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Chelverton UK Dividend Trust PLC
09 May 2025

Chelverton UK Dividend Trust PLC ("SDV" or the "Company")

LEI: 213800DAF47EJ2HT4P78

SDV Update

Further to the announcement on 24 April, the 2025 ZDPs have now been repaid in full, and the Company currently has no borrowings or gearing. The Company has net assets of £ 30.85 m, as at 7 May 2025, across a diversified portfolio of small and midcap companies.

The Manager believes that there are compelling opportunities within the mid- and smaller UK companies universe and that the application of a rigorous investment discipline, combined with patience and a long-term outlook, can produce outstanding returns for investors. The changing macroeconomic environment, notably lower inflation and the beginning of interest rate cuts in the UK provide an accommodating backdrop for mid- and smaller UK companies.

Dividend for year ending 30 April 2025

Further to the announcement of 5 March 2025, it continues to be the Board's intention to pay the fourth interim dividend of 3.25p, which when added to the preceding three quarterly dividends would bring the total to 13.00p, for the year ending 30 April 2025.

Dividend Policy

As the Company is now ungeared, post the repayment of the final capital entitlement of the 2025 ZDPs, the underlying income from the restructured portfolio will lead to reduced dividend payments to ordinary shareholders. However, the Company has significant revenue reserves (£2.8m as at 31 October 2024, the last reported date), which can be used to supplement the underlying income.

Consequently, the Board announces its intention to pay 2.5p per ordinary share on a quarterly basis being a total of 10.00p per ordinary share per annum for the next three years ending 30 April 2028 (subject inter alia to market conditions at the time), effective from the first interim dividend in respect of the year to April 2026. The shares will therefore provide a yield of 7.6% (based on the closing share price as at 8 May 2025). This dividend target takes into account the Company's revenue reserves and assumes no change in the underlying portfolio income.

The Board believes this represents a compelling combination of an attractive dividend yield and the potential for capital upside from any recovery in the UK small and midcap market.

Outlook

The Board and the Manager are confident in both the Company's prospects and in the current portfolio's potential for growth.

As market circumstances develop, the Company will seek opportunities to reintroduce gearing into the Company's structure. The Company continues to actively consider alternative financing options and will provide a further update as required.

Director Investment Trusts at Chelverton Asset Management, the Investment Manager of the Company, David Horner, commented:

"It is interesting to observe that over the past, more than 50 years, there have only been two occasions when UK Smaller Cap companies have underperformed Large Caps for three years in a row. The first occasion was in the early 1980's and the second occasion, the present day. Most market observers consider that the UK equity markets, of all market capitalisations, are in Global terms relatively and absolutely cheap and within that the Small and Mid-Cap segments of the market are even more lowly rated. Evidence of this is the daily and extensive purchases by companies of their own shares. In the past when the rerating occurs in the Small Companies sector there was generally a very strong recovery, which has historically made up for the period of underperformance. The "shortage" of loose equity should, logically, mean that any recovery in share prices could well be swift and significant.

On a macro view despite the 0.25% reduction in the Bank of England Base Rate announced yesterday, the current rate of 4.25% remains almost double the European Central Bank rate, which is currently 2.25%. Market expectations are for further UK Base Rate cuts over the next 12-18 months, with some commentators suggesting there could be up to a further five reductions, down to 3.0%. Historically, lower interest rates are generally a catalyst for greater market activity and share price appreciation. As interest rates decline and confidence in the economy returns the future release of these cash reserves would be a major boost to GDP.

Our confidence in the current portfolio's potential for growth remains as high as it's ever been."

The person responsible for arranging the release of this announcement is Suzanna Waterhouse of Apex Fund Administration Services (UK) Limited, Company Secretary.

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