25 November 2024

HARGREAVE HALE AIM VCT PLC

(the “**Company**”)

Interim Management Statement

Q4 2024

Introduction

This interim management statement covers the fourth quarter of the 2023/24 financial year, 1 July 2024 to 30 September 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

In contrast to the more optimistic tone that took hold in the third quarter (of the financial year), the UK economy softened slightly through the final quarter, with GDP data highlighting a slowdown over the period relative to market expectations. UK business and consumer confidence softened, signalling that the negative messaging of the new government was starting to weigh on the economy.

In response to further declines in UK inflation, which fell below target during the period, the Bank of England started to reduce interest rates. The first 25 basis point reduction in August was broadly as expected, providing relief to many households and companies and another cut followed in November. Interest rates are expected to decline further as we head through the next year. The 2024 autumn budget included measures that are expected to stimulate growth and add to inflationary pressures next year, with the Office for Budget Responsibility forecasting GDP growth of 2.0% and CPI at 2.6% in 2025.

We have frequently flagged the impact of sustained fund outflows on UK equities, which have remained negative across the quarter. That having been said, the Investment Association reported that UK small cap outflows fell to their lowest level in three years in August 2024 before increasing again as negative sentiment built ahead of the budget.

AIM, having been on an improving trend for much of the year, turned materially lower following news that the UK would hold a general election on 4 July 2024. Concerns about potential changes to fiscal policy had an immediate and strongly negative impact on AIM that continued through to year end and beyond. The AIM All-Share index returned –2.7% in the three months to 30 September 2024, lagging the FTSE UK Small Cap index (excluding investment trusts) by 8.9% across the quarter. Trading volumes were sharply higher suggesting that potential changes to capital gains tax, business asset disposal (entrepreneurs) relief and business property relief (inheritance tax) were prompting many institutional and retail investors to adopt a more cautious position ahead of the budget.

The grind lower has further added to the value argument that we have previously noted. AIM valuations fell by a further 4% in the quarter with the AIM All-Share index trading on 9.1x forward earnings (pre-exceptionals, excl. loss making companies). We continue to believe that many small companies trading on AIM offer exceptional value.

Much has been said about the decline of AIM. We had hoped that a pro-growth government might allow a recovery in the primary markets. Unfortunately, the combination of unhelpfully stark messaging, policy risk and timing of the budget undermined the market for initial public offerings in 2024. With very little time left until

Christmas, we do not expect this to materially change until the new year. Despite the absence of new companies listing on AIM, we were able to deploy capital in line with our budget. Further detail can be found below.

Performance

In the three months to 30 September 2024, the unaudited NAV per share decreased by 1.71 pence from 44.76 pence (cum-dividend) to 40.55 pence, giving a total return of -3.82%.

The qualifying investments fell by 1.62 pence per share whilst the non-qualifying investments made a loss of 0.01 pence per share. The adjusting balance was the net of running costs and investment income.

Qualifying Investments

After a period of steadily improving corporate news flow through the first eight months of the financial year, we observed a greater number of companies reporting weaker trading since May 2024. The reasons are varied but include weakness in employment markets, aerospace and automotive. Inevitably, there were a number of companies whose performance was a consequence of poor execution.

The autumn 2024 budget has cast a long shadow over AIM, undermining performance and introducing idiosyncratic factors that have distorted valuations for the time being: in the run up to the budget, the composition of the shareholder register became an unusually important determinant of share price performance.

Looking forwards we believe that the qualifying portfolio remains well set and attractively priced. We continue to expect investor interest in small UK companies to return, following the lead of those private equity and trade investors that continue to exploit market inefficiencies. There is plenty of opportunity for those able and willing to make a long-term investment in UK innovation and growth.

Beeks Group (+49%, +0.41 pence per share) reported excellent FY24 results with strong revenue and EBITDA growth of 27% and an 18% increase in annualised committed monthly recurring revenue to £28m. The company is successfully winning large contracts for its Exchange Cloud and Proximity Cloud offering. Beeks' multi-year contract with one of the world's largest exchanges received regulatory approval in August and is expected to launch in the year ahead.

Following record FY24 results, Cohort's (+26%, +0.26 pence per share) recent AGM update highlighted further strong progress in H1 FY25. Trading has been particularly strong in the Sensors & Effectors business. The order book increased 11% to £575m and provides over 90% cover for FY25 revenue forecasts as well as visibility out to 2037.

Intercede (+53%, +0.20 pence per share) continues to trade in line with expectations and reported that its revenues for the six months to September 2026 grew by 22% to £8.5m. The company has good operating momentum and announced several positive contract wins for its MyID credential management system which underpin the forecasts for FY25.

Equipmake (-55%, -0.76 pence per share) reported FY24 revenues of £8.1m, 60% growth on the prior year. EBITDA losses were higher and cash lower than forecast due to a revenue miss, cost overruns and working capital movements. Equipmake has established relationships with several high-calibre OEMs for its components and drivetrain solutions, and revised guidance reflects the pivot to a higher margin, less capital-intensive business model. Alongside the £3m equity fundraise in October, the company announced that it was in advanced discussions with a major automotive supplier concerning a multi-year licence agreement.

In line with its earlier trading update, Zoo Digital (-45%, -0.35 pence per share) reported FY24 results with revenues declining by 55% to $40.6m and an operating loss of $19.1m. The results were heavily influenced by the 2023 Hollywood strike that severely disrupted activity across the film industry. Encouragingly, the company saw improved trading in H1 FY25 and, post period end, reported that revenues had increased by 29% to $27.6m for the six months to September 2024. The company also reported that it had returned to positive EBITDA and generated an operating cash inflow in the period. The company remains cautious on the outlook and the pace of recovery within its core entertainment markets.

PCI-PAL's (-23%, -0.30 pence per share) year-end trading update announced FY24 revenues had grown by 20% to £18m. The company reported a maiden adjusted EBITDA profit of £0.9m. Revenues were marginally lower than guided after a delayed go-live date with a client resulted in the recognition of £0.7m of revenues being pushed into FY25. The revenues had already been invoiced and payment received. The valuation of the shares remains depressed despite the legal findings in favour of PCI-PAL, and full resolution of the company's patent dispute.

Non-Qualifying Investments

The IFSL Marlborough UK Micro-Cap Growth Fund (-0.14 pence per share) and IFSL Marlborough Special Situations Fund (-0.07 pence per share) declined over the period as the sentiment around AIM impacted company valuations. This was largely offset by the VCT's direct equity holdings (+0.11 pence per share). Within the non-qualifying portfolio, WH Smith and Wickes issued positive updates and both companies have ongoing share buyback programmes. Detractors included Bodycote which saw less robust demand in some of its end markets, notably automotive and aerospace, and Shell which declined off the back of lower oil prices, combined with foreign exchange headwinds from stronger sterling over the period. Reducing interest rates positively impacted our bond holdings.

Portfolio structure

The VCT is comfortably above the HMRC defined investment test and ended the period at 100.0% invested as measured by the HMRC investment test. By market value, the weighting to qualifying investments increased from 52.3% to 56.0%.

The market remains very subdued with just two VCT qualifying IPOs within the last 12 months. Within the quarter, AIM VCTs invested £12.0m (-54% YOY) across seven companies, including one IPO. We invested £3.2m into two new companies, one listed on AIM and one on AQSE. A third investment of £0.4m was agreed but completed post period end. We remain hopeful that improving market conditions will help drive an increase in deal flow in early 2025.

There were no substantial changes to the allocation to the two IFSL Marlborough Funds, non-qualifying equities, fixed income or ETFs which respectively represented 13.4%, 8.1%, 12.9% and 0.4% of net assets. Cash reduced from 13.9% to 9.2%.

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

2,188,099 shares were acquired in the quarter at an average price of 39.87 pence per share. The share price decreased from 40.00p to 39.00p within the quarter and traded at a discount of 6.78% following the publication of the 30 September 2024 NAV on 10 October 2024.

Post Period End

The unaudited NAV per share decreased from 40.55 pence to 40.09 pence as at 31 October 2024, a decrease of 1.13%. The FTSE AIM All-Share index decreased by -0.27%.

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