

# The Diverse Income Trust

For investment professionals only. Capital at risk. Marketing communication.

# Why equity income strategies will be the prime beneficiary of the new geo-political climate, with potentially transformational returns for the Diverse Income Trust strategy

1

Details of how and why our strategy differs from other equity income investment strategies

2

How the recent UK OEIC redemptions have affected the level of UK valuations

3

With valuations under pressure, in what ways can we use the market distortions to improve the prospects for the portfolio?

4

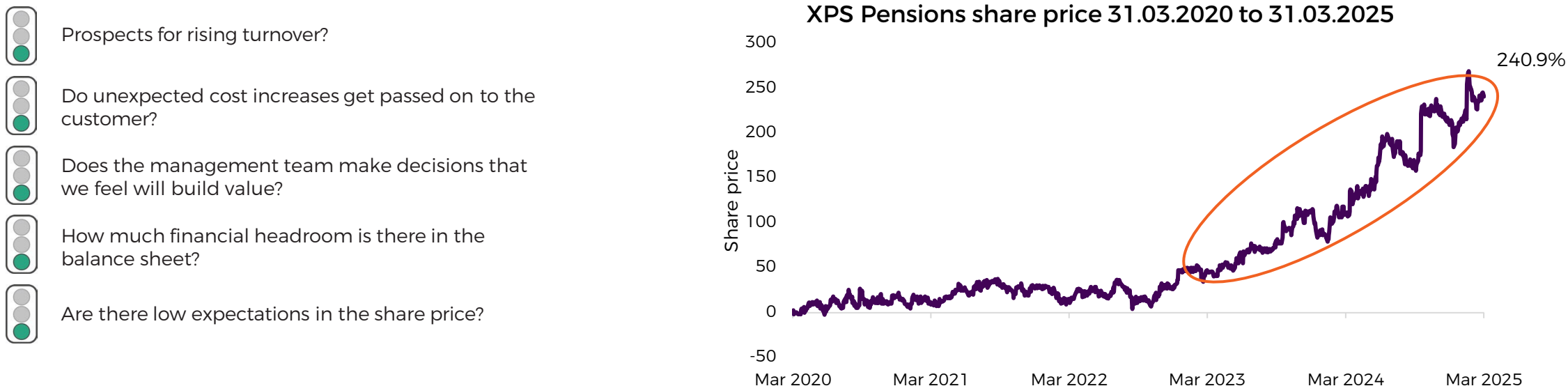
What next?  
“History doesn’t repeat itself, but it often rhymes.”

5

What are the prospects for The Diverse Income Trust?

*Stocks are selected that are set to generate surplus cash*

For example, XPS's acquisition was initially slow to generate a return...



- XPS is an employee benefit consultancy business, offering services that help pension schemes in both advisory and administration
- With regulatory change, client demand is strong so there is increased project work, an expansion of services and fees
- It has a strong culture which leads to high levels of retention and excellent client satisfaction scores
- Earnings growth has been incredibly strong over the last two years
- Overall, the rapid growth of XPS's earnings plus a major re-rating, and a substantial rise in its dividend has delivered a very attractive return

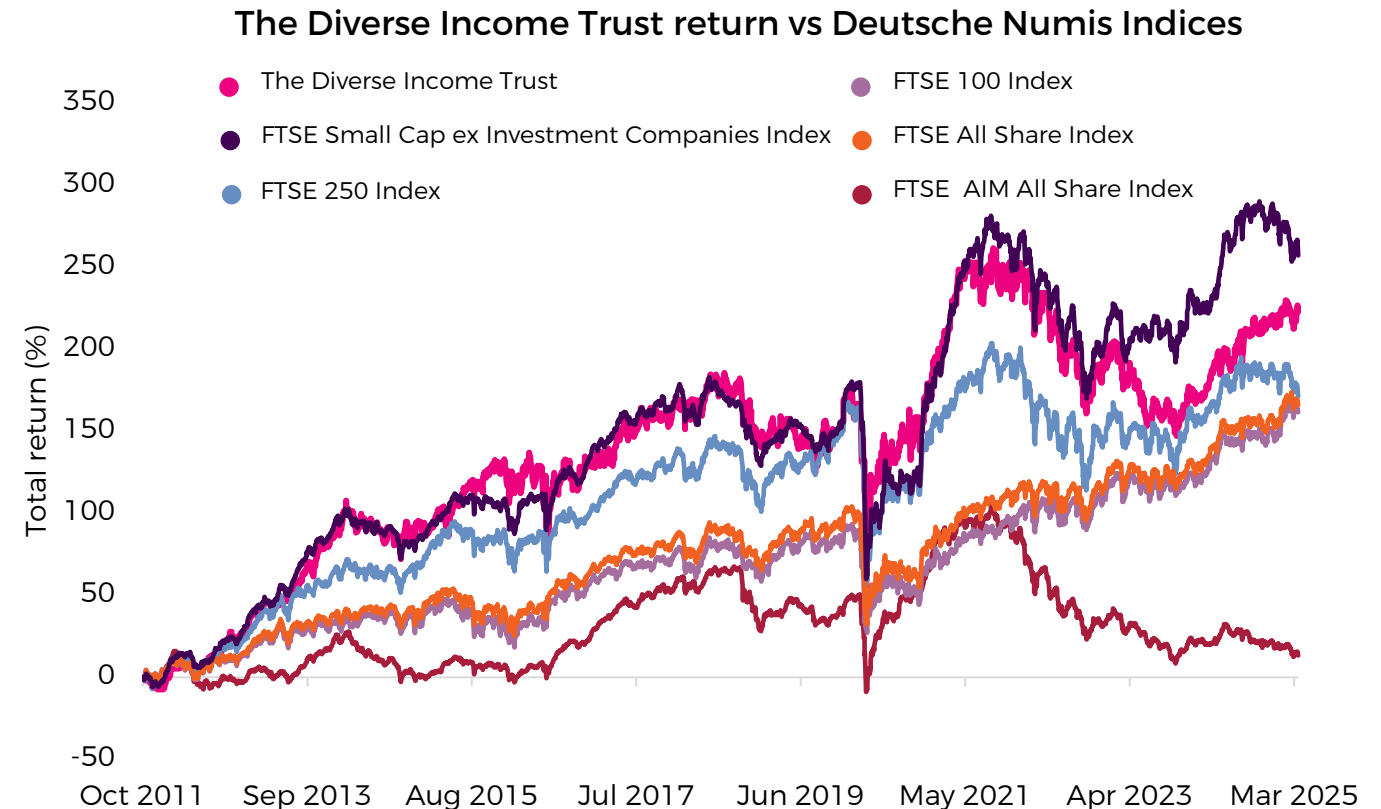
**...and it stood on an unreasonably low valuation for years, before greatly outperforming when the anticipated surplus cashflow came through.**

Source: FE Analytics, on a UK Sterling basis, bid to bid, from 31.03.2020 to 31.03.2025.

Past performance is not a reliable indicator of future returns. Forecasts are not reliable indicators of future returns.

# From mid-2021, the returns of our multi-cap equity income strategy were persistently weak for two years...

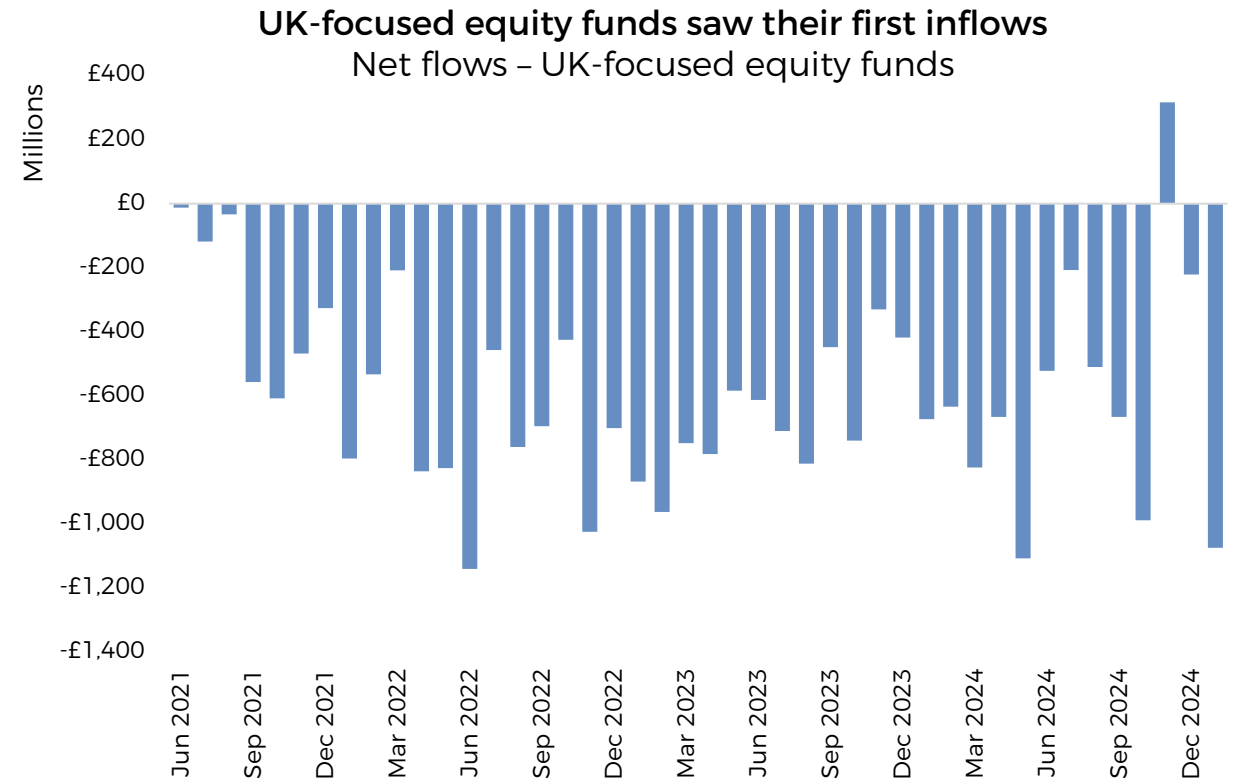
- From May 2021, the trust's share price fell back at a time when the FTSE 100 remain firm, albeit the returns on the FTSE 250 and the FTSE AIM All Share Indices were also persistently weak.
- Whilst other trusts can be weighted heavily in FTSE 100 stocks, the trust delivered a relatively poor returns relative to other UK equity income investment strategies for a couple of years
- Interestingly, since October 2023, the trust's return has greatly recovered, and this has coincided with a period when the FTSE 250 Index has also staged a recovery. Note that as yet the FTSE AIM All Share has badly missed out on this recovery to date
- Although the strategy has a comparatively modest percentage of the portfolio invested in stocks in the FTSE 250 Index, it is interesting that its returns are somewhat closely correlated
- During 2024, the trust has greatly outperformed the FTSE 250, so what are the trust's prospects from here?



...before continuing to outperform again. What caused its weakness, and will the recovery continue?

# We believe it was the major UK OEIC outflows, along with relatively few buybacks that caused the underperformance...

- One of the features of the voluminous UK OEIC redemptions was that it led to market sellers to frequently overwhelm market buyers, and drive down the share prices of numerous UK quoted companies
- In the case of the FTSE 100 stocks, much of this selling pressure was offset by a significant increase in share buybacks, and many of the FTSE 100 share prices continued to appreciate reflecting corporate progress
- In contrast, less mature businesses have frequently planned to invest capital in their own company to accelerate their growth prospects, and typically have less surplus capital with which to buyback shares
- Whilst interest rates were being raised, there were fewer cash takeovers, so this also restricted the flow of capital into the small-cap sector
- Since interest rates peaked, there has been an increasing number of UK takeovers, that have now started to offset the ongoing UK OEIC redemptions



**...although where small-caps have started buybacks, they have offset redemption sellers and their share prices have often started to recover**

# TP ICAP was also slow generating a return on an acquisition, and with the UK redemptions its valuation fell to absurd levels



Prospects for rising turnover?



Do unexpected cost increases get passed on to the customer?



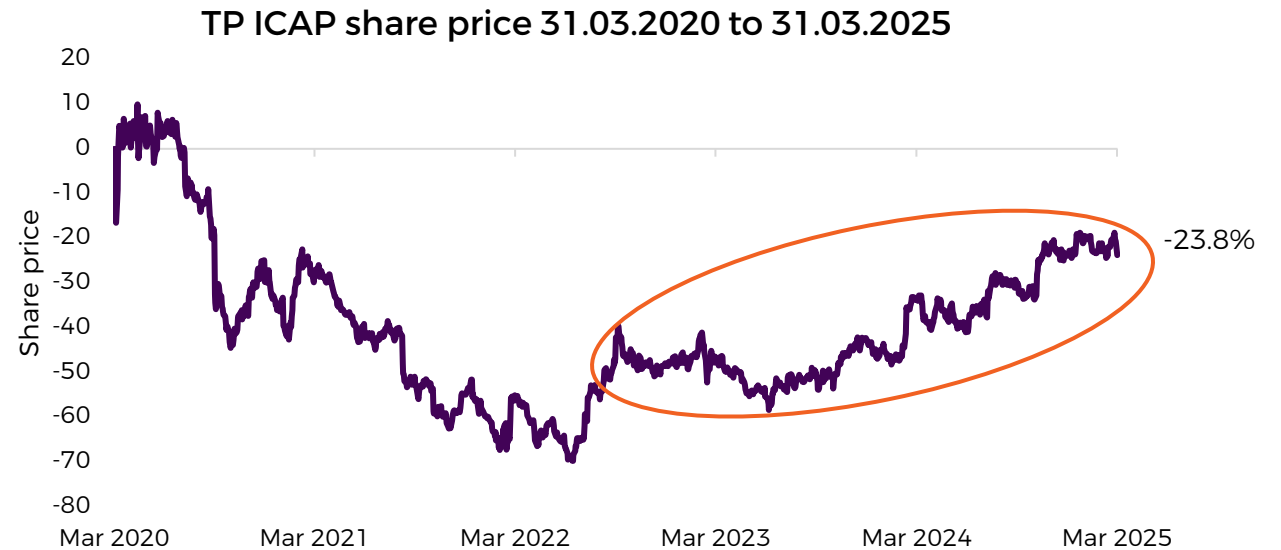
Does the management team make decisions that we feel will build value?



How much financial headroom is there in the balance sheet?



Are there low expectations in the share price?



- TP ICAP is a world leading liquidity and data specialist with 5,200 employees operating within 28 countries
- It acquired the Liquidnet equity matching transaction platform in March 2021 that it planned to extend across the credit markets
- The company wasn't able to meet these objectives as quickly as hoped but with global banks now joining it is being effected
- TP ICAP named Global Interdealer Broker of the Year in 2018
- Tullet Prebon was Energy Risk's Commodity Broker of the Year in 2024

**Now, with its cashflow coming through, TP ICAP has started to buyback its shares, although its valuation has only recovered in part so far**

Source: FE Analytics, on a UK Sterling basis, bid to bid, from 31.03.2020 to 31.03.2025.

Past performance is not a reliable indicator of future returns.

# The problem is even more gruelling further down the market capitalisation range. Stocks such as Yu Group, for example...



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?



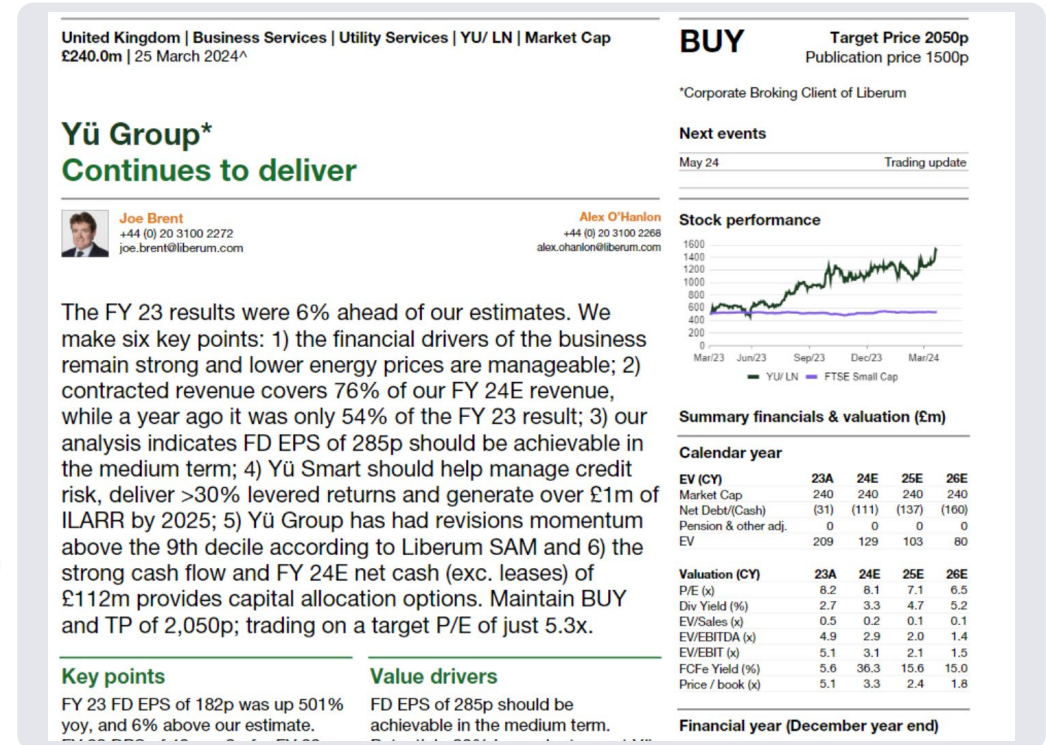
How much financial headroom is there in the balance sheet?



Are there low expectations in the share price?

- Yu Group is a UK utility supplying the corporate sector, with an ambition to outcompete the incumbents on service levels
- It has grown rapidly over recent years, despite the necessity of hedging customers through a period of fluctuating energy prices
- After a long period of due diligence, Yu has agreed with Shell that they will cover collateral payments in full, if Yu Group use them for energy supply
- Overall, Yu has grown dramatically over recent years, with ongoing momentum in cashflow, plus has sizable cash balances

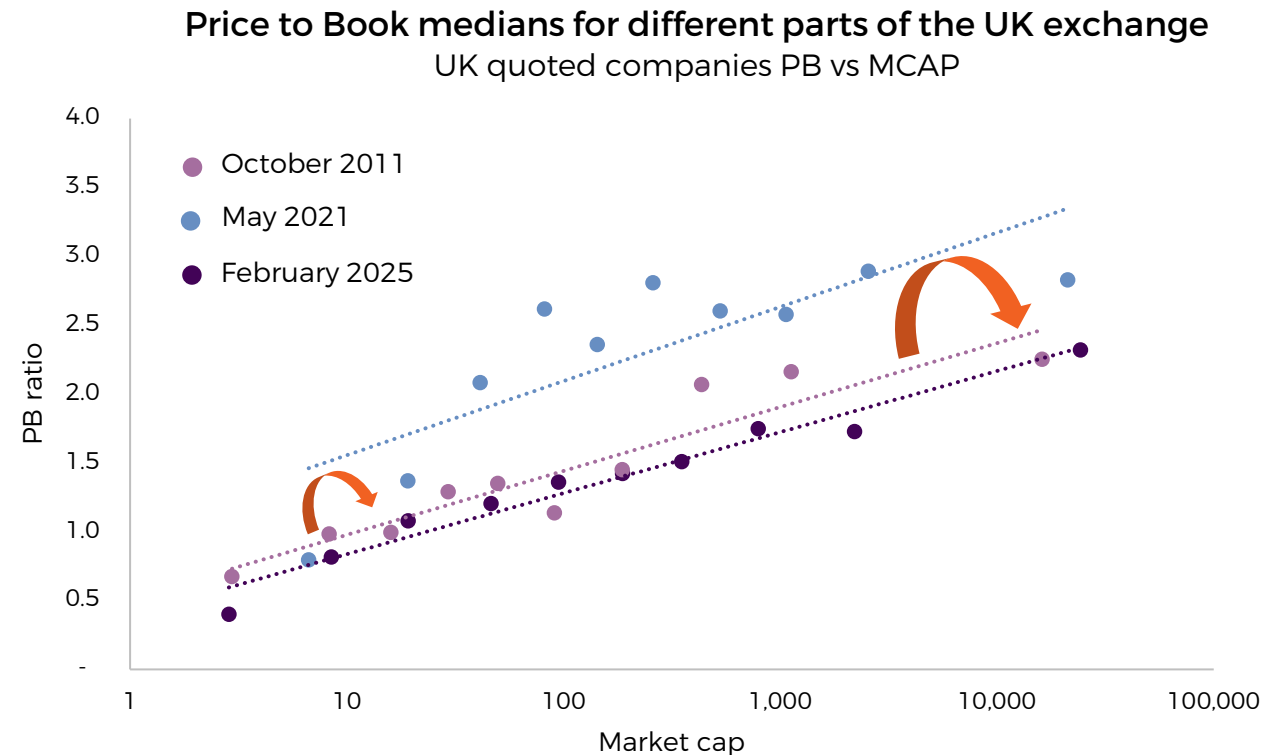
## The Liberium analyst's assessment of Yu\*



...have seen their EPS and cashflow grow dramatically and their net cash balances have become substantial.

# The sheer scale of UK OEIC sales over recent years has heavily derated the UK exchange...

- When the trust was launched in April 2011, we believed that we could generate premium returns by picking out both large and small-cap stocks with good and growing dividend income
- Overall, the strategy has succeeded, even though its returns were weak from May 2021 for a couple years when UK OEIC redemptions were particularly voluminous
- The net effect is that valuations of UK equities have fallen back to below the levels they were at when the trust launched
- The unusually low valuations of UK equities come at a time when the valuations of US equities have risen very considerably over recent years
- As the UK OEIC redemptions moderate in time, and as global investors start to rebuild their weightings in equity income strategies, we believe that the valuation of the UK exchange could rise considerably above the levels it reached in May 2021 up towards those of international exchanges



...driving its valuations down to artificially depressed levels - at a time when others have appreciated up to demanding metrics.



# It has been advantageous to run our winners for longer for example...

- Normally, when the trajectory of a company's cashflow greatly improves, this drives additional earnings growth, and growth of their dividends
- When this happens it is often associated with an improvement in their valuation, that then makes it easier for the company to further enhance earnings via additional capex or acquisitions
- For small-caps, as their market capitalisation grows, they rise into the investment universe of an increasing number of institutional shareholders who are willing to include them in their portfolios
- Hence, when a small-cap succeeds, often it can deliver an unusually strong total return, in part because the earnings growth accelerates, in part because the company pays out extra dividends but also in part because its valuation can sometimes rise very considerably
- With the OEIC redemptions, in general, the valuations of many stock winners haven't risen as much as usual over the last three years, so some of these have been retained in scale for longer than usual, often becoming more significant in terms of the portfolio weighting
- Given that the UK OEIC headwinds are now being offset by takeovers, the valuations of some of these winners are now starting to rise

## Examples of stocks with growing surplus cashflow

Galliford Try

TP ICAP

Paypoint

BT

Pan African Resources

NewRiver Retail REIT

Conduit

Personal

Sabre Insurance

**...tolerating larger portfolio weightings than usual, because so many continue to stand at overlooked valuations.**

# In some cases, small-caps with surplus cash have bought back shares

- Plus500 is a retail CFD trader, that frequently generates substantial cash surpluses
- Whilst it continued to succeed through 2021, and 2022 generally its share price failed to reflect the increasing strength of its balance sheet, despite increasing its ordinary dividend and paying special dividends
- With its results in August 2023, along with further dividend growth and a special dividend, it also announced a \$60m buyback, with further buybacks announced with its results in February and August of 2024
- These buybacks helped offset the effect of the ongoing UK OEIC redemptions, and its valuation has risen from low levels
- We have now taken some profits for risk moderation reasons

The Plus500 share price 31.03.2020 to 31.03.2025



**The potential for Plus500 has become more recognised, once the distressed sellers of its shares were offset with share buybacks**

# When markets are weak, cash generative stocks can buy back shares...

- Where companies have bought back their shares significantly, typically their valuations haven't remained as depressed as those that have not done so
- We have always sought to pick out stocks that hope to generate abundant surplus cashflow, and when these have succeeded, they then have the potential to address the one-off share price distortion caused by the UK OEIC voluminous redemptions.
- Where this has accelerated their valuation recovery, we have often taken some profit, although a portfolio holding has normally been retained because in absolute terms, many holdings, like most of the UK exchange, are still undervalued relative to international comparatives
- The portfolio continues to hold numerous holdings where we believe their valuations could rise considerably
- With the renewed market cashflow from UK takeovers, and the possible waning of UK OEIC redemptions, in our view the trust has even greater recovery potential

## Examples of stocks that have bought back stock to offset UK OEIC redemptions

MAN

ME

Tesco

Sainsbury's

Wickes

Drax

Aviva

Paypoint

**...so that they continue to generate attractive returns - even at a time when the general trend has been adverse**

# We have been able to top up, and add new potential global winners at unusually low valuations...

- There are numerous US listed stocks that have generated quite exceptional returns over recent years, whereas there are fewer stocks listed on other exchanges that have performed nearly as well
- Many commentators believe this is due to most global winners being listed on the US exchange, and relatively few being listed on other exchanges
- We dispute this assumption. We believe there are potential global winners listed elsewhere, albeit that some aren't as large as the US listed stocks (and don't have the profile)
- Furthermore, the valuations of non-US-listed global winners have often been depressed by local capital being withdrawn to participate in the substantial outperformance of the US exchange
- If anything, these headwinds have been particularly acute for UK-quoted companies and many future global winners have fallen to what we consider to be unreasonably low valuations
- Given this one-off effect, we have sought to buy into some of these potential global winners

## Potential global winning stocks

Concurrent Technologies

Cyanconnode

Beeks Financial Cloud

Record

Gulf Marine

Raspberry Pi

Gaming Realms

Trufin

Intercede

...because, as they are not doing buy backs at a time of persistent, ongoing UK OEIC redemptions, their share prices have frequently been weak

# There has been a similar opportunity to top up or buy into what we consider to be National or European champions...

- As outlined earlier, UK OEIC redemptions have tended to depress the valuations of all UK equities, with those that haven't been buying back their shares often being disproportionately weak
- Given this background, we have been in a position where we have been able to consider a number of National or European champions because their valuation has been so low, that they now have the potential of paying dividend yields that are sufficient to be part of an equity income mandate
- One of the advantages of including these champions in the portfolio, is that the prospects of many are less affected by the cyclical fluctuations of the global economy, given that they have stock specific factors which may drive significant growth
- Furthermore, some of these champions have been available to buy in good volumes even at depressed valuations because the UK OEIC redemptions are obliging some institutional investors to trim their holdings

## Potential UK or European champions

Tesco
Yu Group
AO World
McBride
Greencoat Wind
Sainsbury's
Lancashire
Stelrad
Victorian Plumbing

...again, many at sub-normal valuations, because the UK OEIC redemptions have forced others to keep trimming their holdings at low share prices.

# The trust has taken good profits on bank, property housebuilding and building material holdings, for example...

- Over the last two years, global asset markets have been relatively buoyant as investors have anticipated global interest rates peaking out, and the yield curve moving back towards a more normal term structure
- During this period some of the best performing stocks are those in the financial sectors such as the global banks, or those whose prospects are enhanced by lower interest rates such as housebuilders, property stock and building material manufacturers
- Even after outperforming, some of these stocks are still not standing on demanding valuations, reflecting the fact that the valuation of the UK exchange as a whole has fallen to comparatively low levels versus others over recent decades as capital has left to participate in the outperformance of the US exchange in particular
- Nevertheless, the balance of the portfolio has moved away from these stocks given that others with business prospects that are less correlated with global growth have been available at yields that are attractive, and in our view have the scope to deliver better dividend growth over time

## Examples of stocks that the trust has sold over the last 18 months

Natwest

Lloyds

Taylor Wimpey

Vistry

Land Securities

Helical

Forterra

SIG

...because with inflation or deflation, we are warier of less well-differentiated stocks along with those that are cyclical in nature.

# The abnormal market conditions have offered a 'one-off' opportunity to augment the trust's prospects...

- After 41 months of UK OEIC redemptions, the Price/Book valuation of UK equities has fallen to even lower levels, along with small-caps that are typically standing on even lower valuations
- Cash generative stocks can offset market sellers through share buybacks, while continuing to grow their ordinary dividends, and as such have the potential to continue delivering attractive returns even when markets are unsettled
- We believe the UK OEIC redemption market distortion is a 'one-off' opportunity to augment the stance of the portfolio
  1. Since many cash-generative stocks have been abnormally weak, we have added to the trust's global winners or national champions; artificially depressed valuations appear to understate their potential to generate surplus cash in the future
  2. With inflationary pressures persistent, there is a risk of the global economy suffering a recession, and yet the current upbeat tone of markets has meant that the cost of a Put option has also fallen to low levels recently

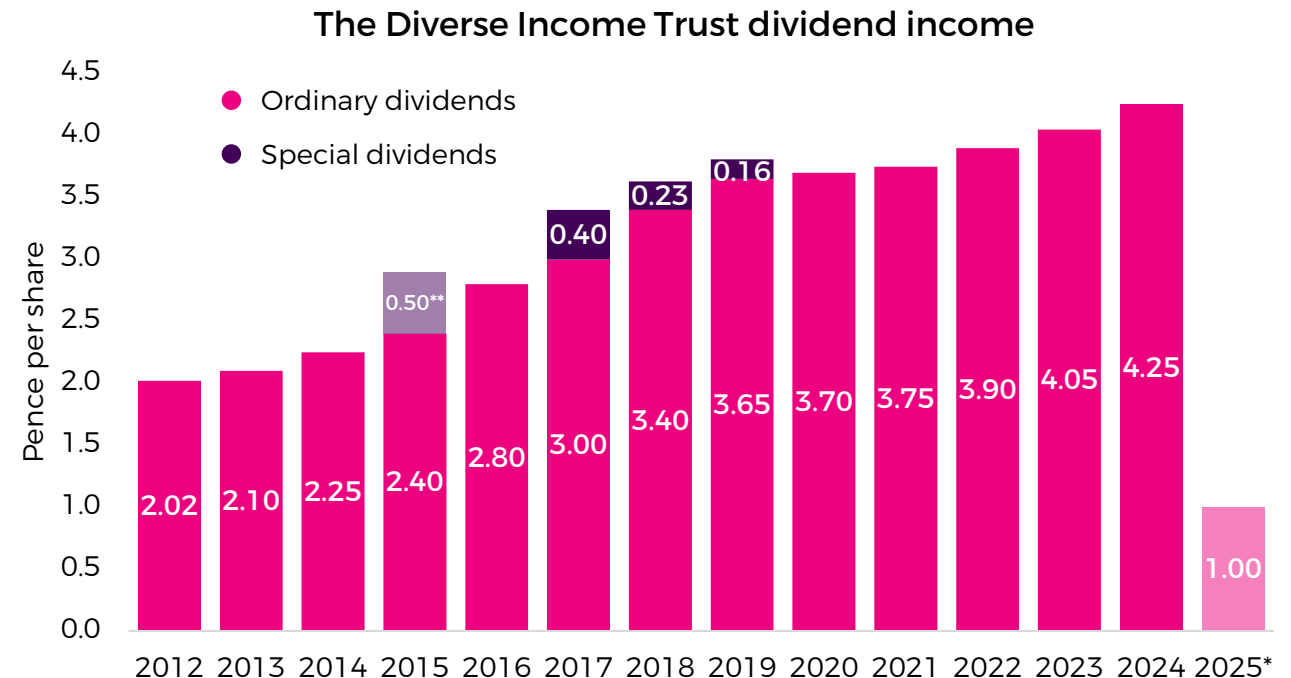


The abnormal market conditions have meant there have been a wider range of potential holdings for the trust to consider

...by topping up, or bringing new cash generative stocks into the portfolio at what seem to be artificially depressed valuations.

# Overall, we continue to prioritise prospective dividend growth because a trust with rising income has two traits

- Although many AIM-listed holdings have continued to progress over recent years and as such they have often continued to grow their dividends, this is at odds with their share price returns
- Generally, the share prices of many small-cap and AIM-listed stocks in the portfolio have typically been weak, even when they have continued to succeed
- The trust's revenue per share was affected by the dividend cuts during Covid, although it swiftly recovered in 2021, and has progressively risen subsequently.
- The NAV per share has not kept pace with the revenue and dividend progression of the trust over recent years, and the yield has risen to 4.7%<sup>1</sup>
- If there were to be a strong recovery of UK small-cap share prices, then it may be that the yields on various holdings would decline to the extent that we could take profits, and reinvest in other overlooked AIM-listed equity income stocks at higher yields, thereby boosting the trust's dividend growth



**Either its initial yield will steadily grow, or if the trust's yield remains static, then it will deliver both capital appreciation and a consistent yield.**

Source: Premier Miton. Total distributions paid for each financial year of the Trust, ending 31 May. \*The income for the 2024/25 financial year represents 1 out of 4 payments.

\*\*To allow shareholders to vote on the dividend, a final dividend was introduced in the year that ended 31 May 2015, resulting in five dividends for that year.

Since then, the Company has paid three interim dividends and a final dividend each year. <sup>1</sup>Source: Bloomberg, the historic yield reflects distributions declared over the past twelve months as a percentage of the trust price as at 01.04.2025. It does not include any preliminary charge, and investors may be subject to tax on their distributions.

**Past performance is not a reliable indicator of future returns. The level of income paid may fluctuate and is not guaranteed.**



# The trust's added value strategy is near-unique, not only greatly contrasting with global income...

- The top 20 holdings of the trust, highlight that its portfolio differs considerably from others such as global income investment strategies
- Whilst the trust does invest in many UK large-caps, the weightings of these holdings are generally modest in line with most others in the portfolio
- Since all individual stocks are vulnerable to disappoint, in general we look to limit the scale of new holdings to 1.5% of the portfolio at the time of investment. Most are around 1% and many small-caps lesser still
- The modest percentage weighting in each portfolio holding means that the trust can include some stocks where the availability is very limited
- Portfolio of numerous holdings actively enhances the potential of the trust to diversify risk, whilst also giving it the potential to invest in some undervalued small-caps that have the potential to deliver exceptional dividend growth and capital appreciation

Top 20 trust holdings	Weight %
TP ICAP	3.1
Galliford Try	3.1
Pan African Resources	3.0
XPS Pensions	2.6
Aviva	2.5
Concurrent Technologies	2.4
Paypoint	2.4
CMC Markets	2.3
Greatland Gold	2.1
Kenmare Resources	2.0
Secure Trust Bank	2.0
Phoenix Group	1.9
Ithaca Energy	1.8
BT	1.8
NewRiver REIT	1.7
Plus500	1.7
Lloyds Banking	1.7
Legal & General	1.7
Yu Group	1.7
Hunting	1.6

...but with its UK bias, it has been able to buy into many equity income stocks at what we consider to be artificially depressed valuations

# Whilst the persistent UK OEIC redemptions may have depressed the trust's returns, we equate longer-term upside potential...

- The overall returns of the trust are not closely correlated with those of most other UK equity income investment strategies
- The outcome is that the trust has a history of sometimes delivering returns when the mainstream equity indices are not

Cumulative performance %	1 year	3 years	5 years	Since launch <sup>1</sup>
Trust NAV	9.8	0.2	51.7	227.5
Trust share price	12.5	-0.7	65.1	202.9
UK Equity Income sector	14.2	19.4	85.4	187.4
Deutsche Numis Smaller Co + AIM (ex ICs) Index	-0.4	-11.1	49.0	93.7
Deutsche Numis All-Share (ex ICs) Index	11.1	22.4	76.4	129.3

Discrete performance %	2020	2021	2022	2023	2024	2025 ytd <sup>2</sup>
Trust NAV	7.6	15.8	-13.4	-2.6	15.1	-0.6
Trust share price	8.6	19.5	-16.8	-5.7	15.9	2.5
UK Equity Income sector	-7.8	18.7	0.1	3.9	10.3	2.7
Deutsche Numis Smaller Co + AIM (ex ICs) Index	4.9	20.0	-21.9	3.2	9.5	-5.9
Deutsche Numis All-Share (ex ICs) Index	-7.9	17.1	-2.5	7.8	9.9	4.6

...with a diverse portfolio of stocks, that have the potential to generate surplus cash during unsettled economic conditions.

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**Past performance is not a reliable indicator of future returns.**

# Discrete annual performance

Discrete annual return %	31.03.2020 to 31.03.2021	31.03.2021 - 31.03.2022	31.03.2022- 31.03.2023	31.03.2023 - 31.03.2024	31.03.2024 - 31.03.2025
Trust NAV	48.1	2.3	-11.9	3.6	9.8
Trust share price	69.9	-2.1	-13.6	2.3	12.5
UK Equity Income sector	42.8	8.8	2.6	1.8	14.2
Deutsche Numis Smaller Co + AIM (ex ICs) Index	71.3	-2.1	-13.4	3.0	-0.4
Deutsche Numis All-Share (ex ICs) Index	29.6	11.2	1.8	8.2	11.1

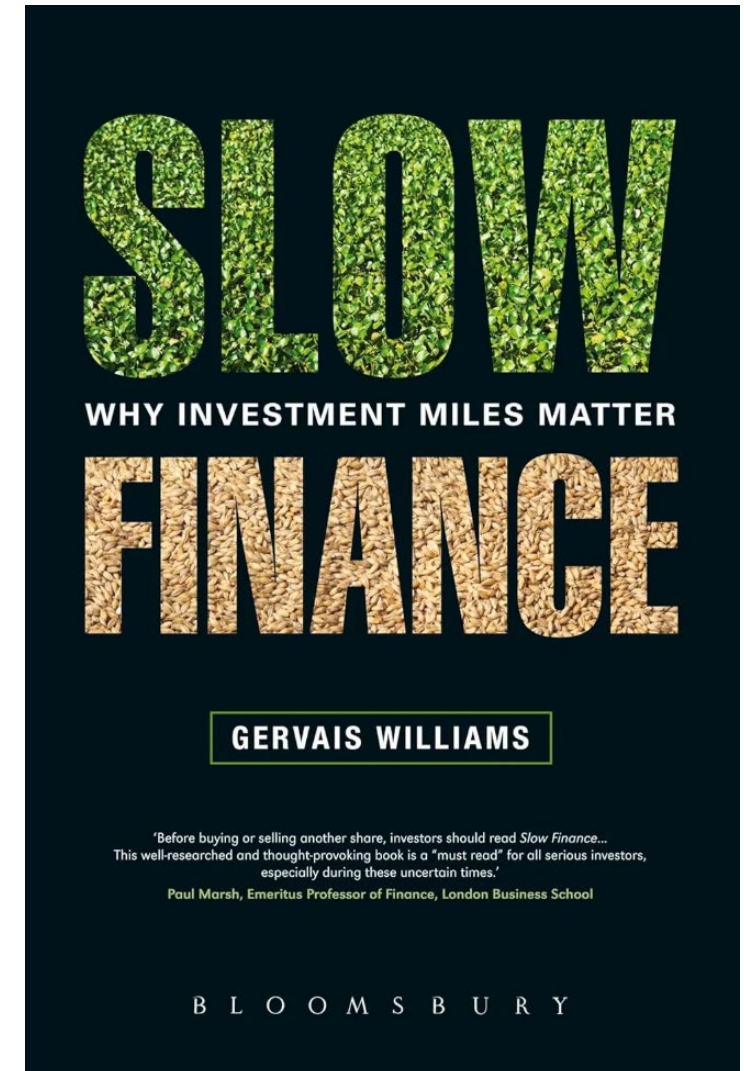
Source: Morningstar™, as at 31.03.2025, net income reinvested, bid to bid basis. ©2025 Morningstar. All Rights Reserved. The information contained herein; is proprietary to Morningstar and/or its content providers; may not be copied or redistributed; and is not warranted to be accurate, complete or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information.

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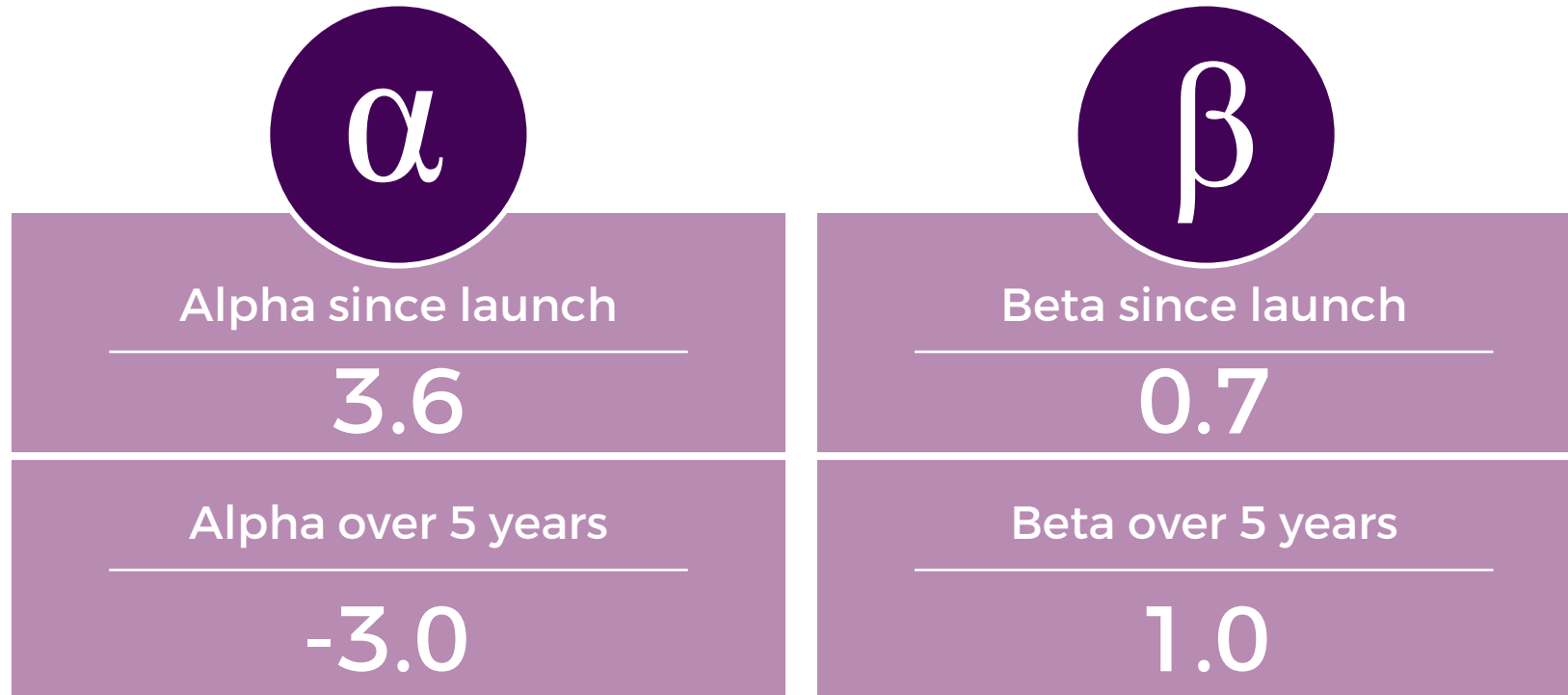
## When the trust was launched, Slow Finance highlighted the need to be attentive to the detail of portfolio mix...

- We have always believed that the most resilient way to generate an attractive investment return, though a wide range of different market conditions, is via the compounding of good and growing cash dividends
- The current status quo is inevitably superseded over time, so it is worth paying attention to strong balance sheets and diversify and this doesn't just build in resilience, but sometimes offers opportunity for holdings to thrive through unsettled political, economic and market conditions
- Slow Finance likened the moment when shoppers woke up to the fact that they needed to have an understanding of the ingredients in pre-prepared foods, and linked it with a time in the future when investors will need to do the same with the funds they purchase
- We believe that investors are now approaching the tipping point, and that the prospects for the strategy could strengthen considerably from here

...and, if anything, the arguments are even stronger now than they were in 2011



We have always believed that the trust's strategy would deliver abundant long-term returns, albeit over recent years...



...its value add has been obscured whilst small-cap valuations have been artificially depressed, now offering the potential for a major catch-up

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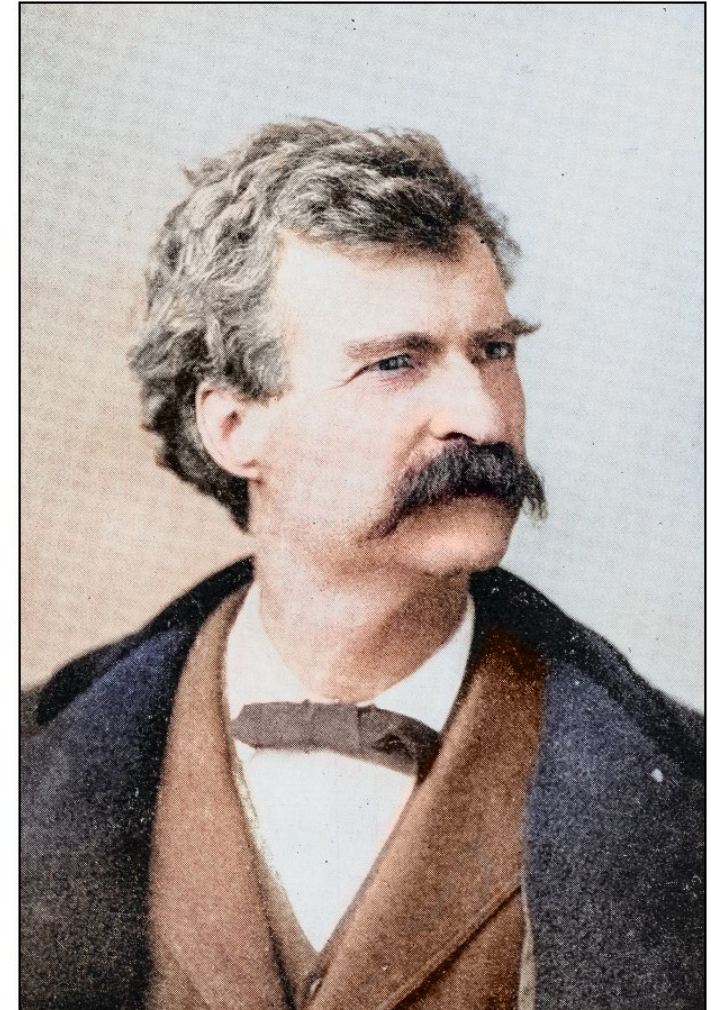
**Past performance is not a reliable indicator of future returns.**



## Mark Twain apparently stated that - “History doesn’t repeat itself, but it often rhymes”...

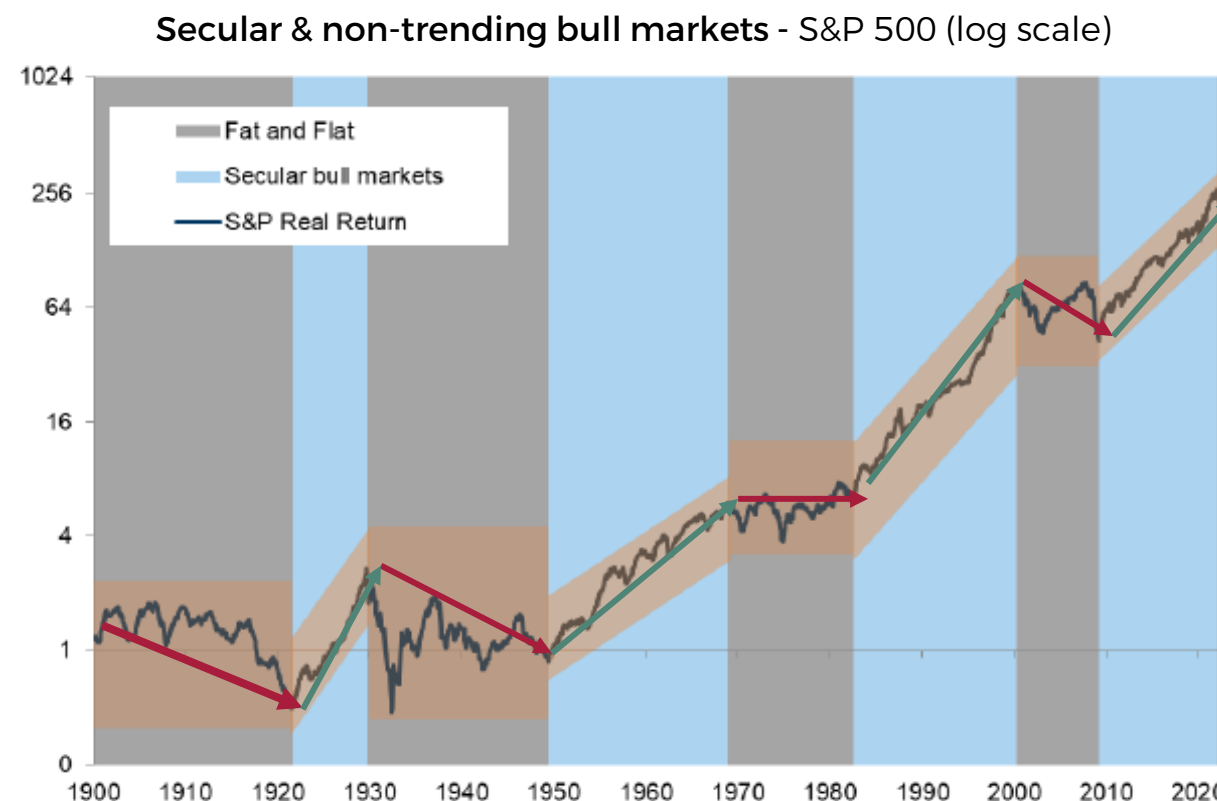
- Prior to WW1, some believed that economic prosperity was closely linked with local employment prospects, and affluence might be boosted by imposing import tariffs on high employment sectors
- Others believed lowering reciprocal tariffs boosted mutual exports, so US grain tariffs for example, were cut to zero in 1913. Strong US exports during WW1 suppressed protectionist fears further.
- But when US exports dropped away rapidly following WW1, US politicians proposed agricultural tariffs to suppress European imports
- Specifically, the Fordney-McCumber Act in 1922 introduced tariffs on a narrow range of specific US agricultural imports such as raw sugar, tungsten, manganese, poultry, eggs, corn, oats, rye, olives, wheat, apples, apricots, lemons, potatoes, peanuts, and butter.
- During 1928, Herbert Hoover won the US election by pledging additional agricultural product tariff increases. But once the tariff schedule revision process got started, calls for increased protection flooded in from numerous special interest groups, and the Smoot-Hawley Tariff Act in 1930 imposed tariffs on 20,000 US imports.
- This act entrenched a global beggar-thy-neighbour attitude whereby tariffs imposed by one country spawned tit-for-tat tariffs elsewhere

...and if that is the case, then the history of US tariffs in  
the 1920’s and 1930’s is instructive.



There were US tariffs during the 1920's, but US Index returns were immensely strong, because their nature was limited and specific...

- Although the US stock market was depressed through WWI, with the global recovery in the 1920s, the US exchange appreciated incredibly well, even despite some specific agricultural tariffs being introduced
- This parallels with the recent period, when the S&P 500 has appreciated well despite a series of narrow, specific US import tariffs from March 2018 onwards
- Unfortunately, almost all those asset market gains were lost following the 1928 election of President Hoover, when he came to power promising additional US tariffs
- Whilst the US exchange did stage a recovery in the 1930's, after the 1929 crash, unfortunately each market recovery was at a lower high, and in real terms the S&P 500 Index was still standing at approximately only half of its former peak level two decades later
- In a parallel with Hoover, Trump has now been re-elected on a platform of using broader tariffs to negotiate better deals
- If the US tariffs prompt tit-for-tat retaliation they could add friction to global trade volumes, although at this stage the issue appears unlikely to be as significant as it was in the 1930s



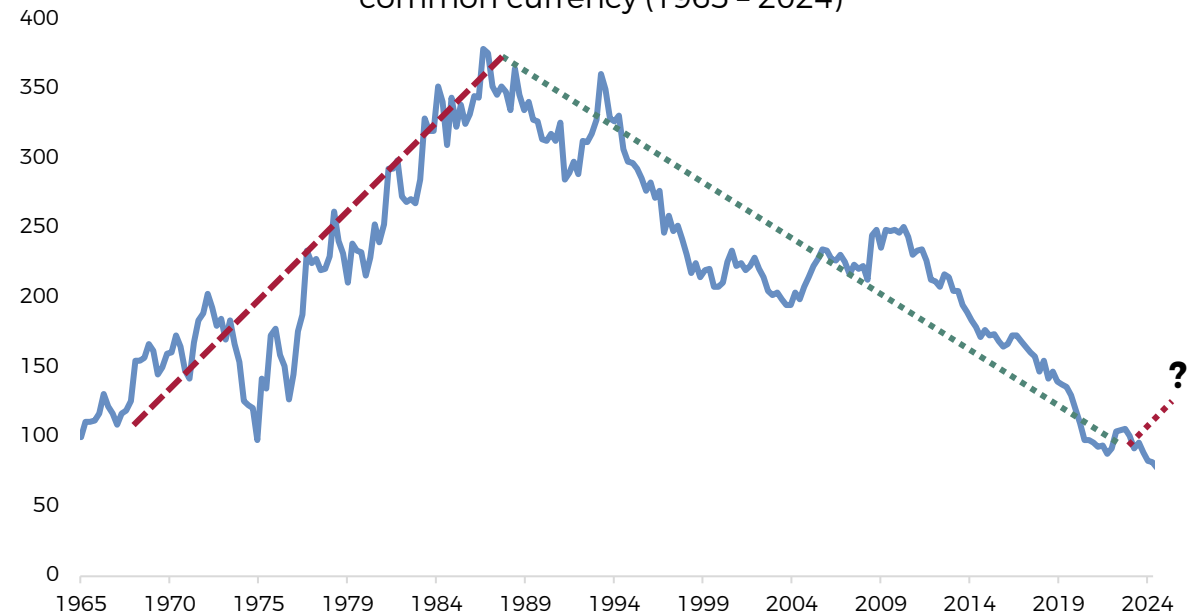
...but when tariffs broadened in 1930, the US majors returns became incredibly weak as tit-for-tat retaliations detracted from global growth.

# If the logic of this argument remains valid, global investors will shortly have great need of equity income holdings...

- The imposition of tariffs tends to fan inter-national tensions, sometimes leading to cartels in some essential commodities driving 'off-off' shortages, and very elevated market prices. Alongside, the excess capacity in other sectors may lead to lower market prices. Finally, the tax take from reciprocal tariffs adds further friction costs to cross border trade, depressing economic activity
- Corporate profitability is typically depressed by tariffs, so companies that are cash flow negative, or those with high levels of debt carry a higher risk of insolvency
- Whilst companies generating surplus cash are not immune, they have the potential to accelerate earnings growth by expanding into the markets vacated by the business failures
- Given this dynamic, global investors may have need of exchanges such as the UK that is made up of many cash generative companies that tend to outperform when the global economy is unsettled

**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 – 2024)



**...and hence, exchanges like the UK will not only keep pace with the US exchange, but dramatically outperform it – as they did in the past.**

Source: Bloomberg/ S&P Dow Jones Indices LLC, data from 31.03.1965 to 31.12.2024.

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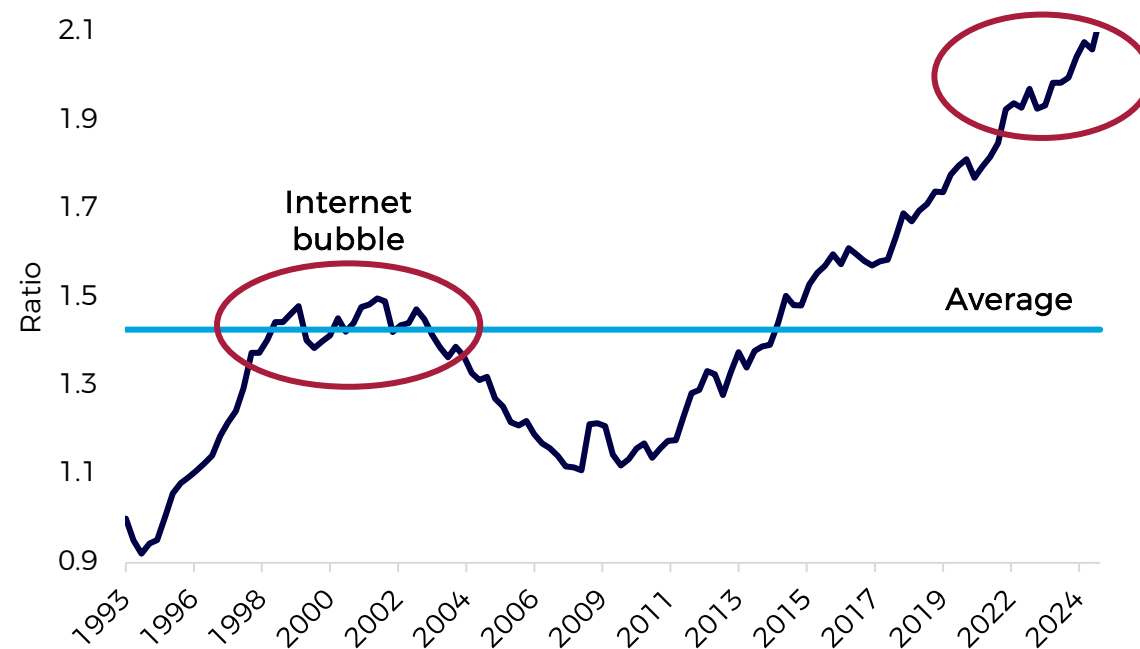


# If anything, with US equities standing on even higher valuations than they did prior to underperforming in the 1970's...

- Market beta has generated such good returns, over such a long period, that low-cost, highly liquid passive funds have gathered considerable assets
- Over recent years, with ever-growing sums being invested in passive strategies, and with large portions being invested in US mega-caps, the trend has become a reflexive, self-feeding cycle
- US technology mega-caps that have grown well, have also risen in valuation, driving a giant exaggeration in US equity market returns when compared with other global equity markets
- The price to book ratio is often used by academics as a measure of market valuation. As at 17th December, Alphabet and Amazon were on 9x, Microsoft on 12x, Apple on 67x and Nvidia on a P/B ratio of 49x. For reference the FTSE100 Median Price to Book ratio is only 1.6x
- Since so few investors have a full index weighting of US mega-cap tech stocks, whilst performance remains incredibly strong, few can even justify taking profits on their very large weightings
- The net effect is that the valuation of many of the very largest US listed companies stand at very elevated levels, so were there to be a significant setback to their prospects, then they could underperform others on more usual valuations considerably

The rise in US tech valuations has been amplified by passive investing in mega-cap index weightings

S&P 500 Index vs FTSE All World Index

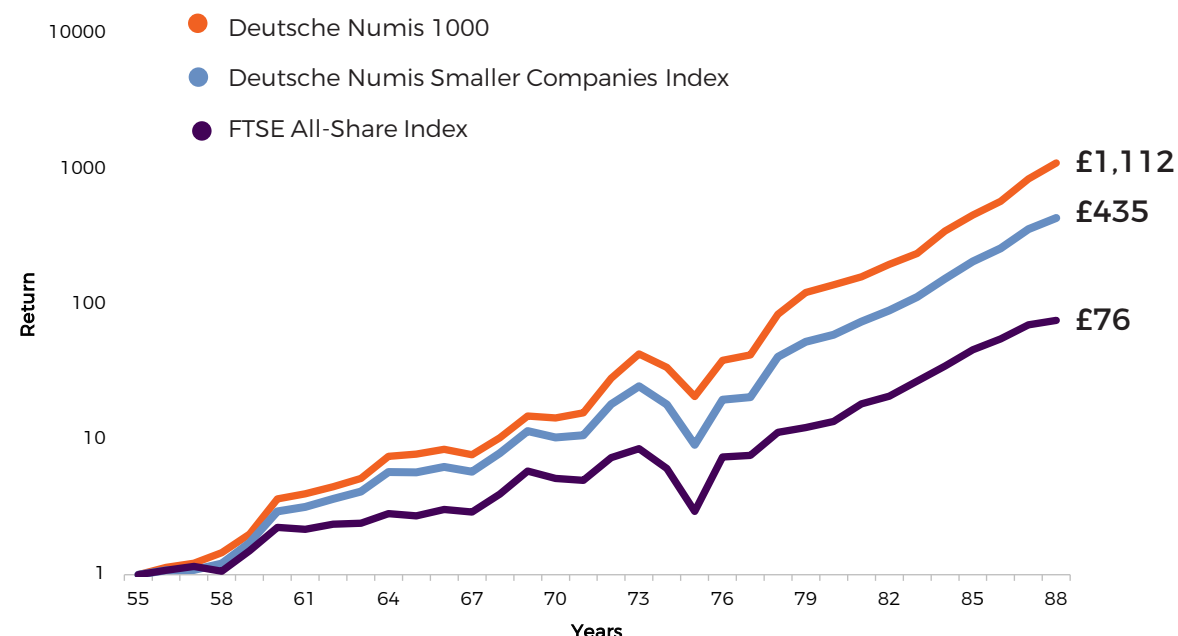


...we believe the UK is set to outperform by an even greater margin, and over a longer time period, than previously!

# When nationalism and protectionism depresses global growth, the financially strong can make acquisitions at much lower cost...

- Economic conditions were very testing in the UK between the 1960's and the late 1980's, yet the period was marked by relatively strong returns from the FTSE All Share Index, as numerous equity income stocks thrived
- Even so, despite the weakness of the Sterling exchange rate which favoured stocks with major international operations such as those in the FTSE100 Index, UK small-caps nonetheless outperformed considerably
- Specifically, as many stocks with large debts suffered, those with strong balance sheets had the advantage
- Whilst a low-cost acquisition from the receiver might have generated a good uplift in value for an individual large-cap, the same uplift is so much more lucrative in the case of a quoted small-cap, and potentially transformational for some
- The bottom line is that, counterintuitively, the earnings growth and hence the returns on quoted small-cap can be much stronger than the global large-caps, even at a time when Sterling might favour their overseas earnings

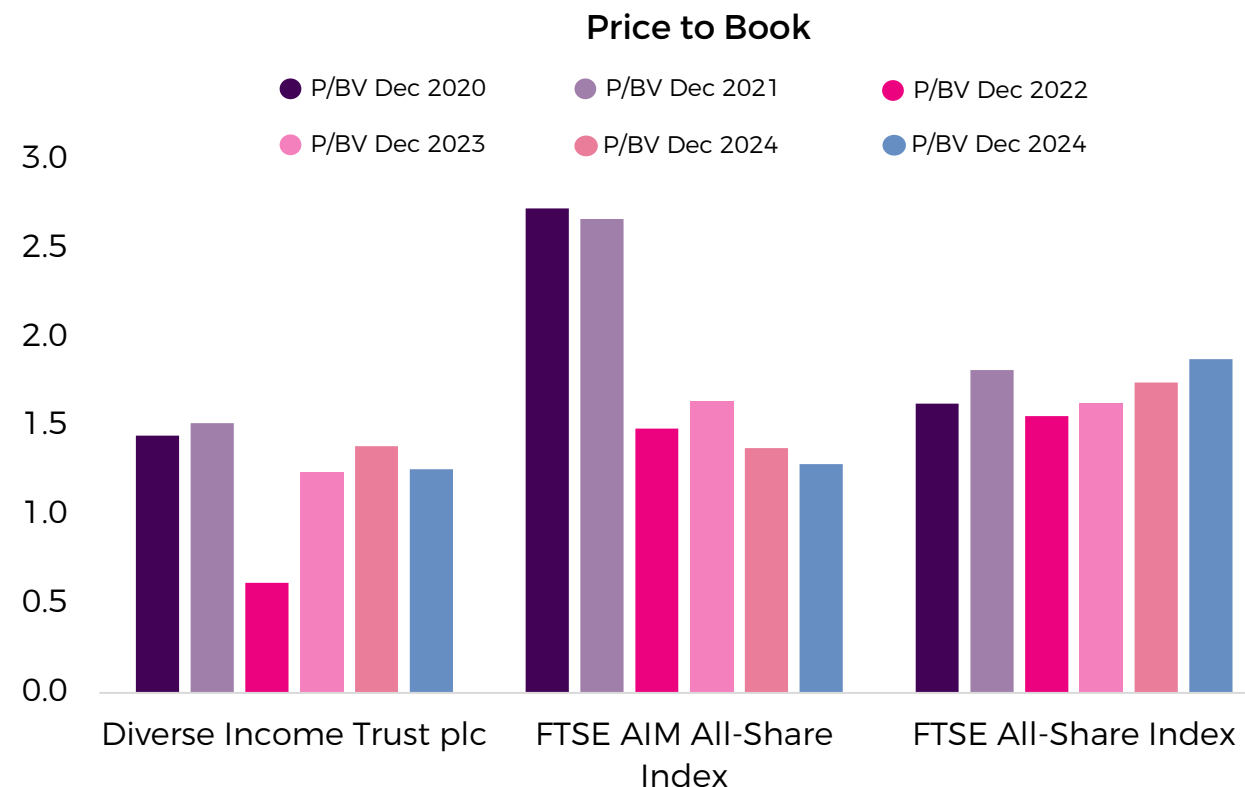
**Performance of Deutsche Numis 1000 v Deutsche Numis Smaller Companies Index<sup>1</sup> vs FTSE All-Share Index 1955-1988**



...such that the earnings of equity income stocks can accelerate, and quoted small-cap equity income stocks can do transformational deals.

# We believe the core advantages of the strategy will now be enhanced by a new UK super-cycle tailwind...

- As outlined earlier in this presentation, investors have come to regard the UK exchange as one that is a perennial underperformer
- Even so, since issue in 2011, the trust has been able to deliver attractive returns that outpaced its peer group, despite its returns having been depressed over recent years with the devaluation of UK small-caps
- As the UK stock market starts to recover, it will be noted that the UK mainstream stocks are still standing on very undemanding valuations
- The bar charts highlight how much the valuation of AIM listed stocks have been devalued over recent years, and their additional recovery potential compared with UK mainstream stocks
- Specifically, the bar charts also highlight the lowly valued nature of the trust, which in some cases may include quoted small-cap equity stocks that have the potential to generate exceptional dividend growth in some cases
- Furthermore, we believe the new tailwinds will become persistent for an extended period, maybe lasting for decades



**...with the switchback in UK small-cap capital flows driving transformational improvements in their prospective returns**

Source: Bloomberg, as at 31.03.2025.

**Past performance is not a reliable indicator of future returns.**

# Conclusions

1

The Diverse Income Trust has outperformed nearly all of the peer group, with a premium Alpha and unusually low Beta since launch in 2011.

2

In spite of its long-term record, the trust had a period of persistent underperformance from May 2021 for a couple years, which we believe was related to the 'one-off' voluminous UK OEIC selling along with a comparative absence of cash takeovers.

3

During this period, many stocks with particularly strong franchises, such as potential global winners, or UK or European champions fell back to valuations that were unusually attractive.

4

This offered the opportunity to add to these holdings and bring in others, that in our view puts the trust in a position where it has the potential to navigate a wide range of economic conditions relatively well.

5

We believe that as global investors increase weightings in equity income strategies, the UK exchange will start outperforming others. In our view, the earnings growth of equity income mid/small-caps have the greatest scope to be enhanced, and the prospects for trust, are now unusually strong on a short-, medium- and longer-term basis

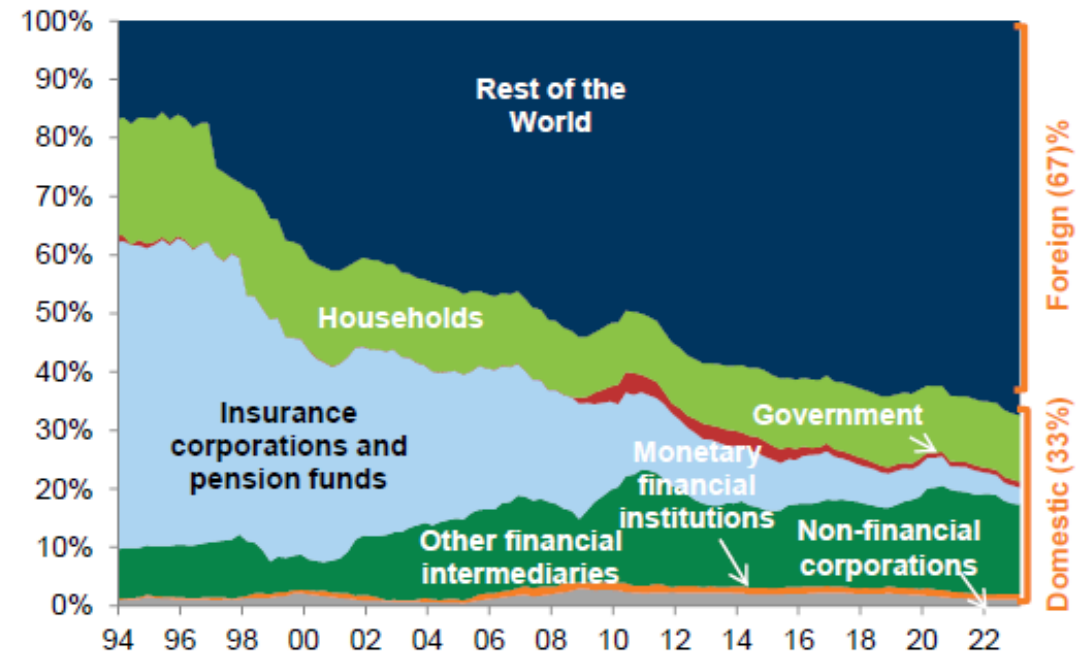
## Appendix

*Great things start with a  
blank sheet of paper...*

# The returns on the UK market will not just be driven by renewed inflows from international investors...

- Prior to the period of globalisation, UK institutions held the vast majority of UK-quoted companies
- With the ongoing underperformance of the UK stock market, over time institutions have reduced their UK equity weightings and reallocated capital into other stock markets overseas
- When a trend like this becomes persistent over decades, then the capital outflows depress the valuation of the less-favoured exchange, depressing its return yet further
- From here, we anticipate that there will be a radical shift in portfolio allocations from growth stocks to equity income stocks, reflecting policy change from globalisation to nationalism
- In our view, this change will greatly favour the returns of the UK exchange, in part because it's dominated by equity income stocks, in part because it is currently standing on what appear to be sub-normal valuations, and in part because even most UK institutions will need to scale up their portfolio weightings in UK equities

...67% of UK equity is owned outside the UK – it was 17% in 1994  
UK equity market ownership

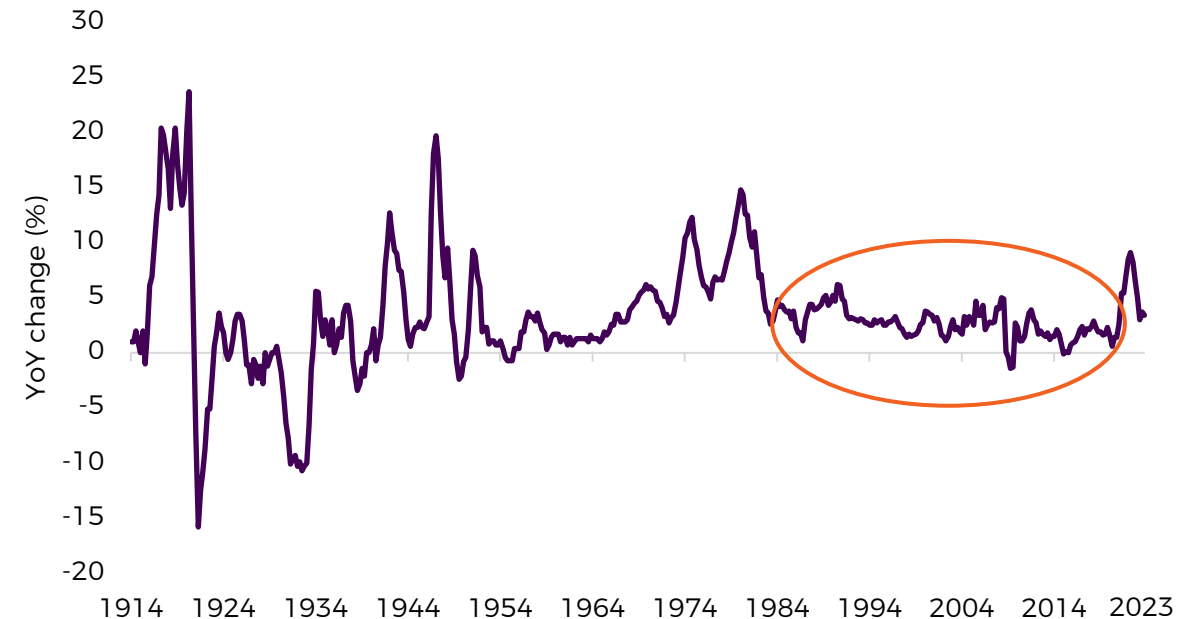


...but also, as local institutions reweight back into the UK, in a new trend that we expect will persist for several decades.

# Nationalistic and protectionist policies are now starting to drive deep-seated generational changes in financial trends.

- The period of globalisation contrasted with others, in that the surge of low-cost imports offset ongoing local service sector inflation
- In the absence of the risk of inflation, central banks have injected additional demand when growth faltered
- Global growth has been persistent, and as the cost of debt fell, the increased use of debt boosted corporate profit margins - ultimately to supernormal levels as currently
- Since the mid-2010's, nationalistic and protectionist policies displaced those of the globalisation decades
- Unfortunately, inflationary pressures now sit just below the water line, ready to resurface when additional demand is injected or when currency weakness is persistent
- Over the coming decades, we anticipate these will return to the prior inflationary norms and are matched by equally deep-seated and profound changes in longer term trends in financial markets

**US inflation has a history of being spikey  
(other than during the period of globalisation)**



**...from here, inflationary pressures are returning to prior norms – they will be routinely too high, or else sub-zero and deflationary**



Change like this is a huge risk for the financially weak – at best they radically retrench, or else risk becoming insolvent...

- During globalisation, market liquidity was abundant, and when economic setbacks occurred it was enhanced further by financial stimulus, such that even zombie companies survived
- As nationalism and protectionism displaces globalisation, we are fearful that market constraints will bear down on governments and central banks
- In time, it may get harder to roll over existing loans as credit criteria tighten, which will initially lead to numerous zombie companies failing, although unfortunately, their suppliers may fail in time due to bad debts
- Whilst bad debts won't be good news for stocks with strong balance sheets and cash-generate businesses, they will have the potential to offset the weakness by expanding into all the markets vacated by insolvency
- In addition, some quoted companies will buy overleveraged, but otherwise viable businesses debt-free from the receiver, often for a nominal sum, and accelerate their earnings growth
- Overall, we believe that the forthcoming years will be defined by the strong getting stronger, and the weak largely getting wiped out



...whilst all the while, the financially strong will typically get stronger, with some getting disproportionately stronger.



# Trust risks

**Some of the main specific risks of investing in this trust are summarised here. Further detail is available in the prospectus for the trust.**

**Equities:** Equities (company shares) can experience high levels of price fluctuation. Smaller company shares can be riskier than the largest companies, companies in less developed countries (emerging markets) can be riskier than those in developed countries and trusts focused on a particular country or region can be riskier than trusts that are more geographically diverse. These risks can result in bigger movements in the value of the trust. Equities can be affected by changes in central bank interest rates and by inflation.

**Derivatives:** Derivatives may be used within trusts for different reasons, usually to reduce risk, which can be called “hedging”. This can limit gains in certain circumstances as well. Derivatives can also be used to generate income or to increase the risk being taken, which can have positive or negative outcomes. The derivatives used can be options or futures which are types of contracts that are dealt on an exchange or negotiated with a third party. More complex derivatives may also be used. Derivatives can also introduce leverage to a trust, which is similar to borrowing money to invest.

**Other investment risks:** Trusts may have holdings in investments such as commodities (raw materials), infrastructure and property as well as other areas such as specialist lending and renewable energy. These investments will be indirect, which means accessing these assets by investing in companies, funds or similar investment vehicles. These investments can also increase risk and experience sharp price movements. Trusts focused on specific sectors or industries, such as property or infrastructure, may carry a higher level of risk and can experience bigger movements in value. Certain investments can be impacted by decisions made by third parties, such as governments or regulators.

**Other risks:** There are many other factors that can influence the value of a trust. These include currency movements, changes in the law, regulations or tax, operational systems or third-party failures, or financial market conditions that make it difficult to buy or sell investments for the trust.

# Important information

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A free, English language copy of the trust's full Prospectus, 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](mailto:contactus@premiermiton.com).

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