

# Tax Efficient Review

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**Venture Capital Trusts**

**Review of AIM based VCTs**  
Hargreave Hale VCT

**Reprinted for the use of Hargreave Hale**

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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 be 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.

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

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

PROS	CONS
<ul style="list-style-type: none"> <li>Diversified portfolio with active focus on risk management resulting in comparatively low volatility</li> </ul>	<ul style="list-style-type: none"> <li>Performance is not immune to sentiment issues within the public equity markets</li> </ul>
<ul style="list-style-type: none"> <li>Historic focus on growth and development capital means new legislation will little impact on the execution of the investment policy</li> </ul>	<ul style="list-style-type: none"> <li>Deal flow is in part dependent on the numbers of IPOs on AIM, which totalled 69 UK companies in 2017</li> </ul>
<ul style="list-style-type: none"> <li>Lower running costs compared to the wider VCT industry</li> </ul>	<ul style="list-style-type: none"> <li>History of paying dividends from capital</li> </ul>

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**Merger** On 23 March 2018, the investment manager announced the approval of a merger between Hargreave Hale AIM VCT 1 plc and Hargreave Hale AIM VCT 2 plc. The merger was 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.

**Key Information Document** Since 1 January 2018 a potential VCT 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 VCTs 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 VCT 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,

**Table 2: Hargreave Hale funds under management as at 30 June 2018**

(Source: Hargreave Hale)

VCT	Net assets £m	Annual Management fee	Still to be invested £m
<b>VCT funds</b>			
Hargreave Hale AIM VCT	151	1.50%	Nil
<b>NON VCT funds than can co-invest with VCT Funds</b>			
Marlborough Special Situations Fund	1,678	0.75%	Nil
Marlborough UK Micro Cap Growth Fund	1,264		Nil
Marlborough UK Multi-Cap Income Fund	1,662		Nil
Marlborough UK Nano-Cap Growth Fund	194		Nil
Marlborough European Multi-Cap Fund	444		Nil
Marlborough UK Multi-Cap Growth Fund	332		Nil
<b>TOTAL</b>	<b>£5,725m</b>		<b>Nil</b>

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 alleged 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.

In December 2017 Newton said: "We are not able to comment on individuals, but we can confirm that we have taken disciplinary action as a result of the activity. One employee was suspended at the time; this individual has since been subject to disciplinary action and dismissed."

The offer prospectus does not refer to this matter.

We asked Hargreave Hale about the current state of the matter but they were unable to comment.

## Changes to VCT legislation

- The Finance (No.2) Act 2015 and Finance Act 2016 introduced changes to the VCT rules which have placed greater restrictions on the range of investments into which the Company can deploy funds. As a result the Company must generally invest in businesses which are less than seven years old and VCT funds cannot be used to finance acquisitions by investee companies. VCTs may now only invest in Qualifying Investments, shares listed on a European regulated market, certain money market securities and short-term deposits. The penalty for breaching these new rules is loss of VCT status, so the Company and its Investors may face a higher risk of the loss of tax benefits than under the previous rules.
- The Finance Act 2018 introduced a new "risk-to-capital" condition for Qualifying Investments, designed to focus investments towards earlier stage, growing businesses, and away from investments which could be regarded as lower risk. The Company may not make any prohibited Non-Qualifying Investments, including those which breach the "risk-to-capital" condition, and the potential penalty for contravention of these rules can include loss of VCT status with a resultant claw back of VCT tax reliefs from Investors. HMRC has stated that VCT status will not be withdrawn where an investment is ultimately found to be non-qualifying if, after taking reasonable steps including seeking advice, a VCT considers that an investment is qualifying. However, HMRC may require rectification of the breach, which may mean that the VCT is forced to dispose of the investment at a loss.

Hargreave Hale tell us that they have completed 21 investments in the 12 months to 30 June 2018, broadly similar to the 19 and 21 completed in the two prior 12 month periods. They inform us that although the changes in VCT legislation have pushed the VCT towards earlier stage companies, the Hargreave Hale AIM VCT investment strategy has not had to undergo any significant changes and the managers continue to find suitable opportunities to deploy capital.

<b>Table 3: Key characteristics</b>	
<b>Hargreave Hale AIM VCT</b>	
	<b>as at 30 June 2018</b>
<b>Average Revenue</b>	£47.5m
<b>Average Net Cash</b>	£6.8m
<b>Average Market Capitalisation</b>	£229m

<b>Table 4: Asset Allocation</b>	
<b>Hargreave Hale AIM VCT</b>	
	<b>% NAV as at 30 June 2018</b>
<b>Qualifying Investments</b>	53%
<b>Marlborough Special Situations Fund</b>	9%
<b>Non-Qualifying Equities</b>	20%
<b>Fixed Income</b>	0%
<b>Cash</b>	18%
<b>Total</b>	<b>100%</b>

**Overview** This is an offer from Hargreave Hale AIM VCT 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 Friday 9 November 2018. The early bird offer was initially restricted to the first £6,000,000 raised, although it has since been increased to a maximum of £15,000,000. 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.

The Hargreave Hale AIM VCT Board believe that raising new capital will ensure that they have sufficient liquid funds to support further investment into small British companies that are VCT qualifying whilst at the same time having sufficient resources to continue the Company's 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 VCT has evolved over the 14 years it has been managing VCTs. 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 the performance of the Marlborough Special Situations Fund and Marlborough UK Micro Cap Fund as two examples of highly diversified funds that have delivered strong long-term performance. 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.

## 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 manager looks 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. As at 18 October 2018, the average market cap of an investment in the non-qualifying portfolio was £21.3bn. 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 direct investment into fixed income is now limited to that of corporate debt. The manager will investigate the use of relevant ETFs as an alternative means of achieving an exposure to sovereign debt, if required.

Hargreave Hale describes its approach as stock (rather than sector) specific, and opportunistic, arguing that the VCT's 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.

The VCT's mandate allows 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 enables the company to maintain its 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 30 June 2018).

We understand that the non-qualifying strategy (including Marlborough Special Situations Fund) added around 4.81 pence per share to Hargreave Hale AIM VCT's NAV in the twelve months to 30 June 2018.

## Asset Allocation

Hargreave Hale AIM VCT has an established investment portfolio of qualifying investments, with net assets of c.£150.8m (as at 30 June 2018).

Some metrics are:

- Many of the qualifying investments are becoming increasingly established, with 49% of Hargreave Hale AIM VCT's qualifying portfolio invested in profitable companies (as at 30 June 2018).
- A number of the qualifying companies are becoming quite large. For example, the largest qualifying position (as at 30 June 2018), Learning Technologies Group, has a market capitalisation of £802m (as at 18 October 2018), with estimated revenues of £95.5m and Profit Before Tax of £22.8m (broker forecasts for the financial year ending 31 December 2018).
- As at 30 June 2018, the 10 largest qualifying holdings accounted for 20.8% of the VCT's net asset value of approximately £150.8 million.

**Table 5: VCT Performance of HARGREAVE HALE 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
<b>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</b>				
2004/05	87.59p 28/09/2018	50p	137.59p	8% 9th out of 18
<b>Hargreave Hale VCT ord shares (2006/07 investors in Keydata AIM VCT 2 ord shares at 100p, renamed Hargreave Hale VCT 2 Oct 2009, merged with HHV in March 2018 with each HH2 share converted to 1.458754 HHV shares) TIDM HHV TER Ref 358</b>				
2006/07	127.77p 28/09/2018	59.55p	187.32p	11% 2nd out of 6
<b>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</b>				
2005/06	108.55p 28/09/2018	47.67p	156.22p	9% 2nd out of 18
<b>Hargreave Hale VCT ord shares (2009/10 £7m further at 67.52p per share) TIDM HHV TER Ref 551</b>				
2009/10	87.59p 28/09/2018	33p	120.59p	14% 4th out of 6
<b>Hargreave Hale VCT ord shares (2011/12 investors in Hargreave Hale VCT 2 £10m further issue at 100.97p per share, merged with HHV in March 2018 with each HH2 share converted to 1.458754 HHV shares) TIDM HHV TER Ref 828</b>				
2011/12	127.77p 28/09/2018	39.55p	167.32p	18% 5th out of 8
<b>Hargreave Hale VCT ord shares (2013/14 investors in Hargreave Hale VCT 2 further issue at average 116p per share, merged with HHV in March 2018 with each HH2 share converted to 1.458754 HHV shares) TIDM HHV TER Ref 2325</b>				
2013/14	127.77p 28/09/2018	24.55p	152.32p	17% 5th out of 7

**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 July 2018	Performance as at 31 December 2017	Performance as at 30 June 2017	Performance as at 31 October 2016	Performance as at 30 November 2015	Performance as at 31 October 2014
<b>Unicorn</b>	<b>84%</b>	87%	85%	88%	91%	86%
<b>Hargreave Hale</b>	<b>77%</b>	81%	80%	78%	78%	80%
<b>Octopus</b>	<b>56%</b>	68%	66%	68%	62%	67%
<b>Amati</b>	<b>40%</b>	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 2013/14 or before (for 2018 figures). Performance for launches from before that period will be distorted by the initial tax relief.

- In total, Hargreave Hale AIM VCT comprised investments in 83 qualifying companies valued at about £79.8 million against an underlying book cost of £54.2m. The book cost within the management accounts is shown as £61.8m (see Table 6 for detail), which reflects the transfer value of the qualifying investments from Hargreave Hale AIM VCT 2 (as opposed to their purchase price).
- As at 30 June 2018, qualifying investments accounted for 52.9%, non-qualifying direct equity investments accounted for 19.7% and the Marlborough Special Situations Fund accounted for 9.2% of the VCT's net assets.
- Fixed income and cash accounted for 18.1% of Hargreave Hale AIM VCT (as at 30 June 2018), 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. As at 18 October 2018, the VCT had no investment in fixed income.

Over the longer term, we understand that the non-qualifying strategy should remain broadly unchanged, i.e. assets allocated to cash, 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 qualifying portfolio comfortably exceeds the HMRC defined investment test, with a 92.5% score on the investment test (as at 30 June 2018). Initial work carried out by the Fund Manager indicates the VCT finished the financial year (i.e. 30 September 2018) with a score above 93%. The minimum required by HMRC is 70%, when measured by book cost (as opposed to market value), although this will increase to 80% from 1 October 2019. 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's assets now invested in qualifying companies (as measured by market value) is considerably lower at 52.9% (as at 30 June 2018), with the additional capital available to invest in non-qualifying holdings or retained as cash equivalent assets as the manager sees fit, pending investment into qualifying companies.

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

The Board reserves 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 Board 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 £16.4m Hargreave Hale AIM VCT shares have been acquired since inception (as at 30 June 2018). 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, with an average discount of 5.8% to the net asset value for the 3 years to 30 June 2018.

We believe the 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). The VCT has a good track record of making distributions consistent with this policy. 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 Board may vary or skip a dividend at their discretion.

Hargreave Hale AIM VCT pays its 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. The Finance Act 2014 prohibits VCTs from paying dividends (or other forms of distribution or payments to investors) from the capital received by a VCT from a share issue within three years of the end of the accounting period in which shares were issued to investors. Hargreave Hale AIM VCT was not affected by the change in legislation and was able to continue to distribute dividends to shareholders in line with its dividend policy.



As at 18 October 2018, Hargreave Hale AIM VCT had £47.9m of distributable reserves available to it.

	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 that was acquired by Canaccord Genuity Wealth Management in July 2017. Led by Giles Hargreave, the team of 16 fund managers and assistants held approximately 1,700 company meetings in the 12 months to 31 August 2018. Hargreave Hale estimates that approximately 240 were directly relevant 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 3,035% (as at 30 June 2018) 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 30 June 2018).

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 than £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 Hargreave Hale AIM VCT is summarised in Table 5 and in our view the position of the VCT within its peer grouping by year of launch shows a creditable performance.

**Tax Efficient Review rating: 31 out of 40**

**Team** The investment team includes 16 fund managers and assistants. 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 the VCT. As Head of Fund Management, Giles 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

<b>Table 7: Hargreave Hale Matrix of individual responsibilities</b> Data Source Hargreave Hale November 2018				
NAMES	<b>Oliver Bedford</b>	<b>Giles Hargreave</b>	<b>Lucy Bloomfield</b>	<b>Anna Salim</b>
<b>VCT WORK</b>				
Managing VCT funds/assets %	100%	10%	100%	100%
Managing non VCT funds %		90%		
<b>NON VCT WORK</b>				
Non-VCT work %				
<b>TOTAL</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>
Years in fund management	14	20	10	2
Years with current team	14	20	1	1
Years involved with VCTs	14	14	1	1

in the British Army for 9 years before joining Hargreave Hale in 2004. Oliver co-manages the VCT with Giles Hargreave and supports the other unit trusts through the investment committee.

The Board of Hargreave Hale AIM VCT comprises Sir Aubrey Brocklebank, David Brock, Oliver Bedford and Ashton Bradbury.

It appears that the Board of the VCT are concerned about the level of resource of the team and has agreed to increase the investment management fee payable from an amount equal to 1.5% of the company's net assets to an amount equal to 1.7% of the company's net assets, with effect from 1 April 2019. In return the Board has asked Hargreave Hale to expand the size of the VCT fund management team in return for the increase in the management fee. The fee increase is around £255,000 and is expected to fund the expansion of the VCT fund management team by an extra team member.

Table 7 shows the team at present and the time allocated to VCT work and it appears that the team could benefit from extra resource with VCT experience.

**Deal Flow** The manager reports good access to qualifying investment opportunities, with investments in 22 Qualifying Companies made in the 12 months to 31 August 2018. As at 30 June 2018 Hargreave Hale AIM VCT 1 was 92.5% 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 on 9 November 2018. The full early bird discount of 2% 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 30 June 2018, the VCT's on-going expense ratio (OER) was 1.94% inclusive of VAT. Hargreave Hale expects the OER to remain close to 1.9% immediately following the £20m fundraise.

The Board and Hargreave Hale have agreed to increase the investment management fee payable from an amount equal to 1.5% of the company's net assets to an amount equal to 1.7% of the company's net assets, with effect from 1 April 2019. This initiative came from the board of the VCT and was in response to the increasing number of private equity opportunities being shown to Hargreave Hale. The board felt it was important to correctly resource the opportunity and asked Hargreave Hale to expand the size of the VCT fund management team in return for a small increase in the management fee. Hargreave Hale expects the cost savings generated by the VCT merger to limit the increase in the OER to 0.1%, taking it to around 2.0% after the introduction of the increased management fee.

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 AIM VCT run by Giles Hargreave and his team at Hargreave Hale.

The directors continue to maintain a policy of distributing at least 5% of the year end NAV to shareholders but investors should note that this is in reality a return of capital rather than a return of dividends and realised gains.

The VCT Board have been able to maintain their policy of offering shareholders an efficient exit route through the buyback scheme at a target share price discount of 5% of the NAV per share. It should be emphasised that this target is non-binding and dependent on circumstances, including the Company's liquidity and market conditions.

The performance of the VCT within its peer grouping by year of launch shows a very creditable performance.

**Tax Efficient Review rating: 86 out of 100**

<b>Table 8: HH VCT 1 Portfolio at 30 June 2018 Source: HH</b>			
	<b>Cost</b>	<b>Current Value</b>	<b>% of NAV</b>
<b>Qualifying Portfolio</b>			
Learning Technologies Group	2,835	6,356	5.14%
Zoo Digital	2,639	5,001	4.05%
Ideagen	1,992	3,279	2.65%
Gousto	2,486	2,968	2.40%
My First Years	2,504	2,698	2.18%
Quixant	1,209	2,526	2.04%
Aquis	765	2,211	1.79%
Abcam	55	2,201	1.78%
Loop Up	1,204	2,171	1.76%
Craneware	125	2,029	1.64%
Creo	1,429	1,950	1.58%
Science in Sport	1,480	1,876	1.52%
Hardide	1,637	1,728	1.40%
Cohort	619	1,686	1.36%
Portr	1,790	1,641	1.33%
Zappar	1,602	1,600	1.30%
Eagle Eye	1,643	1,532	1.24%
Mexican Grill A Prefs	1,013	1,380	1.12%
DP Poland	1,391	1,366	1.11%
Beeks Financial	1,039	1,359	1.10%
Cloudcall	1,138	1,334	1.08%
ULS Technology	770	1,166	0.94%
FairFX	751	1,156	0.94%
Maxcyte	668	1,078	0.87%
Escape Hunt	1,130	1,033	0.84%
Honest Brew	1,001	1,000	0.81%
Animal Care	720	943	0.76%
Forbidden Tech	852	935	0.76%
EKF	565	930	0.75%
TrakM8	486	911	0.74%
KRM-22	621	898	0.73%
Everyman	600	883	0.71%
Wandisco	347	880	0.71%
Laundrapp	1,238	873	0.71%
Clearstar	720	866	0.70%
Osirium	859	864	0.70%
Surface Transforms	639	806	0.65%
I-Nexus	701	797	0.65%
Angle	758	792	0.64%
Centralnic	588	713	0.58%
Fulcrum Utility	580	710	0.57%
Gfinity	772	698	0.57%
Belvoir	762	623	0.50%
PCI PAL	811	620	0.50%
Idox	135	616	0.50%
K3	270	612	0.50%
Tristel	543	611	0.49%
Fusion Antibodies	415	526	0.43%
Velocity Composites	624	507	0.41%
Plastics Cap	478	497	0.40%
Vertu	600	496	0.40%
Instem life	298	490	0.40%
Property Franchise Group	377	473	0.38%
TLA	439	473	0.38%
Big Blu	347	443	0.36%
Premaitha	521	404	0.33%
Sanderson	298	385	0.31%
Mirriad	610	384	0.31%
Globaldata	173	306	0.25%
Intercede	305	298	0.24%
Advanced Power	634	275	0.22%
Verona	221	252	0.20%
Maxcyte Reg S	264	242	0.20%
Mycelx	361	236	0.19%
Faron Pharma	2,220	226	0.18%
Lidco	307	216	0.17%
Ilika	307	184	0.15%
Universe	210	165	0.13%
Mexican Grill Ords	113	153	0.12%
Reureon	606	144	0.12%
Pressure Tech	170	136	0.11%

<b>Table 8: HH VCT 1 Portfolio at 30 June 2018 Source: HH</b>			
	<b>Cost</b>	<b>Current Value</b>	<b>% of NAV</b>
Egdon Resources	158	136	0.11%
Porta Comms	549	134	0.11%
Medaphor	301	128	0.10%
Genedrive	189	107	0.09%
Omega Diagnostics	129	99	0.08%
Imaginatik	422	87	0.07%
Mirada	96	85	0.07%
Tasty	288	51	0.04%
Redcentric	42	46	0.04%
Midatech	53	37	0.03%
Paragon Entertainment	87	35	0.03%
Microsaic	26	34	0.03%
Mporium Group	33	30	0.02%
Flow Group	26	-	0.00%
<b>Total Qualifying Investments</b>	<b>61,779</b>	<b>79,826</b>	<b>64.6%</b>
<b>Non Qualifying Portfolio</b>			
Royal Dutch Shell	1,327	1,628	1.32%
BP	1,203	1,504	1.22%
NMC Health	1,014	1,432	1.16%
Dechra	1,057	1,390	1.13%
Melrose	1,455	1,382	1.12%
Fulcrum Utility	408	1,314	1.06%
Hilton Foods	907	1,222	0.99%
Anglo American	931	1,084	0.88%
JD Sports	855	1,074	0.87%
Sanne Group	1,019	1,004	0.81%
On The Beach	846	1,002	0.81%
Ascential	768	976	0.79%
Charter Court Financial	732	895	0.72%
XP Power	660	777	0.63%
Wizz Air	622	738	0.60%
Zoopla	493	708	0.57%
Sophos	499	638	0.52%
Bakkavor group	518	550	0.45%
Countryside Properties	585	549	0.44%
Clipper Logistics	482	549	0.44%
Halma	472	548	0.44%
Vesuvius	517	538	0.44%
GVC	459	526	0.43%
Prudential	561	520	0.42%
Lloyds	549	504	0.41%
FDM	489	490	0.40%
Ricardo	472	480	0.39%
Renishaw	415	476	0.39%
Just Eat	409	467	0.38%
Quixant	159	467	0.38%
Integratin	279	455	0.37%
Everyman	293	428	0.35%
Future	393	393	0.32%
Cohort	368	373	0.30%
Horizon	374	368	0.30%
James Fisher	355	348	0.28%
Learning Technologies Group	169	335	0.27%
Go Compare	324	328	0.27%
Zotefoams	323	322	0.26%
MyCelx	298	274	0.22%
Regent Pacific Group	201	156	0.13%
Mexican Grill A Prefs	135	148	0.12%
Amerisur	212	90	0.07%
Eagle Eye	87	89	0.07%
Egdon Resources	47	76	0.06%
Fulham Shore	69	65	0.05%
Reureon	119	42	0.03%
Midatech	39	28	0.02%
Mexican Grill Ords	26	19	0.02%
Genagro	2	2	0.00%
<b>Total Non Qual</b>	<b>24,996</b>	<b>29,771</b>	<b>24.12%</b>
Scot Ami 8.5% 2049	152	150	0.12%
MFM Special Situations	11,918	13,803	11.16%
<b>TOTAL PORTFOLIO</b>	<b>98,845</b>	<b>123,550</b>	<b>100.00%</b>

## 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

**ISIN:** GB00B02WHS05

**PRIIP Manufacturer:** Hargreave Hale AIM VCT 1 plc

**Competent authority:** The Financial Conduct Authority (FCA)

**Contact number:** 01253 754 700

This key information document is accurate as at **31 December 2017**

## 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



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%

# HARGREAVEHALE

AIM VCT 1 Plc

## 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](mailto: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.