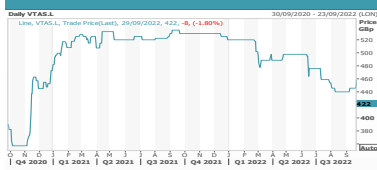


Closed End Investments


Source: Refinitiv

Market data

EPIC/TKR	VTA.NA, VTA.LN, VTA LN
Price (€)	5.10/5.07/449p
12m high (€)	6.20/6.38/549p
12m low (€)	5.10/5.07/440p
NAV p/sh (Aug'22, €)	6.39
Discount to NAV	20%
Shares (m)	36.6
Mkt cap (€m)	187
2023E div. yield	11.5%
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, AXA IM Paris A Martin-Min, François Touati
Co. Sec./ Administrator	BNP Paribas Securities Services SCA, Guernsey Branch

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www.voltafinance.com
Key shareholders

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

Diary

Mid-Oct	Sep estimated NAV
Late Oct	Report and accounts

Analyst

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VOLTA FINANCE LIMITED

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In our note of 16 September 2022, *Cash is king and the king is rocking and rolling*, we highlighted that Volta is no different from any other investment company in that it identifies when the market has mispriced long-term cashflows. We examined its successes in that current cashflows are at near-record levels and 2.7x the dividend payment. Looking forward, we reviewed why defaults might not rise to the level now built into loan prices – a view consistent with that of rating agencies and Volta – as well as the risks to that position. We noted that the current level of inflation is positive, as long as it is not sustained for too long. We also highlighted Volta's diversification and geographical exposure. With all that in mind, the discount appears anomalous.

- ▶ **Strong current position:** Current cash receipts are 21.4% of NAV, reflecting low defaults (strong corporate cashflows and profitability, ability to pass on inflation to date), CLOs having reduced borrowing costs, CLO floating rate investments, and Volta's portfolio positioning in recent years into CLO equity.
- ▶ **Resilience going forward:** The rating agency/Volta/our confidence in a relatively low expected level of defaults may reflect i) a strong starting position, including high cash cushions in CLO structures, ii) a preponderance of private equity, iii) inflation friend, not foe, iv) covenant-lite documentation, and v) diversification.
- ▶ **Valuation:** Volta trades at a 20% 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 11.5% 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%	24%
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	12.2%	12.2%	12.2%	10.2%	10.2%	12.0%	11.5%

*2017-22 actual NAV and share price, 2023 forecast NAV to current share price

Source: Hardman & Co Research