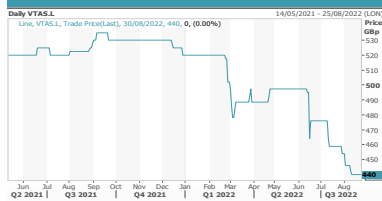


Closed End Investments


Source: Refinitiv

Market data

EPIC/TKR	VTA.NA, VTA.LN, VTAS LN
Price (€)	5.16/5.23/440p
12m high (€)	6.20/6.38/549p
12m low (€)	5.12/5.10/440p
NAV p/sh (Jul'22, €)	6.22
Discount to NAV	17%
Shares (m)	36.6
Mkt cap (€m)	189
2023E div. yield	11.4%
Free float	70%
Market (NL, UK)	AEX, LSE, LSE
Currency	€, €, GBP

Description

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

Company information

Ind. Chairman	Dagmar Kent Kershaw,
Ind. NEDs	Graham Harrison, Stephen Le Page, Yedau Ogundele
Fund Managers	Serge Demay, A Martin-Min, François Touati
AXA IM Paris	BNP Paribas
Co. Sec./ Administrator	Securities Services SCA, Guernsey Branch

BNP: +44 (0)1481 750853
www.voltafinance.com

Key shareholders

AXA Group	30%
BNP WM	16%
BNP Securities Services	10%

Diary

Mid-Sep	Aug estimated NAV
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Analyst

Mark Thomas +44 (0)203 693 7075
mt@hardmanandco.com

VOLTA FINANCE LIMITED

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In our note, *Hardman presentation: Carpe Diem*, we summarised the manager's recent Hardman Talks presentation, *Seizing opportunities in volatile times*. The key messages were i) refi/reset helped build annualised cashflows to a high-teen percentage of NAV, more than double the dividend payout, which should allow the NAV to grow over the medium term, ii) most underlying loans are floating rate, and so income will rise with interest rates, and iii) the net US exposure is positive in the current environment. Recent months have shown that the MTM can be volatile – both negative (May/June) and positive (July), but Volta is about identifying long-term cashflows, which remain strong and stable.

- ▶ **July monthly report:** The CLO market saw a partial recovery of prior-month losses (+5% for CLO equity tranches, +2.3% for CLO debt), with the NAV up 4.5%. Cashflows remain very robust (increased in each of last five months), with six-month interest and coupons equivalent to 21.4% annualised cashflow to NAV.
- ▶ **Market conditions:** Across CLO markets, USD CLO equity received cashflows below expectations due to the loss of the Libor floor (as interest rates rose), in contrast with EUR deals that received higher cashflows than expected. Combined with a rally in EUR CLO equity price (after two challenging months), this led to a double-digit performance for this asset class.
- ▶ **Valuation:** Volta trades at a 17% discount to NAV (which is subject to significant external input and oversight). The relative discount to Fair Oaks seems anomalous, as, over the long term, Volta has delivered a better NAV performance. Volta aims for 8% NAV distribution (dividend yield 11.4% 2023E).
- ▶ **Risks:** Credit risk is a key sensitivity (Volta has a widely diversified portfolio). We examined the valuation of assets, highlighting the multiple controls to ensure its validity, in our *initiation note*. 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 both the NAV and the discount to NAV reflect sentiment. This may be expected to normalise over time, and we note that BGLF's model-based approach saw its NAV drop by only a third that of Volta in March 2020. Fundamental long-term returns have been good: 7.7% p.a. (dividend reinvested basis) since inception. Volta's performance relative to that of its peers has been strong, and returns for investments made after the financial crisis were double those in prior years.

Financial summary and valuation (Hardman & Co adjusted basis)

Year-end Jul (€m)	2017	2018	2019	2020	2021	2022E	2023E
Coupons & dividend	33.2	38.5	42.0	39.4	41.8	45.1	46.1
Operating income	35.0	37.0	41.0	31.5	44.5	46.4	47.1
Inv. manager's fees	(5.7)	(4.2)	(4.2)	(3.9)	(14.2)	(4.0)	(8.6)
Expenses	(0.8)	(0.9)	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)
Total comp. income	28.0	29.7	32.9	25.8	35.2	37.1	37.5
Statutory PTP	38.7	22.7	7.1	(63.0)	76.8	(16.5)	38.9
Underlying EPS (€)	0.8	0.8	0.9	0.7	1.0	1.0	1.0
NAV per share (€)	8.4	8.4	7.9	5.7	7.3	6.2	6.7
S/P discount to NAV*	11%	15%	12%	23%	17%	16%	23%
Gearing	12%	14%	12%	0%	0%	19%	20%
Dividend (€)	0.62	0.62	0.62	0.52	0.52	0.61	0.59
Dividend yield	12.0%	12.0%	12.0%	10.1%	10.1%	11.8%	11.4%

*2017-22 actual NAV and share price, 2023 forecast NAV to current share price
 Source: Hardman & Co Research