

Hargreave Hale AIM VCT plc announced its results for the year ended 30 September 2018 on 8 January 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

<b>Ordinary Shares (as at 30 September):</b>	<b>2018</b>	<b>2017</b>
Net asset value per share	87.59p	80.82p
Cumulative distributions paid per share since launch	50.00p	46.00p
Total return per share	137.59p	126.82p
Annual Returns per share (basic and diluted):		
Revenue return	(0.19)p	(0.13)p
Capital return	11.81p	8.99p
Combined return	11.62p	8.86p
Dividends per share:		
Interim paid	1.75p	1.75p
Special dividend	1.00p	-
Final proposed/paid	2.65p	2.25p
Total dividend for year	5.40p	4.00p
Ongoing Expense Ratio*	1.87%	2.13%

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

## CHAIRMAN'S STATEMENT

### INTRODUCTION

I should like to start by welcoming any new shareholders who have joined us through the acquisition of Hargreave Hale AIM VCT 2 plc which completed on 23 March 2018, or through this year's fundraising activities.

### PERFORMANCE

At 30 September 2018, the Net Asset Value (NAV) was 87.59 pence which after adjusting for the dividends paid gives a Total Return since inception of 137.59 pence. The earnings per share combined return for the year was 11.62 pence (comprising a revenue loss of 0.19 pence and capital gains of 11.81 pence). We are pleased to report that the NAV Total Return (NAV plus dividends paid) for the period was a gain of 13.3% compared to a gain of 10.8% in the FTSE AIM All-share Total Return Index in the year to 30 September 2018.

### INVESTMENTS

The investment manager, Hargreave Hale Limited, invested £10.1 million in 18 Qualifying Companies during the year (a further £2.6 million was invested by Hargreave Hale AIM VCT 2 plc into Qualifying Companies between 1 October 2017 and the acquisition date). The fair value of Qualifying Investments at 30 September 2018 was £87.6

million invested in 75 AIM companies and 7 unquoted companies. £67.3 million was held in a mix of cash and non-qualifying equities; more detail can be found in the investment manager's report.

## **DIVIDEND**

An interim dividend of 1.75 pence was paid on 31 July 2018 (Interim 2017: 1.75 pence).

Following a period of strong NAV growth and, in particular, the realisation of gains through the partial disposal of our investment in Zoo Digital, the Board was pleased to announce a special dividend of 1 penny per ordinary share on 19 September 2018. The dividend payment was made on 24 October 2018 to shareholders on the register on 28 September 2018.

A final dividend of 2.65 pence is proposed (2017: 2.25 pence) which, subject to shareholder approval at the Annual General Meeting, will be paid on 8 February 2019 to ordinary shareholders on the register on 18 January 2019.

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 none 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, 2,959,394 shares were purchased during the year at an average price of 80.67 pence per share. A further 1,410,686 shares have been purchased since the year end at an average price of 75.90 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 on buybacks of 5.55%.

## **ACQUISITION OF HARGREAVE HALE AIM VCT 2 PLC AND OFFER FOR SUBSCRIPTION**

The offer for subscription announced on 12 February 2018 was closed on 4 July 2018, £25 million was raised and 29.3 million new ordinary shares were issued.

On 23 March 2018, the Company announced the approval to acquire the above named company. The assets and liabilities of Hargreave Hale AIM VCT 2 were acquired by Hargreave Hale AIM VCT 1 in consideration for the issue of 68,680,227 ordinary shares of 1 pence each in the capital of the Company to Hargreave Hale AIM VCT 2 shareholders. The scheme shares were issued at a ratio of 1.458754 scheme shares for each Hargreave Hale AIM VCT 2 share held.

The acquisition was implemented on a relative unaudited NAV basis, adjusted for the anticipated costs of the scheme. The merger and roll-over values were based on the latest unaudited valuations of the Companies' investments. The effect of the scheme was that Hargreave Hale AIM VCT 2 shareholders received Hargreave Hale AIM VCT 1 shares with the same total market value as at the scheme calculation date as their Hargreave Hale AIM

VCT 2 shares. The total cost of undertaking the acquisition was £0.40 million of which £0.16 million was met by Hargreave Hale Limited.

#### **COMPANY NAME CHANGE**

With the acquisition now complete, the Board felt it appropriate to revise the name of your company to Hargreave Hale AIM VCT plc. The new name came into effect on 6 September 2018. There is no change to the company EPIC (stock market code), nor is there any need to make any change to your share certificates.

#### **CURRENT 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 is 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. Since its launch, the offer has resulted in gross funds being received of £22.0 million and the issue of 27.3 million new shares in the Company to the date of this report.

#### **COST EFFICIENCY**

Your Board reviews costs incurred by the Company on a regular basis and are focused on maintaining a competitively low ongoing expense ratio. I am pleased to report that the year end ongoing expense ratio was 1.87% when calculated in accordance with the AIC's "Ongoing Charges" methodology. The methodology includes indirect costs including those incurred by underlying investment funds such as the Marlborough Special Situation Fund which we calculate to be equivalent to 0.09%. These fees are included to provide shareholders with a more accurate measure of the costs within the VCT. As the investment manager to the Company and the investment advisor to the Marlborough Special Situation Fund Hargreave Hale Limited makes a pro-rata adjustment to its investment management fee to ensure the VCT is not charged twice for their services. In the year to 30 September 2018 a reduction of £37,800 was made to the annual management fee with regards to this.

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 and includes transaction costs therefore showing a higher figure than the published ongoing charge ratio.

#### **CANCELLATION OF SHARE PREMIUM AND CAPITAL REDEMPTION RESERVE**

At the general meeting of the Company held on 16 March 2018, a special resolution was passed approving the cancellation of the Company's share premium account and capital redemption reserve in order to create a pool of distributable reserves.

I am pleased to inform you that the cancellation of the share premium account and capital redemption reserve of the Company was confirmed by the High Court of Justice in England and Wales and accordingly, the amounts standing to the credit of the share premium account (£117.6m) and capital redemption reserve (£0.1m) of the Company as at 25 September 2018 have been cancelled.

#### **HARGREAVE HALE LIMITED TAKEOVER AND TRADING NAME**

In July 2017, it was announced that Canaccord Genuity Group Inc. through its UK and Europe based wealth management business Canaccord Genuity Wealth Management agreed to acquire Hargreave Hale Limited. The

transaction was completed in September 2017. The fund management division of Hargreave Hale Limited is now known as 'Canaccord Genuity Fund Management' which is a trading name of Hargreave Hale Limited.

### **INVESTMENT MANAGEMENT FEE**

As previously announced the Company and Hargreave Hale Limited, 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. This increase has been made to obtain additional resource for the dedicated fund management team to support the adopted strategy of increasing our exposure to unquoted companies and will take effect from 1 April 2019.

### **VCT REGULATORY UPDATE**

Through the budget delivered on 22 November 2017, the government announced substantial changes to the legislation governing the management of Venture Capital Trusts. Broadly speaking, the proposed changes are designed to bring greater focus to the scheme and encourage more investment into small British companies. These changes will come into effect in stages and some of these changes have now started to apply to your Company.

Some of these changes will have little or no impact on the management of your Company. The most significant of the changes will be the increase in the investment test with the minimum percentage of the Company that must be invested into Qualifying Companies increasing from 70% to 80% for accounting periods beginning on or after 6 April 2019. This becomes applicable for Hargreave Hale AIM VCT plc from 1 October 2019. To assist with this change, the period of disregard for the disposal of Qualifying Investments will be increased from 6 months to 12 months.

As described above, Venture Capital Trusts have up to three years to invest new funds into Qualifying Companies before those new funds are included within the investment test. The legislation includes an additional condition to encourage early investment into Qualifying Companies. The new condition requires 30% of the new funds to be invested into Qualifying Companies within 12 months of the end of the accounting period in which the VCT issues the new shares. This applies to all new funds raised by the Company on or after 1 October 2018.

### **VCT STATUS**

For now, to maintain its status as a Venture Capital Trust, the Company is required to invest at least 70% of the net funds raised in any one accounting period, into Qualifying Companies by the start of the accounting period containing the third anniversary of the date on which the funds were raised, often referred to as the 'investment test'. I am pleased to report that we continue to perform well against this test and, at the period end, the investment test was 93.20% when measured using HMRC's methodology. The Company satisfied all other tests relevant to its status as a Venture Capital Trust.

### **KEY INFORMATION DOCUMENT**

The EU's PRIIPs regulation came into effect in January of last year, the purpose of which is to increase customer protection by improving the functioning of financial markets. The regulation requires the Company to publish a Key Information Document (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](http://www.hargreaveaimvcts.co.uk/document-library).

The document has been prepared using the methodology prescribed in the PRIIPS regulation. Concerns have been expressed within the industry 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.

It is hoped that these issues will be resolved in the future.

## **GENERAL DATA PROTECTION REGULATION**

I am sure most of you are all too familiar with the new legislation concerning the protection of personal data that came into effect on 25 May 2018. We wrote to shareholders at the time and included copies of our privacy policy. A copy can be found on the Company website at [www.hargreaveaimvcts.co.uk/document-library](http://www.hargreaveaimvcts.co.uk/document-library).

Through an enclosed form, we asked you to notify us of the details of any third parties such as your financial adviser that you would like us to share your data with. Thank you to those shareholders who have responded.

If you have not yet responded but would like your financial adviser to have access to information relating to your investment in the Company (number of shares held, value, dividend history, date of allotment etc), then please get in contact with us via email at [aimvct@canaccord.com](mailto:aimvct@canaccord.com) or by phone on 01253 754755 and request another form. We cannot share your shareholder information with your adviser without your active consent.

## **BOARD COMPOSITION**

Your Directors review the composition and effectiveness of the Board at regular intervals to ensure that it continues to comply with the applicable regulations, is consistent with best practice and remains effective.

The new Corporate Governance Code came into effective on 1 January 2019 and for your Company will become effective on 1 October 2019. The AIC's Code of Corporate Governance is currently being drafted. Your Board will review its composition again once the code has been finalised.

As previously announced, I am delighted to welcome Ashton Bradbury to the board as a non-executive director appointed on 14 May 2018. Ashton was previously Head of Equities at Old Mutual Global Investors (now called Merian Global Investors) and is an experienced fund manager. His skills and experience are complementary to the existing non-executive team and I am grateful for his input which offers us a different perspective.

With the changing landscape of VCT regulations, your Board will continue to regularly review its structure and consider appropriate adjustments.

## **POST PERIOD END UPDATE**

The well documented decline in global stock markets made for a difficult first quarter within the current financial year with the NAV declining from 87.59 pence to 73.05 pence in the 3 months to 31 December 2018, equivalent to a fall of 15.5% after adjusting for the 1 pence special dividend paid on 24 October 2018. A number of the Top 10 holdings have suffered steep falls in the share prices.

The investment manager has continued to deploy capital into qualifying companies in line with the budget, despite the challenges within the public markets. £2.9m has been invested into new qualifying investments. £0.4m was invested into a qualifying company held in the portfolio, with £2.5m invested into 3 new qualifying companies, including one IPO. All 4 investments were into public companies.

As of 4 January 2019, the share price of 69.50 pence represented a discount of 4.9% to the last published net asset value per share.

## **OUTLOOK**

We certainly live in "interesting times". It is difficult to get away from the "Brexit" subject. It is impossible to know what the outcome of the various negotiations will be, which will result in uncertainty. Alas this has and will unsettle the stock markets. We can expect a turbulent ride in terms of our NAV until some clarity becomes

evident. That said the outlook for most of our investments remains positive as mostly they are good, well run companies which will adapt to any new regulations to which they are exposed.

We adopted a strategy of increasing our exposure to unquoted companies and to that end your board agreed a very small increase in the management fee provided that the number of staff was increased. I am pleased to report that this has happened and we are seeing some very exciting opportunities. We expect to see a number of new unlisted investments in the forthcoming months. Whilst the current uncertainty may reduce the number of AIM IPOs in the short term, we expect further opportunities to arise from our existing portfolio.

Looking at Brexit it is easy to be a prophet of doom and gloom. Personally, I think the economy has held up very well given general uncertainty with employment at record levels and company profits reaching all-time highs. This should mean that careful stock selection in the area of the market in which we operate will be well rewarded, although it may take a little time to see the benefits.

**SIR AUBREY BROCKLEBANK**

**Chairman**

Date: 8 January 2019

For further information, please contact:

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<https://www.hargreaveaimvcts.co.uk/globalassets/hargreave-hale-vcts/documents/document-library/vct1/annual-reports/sep-18-final.pdf>