Hargreave Hale AIM VCT plc announced its results for the year ended 30 September 2019 on 19 December 2019. The full financial statements can be accessed on the Company's website http://www.hargreaveaimvcts.co.uk or alternatively by following the link at the bottom of this report.

Financial highlights

Ordinary Shares (as at 30 September):	**2019**	**2018**
Net asset value per share	70.60p	87.59p
Cumulative distributions paid per share since launch	55.15p	50.00p
Total return per share	125.75p	137.59p
Annual Returns per share (basic and diluted):		
Revenue return	(0.01)p	(0.19)p
Capital return	(11.04)p	11.81p
Combined return	(11.05)p	11.62p
Dividends per share:		
Interim paid	1.50p	1.75p
Special dividend	-	1.00p
Final proposed/paid	2.25p	2.65p
Total dividend for year	3.75p	5.40p
Special dividend – declared and paid post year end	1.75p	-
Ongoing Charges Ratio*	2.05%	1.87%

* Calculated using the AIC's "Ongoing Charges" methodology.

Chairman's statement

Introduction

Following the success of our offer for subscription which raised £25 million, I would like to welcome a large number of new shareholders.

Performance

At 30 September 2019, the net asset value (NAV) was 70.60 pence per share which after adjusting for the dividends paid gives a NAV total return since inception of 125.75 pence. The earnings per share combined return for the year was a loss of 11.05 pence (comprising a revenue loss of 0.01 pence and a capital loss of 11.04 pence). The NAV total return (NAV plus dividends paid) for the period was a loss of 13.5% compared to a loss of 19.4% in the FTSE AIM All-share total return Index in the year to 30 September 2019.

It is disappointing to report a negative return for the year, which started poorly amidst some challenging market conditions within the first quarter of the financial year. Subsequent performance was better, albeit with only modest gains posted in the quarters as many small companies traded through a highly uncertain political and economic environment.

Investments

During the year, the investment manager, Hargreave Hale Limited, invested £12.0 million into 14 Qualifying Companies. The fair value of Qualifying Investments at 30 September 2019 was £79.6 million invested in 79 AIM companies and 9 unquoted companies. £65.0 million was held in a mix of cash and non-qualifying equities; more detail can be found in the investment manager's report.

Dividend

In the 12 month period to 30 September 2019, the Company paid dividends totalling 5.15 pence. A special dividend of 1 penny was paid on 24 October 2018, a final dividend of 2.65 pence in respect of the previous financial year was paid on 8 February 2019 and an interim dividend of 1.50 pence paid on 26 July 2019 (interim 2018: 1.75 pence).

On 31 October 2019, the Company announced a special dividend of 1.75 pence returning to shareholders proceeds arising from the realisation of some of the Company's underlying investments. The dividend payment was made on 28 November 2019 to shareholders on the register on 8 November 2019.

A final dividend of 2.25 pence is proposed (2018: 2.65 pence) which, subject to shareholder approval at the Annual General Meeting, will be paid on 11 February 2020 to ordinary shareholders on the register on 10 January 2020.

The Directors continue to maintain their policy of targeting a tax free dividend yield equivalent to 5% of the year end NAV. The ability to pay dividends is also dependent on the Company's available reserves and cash resources, the Companies Act and the Listing Rules. The policy is non-binding and at the discretion of the Board. Dividend payments may vary from year to year in both quantum and timing. Dividends will vary with investment performance; in good years, the Directors may consider a higher dividend payment; in poor years, the Directors may reduce or even pay no dividend.

Buybacks

In total, 4,076,170 (nominal value £40,762) shares were purchased during the year at a cost of £2,902,402 and an average price of 71.20 pence per share. A further 615,077 shares have been purchased since the year end at an average price of 66.78 pence per share.

The Board continues to target a share price discount of 5% to the NAV per share (as measured against the mid-price) for market purchases. It should be emphasised that this target is non-binding and depends upon a range of factors, including the Company's liquidity, its shareholder permissions and market conditions.

The Company has a 5 year average share price discount of 5.37%.

Offer for subscription

The Directors of the Company announced on 19 September 2018 the launch of a new offer for subscription for shares to raise up to £20 million, together with an over-allotment facility of up to a further £10 million. The offer was approved by shareholders of the Company at a general meeting on 19 October 2018 and was open to both new and existing shareholders. On 28 November 2018, the Company announced it had received valid applications in excess of £20 million and accordingly, the Directors confirmed they were releasing £5 million of the available £10 million over-allotment facility. On 24 January 2019, the Company announced it had received valid applications in respect of the full £5 million over-allotment facility and closed the offer for further applications at that time. On 11 April 2019, the Directors announced the offer was closed.

The offer resulted in gross funds being received of £25.0 million and the issue of 31.4 million new shares in the Company.

Cost efficiency

Your Board reviews costs incurred by the Company on a regular basis and are focused on maintaining a competitively low ongoing charges ratio. The year end ongoing charges ratio was 2.05% when calculated in accordance with the AIC's "Ongoing Charges" methodology. This approach includes indirect costs incurred by underlying investment funds held by the Company such as the Marlborough Situations Fund. As the investment advisor to the Marlborough Special Situations Fund, Hargreave Hale Limited makes an adjustment to its investment management fee to ensure the VCT is not charged twice for their services.

Expenses are expected to rise in the current year. Most of this is driven by changes to the investment management, administration, custody and directors fees and reflect investments made by the Company and Canaccord Genuity Wealth Limited to strengthen the board of directors, expand the size of the fund management team working on the VCT (to support the investment into private companies) and improve the governance and administration of the Company.

Total costs as measured under the EU rules and published in the Company's Key Information Document are also monitored by the Board. This measure is calculated using a different methodology including some costs which are not treated as ongoing charges under the AIC's approach and therefore shows a higher figure than the published ongoing charge ratio. The current KID is published on the Company's web-site www.hargreaveaimvcts.co.uk.

Hargreave Hale Limited integration with Canaccord Genuity Wealth Limited

The integration of Hargreave Hale Limited's private client business into Canaccord Genuity Wealth Limited (CGWL) was completed on 8 April 2019. The fund management business remains within Hargreave Hale Limited, a wholly owned subsidiary of CGWL. The ultimate parent company of CGWL is Canaccord Genuity Group Inc.

New agreements

Following the acquisition of Hargreave Hale Limited by CGWL the Company has entered into a series of new agreements with CGWL.

As previously announced, on 5 April 2019 the Company entered into a new custody agreement with CGWL. Under the terms of the new custody agreement the annual custody fee was increased from £10,000 to £30,000. On 25 June 2019, the Company entered into new administration and secretarial contracts with CGWL. As part of the new arrangements Stuart Brookes was replaced by CGWL as the Company's named company secretary. Under the new agreements the annual fee for administration services increased from £110,000 to £195,000. The fee for secretarial services remains unchanged at £17,000.

Investment management will continue to be provided by Hargreave Hale Limited under a new agreement which commenced on 25 June 2019. As previously disclosed the annual fee payable to the investment manager increased to 1.7% with effect from 1 April 2019. The annual fee continues at this rate under the new agreement. The investment manager's previous entitlement to earn a performance fee has been removed under the updated arrangements.

Related party transactions

As the Company's investment manager, Hargreave Hale Limited is a related party to the Company for the purposes of the Listing Rules. As Hargreave Hale Limited and CGWL are part of the CGWM group, CGWL also falls within the definition of a related party as they are part of the same group as the investment manager.

In addition to the new agreements set out above the Board has resolved to increase the Directors' fees. Oliver Bedford, a non-executive director of the Company is also an employee of the investment manager and the fee in respect of his position on the Board is paid to the investment manager.

The Company announced the increase in the investment manager's fees and the new custody arrangements on 16 May 2018 and 10 April 2019 respectively.

When aggregated with the commission received by the investment manager in relation to the offer agreement entered into on 19 September 2018 the increase in the annual administration fees, custody fees and the director's fee paid to Hargreave Hale Limited in respect of Oliver Bedford's appointment are classified as smaller related party transactions as defined in LR 11.1.10R.

VCT fund management team

On 1 July 2019, Oliver Bedford assumed the role of lead manager of the Hargreave Hale AIM VCT plc. He is supported by Lucy Bloomfield (co-manager) with whom he works closely to deliver the investment strategy. Giles Hargreave continues to act as a co-manager to the VCT focusing primarily on supporting the delivery of the non-qualifying investment strategy through the direct investment of the Company's capital into listed equities as permitted by the VCT rules.

Board composition

As disclosed in the interim report, following a review, the Directors decided it would be beneficial to the Company to improve diversity and to recruit another independent non-executive director with skills that are complementary to the existing directors.

I am delighted to welcome Angela Henderson to the Board as a Non-Executive Director appointed on 29 October 2019. Angela is a Non-Executive Director at Credit Suisse Asset Management Limited with over 20 years experience in the financial services sector having worked at Citco Fund Services and the equities divisions of Deutsche Bank and Barclays.

I am also delighted to welcome Louise Page who joined the Company as a Board Observer on 29 October 2019. Louise is currently chief financial officer and director of corporate services for the National Trust for Scotland. Louise is a chartered accountant and prior to joining the National Trust for Scotland worked in the financial services industry from 1999 to 2018.

I have been Chairman of your Board since the Company was founded in 2004. I will be stepping down as Chairman at the AGM on 4 February 2020, at which point David Brock will succeed me. I will take over as Chairman of the Audit Committee on an interim basis and in due course we will recruit an additional director at which time I intend to retire fully.

Given our need to appoint new directors and our wish to attract the best available talent, we felt it important to review the directors' remuneration to ensure it remained competitive with the industry. Directors remuneration was last reviewed in 2015. Having compared remuneration levels across the VCT industry and considered the increased level of engagement the Board has with the Company (in part a response to the increasingly complex regulatory environment), it was agreed that the Chairman should receive £32,000 and the other directors £25,000, with an extra £3,000 for the Chairman of the Audit Committee. These changes took effect on 1 October 2019.

Shareholder event
Both your Board and the investment manager are keen to improve interaction with our shareholders. I am pleased to report that we held one shareholder event within the reporting period and another post period end. Historically, these events have only drawn a modest response, typically 20-30 shareholders. In a bid to attract wider attendance, we held our most recent event at an external venue with better facilities and more convenient transport links. We were delighted to see a much improved response with 119 shareholders joining us at Everyman Cinema on 28 November 2019.

VCT regulatory update
There were no major changes to VCT legislation announced during the period under review.

New legislation introduced through the Finance Act 2018 came into effect for your Company from 1 October 2019. The legislation requires the Company to maintain at least 80% (previously 70%) of its investments (as measured by book cost) in Qualifying Companies. As before, the Company continues to benefit from a 3-year disregard on new capital, which is measured from the start of the financial year in which the shares were issued. The legislation also now requires 30% of funds raised to be invested in Qualifying Companies within 12 months from the end of the financial year in which the shares were issued.

VCT status
I am pleased to report that we continue to perform well against the requirements of the legislation and at the period end, the investment test was 96.6% when measured using HMRC's methodology. The investment test dropped to 85.3% on 1 October 2019 as shares issued in the 2016 financial year fell into the calculation for the first time. The Company's investment test has consistently tracked ahead of the higher threshold, giving the Board confidence that the Company can meet this new requirement. The Company satisfied all other tests relevant to its status as a Venture Capital Trust.

Key information document
I am sure most of you are all too familiar with the new EU's PRIIPs regulation which came into effect in January 2018. The intent is to increase customer protection by improving the functioning of financial markets and in this instance through the Key Information Document (KID) to provide shareholders with more information about the risks, potential returns and charges within VCTs. The regulation requires the Company to publish a KID. Retail investors must now be directed to this before buying shares in the Company. The KID is published on the Company website at www.hargreaveaimvcts.co.uk/document-library.

The KID has been prepared using the methodology prescribed in the PRIIPS regulation. Although well intended, there are widespread concerns about the application of some aspects of the prescribed methodologies to VCTs. Specifically, there are concerns that:

1. the risk score may be understating the level of risk; and
2. investment performance scenarios may indicate future returns for shareholders that are too optimistic.

The Association of Investment Companies (AIC) has engaged on this matter and it is hoped that these issues will be resolved in the future. In the meantime, the Board recommends shareholders continue to classify VCTs as a high risk investment.

Outlook
Re-reading my outlook statement from last year's annual report, it struck me how little has changed in the past year. We continue to live in 'interesting times' whilst BREXIT still dominates our political, economic and corporate landscape. Shareholders will have their own views on this most divisive of topics, although I suspect all of us welcome the clarity that springs from the resounding Conservative win.

With the substantial majority that he now has Boris Johnson can forge ahead dealing with the EU without being deflected by any of the extremes in his party. The sooner this is resolved the sooner we can all think of something else. I am pleased to see that markets seem to have welcomed the election result and have generally started to rise.

Sir Aubrey Brocklebank
Chairman
19 December 2019

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https://www.hargreaveaimvcts.co.uk/globalassets/hargreave-hale-vcts/documents/document-library/vct1/annual-reports/sep-19-final.pdf