



7 December 2023

## Closed End Investments



Source: Refinitiv

## Market data

EPIC/TKR	VTA.NA, VTA.LN VTAS LN
Price (€)	5.14/5.13/440p
12m high (€)	6.10/6.08/512p
12m low (€)	4.55/4.60/400p
Shares (m)	36.6
Mkt cap (€m)	188
2024E div. yield	10.3%
Latest NAV (Oct'22, €)	6.54
Discount to NAV	-21%
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	Joanne Peacegood, Stephen Le Page, Yedau Ogundele
Fund Manager	AXA IM
Co. sec./	BNP Paribas
Administrator	Securities Services SCA, Guernsey
BNP:	+44 (0)1481 750853
Website	<a href="http://www.voltafinance.com">www.voltafinance.com</a>

## Key shareholders

AXA Group	30%
BNP WM	16%
BNP Sec. Serv.	11%

## Diary

Mid-Dec	Nov estimated NAV
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## Analyst

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# VOLTA FINANCE LIMITED

## The benefits of having AXA IM as the manager

In this note, we review the value added to Volta by having AXA IM as the manager. In particular, AXA IM's scale in Alternative Credit brings i) greater 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 unavailable to smaller players. Good governance means potential conflicts of interest appear well managed. The bottom line is that AXA IM has consistently outperformed benchmarks, especially in challenging conditions, including the pandemic and GFC.

- ▶ **Strong current position:** Volta's current cash receipts are over 20% of NAV, reflecting low defaults (strong corporate cashflows and profitability, ability to pass on inflation to date), low locked-in CLO borrowing costs, CLOs being floating-rate investments and Volta's portfolio positioning over recent years into CLO equity.
- ▶ **Resilience:** The rating agency's/Volta's/our confidence in a relatively low expected level of defaults reflects i) a strong starting position, including high cash cushions in CLO structures, ii) a preponderance of private equity (PE), iii) inflation still being friend, not foe, iv) covenant-lite documentation, and v) diversification.
- ▶ **Valuation:** Volta trades at a double discount: its share price is at a 21% discount to NAV, and we believe its mark-to-market (MTM) NAV still includes a further sentiment-driven discount to the present value of expected cashflows. Volta targets an 8% of NAV dividend (10.3% 2024E yield on current share price).
- ▶ **Risks:** Credit risk is a key sensitivity. We examined the valuation of assets, highlighting the multiple controls to ensure its validity, in our *initiation note*, in September 2018. The NAV is exposed to 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 may be volatile over time. We note the closest competitor to Volta has had a more stable NAV valuation due to a different asset valuation approach. Fundamental long-term returns have been robust: 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)	2020	2021	2022	2023	2024E	2025E
Coupons & dividends	39.4	41.8	42.9	47.0	39.7	43.0
Operating income	31.5	44.5	41.6	44.1	36.7	40.1
Inv. manager fees (stat.)	(3.9)	(14.2)	(3.9)	(5.6)	(6.5)	(7.1)
Other expenses	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)
Prof. & tot. comp. inc.	25.8	35.2	33.4	35.2	29.3	32.0
Statutory PTP	(63.0)	76.8	(17.8)	27.0	30.6	33.3
Underlying EPS (€)	0.7	1.0	0.9	1.0	0.8	0.9
NAV per share (€)	5.69	7.28	6.22	6.45	6.76	7.12
S/P prem./disc. (-) to NAV*	-23%	-17%	-16%	-21%	-24%	-28%
Gearing	0%	0%	0%	0%	0%	0%
Dividend (€)	0.52	0.52	0.61	0.51	0.53	0.55
Dividend yield	10.3%	9.9%	11.1%	9.9%	10.3%	10.7%

\*2020-23 actual NAV and s/p, 2024-25E NAV to current s/p; Source: Hardman & Co Research

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## AXA IM scale

AXA IM is a large-scale player in structured debt and CLO markets, bringing multiple advantages to Volta investors

Across all alternative investments (real estate equity, private debt & alternative credit, and private equity & infrastructure), AXA IM has more than 480 investment professionals in 17 offices and has €185bn assets under management,<sup>1</sup> making it one of the largest worldwide investors in alternatives. The alternative credit platform was established in 2001. Within private debt & alternative credit, it has €85bn+ assets under management, 75+ investment professionals, and is ranked number 1 for European private debt raisings.<sup>2</sup> It has over €22bn in CLO AUM and has invested in CLO tranches since the inception of the market in 1999. In our view, for Volta investors, this scale is important in terms of what it brings, notably, for front-, mid- and back-office expertise, information flows and near-unique business opportunities.

## Investing expertise

Investing expertise in cashflows, CLO manager competence, deal structuring

We highlighted in our 18 April note *An easy guide to the benefits of CLOs* that "The core of CLOs is uncomplicated cashflows. They are just a pooling of loans into a vehicle, which funds itself by issuing a range of debt and equity." Investing in CLOs has a lot of elements to optimise probability of success. *Inter alia*, these include:

- ▶ end-borrower cashflows, risks of defaults, restructurings of debt;
- ▶ CLO manager competence, judging both its assessment of borrower credit as well as the dynamics of its portfolio management;
- ▶ the exact implications of the structuring and risk enhancement built into CLO structures – CLO equity and the various tranches of CLO debt offer very different risk rewards in varying market conditions;
- ▶ underlying issuers' business model and financing structures, cashflow generation prospects and ultimately their default probability; and
- ▶ the implications of macro drivers such as interest rates.

AXA IM's CLO team has 20+ specialists, giving it the capacity to analyse a large number, and broad range, of transactions. Getting into the detail of a deal is essential to appreciating when it is being mis-priced (or not).

## Control function expertise

AXA IM's scale means it can invest in risk, accounting, treasury, legal functions

Volta can access the specialist control expertise only available in large institutions.

- ▶ The Volta team benefits from AXA IM's risk department, with its assessments of macro-risk, credit outlook and portfolio management tools. In all these areas, AXA IM's scale allows it to invest in resourcing specialist expertise. Two out of the 10 risk-team professionals are CLO experts.
- ▶ Additionally, the risk team regularly reviews valuation assumptions for reasonableness. It is also currently standard market practice to withhold key model inputs and discount rates that have been used to produce valuations. By way of a direct example, on Bank Balance Sheet Transactions (BBST), the price comes from AXA IM (valuing positions based on the market observed discount rate and the underlying positions, reviewed with AXA IM Risk department) in

<sup>1</sup> <https://alts.axa-im.com/>

<sup>2</sup> <https://alts.axa-im.com/investment-expertise/private-debt-and-alternative-credit>

order to avoid using arranging banks' prices. Having access to the risk team's assumptions is an important governance benefit.

- ▶ Volta has access to the treasury skills of a global financial institution leading to, for example, a lower funding charge and better terms on its historical Repos financing than could have been achieved on a standalone basis. It has full access to capital markets for risk management tools, as appropriate.
- ▶ Volta has access to advanced legal expertise in order to assess and manage documentation and structuring risks.

#### State-of-art controls because of the investment and market knowledge

We note there are the usual discussions between market participants, and AXA IM's significant market presence gives it a good understanding of what other players are doing, in risk control areas. As a standalone, ca.€240m NAV entity, Volta is unlikely to be as state-of-the-art, but AXA's greater scale means it can invest in technology. Investing in proprietary technology has been a pillar of AXA IM's growth since it identified, early on, the necessity for bespoke tools in order to frame risk correctly. Among other investments, AXA IM has developed its own i) cashflow and stress-testing modelling system (the former means AXA IM runs a "cash-to-be kept" control to check adequacy of cash set aside with actual FX and interest rate derivatives in the portfolio), ii) machine learning algorithm to automatically read legal documentation, and iii) CLO Manager and CLO Tranche scoring system.

## Information flows

#### Volta's team part of wider Alternative Credit group

The Alternative Credit units all sit on the same floor and have many points of contact in addition to a weekly market meeting, in which the market situation is discussed. The Volta investment team is physically close to AXA's CLO managing team and so derives continuous market intelligence, which can be especially important in times of stress. There are appropriate Chinese Walls concerning private information on specific credits, but this proximity gives an enhanced and timely understanding of the loan market as a whole.

#### As AXA IM is a CLO manager, it gives insight into how other CLO managers behave

AXA IM's own operations in the CLO market give it an insight into how other CLO managers are running their activities. Volta is reliant on the CLO managers to assess credit and actively manage its portfolios. Being in such proximity to a CLO issuance platform enables the investment team to access public information regarding idiosyncratic names, market trends and flows in a timely manner. It also allows the teams to share views on the evolutions in CLO legal documentations and, ultimately, helps CLO investment analysts to negotiate the best possible terms in order to protect Volta's investors.

#### Wider investment team

In addition to the immediate team, as we noted above, the wider alternatives group and AXA IM's extensive resources mean that Volta's portfolio managers benefit from local sector-specific intelligence that smaller asset managers would struggle to gather as efficiently. For instance, during the COVID-19 pandemic, AXA IM used real-time feedback from staff located in different parts of the world in order to anticipate and adapt its strategy in areas that had yet to be affected.

## Business introductions

We see benefits to both volume and pricing for business introductions

We see benefits to both volume and pricing for business introductions:

- ▶ As a major investor, AXA IM is identified as a key account by most arranging banks. AXA IM benefits from an early access to most, larger-than-usual, transactions and/or innovative structures, since it has the capacity to deploy substantial capital quickly. As a result, AXA IM can pick its investments from a much bigger pool and always stay up-to-date in terms of market developments and product offering.
- ▶ AXA IM leverages on its scale to minimise bid offer spread and achieve best execution. It has a team of two product-dedicated traders while three portfolio managers also have an extensive trading background. As a result, AXA IM's execution tends towards mid-market levels, not bid-side. Also note that, due to the long-standing partnerships established with brokers over the years, AXA IM accesses liquidity, even in volatile markets.

## Other issues

Good governance with transparent policies limits conflicts of interest

With regards to potential conflicts of interest with other AXA IM structured funds, the fund manager advises that assets are allocated in relation with cash availability. For example, there are several active funds currently investing in CLO equity and mezzanine tranches. Volta is part of the fair allocation policy designed and implemented at AXA IM across all CLO investments. Allocations are based on the "Indication of Interest" communicated by each portfolio manager for their respective funds. In the event that AXA IM would not receive a full allocation on their aggregated order, final allocations will be calculated on a *pro rata* basis so funds are treated fairly, no matter the size of their AUM or their IOI. We understand the Volta board reviews trades retrospectively (unless there are "restricted assets", which they see in advance) as a corporate governance control.

Limited "key man" risk

The large team approach within AXA IM limits the dependence on any individual. The manager who has engaged most with the trust's investors in recent years, Serge Demay, is retiring, but AXA IM advises there will be no change in approach. The other team members have multiple decades of combined experience in making investments for the trust and have been through multiple crises such as the GFC.

One downside is fee structure aligned to CLO market rather than UK investment trusts

We believe that some investors are concerned at the fee structure, where performance fees are more aligned to CLO market practice than a typical UK investment company. Volta is far from unique in the alternative investment company space in doing this (private equity fees would be an example) and we highlight that the long-term returns (7.7% annualised from inception to *October 2023*) are after all costs.

## Evidence of benefit to Volta investors

Bottom line is long-term outperformance against benchmarks

Many of the benefits identified above are quite theoretical – how good at communicating are teams which sit on the same floor? Accordingly, we have considered the actual results delivered by both the structured team and Volta specifically in order to assess whether these benefits are real. In coming to the conclusion that they are, we highlight for investors some practical examples.

- ▶ The table below compares the performance of AXA IM managed CLOs with the market. Specifically, we were looking at the performance through the GFC and so looked at CLOs that were originated before the crisis and their IRR to redemption. We think this table is especially useful given it shows multiple years of originations, a long-term investment return and performance through a

financial crisis. In terms of conclusions i) in every year, CLOs originated by AXA IM delivered superior IRRs to those originated across the market, ii) AXA IM CLOs delivered a minimum of double-digit returns while market returns were as low as 5.9% with peak-to-trough volatility at two thirds of the market

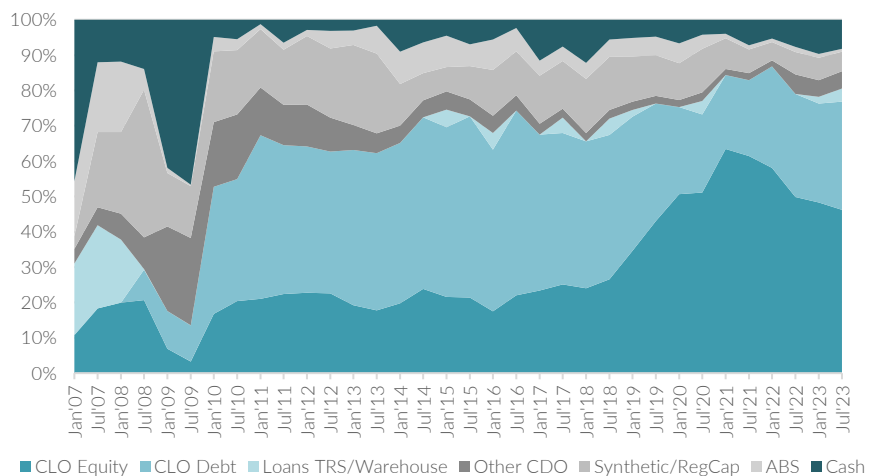
US CLO tranches redeemed IRR (%)							
Vintage	2001	2002	2003	2004	2005	2006	2007
AXA IM	11.4	17.9	11.9	12.2	14.8	20.0	21.4
Market data	n/a	n/a	5.9	11.7	16.0	20.1	21.3
AXA IM vs. benchmark	n/a	n/a	202	105	92	100	100

Source: AXA IM BoFA Global Research/Intex - Update 25 October 2023 - IRR of redeemed US CLO Equity investments by vintage of issuance (excluding any static transaction), Hardman & Co Research

Early in the pandemic, ca.20% US CLOs saw cash diversion. Volta had none.

- ▶ In its 2020 Report and Accounts, Volta (page 4) noted “Although early in the COVID crisis, almost 20% of the overall USD CLO universe suffered a partial or total diversion of cashflows due to a breach of the Reinvestment Test. None of Volta’s CLO equity positions breached that test”. This number of market-wide cash diversions shows that the CLO controls are effective in times of stress, while the fact that Volta achieved its market-beating performance reflects the benefits of having AXA IM as the manager.
- ▶ In the past five years, Volta has had only 4% of its portfolio with a test failed (no deal where Volta was involved at the CLO Equity level), as at April 2020, and it is currently 3% (two CLO, with one deal where Volta has exposure at the CLO Equity level). By comparison, market data indicates that a peak of around a third of US CLOs failed their equivalent tests (and April 2023 close to 10%).
- ▶ Not only have we seen outperformance by the type of CLO asset, but the AXA IM team has added value via the active management of the allocation between asset classes. The chart below shows the sharp increases in CLO equity allocation from mid-2018 to mid-2021 and the more recent increase in CLO debt allocation. This has been a major driver to the strong cash returns we have noted in recent reports.

Asset allocation since January 2007



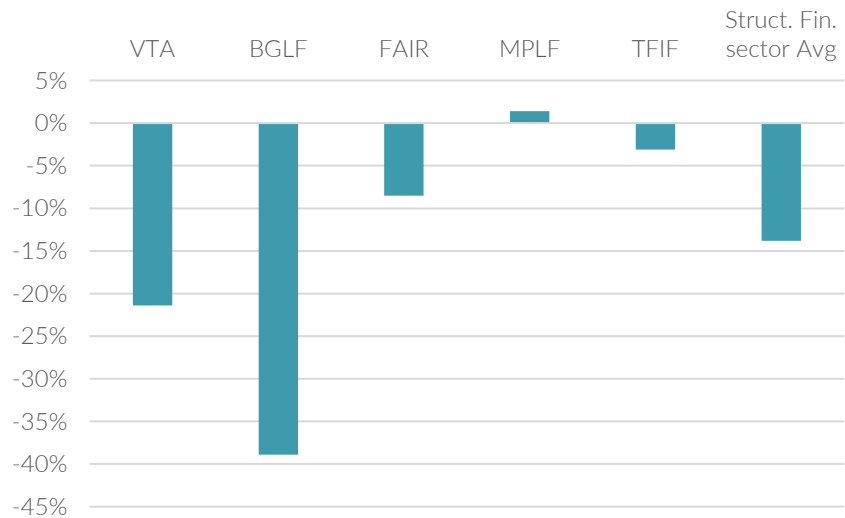
Note: cash adjusted for managers fee due. Source: Volta report and accounts

# Valuation and financials

## Valuation

Given the historical performance, risk profile and portfolio mixes identified in previous reports, Volta's discount to NAV appears anomalous.

### Current share price discount to latest NAV for Volta and peers



Source: Hardman & Co Research, Monthly reports for Volta (VTA), TwentyFour Income Fund (TFIF), Fair Oaks Income Fund (FAIR), Blackstone/GCO Loan Financing Ltd (BGLF) and Marble Point Loan Financing (MPLF); priced at 6 December 2023

## 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	43.0
Net gains on sales	3.1	0.0	0.5	(7.0)	2.7	(1.3)	(3.4)	(3.4)	(3.4)
<b>Net gain on fin. assets at FV through P/L</b>	<b>36.2</b>	<b>38.5</b>	<b>42.5</b>	<b>32.4</b>	<b>44.5</b>	<b>41.7</b>	<b>43.6</b>	<b>36.2</b>	<b>39.6</b>
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
<b>Operating income</b>	<b>35.0</b>	<b>37.0</b>	<b>41.0</b>	<b>31.5</b>	<b>44.5</b>	<b>41.6</b>	<b>44.1</b>	<b>36.7</b>	<b>40.1</b>
Inv. manager fees	(4.6)	(4.6)	(4.4)	(3.6)	(3.3)	(3.9)	(3.3)	(3.5)	(3.7)
Inv. manager performance fees	(1.2)	(1.3)	(2.1)	(0.6)	(4.6)	(3.0)	(4.3)	(2.6)	(3.1)
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)	(7.5)	(8.1)
<b>Profit and total comp. income</b>	<b>28.0</b>	<b>29.7</b>	<b>32.9</b>	<b>25.8</b>	<b>35.2</b>	<b>33.4</b>	<b>35.2</b>	<b>29.3</b>	<b>32.0</b>
<b>Adjusted EPS (€)</b>	<b>0.77</b>	<b>0.81</b>	<b>0.90</b>	<b>0.71</b>	<b>0.96</b>	<b>0.91</b>	<b>0.96</b>	<b>0.80</b>	<b>0.87</b>
<b>Dividend cover (x)</b>	<b>1.24</b>	<b>1.31</b>	<b>1.45</b>	<b>1.36</b>	<b>1.85</b>	<b>1.49</b>	<b>1.89</b>	<b>1.51</b>	<b>1.59</b>

Source: Volta, Hardman & Co Research



## Glossary

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

Glossary		Meaning
Term		
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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