Volta Finance Limited (VTA / VTAS) – March 2020 monthly report

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Guernsey, 14 April 2020

AXA IM has published the Volta Finance Limited (the "Company" or "Volta Finance" or "Volta") monthly report for March. The full report is attached to this release and will be available on Volta's website shortly (www.voltafinance.com).

PERFORMANCE and PORTFOLIO ACTIVITY

In March, the impact of the COVID-19 crisis was very material on Volta, with the Company's NAV* falling by -32.4%.

The monthly performance** in local currency was: -4.5% for Bank Balance Sheet transactions, -36.9% for CLO Equity tranches; -41.3% for CLO Debt; +0.1% for Cash Corporate Credit deals (this bucket comprises funds that have one-month delay in publishing their NAV); and -11.9% for ABS.

Considering the above market reactions, the strategy that was in place for several quarters already to prefer CLO equity positions instead of leveraging CLO debt tranches permitted avoiding an even larger impact from the pandemic.

At the end of the month, average prices for CLO Equity tranches were 43.6% and 28.9% respectively for USD and Euro positions, 54.3% for USD CLO debt (Volta does not hold Euro CLO debt).

These prices incorporate what we consider as a highly probable assumption that some CLO Equity positions will start suffering partial diversion of cash flows as early as July and that this might become more pronounced in October due to the likely increase of the excess CCC bucket in CLOs.

The lower average price for EUR CLO Equity relative to USD CLO Equity is, we believe, the reflection of lower liquidity and risk appetite in Europe than in the US for this type of assets, as the industries of bigger concern like energy and gaming have significant lower weightings in Europe than in the US.

As mentioned in our interim communication on 24th March, our first priority was to secure Volta's balance sheet. A number of positions had been sold prior to the crisis but an additional four positions were sold (three CLO Debt and one ABS) for a total of €9.7m to face margin calls from currency hedging and amounts drawn from previous investments. These positions generated a loss of €4.9m (0.13 cents per share) relative to the end February valuation. We also reduced significantly the amount of currency hedging to avoid margin calls and, at the end of March, Volta had almost enough cash to fully close its repurchase agreement. April is a month with large cashflows from our assets. We expect this to result in a comfortable net cash cushion following the repo repayment.

As announced on 2nd April, the decision was taken to cancel the dividend due for payment at the end of April. This was a precautionary measure to ensure adequate cash resources given the uncertainty around the cash flow receipts in April. However, both the Board of Volta and AXA IM are committed to reinstituting dividend payments as soon as possible.

As at the end of March 2020, Volta's NAV was €185.1m or €5.06 per share (including €9m in cash). The GAV stood at €197.1m with nearly €12m liabilities, principally being the repo which is expected to be repaid by the end of April.

Regarding longer term performance, it is, as yet, too early to say with certainty how this crisis will impact Volta's cash flows and NAV. However, it is reasonable to expect that:

- Rating agencies will continue to downgrade underlying loans so that the CCC bucket in the underlying loan portfolios will on average exceed the typical 7,5% authorized level. Our view is that the CCC buckets, on average, might reach c. 15% on average in the CLO underlying leveraged loan market. Depending on realized losses and loans in default, such levels would trigger diversion of payments due to CLO Equity. In 2009 Volta faced a similar situation and, in that period, Volta's portfolio outperformed significantly the average market. We will keep you informed about how Volta's positions are performing relative to market.
- Most rating agencies/economic researchers envisage that the COVID-19 crisis might cause defaults in high yield corporate names to rise to around 10% (not accounting for the recession impact), in line with the Global Financial Crisis, 12 years ago. One of the differences though should be the pace at which defaults will occur. During the GFC we had, in the US, a spike of defaults in 2009 and then almost a normal situation in 2010. This time, as the vast majority of loans are covenant light, companies are not pushed into default rapidly and have more time to survive the EBITDA reductions that the COVID-19 crisis is causing. Adding to that the massive governmental and central bank support that is being implemented the pattern regarding defaults might be significantly different from the GFC with a few years of above average default rates but without a brutal 2009-like spike. Should the covenant-lite issuers be kept alive (though with very high leverage), the resulting default pattern from all those actions would be better for CLO Equity positions and for Volta as it gives more time for reinvestments at discount (inside and outside CLOs).

**It should be noted that approximately 15.5% of Volta's GAV comprises investments for which the relevant NAVs as at the month-end date are normally available only after Volta's NAV has already been published. Volta's policy is to publish its own NAV on as timely a basis as possible in order to provide shareholders with Volta's appropriately up-to-date NAV information. Consequently, such investments are valued using the most recently available NAV for each fund or quoted price for such subordinated note. The most recently available fund NAV or quoted price was for 9.0% as at 29 February 2020, 4.3% as at 31 December 2019 and 2.2% as at 30 September 2019.*

*** "performances" of asset classes are calculated as the Dietz-performance of the assets in each bucket, taking into account the Mark-to-Market of the assets at period ends, payments received from the assets over the period, and ignoring changes in cross currency rates. Nevertheless, some residual currency effects could impact the aggregate value of the portfolio when aggregating each bucket.*

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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.

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