Interim Management Statement for the 3 months to 31 December 2016

This report covers the first quarter of the 2016/17 financial year, 1 October 2016 to 31 December 2016.

Investment Report

The period under review was dominated by the US election. Trump's plans to cut taxes, boost infrastructure spending and reduce regulations were seen as positive for developed market growth and inflation expectations, sparking a rally in global equities. In the UK, fears over the consequences of the UKs Brexit decision retreated as third quarter GDP growth came in ahead of expectations and consumer spending remained stronger than many had predicted.

Looking ahead we believe the UK trading environment continues to look attractive with good evidence of strong and sustainable growth in the economy this year, supported by high levels of employment and consumer confidence. Although the medium-term outlook is difficult to forecast, the UK continues to benefit from loose monetary policy and a Government that has signalled its willingness to provide further support through fiscal policy if the need arises. Aside certain sectors which have struggled with the depreciation in sterling and higher import costs, our corporates continue to report encouraging news flow.

Performance

In the three months to 31 December 2016, the NAV increased from 75.93p to 76.38p. No dividends were paid, giving investors a total return of 0.45 pence per share, which translates to a gain of 0.6%. During the same period the FTSE AIM All-Share Total Return gained 3.5%, whilst the FTSE 100 Total Return gained 4.3%.

The qualifying investments made a net loss of -0.39 pence per share with twenty-seven out of the seventy-nine making gains, seventeen unchanged and thirty-five losing ground. The balance was the net of non-qualifying portfolio gains, running costs and investment income.

Cohort was the top performing qualifying investment (+30.6%, +0.71 pence per share). They completed the earnings enhancing acquisition of EID, an experienced designer and manufacturer of advanced defence communications systems. Quixant (+25.9%, +0.38 pence per share) announced a very strong set of 2016 interims demonstrating strong organic sales growth, a better than expected contribution from the Densitron acquisition and cash flows ahead of expectations. Management remain confident on the full year outlook and analysts upgraded. Ideagen (+29.2%, +0.29 pence per share) also performed well after the earnings enhancing acquisition of IPI Solutions. ULS Technology (+43.5%, +0.25 pence per share) and DP Poland (+15.5%, +0.23 pence per share) also contributed meaningfully to the NAV.

The biggest losses within the period came from TrakM8 (-48.7%, -0.72 pence per share) which saw its shares fall significantly after a poor set of interims flagging worse than expected revenue growth and poor cash generation. Other losses came from Instem Life (-31.0%, -0.27 pence per share), TLA (-26.8%, -0.26 pence per share) and Belvoir (-30.7%, -0.24 pence per share).

We invested £3.2m into seven qualifying investments over the period, including one further investment into an existing qualifying company, three IPOs and three private investments.

Portfolio Structure

The VCT is comfortably through the HMRC defined investment test and ended the period at 94.76% invested as measured by the HMRC investment test. By market value, the VCT had a 64.6% weighting to qualifying investments.

The allocation to non-qualifying equity investments increased marginally from 15.4% to 16.1%. We continued to make use of the Marlborough Special Situations Fund as a temporary home for proceeds from fundraising; the allocation marginally decreased from 4.7% to 3.6%. The non-qualifying investments contributed +1.05 pence per share to the overall gains. Fixed income as a percentage of the fund decreased from 0.9% to 0.0% and cash decreased from to 18.4% to 15.8%.

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 section of the 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.

Joint Offer for Subscription of Ordinary Shares
On 14 December 2016, the Directors of Hargreave Hale AIM VCT 1 plc and Hargreave Hale AIM VCT 2 plc announced the launch of a new joint offer for subscription of new shares in both VCT's to raise up to £10 million into Hargreave Hale AIM VCT 1 plc and £10 million into Hargreave Hale AIM VCT 2 plc.

On the 9 March 2017 the Directors announced their intention to utilise the £5m Over-Allotment Facility for Hargreave Hale AIM VCT 1 plc.

Since its launch and the date of this report the offer has resulted in funds being received of £14.33 million by Hargreave Hale AIM VCT 1, and the issue of 18.12 million shares. A further £0.67 million is pending allotment in the 2017/18 tax year. The offer is now fully subscribed.

Buybacks
No shares were purchased by the Company between 1 October 2016 and 31 December 2016. Since the period end 287,094 ordinary shares were purchased at a total value of £212,889.

Dividends
There were no dividends paid out in the 3 months to 31 December 2016, a final dividend of 2.25 pence per ordinary share was paid on 17 January 2017.

Post Period End Update
Performance has been strong since quarter end with the NAV gaining 4.83% after adjusting for the 2.25 pence per share dividend paid on 17 January 2017.

Although we have only completed two follow up qualifying investments in Faron Pharmaceuticals and Portr within the current quarter, we are engaged with a substantial pipeline of investment opportunities. We expect several of these to complete in the coming weeks.

For further information, please contact:

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