26 July 2023

HARGREAVE HALE AIM VCT PLC

(the "**Company**" or the "**VCT**")

Interim Management Statement

Q3 2023

Introduction

This interim management statement covers the third quarter of the 2022/23 financial year, 1 April 2023 to 30 June 2023. Investment performance measures contained in this report are calculated on a pence per share basis and include realised and unrealised gains and losses.

Overview

The quarter started with markets on alert following several bank failures in the US and the acquisition of Credit Suisse by UBS in March 2023. Actions taken by central banks and other market participants went a long way to preventing broader market contagion. These interventions appeared to have worked well with credit markets now stabilised. In a sign of how unusual these times are, central banks were simultaneously increasing liquidity whilst tightening monetary policy, demonstrating effective separation of their mandates to maintain financial stability and control inflation. The failures of the US banks led many to adopt a more dovish outlook for interest rates in the US, helping risk assets globally. Subsequent data and central bank commentary has pushed back on this and the market has broadly accepted that rates will stay higher for longer.

In the UK, the idea of a dovish pivot never took hold with UK inflation remaining stubbornly high. With UK inflation notably more sticky than elsewhere, the BoE has been forced into a more hawkish position. It has also become apparent that the normal transmission of monetary policy into the real economy may take longer than expected with many households protected by fixed rate mortgages and now benefitting from higher interest payments on their savings. With economic activity remaining robust, employment strong and wage growth of 7% in the private sector, the market is currently projecting interest rates might peak at 5.75% in November 2023 and remain at that level until mid-2024, with potentially negative implications for the outlook in 2024 and 2025.

UK stock markets continue to struggle against this backdrop of high inflation and tighter monetary policy. AIM (-6.89%) continued to underperform the FTSE 100 (-0.42%) and FTSE 250 (-1.56%) indices as investors continued to favour larger more established companies over smaller, higher risk and less liquid companies.

Performance

In the 3 months to 30 June 2023, the unaudited NAV per share decreased from 52.84 pence to 50.84 pence, resulting in a NAV total return to investors of -2.00 pence per share (-3.79%). There were no dividend payments in the quarter.

The NAV total return (dividends reinvested) for the period of -3.79% compared with -6.27% in the FTSE AIM All-share Index total return and -0.46% in the FTSE All-Share Index total return (also calculated on a dividends reinvested basis).

The qualifying investments made a net loss of -1.44 pence per share whilst the non-qualifying investments loss was -0.46 pence per share. The adjusting balance was the net of the Marlborough Special Situations Fund, running costs and investment income.

Qualifying Investments

Equipmake (+24.1%, +0.46 pence per share) has continued to move towards its commercial goals. The company secured a £1.6m grant from the Advanced Propulsion Centre to develop a DC-AC converter for a hybrid hydrogen fuel cell and battery system and signed a term sheet for the delivery of electric motors for use within the aerospace industry. The company also signed a license for applications in electric cars, buses and commercial vehicles in India and other South Asian countries. A post period end update reported that revenues in the 12 months to May 2023 grew by 34% to £5.1m.

Jonathan Milner, Abcam's (+76.6%, +0.42 pence per share) founder and former CEO (1998-2014) requisitioned a general meeting and sought shareholder support for the removal of several board members, including the Chair and CFO, and his appointment as Executive Chair. In response, the company issued more ambitious FY24 revenue and margin guidance and began a review of strategic alternatives, including the potential sale of the company. Milner has, for now, withdrawn his request for a general meeting to facilitate this process.

Eden Research (+186.2%, +0.41 pence per share) reported FY22 results that were in line with expectations with revenues increasing by 50% to £1.8m and a loss before tax of £2.6m. The company announced regulatory approvals for its bio-fungicides in a number of new markets, including in the USA. Following successful field trials, the company announced a distribution partnership with Corteva for a new seed treatment for maize (Ecovelex). Corteva, the market leader in Europe, will support the company's application for approval in the EU and UK, including emergency use applications.

Zoo Digital (-36.9%, -0.96 pence per share) downgraded guidance twice, the second time post period end, and reduced FY23 EBITDA guidance by 40% to $9m to reflect the impact of an ongoing strategic review at their largest client. The review reflects a desire to make more informed commissioning decisions and drive better cost performance through the supply chain. Ultimately, this should benefit Zoo even if it has created some significant downside in the short term. It is reasonable to assume Zoo's other clients are going through a similar process. The extension of the strikes disrupting US produced content is unhelpful but not a major factor, for now. Finally, investors are keeping a watchful eye on the potential impact of AI on the industry, although Zoo considers AI to be as much an opportunity as a threat.

LTG (-35.9%, -0.63 pence per share) released its FY22 results and an AGM statement. Both statements noted moderate revenue growth in the current financial year to date, whilst the AGM statement also noted a healthy sales pipeline. The updates did little to push back against market concerns that cyclical pressures might create some downside risk to the current year forecasts.

Bidstack's (-61.5%, -0.46 pence per share) FY22 results were consistent with the heavily revised guidance issued following a contractual dispute with its largest client and the non-payment of its invoices. The dispute will now be subject to judicial review next year. The dispute has required a change to the channel strategy that has increased the risk that this year's demanding revenue projections will not be met. FY22 year-end cash of £8.7m was healthy but will be insufficient to fund the company to break even. Following shareholder engagement, the company announced that two of its non-executive directors will be stepping down from the board and that it would also review the roles and responsibilities of its executive team.

Non-Qualifying Investments

Bytes continued to trade well, releasing an in-line statement which reiterated guidance for double digit revenue growth for the year despite the macro headwinds. Bytes is heavily exposed to the Microsoft product set and the company re-rated as markets grew increasingly positive on Microsoft's growth outlook. Hollywood Bowl reported that revenues grew by 21% in the 6 months to March and reiterated guidance for the balance of its financial year.

Ashtead announced a slight beat in the final quarter of its financial year. The company was very positive on the demand outlook, citing the recent US legislative acts as significant tailwinds to growth. The company confirmed its FY24 guidance for double digit revenue and EPS growth. Watches of Switzerland announced that revenues grew by 25% in the year to April 2023. The company was cautious in its projections for the early part of FY24. On the Beach reported strong demand for overseas holidays in the 6 months to March with total bookings increasing by 38% and revenues by 38% as the travel sector continues its post- pandemic recovery. The share price performance reflects some moderate downgrades to forecast profitability, ongoing concerns about the outlook for UK consumer spending, a large weighting to the second half of its financial year and the transition to the new CEO. Energean's Q1'23 trading statement disappointed and guided to a slower ramp up of its recently commissioned gas field. Weakness in oil and gas prices has also weighed on sentiment, although the company benefits from long- term contracts with agreed pricing.

Portfolio structure

The VCT is comfortably above the HMRC defined investment test and ended the period at 100.08% invested as measured by the HMRC investment test. By market value, the weighting to qualifying investments increased from 58.10% to 58.90%.

Qualifying investment activity slowed in the quarter with £2.3m invested into one new qualifying company. We reduced our investments in two companies, modestly reducing our investment into Equipmake following some strong share price performance and Eneraqua following a weak update and downgrades to FY24.

We made no changes to the non-qualifying fixed income portfolio in the quarter. The portfolio capital value suffered due to the rise in short-term yields, which will unwind as the bonds approach maturity or if the Bank of England begins to reduce interest rates. The allocation at quarter end was unchanged at 11.3%.

We made no changes to the investment in the Marlborough Special Situations Fund in the period, with the weighting rising from 8.2% to 8.3%. Post period end, we reduced the investment by £5m.

The allocation to non-qualifying equities decreased in the quarter from 11.5% to 9.4% with 6 full divestments in JD Sports, Future, Trifast, Harbour Energy, SThree and Hilton Food Group.

Cash increased from 10.9% to 12.2% 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 venture capital trusts 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

1,878,541 shares were acquired in the quarter at an average price of 50.49 pence per share. The share price increased from 46.00p to 47.00p and traded at a discount of 5.70% following the publication of the 30 June 2023 NAV on 7 July 2023.

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