16 August 2024

HARGREAVE HALE AIM VCT PLC

(the "**Company**")

Interim Management Statement

Q3 2024

Introduction

This interim management statement covers the third quarter of the 2023/24 financial year, 1 April 2024 to 30 June 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

During the quarter UK Inflation (Consumer Price Index) returned to the Bank of England's target of 2%, drawing to a close a 3-year inflation cycle that was very difficult for UK consumers and households and bringing with it hope that we can finally move on from the cost-of-living crisis. With inflation now on target and the Bank of England starting to reduce interest rates, many companies and households can look forward to reduced borrowing costs.

There has been considerable discussion about when and to what extent central banks should ease interest rates with market pricing moving with the release of each related data point. Within the period, the dominant trend was one of sticky inflation, either in the headline number or subsets of it. Within the UK, wage inflation and services inflation remained at elevated levels whilst inflation in food and energy abated relatively quickly. Post period end, the Bank of England cut interest rates by 25 basis points to 5.0%. Currently, the markets are pricing in another two cuts by the calendar year end.

Much of the current thinking in markets has developed post period end. In the US, July brought with it a noticeable rotation away from the US mega caps in favour of smaller companies. Compositional differences in the UK markets limit the scope for a similar theme; however, there has been a noticeable pick up in interest in UK equities and, including small companies, since the UK March GDP print beat expectations and UK inflation returned to target.

Recent economic data releases have suggested that the US economy may be cooling more rapidly than many had expected, leading to a sharp adjustment in the market outlook for US interest rates and contributing to a significant repricing of a range of asset classes and a notable spike in volatility.

We have frequently flagged the impact of sustained fund outflows on UK equities. Although the fund flow data in May remained very poor, we and other small cap managers have noted a significant improvement in the flow dynamic within UK small companies. It is too early to say that the market has turned decisively; however, it feels like the direction of travel may be about to change. Several prominent strategists have turned more positive on UK equities. Many, not least of all private equity and overseas trade buyers, recognise that many UK small companies offer good long term growth at attractive prices. We would agree and hope that asset allocators start to recognise this too, allowing companies to recover in value and put an end to the constant loss of opportunity to foreign ownership. In this regard, the change of Government may help. Suddenly, the UK political framework looks stable and attractive compared to several other G7 economies.

The improving mood is showing up in GDP beats, improving business confidence, higher UK consumer confidence, increased retail sales (not withstanding the impact of poor weather in June) and stronger housing and construction markets. Forward looking data such as the UK Purchasing Managers' Indices are all positive. We have observed that more portfolio companies are reporting that they are trading at least in line with expectations.

To date, the more positive sentiment within the UK market is yet to manifest in more companies committing to initial public offerings on AIM. Possibly for the first time in the nearly 20 years we have been running the VCT, we were unable to deploy any capital into qualifying companies within a quarter. We remain ready and very keen to invest in exciting UK growth companies and are pleased to report that capital deployment for the current quarter is ahead of budget.

After a period of consolidation at the start of 2024, AIM performance was once again positive, with the AIM All-Share Index returning 2.8% in the 3 months to June 2024. Investors have continued to show a preference for investment in larger companies; however, there is some evidence to suggest that trend is starting to reverse and may continue to do so as interest rates start to fall. We are cautiously optimistic.

Performance

In the 3 months to 30 June 2024, the unaudited NAV per share increased by +1.12 pence from 43.64 pence to 44.76 pence cum dividend (42.26 pence ex-dividend), allowing for the 2.50p dividend that went ex-dividend in the quarter, giving a total return of +2.57%.

The qualifying investments made a gain of 0.79 pence per share whilst the non-qualifying investments made a gain of 0.26 pence per share. The adjusting balance was the net of running costs and investment income.

Qualifying Investments

Zoo Digital (+82.9%, +0.35 pence per share) issued a positive trading update in May, reporting a continuing recovery in demand following the conclusion of the Hollywood strikes. Net cash was also better than anticipated. Following a very difficult period, revenues are expected to recover from $40m in FY24 to $65m in FY25. There is scope for further upside as the company returns to growth and profitability.

Kidly (+460.8%, +0.28 pence per share) saw a recovery in value as the company agreed a new financing package.

The Property Franchise Group (+35.9%, +0.26 pence per share) issued FY23 results and signalled that FY24 had started well for the newly combined businesses with the UK letting market remaining strong, sales improving from a low base and the integration of Belvoir progressing positively. The company subsequently announced the earnings accretive acquisition of The Guild of Property Professionals and Fine & Country for £20m.

Itaconix (-42.9%, -0.35 pence per share) reported the termination of a supply contract with its largest client after failing to agree on pricing, resulting in a large downgrade to revenues and an $0.8m reduction in EBITDA. The company plans to focus on higher margin opportunities and the subsequent May trading update noted improving gross profit margins.

Disappointingly, Surface Transforms (-86.7%, -0.21 pence per share) reported further production issues. Q1 revenues were below internal targets, resulting in a reduction to 2024 revenue guidance. In May, the company raised £8.5m of additional working capital and capex funding in a deeply discounted fundraise that was not VCT qualifying and very dilutive to existing shareholders.

Engage XR (-42.1%, -0.19 pence per share) appointed a new USA-based non-Executive Chairman, bringing extensive experience from his roles at Mindbridge.ai and Kyriba. In April, the company reported FY23 results with revenues of €3.7m (-5% YOY), and an EBITDA loss of €4.0m. The balance sheet remains strong and the company maintains that it is funded to breakeven.

Non-Qualifying Investments

The IFSL Marlborough UK Micro-Cap Growth Fund (+0.29 pence per share) and IFSL Marlborough Special Situations Fund (0.19 pence per share) performed well over the period as the dynamics within the UK small cap equity market improved. This was partially offset by the VCT's direct equity holdings (-0.19 pence per share), driven by some weakness in consumer exposed stocks. We have been, and remain, positive on UK Smaller Companies and expect a broad-based recovery in value. As a result, we have favoured higher allocations to the two

Marlborough Funds over adding direct equity investments in larger companies. The direct equity part of the non-qualifying portfolio remains biased towards dividend yielding stocks within the FTSE 350.

Portfolio structure

The VCT is comfortably above the HMRC defined investment test and ended the period at 94.74% invested as measured by the HMRC investment test. By market value, the weighting to qualifying investments decreased from 53.1% to 52.3%.

There were no new qualifying investments during the period, and the market remains very subdued with just one VCT qualifying IPO[1] within the last 12 months. We are hopeful that improving market conditions will help reverse the trend.

There were no substantial changes to the allocation to the two IFSL Marlborough Funds, non-qualifying equities, fixed income or cash, which respectively represented 12.5%, 7.5%, 13.5% and 13.8% 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

2,610,661 shares were acquired in the quarter at an average price of 42.26 pence per share. The share price decreased from 42.20p to 40.00p within the quarter and traded at a discount of 5.35% following the publication of the 30 June 2024 NAV on 4 July 2024.

Post Period End

The unaudited NAV per share decreased from 42.26 pence to 42.12 pence as at 9 August 2024, a decrease of 0.33%. The FTSE AIM All-Share index increased by 0.24%.

END

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