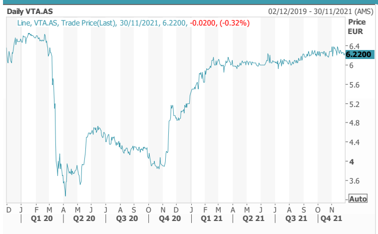
HARDMAN&CO.

Closed End Investments



Source: Refinitiv

Market data	
EPIC/TKR	**VTA.NA, VTA.LN VTAS LN**
Price (€)	6.24/6.20/530p
12m High (€)	6.30/6.36/546p
12m Low (€)	4.86/4.80/440p
Shares (m)	36.6
Mkt Cap (€m)	228
2022E div. yield	9.8%
Latest NAV (Oct21, €)	7.33
Discount to NAV	15%
Country of listing	NL/UK
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. Chairman	Paul Meader
Independent Non-Executive Directors	Graham Harrison, Dagmar Kershaw, 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
Website	www.voltafinance.com

Key shareholders (31 Jul21)	
AXA Group	30%
BNP WM	16%
BNP Sec. Serv.	10%

Diary	
Mid-Dec21	Nov estimated NAV

Analyst

Mark Thomas 020 3693 7075

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VOLTA FINANCE LIMITED

Simple Simon Says

In this note, we explore three aspects of Volta's portfolio, highlighting their simplification – simplified. Firstly, unless there is a compelling, opportunistic case, new investments will be in CLO structures only, and not in other structured finance instruments. The asset mix is being simplified. Second, there should be an increased weighting to AXA IM managed CLO vehicles, reflecting good performance and lower fees. The manager mix is being simplified. Third, we detail why CLOs are, at heart, simple cashflow structures, which should be viewed as such, free from the terminology that may confuse a clear story.

- **Simpler portfolio:** Over recent years, Volta has seen an increasing weight to CLO investments. It has been agreed with the board to put into policy that reinvestment, when non-CLO assets mature, will be into CLOs, making the mandate much clearer. The portfolio will be more focused, as assets roll over.

- **Greater AXA IM managed CLO investments:** AXA IM has been awarded "Best US CLO Manager of the Year" (in 2021, by Credit Flux), highlighting AXA IM's performance. Volta is also not paying management fees on AXA IM CLO positions, and, over time, AXA IM CLOs are expected to be a higher share of the portfolio.

- **Valuation:** Volta trades at a double discount: its share price is at a 15% discount to NAV, and we believe its mark-to-market NAV includes a further sentiment-driven discount (5%-10%) to the present value of expected cashflows. Volta targets an 8% of NAV dividend (9.8% 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: c.9% p.a. (dividend reinvested basis) since initiation. With above-average returns on recent reinvestments, the portfolio's past six-month cashflow (annualised) yield is c.20%. We expect near 2x 2022 dividend cover.

Financial summary and valuation (Hardman & Co adjusted basis)

Year-end Jul (€m)	2017	2018	2019	2020	2021	2022E	2023E
Coupons & dividends	33.2	38.5	42.0	39.4	41.8	45.1	44.6
Operating income	35.0	37.0	41.0	31.5	44.5	46.4	45.7
Inv. mgr.'s fees (stat.)	(5.7)	(4.2)	(4.2)	(3.9)	(14.2)	(9.0)	(8.1)
Other expenses	(0.8)	(0.9)	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)
Total comp. income	28.0	29.7	32.9	25.8	35.2	37.1	36.6
Statutory PTP	38.7	22.7	7.1	(63.0)	76.8	41.3	38.0
Underlying EPS (€)	0.8	0.8	0.9	0.7	1.0	1.0	1.0
NAV per share (€)	8.4	8.4	7.9	5.7	7.3	7.8	8.2
S/P disc. to NAV*	-11%	-15%	-12%	-23%	-17%	-20%	-24%
Gearing	12%	14%	12%	0%	0%	16%	17%
Dividend (€)	0.62	0.62	0.62	0.52	0.52	0.61	0.65
Dividend yield	9.9%	9.9%	9.9%	8.3%	8.3%	9.8%	10.4%

**2017-20 actual NAV and s/p, 2021-23E NAV to current s/p; Source: Hardman & Co Research*

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- any trust of which any trustee is a “U.S. person”;
- any agency or branch of a foreign entity located in the United States;
- any non-discretionary account or similar account (other than an estate or trust) held by a dealer or other fiduciary for the benefit or account of a “U.S. person”;
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Portfolio simplification

Portfolio being simplified

Within the Chairman's statement in the recently released 2021 Report and Accounts, Volta highlighted two important evolutions in its investment approach:

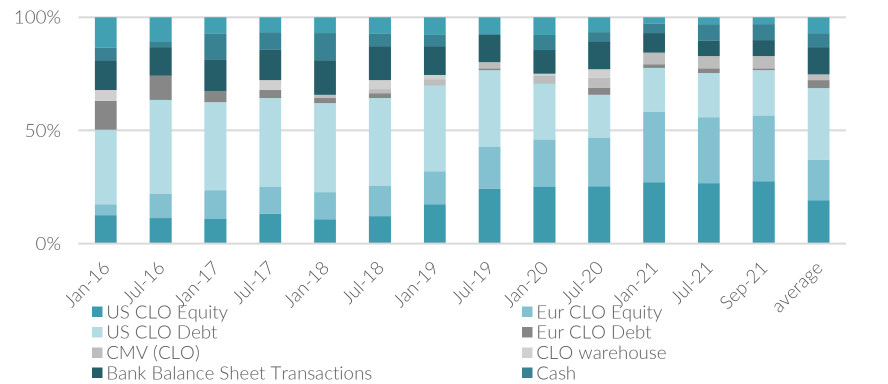
"At recent Board strategy discussions, AXA IM confirmed that CLOs remain attractive relative to other structured finance assets. AXA IM expect to continue to reinvest the proceeds of our other assets into **CLOs over time with a view to CLOs representing the overwhelming majority of the portfolio in due course. Furthermore, the proportion allocated to CLOs managed by AXA's US and European teams is also expected to grow over time.** AXA's CLO team is increasingly recognised as a global leader. As Volta's management fee is waived on its allocation to primary AXA IM product, this is a double benefit for Shareholders. The Board has debated these proposals at length with AXA IM and are very supportive of this shift in orientation. It is logical from the perspective of risk and return within the portfolio but also brings some welcome simplification of what, on occasions, could be a complex mandate. This reorientation will not prohibit AXA IM from allocating to other structured finance assets aside from CLOs in future. But the best way of thinking about this, in my view, is that the bar has been set much higher for other assets to earn a place in our portfolio: CLOs, and CLO equity in particular, are likely to predominate."

Reinvestment in CLOs unless compelling other case

Non-CLO investments will be replaced by CLO ones as they mature

The chart below shows that, over time, there has been an increasing allocation to CLOs within the previous mandate of "a diversified investment strategy across structured finance assets". By September 2021, they were 83% of the portfolio, against 68% at the start of 2016. The policy change means that, as non-CLO positions mature, they will be reinvested in CLO elements – so increasing the trend further. At October 2021, the main elements to be run down were Bank Balance Sheet Transactions (BBSTs, 6.9% of the portfolio) and some residual Asset Backed Securities (ABSs, 1.2% of the portfolio), as most of the cash may be expected to absorbed by fees due. The portfolio change will be evolutionary and take some time, as the BBSTs have a projected weighted average life of three years and the ABSs 2.5 years (as at July 2021).

Volta's gross portfolio asset mix (%)



Note: excludes fees due to manager, as well as debt, CMV = capitalised manager vehicles
Source: Monthly factsheets from Volta, Hardman & Co Research

Focus of investment resource and clarity of message

Historically, Volta's message was that a flexible mandate gave it the option to exploit any part of the structured finance market. This gave it the opportunity to take the best opportunities available across a broad spectrum of instruments, many of which faced different market conditions and liquidity at any given time. While this optionality had a value, in practice, the weight of investments in non-CLO products was relatively small, and it came at a cost in terms of investment focus. It is also likely that investors who may already have viewed CLOs as a complex product were further deterred by having a broad range of other instruments and terminology to master. Simplifying the investment mandate allows a tighter investment focus, and reduces this potential investor drag.

Better returns for both historical performance and outlook over next year

Axa AIM advises that, since mid-2014 (thereby trying to eliminate GFC effects), CLO Equity outperformed the overall portfolio by c.0.5% p.a., CLO debt performance was in line, and the residual assets made a below-average contribution. In the near term, CLO Equity positions appear especially attractive, with a combination of:

- stable growth and healthy corporate profitability creates a supportive backdrop;
- the loan defaults rate is expected to stay benign; and
- loan spreads may stay attractively high, thanks to abundant loan issuances.

All of these are beneficial for CLO excess spreads and, in our May 2021 report, *Re-Set, Re-Fi, Re-Light my Fire,* and our July 2021 report, *Yield (10%, covered and growing) + capital growth,* we highlighted how favourable market conditions meant that CLO vehicles could refinance debt cheaply – thus enhancing the value of Volta's equity positions.

Allocation to AXA-managed CLOs

AXA IM-managed CLO vehicles currently only small part of portfolio

AXA IM is the manager of Volta, and currently selects CLO investments managed by a variety of financial institutions – a full list is provided monthly on Volta's website under the portfolio composition tab[1]. AXA IM is one such manager of the underlying CLOs and, as at 31 July 2021, it was the investment manager for investments that, together, represented 4.8% of NAV (2020 8.0%, 2019 7.3%, 2018 11.8%, 2017 18.4%). Within the total positions, we understand that AXA CLO equity positions have been stable, while regulated capital transactions (through two AXA IM funds, BCOF and BDOF), which would not be made under the revised mandate, have declined.

Management fee savings would give Volta shareholders extra c.20bp p.a. gross performance

AXA IM earns investment management fees, including incentive fees, where applicable, directly from each of the underlying investment vehicles, in addition to its investment management fees earned from Volta. However, where the investment is in a AXA-managed CLOs, these are stripped out of the Volta fee calculation. Should such positions rise to 20% of the portfolio, the management fee savings (1% of AUM) would give Volta shareholders an extra 20bp gross performance.

Under the existing policy, with respect to "AXA IM Managed Products" (just under half the total AXA-managed CLOs as at September 2021), there is no duplication of investment management fees, as an adjustment for these investments is made in the calculation of the investment management fees payable by Volta, such that AXA IM earns investment management fees only at the Volta level. For "Restricted AXA IM Managed Products" (slightly more than half the AXA-managed CLOs), it is possible for AXA IM to earn incentive fees at the level of both the Restricted AXA IM Managed Product and Volta.

[1] https://www.voltafinance.com/media/31782/05-website-version-portfolio-composition-30092021.pdf

In its recent annual report, the board highlighted the gains that were expected by having a higher share of positions managed directly by AXA IM. In addition to the fee reduction, the reasons included:

AXA IM-managed CLOs, on average, show below-market defaults, weighted average risk rating factor and above-average spread, leading to above-average cashflows paid on CLO equity positions

- The performance of AXA IM-managed CLOs: since the inception of the platform (from 2007 to September 2021), AXA IM's leverage loan team has significantly outperformed the market in terms of default rate (yearly average annual default at 0.23%/0.85% (for US/Europe) relative to 2.40/2.99% market rate). In terms of market ranking, AXA IM CLOs' WAS (Weighted Average Spread of the underlying loan pools) is historically around the 75% percentile (higher), while the weighted average risk rating factor (WARF, a measure of the risk of the underlying loan pools) is usually around the 50% percentile (average). As a result, AXA IM US CLOs are above-average in terms of cashflow paid to the CLO equity holders.

Leveraging AXA's risk controls

- Higher risk control leveraging the synergies between the team in charge of managing Volta and AXA IM CLO management teams.

Clarity of message

- Clarity of message. With AXA IM being the manager of Volta, we believe many investors will be expecting AXA IM to be the main manager of underlying assets too.

Reminder: CLOs are simple

A simplified example of what a CLO is

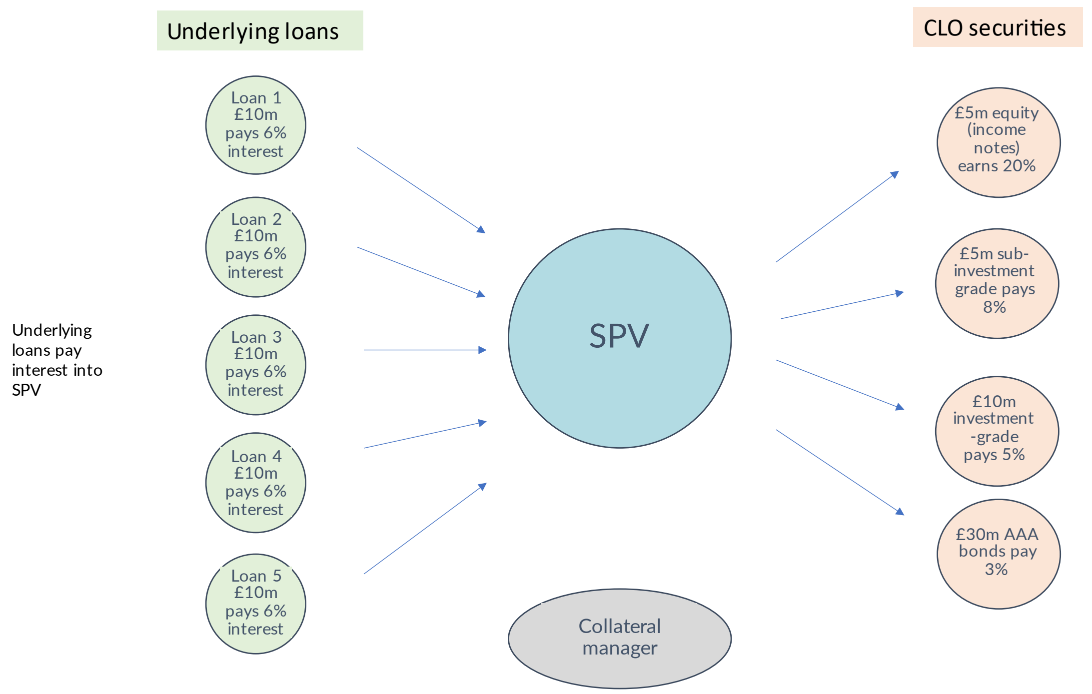
CLOs are just portfolios of loans

As illustrated in the figure below, a CLO structure is, at its heart, very simple. A portfolio of loans is acquired by a company (a special purpose vehicle – SPV), which funds the purchase by issuing a mix of different tranches of bonds (CLO debt tranches) and "income notes" (CLO equity tranche). The interest received from the loan portfolio is used to pay, firstly, the coupons on the CLO debt tranches, and then all the excess cashflow is for the profit of the "equity" tranche.

Individual loans are pooled, and different tranches of debt at different interest costs are issued as funding

The example below is simplified to illustrate how a CLO works. If we take five individual loans of £10m, each of which pays an interest rate of 6%, driven by the market perception of the risk of loss, these loans generate total interest of £3m. The SPV issues tranches of bonds, some of which are repaid ahead of others in bankruptcy. As the probability of all five loans simultaneously going into default is low, such bonds carry a lower coupon than each of the individual loans. In the example below, we assume that £30m of bonds could be perceived as at a low risk of loss, and so only pay 3% coupons. With different tranches of bonds carrying a different risk of loss, they each carry a different coupon, with any residual profit attributable to the equity holders. In principle, the structure of a CLO SPV is exactly the same as a bank that takes a broad portfolio of credit risk and funds itself from a broad range of sources, each of which carries a different interest cost.

Simplified example of CLO structure



Source: Hardman & Co Research

Such a structure has advantages for all the interested parties:

Loan originators have additional source of funding

- The originators of the loans (usually, but not necessarily, banks) have access to different sources of finance, and can manage the credit risk on their books. They will often service the loans in the SPV (for a fee) and keep their relationship with the borrowing customer. It is capital-efficient for the originator, as they do not hold capital against the loans sold to the SPV, but still earn origination fees.

Different tranches meet different investor appetites

- By pooling multiple loans and dividing them into tranches, relatively safe ones can be created, which pay lower interest rates and are designed to appeal to conservative investors. The structure also creates higher-risk tranches, which appeal to higher-risk investors by offering a higher interest rate.

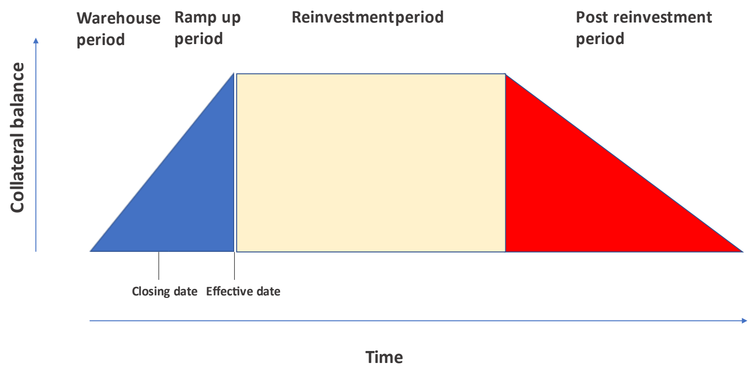
Lower overall funding cost

- The overall cost of money to businesses should be reduced, as the CLO structure increases the supply of lenders (attracting both conservative and risk-taking lenders).

Loans initially go into a warehouse, as the CLO pool of loans is built up

A typical lifecycle for a CLO is shown in the chart below. In the initial stages, the collateral manager acquires assets on behalf of the CLO, using a warehouse facility financed by a bank (Volta is providing capital at this stage). Once a closing date has been reached, loans previously warehoused are transferred to the CLO, and the CLO moves into the "ramp-up period", during which further assets are acquired. The size of the CLO is set shortly after. For a set period, the cash generated from a borrower may be reinvested in new loans, with the collateral manager trading assets on behalf of the CLO. After a set period, the CLO goes into a wind-down phase, and any cash is no longer reinvested, but used to repay the CLO debts and, ultimately, the equity holders.

Simplified example of CLO lifecycle



Source: Hardman & Co Research,

CLO opportunities in the real world

Different tranches of CLO instruments provide varying opportunities for those with flexible mandates

The different tranches of CLO debt mean that investors can select how much risk they want, and for what reward, from a portfolio of CLO securities with distinct risk/reward characteristics. This also creates arbitrage opportunities, where specific tranches of loans may be mis-priced for the reasons identified in the section below.

Mis-pricing opportunities in CLO market

In a world with perfect information and transparency, each tranche of CLO funding would price perfectly to reflect the risk in the underlying assets. In the real world, this is not the case, and we highlight below several potential sources of mis-pricing. We do not believe investors should be concerned about these issues. In principle, they are identical to most other (non-CLO) investments, and they create the opportunities for Volta to earn superior returns.

Lack of understanding of real credit exposure

- Some in the market focus on the gross exposure of a credit, not the real risk. Where a borrower has a loan of 100, the amount at risk will be somewhere between 0 and 100, depending on factors like the collateral. Where investors focus on the gross 100 at risk, they will materially undervalue a well-secured loan. Investors need to appreciate both the probability of default and the degree of recovery in the event of default.

Sentiment

- The lack of understanding of a specific credit risk is often related to sentiment towards a broader sector or market. A current example would be the view that retail is having a bad time – so all retailers are marked down. In the CLO market, there are the same opportunities to identify specific companies/borrowers that may do well in a challenging market.

Rating constraints can affect investor behaviour and, with it, pricing

- Rating constraints can distort some investor behaviours. Insurance companies generally cannot buy tranches below BBB, and this creates a mis-pricing between BBB and BB tranches. While investors try to anticipate rating changes, significant pricing mis-matches may occur when a rating rapidly changes and some investors become forced sellers.

Uncertainty

- Sentiment can be both positive and negative. For credit markets where there is an uncertain economic outlook, there could be a flight to safety, creating a potential investment opportunity where real risk has not been priced.

Illiquidity

- Trading in many CLO instruments is generally thin, creating illiquidity-driven price opportunities. Non-mainstream investments, like warehouse and capitalised manager vehicles, offer a higher return, due partially to their illiquidity. A forced seller may well have to take a material discount to the real value. Similarly, a large seller may have few buyers to match its scale (another example of a competitive advantage from being part of the larger AXA IM). It is also worth noting that illiquidity will affect different markets to varying degrees over time.

Characteristics of CLO equity vs. debt

As noted above, CLOs give an end-investor a wide choice of risk/return options from low-yielding, low-risk debt, through higher-risk tranches of loans to equity-like instruments. CLOs operate as financing companies: every quarter, the CLO receives income from the loan portfolio, pays the interest due on the financing and expenses, and pays any remaining available cash (effectively its funding margin) over time to investors in its equity. CLO equity can take the form of preference shares, income notes or subordinated bonds.

CLO equity gives investors a different risk profile. In particular:

CLO equity takes upside if credit losses below expectations, but bears first losses in downside

- It sees the upside from CLO structures being more profitable than expected. Current credit losses are below those built into initial pricing assumptions, and it is the equity elements that capture this benefit. CLO equity bears the first risk of loss, and so is more sensitive to credit deterioration – should this happen.

Equity benefits when underlying loans reset

- In favourable economic conditions, underlying loans may reset (i.e. keep the same terms but extend the duration). The overall profitability of the CLO rises to the benefit of the equity holders.

- As noted, in our May 2021 report, Re-Set, Re-Fi, Re-Light my Fire, and our July 2021 report, Yield (10%, covered and growing) + capital growth, we highlighted how favourable market conditions meant that CLO vehicles could refinance debt cheaply, thus enhancing the value of Volta's equity positions, which have been increased substantially in recent years. We showed the impact on Volta's CLO debt portfolio and on the wider loan market, and what this meant for new investment returns. The key message was that the favourable conditions are expected to lift returns by 1%-1.5% p.a. for several years.

- The interest rate risk environment affects CLO equity investments in a number of ways:

Rising rates help income from floating rate underlying loans in due course, but many have "floors", so may not see immediate benefit

    - The underlying floating rate loans held by the CLOs should generate more income. The benefit is nuanced, though, as we understand many underlying loans are currently subject to floors (for example, a loan may pay 2% over three-month LIBOR with a floor of 4%, which means it pays 4% if LIBOR is at 0%, 1% or 2%). Initial rises in rates may not lift all the underlying loans off their floor rates.

Defaults likely to rise with rising rates, and will affect sentiment

    - Higher rates could see increased defaults, which would initially be borne by the CLO equity. The debt elements could see falls in prices well beyond the likely economic loss (driven by illiquidity, uncertainty and negative sentiment), but the equity will take the bigger hit.

Basis risk between one- and three-month LIBOR could be an issue

    - A bigger gap between one-month and three-month \$LIBOR (basis risk) is negative for CLO equity investors, as loan borrowers can typically opt to switch from three-month to one-month LIBOR, but CLOs' liabilities typically do not have this flexibility, and continue to pay interest based on three-month LIBOR. This adverse effect, though, is typically for a limited period.

How Volta exploits such opportunities

Volta undertakes detailed analysis to identify where an excess spread is, or is not, due to risk

Volta's investment approach is to optimise risk/reward through detailed analysis and market knowledge. Its culture is to avoid unremunerated risks and recognise where any excess spread is the counterparty of a risk (or several risks). The time spent understanding the extent to which the risks are credit, refinancing, illiquidity, structuring, interest rate or any other type of risk is critical to delivering its target returns.

Volta a long-term investor

Achieving such returns makes Volta typically a long-term investor, although, when the market is offering specific opportunities (say oil and gas stress in the US), it may purchase assets for the short run (i.e. a few quarters). It will only purchase assets that it would be comfortable holding for the long run. Trading is not a driver to performance, and we understand that the active sales of positions are normally between 10% and 20% of NAV, and that the cost of churning the portfolio is very limited.[2]

Both bottom-up and top-down

Volta's investment approach is both bottom-up and top-down. The types of assets it purchases, and the portfolio construction, are bottom-up, while selection of trades and specific ideas are top-down. When purchasing a CLO position in the secondary market, the company looks carefully to the underlying portfolio (with the focus on industry and name-by-name exposure).

Getting right CLO manager key

The focus is actively on CLO manager selection. Volta believes that part of what makes a good CLO manager is its ability to manoeuvre within the CLO constraints (and anticipating them). The fund manager spends considerable time on due diligence and follow-up processes with CLO managers (in exactly the same way as a good fund manager behaves).

AXA IM gives competitive advantage in documentation and deal structuring

We think that being part of AXA IM gives Volta a competitive advantage in CLO documentation and deal structuring scrutiny (especially in the primary market).

[2] The "sales" number in the cashflow statements of the accounts is a higher number, but 70%-80% of the sales are normal business amortisations/calls, and not active changes of position by the manager.

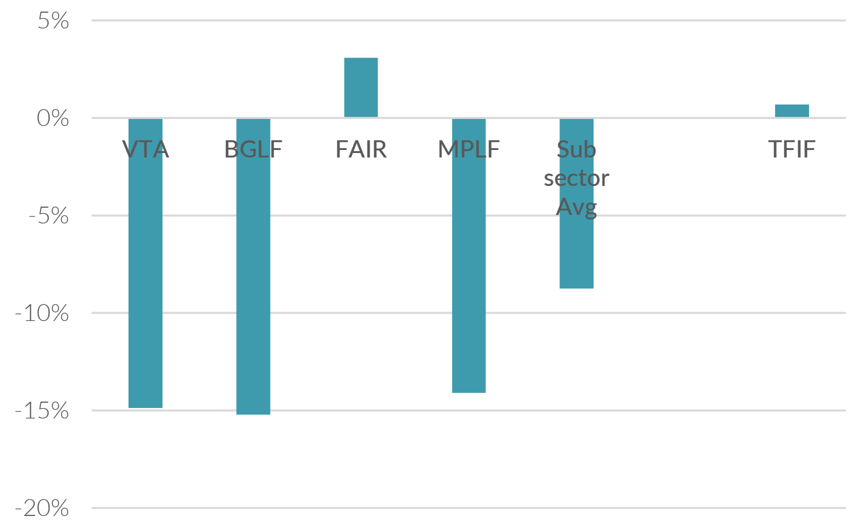
Valuation

Volta trades at a double discount: its share price is at a 15% discount to NAV, and we believe its mark-to-market NAV includes a further sentiment-driven discount (5%-10%) to the present value of expected cashflows.

Discount larger than peers on same accounting basis

Compared with its structured debt peers, on market price to NAV, Volta is trading at a material discount. Given the historical performance, risk profile and portfolio mixes identified in previous reports, this relative discount 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 29 November 2021

Financials

We have updated our forecasts following the details in the recently released 2021 Report and Accounts. Our bottom-line estimates are not materially changed.

Profit and loss account (statutory)									
Year-end Jul (€m)	2015	2016	2017	2018	2019	2020	2021	2022E	2023E
Coupons and dividends received	33.7	34.7	33.2	38.5	42.0	39.4	41.8	45.1	44.6
Net gains on sales	12.6	2.7	3.1	0.0	0.5	(7.0)	2.7	2.7	2.7
Unrealised gains and losses	21.0	(18.5)	4.7	(5.7)	(18.2)	(87.9)	47.1	5.0	1.5
Net gain on fin. assets at FV through P/L	67.2	18.9	40.9	32.7	24.4	(55.5)	91.6	52.8	48.8
Net FX	(8.2)	0.3	5.6	(2.0)	(11.6)	(1.4)	0.9	0.0	0.0
Net gain on IR derivatives	0.0	0.0	0.4	(0.9)	1.6	0.0	(0.3)	0.0	0.0
Interest expense on repo	(0.2)	(0.9)	(1.1)	(1.4)	(1.6)	(0.8)	0.0-	(1.4)	(1.6)
Net bank int. & charges	(0.0)	(0.1)	(0.1)	(0.1)	0.1	0.0	(0.0)	(0.0)	(0.0)
Operating income	58.8	18.2	45.7	28.4	12.8	(57.7)	92.1	51.4	47.2
Inv. manager's fees	(3.9)	(4.1)	(4.1)	(4.2)	(4.2)	(3.9)	(3.3)	(4.0)	(4.3)
Inv. manager's performance fees	(5.0)	-	(1.5)	-	-	-	(10.9)	(5.0)	(3.8)
Directors' remuneration & expenses	(0.5)	(0.6)	(0.5)	(0.5)	(0.5)	(0.5)	(0.3)	(0.3)	(0.3)
Other expenses	(1.8)	(0.9)	(0.8)	(1.0)	(1.0)	(0.9)	(0.8)	(0.8)	(0.8)
Total expenses	(11.2)	(5.6)	(6.9)	(5.7)	(5.7)	(5.3)	(15.3)	(10.1)	(9.2)
Profit and total comp. income	47.6	12.6	38.7	22.7	7.1	(63.0)	76.8	41.3	38.0
Avg. no shares for EPS calculation (m)	36.5	36.5	36.5	36.56	36.59	36.61	36.61	36.61	36.61
Statutory EPS (€)	1.31	0.34	1.06	0.62	0.19	-1.72	2.10	1.13	1.04
Total dividend (€)	0.62	0.62	0.62	0.62	0.62	0.52	0.52	0.61	0.65

Source: Volta, Hardman & Co Research

Adjusted profit and loss

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)	2015	2016	2017	2018	2019	2020	2021	2022E	2023E
Coupons and dividends received	33.7	34.7	33.2	38.5	42.0	39.4	41.8	45.1	44.6
Net gains on sales	12.6	2.7	3.1	0.0	0.5	(7.0)	2.7	2.7	2.7
Net gain on fin. assets at FV through P/L	46.2	37.4	36.2	38.5	42.5	32.4	44.5	47.8	47.3
Interest expense on repo	(0.2)	(0.9)	(1.1)	(1.4)	(1.6)	(0.8)	-	(1.4)	(1.6)
Net bank interest & charges	(0.0)	(0.1)	(0.1)	(0.1)	0.1	0.0	(0.0)	(0.0)	(0.0)
Operating income	46.0	36.5	35.0	37.0	41.0	31.5	44.5	46.4	45.7
Inv. manager's fees	(4.5)	(4.3)	(4.6)	(4.6)	(4.4)	(3.6)	(3.3)	(4.0)	(4.3)
Inv. manager's performance fees	(3.5)	(1.3)	(1.2)	(1.3)	(2.1)	(0.6)	(4.6)	(4.0)	(3.4)
Directors' remuneration & expenses	(0.5)	(0.6)	(0.5)	(0.5)	(0.5)	(0.5)	(0.3)	(0.3)	(0.3)
Other expenses	(1.8)	(0.9)	(0.8)	(0.9)	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)
Total expenses	(10.3)	(7.2)	(7.0)	(7.3)	(8.0)	(5.7)	(9.3)	(9.3)	(9.1)
Profit and total comp. income	35.7	29.3	28.0	29.7	32.9	25.8	35.2	37.1	36.6
Adjusted EPS (€)	0.98	0.80	0.77	0.81	0.90	0.71	0.96	1.01	1.00
Dividend cover (x)	1.58	1.29	1.24	1.31	1.45	1.36	1.85	1.66	1.53

Source: Volta, Hardman & Co Research

Balance sheet and cashflow

Financial assets are growing strongly through a combination of a robust recovery in unrealised losses and the reintroduction of conservative levels of gearing.

Balance sheet

@ 31 Jul (€m)	2015	2016	2017	2018	2019	2020	2021	2022E	2023E
Financial assets at FV through P&L	307.3	324.1	321.3	325.7	325.5	201.7	259.0	318.7	344.6
Derivatives	0.0	1.2	0.7	1.3	0.8	2.8	2.8	2.8	2.8
Trade and other receivables	38.1	5.0	0.3	12.9	5.5	0.0	2.5	2.5	2.5
Cash and cash equivalents	0.4	10.9	37.1	20.5	14.5	9.7	18.2	22.7	-15.9
Total assets	345.8	341.3	359.4	360.4	346.2	214.2	282.6	346.7	365.9
Loan financing under repos	27.3	40.3	38.1	42.7	35.9	0.0	0.0	45.0	50.0
Interest payable on loan financing	0.1	0.1	0.1	0.2	0.2	0.0	0.0	0.2	0.2
Derivatives	0.3	0.0	0.0	0.1	0.3	2.8	1.4	1.4	1.4
Trade and other payables	19.0	11.6	15.6	11.7	19.2	3.2	14.9	14.9	14.9
Total liabilities	46.6	52.0	53.8	54.7	55.7	6.0	16.3	61.5	66.5
Net assets	299.2	289.3	305.5	305.7	290.6	208.2	266.3	285.3	299.4
Period-end no. shares (m)	36.5	36.5	36.5	36.6	36.6	36.6	36.6	36.6	36.6
NAV per share (€)	8.20	7.92	8.36	8.36	7.94	5.69	7.28	7.80	8.19
Total debt to NAV	9%	12%	12%	14%	12%	0%	0%	16%	17%

Source: Volta, Hardman & Co Research

Cashflow

Year-end Jul (€m)	2015	2016	2017	2018	2019	2020	2021	2022E	2023E
Total comprehensive income	47.6	12.6	38.7	22.7	7.1	-63.0	76.8	41.3	38.0
Net gain on financial assets at FV in P&L	(67.2)	(18.9)	(40.9)	(32.7)	(24.4)	55.5	(91.6)	(52.8)	(48.8)
Net movm't. in unreal. gain on reval. derivs.	0.1	(1.5)	0.5	(0.5)	0.7	0.6	(1.5)	0.3	0.3
Interest expense on repos	0.2	0.9	1.1	1.4	1.6	0.8	0.0	1.4	1.6
FX losses on retranslation repos	(0.9)	(0.3)	(2.2)	0.4	2.0	0.9	0.0	0.0	0.0
(Increase)/decrease in trade receivables	(0.0)	0.0	(0.1)	0.1	(3.2)	3.2	0.0	0.0	0.0
Increase/(decrease) in trade payables	2.0	(1.5)	1.6	(1.7)	0.1	(0.3)	10.7	0.0	0.0
Directors'/other fees paid in cash	0.2	0.1	0.1	0.2	0.1	0.0	0.0	0.0	0.0
Net cash inflow/(outflow) from op. acts.	(18.0)	(8.5)	(1.0)	(10.3)	(15.9)	(2.4)	(5.6)	(9.9)	(8.9)
Cashflow from investing activities									
Coupons and dividends recd.	33.3	33.6	34.4	38.0	42.2	39.9	40.4	45.1	44.6
Purchase of financial assets	(99.3)	(127.0)	(109.0)	(138.8)	(117.8)	(68.1)	(36.8)	(170.0)	(140.0)
Proceeds from sales of financial assets	96.9	84.9	125.5	114.2	118.2	83.0	29.1	118.0	118.0
Net cash inflow/outflow from invest. acts.	30.9	(8.5)	50.9	13.4	42.7	54.8	32.7	(6.9)	22.6
Cashflows from financing activities									
Dividends paid	(22.3)	(22.6)	(22.7)	(22.7)	(22.3)	(19.4)	(18.7)	(22.4)	(23.8)
Proceeds from repos	28.2	13.3	0.0	4.2	(8.8)	(36.8)	0.0	45.0	5.0
Interest paid on repos	(0.1)	(0.8)	(1.1)	(1.3)	(1.7)	(1.0)	0.0	(1.4)	(1.6)
Net cash inflow from financing activities	5.8	(10.2)	(23.7)	(19.7)	(32.8)	(57.2)	(18.7)	21.3	(20.5)
Net increase in cash and cash equivalents	18.7	(27.2)	26.2	(16.6)	(6.0)	(4.8)	8.5	4.5	(6.8)
Opening cash and cash equivalents	19.5	38.1	10.9	37.1	20.5	14.5	9.7	18.2	22.7
Closing cash and cash equivalents	38.1	10.9	37.1	20.5	14.5	9.7	18.2	22.7	15.9

Source: Volta, Hardman & Co Research

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