EDISON

The Diverse Income Trust

Long-term dividend and capital growth

Investment trusts

The Diverse Income Trust (DIVI) seeks to provide shareholders with an attractive level of dividends and capital growth over the long term. It achieves this through investing primarily in UK-listed companies that are able to improve productivity, where strong cash flow can underpin sustained dividend growth. The managers Gervais Williams and Martin Turner believe a multi-cap approach has the advantage of investing over a wider opportunity set relative to those limited to large mainstream stocks, and around two-thirds of DIVI's holdings are outside the FTSE 350. The strategy also seeks to manage the scale of potential capital loss, in the event of a major market setback, through the use of a FTSE 100 put option. DIVI has a solid track record of performance; from inception in April 2011 to end February 2018, it has generated an annualised total return of 13.8%.

12 months ending	Share price (%)	NAV (%)	FTSE All-Share (%)	FTSE 350 High Yield (%)	FTSE Small Cap Index (%)
31/03/14	35.3	35.5	8.8	8.8	32.3
31/03/15	1.4	3.0	6.6	3.8	1.2
31/03/16	13.8	13.3	(3.9)	(7.2)	5.9
31/03/17	1.8	7.8	22.0	26.7	19.7
31/03/18	16.0	8.6	1.2	(1.2)	2.2

Source: Thomson Datastream. Note: All % on a total return basis in GBP.

Investment strategy: Fundamental, unconstrained

DIVI is focused on finding companies with durable long-term dividend growth. These firms typically have strong balance sheets, conservative managements and are attractively valued. Unconstrained by a benchmark, the managers are free to invest across the whole market-capitalisation spectrum, and currently tend to find many of the better investment opportunities among small-cap income stocks. The investment approach is bottom up and the managers meet around 70-80 companies each month. DIVI's portfolio is well diversified, consisting of around 150 holdings across 11 sectors. Were there a significant market correction, the trust has an undrawn gearing facility so it can fund extra investments prior to any future market recovery.

Market outlook: More volatile than recent years

Having performed strongly since early 2016, the FTSE 100 has retreated by around 10% from its January 2018 peak. Valuations may have moderated, and investors are now less complacent about risk than they were last year, but stock markets have become more volatile than previously. In this environment, an investment strategy covering a wider investment universe that is less correlated with mainstream indices may be become desirable.

Valuation: Shares trades close to NAV

DIVI is trading at a 0.7% premium to cum-income NAV, which is slightly below its five-year average of 1.0%. Since its inception, the trust has traded close to its NAV, reflecting good demand for its all-cap strategy, strong performance track record and the board's ability to manage supply and demand for DIVI's shares.

9 April 2018

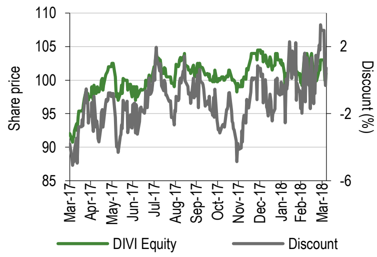
Price	**101.1p**
Market cap	**£387.5m**
AUM	**£379.4m**

NAV*	98.9p
Premium to NAV	2.2%
NAV**	100.3p
Premium to NAV	0.7%

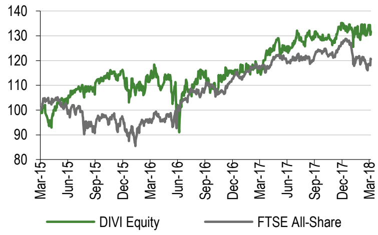
*Excluding income. **Including income. As at 6 April 2018.

Yield	3.4%
Ordinary shares in issue	383.5m
Code	DIVI
Primary exchange	LSE
AIC sector	UK Equity Income

Share price/discount performance



Three-year performance vs index



52-week high/low	104.5p	92.5p
NAV** high/low	104.4p	96.0p

**Including income.

Gearing

Gross*	0.0%
Net cash*	3.2%

*As at 28 February 2018.

Analysts

Helena Coles	+44 (0)20 3077 5700
Sarah Godfrey	+44 (0)20 3681 2519

investmenttrusts@edisongroup.com

Edison profile page

The Diverse Income Trust is a research client of Edison Investment Research Limited

Exhibit 1: Trust at a glance

Investment objective and fund background

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, with a bias to small- and mid-cap stocks. It may also invest in FTSE 100 companies where the manager believes this will increase shareholder value. As a stock-specific portfolio, there is no benchmark.

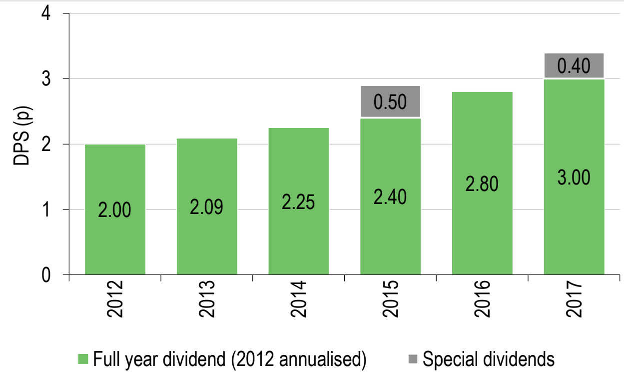
Recent developments

- 31 January 2018: Interim results for six months ended 30 November 2017. NAV TR was flat vs -2.0% for the FTSE All-Share index. Second quarterly dividend of 0.80p per share declared.
- 10 October 2017: AGM – proposal to increase allotment from 10% to 20% of issued share capital was rejected. Special dividend of 0.40p approved.
- 10 October 2017: First interim dividend of 0.75p declared.

Forthcoming		Capital structure		Fund details	
AGM	October 2018	Ongoing charges	1.15%	Group	Miton Group
Annual results	August 2018	Gearing	0%, net cash 3.2%	Manager	Gervais Williams, Martin Turner
Year end	31 May	Annual mgmt fee	1.0% of market cap (0.8% above £300m)	Address	6th floor, Paternoster House, 65 St Paul's Churchyard, London, EC4M 8AB
Dividend paid	Quarterly	Performance fee	None		
Launch date	28 April 2011	Trust life	Indefinite	Phone	+44 (0) 20 3714 1501
Continuation vote	No	Loan facilities	See page 7	Website	www.mitongroup.com

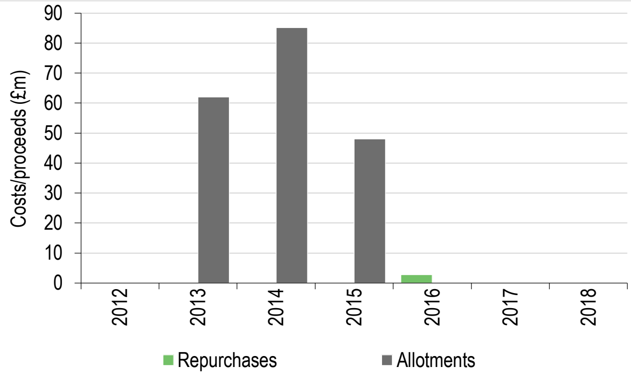
Dividend policy and history (financial years)

Quarterly dividends are paid in February, May, August and November. DIVI distributes substantially all of its income, net of costs, annually. 2015 special dividend represents a fifth and final dividend to align with PRIC guidelines.

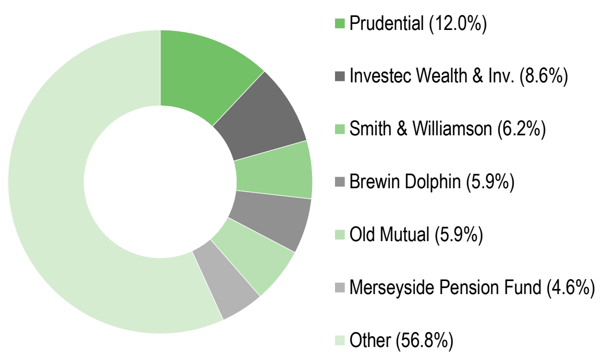


Share buyback policy and history (financial years)

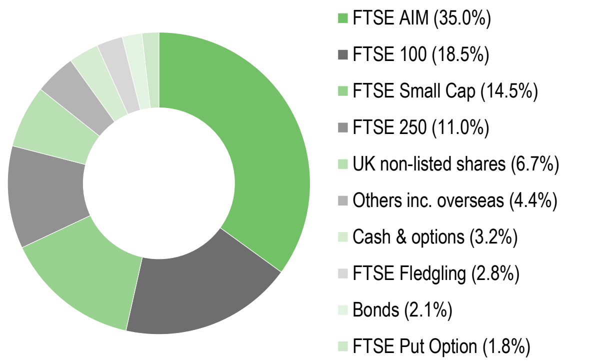
Renewed annually, DIVI has authority to purchase up to 14.99% and allot up to 10% of issued share capital. Subject to directors' discretion, DIVI offers investors an annual facility to redeem all or part of their shareholding at NAV less costs.



Shareholder base (as at 4 April 2018)



Portfolio exposure by market segment (as at 28 February 2018)



Top 10 holdings (as at 28 February 2018)

			Portfolio weight %	
Company	**Listing**	**Sector**	**28 February 2018**	**28 February 2017***
Charles Taylor	FTSE Small Cap	Insurance services	2.2	1.8
Stobart Group	FTSE 250	Industrial transportation	2.0	2.3
FTSE Put Option 20/09/19	FTSE 100	N/A	2.0	N/A
Zotefoams	FTSE Small Cap	Chemicals	1.9	N/A
SafeCharge	FTSE AIM	Support services	1.7	N/A
Amino Technologies	FTSE AIM	Technology hardware & equipment	1.5	1.7
A&J Mucklow Group	Non-index	Real estate investment trust	1.4	N/A
Royal Dutch Shell	FTSE 100	Oil & gas	1.3	N/A
IG Design Group	FTSE AIM	Household goods	1.3	1.7
CML Microsystems	FTSE 100	Technology	1.2	N/A
Top 10 (% of holdings)			**16.5**	**17.7**

Source: The Diverse Income Trust, Edison Investment Research, Morningstar. Note: *N/A where not in top 10 at 28 February 2017.

Market outlook: End of ultra-low volatility

UK equities have performed strongly since the start of 2016 reaching a peak in January 2018 on the back of accelerating global growth, and a prolonged period of unprecedentedly low interest rates. Prompted by extended valuations and the prospect of interest rates rising faster than expected, the FTSE 100 has retreated around 10% from this peak. This has helped moderate valuations, although global growth and earnings prospects remain supportive. However, volatility has increased from 2017's exceptionally low levels when the VIX volatility index averaged 11 – almost half the 20-year average of 20. The rise in market volatility suggests investors have become more sensitive to risk, and the recent trend of more volatile markets may persist.

Fund profile: Focus on small-cap and dividend growth

DIVI was launched in April 2011, with the primary objective to provide shareholders with a good and growing dividend income. This is achieved through a strategy that focuses on companies selected for productivity improvement, where strong cash flow can underpin growing future dividends, and are conservatively managed with robust balance sheets. The fund is not constrained by a benchmark and can invest across the market capitalisation spectrum, primarily in the UK, to allow the managers a wider opportunity set from which to select stocks. The managers, Williams and Turner at Miton Asset Management (where Williams is also senior executive director), are smaller companies specialists, who believe better investment opportunities lie outside of the larger, mainstream stocks, which are well researched and well owned. Therefore, DIVI has a strong small-cap bias and around two-thirds of the portfolio's holdings are outside the FTSE 350 index. Risk is mitigated by investing in a diversified portfolio, typically between 80 to 160 securities, predominantly in smaller position sizes of no more than 1.5% of the fund at the time of purchase.

Williams and Turner also manage an equivalent open-ended fund (OEIC), Miton Multi Cap Income, which has assets of over £1bn, reflecting strong demand for their all-cap strategy. DIVI's closed-ended investment trust structure is well suited to a small-cap biased fund, as holdings can be illiquid. Gearing of up to 15% of NAV is permitted and DIVI has a borrowing facility in place, which is currently unused but enables the managers to be agile and invest when stock markets suffer significant setbacks.

Fund managers: Gervais Williams and Martin Turner

The managers' view: Upbeat outlook

Williams believes globalisation since 1990 has been a significant driver of world economic growth, supporting a very positive period for corporate profitability. At the same time, low-cost imports have suppressed inflationary pressures and falling bond yields have lifted returns on asset classes in general. This environment has led to many funds aligning their investments with mainstream indices and, as a result, many savers are now overweight a narrow range of stocks, carrying elevated stock-specific risk. The manager is not surprised by the recent increase in volatility, and while the market has become more risk aware, Williams has not as yet observed significant changes in investor behaviour. The DIVI investment strategy has been designed to deliver returns from factors that differ from mainstream drivers, and the managers are "remarkably upbeat" that it can do well in the current environment, and note:

- Investors are increasingly looking for strategies that have a greater scope to generate alpha (excess returns). DIVI looks to generate alpha through investing in a wide range of all-cap stocks, with over two-thirds of the portfolio is outside the FTSE 350. As a result, performance often differs materially from mainstream indices.

- The appetite for smaller companies is improving as active managers are forced to invest outside of mainstream stocks, as they are under pressure to differentiate themselves from index funds and to justify management fees. DIVI's investment process results in a portfolio that is meaningfully different from mainstream indices. As at end February 2018, the active share of the fund versus the FTSE All-Share index was 86% (active share is a measure of how a portfolio differs from an index, with 0% representing full index replication and 100% representing no commonality).
- Small caps are better placed to perform in slower growth environments or during stock market setbacks. Williams notes smaller companies have consistently outperformed mainstream indices, including during periods of economic stress in the 1960s and 1970s (which was a period of high inflation, sterling devaluation and stagflation). In more uncertain environments, attractive opportunities tend to be smaller in scale and therefore of less interest to large companies. Furthermore, smaller companies themselves are more likely to be taken over.

Asset allocation

Investment process: Bottom-up and disciplined

DIVI seeks to generate an attractive level of dividends, coupled with capital growth over the long term. It is benchmark agnostic and looks across the market capitalisation spectrum for opportunities. The approach is bottom up and draws on the considerable experience of the two portfolio managers, Williams and Turner, and the broader Miton investment team. Meeting companies and their management teams is a key part of the investment process and the managers conduct 70–80 meetings a month, which are followed up with rigorous fundamental analysis. The managers believe companies that can deliver productivity improvements have the best chances to grow cash flow and dividends in the future. Five factors help identify such companies:

- Turnover growth. Although companies can grow profits without increasing turnover, in general, durable dividend growth comes from those that can progressively expand their turnover.
- Sustained margins. A company should be able to improve or defend its profit margins, through productivity gains and outstanding customer service.
- Management of risk. Companies that grow too quickly take the greatest risks. DIVI looks for those that can manage the pace of growth to limit risks, yet deliver returns over the long term.
- Better balance sheets. The managers seek companies with net cash or modest levels of debt relative to their capacity to borrow. These firms are better positioned to sustain dividend payments, even when underlying profitability dips temporarily. Furthermore, an under-geared balance sheet allows a company to take advantage of broader economic setbacks to disproportionately improve its market position.
- Low entry valuations. With few institutional investors actively researching smaller income stocks, there are still a good number of quoted companies that appear overlooked or misunderstood, and hence stand at attractive valuations.

Current portfolio positioning

As shown in Exhibit 2, over the year to end February 2018, the biggest changes to the portfolio are reduced exposure to the consumer discretionary sector (-4.9pp) and increased exposures to the energy (+4.5pp) and materials sectors (+3.7pp).

The manager has held a negative view on the outlook for UK consumption for some time, given high levels of consumer debt, and the prospect of rising interest rates. A number of positions were sold, including troubled company Conviviality, which the investment process also flagged as having uncomfortable levels of debt. The majority of DIVI's position was sold prior to the share price peak, with the final scrap sold after the profit warning. The consumer discretionary sector can still present attractive investments and top 10 holding, wrapping paper design and manufacturer IG Design, has been a strong performer. It operates in an industry with just three leading global players, which implies their margins may be less vulnerable than others where the competitors are more numerous.

Exhibit 2: Portfolio sector exposure vs FTSE All-Share (% unless stated)*

	Portfolio end-February 2018	Portfolio end-February 2017	Change (pp)	Index weight	Active weight vs index (pp)	Trust weight/ index weight (x)
Financials	20.9	23.5	(2.6)	20.6	0.4	1.0
Materials	13.4	9.7	3.7	9.7	3.6	1.4
Industrials	12.0	14.2	(2.2)	9.7	2.3	1.2
Consumer discretionary	10.8	15.7	(4.9)	10.6	0.2	1.0
Energy	10.1	5.5	4.5	12.7	(2.6)	0.8
Information technology	8.2	9.2	(1.0)	2.4	5.8	3.4
Consumer staples	7.7	9.3	(1.6)	13.7	(6.0)	0.6
Real estate	5.2	5.2	0.0	2.4	2.8	2.1
Telecommunications	3.7	3.2	0.5	3.3	0.4	1.1
Utilities	1.7	0.9	0.9	2.6	(0.9)	0.7
Healthcare	1.0	1.6	(0.6)	7.9	(7.0)	0.1
Cash, fixed interest & other	5.6	2.1	3.5	4.4	1.2	1.3
	100.0	**100.0**		**100.0**		

Source: DIVI, Edison Investment Research, FTSE Russell. Note: *All figures subject to rounding.

The synchronous pick-up in global growth last year led the manager to expect rises in oil prices and other commodities. The increase in materials exposure includes purchases of gold-related companies (Polyus, Highland Gold and Centamin), which were attractively valued and paying good dividends. They also serve as proxies to the gold price, which has a low correlation to the broader equity markets. The higher materials exposure also reflects strong performance from the largest holding in the sector, Zotefoams, a world leader in cellular materials technology used in a broad range of industries from aerospace to athletic footwear.

In the energy sector, additions include BP, Shell and Savannah Petroleum. The manager says the oil price bottomed in early 2016, while global growth has helped bring supply and demand into balance. Supply pressures, however, could develop as major oil companies made severe cutbacks to their investment plans after the oil price collapsed in 2014. Meanwhile, Venezuelan production looks at risk, and geopolitical risks, such as tense US–Iran relations, continue.

DIVI has also recently invested in Iceland, which accounts for around 3% of the portfolio. In the aftermath of its financial crisis of 2008, the Icelandic government put its failed banks into receivership and liquidation, and policies were put in place to encourage a reduction in corporate and consumer debt. As a result, the economy has recovered relatively quickly and is now in robust financial health, well placed to support a new growth cycle. Capital controls were lifted in March 2017, allowing foreigners to invest in Iceland. William believes there are attractive, relatively undiscovered companies, with strong balance sheets and high yields in this market. He also notes its benefit of low correlation to major stock markets; during the sharp global sell off in early February, Icelandic stocks showed relative resilience.

The FTSE 100 put option

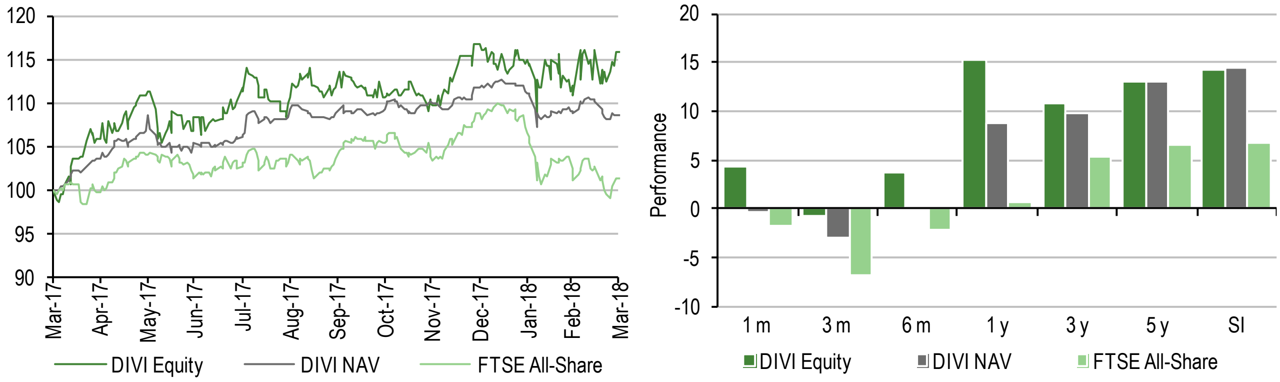
The manager is attentive to downside risk and use a put option to help protect the portfolio from a sharp fall in mainstream market values. This asset brings the right to sell the FTSE 100 Index at 6,500, and in the event of a major market setback below this level, the cash proceeds could be used for additional purchases at a time when share prices are depressed. In December 2017, the manager took advantage of very low market volatility to extend the option term from March 2019 to September 2019, at an attractive cost covering c 40% of the trust, which compares with c 33% this time last year. The cost of this option remains less than 0.1% of NAV per month on average, were the option to expire worthless at the end of its term.

Performance: Solid long-term track record

As shown in Exhibit 4, DIVI's share price and NAV total returns have outperformed the FTSE All-Share, FTSE 350 High Yield and the FTSE Small-Cap indices over all periods shown. Over the longer term, the outperformance is most pronounced against the mainstream FTSE All-Share and FTSE 350 High Yield indices, although over five years and since inception, DIVI's performance has also convincing outpaced the FTSE Small-Cap index.

Exhibit 3: Investment trust performance to 30-March 2018

Price, NAV and FTSE All-Share total return performance, one-year rebased | **Price, NAV and FTSE All-Share total return performance (%)**



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

Exhibit 4: Share price and NAV total return performance, relative to indices (%)

	One month	Three months	Six months	One year	Three years	Five years	SI
Price versus FTSE All-Share	6.1	6.2	6.0	14.6	19.1	46.7	94.1
NAV versus FTSE All-Share	1.4	3.9	2.1	8.1	15.4	47.6	95.7
Price versus FTSE 350 High Yield	6.1	7.3	6.6	17.2	21.9	52.9	95.3
NAV versus FTSE 350 High Yield	1.4	5.0	2.6	10.7	18.3	53.9	96.9
Price versus FTSE SmallCap	6.1	5.8	7.8	12.5	6.7	10.9	36.8
NAV versus FTSE SmallCap	1.4	3.5	3.8	6.0	3.0	11.8	38.5

Source: Thomson Datastream, Edison Investment Research. Note: Data to end March 2018. Geometric calculation.

Exhibit 5: NAV total return performance relative to FTSE All-Share Index over three years

Source: Thomson Datastream, Edison Investment Research

Discount/premium: Trades close to cum-income NAV

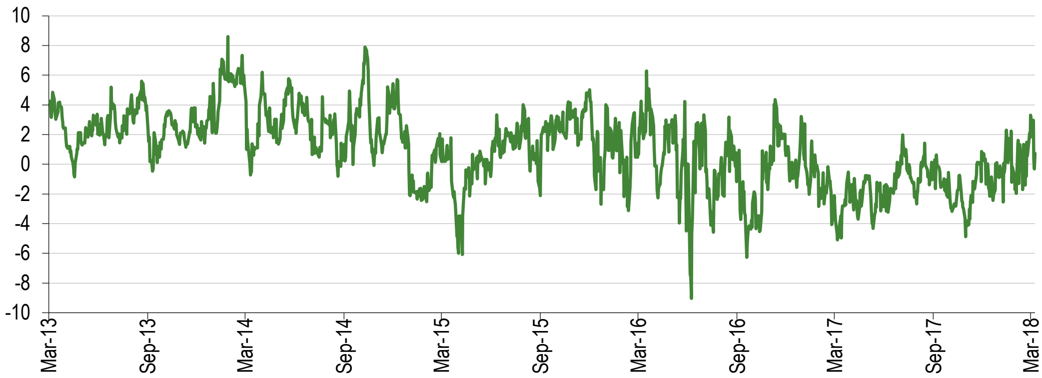
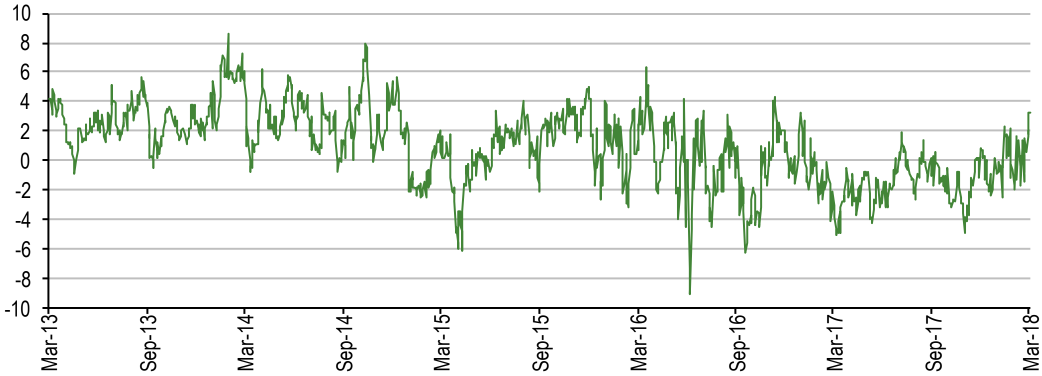


Exhibit 6: Share price premium/discount to NAV (including income) over five years (%)



Source: Thomson Datastream, Edison Investment Research

Capital structure and fees

DIVI is a conventional investment trust with 383.5m ordinary shares in issue. Miton Trust Managers is paid an annual management fee of 1.0% up to £300m market capitalisation, reducing to 0.8% above this level. Fees are charged to both income and capital, allocated at 25% and 75% respectively. For the financial year ended May 2017, ongoing charges were 1.15%. Gearing is permitted up to 15% of NAV and the trust has a £25m debt facility with The Royal Bank of Scotland, with scope in certain circumstances to raise this to £50m. As at end February 2018, DIVI was ungeared and had a net cash position of 3.2%.

Dividend policy and record

Dividends are paid quarterly in February, May, August and November. Since inception in April 2011, DIVI has increased ordinary dividends each financial year. In FY17 DIVI paid ordinary dividends of 3.00p per share, an increase of 7.1% over FY16, along with a special dividend of 0.40p per share, reflecting the abnormal number of special dividends received from the portfolio in the period. As at 30 November 2017, the trust held revenue reserves of £15.2m, which comfortably exceeds the £12.7m cash cost of the four ordinary dividends. The revenue reserves are available to help smooth distributions to shareholders in future years.

Year to date in FY18, DIVI has declared first and second interim dividends of 0.75p and 0.80p respectively, representing an increase compared with the first and second interim dividends in FY17, both 0.70p.

Peer group comparison

Exhibit 7 shows the 12 largest trusts in the AIC UK Equity Income sectors (which comprises a total of 23 funds). DIVI's NAV total return ranks second over one and five years, and third over three years. It is notable these returns have been achieved without the use of gearing in rising markets, which is deployed by most of the peer group. Reflecting the more specialist nature of the strategy, it has the highest ongoing charge, although no performance fee is payable. Ranking second, DIVI is one of four trusts that are trading at a premium to ex-par NAV. Its dividend yield is lower than the average although this is consistent with the trust's objective to provide good and growing dividends, rather than simply high yield.

Exhibit 7: Selected peer group as at 6 April 2018*

% unless stated	Market cap £m	NAV TR 1 year	NAV TR 3 year	NAV TR 5 year	Discount (ex-par)	Ongoing charge	Performance fee	Net gearing	Dividend yield (%)
Diverse Income Trust	387.5	9.3	32.7	87.8	1.6	1.2	No	100	3.4
City of London	1,432.1	1.3	15.1	47.1	1.6	0.4	No	109	4.3
Dunedin Income Growth	365.5	(0.7)	10.6	30.4	(9.9)	0.7	No	116	5.0
Edinburgh Investment	1,283.6	(4.7)	12.3	53.1	(7.6)	0.6	No	108	4.1
F&C Capital & Income	318.8	6.9	33.1	56.2	2.2	0.6	No	105	3.5
Finsbury Growth & Income	1,246.1	11.4	36.0	88.9	0.9	0.7	No	102	1.9
JPMorgan Claverhouse	388.5	3.3	22.0	60.6	(1.3)	0.8	No	117	3.9
Lowland	394.5	4.0	22.5	59.0	(5.8)	0.6	Yes	113	3.5
Merchants Trust	518.6	3.9	13.6	40.5	(6.2)	0.6	No	121	5.2
Murray Income Trust	491.2	(1.2)	14.6	35.5	(7.4)	0.7	No	106	4.5
Perpetual Income & Growth	831.9	(4.5)	3.8	43.7	(10.0)	0.7	No	112	4.1
Temple Bar	813.2	1.4	15.4	39.5	(5.1)	0.5	No	97	3.5
Weighted average		**2.0**	**18.5**	**54.7**	**(3.6)**	**0.6**		**108**	**3.8**
Rank in sector	**10**	**2**	**3**	**2**	**2**	**1**		**12**	**11**

Source: Morningstar, Edison Investment Research. Note: *Performance data to 5 April 2018. TR=total return. Net gearing is total assets less cash and equivalents as a percentage of net assets.

The board

DIVI has five independent directors, four of whom have served on the board since the trust's inception in April 2011: chairman Michael Wrobel, senior independent director Jane Tufnell, Paul Craig and Lucinda Riches. Calum Thomson was appointed in December 2016 and is chairman of the audit committee. The directors have broad-ranging backgrounds in audit, fund management and investment banking.

Edison is an investment research and advisory company, with offices in North America, Europe, the Middle East and AsiaPac. The heart of Edison is our world-renowned equity research platform and deep multi-sector expertise. At Edison Investment Research, our research is widely read by international investors, advisers and stakeholders. Edison Advisors leverages our core research platform to provide differentiated services including investor relations and strategic consulting. Edison is authorised and regulated by the Financial Conduct Authority (Financial Conduct Authority). Edison Investment Research (NZ) Limited (Edison NZ) is the New Zealand subsidiary of Edison. Edison NZ is registered on the New Zealand Financial Service Providers Register (FSP number 247505) and is registered to provide wholesale and/or generic financial adviser services only. Edison Investment Research Inc (Edison US) is the US subsidiary of Edison and is regulated by the Securities and Exchange Commission. Edison Investment Research Limited (Edison Aus) [46085869] is the Australian subsidiary of Edison. Edison Germany is a branch entity of Edison Investment Research Limited [4794244]. www.edisongroup.com

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
295 Madison Avenue, 18th Floor
10017, New York
US

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