19 June 2024

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

Unaudited Interim Results

The Company announces its half-year results for the six months ended 31 March 2024.

These half-year results will be available on the Company's website at https://www.hargreaveaimvcts.co.uk/document-library/.

In accordance with Listing Rule 9.6.1, a copy of this document will also be submitted to the UK Listing Authority via the National Storage Mechanism and will be available for viewing shortly at https://data.fca.org.uk/#/nsm/nationalstoragemechanism.

Additionally, the interim report can also be found here: HHV 2024 Interim Report

Financial highlights

Net asset value (NAV) per share	NAV total return	Tax free dividends paid in the period	Share price total return	Ongoing charges ratio
43.64p	-2.59%	1.50p	1.63%	2.45%

- £5.9 million invested in Qualifying Companies in the period.
- 93.48% invested by VCT tax value in Qualifying Investments at 31 March 2024.
- Offer for subscription closed having raised £20.3 million. The Board decided to utilise the over-allotment facility only to the extent that valid applications were received by 5pm on 22 March 2024.
- Final dividend of 1.50 pence per share paid 15 February 2024.
- Interim dividend of 1 penny and special dividend of 1.50 pence per share will be paid on 26 July 2024, with an ex-dividend date of 27 June 2024 and a record date of 28 June 2024. The payment of the special dividend reflects the receipt of proceeds from the sale of Abcam plc and Instem plc.

Summary financial data	**Six months ending 31-Mar-24**	**Six months Ending 31-Mar-23**	**Year ending 30 Sept-23**
NAV (£m)	155.74	174.72	151.92
NAV per share (p)	43.64	52.84	46.34

NAV total return (%)	-2.59	-5.57	-14.70
Market capitalisation (£m)	150.60	165.35	140.96
Share price (p)	42.20	50.00	43.00
Share price discount to NAV per share (%)	-3.30	-5.37	-7.21
Share price 5 year average discount to NAV per share (%)	-5.83	-5.56	-5.64
Share price total return (%)	1.63	-13.94	-23.51
Loss per share for the period (p)	-1.22	-3.72	-9.32
Dividends paid per share (p)	1.50	4.00	5.00
Ongoing charges ratio (%)	2.45	2.17	2.24

Investment Manager's report

Overview

In the first quarter the inflation outlook continued to moderate in the UK, US and elsewhere, with headline inflation falling more quickly than many had expected. Dovish comments from the US Federal Reserve raised the prospect of potential cuts in the base rate. Improving sentiment and substantially easier financial conditions helped to push markets higher in the run up to Christmas. In contrast, inflation fell more slowly than anticipated in the second quarter, 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 original market expectations of multiple rate cuts in the US this year. The current expectation is just one. Borrowing costs in the US, which fell so sharply in late 2023, have reverted to levels that caused significant alarm in the autumn of 2023. For now, equity and credit markets remain calm with financial conditions in the US now 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.

Whilst still high, UK wage growth has started to moderate, falling from a high of 8.0% in September 2023 to 5.7% in March 2024. Along with steep falls in the cost of energy, this has taken UK inflation (CPI, Consumer Price Index), sharply lower from 6.7% in September 2023 to 3.2% in March 2024. Further falls are expected in the coming months.

News that the UK had endured a short and very shallow recession in late 2023 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.

AIM was particularly strong in the first quarter, gaining 5.68% in the three months to December 2023. Inevitably, this was followed by a period of consolidation in which AIM retreated 2.29% in the three months to March 2024. The net outcome was a gain of 3.26% over the six months under review. 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 six months to 31 March 2024 the unaudited NAV per share decreased from 46.34 pence to 43.64 pence. A final dividend for FY23 of 1.50 pence was paid on 15 February 2024, giving a NAV total return to investors of -1.20 pence per share, which translates to a loss of -2.59%. The NAV total return (dividends reinvested) for the period was -2.67% compared with +3.25% in the FTSE AIM All-share Index Total Return and +6.91% in the FTSE AllShare Index Total Return (also calculated on a dividends reinvested basis). The Qualifying Investments made a net contribution of -1.90 pence per share whilst the Non-Qualifying Investments returned +0.93 pence per share. The adjusting balance was the net of running costs and investment income.

Qualifying Investments

Positive Contributors

Beeks Financial (+95.5%, +0.46 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.

Itaconix shares (+82.7%, +0.38 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 renew 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.

Learning Technologies Group (+32.8%, +0.28 pence per share) reported 2023 results that were in line with market expectations with revenues of £562m and EBIT of £99m. Strong cash generation reduced net leverage by more than expected. Cyclical headwinds continue to affect its markets, with the company maintaining a cautious outlook for 2024.

Cohort (+33.3%, +0.22 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. Additional options and export opportunities may increase the contract value over time. 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%.

Craneware (+49.7%, +0.21 pence per share) reported half-year results that were in line with expectations with revenues and EBITDA both increasing by 8% to $91.2m and $27.5m respectively. The company highlighted a significant increase in sales to existing and new customers and an improving market backdrop in the US healthcare sector. In its outlook statement, the company noted good sales momentum and that US hospitals were increasing their investment in technology to provide them with additional insight as they refocused on their strategic priorities following the post-COVID unwind.

Negative Contributors

Equipmake (-38.9%, -0.87 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 commercialise its EV solutions. Despite good progress, the company reduced its revenue expectations for the year to May 2024 to £8.5 million. If achieved, this would still equate to 57% growth year on year. Cost control has meant the forecast for operating losses was largely unchanged. The company has hired a new chief operating officer, a new finance director and raised additional funding to assist with the delivery of its growth plan.

Consistent with many online retailers, Kidly (-91.7%, -0.71 pence per share) continues to experience a difficult trading environment. Although revenues were below budget, operational efficiencies resulted in significantly lower losses. The company secured additional funding post period end.

Surface Transforms (-66.7%, -0.53 pence per share) raised £11m of new equity funding in November 2023 following a significant reduction in its revenue forecasts to £8.3m for the year to December 2023 as the company struggled to overcome process issues as it scaled its manufacturing capacity. Post period end, this was followed by a second revision to revenue forecasts in FY24 to no less than £17.5m. Whilst revenue growth of 111% is substantial, the reduction in forecasts left the company yet again requiring further funding. £5.7m was raised at 1 pence per share through a round that was not VCT qualifying, severely diluting our interest in the company.

Shares in C4X Discovery (-44.5%, -0.23 pence per share) declined after the company proposed to cancel its AIM listing believing that the market was not correctly valuing its assets and that it would be more attractive to potential investors as a private company. Operational progress has been good, and the company is well funded with over £20m cash following large milestone payments from Indivior and AstraZeneca. We have retained our investment.

After delays that contributed to a profit warning in December, Engage XR (-32.1%, -0.23 pence per share) was able to announce its first €1m+ contract with a Middle East based education and training company. The contract was won through its partnership with PricewaterhouseCoopers International Limited. The publication in April of the company's results for the year to December 2023 was accompanied by a downgrade to its outlook for 2024, with revenues now expected to increase from €3.7m in 2023 to €5.4m in 2024. The company reports that it remains funded to break even.

Portfolio structure

The VCT is comfortably through the HMRC defined investment test and ended the period at 93.48% invested as measured by the HMRC investment test. By market value, the VCT had a 53.10% weighting to Qualifying Investments.

Although Qualifying Investment activity was healthy within the period with £5.9m invested into Qualifying Companies, more broadly the market remains very subdued with just one VCT qualifying IPO within the last 12 months. Within the qualifying portfolio we exited Abcam, Instem, Osirium, Velocys and Smoove through takeovers. Of these, Abcam and Instem were notable having developed into global leaders in their respective fields and been a feature within the qualifying portfolio for more than ten years in each case. In the case of Abcam, the exit valuation of $5.7bn resulted in a gain of 5,603% over book cost. The Instem exit valued the company at £203m, a gain of 376% over book cost. We reduced our investment in Blackbird and completely exited Renalytix following sustained underperformance.

Within the non-qualifying equity portfolio we remained cautious and made adjustments in response to company updates. We exited our position in Bytes following the CEO's unexpected departure from the company. We also exited Diversified Energy, XP Power and Watches of Switzerland following disappointing trading updates and Energean due to elevated geopolitical risk in its principal areas of operations as a consequence of the war in Gaza. We exited our position in Ashtead over concerns that a weakening US economy and increasing political risk might impact trading later this year. The allocation to non-qualifying equities fell from 10.1% to 8.7% of net assets.

In the non-qualifying fixed income portfolio, we added two net new investments into short-dated investment grade corporate bonds issued by Next and Unilever. We also reinvested into a Marks &

Spencer 2026 bond following the redemption of the 2023 Marks & Spencer bond. We exited our position in short-dated UK Government bonds, which had been held through a London-listed exchange traded fund. The allocation to nonqualifying fixed income increased from 12.7% to 13.5% of net assets. The average maturity of the corporate bonds is 2.5 years with an average yield to maturity of 5.2%. The portfolio is expected to generate annual income of approximately £0.9m.

Following the receipt of proceeds from the offer for subscription, we increased the investment in the IFSL Marlborough Special Situations Fund and made a series of investments into the IFSL Marlborough Micro-Cap Growth Fund. The combined investment across the two funds increased from 5.4% to 12.0% of net assets, split broadly equally across the two funds. The weighting to cash was largely unchanged at 12.7%(1) of net assets despite the inflow from the offer for subscription.

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 Investment Manager's report. 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.

Post period end update

In the 2 months to 31 May 2024, the FTSE AIM All-Share Total Return Index has gained 8.81%, whilst the FTSE All-Share Total Return Index has gained 4.90%. The Company's NAV per share has increased by 3.67% to 45.24 pence.

As of 18 June 2024, the share price of 43.00 pence represented a discount of 5.14% to the last published net asset value per share.

Outlook

Although trading continues to vary quite widely by sector, there are signs that sectors that struggled in 2023 and early 2024 are starting to feel more confident. In general, corporate news flow across the portfolio is improving. UK Purchasing Managers' Indices also continue to point to a further expansion of economic activity. Retail remains a weak spot despite UK consumer confidence reaching a 2 year high. Defence companies continue to report very strong trading and rapidly growing order books.

AIM has started to recover, posting two months of strong performance post period end. There are, at last, signs of a return of investor interest in small UK companies, with the tone markedly improved since the March 2024 GDP print. Although fund outflows from UK equities continue to overshadow the market, the flow picture is improving for UK small cap managers. Deal flow remains very quiet; however, there are signs that the market for initial public offerings is re-opening. It remains early days and we will need to see several more months of improving sentiment and increased activity before we can be more confident that the market is normalising.

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