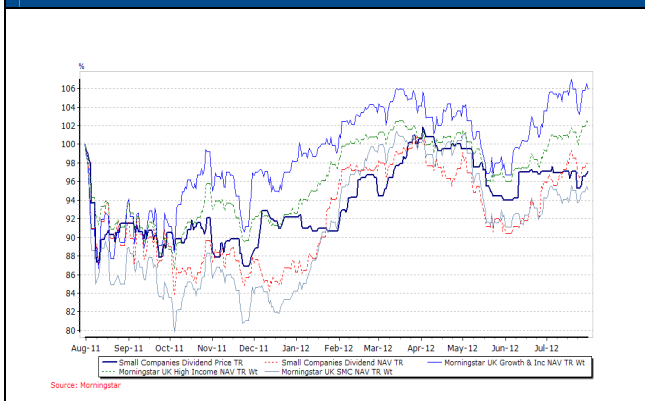


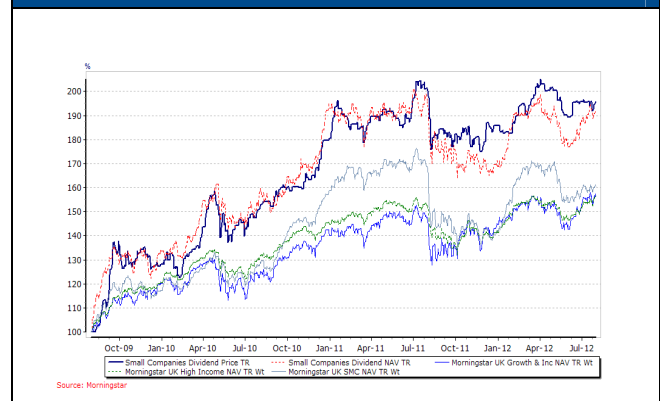
### Small Companies Dividend Trust\* - a new geared structure

Gross Assets £31m, Market Cap £15.3m, mid-price 94.25p, discount 11.9%, prospective dividend yield 7.0%

SDV Ordinary share NAV TR – 1 year



SDV Ordinary share NAV TR – 3 years



- Small Companies Dividend Trust (SDV)** successfully issued 8.5m Zero Dividend Preference shares (ZDPs) at 100p per share this week. The issue not only enabled the Trust to repay its £4m of bank debt due to redeem in 2014, but provided the company with a stable and relatively longer term form of structural equity gearing. This is significant at a time when conventional forms of bank debt are not readily available to investment companies such as SDV which invest in attractive yielding equities in less liquid areas of the market, unless attached to onerous conditions and caveats. The ZDP has a life of 5.3 years, redeeming on 8<sup>th</sup> January 2018 at 136.7p, representing an initial GRY of 6%, and at listing the shares were 2.1x covered by gross assets (SDVZ.L).
- Also this week, SDV significantly announced its first quarterly dividend for the year to 30<sup>th</sup> April 2013, which was up 3.7% over the equivalent dividend last year. Although the portfolio will not yet be benefitting from the fruits of the additional funds provided by the ZDP, the outlook has clearly given the Board the confidence to continue with its progressive dividend policy. If we assume that the dividend increase trend over the last couple of years continues into this year, we can project total dividends of 6.6p per share to be paid this year, equivalent to a dividend yield of 7.0% at the current mid-price of 94.25p per share. This would clearly be the highest yield on offer amongst the trusts in the UK High Income and UK Smaller Companies sub-sectors, and the second highest amongst the UK & Growth & Income trusts. SDV also had Revenue Reserves of 5.34p at the end of April, equivalent to 81% of the prospective annual dividend.
- For the last three financial years, economic conditions resulted in a shortfall between earnings and dividends paid, which was met by utilising Revenue Reserves. However, the high and sustainable dividend yield should now be able to be attained without increasing the portfolio yield and without utilising existing revenue reserves as has been done in the past. Additionally, by focussing on stocks with more conservative yield prospects, the portfolio continues to offer the potential for capital growth. Given the additional ability to generate capital and income growth, we see no reason why the current discount should not narrow to become more in line with other UK Growth & Income trusts, where the weighted sector average is 4%.
- The longevity and security provided by the ZDP also gives SDV a stable form of gearing at a time of relative market uncertainty, and should allow the Manager to 'ride out' any future stock market crisis, steering clear of the issues which affected many companies in 2008 when the credit crunch struck, such as having to sell off relatively illiquid assets at an inopportune time.
- The portfolio consists of around 66 equity investments with the top 10 accounting for circa 26%. The investment approach taken by Chelverton Asset Management, the Manager, is that an investment will not be made unless it has a prospective yield of at least 4% on a 12 month view, and the sell trigger is when a yield falls below 2% as a result of a re-rating or a weakening in the underlying dividend outlook. The Trust does not invest in mining or oil stocks and as a small and mid-cap investor, provides investors with a diversified income stream away from the normal sources of income in the UK.

\* Fairfax IS PLC acts as Corporate Broker to Small Companies Dividend Trust.

## Portfolio breakdown at 31st July 2012

No. of cos. by Mkt Cap		Top 10 Investments			Sector distribution	
Market Cap range	No	Company	%	Sector	Sector	%
> £500m	9	Macfarlane Group	3.0	General Industrial	Support Services	19.8
£250m - £500m	7	Avesco Group+	2.9	Media	Insurance	15.1
£100m - £250m	15	Sanderson Group+	2.8	Technology Software	Construction & Materials	7.5
£75m - £100m	6	Office2Office	2.7	Support Services	Speciality Finance & Oth. Fins	5.9
£50m - £75m	6	Personal Group+	2.7	Insurance	Financials	5.6
£25m - £50m	11	Portmeirion Group+	2.6	Household Goods	Engineering	5.0
£0 - £25m	12	Smith News	2.6	Support Services	Food & Beverage	4.9
<b>Total</b>	<b>66</b>	VP	2.4	Support Services	Media	4.9
		Jarvis Securities+	2.2	Speciality Finance & Oth. Fins	Travel & Leisure	4.3
		Beazley	2.2	Insurance	Technology Software	4.3
		<b>Total</b>	<b>26.0</b>	-	Retailers	4.2
		+ AIM.			Transport	3.7
					Household Goods	3.0
					Packing	3.0
					Other sectors (7)	8.7
					<b>Total</b>	<b>100.0</b>

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