17 February 2025

HARGREAVE HALE AIM VCT PLC

(the "**Company**")

Interim Management Statement

Q1 2025

Introduction

This interim management statement covers the first quarter of the 2024/25 financial year, 1 October 2024 to 31 December 2024. Investment performance measures contained in this report are calculated on a pence per share basis and include realised and unrealised gains and losses.

Overview

Once again, we have endured a difficult start to the financial year, albeit for very different reasons. The 2024 Autumn budget, preceded by some unhelpfully stark messaging, has weighed on economic activity. GDP, employment reports and PMI surveys all highlight a notable softening in the UK economy through the second half of (cal.) 2024.

Measures of UK consumer and business confidence dipped, suggesting that households and companies were becoming increasingly cautious. Although a very significant increase in public spending is expected to support economic activity pickup in 2025, there is clear evidence that The Office for Budget Responsibility forecast for GDP to increase from 1.1% in 2024 to 2.0% in 2025 is likely to be revised lower when next updated.

UK fiscal policy is seen as being negative to growth and positive for inflation. In the round, this adds up to fewer rate cuts in 2025. With higher inflation and lower growth undermining the case for lending to the UK Government, UK Gilt yields broke out to the upside and Sterling to the downside. The move higher in borrowing costs was exacerbated by higher yields in the US Treasuries market. The Government is on the back foot and will need to respond before the 2025 Autumn budget.

None of this has been helpful for investor interest in UK equities with outflows increasing again after a period of improving sentiment through the early Summer. This was particularly acute for AIM and, more broadly, the IA UK Small Cap sector.

Reflecting this, the FTSE AIM All-Share Index was noticeably weak ahead of and subsequent to the budget, with the index steadily declining for 7 months through to 31 December 2024. Within the period, the AIM All-Share index returned -2.32% in the three months to 31 December 2024, lagging the FTSE All Share Index (-0.35%). We continue to believe that many small companies trading on AIM offer exceptional value.

Performance

In the three months to 31 December 2024, the unaudited NAV per share decreased by 0.40 pence from 40.55 pence (cum-dividend) to 40.15 pence, giving a total return of -0.99%.

The qualifying investments fell by 0.09 pence per share whilst the non-qualifying investments made a loss of 0.25 pence per share. The adjusting balance was the net of running costs and investment income.

Qualifying Investments

Aquis Exchange (+93.1%, +£1.66m) received a takeover offer from its larger Swiss peer SIX Exchange at 727p. This was a 120% premium to the previous closing price, a 45% premium to the average share price over the prior 12 months and slightly above the 2021 share price high of 720p. This equates to an exit multiple of 4.7x for the VCT. The transaction was approved on 18 December 2024 and is expected to complete in Q2 2025.

PCI-PAL (+30.3%, +£1.09m) reported good FY24 results with revenues +20% to £18.0m and positive EBITDA of £0.9m. The company also reported strong SAAS metrics with ARR growing by 23%, Net Retention Rate at 102% and low churn. Following a £3.3m fundraise in March 2024, the balance sheet is strong with £4.3m cash. Positive news flow continued subsequently with a key contract renewal and in-line AGM trading update. Post period end, the company reported strong trading for the 6m to 31 December 2025 and re-iterated guidance for FY25.

Cohort (+15.0%, +£0.65m) announced strong interim results for the 6m to 31 October 2024 with revenues increasing by 25% and a record order book of £541m. The company confirmed it remains on track to achieve market forecasts for FY25. Separately, Cohort announced the £74m acquisition of Australian-based satellite communications company EM Solutions. The acquisition was partly funded through existing cash & debt facilities, combined with a £40m fundraise at 875p.

Following weak financial performance in FY24, Equipmake (-40.0%, -£0.93m) raised £3m in October 2024. The additional capital, when combined with cost action, has extended the company's cash runway to March 2025. This was followed by the subsequent launch of a strategic review and a formal sale process.

Fadel (-42.9%, -£0.72m) saw customer implementation delays and an unsuccessful new business tender. Revenue forecasts for FY24 were reduced by 12% from $14.8m to $13m. The high drop through of revenues to profits meant that projected FY24 EBITDA losses increased from $2.3m to $4m. The company has adopted a more disciplined approach to cost that has yielded an improved outlook for losses and cash performance in 2025.

Team Internet (-27.7%, -£0.43m) shares fell sharply in Q4 2024 as the company announced that revenues at a recently acquired online marketing business Shinez would fall short of expectations. More recently the shares have begun to recover as the company announced it had received a preliminary takeover proposal.

Non-Qualifying Investments

The IFSL Marlborough UK Micro-Cap Growth Fund (+0.6%, +£0.06m) and IFSL Marlborough Special Situations Fund (-1.3%, -£0.13m) were broadly flat over the period. Within the non-qualifying portfolio, the weaker outlook for the UK economy following the Autumn budget impacted WH Smith, Wickes and Hollywood Bowl. Chemring also fell as earnings forecasts were impacted by rising national insurance costs and the curtailment of the company's share buy-back in favour of preserving funds for organic investment.

Portfolio structure

The VCT is comfortably above the HMRC defined investment test and ended the period at 87.5% invested as measured by the HMRC investment test. By market value, the weighting to qualifying investments increased from 56.0% to 56.9%.

The market remains very subdued with just two VCT qualifying IPOs within the last 12 months. There were two new equity investments into companies listed on AIM and one CLN into an existing portfolio company listed on AIM. We remain hopeful that improving market conditions will help drive an increase in deal flow during 2025.

The new qualifying investments included a follow on (CLN) investment into Rosslyn Data Technologies and new equity investments into Feedback and Ixico. There were no material disposals in the quarter. We sold two legacy tail investments (Gfinity and Surface Transforms) and trimmed our investment in Cohort following a period of strong share price performance.

There were no substantial changes to the allocation to the two IFSL Marlborough Funds, non-qualifying equities, fixed income, ETFs or cash which respectively represented 13.4%, 6.8%, 12.9%, 0.4% and 9.6% of net assets.

The HMRC investment tests are set out in Chapter 3 of Part 6 Income Tax Act 2007, which should be read in conjunction with this interim management statement. Funds raised by VCTs are first included in the investment tests from the start of the accounting period containing the third anniversary of the date on which the funds were raised. Therefore, the allocation of qualifying investments as defined by the legislation can be different to the portfolio weighting as measured by market value relative to the net assets of the VCT.

Share Buy Backs & Discount

3.9 million shares were acquired in the quarter at an average price of 38.27 pence per share. The share price decreased from 39.00p to 38.40p and on 31 December 2024 traded at a discount of 4.74% to the last published NAV per share (as at 27 December 2024, published on 31 December 2024).

Post Period End

The unaudited NAV per share increased from 40.15 pence to 40.22 pence (cum div) as at 7 February 2025, an increase of 0.17%. The FTSE AIM All-Share index increased by 0.09%.

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