Premier Miton
INVESTORS

The Diverse Income Trust plc

As international country relationships fragment, we believe risk sensitivity will drive a sea change in portfolio composition

FOR INVESTMENT PROFESSIONALS ONLY. CAPITAL AT RISK.

Thinking ahead of the curve

Investment team

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

Premier Miton INVESTORS

- An update on the positioning of the Diverse Income Trust
- What are the potential advantages of a multi-cap income strategy with over 100 portfolio holdings?
- After Quantitative Easing (QE) has distorted market prices over the last fifteen years during globalisation, where are the greatest potential risks?
- If international country relations were to continue to fragment, and governments continued to need to raise additional debt, what are the implications?
- Overall, is there any role for smallness in modern, highly-liquid portfolios?
- Conclusions

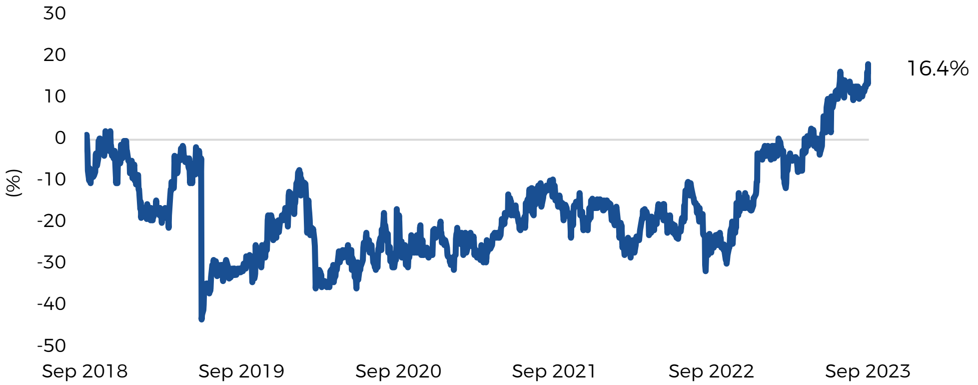
In prioritising companies that are well set to generate growing cash surpluses the fund is intentionally different…

Premier Miton INVESTORS

XPS Pensions Group

- Prospects for rising turnover?
- Do unexpected cost increases get passed on to the customer?
- Does the management team make decisions that we feel will build value?
- How much financial headroom is there in the balance sheet?
- Are there low expectations in the share price?

Share price 30 September 2018 to 30 September 2023



- Xafinity Pensions Advisory, a young ambitious pensions actuary, listed in February 2017, at 139p per share
- In January 2018 Xafinity acquired Punter Southall to become XPS which scaled up their addressable market
- The fund started purchasing a holding in April 2021 given it is well positioned to generate increasingly plentiful surplus cash
- XPS recently announced a strategic partnership to create a 'market leading defined contribution for employers' that led to a capital consideration of £42.5m
- Even though XPS offered an attractive dividend yield, it increased its dividend in the year to March 23 by a further 17%

…as success, in our view, is related to the resilience of the fund's stream of dividend income and how well it grows

Source: FE Analytics, on a UK Sterling basis, bid to bid, from 30.09.2018 to 30.09.2023. XPS Pensions was first purchased for the trust on 04.02.2021.

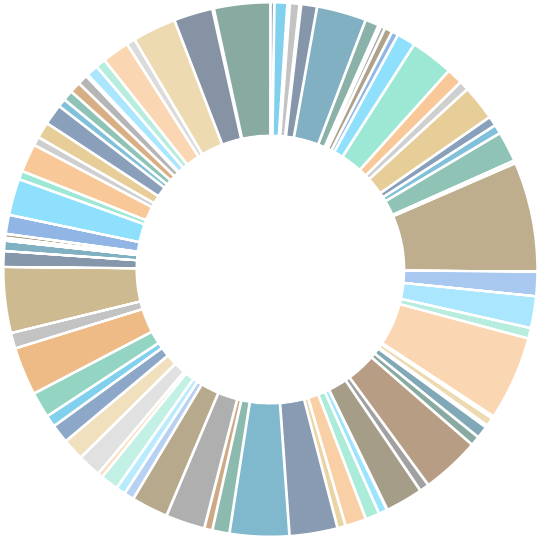
Reference to any particular stock does not constitute a recommendation to buy or sell the stock. Past performance is not a reliable indicator of future returns.

Effectively, the trajectory of the trust's dividend income reflects the success of numerous modest holdings…

Premier Miton INVESTORS

- The portfolio invests in over 100 holdings, including some of the largest quoted companies, and numerous others that are listed on the AIM exchange
- There is an assumption that the slower growth prospects of the largest quoted companies puts them in a position where they are better placed to generate good and growing dividends
- AIM listed companies may be much smaller, but many of these are still substantial businesses in their own right, and dominate certain niches, so they too can generate generous dividend yields as well
- As each holding in the trust has a modest weighting, the bottom line is that the trust's overall trajectory of dividend income is related to the general trend of the portfolio, rather than heavily reliant on a few holdings succeeding well

Diverse Income Trust plc projected underlying individual dividends for 2023 (%)



…rather than relying on getting lucky in one or two major investments

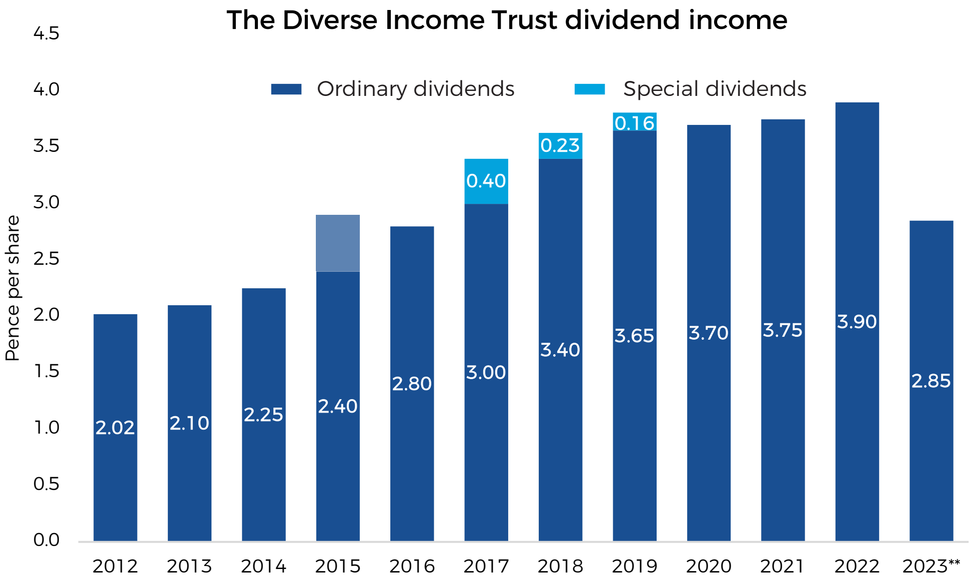
Source: Bloomberg, data as at 30.09.2023.

Forecasts are not reliable indicators of future performance. Reference to any particular stock does not constitute a recommendation to buy or sell the stock.

Prioritising a stream of dividend income that is both more resilient and has the potential to grow faster than others….

Premier Miton INVESTORS

- If the market price of an asset stands at a consistent dividend yield, then when the income grows, its market price grows at a similar rate.
- For this reason, the trusts strategy prioritises delivering a stream of dividend income that has the potential to be both faster growing and more resilient that others.
- As it is, the link between the growth of dividend income and the consequent appreciation of market price isn't mechanical in practice.
- Share prices of individual stocks typically fluctuate within a range across time periods, so the dividend yield itself is not consistent at any particular moment in time.
- Nevertheless, the linkage between dividend growth and market price is observable as a trend over the longer term.
- In this context, there are advantages to topping up higher yielding assets - always assuming that they continue to generate good and growing dividends in future.

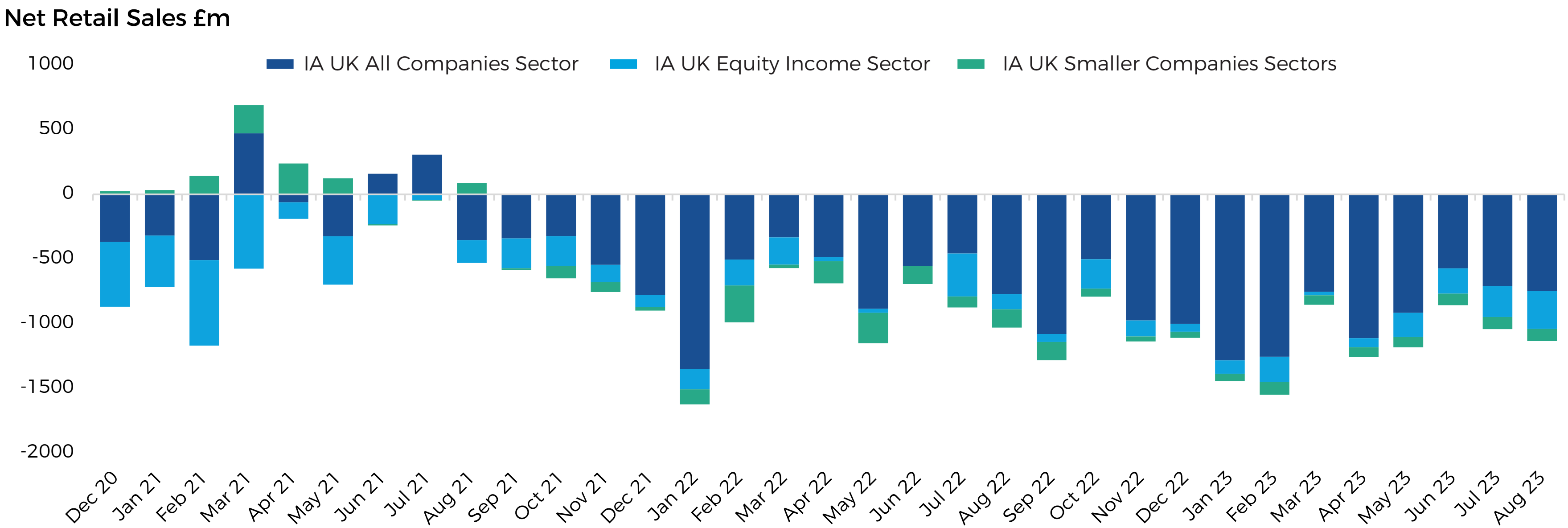


…will be associated, over time, with better capital appreciation as well as better income growth

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 3 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.

Meanwhile with high yields on bonds, UK OEIC investors have reduced their holdings even more rapidly

Premier Miton INVESTORS



...as UK assets have been used for decades as a source of capital to invest elsewhere

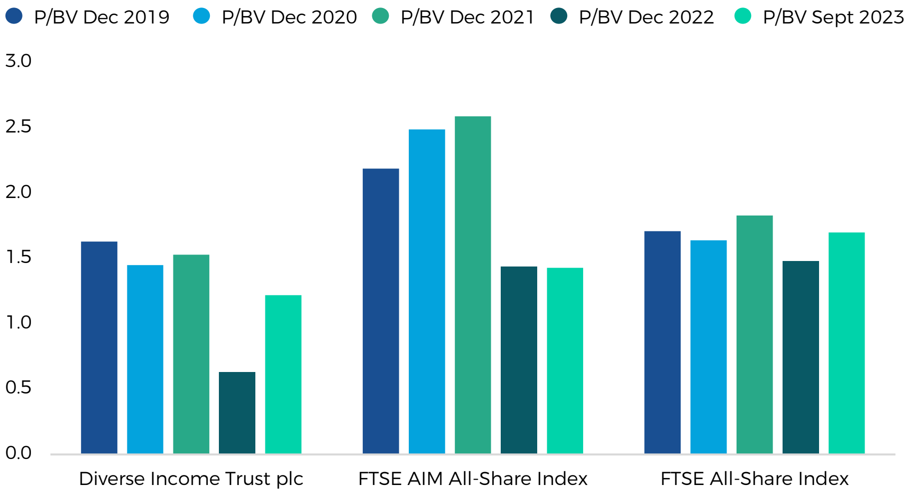
Source: The Investment Association. Data from 30.11.2020 to 31.08.2023. **Past performance is not a reliable indicator of future returns.**

With the OEIC redemptions, the share prices of many AIM-listed companies have been unusually weak recently....

Premier Miton
INVESTORS

- The price/book ratio provides some data on relative valuations, with low figures typically reflecting low valuations.
- The valuation of the UK mainstream stocks are somewhat lower than many international comparatives such as the US stock exchange.
- Many of the FTSE AIM All-Share Index stocks have traditionally grown more rapidly than those of the FTSE All Share Index, and hence stood on higher valuations prior to the recent pick up in UK OEIC redemptions.
- Over the last thirty months, AIM listed valuations have fallen dramatically, with that of the Diverse Income Trust portfolio also declining.
- If economic conditions get tougher, we anticipate that stocks generating surplus cash will have the advantage, with small and microcap stocks generating cash surpluses potentially having the very best opportunities.

Price to Book (P/BV) of the Diverse Income Trust plc compared with the FTSE All-Share Index & the FTSE AIM All-Share Index



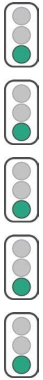
...and driven down the valuation of the trust significantly, hence with its ongoing dividend progress, its yield has risen considerably

Source: Bloomberg, as at 30.09.2023.

Paypoint's dividend yield has risen for example, due to its dividend increases and its weak share price...

Premier Miton INVESTORS

Paypoint Plc



- Prospects for rising turnover?
- Do unexpected cost increases get passed on to the customer?
- Does the management team make decisions that we feel will build value?
- How much financial headroom is there in the balance sheet?
- Are there low expectations in the share price?

Share price 30 September 2018 to 30 September 2023

- Paypoint Plc is a national network for collecting payments typically over the counter in newsagents, convenience stores, supermarkets and forecourts
- It's extended its network via Multipay, that is bringing in a wider range of customers such as local authorities, charities and housing associations
- The acquisition of Appreciate plc broadens its offering further to include consumer vouchering, gifting/reward solutions
- Over the five years to the 2024-year end, Liberum estimate that Paypoint have paid out dividends equating to 55% of its share price when it was 484p
- Furthermore, Liberum has increased its price target from 1000p to 1100p in March 2023.

...and even if there were a recession, in our view Paypoint's ongoing dividend growth prospects remain upbeat

Source: FE Analytics, on a UK Sterling basis, bid to bid, from 30.09.2018 to 30.09.2023.

Reference to any particular stock does not constitute a recommendation to buy or sell the stock. Past performance is not a reliable indicator of future returns.

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

Premier Miton INVESTORS

- 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 8.5%, 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	-0.1	-4.4	2.7	174.2
Trust share price	2.7	11.5	-5.2	148.9
Numis Smaller Co + AIM (ex ICs)	-1.6	10.0	-1.0	83.4
Numis All-Share Index	2.0	37.0	16.4	93.3

Discrete annual performance

%	2018	2019	2020	2021	2022	2023 ytd[2]
Trust NAV	-8.4	12.7	7.8	15.6	-13.6	-6.0
Trust share price	-7.7	6.9	8.6	19.5	-16.8	-7.3
Numis Smaller Co + AIM (ex ICs)	-15.8	22.2	4.9	20.0	-21.9	-3.4
Numis All-Share Index	-10.0	18.8	-9.4	17.2	-1.3	4.6

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

Source of performance data: Morningstar, as at 30.09.2023, net income reinvested, bid to bid basis. [1]Trust launched on 28.04.2011. [2]2023 ytd to 30.09.2023.

Past performance is not a reliable indicator of future returns.

Even so, importantly in our view the trust continues to declare a resilient stream of dividends....

Premier Miton INVESTORS

- The trust's portfolio comprises both largecap equity income companies, and less mature AIM-listed equity income companies.
- It also includes both local businesses as well as many with operations that are principally operating internationally.
- Furthermore, it also includes companies that are innovating or others operating in novel markets that often means that they can prosper even when the global economy is in recession.
- Specifically, some of the most diversifying holdings are AIM-listed financials, energy companies and mineral businesses, that also tend to stand at the greatest valuation discounts and hence can deliver very substantial capital appreciation as well as income.

	Top 20 trust holdings	Weight %
1	Kenmare Resources	2.6%
2	XPS Pensions Group	2.5%
3	Galliford Try Holdings	2.4%
4	TP ICAP Group	2.3%
5	I3 Energy	2.2%
6	Paypoint	1.8%
7	Hostelworld Group	1.8%
8	Tesco	1.7%
9	Legal & General Group	1.7%
10	BT Group	1.7%
11	Sabre Insurance Group	1.7%
12	Man Group	1.6%
13	Savannah Energy	1.6%
14	Phoenix Group Holdings	1.6%
15	Diversified Energy	1.6%
16	Aviva	1.6%
17	Just Group	1.5%
18	Sainsbury (J)	1.5%
19	Rio Tinto	1.5%
20	Admiral Group	1.5%

...because the portfolio's wide-ranging diversification helps it to better navigate abrupt changes in the investment climate

Source: Bloomberg, data as at 30.09.2023. **Reference to any particular stock does not constitute a recommendation to buy or sell the stock.**

Specifically, the Diverse Income Trust has a number of features...

Premier Miton
INVESTORS

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 ongoing institutional 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 1.09%.

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

Source: Premier Miton. Trust OCF calculated as at 31.05.2023. 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.

We worry that the super-normal level of company profit margins may now be vulnerable to peaking out…

Premier Miton INVESTORS

- The surge of low-cost imports known as globalisation has offset local inflation, so for decades the cost of debt has fallen.
- At the start, consumers, corporates and governments were cautious about taking on too much additional low-cost debt, as they knew that its cost could increase when inflation returned.
- But over the decades as memories faded and low inflation persisted, the growing use more debt generated incremental demand and enhanced corporate profit margins that ultimately boosted the asset valuations.
- During the global pandemic, governments have taken on much larger debts, whilst simultaneously seeking reshoring so they are less reliant on the ongoing surge of low-cost imports.
- Hence the current super-normal levels of US corporate profit margin appears unsustainable when government's budget funding inadvertently 'crowds out' others access to capital.
- The net effect is that too much corporate debt could become very problematic, whilst those generating surplus cash will have disproportionate advantage.
- Furthermore, as active managers we will need to identify stocks that have commercial reasons why they can sustain their corporate profit margins even when others are cutting prices.

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

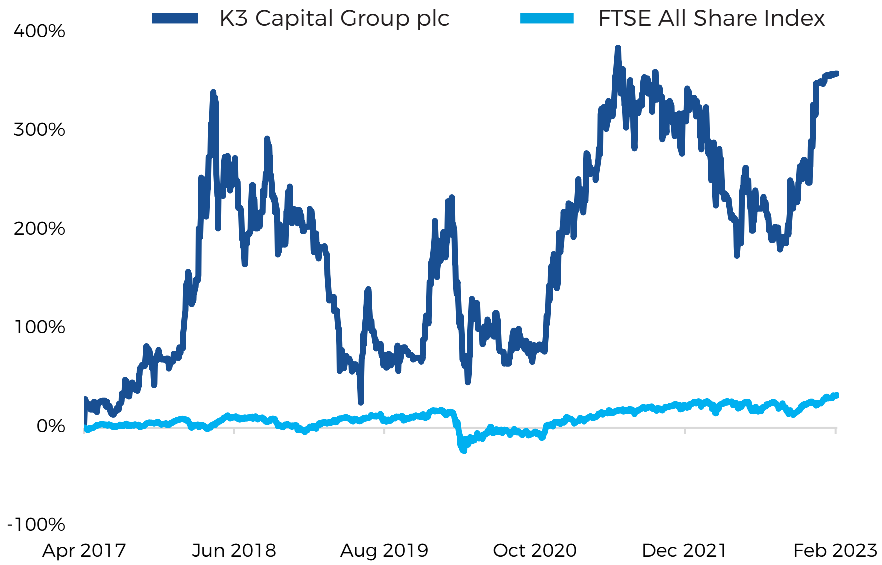
…in part due to tighter financial conditions as government funding 'crowds out' others access to capital

Source: Refinitiv Datastream.

Specifically, a diversified, equity income portfolio has real advantages when financial conditions are testing....

Premier Miton INVESTORS

- The capacity of a trust is typically determined by what is the smallest portfolio percentage that the trust manager is willing to hold, along with the smallest market capitalisation they will consider.
- Therefore, we believe that a portfolio investing in over 100 holdings has scope to outperform other multicap strategies through participating in a number of microcap equity income companies that generate exceptional returns.
- K3 Capital for example, came to market in 2017 with a market capitalisation of around £50m. Between April 2017 at listing and February 2023 when it agreed a premium takeover, it delivered a total return of 359% that is considerably ahead of the total returns of all the UK equity indices.
- Furthermore, including a range of holdings that have lesser correlation the mainstream indices, given that equity correlation risk with megacaps is so elevated at present, is a major advantage.



...as it has the potential to generate attractive returns even when returns on the mainstream market are largely absent

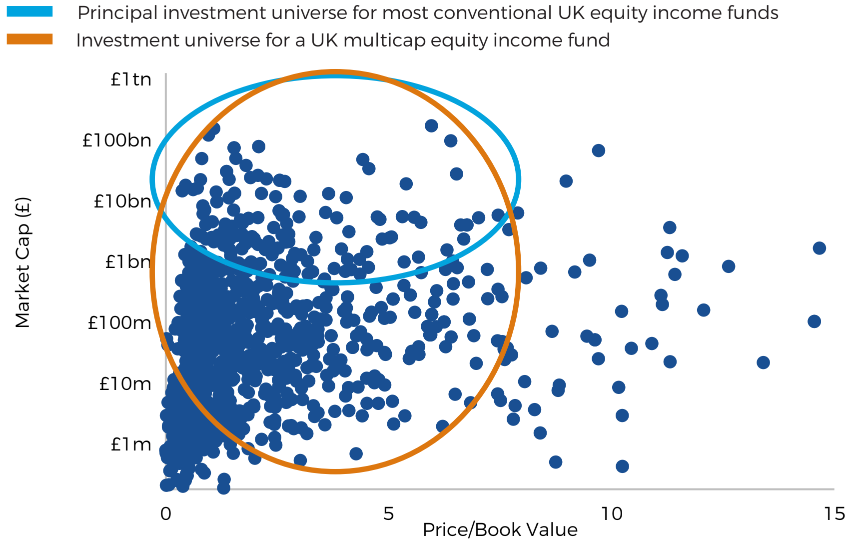
Source: Bloomberg, data from 10.04.2017 to 14.02.2023.

At times when there are few companies generating dividend growth for example....

Premier Miton INVESTORS

- During the globalisation decades, generally ongoing global growth along with moderating interest rates led to numerous quoted companies offering good and growing dividends.
- As the largest quoted companies by nature paid out the bulk of the dividend income, it has been customary to pick out the stocks with the best prospects with the the largecap investment universe alone.
- During more challenging economic conditions however, when there are fewer companies continuing to pay good and growing dividends, relying on a relatively small number of largecap equity income stocks can greatly limit the investment universe.
- Beyond globalisation, investing across a much broader investment universe builds investment portfolios that can continue to select from all the successful listed stocks (as shown in green alongside) rather than a more limited investment universe (as shown in yellow alongside).

After years of underperformance the UK stock market is lowly valued, with the most undervalued companies often further down the market capitalisation range



...investing across a wider investment universe means the trust can continue to consider all of the income generating companies

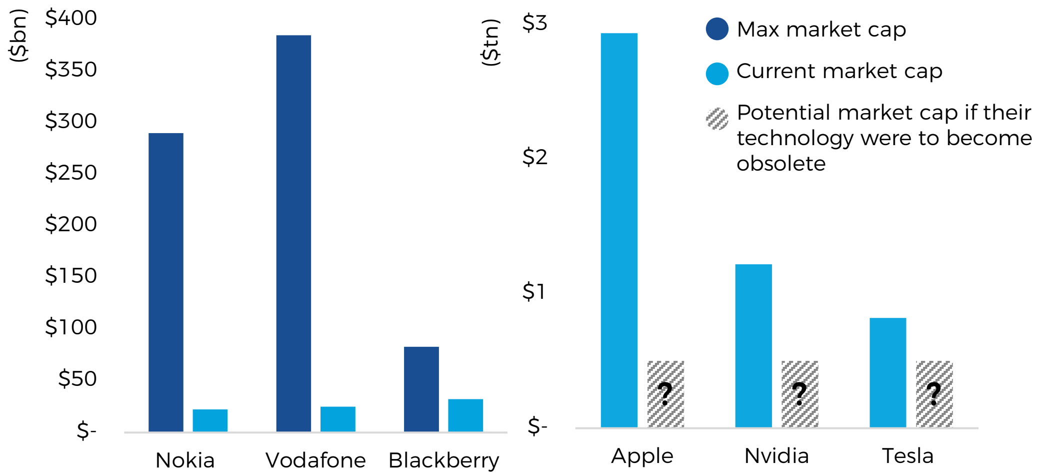
Source: Bloomberg, data as at 31.07.2023.

Furthermore, the strong momentum during globalisation, led some investors to underestimate risk

Premier Miton INVESTORS

- During globalisation, stock market momentum often became so strong that companies generating rapid sales and profit growth sometimes rose to impressive market capitalisations, that then left them vulnerable to enormous downside obsolescence risks.
- Good examples include Nokia, Vodafone, Blackberry that were capitalised at $246bn, $340bn and $66bn in March 2000, and June 2008 respectively.
- On 08 September 2023 these companies were capitalised at $22.7bn, $24.7bn and $2.7bn respectively.
- In this context, it is worth noting that the market capitalisation of Apple was $2786bn, Nvidia was $1126bn and Tesla was $789bn as at 08 September 2023.

Peak market capitalisation of some past high profile technology companies, compared with their current market capitalisation, along with some high profile companies currently



...so that some companies with rapid sales and profit growth becomes vulnerable to deliver hugely disappointing returns

Source: Bloomberg, data as at 31.08.2023.

Reference to any particular stock does not constitute a recommendation to buy or sell the stock. Past performance is not a reliable indicator of future returns.

We worry that strong market momentum over decades may have led to collective groupthink conditions…

Premier Miton INVESTORS

- Groupthink is a psychological phenomenon in which individuals within a group prioritise consensus over personal doubts.
- Groupthink theory was first pioneered by Irving Janis of Yale University in the 1970's.
- Specifically, it investigated why people will sometimes willingly set aside their own knowledge or experience in deference of the 'wisdom' of the broader group.
- The phenomenon can be highly problematic, because collective groupthink can lead to teams of intelligent and experienced individuals holding onto decisions even in the context of foreseeable outsized downside risks.

Holy cows are unquestioned and unchallengeable. Groupthink typically becomes a feature when a successful long-term decision gradually becomes something of a holy cow

The illusion of unanimity leads to individuals believing that everyone in the team has a unified view and feels the same way. When everyone else in a group is on the same page, airing open questions can give the impression that the individual has inferior intellect

Self-censorship causes people who have specific, rational doubts or experiences that challenge the consensus to stay quiet, on the assumption that the group is already aware of these misgivings and has good reasons to disregard them

Ongoing post-event rationalisation finds reasons why events that don't fit in with the consensual narrative might be one-offs or exceptions, which then justifies why the group can safely ignore what might be warning signs

"Mindguards" Just occasionally, opinionated individuals buy into a concept so heavily that they become self-appointed censors or mindguards that demonise out-group members as disloyal or traitorous. Problematic information contests their position, so sometimes they end up hiding this from the group so it remains ignorant of relevant new data or ideas

A reluctance to address known outsized risks With collective groupthink, the illusion of unanimity is interpreted as active ongoing support for the retention of status quo for the future. Specifically, as the scale of current risks or consideration of alternative strategies are never voiced, the status quo is typically retained even when it is clearly inappropriate due to entirely foreseeable outsized risks

…which has left US investors feeling secure with the status quo – even when outsized downside risks are potentially foreseeable

Source: Premier Miton Analysis using data from Wikipedia, correct as at 31.08.2023.

Financial markets specifically happen to be unusually vulnerable to groupthink...

Premier Miton INVESTORS

- There is a working assumption that market prices are normally right, because they reflect the live balance between willing seller and willing buyer.
- Hence, when certain groups of companies outperform investors often have faith there is a rational explanation.
- At times, when favourable market trends persist however, the trend itself can start to generate new short-term buyers especially in cases where there is a simplified rational why elevated valuations are justifiable and may increase further.
- Within financial exchanges, at worst this pattern of reflexivity becomes self-feeding as rising asset prices bring in increasingly numerous buyers so the assets themselves appreciate rapidly and ultimately become hopelessly out of line with the fundamentals.
- In the world of competitive fund management this pattern has a name – Fear Of Missing Out – FOMO.
- Numerous historical examples highlight how much collective groupthink within financial markets can leave market participants overconfident when holding large weightings in assets that have foreseeable outsized downside risks.

Tulip bulbs justify high valuations because they can seed numerous high-value bulbs. Famously, the tulip mania on the Dutch exchanges led to tulip bulbs appreciating to valuations where a single bulb was worth upwards of five times more than houses, before plunging by 99.99%.

Japanese assets are much more productive that other developed economies. Tokyo real estate price surged between 1985 and 1989. At that point the value of the Imperial Palace grounds was worth more that all the real estate in the state of California.

Large tech weightings should be a core unchanging part of a portfolio. During the dot.com boom, the mantra that technology was central to the future led to a heavy skew of capital into dot.com companies, even though many didn't have business plans, and their valuations in most cases were larger than that of their turnover. Their share prices plunged thereafter, and most dot-com businesses turned out to be unviable

Russia won't invade Ukraine given the scale of the downside economic risks. The share prices of companies with operations in Russian that were listed on mainstream exchanges barely wobbled prior to the Russian invasion of Ukraine, despite a huge build up of troops on the border and US pronouncements that an invasion was imminent. Share prices of companies such as Polymetal International PLC fell 92%[1] on the invasion, with sanctions subsequently driving investors out of residual holdings as portfolios including them, were viewed as toxic by clients.

...as ongoing market price momentum can validate over-confidence that the current favourable trend will persist into the future

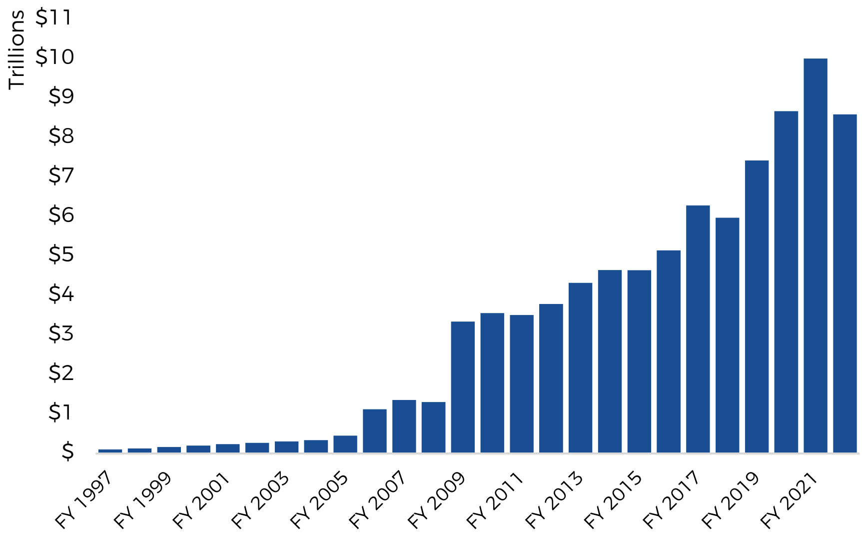
Source: Premier Miton Analysis using data from Wikipedia, correct as at 31.08.2023. [1]Source: Bloomberg from 09.01.2021 to 28.07.2023.

The purpose of equity markets is to allocate capital to businesses that generate productivity improvement…

Premier Miton INVESTORS

- Stock market participants allocate capital to the individual stocks across the full range of market capitalisations in competition to pick out those that are well set to generate the best returns.
- During globalisation, central banks have been able to repeatedly deploy Quantitative Easing financial stimulus because of the inflationary background has been benign, albeit at that QE comes at the cost of distorting bond and equity market prices.
- Distorting market prices changes behaviour. Quoted companies have taken on additional debt in their capital structures and retired equity in a pattern that has favoured either those with access to the lowest cost debt such as largecap and megacap quoted stocks, or those with access to abnormally large debt ratios such as private equity.
- Specifically, the net effect is that that largecap stocks (and private equity funds) have delivered abnormally strong returns relative to inflation and the equity indices over recent decades.
- Meanwhile the rest of the quoted stocks that typically have the potential to generate productivity improvement have borne less attractive costs of capital and hence global productivity and wage improvement has stagnated over the last 15 years.

Blackrock Assets Under Management from 1997 to 2022



…but fifteen years of QE has distorted market prices, greatly favouring largecaps, and led to a stagnation of global productivity

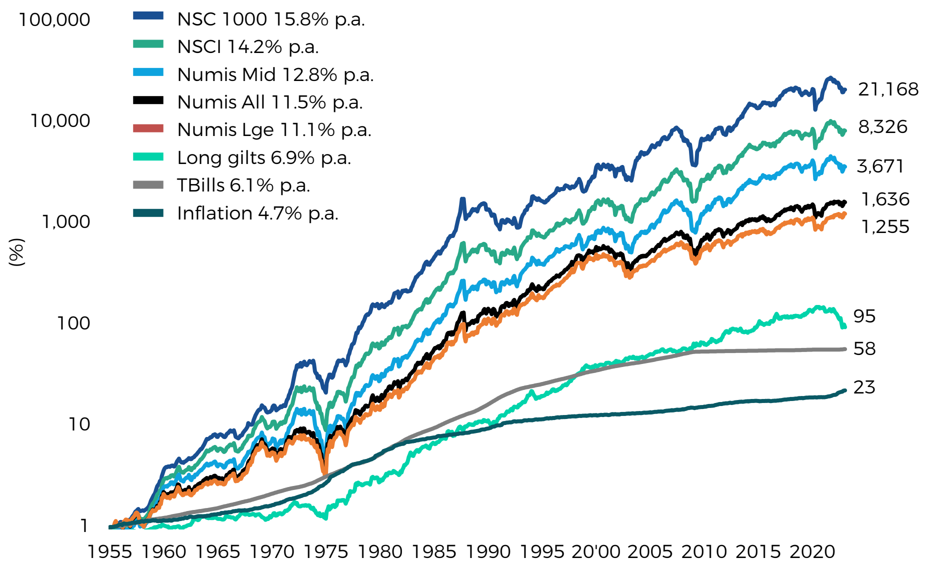
Source: Bloomberg from 31.12.1996 to 31.12.2022.
Past performance is not a reliable indicator of future returns.

Historically, quoted largecaps have a record of near-permanently underperforming all other companies…

Premier Miton INVESTORS

- The largest 80% of UK-quoted companies (known as the Numis Largecap Index) underperforms the Numis All Share Index on a near-permanent basis.
- When the cost of capital rises, or when demand is being actively supressed so if falls below supply largecaps have a lesser margin of safety. Being large they find it harder to dodge the recessionary bullets.
- Hence if economic conditions were to become more challenging, the returns on largecaps might struggle to keep pace with inflation.
- Furthermore, larger quoted companies also carry the risk that they typically operate in a narrow range of sectors, that are largely replicated on other developed market exchanges.
- Overall, large weightings in quoted largecaps have structural underperformance risks, elevated stock specific risks and narrow sector specific correlation risks that can become particularly apparent were financial conditions are more testing.

Total return of the Numis family of UK stock market indices, 1955-2021



…and from the late 1960's onwards when financial conditions became much tougher, their returns even struggled to keep pace with inflation

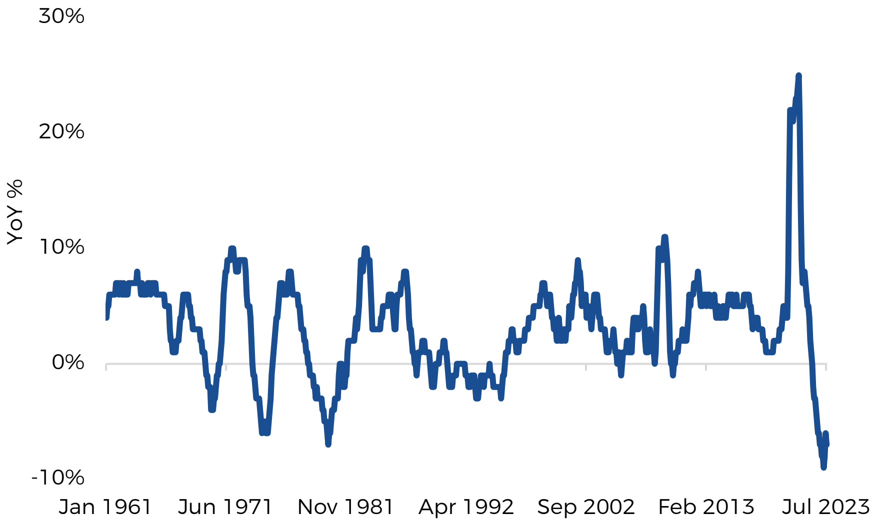
Source: Numis; Evans and Marsh, Numis Indices 2021. Annual Review; Dimson-Marsh-Staunton DMS Database, 2023.
Past performance is not a reliable indicator of future returns.

So QE mixed with groupthink could spell trouble - QE has distorted allocations into crowded megacap strategies…

Premier Miton INVESTORS

- During the years of QE, low-cost index funds and ETFs have delivered excellent long-term returns along with abundant daily liquidity and become a major core part of portfolios.
- Passive strategies themselves are reflexive in nature because they allocate the largest proportions of capital to the very largest quoted stocks, and in doing so appear to have driven up megacap valuations well beyond that other stocks.
- In the context of the ongoing passive outperformance trend, collective groupthink may have lulled investors into a false sense of security.
- Clearly, no one knows what the future might bring, but we believe it is very relevant that US M2 Real Money Supply is currently falling at the fastest rate since the Great Depression.
- If economic conditions were to become more testing, mainstream asset returns might disappoint for many years, especially those dominated by large index stocks, and those standing on elevated valuations.
- So, if financial conditions were to become more testing in future, what are the kinds of assets that might be favoured?

USA: Real broad money
% Year on Year deflated by gross domestic product (GDP)



…whilst groupthink may be seeing investors overlooking known risks or the consideration of better alternatives

Source: Federal Reserve for Money Data, Bureau for Labour Stats for CPI. Data from 01.01.1961 to 01.07.2023.
Past performance is not a reliable indicator of future returns.

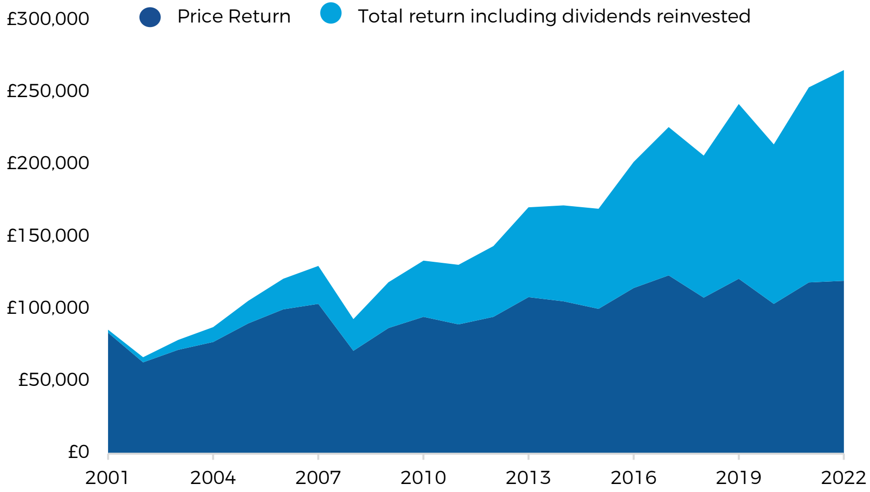
Dividend compounding strategies for example can generate absolute returns even when stock markets don’t appreciate much…

Premier Miton
INVESTORS

- If economic conditions are more testing after globalisation, equity markets may face return headwinds as it moves back to past valuation norms and corporate profit margins decline.
- Whilst stocks with rapid growth ambitions tend to outperform when stock markets are appreciating well, they can be outpaced when market returns are relatively modest.
- Conversely, during testing economic conditions equity income stocks start with a greater margin of safety, and some can use their surplus cashflow to expand into markets vacated by insolvent competitors.
- Better still, some can acquire overindebted but overwise viable businesses, debt-free from the receivers often for a nominal sum, and greatly enhance their prospective cashflow.
- Specifically, dividend compounding strategies have periods of outperformance that can last for years, and better still the timing of these periods tends to be negatively correlated with the periods of outperformance of ambitious growth stocks.
- Even when the stock market indices flatline, equity income strategies can generate attractive rates of return due to dividend compounding.

The UK is near-unique in its large universe of dividend compounding stocks

Value of £100.000 invested in the FTSE 100 Index, in terms of the capital return and the total return with dividends reinvested (2001 to 2022)



…as dividends can be used to purchase additional equities, potentially at increasingly attractive valuations, enhancing the growth of income further

Source: Bloomberg, data as at 30.12.2022.

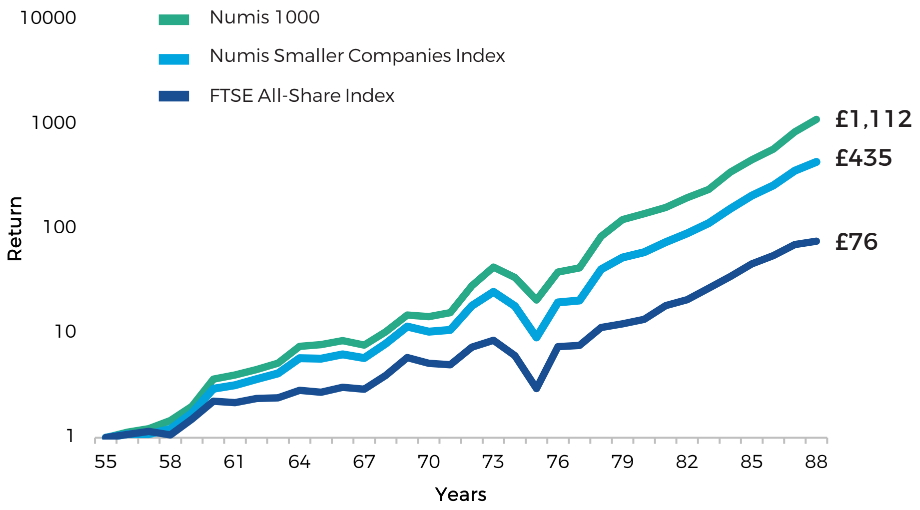
In certain market conditions companies may reduce or even suspend paying dividends until conditions improve. This will impact the level of income distributed by the trust. The distribution amount that is paid each year can go up and down and is not guaranteed. Past performance is not a reliable indicator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

During testing periods, acquiring overindebted, insolvent companies, that are otherwise viable, can turn out to be very lucrative...

Premier Miton INVESTORS

- 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 1965 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).

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



...with the value uplifts being so much more significant for quoted smallcaps, given their more modest initial capitalisations

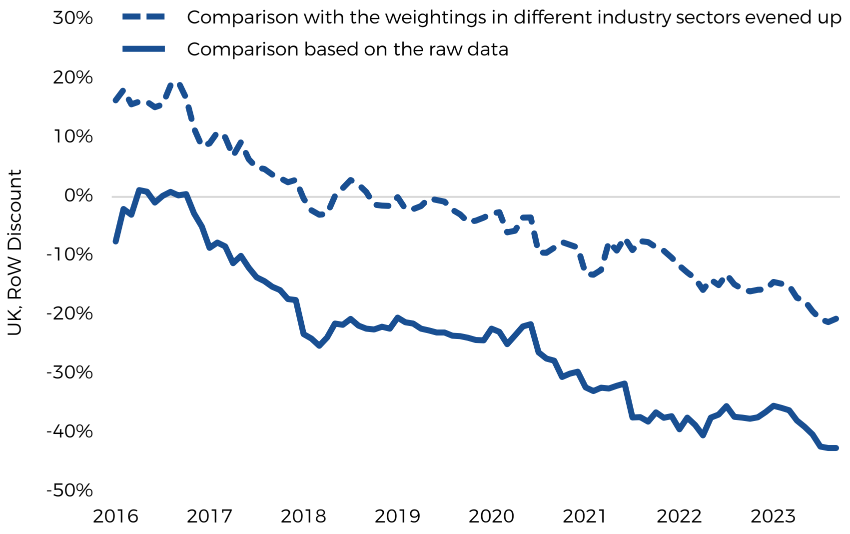
Source: Numis Securities, Elroy Dimson and Paul Marsh of London Business School. [1]Formerly RBS Hoare Govett Smaller Companies Index.

Past performance is not a reliable indicator of future returns.

The net effect is that after years of underperformance, the UK investment universe of equity income stocks...

- The valuation of UK mainstream stocks were broadly similar to those of the rest of the world in 2016, but have moved decisively lower subsequently
- Some commentators highlight that the sector mix of the UK mainstream stocks might explain the discount, but even when UK sector specific valuations are compared with similar sectors elsewhere, UK stocks still stand on a discount compared with international peers
- Given that economic prospects may be more testing beyond globalisation, and that most global investors are chronically underweight equity income stocks, the subnormal valuation offers on UK market appears what we consider to be an attractive entry opportunity
- Explicitly, equity income that deliver via cash compounding dividends, will in our view become much larger proportions of portfolios in future, boosting international capital flows into the UK exchange

Chart of the valuation of the UK stocks market in comparison to the valuation of other stock markets around the world



...appears to stand at an incredibly attractive entry point

Source: Panmure Gordon, from 18.01.2016 to 18.09.2023. Adjusted valuation removes differences in sector weightings.

Past performance is not a reliable indicator of future returns.

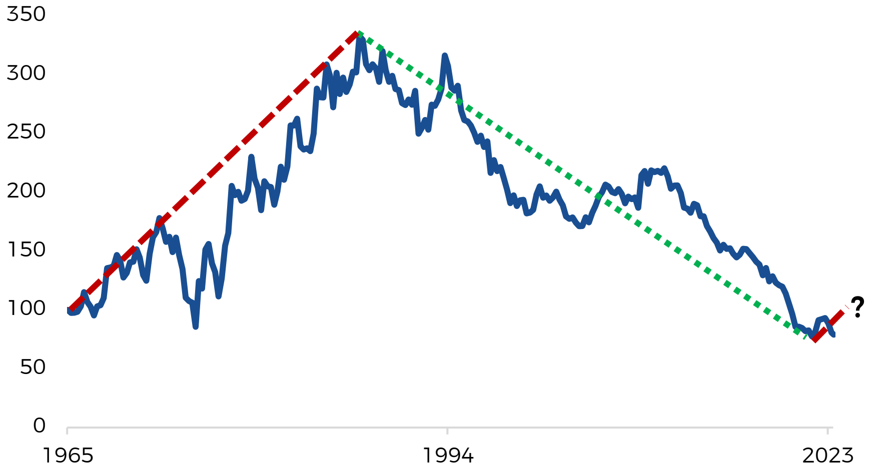
Furthermore, if the returns on international large and megacap holdings were to be disappointing at the same time...

Premier Miton INVESTORS

- After decades of UK equity market underperformance, most local investors have scar tissue regarding the prospects for their remaining weightings
- Interestingly, UK equities look very different from the perspective of international investors
- They offer welcome diversification from markets that deliver return principally via capital gain
- They offer access to numerous equity income stocks, that have higher margins of safety were economic conditions to remain testing
- Their valuations are standing below equivalent stocks quoted on other exchanges, so they may have greater upside potential
- Importantly, because most global investors are so underweight in the UK stock market, and because it is starting from what appears to be such an overlooked valuation, there is scope for UK equities to surprise in terms of scale and duration in terms of future returns

We anticipate the outperformance of the UK stock market will surprise in both scale and duration

A chart of the FTSE All-Share Index versus the S&P 500 Index, both in a common currency (1965 – 2023)



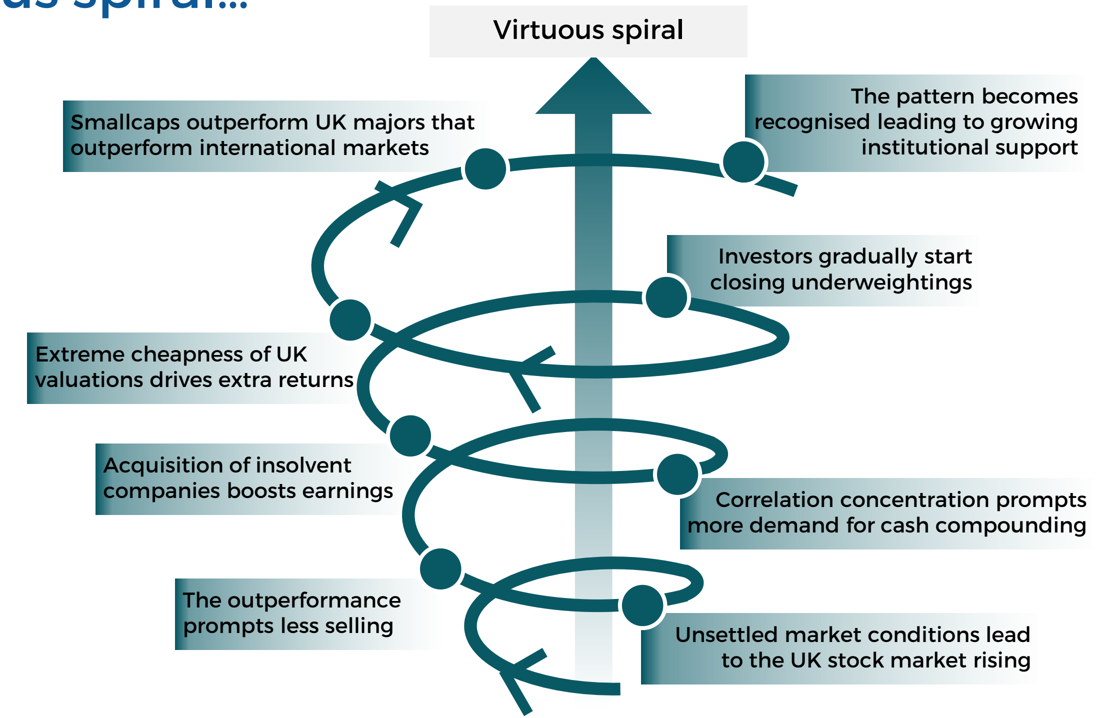
...it could lead to decades of UK stock market outperformance, given that most global investors are currently so chronically underweight

Source: Bloomberg, data from 31.03.1965 to 31.08.2023.

Past performance is not a reliable indicator of future returns.

Indeed, there is scope for the UK stock market to enter something of a virtuous spiral...

- After some decades of a vicious spiral within UK equities, few investors recognise that stocks generating surplus cash are about to have disproportionate advantages, let alone that the UK stock market might become a virtuous spiral
- If anything, a step up in international capital allocations to the UK might be self-feeding, as a breakout of the FTSE 100 Index on the upside might prompt local OEIC redemptions to cease
- That in itself could lead to UK investors reconsidering the fundament advantages of UK investment universe
- Specifically, companies generating surplus cash not only carry lesser risk of insolvency, and better survive but some might positively thrive in a challenge economic environment
- In our view, the greatest upside potential lies with UK small and microcap stocks, as they appear to be standing at the most overlooked valuations, and yet have the greatest potential to thrive in challenging economic environments



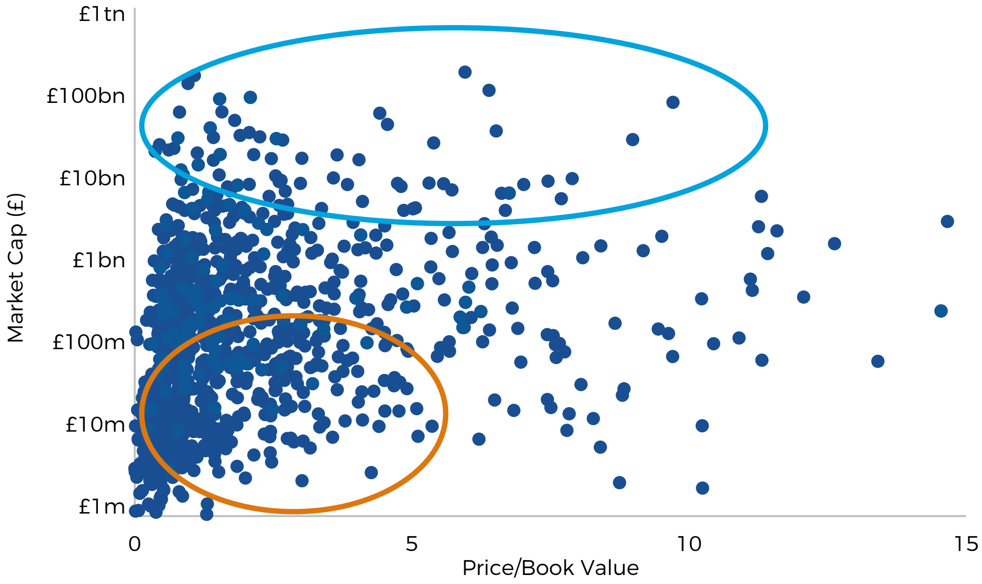
...and, in our view, the greatest upside potential will eventually come through in UK quoted smallcaps

It is hard to overstate the magnitude of this change after three decades of near-permanent institutional sellers…

Premier Miton INVESTORS

- During globalisation, most institutional smallcap portfolios have migrated to the top end of the range, often being dominated by relatively large smallcaps, or midcaps
- Meanwhile, with the major UK OEIC redemptions, the FTSE AIM All Share Index has underperformed the FTSE 100 Index by over 50% over the last two years
- Whilst a difficult economic environment may be favourable for equity income companies, the greatest upside may lie not only within quote smallcaps, but actually quoted microcaps
- The net effect is that institutions may find that they find that it is essential to include quoted smallness in portfolios, to diversify risk from too much bigness
- If even small sums of capital are reallocated from UK largecaps to UK smallcaps, or most particularly UK microcaps, these sums will have a magnified effect because of the diminutive scale of the smallcap market
- We expect this pattern to greatly reduce the cost of capital for quoted small and microcaps, which would progressively enhance the upside on any equity they might issue and generate renewed productivity improvement

UK Listed companies valuation vs size



…where renewed flows into UK smallcaps will amplify the smallcap effect, and progressively reduce their cost of capital

Source: Premier Miton/Bloomberg, data as at 31.07.2023.

Accrol has invested heavily in supplying supermarkets with own brand toilet paper...

Premier Miton
INVESTORS

Accrol Group

- Prospects for rising turnover?
- Do unexpected cost increases get passed on to the customer?
- Does the management team make decisions that we feel will build value?
- How much financial headroom is there in the balance sheet?

Share price 30 September 2018 to 30 September 2023

- Accrol Group listed in 2016 and has invested heavily over recent years improving automation in efficient manufacturing of own brand toilet paper
- Furthermore, Accrol has also acquired a non-plastic wet wipe manufacturer with products suitable for use in the loo
- The government is set to ban plastic wet wipes, and Accrol appears to be a prime beneficiary
- Analyst forecasts suggest that Accrol is well-positioned to generate significant cash surpluses in the coming years

...and as this investment matures, we look forward to it potentially generating a growing cash surplus in the coming years

Source: FE Analytics, on a UK Sterling basis, bid to bid, from 30.09.2018 to 30.09.2023. Accrol group was first purchased on 31.05.2016.

Reference to any particular stock does not constitute a recommendation to buy or sell the stock. Past performance is not a reliable indicator of future returns.

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

Premier Miton INVESTORS

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	2.5	0.7	-30.2	0.4	0.4	11.7
Numis Smaller Co + AIM (ex ICs)	-0.8	0.8	-41.6	0.1	0.1	15.6
Numis All-Share Index	-0.5	1.0	-36.0	0.2	0.2	18.7

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

Source of performance data: Morningstar, as at 30.09.2023, net income reinvested, bid to bid basis. [1]Trust launched 28.04.2011.

Past performance is not a reliable indicator of future returns.

Conclusions

Premier Miton INVESTORS

- After fifteen years of Quantitative Easing (QE) distorting market prices and portfolio allocations, market trends may be set to change dramatically
- As international country relationships fragment and governments ‘crowd out’ access to capital, companies generating surplus cash will have the greatest resilience
- Explicitly, we believe that compounding dividend strategies, such as equity income, will become a much larger proportion of portfolios in future, boosting international capital flows into the UK exchange
- Within UK smallcaps, the transformation may be even more potent, as capital is progressively invested in future. It is hard to understate the magnitude of this change after three decades when institutional investors have been near-permanent sellers of small and microcap strategies
- To take full advantage, the strategy of the Diverse Income Trust is intentionally different to most others so that it has the potential to access both a greater Alpha and a lower Beta in the UK market that appears set to outperform for decades

Important information

Premier Miton INVESTORS

For Investment Professionals only. No other persons should rely on any information contained within.

Whilst every effort has been made to ensure the accuracy of the information provided, we regret that we cannot accept responsibility for any omissions or errors.

The views and opinions expressed here are those of the author at the time of writing and can change; they may not represent the views of Premier Miton and should not be taken as statements of fact, nor should they be relied upon for making investment decisions.

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

All data is sourced to Premier Miton unless otherwise stated.

A free, English language copy of the trust's full Prospectus, the Key Information Document and Pre-investment Disclosure Document are available on the Premier Miton website, or copies can be requested by calling 0333 456 4560 or emailing contactus@premiermiton.com.

Financial Promotion issued by Premier Portfolio Managers Limited, (registered in England no. 01235867), authorised and regulated by the Financial Conduct Authority, a member of the Premier Miton Investors marketing group and a subsidiary of Premier Miton Group plc (registered in England no. 06306664). Registered office: Eastgate Court, High Street, Guildford, Surrey GU1 3DE.

Premier Miton
INVESTORS

For more information:

premiermiton.com
0333 456 4560