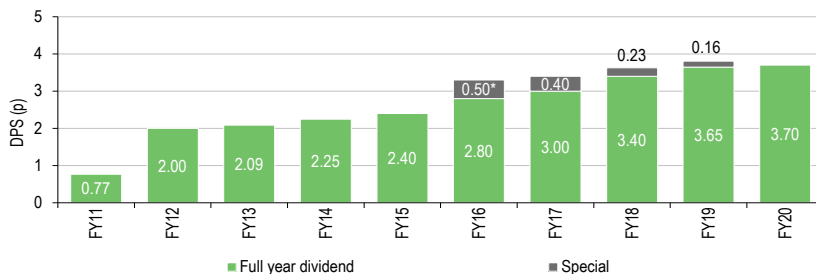


The Diverse Income Trust

10-year performance anniversary

The Diverse Income Trust (DIVI) topped the ranking of UK high dividend yield closed end funds at its 10-year performance anniversary on par with one peer by NAV total return (TR). This multi-cap trust is little correlated with UK equity indices but reflects the UK market's performance trend. The managers Williams and Turner believe income shares, or what they call 'short-duration' shares, will outperform growth equities during the continuing UK and global recovery from the pandemic.

DIVI's dividend record since launch



Source: Bloomberg, Edison Investment Research

Key takeaways from 10-year track record

Exhibit 1 shows DIVI's performance, dividend growth rate and other key metrics relative to 11 UK income peers.

- DIVI has performed strongly since launch 10 years ago (28 April 2011) and continues to outperform the indices and peers. The trust is ranked in the top quartile over all the periods shown, including one, three, five and 10 years.
- DIVI's dividend CAGR (cumulative annualised growth rate) tops the peers' rates at 18.5%, with the peer group average of 5.5%.
- The trust has continued to deliver an attractive dividend income throughout the pandemic (see the chart above). The managers only buy shares that generate a substantial cash pay back. New holdings with high dividend and growth potential constantly refresh the portfolio.
- Revenue reserves stood at £14.4m (4.0p per share, c 1x annual dividend payment) at the end of H121 (to end November 2020).
- The board intends to at least maintain the FY21 ordinary dividend at the FY20 level (3.70p per share, up 1.4% on FY19). While c 16% of revenue reserves were used in FY20, in order to smooth dividend payments to shareholders in the wake of the pandemic (revenue per share fell 17% over the 12 months to end May), the board did not need to make further use of reserves for H121 dividends, despite an 11% fall in the trust's revenue. Revenue earnings of 1.77p per share fully covered the two dividends in respect of the H121 period (1.75p per share). The board expects revenue to recover in coming years.

Trading at a small premium

DIVI currently trades at a 1.6% cum-fair premium, close to NAV, in line with the board's stated key performance indicators. The trust has issued shares in the past two weeks.

NOT INTENDED FOR PERSONS IN THE EEA

Investment trusts
UK multi-cap equity income

29 April 2021

Price 118.0p
Market cap £423.7m
AUM £410.1m

NAV* 114.5p
Premium to NAV 3.1%
NAV** 116.1p
Premium to NAV 1.6%

Excluding income. **Including income. As at 27 April 2021.

Yield 3.1%
Ordinary shares in issue 358.0m
Code DIVI
Primary exchange LSE
AIC sector UK Equity Income
52-week high/low* 118.0p 76.8p
NAV** high/low 116.3p 84.0p

*A-shares. **Including income.

Gearing

Gearing at 31 March 2021 0.0%

Fund objective

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, the team does not use a benchmark.

Bull points

- Multi-cap strategy helps to diversify away from dividend concentration risk.
- Consistent growth in regular dividends since the trust's launch in April 2011.
- Revenue reserves can be used to help maintain the pattern of dividend growth.

Bear points

- The UK market could remain out of favour and retain the valuation gap with developed markets.
- A multi-cap strategy is not a clear-cut asset class to fit into an investor's portfolio.
- A labour intensive, active multi-cap mandate results in a relatively high management fee.

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Peer group

Exhibit 1: Selected peer group at 28 April 2021 based on cum-fair NAV

% unless stated	Market cap £m	NAV TR 1 yr	NAV TR 3 yr	NAV TR 5 yr	NAV TR 10 yr	Discount	ONC*	Gearing	Div Cover	Div CAGR 2011-20	Div yield (%)**
Diverse Income Trust	423.7	40.7	25.9	53.4	232.9	1.6	1.1	100	1.2	18.5%	3.1
AS Eq Inc Trust	172.5	33.8	(7.4)	12.5	78.1	(6.5)	0.9	106	0.9	5.8%	5.8
BMO Cap & Income	344.9	34.8	11.7	50.4	110.0	(1.5)	0.6	107	0.9	3.2%	3.6
City of London	1,735.0	20.9	5.1	27.3	101.5	2.8	0.4	107	0.5	4.0%	4.8
Dunedin Inc Growth	459.3	25.0	28.2	61.1	107.0	(3.0)	0.6	105	1.4	2.4%	4.1
Edinburgh IT	1,089.9	32.7	(0.1)	14.8	115.1	(3.3)	0.6	101	2.0	2.7%	3.8
Finsbury Gr & Inc	2,028.9	17.0	25.0	68.4	233.0	0.5	0.6	117	1.2	6.8%	1.8
JPMorgan Claver.	421.2	38.5	9.3	45.0	107.2	(1.9)	0.7	113	1.0	2.9%	4.3
Lowland	356.6	44.1	(1.5)	26.6	112.1	(5.7)	0.6	113	1.3	6.1%	4.5
Merchants Trust	629.1	41.8	12.3	47.8	107.1	1.2	0.6	109	0.7	11.6%	5.3
Murray Income Trust	1,044.1	21.8	23.7	54.8	108.5	(2.6)	0.6	108	1.0	2.0%	3.9
Temple Bar	755.7	52.1	(1.2)	24.9	86.1	(5.1)	0.5	106	0.5	2.9%	3.4
Simple av. 12 funds	788.4	33.3	9.3	37.2	110.6	(2.0)	0.7	107	1.0	5.5%	4.0
Rank in peer group	8	4	2	4	2	2	1		5	1	12

Source: Morningstar, Edison Investment Research. Note: TR = total return. Gearing (net) is total assets less cash and equivalents as a percentage of net assets. 100=ungeared. *ONC=ongoing charge ratio. **Based on historic dividends.

Dividend policy

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. The board has a policy to build revenue reserves during the years of generous dividend payments from portfolio companies and uses them as necessary when dividend payments from portfolio companies subside, as happened during the COVID-19 pandemic.

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