9 February 2024

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

Interim Management Statement

Q1 2024

Introduction

This interim management statement covers the first quarter of the 2023/24 financial year, 1 October 2023 to 31 December 2023. 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, with headline inflation falling more quickly than many had expected. Dovish comments from the Federal Reserve raised the prospect of potential cuts in the base rate as early as March 2024. Improving sentiment and substantially easier financial conditions helped to push markets higher in the run up to Christmas.

Whilst still high, UK wage growth has started to moderate, falling from a high of 8.5% in July to 6.5% in November 2023. Along with steep falls in the cost of energy, this has taken UK inflation (Consumer Price Index, CPI) sharply lower to 4.0% in December 2023.

UK consumer confidence continues to recover as the cost of living crisis abates and the outlook for the mortgage market improves. ONS data painted a mixed picture over Christmas with robust consumer spending focused on food and leisure and weaker spending on non-food items such as durable goods and clothing. The combination of stronger trading over the Black Friday weekend and weakness over the Christmas period suggests consumers were focused on value. UK unemployment remains well contained.

The UK economy continues to outperform very modest expectations, albeit still flirting with recession. Purchasing Managers' Index (PMI) reports, which offer a view on the prevailing economic trends, indicate some strengthening of the economy in November and December with the UK composite PMI, which draws together the individual sectors, signaling an expansion in business activity with strength in the dominant services sector more than offsetting weakness in manufacturing and construction. Post period end, the Bank of England made minor positive revisions to its growth outlook for 2024 whilst paring back its inflation forecast, potentially paving the way for rate cuts in summer 2024. The futures market neatly illustrates this change in expectations. At the start of this financial year, the markets were forecasting rates to remain unchanged at 5.25% through to September 2024. In contrast, as at 31 January 2024, the markets were forecasting that the Bank of England would cut three times to 4.5% by September 2024. If this plays out, and it should be noted that these forecasts can be quite volatile, then it will significantly help UK households, the broader economy and, we hope, the appetite for risk assets.

After two very difficult years on AIM, we are pleased to be able to finally report a period of positive performance on AIM, which rose by 5.7% in the three months to December 2023. Whilst it is early days and it is arguable that the 'pivot rally' went too far too fast, it is encouraging to see some early signs of a return of investor interest in small UK companies. That having been said, investor appetite is yet to trickle down to the smallest companies on AIM and the flow picture for UK equity funds remains very challenging.

Performance

In the 3 months to 31 December 2023, the unaudited NAV per share increased by 0.06 pence from 46.34 pence to 46.40 pence, with no dividends paid in the quarter, giving a total return of +0.1%.

The qualifying investments made a net loss of -0.68 pence per share whilst the non-qualifying investments made a gain of 0.51 pence per share. The adjusting balance was the net of the Marlborough Special Situations Fund, running costs and investment income.

Qualifying Investments

Shares in Zoo Digital (+62.5%, +0.32 pence per share) recovered following agreements to end the actors and screenwriters strikes that severely limited the production of new content for distribution by the streaming platforms. The supply of content to Zoo Digital for localisation was severely constrained and financial performance has remained weak with the company issuing a further downward revision to expectations for the year to 31 March 2024 post period end. Despite this, the company remains optimistic that it will return to substantial growth in its next financial year.

Shares in Learning Technology Group (+26.3%, +0.22 pence per share) started to recover as investor sentiment improved following the publication of results for the 6 months to 30 June 2023 and confirmation that the company continued to trade in line with expectations. This was followed by a full year trading update post period end in which the company confirmed it had met expectations for revenues and profits whilst materially outperforming on cash generation.

The period began with another significant downgrade to Maxcyte's (+38.0%, +0.21 pence per share) FY23 revenue guidance, reflecting continued weakness in the US life science sector. Subsequently, the company went on to achieve notable milestones with the first regulatory approvals in the US and UK for a new gene editing therapy for sick cell disease developed by Vertex and Crispr on the company's flow electroporation platform. The approvals triggered the payment of a large milestone and will generate future royalty payments. As a result, the company was able to upgrade FY23 guidance very substantially, reversing a significant amount of previous downgrade. Alongside this, the company announced the retirement of long-term CEO Doug Doerfler.

Surface Transforms (-60.2%, -0.48 pence per share) warned that its production ramp was being constrained by production line issues. Whilst it was confident that bringing in new equipment to address single points of failure and changes to maintenance schedules would address the issues, revenue growth would fall short of expectations. The company is guiding to very substantial revenue growth in FY24 as production ramps.

C4X Discovery (-52.2%, -0.28 pence per share) issued results for the year to July 2023. The company benefits from a strong funding position following the receipt post period end of £16m for the sale of its Orexin-1 program to Indivior and $11m following the completion of a pre-clinical milestone on its NRF2 Activator programme (oral therapy for the treatment of inflammatory and respiratory diseases), now under development by AstraZeneca following a license agreement signed in November 2022.

Equipmake (-11.1%, -0.25 pence per share) reported results for the year to May 2023 with revenues growing by 38% to £5.1m. Post period, the company published its results for the 6 months to November 2023. Although the company has been successful in winning new contracts, revenue guidance for the year to May 2024 was reduced to a more manageable level. The company has appointed a new and very experienced COO to support its expansion as it looks to open up new markets.

Non-Qualifying Investments

On the Beach's (+65.2%, +0.11 pence per share) full year results to September 2023 highlighted a period of much improved trading, benefitting from strong growth in long-haul and premium. Profits were also ahead of expectations due to lower marketing spend. Strong cash generation coupled with the £75.8m of cash on the balance sheet (ex. customer deposits) allowed the company to reinstate its dividend.

Hollywood Bowl (+23.6%, +0.10 pence per share) results for the year to September 2023 confirmed another year of robust trading. The company has a strong balance sheet, which supports the dividend (4.2% yield) and a £10m share buy-back.

Chemring (+26.3%, +0.10 pence per share) continues to benefit from very strong demand across the global defence market, with FY23 revenues increasing by 18% to £473m and a record order book. Underlying profits grew 16% to £69m.

Shortly after providing a robust outlook alongside the release of its results for the 6 months to June 2023, XP Power (-42.5%, -0.08 pence per share) surprised the market with a significant downward revision to its guidance for FY23, citing softer semiconductor demand and customer deferrals. The weaker financial performance threatened a breach of the company's debt covenants which was addressed by a fundraise, cost cuts and the suspension of the company's dividend policy. A subsequent update confirmed the company has traded in line with its revised outlook.

Portfolio structure

The VCT is comfortably above the HMRC defined investment test and ended the period at 88.04% invested as measured by the HMRC investment test. By market value, the weighting to qualifying investments decreased from 58.70% to 51.50%.

Qualifying investment activity remains very weak with £0.5m invested in Eden Research, an existing portfolio company. Eden is a sustainable biopesticides developer and manufacturer, which has a proprietary plastic free encapsulation technology for use in agriculture protection.

We made full exits from Abcam, Osirium and Instem following their acquisitions in the quarter. Velocys was also subject to a bid which completed post period end. We also exited Renalytix and reduced our investment in Blackbird, in both cases following periods of sustained underperformance.

We made modest adjustments to the non-qualifying portfolio in response to company updates. We added new non-qualifying investments into short-dated investment grade bonds and sold the investment into short-dated UK Government bonds (iShares UK Gilts 0-5 years). Following the receipt of proceeds from the offer for subscription, we moderately increased the investment in the Marlborough Special Situations Fund and made a series of investments in the Marlborough Micro-Cap Growth Fund. The combined investment across the two funds amounts to 10.2% of net assets.

There were no substantial changes to the allocation to non-qualifying equities, fixed income or cash, which respectively represented 9.7%, 13.2% and 15.4% 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

2,150,497 shares were acquired in the quarter at an average price of 42.86 pence per share. The share price decreased from 43.00p to 42.80p within the quarter and traded at a discount of 9.91% following the publication of the 31 December 2023 NAV on 9 January 2024.

Post Period End

The unaudited NAV per share decreased from 46.40 pence to 46.16 pence in the month to 31 January 2024, a decrease of 0.52%. The FTSE AIM All-Share index decreased by 1.02%.

We completed a £2.0m follow on investment into Strip Tinning post period end.

Co-Manager Appointment

Lucy Bloomfield has been a member of the VCT fund management team since joining Canaccord Genuity Asset Management in October 2018 as a deputy fund manager. We are delighted to report that following her promotion to fund manager, Lucy was appointed Co-manager of the Company on 8 February 2024. Oliver Bedford will continue as Lead Manager and remains a Non-Executive Director of the Company.

Anna Salim has been a member of the VCT fund management team since joining Canaccord Genuity Asset Management in April 2018 as an investment analyst. Reflecting her knowledge and experience, Anna Salim was recently promoted to portfolio manager. She remains a member of the VCT fund management team.

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