INVESTMENT WEEK
INVESTMENT COMPANY
OF THE YEAR AWARDS 2017
WINNER
UK INCOME

Miton
Genuinely active investing

The Diverse Income Trust plc

Annual Report and Accounts
For the year ended 31 May 2018

...taking advantage of the potential outperformance of **UK income stocks** across the **full range of market capitalisations**

During globalisation, growth and debt were plentiful, but ...

- Normally, credit booms do not last for decades - the extra inflationary pressure they engender usually drives up interest rates, which prevents ongoing expansion of leverage.
- But this one has been different. During globalisation, low-cost imports have offset the inflationary price rises of local services. Plentiful growth and easy availability of debt have therefore come to be regarded as normal.
- However, productivity and wage growth has stagnated since 2008, and the political consensus has come to an end as electoral attitudes have hardened. Markets have now arrived at a multi-decade turning point.
- During globalisation, popular funds narrowed their investment universe to outperform the mainstream indices. However, monocultures tend to be vulnerable at times of stress, and hence it is now advantageous to have a wider-ranging investment universe.
- The investment strategy of The Diverse Income Trust plc (the "Company") was set up in anticipation of these challenges. This Annual Report outlines the reasons why we believe the Company can deliver premium dividend growth and attractive long-term capital returns going forward.

... with economic policies now in flux, we've arrived at a multi-decade turning point

The Diverse Income Trust plc

The Diverse Income Trust plc is an investment trust quoted on the London Stock Exchange ("LSE") under the ticker code DIVI. The Company was first listed on 28 April 2011, and has grown through the issue of shares and the appreciation of the portfolio to £403m of assets as at 31 May 2018. It is referred to as the Company or as Diverse in the text of this Report. The Company has a Board that is independent of the Manager.

This Report covers the seventh year of the Company concluding on 31 May 2018, a period when the US initiated Quantitative Tightening (the opposite of Quantitative Easing) and equity markets became somewhat more volatile. The net asset value ("NAV") of the ordinary shares rose by 1.6% over the year. This appreciation, along with the five dividends paid during the year (including the special), boosted the total return to 5.2%. In the seven years since issue, the Diverse strategy has been successful and the Company has delivered better returns than many others in the peer group.

Total return to shareholders	NAV rise per share	Ordinary dividend increase
5.2%*	1.6%	13.3%**

* Source: Morningstar including dividends paid and notionally reinvested during the year.

** Excluding the proposed special dividend.

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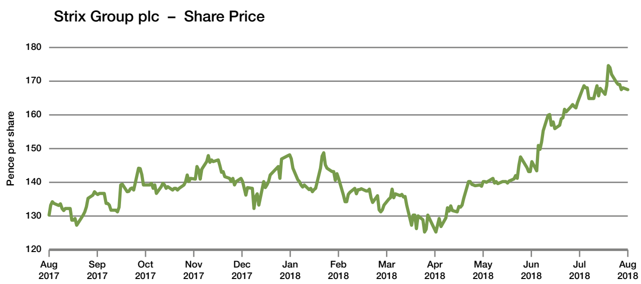
Our objective

The Company's primary objective is to pay shareholders a good and growing dividend income – principally derived from those paid by a portfolio of UK listed companies. Our strategy is focused upon maximising the potential for dividend growth, as funds that generate the greatest long-term income growth are often those that also deliver the best capital returns.

Strix Group plc is an example of the type of company held in the Company's portfolio. It designs, manufactures and supplies kettle safety control switches. Following the company's flotation in August 2017, it plans to use its strengthened balance sheet to invest so it can widen its product range and market presence. Over time, this will drive additional sales growth, and as the cashflow payback on the investment comes through, we anticipate Strix will deliver an attractive level of dividend growth.



Go to www.mitongroup.com/dit for more information

Use your phone's QR app to go to our website

The *Diverse* strategy in summary

Equity markets have generated excellent returns over the last three decades. During these years, fund investors have grown to expect more than just a good absolute gain. Funds have typically needed to deliver premium returns – returns that outperformed the stock market indices. The irony of fund managers being increasingly under pressure to add value to an index is that issues like tracking error encourage them to replicate much of the index and the sectors in which it invests. As a result, nearly all UK funds have narrowed their investment universe during globalisation, normally to the largest 350 quoted companies that mirrors that of the most common benchmark index, the FTSE 350 Index.

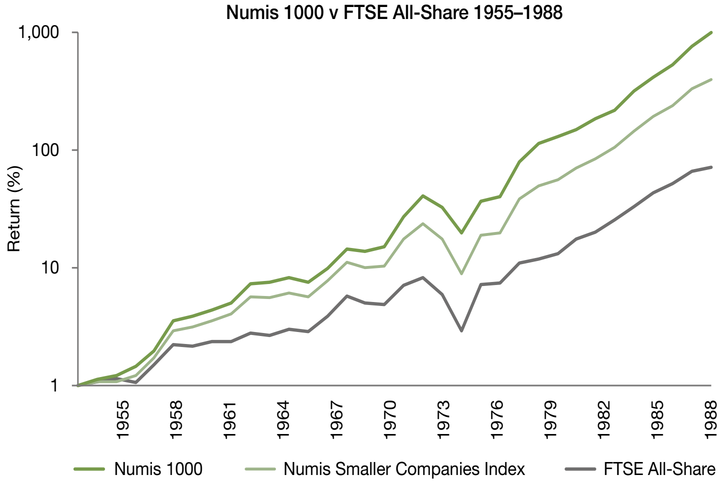
The problem with a narrower investment universe is that it comes with extra risk. During globalisation, when stock market returns have been so strong, these risks have been easy to overlook. However, when Diverse was set up, it was anticipated that globalisation would start to come to an end. As this affected market trends, we believed market risks would become more apparent. The Company's previous annual reports have set out how Diverse's investment strategy differs from others and how this helps to manage market risk. The Company's strategy is summarised below.

Investing across a multicap universe – In the decades prior to globalisation (1955 – 1988), the UK economy tended to fluctuate between modest growth and occasional recessions, so stock market returns struggled to exceed the underlying rate of inflation. Some UK-based multinationals did generate better returns as the value of their overseas profits appreciated with the long-term decline of the UK exchange rate. However, these returns needed to be supplemented by investing in smaller quoted companies as well. As shown on the graph below, the smallest 10% of quoted companies (denoted as the Numis Smaller Companies Index) progressively outperformed the mainstream index, because at a time of challenging trading conditions their agility and vibrancy was particularly relevant. Furthermore, the smallest quoted companies representing the smallest 2% of UK-listed stocks (denoted as the Numis 1000 below) outperformed by a more significant margin, given their even greater agility and vibrancy.

This pattern has not been relevant during globalisation, because mainstream stocks have often delivered returns well above inflation. Multinationals have been able to fully participate in the extra growth of the emerging economies, and corporate agility has not been especially important during the long period of relatively consistent growth in the developed markets. Even stock market setbacks have been somewhat transitory.

When Diverse was set up in 2011, it was recognised that a multicap approach was well-set to deliver premium returns once again, as it did prior to the decades of globalisation. Selecting the best stocks from a wider opportunity set has the further advantage of moderating portfolio risk. Importantly, a multicap approach tends to have broader sector representation than those solely aligned with the top 350 stocks. Furthermore, portfolios investing across more numerous individual holdings tend to have much lower levels of stock specific risk.

Performance of Numis Smaller Companies Index v Numis 1000 v FTSE All-Share 1955–1988



Source: Numis Smaller Companies Index Q3 Review 2012

A number of trends come together in the Company's strategy …

Selecting for income stocks – Stocks paying high dividend yields are known as income stocks. They often come with low growth expectations embedded in their valuations and, provided they maintain their dividend, their share prices tend to be less vulnerable to market setbacks. However, in total return terms, income stocks have also outperformed rising markets over the long term. The key point is that companies with higher growth expectations have to keep reporting premium growth, since when they disappoint their share prices tend to fall back sharply. This risk becomes most prominent at times when growth stocks stand on elevated valuations - as some do currently. Overall, the accumulation of dividends on income shares has delivered more return in the past than the extra capital appreciation that comes from growth stocks, hence their outperformance.

And a greater margin of safety – When companies run out of cash, it is either a case of investing good money after bad, or else having the recovery potential of the investment heavily diluted going forward as additional shares are issued. In the most adverse cases, those unable to raise additional capital usually end up in administration and receivership. Overall, at this time when economic conditions may be changing, we believe there are real advantages to favouring stocks with unusually strong balance sheets. These quoted companies can take advantage of any market setback that might occur, because others with plentiful borrowing will be more constrained. Generally, companies with strong balance sheets tend to have greater resilience and better recovery potential at times of economic stress.

Generally, productivity improvement is the cornerstone of long-term dividend growth – Equity market returns are derived from investing our collective savings into companies that use the capital to generate productivity improvement. Ultimately, productivity improvement delivers incremental increases in corporate cashflow, and hence a return on the initial capital invested. Diverse's investment strategy has a particular focus on investing in quoted companies that are well placed to increase productivity and therefore fund better dividend growth than others.

… and these remain well placed for the future

Since 2011, global stock markets have continued to appreciate, in spite of the stagnation of productivity. However, over these years, the absence of wage growth has fuelled a deep-seated change in the political agenda. With electoral attitudes hardening against globalisation, equity markets may be entering a period of significant change. In this context, it is noteworthy that smaller and microcap stocks have started to deliver better returns over the last seven years. This pattern has even persisted over the recent years, in spite of the ongoing uncertainty over Brexit and a slowdown in UK economic growth. It was anticipated that a multicap approach would put Diverse in a stronger position to deliver superior returns. Events over the last seven years suggest that this logic is, if anything, even more pertinent now than it was when the Company was first set up.

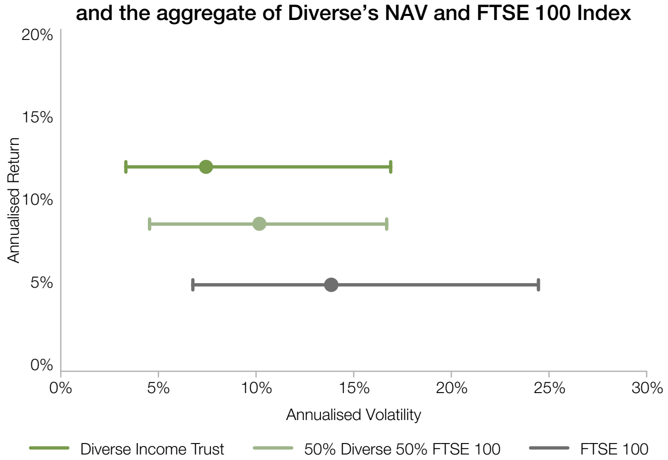
Reviewing Diverse's returns *in the context...*

In 2011, Diverse was set up in expectation that many of the past market trends would become re-established, as outlined on the previous two pages. In terms of investor outcome, we believed they would deliver three specific outcomes:

- It was anticipated that a multicap income strategy would outperform other strategies and the mainstream indices. Specifically, it was believed that investing right across the spectrum of different market capitalisations would include companies with the best dividend growth – and, in general, that income funds that generate the best income growth over time will also deliver premium returns.
- A multicap portfolio tends to operate in a much wider range of industry sectors than that of the mainstream indices alone. Therefore, the returns on a multicap portfolio tend to be less correlated to the performance of the mainstream indices and this offers diversification benefits for those who hold investments in both.
- In the past, portfolios with an income bias have tended to outperform those with more of a growth bias, most notably because the risks of growth investing are easy to under-estimate at times when investors are enthusiastic.

The Company has now reached its seventh anniversary. In the context of the changing political and economic trends, it is a good time to review to what degree the Company has delivered on these objectives to date. As part of the assessment process, we have set out the Company's overall annualised returns below, along with the range of its annualised volatility and an aggregation of the volatility of the Company's returns when combined with that of a FTSE 100 Index fund.

Chart of the annualised return and volatility of the NAV of The Diverse Income Trust, the FTSE 100 Index and the aggregate of Diverse's NAV and FTSE 100 Index



The annualised return figure stated in the above chart does not include dividends reinvested.

... of the Company's first seven years

1. There is good evidence that a multicap approach has generated superior dividend growth and capital appreciation over the seven years since issue. During this period, the NAV of the Company, which was 48.75p at issue on 28 April 2011, has risen to 105.09p as at 31 May 2018. As shown on the chart on page 4, the NAV return of the Company was 12.0% in annualised terms over that period. This return has indeed been superior to most other UK equity income funds.
2. The shares of the largest companies tend to trade frequently each day and every nuance of the daily newsflow therefore affects their share prices. In contrast, the share prices of smaller stocks trade less frequently and in aggregate can be less volatile. This difference can be expressed in annualised volatility, which is a measure of the range of share price undulations over a rolling year. Although equity markets have had something of a switchback in terms of newsflow over the last seven years, the range of annualised volatility of the Company's NAV has generally been well below that of the FTSE 100 Index.
3. Importantly, the chart on page 4 also shows that, had equal capital sums been invested in the Company and the FTSE 100 Index, then the aggregate volatility of both has been much lower than the mainstream index alone. This is the direct benefit of diversification that comes when two less-correlated assets are held together.
4. Although the Company has delivered attractive returns since issue, over recent years it has often been growth stocks that have generated the best stock market gains, especially larger growth stocks. At times like this, the returns on an equity income strategy may lag that of growth strategies for a limited period. However, the outperformance of a multicap income strategy has been of sufficient quantum over the last seven years that Diverse's return still remains ahead of that of many growth strategies. It is also noteworthy that the Company's characteristic of lower NAV volatility has not held it back from delivering substantial premium returns since issue.

Strategic Report

Results for the Year to 31 May 2018

3.40p of ordinary dividends for the year The three interim dividends and the proposed final dividend for the year amount to 3.40p, compared with 3.00p in the previous year, an increase of 13.3%. The Company has also recommended a special dividend of 0.23p per share.

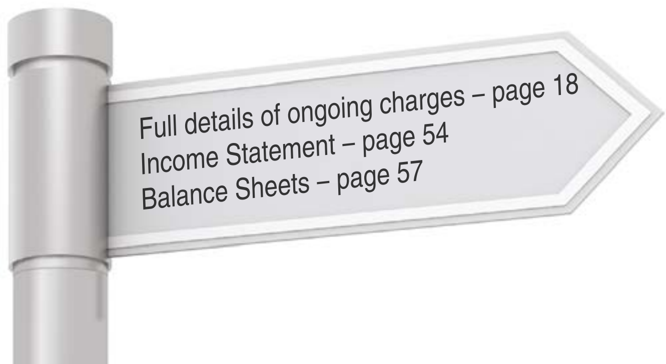
Revenue reserves increased to £16.6m Revenue reserves of the Group increased to £16.6m over the year. The reserves of the Company are available to be used to smooth the dividend distributions to shareholders in future years.

Total return to shareholders of 5.2% This includes the increase in NAV, plus the dividends paid during the year. After dividend payments, NAV per share rose from 103.43p to 105.09p over the year. This compares with an increase in the FTSE All-Share Index of 6.5% on a total return basis over the year to 31 May 2018.

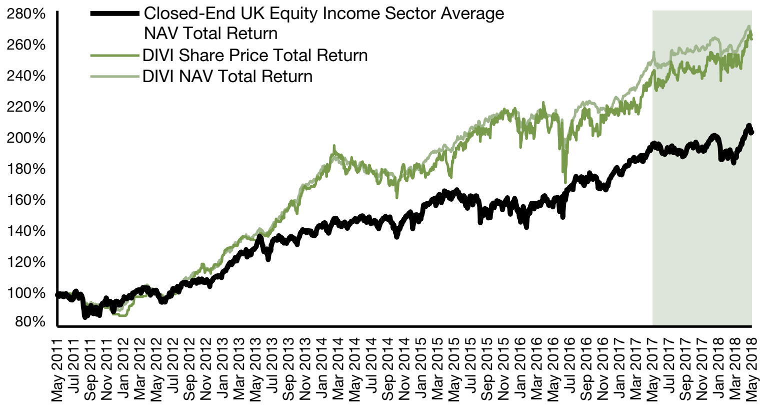
Summary of Results

	At 31 May 2018	At 31 May 2017	Change
NAV per ordinary share	**105.09p**	103.43p	1.6%
Ordinary share price (mid)	**107.00p**	102.50p	4.4%
Premium/(discount) to NAV*	**1.82%**	(0.90)%	
Revenue return per ordinary share	**3.84p**	4.02p	
Ordinary dividends per ordinary share paid/declared	**3.40p**	3.00p	13.3%
Special dividend per ordinary share declared	**0.23p**	0.40p	
Total dividends per ordinary share paid/declared	**3.63p**	3.40p	
Ongoing charges (further details on page 18)*	**1.13%**	1.15%	

* Alternative performance measure. Details provided in the Glossary on pages 94 to 96.



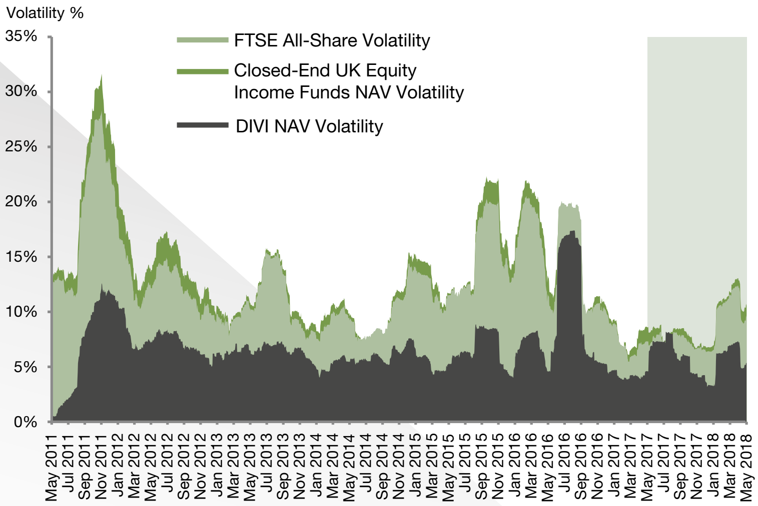
Financial Performance Indicators



Source: Thomson Datastream, Cenkos Securities as at 31 May 2018. Data rebased to 100.

NAV v share price v UK Equity Income sector

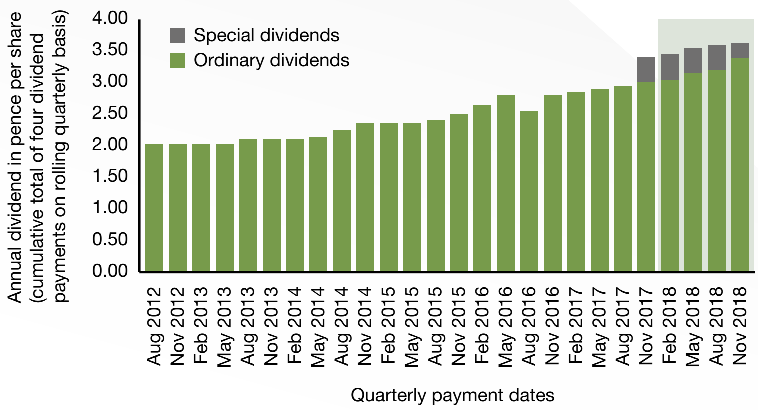
The chart details the NAV and the daily closing share price of the Company compared with that of the UK Equity Income sector, which includes many of the other trusts with a policy of mainly investing in UK-quoted stocks with above average dividend yields.



Source: Thomson Datastream, Cenkos Securities as at 31 May 2018.

NAV volatility v FTSE All-Share Index v UK Equity Income sector

The chart details the volatility of the Company's NAV and compares it with that of the FTSE All-Share Index and the UK Equity Income sector.



Rolling annual dividend paid by the Company

The chart outlines the cumulative dividend received by shareholders over a year, and how this has grown over time.

The bar chart above is based on the rolling total of four dividends paid to shareholders. The figure of 2.02p for August 2012 represents 2.19p, which was the total of the four interim dividends actually paid for the initial 13 month period to 31 May 2012, recalculated proportionally as if the initial period had been 12 months.

The growth in dividends appears more uneven between May and November 2016. During this time, the Company increased the quantum of the first and second interim dividends much faster than the growth of the dividends declared over the second half of the year in order to make all four dividends more even in scale. It is worth emphasising that the accumulated dividends paid to shareholders during that year increased through the year in spite of the uneven look of the bar chart.

Chairman's Statement

The Company has delivered underlying ordinary dividend growth of 13.3% over the year and a further special dividend

Michael Wrobel
Chairman

Year to 31 May 2018

This Report covers the seventh year of the Company, the year ending 31 May 2018.

Capital appreciation

A decade of ultra-low interest rates and Quantitative Easing has driven excellent asset returns. However, the enthusiasm for Quantitative Easing has ebbed over recent quarters and now the opposite policy, Quantitative Tightening, is being introduced in the US. Even so, the ongoing momentum within growth company share prices, often listed on the AIM exchange, has remained in place over the year to May, with the FTSE AIM All-Share Index rising 9.1%. Elsewhere, market returns were more modest, with the FTSE All-Share Index up only 2.6% over the year to May 2018 and the FTSE SmallCap Index (excluding Investment Trusts) up just 2.4%. In comparison, the NAV of the Company appreciated by 1.6% over the year, which is somewhat better than most other UK equity income funds.

Dividends

Over the period under review, the Company's holdings have continued to report good growth in regular dividends. However, in contrast to the previous year, fewer companies have announced one-off special dividends over the year. The Company's revenue per share has eased back very slightly, obscuring the underlying growth of ordinary dividend receipts for the year to May 2018. The underlying trend is reflected in the three interim dividends paid by the Company this year, which have grown to 2.4p per share, up from 2.2p last year. The Board is recommending an increased final dividend of 1.0p, up from 0.8p last year, so the overall ordinary dividend for the year will amount to 3.4p, an increase of 13.3%.

Over the seven years since issue, the Company has built up revenue reserves of £16.6m, which can smooth dividend payments to shareholders should the Company's revenue suffer a temporary setback. This reserve now equates with the cost of the annual dividend paid by the Company, and the Board therefore recommended a special dividend for shareholders of 0.4p last year, reflecting the abnormally large one-off dividend receipts received during the year to May 2017. There have been fewer one-off dividends received this year, but even so the Board is recommending a special dividend once again of 0.23p.

Returns since issue

Whilst many mainstream market indices continued to reach new highs over the last twelve months, the best returns over the longer term have often come from smaller quoted companies. Between April 2011 (when the Company was first listed) and May 2018, the FTSE All-Share Index has appreciated by 72.8%, whereas the FTSE SmallCap Index (excluding Investment Trusts) has increased by 133.3%. Furthermore, despite some spectacular returns by some AIM-listed growth stocks over the last few years, the FTSE AIM All-Share Index overall is up just 27.4% since April 2011. Collectively, the varying returns on these comparative indices underline the scope for active stock selection to generate premium returns within the context of our long-term strategy. The NAV of the Company, and the dividends it has paid, has generated a total return of 165.5% over the same period.

Board refreshment

It is considered good governance for non-executive Directors to step down from boards at their ninth anniversary, if not before, as beyond this date there is a perception that they may become less independent. With this in mind, the Board has sought to introduce new Directors well before the ninth year of the Company, so that Board refreshment occurs on a gradual basis. The Board appointed Calum Thomson as a Director of the Company during 2016 and is currently seeking to recruit a new Director to be appointed later in 2018. As part of that process, one of the current Directors will step down from the Board, so the overall complement of Directors will remain unchanged.

Investment policy

At the forthcoming AGM, the Board will be seeking shareholder approval to an amendment to the Company's investment policy to allow the Manager to increase the minimum and maximum number of securities that may be held in the portfolio to between 100 and 180 holdings. The Board believes that this change will allow the Manager greater flexibility to buy and sell stocks over a longer period of time and invest in more opportunities amongst the smallest companies in the portfolio, whilst diversifying risk.

Outlook

A wide-ranging investment universe draws upon a more diversified source of dividends. This has helped the Company to both grow its dividend and build a significant revenue reserve over the last seven years.

Going forward, the underlying prospects for dividend growth appear more constrained. Few economies have regained their past growth rates, in spite of the ultra-low interest rates following the Global Financial Crisis in 2008. This may explain why dividend cover, a measure of the margin of safety of future dividends, has fallen to relatively low levels over the last decade. Furthermore, the governmental consensus around globalisation is now coming to an end as the political agenda has changed, and all the while the recovery of the US dollar is starting to sap the easy liquidity of markets.

For investors, this is a time when it is important to be sure footed. During unsettled periods in the past, it has often been the greater vibrancy of the smallest quoted companies that has delivered some of the best returns. The Company's strategy has the advantage of selecting the best from the full universe of listed companies and industry sectors. Therefore, we continue to believe that Diverse remains well positioned, in spite of the changing economic and market dynamics.

Annual General Meeting

I look forward to seeing shareholders at the AGM, which will be held on Wednesday, 10 October 2018 at 11.30am at the offices of Stephenson Harwood LLP, 1 Finsbury Circus, London EC2M 7SH.

You will find enclosed with the Annual Report a letter asking if you would prefer to receive future annual and half-yearly Reports and other communications from the Company in electronic form rather than in printed form. Further details regarding this are set out on page 31. I encourage all shareholders to consider the proposal.

Michael Wrobel
Chairman
2 August 2018

Investment Manager's Report

Who are Miton?

We believe Miton is an agile fund manager. We hope this comes through in our investment thinking, which we believe gives greater consideration to the risk of market trends evolving in future. This is important at all times, but following Brexit, when market trends may indeed be changing more significantly, the willingness to anticipate major changes in markets could be particularly relevant.

Over recent years, the global slowdown has led to many companies finding it harder to grow. In addition, some commentators suggest that the UK may be more vulnerable to a recession after the election of a minority government and the UK's withdrawal from the EU. The Diverse strategy has a wider investment universe, which we believe puts the Company in a better position to generate ongoing dividend growth. We believe that it is the success in identifying stocks that were able to fund dividend growth that has been a key driver of the Company's strong performance since issue.

Overall, we believe that fund strategies like that of Diverse come about not only as a result of independent thought, but also greater attention to the management of risk. We believe it is the combination of both that can be a key driver of premium long-term returns for clients.

How is risk managed?

All fund managers are mindful of the degree of risk that their portfolios carry on behalf of clients. However, within Miton, we seek to ensure our fund managers' convictions are especially closely matched to the assembled risks within the portfolio.

One way we do this is by asking our fund managers to carry out their own analysis on the companies. This means they have a fuller understanding of the areas where the analysis may be particularly sensitive or potentially vulnerable and it avoids the risks associated with second guessing the level of conviction of analysts' opinions.

Ultimately, our aim is to ensure that the level of the fund managers' conviction is fully reflected in the stance of the Diverse portfolio.

How is the portfolio constructed?

Clear investment thinking also leads to good portfolio construction.

☞ For example, funds like Diverse do not use traditional benchmarks since portfolio construction based on market relatives can add extra market risk. It can also impede the managers' ability to optimise the risk/return ratio of the whole portfolio on an absolute basis, which can be especially relevant in uncertain markets.

"The Diverse strategy has a wider investment universe, which we believe puts the Company in a better position to generate ongoing dividend growth. We believe that it is the success in identifying stocks that were able to fund dividend growth that has been a key driver of the Company's strong performance since issue."

- Portfolio resilience deserves plenty of attention, because limiting the downside can enhance the scope for maximising fund returns over the long term.

The consequence of these factors is that the positioning of portfolios within funds like the Company may be sometimes rather different from most others. This places an extra requirement on us to be especially clear in explaining the reasoning for the differences.

Who are the managers?

Miton Group plc is an independent fund management Company listed on the AIM exchange.

The day-to-day management of the Company's portfolio is carried out by Gervais Williams and Martin Turner, who have decades of experience researching many of the smallest UK quoted stocks.

Gervais Williams

Gervais joined Miton in March 2011 and is Senior Executive Director of the group. He has been an equity portfolio manager since 1985, including 17 years as Head of UK Smaller Companies and Irish Equities at Gartmore. He was Fund Manager of the Year 2014 according to What Investment? He is a board member of the Investment Association, Chairman of the Quoted Companies Alliance and also a member of the AIM Advisory Council.

Martin Turner

Martin joined Miton in May 2011. Martin and Gervais have had a close working relationship since 2004, and their complementary expertise and skills led to their backing of a series of successful companies. Martin qualified as a Chartered Accountant with Arthur Anderson, and has extensive experience at Rothschild, Merrill Lynch and Collins Stewart, where as Head of Small/Mid Cap Equities his role covered their research, sales and trading activities.

Gervais and Martin are part of a team of four Miton fund managers principally researching UK-quoted stocks, with each manager having a record of delivering premium returns. They are a close-knit and agile team, open-minded in their thinking. This is important at all times, but at the current time of changing political and economic dynamics, this aspect is likely to be particularly relevant.

Investment Manager's Report continued

How should progress be measured?

Throughout the period of globalisation, equity market returns have been so good for so long that it has become customary for funds to measure their progress by close comparison to the performance of the mainstream indices. One side effect has been that the sector representation of most of the most popular UK equity portfolios has narrowed to reflect the limited sector representation of the mainstream indices.

However, with the changing political and economic agenda, we at Miton believe that it is in clients' interests to widen the opportunity set going forward. Therefore, most Miton strategies in the UK are relatively wide ranging.

Although it is conventional for the returns of Diverse to be set in the context of the returns of comparative indices, we believe the ultimate source of sustained return will be the ability of the portfolio holdings to sustain productivity improvements and dividend growth.

How is the investment strategy implemented?

We believe that companies generating productivity improvements with attractive risk/reward ratios are well placed to deliver premium returns.

Turnover growth – Although some companies can succeed in growing their profits without turnover growth, in general, sustainable long-term growth comes from those that grow their turnover. This can be via an innovative new service or through introducing a superior product. Even in times of economic stagnation, this type of improvement can generate ongoing turnover growth.

Sustained margins – Extra turnover growth may not lead to additional corporate cashflow if profit margins decline. The best kinds of productivity improvement should reduce the cost of goods, as well as justify a better market price. Alongside this, we are looking for companies that have the potential to sustain their profit margins through outstanding customer service. This may be especially important should profit margins come under sustained pressure in the future.

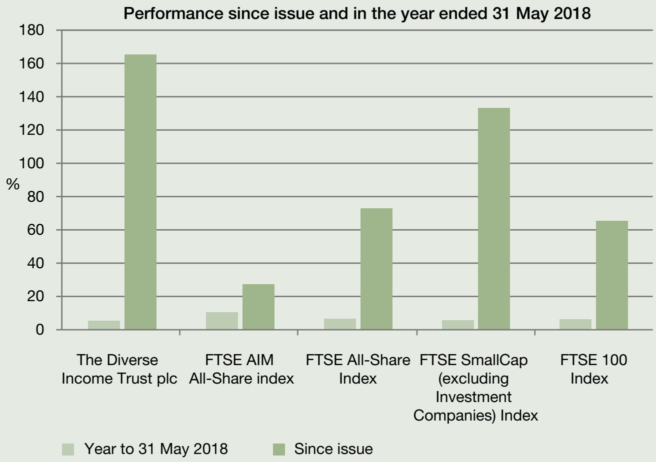
Management of risk – All investment carries risks, but often companies managing the fastest growth are obliged to take the greatest risks. In general, we find that many companies can generate attractive returns for investors through growing at a less hectic pace, and therefore can do so with less downside risk.

Better balance sheets – Given the exceptionally low interest rates over the last decade, many corporates have taken on extra debt. However, these liabilities can constrain the opportunities of the company, particularly should they become due at a time of economic setback.

We prefer to invest in companies with net cash balances or those with modest debt relative to the headroom on the facility. Those with under-geared balance sheets can take greater advantage of any economic setback to improve their market position disproportionately, whereas those fully drawn on their facilities tend to have fewer options.

Low entry valuations – The upside potential on an investment is often greater when the valuation on entry is modest. In general, we favour stocks where the overall market capitalisation reflects some of the problems of the past in preference to those that are already reflecting some of the excitement about the future.

With few institutional investors, or indeed sell side analysts, actively researching the smallest quoted companies in the UK, there are plenty of quoted companies with, what we believe, are low entry valuations.



Source: FE Analytics and Morningstar.

Overall total return of various indices and the NAV and dividends of the Company since issue and in the year ended 31 May 2018

MiFID II and Key Information Document

The vast majority of stockbroker notes detailing the anticipated profits of small and microcaps are funded by the quoted business itself. Therefore, the cost of independent external research for the Company tends to be modest. Last year it amounted to 0.02% of the NAV.

MIFID II, which was introduced on 3 January 2018, is a new regulation that differentiates the cost of external research from the portfolio transactions. Information in respect of the Company's external research costs now needs to be highlighted in greater detail and approved by the Board ahead of expenditure. The Company's budget for the whole of 2018 remains very modest, with the cost marginally below that expended during 2017.

The Key Information Document ("KID") is a new schedule that projects the Company's costs and returns over the coming years. The Company's KID is available on the Company's website at www.mitongroup.com/dit.

How has the Company performed over the year?

UK inflation rose after sterling devalued in the wake of the UK Referendum in June 2016. This has suppressed consumer expenditure because UK wage growth has continued to disappoint. However, in spite of challenges within these sectors, many other domestic stocks have outperformed, as have many microcaps.

Over the year to May 2018, the FTSE SmallCap (excluding Investment Trusts) Index generated a total return of 5.6% when both capital gain and dividend income is included, whereas the comparative total return on the FTSE AIM All-Share Index was 10.5%. In contrast, the total return of the FTSE All-Share Index was 6.5%.

Continued overleaf...

Investment Manager's Report continued

The Company's NAV rose 1.6% over the 12 months to May 2018 and when dividend income is included, the total return on the Company was 5.2%.

During the first half of the year, the Company's portfolio lagged the market rise, because growth stocks performed strongly and other stocks remained overlooked. In the second half of the year, the equity markets were more unsettled and, interestingly, microcaps have enjoyed a period of outperformance. In particular, many of the Company's holdings tended to perform well in this period, and the Company therefore outperformed.

During the year, risk was diversified further through investing in four Icelandic stocks. This economy suffered more than most during the financial crisis, and led to the adoption of more prudent policies than others that enhanced diversification. Generally, stock specific risk in the portfolio remains very well diversified with over 140 holdings across a wide range of industry sectors.

Strong contributors in the year included Zotefoams, K3 Capital and Burford Capital, helped by buoyant trading. There were disappointments at Accrol, where a position has currently been retained for recovery potential, and UP Global Sourcing, which has been exited. The largest detractor was the Put option as the value decayed over the period.

How has the Company performed since issue?

The Company now has a seven year record and its performance over that period has been outlined in some detail on pages 4 and 5. These figures, together with the returns on the year under review are shown on the bar chart on page 13.

The wider investment universe of the Diverse strategy ensures that the Company should be in a better position to sustain dividend growth. We believe that it is the premium growth of Diverse's dividend income that has been a key driver of the Company's strong performance since issue.

With Brexit imminent, what impact might it have on the holdings in the Company?

At this stage, the Government plans that the Brexit/EU agreement will be effected via a transitional arrangement, where the UK border with the EU continues with customs arrangements largely unchanged until the end of 2020. If this proves to be the case, we believe there would be very little adverse impact on the Diverse portfolio prior to the end of 2020, and maybe beyond.

Over the longer term, a KPMG report on the non-tariff barriers in the EU estimated that wider border checks may cost between 0.4% and 1.9% of the value of traded goods. HMRC expects the longer-term EU border costs to be about 1%, although some others estimate it could be higher. Overall, it is assumed that there will be some additional cost for some of the stocks in the portfolio at the time of an orderly withdrawal from the EU, but these are not expected to greatly reduce the overall returns of the Company.

There is a chance that the current political process becomes derailed prior to the end of March 2019, and the UK exits the EU without a transitional arrangement. The abrupt imposition of a national border between the UK and the EU countries would add much greater costs to cross-border trade if this were to occur immediately. In addition, it is likely that the passage of goods could be delayed, possibly for weeks. Both of these factors could significantly adversely affect the profitability of a number of the holdings within the portfolio.

Ultimately, the new border will operate in the same way that UK businesses trade with countries outside the EU, with costs eventually around those cited above. It is worth noting that a number of companies in the portfolio have little or no EU trade and thus will be largely unaffected. Others have subsidiaries that will still be in the ongoing EU, so they may find ways of delivering their EU goods and services through these operations. We will continue to monitor events and adjust the portfolio holdings to mitigate any potential downside, as well as remaining alert to the possibility that a few businesses may have some added advantages when the EU border changes are introduced.

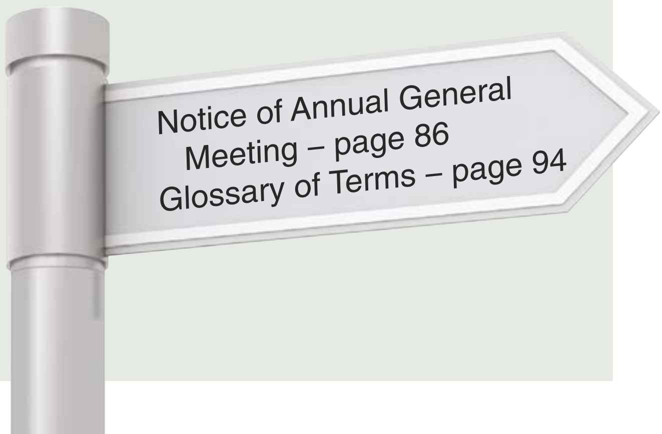
What about the future?

Over the last three decades, many of the most popular funds sought to outperform the mainstream benchmarks. Generally, most narrowed their investment universe to mid and larger companies to better meet this objective, and institutional interest in small and microcaps therefore died away. In this context, it is noteworthy that microcap stocks showed a degree of resilience during February 2018 when equity markets became more volatile. This was not because their share prices were ignored during a busy period – many small and microcap share prices were marked down with others during the early part of that month. Rather, it was that many of the smallest stocks attracted renewed market interest after their share prices fell back, and hence they tended to recover quicker than others.

Interestingly, this renewed interest in small and microcaps over recent quarters has occurred alongside a period when monetary conditions have been tightened. The EU has commenced a scaling back of its policy of Quantitative Easing ("QE") over the last few quarters, whilst the US is progressively increasing interest rates and has initiated Quantitative Tightening, a reversal of QE. Their combined effect has reduced financial liquidity within the international exchanges and led to extra market volatility.

The changing market attitude implies that a growing number of investors are now showing renewed interest in the vibrant and agile, over those within mainstream benchmarks. Importantly, this new preference resembles the pattern that existed prior to globalisation, and contrasts with that of the last three decades. When the Company was launched, it was anticipated that this would lead to a renewed interest in multicap income strategies. Although the strong returns of growth stocks may have grabbed much of the media attention over recent years, we remain confident that the advantages of the Company's strategy will persist. Therefore, we believe the Company continues to be well placed to deliver premium returns going forward.

Gervais Williams and Martin Turner
Miton Asset Management Limited
2 August 2018



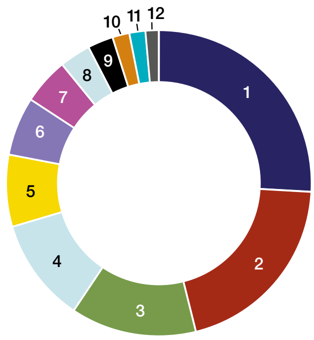
Portfolio Information

as at 31 May 2018

Rank	Company	Sector & main activity	Valuation £'000	% of net assets	Yield[1] %
1	Charles Taylor	Industrials	8,775	2.2	3.7
2	Zotefoams	Basic Materials	8,181	2.0	1.1
3	Stobart	Industrials	7,129	1.7	8.1
4	SafeCharge International[2]	Industrials	6,812	1.7	5.2
5	Amino Technologies[2]	Technology	5,792	1.4	3.3
6	Mucklow (A&J)	Financials	5,741	1.4	4.0
7	Randall & Quilter[2]	Financials	5,538	1.4	–
8	K3 Capital[2]	Financials	5,163	1.3	2.3
9	Diversified Gas & Oil[2]	Oil & Gas	4,732	1.2	4.1
10	CML Microsystems	Technology	4,730	1.2	1.5
Top 10 investments			**62,593**	**15.5**	
11	Rio Tinto	Basic Materials	4,707	1.2	5.0
12	BP	Oil & Gas	4,678	1.2	5.2
13	Sainsbury (J)	Consumer Services	4,564	1.1	3.2
14	Smurfit Kappa	Industrials	4,556	1.1	2.5
15	Morses Club[2]	Financials	4,496	1.1	4.7
16	Royal Dutch Shell 'A'	Oil & Gas	4,433	1.1	5.4
17	Polyus GDR	Basic Materials	4,407	1.1	6.9
18	Smith (DS)	Industrials	4,367	1.1	2.8
19	Legal & General	Financials	4,349	1.1	5.7
20	BHP Billiton	Basic Materials	4,306	1.1	4.9
Top 20 investments			**107,456**	**26.7**	
21	Aviva	Financials	4,254	1.1	5.4
22	Savannah Petroleum[2]	Oil & Gas	4,246	1.1	–
23	Phoenix	Financials	4,232	1.1	6.5
24	Rosenblatt[2]	Industrials	4,217	1.0	–
25	Equinor	Oil & Gas	4,203	1.0	3.5
26	Personal[2]	Financials	4,196	1.0	4.9
27	Burford Capital[2]	Financials	4,191	1.0	0.5
28	esure	Financials	4,164	1.0	5.3
29	IG Design[2]	Consumer Goods	4,068	1.0	1.4
30	Treatt	Basic Materials	4,065	1.0	1.0
Top 30 investments			**149,292**	**37.0**	
31	Park[2]	Financials	4,053	1.0	3.9
32	Strix[2]	Industrials	4,052	1.0	2.0
33	Direct Line Insurance	Financials	4,012	1.0	5.7
34	AIB	Financials	3,980	1.0	2.6
35	Inspired Energy[2]	Industrials	3,879	1.0	3.1
36	Anglo Pacific	Basic Materials	3,848	1.0	4.5
37	Total	Oil & Gas	3,845	1.0	4.9
38	Morrison (WM) Supermarkets	Consumer Services	3,798	0.9	2.5
39	Vátryggingafélag Islands	Financials	3,764	0.9	4.7
40	Highland Gold Mining[2]	Basic Materials	3,748	0.9	6.9
Top 40 investments			**188,271**	**46.7**	
Balance held in 95 equity investments			**183,960**	**45.6**	
Total equity investments			**372,231**	**92.3**	
	600 Group 8% Convertible Loan Notes 14/02/2020 (unlisted)		2,506	0.6	
	Active Energy 8% Loan Notes 2022 (unlisted)		1,646	0.4	
	Sirius Minerals Finance 8.5% Convertible Loan Notes 28/11/2023 (USD)		1,619	0.4	
	Intercede Group 8% Secured Convertible Loan Notes 29/12/2021 (unlisted)		1,550	0.4	
	Hurricane Energy 7.5% Convertible SNR 24/07/2022 (USD)		1,290	0.3	
	St. Modwen Properties 6.25% 07/11/2019 Bonds		840	0.2	
	Aggregated Micro Power 8% Secured Convertible Loan Notes 30/03/2021 (unlisted)		664	0.2	
	Sigmaroc 6% Unsecured Convertible Loan Notes 04/01/2022 (unlisted)		321	0.1	
Fixed interest investments			**10,436**	**2.6**	
Total investments			**382,667**	**94.9**	
Listed Put option					
	FTSE 100 – September 2019 6,500 Put		**4,378**	**1.1**	
Other net assets			**15,970**	**4.0**	
Net assets			**403,015**	**100.0**	

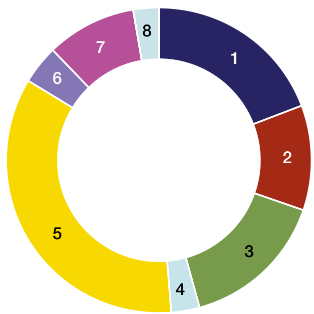
[1] Source: Thomson Reuters. Based on historical yields and therefore not representative of future yields.
[2] AIM/NEX listed.

A copy of the full portfolio of investments as at 31 May 2018 is available on the Company's website, www.mitongroup.com/dit.



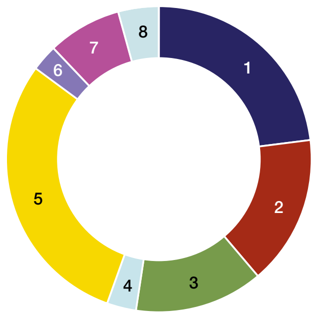
Invested portfolio capital by sector

1	Financials	25.9%	**7**	Technology	4.9%
2	Industrials	20.2%	**8**	Telecommunications	3.3%
3	Consumer Services	13.3%	**9**	Cash and Fixed Interest	2.7%
4	Basic Materials	11.0%	**10**	Utilities	1.8%
5	Oil & Gas	7.6%	**11**	Other	1.7%
6	Consumer Goods	6.2%	**12**	Health Care	1.4%



Invested portfolio capital by Index or Exchange

1	FTSE 100 Index	19.2%	**5**	AIM/NEX Exchanges	35.0%
2	FTSE 250 Index	11.1%	**6**	International Equities	4.1%
3	FTSE SmallCap Index	15.4%	**7**	Other	9.5%
4	FTSE Fledgling Index	3.0%	**8**	Cash and Fixed Interest	2.7%



Portfolio investment income received in the year by Index or Exchange

1	FTSE 100 Index	23.0%	**5**	AIM/NEX Exchanges	29.6%
2	FTSE 250 Index	15.8%	**6**	International Equities	2.8%
3	FTSE SmallCap Index	13.6%	**7**	Other	7.8%
4	FTSE Fledgling Index	3.1%	**8**	Cash and Fixed Interest	4.3%

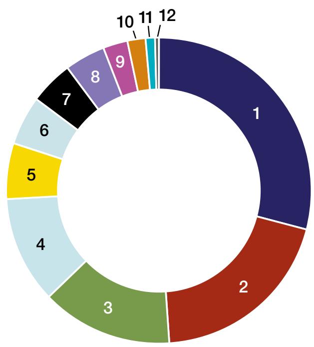


Illustration by sector of the potential annual income for the year to 31 May 2019[1]

1	Financials	29.1%	**7**	Cash and Fixed Interest	4.6%
2	Industrials	19.8%	**8**	Consumer Goods	4.3%
3	Consumer Services	13.9%	**9**	Technology	2.6%
4	Basic Materials	11.3%	**10**	Utilities	1.9%
5	Oil & Gas	5.9%	**11**	Other	1.0%
6	Telecommunications	5.2%	**12**	Health Care	0.4%

[1] Annual income based upon the potential projected income receipts from portfolio holdings if the portfolio as at 31 May 2018 remained as presented.
Source: Thomson Reuters.

A Summary of the Total Costs Involved in Managing Diverse

Investment trusts differ from some other forms of collective funds in that they are set up as independent corporations with their operations overseen by a board that is separate from and independent of the fund management group that manages the capital. In addition, they are listed, with their shares traded on an approved exchange – which, in our case, is the LSE.

Running costs are deducted from the total assets of the Company on a pro-forma basis so the NAV published each day is expressed after costs. The figures below are the costs paid by the Company over the year under review and are expressed as a percentage of the average asset value of the Company over the year.

	2018 %	2017 %
Fund management fees[1]	**0.95**	0.96
Administration costs, including Company Secretarial fees	**0.03**	0.03
Directors/Auditor/Depositary/Registrar/Custodian and Stockbroker fees	**0.10**	0.10
All other direct costs, including VAT on the fees above, plus marketing, legal, printing, insurance and bank charges	**0.05**	0.06
Ongoing charges	**1.13**	1.15

In addition, the Company also pays transaction charges that are levied when shares are bought or sold in the portfolio. These are dealing commissions paid to stockbrokers and stamp duty, a Government tax paid on transactions (which is zero when dealing on the AIM/NEX exchanges).

Costs paid in dealing commissions	**0.06**	0.05
Stamp duty, a Government tax on transactions	**0.04**	0.06
Overall costs including charges on transactions[2]	**1.23**	1.26

The annual costs can be compared to the overall returns generated by the Company in the year. The total return on ordinary activities after taxation includes capital appreciation of the portfolio and amounted to 26.4% as a proportion of the total return after tax (2017: 73.8%), and the proportion of the total return after taxation derived from revenue amounted to 73.5% (2017: 26.2%). In the year under review, the overall costs therefore amounted to 1.23% compared with a total return before costs of 6.5% (2017: 17.7%), and 5.2% (2017: 16.4%) after all costs had been deducted.

Given that stock markets fluctuate over the years, the running costs of the Company should perhaps be considered in the context of the average annual returns generated by the Company. The overall costs during the year to 31 May 2018 of 1.23% can be compared with an average annual return (after the deduction of costs) of 18.3% (2017: 17.5%) per annum since issue.

1 Fund management fees are tiered and calculated based on the share price, so may vary in each year.

2 Transactions conducted by the Company also involve some loss of value due to the dealing spread in stock exchange prices. Spreads range from less than 1% in the most actively traded large cap stocks to more than 3% in the smallest, most infrequently traded stocks. The exact loss of value is difficult to determine precisely, but is normally less than half of the dealing spread at the time of the transaction. In a large percentage of the transactions, especially in the smallest stocks, the stock is passed through from sizeable seller to sizeable buyer on a 'put through' basis with potentially no loss of value through the spread. During the year under review, this cost is believed to be very modest in comparison to the NAV.

Business Model

Diverse was launched on 28 April 2011. It is registered in England as a public limited company and is an investment company in accordance with the provisions of Sections 832 and 833 of the Companies Act 2006.

The principal activity of the Company is to carry on business as an investment trust. The Company intends at all times to conduct its affairs so as to enable it to qualify as an investment trust for the purposes of Sections 1158/1159 of the Corporation Tax Act 2010 ("S1158/1159"). The Directors do not envisage any change in this activity in the foreseeable future.

The Company has been granted approval from HM Revenue & Customs ("HMRC") as an investment trust under S1158/1159 and will continue to be treated as an investment trust company, subject to there being no serious breaches of the conditions for approval.

The principal conditions that must be met for continuing approval by HMRC as an investment trust are that the Company's business should consist of "investing in shares, land or other assets with the aim of spreading investment risk and giving members of the company the benefit of the results" and the Company may only retain 15% of its investment income without distributing it as dividend payments. The Company must also not be a close company. The Directors are of the opinion that the Company has conducted its affairs for the year ended 31 May 2018 so as to be able to continue to qualify as an investment trust.

The Company's status as an investment trust allows it to obtain an exemption from paying taxes on the profits made from the sale of its investments and all other net capital gains.

The Company has a wholly-owned subsidiary, DIT Income Services Limited. The purpose of the subsidiary is to invest in shorter-term holdings, where the gains after corporation tax can be passed up to the parent company by way of dividends, thus improving the position of the Company's revenue account.

Investment Policy

The Company's full investment policy is set out on pages 80 and 81 and contains information on the policies which the Company follows relating to asset allocation, risk diversification and gearing, and includes maximum exposures, where relevant.

The Company invests primarily in UK quoted or traded companies with a wide range of market capitalisations but a long-term bias toward small and mid cap equities with a view to achieving the Company's investment objective.

The Manager adopts a stock-specific approach in managing the Company's portfolio and therefore sector weightings will be of secondary consideration. As a result of this approach, the Company's portfolio will not track any benchmark index.

As highlighted in the Chairman's Statement on page 9, the Company will be seeking shareholder approval at the forthcoming Annual General Meeting ("AGM") to change its investment policy by increasing the minimum and maximum number of securities that may be held in the portfolio. The purpose of this change is to make the average number of holdings in the portfolio over recent years nearer to the average of the figures proposed in the policy. If the change is approved by shareholders, it is not expected to precipitate any change to the portfolio at present, but rather it will ensure the Manager has greater flexibility to vary the number of portfolio holdings in future as market conditions change, should this be in the interests of shareholders. Page 31 sets out further detail on the proposed change in policy, with the precise wording of the proposed new policy set out on page 91.

Performance and Risks

Key Performance Indicators

The Board reviews the Company's performance by reference to a number of KPIs and considers that the most relevant KPIs are those that communicate the financial performance and strength of the Company as a whole. The Board and the Manager monitor the following KPIs:

☞ NAV performance, relative to the UK Equity Income sector and other comparable investment trusts and open-ended funds and to various UK stock market indices.

The NAV at 31 May 2018 was 105.09p per share (2017: 103.43p). The total return of the Company over the year, including the dividend income from the portfolio, was 5.2%. This compares with its peer group, where the average was a 3.0% increase in total return terms. By comparison, the total return on the FTSE All-Share Index was 6.5% over the year, on the FTSE SmallCap Index (excluding Investment Companies) was 5.6% and on the FTSE AIM All-Share Index was 10.5%.

☞ NAV volatility

The Company has an objective to deliver attractive returns whilst having an eye to constraining volatility relative to other similar investment trusts. For the year to 31 May 2018, the Company's NAV had a volatility of 5.9%[1]. This compares to the peer group, where the average was 8.4%.

☞ Movements in the Company's share price

The Company's share price increased by 8.1% over the year on a total return basis, including the 3.55p dividends paid/declared. This compares with its peer group, where the average move was an increase of 3.0%.

☞ The discount of the share price in relation to the NAV

The Company has an objective to keep the discount to NAV at a minimum. Over the year to 31 May 2018, the Company has maintained an average discount to NAV of 0.8%.

☞ The Company's dividend growth rate

The Company has an objective to deliver an attractive and growing dividend. The Company has paid/declared four ordinary dividends totalling 3.40p for the year, representing a yield of 3.4% (based on an average share price of 101.57p). In addition, the Company has also declared a special dividend of 0.23p, which, when added to the ordinary dividends, amounts to a yield of 3.6%. The underlying growth rate of the ordinary dividends over the year was 13.3%, which is in line with the previous years. In comparison, over the last year the peer group have grown their dividend at a rate of 6.7%[2].

☞ Ongoing charges

The ongoing charges for the year to 31 May 2018 amounted to 1.13% (2017: 1.15%) of total assets. A summary of the total costs involved in managing the Company can be found on page 18.

1 Source: Cenkos Securities.

2 Average of the other UK Equity Income Trusts that have reported over the previous twelve months.

Dividends

Ordinary dividends totalling 3.40p and a special dividend of 0.23p per ordinary share have been paid, declared or proposed in respect of the year ended 31 May 2018.

First interim dividend:	0.75p paid on 28 February 2018 (28 February 2017: 0.70p)
Second interim dividend:	0.80p paid on 31 May 2018 (31 May 2017: 0.70p)
Third interim dividend:	0.85p payable on 31 August 2018 (31 August 2017: 0.80p)
Final dividend:	1.00p payable on 30 November 2018 (30 November 2017: 0.80p)
Special dividend:	0.23p payable on 30 November 2018 (30 November 2017: 0.40p)

A final dividend of 1.00p per ordinary share and a special dividend of 0.23p per ordinary share have been recommended by the Board. Subject to shareholder approval at the forthcoming AGM, these dividends will be paid together on 30 November 2018 to shareholders on the register at the close of business on 28 September 2018. The ex-dividend date will be 27 September 2018.

Principal Risks and Uncertainties

The Company is exposed to a variety of risks and uncertainties that could cause its asset price or the income from the investment portfolio to reduce, possibly by a sizeable percentage in the most adverse circumstances. The Board, through delegation to the Audit Committee, has undertaken a robust assessment and review of the principal risks facing the Company, together with a review of any new risks which may have arisen during the year, including those that would threaten its business model, future performance, solvency or liquidity. These risks are formalised within the Company's risk matrix. Information regarding the Company's internal control and risk management procedures can be found in the Corporate Governance Statement on pages 36 and 37. The principal financial risks and the Company's policies for managing these risks and the policy and practice with regard to financial instruments are summarised in note 19 to the financial statements.

The Board has also identified the following additional risks and uncertainties:

Risk	Mitigation
Investment and strategy	
There can be no guarantee that the investment objective of the Company will be achieved. The Company does not follow any benchmark. Accordingly, the portfolio of investments held by the Company will not mirror the stocks and weightings that constitute any particular index or indices, which may lead to the Company's shares failing to follow either the direction or extent of any moves in the financial markets generally (which may or may not be to the advantage of shareholders).	The Manager has in place a dedicated investment management process which is designed to maximise the chances of the investment objective being achieved. The Board reviews regular investment and financial reports from the Manager to monitor this.
Smaller companies	
The Company will invest primarily in quoted UK companies with a wide range of market capitalisations but a long-term bias toward small and mid cap equities. Smaller companies can be expected, in comparison to larger companies, to be less mature businesses, have more restricted depth of management and a higher risk profile. In addition, the relatively small market capitalisation of such companies can make the market in their shares illiquid. Prices of individual smaller capitalisation stocks could be more volatile than prices of larger capitalisation stocks and the risk of insolvency of many smaller companies (with the attendant losses to investors) is higher.	The Board looks to mitigate this risk by ensuring the Company holds a spread of investments, achieved through limiting the size of new holdings at the time of investment to typically between 1% and 1.5% of the portfolio. All potential investee companies are researched by the Manager prior to investment.
Sectoral diversification	
The Company is not constrained from weighting to any sector. This may lead to the Company having significant exposure to portfolio companies from certain business sectors from time to time. Greater concentration of investments in any one sector may result in greater volatility in the value of the Company's investments and consequently its NAV.	The Company seeks to achieve attractive returns by investing in weightings that are different from the overall market, yet also seeks to ensure that individual variances are not so extreme as to leave shareholders at risk of portfolio volatility that is unreasonably poor. Even though there may be significant exposures to a single sector, this will be achieved by holding a number of different stocks in the portfolio.

Performance and Risks continued

Principal Risks and Uncertainties continued

Risk	Mitigation
Dividends	
The Company's investment objective includes the aim of providing shareholders with an attractive and growing dividend. There is no guarantee that any dividends will be paid in respect of any financial year or period. The ability to pay dividends is dependent on a number of factors, including the level of dividends earned from the portfolio and the net revenue profits available for that purpose. The redemption of shares pursuant to the redemption facility may also reduce distributable reserves to the extent that the Company is unable to pay dividends.	The Company maintains accounting records and produces forecasts that are designed to reduce the likelihood that the Company will not have sufficient distributable resources to meet its dividend objective.
Share price volatility and liquidity/marketability risk	
The market price of the Company's shares, like shares in all investment companies, may fluctuate independently of the NAV and thus may not reflect the underlying NAV of the shares. The shares could trade at a discount or premium to NAV at different times, depending on factors such as supply and demand for the shares, market conditions and general investor sentiment.	The Company has in place an annual redemption facility whereby shareholders can voluntarily tender their shares. The Board monitors the relationship between the share price and the NAV. The Company has taken powers to re-purchase shares should there be an imbalance in the supply and demand leading to a discount. The Company has powers to issue shares (only at a premium to NAV) should there be good investment opportunities and the size of the Company had not become too large to continue to meet its objectives.
Gearing	
The Company's investment strategy may involve the use of gearing to enhance investment returns, which exposes the Company to risks associated with borrowings. Gearing may be generated through the use of options, futures, options on futures, swaps and other synthetic or derivative financial instruments. Such financial instruments inherently contain much greater leverage than a non-margined purchase of the underlying security or instrument. While the use of borrowings should enhance the total return on the shares where the return on the Company's underlying assets is rising and exceeds the cost of borrowing, it will have the opposite effect where the return on the Company's underlying assets is rising at a lower rate than the cost of borrowing or falling, further reducing the total return on the shares. As a result, the use of borrowings by the Company may increase the volatility of the NAV per share.	The Company has a revolving loan facility in place, as detailed in note 5 to the financial statements. At 31 May 2018, the facility was undrawn. The Company is limited to a maximum gearing of 15% of the net assets. There was no gearing as at 31 May 2018 (2017: nil).

Risk	Mitigation
Key man risk	
The Company depends on the diligence, skill, judgement and business contacts of the Manager's investment professionals and its future success could depend on the continued service of these individuals, in particular Gervais Williams.	The Company may terminate the Management Agreement should Gervais Williams cease to be an employee of the Manager's group and is not replaced by a person whom the Company considers to be of equal or satisfactory standing within three months of his departure.
Engagement of third party service providers	
The Company has no employees and the Directors have all been appointed on a non-executive basis. Whilst the Company has taken all reasonable steps to establish and maintain adequate procedures, systems and controls to enable it to comply with is obligations, the Company is reliant upon the performance of third party service providers for its executive function.	The Company operates through a series of contractual relationships with its service providers. These contracts, supported by service level agreements where appropriate, set out the terms on which a service is to be provided to the Company. The Board reviews performance of all the service providers both in the Board meetings and in the Management Engagement Committee meetings, where the terms on which the service providers are engaged are also reviewed. The Board also receives assurance or internal controls reports from key service providers. In addition, the contracts provide the Company with protection in the event of failure to perform by a service provider.

Share Capital

Share Issues

At the AGM held on 10 October 2017, the Directors were granted authority to allot ordinary shares up to an aggregate nominal amount of £76,697 (being 20% of the issued ordinary share capital) with pre-emption rights applying. Subsequently, at a General Meeting held on 15 November 2017, the Directors were granted authority to allot ordinary shares under the above authority on a non-pre-emptive basis up to an aggregate nominal amount of £38,348 (being 10% of the issued ordinary share capital). No shares have been issued under these authorities. These authorities are due to expire at the Company's AGM on 10 October 2018 and proposals for their renewal are set out on pages 30 and 31.

There are no restrictions concerning the transfer of securities in the Company or on voting rights; no special rights with regard to control attached to securities; no agreements between holders of securities regarding their transfer known to the Company; and no agreements which the Company is party to that might affect its control following a successful takeover bid.

Purchase of Own Shares

At the AGM held on 10 October 2017, the Directors were granted the authority to buy back up to 57,484,737 ordinary shares. No ordinary shares have been bought back under this authority. The authority will expire at the next AGM when a resolution for its renewal will be proposed (see page 31 for further information).

Treasury Shares

Shares bought back by the Company may be held in treasury, from where they could be re-issued at a premium to NAV quickly and cost effectively. This provides the Company with additional flexibility in the management of its capital base. No shares were purchased for, or held in, treasury during the year or since the year end.

Share Redemptions

Valid redemption requests were received under the Company's redemption facility for the 31 May 2018 Redemption Point in relation to 517,858 ordinary shares, representing 0.14% of the issued share capital. As permitted under the Company's Articles of Association, these shares were matched with buyers and sold at a calculated Redemption Price of 105.41p per share.

Current Share Capital

As at the year end and the date of this Report, there were 383,487,239 ordinary shares and 50,000 management shares (see note 9 to the financial statements) in issue.

Management, Social, Environmental and Diversity Matters

Management Arrangements

The Company appointed Miton Trust Managers Limited ("MTM" or the "Manager") as its Alternative Investment Fund Manager ("AIFM") with effect from 22 July 2014. MTM has been approved as an AIFM by the UK's Financial Conduct Authority. Miton Asset Management Limited has been appointed by MTM as Investment Manager to the Company pursuant to a delegation agreement.

The Manager receives a management fee of 1.0% per annum on the adjusted market capitalisation of the Company up to £300m and 0.8% per annum on the average market capitalisation above £300m. The management fee is calculated and payable monthly in arrears.

In addition to the basic management fee, and for so long as a Redemption Pool (see page 79 for details) is in existence, the Manager is entitled to receive from the Company a fee calculated at the rate of one-twelfth of 1.0% per calendar month of the NAV of the Redemption Pool on the last business day of the relevant calendar month.

In accordance with the Directors' policy on the allocation of expenses between income and capital, in each financial year 75% of the management fee payable is charged to capital and the remaining 25% to revenue.

The management agreement is terminable by either the Manager or the Company giving to the other not less than 12 months' written notice. The management agreement may be terminated earlier by the Company with immediate effect on the occurrence of certain events, including the liquidation of the Manager or appointment of a receiver or administrative receiver over the whole or any substantial part of the assets or undertaking of the Manager or a material breach by the Manager of the management agreement which is not remedied. The Company may also terminate the management agreement should Gervais Williams cease to be an employee of the Manager's group and is not replaced by a person whom the Company considers to be of equal or satisfactory standing within three months of his departure.

The Company has given certain market standard indemnities in favour of the Manager in respect of the Manager's potential losses in carrying on its responsibilities under the management agreement.

The Board appointed Bank of New York Mellon as its Depositary and Custodian under an agreement dated 22 July 2014. The annual fee for depositary services due to Bank of New York Mellon is 0.025% of gross assets, subject to a minimum fee of £15,000 per annum. The Company and the Depositary may terminate the Depositary Agreement with three months' written notice.

Company secretarial and administrative services are provided by Link Alternative Fund Administrators Limited (formerly known as Capita Sinclair Henderson Limited), under an agreement dated 7 April 2011. This agreement may be terminated by 12 months' written notice subject to provisions for earlier termination as provided therein.

Management, Social, Environmental and Diversity Matters continued

Continuing Appointment of the Manager

The Board keeps the performance of the Manager under continual review, and the Management Engagement Committee conducts an annual appraisal of the Manager's performance, and makes a recommendation to the Board about the continuing appointment of the Manager. As the Manager has delegated the investment management function to the Investment Manager, the performance of the Investment Manager is also regularly reviewed. It is the opinion of the Directors that the continuing appointment of the Manager is in the interests of shareholders as a whole. The reasons for this view are that the Manager has executed the investment strategy according to the Board's expectations and has demonstrated superior risk-adjusted returns relative to the broader market and the peer group.

The Directors also believe that by paying the management fee calculated on a market capitalisation basis, rather than a percentage of assets basis, the interests of the Manager are more closely aligned with those of shareholders.

Environmental, Human Rights, Employee, Social and Community Issues

Since the Company does not have any employees, the day-to-day management of these areas is delegated to the Manager. As an investment trust, the Company has no direct impact on the community or the environment, and as such has no environmental, human rights, social or community policies.

Environmental, Social and Governance ("ESG") factors are central to the investment process as misjudgements on these matters can incur major additional costs to the portfolio holdings, as well as undermining their equity return through reputational damage. In company meetings, the Manager routinely questions the corporate management on a variety of topics, such as safety records and the make-up of their board papers, to ensure companies are adhering to best practice. These questions can be quite wide ranging. For example, the Manager has raised issues ranging from the use of antibiotics in livestock, to how individual companies police the working conditions in the overseas plants of their suppliers.

Gender Diversity

The Board of Directors of the Company comprises two female and three male Directors.

The Company's Diversity Policy acknowledges the benefits of greater diversity, including gender diversity, and the Board remains committed to ensuring that the Company's Directors bring a wide range of skills, knowledge, experience, backgrounds and perspectives. Details of the Company's Diversity Policy are set out on pages 32 and 33.

The Strategic Report has been approved by the Board of Directors.

On behalf of the Board

Michael Wrobel
Chairman
2 August 2018

Directors (all non-executive)

Michael Wrobel (Chairman)

Michael Wrobel has over 30 years' experience in the investment industry. He is the non-executive chair of Civitas Social Housing PLC. He serves as chairman of the trustee board for the Deutsche Bank UK Pension Funds, a trustee director of the BAT UK Pension Fund and as an independent investment adviser to a number of Rio Tinto pension schemes. Michael was formerly a director of Fidelity International, Gartmore Investment Management plc and Head of Investment Trusts at F&C Asset Management. He was previously a portfolio manager at Fidelity and Morgan Grenfell. He served as a non-executive director of a number of investment trusts and trade associations. Michael has an M.A. in Economics from Cambridge University. Appointed as a Director on 30 March 2011.

Paul Craig

Paul Craig is a Portfolio Manager at Old Mutual Global Investors. Paul has over 20 years of investment experience, including 10 years at Exeter Investment Group, 6 years at New Star Asset Management, where he was a director of the asset management subsidiary, and 6 years as a Director of Multi-Manager at Henderson Global Investors. During the past 18 years, Paul's focus has been multi-manager products with an emphasis on closed-ended funds. Paul is a non-executive director of Ground Rents Income Fund plc, Hadrian's Wall Secured Investments Limited and Impact Healthcare REIT plc, and an Associate of the UK Society for Investment Professionals. Appointed as a Director on 30 March 2011.

Lucinda Riches (Chair of the Management Engagement Committee)

Lucinda Riches was formerly an investment banker. She began her career at Chase Manhattan Bank. Lucinda worked at UBS and its predecessor firms for 21 years. At UBS, she was a Managing Director, Global Head of Equity Capital Markets and a member of the Board of the Investment Bank. Lucinda is currently a non-executive director of ICG Enterprise Trust plc, The British Standards Institution, CRH plc and Ashstead Group plc. Appointed as a Director on 30 March 2011.

Calum Thomson (Chairman of the Audit Committee)

Calum Thomson is a qualified accountant with over 25 years' experience in the financial services industry. For 21 years, he was an audit partner at Deloitte LLP, specialising in the asset management sector, with clients including a wide range of managers, investment trusts, banks, sovereign wealth funds, large charities and private equity funds. During his career, Calum has led Deloitte LLP's global and UK asset management groups. He is chairman of the audit committee and a non-executive director of Bank of London and the Middle East plc, BLME Holdings plc and British Empire Trust plc, as well as chairman of the board of trustees of La Serenissima. Calum is also a non-executive director of Baring Emerging Europe plc and Standard Life Private Equity Trust plc. Appointed as a Director on 20 December 2016.

Jane Tufnell (Senior Independent Director)

Jane Tufnell was a founder member of Ruffer Investment Management Limited in 1994 and worked at Ruffer LLP until June 2014. Jane has 30 years of investment experience, joining County NatWest in 1987 where she ran the NatWest pension fund exposure to UK small companies. She is also the chair of Odyssean Investment Trust plc and a non-executive director of J.P. Morgan Claverhouse Investment Trust plc and Record plc. Appointed as a Director on 30 March 2011.

Report of the Directors

The Directors present their report and the financial statements for the year ended 31 May 2018.

Directors

The Directors in office during the year and at the date of this report are shown on page 27.

In accordance with the policy adopted by the Board, all Directors will stand for re-election at the forthcoming AGM. As explained in the Chairman's Statement on page 9, the Board is currently seeking to recruit a new Director with an understanding of finance and markets to be appointed later in 2018. An independent external search consultancy has been engaged to assist with the search for candidates.

The Board considers that, following recent performance evaluations, all of the current Directors contribute effectively and have the skills and experience relevant to the future leadership and direction of the Company. The Board therefore believes that it is in the best interests of shareholders that each of the Directors is re-elected.

None of the Directors or any persons connected with them had a material interest in the transactions and arrangements of, or the agreement with, the Manager during the year.

Substantial Shareholdings

The Directors have been informed of the following notifiable interests in the Company's voting rights as at 31 May 2018:

	Number of ordinary shares	% of voting rights
Prudential plc	46,337,076*	12.08*
Investec Wealth & Investment Limited	28,871,227	7.53
Old Mutual Plc	22,678,573	5.91
Smith & Williamson Holdings Limited	24,073,657	5.18
Brewin Dolphin Plc	19,225,322	5.01
Merseyside Pension Fund	17,618,000	4.72

* 250,688 shares (0.07%) are held in a financial instrument with voting rights that may be acquired on exercise/conversion of the instrument.

The Directors have been informed of the following changes to the above interests as at the date of this Report:

	Number of ordinary shares	% of voting rights
Prudential plc	46,219,879*	12.05*

* 159,075 shares (0.04%) are held in a financial instrument with voting rights that may be acquired on exercise/conversion of the instrument.

Results and Dividends

A summary of the Company's performance during the year and the outlook for the forthcoming year is set in the Strategic Report on pages 6 to 26.

A final dividend of 1.00p and a special dividend of 0.23p are being recommended. The dividends paid or payable in respect of the year ended 31 May 2018 are set out in the Strategic Report on page 20.

Financial Risk Management

The principal financial risks and the Company's policies for managing these risks are set out in note 19 to the financial statements.

Corporate Governance

The Corporate Governance Statement on pages 32 to 37 forms part of the Report of the Directors.

Going Concern

The Directors consider that it is appropriate to adopt the going concern basis in preparing the financial statements. After making enquiries, and bearing in mind the nature of the Group's business and assets, the Directors consider that the Group has adequate resources to continue in operational existence for the foreseeable future. In arriving at this conclusion, the Directors have considered the liquidity of the portfolio and the Group's ability to meet obligations as they fall due for a period of at least 12 months from the date that these financial statements were approved.

Cash flow projections have been reviewed and show that the Group has sufficient funds to meet both its contracted expenditure and its discretionary cash outflows in the form of the dividend policy.

Viability Statement

The Directors have assessed the viability of the Company over a three-year period, taking account of the Company's position and the risks as set out in the Strategic Report. The period assessed balances the long-term aims of the Company, the Board's view that the success of the Company is best assessed over a longer time period and the inherent uncertainty of looking out for too long a period.

As part of its assessment of the viability of the Company, the Board has considered the principal risks and uncertainties and the impact on the Company's portfolio of a significant fall in UK markets. The Directors do not expect there to be any significant change in the current principal risks and adequacy of the mitigating controls in place over the period of this assessment.

To provide this assessment, the Board has considered the Company's financial position and its ability to liquidate its portfolio to meet its expenses or other liabilities as they fall due:

- The Company invests largely in companies listed and traded on stock exchanges. These are actively traded, and whilst perhaps less liquid than larger quoted companies, the portfolio is well diversified by both number of holdings and industry sector.
- The expenses of the Company are predictable and modest in comparison with the assets in the portfolio. There are no commitments that would change that position.
- The Company has an annual redemption facility whereby shareholders may request that their shares are redeemed at NAV. The Board has considered the possibility that shareholders holding a significant percentage of the Company's shares request redemption. Firstly, the Board has flexibility over the method of redemption so as to avoid disruption to the overall operation of the Company in this situation. Secondly, the Company's investments comprise readily realisable securities which can be sold to meet funding requirements if necessary. The most significant of the Company's expenses vary in proportion to the size of the Company.

In addition to considering the principal risks on pages 21 to 23 and the financial position of the Company as described above, the Board has also considered the following further factors:

- the continuing relevance of the Company's investment objective in the current environment;
- the level of demand for the Company's shares and that since launch the Company has been able to issue further shares;
- the gearing policy of the Company; and
- that regulation will not increase to such extent that the costs of running the Company become uneconomical.

Accordingly, the Directors have formed the reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the next three years.

Greenhouse Gas Emissions

The Company has no greenhouse gas emissions to report from its operations, nor does it have responsibility for any other emissions producing sources under the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013, including those within its underlying investment portfolio.

Report of the Directors continued

Requirements of the Listing Rules

Listing Rule 9.8.4 requires the Company to include specified information in a single identifiable section of the Annual Report or a cross reference table indicating where the information is set out. The Directors confirm that there are no disclosures required in relation to Listing Rule 9.8.4.

Audit Information

The Directors who held office at the date of approval of the Report of the Directors confirm that, so far as they are aware, there is no relevant audit information of which the Company's Auditor is unaware; and each Director has taken all the steps that he/she ought to have taken as a Director to make himself/herself aware of any relevant audit information and to establish that the Company's Auditor is aware of that information.

Auditor

Ernst & Young LLP has expressed its willingness to continue in office as Auditor of the Company and resolutions for its re-appointment and for the Directors to determine its remuneration will be proposed at the forthcoming AGM.

Annual General Meeting

The Notice of the AGM to be held on 10 October 2018 (the "Notice") is set out on pages 86 to 90. Shareholders are being asked to vote on various items of business, being:

Ordinary Business:

(i) the receipt and adoption of the Strategic Report, the Reports of the Directors and Auditor and the financial statements for the year ended 31 May 2018;

(ii) the receipt and approval of the Directors' Remuneration Report;

(iii) the re-election of Directors;

(iv) the re-appointment of Ernst & Young LLP as Auditor and the authorisation of the Audit Committee to determine the remuneration of the Auditor;

(v) the approval of a final and a special dividend;

(vi) the granting of authorities in relation to the allotment of shares;

(vii) the disapplication of pre-emption rights for certain issues of shares;

(viii) the purchase by the Company of its own shares; and

(ix) the holding of general meetings on not less than 14 clear days' notice.

Special Business:

(x) the amendment of the Company's investment policy; and

(xi) the granting of authority to communicate electronically with shareholders.

Resolutions 1 to 12, 16 and 17 will be proposed as ordinary resolutions and Resolutions 13 to 15 will be proposed as special resolutions.

Authority to Issue Shares and Disapplication of Pre-Emption Rights

An ordinary resolution to authorise the Directors to allot ordinary shares up to an aggregate nominal amount of £38,348, equal to approximately 10% of the Company's issued ordinary share capital, will be proposed as Resolution 12.

Resolution 13, a special resolution, is being proposed to authorise the Directors to issue ordinary shares for cash and to disapply the pre-emption rights of existing shareholders in relation to issues of ordinary shares under Resolution 12 (being in respect of up to 10% of the Company's issued share capital as at the date of the Notice). Shares would only be issued at a price at or above the prevailing NAV per share.

As at the date of the Notice, the Company holds no shares in treasury.

These authorities, if approved by shareholders, will expire at the AGM to be held in 2019, when resolutions for their renewal will be proposed. The Directors will only issue new shares if they believe it would be in the best interests of the Company's shareholders.

Purchase of Own Shares

Resolution 14, a special resolution, will renew the Company's authority to make market purchases of up to 14.99% of the Company's ordinary shares, either for cancellation or placing into treasury at the determination of the Directors. Purchases of ordinary shares will be made within guidelines established from time to time by the Board. Any purchase of ordinary shares would be made only out of the available cash resources of the Company. The maximum price which may be paid for an ordinary share must not be more than the higher of (i) 5% above the average of the mid-market values of the ordinary shares for the five business days before the purchase is made, or (ii) the higher of the price of the last independent trade and the highest current independent bid for the ordinary shares. The minimum price which may be paid is 0.1p per ordinary share.

The Directors would use this authority to address any significant imbalance between the supply and demand for the Company's ordinary shares and to manage the discount to net asset value at which the ordinary shares trade. Ordinary shares will be repurchased only at prices below the NAV per ordinary share, which should have the effect of increasing the NAV per ordinary share for remaining shareholders. This authority will expire at the AGM to be held in 2019 when a resolution to renew the authority will be proposed.

Notice Period for General Meetings

Resolution 15 is a special resolution that will give the Directors the ability to convene general meetings, other than annual general meetings, on a minimum of 14 clear days' notice. The minimum notice period for annual general meetings will remain at 21 clear days. The approval will be effective until the Company's AGM to be held in 2019, at which it is intended that renewal will be sought. The Company will have to offer facilities for all shareholders to vote by electronic means for any general meeting convened on 14 days' notice. The Directors will only call a general meeting on 14 days' notice where they consider it to be in the interests of shareholders to do so and the relevant matter is required to be dealt with expediently.

Change to Investment Policy

Resolution 16, an ordinary resolution, seeks shareholder approval to amend the Company's investment policy by increasing the minimum and maximum number of securities referred in the policy from 80 to 160 securities as currently, to between 100 and 180 securities in future. The Directors believe this change will make the average number of holdings in the portfolio over recent years nearer to the average of the figures proposed in the policy. If the change is approved by shareholders, it is not expected to precipitate any change to the portfolio, but rather it will ensure the Manager has greater flexibility to vary the number of portfolio holdings in future as market conditions change, should this be in the interests of shareholders. The proposed new investment policy is set out on page 91.

Authority to Communicate Electronically with Shareholders

Resolution 17, an ordinary resolution, if passed, will allow the Company to take advantage of the provisions of The Companies Act 2006 to use electronic communications to engage with its shareholders by placing documents such as the annual report and half-yearly report on its website rather than sending them in hard copy. The Company will notify those shareholders who have elected for electronic communication, by post or email if they have provided an email address, that the document is available on the website. Shareholders can, however, ask for a hard copy of any document at any time.

If this resolution is passed, the new arrangements are expected to result in potential administrative, printing and postage cost savings for the Company, while preserving shareholders' rights to receive hard copy documents if they so wish.

Recommendation

Full details of the above resolutions are contained in the Notice.

The Directors consider that all the resolutions to be proposed at the AGM are in the best interests of the Company and its members as a whole. The Directors unanimously recommend that shareholders vote in favour of all the resolutions, as they intend to do in respect of their own beneficial holdings.

By order of the Board
Link Alternative Fund Administrators Limited
Secretary

2 August 2018

Corporate Governance Statement

This Corporate Governance Statement forms part of the Report of the Directors.

The Company is committed to maintaining high standards of corporate governance and the Board is accountable to shareholders for the governance of the Group's affairs.

Statement of Compliance

The Board of Diverse has considered the principles and recommendations of the AIC Code of Corporate Governance for Investment Companies ("AIC Code") by reference to the AIC Corporate Governance Guide for Investment Companies ("AIC Guide") published in July 2016. The AIC Code, as explained by the AIC Guide, addresses all the principles set out in of the UK Corporate Governance Code ("UK Code"), as well as setting out additional principles and recommendations on issues that are of specific relevance to investment trusts. The Board considers that reporting against the principles and recommendations of the AIC Code, and by reference to the AIC Guide (which incorporates the UK Code), provides better information to shareholders.

The FRC, the UK's independent regulator for corporate reporting and governance responsible for the UK Code, has endorsed the AIC Code and the AIC Guide. The terms of the FRC's endorsement mean that AIC members who report against the AIC Code and the AIC Guide meet fully their obligations under the UK Code and the related disclosure requirements contained in the Listing Rules.

A copy of the AIC Code and the AIC Guide can be obtained via the AIC website, www.theaic.co.uk. A copy of the UK Code can be obtained at www.frc.org.uk.

The Company has complied with the recommendations of the AIC Code and the relevant provisions of Section 1 of the UK Code, except as set out below.

The UK Code includes provisions relating to:

☞ the role of the chief executive;

☞ executive directors' remuneration; and

☞ the need for an internal audit function.

For the reasons set out in the AIC Guide and as explained in the UK Code, the Board considers these provisions are not relevant to the position of the Company, being an externally-managed investment company. The Company has therefore not reported further in respect of these provisions.

The Board of Directors

The Board consists entirely of non-executive Directors and has no employees.

The Board is responsible for all matters of direction and control of the Company and the Group, including its investment policy and strategy, and no one individual has unfettered powers of decision. The Directors possess a wide range of business and financial expertise relevant to the direction of the Company and consider that they commit sufficient time to the Company's affairs. Brief biographical details of the Directors, including details of their significant commitments, can be found on page 27.

None of the Directors has a service contract, but letters of appointment setting out the terms of their appointment are in place. Directors are not entitled to any compensation for loss of office. Copies of the letters of appointment are available on request from the Secretary and will be available at the AGM.

The Board has adopted a diversity policy, which acknowledges the benefits of greater diversity, including gender diversity, and remains committed to ensuring that the Company's Directors bring a wide range of skills, knowledge, experience, backgrounds and perspectives to the Board. Whilst the Board does not feel that it would be appropriate to set targets as all appointments are made on merit, the following objectives for the appointment of Directors have been established:

- all Board appointments will be made on merit, in the context of the skills, knowledge and experience that are needed for the Board to be effective; and
- long lists of potential non-executive Directors should include diverse candidates of appropriate merit.

A procedure for the induction of new Directors has been established, including the provision of an induction pack containing relevant information about the Company, its processes and procedures. New appointees will also have the opportunity of meeting with the Chairman and relevant persons at the Manager.

Chairman and Senior Independent Director

The Chairman, Michael Wrobel, is deemed by his fellow independent Board members to be independent and to have no conflicting relationships. Mr Wrobel is an Independent Investment Adviser to Rio Tinto plc. He considers himself to have sufficient time to commit to the Company's affairs.

Jane Tufnell has been appointed by the Board as the Senior Independent Director of the Company. She provides a channel for any shareholder concerns regarding the Chairman and takes the lead in the annual evaluation of the Chairman by the independent Directors.

Board Operation

The Directors meet at regular Board meetings, held at least four times a year, with additional meetings arranged as necessary. During the year to 31 May 2018, the number of Board and Committee meetings attended by each Director were as follows:

	Scheduled Board meetings		Audit Committee meetings		Management Engagement Committee meetings	
	Number entitled to attend	Number attended	Number entitled to attend	Number attended	Number entitled to attend	Number attended
Michael Wrobel	4	4	2	2	1	1
Paul Craig	4	4	–	–	1	1
Lucinda Riches	4	4	2	2	1	1
Calum Thomson	4	4	2	2	1	1
Jane Tufnell	4	4	2	2	1	1

Two additional Board meetings were also held during the year to review the circular for the General Meeting on 15 November 2017 and preparation for the introduction of MiFID II.

The Board has formalised arrangements under which the Directors, in the furtherance of their duties, may take independent professional advice at the Company's expense. The Company has arranged a Directors' and Officers' Liability insurance policy which includes cover for legal expenses.

The Company has provided each of the Directors of the Company, subject to the provisions of UK legislation, with an indemnity in respect of liabilities which they may sustain or incur in connection with the discharge of their duties as a Director. The indemnity also covers reasonable legal and other defence expenses, although these would have to be repaid in the event of a conviction. Deeds of Indemnity in favour of each of the Directors were executed on behalf of the Company on their appointment. There are no other qualifying third party indemnity provisions in place.

Corporate Governance Statement continued

Board Evaluation

The Directors are aware that they need to continually monitor and improve performance and recognise this can be achieved through regular Board evaluation, which provides a valuable feedback mechanism for improving Board effectiveness. The Board has therefore opted to undertake an internal performance evaluation by way of questionnaires specifically designed to assess the strengths and independence of the Board and the Chairman, individual Directors and the performance of its Committees. The questionnaires are also intended to analyse the focus of Board meetings and assess whether they are appropriate, or if any additional information may be required to facilitate Board discussions. Any training needs identified as part of the Board evaluation process are added to the next Board meeting agenda.

The evaluation process was carried out following the year end and was conducted by the Chairman. Jane Tufnell, as the Senior Independent Director, led the appraisal of the Chairman.

Independence of Directors

In accordance with the AIC Code, the Board has reviewed the independent status of each individual Director and the Board as a whole. In the Board's opinion, all Directors are considered to be independent of the Manager in both character and judgement.

Paul Craig is an employee of Old Mutual Global Investors Limited, a substantial shareholder of the Company. The Directors have considered Mr Craig's independence. They have noted that there could be certain circumstances that might pose a conflict of interest to Mr Craig, but these would be disclosed and, in accordance with agreed procedures, Mr Craig would not vote on these issues. Having considered these points and taking into account Mr Craig's conduct in Board meetings, the Board confirmed that it considered him to be independent. As with all Directors, this will be regularly reviewed and considered as part of the performance evaluation process.

Election/re-election of Directors

Under the Company's Articles of Association and in accordance with the AIC Code, Directors are required to retire at the first AGM following their appointment. Thereafter, at each AGM any Director who has not stood for appointment or re-election at either of the two preceding AGMs shall be required to retire from office, and may offer him/herself for re-election.

Beyond these requirements, the Board has agreed a policy whereby all Directors will seek annual re-election at the Company's AGMs. This is in line with the recommendations of the AIC Code for FTSE 350 companies, albeit the Company does not currently fall in this category. The maximum length of service for any Director will be nine years following first election.

Board Responsibilities and Relationship with the Manager

The Board is responsible for the determination and implementation of the Company's investment policy and strategy and has overall responsibility for the Company's activities, including the review of investment activity and performance, control and supervision of the Manager. The Board's main roles are to create value for shareholders, to provide leadership to the Company and to approve the Company's strategic objectives. The Board has adopted a schedule of matters reserved for decision by the Board, and specific responsibilities include: reviewing the Company's investments, asset allocation, gearing policy, cash management, peer group performance, investment outlook and revenue forecasts and outlook. This schedule is reviewed regularly.

The Company's day-to-day functions have been subcontracted to a number of service providers, each engaged under separate legal agreements. The management of the Group's assets has been delegated to the Manager, who in turn has delegated the investment management activities to Miton Asset Management Limited, which has discretion to manage the assets in accordance with the Company's investment objective and policy.

At each Board meeting the Directors follow a formal agenda, which is circulated in advance by the Secretary. The Secretary and Manager regularly provide financial information, together with briefing notes and papers in relation to changes in the Company's economic and financial environment, statutory and regulatory changes and corporate governance best practice.

At each Board meeting a representative from the Manager is in attendance to present verbal and written reports covering the Company's activity, portfolio and investment performance over the preceding period. Ongoing communication with the Board is maintained between formal meetings. The Board and the Manager operate in a fully supportive, co-operative and open environment.

Conflicts of Interest

The Articles of Association permit the Board to consider and, if it sees fit, to authorise situations where a Director has an interest that conflicts, or may possibly conflict, with the interests of the Group. There is in place a formal system for the Board to consider authorising such conflicts, whereby the Directors who have no interest in the matter decide whether to authorise the conflict and any conditions to be attached to such authorisations.

Board Committees

The Company has three Committees in operation, the Audit Committee, the Management Engagement Committee and the Disclosure Committee. Given the size of the Board, it is not felt appropriate for the Company to have a separate nomination committee or remuneration committee. The functions that would normally be carried out by these committees are dealt with by the full Board.

The terms of reference of the Committees are available on the Company's website at www.mitongroup.com/dit.

Audit Committee

The Audit Committee comprises all Directors except Paul Craig and is chaired by Calum Thomson. Michael Wrobel, the Company's Chairman, is a member of the Audit Committee. The Board considers that the members of the Audit Committee have the requisite skills and experience to fulfil the responsibilities of the Audit Committee and competence relevant to the investment trust sector. Mr Thomson is a qualified accountant with over 25 years' experience in the financial services industry.

A Report from the Chairman of the Audit Committee is set out on pages 38 to 40.

Management Engagement Committee

The Management Engagement Committee comprises all the Directors and is chaired by Lucinda Riches. The Committee meets at least once a year to review the performance of the Manager's obligations under the Management Agreement and to consider any variation to the terms of the agreement, and reports its findings to the Board. The Committee met once during the year to consider the performance of the Manager and other service providers over the preceding financial period.

In reaching its recommendation to the Board about the continuing appointment of the Manager, the Committee's deliberations include consideration of the fee basis for other companies in the peer group, the performance of the Company against its peer group, the share volatility against that of other companies in the peer group and shareholder feedback (see Continuing Appointment of the Manager on page 26).

The Management Engagement Committee also reviews annually the performance of the Secretary, the Depositary, the Custodian and the Registrar and any matters concerning their respective agreements with the Company.

Disclosure Committee

The Disclosure Committee comprises all the Directors and ensures inside information is identified and disclosed, if necessary, in accordance with the Market Abuse Regulation. No meetings of the Committee were held during the year.

Corporate Governance Statement continued

Stewardship Responsibilities and the Use of Voting Rights

The Board delegates the day-to-day responsibilities regarding the engagement with investee companies to the Company's Manager. However, the Board retains oversight of this process through regular updates from the Manager on its engagement activities, and by reviewing the Manager's stewardship and voting policies.

Miton engages with their underlying investee companies on all areas of ESG with particular focus on governance. It is becoming ever more prominent that companies that do not display good governance may struggle to access capital in the future, especially at the smaller end of the market cap spectrum. Two areas of focus have been board composition and remuneration to ensure that boards include members who are suitably qualified members and management are being appropriately rewarded for their successes.

Concerning voting, the managers use the independent proxy voting service Institutional Shareholder Service ("ISS") to provide them with research on the proposed resolutions for each investee company. However, they use them in a research capacity only; the final decisions are always taken on an active basis having considered the merits of each on a case-by-case basis.

Company Secretary

The Board has direct access to the advice and services of the Secretary, Link Alternative Fund Administrators Limited, which is responsible for ensuring that the Board and Committee procedures are followed and that applicable regulations are complied with. The Secretary is also responsible to the Board for ensuring timely delivery of the information and reports and that the statutory obligations of the Company are met.

Internal Control Review

The Directors are responsible for the risk management and systems of internal control relating to the Company and its subsidiary and the reliability of the financial reporting process and for reviewing their effectiveness.

The Directors have reviewed and considered the guidance supplied by the FRC on Risk Management, Internal Control, and Related Finance and Business Reporting and an ongoing process has been established for identifying, evaluating and managing the principal risks faced by the Group. This process, which is regularly reviewed, together with key procedures established with a view to providing effective financial control, was in place during the year under review and at the date of the signing of this Report. The internal control systems are designed to ensure that proper accounting records are maintained, that the financial information on which business decisions are made and which are issued for publication is reliable and that the assets of the Company are safeguarded. The risk management process and Group systems of internal control are designed to manage rather than eliminate the risk of failure to achieve the Company's objectives. It should be recognised that such systems can only provide reasonable, not absolute, assurance against material misstatement or loss.

The Directors have carried out a review of the effectiveness of the Group's risk management and internal control systems as they have operated over the period and up to the date of approval of the report and financial statements. There were no matters arising from this review that required further investigation and no significant failings or weakness were identified.

Internal Control Assessment Process

Regular risk assessments and reviews of internal controls are undertaken in the context of the Company's overall investment objective. The Board, through the Audit Committee, has identified risk management controls in four key areas: corporate strategy; published information and compliance with laws and regulations; relationships with service providers; and investment and business activities. In arriving at its judgement of what risks the Company faces, the Board has considered the Company's operations in the light of the following factors:

☞ the nature and extent of risks which it regards as acceptable for the Company to bear within its overall business objective;

☞ the threat of such risks becoming reality;

☞ the Company's ability to reduce the incidence and impact of risk on its performance; and

☞ the cost to the Company and benefits related to the Company and third parties operating the relevant controls.

A risk matrix has been produced against which the risks identified and the controls in place to mitigate those risks can be monitored. The risks are assessed on the basis of the likelihood of them happening, the impact on the business if they were to occur and the effectiveness of the controls in place to mitigate them. This risk matrix is reviewed twice a year by the Audit Committee and at other times as necessary.

The principal risks that have been identified by the Board are set out on pages 21 to 23.

The Board reviews financial information produced by the Manager and the Secretary on a regular basis.

Most functions for the day-to-day management of the Company are sub-contracted, and the Directors therefore obtain regular assurances and information from key third party suppliers regarding the internal systems and controls operated in their organisations. In addition, each of the third parties is requested to provide a copy of its report on internal controls each year, which is reviewed by the Audit Committee, together with letters of comfort confirming that those controls were still in operation at the Company's year end.

Shareholder Relations

Communication with shareholders is given a high priority by both the Board and the Manager and the Directors are available to enter into dialogue with shareholders. The Manager and the Company's Broker, Cenkos Securities plc, are in regular contact with the major institutional investors and report the results of all meetings and the views of those shareholders to the Board on a regular basis. The Chairman and the other Directors are available to attend these meetings with shareholders if required.

All shareholders are encouraged to attend and vote at the Annual General Meeting, during which the Board and the Manager will be available to discuss issues affecting the Company and answer any questions. Shareholders wishing to communicate directly with the Board or to lodge a question in advance of the Annual General Meeting should contact the Secretary at the address on page 97. The Company always responds to letters from shareholders.

The Annual and Half-Yearly Reports of the Company are prepared by the Board and its advisers to present a full and readily understandable review of the Company's performance. Copies are released to the London Stock Exchange, dispatched to shareholders by mail and are also available from the Secretary or by downloading from the Company's website, www.mitongroup.com/dit.

Audit Committee Report

I am pleased to present the Audit Committee Report for the year ended 31 May 2018.

Role of the Audit Committee

The primary responsibilities of the Audit Committee are:

☞ to monitor the integrity of the financial statements of the Company and the Group, and review the financial reporting process and the accounting policies of the Company;

☞ to keep under review the effectiveness of the Company's and the Group's internal control environment and risk management systems;

☞ to make recommendations to the Board in relation to the re-appointment or removal of the external auditor and to approve its remuneration and terms of engagement, including the provision of any non-audit services;

☞ to review the effectiveness of the audit process; and

☞ to review and monitor the auditor's independence and objectivity.

The Audit Committee has direct access to the Company's Auditor, Ernst & Young LLP, and provides a forum through which the Auditor reports to the Board. Representatives of the Auditor attend meetings of the Audit Committee on a regular basis.

Matters Considered in the Year

The Audit Committee met twice during the year under review and once post the year end. It has:

☞ reviewed the internal controls and risk management systems of the Company and its third party service providers;

☞ agreed the audit plan with the Auditor, including the principal areas of focus, and agreed the audit fee;

☞ received and discussed with the Auditor their report on the results of the audit;

☞ reviewed the Group's financial statements and discussed the appropriateness of the accounting policies adopted; and

☞ met with the Manager to discuss and challenge the valuation of Level 2 and Level 3 investments.

The Audit Committee has reviewed and updated, where appropriate, the risk matrix. This is done on a six-monthly basis.

The Audit Committee receives a report on internal control and compliance from the Manager's Compliance Officer on a six-monthly basis and discusses this with the Manager. The Audit Committee also meets with representatives of the Depositary and Custodian at least once a year and receives reports from both. No significant issues or concerns arose from these discussions.

Reports from the Company's other service providers were also reviewed and no significant matters of concern were identified.

The Audit Committee monitors and reviews the effectiveness of the external audit process for the Annual Report, including a detailed review of the audit plan and the audit results report, and makes recommendations to the Board on the re-appointment, remuneration and terms of engagement of the Auditor. This review takes into account the experience and tenure of the audit partner and team, the nature and level of services provided, and confirmation that the Auditor has complied with independence standards. Any concerns with the effectiveness of the external audit process would be reported to the Board. No concerns were raised in respect of the year ended 31 May 2018.

Risk	Mitigation
The valuation and ownership of the investment portfolio.	The Board relies on the Administrator and the Manager to use correct listed prices and seeks comfort in the testing of this process through the internal control statements. This was discussed with the Administrator, Manager and Auditor at the conclusion of the audit of the financial statements. The Audit Committee has also discussed, challenged and agreed with the Manager the approach to the valuation of Level 2 and Level 3 investments. Regular updates are provided to the Directors about the activities and valuations of any unquoted holdings. The Company uses the services of an independent Depositary (The Bank of New York Mellon (International) Limited) to hold the assets of the Company. The Depositary checks the consistency of its records with those of the Manager on a monthly basis and reports to the Audit Committee twice a year.
The allocation of special dividends between revenue and capital.	The Audit Committee has also reviewed and confirmed with the Manager, Administrator and Auditor the treatment of special dividends.
Maintenance of investment trust status.	The Manager and Administrator have reported to the Audit Committee to confirm continuing compliance with the requirements for maintaining investment trust status. The position is also discussed with the Auditor as part of the audit process.

Following the consideration of the above matters and its detailed review, the Audit Committee was of the opinion that the Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

Audit Fees and Non-Audit Services

An audit fee of £33,000 (inclusive of VAT) has been agreed in respect of the audit for the year ended 31 May 2018 (2017: £30,480).

In relation to non-audit services, the Audit Committee reviews the scope and nature of all proposed non-audit services before engagement, to ensure that auditor independence and objectivity are safeguarded. No non-audit fees were paid to Ernst & Young LLP in the year (2017: none).

Audit Committee Report continued

Independence and Objectivity of the Auditor

The Audit Committee has acknowledged that Ernst & Young LLP is also auditor to the Manager and has satisfied itself that Ernst & Young remains independent and objective. This has been achieved by assigning different audit partners and audit teams to the Company and the Manager respectively. The Committee considers that this provides sufficient evidence of independence. Following its review of the independence of the Auditor, the Audit Committee has been reassured that no conflicts have arisen during the year. However, the Committee will continue to monitor the position.

The Audit Committee is responsible for reviewing the level of non-audit fees paid to the Auditor. No non-audit services have been provided by the Auditor over the last three years. Given that the Board has indicated that it is unlikely to carry out any further C share issues, the level of non-audit fees is likely to remain low in the future.

Ernst & Young LLP has been Auditor to the Company since launch in April 2011. No tender for the audit of the Company has been undertaken. The audit partner of the Company has been rotated twice since the Auditor's initial appointment, in respect of the financial years ended 31 May 2013 and 31 May 2018, and the next rotation will therefore be in respect of the year ending 31 May 2023. The current audit partner is Sarah Williams. The Audit Committee regularly considers the need to put the audit out to tender, its fees and independence, along with matters raised during each audit. In accordance with new requirements relating to the appointment of auditors, the Company would need to conduct an audit tender no later than for the accounting period beginning 1 June 2022.

Re-appointment of the Auditor

Following consideration of the performance of the Auditor, the service provided during the year and a review of their independence and objectivity, the Audit Committee has recommended to the Board the re-appointment of Ernst & Young LLP as Auditor to the Company.

Calum Thomson
Audit Committee Chairman
2 August 2018

Directors' Remuneration Report

The Board has prepared this report in accordance with the requirements of the Large and Medium-Sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013. An ordinary resolution for the approval of the Directors' Remuneration Report will be put to shareholders at the forthcoming AGM.

The law requires the Company's Auditor to audit certain of the disclosures provided. Where disclosures have been audited, they are indicated as such. The Auditor's opinion is included in the Independent Auditor's Report on pages 47 to 53.

Statement from the Chairman

I am pleased to present the Directors' Remuneration Report for the year ended 31 May 2018.

Given the size of the Board, it is not considered appropriate for the Company to have a separate remuneration committee and the functions of this committee are therefore carried out by the Board as a whole. The Board consists entirely of independent non-executive Directors and the Company has no employees. We have not, therefore, reported on those aspects of remuneration that relate to executive Directors.

Directors' fees were last increased on 1 June 2014. Following our annual review of Directors' fees against those of the Company's peer group and the average for similar-sized investment trusts, the Board has agreed that the Chairman's fee will increase to £35,700 per annum, the Audit Committee Chairman's fee to £29,070 and the fee for the other Directors to £25,500 per annum. These changes are effective from 1 June 2018.

There will be no significant change in the way the current, approved Remuneration Policy will be implemented in the course of the next financial year.

Directors' Remuneration Policy

A resolution to approve this Remuneration Policy was proposed at the Annual General Meeting of the Company held on 10 October 2017. The resolution was passed, and the remuneration policy provisions set out below will apply until they are next put to shareholders for renewal of that approval, which must be at intervals of not more than three years, or the Remuneration Policy is varied, in which event shareholder approval for the new Remuneration Policy will be sought.

The Board's policy is that remuneration of non-executive Directors should reflect the experience of the Board as a whole and is determined by reference to comparable organisations and appointments.

The level of remuneration has been set in order to attract individuals of a calibre appropriate to the future development of the Company and to reflect the specific circumstances of the Company, the duties and responsibilities of the Directors and the value and amount of time committed to the Company's affairs.

The fees for the non-executive Directors are determined within the limits (not to exceed £500,000 per year in aggregate) set out in the Company's Articles of Association, or any greater sum that may be determined by ordinary resolutions of the Company. The Chairman does not participate in any discussions relating to his own fee, which is determined by the independent Directors. Directors are not eligible for bonuses, share options or long-term incentive schemes or other performance-related benefits as the Board does not believe that this is appropriate for non-executive Directors. There are no pension arrangements in place for the Directors of the Company.

Under the Company's Articles of Association, if any Director is called upon to perform extra or special services of any kind, he shall be entitled to receive such sum as the Board may think fit for expenses, and also such remuneration as the Board may think fit, either as a fixed sum or as a percentage of profits or otherwise, and such remuneration may, as the Board shall determine, be either in addition to or in substitution for any other remuneration he may be entitled to receive.

Directors' Remuneration Report continued

Directors are entitled to be paid all expenses properly incurred in attending Board or shareholder meetings or otherwise in or with a view to the performance of their duties.

Directors' and Officers' liability insurance cover is maintained by the Company on behalf of the Directors.

Component	Director	Rate at 1 June 2018	Purpose of Remuneration
Annual fee	Chairman	£35,700	Commitment as Chairman[1]
Annual fee	Non-executive Directors	£25,500	Commitment as a non-executive Director[2]
Additional fee	Chairman of the Audit Committee	£3,570	For additional responsibilities and time commitments[3]
Additional fee	All Directors	N/A	For extra or special services performed in their role as a Director[4]
Expenses	All Directors	N/A	Reimbursement of expenses incurred in the performance of duties as a Director

1 The Company's policy is for the Chairman of the Board to be paid a higher fee than the other Directors to reflect the more onerous role.

2 The Company's Articles of Association limit the aggregate fees payable to the Board of Directors to a total of £500,000 per annum.

3 The Company's policy is for the Chairman of the Audit Committee to be paid a higher fee than the other Directors to reflect the more onerous role.

4 Additional fees would only be paid in exceptional circumstances in relation to the performance of extra or special services.

No other additional fees are payable for membership of the Board's committees.

Fees for any new Director appointed will be on the above basis. Fees payable in respect of subsequent periods will be determined following an annual review. Any views expressed by shareholders on the fees being paid to Directors would be taken into consideration by the Board.

It is the Board's policy that Directors do not have service contracts, but Directors are provided with a letter of appointment as a non-executive Director.

The terms of their appointment provide that Directors shall retire and be subject to election at the first Annual General Meeting after their appointment. Thereafter, they will be subject to annual re-election. Compensation will not be made upon early termination of appointment.

Remuneration Report

Directors' Fees for the Period (audited)

The Directors who served in the year received the following emoluments:

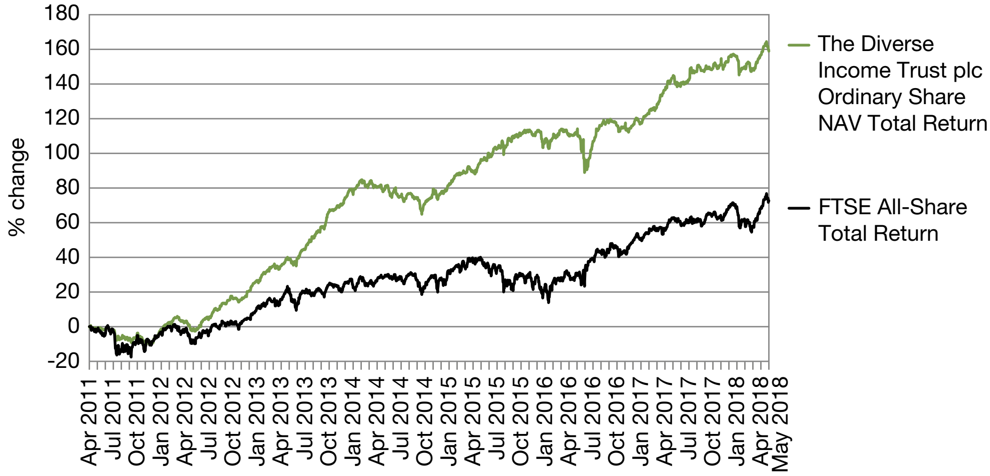
	Fees		Total	
	Year ended 31 May 2018 £	Year ended 31 May 2017 £	**Year ended 31 May 2018 £**	Year ended 31 May 2017 £
Michael Wrobel (Chairman)	**32,500**	32,500	**32,500**	32,500
Paul Craig	**25,000**	25,000	**25,000**	25,000
Lucinda Riches	**25,000**	25,000	**25,000**	25,000
Calum Thomson†	**27,500**	12,410	**27,500**	12,410
Jane Tufnell#	**25,000**	26,407	**25,000**	26,407
	135,000	121,317	**135,000**	121,317

† appointed as a Director and Chairman of the Audit Committee with effect from 20 December 2016.

Chair of the Audit Committee between 22 April 2016 and 20 December 2016.

Company Performance

The Company does not have a specific benchmark against which performance is measured. The graph below compares the total return (assuming all dividends are reinvested) to holders of ordinary shares since they were first admitted to the Official List of the UK Listing Authority, compared to the total shareholder return of the FTSE All-Share Total Return Index, which is the closest broad index against which to measure the Company's performance.



Source: Miton Asset Management Limited.

Relative Importance of Spend on Pay

The table below shows the amount spent on pay.

	2018 £'000	2017 £'000	Change
Dividends paid to ordinary shareholders in the year	**13,614**	11,121	22.4%
Total remuneration paid to Directors	**135**	121	11.6%

Directors' Beneficial and Family Interests (audited)

There is no requirement under the Company's Articles of Association or the terms of their appointment for Directors to hold shares in the Company.

The interests of the Directors and their families in the ordinary shares of the Company as at 31 May 2018 are set out below:

	At 31 May 2018 Number of ordinary shares	At 31 May 2017 Number of ordinary shares
Michael Wrobel (Chairman)	**241,539**	241,539
Paul Craig	**42,625**	42,625
Lucinda Riches	**99,959**	99,959
Calum Thomson	**36,775**	36,775
Jane Tufnell	**171,595**	171,595

There have been no changes to Directors' share interests between 31 May 2018 and the date of this Report.

Directors' Remuneration Report continued

Voting at Annual General Meeting

The Directors' Remuneration Report for the year ended 31 May 2017 and the Directors' Remuneration Policy were approved by shareholders at the AGM held on 10 October 2017. The votes cast by proxy were as follows:

	Directors' Remuneration Report		Directors' Remuneration Policy	
	Number of votes	**% of votes cast**	**Number of votes**	**% of votes cast**
For	153,643,251	99.95	153,641,985	99.94
Against	59,690	0.04	76,961	0.05
At Chairman's discretion	20,858	0.01	20,858	0.01
Total votes cast	153,723,799	100.00	153,739,804	100.00
Number of votes withheld	21,563		5,558	

Approval

The Directors' Remuneration Report was approved by the Board on 2 August 2018.

On behalf of the Board
Michael Wrobel
Chairman

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report and the Group financial statements in accordance with applicable United Kingdom law and International Financial Reporting Standards ("IFRS") as adopted by the European Union.

Company law requires the Directors to prepare financial statements for each financial year. Under that law, the Directors have elected to prepare the financial statements in accordance with IFRS. Under company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that year.

In preparing the Group financial statements, the Directors are required to:

☞ select suitable accounting policies in accordance with IAS 8: 'Accounting Policies, Changes in Accounting Estimates and Errors' and then apply them consistently;

☞ present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;

☞ provide additional disclosures when compliance with specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's financial position and financial performance;

☞ state that the Group has complied with IFRS, subject to any material departures disclosed and explained in the financial statements; and

☞ make judgements and estimates that are reasonable and prudent.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the Group financial statements comply with the Companies Act 2006 and Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report, Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that comply with that law and those regulations, and for ensuring that the Annual Report includes information required by the Listing Rules of the Financial Conduct Authority.

The financial statements are published on the Company's website, www.mitongroup.com/dit, which is maintained on behalf of the Company by the Manager. Under the Management Agreement, the Manager has agreed to maintain, host, manage and operate the Company's website and to ensure that it is accurate and up-to-date and operated in accordance with applicable law. The work carried out by the Auditor does not involve consideration of the maintenance and integrity of this website and accordingly, the Auditor accepts no responsibility for any changes that have occurred to the financial statements since they were initially presented on the website. Visitors to the website need to be aware that legislation in the United Kingdom covering the preparation and dissemination of the financial statements may differ from legislation in their jurisdiction.

Statement of Directors' Responsibilities continued

We confirm that to the best of our knowledge:

- ☞ the Group financial statements, prepared in accordance with IFRS as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the Company (and the Group as a whole); and
- ☞ this Annual Report includes a fair review of the development and performance of the business and the position of the Group together with a description of the principal risks and uncertainties that it faces.

The Directors consider that the Annual Report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

On behalf of the Board
Michael Wrobel
Chairman

2 August 2018

Independent Auditor's Report

Opinion

In our opinion:

- The Diverse Income Trust plc's Group financial statements and parent Company financial statements (the "financial statements") give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 May 2018 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union;
- the parent Company financial statements been properly prepared in accordance with IFRS as adopted by the European Union as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006, and, as regards the Group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements of The Diverse Income Trust plc which comprise:

Group	Parent Company
Consolidated Balance Sheet as at 31 May 2018;	Balance Sheet as at 31 May 2018;
Consolidated Income Statement for the year then ended;	Statement of Changes in Equity for the year then ended;
Consolidated Statement of Changes in Equity for the year then ended;	Cash Flow Statement for the year then ended; and
Consolidated Statement of Cash Flows for the year then ended; and	Related notes 1 to 20 to the financial statements including a summary of significant accounting policies.
Related notes 1 to 20 to the financial statements, including a summary of significant accounting policies.	

The financial reporting framework that has been applied in their preparation is applicable law and IFRS as adopted by the European Union and; as regards to the parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Group and parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you whereby:

- the Directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group's or the parent Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Independent Auditor's Report continued

Overview of our audit approach

Key audit matters	☞ Incomplete or inaccurate revenue recognition. ☞ Incorrect valuation of the investments and defective title of the investment portfolio.
Audit scope	☞ We performed an audit of the consolidated financial statements of The Diverse Income Trust plc in accordance with applicable law and International Standards on Auditing (UK). ☞ We performed an audit of the complete financial information of the DIT Income Services Limited component.
Materiality	☞ Overall group materiality of £4.03m, which represents 1% of net assets.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Incomplete or inaccurate revenue recognition (2018: £16.5m and 2017: £17.0m) *Refer to the Audit Committee Report (page 39); accounting policies (pages 61 and 62); and note 2 of the consolidated financial statements (page 63)* The investment income receivable by the Company during the year directly affects the Company's ability to make a dividend payment to shareholders. The income received for the year to 31 May 2018 was £16.5m (2017: £17.0m), with the majority being dividend receipts from listed investments. Special dividends represent dividends paid by investee companies that are additional to the normal or expected dividend cycle for that company. In accordance with the AIC SORP, special dividends can be included within either the revenue or capital columns of the Statement of Comprehensive Income, depending on the commercial circumstances behind the payments. The Directors are required to exercise judgment in determining whether income receivable in the form of special dividends should be classified as 'revenue' or 'capital'.	We obtained an understanding of the Manager's and Administrator's processes and controls surrounding revenue recognition and allocation of special dividends by performing a walkthrough in which we evaluated the design and effectiveness of controls. We agreed a sample of dividend receipts to the corresponding announcement made by the investee company, recalculated the dividend amount receivable and confirmed that the cash received as shown on bank statements was consistent with the recalculated amount. We agreed a sample of investee company dividend announcements from an independent data vendor to the income recorded by the Company to test completeness of the income recorded. For all dividends accrued at the year end, we reviewed the investee company announcements to assess whether the dividend obligation arose prior to 31 May 2018. We agreed the dividend rate to corresponding announcements made by the investee company, recalculated the dividend amount receivable and confirmed this was consistent with cash received as shown on post year end bank statements.	We have no issues to communicate with respect to our assessment of the Manager's and Administrator's processes and controls surrounding revenue recognition and allocation of special dividends. We agreed the sample of dividend receipts to an independent source, recalculating these amounts and agreeing them to the bank statements and noted no issues. We agreed the sample of investee company announcements to the income entitlements recorded by the Company and noted no issues. We recalculated the accrued dividends, agreeing, where possible, to post year end bank statements, and confirming that the income obligation arose prior to 31 May 2018 and noted no issues. There were no special dividends recorded in excess of our testing threshold. For one special dividend, we gained an understanding of the basis of allocation. Based on the procedures performed, we identified no exceptions.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Specifically, in relation to our procedures on management override, we consider the risk that inappropriate journal entries are applied to the income account resulting in a manipulation of the Company's revenue to support performance and dividend targets.	We reviewed the income report and the acquisition and disposal report produced by the Administrator to identify special dividends recorded in the year in excess of our testing threshold. There were no special dividends recorded in the financial year that were in excess of our testing threshold. To test for the risk of management override, we audit a sample of manual journal entries posted to the income account which included corroborating their business purpose.	
Incorrect valuation of the investments and defective title of the investment portfolio *Refer to the Audit Committee Report (page 39); accounting policies (pages 60 and 61); and note 12 of the Consolidated Financial Statements (pages 69 to 72)* The valuation of the assets held in the investment portfolio is the key driver of the Company's net asset value and total return. Incorrect asset pricing, including the judgement involved in the valuation of unlisted (level 3) investments, or a failure to maintain proper legal title of the assets held by the Company could have a significant impact on the portfolio valuation and the return generated for shareholders. The valuation of the Level 1 portfolio at 31 May 2018 was £380.2m (2017: £380.0m) consisting primarily of listed equities with an aggregate value of £372.0m (2017: £376.0m). The Company also held level 2 securities with a value of £2.4m (2017: £0m), as well as level 3 securities with an aggregate value of £4.4m (2017: £6.4m). Listed investments are valued at fair value, which is deemed to be bid value or the last traded price depending on the convention of the exchange on which the investment is listed. Unlisted investments are valued at fair value by the Directors following a detailed review and appropriate challenge of the valuations proposed by the Manager.	We obtained an understanding of the Manager's and Administrator's processes and controls surrounding investment pricing and trade processing by performing walkthrough procedures and inspecting internal control reports. For all listed investments in the portfolio, we compared the market values and exchange rates applied to an independent pricing vendor. For level 2 and 3 securities, we assessed the appropriateness of the data inputs and assumptions used to support the valuations. We agreed the Company's investments to the independent confirmations received from the Company's custodian and Depositary as at 31 May 2018. We agreed a sample of key transaction details (e.g. units, trade date, cost and proceeds) of purchases and sales recorded by the Administrator to bank statements.	We have no issues to communicate with respect to our assessment of the Manager's and Administrator's processes and controls surrounding investment pricing and trade processing. For all listed investments, we noted no material differences in market value or exchange rates when compared to an independent source. For level 2 and 3 securities investments, we assessed the appropriateness of the data inputs and assumptions and identified no issues. We noted no issues in our reconciliation between the custodian and Depositary confirmations and the Company's underlying financial records.

Independent Auditor's Report continued

An overview of the scope of our audit

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope of each entity within the Group. Taken together, this enables us to form an opinion on the consolidated financial statements. We take into account size, risk profile, the organisation of the Group and effectiveness of Group wide controls, changes in the business environment when assessing the level of work to be performed at each entity.

We performed a full scope audit for both the parent and DIT Income Services Limited.

All audit work performed for the purposes of the audit was undertaken by the Group audit team.

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Group to be £4.03 million (2017: £3.96 million), which is 1% (2017: 1%) of net assets. We believe that net assets provides us with the most appropriate metric that the shareholders would use to judge the performance of the Group.

Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgment was that performance materiality was 75% (2017: 75%) of our planning materiality, namely £3.02m (2017: £2.97m). We have set performance materiality at this percentage due to the fact that there is no history of misstatements in previous audits of the Group.

Given the importance of the distinction between revenue and capital for the Company, we have also applied a separate testing threshold of £735,000 (2017: £770,000) for the revenue column of the Company's Income Statement, being 5% of the return on ordinary activities before taxation.

Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £202,000 (2017: £198,000), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other information

The other information comprises the information included in the annual report other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

In this context, we also have nothing to report in regard to our responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

- **Fair, balanced and understandable set out on page 46 –** the statement given by the Directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the company's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- **Audit Committee reporting set out on pages 38 to 40 –** the section describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee; or
- **Directors' statement of compliance with the UK Corporate Governance Code set out on page 32 –** the parts of the Directors' statement required under the Listing Rules relating to the Company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and Directors' Report have been prepared in accordance with applicable legal requirements.

Independent Auditor's Report continued

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Group and the parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of Directors

As explained more fully in the Statement of Directors' Responsibilities set out on pages 45 and 46, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an Auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

The objectives of our audit, in respect to fraud, are; to identify and assess the risks of material misstatement of the financial statements due to fraud; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and to respond appropriately to fraud or suspected fraud identified during the audit. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Company and determined that the most significant are the IFRS, the Companies Act 2006, the Listing Rules, the UK Corporate Governance Code, the Association of Investment Companies Statement of Recommended Practice 2017 and Section 1158 of the Corporation Tax Act 2010.
- We understood how the Group is complying with those frameworks through discussions with the Audit Committee and Company Secretary and review of the Company's documented policies and procedures.

- We assessed the susceptibility of the Group's financial statements to material misstatement, including how fraud might occur by considering the key risks impacting the financial statements. We identified a fraud risk with respect to incomplete or inaccurate income recognition through incorrect allocation of special dividends. Further discussion of our approach is set out in the section on the key audit matters above.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved review of the reporting to the directors with respect to the application of the documented policies and procedures and review of the financial statements to ensure compliance with the reporting requirements of the Company.
- We have reviewed that the Group's control environment is adequate for the size and operating model of such a listed investment company.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our Auditor's report.

Other matters we are required to address

- We were appointed by the Company in 2011 to audit the financial statements for the year ending 31 May 2012 and subsequent financial periods.

  The period of total uninterrupted engagement including previous renewals and reappointments is seven years, covering the years ending 31 May 2012 to 31 May 2018.
- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Company and we remain independent of the Company in conducting the audit.
- The audit opinion is consistent with the additional report to the Audit Committee.

Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an Auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Sarah Williams (Senior statutory auditor)
for and on behalf of Ernst & Young LLP
Statutory Auditor
London

2 August 2018

Notes:

1. The maintenance and integrity of The Diverse Income Trust plc web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.

2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Consolidated Income Statement

	Note	Year ended 31 May 2018 Revenue £'000	Capital £'000	Total £'000	Year ended 31 May 2017 Revenue £'000	Capital £'000	Total £'000
Gains on investments held at fair value through profit or loss	12	–	14,122	14,122	–	56,868	56,868
Foreign exchange gains/(losses)		–	19	19	–	(15)	(15)
Losses on derivatives held at fair value through profit or loss	13	–	(5,983)	(5,983)	–	(10,896)	(10,896)
Income	2	16,510	–	16,510	17,019	–	17,019
Management fee	3	(930)	(2,788)	(3,718)	(852)	(2,555)	(3,407)
Other expenses	4	(723)	–	(723)	(734)	–	(734)
Return on ordinary activities before finance costs and taxation		14,857	5,370	20,227	15,433	43,402	58,835
Finance costs	5	(30)	(91)	(121)	(34)	(100)	(134)
Return on ordinary activities before taxation		14,827	5,279	20,106	15,399	43,302	58,701
Taxation	6	(110)	–	(110)	8	–	8
Return on ordinary activities after taxation	7	14,717	5,279	19,996	15,407	43,302	58,709
		pence	pence	pence	pence	pence	pence
Return per ordinary share	7	3.84	1.38	5.22	4.02	11.29	15.31

The total column of this statement is the Income Statement of the Group prepared in accordance with IFRS, as adopted by the European Union. The supplementary revenue and capital columns are presented in accordance with the Statement of Recommended Practice issued by the Association of Investment Companies ("AIC SORP").

All revenue and capital items in the above statement derive from continuing operations. No operations were acquired or discontinued during the year.

There is no other comprehensive income, and therefore the return on ordinary activities after tax is also the total comprehensive income.

The notes on pages 59 to 78 form part of these financial statements.

Consolidated Statement of Changes in Equity

Group	Note	Share capital £'000	Share premium account £'000	Special reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
As at 1 June 2017		**434**	**192,244**	**45,775**	**142,644**	**15,536**	**396,633**
Total comprehensive income:							
Net return for the year		**–**	**–**	**–**	**5,279**	**14,717**	**19,996**
Transactions with shareholders recorded directly to equity:							
Equity dividends paid	8	**–**	**–**	**–**	**–**	**(13,614)**	**(13,614)**
As at 31 May 2018		**434**	**192,244**	**45,775**	**147,923**	**16,639**	**403,015**

Group	Note	Share capital £'000	Share premium account £'000	Special reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
As at 1 June 2016		434	192,244	45,775	99,342	11,250	349,045
Total comprehensive income:							
Net return for the year		–	–	–	43,302	15,407	58,709
Transactions with shareholders recorded directly to equity:							
Equity dividends paid	8	–	–	–	–	(11,121)	(11,121)
As at 31 May 2017		434	192,244	45,775	142,644	15,536	396,633

The notes on pages 59 to 78 form part of these financial statements.

Parent Company Statement of Changes in Equity

Company	Note	**Share capital £'000**	**Share premium account £'000**	**Special reserve £'000**	**Capital reserve £'000**	**Revenue reserve £'000**	**Total £'000**
As at 1 June 2017		**434**	**192,244**	**45,775**	**142,644**	**14,828**	**395,925**
Total comprehensive income:							
Net return for the year		**–**	**–**	**–**	**5,279**	**14,581**	**19,860**
Transactions with shareholders recorded directly to equity:							
Equity dividends paid	8	**–**	**–**	**–**	**–**	**(13,614)**	**(13,614)**
As at 31 May 2018		**434**	**192,244**	**45,775**	**147,923**	**15,795**	**402,171**

Company	Note	Share capital £'000	Share premium account £'000	Special reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
As at 1 June 2016		434	192,244	45,775	99,342	10,604	348,399
Total comprehensive income:							
Net return for the year		–	–	–	43,302	15,345	58,647
Transactions with shareholders recorded directly to equity:							
Equity dividends paid	8	–	–	–	–	(11,121)	(11,121)
As at 31 May 2017		434	192,244	45,775	142,644	14,828	395,925

The notes on pages 59 to 78 form part of these financial statements.

Consolidated and Parent Company Balance Sheets

	Note	Group 31 May 2018 £'000	Group 31 May 2017 £'000	Company 31 May 2018 £'000	Company 31 May 2017 £'000
Non-current assets:					
Investments held at fair value through profit or loss	12	**382,667**	384,710	**382,667**	384,710
Current assets:					
Derivative instruments	13	**4,378**	1,385	**4,378**	1,385
Trade and other receivables	16	**2,331**	3,337	**2,331**	3,337
Cash and cash equivalents		**16,708**	7,628	**16,707**	7,625
		23,417	12,350	**23,416**	12,347
Current liabilities:					
Trade and other payables	17	**(3,069)**	(427)	**(3,912)**	(1,132)
		(3,069)	(427)	**(3,912)**	(1,132)
Net current assets		**20,348**	11,923	**19,504**	11,215
Total net assets		**403,015**	396,633	**402,171**	395,925
Capital and reserves:					
Share capital – ordinary shares	9	**384**	384	**384**	384
Share capital – management shares	9	**50**	50	**50**	50
Share premium account	10	**192,244**	192,244	**192,244**	192,244
Special reserve	10	**45,775**	45,775	**45,775**	45,775
Capital reserve	10	**147,923**	142,644	**147,923**	142,644
Revenue reserve	10	**16,639**	15,536	**15,795**	14,828
Shareholders' funds		**403,015**	396,633	**402,171**	395,925

		pence	pence
Net asset value per ordinary share	11	**105.09**	103.43

The amount of the Company's return for the financial year is a profit after tax of £19,860,000 (2017: £58,647,000).

These financial statements were approved and authorised for issue by the Board of The Diverse Income Trust plc on 2 August 2018 and were signed on its behalf by:

Michael Wrobel
Chairman

Company no.: 7584303

The notes on pages 59 to 78 form part of these financial statements.

Consolidated and Parent Company Cash Flow Statements

	Group 31 May 2018 £'000	Group 31 May 2017 £'000	**Company 31 May 2018 £'000**	Company 31 May 2017 £'000
Operating activities:				
Net return before taxation	**20,106**	58,701	**19,970**	58,639
Gains on investments and derivatives held at fair value through profit or loss	**(8,139)**	(45,972)	**(8,139)**	(45,972)
Non operating activities to financing activities	**89**	170	**89**	170
Decrease/(increase) in trade and other receivables	**1,006**	(1,273)	**1,006**	(1,273)
Increase/(decrease) in trade and other payables	**2,642**	(2,914)	**2,780**	(2,220)
Withholding tax (paid)/recoverable	**(110)**	8	**(110)**	8
Net cash inflow from operating activities	**15,594**	8,720	**15,596**	9,352
Investing activities:				
Purchase of investments	**(103,583)**	(69,452)	**(103,583)**	(69,452)
Sale of investments	**119,748**	80,923	**119,748**	80,923
Purchase of derivative instruments	**(16,450)**	(7,445)	**(16,450)**	(7,445)
Sale of derivative instruments	**7,474**	3,190	**7,474**	3,190
Net cash inflow from investing activities	**7,189**	7,216	**7,189**	7,216
Financing activities:				
Revolving loan facility drawdown	**–**	15,000	**–**	15,000
Revolving loan facility repayment	**–**	(15,000)	**–**	(15,000)
Revolving loan facility arrangement fee paid	**–**	(63)	**–**	(63)
Revolving loan facility non-utilisation fee paid	**(89)**	(45)	**(89)**	(45)
Revolving loan facility interest paid	**–**	(62)	**–**	(62)
Equity dividends paid	**(13,614)**	(11,121)	**(13,614)**	(11,121)
Net cash outflow from financing activities	**(13,703)**	(11,291)	**(13,703)**	(11,291)
Increase in cash and cash equivalents	**9,080**	4,645	**9,082**	5,277
Reconciliation of net cash flow movements in funds:				
Cash and cash equivalents at the start of the year	**7,628**	2,983	**7,625**	2,348
Net cash inflow from cash and cash equivalents	**9,080**	4,645	**9,082**	5,277
Cash at the end of the year	**16,708**	7,628	**16,707**	7,625
Cash and cash equivalents comprise the following:				
Cash at bank	**16,708**	7,628	**16,707**	7,625
	16,708	7,628	**16,707**	7,625
Cash and cash equivalents received/(paid) during the period includes:				
Dividend received	**11,025**	12,091	**11,025**	12,091
Investment income and interest received	**5,345**	5,092	**5,209**	5,029
Interest paid	**–**	(1)	**–**	(1)

The notes on pages 59 to 78 form part of these financial statements.

Notes to the Consolidated Financial Statements

1 General Information and Significant Accounting Policies

Diverse is a company incorporated and registered in England and Wales. The principal activity of the Company is that of an investment trust company within the meaning of Sections 1158/1159 of the Corporation Tax Act 2010.

The Group's annual financial statements for the year ended 31 May 2018 have been prepared in conformity with IFRS as adopted by the European Union, which comprise standards and interpretations approved by the International Accounting Standards Board ("IASB"), and as applied in accordance with the provisions of the Companies Act 2006. The annual financial statements have also been prepared in accordance with the AIC SORP for the financial statements of investment trust companies and venture capital trusts, except to any extent where it is not consistent with the requirements of IFRS.

Basis of Preparation

In order to better reflect the activities of an investment trust company and in accordance with guidance issued by the AIC, supplementary information which analyses the Income Statement between items of a revenue and capital nature has been prepared alongside the Income Statement.

The financial statements are presented in sterling, which is the Group's functional currency as the UK is the primary environment in which it operates, rounded to the nearest £'000, except where otherwise indicated.

Going Concern

The financial statements have been prepared on a going concern basis as the Directors believe the Group will remain a going concern for the foreseeable future, being a period of at least 12 months from the date that these financial statements were approved, and on the basis that they believe that approval as an investment trust company will continue to be met.

The Directors have made an assessment of the Group's ability to continue as a going concern and are satisfied that the Group has the resources to continue in business for the foreseeable future. Furthermore, the Directors are not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern, having taken into account the liquidity of the Group's investment portfolio and the Group's financial position in respect of its cash flows, borrowing facilities and investment commitments (of which there are none of significance). Therefore, the consolidated financial statements have been prepared on the going concern basis.

Basis of Consolidation

IFRS 10 sets out the principles for the presentation and preparation of consolidated financial statements and establishes a single control model that applies to all entities.

The Company has made the significant accounting judgement that the Company meets the definition of an investment entity. However, the Company's wholly-owned subsidiary, DIT Income Services Limited, is an extension of the Company through which it provides services that relate to the investment entity's investment activities and the subsidiary is not itself an investment entity. The Group financial statements therefore consolidate the financial statements of the Company and its subsidiary, drawn up to 31 May 2018. The subsidiary is consolidated from the date of acquisition, being the date on which control is obtained, and will continue to be consolidated until the date that such control ceases. Control comprises being exposed, or having rights, to variable returns through its power over the investee. The financial statements of the subsidiary are prepared for the same reporting year as the parent Company, using consistent accounting policies. All inter-company balances and transactions, including unrealised profits arising from them, are eliminated.

As permitted by Section 408 of the Companies Act 2006, the Company has not presented its own Income Statement. The amount of the Company's return for the financial year dealt with in the financial statements of the Group is a profit after tax of £19,860,000 (2017: £58,647,000).

Segmental Reporting

The Directors are of the opinion that the Group is engaged in a single segment of business, being investment business. The Group primarily invests in companies listed in the UK.

Notes to the Consolidated Financial Statements continued

Accounting Developments

In the current year, the Company has applied a number of amendments to IFRS issued by the International Accounting Standards Board (IASB) mandatorily effective for an accounting period that begins on or after 1 January 2017. These include annual improvements to IFRS, changes in the IAS 7 Statement of Cash Flows, legislative and regulatory amendments to changes in disclosure and presentation requirements. Their adoption has not had any material impact on these financial statements.

The Company has not early adopted new and revised IFRS that were in issue at the year end but will not be in effect until after this financial year end. The Directors have considered the impact of the changes upon the Financial Statements. At the date of authorising these financial statements, the following standards and interpretations which had not been applied in these financial statements were in issue and have now become effective. The impact of IFRS 9 in future periods may increase disclosure requirements and change the disclosure of investments and current assets. This may require the consideration of the business model and future expected cash flows in holding financial assets. IFRS 15 specifies how and when revenue is recognised and enhances disclosures. Given the nature of the Company's revenue streams from financial instruments, the provisions of this standard are not expected to have a material impact.

It is not envisaged that the other standard listed below effective in later financial periods will have a material effect on the financial statements.

International Financial Reporting Standards	Effective date
IFRS 2 Share-based payments (amendments)	1 January 2018
IFRS 9 Financial Instruments (IFRS 7 Disclosures)	1 January 2018
IFRS 9 Financial Instruments	1 January 2018
IFRS 15 Revenue from contracts with customers	1 January 2018
IFRS 16 Leases	1 January 2019

Critical Accounting Judgements and Key Sources of Estimation Uncertainty

The preparation of financial statements in conformity with accounting standards requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts in the financial statements. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The areas requiring the most significant judgement and estimation in the preparation of the financial statements are: accounting for the value of unquoted investments; valuation of derivatives; recognising and classifying unusual or special dividends received as either revenue or capital in nature; and setting the level of dividends paid and proposed in satisfaction of both the Company's long-term objective and its obligations to adhere to investment trust status rules under Section 1158 of the Corporation Tax Act 2010. The policies for these are set out in the notes to the financial statements below.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future period if the revision affects both current and future periods. There were no accounting estimates or judgements that had a significant impact on the financial statements in the current period.

Investments

The Group's business is investing in financial assets with a view to profiting from their total return in the form of income and capital growth. This portfolio of financial assets is managed and its performance evaluated on a fair value basis, in accordance with a documented investment strategy, and information about the portfolio is provided internally on that basis to the Group's Board of Directors.

Upon initial recognition, the investments held by the Company, except for the investment in the subsidiary, are designated 'at fair value through profit or loss'. They are included initially at fair value, which is taken to be their cost (excluding expenses incidental to the acquisition, which are written off in the Income Statement and allocated to 'capital' at the time of acquisition). When a purchase or sale is made under a contract, the terms of which require delivery within the time-frame of the relevant market, the investments concerned are recognised or derecognised on the trade date. Subsequent to initial recognition, investments are valued at fair value through profit or loss. For listed investments this is deemed to be bid market prices or closing prices for Stock Exchange Electronic Trading Service – quotes and crosses ("SETSqx").

Changes in fair value of investments are recognised in the Income Statement as a capital item. On disposal, realised gains and losses are also recognised in the Income Statement as capital items.

The investment in the subsidiary company, DIT Income Services Limited, is held at cost (£1) (2017: £1). Investments held as current assets by the subsidiary undertaking are classified as 'held for trading' and are at fair value. Dealing profits or losses on these investments are taken to revenue in the Income Statement. There were no investments held by the subsidiary at the year end (2017: none).

All investments for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy in note 12.

Foreign Currency

Transactions denominated in foreign currencies are converted to sterling at the actual exchange rate as at the date of the transaction. Monetary assets and liabilities and non-monetary assets held at fair value denominated in foreign currencies at the year end are reported at the rate of exchange at the Balance Sheet date. Any gain or loss arising from a change in exchange rate subsequent to the date of the transaction is included as an exchange gain or loss in the capital reserve or the revenue account depending on whether the gain or loss is of a capital or revenue nature.

Financial Instruments

Derivatives, including Index Put options, which are listed investments, are classified as financial instruments at fair value through profit or loss held for trading. They are initially recorded at cost (being the premium paid to purchase the option) and are subsequently valued at fair value at the close of business at the year end and included in current assets/liabilities.

Changes in the fair value of derivative instruments are recognised as they arise in the capital column of the Income Statement.

Cash and Cash Equivalents

For the purposes of the Balance Sheet, cash comprises cash in hand and demand deposits. Cash equivalents are short-term, highly-liquid investments that are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value.

For the purposes of the Cash Flow Statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts when applicable.

Trade Receivables, Trade Payables and Short-term Borrowings

Trade receivables, trade payables and short-term borrowings are measured at amortised cost.

Income

Dividends receivable on quoted equity shares are taken to revenue on an ex-dividend basis. Dividends receivable on equity shares where no ex-dividend date is quoted are brought into account when the Company's right to receive payment is established. Fixed returns on non-equity shares are recognised on a time-apportioned basis. Dividends from overseas companies are shown gross of any non-recoverable withholding taxes, which are disclosed separately in the Income Statement.

Special dividends are taken to the revenue or capital account depending on their nature. In deciding whether a dividend should be regarded as a capital or revenue receipt, the Board reviews all relevant information as to the reasons for the sources of the dividend on a case-by-case basis.

When the Company has elected to receive scrip dividends in the form of additional shares rather than in cash, the amount of the cash dividend forgone is recognised as income. Any excess in the value of the cash dividend is recognised in the capital column.

Notes to the Consolidated Financial Statements continued

All other income is accounted for on a time-apportioned accruals basis and is recognised in the Income Statement.

Expenses and Finance Costs

All expenses are accounted for on an accruals basis. On the basis of the Board's expected long-term split of total returns in the form of capital and revenue returns of 75% and 25% respectively, the Company charges 75% of its management fee and finance costs to capital. All other administrative expenses are charged through the revenue column in the Income Statement.

Expenses incurred directly in relation to placings and offers for subscription of shares are deducted from equity and charged to the share premium account.

Taxation

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amount for financial reporting purposes at the reporting date. Deferred tax assets are only recognised if it is considered more likely than not that there will be suitable profits from which the future reversal of timing differences can be deducted. In line with the recommendations of the AIC SORP, the allocation method used to calculate the tax relief on expenses charged to capital is the "marginal" basis. Under this basis, if taxable income is capable of being offset entirely by expenses charged through the revenue account, then no tax relief is transferred to the capital account.

No taxation liability arises on gains from sales of fixed asset investments by the Company by virtue of its investment trust status. However, the net revenue (excluding UK dividend income) accruing to the Company is liable to corporation tax at the prevailing rates.

Dividends Payable to Shareholders

Dividends to shareholders are recognised as a liability in the period in which they are paid or approved in general meetings and are taken to the Statement of Changes in Equity. Dividends declared and approved by the Company after the Balance Sheet date have not been recognised as a liability of the Company at the Balance Sheet date.

Special Reserve

The special reserve was created by a cancellation of the share premium account by order of the High Court in February 2012. Its main purpose is to allow the Company to meet annual redemption requests for ordinary shares. The costs of repurchasing ordinary shares and meeting annual redemption requests, including related stamp duty and transaction costs, are also charged to the special reserve.

Share Capital

The Company classifies financial instruments issued as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments. The share capital of the Company comprises redeemable ordinary shares ("ordinary shares"), C shares, when in issue, and management shares.

The Company is a closed-ended investment company with an unlimited life. The ordinary shares are not puttable instruments because redemption is conditional upon certain market conditions and/or Board approval. As such, they are not required to be classified as debt under IAS 32 'Financial Instruments: Disclosure and Presentation'.

As defined in the Articles of Association, redemption of ordinary shares is at the sole discretion of the Directors, therefore the ordinary shares have been classified as equity.

The issuance, acquisition and resale of ordinary shares are accounted for as equity transactions and no gain or loss is recognised in the Income Statement.

Share Premium

The share premium account represents the accumulated premium paid for shares issued in previous periods above their normal value less issue expenses. This is a reserve forming part of the non-distributable reserves. The following items are taken to this reserve:

☞ costs associated with the issue of equity; and

☞ premium on the issue of shares.

Capital Reserve

The following are taken to this reserve:

- ☞ gains and losses on the disposal of investments;
- ☞ exchange difference of a capital nature;
- ☞ expenses, together with the related taxation effect, allocated to this reserve in accordance with the above policies; and
- ☞ increase and decrease in the valuation of investments held at the year end.

Revenue Reserve

The revenue reserve represents the surplus accumulated revenue profits and is distributable.

2 Income

	Year ended 31 May 2018 £'000	Year ended 31 May 2017 £'000
Income from investments:		
UK dividends	**11,133**	11,456
UK REIT dividend income	**270**	286
Unfranked dividend income	**4,202**	4,433
UK fixed interest	**706**	694
	16,311	16,869
Other income:		
Bank deposit interest	**17**	8
Exchange gains	**13**	14
Net dealing profit of subsidiary*	**136**	63
Underwriting income	**33**	65
Total income	**16,510**	17,019

* Represents realised trading gains and losses from trading transactions. There are no other expenses/income in respect of the subsidiary.

3 Management Fee

	Year ended 31 May 2018			Year ended 31 May 2017		
	Revenue £'000	**Capital £'000**	**Total £'000**	Revenue £'000	Capital £'000	Total £'000
Management fee	**930**	**2,788**	**3,718**	852	2,555	3,407

The basic management fee payable to the AIFM is calculated at the rate of one-twelfth of 1.0% of the adjusted market capitalisation of the Company up to £300m and one-twelfth of 0.8% on the market capitalisation in excess of £300m on the last business day of each calendar month. The basic management fee accrues daily and is payable in arrears in respect of each calendar month. For the purpose of calculating the basic fee, the 'adjusted market capitalisation' of the Company is defined as the average daily mid-market price for an ordinary share and C share (when in issue), multiplied by the number of relevant shares in issue, excluding those held by the Company in treasury, on the last business day of the relevant month. In addition, the AIFM is entitled to receive a management fee on any Redemption Pool, as detailed in the Strategic Report on page 25.

At 31 May 2018, an amount of £329,000 (2017: £305,000) was outstanding and due to Miton Trust Managers Limited in respect of management fees.

Notes to the Consolidated Financial Statements continued

4 Other Expenses

	Year ended 31 May 2018 £'000	Year ended 31 May 2017 £'000
Secretarial services	**117**	114
Auditor's remuneration for:		
Audit of the Group's financial statements (payable by the Company only)	**33**	30
Directors' fees (see the Directors' Remuneration Report on pages 41 to 44)	**135**	121
Other expenses	**438**	469
	723	734

The audit of the Group's financial statements includes the cost of the audit of DIT Income Services Limited of £2,000 (2017: £2,000), which is paid by the parent company.

5 Finance Costs

	Year ended 31 May 2018			Year ended 31 May 2017		
	Revenue £'000	**Capital £'000**	**Total £'000**	Revenue £'000	Capital £'000	Total £'000
Bank debit interest	**–**	**–**	**–**	–	1	1
BNYM £7.5m overdraft facility administration fee	**–**	**–**	**–**	1	3	4
RBS £25m revolving loan facility arrangement fee	**5**	**16**	**21**	4	10	14
RBS £25m revolving loan facility non-utilisation fee	**25**	**75**	**100**	13	40	53
RBS £25m revolving loan facility interest	**–**	**–**	**–**	16	46	62
	30	**91**	**121**	34	100	134

The Company entered into a £25m revolving loan facility with The Royal Bank of Scotland ("RBS") in September 2016. The facility provides the scope in certain circumstances to raise the level of borrowing to £50m. The facility bears interest at the rate of 1.35% over LIBOR on any drawn down balance and a non-utilisation fee of 0.4% on any undrawn balance. The facility may be drawn in sterling or other currencies as approved by the lender. The facility is due for renewal in September 2019.

An arrangement fee of £62,500 was paid to RBS in the year ended 31 May 2017 and is being amortised over the 3-year period of the facility.

The facility contains covenants which require that net borrowings will not, at any time, exceed 25% of the adjusted net asset value, and the net asset value shall, at all times, be equal to or greater than £210m. If the Company breaches either covenant, then it is required to notify the Bank of any default and the steps being taken to remedy it.

As at 31 May 2018, the facility was undrawn. The Company had drawn down £15m in March 2017, which was repaid in full on 31 May 2017.

This facility replaced the previous uncommitted revolving credit facility agreement with The Bank of New York Mellon ("BNYM") of £7.5m.

6 Taxation

	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
		Year ended 31 May 2018			Year ended 31 May 2017	
Overseas tax not recoverable	**110**	**–**	**110**	23	–	23
Overseas tax – reversal of prior year's tax now recoverable	**–**	**–**	**–**	(31)	–	(31)
Tax cost/(recovery) for the year	**110**	**–**	**110**	(8)	–	(8)

	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
		Year ended 31 May 2018			Year ended 31 May 2017	
Return on ordinary activities before taxation	**14,827**	**5,279**	**20,106**	15,399	43,302	58,701
Theoretical tax at UK corporation tax rate of 19% (2017: 19.83%)	**2,817**	**1,003**	**3,820**	3,054	8,587	11,641
Effects of:						
– UK dividends that are not taxable	**(2,115)**	**–**	**(2,115)**	(2,272)	–	(2,272)
– Overseas dividends that are not taxable	**(784)**	**–**	**(784)**	(882)	–	(882)
– Realised dealing gains	**–**	**–**	**–**	(12)	–	(12)
– Non-taxable investment gains	**–**	**(1,550)**	**(1,550)**	–	(9,113)	(9,113)
– Overseas taxation suffered	**110**	**–**	**110**	23	–	23
– Double tax relief expensed in current period	**2**	**–**	**2**	–	–	–
– Prior year's irrecoverable withholding tax previously expensed	**–**	**–**	**–**	(31)	–	(31)
– Unrelieved expenses	**80**	**547**	**627**	112	526	638
Tax (recovery)/charge for the year	**110**	**–**	**110**	(8)	–	(8)

Factors That May Affect Future Tax Charges

The Company has excess management expenses of £17,083,000 (2017: £13,764,000) that are available to offset future taxable revenue. At 31 May 2018, the Company has not recognised a deferred tax asset of £2,904,000 (2017: £2,340,000), calculated using the standard rate of corporation tax in the UK of 17%, in respect of these accumulated expenses as they will only be recoverable to the extent that there is sufficient future taxable revenue. It is unlikely that the Company will generate sufficient taxable income in the future to utilise these expenses to reduce future tax charges and therefore no deferred tax charge has been recognised.

The income from the subsidiary subject to taxation was £136,000 (2017: £63,000) and was offset against excess management expenses held by the Company using group relief.

In addition, deferred tax is not provided on capital gains and losses arising on the revaluation or disposal of investments because the Company meets (and intends to continue for the foreseeable future to meet) the conditions for approval as an investment trust company under HMRC rules.

Notes to the Consolidated Financial Statements continued

7 Return per Share

Ordinary Shares

The return per ordinary share is based on the net profit after taxation of £19,996,000 (2017: £58,709,000) and on 383,487,239 (2017: 383,487,239) ordinary shares, being the weighted average number of ordinary shares in issue during the year.

The return per ordinary share detailed above can be further analysed between revenue and capital as follows:

	Year ended 31 May 2018			Year ended 31 May 2017		
	Revenue	**Capital**	**Total**	Revenue	Capital	Total
Basic & diluted						
Net profit (£'000)	**14,717**	**5,279**	**19,996**	15,407	43,302	58,709
Weighted average number of ordinary shares in issue			**383,487,239**			383,487,239
Return per ordinary share (pence)	**3.84**	**1.38**	**5.22**	4.02	11.29	15.31

8 Dividends per Ordinary Share

Amounts recognised as distributions to equity holders in the year:

	Year ended 31 May 2018		Year ended 31 May 2017	
	£'000	**pence per share**	£'000	pence per share
In respect of the previous period:				
Third interim dividend	**3,068**	**0.80**	2,876	0.75
Final dividend	**3,068**	**0.80**	2,876	0.75
Special dividend	**1,534**	**0.40**	–	–
In respect of the year under review:				
First interim dividend	**2,876**	**0.75**	2,684	0.70
Second interim dividend	**3,068**	**0.80**	2,685	0.70
Dividends distributed during the year	**13,614**	**3.55**	11,121	2.90

The Directors have declared a third interim dividend in respect of the year ended 31 May 2018 of 0.85p per ordinary share payable on 31 August 2018 to all shareholders on the register at close of business on 29 June 2018. A final dividend of 1.00p per ordinary share and a special dividend of 0.23p per ordinary share have also been recommended by the Board. Subject to shareholder approval at the forthcoming AGM, these dividends will be payable on 30 November 2018 to shareholders on the register at close of business on 28 September 2018. The ex-dividend date will be 27 September 2018.

The total dividends payable in respect of the financial year for the purposes of the income retention test for Section 1158 of the Corporation Tax Act 2010 are set out below.

	Year ended 31 May 2018 £'000	Year ended 31 May 2017 £'000
Revenue available for distribution by way of dividends for the year	**14,582**	15,345
First interim dividend 0.75p (2017: 0.70p) per ordinary share	**(2,876)**	(2,684)
Second interim dividend 0.80p (2017: 0.70p) per ordinary share	**(3,068)**	(2,685)
Declared third interim dividend 0.85p (2017: 0.80p) per ordinary share	**(3,260)**	(3,068)
Proposed final dividend of 1.00p (2017: 0.80p) per ordinary share	**(3,835)**	(3,068)
Proposed special dividend of 0.23p (2017: 0.40p) per ordinary share	**(882)**	(1,534)
Estimated revenue reserve retained for the year	**661**	2,306

9 Called-Up Share Capital

	31 May 2018		31 May 2017	
	number	**£'000**	number	£'000
Ordinary shares of 0.1p each				
Opening balance	**383,487,239**	**384**	383,487,239	384
Issue of ordinary shares	**–**	**–**	–	–
Cancellation of ordinary shares	**–**	**–**	–	–
	383,487,239	**384**	383,487,239	384

The rights and restrictions attached to shares, together with the capital structure of the Company, are set out on page 80.

Redemption of Ordinary Shares

The Company, which is a closed-ended investment company with an unlimited life, has a redemption facility through which shareholders are entitled to request the redemption of all or part of their holding of ordinary shares on an annual basis on 31 May in each year. As set out in the Articles of Association, the Board may, at its absolute discretion, elect not to operate the annual redemption facility in whole or in part. Accordingly, the ordinary shares have been classified as equity.

The Company had received redemption requests for 517,858 ordinary shares in respect of the 31 May 2018 Redemption Point. All of these shares were matched with buyers at a calculated Redemption Price of 105.41 pence per share. Following this and at the date of this Report, the issued share capital and voting rights remained unchanged at 383,487,239 ordinary shares.

Details of the redemption facility are set out on page 79.

Management Shares

The 50,000 management shares with a nominal value of £1 each were allotted to Miton Group plc on 30 March 2011, the parent company of the Manager. The management shares are non-voting and non-redeemable and, upon a winding-up or on a return of capital of the Company, shall only receive the fixed amount of capital paid up on such shares and shall confer no right to any surplus capital or assets of the Company.

As at 31 May 2018, £12,500 had been paid up (2017: £12,500). The balance is payable on demand.

Notes to the Consolidated Financial Statements continued

10 Reserves

2018	Share premium account £'000	Special reserve £'000	Capital reserve realised £'000	Capital reserve unrealised £'000	Revenue reserve £'000
Opening balance	192,244	45,775	45,891	96,753	15,536
Net gain on realisation of investments	–	–	40,948	–	–
Exchange gains on settlements and currency accounts	–	–	19	–	–
Unrealised net decrease in value of investments	–	–	–	(26,826)	–
Movement in value of derivative instruments	–	–	(9,167)	3,184	–
Management fees/finance costs charged to capital	–	–	(2,879)	–	–
Equity dividends paid	–	–	–	–	(13,614)
Revenue return on ordinary activities after tax	–	–	–	–	14,717
Closing balance	192,244	45,775	74,812	73,111	16,639

2017	Share premium account £'000	Special reserve £'000	Capital reserve realised £'000	Capital reserve unrealised £'000	Revenue reserve £'000
Opening balance	192,244	45,775	35,160	64,182	11,250
Net gain on realisation of investments	–	–	21,707	–	–
Exchange losses on settlements and currency accounts	–	–	(15)	–	–
Unrealised net increase in value of investments	–	–	–	35,161	–
Movement in value of derivative instruments	–	–	(8,306)	(2,590)	–
Management fees/finance costs charged to capital	–	–	(2,655)	–	–
Equity dividends paid	–	–	–	–	(11,121)
Revenue return on ordinary activities after tax	–	–	–	–	15,407
Closing balance	192,244	45,775	45,891	96,753	15,536

The distributable reserves of the Company are £136,383,000 (2017: £106,495,000).

At a General Meeting of the Company held on 6 April 2011, a resolution was passed approving the cancellation of the Company's share premium account.

The Court subsequently confirmed this cancellation on 22 February 2012 and an amount of £48,558,000 was transferred from the Company's share premium account to its special reserve. This amount can be treated as a distributable reserve for all purposes permitted by the Companies Act 2006 (as amended), and will enhance substantially the ability of the Company to meet annual redemption requests and to buy-back its own shares either into treasury or for cancellation.

11 Net Asset Value per Ordinary Share

The net asset value per ordinary share and the net asset values attributable at the year end were as follows:

	Net asset value per share 31 May 2018 pence	**Net assets attributable 31 May 2018 £'000**	Net asset value per share 31 May 2017 pence	Net assets attributable 31 May 2017 £'000
Ordinary shares – Basic and diluted	**105.09**	**403,015**	103.43	396,633

Net asset value per ordinary share is based on net assets at the year end and 383,487,239 ordinary shares (2017: 383,487,239), being the number of ordinary shares in issue at the year end.

The net asset value of £1 (2017: £1) per management share is based on net assets at the year end of £50,000 (2017: £50,000) and 50,000 (2017: 50,000) management shares. The shareholders have no right to any surplus capital or assets of the Company.

12 Investments

Group and Company	**31 May 2018 £'000**	31 May 2017 £'000
Investment portfolio summary:		
Opening book cost	**281,897**	271,661
Opening investment holding gains	**102,813**	67,652
Total investments designated at fair value	**384,710**	339,313

Group and Company	**31 May 2018 £'000**	31 May 2017 £'000
Analysis of investment portfolio movements		
Opening valuation	**384,710**	339,313
Movements in the period:		
Purchases at cost	**103,583**	69,452
Sales – proceeds	**(119,748)**	(80,923)
– gains on sales	**40,948**	21,707
Movement in investment holding gains	**(26,826)**	35,161
Closing valuation	**382,667**	384,710
Closing book cost	**306,680**	281,897
Closing investment holding gains	**75,987**	102,813
Total closing investments designated at fair value	**382,667**	384,710

Notes to the Consolidated Financial Statements continued

	Year ended 31 May 2018 £'000	Year ended 31 May 2017 £'000
Transaction costs:		
Costs on acquisitions	**254**	272
Costs on disposals	**157**	118
	411	390

	Year ended 31 May 2018 £'000	Year ended 31 May 2017 £'000
Analysis of capital gains/(losses)		
Realised gains on sales	**40,948**	21,707
Movement in unrealised gains/(losses)	**(26,826)**	35,161
	14,122	56,868

Fair Value Hierarchy

Financial assets of the Group are carried in the Balance Sheet at their fair value or approximation of fair value. The fair value is the amount at which the asset could be sold in an ordinary transaction between market participants, at the measurement date, other than a forced or liquidation sale. The Group measures fair values using the following hierarchy that reflects the significance of the inputs used in making the measurements.

Categorisation within the hierarchy has been determined on the basis of the lowest level input that is significant to the fair value measurement of the relevant asset as follows:

Level 1 – Valued using quoted prices, unadjusted in active markets for identical assets and liabilities.

Level 2 – Valued by reference to valuation techniques using observable inputs for the asset or liability other than quoted prices included in level 1.

Level 3 – Valued by reference to valuation techniques using inputs that are not based on observable market data for the asset or liability.

Assessing the significance of a particular input requires judgement, considering factors specific to the asset or liability.

The table below sets out the fair value measurement of financial assets and liabilities in accordance with the fair value hierarchy.

Financial assets at fair value through profit or loss at 31 May 2018	**Level 1 £'000**	**Level 2 £'000**	**Level 3 £'000**	**Total £'000**
Equity Investments	**372,077**	**127**	**27**	**372,231**
Derivative contracts	**4,378**	**–**	**–**	**4,378**
Fixed interest bearing securities	**3,749**	**2,310**	**4,377**	**10,436**
	380,204	**2,437**	**4,404**	**387,045**

Financial assets at fair value through profit or loss at 31 May 2017	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Equity investments	375,779	–	–	375,779
Derivative contracts	1,385	–	–	1,385
Fixed interest bearing securities	2,515	–	6,416	8,931
	379,679	–	6,416	386,095

At 31 May 2018, all the Company's financial assets at fair value through profit or loss (including the listed Put option) are included in Level 1 with the exception of the Loan Notes in 600 Group, Gable Holdings, Intercede, Sigmaroc and McBride B Shares, which are all classified as Level 3 investments (2017: same with the exception of the Intercede, Sigmaroc and Active Energy Loan Notes).

There are 3 Level 2 investments as at 31 May 2018 (2017: none) with the values calculated using observable inputs. The values are determined as follows: Accrol Group at the placing price of 15p; Active Energy 8% Loan Notes and Aggregated MicroPower 8% Loan Notes, at an intrinsic value above cost, allowing for the conversion value of the underlying, actively traded, equity bid price.

The transfer from Level 3 to Level 2 of £2,039,000 (2017: nil) is due to the holdings in Active Energy 8% Loan Notes and Aggregated MicroPower 8% Loan Notes now being calculated based on the intrinsic conversion value, as set out above.

Valuation Process for Level 3 Investments

Investments classified within Level 3 have significant unobservable inputs. Level 3 investments can typically include unlisted equity and corporate debt securities and over the counter ("OTC") derivative instruments. As observable prices are not available for these securities, the Group has used valuation techniques to derive the fair value using recognised valuation methodologies including discounted cash flow modelling where relevant.

The Level 3 investments held by the Company currently consist of fixed interest bearing securities valued by the Manager with valuation confirmations provided to the Board on a regular basis. The equity securities of the issuing company of the Level 3 investments held are or have been publicly listed and, therefore, detailed public information is available to substantiate the future prospects of the issuing company. This information includes reported results, commentary on current trading and, third party research. The values for each individual Level 3 investment are determined as follows;

☞ at a value based on an intrinsic value above cost, allowing for the conversion value of the underlying, actively traded bid price where applicable but where the unlisted convertible debt conversion value was not greater than par value (being 'out of the money') then held at par value being an approximation of fair value (600 Group, Intercede, Sigmorac); and

☞ the expected cash receivable from the confirmed realisation value of a share disposal (McBride B Shares).

Reviewing these cash flows will take account of the exchange rate where applicable and the timeframe. There are no other significant unobservable inputs with the measurement of its fair value at year end and there have been no changes in valuation techniques during the year. The investments are valued by the valuation techniques using inputs as set out above. Given the nature of the inputs described above it is not possible to complete a meaningful sensitivity analysis of the level 3 investment portfolio.

Notes to the Consolidated Financial Statements continued

The following table summarises the Company's Level 3 investments that were accounted for at fair value in the year ended 31 May 2018.

	Year ended 31 May 2018 Level 3 £'000	Year ended 31 May 2017 Level 3 £'000
Opening fair value investments	**6,416**	3,926
Purchase at cost	**27**	3,299
Sale proceeds	**–**	(1,495)
Transfer from Level 3 to Level 2 (see page 71)	**(2,039)**	–
Movement in investment holding gains movement in unrealised	**–**	686
Closing fair value of investments	**4,404**	6,416

Trading Income

The Company's subsidiary completes trading transactions. The value of assets held by the subsidiary as at 31 May 2018 was £nil (2017: £nil). The difference between the sale and purchase of assets is trading income recognised in the Income Statement.

13 Derivative Contracts

Typically, derivative contracts serve as components of the Company's investment strategy and are utilised primarily to structure and hedge investments, to enhance performance and reduce risk to the Group (the Company does not designate any derivative as a hedging instrument for hedge accounting purposes). The derivative contracts that the Company may hold from time to time or issue include: index-linked notes, contracts for differences, covered options and other equity-related derivative instruments.

Derivatives often reflect, at their inception, only a mutual exchange of promises with little or no transfer of tangible consideration. However, these instruments can involve a high degree of leverage and are very volatile. A relatively small movement in the underlying value of a derivative contract may have a significant impact on the profit and loss and net assets of the Group.

The Company's investment objective sets limits on investments in derivatives with a high risk profile. The Manager is instructed to closely monitor the Company's exposure under derivative contracts and any use of the derivatives for investment purposes will be made on the basis of the same principles of risk spreading and diversification that apply to the Company's direct investments. The Company will not enter into uncovered short positions.

As at 31 May 2018, the Group has positions in the following type of derivative:

Options

Options are contractual agreements that convey the right, but not the obligation, for the purchaser either to buy or sell a specific amount of a financial instrument at a fixed price, either at a fixed future date or at any time within a specified period.

The Company purchases either Put or Call options through regulated exchanges and OTC markets. Options purchased by the Company provide the Company with the opportunity to purchase (Call options) or sell (Put options) the underlying asset at an agreed-upon value either on or before the expiration of the option. The Company is exposed to credit risk on purchased options only to the extent of their carrying value, which is their fair value.

During the year, the Company sold the FTSE 100 – March 2018 6,000 Put option, purchased and sold a FTSE 100 – March 2018 6,500 Put option, purchased and sold a FTSE 100 – March 2019 6,500 Put option and purchased a FTSE 100 – September 2019 6,500 Put option. At the Balance Sheet date, the Put option had a fair value of £4,378,000 and a notional portfolio exposure of £162,778,000. Unrealised holding losses of £2,876,000 are detailed in the table below.

During the prior year, the Company sold the FTSE 100 – June 2017 6,000 Put option and purchased a FTSE 100 – March 2018 6,000 Put option. At the Balance Sheet date, the Put option had a fair value of £1,385,000 with a notional portfolio exposure of £141,676,000. Unrealised holding losses of £6,060,000 are detailed in the table below.

Listed Put options at fair value through profit or loss at 31 May 2018	**Year ended 31 May 2018 £'000**	Year ended 31 May 2017 £'000
Opening book cost	**7,445**	11,496
Opening investment holding loss	**(6,060)**	(3,470)
Total investments designated at fair value	**1,385**	8,026
Analysis of investment portfolio movements		
Opening valuation	**1,385**	8,026
Movements in the period:		
Purchases at cost	**16,450**	7,445
Sales – proceeds	**(7,474)**	(3,190)
– losses on sales	**(9,167)**	(8,306)
Movement in unrealised loss	**3,184**	(2,590)
Closing fair valuation	**4,378**	1,385
Closing book cost	**7,254**	7,445
Closing unrealised loss	**(2,876)**	(6,060)
Closing fair value	**4,378**	1,385

	At 31 May 2018 £'000	At 31 May 2017 £'000
Analysis of capital losses on options		
Realised losses on sales	**(9,167)**	(8,306)
Movement in unrealised losses	**3,184**	(2,590)
	(5,983)	(10,896)

Notes to the Consolidated Financial Statements continued

14 Substantial Share Interests

The Company has notified interests in 3% or more of the voting rights of 22 (2017: 32) investee companies (none of which are closed-end investment funds). The Board does not consider any of the Company's other equity investments to be individually material in the context of the financial statements.

15 Investment in Subsidiary

The Company owns the whole of the issued ordinary share capital (£1) of DIT Income Services Limited, an investment dealing company registered in England and Wales. The subsidiary is held at cost of £1 and has provided loans to the Company amounting to £843,000 at 31 May 2018 (2017: £705,000).

The registered office is Beaufort House, 51 New North Road, Exeter, Devon EX4 4EP.

16 Trade and Other Receivables

	Group		Company	
	31 May 2018 £'000	31 May 2017 £'000	**31 May 2018 £'000**	31 May 2017 £'000
Amounts due from brokers	**240**	1,474	**240**	1,474
Dividends receivable	**1,484**	1,376	**1,484**	1,376
Accrued income	**100**	100	**100**	100
Taxation recoverable	**396**	279	**396**	279
Prepayments and other debtors	**111**	108	**111**	108
	2,331	3,337	**2,331**	3,337

17 Trade and Other Payables

	Group		Company	
	31 May 2018 £'000	31 May 2017 £'000	**31 May 2018 £'000**	31 May 2017 £'000
Amounts due to brokers	**2,638**	–	**2,638**	–
Amounts due to subsidiary	**–**	–	**843**	705
Other creditors	**431**	427	**431**	427
	3,069	427	**3,912**	1,132

18 Capital Commitments and Contingent Liabilities

At 31 May 2018, there was one outstanding commitment of £40,000 (2017: nil), a call payment to acquire shares in Accrol Group Holdings.

19 Analysis of Financial Assets and Liabilities

Investment Objective And Policy

The Group's investment objective and policy are detailed on pages 80 and 81.

The Group's investing activities in pursuit of its investment objective involve certain inherent risks.

The Group's financial instruments comprise:

☞ shares and debt securities held in accordance with the Group's investment objective and policies;

☞ derivative instruments for efficient portfolio management, gearing and investment purposes;

☞ cash, liquid resources and short-term debtors and creditors that arise from its operations; and

☞ current asset investments held by its subsidiary.

The risks identified arising from the Group's financial instruments are market risk (which comprises market price risk, interest rate risk and foreign currency risk), liquidity risk and credit and counterparty risk. The Group may enter into derivative contracts to manage risk. The Group has held, sold and taken out listed Put options against the FTSE 100 Index during the year. The Board reviews and agrees policies for managing each of these risks, which are summarised below. These policies have remained unchanged since the beginning of the accounting year.

Market Risk

Market risk arises mainly from uncertainty about future prices of financial instruments used in the Group's business. It represents the potential loss the Group might suffer through holding market positions by way of price movements, interest rate movements and exchange rate movements. The Manager assesses the exposure to market risk when making each investment decision and these risks are monitored by the Manager on a regular basis and the Board at quarterly meetings with the Manager.

Market price risk

Market price risk (i.e. changes in market prices other than those arising from currency risk or interest rate risk) may affect the value of investments.

The Board manages the risks inherent in the investment portfolio by ensuring full and timely reporting of relevant information from the Manager. Investment performance and exposure are reviewed at each Board meeting.

The Group's exposure to other changes in market prices as at 31 May 2018 on its equity and debt investments and listed Put index option held at fair value through profit or loss was £387,045,000 (2017: £386,095,000).

A 10% increase in the market value of its investments at 31 May 2018 would have increased net assets attributable to shareholders by £38,705,000 (2017: £38,610,000). An equal change in the opposite direction would have decreased the net assets and net profit available to shareholders by an equal and opposite amount. The analysis is based on closing balances only and is not representative of the year as a whole.

Interest rate risk

Interest rate movements may affect the level of income receivable on cash deposits and payable on its revolving credit facility. The Group's financial assets and liabilities, excluding short-term debtors and creditors, may include investment in fixed interest securities, such as UK corporate debt stock, whose fair value may be affected by movements in interest rates. The majority of the Group's financial assets and liabilities, however, are non-interest bearing. As a result, the Group's financial assets and liabilities are not subject to significant amounts of risk due to fluctuations in the prevailing levels of market interest rates. There was limited exposure to interest bearing liabilities during the year ended 31 May 2018 (2017: same).

The possible effects on the fair value and cash flows that could arise as a result of changes in interest rates are taken into account when making investment decisions. The Board imposes borrowing limits to ensure gearing levels are appropriate to market conditions.

Notes to the Consolidated Financial Statements continued

As detailed on page 16, at 31 May 2018 the Company held nine (2017: nine) fixed income securities representing 2.6% of the total investment portfolio (2017: 2.3%).

The interest rate profile of the Group (excluding short-term debtors and creditors) was as follows:

As at 31 May 2018	Weighted average interest rate %	Floating rate £'000	Fixed rate £'000
Assets and liabilities			
Fixed interest securities	**7.81**	**–**	**10,436**
Cash at bank	**–**	**16,708**	**–**
Bank overdraft	**–**	**–**	**–**
		16,708	**10,436**

As at 31 May 2017	Weighted average interest rate %	Floating rate £'000	Fixed rate £'000
Assets and liabilities			
Fixed interest securities	7.85	–	8,931
Cash at bank	–	7,628	–
Bank overdraft	–	–	–
		7,628	8,931

The weighted average interest rate is based on the current yield of each asset, weighted by its market value.

The weighted average fixed interest rate is based on the current yield of each asset, weighted by its current market value. The maturity dates and nominal interest rates on these investments held at fair value through profit or loss are shown in the portfolio information on page 16. The weighted average years to maturity are 3.32 years (2017: 4.20 years).

The floating rate assets and liabilities consist of cash deposits on call earning interest at the prevailing market rates and the bank overdraft, with interest payable at the rate of 2.95% above the prevailing bank base rate (currently 0.50%).

The interest rate risk sensitivity of the Group on its floating rate assets and liabilities is given below:

If interest rates had been 50 basis points higher or lower and all other variables were held constant, the Group's net assets and profit for the year ended 31 May 2018 would increase/decrease by £84,000 (2017: increase/decrease by £38,000). This is attributable to the Group's exposure to interest rates on its floating rate cash balances and bank overdraft as at the year ended 31 May 2018 and is not considered by the Directors to be representative for the year as a whole. If there was a fall in interest rates it would potentially impact the Company as above, by turning positive interest to negative interest.

Foreign currency risk

Although the Company's performance is measured in sterling, a proportion of the Group's assets may be either denominated in other currencies or are in investments with currency exposure. Any income denominated in a foreign currency is converted into sterling upon receipt. At the Balance Sheet date, all the Group's assets were denominated in sterling and accordingly the only currency exposure the Group has is through the trading activities of its investee companies.

Liquidity Risk

Liquidity risk is not considered to be significant as the Group's assets primarily comprise cash and readily realisable securities, which can under normal conditions be sold to meet funding commitments if necessary. They may, however, be difficult to realise in adverse market conditions. The Group can achieve short-term flexibility by the use of its overdraft facility.

The maturity profile of the Group's financial liabilities of £3,069,000 (2017: £427,000) are all due in one year or less.

Credit and Counterparty Risk

Credit risk is the risk of financial loss to the Group if the contractual party to a financial instrument fails to meet its contractual obligations.

The maximum exposure to credit risk as at 31 May 2018 was £23,417,000 (2017: £12,350,000). The calculation is based on the Group's credit risk exposure as at 31 May 2018 and this may not be representative for the whole year.

The Group's listed investments are held on its behalf by Bank of New York Mellon acting as the Group's custodian. Bankruptcy or insolvency of the custodian may cause the Group's rights with respect to securities held by the custodian to be delayed. The Board monitors the Group's risk by reviewing the custodian's internal controls report.

Where the Manager makes an investment in a bond, corporate or otherwise, the credit rating of the issuer is taken into account so as to minimise the risk to the Group of default.

Investment transactions are carried out with a number of brokers whose creditworthiness is reviewed by the Manager. Transactions are ordinarily undertaken on a delivery versus payment basis whereby the Group's custodian bank ensures that the counterparty to any transaction entered into by the Group has delivered on its obligations before any transfer of cash or securities away from the Group is completed.

Cash is only held at banks that have been identified by the Board as reputable and of high credit quality.

None of the Group's assets are past due or impaired (2017: same).

Derivatives

The Manager may use derivative instruments in order to 'hedge' the market risk of part of the portfolio. The Manager reviews the risks associated with individual investments and, where they believe it appropriate, may use derivatives to mitigate the risk of adverse market (or currency) movements. The Manager discusses regularly the hedging strategy with the Board.

At the year end, there was one derivative contract open (2017: one). The FTSE 100 Put option aims to provide a limited degree of protection from a fall in the value of the FTSE 100 Index and has a strike price of 6,500, and would not materially impact the portfolio returns if a large market movement did occur. No other contracts were entered into during the year (2017: the Group also entered and exited a March 2017 6,000 Put option).

Capital Management Policies

The Company's capital management objectives are:

- ☞ to ensure that it will be able to continue as a going concern; and
- ☞ to maximise the income and capital return over the long-term to its equity shareholders through an appropriate balance of equity capital and 'debt'.

As stated in the investment policy, the Company has authority to borrow up to 15% of net asset value through a mixture of bank facilities and certain derivative instruments. There were no borrowings as at 31 May 2018 (2017: £nil). Also, as a public company the minimum share capital is £50,000.

Notes to the Consolidated Financial Statements continued

	2018 £'000	2017 £'000
The Company's capital at 31 May comprised:		
Debt:		
Bank loan facility/bank overdraft facility	**–**	–
Equity:		
Equity share capital	**434**	434
Retained earnings and other reserves	**402,581**	396,199
Total shareholders' funds	**403,015**	396,633
Debt as a % of net assets	**0.00%**	0.00%

The Board, with the assistance of the Manager, monitors and reviews the broad structure of the Company's capital on an ongoing basis. This review includes:

☞ the planned level of gearing, which takes into account the Manager's view of the market;

☞ the need to buy back shares for cancellation or treasury, which takes account of the difference between the net asset value per share and the share price (i.e. the level of share price discount or premium);

☞ the need for new issues of equity shares; and

☞ the extent to which revenue in excess of that which is required to be distributed should be retained.

The Company's objectives, policies and processes for managing capital have remained unchanged since its launch.

20 Transactions with the Manager and Related Parties

The amounts paid to the Manager pursuant to the management agreement are disclosed in note 3. Management fees for the year amounted to £3,718,000 (2017: £3,407,000).

As at the year end, the following amounts were outstanding in respect of management fees: £329,000 (2017: £305,000).

Fees paid to the Company's Directors are disclosed in the Directors' Remuneration Report. At the year end, there were no outstanding fees payable to Directors (2017: £nil).

There were no other identifiable related parties at the year end.

Redemption of Ordinary Shares

The Company has a redemption facility through which shareholders are entitled to request the redemption of all or part of their holding of ordinary shares on 31 May in each year. Redemption Request forms are available upon request from the Company's Registrar.

Shareholders submitting valid requests for the redemption of ordinary shares will have their shares redeemed at the Redemption Price or the Company may arrange for such shares to be sold in the market at the Net Asset Value (including current period revenue) (the "Dealing Value") prevailing at the end of May (subject to the Directors' discretion). The Directors may elect, at their absolute discretion, to calculate the Redemption Price applying on any redemption point by reference to a separate Redemption Pool, when the Redemption Price will be calculated by reference to the amount generated upon the realisation of the Redemption Pool.

The Board may, at its absolute discretion, elect not to operate the annual redemption facility on any given Redemption Point, or to decline in whole or part any redemption request, although the Board does not generally expect to exercise this discretion, save in the interests of shareholders as a whole.

A redemption of ordinary shares may be subject to either income tax and/or capital gains tax. In particular, private shareholders that sell their shares via the redemption mechanism could find they are subject to income tax on the gains made on the redeemed shares rather than the more usual capital gains tax on the sale of their shares in the market. However individual circumstances do vary, so shareholders who are in any doubts about the redemption or the action that should be taken should consult their stockbroker, accountant, tax adviser or other independent financial adviser.

The relevant dates for the May 2019 Redemption Point are:

1 May 2019	Latest date for receipt of Redemption Requests and certificates for certificated shares
3.00 pm on 1 May 2019	Latest date and time for receipt of Redemption Requests and TTE (transfer to escrow) instructions for uncertificated shares via CREST
5.00 pm on 31 May 2019	The Redemption Point
On or before 14 June 2019	Company to notify Redemption Price and dispatch redemption monies; or
	If the redemption is to be funded by way of a Redemption Pool, Company to notify the number of shares being redeemed. Notification of Redemption Price and dispatch of redemption monies to take place as soon as practicable thereafter
On or before 28 June 2019	Balance certificates to be sent to shareholders

Further details of the redemption facility are set out in the Company's Articles of Association, or are available from the Company Secretary.

Shareholder Information

The Company was incorporated on 30 March 2011. Following a placing and offer for subscription, the ordinary shares were admitted to trading on the London Stock Exchange on 28 April 2011.

Capital Structure

The Company's share capital consists of redeemable ordinary shares of 0.1p each with one vote per share ("ordinary shares") and non-voting management shares of £1 each ("management shares"). From time to time, the Company may issue C ordinary shares of 1p each ("C shares") with one vote per share.

The Company's shares have the following rights:

Voting: the ordinary and C shares have equal voting rights. At shareholder meetings, members present in person or by proxy have one vote on a show of hands and on a poll have one vote for each share held. Management shares are non-voting.

Dividends: the assets of the ordinary and C shares are separate and each class is entitled to dividends declared on their respective asset pool. The management shares are entitled to receive, in priority to the holders of any other class of shares, a fixed cumulative dividend equal to 0.00001p per annum.

Capital: if there are any C shares in issue, the surplus capital and assets of the Company shall on a winding-up or on a return of capital, be applied amongst the existing ordinary shareholders and the management shareholders pro rata according to the nominal capital paid up on their holdings after having deducted therefrom an amount equivalent to the assets and liabilities relating to the C shares, which amount shall be applied amongst the C shareholders pro rata according to the nominal capital paid up on their holdings of C shares.

When there are no C shares in issue, any surplus shall be divided amongst the ordinary shareholders and management shareholders pro rata according to the nominal capital paid up on their holdings of ordinary shares and management shares.

In each instance, the holders of the management shares shall only receive an amount up to the capital paid up on such management shares and the management shares shall not confer the right to participate in any surplus remaining following payment of such amount.

As at the date of this Report, there were 383,487,239 ordinary shares in issue, none of which are held in treasury, and 50,000 management shares.

The Company has a redemption facility through which shareholders are entitled to request the redemption of all or part of their holding of ordinary shares on an annual basis on 31 May in each year. The Board may, at its absolute discretion, elect not to operate the annual redemption facility in whole or in part, although it has indicated that it is minded to approve all requests.

Further details of the capital structure can be found in note 9 to the financial statements. Details of the redemption facility are set out on page 79.

Investment Objective

The Company's investment objective is to provide shareholders with an attractive and growing level of dividends coupled with capital growth over the long term.

Investment Policy

The Company invests primarily in UK quoted or traded companies with a wide range of market capitalisations, but a long-term bias toward small and mid cap equities. The Company may also invest in large cap companies, including FTSE 100 constituents, where it is believed that this may increase shareholder value.

The Manager adopts a stock specific approach in managing the Company's portfolio and therefore sector weightings are of secondary consideration. As a result of this approach, the Company's portfolio does not track any benchmark index.

The Company may utilise derivative instruments including index-linked notes, contracts for differences, covered options and other equity-related derivative instruments for efficient portfolio management, gearing and investment purposes. Any use of derivatives for investment purposes will be made on the basis of the same principles of risk spreading and diversification that apply to the Company's direct investments, as described below. The Company will not enter into uncovered short positions.

Risk Diversification

Portfolio risk is mitigated by investing in a diversified spread of investments. Investments in any one company shall not, at the time of acquisition, exceed 15% of the value of the Company's investment portfolio. Typically it is expected that the Company will hold a portfolio of between 80 and 160 securities*, predominantly most of which will represent no more than 1.5% of the value of the Company's investment portfolio as at the time of acquisition.

The Company will not invest more than 10% of its gross assets, at the time of acquisition, in other listed closed-ended investment funds, whether managed by the Manager or not, except that this restriction shall not apply to investments in listed closed-ended investment funds which themselves have stated investment policies to invest no more than 15% of their gross assets in other listed closed-ended investment funds. In addition to this restriction, the Directors have further determined that no more than 15% of the Company's gross assets will, at the time of acquisition, be invested in other listed closed-ended investment funds (including investment trusts) notwithstanding whether or not such funds have stated policies to invest no more than 15% of their gross assets in other listed closed-ended investment funds.

Unquoted Investments

The Company may invest in unquoted companies from time to time subject to prior Board approval. Investments in unquoted companies in aggregate will not exceed 5% of the value of the Company's investment portfolio as at the time of investment.

Borrowing and Gearing Policy

The Board considers that long-term capital growth can be enhanced by the use of gearing which may be through bank borrowings and the use of derivative instruments such as contracts for differences. The Company may borrow (through bank facilities and derivative instruments) up to 15% of NAV (calculated at the time of borrowing).

The Board oversees the level of gearing in the Company, and reviews the position with the Manager on a regular basis.

In the event of a breach of the investment policy set out above and the investment and gearing restrictions set out therein, the Manager shall inform the Board upon becoming aware of the same and if the Board considers the breach to be material, notification will be made to the LSE.

No material change will be made to the investment policy without the approval of shareholders by ordinary resolution.

* A resolution is being put to shareholders at the forthcoming AGM which, if approved, will increase the minimum and maximum expected size of the portfolio to between 100 and 180 securities. The proposed new investment policy is set out on page 91.

Shareholder Information continued

Historic Dividend Record

Period/year ended 31 May:	2012 pence	2013 pence	2014 pence	2015 pence	2016 pence	2017 pence	**2018 pence**
First interim dividend	0.30	0.30	0.30	0.40	0.65	0.70	**0.75**
Second interim dividend	0.50	0.50	0.50	0.50	0.65	0.70	**0.80**
Third interim dividend	0.46	0.46	0.50	0.50	0.75	0.80	**0.85**
Fourth interim dividend	0.76*	0.84	0.95	1.00	–	–	**–**
Final dividend	–	–	–	0.50	0.75	0.80	**1.00**
Special dividend	–	–	–	–	–	0.40†	**0.23†**
	2.02	2.10	2.25	2.90**	2.80	3.40	**3.63**

* The fourth interim dividend for the period ended 31 May 2012 was 0.93p but this included the benefit of the initial 13-month period. As shown above, on an annualised basis, the fourth interim dividend would have been 0.76p.

** In order to allow shareholders to vote on the dividend, a final dividend was introduced in the year ended 31 May 2015, resulting in the payment of five dividends for that year. Since then, the Company has paid three interim dividends and a final dividend in respect of each year. There was no interruption in the dividend payment timetable as a result of this change.

† A special dividend was paid for the years ended 31 May 2017 and 31 May 2018, reflecting years when many special dividends were also paid by the companies in the portfolio.

Share Dealing

Shares can be traded through your usual stockbroker.

Share Register Enquiries

The register for the ordinary shares is maintained by Link Asset Services. In the event of queries regarding your holding, please contact the Registrar on 0871 664 0300 or on +44 (0)371 664 0300 from outside the UK (calls cost 12p per minute plus your phone company's access charge; calls outside the UK will be charged at the applicable international rate). Lines are open 9.00am to 5.30pm, Monday to Friday, excluding public holidays in England and Wales. You can also email enquiries@linkgroup.co.uk

Changes of name and/or address must be notified in writing to the Registrar: Link Asset Services, Shareholder Services, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU.

Share Capital and Net Asset Value Information

Ordinary 0.1p shares	383,487,239
SEDOL Number	B65TLW2
ISIN Number	GB00B65TLW28

The Company releases its NAV per share to the LSE daily.

Share Prices

The Company's shares are listed on the LSE. The mid-market prices are quoted daily in the Financial Times under 'Investment Companies'.

Annual and Half-Yearly Reports

Copies of the Annual and Half-Yearly Reports are available on the Company's website, www.mitongroup.com/dit, or from the Secretary on telephone number 01392 477500.

Manager: Miton Trust Managers Limited

The Company's Manager is Miton Trust Managers Limited, a wholly-owned subsidiary of Miton Group plc. Miton Group is listed on the AIM market for smaller and growing companies.

As at 30 June 2018, the group managed £4.54bn of assets under management.

Members of the fund management team invest in their own funds and are significant shareholders in the Miton Group.

Investor updates in the form of monthly factsheets are available from the Company's website, www.mitongroup.com/dit.

Association of Investment Companies

The Company is a member of the Association of Investment Companies.

Financial Calendar

August 2018	Announcement of annual results
	Payment of third interim dividend
October 2018	Annual General Meeting
November 2018	Half-year end
	Payment of final and special dividend
January 2019	Announcement of half-yearly results
February 2019	Payment of first interim dividend
May 2019	Year end
	Payment of second interim dividend
	Redemption Point

Retail Investors advised by IFAs

The Company currently conducts its affairs so that the shares issued by the Company can be recommended by IFAs to ordinary retail investors in accordance with the FCA rules in relation to non-mainstream investment products and intends to continue to do so for the foreseeable future. The shares are excluded from the FCA's restrictions which apply to non-mainstream investment products because they are shares in an investment trust.

AIFMD Disclosures

The AIFMD requires certain information to be made available to investors in Alternative Investment Funds ("AIFs") before they invest and requires that material changes to this information be disclosed in the annual report of each AIF. Those disclosures that are required to be made pre-investment are included within a Pre-Investor Information Document ("PIID") which can be found on the Company's website: www.mitongroup.com/dit.

Remuneration

Miton Trust Managers Limited (the "Firm") is required in this Annual Report to make certain disclosures in respect of remuneration paid to its staff. The following disclosures are made in line with the Firm's interpretation of currently available regulatory guidance on remuneration disclosures.

The total amount of remuneration paid (or to be paid) by the Firm to its staff in respect of the financial year ending 31 December 2017 has been attributed (using an objective apportionment methodology) to Diverse, for which the Firm acts as the AIFM. The amount of the total remuneration paid (or to be paid) by the Firm to its staff which has been attributed to Diverse in respect of the financial year ending 31 December 2017 is £1,218,243. This figure is comprised of fixed remuneration of £801,966 and variable remuneration of £416,276.

There were a total of seven beneficiaries of the remuneration described above.

The amount of the aggregate remuneration paid (or to be paid) by the Firm to its senior management which has been attributed to Diverse in respect of the financial year ending 31 December 2017 was £1,218,243. The Firm delegates investment management activity to Miton Asset Management Limited and therefore there are no members of staff whose actions have a material impact on the risk profile of Diverse.

Remuneration Policy of the Firm

The Firm is authorised and regulated by the UK's FCA as an AIFM and as such must comply with the rules contained in the FCA's AIFM Remuneration Code within SYSC 19B in a manner that is appropriate to its size, internal organisation and the nature, scope and complexities of its activities.

Staff included in the aggregated figures disclosed above are rewarded in line with the Firm's remuneration policy (the "Remuneration Policy"), which is determined and implemented by the Remuneration Committee (comprising senior executives and non-executives of Miton Group plc) and is subject to independent review. The Remuneration Policy reflects the Firm's ethos of good governance and encapsulates the following principal objectives:

(i) to provide a clear link between remuneration and performance of the Firm and to avoid rewarding for failure;

(ii) to promote sound and effective risk management consistent with the risk profiles of the Alternative Investment Funds ("Funds") managed by the Firm; and

(iii) to remunerate staff in line with the business strategy, objectives, values and interests of the Firm and the Funds managed by the Firm in a manner that avoids conflicts of interest.

The Firm assesses performance for the purposes of determining payments in respect of performance-related remuneration by reference to a broad range of measures, including: (i) individual performance (using financial and non-financial criteria); (ii) performance of the business unit or relevant Fund for which the individual provides services; and (iii) the overall performance of the Firm. Assessment of performance is set within a multi-year framework, reflecting the cycles of the relevant Fund, to ensure the process is based on longer-term performance and spread over time.

The elements of remuneration are balanced between fixed and variable and the management function sets fixed salaries at a level sufficient to ensure that variable remuneration incentivises and rewards strong performance but does not encourage excessive risk taking.

The Firm operates a discretionary bonus scheme.

The Firm is entitled to disapply the requirements of SYSC 19B in relation to deferral and payment of remuneration in instruments, therefore, due to the Firm's size, internal organisation and the nature, scope and complexities of its activities the Firm does not currently operate deferral of remuneration.

Mechanisms are in place to ensure that remuneration does not reward failure, whether on the early termination of a contract or otherwise.

No individual is involved in setting his or her own remuneration.

Leverage

For the purposes of the AIFMD, leverage is any method which increases the Company's exposure, including the borrowing of cash and the use of derivatives. It is expressed as a ratio between the Company's exposure and its net asset value and is calculated under the Gross and Commitment Methods, in accordance with AIFMD. Under the Gross Method, exposure represents the sum of the Company's positions without taking account of any netting or hedging arrangements. Under the Commitment Method, exposure is calculated after certain hedging and netting positions are offset against each other.

The Company is required to state its maximum permitted leverage limit and actual level of leverage, as prescribed by the AIFMD. This gives the following figures:

Leverage exposure	Gross Method	Commitment Method
Maximum limit	200%	200%
Actual	109%	100%

This document is important and requires your immediate attention. If you are in any doubt as to the action you should take, you are recommended to seek your own financial advice from your stockbroker or other independent adviser authorised under the Financial Service and Markets Act 2000 immediately.

If you have sold or otherwise transferred all of your shares in The Diverse Income Trust plc, please forward this document as soon as possible to the purchaser or transferee or to the stockbroker, bank or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the seventh ANNUAL GENERAL MEETING of The Diverse Income Trust plc (the "Company") will be held on Wednesday, 10 October 2018 at 11.30 am at the offices of Stephenson Harwood LLP, 1 Finsbury Circus, London EC2M 7SH to consider and vote on the Resolutions below.

Resolutions 1 to 12, 16 and 17 (inclusive) will be proposed as Ordinary Resolutions and Resolutions 13 to 15 (inclusive) will be proposed as Special Resolutions.

Ordinary Business		Resolution on Form of Proxy
1	To receive and adopt the Strategic Report, Reports of the Directors and Auditor and the audited financial statements for the year ended 31 May 2018.	Resolution 1
2	To receive and approve the Directors' Remuneration Report for the year ended 31 May 2018.	Resolution 2
3	To re-elect Mr Wrobel as a Director of the Company.	Resolution 3
4	To re-elect Mr Craig as a Director of the Company.	Resolution 4
5	To re-elect Ms Riches as a Director of the Company.	Resolution 5
6	To re-elect Mr Thomson as a Director of the Company.	Resolution 6
7	To re-elect Ms Tufnell as a Director of the Company.	Resolution 7
8	To re-appoint Ernst & Young LLP as Auditor of the Company to hold office from the conclusion of the meeting until the conclusion of the next meeting at which financial statements are laid before the Company.	Resolution 8
9	To authorise the Audit Committee to determine the remuneration of the Auditor of the Company.	Resolution 9
10	To declare a final dividend of 1.00p per ordinary share for the year ended 31 May 2018.	Resolution 10
11	To declare a special dividend of 0.23p per ordinary share for the year ended 31 May 2018.	Resolution 11
12	THAT: The Directors be and are hereby generally and unconditionally authorised in accordance with Section 551 of the Companies Act 2006 ("the Act") to exercise all the powers of the Company to allot ordinary shares of 0.1 pence each in the capital of the Company ("Ordinary Shares") up to an aggregate nominal amount of £38,348 (being approximately 10% of the issued ordinary share capital of the Company at the date of this Notice) during the period commencing on the date of the passing of this Resolution and expiring at the conclusion of the Annual General Meeting of the Company to be held in 2019 (unless previously renewed, varied or revoked by the Company in general meeting) (the "Section 551 period"), but so that the Company may, at any time prior to the expiry of the Section 551 period, make offers or agreements which would or might require Ordinary Shares to be allotted after the expiry of the Section 551 period and the Directors may allot Ordinary Shares in pursuance of such offers or agreements as if the authority had not expired.	Resolution 12

Ordinary Business continued

Resolution on Form of Proxy

13 THAT: Resolution 13

Subject to the passing of Resolution 12, the Directors be and they are hereby empowered, in accordance with Sections 570 and 573 of the Act, to allot Ordinary Shares for cash pursuant to the authority conferred on the Directors by Resolution 12 above, and to sell Ordinary Shares from treasury for cash as if Section 561(1) of the Act did not apply to any such allotment or sale, up to an aggregate nominal amount of £38,348 (being approximately 10% of the issued ordinary share capital of the Company at the date of this Notice), such power to expire at the conclusion of the Annual General Meeting of the Company to be held in 2019 (unless previously renewed, varied or revoked by the Company in general meeting) save that the Company may, at any time prior to the expiry of such power, make an offer or enter into an agreement which would or might require Ordinary Shares to be allotted or sold after the expiry of such power and the Directors may allot or sell Ordinary Shares in pursuance of such an offer or agreement as if such power had not expired.

14 THAT: Resolution 14

The Company is hereby generally and unconditionally authorised in accordance with Section 701 of the Act to make market purchases (within the meaning of Section 693(4) of the Act) of ordinary shares of 0.1p each in the capital of the Company ("Ordinary Shares") provided that:

(a) the maximum number of Ordinary Shares hereby authorised to be purchased is 57,484,737 (representing 14.99% of the Ordinary Shares in issue at the date of this Notice);

(b) the minimum price which may be paid for each Ordinary Share is 0.1p;

(c) the maximum price which may be paid for each Ordinary Share shall not be more than the higher of: (i) an amount equal to 105% of the average of the middle market quotations of Ordinary Shares taken from the Daily Official List of the London Stock Exchange for the five business days immediately preceding the day on which the contract of purchase is made; and (ii) the higher of the price of the last independent trade in the Ordinary Shares and the highest then current independent bid for the Ordinary Shares on the London Stock Exchange;

(d) this authority will (unless previously renewed, varied or revoked by the Company in general meeting) expire at the conclusion of the Annual General Meeting of the Company to be held in 2019;

(e) the Company may make a contract of purchase for Ordinary Shares under this authority before this authority expires which will or may be executed wholly or partly after its expiration; and

(f) any Ordinary Shares bought back under the authority hereby granted may, at the discretion of the Directors, be cancelled or held in treasury and if held in treasury may be resold from treasury or cancelled at the discretion of the Directors.

15 THAT: Resolution 15

A general meeting other than an Annual General Meeting may be called on not less than 14 clear days' notice.

Special Business

16 THAT: Resolution 16

The proposed amendment to the Company's investment policy to increase the minimum and maximum expected size of the portfolio to between 100 and 180 securities, as set out in the Appendix on page 91, be and is hereby approved.

17 THAT: Resolution 17

The Company be authorised, subject to and in accordance with the provisions of the Companies Act 2006, to send, convey or supply all types of notices, documents or information to shareholders by electronic means, including making such notices, documents or information available on a website.

By order of the Board
Link Alternative Fund Administrators Limited, Secretary
Registered Office: Beaufort House, 51 New North Road, Exeter EX4 4EP
2 August 2018

Notice of Annual General Meeting continued

Explanatory Notes to the Notice of Meeting

As a shareholder, you have the right to attend, speak and vote at the forthcoming AGM or at any adjournment(s) thereof. In order to exercise all or any of these rights, you should read the following explanatory notes to the business of the AGM.

Note 1: To be entitled to attend and vote at the meeting (and for the purpose of the determination by the Company of the number of votes they may cast) members must be entered on the Company's register of members at close of business on 8 October 2018 (or in the event that the meeting is adjourned, only those shareholders registered on the register of members of the Company as at close of business on the day which is 48 hours prior to the adjourned meeting). Changes to entries on the register of members after that time shall be disregarded in determining the rights of any person to attend or vote at the meeting.

Note 2: A member entitled to attend and vote at this meeting may appoint one or more persons as his/her proxy to attend, speak and vote on his/her behalf at the meeting. A proxy need not be a member of the Company. If multiple proxies are appointed they must not be appointed in respect of the same shares. To appoint more than one proxy, members will need to complete a separate proxy form in relation to each appointment (you may photocopy the proxy form).

To be effective, the enclosed personalised form of proxy, together with any power of attorney or other authority under which it is signed or a certified copy thereof, should be lodged at the office of the Company's Registrar, Link Asset Services, PXS1, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4ZF not later than 11.30 am on 8 October 2018 (being 48 hours prior to the meeting excluding non-working days). As an alternative to completing a paper copy of the proxy form, shareholders may submit their proxy vote electronically via the Registrar's website by visiting www.signalshares.com. From there, shareholders can log in to their Link Signal Shares account or register for Link Signal Shares by following the on-screen instructions. You will need to enter your Investor Code, which can be found on your share certificate or by calling the Registrar's Customer Support Centre on 0871 664 0300. The appointment of a proxy will not prevent a member from attending the meeting and voting in person if he/she so wishes. A member present in person or by proxy shall have one vote on a show of hands and on a poll every member present in person or by proxy shall have one vote for every share of which he/she is the holder. The termination of the authority of a person to act as proxy must be notified to the Company in writing.

In the case of joint holders of a share, the vote of the senior holder who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the vote or votes of the other joint holder or holders, and seniority shall be determined by the order in which the names of the holders stand in the register.

Any question relevant to the business of the AGM may be asked at the meeting by anyone permitted to speak at the meeting. You may alternatively submit your question in advance by letter addressed to the Secretary at the registered office.

Note 3: A person to whom this notice is sent who is a person nominated under Section 146 of the Companies Act 2006 to enjoy information rights (a "Nominated Person") may, under an agreement between him/her and the shareholder by whom he/she was nominated, have a right to be appointed (or to have someone else appointed) as a proxy for the AGM. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he/she may, under any such agreement, have a right to give instructions to the shareholder as to the exercise of voting rights.

Note 4: The statements of the rights of members in relation to the appointment of proxies in Note 2 above do not apply to a Nominated Person. The rights described in this Note can only be exercised by registered members of the Company.

Note 5: As at 1 August 2018 (being the last business day prior to the publication of this notice) the Company's total number of voting rights amounted to 383,487,239 ordinary shares carrying one vote each.

Note 6: Any corporation which is a member may appoint one or more corporate representatives who may exercise on its behalf all of its powers as a member provided that they do not do so in relation to the same shares. To be able to attend and vote at the meeting, corporate representatives will be required to produce prior to their entry to the meeting evidence satisfactory to the Company of their appointment.

Note 7: Shareholders should note that it is possible that, pursuant to requests made by shareholders of the Company under Section 527 of the Companies Act 2006, the Company may be required to publish on a website a statement setting out any matter relating to: (i) the audit of the Company's accounts (including the Auditor's report and the conduct of the audit) that are to be laid before the AGM; or (ii) any circumstances connected with an auditor of the Company ceasing to hold office since the previous meeting at which annual accounts and reports were laid in accordance with Section 437 of the Companies Act 2006. The Company may not require the shareholders requesting any such website publication to pay its expenses in complying with Sections 527 or 528 of the Companies Act 2006. Where the Company is required to place a statement on a website under Section 527 of the Companies Act 2006, it must forward the statement to the Company's Auditor not later than the time when it makes the statement available on the website. The business which may be dealt with at the AGM includes any statement that the Company has been required under Section 527 of the Companies Act 2006 to publish on a website.

Note 8: In accordance with Section 319A of the Companies Act 2006, the Company must cause any question relating to the business being dealt with at the meeting put by a member attending the meeting to be answered. No such answer need be given if:

a) to do so would:

(i) interfere unduly with the preparation for the meeting; or

(ii) involve the disclosure of confidential information;

b) the answer has already been given on a website in the form of an answer to a question; or

c) it is undesirable in the interests of the Company or the good order of the meeting that the question be answered.

Note 9: CREST members who wish to appoint a proxy or proxies by utilising the CREST electronic proxy appointment service may do so for this meeting by following the procedures described in the CREST Manual. CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

In order for a proxy appointment or instruction made by means of CREST to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear's specifications and must contain the information required for such instructions, as described in the CREST Manual. The message, in order to be valid, must be transmitted so as to be received by the Company's agent ID RA10 by the latest time for receipt of proxy appointments specified in Note 2 above. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the Company's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time, any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

CREST members and, where applicable, their CREST sponsors or voting service providers should note that Euroclear does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

Notice of Annual General Meeting continued

Note 10: Members satisfying the thresholds in Section 338 of the Companies Act 2006 may require the Company to give, to members of the Company entitled to receive notice of the AGM, notice of a resolution which those members intend to move (and which may properly be moved) at the AGM. A resolution may properly be moved at the Annual General Meeting unless (i) it would, if passed, be ineffective (whether by reason of any inconsistency with any enactment or the Company's constitution or otherwise); (ii) it is defamatory of any person; or (iii) it is frivolous or vexatious. A request made pursuant to this right may be in hard copy or electronic form, must identify the resolution of which notice is to be given, must be authenticated by the person(s) making it and must be received by the Company not later than six weeks before the date of the AGM.

Note 11: Members satisfying the thresholds in Section 338A of the Companies Act 2006 may request the Company to include in the business to be dealt with at the AGM any matter (other than a proposed resolution) which may properly be included in the business at the AGM. A matter may properly be included in the business at the AGM unless (i) it is defamatory of any person or (ii) it is frivolous or vexatious. A request made pursuant to this right may be in hard copy or electronic form, must identify grounds for the request, must be authenticated by the person(s) making it and must be received by the Company not later than six weeks before the date of the AGM.

Note 12: The Annual Report incorporating this Notice of AGM and, if applicable, any members' statements, members' resolutions or members' matters of business received by the Company after the dates of this Notice will be available on the Company's website, www.mitongroup.com/dit.

Note 13: None of the Directors has a contract of service with the Company. A copy of the letters of appointment of the Directors will be available for inspection at the registered office of the Company during usual business hours on any weekday (except weekends and public holidays) until the date of the meeting and at the place of the meeting for a period of fifteen minutes prior to and during the meeting.

Appendix – Proposed Change to Investment Policy

The proposed new investment policy for the Company, as proposed in resolution 16 on page 87 of this Report, is set out below. The change to the existing policy at the time of publication of this Report is marked in black-line.

Investment Policy

The Company invests primarily in UK quoted or traded companies with a wide range of market capitalisations, but a long-term bias toward small and mid cap equities. The Company may also invest in large cap companies, including FTSE 100 constituents, where it is believed that this may increase shareholder value.

The Manager adopts a stock specific approach in managing the Company's portfolio and therefore sector weightings are of secondary consideration. As a result of this approach, the Company's portfolio does not track any benchmark index.

The Company may utilise derivative instruments including index-linked notes, contracts for differences, covered options and other equity-related derivative instruments for efficient portfolio management, gearing and investment purposes. Any use of derivatives for investment purposes will be made on the basis of the same principles of risk spreading and diversification that apply to the Company's direct investments, as described below. The Company will not enter into uncovered short positions.

Risk Diversification

Portfolio risk is mitigated by investing in a diversified spread of investments. Investments in any one company shall not, at the time of acquisition, exceed 15% of the value of the Company's investment portfolio. Typically it is expected that the Company will hold a portfolio of between ~~80~~ 100 and ~~160~~ 180 securities, predominantly most of which will represent no more than 1.5% of the value of the Company's investment portfolio as at the time of acquisition.

The Company will not invest more than 10% of its gross assets, at the time of acquisition, in other listed closed-ended investment funds, whether managed by the Manager or not, except that this restriction shall not apply to investments in listed closed-ended investment funds which themselves have stated investment policies to invest no more than 15% of their gross assets in other listed closed-ended investment funds. In addition to this restriction, the Directors have further determined that no more than 15% of the Company's gross assets will, at the time of acquisition, be invested in other listed closed-ended investment funds (including investment trusts) notwithstanding whether or not such funds have stated policies to invest no more than 15% of their gross assets in other listed closed-ended investment funds.

Unquoted Investments

The Company may invest in unquoted companies from time to time subject to prior Board approval. Investments in unquoted companies in aggregate will not exceed 5% of the value of the Company's investment portfolio as at the time of investment.

Borrowing and Gearing Policy

The Board considers that long-term capital growth can be enhanced by the use of gearing which may be through bank borrowings and the use of derivative instruments such as contracts for differences. The Company may borrow (through bank facilities and derivative instruments) up to 15% of NAV (calculated at the time of borrowing).

The Board oversees the level of gearing in the Company, and reviews the position with the Manager on a regular basis.

In the event of a breach of the investment policy set out above and the investment and gearing restrictions set out therein, the Manager shall inform the Board upon becoming aware of the same and if the Board considers the breach to be material, notification will be made to the LSE.

No material change will be made to the investment policy without the approval of shareholders by ordinary resolution.

Notes

Glossary

AIC
The Association of Investment Companies.

AIM
The Alternative Investment Market is a sub-market of the London Stock Exchange. It allows smaller companies to float shares with a more flexible regulatory system than applicable to the main market.

Alternative Performance Measure ("APM")
An APM is a numerical measure of the Company's current, historical or future financial performance, financial position or cash flows, other than a financial measure defined or specified in the applicable financial framework.

Annual General Meeting ("AGM")
All public companies have an AGM every year, and this is the opportunity for the shareholders to confirm their approval of the annual accounts, the annual dividend and the appointment of the Directors and Auditors. It is also a good time for shareholders to meet the non-executive Directors. The Company's AGM is on 10 October 2018 at 11.30 am at the offices of Stephenson Harwood LLP, 1 Finsbury Circus, London EC2M 7SH. One of the fund managers will give shareholders a presentation on the current position of the Company's portfolio and some thoughts on the market outlook.

Discount/Premium
If the share price of an investment trust is lower than the NAV per share, the shares are said to be trading at a discount. The size of the discount is calculated by subtracting the share price from the NAV per share and is usually expressed as a percentage of the NAV per share. If the share price is higher than the NAV per share, this situation is called a premium.

Premium/(Discount) Calculation	**Page**	**31 May 2018 £000**	31 May 2017 £000	
Closing NAV per share (p)	6	**105.09**	103.43	(a)
Closing share price (p)	6	**107.00**	102.50	(b)
Premium/(Discount) (c = ((a - b)/a)) (%)	**6**	**1.82**	**(0.90)**	**(c)**

The discount/premium and performance is calculated in accordance with guidelines issued by the AIC. The discount/premium is calculated using the NAVs per share inclusive of accrued income with debt at market value.

Dividend Yield
The annual dividend expressed as a percentage of the mid-market share price.

Financial Conduct Authority ("FCA")
This regulator oversees the fund management industry, including the operation of the Company.

Financial Reporting Council ("FRC")
The FRC regulates UK auditors and provides guidance to accountants with the aim of promoting better transparency and integrity in the annual reports of quoted businesses.

Gearing
Gearing refers to the ratio of the Company's debt to its equity capital. The Company may borrow money to invest in additional investments for its portfolio. If the Company's assets grow, the shareholders' assets grow proportionately because the debt remains the same. If the value of the Company's assets falls, the situation is reversed. Gearing can therefore enhance performance in rising markets but can adversely impact performance in falling markets.

Growth Stock
A stock where the earnings are expected to grow at an above-average rate, leading to a faster than average growing share price. Growth stocks do not usually pay a significant dividend.

International Financial Reporting Standards ("IFRS")
Generally Accepted Accounting Principles ("GAAP") are a common set of accounting principles, standards and procedures that companies follow when they compile their financial statements. GAAP is a combination of authoritative standards (set by policy boards) and the commonly accepted ways of recording and reporting accounting information. This enables the financial results of companies to be determined on a common basis so they are able to be compared.

In the UK, company accounts must be prepared in accordance with applicable company law, this being the Companies Act 2006, which recognises GAAP. International Financial Reporting Standards ("IFRS") are standards issued by the International Accounting Standards Board ("IASB"), approved for implementation by the European Union to provide a common global language for business affairs so that company accounts are understandable and comparable across international boundaries. These were previously International Accounting Standards ("IAS") maintained by the IASB. The Company adopted IFRS with the accounting policies of the Company set out in the financial statements.

UK GAAP is the body of accounting standards and other guidance published by the UK's Financial Reporting Council ("FRC") known as Financial Reporting Standards ("FRS") much of which are derived and aligned to IFRS. The recently issued UK FRS have replicated the wording of corresponding IFRS, reducing the differences between the two sets of standards significantly.

The Company uses IFRS that provides a high quality, internationally recognised set of accounting standards that bring transparency, accountability and efficiency to financial markets around the world.

Investment Association ("IA")

The IA is the trade body that represents UK investment managers. Miton Group plc is a member, and Gervais Williams is on the board.

Key Performance Indicators ("KPIs")

KPIs are a short list of corporate attributes that are used to assess to general progress of the business and are outlined in this Report on page 20.

Link Alternative Fund Administrators Limited

Link Alternative Fund Administrators Limited is the Company Secretary for the Company.

Markets in Financial Instruments Directive II ("MIFID II")

This directive came into effect on 3 January 2018. In the case of Miton Group plc clients, the principal change has been the unbundling of transaction and external research charges paid by the Company, when stock market transactions are carried out. Further details as to how Miton has adopted this directive are set out on page 13 within the Manager's Report.

Net Asset Value per Ordinary Share ("NAV")

The NAV is shareholders' funds expressed as an amount per individual share. Shareholders' funds are the total value of all of the Company's assets, at their current market value, having deducted all liabilities and prior charges at their par value, or at their asset value as appropriate. The total NAV per share is calculated by dividing the NAV by the number of ordinary shares in issue excluding treasury shares.

Ongoing Charges

As recommended by the AIC in its guidance, ongoing charges are the Company's annualised revenue and capital expenses (excluding finance costs and certain non-recurring items) expressed as a percentage of the average monthly net assets of the Company during the year.

Ongoing Charges Calculation	**Page**	**31 May 2018 £000**	31 May 2017 £000	
Management fee	54	**3,718**	3,407	
Other administrative expenses	54	**723**	734	
Less one time costs		**(3)**	(58)	
Total management fee and other administrative expenses		**4,438**	4,083	(a)
Average net assets in the year		**392,925**	355,523	(b)
Ongoing charges (c = a/b x 100) (%)		**1.13**	**1.15**	**(c)**

Peer Group

Diverse is part of the AIC's UK Equity Income Investment Trust sector. The trusts in this universe are defined as trusts whose investment objective is to achieve a total return for shareholders through both capital and dividend growth. Typically, the funds will have a yield on the underlying portfolio ranging between 110% and 175% of that of the FTSE All-Share Index. They will also have at least 80% of their assets in UK listed securities.

Glossary continued

Put Option

Put options are most commonly used in the stock market to protect against the decline of the price of a stock below a specified price likened to purchasing a form of financial insurance. An owner of a Put option can collect a financial benefit after an adverse event, with the scale of the benefit proportionate to the setback in the market and the remaining term of the cover. The Company Put option will become more valuable should the market decline.

Senior Independent Director ("SID")

The SID is a non-executive director who can be contacted by investors to discuss a matter of governance when it concerns the Chairman and the normal practice cannot be followed. The Company's SID is Jane Tufnell.

Tap Issue

A tap issue is a procedure that allows the Company to issue new shares at the current market value when the share price is at a premium to NAV. The Company is authorised to issue up to 10% of its share capital without the need for an open offer. This enables the Company to invest in attractive investment opportunities and to issue new shares on a flexible and cost-effective basis.

Total Assets

Total assets include investments, cash, current assets and all other assets. An asset is an economic resource, being anything tangible or intangible that can be owned or controlled to produce value and to produce positive economic value. Assets represent the value of ownership that can be converted into cash. The total assets less all liabilities will be equivalent to total shareholders' funds.

Total Return – NAV and Share Price Returns

Total return statistics enable the investor to make performance comparisons between investment trusts with different dividend policies. The total return measures the combined effect of any dividends paid, together with the rise or fall in the share price or NAV. This is calculated by the movement in the share price or NAV plus dividend income reinvested by the Company at the prevailing NAV.

NAV Total Return	Page	31 May 2018	31 May 2017	
Closing NAV per share (p)	6	**105.09**	103.43	
Add back total dividends paid in the year ended 31 May 2018 (2017) (p)	66	**3.55**	2.90	
Adjusted closing NAV (p)		**108.64**	106.33	(a)
Opening NAV per share (p)	6	**103.43**	91.02	(b)
NAV total return unadjusted (c = ((a - b)/b)) (%)		**5.0**	**16.8**	**(c)**
NAV total return adjusted %*		**5.2**	16.4	

Share Price Total Return	Page	31 May 2018	31 May 2017	
Closing share price (p)	6	**107.00**	102.50	
Add back total dividends paid in the year ended 31 May 2018 (2017) (p)	66	**3.55**	2.90	
Adjusted closing share price (p)		**110.55**	105.40	(a)
Opening share price (p)	6	**102.50**	93.75	(b)
Share price total return unadjusted (c = ((a - b)/b)) (%)		**7.9**	**12.4**	**(c)**
Share price total return adjusted %*		**8.1**	12.5	

* Based on NAV/share price movements and dividends being reinvested at the relevant cum dividend NAV/share price during the period. Where the dividend is invested and the NAV/share price falls, this will further reduce the return or, if it rises, any increase will be greater. The source is Morningstar who have calculated the return on an industry comparative basis.

Volatility

The term volatility relates to how much and how quickly the share price or net asset value of an investment has tended to change in the past. Those with the greatest movement in their share prices are known as having high volatility, whereas those with a narrow range of change are known as having low volatility.

Yield Stock

Yield stocks pay above-average dividends to shareholders. If the dividend grows, and the yield on the share remains constant, the share price will increase. Companies which grow their dividends faster than average are capable of delivering faster share price growth.

Contact Details of the Advisers

Secretary and Registered Office
Link Alternative Fund Administrators Limited
(trading as Link Asset Services)
Beaufort House
51 New North Road
Exeter EX4 4EP

Telephone: 01392 477500

Alternative Investment Fund Manager or Manager
Miton Trust Managers Limited
Paternoster House
65 St Paul's Churchyard
London EC4M 8AB

Investment Manager
Miton Asset Management Limited
Paternoster House
65 St Paul's Churchyard
London EC4M 8AB

Telephone: 020 3714 1525
Website: www.mitongroup.com

Company website
www.mitongroup.com/dit

Auditor
Ernst & Young LLP
25 Churchill Place
Canary Wharf
London E14 5EY

Banker
Bank of New York Mellon
One Piccadilly Gardens
Manchester M1 1RN

Depositary and Custodian
The Bank of New York Mellon (International) Limited
One Canada Square
London E14 5AL

Registrar and Transfer Office
Link Asset Services
Shareholder Services Department
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU

Telephone: 0871 664 0300
(+44 (0)371 664 0300 from outside the UK)
(calls will cost 12p per minute plus phone company's access charge; calls from outside the UK will be charged at the applicable international rate).

Lines are open 9.00am to 5.30pm, Monday to Friday, excluding public holidays in England and Wales.

Email: enquiries@linkgroup.co.uk
Website: www.linkassetservices.com

Solicitor
Stephenson Harwood LLP
1 Finsbury Circus
London EC2M 7SH

Stockbroker
Cenkos Securities plc
6.7.8 Tokenhouse Yard
London EC2R 7AS

Shareholder warning
Many companies are aware that their shareholders have received unsolicited phone calls or correspondence concerning investment matters. These calls typically come from fraudsters operating in 'boiler rooms' offering investors shares that often turn out to be worthless or non-existent, or an inflated price for shares they own. While high profits are promised, those who buy or sell shares in this way usually lose their money. These fraudsters can be very persistent and extremely persuasive. Shareholders are therefore advised to be very wary of any unsolicited advice, offers to buy shares at a discount or offers of free company reports.

It is very unlikely that either the Company or the Company's Registrar would make unsolicited telephone calls to shareholders and that any such calls would relate only to official documentation already circulated to shareholders and never in respect of investment 'advice'.

If you have been contacted by an unauthorised firm regarding your shares, you can report this using the FCA helpline on 0800 111 6768 or by using the share fraud reporting form at www.fca.org.uk/consumers/scams.

Total return for the year to 31 May 2018

The Diverse Income Trust NAV Total Return	+5.2%
FTSE All-Share Total Return	+6.5%

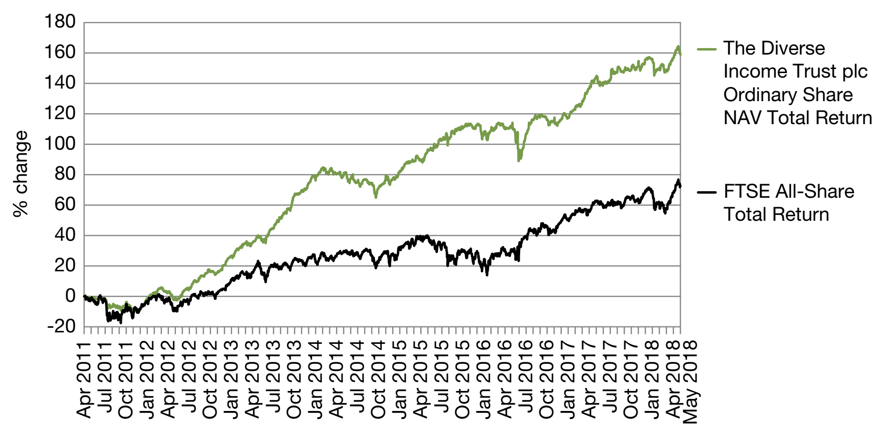
Source: Morningstar including dividend income reinvested.

Total return since launch on 28 April 2011

The Diverse Income Trust NAV Total Return	+165.5%
FTSE All-Share Total Return	+72.8%

Source: Morningstar including dividend income reinvested.

Company Performance since launch on 28 April 2011



Source: Morningstar including dividend income reinvested.

Genuinely active investing

www.mitongroup.com

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Use the QR app on your phone to go to The Diverse Income Trust plc website.