3 February 2022

HARGREAVE HALE AIM VCT PLC

(the “**Company**”)

Interim Management Statement

Q1 2022

Introduction

This interim management statement covers the first quarter of the 2021/22 financial year, 1 September 2021 to 31 December 2021. Investment performance measures contained in this report are calculated on a pence per share basis and include realised and unrealised gains and losses.

Overview

Investor sentiment has been mixed through the first quarter of the financial year, with investors favouring larger more established companies over smaller, higher risk and less liquid companies. AIM underperformed the FTSE 100 and FTSE 250 indices as investors responded to a risk environment that became notably more complex as the quarter evolved.

Although strong levels of UK economic growth and high levels of employment made for a positive backdrop, it became increasingly apparent that issues with labour market liquidity, supply chain disruption and rising input prices were weighing on corporate earnings and likely to remain a factor deep into 2022. Whilst the emergence of the Omicron variant added further downside risk, evidence quickly emerged that the impact was likely to be less profound than initially feared, allowing markets to move higher as the year drew to a close.

The Bank of England base rate increased from 0.1% to 0.25% in the quarter, as the inflation outlook worsened, and the monetary policy committee started to unwind the historic level of monetary stimulus to the UK economy. It is unclear how the inflation and interest rate debate will evolve but many forecasters are predicting base rate increases to counter the inflation threat that is clearly more enduring than many central bankers initially forecast. For now at least, financial markets continue to price in a moderation of inflation in the medium term as a result of anticipated changes in monetary policy.

Performance

In the 3 months to 31 December 2021, the unaudited NAV per share decreased from 100.39 pence to 94.30 pence, a NAV total return to investors of -3.59 pence per share, after adding back the 2.50 pence special dividend paid in October, which translates to a loss of -3.58%. The NAV total return (dividends reinvested) for the period of -3.59% compared with -2.16% in the FTSE AIM All-share Index total return and -1.40% in the FTSE All-Share Index total return (also calculated on a dividends reinvested basis). The qualifying investments made a net loss of -2.85 pence per share whilst the non-qualifying investments loss was -0.16 pence per share. The adjusting balance was the net of the Marlborough Special Situations Fund, running costs and investment income.

Qualifying Investments

Bidstack was the top performing investment (+171.4%, +1.12 pence per share) having signed a number of key partnerships over the period, including a 2 year partnership with digital media platform Azerion and a multi-year deal with a leading global games publisher. As a result, the company has secured a minimum of $30m guaranteed advertising spend over the next 2 years, which underpins their forecasts. The opening of the new Stereax solid state battery manufacturing facility in December 2021 was a key moment for Ilika (+29.0%, +0.53 pence per share), with product sales expected from Q2 2022 onwards. The balance sheet is strong with cash of £27.7m on 31 October 2021. Eagle Eye (+18.2%, +0.32 pence per share) issued a strong update with revenue growth accelerating to 35%, driven by transaction growth with new clients such as Woolworths and Staples. A confident outlook for the rest of the year drove revenue and EBITDA upgrades of 5% for FY22. The large addressable market, low churn and strong momentum support an exciting growth story.

Polarean (-46.6%, -1.33 pence per share) announced in early October that the FDA did not approve the NDA for its drug-device combination product. The issues are largely related to manufacturing, and the company expects to resolve these and resubmit the NDA. The company benefits from a strong balance sheet with net cash of $28.2m at 30 June 2021. Learning Technologies Group (-17.4%, -0.65 pence per share) completed the acquisition of GP strategies in October, resulting in an enlarged company with pro-forma revenues of £500m. Surface Transforms (-20.0%, -0.49 pence per share) reduced its revenue guidance for the full year following small delays to the commissioning of its new production capacity. The shortfall is expected to be recovered in H1 2022 and there has been no impact on key customers. On a more positive note, the company has continued to win new business, and was selected by one existing customer to supply 3 new vehicles, and is in discussions with another about increasing production following stronger than expected vehicle orders.

Non-Qualifying Investments

Watches of Switzerland was the strongest performer during the period, as strong operational momentum continued. Trifast and Bytes Technology also issued good updates. Shares in SThree fell despite a good trading update as the company announced that the CEO would be stepping down, and S4 Capital fell on concerns that increased investment would put pressure on profit margins. The emergence of the Omicron variant in November also drove short-term share price weakness in On The Beach and WH Smith, both of which are geared to a recovery in international travel.

Portfolio structure

The VCT is comfortably above the HMRC defined investment test and ended the period at 87.55% invested as measured by the HMRC investment test. By market value, the weighting to qualifying investments reduced from 75.7% to 67.9%, principally as a consequence of cash inflows from the offer for subscription.

Qualifying investment activity picked up in the quarter with £6.3m invested into 4 qualifying AIM companies, including two new AIM investments and two follow-on investments. We disposed of three qualifying companies during the period. We added to the investment in the Marlborough Special Situations Fund following the offer for subscription. The allocation to non-qualifying equities was broadly unchanged at 11.3%. Cash increased from 11.8% to 16.3% 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

657,852 shares were acquired in the quarter at an average price of 90.28 pence per share. The share price decreased by 4.6% and traded at a discount of 5.9% following the publication of the 31 December 2021 NAV on 5 January 2022.

Post Period End Update

The unaudited NAV per share decreased from 94.30 pence to 88.22 pence in the month to 31 January 2022, a decline of 6.4%. The FTSE AIM All-Share index declined by 10.0% whilst the FTSE All-Share index declined by 0.3%. The relative strength of the FTSE All-Share reflects the positive performance of many of the underlying constituents of the FTSE 100 which, by virtue of its composition and relative value, has performed much better than many global benchmarks. There were no new qualifying investments made.

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