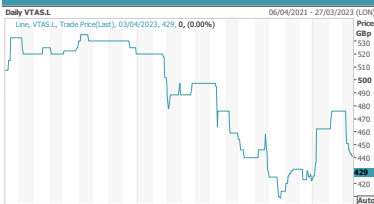


Closed End Investments


Source: Refinitiv

Market data

EPIC/TKR	VTA.NA, VTA.LN, VTAS LN
Price (€)	5.06/5.00/441p
12m high (€)	6.10/6.08/512p
12m low (€)	4.55/4.60/400p
NAV p/sh (Feb'23, €)	6.26
Discount to NAV	-19%
Shares (m)	36.6
Mkt cap (€m)	185
2023E div. yield	11.6%
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. Chair	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./	BNP Paribas
Administrator	Securities Services SCA, Guernsey Branch

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www.voltafinance.com
Key shareholders

AXA Group	30%
BNP WM	16%
BNP Securities Services	11%

Diary

Mid-Apr	Mar estimated NAV
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Analyst

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VOLTA FINANCE LIMITED

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In our note, *R&A shining light on 20%+ IRR base-case scenarios*, we reviewed how Volta generated cashflows at near-record levels, and looked forward, considering why defaults would rise – but not to the level built into loan prices. We highlighted Volta's diversification and geographical exposure. We also reviewed how investors can use the Report and Account (R&A) disclosure to better understand the true business drivers. The *February 2023 factsheet* reinforced these messages, with annualised cashflow at 19.4% of NAV (despite every February being a cyclically low cashflow month). 2022 actual defaults were one fifth the level predicted at the time of the Ukraine invasion. Volta has no exposure to Silicon Valley Bank or bank AT1 instruments.

- ▶ **February 2023 factsheet:** The NAV rose by 1.7%, after an increase of 5.5% in January. The underlying loan fundamentals are strong. Loan default rates are low (0.2% European loans and 1.0% US, on a last-12-month basis) and earnings are coming in better than expected. February saw increased loan refi activity.
- ▶ **Resilience going forward:** The rating agency's/Volta's/our confidence in a low expected level of defaults reflects i) a strong starting position, including high cash cushions in CLO structures, ii) a preponderance of PE, iii) inflation still being a friend, not foe, iv) covenant-lite documentation, and v) Volta's diversification.
- ▶ **Valuation:** Volta trades at a double discount: its share price is at a 19% 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 (11.6% 2023E yield on current share price).
- ▶ **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 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)	2019	2020	2021	2022	2023E	2024E
Coupons & dividend	42.0	39.4	41.8	42.9	45.0	42.6
Operating income	41.0	31.5	44.5	41.6	44.9	42.5
Investment manager fees	(4.2)	(3.9)	(14.2)	(3.9)	(8.1)	(7.6)
Expenses	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)
Total comp. income	32.9	25.8	35.2	33.4	35.8	33.9
Statutory PTP	7.1	(63.0)	76.8	(17.8)	37.1	35.3
Underlying EPS (€)	0.9	0.7	1.0	0.9	1.0	0.9
NAV per share (€)	7.9	5.7	7.3	6.2	6.6	7.0
S/P prem./disc (-) to NAV*	-12%	-23%	-17%	-16%	-24%	-28%
Gearing	12%	0%	0%	0%	0%	0%
Dividend (€)	0.62	0.52	0.52	0.61	0.59	0.61
Dividend yield	12.3%	10.3%	10.3%	12.1%	11.6%	12.0%

*2019-22 actual NAV and share price, 2023-24 forecast NAV to current share price

Source: Hardman & Co Research