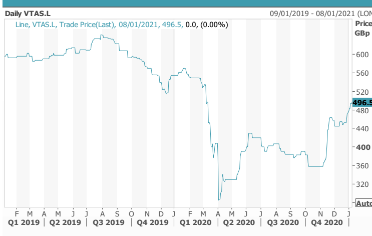
HARDMAN&CO.

11 January 2021

Closed-Ended Investments



Source: Refinitiv

Market data

EPIC/TKR	VTA.NA, VTA.LN VTAS LN
Price (€)	5.58/5.45/496.5p
12m High (€)	6.74/7.04/642p
12m Low (€)	3.20/3.38/285p
Shares (m)	36.6
Mkt Cap (€m)	204
2021E div. yield	11.4%
Discount to NAV	14%
Market	AEX, LSE

Description

Volta is a closed-ended, limited-liability investment company that pursues a diversified investment strategy across structured finance assets (primarily Collateralised Loan Obligation, CLOs).

Company information

Independent Chairman	Paul Meader
Independent Non-Executive Directors	Graham Harrison Stephen Le Page, Paul Varotsis,
Fund Managers (AXA IM Paris)	Serge Demay A Martin-Min François Touati
Co. sec./ Administrator	BNP Paribas Securities Services SCA, Guernsey

Key shareholders (31 July 2020)

AXA Group	30%
BNP WM	16%
Deutsche	6%
Citibank	6%

Diary

Mid-Feb'21	Jan estimated NAV

Analyst

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VOLTA FINANCE LIMITED

Volta's seven yield uplifts

In this note, we explore the dividend yield uplift that Volta offers investors. It is generated from six asset yield uplifts inherent to its model, including: i) structured debt yields above mainstream debt; ii) CLOs' yield above structured debt; iii) Volta's flexible mandate generating yields above the CLO market as whole; iv) current reinvestments at an above-average yield over the market; v) reinvestment yields offering a material pick-up against maturing business; and vi) expectation of a pick-up in Volta's dividend with retentions, and as asset valuations approach forecast cashflows and sentiment-driven discounts reduce.

- **Superior yield:** Volta's asset yield was ca.15% of NAV at end-November 2020 (or ca.18% of market capitalisation). With reinvestment earnings IRR above historical averages, higher-than-usual returns appear likely in the near term. Volta's high dividend is nearly 2x covered by statutory EPS.
- **Rising dividend outlook:** Volta targets an 8% of NAV payout. Since end-March 2020, its NAV has rebounded 29% (including +7% in November), but its dividend has yet to catch up with the rising NAV. Further NAV accretion (and a rising dividend) appear likely with retentions and as residual adverse sentiment unwinds.
- **Valuation:** Volta trades at a double discount. Its share price is at a 14% discount to NAV. In addition, its mark-to-market NAV, we believe, includes a further sentiment-driven discount (5%-10%) to the present value of expected cashflows. Volta targets an 8% of NAV dividend (11.4% 2022E 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 there could be sentiment-driven share price volatility. Long-term returns have been good: ca.7% p.a. returns (dividend-reinvested basis) since initiation. With above-average returns on recent reinvestments, the portfolio's six-month historical cashflow yield is ca.15%, and we expect 1.5x adjusted and nearly 2x statutory dividend cover in 2022.

Financial summary and valuation (Hardman & Co adjusted basis)

Year-end Jul (€m)	2016	2017	2018	2019	2020	2021E	2022E
Coupons & dividend	34.7	33.2	38.5	42.0	39.4	35.3	43.9
Operating income	36.5	35.0	37.0	41.0	31.5	37.4	44.7
Inv. manager's fees	-4.3	-4.6	-4.6	-4.4	-3.6	-4.3	-4.6
Expenses	-0.9	-0.8	-0.9	-1.0	-1.0	-1.0	-1.0
Total comp. income	29.3	28.0	29.7	32.9	25.8	28.6	35.5
Statutory PTP	12.6	38.7	22.7	7.1	-63.0	97.7	40.3
Underlying EPS (€)	0.80	0.77	0.81	0.90	0.71	0.78	0.97
NAV	289	306	306	291	208	287	304
S/P disc. to NAV*	-14%	-11%	-15%	-12%	-23%	-29%	-33%
Gearing	12%	12%	14%	12%	0%	14%	13%
Dividend	0.62	0.62	0.62	0.62	0.52	0.52	0.63
Dividend yield	11.1%	11.1%	11.1%	11.1%	9.3%	9.3%	11.4%

**2016-20 actual NAV & share price, 2021-21 forecast NAV to current share price Source: Hardman & Co Research.*

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Volta's dividend yield above peers

Volta's business model delivers above-average returns and consequently an above-average dividend yield

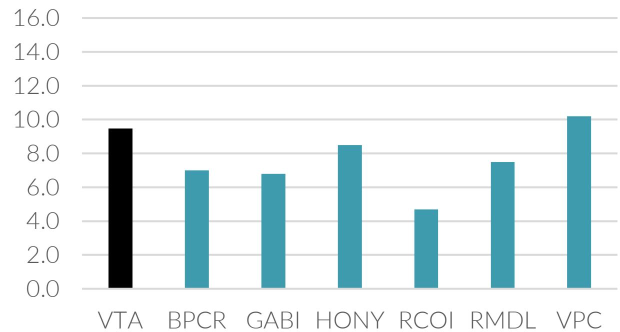
In the context of structured markets earning above mainstream debt average yields, a positive risk-adjusted CLO returns outlook compared with structured debt, Volta's flexible mandate allowing it to take advantage of the best CLO opportunities and reinvestments at above-market and historical levels (see sections below), and greater clarity on the cashflow outlook, Volta's board has targeted an 8% of NAV payout. On forecast income returns, this is twice covered by interest and coupons. Given the discount to NAV on which Volta trades, this NAV payout equates to a 2022E shareholder yield of 11.5%.

Volta's current yield of 9.5% in line with CLO peer average and above direct lending (7.5%)

The charts below show how Volta's yield compares with a number of potential comparator investments, which investors may hold for income purposes. At a time when market dividends have been severely cut, and interest rates are so low, having a well-covered, high dividend has perhaps never been more valuable to investors.

Volta dividend yield (%) vs. structured finance funds

Volta dividend yield (%) vs. direct lending IC

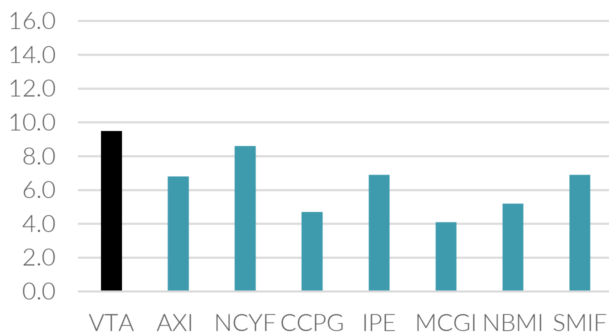


Source: Company websites, LSE, Hardman & Co Research

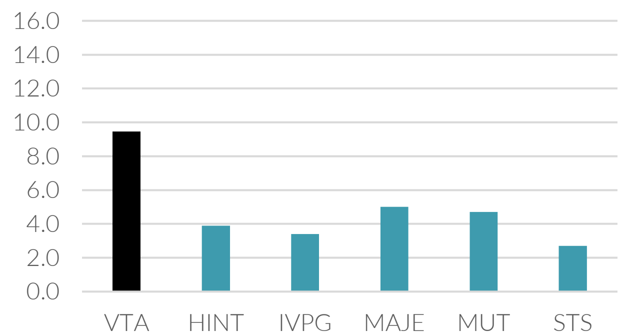
Volta's 9.5% yield even more attractive against wider peers

Against a wider peer group (including loans and bond or equity income investment companies), Volta's yield appears even more attractive.

Volta dividend yield (%) vs. loan and bonds funds



Volta dividend yield (%) vs. global equity income funds



Source: Company websites, LSE, Hardman & Co Research

Superior asset yields

Structured debt yield advantage

Structured debt markets use intellectual capital not only in structuring but also to identify mis-priced assets

It is important to understand why structured debt delivers superior nominal and risk -adjusted returns and how these factors may vary with time. We believe the key driver is using intellectual capital (rather than economic capital), which can exploit illiquidity and other mis-priced risk opportunities as well as add value in the structuring process itself.

We outlined key drivers to mis-pricing in our 2018 initiation, which include sentiment, uncertain outlooks, mis-valued recovery potential, illiquidity and forced sellers

We believe the relative value created by illiquidity and other mis-pricing is an ongoing feature of structured debt markets (noting as we do below that the level can vary with time and is currently above average). We highlighted on p23-24 of our September 2018 initiation on Volta (*Delivering the structured finance opportunity*) the factors that drive potential mis-pricing and these include:

- **Sentiment:** This may create a discount (or premium) for both the underlying assets and the structured vehicle securities being invested in. Using expertise to identify when future cashflows differ from market prices creates value. As we have previously outlined, Volta's fundamental cashflows are relatively simple (interest on 1,200+ corporate loans), but the perception remains that they are opaque and thus both it and its assets face above-average sentiment volatility.
- **Uncertain outlook:** Corporate debt is credit and so exposed to the economic cycle. Exposures, at times, can be uncertain and specialist skills in assessing credit give a competitive advantage.
- **Mis-valued recovery potential:** In distress situations, the probable returns can be highly variable and subject to numerous, often conflicting, factors. Being able to identify the ultimate recovery can provide a material set of opportunities to generate superior returns.
- **Illiquidity in underlying investments:** It takes in-depth expertise and a broad flow of market information to be able to identify where illiquidity generates opportunities for superior returns. Given AXA IM's presence in structured debt markets, we believe it will be shown most, if not nearly all, potential deals, a market position not available to business with a less dominant manager.
- **Forced sellers facing their own liquidity/capital/rating constraints:** With some bond investors, their mandate requires them to hold assets with specific ratings. A rating downgrading reflecting a small change in risk can see forced sellers and a material drop in the asset value. As proved throughout COVID-19, Volta manages its own liquidity very tightly and is in a position to buy from distressed sellers at low prices and not be a forced seller.

CLO yield not distorted by central bank buying

We also note that central bank buying of different asset classes is likely to have pushed down yields. For example, corporate bonds have been bought (and so their yield depressed) but CLO debt has not (thus offering a yield advantage).

Significant widening of relative returns happened with crisis and has taken longer to normalise

We believe these issues are a permanent feature to Volta's model and to it delivering long-term performance against investment-grade debt. However, the relative advantage changes over time. We highlight in the section below how each of these factors improved markedly for Volta during the crisis and how they have subsequently moderated at a slower pace throughout 2020 than for the overall debt market.

CLO outlook: risk-adjusted yield uplift over structured debt

In terms of risk-adjusted returns, we note below some favourable trends for CLOs over the wider structured debt market in 2020.

Corporate loans receiving central bank and government support

- In its *2020 Report and Accounts,* Volta noted "Because corporate loans are made by companies belonging to all industry types (except finance), default rate increases are mechanically associated with an increase in the unemployment rate. Governments & central banks will likely act to limit social/economic difficulties. This is very different from many other ABS market segments. For example, CMBS may face difficulties without causing any meaningful reaction from governments or central banks." This view is consistent with central Banks bond purchase programmes (see ECB's corporate sector purchase programme *eligibility criteria).*

Cov-lite documentation reducing probability of default and critically extending time to default

- We have previously outlined why the increasing use of cov-lite documentation would mean fewer defaults and that the default events would be likely to be spread over a much longer period. We noted a range of covenant easing with some bank contacts noting particularly that corporates have much more flexibility to sell assets. Butterworths July/August *Journal of International Banking and Financial Law* noted that "in March 2020, over 86% of term loans in the S&P European Leveraged Loan Index were cov-lite, compared to just over 5% in March 2010".

Corporates been more active in seeking waivers in advance of when they need them

- The same Butterworth's article emphasises how corporates going into this crisis have been much more proactive seeking covenant waivers in advance of needing them. It states "there were more than 145 transactions between April and mid-June 2020 in which US leveraged loan issuers are known to have obtained covenant relief, surpassing even the previous record of 25 set in 2009 as the global financial crisis unfolded." We believe this partially reflects the fact that this crisis is affecting the whole economy, not just financial institutions; however, it also shows more pro-activity by corporate treasurers to manage and protect liquidity.

Increase in PE backing provides more financially robust backers

- In several of our reports on private equity (PE) companies, we noted that PE-backed companies outperform other businesses through downturns (see, by way of example, Oakley Capital Investments *NAV: conservative, robust and with growth upside* published 3 December 2020, ICGT Enterprise Trust *Defensive growth: explaining downside resilience* published 8 September 2020 or Pantheon International *Returns, resilience and responsibility* published 9 October 2020). This is partially because of the incremental skill and knowledge of the PE backer but also because they have access to more committed capital. The increasing prevalence of PE-backed businesses means that an increasing number of corporate borrowers have access to such support. We note, by way of example, on slide 22 of Pantheon International *FY'20 results presentation* the number of PE-backed companies in North America and Europe had risen from 9,943 in 2009 to 18,078 in 2019 while the number of public companies had fallen from 18,829 to 14,722 over the same period.

Default rate expectations coming down

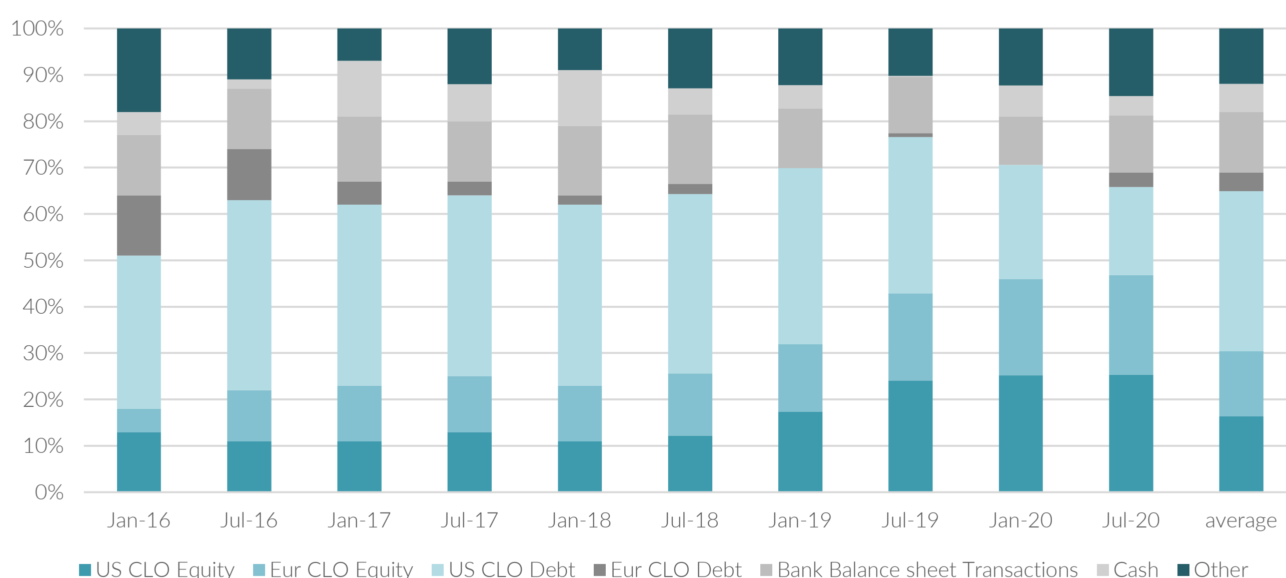
We note FAIR's comment in its November Factsheet that "The trailing 12-month loan default rate fell from 2.6% to 2.4% in Europe and from 4.1% to 3.9% in the US. Given strong markets, distressed ratios (loans trading below 80c, a potential indicator of the direction of future defaults) decreased significantly, from 6.1% to 3.2% in Europe and from 7.5% to 5.7% in the US. According to BAML, European CLOs have enjoyed lower default rates than the index because of active management and asset selection and also due to the fact that defaults "tend to be concentrated on smaller borrowers", which are generally avoided by CLOs".

Volta's flexible mandate sees yield uplift above CLO market

Volta has flexible mandate, which can exploit the most advantageous element of CLO at any time

Volta's mandate gives it the flexibility to exploit whichever part of the structured debt markets offers optimal returns. We explored this in some detail in our 15 September 2020 note *Value added by active portfolio management*. The chart below shows the evolution of the portfolio since January 2016 and we note, in particular, that the CLO debt vs. CLO equity positions have been actively managed. Our September note explored why Volta had increased its equity holdings to well above average levels – in summary the prices of equity had fallen so much that the risk-adjusted return looked far more favourable than debt.

Proportion of portfolio by asset class from January 2016 to July 2020



Source: Volta Monthly reports, Hardman & Co Research

Superior returns delivered, especially post crisis

Having the flexibility is one thing, but the objective is to deliver superior returns. In the sections below, we cite AXA IM's returns on structured debt following the GFC and more recent returns for Volta and its peers to support the assertion.

Good asset, as well as sub-sector, selection has fed through to an above-market proportion of portfolio continuing to make cash payments to Volta

The actual cashflows and performance of the portfolio throughout the crisis have been much better than the market. Each July, as in the first month of every quarter, most CLO positions receive their coupon payments. According to Wells Fargo research, 24% of$ CLOs were suffering a breach of the interest diversion test[1]. Except for one position, all of Volta's CLO equity and CLO debt paid their coupons in July, and only three out of 46 were close to breaching conditions. This performance reflects asset selection by AXA IM. In its *annual report* (p.4), Volta updated the position and we note "almost 20% of the overall USD CLO universe suffered a partial or total diversion of cash flows due to a breach of the Reinvestment Test, none of Volta's CLO equity positions breached that test and we expect this to remain the case for the next payment date (Q4 2020)."

[1] The interest diversion test requires the value of the loans a CLO holds to exceed the value of the bonds it issued by a sufficient amount. Failing that test requires the deferral of interest (and principal) payments on the bonds, and cuts them off to equity. Instead, the "diverted" funds pay down the safest notes issued by the CLO.

Volta's ESG focus helped performance

We also note the comments in Volta's 2020 Report and Accounts that its focus on ESG (Environmental, Social and Governance) has proved a further competitive advantage with such investments generally outperforming during the market turmoil.

2020 structured debt reinvestments at above-average yield spread to market

Investment-grade debt returns quickly back to pre-crisis spread levels. With falling benchmark rates, nominal returns sharply down.

We note that investment-grade spreads rose sharply in the crisis but quickly recovered and now at are or even below the level seen at the start of 2020 (which in itself had trended steadily down throughout 2019) and close to the lows seen just before the financial crisis. In terms of nominal yield, falling benchmark rates, with many government securities now at negative yields, mean that the absolute interest costs are below a fifth of the level seen then. Looking at the key drivers to structured debt outperforming investment-grade debt (on p4), we note that through 2020:

Sentiment at both underlying assets and company level

- The accounting for different CLO-listed vehicles gives an indication of how powerful sentiment can be. BGLF adopts mark-to-model accounting where its assets are valued off discounted expected cashflows. Volta uses a mark-to-market approach. In March 2020, Volta's NAV fell by 32.4% while BGLF fell by just 13.8%. It is a two-way street so, in positive markets, Volta gains much more than BGLF – in November 2020, BGLF rose 3.8% against 7.2% at Volta. We believe that sentiment has not fully worked its way through the CLO market yet and Volta's assets on a mark-to-model approach would be 5%-10% higher than the mark-to-market approach it adopts.

Uncertain outlook and mis-valued recovery potential opportunities well above start of year but reducing from March 2020 peaks

- The 1 December 2020 S&P Global CLO round-up survey showed that respondents expect loan defaults will rise over the next 12 months, from a current rate of 3.89% to an average 4.76%, although only 29% now say the peak will be at 6% or above. This marks a significant improvement from March, when expectations generally called for peak default rate of 7%-8% and the January 2020 level of 1.83%. The opportunity to exploit mis-priced uncertainty is thus higher than at the start of 2020 albeit not as high as in the spring.

Mis-valued recovery potential opportunities likely to continue for a while

- With more businesses defaulting, the opportunities from mis-pricing recoveries are also increasing. We note from the BGLF November market commentary that November 2020 was the first month since August 2018 without a single US loan or high-yield bond default; however, we concur with the market view that defaults will generally continue to be above average for the next 18-24 months and this creates more opportunities for recoveries to be mis-priced.

Illiquidity presented material opportunities through 2020 but to a lesser degree now

- The monthly reports for Volta and peers during 2020 highlighted how illiquidity in underlying investments and CLO securities was a factor for a while. The mainstream corporate debt markets recovered liquidity relatively quickly and it has only been in recent months that the CLO instrument liquidity has fully recovered. We note that increasing issues, up-scaled issues as well as secondary market volumes all confirm these trends.

Forced sellers a material opportunity in March-May but going forward less so

- Forced sellers facing their own liquidity/capital/rating constraints – there was a rash of downgrades relatively early into the pandemic. In its November monthly report, Volta noted "During recent months we have already observed more upgrades than downgrades (according to Moody's at least) in the US loan market. S&P reports were more balanced. Our view is still that, after such a massive and systematic wave of downgrades, we might see, in 2021, more upgrades than downgrades in the US loan market. With vaccines available early next year, this may also be the case in Europe". While a significant opportunity earlier in the year, given the outlook from here, we do not believe rating-driven forced sellers will be a material factor in the near term. Other types of forced

sellers again appear to have presented a material opportunity earlier in the year but less so now.

Consequently, yields in structured debt markets in 2020 showed an above-average advantage over investment grade (IG) markets.

2020 CLO reinvestment at above historical average yield spread

Mainstream corporate debt markets recovered relatively quickly

The BIS Bulletin No 26 Corporate credit markets after the initial pandemic shock published on 1 July 2020 illustrated how the IG markets recovered very swiftly (IG volumes between late-March and end-April increased fourfold vis-à-vis the typical week in 2019) but that markets for lower-rated credits remained relatively weak, with HY bond issuance halting for a month and half through late-April and leveraged loan issuance staying fairly subdued.

Even though CLO market conditions improved, there remain opportunities to obtain reinvestment returns well above historical averages

As noted above, CLO market conditions have improved significantly in recent months. US AAA primary spreads at end-November 2020 were marginally tighter than they were at the end of 2019 (1.35% compared with 1.39%). Attractive AAA CLO financing can also support the refinancing of existing CLO equity positions, with the potential to extend their investment period, reducing investment constraints to enhance the CLO manager's ability to take advantage of current loan prices.

Consequently, the gap between CLO yields and other structured debt was above historical average.

2020 Volta reinvestment yield pick-up against maturing business and market

CLOs took longer creating opportunity for Volta to reinvest at returns well above historical levels relative to the market

Taking Volta's CLO portfolio at end-July 2020, the company simulated a base-case scenario in which the default rate is 6% for the coming 12 months and then 3% thereafter (with 60% recovery) with a modest gain in terms of reinvestment (reinvestment price at 99% with a spread at 400bp). Volta's conclusion for the key asset classes (to simplify they used the same assumptions for US and Euro deals) are given the table below. It is important to recognise that much of these returns is locked-in, given the multi-year duration of the assets.

July 2020 projected IRRs

Asset Class	Weight	Projected yield	Comment
US CLO Equity	25.3%	20.3%	Some diversion of cashflows appears late in 2021 but it remains relatively rare
Eur CLO Equity	21.5%	20.5%	Some diversion of cashflows appears late in 2021 but it remains relatively rare
US CLO Debt	19.0%	15.7%	All positions end their lives without any loss despite some delays in coupon payments
Eur CLO Debt	3.1%	8.2%	These positions are all recent positions (post COVID-19). The 8.2% projected yield does not take into account the possibility that these positions are called at par in less than 1 year (average price is 94.6% as at end-July 2020)

Source: Volta, Hardman & Co Research

Expected portfolio IRR end-July 2020 was nearly 1.5x that of end-July 2019

We note the projected portfolio IRR (under standard AXA IM scenarios, including the gearing effect of the Repo) at end-January 2020 and in the interim 2020 results release was 12.3%. By the end of July (at the time of the full-year results), this had increased to 17.7%. We believe that this will have fallen now to 14%-15% with further recoveries in the CLO market and continuing improvements in underlying trends seeing finer new pricing than a few months ago as well as the capital increases in asset value.

Projected IRRs at end-July 2020		
Year	Projected ungeared IRR	Geared IRR
2020	17.7%	17.7%
2019*	11.6%	12.5%
2018	10.0%	10.8%
2017	9.8%	10.8%

*new purchases 12.75%, *Source: Volta Report and Accounts, Hardman & Co Research*

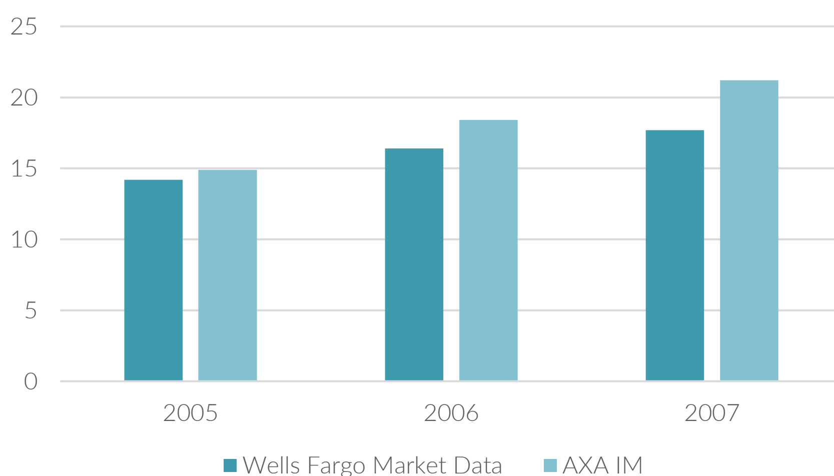
Weighted average life 4.7 years, so element locked in

We note that the weighted average life of the 2020 portfolio was 4.7 years, indicating that the superior returns achievable post crisis have been locked in for the near term.

Similar scale of increase to that seen in GFC. AXA IM's outperformance against market increased in that downturn

Rising returns in the years post a crisis do not happen by accident. As can be seen in the chart below, the vehicles that were formed just ahead of the GFC (and so invested into the post-GFC opportunities) not only earned superior returns but that AXA IM's outperformance was even greater. We believe this is indicative of the opportunity that AXA IM's expertise, market knowledge and presence give it into downside scenarios.

IRR by year of CLO vehicle for the market and AXA IM (%)



Source: Volta Report and Accounts, Hardman & Co Research

Volta dividend pick-up as asset valuations approach cashflows

Volta moved quickly to cancel dividend early in crisis, but within a month to reinstate it once cashflows were more clear

Volta moved quickly at the start of the crisis to conserve cash (see dividend cancellation notice of 2 April 2020) as it was unclear what cashflows, if any, would be received, in the subsequent quarters. The cancelled dividend (€0.155) was partially reinstated (€0.10) on 11 May 2020 when the April cashflows had been received. Further dividends were declared on 26 June 2020 (€0.11), 21 September 2020 (€0.11) and 8 December 2020 (€0.12). The intent to pay a rising dividend as net assets increase is clear with a current policy to payout 8% of NAV.

Looking forward, we note:

Latest NAV indicates €0.13 p.q.

- 8% of the spot end-November 2020 NAV (€6.51) is equivalent to €0.13 per quarter (€0.52 annualised). The dividend has yet to catch up with a rising NAV.

Unwind of sentiment discount adds €0.01 (€0.04 p.a.)

- We believe the sentiment-driven mark-to-market accounting is some 5%-10% below the expected cashflow mark to model. Over time, and assuming the gentle trajectory of defaults materialises, the latter will feed through to the NAV, seeing a further €0.01 per quarter dividend.

Retentions add further €0.01 (€0.04 p.a.)

- The expected statutory dividend cover is nearly 2x, which means that the NAV is likely to see ca.8% p.a. growth, seeing a further €0.01 per quarter dividend.

Volta's equity is likely to increase with active asset management based off current market prices

- We note Volta's November 2020 monthly factsheet comment that "For next year, thanks to expected loan price increases and CLO spreads decreases, we might see some good opportunities to call some of our oldest positions (we have two CLO equity positions that would need to be called as most of the leverage has already disappeared due to earlier loan amortizations) and to refinance or even reset the more recent positions. Any opportunity to improve the situation of our CLO Equity positions will be exploited." Any such gains to NAV would again feed through to a higher dividend.

Leads us to forecast €0.63 dividend for 2022

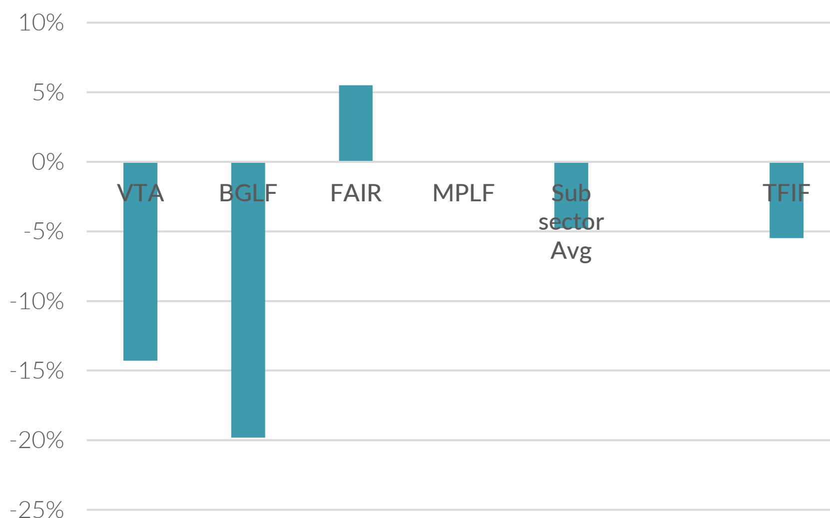
We therefore assume that the FY'21E dividend will be €0.52 and rising to €0.63 in FY'22E.

Valuation and financials

Discount larger than peers on same accounting basis

Compared with its structured debt peers, on market price to NAV, Volta is trading at a discount. Given the historical performance, risk profile and portfolio mixes identified in the sections below, this relative discount appears anomalous.

Current share price discount to November 2020 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 11 January 2021

Financials

We have updated our model to reflect the accounts published in early November 2020 and known market movements since (including the 7.2% return for November shown in that month's factsheet). We have also introduced a 2022 forecast. Of note, our assumptions now include:

- 17.5% coupon and dividend yield on opening assets in 2021 (which reflects some income accrued on gearing that we are forecasting in 2H'FY21 and where the assets are not included in opening assets). We trim this to 13.5% in 2022 as we assume recent reinvestment opportunities will moderate somewhat by then and the geared assets are fully included in the calculations.

- We have assumed further recovery in unrealised gains positions so that, by end-FY'21, three quarters of the FY'20 losses have been re-couped. We note that in the four months from end-July 2020 to end-November 2020, the NAV has risen by €30m (despite a dividend) and our full-year assumption is for €65m of unrealised gains.

- We assume that, as markets normalise, gearing through a Repos facility will be conservatively reintroduced into the balance sheet and, by end-FY'21, it will be back to pre-crisis levels (€40m, 14% of NAV).

- The quarterly dividends will be paid at an 8% p.a. annualised rate. This sees a lower interim but higher final dividend in FY'21 than FY'20 with a flat full-year dividend. In 2022, it rises to €0.63, marginally above the pre-crisis €0.62 p.a.

- On these assumptions, the NAV rises from €5.69 at end-July 2020 to €7.69 at end-July 2021 and then €8.13 at end-July 2022.

Profit and loss account (statutory)

Year-end Jul (€m)	2014	2015	2016	2017	2018	2019	2020	2021E	2022E
Coupons and dividends received	**31.4**	**33.7**	**34.7**	**33.2**	**38.5**	**42.0**	**39.4**	**35.3**	**43.9**
Net gains on sales	6.1	12.6	2.7	3.1	0.0	0.5	-7.0	2.5	2.5
Unrealised gains and losses	12.2	21.0	-18.5	4.7	-5.7	-18.2	-87.9	65.9	1.5
Net gain on fin. assets at FV through P/L	**49.7**	**67.2**	**18.9**	**40.9**	**32.7**	**24.4**	**-55.5**	**103.7**	**47.9**
Net FX	1.6	-8.2	0.3	5.6	-2.0	-11.6	-1.4	0.0	0.0
Net gain on IR derivatives	-0.3	0.0	0.0	0.4	-0.9	1.6	0.0	0.0	0.0
Interest expense on repo	0.0	-0.2	-0.9	-1.1	-1.4	-1.6	-0.8	-0.4	-1.6
Net bank int. & charges	0.0	0.0	-0.1	-0.1	-0.1	0.1	0.0	0.0	0.0
Operating income	**50.9**	**58.8**	**18.2**	**45.7**	**28.4**	**12.8**	**-57.7**	**103.3**	**46.2**
Inv. manager's fees	-3.6	-3.9	-4.1	-4.1	-4.2	-4.2	-3.9	-4.3	-4.6
Inv. manager's performance fees	-1.9	-5.0	0.0	-1.5	0.0	0.0	0.0	0.0	0.0
Directors' renumeration & expenses	-0.4	-0.5	-0.6	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5
Other expenses	-1.0	-1.8	-0.9	-0.8	-1.0	-1.0	-0.9	-0.9	-0.9
Total expenses	**-6.9**	**-11.2**	**-5.6**	**-6.9**	**-5.7**	**-5.7**	**-5.3**	**-5.6**	**-5.9**
Profit and total comp. income	44.0	47.6	12.6	38.7	22.7	7.1	-63.0	97.7	40.3
Avg. no shares for EPS calculation (m)	36.1	36.5	36.5	36.5	36.56	36.59	36.61	36.61	36.61
Statutory EPS (p)	1.22	1.31	0.34	1.06	0.62	0.19	-1.72	2.67	1.10
Total dividend (p)	0.60	0.62	0.62	0.62	0.62	0.62	0.52	0.52	0.63

Source: Volta, Hardman & Co Research

- To derive our adjusted profit and loss, we strip out the capital movements, including: i) unrealised gains/losses; ii) FX movements; and iii) net gain of IR derivatives. We have left in realised gains, which, although volatile, have been converted into cash, and some capital gains might 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 (€m)									
Year-end Jul (€m)	2014	2015	2016	2017	2018	2019	2020	2021E	2022E
Coupons and dividends received	31.4	33.7	34.7	33.2	38.5	42.0	39.4	35.3	43.9
Net gains on sales	6.1	12.6	2.7	3.1	0.0	0.5	-7.0	2.5	2.5
Net gain on fin. assets at FV through P/L	37.5	46.2	37.4	36.2	38.5	42.5	32.4	37.8	46.4
Interest expense on repo	0.0	-0.2	-0.9	-1.1	-1.4	-1.6	-0.8	-0.4	-1.6
Net bank interest & charges	0.0	0.0	-0.1	-0.1	-0.1	0.1	0.0	0.0	0.0
Operating income	37.5	46.0	36.5	35.0	37.0	41.0	31.5	37.4	44.7
Inv. manager's fees	-4.1	-4.5	-4.3	-4.6	-4.6	-4.4	-3.6	-4.3	-4.6
Inv. manager's performance fees	-2.5	-3.5	-1.3	-1.2	-1.3	-2.1	-0.6	-3.0	-3.1
Directors' renumeration & expenses	-0.4	-0.5	-0.6	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5
Other expenses	-1.0	-1.8	-0.9	-0.8	-0.9	-1.0	-1.0	-1.0	-1.0
Total expenses	-7.9	-10.3	-7.2	-7.0	-7.2	-8.0	-5.7	-8.7	-9.2
Profit and total comp. income	29.5	35.7	29.3	28.0	29.7	32.9	25.8	28.6	35.5
Adjusted EPS (€)	0.82	0.98	0.80	0.77	0.81	0.90	0.71	0.78	0.97
Dividend cover (x)	1.36	1.58	1.29	1.24	1.31	1.45	1.36	1.50	1.53

Source: Volta, Hardman & Co Research

- Financial assets grow strongly through a combination of a strong recovery in unrealised losses and the re-introduction of conservative levels of gearing.

Balance sheet									
@ 31 Jul (€m)	2014	2015	2016	2017	2018	2019	2020	2021E	2020E
Financial assets at FV through P/L	256.3	307.3	324.1	321.3	325.7	325.5	201.7	325.0	343.9
Derivatives	0.0	0.0	1.2	0.7	1.3	0.8	2.8	2.8	2.8
Trade and other receivables	0.0	38.1	5.0	0.3	12.9	5.5	0.0	0.0	0.0
Cash and cash equivalents	19.5	0.4	10.9	37.1	20.5	14.5	9.7	5.2	3.5
Total assets	275.8	345.8	341.3	359.4	360.4	346.2	214.2	332.9	350.2
Loan financing under repos	0.0	27.3	40.3	38.1	42.7	35.9	0.0	40.0	40.0
Interest payable on loan financing	0.0	0.1	0.1	0.1	0.2	0.2	0.0	0.1	0.2
Derivatives	0.2	0.3	0.0	0.0	0.1	0.3	2.8	2.8	2.8
Trade and other payables	2.0	19.0	11.6	15.6	11.7	19.2	3.2	3.2	3.2
Total liabilities	2.1	46.6	52.0	53.8	54.7	55.7	6.0	46.1	46.2
Net assets	273.6	299.2	289.3	305.5	305.7	290.6	208.2	286.8	304.0
Period-end no. shares (m)	36.5	36.5	36.5	36.5	36.6	36.6	36.6	36.6	36.6
NAV per share (€)	7.50	8.20	7.92	8.36	8.36	7.94	5.69	7.84	8.31
Total debt to NAV	0%	9%	12%	12%	14%	12%	0%	14%	13%

Source: Volta, Hardman & Co Research

Cashflow									
Year-end Jul (€m)	2014	2015	2016	2017	2018	2019	2020	2021E	2022E
Total comprehensive income	44.0	47.6	12.6	38.7	22.7	7.1	-63.0	97.7	40.3
Net gain on financial assets at FV in P/L	-49.7	-67.2	-18.9	-40.9	-32.7	-24.4	55.5	-103.7	-47.9
Net movement in unrealised gain on revln. derivatives	0.3	0.1	-1.5	0.5	-0.5	0.7	0.6	0.3	0.3
Interest expense on repos	-1.6	0.2	0.9	1.1	1.4	1.6	0.8	0.4	1.6
FX losses on re-translation repos	0.0	-0.9	-0.3	-2.2	0.4	2.0	0.9	0.0	0.0
(Increase)/decrease in trade receivables	-1.8	0.0	0.0	-0.1	0.1	-3.2	3.2	0.0	0.0
Increase/(decrease) in trade payables	0.1	2.0	-1.5	1.6	-1.7	0.1	-0.3	0.0	0.0
Directors/other fees paid in cash	0.0	0.2	0.1	0.1	0.2	0.1	0.0	0.0	0.0
Net cash inflow/(outflow) from op activities	**-8.6**	**-18.0**	**-8.5**	**-1.0**	**-10.3**	**-15.9**	**-2.4**	**-5.3**	**-5.7**
Cashflow from investing activities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Coupons and dividends recd.	31.4	33.3	33.6	34.4	38.0	42.2	39.9	35.3	43.9
Change in margin/deriv. sett.	1.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Purchase of financial assets	-71.5	-99.3	-127.0	-109.0	-138.8	-117.8	-68.1	-173.1	-133.1
Proceeds from sales of financial assets	72.2	96.9	84.9	125.5	114.2	118.2	83.0	118.0	118.0
Net cash inflow/outflow from investing acts	**33.6**	**30.9**	**-8.5**	**50.9**	**13.4**	**42.7**	**54.8**	**-19.8**	**28.8**
Cashflows from financing activities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Dividends paid	-17.0	-22.3	-22.6	-22.7	-22.7	-22.3	-19.4	-19.0	-23.2
Net sales of shares	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Proceeds from repos	0.0	28.2	13.3	0.0	4.2	-8.8	-36.8	40.0	0.0
Interest paid on repos	0.0	-0.1	-0.8	-1.1	-1.3	-1.7	-1.0	-0.4	-1.6
Net cash inflow from financing activities	**-16.8**	**5.8**	**-10.2**	**-23.7**	**-19.7**	**-32.8**	**-57.2**	**20.5**	**-24.8**
Net increase in cash and cash equivalents	**8.2**	**18.7**	**-27.2**	**26.2**	**-16.6**	**-6.0**	**-4.8**	**-4.6**	**-1.7**
Opening cash and cash equivalents	**9.7**	**19.5**	**38.1**	**10.9**	**37.1**	**20.5**	**14.5**	**9.7**	**5.2**
Effect of FX	**1.6**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Closing cash and cash equivalents	**19.5**	**38.1**	**10.9**	**37.1**	**20.5**	**14.5**	**9.7**	**5.2**	**3.5**

Source: Volta, Hardman & Co Research

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