8	0.5	0.5	11.7
Numis Smaller Co + AIM (ex ICs)	0.0	1.0	-32.7	0.2	0.2	15.7
Numis All-Share Index	0.3	1.0	-26.2	0.2	0.2	18.9

...so that it has the potential to deliver both a low Beta and high Alpha

Source of performance data: Morningstar, as at 28.02.2023, net income reinvested, bid to bid basis. [1]Trust launched 28.04.2011.

Past performance is not a reliable indicator of future returns.

Conclusions

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- During the globalisation decades, UK quoted companies underperformed and as capital was reallocated elsewhere, their valuation fell versus others, to the extent that some are now moving their principal listing elsewhere
- Inflation changes everything, so market trends are currently in a period of flux
- Interestingly, companies generating surplus cash aren’t just more resilient during unsettled economic periods, but can sometimes enhance their prospects by acquiring viable businesses from distressed sellers
- The Diverse Income Trust strategy is well placed to weather the current challenges, as many of its portfolio holdings may have commercial advantages at this time
- Furthermore, the investment trust structure can have major advantages when the sources of premium return are necessarily limited in capacity

Major long-term uptrends are born in heavily underweighted assets on overlooked valuations…

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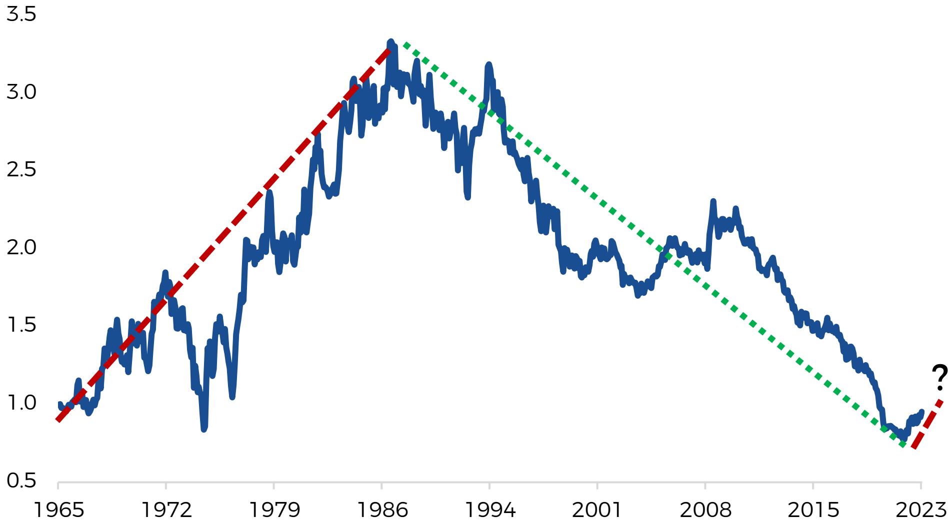
- At times of risk capital scarcity, businesses that generate good and growing cash surpluses have the advantage, in that they tend to have a much greater margin of safety
- Equity income stocks that prove resilient have the potential to absorb market positions vacated by businesses that fail, and continue to invest in improving their market position at a time when many others are constrained by increases in the cost of debt
- Furthermore, quoted businesses that prove resilient also have the potential to raise additional capital from external shareholders and acquire previously overindebted, but otherwise viable businesses from the receiver at knock-down valuations, that enhance their future dividend growth further
- All of these factors tend to favour stock markets such as the UK that are dominated by stocks paying good and growing dividends
- Also, as investors grow to recognise the new trend, they scale up their weightings which over time has the potential to drive sustained UK outperformance of other stock markets such as the S&P Index in the US

The FTSE All-Share Index vs the S&P 500
Both indices recorded in a similar currency



…so when the UK recovery comes, we expect it to surprise in terms of scale and duration

Source: Bloomberg, data from 26.02.1965 to 28.02.2023.

Important information

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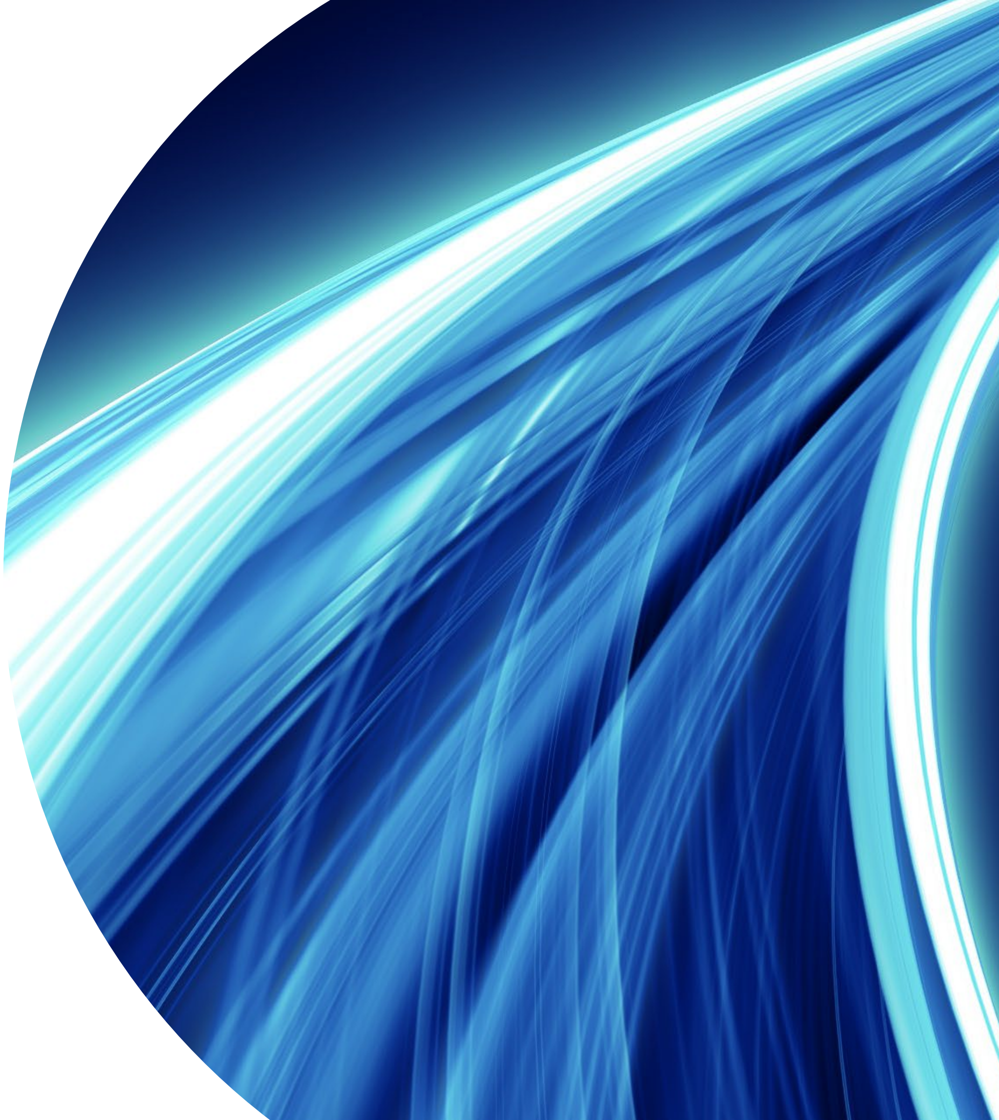
Appendix



The intensive nature of the DIVI strategy has been reflected in superior outcomes for shareholders

Group/Investment	Annualized Return	Peer group quartile	# of investments ranked in peer group	Annualized Alpha	Peer group quartile	# of investments ranked in peer group	Sharpe Ratio (Annualized)	Peer group quartile	Std Dev (Annualized)	Peer group quartile	Peer group rank
AIC UK Equity Income Sector											
abrdn Equity Income Trust Ord	5.31	4	22	-0.46	4	23	0.15	4	21.08	2	7
BlackRock Income and Growth Ord	5.82	4	22	-0.02	4	23	0.18	4	19.19	3	14
CT UK Capital and Income Ord	6.40	3	22	0.55	3	23	0.21	3	20.50	2	9
Chelverton UK Dividend Trust Ord	9.59	1	22	5.22	1	23	0.37	1	25.27	1	2
Chelverton UK Dividend Trust ZDP 2025				-0.31	4	23	-0.03	4			
City of London Ord	7.08	2	22	1.18	2	23	0.26	2	19.02	3	15
Diverse Income Trust Ord	**9.50**	**1**	**22**	**3.60**	**1**	**23**	**0.44**	**1**	**11.76**	**1**	**1/22**
Dunedin Income Growth Ord	6.15	3	22	0.43	3	23	0.21	4	20.32	2	10
Edinburgh Investment Ord	7.04	2	22	1.27	2	23	0.26	2	19.53	3	13
Finsbury Growth & Income Ord	10.92	1	22	5.01	1	23	0.51	1	17.62	4	19
Invesco Income Growth Ord				1.42	2	24	0.35	1			
JPMorgan Claverhouse Ord	6.23	3	22	0.59	3	23	0.21	3	22.80	1	6
JPMorgan Elect Managed Inc Ord				0.07	4	24	0.19	4			
Law Debenture Corporation Ord	8.83	1	22	3.34	1	23	0.39	1	18.00	4	18
Lowland Ord	6.63	3	22	0.77	3	23	0.22	3	19.98	2	12
Merchants Trust Ord	7.33	2	22	1.56	2	23	0.26	2	23.28	1	4
Murray Income Trust Ord	6.87	3	22	1.03	3	23	0.25	2	18.98	3	16
Schroder Income Growth Ord	7.33	2	22	1.43	2	23	0.27	2	20.55	2	8
Shires Income Ord	7.57	2	22	1.68	2	23	0.29	1	17.48	4	20
Temple Bar Ord	5.51	4	22	0.01	4	23	0.17	4	22.90	1	5
Troy Income & Growth Ord	6.13	4	22	0.38	4	23	0.21	3	14.84	4	21
UK Equity Income (AIC) Sector average	7.24			1.37			.26		19.62		
Scottish Mortgage Ord	14.89	1	1	10.43	1	1	0.67		25.59		
Polar Capital Technology Ord	15.45	1	1	10.95	1	1	0.75		24.45		
River and Mercantile UK Micro Cap Ord				2.37	1	1	0.24				

Source: Bloomberg, since trust launch, 28.04.2011 to last calendar year end, 31.12.2023.

During the pandemic, DIVI’s revenues were also somewhat more resilient

- The data alongside summarises how the revenue per share of a variety of trusts fluctuated during a period of dividend stress for the UK stock market
- Whilst DIVI’s revenue did suffer a significant setback over the period to May 2020, it was reassuring to note that it recovered strongly the following year
- By May 2022, DIVI’s revenue per share has already risen to exceed that of the 2019 period, whereas quite a few others did not
- We believe that the relative resilience of DIVI’s revenue per share is one of the advantages of its strategy that invests across the full range of market capitalisations, even given that this strategy is necessarily more management intensive and more costly to administer

			Net revenue per ordinary share (p)				
	Market cap 31 Jan 2023	Year end	2022	2021	2020	2019	% IM fees from rev
Diverse Income Trust	£335m	May	4.01	3.73	3.27	3.95	25%
REV % CH. P.A.	*% CH 2019-22*	*1.5%*	*7.5%*	*14.1%*	*-17.2%*		
Chelverton UK Dividend Trust	£39m	April	10.00	6.12	9.45	13.40	25%
REV % CH. P.A.	*% CH 2019-22*	*-25.4%*	*63.4%*	*-35.2%*	*-29.5%*		
City of London	£2,010m	June	20.72	17.09	15.73	19.76	30%
REV % CH. P.A.	*% CH 2019-22*	*4.9%*	*21.2%*	*8.6%*	*-20.4%*		
Edinburgh Investment Trust	£1,120m	March	22.41	16.21	27.80	28.70	30%
REV % CH. P.A.	*% CH 2019-22*	*-21.9%*	*38.2%*	*-41.7%*	*-3.1%*		
Finsbury Growth & Income	£1,840m	Sept	20.60	18.10	16.50	18.30	33%
REV % CH. P.A.	*% CH 2019-22*	*12.6%*	*13.8%*	*9.7%*	*-9.8%*		
Law Debenture Corp	£1,050m	Dec	n/a	28.08	21.56	30.67	25%
REV % CH. P.A.	*% CH 2019-22*	*n/a*	*n/a*	*30.2%*	*-29.7%*		
Merchants Trust	£837m	Jan	25.64	18.51	29.67	27.68	35%
REV % CH. P.A.	*% CH 2019-22*	*-7.4%*	*38.5%*	*-37.6%*	*7.2%*		
Schroder Income Growth	£218m	Aug	13.96	12.08	11.69	14.19	50%
REV % CH. P.A.	*% CH 2019-22*	*-1.6%*	*15.6%*	*3.3%*	*-17.6%*		
Shires Income	£81m	March	14.21	12.33	12.98	13.06	50%
REV % CH. P.A.	*% CH 2019-22*	*8.8%*	*15.2%*	*-5.0%*	*-0.6%*		
Scottish Mortgage	£10,590m	April	1.16	0.62	1.55	1.64	0%
REV % CH. P.A.	*% CH 2019-22*		*87.1%*	*-60.0%*	*-5.5%*		

Source: data as at 31.01.2023.

A strategy that generates less correlated returns can enhance expected return

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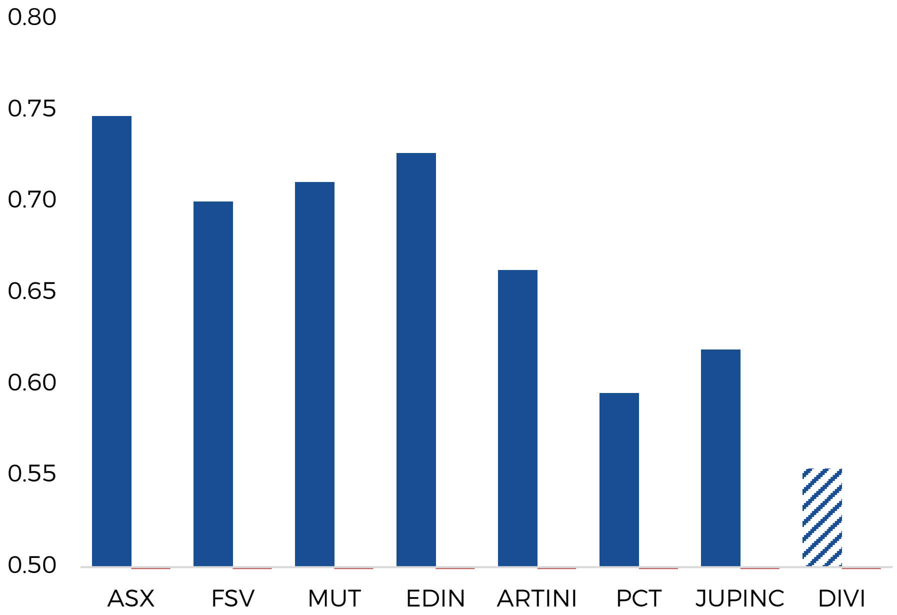
Correlation matrix

Security	ASX	FSV	MUT	EDIN	ARTINI	PCT	JUPINC	DIVI	
ASX	1.00	0.77	0.82	0.88	0.68	0.63	0.63	0.58	0.75
FSV	0.77	1.00	0.79	0.76	0.62	0.62	0.52	0.53	0.70
MUT	0.82	0.79	1.00	0.82	0.57	0.63	0.51	0.56	0.71
EDIN	0.88	0.76	0.82	1.00	0.64	0.58	0.60	0.54	0.73
ARTINI	0.68	0.62	0.57	0.64	1.00	0.49	0.88	0.43	0.66
PCT	0.63	0.62	0.63	0.58	0.49	1.00	0.42	0.40	0.60
JUPINC	0.63	0.52	0.51	0.60	0.88	0.42	1.00	0.40	0.62
DIVI	0.58	0.53	0.56	0.54	0.43	0.40	0.40	1.00	**0.55**

Pairwise correlations across Investment Trusts



Source: Bloomberg, data taken daily over a one year period from 24.01.2022 to 24.01.2023. ASX = FTSE ALL SHARE, FSV = FIDELITY SPECIAL VALUES, MUT = MURRAY INCOME TRUST, EDIN = EDINBURGH INVESTMENT TRUST, ARTINI = ARTEMIS INCOME FUND, PCT = POLAR CAPITAL TECHNOLOGY TRUST, JUPINC = JUPITER INCOME TRUST, DIVI = PREMIER MITON DIVERSE INCOME TRUST.