

The Diverse Income Trust

Roll over into open-ended fund or cash exit

Since its launch in April 2011, the Diverse Income Trust (DIVI) has outperformed the UK market and all but one of its 17 AIC UK Equity Income sector peers. Its dividend record has also been stronger than that of the UK equity market, with its dividend increasing each year. As investment trusts can trade at a discount to NAV, DIVI operates an annual redemption facility, which allows shareholders to exit at a price close to NAV. However, significant UK capital withdrawals in recent years have driven substantial redemptions, reducing the trust's size and gradually increasing its ongoing charges ratio. Following consultation with the trust's major institutional shareholders, on 25 February 2026 the board put forward proposals for a merger with the Premier Miton UK Multi Cap Income Fund, an FCA- authorised open-ended investment company with a similar strategy, which is also managed by Gervais Williams and Martin Turner. There will be a 100% cash exit for shareholders wishing to allocate capital elsewhere.

Exhibit 1: Consistent dividend growth; 4% CAGR* over the last five years



Source: DIVI, Edison Investment Research. Note: *CAGR, compound annual growth rate.

Why a UK multi-cap income strategy?

Prior to the trust's 2011 launch, asset markets were robust, with capital appreciation strategies frequently outperforming. The DIVI strategy was designed to be different, providing effective diversification. Much of its total return was expected to come from the compounding of cash dividend income, rather than capital growth. As political preferences have evolved, in recent years global investors have actively sought diversification through equity income strategies. The UK market is dominated by such stocks and has outperformed international equity indices, including the US, in 2025 and year to date. The managers believe that as economic conditions weaken, the growth of businesses generating surplus cash will accelerate. As overleveraged companies struggle, well-financed firms should be well placed to expand into markets vacated by weaker competitors. During recessions, expansion may be further enhanced by acquiring overleveraged, but otherwise viable companies, debt-free from the receiver and frequently at minimal cost. Previously, during periods of prolonged economic and political uncertainty, the UK equity market significantly outperformed the US, in some cases over multiple decades. During such periods, UK-listed small-cap stocks were typically the best performing segment of the UK market. DIVI's strategy is very well positioned to benefit from these conditions. Against a changing economic and political backdrop, the managers believe that the strategy has the potential to deliver even greater outperformance.

Not intended for persons in the EEA.

Investment companies
UK multi-cap equity income

3 March 2026

Price	119.00p
Market cap	£195m
Total assets	£208m
NAV	127.5p
¹ NAV at 27 February 2026.	
Discount to NAV	6.6%
Current yield	3.8%
Shares in issue	163.6m
Code/ISIN	DIVI/GB00B65TLW28
Primary exchange	LSE
AIC sector	UK Equity Income
Financial year end	31 May
52-week high/low	121.0p / 84.0p
NAV high/low	127.5p / 88.2p
Net gearing	0.0%

¹Net gearing at 28 February 2026.

Fund objective

The Diverse Income Trust's investment objective is to provide an attractive and growing level of dividends, coupled with capital growth over the long 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. The stock-specific approach means the trust's portfolio does not track a benchmark index.

Bull points

- DIVI's diversified portfolio meant its capital returns fared better during COVID-19 than other funds with narrower stock/sector remits.
- Uninterrupted dividend growth since launch.
- DIVI has built a meaningful revenue reserve and has a large distributable special reserve.

Bear points

- DIVI's strategy harnesses 'the small-cap effect', which can be a major headwind when large-cap stocks are in favour.
- As an equity income strategy, with a low beta portfolio, the trust is likely to underperform during 'risk-on' markets.
- Intensive research process contributes to its above-average ongoing charge versus peers.

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DIVI: Only pure multi-cap fund in the AIC UK Equity Income sector

The trust offers investors a portfolio that is diversified by sector and market cap. DIVI's managers aim to provide an attractive and growing level of dividends and capital growth. They employ a well-defined, repeatable investment process using a traffic light system to assess companies based on five key considerations: prospects for rising turnover, sustainable margin potential, whether the management team is good enough, if there is financial headroom in the balance sheet and whether the share price reflects low expectations.

DIVI has a strong long-term record of outperformance. Since launch in April 2011, until the end of H126, the trust's adjusted NAV total return was +295.5%, which compared with the comparator Deutsche Numis All-Share Index's +170.2% total return and the AIC UK Equity Income sector's +235.3% total return.

Highlights from H126 (ending 30 November 2025)

- Performance: NAV and share price total returns of +8.5% and +3.9% respectively versus the Deutsche Numis All-Share Index (comparator index) +12.5% total return. The largest positive contributors were: Pan African Resources, Secure Trust Bank and Galliford Try Holdings; while the largest detractors were: PayPoint, Kenmare Resources and B&M European Value Retail.
- Revenue and dividends: revenue earnings per share of 2.83p versus 2.63p (+7.6%). H126 dividends per share of 2.15p versus 2.05p (+4.9%).
- Ongoing charges ratio: 1.40% for the six months ending 30 November 2025, versus 1.13% for FY25 (ending 31 May 2025). The six-months fee is larger as it is spreading fixed costs over a lower amount of gross assets following the FY25 redemption.

The board has been considering DIVI's discount management; since 2012, the board has provided shareholders with an annual redemption option for up to 100% of their shares, either at the prevailing NAV at the redemption point, or the realised asset value of a redemption pool, if required. In recent years, there have been significant redemptions (30.8% of the share base in FY25 and 25.8% in FY24), which have resulted in a much smaller trust. Hence, the board was looking at alternative discount management options, which included an active share repurchase programme, combined with a regular continuation vote, or an opportunity to switch to an open-ended fund managed by the same investment team employing a similar strategy.

Current portfolio breakdown

At the end of January 2026, DIVI's top 10 holdings made up 25.0% of the portfolio, which was broadly in line with 25.1% 12 months earlier. Five names were common to both periods. There were three fewer holdings in the portfolio at the end of January 2026 (104) compared with the end of January 2025 (107).

Exhibit 2: DIVI's top 10 holdings at 31 January 2026

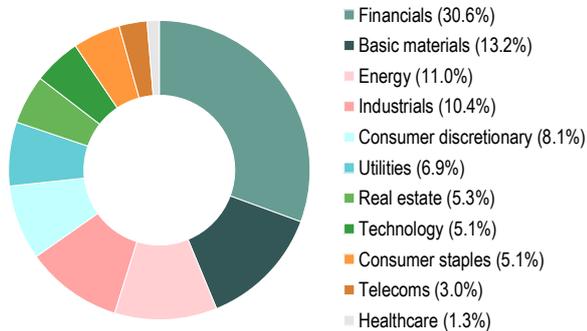
Company	Sector	Portfolio weight end Jan 2026 (%)	Portfolio weight end Jan 2025 (%)
Galliford Try Holdings	Industrials	3.1	3.2
Concurrent Technologies	Technology	2.9	2.5
CMC Markets	Financials	2.8	2.4
ACG Metals	Basic materials	2.6	N/A
Yu Group	Utilities	2.5	N/A
TP ICAP Group	Financials	2.4	3.2
Paypoint	Industrials	2.4	2.6
Rio Tinto	Basic materials	2.2	N/A
Plus500	Financials	2.1	N/A
BlueNord	Energy	2.0	N/A
Total:		25.0	25.1

Source: DIVI, Edison Investment Research. Note: N/A not in end January 2025 top 10.

The managers have increased the trust's diversification. While financial stocks remain DIVI's largest sector exposure (Exhibit 3), offering a wide range of businesses in which to invest, in H126, the portfolio weighting declined by 10.6pp to 30.6%. This was more than offset by higher allocations to utilities (+3.5pp), basic materials (+2.8pp), real estate (+2.6pp) and energy (+2.4pp).

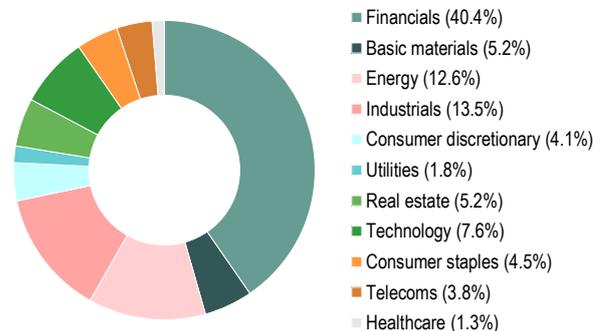
Financials is a high-yielding sector, so although these stocks made up 30.6% of the portfolio at the end of H126, they contributed 40.4% of the trust's income (Exhibit 4). This is only a 3.8pp decrease versus six months earlier, despite the 10.6pp lower sector exposure. Other notable changes in sector income in H126 were: increases in industrials (+8.5pp) and energy (+5.1pp) and decreases in consumer discretionary (-7.3pp) and materials (-6.1pp).

Exhibit 3: Breakdown by sector at end H126



Source: DIVI, Edison Investment Research

Exhibit 4: Breakdown by sector income at end H126



Source: DIVI, Edison Investment Research

Exhibit 5 shows DIVI's bias towards small-cap stocks. Compared with the Deutsche Numis All-Share Index, the trust has a near 65% underweight to the larger-cap mainstream stocks. This is offset with higher exposures to AIM stocks (c 20%), small-cap stocks (c 34%) and cash/non-UK businesses (c 9%).

Exhibit 5: Market cap breakdown at end H126

(% unless shown)	DIVI	Deutsche Numis All-Share Index	Difference (pp)
Mainstream stocks (large & mid-cap cos in the Deutsche Numis All-Share Index)	27.3	90.6	(63.3)
AIM market	21.6	1.9	19.7
Small-cap stocks	41.6	7.4	34.2
Cash & other (including non-UK stocks)	9.4	0.0	9.4

Source: DIVI, Edison Investment Research. Note: Numbers subject to rounding.

Portfolio activity

In H126, the managers took profits in some of the outperforming holdings and recycled the proceeds elsewhere in the portfolio. Gold stocks in particular have been strong due to a rising commodity price. The Pan African Resources and Thor Explorations positions were trimmed, while the Greatland Resources holding was sold. DIVI retains a meaningful allocation to materials, including a new position in ACG Metals, which is an operator of a new large Turkish copper mine that listed in London in March 2025 at a very attractive valuation, and its shares have subsequently rallied multiple times.

The trust's financials exposure was reduced with the sales of Aberdeen Group (investment management), Conduit Holdings (reinsurance), FRP Advisory Group (financial advisory services), Phoenix Group Holdings (life assurance) and XPS Pensions (benefit consultancy), along with H&T Group (pawnbroking) and Just Group (pensions and annuities) following takeover bids. Williams comments that although these companies were acquired at a premium, he does not want to see portfolio names taken over as it reduces the additional value that can accrue to the trust over time; 'I do not want the right price now, I want the right price in three years' time' he explains.

DIVI occasionally invests overseas. In H126, two European stocks were purchased: BlueNord (Norway-listed oil & gas company) and Engie (France-listed energy conglomerate) as they appear even more undervalued than their UK equivalent companies. Other additions to the fund were Land Securities Group (property development), Primary Healthcare Properties (healthcare REIT) and Pennon (a water utility).

Williams' perspectives on the investment backdrop

Williams and Martin are encouraged by the strong performance of UK stocks in 2025, and the momentum has continued into 2026. Shares of AIM and small-cap businesses are starting to outperform the broader UK market, which bodes well for DIVI's relative performance given that AIM and small-cap stocks make up a combined 60%+ of the portfolio.

As a reminder, dividends have generated around half of the trust's long-term total returns. The manager comments that dividend growth drives capital appreciation and the UK has many companies with growing dividends.

Currently, these businesses are in a favourable position in terms of generating excess cash and having the ability to invest for future profitable growth, which is the most important allocation of capital, as well as potentially returning a larger amount of capital to shareholders via dividends and share buybacks. However, if the economy weakens and margins come under pressure, share repurchase programmes are likely to be vulnerable, and there could be increased demand for income (dividend) strategies.

The US market and the ‘Mag 7’ large-cap technology stocks, in particular, have sucked huge amounts of capital away from other regional markets for several years. Williams believes that investors will become increasingly concerned about this concentration risk, particularly as the world order has moved from a globalisation to a nationalism focus. This likely means that indebted nations will find access to capital more difficult or more costly, putting the brakes on financial stimulus and forcing an increased focus on costs relative to revenue. In this situation, steady dividend-paying companies should be relatively well positioned; their ability to generate excess cash could lead to superior earnings growth.

This environment could support the manager’s thesis of a UK super cycle given a wealth of UK dividend paying stocks. Williams remains just as excited as he was before the c +25% UK market rally in 2025, which outperformed all US mainstream indices. Despite this upward move, the UK remains very attractively valued in relative and absolute terms, particularly at the smaller-cap end of the market. Historically, small-cap stocks have outperformed large caps due to their higher growth prospects. The manager believes that UK corporate earnings growth will surpass that in the US, which offers UK investors the benefit of revaluation gains in addition to capital appreciation from earnings growth. There is also the opportunity for well capitalised UK companies to acquire weaker industry peers; an M&A cycle could add further fuel to UK stock prices.

Williams does not know how far the UK market can run, and acknowledges that any upward move will not be in a straight line. He notes that two-to-three years ago, he was viewed as overconfident in his bullish outlook for UK stocks but now that UK stocks have started to move, he feels sure that ‘the best is yet to come’.

Performance: Second since launch in the 18-strong AIC sector

The trust is a member of the AIC UK Equity Income sector, which is a relatively large group of 18 funds. A direct comparison is not possible due to the trust’s unique multi-cap strategy, although Exhibit 6 does provide some useful insights.

Exhibit 6: AIC UK Equity Income sector. DIVI is the second best performing company since its launch

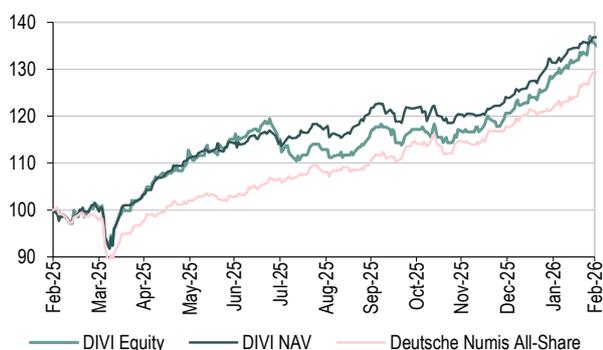
% unless stated	Market cap (£m)	1Y NAV TR	3Y NAV TR	5Y NAV TR	10Y NAV TR	SI NAV TR*	Disc/prem	Ongoing charge	Net gearing	Dividend yield
Diverse Income Trust	194.7	37.3	48.4	44.8	108.1	344.8	(6.1)	1.1	100	3.8
Aberdeen Equity Income Trust	218.4	37.5	46.7	71.4	74.1	183.3	(0.4)	0.8	109	5.4
BlackRock Income and Growth	43.5	18.2	35.7	66.8	107.2	192.4	(11.9)	1.2	104	3.3
Chelverton UK Dividend Trust	30.9	12.9	6.3	9.5	37.1	227.9	(7.3)	2.8	100	7.3
City of London	2,932.7	30.6	57.7	101.6	143.4	276.0	1.4	0.4	106	3.7
CT UK Capital and Income	346.8	14.6	33.4	52.6	117.1	194.8	(3.7)	0.7	105	3.5
CT UK High Income	112.0	27.0	56.6	67.7	119.0	193.2	1.3	1.0	110	4.4
Dunedin Income Growth	369.0	12.9	25.1	35.8	114.6	168.5	(8.5)	0.6	111	6.2
Edinburgh Investment	1,092.4	9.8	35.2	67.1	80.7	231.2	(9.2)	0.5	110	3.5
Finsbury Growth & Income	881.3	(13.5)	(4.7)	7.9	72.9	238.2	(6.3)	0.6	103	2.6
JPMorgan Claverhouse	493.3	28.7	50.6	71.6	140.9	233.5	(6.1)	0.6	106	4.0
Law Debenture Corporation	1,569.1	34.4	56.8	88.1	213.5	363.8	1.4	0.5	112	2.9
Lowland	394.9	41.4	55.8	82.6	126.8	263.5	(6.7)	0.7	114	3.7
Merchants Trust	947.8	26.4	31.4	79.2	147.8	229.2	(5.2)	0.5	109	4.5
Murray Income Trust	916.6	16.0	29.6	50.1	125.0	199.2	(8.2)	0.5	105	4.1
Schroder Income Growth	245.3	23.6	40.0	71.2	125.7	244.9	(6.6)	0.8	109	4.0
Shires Income	125.1	32.1	46.8	71.0	153.4	271.4	(1.5)	1.0	114	4.9
Temple Bar	1,168.1	31.4	66.1	107.1	154.6	261.1	0.5	0.6	104	3.8
Simple average	671.2	23.4	39.9	63.7	120.1	239.8	(4.6)	0.8	107	4.2
Rank (out of 18)	14	3	7	15	13	2	10	16	17	11

Source: Morningstar, Edison Investment Research. Note: Data at 2 March 2026. TR, total return. Performance is TR based on ex-par NAV. *Since DIVI’s inception on 28 April 2011.

DIVI is one of the smaller funds following its heavy redemptions in recent years. With hindsight, shareholders may have made a different decision given the performance of UK stocks, including small caps in recent quarters. DIVI retains its position of having the second-best NAV total return since its April 2011 launch date. The trust now has above-average returns over the last one and three years ranking third and seventh respectively, although its small-cap bias has been a drag on DIVI’s performance over the last five and 10 years.

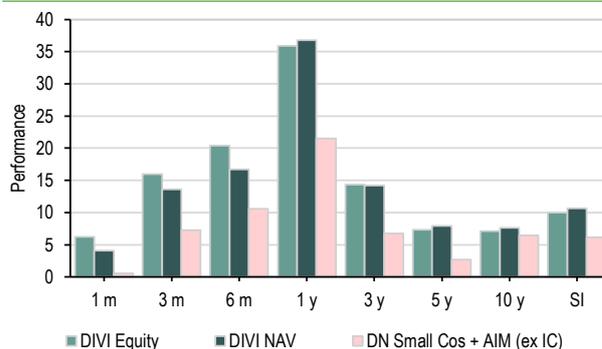
At 2 March 2026, DIVI's discount was wider than the peer group average. It has a higher-than-average ongoing charges ratio, partly due to the trust's research-heavy investment process, which involves the managers meeting many companies at their own locations. DIVI does not employ gearing and has a dividend yield that is modestly below the mean. Unlike some of its peers, as its name suggests, the trust's diverse portfolio ensures it is not overly reliant on a few high-yielding companies for its income.

Exhibit 7: One-year rebased share price and NAV performance to 28 February 2026



Source: LSEG Data & Analytics, Edison Investment Research

Exhibit 8: Price, NAV and index total return (%)



Source: LSEG Data & Analytics, Edison Investment Research. Note: Three-, five-, 10-year and since inception (SI) figures are annualised.

Exhibit 9 shows DIVI's relative performance versus two comparator indices. Its NAV and share price are ahead of the Deutsche Numis All-Share Index over the last year. Given the trust's small-cap bias, the Deutsche Numis Smaller Companies plus Aim ex Investment Companies Index appears to be a more relevant measure. DIVI has outperformed this index over all periods shown in Exhibit 9 in both NAV and share price terms. It has also outperformed since its launch in April 2011, which is shown in Exhibit 8.

Exhibit 9: Share price and NAV total return performance, relative to indices (%)

	1 month	3 months	6 months	1 year	3 years	5 years	10 years
Price relative to Deutsche Numis All Share	(0.2)	2.9	0.6	5.1	(2.8)	(22.1)	(20.9)
NAV relative to Deutsche Numis All Share	(2.2)	0.8	(2.5)	5.8	(3.3)	(20.1)	(16.8)
Price relative to DN Sm Cos plus AIM ex ICs	5.5	8.1	8.9	11.8	22.9	25.1	6.2
NAV relative to DN Sm Cos plus AIM ex ICs	3.4	5.9	5.6	12.6	22.3	28.3	11.7
Price relative to CBOE UK All Companies	(0.3)	3.7	1.8	7.0	(1.5)	(25.5)	(21.5)
NAV relative to CBOE UK All Companies	(2.3)	1.6	(1.3)	7.8	(2.0)	(23.6)	(17.5)

Source: LSEG Data and Analytics, Edison Investment Research. Note: Data to end February 2026.

Exhibit 10: Five-year discrete performance

12 months ending	Share price (%)	NAV (%)	Deutsche Numis All-Share (%)	DN Sm Cos plus AIM ex ICs (%)	CBOE UK All Cos (%)
28/02/22	8.3	7.1	12.7	1.5	16.7
28/02/23	(11.8)	(8.1)	5.7	(7.5)	8.2
29/02/24	(7.0)	(6.7)	0.4	(5.8)	0.7
28/02/25	18.2	16.5	18.4	6.2	18.6
28/02/26	35.9	36.8	29.3	21.5	26.9

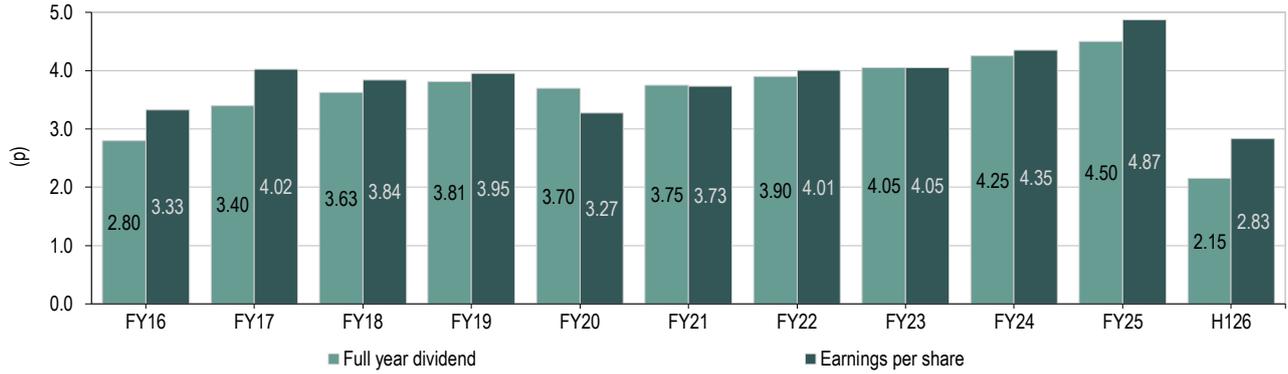
Source: LSEG Data & Analytics, Edison Investment Research. Note: All figures are total return in pounds sterling.

Dividends: Uninterrupted progressive distribution policy

DIVI's annual dividends have increased every year since the trust was launched in 2011. There were just two instances where the dividend was uncovered: during the global pandemic, the FY20 annual payment was 0.9x covered and there was a modest drawdown from revenue reserves in FY21.

For H126, revenue per share increased by 7.6% year-on-year to 2.83p, and dividends per share increased by 4.9% to 2.15p. At the end of the period, DIVI had c £136.7m in distributable reserves (c £19.0m in revenue reserves and c £117.7m in special distributable reserves), which is equivalent to more than 14x the last four quarterly dividend payments.

Exhibit 11: Dividend and earnings per share history since FY16



Source: DIVI, Edison Investment Research. Note: Includes special dividends of 0.40p, 0.23p and 0.16p per share in FY17, FY18 and FY19, respectively.

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