VCT RESEARCH REPORT

HARGREAVE HALE AIM VCTs

www.hl.co.uk
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AIM
As the name suggests, AIM VCTs invest predominantly in companies listed on AIM or which are about to list on AIM. AIM is the junior market of the London Stock Exchange.

This report is not a substitute for reading the prospectus, and any decision to invest must be made purely on the basis of the prospectus.

Risk Factors
VCTs are substantially higher risk than mainstream equities. They invest in smaller companies, which can be prone to failure. VCT shares are difficult to buy and sell – the market price may not reflect the value of the underlying investments. The value of the shares will fluctuate, income is not guaranteed and you could get back less than you invest. Tax and VCT rules can change and tax benefits depend on your circumstances. If a VCT loses its qualifying status investors may have to repay any tax rebate. The prospectus will give fuller details of the risks.

Their place in a portfolio
We feel VCTs should account for no more than 10% of an equity portfolio. They must be held for five years in order to retain the tax relief, but a ten-year view would be better as dividends are the primary source of returns as the VCT portfolio matures. VCTs are only suitable for sophisticated long-term investors with significant portfolios. They are unlikely to be suitable for investors who may need access to their money in the short term, or for whom loss of the investment will cause hardship. We assume you will make your own assessment of your expertise and the suitability of a VCT for your circumstances. If you have any doubts you should seek expert advice.

OFFER SUMMARY

Funds	Hargreave Hale AIM VCT & Hargreave Hale AIM VCT 2
Amount seeking	£25 million
Minimum investment	£2500 in each VCT and a minimum aggregate investment of £5000
Split	Investors can choose either or both, subject to the minimums above

OUR VIEW

Giles Hargreave and Oliver Bedford, co-managers of the VCTs, have proved adept at uncovering businesses with excellent potential. The AIM market provides a wealth of under-researched opportunities and the managers are confident they can continue to uncover high-quality investment opportunities. The experience of the management team sets these VCTs apart from the crowd, but potential investors should take note of the recent changes to the VCT rules, which are discussed further on page 2.

WHO SHOULD CONSIDER AIM VCTs?

London's Alternative Investment Market (AIM) is often where young, growing companies choose to list their shares. Some successful, well-known and large businesses, such as online fashion retailer ASOS, are also listed on AIM. This creates opportunities to invest in established and profitable, as well as new and exciting businesses. It is a higher risk approach as not all companies will succeed. AIM VCTs offer tax-efficient exposure to smaller companies and could be held alongside a well-diversified portfolio of mainstream investments and other VCTs.

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The team aims to invest the core of the portfolios in established and profitable businesses with the potential for strong earnings growth.

CHANGES TO VCT LEGISLATION

Investors should be aware that a number of changes to the rules governing VCTs have recently been made. The new rules in effect impose stricter limits on the investments which may be made by VCTs. As with any legislation the full details are complex. The most significant changes include VCTs no longer being able to invest in companies more than 7 years old; the prohibition of certain types of transaction; and VCTs cannot invest more than £12 million in any one company.

The amended rules will affect different VCTs to different extents, depending on the manager's approach. AIM VCTs are likely to have a reduced universe of companies to invest in; and are likely to target companies at an earlier stage of their development, which is higher risk. There could also be more competition to secure the most attractive investments. The rules apply to investments made from November 2015 so any changes to existing portfolios will be gradual.

During times of change and uncertainty we prefer a cautious approach and would like to observe how managers adapt. Hargreave Hale are raising a significant sum and there is less certainty this can be successfully invested in the shorter term following the rule changes. We continue to believe they will do a good job for long-term investors. Further details of the legislative changes can be found on the VCT section of our website: www.hl.co.uk/vct

PHILOSOPHY

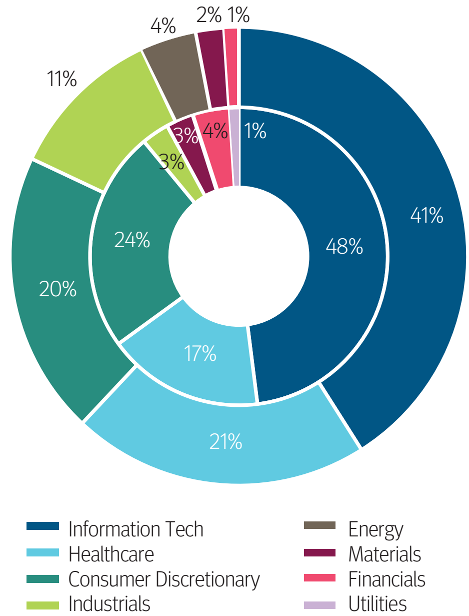
Both VCTs are managed using the same strategy. The team aims to invest the core of the portfolios in established and profitable businesses with the potential for strong earnings growth. There is also exposure to companies at an earlier stage of their development, which is higher risk.

PORTFOLIO CONSTRUCTION

The VCTs hold a diversified selection of businesses across a range of sectors. Small positions are initially taken in target companies and then increased over time as confidence grows. The maximum investment in a single company is likely to be 7% to 8%, but profits will often be taken before this. Beyond this level the portfolio can become overly reliant on a small number of companies and we like this pragmatic approach.

There are some differences between the two portfolios due to their different ages and the timing of buying and selling certain stocks, but overall there is high degree of overlap. We believe splitting an investment between the two could be sensible for most investors.

The chart below shows the sector breakdown of the VCTs as at 20 November 2015. The outer portion of the chart represents Hargreave Hale AIM VCT 1 and the inner part Hargreave Hale AIM VCT 2:-



Source: Hargreave Hale

Part of the portfolio is also likely to be invested in the Marlborough Special Situations Fund and / or cash depending on stock market conditions. The aim of this is to enhance returns and reduce volatility, but there are no guarantees this will succeed.

COMPANY CASE STUDY

Trakm8: a provider of, among other things, vehicle tracking and monitoring systems. These are used by businesses to improve the safety, efficiency and fuel economy of their vehicle fleets. Products include camera recording systems, which are used to monitor incidents and accidents; and real-time vehicle tracking, so the location of a vehicle is always known. The company has grown strongly, with revenues up by 94% in the 2015 financial year. This growth has been driven by developing existing businesses and acquiring other companies.

PERFORMANCE & DIVIDENDS

	Hargreave Hale AIM VCT	Hargreave Hale AIM VCT 2
Annual Dividend target:	5% of NAV	5% of NAV
Payment frequency:	Semi-annually	Semi-annually
Total dividends since launch:	38p (per share)	43p (per share)

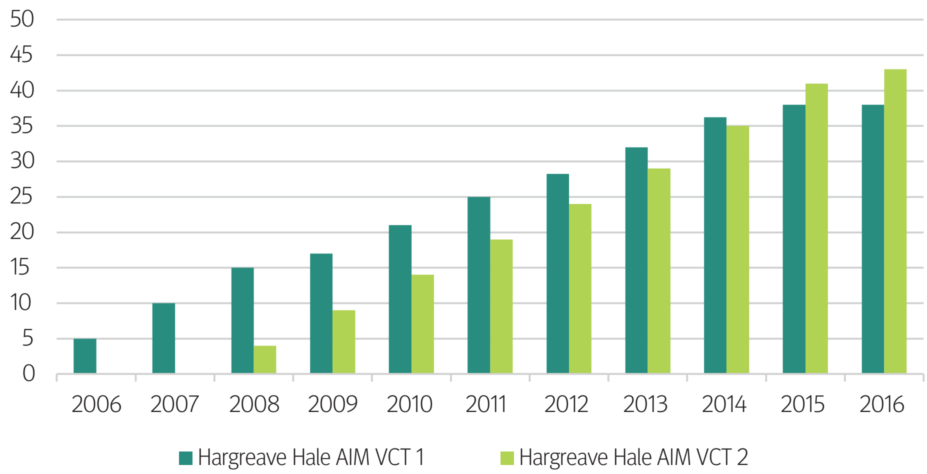
Unlike mainstream smaller company funds which aim to maximise capital growth, the majority of returns from an AIM VCT come from tax-free dividends. These are generated partly from the dividends paid by companies held in the portfolio and partly by paying out gains from successful investments. Please remember dividends are variable and not guaranteed. The team also aims to grow the NAV of both VCTs over the long term with less volatility overall than the AIM market.

The table and chart below show the annual and cumulative dividends paid to date:-

	Hargreaves Hale AIM VCT 1*	Hargreave Hale AIM VCT 2**
Financial year	Dividends paid (p)	Dividends paid (p)
2006	5p	-
2007	5p	-
2008	5p	4p
2009	2p	5p
2010	4p	5p
2011	4p	5p
2012	3.25p	5p
2013	3.75p	5p
2014	4.25p	6p
2015	1.75p***	6p
2016	-	2p***

Source: Hargreave Hale and HL
*financial years ends 30 September
**financial year ends 28 February
***interim dividend only

Cumulative dividends paid (pence per share)



The AIM VCTs will perform differently to other Hargreave Hale smaller company funds. Historically the results have been more mixed in the VCTs, partly due to having more concentrated, less frequently traded portfolios and holding more cash.

ABOUT THE MANAGER

Hargreave Hale: Hargreave Hale has approximately £5.1 billion under management and manages approximately £2 billion across a number of smaller company funds. Giles Hargreave and the wider Hargreave Hale team are best known for running the Marlborough Special Situations, UK Micro Cap Growth, Nano Cap and Multi-Cap Income funds all of which feature on our Wealth 150 list of favourite open-ended funds across the major sectors, but the VCTs are managed using a similar philosophy.

Team: Few can claim to have the strength and depth of the Hargreave Hale team when it comes to researching AIM and smaller company investments. Giles Hargreave and Oliver Bedford are supported by their 14-strong team, all of whom can contribute ideas to the VCTs. Indeed, companies held in the VCTs can ultimately graduate into other funds managed by Hargreave Hale so it is in the team's best interest to collaborate to identify good opportunities from an early stage.

Research: Most research is done in-house and the team places great emphasis on getting to know companies well from an early stage and assessing the quality of management. They meet target companies regularly and also assess their customers, suppliers and competitors to build knowledge of the company and industry over time. This is a labour intensive process and a large team is an advantage in this respect. Ultimately they are looking for companies in a strong financial position and with the potential to grow earnings strongly.

CHARGES & FEES

The initial charge is 3.5%. Hargreaves Lansdown is offering an exclusive 'early bird' discount of 2% off the initial charge for applications accepted before 24 December 2015. This discount is only available through Hargreaves Lansdown. After 24 December 2015 the discount falls to 1.75% and from 29 January 2016 it falls again, to 1%. The following net initial charges therefore apply (please note discounts are applied in the form of additional shares):-

Before 24 December 2015:	1.5%
Before 29 January 2016:	1.75%
After 29 January 2016:	2.5%

The annual management charge is 1.5% for both VCTs which is low in comparison with other AIM VCTs. There are also other expenses and a performance fee. Full details can be found in the prospectus and investors should ensure they are comfortable with the charging structure and risks before investing.

SHARE BUY BACK POLICY

An impressive feature of the Hargreave Hale VCTs has been the narrow discounts to NAV that have been maintained at around 5% to 10%. This has been down to a continual share buy back policy, and to date investors wishing to exit have done so on good terms. Share buy backs are subject to on-going board approval.

HOW TO APPLY

To apply please read the prospectus for the offer and fill out the application form at the back. The prospectus is available to download from the Hargreaves Lansdown website or by calling 0117 900 9000.

The signed application and a cheque for the amount you wish to subscribe should be returned to Hargreaves Lansdown. The cheque should be made payable to the VCT, as indicated in the prospectus, but the application and cheque must be returned to Hargreaves Lansdown in order for you to benefit from our discount.

We will acknowledge your application and your share certificate and tax certificate will be sent once the shares have been allotted.

Shares will be issued according to the NAV of the VCTs adjusted for the cost of the offer. Dividends will be paid by cheque, but you can elect for them to be paid into your bank account. Please see the relevant section of the prospectus and application form for further details.