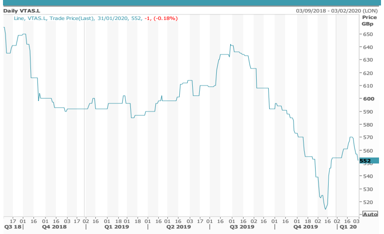
Closed-Ended Investments



Source: Refinitiv

Market data

EPIC/TKR	VTA .NA, VTA.LN VTAS LN
Price (p)	6.524/6.60/554p
12m High (p)	7.32/7.28/655p
12m Low (p)	6.46/6.52/585p
Shares (m)	36.6
Mkt Cap (€m)	238
Div. Yield (%)	9.5%
Discount to NAV (%)	15%
Market	AEX, LSE

Description

Volta is a closed-ended, limited-liability investment company that pursues a diversified investment strategy across structured finance assets (primarily CLOs). It aims to provide a stable stream of income through quarterly dividends.

Company information

Independent Chairman	Paul Meader
Independent Non-Executive Directors	Graham Harrison Stephen Le Page, Atosa Moini, Paul Varotsis
Fund Managers AXA IM Paris	Serge Demay A Martin-Min François Touati
Co. sec. /Administrator	BNP Paribas Securities Services SCA, Guernsey
Independent Chairman	Paul Meader

Key shareholders, 31 July 2019

AXA Group	30%
BBVA Madrid & BNP WM	7%
Ironside Partners & Deutsche	6%

Diary

Mid-Oct	September estimated NAV

Analyst

Mark Thomas 020 7194 7622

mt@hardmanandco.com

VOLTA FINANCE LIMITED

Follow the money

In this note, we remind investors of Volta's attractions and risks, focus on how it generates the cash to pay the dividend, and look at some of the issues from the latest Report and Accounts. The core to paying the dividend, and its long-term sustainability, is generating cash from the underlying 700 borrowers, a broad diversification by counter-party, geography and economic sector. Currently, a near record level of income yield is being generated. While recent months have seen both forex and sentiment volatility with a range of positive and negative capital movements, the long-term performance will be driven by cash generation. The discount appears anomalous given Volta's track record.

- **Higher income cover of dividend:** In recent years, a combination of portfolio mix changes and continued favourable credit has seen revenue yields of 13%-15%, well above the dividend cost of 9.5%. This strong performance has been hidden by short-term, forex- and sentiment-driven noise, which has seen a volatile NAV.
- **Report and Account takeaways:** The manager explains why there has been a shift from CLO debt into CLO equity and the risk/reward opportunities. We also note even more external pricing of assets for valuation purposes, the modest UK exposure and an increased sensitivity to credit.
- **Valuation:** Volta trades at a 15% discount to NAV. Peer-structured finance funds, and a range of other debt funds, on average, trade at smaller discounts. Volta has delivered faster NAV growth than its immediate peers and in-line/lower volatility, making this absolute and relative discount an anomaly.
- **Risks:** Credit risk is a key sensitivity. We examined the valuation of assets, highlighting the multiple controls to ensure its validity, in our *initiation note* in September 2018. We noted the NAV is affected by sentiment towards its own and underlying markets. Volta's long $ position is only partially hedged.
- **Investment summary:** Volta is an investment for sophisticated investors, as there could be sentiment-driven, share-price volatility. Long-term returns have been good: ca.10% p.a. returns (dividend reinvested basis) over five years. The current portfolio-expected cashflow IRR is above this level. The dividend yield of 9.5% will be covered, in our view, by predictable income streams.

Financial summary and valuation (Hardman & Co adjusted basis)

Year-end Jul (€m)	2015	2016	2017	2018	2019	2020E	2021E
Coupons & dividend	33.7	34.7	33.2	38.5	42.0	42.3	43.7
Operating income	46.0	36.5	35.0	37.0	41.0	41.3	42.6
Inv. manager's fees	-4.5	-4.3	-4.6	-4.6	-4.4	-4.5	-1.5
Adj. performance fees	-3.5	-1.3	-1.2	-1.4	-2.1	-2.4	-3.1
Total expenses	-10.3	-7.2	-7.0	-0.9	-1.0	-1.0	-1.0
Total comp. income	35.7	29.3	28.0	29.7	32.9	32.9	36.5
Statutory PTP	47.6	12.6	38.7	22.7	7.1	32.9	34.0
Underlying EPS (€)	0.98	0.80	0.77	0.81	0.90	0.90	1.00
NAV	299.2	289.3	305.5	305.7	290.6	301.3	313.1
S/P disc. to NAV	20%	18%	22%	22%	18%	21%	24%
Gearing	9%	12%	12%	14%	12%	12%	11%
Dividend yield	9.5%	9.5%	9.5%	9.5%	9.5%	9.5%	9.5%

Source: Hardman & Co Research.

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- any trust of which any trustee is a "U.S. person";
- any agency or branch of a foreign entity located in the United States;
- any non-discretionary account or similar account (other than an estate or trust) held by a dealer or other fiduciary for the benefit or account of a "U.S. person";
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Reminder of key attractions

Volta's investments are primarily in the Collateralised Loan Obligation (CLO) market and related areas. In our initiation report *Delivering the structured finance opportunity*, published on 5 September 2018, we aimed to unravel some of that market's complexity. In this note, we remind investors of the key issues and in particular the high yield, the diversity of the group supporting that yield, its robust balance sheet and good corporate governance.

Critical to understand that cashflows are driven by hugely diversified portfolio of underlying corporate credit

Looking through the terminology, Volta earns returns predominantly from corporate credit with the income on Volta's investments coming from a hugely diversified portfolio of underlying borrowers. The cash to pay Volta's dividends comes from many, and varied sources. AXA IM's skill in picking the right underlying assets is crucial to performance and there is a long-term track record of delivery on this. We believe the complexities that deter some investors create opportunities for a manager, like AXA IM, with a deep market understanding and significant scale.

Key attractions: 10.8% p.a. returns in past five years (to end-July); well controlled risks; flexible mandate to optimise returns; and buying at a greater NAV discount than peers, 9.2% dividend yield covered by predictable income streams

We highlight the following core conclusions from our earlier reports:

- long-term returns above peers and benchmarks;
- risks well controlled with the ideal bell-shaped distribution of monthly NAV;
- returns have been earned from predictable sources like interest and coupons from loans and bonds, which more than cover the high (9.5%) dividend yield;
- a flexible mandate to optimise returns depending on market conditions;
- leverages AXA IM's competitive advantages;
- a discount of 15% to NAV, a level above peers and historical levels.

The potential risks in investing in Volta.

Credit risk hugely diversified

- Credit is the key risk. To mitigate this, Volta has a hugely diversified portfolio by individual borrowers (700+ in total, top-five holdings representing just 2.3% of portfolio), by sector, by geography, and by macroeconomic sensitivity.

Sentiment can create volatility but also creates opportunities

- With assets marked to market, changes in sentiment can have a dramatic effect and market prices can diverge from expected cashflows. While this creates short-term volatility, greater asset mis-pricing, potentially increases returns (CLOs originated in 2007 earned ca.2x the level of 2004 deals).

Favourable conditions in underlying markets make reinvestment challenging, but flexible mandate means Volta can invest in areas benefiting from these conditions

- When economic conditions are favourable (as they have been for some time), loan yields fall, credit covenants ease and existing loans repayments increase. This makes earning comparable returns on reinvestment more challenging. Volta's flexible mandate means it can access value-added areas (e.g. warehousing or CLO equity portions, which benefit from these conditions).

Other risks: i) gearing has been kept modest and structured to ensure there are no forced sales of assets at a discount; ii) interest rate sensitivity is complex but at current levels is likely to be broadly neutral; and iii) changes in FX rates can have a short-term impact as Volta does not fully hedge its net long $ position.

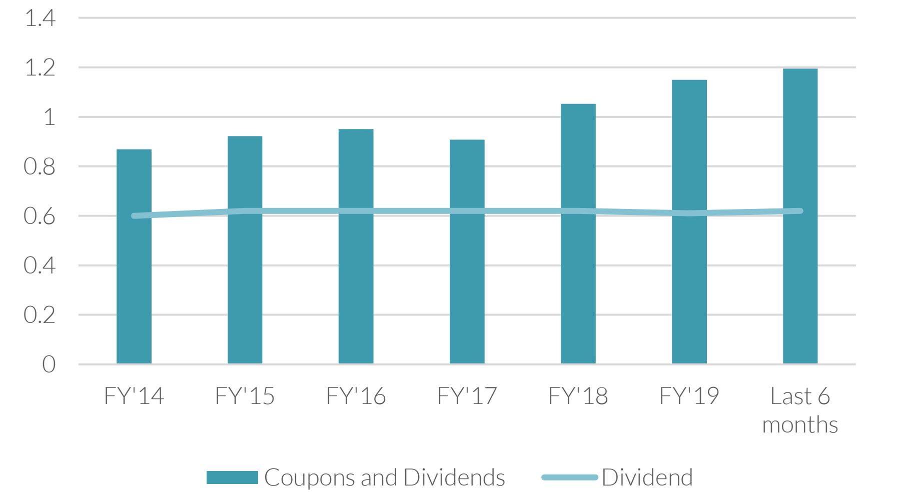
Cash generation

How much cash is generated?

Current income yield ca.€1.19 per share against a dividend cost of €0.62

The chart below shows the cost of the dividend relative to the cash income Volta has received from its investments. It is worth noting that the income received has been on a steadily increasing trajectory, raising the "cover" of the dividend.

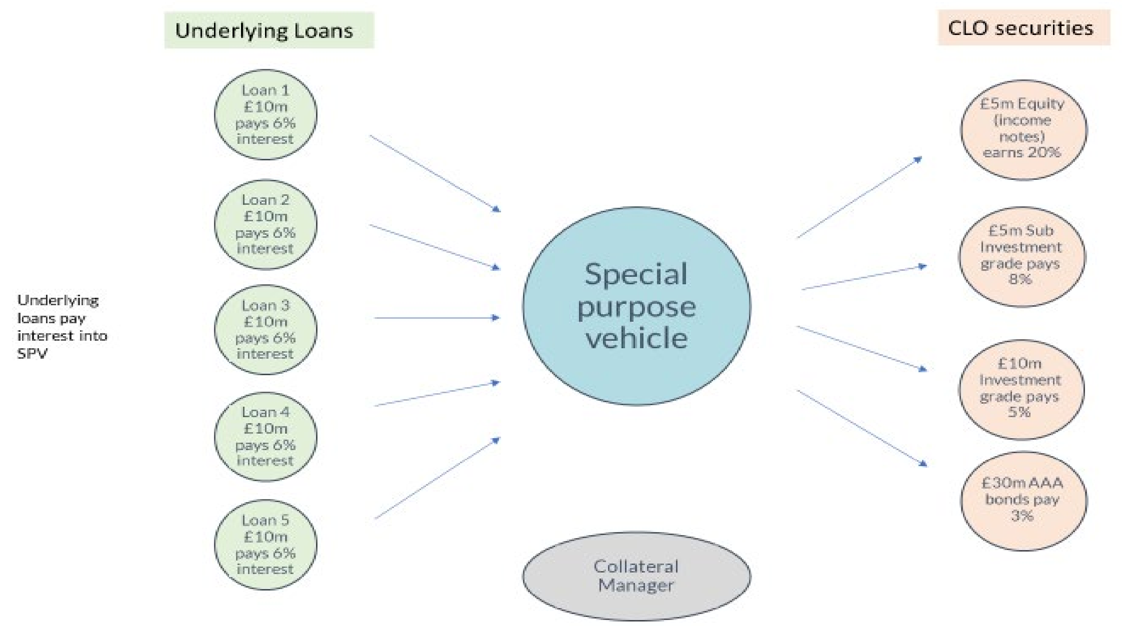
NAV addition by coupons/dividends received and cost of dividend (€)



Source: Volta report and accounts

How the "revenue" cash is generated

Simplified example of a CLO structure



Source: Hardman & Co Research

At heart, simple cashflows. Interest paid by more than 700 underlying borrowers pays interest and dividends from different CLO security tranches.

The chart above gives a simplified example of how cash is generated in a CLO structure. In essence, the CLO generates income from a large portfolio of loans, which it then uses to pay the interest on a broad range of issued debt with any residual cash (after expenses) being available for the equity holders (also rather unhelpfully known as "income note" holders). Leverage is important as the more low-cost debt issued by the CLO vehicle, the greater the amount of cash available for equity holders. There are of course some complications, which are explored in the section on risk below, but the basic flow of cash is very simple. They accounted for €42m of cash generation in FY'19.

How has rising income yield been achieved?

The chart above also shows that there has been a steady improvement in income yield per share between FY'14 (€0.87) and FY'19 (€1.15) and the current run rate (€1.19). It should also be noted that, in FY'19, the achieved income yield was 13.8% against a projected level of 10.8% (per 2018 Annual Report p 6). We also note the average projected yield on new investments in FY'19 is projected at 12.75%.

37% increase in cashflow received per share since FY'14 driven by asset mix, continued low defaults and spread dynamics. Incremental benefit from gearing largely unchanged.

The ca.37% increase since FY'14 has been driven by:

- Asset mix change – CLO equity tranches were 17.8% of the portfolio at the end of July 2013 compared with 31.9% in January 2019 and 47.9% in December 2019. The currency mix has also changed. US$ CLO equity and debt tranches were 36.5% in July 2013 against 55.4% in January 2019 and 51.2% in January 2020. The projected higher yields on CLO equity and USD positions are shown in the table below.

- Default rates have remained low. In recent years, the actual performance has typically been ca.1% above the expected returns primarily due to this factor. The forecast IRR at end-July 2019 of 12.5% (including gearing benefit), assumes a level of impairments materially higher than seen in FY'19 and may, as it has for several years now, prove conservative. Certainly, the first six months, cashflow yield has been materially above the forecast level.

- The level of underlying market spreads has been variable. Ceteris paribus, where there are rising underlying loan spreads, the CLO vehicles typically earn more income (increasing revenue available for equity holders in them) although this may be offset by rising impairments. The CLO equity positions will also be affected by the extent to which their own liabilities may be re-priced.

- The incremental benefit from modest gearing has consistently added ca.0.8% to the IRR bringing the expected July 2019 portfolio IRR up to 12.5% (from the 11.6% asset class weighted yield in the table below).

Projected IRR on Volta's portfolio

End-July 2019 (£m)	GAV	Projected IRR	Projected Weighted average life (years)
$ CLO Equity	24%	15.7%	2.8
CMV/CLO Warehouse	3%	15.0%	4.0
€ CLO Equity	19%	11.2%	3.0
ABS Residual	3%	11.0%	2.5
Bank Balance Sheet Transactions	12%	10.7%	3.5
ABS Debt	3%	10.0%	4.5
$ CLO debt	34%	9.9%	3.6
€ CLO Debt	1%	9.4%	5.0
Cash Corp. Credit	2%	8.0%	2.0
Total	100%	11.6%	3.3

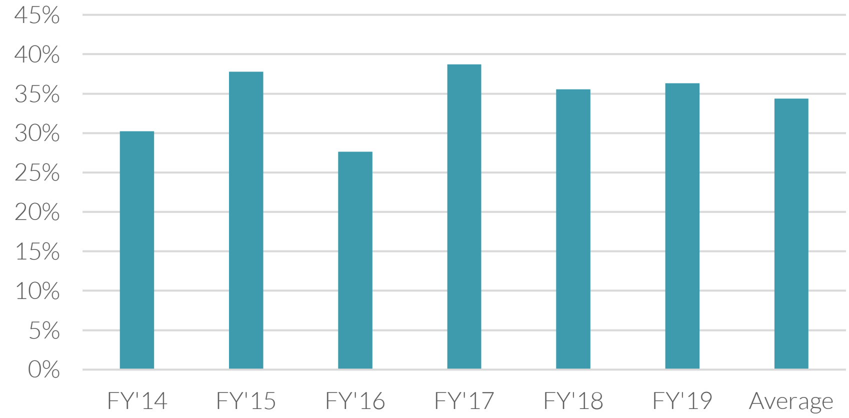
Source: Volta 2019 Report and accounts, Hardman & Co Research

Significant "capital" cash is generated

Relative short life of the assets generates huge amounts of cash, which means portfolio can be actively managed in relatively quick order

The capital cash flows follow the same basic structure. When a debt principal is repaid, the cash can be used to either buy a replacement loan or is available to repay the CLO's own debt/equity. When Volta receives such capital flows, it can then re-invest in new opportunities. We note from the last Annual Report that, in FY'19, the group made new investments of and received proceeds from sales and redemptions of financial assets at fair value through profit or loss of €125m and €108m, respectively. There is nothing unusual about these flows of revenues, which significantly reflect the normal maturity profile of loan positions (the weighted average life of investments is 3.3 years).

Sales/redemptions as % opening portfolio: financial years 2014-19



Source: Volta report and accounts (cashflows statement)

We highlight the scale of proceed/redemption receipts as they give Volta considerable flexibility to manage the portfolio shape in relative quick order. This means borrowings can be repaid and the optimal investment opportunities taken.

Risks to Volta getting the cashflows

There are a number of potential risks to the cash generation:

Credit main risk. Gentle deterioration may see spreads widen and so net cash generated for equity positions in CLOs improve

- Most CLOs are structured so that if there is a credit deterioration in underlying loans, equity coupons reduce as the loan collateral needs to be improved. The outlook of a gentle deterioration in credit would suggest this should not be a material factor, if at all. For modelling purposes, we have assumed a sustained revenue yield of 13% leaving us some room to upgrade given the January 2020 rolling six-month annualised yield was 15.7% and the FY'19 achieved rate of was 13.8%. We note the management forecast portfolio of 12.5%.

- Reinvestment risk: Volta's flexible mandate means it can exploit whatever part of the structured finance offers the optimal returns. In favourable economic conditions, the rates earned on new loans may fall but there may be opportunities in equity tranches. We note the expected IRR of the portfolio at end-July 2018 was 10.8% (11.6% including leverage benefits). This was unchanged with the different portfolio mix of end-July 2019.

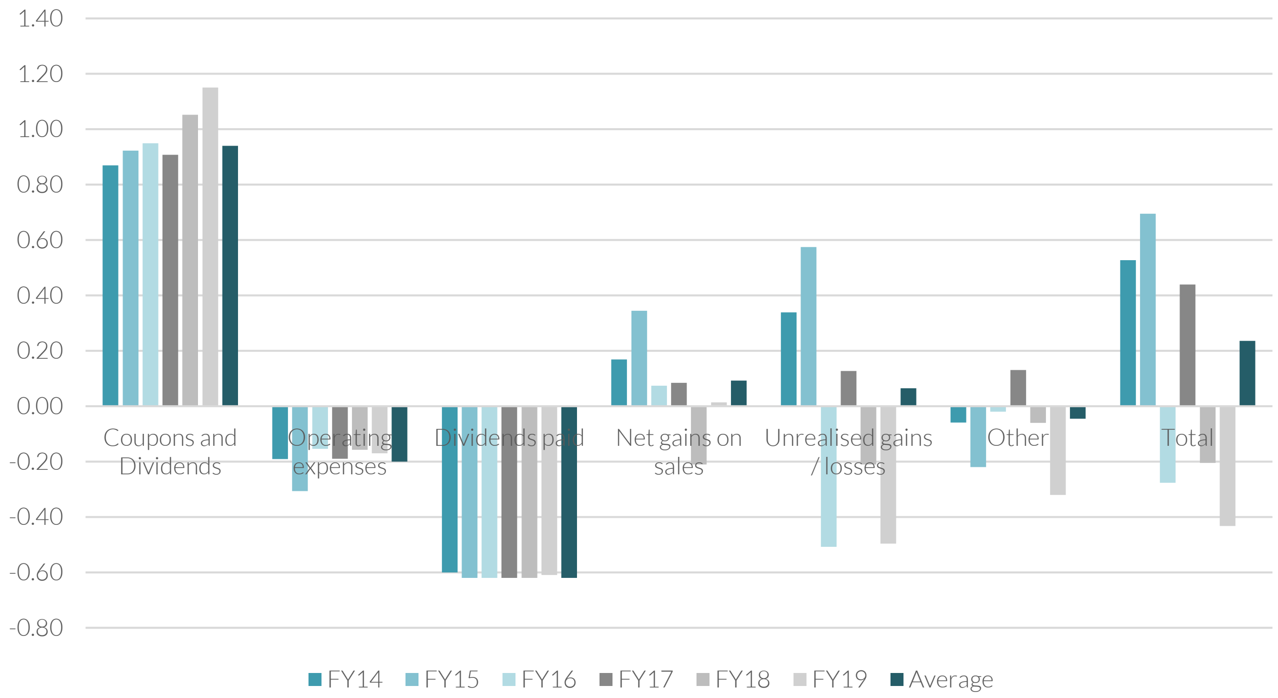
- The main risk to capital flows is again credit. There is also a currency risk as there are more dollar-denominated assets than liabilities. In addition, for sterling holders, there is the conversion of euros to sterling to consider. While the group continues to reinvest, we believe the exchange rate risk is relatively modest.

Short term will see volatility in realised and unrealised gains

Impact of more volatile capital movements

In FY'19, the effect of unrealised capital movements was material (-€0.5 per share). This should, however, be put into context. From 2014-19, the average impact on NAV was €0.1 per share as market sentiment swung between risk averse to risk taking. Volta is managed for the long term. When market conditions are good, there may be an element of profit taking. In contrast, when prices fall, there is limited appetite to sell to distressed prices. The average realised loss/gain 2014-19 was a gain of €0.1 per share p.a. The NAV and near-term share price are sensitive to short-term market sentiment, but the long-term value creation is not.

Contributions to NAV per share change (€) financial years (ending July) 2014-19



Source: Volta report and accounts

Sentiment sensitivity can be seen if you compare returns over calendar years with financial years

The timing of when short-term returns are considered can have a material impact on the numbers. If we take the past three financial years (i.e. ending July), the total NAV returns have been 2.5%, 7.8%, and 13.6%. We note the past three calendar years (i.e. years ending December) have seen NAV returns of 6.7%, 0.1% and 6.6%. While these figures are well below the long-run average returns of 9.2% since inception, the differences between them highlight just how much sentiment-driven noise can affect NAV returns. By way of comparison, we note the shareholder total returns (dividends reinvested) over the past three years have been 7.9%, 3.5% and 18.7%, respectively.

Highlights from the Annual Report

We highlight below a few key points from the Report and Accounts (some of which are reminders of earlier announcements).

Repos facility reduced

- 14 March 2019 Repos facility was reduced from $50m to $40m.

Average $ CLO debt at 94% par

- At the end of July 2019, the average price of US$ CLO Debt (34% of Volta's assets) was 93.6%, opening the door to some potential price appreciation.

Manager explains why being invested in CLO equity over debt at this stage of the cycle makes sense. In essence sentiment has driven prices down so likely downturns scenarios are more than built into price.

- In terms of shifting from CLO debt to equity, the Investment Manager commented "…more than 20 years of track-record investing in CLO Equity demonstrated that CLO Equity positions that were able to reinvest when spreads widen/loan prices fall, even when it was combined with higher defaults, benefited from the volatility and experienced outsized subsequent returns. The higher expected volatility for the loan market, when it occurs, might impact both our CLO Debt bucket (mainly BB rated tranches) and our CLO Equity tranches in terms of mark-to-market. Our conviction, and it has been corroborated by past episodes of volatility (GFC, O&G Crisis, Q4 2018 volatility), is that the mark to market drawdown of CLO BB tranches is very similar to that of CLO Equity positions. When taking into account the higher cash flows generated by CLO Equity positions our conviction is that it is worth investing more in CLO Equity to benefit, on a long-term basis, from the positive optionality that such investments incorporate. Equally, when the expectation is for a period of relative stability with some spread compression, we are better off with CLO debt than with CLO Equity (our stance for many years before 2018)."

CLO equity tranches also have optionality benefits

- "In aggregate, we anticipate that the overall performance of Volta's portfolio could be 1% to 2% in excess of the above projected yield thanks to refinancing / reset options existing in CLO documentation." We understand that if Volta was able to refinance a deal with an average cost of debt 30bp lower than the current level, it would typically add 3% cashflow to the CLO Equity position. Depending on the number or years during which such advantage will materialise, this could add 1% or 1.5% to the current projected yield. A reset could have a larger impact.

ESG considerations being built in

- In terms on ESG (Environmental, Social and Governance), considerations we note "certain ESG considerations are now being integrated into the CLO manager selection process for Volta and some issuers and some businesses are being systematically excluded like groups whose primary business activity is the extraction of oil, gas or thermal coal, or groups that produce or trade in controversial weapons among others, or exclusions are being requested where a sub-manager is involved."

UK 6% book

- UK exposure pre-Brexit was 6% of underlying credits.

Detailed checks and balances to ensure accounting valuation is fair reflection of real portfolio value

- Pages 42-44 focus on the determination of fair values and the multiple checks and balances to ensure the valuation reported is real. These include 87% of the portfolio (last year 75%) being valued using the external JP Morgan PricingDirect, manager overview that the prices received are realisable, auditors review etc. We note the adjustments between the initially published NAV and the audited NAV statements (see page 45) are de minimis and falling.

Rising sensitivity to credit

- Page 51 shows the key sensitivities of the CLO tranches. Should the default rate rise to 2x, the base case scenario the NAV would be expected to fall 12%. This is materially up on last year (6%) given the higher proportion of equity in the portfolio.

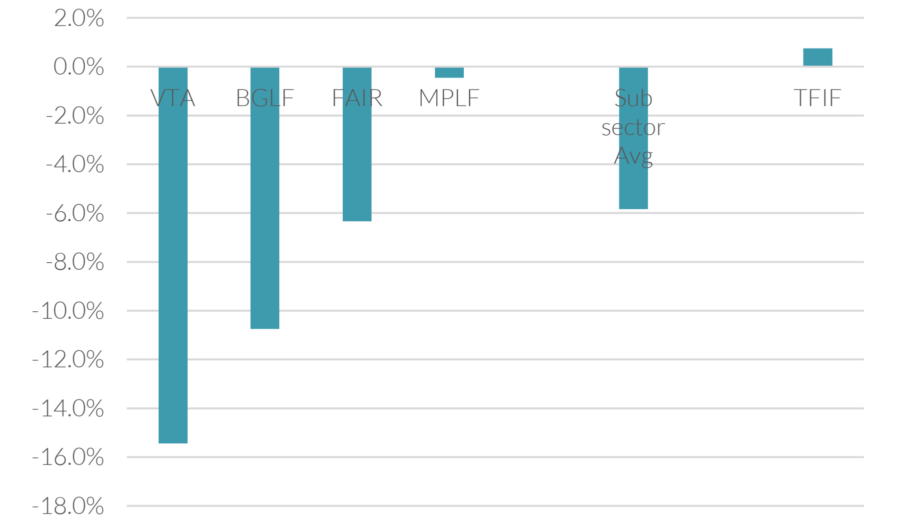
Valuation

Discount to NAV

Discount materially larger than most peers in structured debt fund space

Compared with its structured debt peers, on market price to NAV, Volta is trading at a material discount. Given the historical performance, risk profile and portfolio mixes identified in the sections below, this relative discount appears anomalous.

Current share price discount to May NAV for Volta and peers



Source: Hardman & Co Research Monthly reports for Volta (VTA), TwentyFour Income Fund (TFIF), Fair Oaks Income Fund (FAIR), Blackstone/GCO Loan Financing Ltd (BGLF) and Marble Point Loan Financing; priced 31 January 2020

Triggers for market re-evaluation of discount

Historically, dramatic reductions in discount to NAV generated by share price increases; these have been driven by a mix of market sentiment and company-specific issues

The share price discount to NAV is wider than peer average levels. This could reflect a number of possible drivers, each of which we discuss below. We believe that the most likely driver of long-term share price growth, and a reduction in the discount to NAV, is the delivery of the expected total shareholder returns and the market having greater confidence in their sustainability over the medium term. Looking at the portfolio as it stands, the most critical feature will be delivery of returns as credit default increases. In the near term, a modest deterioration of credit is likely to see much greater opportunities for higher-return reinvestment, as the yield of all loans will increase. In addition to this macro development, we note the following.

Broadening awareness of Volta

- The board has taken several steps to broaden knowledge of the company and so ensure that there is a better understanding of the real (NAV) volatility. The UK listing (VTA) was partially to do this, and saw a positive reaction. On 3 September 2018, Volta added a sterling listing (VTAS) to its euro listing on the UK exchange. We note that Volta has engaged multiple sponsored research houses to distribute the message to the widest possible audience. We sense that the board has an appetite to expand the fund, which should materially assist with the limited share price liquidity and, with that, we expect an active engagement with existing and potential shareholders in a range of forums. Improving awareness and the associated liquidity should help reduce the discount.

On 11 December 2018, Volta announced it believed it was an excluded security under NMPI rules

On 11 December 2018, Volta announced that, after due enquiry, it was the opinion of the board that the company's shares qualified as an "excluded security" under the rules; the company is therefore excluded from the FCA's restrictions that apply to non-mainstream pooled investments (NMPIs).

Volta's KID disclosure not driven by business performance. Greater understanding of the business could see less share price volatility.

- The Key Information Document (KID) disclosure may be a relative dis-incentive to potential investors, with Volta having a longer hold period and greater sensitivity than peers. As noted above, the historical NAV performance does not justify the historical share price volatility. As the market gets a broader appreciation of how Volta's multi-manager approach has delivered, and is likely to deliver, returns, there might be less share price volatility and KID disclosure more in line with peers.

Checks and balances in place to ensure validity of monthly NAV. Less reliant than some on mark-to-model due to both portfolio mix and valuation approaches.

- The discount could reflect concerns that the NAV is not truly representative of the value of the business, because the modelling/valuation assumptions do not reflect a realisable value. We detailed in our initiation note of September 2018 why we believe Volta adopts appropriate valuation techniques. It is worth noting that the most illiquid assets, for which modelling is important, form a lower proportion of the group than is the case for most of Volta's peers.

Buyback possible but only as part of long-term programme

- The board is active in its consideration of a tender at NAV/repurchases in the market (which would be at a significant discount to NAV if executed at current prices). It says it will use such discount control measures if it believes them to be in the best interests of shareholders, noting "these mechanisms can be a double-edged sword". On the upside, it creates a buyer for the shares, and it could be perceived as putting a cap on the discount, which the market might then close itself. It is likely to reduce the discount in the short term. On the downside: i) it could create liquidity problems; ii) the capital could be better deployed in the fund (subject to the level of discount); iii) it shrinks the business, and so worsens the total expense ratio; and iv) it sends a very mixed message, especially if, as seems likely over the medium term, Volta has new investment opportunities and comes to market for further equity funding. Accordingly, we note that the policy is to make the company more attractive to new investors. We believe the board would use a buyback as part of a long-term strategy, rather than a short-term "sticking plaster".

Increased market confidence regarding sustainability of returns through weaker credit market conditions

- We believe that performance over the past five years (10.5% p.a.) reflects the favourable macroeconomic environment, with limited credit defaults, CLO debt, which had been purchased at a discount being redeemed at par, and positive sentiment towards CLO investment generally. Looking forward, while Volta has accessed high-return reinvestments, it might take delivery of NAV to convince all in the market that such returns are sustainable. This might take more time (and effort) than Volta benefiting from the rising sentiment in good markets.

Financials

We have raised our expected return to 13% given the rates earned on new business and our outlook for only a gentle credit deterioration. These do not change the fundamentals of the business of having a well-diversified income stream more than covering costs and the dividend on an ongoing basis.

Profit & Loss account (statutory)

Year-end Jul (€m)	2013	2014	2015	2016	2017	2018	2019	2020E	2021E
Coupons and dividends received	0.0	31.4	33.7	34.7	33.2	38.5	42.0	42.3	43.7
Net gains on sales	0.0	6.1	12.6	2.7	3.1	0.0	0.5	0.5	0.5
Unrealised gains and losses	0.0	12.2	21.0	-18.5	4.7	-5.7	-18.2	0.0	0.0
Net gain on fin. assets at FV through P/L	79.2	49.7	67.2	18.9	40.9	32.7	24.4	42.8	44.2
Net FX	-0.5	1.6	-8.2	0.3	5.6	-2.0	-11.6	0.0	0.0
Net gain on IR derivatives	2.3	-0.3	0.0	0.0	0.4	-0.9	1.6	0.0	0.0
Interest expense on repo	0.0	0.0	-0.2	-0.9	-1.1	-1.4	-1.6	-1.6	-1.6
Net bank int. & charges	0.0	0.0	0.0	-0.1	-0.1	-0.1	0.1	0.1	0.1
Operating income	81.0	50.9	58.8	18.2	45.7	28.4	12.8	41.3	42.6
Inv. manager's fees	-2.6	-3.6	-3.9	-4.1	-4.1	-4.2	-4.2	-4.5	-4.6
Inv. manager's performance fees	-7.7	-1.9	-5.0	0.0	-1.5	0.0	0.0	-2.4	-2.5
Directors' renumeration & expenses	-0.4	-0.4	-0.5	-0.6	-0.5	-0.5	-0.5	-0.5	-0.5
Other expenses	-1.1	-1.0	-1.8	-0.9	-0.8	-1.0	-1.0	-1.0	-1.0
Total expenses	-11.8	-6.9	-11.2	-5.6	-6.9	-5.7	-5.7	-8.4	-8.6
Profit and total comp. income	69.2	44.0	47.6	12.6	38.7	22.7	7.1	32.9	34.0
Avg. no shares for EPS calculation (m)	32.8	36.1	36.5	36.5	36.5	36.56	36.59	36.61	36.61
Statutory EPS (p)	2.11	1.22	1.31	0.34	1.06	0.62	0.19	0.90	0.93
Total dividend (p)	0.62	0.60	0.62	0.62	0.62	0.62	0.62	0.62	0.62

Source: Volta, Hardman & Co Research

To derive our adjusted profit and loss, we strip out the capital movements, including: i) unrealised gains/losses; ii) FX movements; and iii) net gain of IR derivatives. We have left in realised gains, which, although volatile, have been converted into cash, and some capital gains might be expected to form part of the normal course of business. We have also backdated the current management fee structure and adjusted it to the new level of profitability.

Hardman & Co adjusted profit and loss account (€m)

Year-end Jul (€m)	2014	2015	2016	2017	2018	2019	2020E	2021E
Coupons and dividends received	31.4	33.7	34.7	33.2	38.5	42.0	42.3	43.7
Net gains on sales	6.1	12.6	2.7	3.1	0.0	0.5	0.5	0.5
Net gain on fin. assets at FV through P/L	37.5	46.2	37.4	36.2	38.5	42.5	42.8	44.2
Interest expense on repo	0.0	-0.2	-0.9	-1.1	-1.4	-1.6	-1.6	-1.6
Net bank interest & charges	0.0	0.0	-0.1	-0.1	-0.1	0.1	0.1	0.1
Operating income	37.5	46.0	36.5	35.0	37.0	41.0	41.3	42.6
Inv. manager's fees	-4.1	-4.5	-4.3	-4.6	-4.6	-4.4	-4.5	-1.5
Inv. manager's performance fees	-2.5	-3.5	-1.3	-1.2	-1.3	-2.1	-2.4	-3.1
Directors' renumeration & expenses	-0.4	-0.5	-0.6	-0.5	-0.5	-0.5	-0.5	-0.5
Other expenses	-1.0	-1.8	-0.9	-0.8	-0.9	-1.0	-1.0	-1.0
Total expenses	-7.9	-10.3	-7.2	-7.0	-7.2	-8.0	-8.4	-6.1
Profit and total comp. income	29.5	35.7	29.3	28.0	29.7	32.9	32.9	36.5
Adjusted EPS (€)	0.82	0.98	0.80	0.77	0.81	0.90	0.90	1.00
Dividend cover (x)	1.36	1.58	1.29	1.24	1.31	1.45	1.45	1.61

Source: Volta, Hardman & Co Research

Balance sheet									
@ 31 Jul (€m)	2013	2014	2015	2016	2017	2018	2019	2020E	2021E
Financial assets at FV through P/L	238.7	256.3	307.3	324.1	321.3	325.7	325.5	335.8	346.0
Derivatives	1.6	0.0	0.0	1.2	0.7	1.3	0.8	0.8	0.8
Trade and other receivables	0.0	0.0	38.1	5.0	0.3	12.9	5.5	5.5	5.5
Cash and cash equivalents	9.7	19.5	0.4	10.9	37.1	20.5	14.5	14.9	16.5
Total assets	250.1	275.8	345.8	341.3	359.4	360.4	346.2	356.9	368.7
Loan financing under repos	0.0	0.0	27.3	40.3	38.1	42.7	35.9	35.9	35.9
Interest payable on loan financing	0.0	0.0	0.1	0.1	0.1	0.2	0.2	0.2	0.2
Derivatives	0.0	0.2	0.3	0.0	0.0	0.1	0.3	0.3	0.3
Trade and other payables	3.8	2.0	19.0	11.6	15.6	11.7	19.2	19.2	19.2
Total liabilities	3.8	2.1	46.6	52.0	53.8	54.7	55.7	55.7	55.7
Net assets	246.3	273.6	299.2	289.3	305.5	305.7	290.6	301.3	313.1
Period-end no. shares (m)	35.3	36.5	36.5	36.5	36.5	36.6	36.6	36.6	36.6
NAV per share (€)	6.97	7.50	8.20	7.92	8.36	8.36	7.94	8.24	8.56
Total debt to NAV	0%	0%	9%	12%	12%	14%	12%	12%	11%

Source: Volta, Hardman & Co Research

Cashflow									
Year-end Jul (€m)	2013	2014	2015	2016	2017	2018	2019	2020E	2021E
Total comprehensive income	69.2	44.0	47.6	12.6	38.7	22.7	7.1	32.9	34.0
Net gain on financial assets at FV in P/L	-79.2	-49.7	-67.2	-18.9	-40.9	-32.7	-24.4	-42.8	-44.2
Net movement in unrealised gain on revln. derivatives	-2.3	0.3	0.1	-1.5	0.5	-0.5	0.7	0.3	0.3
Interest expense on repos	0.5	-1.6	0.2	0.9	1.1	1.4	1.6	1.6	1.6
FX losses on re-translation repos	0.0	0.0	-0.9	-0.3	-2.2	0.4	2.0	0.0	0.0
(Increase)/decrease in trade receivables	-1.3	-1.8	0.0	0.0	-0.1	0.1	-3.2	0.0	0.0
Increase/(decrease) in trade payables	0.1	0.1	2.0	-1.5	1.6	-1.7	0.1	0.0	0.0
Directors/other fees paid in cash	5.4	0.0	0.2	0.1	0.1	0.2	0.1	0.1	0.1
Net cash inflow/(outflow) from op activities	-7.6	-8.6	-18.0	-8.5	-1.0	-10.3	-15.9	-8.0	-8.2
Cashflow from investing activities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Coupons and dividends recd.	32.7	31.4	33.3	33.6	34.4	38.0	42.2	42.3	43.7
Change in margin/deriv. sett.	1.7	1.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Purchase of financial assets	-46.5	-71.5	-99.3	-127.0	-109.0	-138.8	-117.8	-122.8	-127.8
Proceeds from sales of financial assets	24.2	72.2	96.9	84.9	125.5	114.2	118.2	112.8	117.8
Net cash outflow from investing activities	12.1	33.6	30.9	-8.5	50.9	13.4	42.7	32.3	33.7
Cashflows from financing activities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Dividends paid	-15.3	-17.0	-22.3	-22.6	-22.7	-22.7	-22.3	-22.3	-22.3
Net sales of shares	15.8	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Proceeds from repos	0.0	0.0	28.2	13.3	0.0	4.2	-8.8	0.0	0.0
Interest paid on repos	0.0	0.0	-0.1	-0.8	-1.1	-1.3	-1.7	-1.6	-1.6
Net cash inflow from financing activities	0.6	-16.8	5.8	-10.2	-23.7	-19.7	-32.8	-23.9	-23.9
Net increase in cash and cash equivalents	5.1	8.2	18.7	-27.2	26.2	-16.6	-6.0	0.4	1.6
Opening cash and cash equivalents	5.2	9.7	19.5	38.1	10.9	37.1	20.5	14.5	14.9
Effect of FX	-0.5	1.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Closing cash and cash equivalents	9.7	19.5	38.1	10.9	37.1	20.5	14.5	14.9	16.5

Source: Volta, Hardman & Co Research

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