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INVESTORS

The Diverse Income Trust plc

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

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 President 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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- Given that UK small caps have outperformed strongly since 1955, why is it that they have delivered such incredibly poor returns since 2021?
- As international country relationships fragment and bond offer better yields, is a multi-cap strategy well placed to generate attractive real returns?
- Indeed, to what degree should investors be anxious about global stock markets delivering sub-normal returns from here?
- If most mainstream assets struggle to generate a real return in future, then what kinds of assets retain the potential to realistically buck a broadly-adverse trend?
- If market trends were to revert to those of globalisation, then what are the prospects for our strategy? Conversely, if international country relationships were to continue to fragment, what are its prospects in this case?

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

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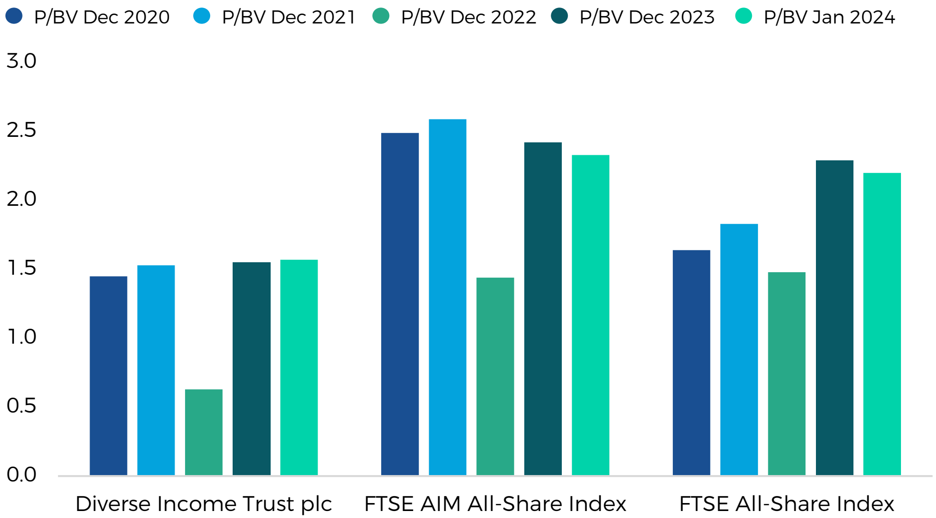
- The price/book ratio provides some data on relative valuations, with low figures typically reflecting low valuations.
- The valuation of the UK mainstream stocks are somewhat lower than many international comparatives such as the US stock exchange.
- Many of the FTSE AIM All-Share Index stocks have 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

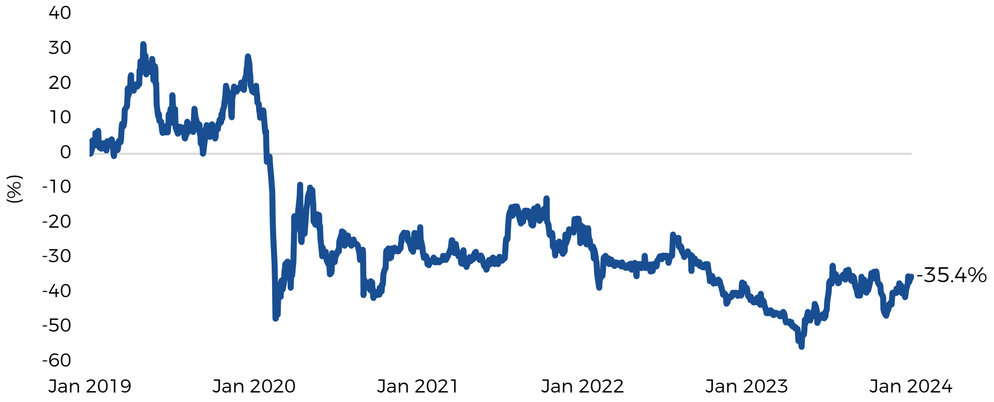
Source: Bloomberg, as at 31.01.2024.

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

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 31 January 2019 to 31 January 2024



- Paypoint Plc is a national network for collecting payments typically over the counter in newsagents, convenience stores, supermarkets and forecourts
- It 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 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 31.01.2019 to 31.01.2024.

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.

Bond-proxies that grew have become portfolio favourites, because their total return has been excellent...

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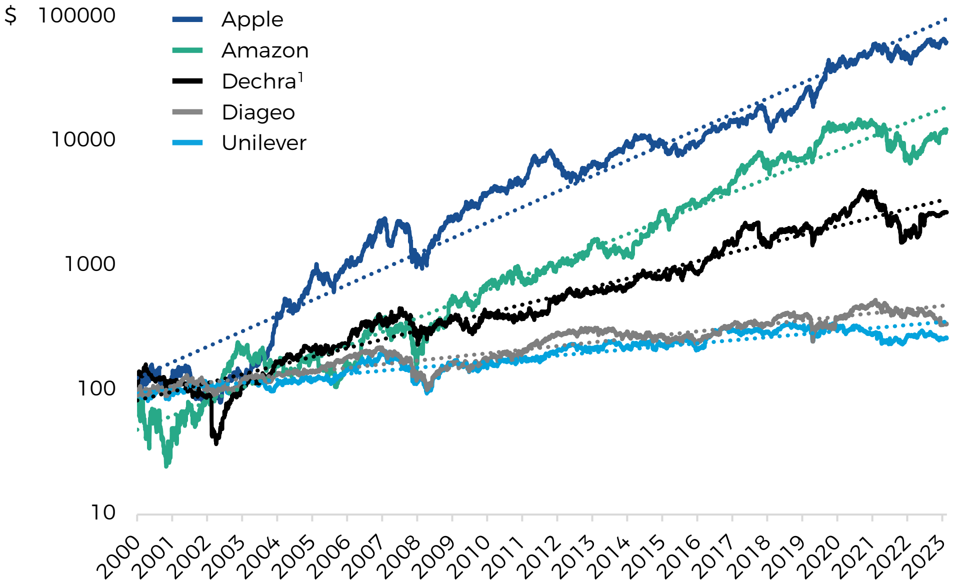
- During globalisation, stocks that can generate cash and grow well have tended to benefit from the progressive reduction in the discount rate, and the general appreciation of asset valuations
- In the UK, these characteristics were evident within Diageo and Unilever, with their share prices tending to rise progressively over the globalisation decades
- In the UK there are other examples, such as Dechra Pharmaceuticals. Between November 2000 and 16 January 2024, the Dechra share price appreciated by 33-fold, at an annualised rate of 17.6% per annum, compared to an annualised rate of 4.5% for the FTSE All Share Index (all in US $)
- This return compares with Apple Inc, that between November 2000 and 31 January 2024 delivered a return of 437-fold, at an annualised rate of return of 33.0% per annum, compared to an annualised return of 7.8% for the S&P 500 Index

Share price – 30 November 2000 to 31 January 2024



...not just due to premium growth, but also the enhancement of a general rise in profit margins and a sectorial decline in discount rates

Source: Bloomberg, based on US Dollars, rebased to 100. Data from 30.11.2000 to 31.01.2024. Exponential trendline for respective companies created by Premier Miton. [1]Dechra data from 30.11.2000 to 16.01.2024 when the company was acquired. **Reference to any particular stock does not constitute a recommendation to buy or sell the stock.**

As the mainstream indices include numerous bond-proxy stocks, they have also delivered returns above inflation for decades...

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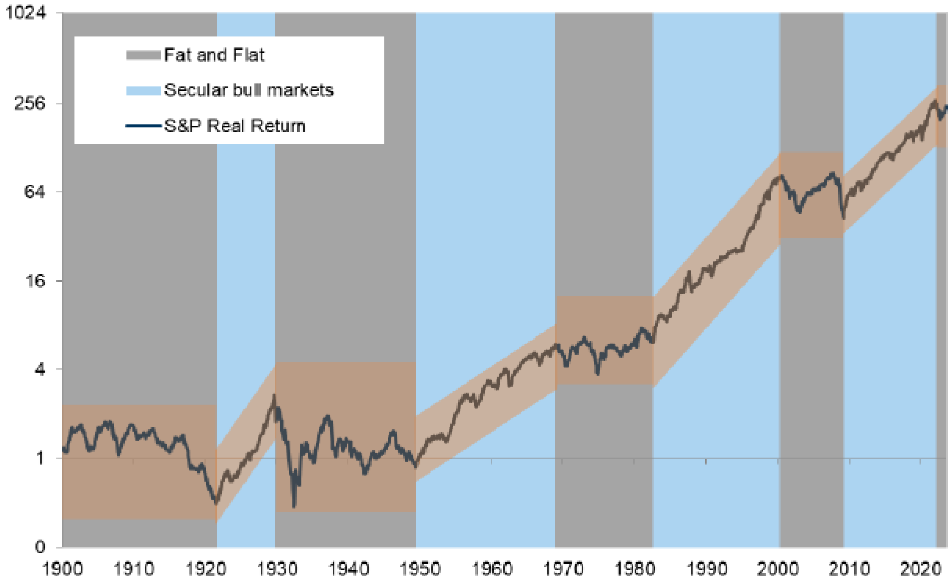
- Long term stock market returns can be sorted into multi-year segments where their returns were well above underlying inflation, and those where returns were not above underlying inflation
- During the buoyant periods, as return is relatively abundant, typically investors narrow their investment universe into the mainstream stocks given they also have the advantage of copious market liquidity
- When market returns are relatively poor, however, investors priorities change, given the urgency to generate an absolute return that doesn't rely on general market appreciation
- Specifically, when the returns on the mainstream indices are relatively poor, market correlation becomes a hinderance, as it specifically holds back the potential to deliver attractive absolute returns
- When market returns are relatively poor, investors often tolerate lesser market liquidity because absolute returns and portfolio diversification are so vital to get good client outcomes

Secular & non-trending bull markets - S&P 500 (log scale)



...although markets can flatline in real terms too, when absolute return and genuine portfolio diversification often becomes the top priority

Source: Robert Shiller, Goldman Sachs Global Investment Research. **Past performance is not a reliable indicator of future returns.**

The key point is that bond-proxies can sometimes carry giant downsides, both individually and in index weightings…

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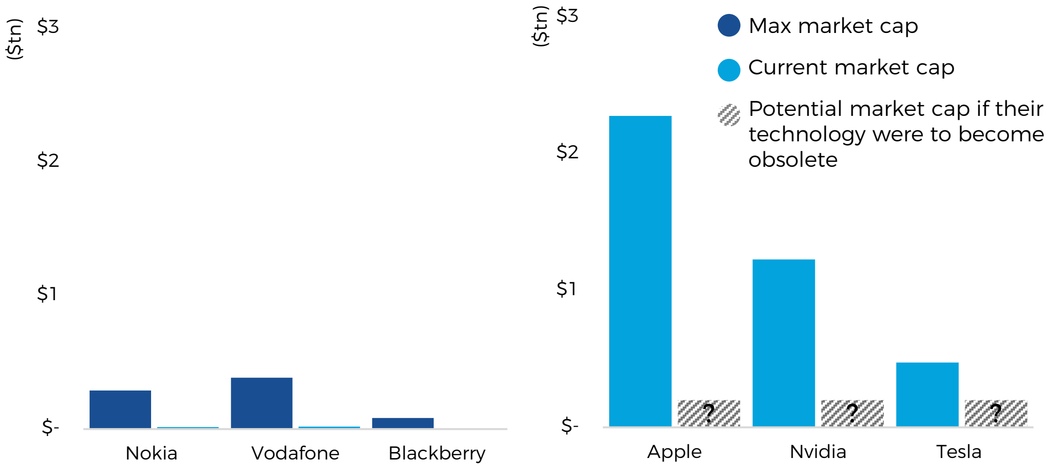
- During globalisation, stock market momentum often became so strong that companies generating rapid sales and profit growth sometimes rose to impressive market capitalisations, that then left them vulnerable to enormous downside obsolescence risks.
- Good examples include Nokia and Vodafone, that were capitalised at $246bn and $340bn in March 2000, and Blackberry at $66bn in June 2008.
- On 1 February 2024 these companies were capitalised at $15.9bn, $18.6bn and $1.3bn respectively.
- In this context, it is worth noting that the market capitalisation of Apple was $2278bn, Nvidia was $1229bn and Tesla was $475bn as at 1 February 2024.
- Between 2000 and 2023 US cumulative inflation was 79.2% which is considerably less than current scale of the US mega caps relative to some other leading companies in their markets in 2000

Peak market capitalisation of some past high profile technology companies, compared with their current market capitalisation, along with some high profile companies currently[1]



…especially after an extended period of strong returns, because potential obsolescence risks can sometimes be miscalibrated

[1]Source: Bloomberg, data as at 01.02.2024.

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Specifically, megacaps can deliver very poor returns when margins are falling, and discount rates are under pressure…

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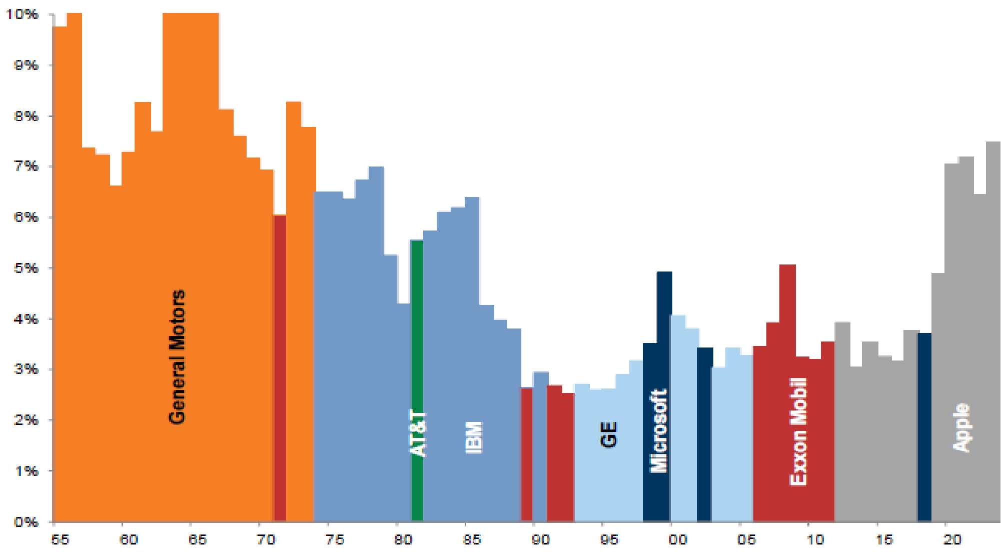
- Returns on the S&P 500 Index were relatively buoyant between 1950 and the late 1960's
- As noted previously, investor enthusiasm sometimes can lead to obsolescence risk being overlooked after a period of strong returns, and the bar chart alongside highlights just how big the largest constituent of the index became at that time
- Not only did the largest index weighting subsequently underperform, thereby depressing its overall return, but over time, they underperformed so badly that other megacaps that may have underperformed less severely, then become the largest constituent of the index at a very much smaller weighting than General Motors was originally
- Overall, between the late 1960s and the early 1980s, the derating of the megacaps in the S&P 500 Index constituents was one of the reasons when the index itself delivered returns that struggled to match inflation

The largest company in the index has historically belonged to the dominant sector

% of S&P 500 market cap and % of S&P net income before 1974



…as in the 1970s and 1980s when mainstream assets persistently failed to even to keep up with inflation

Source: Fortune 500, Datastream, Data compiled by Goldman Sachs Global Investment Research.

During tough times, asset markets often become challenging in terms of both diversification and return...

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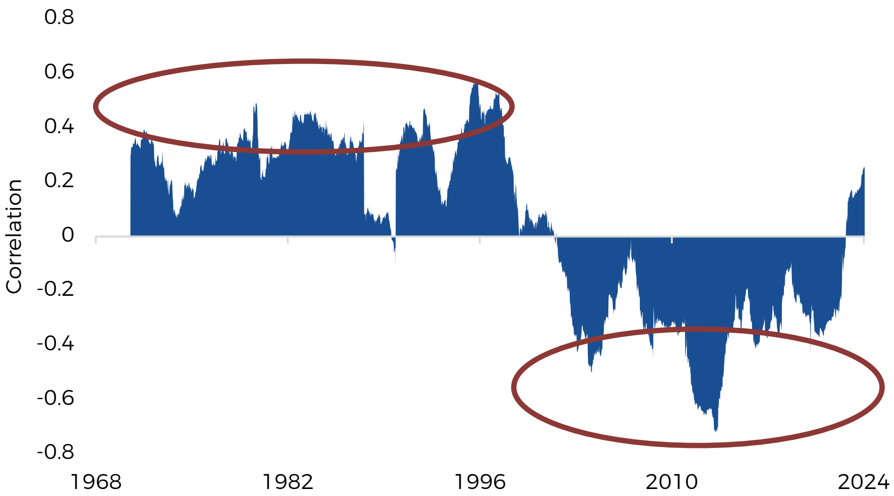
- It is important to note that whereas bond and equity fluctuations tended to be correlated together during inflationary periods, that the pattern radically changed during globalisation
- The emerging economies greatly expanded the supply of low-cost goods during globalisation, and as deflating imports rose, this led to an abundance of hard currency that progressively boosted global asset valuations
- Furthermore, whenever global growth disappointed, central banks were able to inject additional demand via interest rate cuts or QE, that drove up the valuation of fixed income securities in a pattern that was often negatively correlated
- Hence, any weakness in the portfolio returns of cyclical stocks during globalisation has been easy to offset via bond proxy stocks
- Portfolios of cyclical and bond proxy stocks were able to deliver both excellent returns and controlled portfolio volatility
- Beyond globalisation however, the policies of prioritising security of supply and reshoring often stoke inflation, so strategies investing in cyclical equities and bond proxies delivered poor return along with high volatility during 2022

Correlation between US equities (S&P 500) and US treasuries (US Generic Government 10 year Index): two very different histories



...as bond and equity fluctuations become more correlated, in contrast to the recent period when they were helpfully uncorrelated

Source: Bloomberg, data from 03.01.1975 to 31.01.2024.

When underlying markets lack momentum, equity income stocks can still generate absolute returns...

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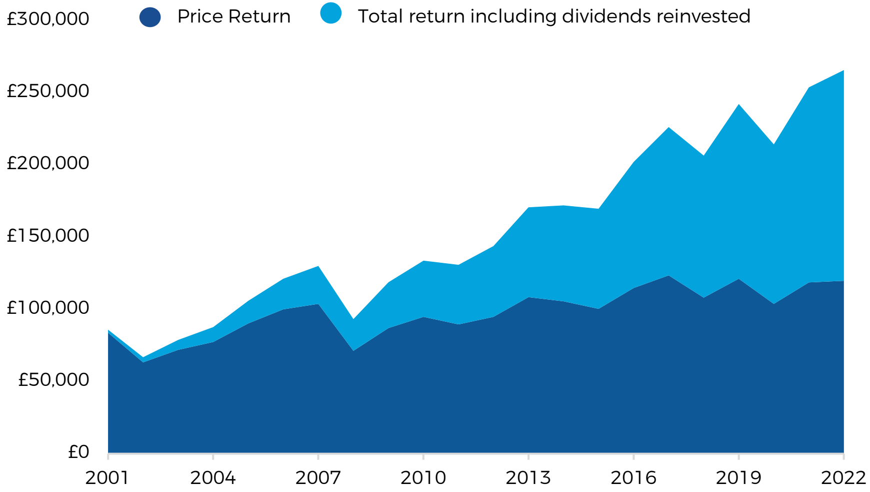
- During testing economic conditions, equity income stocks not only start with a greater margin of safety, but if conditions get very testing some can use their surplus cashflow to expand into markets vacated by insolvent competitors
- Better still, some can acquire overindebted but overwise viable businesses, debt-free from the receivers often for a nominal sum, and greatly enhance their prospective cashflow
- Specifically, dividend compounding strategies do outperform index return over periods that can last for years, and better still the timing of these periods tends to be negatively correlated with the disappointing returns of megacaps
- Specifically, even when the stock market indices flatline, equity income strategies can still generate a positive rate 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)



...and hence they are well set to gather increased allocations, particularly if investor participation in other mainstream stocks diminishes

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.

Specifically, when the cost of capital rises, the prospects for capital-intensive businesses tends to be enhanced…

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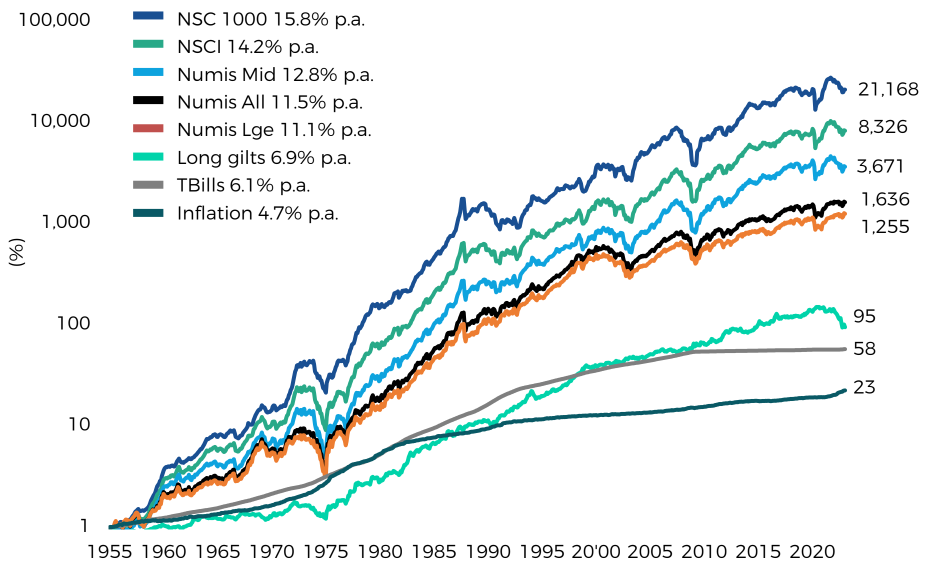
- UK-quoted stocks contrast with other international stock exchanges, in that they are typically are well-established, capital-intensive businesses where a large part of their return is delivered by a stream of good and growing dividend payments
- Alongside, the UK's investment universe is also characterised by a large number of quoted small and microcaps, that use institutional capital to build new businesses that plan to generate cash surpluses in time, and when they mature they often pay out a stream of good and growing dividends as well
- During globalisation, institutions typically have reduced weightings in equity income stocks (such as the UK stock market), to increase participation in capital appreciation strategies such as highly-geared private equity, or ambitious cash-negative unicorns where returns have been better

…with fewer capital-intensive assets built, both due to cost inflation and fewer projects meeting the higher cost of capital

Certain niche stocks can generate absolute returns as well because they don't rely on improving margins or discount rates...

- 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 as their popularity increases, capital allocations effectively reinforce 'the smallcap effect'

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.

The key is to pick out stocks generating cash surpluses that sustains a good and growing stream of dividends...

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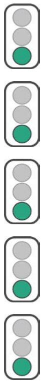
XPS Pensions Group



- 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?
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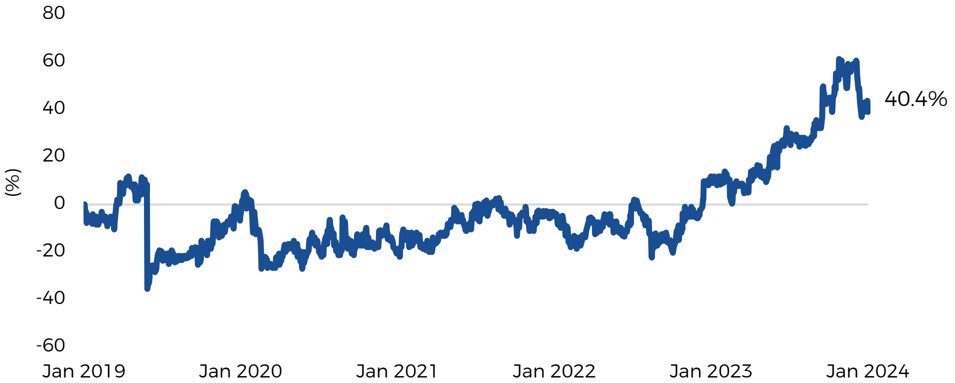
Share price 31 January 2019 to 31 January 2024



- 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 trust started purchasing a holding in February 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%

...because when capital is limited and financially weak businesses become more vulnerable, the prospects for the financially robust often become stronger

Source: FE Analytics, on a UK Sterling basis, bid to bid, from 31.01.2019 to 31.01.2024.

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

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- 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	XPS Pensions Group	2.7%
2	TP ICAP Group	2.5%
3	Galliford Try Holdings	2.4%
4	Paypoint	2.3%
5	Kenmare Resources	1.9%
6	Legal & General Group	1.9%
7	Tesco	1.9%
8	Man Group	1.9%
9	Just Group	1.8%
10	Phoenix Group Holdings	1.7%
11	Sabre Insurance Group	1.7%
12	Pan African Resources	1.7%
13	Aviva	1.7%
14	CMC Markets	1.7%
15	Sainsbury (J)	1.6%
16	BT Group	1.6%
17	Plus500	1.6%
18	Savannah Energy	1.6%
19	Drax Group	1.5%
20	I3 Energy	1.4%

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

Source: Bloomberg, data as at 31.01.2024.

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

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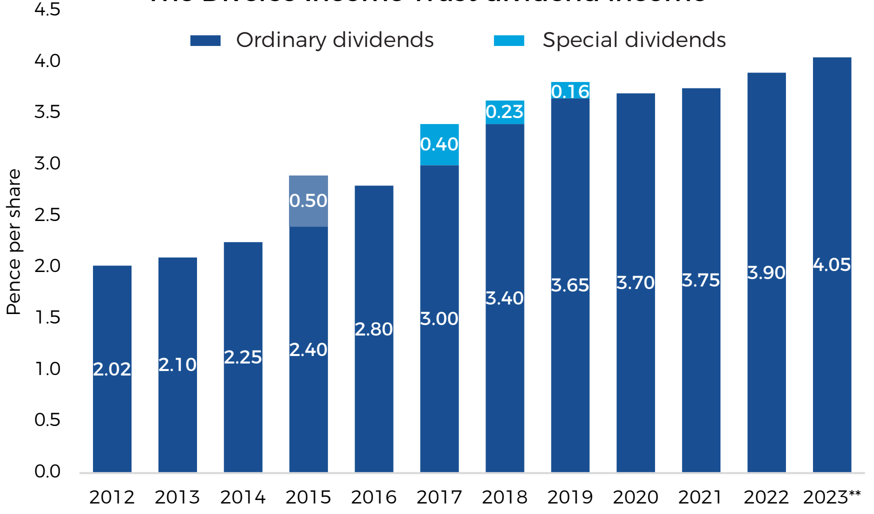
- If the market price of an asset stands at a consistent dividend yield, then when the income grows, its market price grows at a similar rate.
- For this reason, the trusts strategy prioritises delivering a stream of dividend income that has the potential to be both faster growing and more resilient 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.

The Diverse Income Trust dividend income



...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 4 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.

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 8.5%, 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	-7.3	-4.1	12.9	182.2
Trust share price	-8.4	-5.7	9.8	155.0
UK Equity Income sector	-0.6	24.1	30.3	144.1
Deutsche Numis Smaller Co + AIM (ex ICs)	-3.3	-5.5	15.7	92.9
Deutsche Numis All-Share Index	1.6	22.2	27.1	96.6

Discrete annual performance %	2019	2020	2021	2022	2023	2024 ytd[2]
Trust NAV	12.7	7.8	15.6	-13.6	-2.6	-1.5
Trust share price	6.9	8.6	19.5	-16.8	-5.7	0.0
UK Equity Income sector	22.5	-7.8	18.7	0.1	3.9	-1.7
Deutsche Numis Smaller Co + AIM (ex ICs)	22.2	4.9	20.0	-21.9	3.2	-1.6
Deutsche Numis All-Share Index	18.8	-9.4	17.2	-1.3	7.8	-1.5

…and specifically it has lagged the returns of the peer group over the last two years

Source of performance data: Morningstar, as at 31.01.2024, net income reinvested, bid to bid basis. [1]Trust launched on 28.04.2011. [2]2024 ytd to 31.01.2024.

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 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.

Specifically, the strategy consciously differs from others in its option-like upsides on some AIM-listed income stocks…

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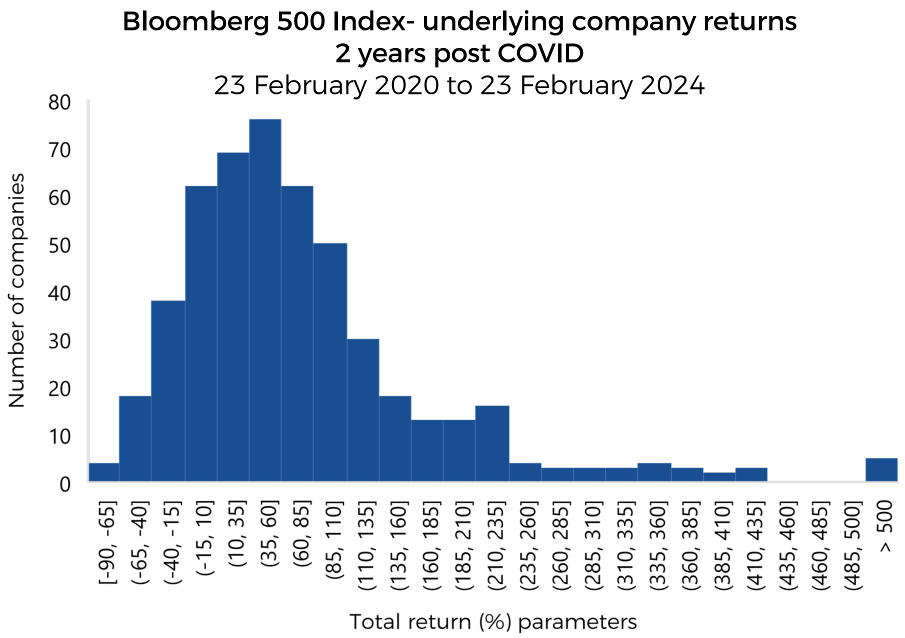
One of the features of our strategy is that we consciously seek to include stocks that sometimes have the potential to deliver exceptionally strong returns

- A stock that starts small for example, can sometimes deliver strong returns for many years sequentially, and yet still continue to have scope to grow rapidly in future
- One of the features of businesses operating in markets with inelastic demand and supply characteristics, is that smallcap operators' profitability can sometimes increase dramatically
- Sometimes small caps offer warrants along with the new equity to scale up the demand for capital, offering greater upside potential
- As few institutional investors invest in stocks below a certain arbitrary market capitalisation, so when these companies succeed, their valuation can be boosted disproportionately
- Some microcaps operate in a relatively narrow industry sector, which means when that specific industry sector succeeds, sometimes their share price has option like upside potential

Generally, including stocks with these characteristics in our strategy not only offers the potential to not only deliver a premium return, but most particularly to generate a premium return even at time when there isn't a progressive reduction in discount rates



…because even a few successes can greatly enhance the returns of the trust over time – and don't rely on declining discount rates

Source: Bloomberg, from 23.02.2020 to 23.02.2024.

Past performance is not a reliable indicator of future returns.

The share prices of a small cap that builds a strong record of good and growing dividend income…

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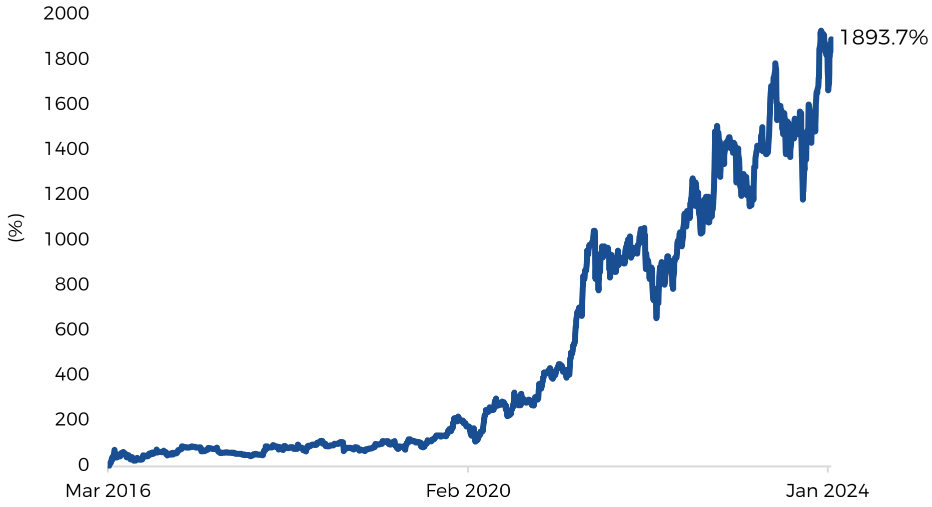
Cerillion

- Cerillion first listed in March 2016, with a market capitalisation of £34m and our clients were foundation shareholders
- Whilst the Cerillion share price didn't appreciate significantly for some years after issue, it gradually built an increasingly significant market share in providing billing software for mobile network businesses
- Over time, as the growth of its business accelerated, and as its market capitalisation increased, it rose to be large enough to be researched by a wider range of institutional shareholders
- Given its growth characteristics, and the potential to map out the future profitability and cash generative potential, along with a decline in the discount rate, its valuation rose dramatically
- This appreciation made it easy to take very substantial profits for our clients, and reallocate capital in other overlooked small and microcaps standing on very overlooked valuations
- Some will highlight that in this case, our clients may have sold too early, but we would argue that stock standing on demanding valuations carry disproportionate downside were their profitability to peak out for some reason

Share price 18 March 2016 to 31 January 2024



…benefits when, it come to the attention of a wider pool of institutional investors, as they sometimes drive up its valuation dramatically

Source: FE Analytics, on a UK Sterling basis, bid to bid, from 18.03.2016 to 31.01.2024. (Cerillion first listed in March 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.

Furthermore, quoted small caps, by definition, start small, so when they succeed…

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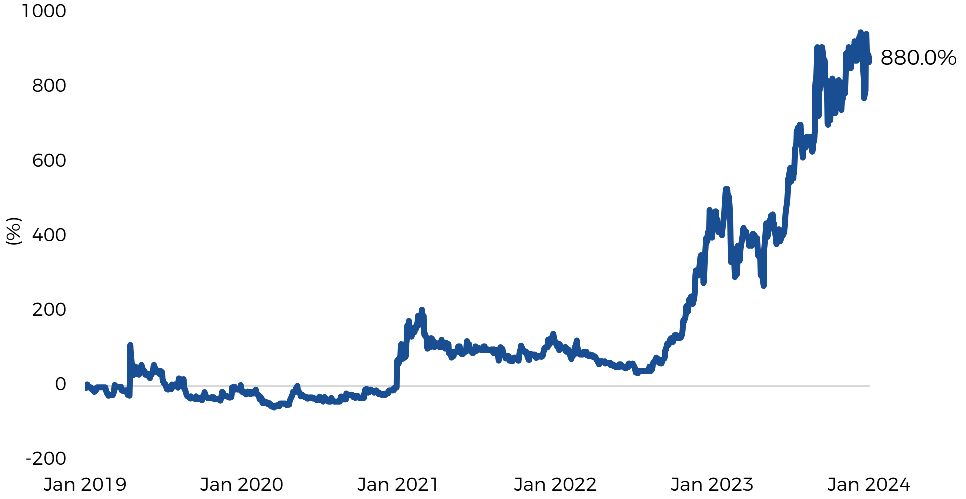
Yu Group

- Few professional investors, including professional smallcap investors research stocks below an arbitrary market capitalisation such as £150m, and as such overlook the upside potential of more than half of the UK quoted companies
- A good example is Yu Group, that during 2020 was standing at a market capitalisation of less than £20m despite having sales of £101m, cash balances of £11.7m, and rapid growth potential
- Subsequently, Yu Group has reported accelerating sales and profit growth, such that the Liberum analyst forecasts that the company will have a net cash balance of over £100m by the end of 2025
- As investors have recognised the scale of this potential, the market capitalisation of Yu Group has risen by ten-fold
- In short, when quoted small caps succeed, sometimes they can deliver quite exceptional returns over a few years

Share price 31 January 2019 to 31 January 2024[1]



…they sometimes have scope to keep succeeding year after year, and deliver quite exceptional returns over time

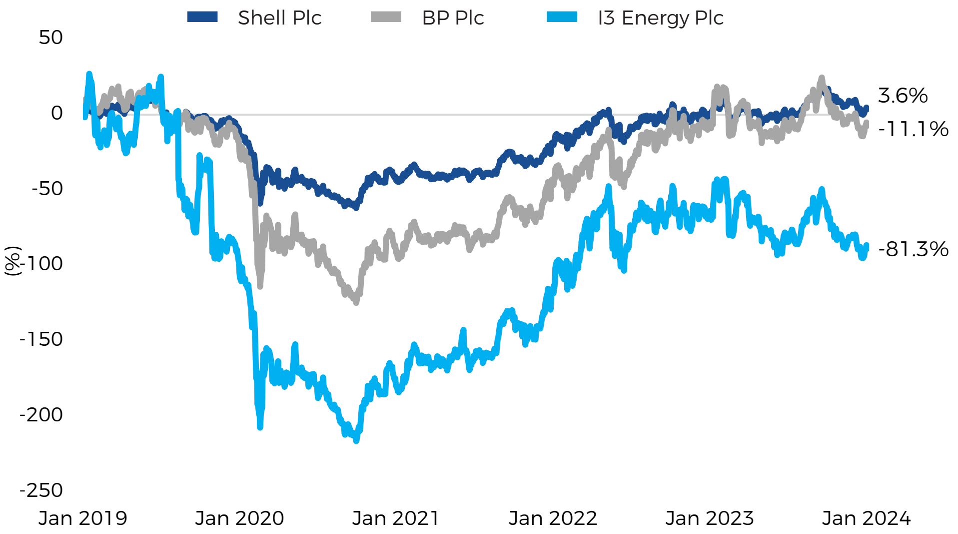
Source: Liberum Capital Limited (LCL), as at 22.09.2023. [1]Source: FE Analytics, on a UK Sterling basis, bid to bid, from 31.01.2019 to 31.01.2024.

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.

One of the features of businesses operating in markets with inelastic demand and supply characteristics...

- Many fund managers choose to avoid considering some industry sectors such as complex financials or various mining or energy stocks, on the basis that they don't have any particular insight as to the imminent commodity prices
- To some degree, we believe this overlooks the advantage of having these stocks in a portfolio as their fluctuations are typically relatively uncorrelated with the fluctuations of most mainstream portfolio holdings
- Better still, because of the supply/demand characteristics of many of these industries, when they succeed, their profitability and potential cash generation often increases dramatically
- If anything, because some small cap operators are immature, the scope for profitability increases are even greater than those of the mainstream stocks
- A good example is I3 Energy, that came into the portfolio when they raised additional capital at 5p in August 2020

Share price 30 November 2018 to 31 January 2024[1]



...is that when demand increases, sometimes their profitability can increase dramatically, potentially all the more so for immature operators

Source: Bloomberg, [1]Source: FE Analytics, on a UK Sterling basis, bid to bid, from 31.01.2019 to 31.01.2024.

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.

Specifically, many AIM-listed businesses operate within a relatively narrow industry sector...

BioVentix

- BioVentix was originally listed on the Offex market, and despite its ongoing profitability and highly cash generative business model, its share valuation was dominated by a venture capital holding that need to liquidated as the fund matured
- Given these factors, our clients were able to invest in the business at a discount to the then share price
- BioVentix is an example of a microcap business that serves a very narrow market – the supply of hospital test reagents in technically difficult areas
- When they develop a successful test, they progressively displace other suppliers, and thereafter layer on additional profit streams as new tests come to market
- The net effect is that the profitability and cash generation of the BioVentix has progressively risen along with its dividend, delivering a quite exceptionally large return to our client portfolios

Share price 01 January 2012 to 31 January 2024

...which means that when that specific industry sector trades well, they can deliver absolute returns even through global recessions

Source: FE Analytics, on a UK Sterling basis, bid to bid, from 01.01.2012 to 31.01.2024.
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.

At times when raising capital is particularly difficult, sometimes the terms of the new equity…

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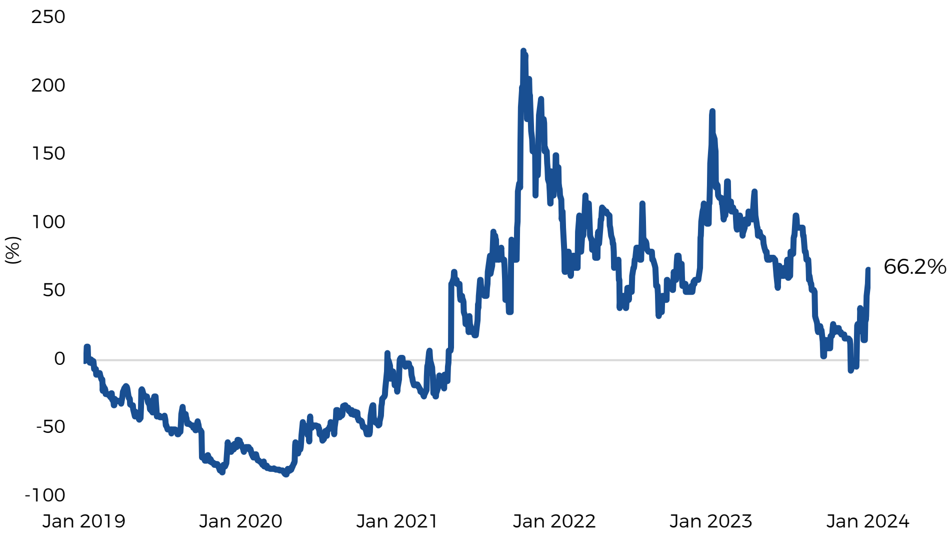
Cyanconnode

- As there are relatively few institutional investors researching stocks below an arbitrary market capitalisation limit, sometimes companies raising capital in unpopular industry sectors choose to issue free warrants as well as equity to boost the capital available
- In the case of Cyanconnode for example, although they are currently tendering for $1,100m of potential contracts, they believed if they raised additional capital to pre-order certain components it would offer a quick turnaround for early adopters
- With microcap share prices being weak however, the Cyanconnode share price had drifted down over recent months, so they raised capital at 10p, versus a share price that had been around 25p a few months ago
- To boost the demand for the new capital, Cyanconnode issued free warrants with the equity, on the basis of one free warrant with an exercise price of 15p over a term extending over the coming 18 months
- The net effect, is that should the Cyanconnode share price rise to say 30p over the next 18 months, our clients will not only benefit from a tripling in the value of the new capital, but also the upside on the new warrants, so the potential total return might be up four and half fold on the new shares issued

Share price 31 January 2019 to 31 January 2024



…are sweetened, such as through issuing warrants for example, that greatly boosts the upside potential

Source: FE Analytics, on a UK Sterling basis, bid to bid, from 31.01.2019 to 31.01.2024.

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.

When corporate liquidations become more numerous, acquisitions at distressed prices can be substantial...

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- One of the problems of having a large market position during a global recession, is that as demand declines, it is difficult to take enough additional market share from others to offset the setback
- Since less immature stocks often have lesser market shares, if they are adept, sometimes they can take more than enough market share from others during the downturn, so their overall profitability continues to grow
- Furthermore, those with access to capital (such as plc's) can acquire over-leveraged but otherwise viable businesses from the receiver often for a nominal price, where the upside can be substantial
- When a largecap acquires businesses from the receiver, often the added value in absolute terms is a small percentage of their market cap
- In contrast, when a smallcap does an identical deal, the absolute added value is a much larger percentage of their market capitalisation, so these deals can greatly enhance their upside potential, sometimes in transformational deals

K3C - share price 14 April 2017 to 13 February 2023

...so, those with access to institutional capital have the advantage, especially small caps where the upsides can be transformational

Source: Bloomberg, from 14.04.2017 to (13.02.2023 K3 Capital were acquired).

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.

In conclusion, small cap income stocks don't just have the horsepower to outperform the majors…

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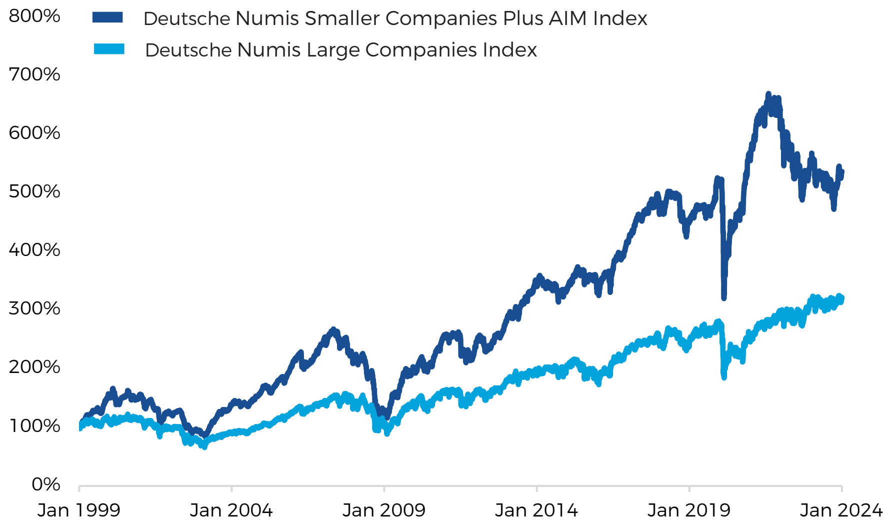
- One of the characteristics of all these examples of stocks that carry disproportionate upside, is that their returns are not reliant on a specific asset market trend, such as the reduction of the discount rate
- Indeed, we would emphasise that in our view, the upside potential for most of these kinds of stocks are more closely related to stock specific factors, or unexpected geopolitical events such as the Russian invasion of Ukraine
- Even so, we do acknowledge that the quantum of these upsides are very much less evident at times when there are persistent capital outflows out of UK quoted smallcaps, as has been a major feature of recent years
- In our view, we regard these potential upsides to have merely been postposed rather than lost, with the potential for a larger number than normal to appreciate dramatically when the persistent outflow of UK smallcaps come to an end
- Longer term, we consider it to be a major advantage for investors with weightings in the mainstream stocks to have a strategy like this alongside, because of its potential to deliver not only premium returns but to do so out of correlation with the fluctuations of the mainstream indices

Total return 29 January 1999 to 31 January 2024



…but importantly, the timing of their success isn't necessarily closely correlated with the fluctuations of mainstream stocks

Source: Bloomberg, data from 29.01.1999 to 31.01.2024.
Past performance is not a reliable indicator of future returns.

Perversely, although the UK stock market is substantially overrepresented in stocks with these characteristics…

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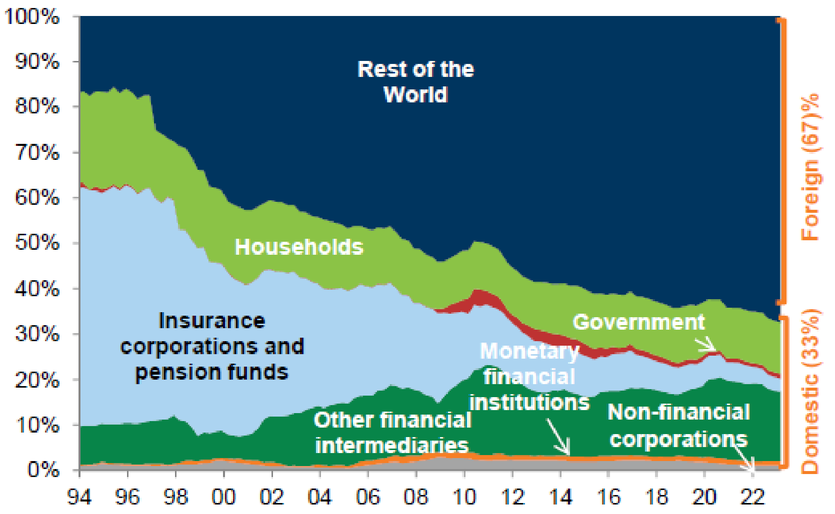
- Prior to the period of globalisation, generally local institutions held the majority of the UK stock market
- With the ongoing underperformance of the UK stock market, progressively over time investors have reduced their UK weighting and reallocated the capital into other stock markets overseas
- When a trend like this becomes persistent over decades, then the capital outflows progressively depress the valuation of less-favoured exchange
- When there is a significant change in economic trends, such as currently as international country relationships fragment, then the adverse trend can come to an end
- Specifically, we would argue that most of the stocks quoted on the UK are better positioned for this change in economic trend, than many international stocks
- Therefore, we believe the UK stock market doesn't just have scope for a catch-up in performance as its valuations revert to international norms, but also could continue to outperform thereafter as investors grow to appreciate the extra upside potential within many UK quoted companies

…67% of UK equity is owned outside the UK – it was 17% in 1994

UK equity market ownership



…it also has disproportionate upside potential, because these kinds of holdings have been so out-of-fashion during globalisation

Source: Haver Analytics, Goldman Sachs Global Investment Research.

Reassuringly, this is a pattern seen previously, and the last time the UK stock market massively outperformed US assets...

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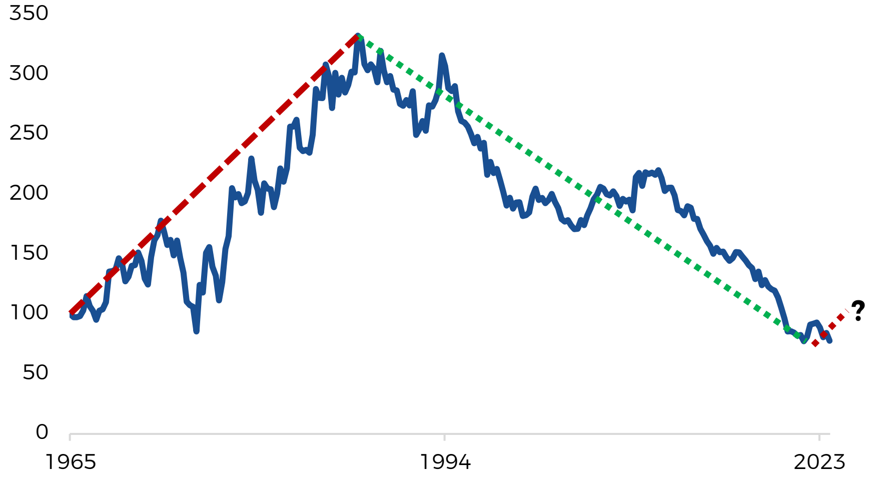
- Indeed, after decades of UK equity market underperformance, most local investors have scar tissue regarding the prospects for their remaining weightings
- Interestingly, UK equities look very different from the perspective of international investors
- They offer welcome diversification from markets 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, as most global investors are so heavily underweight, the UK stock market, it is starting from what appears to be a very overlooked valuation, and hence has scope to surprise in terms of both scale and duration

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)



...such that most local investors had very much larger weightings in UK stocks

Source: Bloomberg, data from 31.03.1965 to 29.12.2023.

Past performance is not a reliable indicator of future returns.

Furthermore, as the UK's heavy representation in capital-intensive industries meant it outpaced global comparatives…

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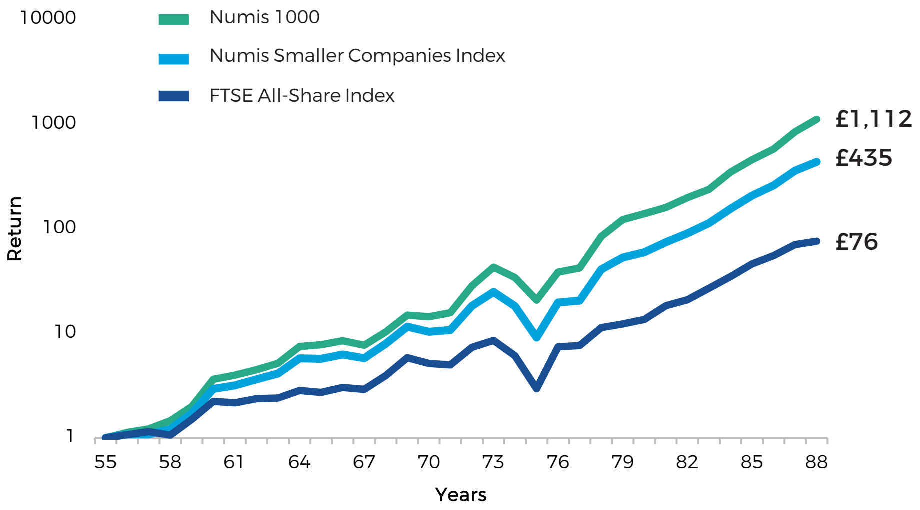
- Economic conditions were very testing in the UK between the 1960's and the late 1980's, and the period was marked by relatively strong returns from the numerous equity income stocks within the FTSE All Share Index
- Even so, despite the weakness of the Sterling exchange rate that favoured stocks with large international operations such as those in the FTSE 100 Index, UK small caps outperformed considerably
- Meanwhile, many stocks with large debts failed
- Whilst a low-cost acquisitions from the receiver might generate a good uplift in value for an individual large cap, the same uplift is so much more lucrative in the case of a quoted smallcap, and completely transformational for some quoted microcaps
- The bottom line is that, counterintuitively, the returns on quoted small and microcaps can be surprisingly strong during unsettled economic conditions

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



…it meant that UK-quoted small caps were one of the best performing parts, of one of the best performing stock markets in the world

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.

During the 1970's, assets operating in capital intensive markets such as mining, energy and complex financials…

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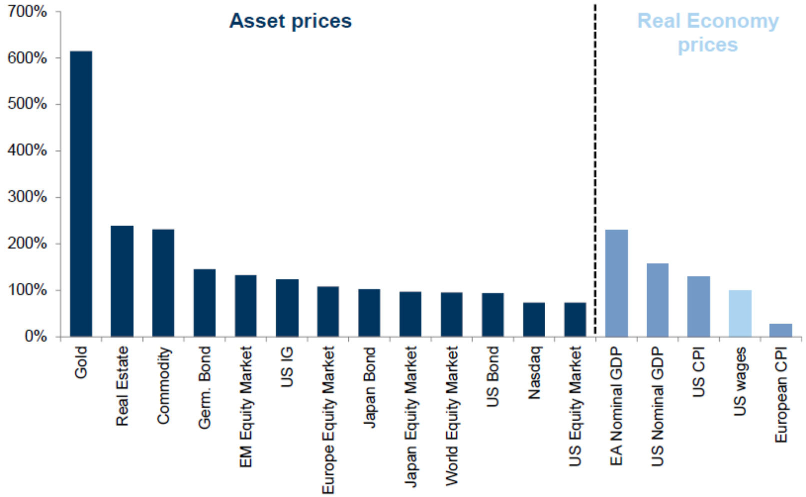
- In the decade between 1973 and 1983, all of these factors came together with US assets in particular generating very poor return generally
- Conversely, capital-intensive industries such as Real Estate and stocks in the Commodity sector such as Energy and Mining were typically amongst the best performers
- Interestingly, as government sought to offset the adverse economic climate with specific projects, the global money supply increased, and investors became less confident in cash as a store of value
- Hence other physical assets, such as gold bullion became increasingly popular, specifically as its absolute amount didn't inflate with inflation
- In fact, over the ten years to 1983, the best performing sector by a wide margin was the gold mining sector

Asset price inflation and 'real economy' inflation during the 1973-1983 decade

Total return performance in local currency



……both diversified cyclical risk, and generated return at a time there was a wholesale scramble out of speculative US stocks

Source: Datastream, STOXX, Haver Analytics, FRED, Goldman Sachs Global Investment Research. **Past performance is not a reliable indicator of future returns.**

In short, we believe the UK stock market is entering something of a virtuous spiral…

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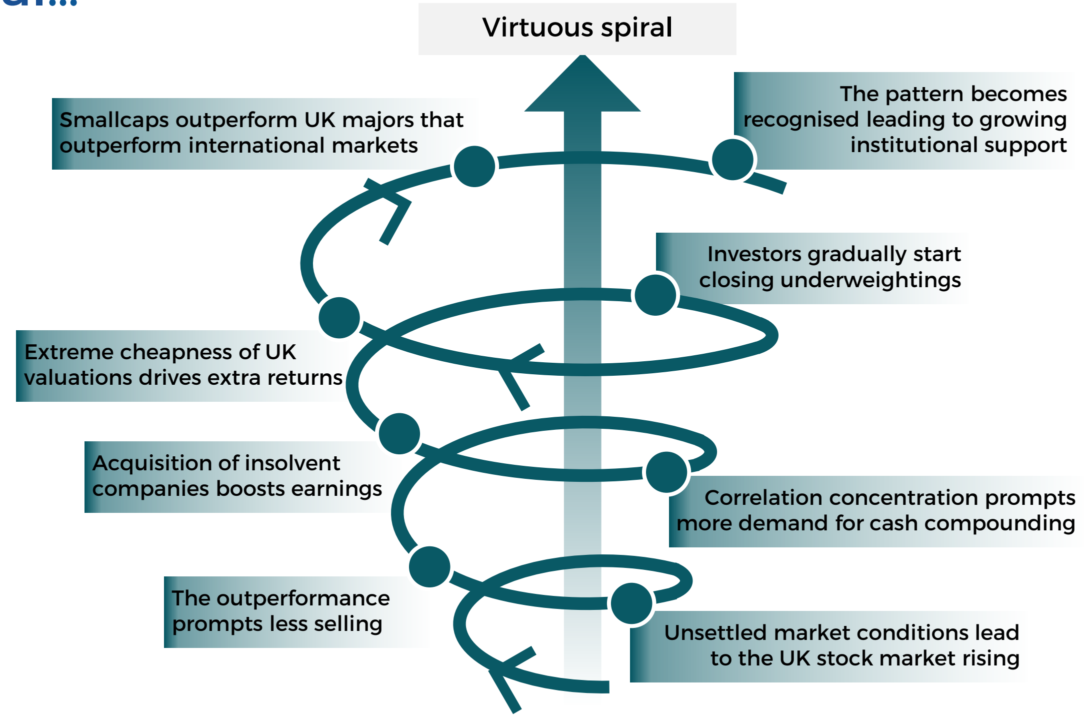
- After some decades of a vicious spiral within UK equities, few investors recognise that stocks generating surplus cash are about to have disproportionate advantages, let alone that the UK stock market might become a virtuous spiral
- If anything, a step up in international capital allocations to the UK might be self-feeding, as a breakout of the FTSE 100 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



…with, in our view, some of the greatest upside potential within UK quoted income stocks

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

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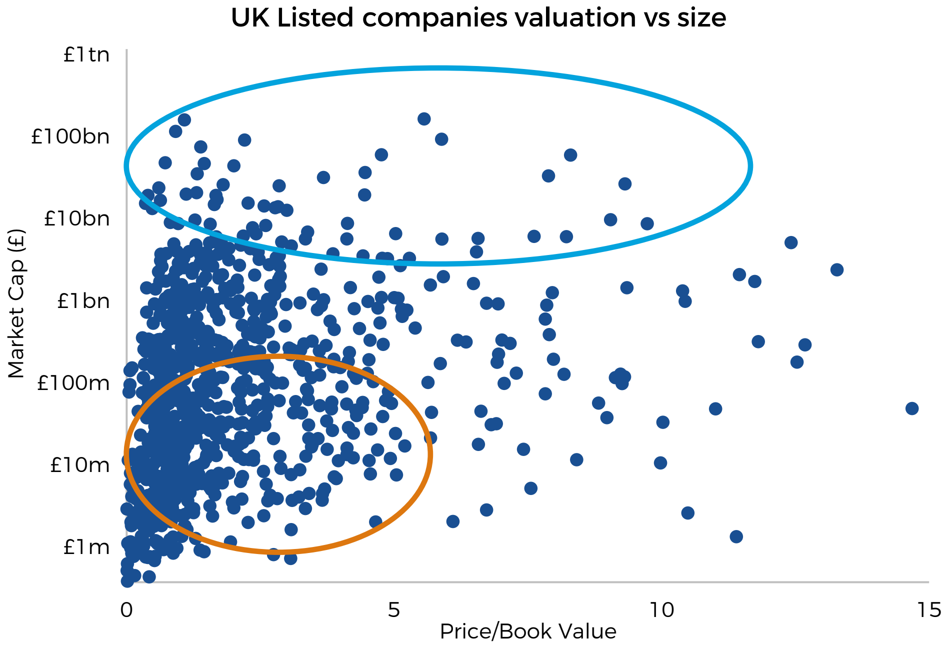
- During globalisation, most institutional smallcap portfolios have migrated to the top end of the range, often being dominated by relatively large smallcaps, or midcaps
- Meanwhile, with the major UK OEIC redemptions, the FTSE AIM All Share Index has underperformed the FTSE 100 Index by over 50% over the last two years
- Whilst a difficult economic environment may be favourable for equity income stocks, the greatest upside may lie not only within quote smallcaps, but actually quoted microcaps
- 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



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

Source: Premier Miton/Bloomberg, data as at 3101.2024.

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	3.5	0.7	-46.5	0.3	0.4	24.3
UK Equity Income sector	1.4	0.8	-40.7	0.3	0.3	15.9
Deutsche Numis Smaller Co + AIM (ex ICs)	-0.4	0.8	-41.6	0.2	0.2	15.6
Deutsche Numis All-Share Index	-0.5	1.0	-36.0	0.2	0.2	18.6

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

Source of performance data: Morningstar, as at 31.01.2024, 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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- Whilst global assets have delivered strong returns over recent decades, they also have a history of delivering much poorer returns at other times
- Whilst bonds do offer better yields than previously, if inflation is persistent, then their returns tend to become more correlated, and their fixed income nature is unhelpful
- If the cost of capital remains elevated, then capital-intensive equity income stocks have considerable advantages, and scope to greatly outperform most other strategies
- When international asset returns are disappointing, then the small cap effect becomes more important, especially the near-unique upside of UK small/microcaps
- In addition, if the mainstream stocks struggle, it will be very advantageous to invest via a multi cap portfolio because its returns won't be necessarily held back by correlation with the mainstream indices
- Hence whilst the trust's strategy has delivered strong returns since issue, we believe that if market trends are changing as currently, then its prospects will be even stronger

Important information

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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.

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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.

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