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VOLTA FINANCE LIMITED

2024 experience bodes well for 2025

Volta has delivered +21.2% 2024 total NAV return, outperforming i) B-rated CLO tranches (+19.2%), ii) US high yield (+8.2%), iii) Euro high yield (+8.6%), and iv) global loans (+7.3%). Its performance reflects positive markets and the incremental value added by the manager through its asset selection and portfolio management. Looking into 2025, we expect another strong year from CLOs: more market growth (partially driven by loans issued to fund greater PE activity), and stable, if not falling, defaults offsetting some spread tightening and fewer pull to par benefits from loans restructuring. AXA IM's outperformance has been through economic cycles.

- **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. CLO structures' costs reflect 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 17% 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 (9.6% 2025E 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: 9.0% 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)	2021	2022	2023	2024	2025E	2026E
Coupons & dividends	41.8	42.9	47.0	57.1	55.6	58.9
Operating income	44.5	41.6	44.1	51.5	61.7	65.0
Total inv. manager fees (stat.)	(14.2)	(3.9)	(5.6)	(10.1)	(11.3)	(11.9)
Other expenses	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)
Total comp. inc.	35.2	33.4	35.2	41.0	49.3	52.1
Statutory PTP	76.8	(17.8)	27.0	45.0	50.5	53.3
Underlying EPS (€)	1.0	0.9	1.0	1.1	1.3	1.4
NAV per share (€)	7.28	6.22	6.45	7.13	7.91	8.73
S/P prem./disc. (-) to NAV*	-17%	-16%	-21%	-27%	-21%	-28%
Gearing	0%	0%	0%	0%	0%	0%
Dividend (€)	0.52	0.61	0.51	0.55	0.60	0.65
Dividend yield	8.1%	9.1%	8.1%	8.8%	9.6%	10.3%

**2020-24 actual NAV and s/p, 2025-26E NAV to current s/p; Source: Hardman & Co Research*

Closed End Investments

Source: LSEG, 2025

Market data

EPIC/TKR	**VTA.NA, VTA.LN, VTAS LN**
Price (€)	**6.25/6.20/523p**
12m high (€)	6.30/6.40/540p
12m low (€)	5.05/4.90/404p
NAV p/sh (Dec'24, €)	7.50
Disc. to NAV (%)	-17
Shares (m)	36.6
Mkt cap (€m)	221
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./ Administrator	BNP Paribas Securities Services SCA, Guernsey
BNP:	+44 (0)1481 750853
Website:	www.voltafinance.com

Key shareholders

AXA SA Bank	21.75%
BNP Paribas	16.01%
AXA Framlington IM	8.23%
BNP Wealth Mgt.	5.91%

Diary

Mid-Feb	Jan estimated NAV

Analyst

Mark Thomas
mt@hardmanandco.com

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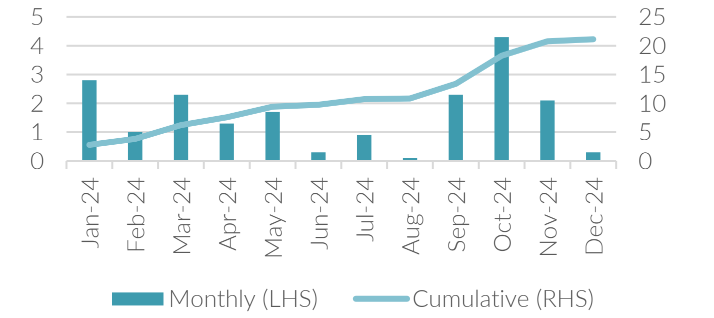
Summary of Volta's performance

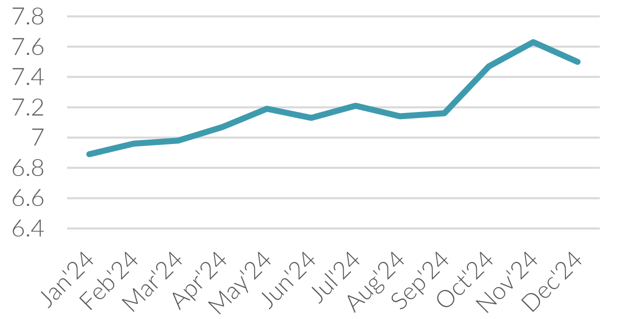
21 sequential monthly positive returns

Volta delivered positive returns in each month in 2024, ending the year up 21.2%. This follows 24.5% positive return in 2023. The cost of the dividend has been rising through the year (the policy is to pay ca.8% of NAV, annualised on a quarterly basis, so a rising NAV generates a higher dividend). Despite these payments, the NAV has risen by 12% in 2024.

Volta monthly (LHS, %) and cumulative returns (RHS, %)



Volta NAV (€)

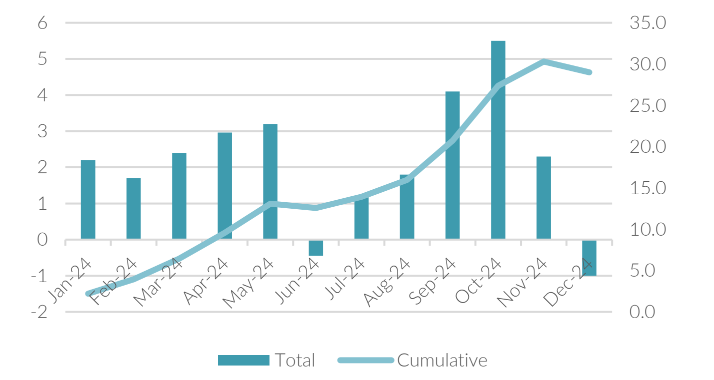


Source: Volta factsheets, Hardman & Co Research

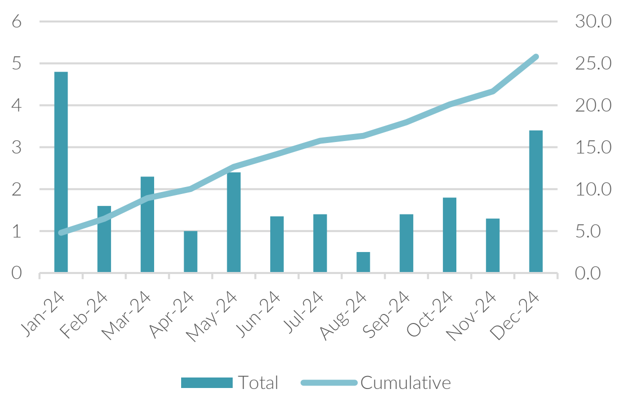
CLO equity tranches nearly 30% return in 2024

Looking at the key asset classes, Volta's CLO equity tranche's return was close to 30%, albeit there was some volatility and two months each of 4%+ returns and negative returns. In contrast, CLO debt delivered nearly 26%, with a much more stable return, including positive returns every month.

CLO equity monthly (LHS, %) and cumulative returns (RHS, %)



CLO debt monthly (LHS, %) and cumulative returns (RHS, %)



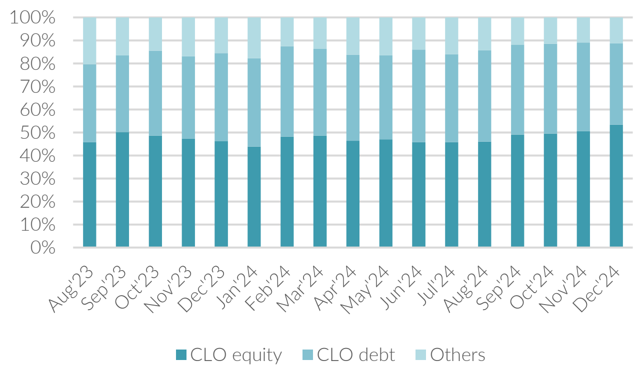
Source: Volta factsheets, Hardman & Co Research

The other asset classes showed weaker performances, which is why the total return is below that of both CLO equity and debt tranches.

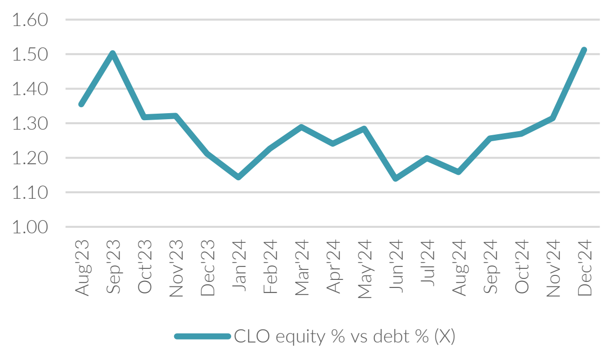
Portfolio is actively managed

AXA IM's management of the portfolio is active. The charts below show that, since July 2023, AXA IM increased the proportion of CLO equity from 34%, to 40% by mid-2024, before seeing it fall back again by the end of the year. CLO equity, as a percentage of the portfolio, fell from 1.5x that of debt in September 2023 to 1.1x at end-July 2024 and rising back to 1.5x by the year-end. By way of an example of the active management, in December alone, there was "*the redemption in full of a US BB-rated position as well as profit taking on high cash price BB-rated and single-B rated Euro CLO tranches. Proceeds were used to fund our warehouse commitments as well as purchasing a significant stake in a European CLO Equity tranche from the new issue market*".

Portfolio mix (%)



% of portfolio in CLO equity vs. % in debt (x)

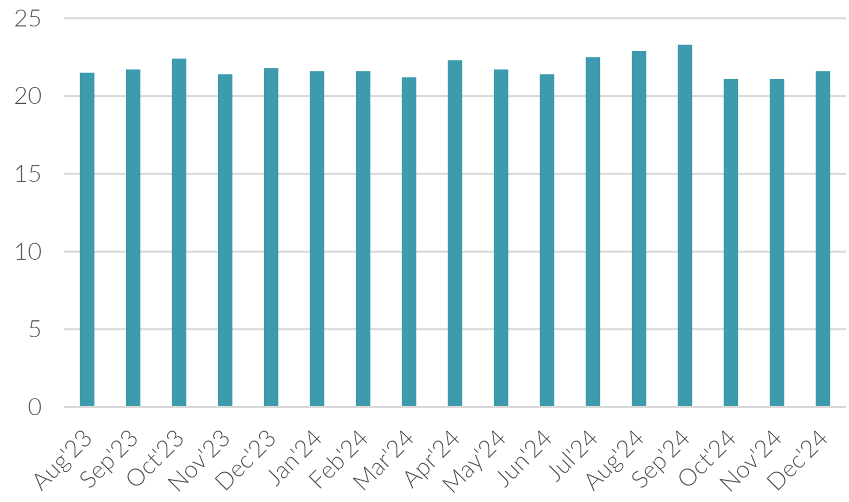


Source: Volta factsheets, Hardman & Co Research

Cash generation stable at more than 20% NAV

In previous notes, we have highlighted the importance of following the cash – see, for example, pages 6-7 of *FY'24: another year of outperformance*. The chart below shows that despite the rising NAV, the annualised cash generation over the previous six months has consistently been above 20% of NAV through the whole of 2024 and very consistent since mid-2023. Both the level and consistency of cash generation positions Volta well for 2025. Our forecasts assume interest income at 21.3% of opening NAV in FY'25 and 20.4% in FY'26, against the 24.2% seen in FY'24 (to July).

Past six-months' cash receipts annualised, as a percentage of closing NAV



Source: Volta factsheet, Hardman & Co Research

2024 key drivers

Summary

Positive CLO markets have been the main driver to Volta's performance, but the manager has also outperformed in this strong market

Volta highlighted in its December 2024 Factsheet that B-rated CLO tranches saw a total return of +19.2% against US high-yield returns of +8.2%, European high-yield +8.6%, and global loans +7.3%. We considered why CLO markets had been strong and how Volta outperformed its debt alternative peers, in our 11 September 2024 note, *FY'24: another year of outperformance*. The factors we identified then have continued for the rest of 2024; specifically, we note the low level of defaults and high level of refinancings by corporates (which meant debt bought by CLO structures at a discount was repaid at par, generating profit for CLO equity holders). CLOs also refinanced and reset their liabilities, further enhancing the vehicles' profitability.

Robust income to CLO vehicles

Strong "cash into" CLO structures reflect good corporate profitability

CLO vehicles have seen robust interest on the loans they own because:

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

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

Leverage loan duration extended significantly into 2028

- 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. This generates good returns for CLO equity holders.

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 thus 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.

Strong demand for CLO investments

Demand for CLO vehicles has been strong…

We believe there has been strong demand for private credit across a range of alternative investment classes. The key factors driving this have been:

- Strong returns generated by CLO investments from 2H'23.
- An improving perception of the risk/reward outlook with risk falling (lower-than-expected defaults) and a wider spread on debt instruments than alternative asset classes.
- Most CLO debt is floating rate and, with interest rates staying higher for longer, there has been incremental demand for this type of asset.

For Volta, this strong demand creates both exit opportunities on positions previously bought at a discount and a more positive sentiment to CLOs generally. It does also bring greater competition.

Record issuance in 2024

Market data

…alongside record new issuance

The Loan Syndications and Trading Association (LSTA) noted, on 3 December 2024, that US CLOs had set a new annual issuance record. As of November 2024, new issuance volume stood at $191bn, 72% higher year-over-year, and eclipsing the previous record of $187bn set in 2021. Including CLO resets ($198bn) and CLO refinancing ($76bn), total CLO volume exceeds $465bn, surpassing the 2021 record of $438bn. It identified key drivers as demand for floating rate investments in the higher-for-longer interest rate environment and clarity of new bank capital regulations being supportive of the CLO AAA debt tranches (typically, ca.60% of the CLO funding – see page 6 of our note *FY'24: another year of outperformance*). Europe also saw record new issuance (2024: €43bnE, 2023: €26bn, previous record 2021: €39bn).

The LSTA's *January 2025 release* noted that secondary trading in loans was up 15% compared with 2023 to a near-record $821bn, with the breadth of trading (1,577 individual loans trading per month and 634 individual loans trading each day) at a record.

For Volta, the strong issuance creates more opportunities for AXAIM's in-depth research to identify asset mis-pricing. It is also opening up warehousing opportunities (where potential CLO structures build portfolios before the formal CLO launch) and where incremental returns can be generated.

Key trends in 2025

The key positive trends we expect in 2025 are:

Overall issuance in 2025 could even exceed record 2024 levels, with a different mix

- 2024's issuance saw a significant degree of refinancing and resetting, which is unlikely to recur in 2025. However, all our PE clients are reporting increasing deal activity, which is likely to see strong issuance of loans appropriate for CLO vehicles. Combined with continued strong demand for the reasons outlined above, we believe CLO issuance volumes will remain strong and could match or even slightly exceed the 2024 record. We believe this view is a consensual one.[1]

Consensus expects falling defaults

- We had been expecting defaults to rise with the impact of higher-for-longer interest rates and cost pressures. Currently, this appears pessimistic, and stable, if not improving, loss rates is now the consensual view. Again, taking Volta's *December 2024 Factsheet*, we note management's comments "*Regarding 2025, major credit rating agencies expect loan default rates to decrease, with US defaults estimated to stay around 1.5% default rate (between 3%-3.5% when including restructurings). In the US, the percentage of CCC-rated loans in CLO collateral portfolios has slightly decreased from 5.0% to 4.7%.*" Or, Moody's *global leverage finance outlook*, which reported "*As interest rates decline, credit fundamentals will improve in 2025 and defaults will ease*" and "*Speculative-grade defaults will decline over the course of 2025 to reach 2.6% and 2.7% in October in the US and Europe, respectively, down from 5.6% and 3.3% in October 2024.*"

Volta starts with strong cashflows

- Volta starts with very strong cashflow generation. The annualised 2H'24 cashflow generation was stable, at ca.22% of December's NAV. The risk to cashflows has also been reduced, with, for example in 2H'24, some US CLO managers reducing their holdings of CCC assets after a strong rally in order to manage level of CCC haircut in amortising portfolios.

Portfolio will evolve throughout the year

- The portfolio mix chart on p4 highlights that AXA IM actively positions the portfolio for its view of the market environment and the optimum risk/reward mix by asset class. We expect further active management in 2025 and note that AXA IM's record is for outperformance across a range of different economic cycles (see our December 2023 note, *The benefits of having AXA IM as the manager*).

Positive investor sentiment…

- Sentiment among CLO participants is very positive. By way of example, feedback from the Opal Group December 2024 CLO summit (with 2,000+ participants, including investors, CLO managers, service providers, bankers and lawyers) included "*Across the three days we sensed plenty of optimism from both CLO managers and investors, and in turn from bankers and lawyers*"[2], "*The consensus is that CLO issuance will stay strong next year, driven by low liability levels and the potential for tighter AAA spreads*"[3] and "*Overall, the market is active, dynamic, and poised for an exciting year ahead.*"[4]

The key negative considerations are:

…but spreads tightening

- CLO ongoing income appears likely to be under pressure from tightening loan spreads and following the corporate refinancing done in recent years. This reflects, *inter alia*, the market's view of the lower-risk environment and the rapid growth in private credit fundraisings, which introduces greater competition for

[1] The LTSA noted in its 3 December 2024 release that forecast new issuance for 2025 was in the range of $180bn-$215bn
[2] https://blog.twentyfouram.com/insights/a-difference-of-opinion-in-us-and-european-clos
[3] https://www.palmersquarecap.com/news/opal-group-clo-summit-2024-five-takeaways
[4] https://www.palmersquarecap.com/news/opal-group-clo-summit-2024-five-takeaways

loans. The LTSA specifically notes this competition is at the "*upper end of the market*".[5] In our forecasts, we have built in a modest contraction in Volta's income yield, but the risk is on the downside.

Average pull to par benefit halved and corporate loan refinancing volumes likely to reduce

- The benefit from loans that had been bought/traded at a discount then being refinanced (and so repaid at par) appears limited. Average leveraged loan prices at end-December 2024 were 97%-98% of par (Europe and US, respectively) given very limited capital gain on repayment. The US discount is 160bp lower than the start of the year; a near halving, with December 2024 being a multi-year low level.[6] Additionally, significant loans have already been refinanced, with modest near-term maturities potentially limiting volumes.

Element of non-recurring gain after weak 2022

- It may be argued that part of Volta's strong 2023 and 2024 performances was a catch-up after a weak 2022 (-12.7% total return). We note the annualised five-year NAV return is 8% (cumulative 47%).[7]

Many known unknows like when the wars will end, actual trend in interest rates and impact of new Presidency

There remain many known unknowns, the impact of which could be positive or negative:

- Confidence in the resolution of wars in the Ukraine/ Middle East would be likely to result in a "risk on" market, which would be good for CLOs.
- Market expectations are for further, modest interest rate cuts globally. Should Central Banks keep interest rates higher for longer, this is likely to be adverse for sentiment and, in due course, may impact on default rates. Most CLOs are floating rate, so there is a positive income offset.
- The timing, scale and impact of President Trump's tariff and trade policies remain unclear. In terms of the impact on Volta:
    - We are, again, in line with consensual views that, on balance, the tariffs/ trade policies are likely to be positive for US corporates and negative for the rest of the world, but the precise impact remains unknown. At end-December 2024, Volta had 49% of the portfolio in the US and 51% in Europe.
    - We also note that the majority of the largest look-through exposures in Europe are primarily in services rather than manufacturing, which, on current pronouncements, would be less exposed to proposed tariffs.
    - Secondary effects such as higher inflation and interest rates could also be material.

[5] https://www.lsta.org/news-resources/loan-market-covenant-trends-4q24/
[6] https://www.lsta.org/news-resources/secondary-trading-volume-soars-to-821-billion-in-2024/
[7] Calculated from data in December 2024 factsheet

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)	2018	2019	2020	2021	2022	2023	2024	2025E	2026E
Coupons and dividends received	38.5	42.0	39.4	41.8	42.9	47.0	57.1	55.6	58.9
Net gains on sales	0.0	0.5	(7.0)	2.7	(1.3)	(3.4)	(6.8)	5.0	5.0
Net gain on fin. assets at FV through P/L	**38.5**	**42.5**	**32.4**	**44.5**	**41.7**	**43.6**	**50.4**	**60.6**	**63.9**
Interest expense on repo	(1.4)	(1.6)	(0.8)	-	-	-	-	-	-
Net bank interest & charges	(0.1)	0.1	0.0	(0.0)	(0.0)	0.5	1.1	1.1	1.1
Operating income	**37.0**	**41.0**	**31.5**	**44.5**	**41.6**	**44.1**	**51.5**	**61.7**	**65.0**
Inv. manager fees	(4.6)	(4.4)	(3.6)	(3.3)	(3.9)	(3.3)	(3.6)	(3.9)	(4.3)
Inv. manager performance fees	(1.3)	(2.1)	(0.6)	(4.6)	(3.0)	(4.3)	(5.5)	(7.1)	(7.2)
Directors' remuneration & expenses	(0.5)	(0.5)	(0.5)	(0.3)	(0.4)	(0.3)	(0.4)	(0.4)	(0.4)
Other expenses	(0.9)	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)
Total expenses	(7.3)	(8.0)	(5.7)	(9.3)	(8.3)	(8.9)	(10.5)	(12.4)	(12.9)
Profit and total comp. income	**29.7**	**32.9**	**25.8**	**35.2**	**33.4**	**35.2**	**41.0**	**49.3**	**52.1**
Adjusted EPS (€)	**0.81**	**0.90**	**0.71**	**0.96**	**0.91**	**0.96**	**1.12**	**1.35**	**1.42**
Dividend cover (x)	**1.31**	**1.45**	**1.36**	**1.85**	**1.49**	**1.89**	**2.04**	**2.24**	**2.20**

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 reinvested 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, remarketing 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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