Volta Finance Limited (VTA / VTAS) – Intra-month Trading Update

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Guernsey, 24 March 2020

Intra-month Update on the impact of COVID-19 and market movements on Volta Finance.

Effective risk management

For many years, we have followed restrictions and guidelines to avoid adding further correlated risk to those inherent in the assets held by Volta. As a result, the use of leverage has always been limited.

Volta had in place a repurchase agreement that permitted leveraging our CLO BB debt bucket. This repo was $50m one year ago, reduced to $40m in March 2019, reduced again to $35m in December 2019. It was further reduced to $30m early in March and then to $20m, ahead of the greatest falls in asset prices.

Based on the current levels of uncertainty, we sold last week two positions (2 CLO BB tranches for $8m principal have been sold) to increase our cash position so that we can terminate the repurchase agreement whenever we wish.

Thanks to sales in January and February, Volta held a cash position of close to €29m by the ed of February, while the repurchase agreement represented a liability of €32m. We subsequently had to face few margin calls in relation with our currency hedging so that it was necessary to sell some positions to restore our cash level.

Since the 2008 Great Financial Crisis we have limited the exposure to margin calls that might come from hedging non-Euro currency risk. Structurally, we have been selling forward USD against Euro to limit Volta's USD exposure despite having circa 60% of Volta assets in USD. We took the opportunity early in March, given the USD weakness, to purchase forward $30m. Last week with the strong appreciation of the USD against Euro we decided to purchase forward $52m more so that Volta now has only very limited exposure from margin calls in relation with its currency hedging.

As a result, Volta's USD assets are largely unhedged and USD exposure is close to 50%.

Very limited liquidity risk

Having put aside the cash needed to close the repurchase agreement and having a very limited amounts of currency hedging in place, Volta has taken actions to minimize liquidity risk to almost zero.

Volta has only 2 assets with commitments, a CMV and a CLO warehouse. The remaining commitment on the CMV is very limited and can only be called to purchase a newly priced CLO Equity position, which is highly unlikely in the current environment. In relation to the warehouse, we instructed the CLO manager to stop any purchases of loans which will eliminate further short-term funding requirements.

At the time of writing Volta's cash is close to €3m in excess of the amount ($20m) needed to close the repo.

Mark-to-market Impact

The mark-to-market impact of the COVID-19 crisis is large. Prices, as usual in such circumstances, are mixing 3 forces: fundamentals, technical effects and sentiment. At this point it is too early to estimate the fundamental impacts and markets are driven by technicals and sentiment in a phase in which indiscriminate selling is at the forefront.

At the time of writing, we estimate that Volta's NAV is near €4.60 per share, a likely drop in NAV in the region of 35%. This performance is highly volatile and may change materially (upwards or downwards) by the end of March.

Mid to long term performance

As outlined in the latest monthly report, because the underlying loans in CLOs are representative of the overall economy, when there is a risk we might suffer some losses (due to loan defaults or to a very large number of downgrades), governments and central banks intend to mitigate this risk because of the macro impact associated with that risk. It is clearly not an insurance that losses will always be avoided but it is a mitigant regarding the risk associated with Volta investments.

Most governments in the countries to which Volta is exposed are, almost every day, taking steps to support the general economy and corporates to avoid massive default and losses. Due to that and due to the very uncertainty around the length and the consequences of the COVID-19 crisis it is very hard to make any predictions regarding likely aggregate default rates.

Prices at which CLO BB debt tranches and CLO Equity tranches are trading at this point in time are roughly in line with a scenario that incorporates additional defaults in the area of 10%, in relation with the COVID-19, in excess of the standard steady-state default assumption of 2% defaults.

At this point, considering this scenario as plausible is really a question of belief. Governments, almost in all developed countries claim that they will do almost whatever it takes to limit the impact of such crisis to the overall economy. Historically speaking a 10% default uplift (like in 2009) is in line with an increase of 4 to 6% in unemployment rate.

On a short-term basis, we expect all Volta assets to pay their cashflows in April, allowing us to pay the end of April dividend and seize opportunities created by the current dislocations.

Impact on AXA IM and actions taken by the manager

The first thing to say is that, we have activated our BCP plan and all AXA IM people involved in the management of Volta's assets are working effectively from home. We had no disruption in our ability to manage our assets, all tools/systems are available and working well. None of the designated portfolio management team has contracted the virus.

Our first action was to take care of the liquidity risk by closing the repo and reducing FX hedging.

We are also having regular calls with the underlying CLO managers. The main conclusion is that US CLO managers are basically able to rotate/reposition portfolios although it is more difficult for European managers due to lower liquidity of the European loan market (one of the reasons Volta has no exposure to EUR CLO debt).

For the CLO market, trading of the most senior portion (CLO tranches rated AAA/AA/A) is very active, sometimes with even higher volumes than in normal market conditions (for AAA). For CLO BB/BB/Equity tranches there are some trades but with very wide bid/ask margin.

As always in such type of crisis, when the market is driven by liquidity needs, there are plenty of opportunities. Our first action was to secure the situation of Volta by avoiding liquidity issues, we can now concentrate on reshaping the portfolio for the future to capitalize on those opportunities as they arise.

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ABOUT VOLTA FINANCE LIMITED

Volta Finance Limited is incorporated in Guernsey under The Companies (Guernsey) Law, 2008 (as amended) and listed on Euronext Amsterdam and the London Stock Exchange's Main Market for listed securities. Volta's home member state for the purposes of the EU Transparency Directive is the Netherlands. As such, Volta is subject to regulation and supervision by the AFM, being the regulator for financial markets in the Netherlands.

Volta's investment objectives are to preserve capital across the credit cycle and to provide a stable stream of income to its shareholders through dividends. Volta seeks to attain its investment objectives predominantly through diversified investments in structured finance assets. The assets that the Company may invest in either directly or indirectly include, but are not limited to: corporate credits; sovereign and quasi-sovereign debt; residential mortgage loans; and, automobile loans. The Company's approach to investment is through vehicles and arrangements that essentially provide leveraged exposure to portfolios of such underlying assets. The Company has appointed AXA Investment Managers Paris an investment management company with a division specialised in structured credit, for the investment management of all its assets.

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ABOUT AXA INVESTMENT MANAGERS

AXA Investment Managers (AXA IM) is a multi-expert asset management company within the AXA Group, a global leader in financial protection and wealth management. AXA IM is one of the largest European-based asset managers with 739 investment professionals and €750 billion in assets under management as of the end of March 2019.

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The figures provided that relate to past months or years and past performance cannot be relied on as a guide to future performance or construed as a reliable indicator as to future performance. Throughout this review, the citation of specific trades or strategies is intended to illustrate some of the investment methodologies and philosophies of Volta Finance, as implemented by AXA IM. The historical success or AXA IM's belief in the future success, of any of these trades or strategies is not indicative of, and has no bearing on, future results.

The valuation of financial assets can vary significantly from the prices that the AXA IM could obtain if it sought to liquidate the positions on behalf of the Volta Finance due to market conditions and general economic environment. Such valuations do not constitute a fairness or similar opinion and should not be regarded as such.

Editor: AXA INVESTMENT MANAGERS PARIS, a company incorporated under the laws of France, having its registered office located at Tour Majunga, 6, Place de la Pyramide - 92800 Puteaux. AXA IMP is authorized by the *Autorité des Marchés Financiers* under registration number GP92008 as an alternative investment fund manager within the meaning of the AIFM Directive.

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