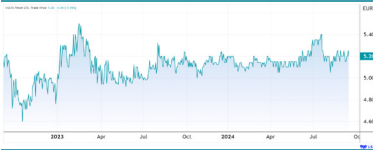




11 September 2024

Closed End Investments



Source: LSEG, 2024

Market data

EPIC/TKR	VTA.NA, VTA.LN VTAS LN
Price (€)	5.25/5.23/430p
12m high (€)	5.40/5.40/468p
12m low (€)	5.00/4.78/404p
Shares (m)	36.6
Mkt cap (€m)	192
2024E div. yield	10.1%
Latest NAV (Jul'24, €)	7.13
Discount to NAV	-26%
Country of listing	NL/UK
Currency of listing	€/€/GBP
Market	AEX, LSE

Description

Volta is a closed-ended, limited liability investment company that aims to provide a steady stream of quarterly dividends, pursuing exposure, predominantly, to Collateralised Loan Obligations (CLOs) and similar asset classes.

Company information

Ind. Chair	Dagmar Kent Kershaw
Ind. NEDs	Stephen Le Page, Yedau Ogundele Joanne Peacegood
Fund Manager	AXA IM
Co. sec./	BNP Paribas
Administrator	Securities Services SCA, Guernsey
BNP:	+44 (0)1481 750853
Website:	www.voltafinance.com

Key shareholders

AXA SA Bank	21.75%
BNP Paribas	15.28%
AXA Framlington IM	8.23%
BNP Wealth Mgt.	5.50%

Diary

Mid-Sep	Aug estimated NAV
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Analyst

Mark Thomas
mt@hardmanandco.com

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VOLTA FINANCE LIMITED

FY'24: another year of outperformance

Volta's *monthly* to its FY-end of July reported an NAV total return of 19.7% while annualised cash receipts are 22% of the July NAV, consistent with levels seen since mid'22. For 16 consecutive months, it has generated positive NAV returns. In this note, we detail the different elements that have driven this performance. We note both positive markets and incremental value added by the manager. To put Volta's returns into perspective, YTD to end-July, there has been a +10.8% total NAV return, more than twice the level of high-yield debt markets (US and Europe), which returned ca.4.5%. The discount appears anomalous with such a performance.

- ▶ **Positive CLO markets:** We believe investors should "follow the cash". Receipts into CLO structures have been strong, with low default rates from good corporate profitability and cashflow, and many borrowers passing on inflation to customers. Cash leaving CLO structures reflects refinancing and resetting opportunities.
- ▶ **Value added by AXA IM:** AXA IM adds value with its scale, bringing i) specialist expertise to identify mis-priced opportunities and manage risk, ii) a broad network with informational advantages, and iii) business introduction and pricing opportunities. We also highlight its portfolio construction/asset selection.
- ▶ **Valuation:** Volta trades at a double discount: its share price is at a 26% discount to NAV, and we believe its MTM NAV still includes a further sentiment-driven discount to the present value of expected cashflows. Volta targets an 8% of NAV dividend (10.1% 2024E yield, on current share price).
- ▶ **Risks:** Credit risk is a key sensitivity. In this note, we examine the valuation of assets, highlighting the multiple controls to ensure its validity. The NAV is exposed to sentiment towards its own and underlying markets. Volta's long \$ position is only partially hedged.
- ▶ **Investment summary:** Volta's NAV and the discount to NAV may be volatile over time. Fundamental long-term returns have been robust: 8.0% p.a. (dividend reinvested basis) since inception. Volta's performance relative to that of its peers, and the market it operates in, have been strong. 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)	2020	2021	2022	2023	2024E	2025E
Coupons & dividends	39.4	41.8	42.9	47.0	39.7	46.1
Operating income	31.5	44.5	41.6	44.1	53.7	51.6
Total inv. manager fees (stat.)	(3.9)	(14.2)	(3.9)	(5.6)	(9.8)	(9.3)
Other expenses	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)
Total comp. inc.	25.8	35.2	33.4	35.2	42.8	41.3
Statutory PTP	(63.0)	76.8	(17.8)	27.0	44.1	42.5
Underlying EPS (€)	0.7	1.0	0.9	1.0	1.2	1.1
NAV per share (€)	5.69	7.28	6.22	6.45	7.13	7.72
S/P prem./disc. (-) to NAV*	-23%	-17%	-16%	-21%	-26%	-32%
Gearing	0%	0%	0%	0%	0%	0%
Dividend (€)	0.52	0.52	0.61	0.51	0.53	0.57
Dividend yield	10.1%	9.7%	10.9%	9.7%	10.1%	11.0%

*2020-24 actual NAV and s/p, 2025E NAV to current s/p; Source: Hardman & Co Research

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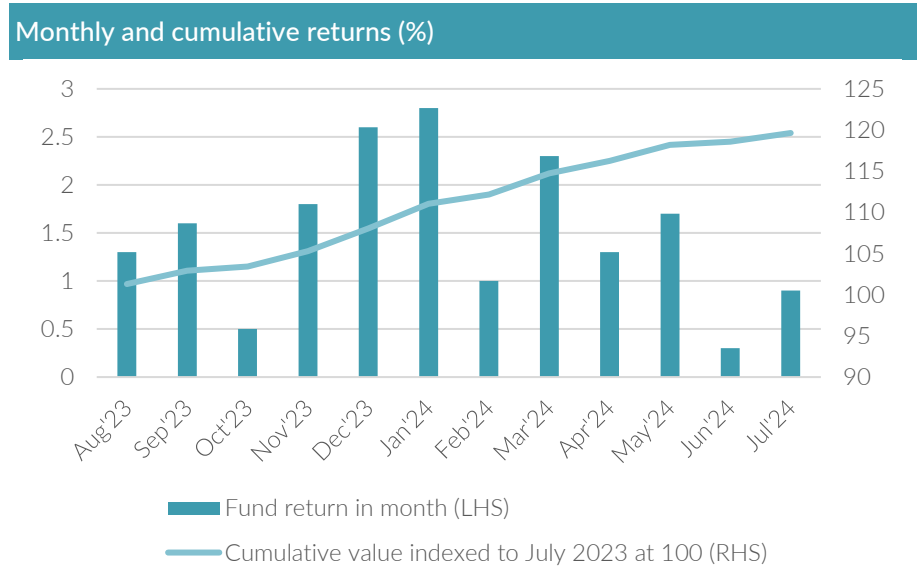
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The year in review

Positive NAV total returns in every month, leading to 19.7% total return over the year

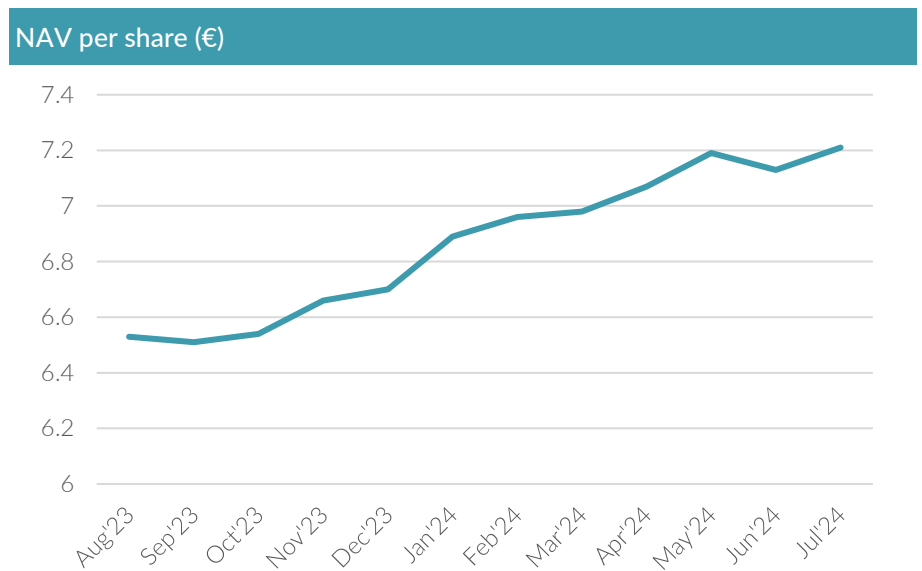
As the chart below shows, Volta delivered a positive NAV total return, in every month of the past year, and, over FY'24, the overall return was nearly 20%.



Source: Volta factsheet, Hardman & Co Research

NAV grown steadily despite (rising) dividend cost

The chart below shows the steady growth in NAV per share through the year. Sequential months are somewhat distorted by the quarterly dividends (which are based off a policy of paying 8% of the NAV on a quarterly basis). The rising NAV has seen the dividend rise through FY'24 (Sep'23 €0.13 p/sh, Dec'23 €0.14, Mar'24 €0.14, Jul'24 €0.145).



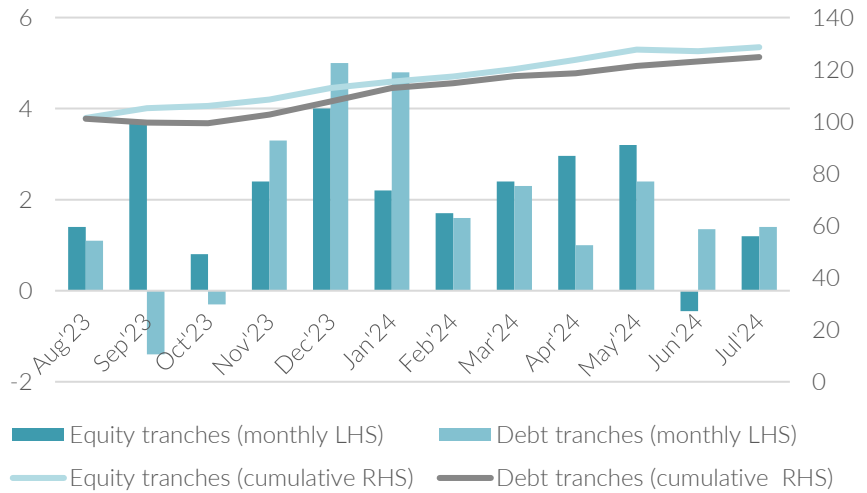
Source: Volta factsheet, Hardman & Co Research

CLO equities positive return in 11 months, 28.6% over year

CLO debt positive return in 10 months, 24.8% over the year

The portfolio is primarily invested in CLO instruments (see chart below), and, as can be seen, both CLO equity holdings and debt investments have delivered good returns (28.6% and 24.8%, respectively). The slight outperformance by equity positions supports AXA IM's decision to be more overweight in this asset class. As we note below, the portfolio is actively managed.

Monthly (%) and cumulative (indexed to July 2023 at 100) returns by CLO asset class (%)

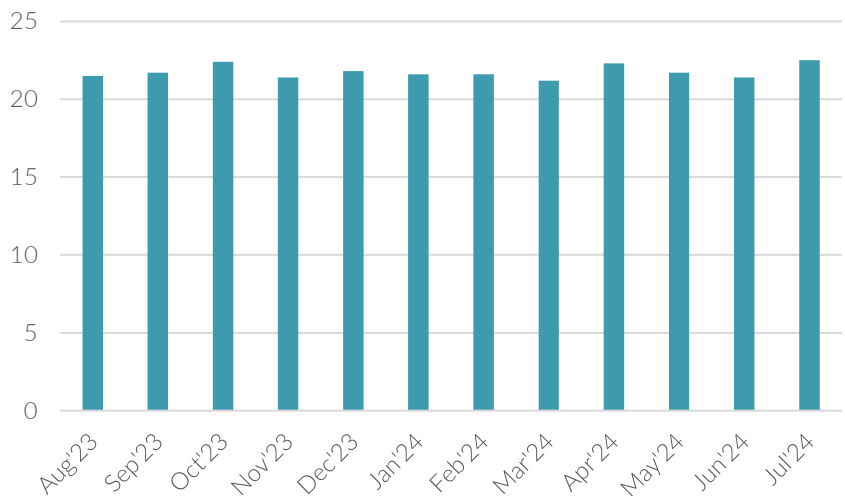


Source: Volta factsheet, Hardman & Co Research

Prior six-month annualised cash receipts ca.22% of the (rising) NAV, consistent through year and since mid-2022

The following chart shows the past six months' annualised cashflow as a percentage of the closing NAV. The receipts have been consistently around this level since mid-2022, reflective of the positive underlying markets and AXA IM's positioning of Volta within it. Volta's projected gross yield is still expected to exceed 15%, even as the rate environment moves to a falling one through 2024.

Past six months' cash receipts, as a percentage of closing NAV (%)

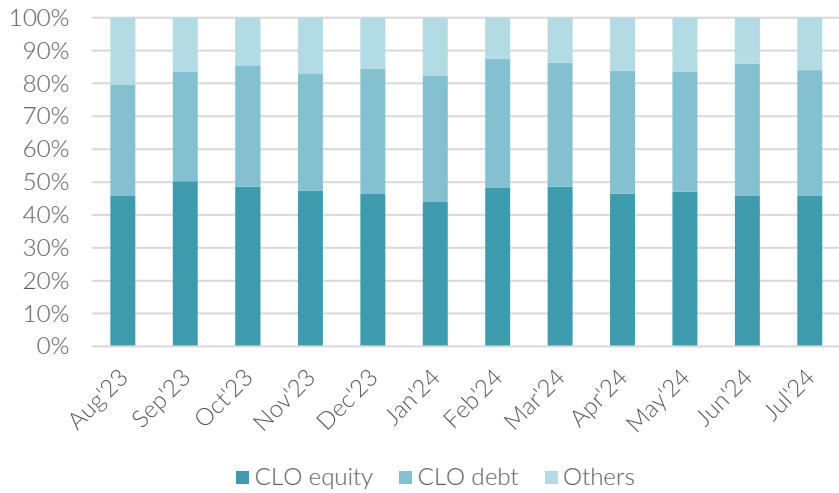


Source: Volta factsheet, Hardman & Co Research

Small shift from CLO equities through the year, reflecting performance and risk/reward outlook

The portfolio has evolved, as detailed in the chart below. CLO equities, at the start of FY'24, were 1.4x/1.5x the proportion of CLO debt positions, but this has been reduced to 1.1x/1.2x, reflecting the outperformance of equities and AXA IM's view of the risk-adjusted returns that both offer. This change in mix started in 2023 (in January 2023, CLO equities were 48.3% against debt 28%).

Portfolio mix by month (%)



Source: Volta factsheet, Hardman & Co Research

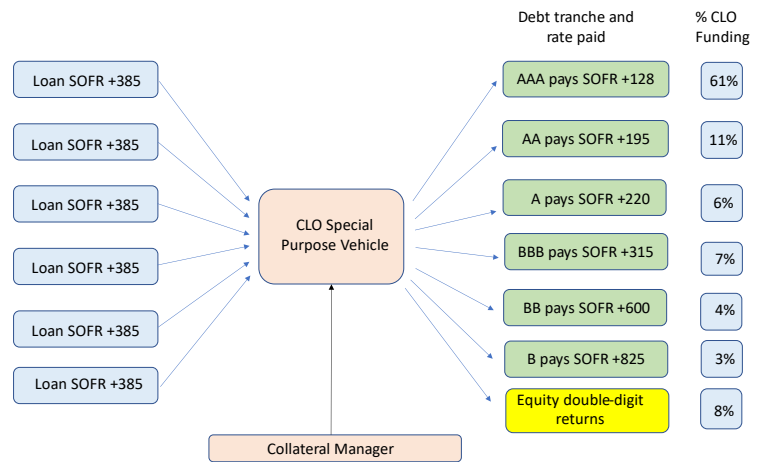
Returns generated in strong markets and AXA value added

Focus on the cash

CLOs can be broken down into simple cashflows: cash in reflects interests on loans while cash out reflects interest on CLO own debt

We believe investors can best appreciate why Volta has achieved such outperformance by focusing on cashflows. The chart below shows a typical CLO deal. As we outlined in our note, *An easy guide to the benefits of CLOs* (18 April 2023), at heart, the Volta CLO investments have very simple cashflows. They buy a portfolio of loans, which pay them interest, and they use that income to pay their own debt, with a surplus available for CLO equity investors. The diversification benefits and credit enhancements embedded into CLO structures mean that the vast majority of the debt issued by CLOs is at a lower spread than the loans they invest in.

Simplified example of CLO structure



Source: Hardman & Co Research

Strong markets

Income to CLO vehicles

Strong "cash into" CLO structures reflect good corporate profitability

AXA IM highlights that, in 2023, corporate loans recorded their best performance since 2009. CLO vehicles have seen robust interest on the loans they own because:

- ▶ Strong corporate cashflow and profitability have led to low levels of defaults (still sub 2%) and rating downgrades.

Volta Finance Limited

Increasing prevalence of cov-lite documentation and strong PE backers give troubled companies time and so reduces probability of default

- ▶ The increasing prevalence of cov-lite documentation, and financially strong PE backers, has reduced the probability of default. Many of the companies who now face difficulties have the time to restructure rather than reaching a default event. The impact on loss in the event of default is unclear (in our view, recoveries will reduce); however, the changes in documentation and ownership have helped keep defaults at low levels, despite rising interest burdens.

Leverage loan duration extended significantly into 2028

- ▶ Many corporates have been able to pass on the initial inflationary increases to their customers.

- ▶ The good underlying corporate cashflows allowed the leverage loans markets to extend significantly the duration of the debt, into 2028 and beyond.

- ▶ Debt restructuring by companies saw old loans repaid at par when many had been trading (and so valued by CLOs) at discounts.

Most CLO investments floating rate

- ▶ Most CLO investments are floating rate and so benefit from a rising rate environment.

We reviewed these issues in more detail in our note, [*Cash is king and the king is rocking and rolling*](#) (16 September 2022), and the key messages have been consistent since then.

Interest cost for CLO vehicles

Cash out reflects refinancing and resetting of CLO debt

We have written multiple times on how CLOs have been able, over several years, to refinance or reset their capital structures and so reduce the interest burden – see, for example, [*Re-Set, Re-Fi, Re-Light my Fire*](#) (5 May 2021). The capital markets have allowed CLO debt to reduce its funding costs relative to their investments, thus creating positive jaws of income growth ahead of cost growth.

AXA IM value added

Scale brings resourcing, informational, access and pricing advantages unavailable to smaller player

We refer investors to our note, [*The benefits of having AXA IM as the manager*](#) (7 December 2023), for a detailed review of the benefits that AXA IM brings. In that report, we noted AXA IM's scale in Alternative Credit (€49bn+ AUM) and how its experience (20 years+ track record) brings i) resourcing, allowing specialist expertise to identify mis-priced opportunities and manage risk, ii) a network with informational advantages, allowing early identification of trends, and iii) business introduction and portfolio opportunities, such as mid-pricing, unavailable to smaller players. The bottom line is that AXA IM has consistently outperformed benchmarks, especially in challenging conditions, including the pandemic and GFC. YTD to end-July 2024, as reported in Volta's factsheet, Volta has delivered returns over 2x the levels of high-yield debt markets.

Bottom line is AXA IM has outperformed benchmarks

Lack of impact from Altice downgrading further evidence of good CLO manager selection

Picking the right managers is further evidenced by the company-forecast nil impact on Volta's cashflows from the unexpected downgrading of Altice France (its biggest underlying exposure, at 0.8% of the portfolio). The company does not expect even any impact on the price of the positions it holds. On average, Volta's managers had a lower exposure than the CLO market as a whole, and they had built up cash reserves against idiosyncratic credit risk.

NAV underlying resilience

We have written multiple times on the resilience of the portfolio

Portfolio resilience has been the subject of multiple reports we have written on Volta, with the overall conclusion that the cashflows of the business should prove robust. We list below a selection of our reports, which cover the portfolio's resilience.

- ▶ Our [initiation report](#) (5 September 2018).
- ▶ [9%+ yield in uncertain times](#) (7 October 2019).
- ▶ [Follow the money](#) (3 February 2020).
- ▶ [Value added by active portfolio management](#) (15 September 2020).
- ▶ [Cash is king and the king is rocking and rolling](#) (16 September 2022).
- ▶ [R&A shining light on 20%+ IRR base-case scenarios](#) (11 January 2023).
- ▶ [An easy guide to the benefits of CLOs](#) (18 April 2023).
- ▶ [The benefits of having AXA IM as the manager](#) (7 December 2023).
- ▶ [Insights from the Report and Accounts](#) (24 January 2024).

In summary, the key points are:

CLO market has multiple risk enhancement features and AXA IM has track record of investing with below-average risk CLO managers

- ▶ CLO structures have multiple risk enhancement features – see [An easy guide to the benefits of CLOs](#). AXA IM's scale, expertise and market presence mean that it has a proven track record of investing with CLO managers who have below-average risk (see [The benefits of having AXA IM as the manager](#)) as well as actively managing the portfolio *to the risk outlook* (see the benefits report and [Value added by active portfolio management](#)).

Sensitivity to rising rates managed

- ▶ We believe sensitivity to rising rate environment is a key issue for all investors in debt investment companies. As noted above, Volta, to date, has performed exceptionally well through a combination of asset class allocation, variable rate debt positions, and CLO equity positions, benefitting from CLO debt refinancing – see our notes, [Re-Set, Re-Fi, Re-Light my Fire](#) (published 5 May 2021) and [R&A shining light on 20%+ IRR base-case scenarios](#) (published 11 January 2023) – and the low default rates.

Financials

Our estimates are unchanged

To derive our adjusted profit and loss, we strip out the capital movements, including i) unrealised gains/losses, ii) FX movements, and iii) net gains of IR derivatives. We have left in realised gains, which, although volatile, have been converted into cash, and some capital gains may 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									
Year-end Jul (€m)	2017	2018	2019	2020	2021	2022	2023	2024E	2025E
Coupons and dividends received	33.2	38.5	42.0	39.4	41.8	42.9	47.0	39.7	46.1
Net gains on sales	3.1	0.0	0.5	(7.0)	2.7	(1.3)	(3.4)	13.5	5.0
Net gain on fin. assets at FV through P/L	36.2	38.5	42.5	32.4	44.5	41.7	43.6	53.2	51.1
Interest expense on repo	(1.1)	(1.4)	(1.6)	(0.8)	-	-	-	-	-
Net bank interest & charges	(0.1)	(0.1)	0.1	0.0	(0.0)	(0.0)	0.5	0.5	0.5
Operating income	35.0	37.0	41.0	31.5	44.5	41.6	44.1	53.7	51.6
Inv. manager fees	(4.6)	(4.6)	(4.4)	(3.6)	(3.3)	(3.9)	(3.3)	(3.5)	(3.9)
Inv. manager performance fees	(1.2)	(1.3)	(2.1)	(0.6)	(4.6)	(3.0)	(4.3)	(6.0)	(5.1)
Directors' remuneration & expenses	(0.5)	(0.5)	(0.5)	(0.5)	(0.3)	(0.4)	(0.3)	(0.3)	(0.3)
Other expenses	(0.8)	(0.9)	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)
Total expenses	(7.0)	(7.3)	(8.0)	(5.7)	(9.3)	(8.3)	(8.9)	(10.9)	(10.3)
Profit and total comp. income	28.0	29.7	32.9	25.8	35.2	33.4	35.2	42.8	41.3
Adjusted EPS (€)	0.77	0.81	0.90	0.71	0.96	0.91	0.96	1.17	1.13
Dividend cover (x)	1.24	1.31	1.45	1.36	1.85	1.49	1.89	2.22	1.96

Source: Volta, Hardman & Co Research

Glossary

When looking at Volta, investors are likely to come across a number of technical terms summarised below.

Glossary	
Term	Meaning
ABS	Asset-backed securities.
ABS residual positions	Residual income positions, which are a sub-classification of ABS, being backed by any of the following: residential mortgage loans; commercial mortgage loans; automobile loans; student loans; credit card receivables; or leases.
Bank Balance Sheet Transactions (BBST)	Synthetic transactions that permit banks to transfer part of their exposures, such as exposures to corporate loans, mortgage loans, counterparty risks, trade finance loans, or any classic and recurrent risks that banks take in conducting their core business.
Cash Corporate Credit (CCC)	Deal-structured credit positions, exposed predominantly to corporate credit risks by direct investments in cash instruments (loans and/or bonds).
Cash diversion	In periods of stress (typically measured by a specific deterioration in the proportion of the portfolio with worse-quality ratings), cash is diverted from being distributed to equity holders, and is retained to provide additional protection for bond holders.
Cash waterfall	The clear priority in which income from the SPV is allocated to stakeholders.
CLOs or CLO	A collateralised loan obligation (CLO) is a single security backed by a pool of debt. CLOs are often corporate loans with low credit ratings, or loans taken out by PE firms to conduct leveraged buyouts.
CLO 1.0	The first vintage of modern CLOs (issued from mid- to late 1990s). It included some high-yield bonds, as well as loans, and was the standard CLO structure until the financial crisis struck in 2008. Now under 1% of CLOs in issue.
CLO 2.0	Issued 2010-14, in response to the financial crisis, by strengthening credit support and shortening the period in which loan interest and proceeds could be re-invested into additional loans.
CLO 3.0	Began in 2014, and aimed to further reduce risk by eliminating high-yield bonds and adhering to the post-GFC regulatory changes. Currently, few CLOs allow for investments into high-yield bonds, and those that do generally limit the exposure to 5%-10%. To compensate for the exposure to high-yield bonds, these CLOs have increased levels of subordination to better protect debt tranches.
Capitalised Manager Vehicle (CMV)	A CMV is a long-term, closed-ended structure, which is established to act as a CLO manager and to also provide capital in order to meet risk retention obligations when issuing a CLO, and also to provide warehousing capabilities.
CPR	Constant prepayment rate.
Refi	Consists in refinancing part, or all, of the debt tranches of a CLO, while operating very modest changes in the CLO documentation.
Reset	Consists in calling all the debt tranches of a CLO, re-marketing a full new debt package, with new CLO documentation, almost as if it were a new CLO.
Synthetic Corporate Credit (SCC)	Structured credit positions predominantly exposed to corporate credit risks by synthetic contracts.
Underlying assets	The assets in which the company may invest, either directly or indirectly, include, but are not limited to, corporate credits, sovereign and quasi-sovereign debt, residential mortgage loans, commercial mortgage loans, automobile loans, student loans, credit card receivables, leases, and debt and equity interests in infrastructure projects.
Warehouse	A warehouse is a short-term structure put in place before a CLO happens in order to accumulate assets, in order, in turn, to facilitate the issue of the CLO. A warehouse is leveraged, and can be marked to market.
Weighted average life of the loans (WAL)	The average length of time that each dollar of unpaid principal on a loan or an amortising bond remains outstanding.
Weighted average risk factor (WARF)	The WARF measure aggregates the credit ratings of the portfolio's holdings into a single rating. The credit rating letter rating corresponds to a numerical rating factor, which, in turn, corresponds to the 10-year probability of default. The WARF is determined by calculating the weighted average of these numerical factors.
Weighted average spreads (WAS)	A percentage equal to i) the Aggregate Funded Spread, divided by ii) the Aggregate Eligible Collateral Obligation Amount (excluding any interest that has been deferred and capitalised on any Deferrable Collateral Obligation).

Source: Hardman & Co Research

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