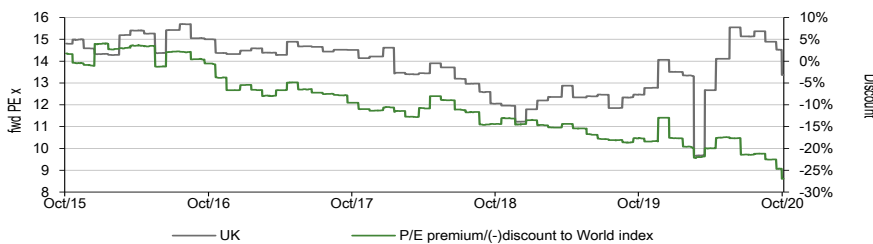


The Diverse Income Trust

Multi-cap approach pays off yet again

Gervais Williams' and Martin Turner's multi-cap approach to managing The Diverse Income Trust (DIVI) has yet again paid off, protecting on the downside. The trust has topped the ranks of UK high dividend yield peers over the past 12 months, and remains in the top quartile by NAV total return over the medium term. It has also materially outperformed the comparative indices since launch in 2011, demonstrating the managers' skill to pick winners, patience, consistent approach, and the ability to diversify away most of the risk of dividend cuts. Williams believes that DIVI's small- and mid-cap tilted portfolio is well positioned to continue benefiting from increased investor demand for cash-generative businesses, caused by fears over the current coronavirus pandemic and lockdowns.

UK equities continue to be at a heavy discount to global equities



Source: Refinitiv, Edison Investment Research

The opportunity

The performance of UK equities continues to lag most major markets, and the valuation gap with global equities, which started after the EU referendum, has widened further to a c 25% discount. Brexit risks are still in the air and this extreme disparity may suggest an attractive opportunity for the longer-term investor. The prospect of a return to pre-Brexit levels would suggest decent upside for UK equities.

Why consider investing in DIVI?

- DIVI's multi-cap strategy helps to diversify away dividend concentration risk, making the fund very different from most peers.
- The wider opportunity set has helped deliver consistent growth in regular dividends and smoothed the impact of the COVID-19 crisis.
- DIVI has accumulated revenue reserves and the board intends to use these as appropriate to help maintain the pattern of dividend growth.

Deep discount has further scope to narrow

DIVI trades at a discount of 1.2% to its cum-income NAV, a considerable recovery from its 22.7% low point in March, and narrower than the three-year average of 3.1%. The board aims to limit the discount to a level close to the trust's NAV, including an annual opportunity to redeem shares at NAV less costs. An improvement in sentiment towards UK equities, combined with the trust's strong performance, are potential catalysts for the discount to remain at the target level.

Investment trusts UK multi-cap equity income

13 November 2020

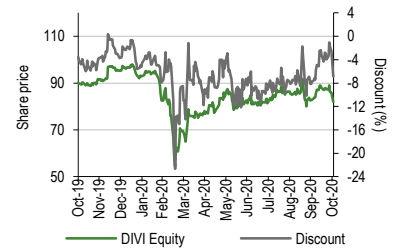
Price 91.2p
Market cap £317.9m
AUM £330.5m

NAV* 93.7p
Discount to NAV 2.7%
NAV** 92.3p
Discount to NAV 1.2%

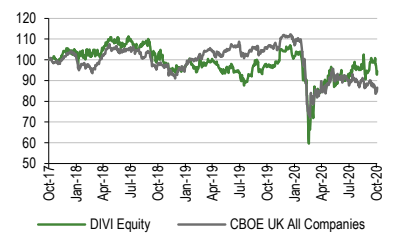
*Excluding income. **Including income. As at 11 November 2020.

Yield 4.1%
Ordinary shares in issue 358.0m
Code DIVI
Primary exchange LSE
AIC sector UK Equity Income

Share price/discount performance



Three-year performance vs index



52-week high/low 98.0p 54.6p
NAV* high/low 99.6p 70.3p

*Including income.

Gearing

Net cash* 0.95%

*As at 30 September 2020.

Analysts

Victoria Chernykh +44 (0)7776 956739
Sarah Godfrey +44 (0)7976 154191

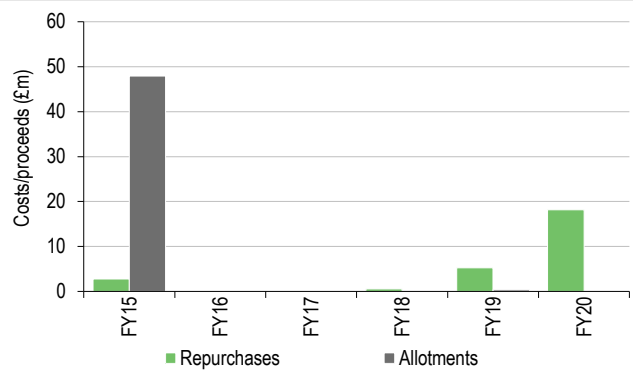
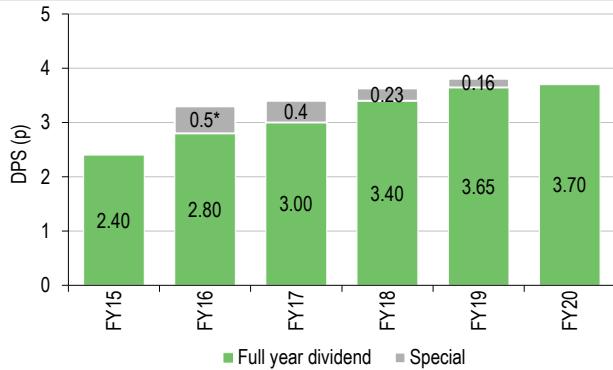
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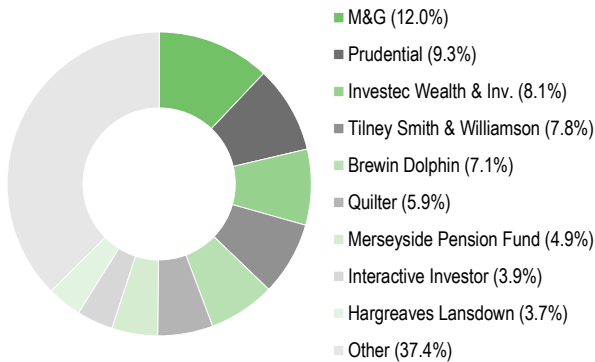
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Exhibit 1: Trust at a glance

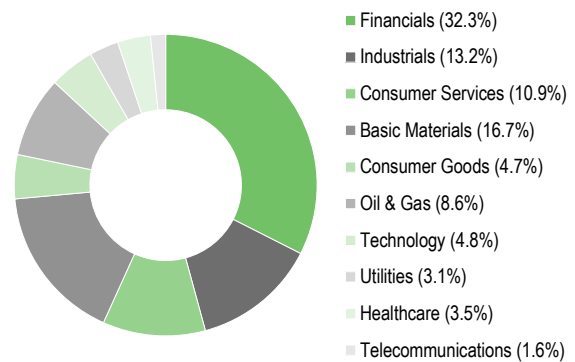
Investment objective and fund background				Recent developments	
The Diverse Income Trust's objective is to provide an attractive and growing level of dividends, coupled with capital growth over the longer term. It invests in a diversified portfolio primarily of quoted or traded UK companies across the market-cap spectrum, with a bias to high-quality small- and mid-cap stocks. As a stock-specific portfolio, there is no benchmark.				<ul style="list-style-type: none"> 14 Oct: Declaration of first interim dividend of 0.85p per share. 18 Aug 2020: Annual results to 31 May 2020. NAV TR -2.5% vs -11.2% for the broad UK stock market. 	
Forthcoming		Capital structure		Fund details	
AGM	October 2021	Ongoing charges	1.09%	Group	Miton Group
Interim results	February 2021	Net cash	0.95%	Managers	Gervais Williams, Martin Turner
Year end	31 May	Annual mgmt fee	Tiered structure (see page 7)	Address	6th floor, Paternoster House, 65 St Paul's Churchyard, London, EC4M 8AB
Dividend paid	Quarterly	Performance fee	None	Phone	+44 (0) 20 3714 1501
Launch date	28 April 2011	Trust life	Indefinite	Website	www.mitongroup.com
Continuation vote	No	Loan facilities	See page 7		
Dividend policy and history (financial years)				Share buyback policy and history (financial years)	
Quarterly dividends are paid in February, May, August and November. DIVI distributes substantially all of its income, net of costs, annually. * In FY16, five dividends were paid – the fifth would ordinarily have been designated as the first interim of FY17, but it was redesignated as a final dividend for FY16.				Renewed annually, DIVI has authority to purchase up to 14.99% and allot up to 10% of issued share capital. Subject to directors' discretion, DIVI offers investors an annual facility to redeem all or part of their shareholding at NAV less costs.	



Shareholder base (as at 16 October 2020)



Portfolio exposure by sector, rebased for cash, bonds & other (as at end-September 2020)



Top 10 holdings (as at 30 September 2020)

Company	Sector	Portfolio weight %	
		30 September 2020	30 September 2019*
CMC Markets	Financial services	3.2	N/A
Centamin	Mining	2.5	1.4
Admiral	Insurance services	2.0	N/A
Strix	Industrials	1.9	1.5
IG Group	Financial services	1.8	1.2
Gamesys Group	Consumer discretionary	1.8	N/A
Kenmare Resources	Energy	1.8	1.4
Diversified Gas & Oil	Energy	1.7	1.8
Randall & Quilter	Financial services	1.7	1.9
888 Holdings	Consumer discretionary	1.6	N/A
Top 10 (% of holdings)		18.4	16.3

Source: The Diverse Income Trust, Edison Investment Research, Morningstar. Note: *N/A where not in top 10 at end-September 2019.

The fund managers: Gervais Williams & Martin Turner

The manager's view: The markets have changed, but not DIVI

The fund managers are pleased to see that strong stock selection across the market cap spectrum has brought positive results for DIVI in the current market environment. They continue to focus on finding and buying into cash-generative companies, regardless of how the broad UK equity market – represented by the mainstream indices – performs. Contrary to the widespread view, the team currently finds plenty of dividend-rich listed investment opportunities in the UK. Whilst most UK companies continue to be negatively affected by the coronavirus-triggered economic shock, DIVI's multi-cap hunting ground allows the managers to find and populate the portfolio with the winners in this environment. Williams observes that the arrival of the COVID-19 crisis spooked investors more than Brexit, as they rushed to cushion the impact of the economic shock and increased purchases of highly cash-generative businesses across the sectors where DIVI actively invests. These include gold miners, tech stocks, spread-betting companies, supermarkets, food manufacturers, mobile phone operators and smaller essential oil services providers.

In the latest edition of its Dividend Monitor, Link Group, an investor services business, predicted in October that total dividends from UK-quoted businesses will be down 39% in 2020, and forecast a very slow dividend recovery from the low 2020 base in 2021, of between 6% and 15% in the worst- and best-case scenarios, respectively. As many mid- and large-cap companies reduce their dividends, Williams and Turner have been able to find pockets of cash-rich opportunities, particularly in the small- and micro-cap space. The managers also believe that the valuation gap between the UK and global markets will close, although the exact timing of this remains uncertain.

Market outlook: Driven by COVID-19

Having arrived to the UK in spring, the coronavirus pandemic disrupted the cautiously optimistic post-election outlook for the country. The wide-ranging impact of COVID-19 has been running through most of 2020 and represents both a severe demand-side and a supply-side shock for the UK economy. Although the government and Bank of England have responded with fiscal and monetary stimulus on an unprecedented scale, the UK is nevertheless facing one of its deepest recessions in history, and earnings and dividends are expected to fall sharply this year, with the shape of a recovery uncertain. The direction of equity markets will likely continue to be driven by developments relating to the disease, as witnessed by the sharp rally in response to positive news on a vaccine in early November.

The combination of Brexit and the pandemic has given rise to an unusually rich hunting ground for UK equity stock pickers, and the low valuations of many UK companies are likely to continue to drive merger and acquisition activity. As we approach the end of 2020, uncertainty around Brexit will be removed (except in the unlikely event of an extension to the transition period). Meanwhile, global market uncertainty is lessened by the US presidential election having taken place on 3 November.

UK equity valuations remain attractive relative to other developed markets. The market has been out of favour for some time, exacerbated by Brexit uncertainty since June 2016, and a potential closing of this discount towards pre-Brexit levels would suggest decent upside for UK equities.

Fund profile: Unconstrained and multi-cap

DIVI was launched in April 2011 as a multi-cap UK income and growth strategy. The fund remains the only pure multi-cap fund within its UK income closed-ended peer group. Unconstrained by index

considerations, the managers, Gervais Williams and Martin Turner, have a wide universe from which to find attractive stocks. Their investment approach is bottom-up, looking for companies that are able to generate sustainable cash flows, which can underpin long-term dividend growth. Williams and Turner are smaller company specialists, and often find the most interesting investment opportunities in this segment of the UK equity market. Small-caps can operate in sectors that are not represented by companies in the mainstream indices, thereby offering genuine diversification benefits. Furthermore, they can be overlooked by sell-side analysts, which can result in underappreciated valuations. Gearing is permitted up to 15% of the fund; however, historically it has been rarely used, reflecting the managers' propensity to protect against downside risk. The managers have used derivatives, such as put options on UK large-cap indices, to cushion the portfolio against sharp falls in equity markets.

Asset allocation

Investment process: Well-established fundamental framework

DIVI follows a bottom-up investment process to find companies that generate strong cash flow payback on their capital expenditure, which helps to underpin the ability to sustain growing dividend payments over a three- to five-year period. The managers are very experienced small-cap equity specialists, and over time have met many companies to help build their confidence in managements' governance credibility and their ability to execute. Williams and Turner have an established framework for evaluating the attractiveness of a company, which includes:

- Prospects for rising turnover;
- Sustainability of margins;
- Managements that can build intrinsic value;
- Financial flexibility in balance sheets;
- Low expectations reflected in the share price.

Current portfolio positioning

The portfolio had 132 holdings at 30 September 2020. Exhibit 2 shows the portfolio's exposure by sector to end-September 2020. The put option on the UK large-cap index was sold in March 2020, generating substantial gains. During 2020 the manager has put cash to work, bringing the cash position down 6pp from c 7% to 1%, so the portfolio was practically fully invested at 30 September.

Exhibit 2: Portfolio sector exposure vs broad UK stock market index (% unless stated)*

	Portfolio end- September 2020	Portfolio end- September 2019	Change (pp)	Index weight	Active weight vs index (pp)	Trust weight/ index weight (x)
Financials	31.6	31.6	0.0	24.8	6.8	1.3
Basic materials	16.3	9.4	6.9	9.0	7.4	1.8
Industrials	12.9	16.3	(3.4)	13.0	(0.0)	1.0
Consumer services	10.6	10.9	(0.3)	12.6	(2.0)	0.8
Oil & gas	8.5	8.9	(0.4)	6.6	1.9	1.3
Technology	4.7	3.3	1.4	1.3	3.5	3.8
Consumer goods	4.6	5.7	(1.1)	16.0	(11.4)	0.3
Healthcare	3.4	2.1	1.4	11.4	(8.0)	0.3
Utilities	3.0	2.2	0.8	3.4	(0.4)	0.9
Telecommunications	1.5	0.8	0.7	2.1	(0.5)	0.7
Funds	0.7	0.6	0.0	0.0	0.7	N/A
Cash, bonds & other**	2.1	8.3	(6.2)			
	100.0	100.0		100.0		

Source: DIVI, Edison Investment Research, FTSE Russell. Note: *All figures subject to rounding. **Cash weighting c 1% at 30 September 2020.

Financials remains the largest sector, accounting for close to a third of DIVI's holdings. The trust has limited exposure to the high-street banks, preferring to buy into specialist financial services, such as spread betting businesses CMC Markets (3.2% of the portfolio at 30 September 2020), IG

Group (1.8%) and Plus500 (1.5%). DIVI also has exposure to insurance companies such as Admiral and Direct Line, which specialise in relatively defensive domestic market segments and continue to pay dividends. Whilst Direct Line suspended its final dividend in April, it was reinstated as a special dividend in September. Meanwhile, Admiral did not routinely pay a special dividend in April, but has recently resumed special dividend payments.

Niche insurance company Randall & Quilter is a new addition. The company acquires legacy portfolios and insurance debt, and provides capital support to Lloyd's syndicates. It facilitates exit and restructuring solutions through acquisition, portfolio transfer, reinsurance, insurance business transfer, and self-insured retention/deductible reimbursement policies. The company also offers programme management services and solutions.

Basic materials has climbed from 9.4% to 16.3% of the portfolio over the last 12 months, making it the second largest sector weighting at end-September. In October the weighting reduced somewhat, following Highland Gold's takeover during the month. Exposure within the portfolio is now dominated by a number of other miners, such as Kenmare (a recent addition), which mines about 7% of the world supply of titanium dioxide (used as a whitening agent in paint and plastics). Other holdings include a number of gold mining stocks, such as Centamin (2.5%) and Polymetal (1.3%). Williams anticipates these will retain their strong balance sheets, good dividend yields and growing dividend streams, as he expects the gold price to remain firm following quantitative easing across the globe. Within this sector the manager added Kenmare Resources – a world leader in mineral sands products in China, Italy, the US and internationally.

Other recent purchases include AO World, an online retailer of domestic appliances and consumer electronics in the United Kingdom, Germany and the rest of Europe. AO runs an online kitchen appliances business that has moved up to become the leading supplier at a time when John Lewis and other high street retailers have seen many of their retail stores closed as a result of lockdowns. Its revenue growth over the past six months to end-September was c 57% across the group, with +54% in the UK, and +83% in Germany. The holding has contributed c 1.3pp of DIVI's 4.6% NAV total return over the past six months.

The fund also holds some stocks bought at IPO, such as Strix, Sabre Insurance Group and Manolete Partners, and recently added FRP Advisory Group on its debut in March 2020. A number of holdings were sold in the spring in response to the pandemic, including transport companies easyJet and Go-Ahead, and entertainment company Rank. Insurer Hastings Group and Highland Gold Mining were taken over. During the past six months Williams also trimmed some holdings that had performed strongly, such as K3 Capital (a business sales specialist), CMC, AO World and 888 Holdings (an online gaming entertainment company).

Performance: Outperformance continues

Exhibit 3: Five-year discrete performance data

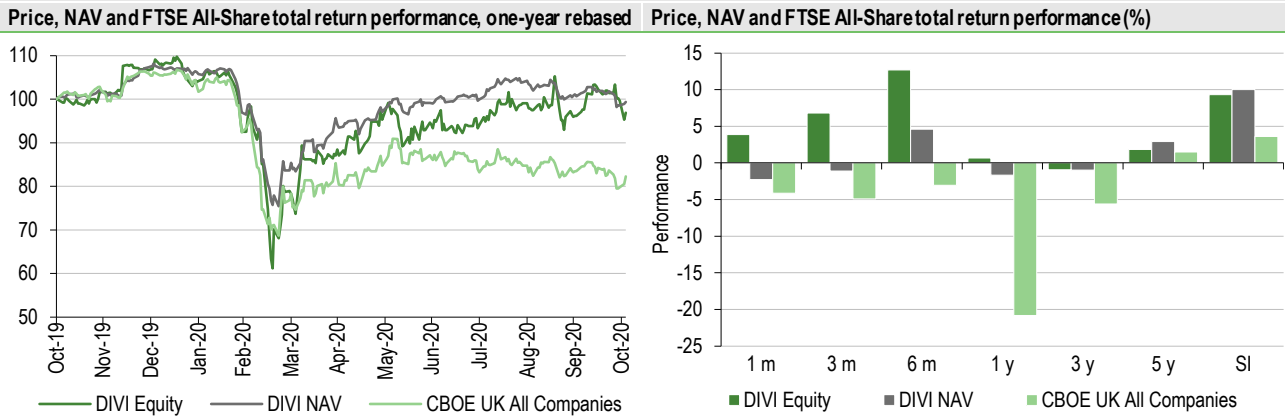
12 months ending	Total share price return (%)	Total NAV return (%)	CBOE UK All Companies (%)	MSCI UK High Dividend Yield (%)	CBOE UK Small Companies (%)
31/10/16	(2.4)	2.1	12.8	12.4	12.8
31/10/17	15.4	16.8	13.6	18.5	13.6
31/10/18	1.3	(2.5)	(1.6)	(3.1)	(1.6)
31/10/19	(3.8)	0.8	6.9	3.6	6.9
31/10/20	(0.3)	(1.5)	(20.2)	(21.7)	(20.2)

Source: Refinitiv. Note: All % on a total return basis in pounds sterling.

As shown in Exhibits 4 and 5, DIVI's NAV total return has meaningfully outperformed the CBOE UK All Companies, MSCI UK High Dividend Yield and CBOE UK Small Companies indices across all the time periods shown. DIVI's mid-term outperformance has been significantly boosted by its put option, which generated large gains on its sale in March 2020. The portfolio's holding of

conservatively managed companies with strong balance sheets has also contributed towards its relative resilience. Since the trust's inception in April 2011, DIVI has outperformed the CBOE UK All Companies Index by 76.7%. Over the past six months the current holdings have contributed materially to total return: CMC (+1.5pp), AO World (+1.3), 888 (+0.8), Kenmare (+0.6), Highland Gold (+0.6).

Exhibit 4: Investment trust performance to 31 October 2020



Source: Refinitiv, Edison Investment Research. Note: three- and five-year and since inception (SI, 28 April 2011) performance figures annualised.

Exhibit 5: Share price and NAV total return performance, relative to indices (%)

	One month	Three months	Six months	One year	Three years	Five years	SI
Price relative to CBOE UK All Companies	8.3	12.3	16.2	27.2	15.5	1.8	66.9
NAV relative to CBOE UK All Companies	1.9	4.0	7.9	24.2	15.4	7.4	76.7
Price relative to MSCI UK High Dividend Yield	9.5	13.1	21.9	29.3	24.1	4.6	63.9
NAV relative to MSCI UK High Dividend Yield	3.0	4.7	13.2	26.3	24.0	10.4	73.5
Price relative to CBOE UK Small Companies	8.3	12.3	16.2	27.2	15.5	1.8	66.9
NAV relative to CBOE UK Small Companies	1.9	4.0	7.9	24.2	15.4	7.4	76.7

Source: Refinitiv, Edison Investment Research. Note: data to end-October 2020. Geometric calculation.

Exhibit 6: NAV total return relative to CBOE UK All Companies Index over three years

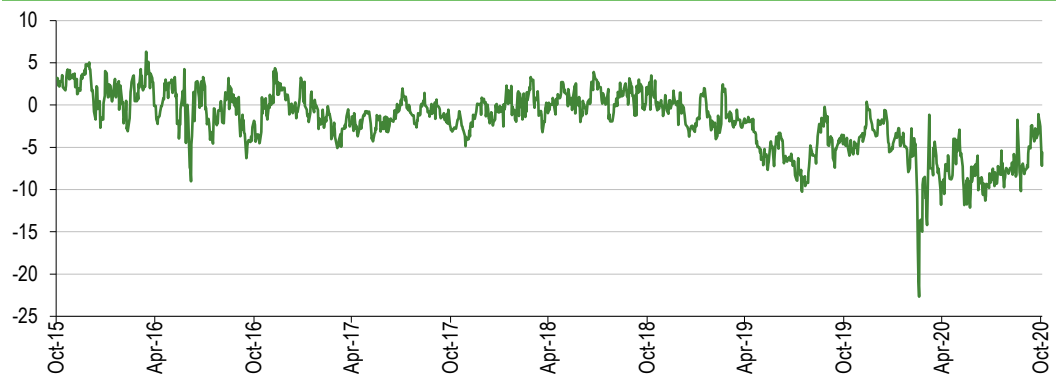


Source: Refinitiv, Edison Investment Research

Discount: Has narrowed to trade close to NAV

DIVI's current discount to cum-fair NAV stands at 1.2%, which is narrower than the three-year average of 3.1%, and represents a sharp recovery from the 22.7% level in late March, its lowest point in history, as shown in Exhibit 7. DIVI has historically traded close to its NAV, an objective of the board. The board has the authority (renewed annually) to buy back shares if it considers it to be in the best interests of the shareholders, and also operates an annual redemption facility (see Capital structure and fees).

Exhibit 7: Share price premium/discount to NAV (including income) over five years (%)



Source: Refinitiv, Edison Investment Research

Capital structure and fees

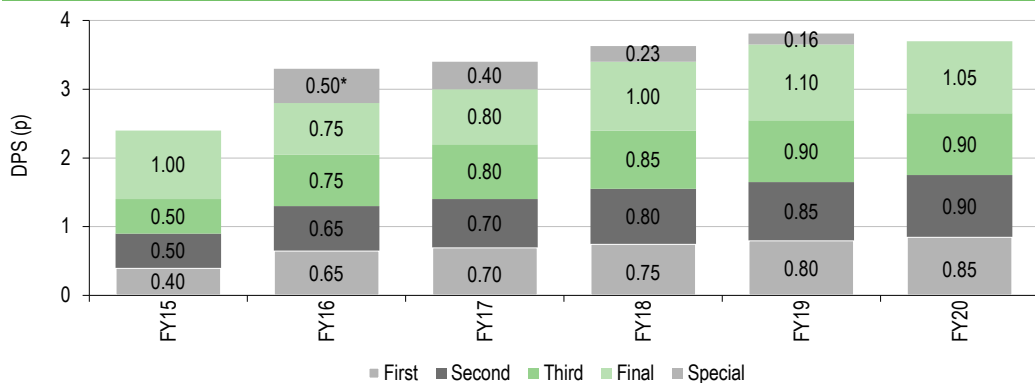
DIVI is a conventional investment trust with 358m ordinary shares in issue. The trust has an annual redemption facility that allows shareholders to tender their shares at NAV less costs at the end of May, for which requests must be received by the end of April. In FY20, 20.2m requests were received, representing 5.4% of issued share capital (FY19: 5.5m shares, representing 1.4%). The management fee payable to Premier Portfolio Managers has been reduced from August 2019, to 0.9% on the first £300m market capitalisation of the trust, then 0.8% between £300m and £500m, reducing to 0.7% above £500m. Fees are charged to both the capital and income accounts, allocated at 75% and 25%, respectively. Gearing is permitted up to 15% of NAV, and the trust has a £20m loan facility with the Royal Bank of Scotland. This has not been drawn, and as at end-September 2020, DIVI had a net cash position of 1.0%.

Dividend policy and record

DIVI's primary objective is to provide shareholders with an attractive and growing level of income, as well as deliver capital growth over the long run. As shown in Exhibit 8, the trust has increased its regular dividends to shareholders (paid in February, May, August and November) as revenues have grown. Since 2015 DIVI's regular dividend has grown at a compound 9.0% pa, exceeding the annual growth rate of c 5-7% pa anticipated by the team during normal market conditions.

The trust has also built up a revenue reserve that is available to smooth future dividends to shareholders. During the pandemic, numerous UK quoted companies have reduced or cancelled dividends, and in the year to May 2020 DIVI's net revenue return per share declined 17% from 3.95p to 3.27p. Subsequently, in May 2020 the board declared a maintained third interim dividend to shareholders, and stated that it hoped that the trust's revenue shortfall will prove to be temporary. With the adverse trend coming to an end as holdings began to reinstate dividends, the board recommended an increased ordinary dividend for the year to May 2020 of 3.70p versus 3.65p the previous year, drawing on some the trust's revenue reserves from previous years. There was no special dividend in FY20. The board has stated it may continue to use revenue reserves, if necessary, to support future dividend growth.

Exhibit 8: Since 2015 DIVI's regular dividend has grown at a compound 9.0% pa



Source: The Diverse Income Trust, Edison Investment Research. Note: *In FY16 five dividends were paid – the fifth would ordinarily have been designated as the first interim of FY17, but was redesignated as a final dividend for FY16.

Peer group comparison

Exhibit 9 shows the 12 largest funds by market capitalisation in the AIC UK Equity Income sector (which consists of 24 funds). DIVI is one of the smallest trusts within this peer group, ranking 10th. Its NAV total return tops the ranking over one year, is fourth over three years, and second over five years. These returns bring the trust into the top quartile over one and five years' periods, on the border between the top and second quartiles over three year period, and have been generated without the use of gearing. DIVI has the highest ongoing charges among peers, which partly reflects its smaller size but also, in the managers' view, the labour-intensive nature of running a multi-cap fund with a considerable weighting in small- and micro-cap companies.

The dividend yields shown are based on historic payments, with DIVI's yield ranking ninth. 2020 and 2021 will be testing years for the sector peers to prove the sustainability of their dividend payments and growth, and DIVI is well placed to at least retain its position or move up the ranks, going forward. The trust's discount to cum-fair NAV ranks ninth.

Exhibit 9: Selected peer group at 31 October 2020*

% unless stated	Market cap £m	NAV TR 1 year	NAV TR 3 year	NAV TR 5 year	Discount (cum-fair)	Ongoing charge	Performance fee	Net gearing	Dividend yield (%)**
Diverse Income Trust	298.6	(1.7)	(3.3)	15.0	(6.8)	1.1	No	100	4.7
BMO Capital & Income	260.2	(23.8)	(17.9)	10.9	(1.8)	0.6	No	107	4.8
City of London	1,316.3	(22.2)	(18.3)	(0.7)	2.8	0.4	No	112	6.0
Dunedin Income Growth	371.9	(7.1)	1.6	28.5	(5.8)	0.6	No	109	5.1
Edinburgh Investment Trust	770.5	(23.0)	(27.9)	(14.5)	(12.8)	0.6	No	111	6.4
Finsbury Growth & Income	1,753.9	(10.1)	9.4	49.0	0.6	0.7	No	100	2.1
JPMorgan Claverhouse	320.5	(21.2)	(19.2)	4.3	(2.3)	0.7	No	116	5.3
Lowland	244.8	(27.5)	(33.3)	(14.0)	(7.7)	0.6	No	115	6.6
Merchants Trust	414.8	(26.7)	(23.0)	(2.4)	(0.1)	0.6	No	118	7.8
Murray Income Trust	478.6	(11.4)	(0.5)	27.7	(5.2)	0.6	No	107	4.8
Perpetual Income & Growth	459.8	(31.0)	(37.7)	(30.1)	(5.9)	0.7	No	111	7.0
Temple Bar	474.8	(40.9)	(37.4)	(17.8)	(10.5)	0.5	No	101	5.4
Simple average (12 funds)	597.1	(20.5)	(17.3)	4.7	(4.6)	0.6		109	5.5
Rank in peer group	10	1	4	2	9	1		11	9

Source: Morningstar, Edison Investment Research. Note: *Performance to 31 October 2020 based on ex-par NAV. TR = total return. Net gearing is total assets less cash and equivalents as a percentage of net assets. 100=ungeared. **Based on historic dividends.

The board

DIVI's board consist of five independent non-executive directors, chaired by Andrew Bell (appointed in January 2019), who was appointed chairman at the October 2020 AGM. Michael Wrobel, who

performed this role since the trust's inception in April 2011, retired at AGM. The board has been proactive in succession planning in view of the tenure of the original directors, and has appointed three new directors over the past two years. The other members of the board, and their dates of appointment, are Paul Craig (April 2011), Caroline Kemsley-Pein (January 2019), Michelle McGrade (October 2019) and Calum Thomson (December 2016), who assumed the role of the senior independent director at AGM.

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Frankfurt +49 (0)69 78 8076 960
Schumannstrasse 34b
60325 Frankfurt
Germany

London +44 (0)20 3077 5700
280 High Holborn
London, WC1V 7EE
United Kingdom

New York +1 646 653 7026
1185 Avenue of the Americas
3rd Floor, New York, NY 10036
United States of America

Sydney +61 (0)2 8249 8342
Level 4, Office 1205
95 Pitt Street, Sydney
NSW 2000, Australia