24 May 2024

HARGREAVE HALE AIM VCT PLC
(the "**Company**")

Interim Management Statement

Q2 2024

Introduction

This interim management statement covers the second quarter of the 2023/24 financial year, 1 January 2024 to 31 March 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

The inflation outlook continued to moderate in the UK, US and elsewhere in the quarter. In contrast to the prior quarter, when inflation fell more quickly than anticipated, inflation proved to be more sticky, particularly in the US where the steep declines of last year were replaced by a modest uptick in March 2024.

Whilst the situation is much improved, recent trends have not supported the market's previous expectation of six rate cuts in the US this year. The current expectation is one to two. In response to consistently robust economic data, borrowing costs in the US, which fell so sharply in late 2023 and provided the impetus for a significant rally in equity markets, have reverted to levels that caused significant alarm in the autumn of 2023.

For now, equity and credit markets remain calm with current financial conditions in the US more accommodating than at any point since the Russian invasion of Ukraine. The foreign exchange markets have not been so relaxed with the dollar strengthening significantly against other major global currencies. The change in outlook for the US monetary policy will weigh heavily on other central banks as they contemplate the impact on their own monetary policy.

The situation is notably better in the UK where inflation (CPI) took longer to peak but has since fallen very rapidly, falling from 10.1% in March 2023 to 3.2% in March 2024 (Dec 23: 4.0%) and then, post period end, to 2.3% in April.

News that the UK had endured a short and very shallow recession in late 2024 briefly halted the recovery in UK consumer confidence that had been underway since late 2022. However, the UK economy has since returned to growth in the 3 months to March with improving conditions in the service, construction and manufacturing sectors. UK consumer confidence has reverted to its improving trend with employment markets remaining healthy and real wage growth strongly positive.

A period of consolidation seemed inevitable following the strong run into Christmas 2023. AIM retreated 2.6% in the three months to March 2024. Low levels of liquidity and continued fund outflows from the UK equity markets, continue to make it difficult for a broader rally to take hold.

Performance

In the 3 months to 31 March 2024, the unaudited NAV per share decreased by -2.76 pence from 46.40 pence to 43.64 pence. A 1.50 pence dividend was paid in the quarter, giving a total return of -2.72%.

The qualifying investments made a net loss of -1.21 pence per share whilst the non-qualifying investments (including the investments in the IFSL Marlborough UK Micro-Cap Growth Fund and IFSL Marlborough Special Situations Fund) made a gain of 0.12 pence per share. The adjusting balance was the net of running costs and investment income.

Qualifying Investments

Positive contributors

Itaconix shares (+119.0%, +0.46 pence per share) moved sharply higher after the company confirmed that 2023 results would be in-line with market expectations. However, much of the gains were surrendered in April after the company reported that it had not been able to agree pricing whilst renegotiating a supply agreement with its largest customer. Although this led to a substantial revision to revenue forecasts for 2024, low margins meant the impact on EBITDA was less severe. Management plan to replace the lost revenues over time with higher margin agreements.

Beeks Financial (+77.3%, +0.40 pence per share) reported excellent results for the 6 months to December 2023 with revenues increasing by 25% to £13.0m and EBITDA by 28% to £4.6m. The company is seeing strong commercial momentum and has announced several significant contract wins which have driven upgrades to the outlook for 2025.

Cohort (+21.0%, +0.15 pence per share) was awarded a £135m 10-year contract from the Ministry of Defence to supply the Royal Navy with its Trainable Decoy Launcher System. The new award takes the company's contract wins within the financial year to £215m and the order book to more than £500m. FY25 EBITDA expectations were also upgraded by 10%.

Negative contributors

Kidly (-90.9%, -0.63 pence per share) has continued to experience a difficult trading environment. Although revenues were below budget, operational efficiencies resulted in significantly lower losses.

Equipmake (-31.3%, -0.62 pence per share) reported a 97% increase in its revenues for the 6 months to November 2023 to £2.1 million as the company continued to commercialize its EV solutions. Despite good progress, the company moderated its revenue expectations for the year to May 2024. Cost control has meant the forecast for operating losses was largely unchanged. The company has hired a new chief operating officer, a new business development director and a new finance director and raised additional funding to assist with the delivery of its growth plan.

In an unscheduled update in January, Zoo Digital (-46.2%, -0.38 pence per share) reported that trading had been weaker than expected as US television and film studios restarted production following the actors and screen writers strikes in America. Illustrating the fluid environment, the company then released another update in March which reported that trading through the balance of the final quarter had improved, leading to an upwards revision for the revenue estimate for the financial year to March 2024. The company highlighted a 30% increase in its order book for the first quarter of the new financial year, underpinning expectations for a rapid recovery and a return to profit.

Non-Qualifying Investments

Positive Contributors

BAE Systems (+21.5%, +0.07 pence per share) continued to benefit from strong demand in the defence sector and reported strong FY23 results, with cash generation well ahead of market expectations. The company also reported record order intake, providing excellent visibility over 2024 and beyond.

Bodycote's (+17.2%, +0.06 pence per share) results for the year to December 2023 showed good growth in its Specialist Technologies division as well as from the aerospace, oil and gas and medical markets. Progress on operating margins, helped lift headline operating profit by 17%. The company remains positive on the 2024 outlook.

Shares in TP ICAP (+15.7%, +0.05 pence per shares) were boosted by good FY23 results which prompted small upgrades, combined with the news that the company is exploring strategic options to unlock the value of its data business, Parameta Solutions.

Negative Contributors

Bytes (-16.4%, -0.04 pence per share) announced the resignation of its CEO following news that he had personally traded the company's shares without board approval or appropriate disclosure.

Despite rebasing forecasts in October 2023 and then issuing two subsequent trading updates in November 2023 and January 2024, XP Power (-22.4%, -0.04 pence per share) went on to warn in February that it was reducing guidance for 2024 following weaker than expected orders in its first quarter.

On The Beach (-5.5%, -0.02 pence per share) shares had a modest pullback despite a positive AGM trading update which pointed to 27% growth in bookings over the peak 2024 January period. The company confirmed that it continued trade in line with expectations.

Portfolio structure

The VCT is comfortably above the HMRC defined investment test and ended the period at 93.48% invested as measured by the HMRC investment test. By market value, the weighting to qualifying investments increased from 51.50% to 53.10%.

Although Qualifying investment activity was healthy within the period with £5.4m invested into qualifying companies, more broadly the market remains very subdued with just one VCT qualifying IPO[1] within the last 12 months. £2.9m was invested across three existing portfolio companies Strip Tinning, Equipmake and PCI-PAL. We also invested £2.5m in one new qualifying private company Qureight Ltd, a techbio company specialising in clinical data curation. We made full exits from Velocys and Smoove following their acquisitions in the quarter.

We made modest adjustments to the non-qualifying portfolio in response to company updates including adding to Wickes Group and exiting our positions in Bytes, XP Power and Ashtead. We also added modestly to our holding in the IFSL Marlborough UK Micro-Cap Fund.

There were no substantial changes to the allocation to the two IFSL Marlborough Funds, non-qualifying equities, fixed income or cash, which respectively represented 12.0%, 8.7%, 13.5% and 13.0% 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 Control

3,708,093 shares were acquired in the quarter at an average price of 42.47 pence per share. The share price decreased from 42.80p to 42.20p within the quarter and traded at a discount of 4.22% following the publication of the 31 March 2024 NAV on 8 April 2024.

Post Period End

The unaudited NAV per share increased from 43.64 pence to 44.89 pence as at 17 May 2024, an increase of 2.86%. The FTSE AIM All-Share index increased by 6.83%.

END

For further information please contact:

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[1] A second company sought funding at IPO but failed to attract any capital from VCTs.

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