21 November 2023

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

Interim Management Statement

Q4 2023

Introduction

This interim management statement covers the fourth quarter of the 2022/23 financial year, 1 July 2023 to 30 September 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

Inflation and interest rates here, in the US and elsewhere have continued to dominate news flow. Towards the end of the period, movements in the US 10-year Treasury yield became an area of focus for many.

Inflation has come down significantly as food prices, supply chains and employment markets all eased. UK wage growth remains stubbornly high with the Bank of England now warning unemployment may have to climb above 5% to ease wage pressure.

UK inflation fell from 7.9% in June to 6.7% in September. Post period, UK inflation fell sharply to 4.7%. The fall in inflation from its peak of 11.1% in October 2022 will significantly ease the pressure on households and companies. However, the same model forecasts inflation will not fall into line with the Bank of England's 2% target until 2025, helping to explain why interest rates are expected to stay higher for longer. For now, the markets are increasingly confident that we may have reached peak interest rates with the Bank of England currently expected to stay on hold until June 2024.

UK consumer confidence remains low, albeit substantially better than at the start of the financial year. However, the September reading did surprise on downside, suggesting that higher interest rates might finally start to take their toll. There are other signs too that tighter monetary policy is starting to have an impact on the economy, with retail sales weakening and unemployment starting to trend higher, albeit from a very low base.

Although the UK economy continues to outperform very modest expectation, Purchasing Managers' Index (PMI) reports, which offer a view on the prevailing economic trends, continue to indicate a slowing economy with both the manufacturing and services indices signalling contraction. Other economic data is signalling a sharp contraction in UK construction.

AIM continues to endure a particularly difficult period, having now fallen by 42% in the two years to 30 September 2023. By any measure, this is a long and uncomfortable bear market. Although trading varies quite significantly by sector, price action is heavily influenced by the continued flow of capital out of UK equity funds.

Performance

In the 3 months to 30 September 2023, the unaudited NAV per share decreased by 3.5 pence to 46.34 pence. A one penny interim dividend was paid in July, giving a total return of -6.9%. AIM fell by 3.2% over the same period.

The qualifying investments made a net loss of -3.49 pence per share whilst the non-qualifying equity investments made a gain of 0.12 pence per share. The adjusting balance was the net of the Marlborough Special Situations Fund, running costs and investment income.

Qualifying Investments

Intelligent Ultrasound reported (+33.3%, +0.13 pence per share) underlying revenue growth of 35% in the 6 months to June. The partnership with GE Healthcare, a world leader in women's health, continues to expand with more of GE's ultrasound machines now offering the company's AI-based real time image analysis software for use by sonographers during prenatal scanning. The partnership presents a significant opportunity for high margin royalty revenues.

Diaceutics (+22.6%, +0.12 pence per share) reported good revenue growth in the 6 months to June. Recurring revenues continue to grow rapidly as more customers signed annual or multi-year licences for their DXRX platform. The company also announced a change of leadership with the chief executive moving into a business development role, to be replaced by the chief operating officer.

Instem (+33.1%, +0.11 pence per share) received a takeover bid from private equity valuing the company at £203m. Although trading is more difficult in the short-term, we were confident in the senior leadership team and would have preferred to see the company remain in public ownership.

Zoo Digital (-67.5%, -1.11 pence per share) continued to be heavily affected by the dispute between Hollywood studios and unions representing actors and screen writers. Revenue and profit guidance was revised lower again, the third time this year. Post period, the studios and unions reached an agreement to end the 118-day strike. The proposed deal will now go to the two union memberships for ratification. The company expects to emerge from this dispute in a strong position.

Eden Research (-51.6%, -0.33 pence per share) announced a first order for the new seed treatment that was jointly developed with Corteva Agriscience, a large US listed agricultural company. Ecovelex uses plant derived chemistries to address the loss of Maize seed to birds and is designed as a replacement for conventional chemicals that are now banned in the UK and EU. Revenues are likely to remain modest until receipt of market approvals in the UK and EU.

To address performance issues that emerged following the 2022 FDA clearance of its lung imaging product, Polarean (-58.7%, -0.30 pence per share) appointed a new and experienced CEO to drive adoption. Commercial progress remains slow and the company will need additional funding in 2024.

Non-Qualifying Investments

XP Power (+20.0%, +0.04 pence per share) published results for the 6m to July 2023 that were in line with expectations. Post period end, the company provided an unscheduled trading update that flagged weaker training and warned that it was in danger of breaching debt covenants. Planned dividend payments were cancelled. Subsequent updates confirmed the company was performing in line with the revised guidance and announced that it had raised £45m to strengthen its Balance Sheet.

TP ICAP (+12.5%, +0.03 pence per share) reported results for the 6m to 30 June 2023 that were in line with expectations. Good cash generation allowed the company to announce a well-received £30m share buyback programme.

Energean (+11.6%, +0.03 pence per share) reported results for the 6m to 30 June that were in line with expectations. Post period, the attack on Israel and the war in Gaza has depressed the share price. The production platform is 100km offshore and operations are currently unaffected.

WH Smith (-13.2%, -0.05 pence per share) issued a full year trading update for the 12m to August that was in line with market expectations. The travel business continues to perform well whilst the UK High Street business was stable.

The announcement that Rolex was to acquire a key competitor and, through it, open up a new direct to consumer channel raised concerns that Rolex might undermine or change its relationship with Watches of Switzerland (-12.5%, -0.03 pence per share) and increase the competitive threat.

Ashtead (-8.1%, -0.03 pence per share) issued third quarter results that were in line with expectations. Whilst the outlook for the USA remains strong, management tempered the outlook for the much smaller UK operation.

Portfolio structure

The VCT is comfortably above the HMRC defined investment test and ended the period at 91.65% invested as measured by the HMRC investment test. By market value, the weighting to qualifying investments decreased from 58.90% to 58.70%.

Qualifying investment activity remains subdued with £2m invested across three qualifying companies. This included a new investment into Tan Delta, which manufacturers sensors that provide real time monitoring of oil condition in mission critical and high value equipment. The investment was made at the time of its initial public offering. We also made two follow on investments into BiVitrix and Rosslyn Data.

We modestly reduced our investment in Equipmake following some strong share price performance and Blackbird following a weak update. We made a full exit from Yourgene following its acquisition by another company listed on AIM.

We made minor adjustments to the non-qualifying portfolio in response to company updates. We made no changes to the non-qualifying fixed income portfolio but did reduce the investment in the Marlborough Special Situations Fund to fund investments into qualifying companies, taking the weighting down from 8.3% to 5.4%.

There were no substantial changes to the allocation to non-qualifying equities, fixed income or cash, which respectively represented 10%, 11% and 13% 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

2,644,366 shares were acquired in the quarter at an average price of 46.66 pence per share. The share price decreased from 46p to 43p within the quarter and traded at a discount of 6.8% following the publication of the 30 September 2023 NAV on 5 October 2023.

Post Period End

The unaudited NAV per share decreased from 46.34 pence to 44.60 pence in the 6 weeks to 10 November 2023, a decrease of 3.8%. The FTSE AIM All-Share index decreased by 3.2%. There was one new qualifying investment made into Eden Research with £0.5m invested. This investment was part of a larger funding round announced on 28 July 2023.

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