7 March 2023

HARGREAVE HALE AIM VCT PLC
(the "**Company**")

Interim Management Statement

Q1 2023

Introduction

This interim management statement covers the first quarter of the 2022/23 financial year, 1 October 2022 to 31 December 2022. 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 improved in the final quarter of 2022, the first quarter of the 2023 financial year, as investors became more confident that inflation was peaking and central banks were likely to stop tightening in early 2023. All the same, there is significant uncertainty about the rate at which inflation pressures will ease in 2023 and the outlook for interest rates in the UK, US and elsewhere. Amidst such uncertainty, monetary policy committees and market participants are scrutinising each employment report, inflation and economic survey for evidence of disinflation (falling inflation) and leading indicators of economic activity. Future monetary policy is now very data dependent, placing enormous weight on each announcement, setting us up for further periods of heightened volatility. Meanwhile, the bond markets continue to forecast a US recession later this year.

Turning to the United Kingdom. Whilst the UK economy trails other major economies, in truth the outlook for this year has improved markedly since the start of the financial year.

The new prime minister and chancellor have restored confidence in UK fiscal policy, allowing the currency to recover and credit markets to stabilise. The Bank of England (BoE), which had previously forecast a steep recession, has now joined the OBR in predicting a shallow recession this year. All the same, the immediate outlook remains challenging with evidence of this, and the pernicious cost of high inflation, increasingly showing up in company updates and forecast revisions.

The UK consumer, still very short of confidence, drew down on household savings to support spending over the key Christmas trading period. In-store retail bounced back and pubs, bars and restaurants traded marginally ahead of 2019, the most recent non-COVID comparator, in part helped by the 2022 World Cup. Those industries and channels most impacted by COVID (travel, leisure, high street retail) continue to recover whilst COVID beneficiaries (housing, home improvements, consumer tech, durable goods, online retail) are reporting more difficult trading.

During the quarter, the AIM All-Share Index (+3.1%) continued to underperform the FTSE 100 (+8.1%) and FTSE 250 (+9.8%) indices as investors continued to favour larger more established companies over smaller, higher risk and less liquid. The Bank of England base rate increased from 2.25% to 3.50% in the quarter.

Performance

In the 3 months to 31 December 2022, the unaudited NAV per share increased from 60.19 pence to 60.31 pence, a NAV total return to investors of 0.12 pence per share (+0.20%). There were no dividends paid in the quarter. The NAV total return (dividends reinvested) for the period of +0.20% compared with +3.09% in the FTSE AIM All-share Index total return and +8.28% in the FTSE All-Share Index total return (also calculated on a dividends reinvested basis). The qualifying investments made a net loss of -0.06 pence per share whilst the non-qualifying investments profit was 0.24 pence per share. The adjusting balance was the net of the Marlborough Special Situations Fund, running costs and investment income.

Qualifying Investments

Zoo Digital (+34.6%, +0.71 pence per share) was the top performing investment following a well-received capital markets day and strong half-year results. Zoo is expected to report another year of significant growth in both revenues and profits (FY23e R: £96.6m, PBT: £6.5m) as it continues to use its technology platform to expand market share at the expense of the more traditional vendors of localisation services.

Polarean (+31.0%, +0.31 pence per share) received FDA clearance for its lung imaging device which utilizes polarized Xenon gas to take higher resolutions images compared to existing techniques.

Osirium (+90.0%, +0.22 pence per share) raised £1.5m at 2p and, in doing so, reset the conversion price for the CLNs to 2p. In a trading update, the company reported FY23 bookings of £3.0m, an increase of 88% over FY22. Revenues increased by 36% to £1.9m.

Mexican Grill's (-44.8%, -0.56 pence per share) shares declined significantly after the wide-spread inflation pressures on food, labour and energy led the company to reduce profit guidance for FY22 and beyond. The company has a net cash position and is well positioned to continue to expand its UK footprint.

Ilika (-56.5%, -0.37 pence per share) substantially revised its guidance following a compositional shift in the pipeline of parties interested in its miniaturized solid state batteries, with an increased bias in favour of medtech applications with longer development cycles. Post period end, the company reported an MOU with a US commercial manufacturing partner for their miniaturized batteries. The company has also reported continued progress with the development of its large format batteries and a collaboration programme with BMW Group and Williams Advanced Engineering. The balance sheet remains strong with cash of £18.6m as at October 2022.

Maxcyte (-23.2%, -0.32 pence per share) continues to report strong commercial traction. Trading was in line with expectations for the 3 months to 30 September 2022. The company has also secured its nineteenth strategic partner licence, adding to its $1.25bn + in potential pre-commercial milestones.

Non-Qualifying Investments

STHREE, the global specialist recruiter for STEM roles delivered a strong finish to FY22, with net fees +19% YoY driven by sustained double digit growth in contract placements across its core regions. JD sports gained on the back of a strong Christmas trading period and is well positioned for the new FY as it embarks on a 5-year strategic plan to double market share and profits. Hollywood Bowl demonstrated resilience and continued scope for growth amid a challenging macro backdrop.

Harbour Energy, an independent UK O&G company, was significantly impacted by the expansion of the windfall tax in the quarter. Bytes Technology's share price was volatile in the quarter but de-rated on fears for the outlook for public and private sector software spend.

Portfolio structure

The VCT is comfortably above the HMRC defined investment test and ended the period at 85.29% invested as measured by the HMRC investment test. By market value, the weighting to qualifying investments reduced from 64.5% to 55.9%, principally as a consequence of cash inflows from the offer for subscription.

Qualifying investment activity picked up in the quarter with £2.3m invested into 3 qualifying companies, including two follow-on AIM investments and one follow-on investment in a private company. We disposed of two qualifying companies during the period, including one company that was acquired.

Following the offer for subscription, we added to the investment in the Marlborough Special Situations Fund. The allocation to non-qualifying equities increased from 7.7% to 9.5%. Cash increased from 26.1% to 27.7% 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

855,322 shares were acquired in the quarter at an average price of 58.26 pence per share. The share price decreased by 5.3% and traded at a discount of 10.5% following the publication of the 31 December 2022 NAV on 6 January 2023, after going ex-dividend 4 pence per share on 5 January 2023.

Offer Update

On 5 September 2022, the Directors of Hargreave Hale AIM VCT plc launched an offer for subscription to raise up to £20 million, with the discretion to utilise an over-allotment facility to raise up to a further £30 million.

Following the receipt of valid applications under the offer of approximately £40 million in aggregate, the Board decided not to utilise any further sums under the over-allotment facility and announced on 10 February 2023 that the offer was closed to further applications.

Post Period End Update

The unaudited NAV per share decreased from 60.31 pence to 55.65 pence in the two months to 28 February 2023. The Company paid a 2 pence per share special dividend and 2 pence per share final dividend on 10 February 2023. Adjusting for these gives a total return of -1.09%. Over the equivalent two-month period, the FTSE AIM All-Share index and the FTSE All-Share index both increased by 3.37% and 5.63% respectively.

Three new qualifying investments were made post period end, a follow-on investment into Equipmake and new investments into Itaconix and Engage XR.

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