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Tax Efficient Review

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Venture Capital Trusts

Review of AIM based VCTs
Hargreave Hale VCT 1

RISK WARNINGS AND DISCLAIMERS

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GENERAL RISK WARNINGS

Your attention is drawn to the following risk warnings which identify some of the risks associated with the investments which are mentioned in the Review:

Fluctuations in Value of-Investments

The value of investments and the income from them can go down as well as up and you may not get back the amount invested.

Suitability

The investments may not be suitable for all investors and you should only invest if you understand the nature of and risks inherent in such investments and, if in doubt, you should seek professional advice before effecting any such investment.

Past performance

Past performance is not a guide to future performance.

Legislation

Changes in legislation may adversely affect the value of the investments.

Taxation

The levels and the bases of the reliefs from taxation may change in the future. You should seek your own professional advice on the taxation consequences of any investment.

ADDITIONAL RISK WARNINGS

Venture Capital Trusts

1. An investment in a VCT carries a higher risk than many other forms of investment.
2. A VCT's shares, although listed, are likely to be difficult to realise.
3. You should regard an investment in a VCT as a long term investment, particularly as regards a VCT's investment objectives and policy and the five year period for which shareholders must hold their ordinary shares to retain their initial income tax reliefs.
4. The investments made by VCTs will normally be in companies whose securities are not publicly traded or freely marketable and may therefore be difficult to realise and investments in such companies are substantially riskier than those in larger companies.
5. If a VCT loses its Inland Revenue approval tax reliefs previously obtained may be lost.
6. No investment can made by the VCT in a company whose first commercial sale was more than 7 years prior to date of investment, except where previous State Aid Risk Finance was received by the company within 7 years (10 years for a 'knowledge intensive' company) or where a turnover test is satisfied; and
7. No funds received from an investment by the VCT into a company can be used to acquire another existing business or trade.

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Hargreave Hale VCT 1

Type	AIM based VCTs
Size	£20m in HHVCT 1 (+£10m overallotment facility)
Manager	Hargreave Hale
Sponsor	Howard Kennedy Corporate Services LLP
Promoter	Portunus Investment Solutions
Focus	A diversified portfolio primarily comprising AIM stocks
Minimum investment	£5,000
Minimum subscription	N/A
Closing dates	5 April 2018 for the 2017/18 tax year and 31 January 2019 for the 2018/19 tax year
Commission	1% initial or 0.5% initial plus trail where applicable The VCTs can facilitate Adviser Charges under RDR

Table 1: Tax Efficient Review summary of offering Pros and Cons

PROS	CONS
• Diversified portfolio with active focus on risk management resulting in comparatively low volatility	• Performance is not immune to sentiment issues within the public equity markets
• Recent performance has been positive despite falls in the major equity markets	• Deal flow is in part dependent on the numbers of IPOs on AIM, which totalled 69 UK companies in 2017
• Historic focus on growth and development capital means new legislation will little impact on the execution of the investment policy	• History of paying dividends from capital
• Lower running costs compared to the wider VCT industry	

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Possible merger On 27 December 2017 Hargreave Hale AIM VCT 1 and Hargreave Hale AIM VCT 2 plc announced a possible merger of the companies. If the merger is to proceed, the current intention is that it will be effected pursuant to a scheme of reconstruction under s.110 of the Insolvency Act 1986 by transferring the assets and liabilities of HH2 to HH1 in consideration for the issue of new HH1 shares to HH2 shareholders on a relative net asset value basis. A merger solely on this basis would be outside the provisions of The City Code on Takeovers and Mergers.

In writing this report we have been in contact with the manager and have obtained the necessary data on a 'merged VCT' (as at 31 December 2017) to ensure our readers get a clear understanding of the characteristics of a merged company. In the case that the merger doesn't proceed, we have also explored the characteristics of Hargreave Hale AIM VCT 1 as a standalone company.

Table 2: Hargreave Hale funds under management as at 31 December 2017
(Source: Hargreave Hale)

VCT	Net assets £m	Annual Management fee	Still to be invested £m
VCT funds			
Hargreave Hale VCT 1	67	1.50%	Nil
Hargreave Hale VCT 2	57	1.50%	Nil
NON VCT funds than can co-invest with VCT Funds			
Marlborough Special Situations Fund	1,515	0.85%	Nil
Marlborough UK Micro Cap Growth Fund	1,105		Nil
Marlborough UK Multi-Cap Income Fund	1,628		Nil
Marlborough UK Nano-Cap Growth Fund	155		Nil
Marlborough European Multi-Cap Fund	353		Nil
Marlborough UK Multi-Cap Growth Fund	251		Nil
TOTAL	**£4,091m**		**Nil**

Key Information Document

Since January 1 2018 a potential EIS investor must be furnished with a Key Information Document (KID). In the opinion of Tax Efficient Review, the use of KIDs by advisers and investors is not straightforward as EISs do not easily lend themselves to the prescriptive handling required by the Packaged Retail and Insurance-based Investment Products (PRIIPs) Regulations. After that date no EIS can be sold to an investor without a KID.

The KID is reproduced at the end of this review.

FCA statement of objections

On 29th November 2017 the Financial Conduct Authority (FCA) issued a statement of objections to four asset management firms: Artemis Investment Management LLP, Hargreave Hale Ltd, Newton Investment Management Limited and River & Mercantile Asset Management LLP. The FCA believes the four firms may have broken competition law and alleges that the four firms shared information by disclosing the price they intended to pay, or accepting such information, or both, in relation to one or more of two Initial Public Offerings (IPOs) and one placing, shortly before the share prices were set. The sharing generally occurred on a bilateral basis and allowed firms to know the other's plans during the IPO or placing process when they should have been competing for shares.

The FCA's main allegations against the four firms are that separately:

- in 2015, Newton Investment Management Limited ('Newton') and Hargreave Hale Ltd and River & Mercantile Asset Management LLP disclosed and/or accepted information about the price they intended to pay for shares in relation to one IPO and a placing;
- in 2014 Artemis Investment Management LLP and Newton shared information about the price they intended or were willing to pay for shares in relation to another IPO.

These are provisional findings and may not necessarily lead to an infringement decision. A statement of objections gives firms notice that the FCA thinks that they have infringed competition law and the opportunity to respond by making written and oral representations. The FCA will carefully consider any representations from the firms before deciding whether the law has been broken. The statement of objections will not be made public, however any final decision taken will be published providing more detail about the case.

The offer prospectus does not refer to this matter.

Budget changes

There have been significant recent announcements regarding the legislation governing investments by VCTs.

In **2015** the main changes were (1) investee companies were not be able to buy existing businesses (includes MBOs), (2) first commercial sale by the investee company must be in the last seven years (with certain caveats) and (3) there is a lifetime investment limit of £12m (£20m for knowledge intensive companies).

In **2017** (from April 2018) the main changes were:

- 70% qualifying holdings condition increasing to 80% (post 6th April 2019)
- at least 30% of all new funds raised after 5 April 2018 will need to be invested in qualifying holdings within 12 months of end of the accounting period in which the VCT issues its shares
- A number of "grandfathering" provisions for VCTs will be removed:
  - The requirement for VCTs to hold at least 30% of qualifying investments in "eligible shares" ordinary equity) from funds raised prior to 6 April 2011 will be withdrawn
  - Qualifying trades and employee limits – VCT funds raised prior to 6 April 2008 can no longer continue to invest in companies carrying on certain trades (such as nursing homes, hotels, farms, property development, shipbuilding, and coal and steel production). And the employee limit will also apply to all VCT investments; currently that limit does not apply to VCT funds raised before 6 April 2007
- VCTs can invest part of their qualifying investments in loans which have a term of at least five years. From Royal Assent to the Finance Bill (expected Spring/Summer 2018) any new loans will have to be made on an unsecured basis. Returns on loan capital above 10% are required to represent no more than a commercial return on the principal, and should not be

Table 3: Key characteristics		
Hargreave Hale AIM VCT 1		
	as at 31 December2017	**as at 31 December 2016**
Average Revenue	£76.3m	£73.9m
Average Net Cash	£6.8m	£6.4m
Average Market Capitalisation	£203m	£147m
Hargreave Hale Merged VCT		
	as at 31 December 2017	-
Average Revenue	£53.5m	-
Average Net Cash	£5.3m	-
Average Market Capitalisation	165.9m	-

Table 4: Asset Allocation		
Hargreave Hale AIM VCT 1		
	% NAV as at 31 December 2017	**% NAV as at 31 December 2016**
Qualifying Investments	61%	65%
Marlborough Special Situations Fund	8%	4%
Non-Qualifying Equities	19%	16%
Fixed Income	0%	0%
Cash	12%	15%
Total	**100%**	**100%**
Hargreave Hale Merged VCT		
	% NAV as at 31 December 2017	
Qualifying Investments	**65%**	**-**
Marlborough Special Situations Fund	**11%**	**-**
Non-Qualifying Equities	**20%**	**-**
Fixed Income	**0%**	**-**
Cash	**12%**	**-**
Total	**100%**	**-**

used to return equity capital to investors.

Hargreave Hale tell us that they have completed 22 investments in the last 12 months, broadly similar to the 21 and 20 completed in the two prior 12 month periods. They inform us that although the changes in the legislation have pushed the VCTs towards earlier stage companies, the Hargreave Hale VCT investment strategy has not had to undergo any significant changes and the managers continue to find suitable opportunities to deploy capital.

Overview

This is an offer from Hargreave Hale VCT 1, managed by Hargreave Hale, for up to £20,000,000 of Ordinary Shares at an offer price at a 3.5% premium to the latest published unaudited NAV per Ordinary Share of the Company. There is a discount of up to 2% available to all shareholders for applications received by 12pm on the 16th of March2018 (allotment 20th March 2018). There is a £10,000,000 Over-Allotment Facility which may be utilised at the managers discretion, if the £20,000,000 offer sells out.

On December 2017, Hargreave Hale AIM VCT 1 and Hargreave Hale AIM VCT 2 announced a possible merger of the companies. This is likely to occur in parallel to the offer of Ordinary Shares into Hargreave Hale AIM VCT 1. Hargreave Hale believe there is strong logic behind a merger of the two companies:

- the legislation has been harmonised across both portfolios for five years (when the two VCTs launched the legislation differed)

- there is a significant overlap in the two portfolios (at least 80% of the investments are held in both funds)
- the simplified fund structure will create significant operational benefits. These could include a 50% reduction in the fund administration burden, the ability to continue to scale without adding to the support team, and a better utilisation of the Fund Managers time to manage the portfolio
- cost synergies could allow the merged VCT to recover the merger costs within 12 month
- Hargreave Hale claim that the merged fund will benefit from improved shareholder communication

The Hargreave Hale VCT 1 Board believe that raising new capital will ensure that they have sufficient liquid funds to support their investment objectives of investing in both Qualifying Investment and Non-Qualifying Investment opportunities and reduce the Ongoing Expense Ratios whilst at the same time having sufficient resources to continue the Companies' dividend and share buy-back policies.

Strategy

The VCT seeks to maximise shareholder returns through a diversified portfolio of qualifying equity investments (mostly traded on AIM) supported by investment into a range of non-qualifying investments. The investment policy for the company is:

- to invest in a diversified portfolio of small UK based companies on a high risk, medium term capital growth basis, primarily being companies which are traded on AIM and which have the opportunity for significant value appreciation;
- to invest in smaller companies which may not be readily accessible to private individuals and which also tend to be more risky;
- to maximise distributions to shareholders from capital gains and income generated from the Company's funds; and
- to target investment in equities which are non-qualifying investments on an opportunistic basis

The VCT is able to maintain its exposure to small companies by investing up to 75% of the net proceeds of the fundraising into the Marlborough Special Situations Fund which is also managed by Hargreave Hale, subject to a maximum of 20% of the gross assets of the Company. This will enable the companies to maintain their exposure to small companies indirectly, whilst Hargreave Hale identifies opportunities to invest directly into small UK companies through a suitable number of qualifying investments.

INVESTMENT STRATEGY
Qualifying Investments

Hargreave Hale's management of the VCTs has evolved over the 12 years they have been managing them. In particular, there is now more emphasis placed on risk management and volatility. This is primarily achieved through the construction of the qualifying and non-qualifying investment portfolios with a shift towards more established and profitable companies and active management of the VCTs exposure to different kinds of risk. The manager strongly believes in the benefits of a diversified portfolio and point to one of the potential benefits being the performance of the Marlborough Special Situations Fund and Marlborough UK Micro Cap Fund. Hargreave Hale believes this focus on risk management provides some protection in volatile markets, although not in distressed markets of the type witnessed in 2008.

The strong focus on risk management leads the manager to weigh each investment up against a series of factors, some specific to the company, others relate to portfolio construction. These include, the business model, financial controls, management track record, balance sheet strength and portfolio risk.

Table 5: VCT Performance of HARGREAVEHALE fund raisings				
Launch year	Net Asset Value/Date	Total Dividends to date	Total return (dividends plus latest net asset value)	Annual IRR post initial tax relief/Position in peer group
Hargreave Hale VCT ord shares (2004/05 investors in Keydata AIM VCT ord shares raised £14m at 100p per share, renamed Oct 2009) TIDM HHV TER Ref 215				
2004/05	83.36p 31/12/2017	46p	129.36p	8% 9th out of 18
Hargreave Hale VCT 2 ord shares (2006/07 investors in Keydata AIM VCT 2 ord shares at 100p, renamed Oct 2009) TIDM HHVT TER Ref 358				
2006/07	121.21p 31/12/2017	55p	176.21p	11% 2nd out of 6
Hargreave Hale VCT ord shares (2005/06 investors in Keydata AIM VCT C share which raised £18m, each C share converted into 1.23935 ord shares Oct 08, renamed Oct 2009) TIDM HHV TER Ref 324				
2005/06	103.31p 31/12/2017	42.73p	146.04p	9% 2nd out of 18

Table 6: AIM VCT provider comparison based on performance net of initial tax relief					
Provider	Percent Ranking (Higher number is better see Note 1)				
	Performance as at 31 December 2017	Performance as at 31 June 2017	Performance as at 31 October 2016	Performance as at 30 November 2015	Performance as at 31 October 2014
Unicorn	87%	85%	88%	91%	86%
Hargreave Hale	81%	80%	78%	78%	80%
Octopus	68%	66%	68%	62%	67%
Amati	60%	64%	57%	59%	64%

Source: Data from providers, Performance calculation by Tax Efficient Review

Note 1: Each provider has launched a large number of fund raisings, so we use "Percent Ranking" as a way of comparing results for each provider. "Percent Ranking" is the rank of a value in a data set as a percentage of the data set. For each fund raising the data set comprises the AIM VCTs launched in the same year. A figure of 100% means the fund raising from the manager ranks ahead of all others in the data set, so the higher the figure the better. Figure is an average of all fund raisings where the manager has managed the fund since launch, raised more than £6m and launched in tax year 2012/13 or before (for 2017 figures). Performance for launches from before that period will be distorted by the initial tax relief.

Non-Qualifying Investments

The flexible and opportunist non-qualifying investment strategy allows the manager to adjust the risk within the portfolio to match their view of the market through variable allocations to fixed income and non-qualifying equities. The Finance Act 2014 banned non-qualifying equity investments that do not have a full stock exchange listing (i.e. AIM companies can no longer be purchased as a non-qualifying investment). The manager informs us that they continue to invest in the best investment ideas generated through the other managed mandates, however the focus is on full listed mid and large cap companies with less emphasis on small cap. The result is that the non-qualifying portfolio exhibits more mature characteristics in comparison to previous years. The average market cap in the non-qualifying portfolio of Hargreave Hale VCT 1 was £16.5bn (as at 31 December 2017). This compares to the average market cap in the non-qualifying portfolio of a merged VCT of £24.9bn (as at 31 December 2017). The discrepancy is due to a higher weighting to large cap non- qualifying holdings in VCT 2. The manager is keen to emphasise the balancing effect this has on the whole portfolio as investors are able to get exposure to both small qualifying companies and more stable larger companies in the same VCT. The manager is also prepared to make substantial use of fixed income if a more defensive posture is required. This was done, they say, to good effect in 2008-9. It is worth noting that The Finance Act 2014 banned gilts as investments so the use of fixed income is now limited to that of corporate debt.

Hargreave Hale describes its approach as stock (rather than sector) specific, and opportunistic, arguing that the VCTs' connections with its other unit trusts will enable it to participate in what are perceived to be the best equity opportunities and strive for further growth in the NAV.

More recently, the VCTs amended their investment policies to allow the manager to allocate capital into the Marlborough Special Situation Fund to help absorb new capital and reduce cash drag without creating liquidity risk within the portfolio. Hargreave Hale will invest up to 75% of the net proceeds of the fundraising into the fund, which is also managed by them, subject to a maximum of 20% of the gross assets of the Company. This will enable the companies to maintain their exposure to small companies indirectly, whilst Hargreave Hale identifies opportunities to invest directly into small UK companies through a suitable number of qualifying investments. The £1.5bn fund is well known to investors and has a strong track record, having produced a compound annual return of 19.33% since coming under Giles Hargreave's management in 1998 (as at 31 December 2017).

We understand that the non-qualifying strategy (including Marlborough Special Situations Fund) added around 4.81 pence per share to Hargreave Hale AIM VCT 1's NAV in the twelve months to end December 2017.

Asset Allocation

Hargreave Hale AIM VCT 1 has an established investment portfolio of qualifying investments, with net assets of c.£67m (as at 31 December 2017). This compares to net assets in a merged VCT of £124m (as at 31 December 2017). Many of the qualifying investments are becoming increasingly established, with 55% of Hargreave Hale AIM VCT 1's qualifying portfolio invested in profitable companies (as at 31 December2017). This compares to 52% in a merged VCT (as at 31 December 2017). A number of the qualifying companies are becoming quite large. For example, the largest qualifying position in Hargreave Hale AIM VCT 1, Learning Technologies Group, has a market capitalisation of £384m, with estimated revenues of £51.8m and Profit Before Tax of £12.0m (Broker forecasts for the financial year ending 31 December 2017). As at 31 December 2017, the 10 largest qualifying holdings accounted for 22.7% of the VCT 1's net asset value of approximately £67 million. In total, VCT 1 comprised investments in 77 qualifying companies valued at about £40.5 million against a book cost of £28.9m (see Table 7 for detail).

As at 31 December 2017, the 10 largest qualifying holdings accounted for 20.3% of a merged VCTs net asset value of approximately £124 million. In total, a merged VCT comprised investments in 83 qualifying companies valued at about £70.5 million against a book cost of £46.8m (see Table 8 for detail). VCT 1 has a significant weighting to the non-qualifying portfolio. The asset allocation of the fund as of 31 December 2017 is shown in Table 4. A merged VCT would also have a significant weighting to the non-qualifying portfolio and the asset allocation of a merged fund as of 31 December 2017 is shown in Table 4.

Fixed income and cash account for over 13% of Hargreave Hale AIM VCT 1, although the manager has made more extensive use of fixed income in the past as a source of income, capital growth and a relatively stable and low volatility asset class. A merged VCT would have a very similar weighting to fixed income and cash. Fixed income exposure is relatively low right now, and Hargreave Hale says is expected to remain that way for the foreseeable future

Over the longer term, we understand that the non-qualifying strategy should remain broadly unchanged, i.e. assets allocated to cash, gilts, UK corporate bonds and also to direct non-qualifying UK or international equities. We expect the exposure to the Marlborough Special Situations Fund to vary according to the manager's view of markets and in line with cash flows into and out of the fund. The manager may adjust the proportion of non-qualifying equity or fixed interest holdings (between nil and 25% of VCT assets) according to its view of the market conditions.

AIM can be an illiquid market at times, so we draw comfort from the manager's emphasis on diversification, along with the high levels of cash and fixed income that the manager has historically run. Further liquidity could be available at short notice through the sale of their holdings in the Marlborough Special Situations Fund.

Qualifying Investment Test

The manager tells us that the VCT 1 portfolio comfortably exceeds the HMRC defined investment test, with a 91.7% score on the investment test (as at 31 December 2017). Work carried out by the Fund Manager indicates that even after a £20m fundraise, a merged VCT can expect to finish the financial year (i.e. 30 September 2018) with a score above 90%. The minimum required by HMRC is 70%, when measured by book cost (as opposed to market value). Careful management of the portfolio over the years, along with recent inflows from the current offer, means the actual proportion of Hargreave Hale AIM VCT 1 assets now invested in qualifying companies (as measured by market value) is considerably lower at 60.4% (as at 31 December 2017), with the additional capital available to invest in non-qualifying holdings or retained as cash equivalent assets as the manager sees fit. A merged VCT would have a lower proportion of assets invested in qualifying companies (as measure by market value) at 56.7% (as at 31 December 2017).

Share Buy-Back Policy Hargreave Hale AIM VCT 1 has a strong track record of facilitating shareholder exits. Initially, the VCTs operated a buy-back policy that targeted a 10% discount to the net asset value; however, in April 2012 the Hargreave Hale AIM VCTs became the first VCTs to target a 5% discount to net asset value. This is very uncommon for evergreen VCTs and we are pleased to see the VCTs take this step.

The Boards reserve the right to revert to the previous 10% discount or suspend the buy-back policy, if required. The manager has discretion to buy shares back in on a weekly basis (every Friday), subject to certain limits. These are set by the Boards to ensure compliance with the Listing Rules and shareholder authorities. Nevertheless, these policies have proven to be very robust and have never been suspended. More than 14.5m Hargreave Hale VCT 1 shares have been acquired since inception (as at 31 December 2017). The consistent application of the policy has been particularly effective at controlling the share price, which has tightly tracked the published net asset value per share, initially at a 10% discount before narrowing to 5% from April 2012. Hargreave Hale AIM VCT 1 has an average discount of 5.6% to the net asset value for the 3 years to 31 December 2017. A merged VCT should continue to benefit from the same buy-back policy.

We believe the revised policy, and the execution of it, is good news for existing investors, provided the team is able to maintain it. Individuals should be aware that there is no guarantee that this policy will be sustainable or adhered to over the long term.

Dividend Policy The VCT has a well established track record of paying out tax free dividends to their shareholders. The intention is to continue the existing policy of targeting a 5% tax free dividend distribution yield (referenced to the year-end Net Asset Value of each company), and historically both VCTs have paid an average yield of more than 5% since first joining the dividend list. However, it should be noted that the ability to pay dividends will clearly be influenced by the underlying investment performance of the VCT shares and the VCTs available cash resources, and the Boards may vary or skip a dividend at their discretion.

Hargreave Hale AIM VCT 1 pays their dividends out of capital. To date this has been done through distributions from the Special Reserve, which was created by a court approved conversion of the Share Premium Account. Hargreave Hale does not expect execution of the dividend policy to be adversely affected by the new rules restricting the use of the Share Premium Account to return capital within 3 years of a fundraising. The Finance Act 2014 amended the VCT rules, such that VCT status will be withdrawn if, in respect of shares issued on or after 6 April 2014, a dividend is paid (or other forms of distribution or payments are made to investors) from the capital received by the VCT from that issue within three years of the end of the accounting period in which shares were issued to investors. The reason Hargreave Hale does not expect execution of the dividend policy to be adversely affected by the rule is that it does not stop a VCT using distributable reserves from funds raised from other shareholders to fund the payment.

	VCT1
The percentage generated by revenue profits	0%
The percentage from the store of gross capital profits	0%
The percentage from capital	100%

Interestingly, Hargreave Hale is entitled to a performance fee of 20% of any dividends paid to Ordinary Shareholders in excess of 6p per Ordinary Share per annum, provided that the Net Asset Value exceeds 95p, with any cumulative shortfalls having to be made up. The company has not paid a performance fee since incorporation which indicates that performance has not been sparkling.

Tax Efficient Review rating: 29 out of 30

Track record Hargreave Hale is a specialist manager focusing on UK small cap. Hargreave Hale was acquired by Canaccord Genuity Wealth Management in July 2017. Led by Giles Hargreave, the team of 14 fund managers held approximately 1,700 company meetings in the 12 months 31 December 2017, of which approximately 200-250 were directly linked to the VCT. The team has considerable experience and an extensive network of contacts that helps to originate and assess a large pipeline of deal flow. The team is pro-active in seeking out potential investments and has in the past arranged private placings.

Giles Hargreave has an excellent track record in small company fund management with the Marlborough Special Situations fund returning in excess of 3,035% (as at 31 December 2017) since it came under his management in July 1998. The Marlborough UK Micro Cap Growth fund, also managed by Giles Hargreave, has returned 697% since inception on 4 October 2004 (as at 31 December 2017).

Our approach to comparing track records between VCT providers is to use the Internal Rate of Return (IRR) for all relevant VCT fund raisings. The IRR on an investment is the "annualised effective compounded return rate" or "rate of return" that makes the net present value of all cash flows (both positive and negative) equal to zero. We calculate it on a daily basis using the net of income tax relief original cost (negative cash flow), the flow of dividends on the date they were paid and the net asset value published in the latest quarterly report from the VCT (both positive cash flows). We favour the IRR over measures such as Total Return as it factors in the "time value of money" and rewards early distributions of cash. We consider relevant VCT fund raisings to be those launched in tax year 2012/13 or before, larger that £6m and where the current management team have been involved since launch.

The result for each VCT manager is a number of IRRs each associated with a position within the relevant launches made in the same tax year. To compare results between providers we calculate the "Percent Ranking" figure for each fund raising and then average them all for the provider. The Percent Ranking shows the position within the relevant launches for each fundraising with 100% for first position and 0% for last position. Therefore the higher the "Percent Ranking" figure the better. This is shown in Table 6.

The performance of the Hargreave Hale AIM VCTs is summarised in Tables 5 and 6 and in our view the position of the VCTs within their peer grouping by year of launch shows a creditable performance.

Tax Efficient Review rating: 31 out of 40

Team The investment team includes 13 fund managers. The key VCT personnel are:

- Giles Hargreave left Cambridge in 1969, Giles began his career as a trainee analyst with James Capel before moving to Management Agency and Music Plc as a private fund manager in 1974. In 1986 he founded Hargreave Investment Management, which he then merged with Hargreave Hale & Co in 1988. In 1998, Giles took over as the fund manager of the Marlborough Special Situations Fund. He also co-manages the Marlborough UK Micro Cap Growth Fund, the Marlborough UK Nano-Cap Growth Fund and both VCTs. Giles heads up Hargreave Hale's investment committee and chairs the weekly meetings in which the team reviews existing and potential investments.
- Oliver Bedford graduated from Durham University in 1995 with a degree in Chemistry. He served in the British Army for 9 years before joining Hargreave Hale in 2004. Oliver co- manages the VCTs with Giles Hargreave and supports the other unit trusts through the investment committee.

The Board of Hargreave Hale AIM VCT2 comprises David Hurst-Brown, Philip Cammerman and Oliver Bedford. All three directors have or will participate in this offer.

Deal Flow The manager reports good access to qualifying investment opportunities, with investments in 22 Qualifying Companies made in the 12 months to 31 December 2017. As at 31 December2017 Hargreave Hale VCT1 was 91.7% invested in qualifying investments (as defined by the HMRC

investment test). The manager is confident that they will retain qualifying status.
Tax Efficient Review rating: 18 out of 20

Costs Initial costs are usually 3.5% including commission to introducers of either 1% or 0.5% up-front with annual trail subject to availability and paid by the manager out of their annual management charge (where no advice is given to the investor).

There is a discount of up to 2% available to existing shareholders for applications received by 12pm on16th March 2018. The full early bird discount of 2.00% is only available when Hargreave Hale is not required to pay any initial commission, either (1) because the introducing adviser gives advice (and therefore cannot accept commission) or (2) the introducing adviser waives the introductory commission in favour of the client.

As at 31 December 2017, VCT1's on-going expenses ratio is 1.9% inclusive of VAT. Work carried out by the Fund Manager indicates that after a £20m fundraise, a merged VCT can expect an on-going expenses ratio in the region of 1.7%.

There is a performance fee structure in place but there is no expectation of any fees becoming payable under it.

Where applicable, trail commission is paid by the manager.
Tax Efficient Review rating: 8 out of 10

Conclusion An offer to invest into Hargreave Hale VCT 1 run by Giles Hargreave and his team at Hargreave Hale where investors can invest any amount starting at the £5,000 minimum up to the tax year maximum of £200,000.

The performance of the VCTs within their peer grouping by year of launch shows a very creditable performance.
Tax Efficient Review rating: 86 out of 100

Table 8: HH Merged VCT at 31 December 2017 Source: HH

	Cost £000	Current Value £000	% of NAV
Qualifying Portfolio			
Zoo Digital	614	3,882	3.12%
Learning Technologies Group	1,197	3,833	3.08%
Gousto	2,004	2,968	2.39%
Ideagen	600	2,556	2.06%
Quixant	280	2,404	1.93%
Faron Pharma	1,340	2,083	1.67%
Hardide	1,166	1,937	1.56%
DP Poland	1,168	1,932	1.55%
Eagle Eye	1,778	1,913	1.54%
Animal Care	320	1,775	1.43%
Portr	1,561	1,768	1.42%
Laundrapp	1,603	1,768	1.42%
Science in Sport	1,296	1,755	1.41%
Abcam	55	1,741	1.40%
Loop Up	473	1,652	1.33%
Zappar	1,603	1,600	1.29%
Cohort	619	1,582	1.27%
Craneware	125	1,411	1.13%
Mexican Grill A Prefs	462	1,380	1.11%
ULS Technology	360	1,323	1.06%
Gfinity	675	1,284	1.03%
Escape Hunt	1,236	1,197	0.96%
Cloudcall	1,076	1,115	0.90%
Creo	1,217	1,087	0.87%
Maxcyte	315	1,064	0.86%
My 1st Years	1,002	1,000	0.80%
Honest Brew	1,002	1,000	0.80%
Trakm8	197	938	0.75%
Fusion Antibodies	346	875	0.70%
Everyman Media Group	343	845	0.68%
Angle	800	807	0.65%
Velocity Composites	664	803	0.65%
Aquis	802	800	0.64%
Beeks Financial	946	793	0.64%
FairFX	589	791	0.64%
EKF	450	773	0.62%
CentralNic	500	763	0.61%
Mirriad	701	666	0.54%
Idox	135	657	0.53%
Fulcrum Utility	100	640	0.51%
Surface Transforms	674	626	0.50%
Clearstar	809	596	0.48%
Belvoir	848	593	0.48%
Osirium	601	588	0.47%
K3	270	534	0.43%
Plastics Cap	452	524	0.42%
Vertu	600	500	0.40%
Tristel	81	475	0.38%
Property Franchise Group	338	452	0.36%
WanDisco	141	452	0.36%
Satellite Solutions	258	429	0.35%
TLA	450	338	0.27%
Reneuron	797	333	0.27%
Globaldata	173	309	0.25%
Sanderson	200	298	0.24%
Premaitha	761	269	0.22%
Intercede	339	267	0.21%
Maxcyte Reg s	283	246	0.20%
Advanced Power	849	243	0.20%
Instem life	298	241	0.19%
Porta Comms	705	229	0.18%
Lidco	366	216	0.17%
Imaginatik	539	193	0.16%
Mycelx	450	193	0.16%
Verona	198	185	0.15%

Table 8: HH Merged VCT at 31 December 2017 Source: HH

	Cost £000	Current Value £000	% of NAV
Pressure Tech	170	181	0.15%
Universe	210	180	0.14%
Medaphor	501	167	0.13%
Mexican Grill Ords	51	153	0.12%
Ilika	421	152	0.12%
Omega Diagnostics	129	142	0.11%
Lombard Risk	92	138	0.11%
TP Group	310	133	0.11%
Genedrive	281	112	0.09%
Egdon Resources	158	109	0.09%
Fusionex	208	87	0.07%
Tasty	288	86	0.07%
Paragon Entertainment	200	76	0.06%
Mirada	160	75	0.06%
Microsaic	160	60	0.05%
Midatech	58	55	0.04%
Redcentric	42	48	0.04%
Mporium Group	45	30	0.02%
Flow Group	79	18	0.01%
Total Qualifying Investments	46,760	70,495	57%
Non Qualifying Portfolio			
Royal Dutch Shell	1,234	1,502	1.21%
NMC Health	761	1,443	1.16%
Melrose	1,211	1,377	1.11%
BP	1,197	1,357	1.09%
On the beach	782	1,260	1.01%
Dechra	822	1,192	0.96%
Fulcrum Utility	182	1,184	0.95%
Hilton Foods	867	1,068	0.86%
Sanne Group	803	1,049	0.84%
Anglo American	795	990	0.80%
FC Fund Managers	450	978	0.79%
Ascential	653	827	0.66%
JD Sports	857	820	0.66%
Charter Court Financial	649	762	0.61%
XP Power	583	754	0.61%
Wizz Air	441	754	0.61%
Renishaw	551	627	0.50%
Learning Technologies Group	156	582	0.47%
Prudential	568	571	0.46%
Bakkavor group	517	550	0.44%
Clipper Logistics	468	546	0.44%
Lloyds	570	542	0.44%
Horizon	385	521	0.42%
Just Eat	388	469	0.38%
Quixant	159	444	0.36%
Microfocus	254	420	0.34%
Everyman Media Group	170	410	0.33%
Cohort	176	350	0.28%
Mycelx	371	222	0.18%
Mexican Grill A Prefs	131	148	0.12%
Regent Pacific Group	242	142	0.11%
Eagle Eye	88	111	0.09%
Amerisur	334	108	0.09%
Reneuron	145	98	0.08%
Fulham Shore	75	73	0.06%
Egdon Resources	140	61	0.05%
Midatech	159	35	0.03%
Mexican Grill Ords	26	19	0.01%
Genagro	22	2	0.00%
Mycelx	8	2	0.00%
Total Non Qual	18,391	24,370	20%
Scot Ami 8.5% 2049	154	156	0.13%
MFM Special Situations	9,790	13,025	10.47%
TOTAL PORTFOLIO	**75,095**	**108,045**	**86.88%**

Table 7: HH VCT 1 Portfolio at 31 December 2017 Source: HH			
	Cost	Current Value	% of NAV
Qualifying Portfolio			
Learning Technologies Group	663	2,123	3.20%
Zoo Digital	325	2,055	3.10%
Abcam	55	1,741	2.60%
Cohort	619	1,582	2.40%
Gousto	1,002	1,484	2.20%
Craneware	125	1,411	2.10%
Quixant	160	1,374	2.00%
Animal Care	220	1,220	1.80%
Ideagen	410	1,194	1.80%
Science in Sport	778	1,053	1.60%
Eagle Eye	967	1,049	1.60%
Hardide	863	1,043	1.60%
Faron Pharma	670	1,041	1.60%
Portr	873	998	1.50%
DP Poland	594	970	1.40%
Zappar	902	900	1.30%
Laundrapp	802	884	1.30%
Loop Up	236	826	1.20%
ULS Technology	221	813	1.20%
Gfinity	384	690	1.00%
Idox	135	657	1.00%
Escape Hunt	618	599	0.90%
Cloudcall	551	590	0.90%
Creo	659	588	0.90%
Maxcyte	173	583	0.90%
Mexican Grill A Prefs	185	552	0.80%
K3	270	534	0.80%
EKF	300	515	0.80%
TrakM8	106	503	0.70%
Vertu	600	500	0.70%
My 1st Years	501	500	0.70%
Honest Brew	501	500	0.70%
Centralnic	293	446	0.70%
Angle	448	443	0.70%
Fusion Antibodies	173	437	0.70%
Everyman Media Group	172	423	0.60%
Velocity Composites	332	401	0.60%
Aquis	401	400	0.60%
Beeks Financial	473	396	0.60%
FairFX	295	395	0.60%
Belvoir	513	354	0.50%
Surface Transforms	373	346	0.50%
Mirriad	351	333	0.50%
Clearstar	449	331	0.50%
Globaldata	173	309	0.50%
Property Franchise Group	225	302	0.40%
Osirium	301	294	0.40%
Plastics Cap	250	290	0.40%
Wandisco	89	283	0.40%
Satellite Solutions	155	258	0.40%
Instem life	298	241	0.40%
TLA	300	225	0.30%
Intercede	248	195	0.30%
Reneuron	534	186	0.30%
Pressure Tech	170	181	0.30%
Universe	210	180	0.30%
Porta Comms	505	164	0.20%
Premaitha	432	158	0.20%
Advanced Power	499	143	0.20%
Mycelx	300	129	0.20%

Table 7: HH VCT 1 Portfolio at 31 December 2017 Source: HH			
	Cost	Current Value	% of NAV
Maxcyte Reg S	141	123	0.20%
Verona	127	119	0.20%
Lidco	220	114	0.20%
Imaginatik	323	111	0.20%
Egdon Resources	158	109	0.20%
Tasty	288	86	0.10%
Medaphor	251	83	0.10%
TP Group	185	80	0.10%
Ilika	218	78	0.10%
Mexican Grill Ords	21	61	0.10%
Fusionex	138	58	0.10%
Genedrive	140	56	0.10%
Redcentric	42	48	0.10%
Mirada	65	45	0.10%
Microsaic	10	40	0.10%
Midatech	37	26	0.00%
Mporium Group	23	20	0.00%
Flow Group	25	12	0.00%
Brigantes Energy	-	-	0.00%
Infoserve	-	-	0.00%
Invocas	-	-	0.00%
Total Qualifying Investments	26,835	40,588	60.40%
Non Qualifying Portfolio			
Fulcrum Utility	125	872	1.30%
Royal Dutch Shell	652	751	1.10%
Melrose	768	720	1.10%
BP	600	679	1.00%
FC Fund Managers	300	652	1.00%
NMC Health	335	635	0.90%
On The Beach	391	630	0.90%
Sanne Group	511	607	0.90%
Hilton Foods	433	534	0.80%
Anglo American	422	526	0.80%
Dechra	361	523	0.80%
Quixant	159	444	0.70%
JD Sports	463	444	0.70%
Ascential	326	413	0.60%
Charter Court Financial	325	381	0.60%
XP Power	292	377	0.60%
Horizon	261	360	0.50%
Renishaw	276	314	0.50%
Learning Technologies Group	76	286	0.40%
Bakkavor group	258	275	0.40%
Clipper Logistics	234	273	0.40%
Lloyds	285	271	0.40%
Just Eat	194	234	0.30%
Microfocus	141	233	0.30%
Prudential	227	228	0.30%
Everyman Media Group	85	205	0.30%
Wizz Air	102	175	0.30%
Mexican Grill A Prefs	128	141	0.20%
MyCelx	200	120	0.20%
Regent Pacific Group	150	87	0.10%
Reneuron	104	67	0.10%
Eagle Eye	44	55	0.10%
Amerisur	167	54	0.10%
Fulham Shore	38	37	0.10%
Mexican Grill Ords	26	19	0.00%
Midatech	25	18	0.00%
Total Non Qual	9,484	12,640	18.80%
MFM Spec Sits	4,049	5,096	7.60%
Fixed Income	-	0	0.00%
TOTAL PORTFOLIO	**40,368**	**58,324**	**86.90%**

Key Information Document

HARGREAVEHALE
AIM VCT 1 Plc

Key Information Document

Purpose

This document provides you with key information about this investment product. It is not marketing material. The information is required by law to help you understand the nature, risks, costs, potential gains and losses of this product and to help you compare it with other products.

Product

Name: Hargreave Hale AIM VCT 1 plc
PRIIP Manufacturer: Hargreave Hale AIM VCT 1 plc
Contact number: 01253 754 700
This key information document is accurate as at **31 December 2017**

ISIN: GB00B02WHS05
Competent authority: The Financial Conduct Authority (FCA)

What is this product?

Type	This product is a Venture Capital Trust (VCT) and public limited company, listed on the London Stock Exchange and incorporated in the United Kingdom.
Objectives	The VCT's objective is to invest in a range of smaller companies in order to generate income and capital growth over the long-term. The VCT aims to maintain a diversified portfolio of qualifying investments, primarily those which are traded on AIM and have the potential for significant value appreciation. The VCT will also make non-qualifying investments in companies listed on the main market of the London Stock Exchange. The VCT will also invest funds in the Marlborough Special Situations Fund pending investment into qualifying companies.
Intended retail investor	VCTs are not suitable for every category of investor. VCTs are designed for individuals over 18 years of age who: (1) pay UK income tax; (2) can invest between £5,000 and £200,000 per tax year; (3) can tolerate a high level of investment risk; (4) can accept a minimum holding period of five years. Before deciding whether to subscribe for new ordinary shares issued through a prospectus, investors are strongly encouraged to consult an independent adviser authorised under FSMA and to carefully consider the suitability of an investment into the VCT in light of their personal circumstances.
Gearing	The VCT has the ability to borrow an amount equal to 15% of its adjusted capital and reserves (more information is detailed in the Articles of Association of the VCT). The VCT has no borrowing and has no plans to borrow. Any future borrowing would magnify any gains or losses made by the VCT.
Bid / Offer spread	Typically, at any given time on any given day, the price you pay for a share will be higher than the price at which you could sell it.
Continuation	The VCT operates a continuation vote whereby investors can vote to continue or wind up the VCT every five years. This will next be considered at the 2023 annual general meeting.

What are the risks and what could I get in return?

Risk Indicator

1	2	**3**	4	5	6	7

Lower risk ◄ ··· ► Higher risk

The risk indicator assumes you keep the product for 5 years. The actual risk can vary significantly if you cash in at an early stage and you may get back less. You may not be able to sell your investment easily or you may have to sell at a price that significantly impacts on how much you get back. Investors who sell their VCT shares before the fifth anniversary of the share issue are likely to have to repay their income tax relief.

The summary risk indicator is a guide to the level of risk of this product compared to other products. It shows how likely it is that the product will lose money because of movements in the markets or because we are not able to pay you. We have classified this product

HARGREAVEHALE
AIM VCT 1 Plc

as 3 out of 7, which is a medium-low risk class. This rates the potential losses from future performance at a medium-low level, and poor market conditions are unlikely to impact the capacity of Hargreave Hale AIM VCT 1 plc to pay you. This product does not include any protection from future market performance so you could lose some or all of your investment. Investments in smaller companies have higher degrees of risk than quoted companies. ***There are a number of material risks not included in this document that potential investors should be aware of. Please refer to the latest fact sheet for further details at*** https://www.hargreaveaimvcts.co.uk/our-vcts.

Performance Scenarios

This table shows the money you could get back over the next 5 years, under different scenarios, assuming that you invest £10,000. The scenarios shown illustrate how your investment could perform. You can compare them with the scenarios of other products. The scenarios presented are an estimate of future performance based on evidence from the past on how the value of this investment varies and are not an exact indicator. What you get will vary depending on how the market performs and how long you keep the product. The stress scenario shows what you might get back in extreme market circumstances, and it does not take into account the situation where we are not able to pay you. The figures shown include all the costs of the product itself, but may not include all the costs that you pay your advisor or distributor. The figures do not take into account your personal tax situation, which may also affect how much you get back. **The results below do not include any benefits from tax relief applicable to VCTs available to investors.**

Investment: £10,000		1 year	3 years	5 years
Stress scenario	What you might get back after costs (£)	6,155	7,153	6,431
	Average return each year (%)	-38.4%	-10.6%	-8.5%
Unfavourable scenario	What you might get back after costs (£)	9,952	11,208	12,928
	Average return each year (%)	-0.5%	3.9%	5.3%
Moderate scenario	What you might get back after costs (£)	11,001	13,377	16,265
	Average return each year (%)	10.0%	10.2%	10.2%
Favourable scenario	What you might get back after costs (£)	12,255	16,088	20,620
	Average return each year (%)	22.5%	17.2%	15.6%

What happens if Hargreave Hale AIM VCT 1 plc is unable to pay out?

As a shareholder of Hargreave Hale AIM VCT 1 plc you would not be able to make a claim to the Financial Services Compensation Scheme about Hargreave Hale AIM VCT 1 plc in the event that the Company is unable to pay out.

What are the costs?

The Reduction in Yield (RIY) shows what impact the total costs you pay will have on the investment return you might get. The total costs take into account one-off, ongoing and incidental costs.

The amounts shown here are the cumulative costs of the product itself, for three different holding periods. They include potential early exit penalties. The figures assume you invest £10,000. The figures are estimates and may change in the future.

Costs over time

The person selling you or advising you about this product may charge you other costs. If so, this person will provide you with information about these costs, and show you the impact that all costs will have on your investment over time.

Investment: £10,000 If you cash in after...	1 year	3 years	5 years
Total Costs (£)	239	889	1,842
Impact on return (RIY) per year (%)	2.39%	2.39%	2.39%

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Composition of costs

The table below shows:

- the impact each year of the different types of costs on the investment return you might get at the end of the recommended holding period;
- the meaning of the different cost categories.

This table shows the impact on return per year			
One – off costs	Entry costs	0%	The product does not have any entry costs.
	Exit costs	0%	This product does not have any exit costs.
Ongoing costs	Portfolio transaction costs	0.16%	The impact of the costs of the fund buying and selling underlying investments for the product.
	Other ongoing costs	2.23%	The impact of the costs taken by the fund each year for managing your investments.
Incidental costs	Performance fees	0%	The impact of performance fees. We take these from your investment if the product returns dividends to ordinary shareholders in excess of 6p per ordinary share per annum, and the net asset value per share exceeds 95p. There has be no performance fee to date.
	Carried interests	0%	This product does not charge any carried interest.

How long should I hold it and can I take money out early?

Recommended required minimum holding period: 5 years

The recommended minimum holding period of 5 years has been selected, as the VCTs are intended to have a long investment horizon and any divestment less than 5 years, could have implications with respect to the tax advantages of investing in VCT's.

Disinvestment is possible at any time. VCT shares are quoted and traded on the London Stock Exchange, so, provided there is a willing buyer, you can realise the value of your VCT investment at any time through a stockbroker or a share dealing account. You should note that previously owned VCT shares do not qualify for initial income tax relief and there is, therefore, a limited market for buying VCT shares. To improve liquidity in the ordinary shares, the VCT will buy back shares at a 5% discount to the prevailing net asset value per share. Share buy-backs are subject to the Companies Act 2006, the Listing Rules and tax legislation, all of which may restrict the VCT's ability to buy shares back. The policy is non-binding and the Directors reserve the right to amend or suspend the share buy-back policy.

There are no additional fees or penalties incurred on exit however the price you receive on the open market may not reflect the underlying net asset value of the shares.

How can I complain?

As a shareholder of Hargreave Hale AIM VCT 1 plc you do not have the right to complain to the Financial Ombudsman Service (FOS) about the management of Hargreave Hale AIM VCT 1 plc.

Complaints about the VCT or the key information document should be directed to Hargreave Hale AIM VCT 1 plc.

You can submit your complaint via post to Stuart Brookes, Company Secretary, Hargreave Hale AIM VCT 1 plc, Talisman House, Boardmans Way, Blackpool, FY4 5FY or via email to aimvct@hargreave.com.

Other relevant information

The latest annual report, fact sheet and prospectus can be found at https://www.hargreaveaimvcts.co.uk/document-library. The cost, performance and risk calculations included in the KID follow the methodology prescribed by EU rules. Depending on how you buy or sell these shares you may incur other costs. The distributor will provide you with additional information where necessary. Investors are strongly encouraged to consult an independent adviser authorised under FSMA and to carefully consider the suitability of an investment into the VCT in light of their personal circumstances.