Investment Manager's Report

This report covers the three months from 1 April 2016 to 30 June 2016.

Investment Report

After a poor start to 2016, the uplift in global markets that started in mid-February continued into the early part of the period under review as several central banks either intervened, appeared set to intervene or, in the case of the US, looked likely to adopt a more cautious position on further increases in interest rates. Commodities rallied, the recovery in the Eurozone continued and some of the short-term concerns about the state of the Chinese economy faded away. The UK remained fairly robust throughout, although in May we saw early signs of business and consumer confidence softening in the run up to the referendum. Improved sentiment towards risk assets filtered through to UK small caps, which enjoyed strong returns in April. The rally petered out in May and was replaced in June by several episodes of extreme volatility. The last week in June was a particularly challenging month for UK equities, with the reduced appetite for risk most keenly felt by domestically/consumer focussed companies of all hues. The sharp falls in the UK equity markets weighed on the NAV, which fell 5.1% in June to give a return of -4.0% in the quarter to 30 June 2016.

Performance

In the three months to 30 June 2016, the NAV fell from 73.91p to 70.94p. No dividends were paid, giving investors a total return of -2.97 pence per share, which translates to a fall of 4.0%. During the same period the FTSE AIM All-Share Total Return was flat and the FTSE 100 returned 5.3% (6.5% on a total return basis).

The qualifying investments made a net loss of -1.83 pence per share with 23 out of the 73 making gains, 10 marking time and 40 losing ground. The balance was a mixture of non-qualifying portfolio losses, costs, income and small gains made through share buy backs.

Abcam was the top performing qualifying investment (+30.8%, +0.59 pence per share) as investors sought out companies with heavy exposure to overseas earnings. With 93% of its revenues generated abroad and only 50% of its cost base, Abcam is well positioned to benefit from the weakness in Sterling. DP Poland also performed well (+40.4%, +0.39 pence per share) following a positive AGM statement and a significant amount of Directors' buying. Other stocks that made a significant contribution included Idox (+24.0%, +0.36 pence per share) and Directa Plus (+124.0%, +0.27 pence per share).

The biggest losses within the period came from Cohort (-26.2%, -0.78 pence per share), Eagle Eye (-43.0%, -0.39 pence per share), Vertu Motors (-34.9%, -0.36 pence per share) and Learning Technologies Group (-18.1%, -0.34 pence per share). Eagle Eye has revised down its revenue expectations within the current financial year, whilst Vertu has suffered a sentiment swing post-BREXIT. Cohort and Learning Technologies Group continue to trade well.

We made five qualifying investments over the period, which included one additional investment into an existing listed qualifying company, two further secondary placings into listed companies and two IPOs. We invested a total of £0.92m into qualifying investments over the period. We sold our qualifying investment in Nektan following a further reduction to their revenue forecasts. We also reduced our position in Directa Plus after a very strong run took the shares to a 150% premium in the month following the IPO.

Post Period Update

Soothing words from the Bank of England and a quick change of national leadership brought some much needed stability to the UK market and allowed the NAV to recover the value that was lost in the immediate aftermath. The large divergence within the indices reflected investors preference for global companies with substantial overseas exposure, non-cyclicals, gold miners and USD earners. The unaudited NAV as at 26 August 2016 was 74.68p, a gain of 7.7% within the current quarter after adjusting for the 1.75 pence per share dividend paid on 8 July 2016.

We feel it is too early to know the impact (if any) on our different investments, although a shallow recession/near recession seems likely as people and businesses defer investment or expenditure on large ticket items until we get greater clarity on our path out of the European Union and the consequences (or not) thereof. By and large we have left our portfolios of qualifying and non-qualifying investments untouched. While we are cautious of certain sectors, financials for example, we continue to find interesting investment opportunities in qualifying companies that we believe can grow regardless of Brexit. To that end, we intend to continue business as usual while keeping a close eye on the implications of upcoming negotiations and limiting unnecessary risk in non-qualifying listed equities.

We have made 2 qualifying investments since the period end in Gfinity and Loopup and have a number of other ongoing deals expected to complete within the current quarter.

Portfolio Structure

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.

The VCT is comfortably through the HMRC defined investment test and ended the quarter at 91.73% invested as measured by the HMRC investment test. By market value, the VCT had a 58.9% weighting to qualifying investments.

The allocation to non-qualifying equity investments increased from 16.8% to 19.3%, representing the funds on-going participation in non-qualifying equity investments at attractive valuations. We increased our investment in the Marlborough Special Situations from 3.6% to 4.4% of net assets. The non-qualifying investments contributed -0.97 pence per share to the overall losses. Fixed income as a percentage of the fund stayed broadly flat at 0.9% whilst cash increased marginally to 16.9%.

Joint Offer for Subscription of Ordinary Shares

On 1 December 2015 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 VCTs to raise up to £15 million into Hargreave Hale AIM VCT 1 plc and £10 million into Hargreave Hale AIM VCT 2 plc.

As at the date of this report, the offer has resulted in funds being received of £11.0 million by Hargreave Hale AIM VCT 1, and the issue of 14.7 million shares.

Buybacks

In total, 190,771 ordinary shares were purchased between 1 April 2016 and 30 June 2016, at a total value of £134,793. A further 35,352 ordinary shares have been bought back since the period end at a total value of £24,508.

Dividends

There were no dividends paid out between the 1 April 2016 and 30 June 2016. A 1.75 pence dividend per share was paid on 8 July 2016.

For further information please contact:

Stuart Brookes
Company Secretary

Hargreave Hale AIM VCT1 plc
01253 754740

Date: 1 September 2016