

Investment Manager's Report

This report covers the first quarter of the financial year, 1 October 2013 to 31 December 2013.

Investment Report

In the first quarter of this financial year, the NAV increased from 71.87p to 79.16p. The gain translates to an increase of 10.1% over the first quarter of the financial year. During the same period, the FTSE 100 Index gained 4.4% whilst the FTSE AIM All-Share Index gained 7.2%.

We've previously written about the improving outlook for AIM stocks and renewed interest in companies listed on AIM. This trend continued into the first quarter. We are increasingly being asked about valuations, which have in some cases reached quite high levels of late. There are three points to note: firstly, within a diversified portfolio of (primarily) growth stocks, it is not unusual to find a handful of stocks trading on extended valuations, now is no different; secondly, the improving outlook for the global economy is creating a better trading environment and increased levels of business confidence, along with the potential for upwards earnings revisions; finally, across the wider portfolio, the valuations look reasonable when viewed within the context of the anticipated earnings growth.

The qualifying investments made a net contribution of +6.71 pence per share with 27 out of the 51 making gains, 6 marking time and 18 losing ground. Six stocks gained more than 40% in the period under review, including one that gained 68.4%.

Intercede (+45.9%, +1.71 pence per share) was the top performer among the qualifying investments following a series of contract wins and a strong set of interim results in November. Other stocks that made a significant contribution included Pressure Technology (+36.5%, +0.80 pence per share), Cohort (+14.9%, 0.56 pence per share) and Advanced Computer Software (+20.2%, 0.71 pence per share).

There were three stocks that registered notable falls. Idox was the biggest drag on the portfolio (-16.7%, -0.39 pence per share) following a challenging 2013 that highlighted the need for a more robust management structure. Profits for FY13 were below expectations; looking forward the company remains attractively positioned. Hardide fell significantly (-29.6%, -0.36 pence per share), however the share price move does not reflect underlying progress in all parts of their business as the management work to broaden their client base and open up new revenue streams. MyCelx drifted lower (-7.1%, -0.17 pence per share) through the period, although management have since released an encouraging year-end trading update.

We made ten qualifying investments in the three month period, including three secondary investments into existing qualifying investments, three secondary placings into listed companies and 4 IPOs. The new companies to feature in the qualifying portfolio include: Belvoir, a residential letting franchise operator; Everyman Media Group, a niche cinema operator; Kalibrate, a petrol station price and planning optimiser; TrakM8, a global telematics provider; Martin and Co, a National letting and estate agent; MoPowered, a mobile commerce applications and solutions provider, and Proxama, a mobile wallet, mobile marketing and m-commerce specialist. We made one disposal (DP Poland) from within the qualifying portfolio.

Portfolio Structure

The VCT is comfortably through the HMRC defined investment test and ended the period at 97.63% invested as measured by the HMRC investment test. By market value, the VCT had a 83.7% weighting to qualifying investments.

The allocation to non-qualifying equity investments decreased from 3.3% to 2.5%. The fixed income allocation as a percentage of the fund decreased from 4.0% to 3.4%; however there were no additions or disposals from any fixed income investments. Likewise, the Marlborough Special Situations Fund was reduced from 1.1% to 1.02%, but there were no additions or disposals. The weighting to cash was largely unchanged at 10.1% as cash inflows from the offer were offset by outflows into the new qualifying investments.

Post Quarter Update

The strong performance has carried through into the New Year with a NAV Total Return of 6.13% in January despite the more challenging market environment. The total return for the first four months of the year was 16.9%. Whilst we feel confident about the multi-year outlook, it's more difficult to know what the future holds in the short-term; history suggests that strong NAV growth of the type we have witnessed in the last six months is usually followed by a period of consolidation.

Joint Offer for Subscription of Ordinary Shares

On 1 November 2013, the Directors of Hargreave Hale AIM VCT 1 plc and Hargreave Hale AIM VCT 2 plc announced the launch of a joint offer for subscription of new ordinary shares in Hargreave Hale AIM VCT 1 plc and Hargreave Hale AIM VCT 2 plc. Since its launch on 1 November 2013, the joint offer for subscription has resulted in funds being received of £8.67 million. £4.39 million has being received by Hargreave Hale AIM VCT 1, with £4.12 million already allotted through the issue of 5.11 million shares in eight separate allotments between 18 November 2013 and 05 February 2014.

Buybacks

In total, 147,875 ordinary shares were purchased between 1 October 2013 and 30 January 2014, at a total value of £110,049.

Dividends

The company paid a final dividend of 2.25p on 24 January 2014 to ordinary shareholders with a record date of 3 January 2014.

For further information please contact:

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