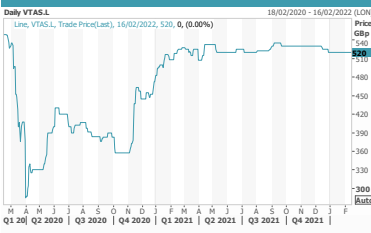




17 February 2022

Closed End Investments



Source: Refinitiv

Market data

EPIC/TKR	VTA.NA, VTA.LN VTAS LN
Price (€)	6.32/6.15/520p
12m High (€)	6.34/6.38/549p
12m Low (€)	5.82/5.75/500p
Shares (m)	36.6
Mkt Cap (€m)	231
2022E div. yield	9.7%
Latest NAV (Jan'22, €)	7.39
Discount to NAV	14%
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	Graham Harrison,
Non-Executive	Dagmar Kershaw,
Directors	Stephen Le Page,
Fund Managers	Serge Demay,
(AXA IM Paris)	A Martin-Min,
	François Touati
Co. sec./	BNP Paribas
Administrator	Securities Services
	SCA, Guernsey
Website	www.voltafinance.com

Key shareholders (31 Jul'21)

AXA Group	30%
BNP WM	16%
BNP Sec. Serv.	10%

Diary

Mid-Mar	Feb estimated NAV
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Analyst

Mark Thomas +44 (0)203 693 7075
mt@hardmanandco.com

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VOLTA FINANCE LIMITED

What Volta brings to investors

In this note, we highlight three things that Volta has brought to both UK and European investors since it listed on the UK stock market on 28 May 2015: i) it has given investors relatively high total returns; ii) it provides a higher ongoing income (and we briefly summarise recent reports on cash generation and strong dividend cover); and iii) Volta is uncorrelated to benchmark bonds, an alternative asset class that investors may have considered for income. While Volta's CLO investments may not be to every investor's taste, and there are risks (Volta marks to market, which is not adopted by all peers), these three traits are noteworthy.

- ▶ **Returns:** Since 20 May 2015, Volta has generated total shareholder returns (TSRs) of 58%, against European and UK stock markets' TSRs of ca.40%. Returns from 10-year government bond holdings over the period have been between 10% and 24%, varying by country. Volta's returns have been above those of major asset classes.
- ▶ **Income/correlations:** Volta is bought primarily for income. It not only offers a superior income to benchmark bonds, but the gap has been increasing significantly. Importantly, there is no correlation in the total return between Volta and this asset class, giving investor portfolios a diversification to their returns.
- ▶ **Valuation:** Volta trades at a double discount: its share price is at a 14% discount to NAV, and we believe its mark-to-market NAV still includes a further sentiment-driven discount (5%-10%) to the present value of expected cashflows. Volta targets an 8% of NAV dividend (9.7% 2022E dividend 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.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 15.5%. 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%	-19%	-23%
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	9.8%	9.8%	9.8%	8.2%	8.2%	9.7%	10.3%

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

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Three key investor considerations

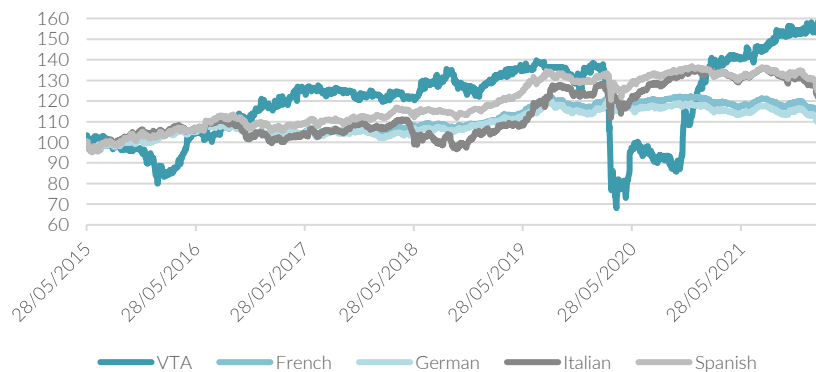
Total return

35%-50% outperformance in AEX-listed shares since May 2015 against range of European 10-year government bonds...

...and 20% outperformance in sterling-listed shares against UK 10-year government bonds

We believe that most investors hold Volta for its income, and so our initial comparison is against the returns seen from benchmark bonds. Volta's AEX-listed shares have seen a 35%-50% total return outperformance since May 2015 against a range of European 10-year government bonds. The sterling-listed shares, adjusted for currency, have seen a 20% outperformance against UK 10-year government bonds. There has also been a significant outperformance against investments made in corporate bonds, as measured by total returns on bond indices.

Total return indexed to 28 May 2015 for Volta AEX shares against range of European government 10-year benchmark bonds

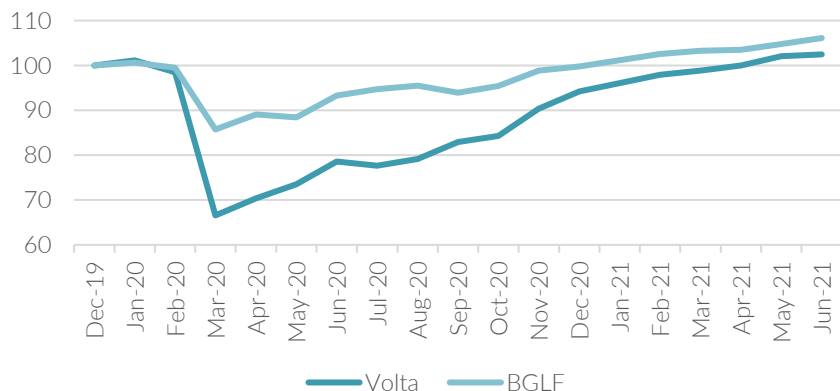


Source: Refinitiv, Hardman & Co Research

There is volatility, driven in part by accounting policy, that not adopted by all peers

While there has been long-term outperformance, there has been a degree of volatility in the performance. We believe this is, in significant part, due to mark-to-market accounting, which is not adopted by all peers. We have noted, in previous reports, that Volta is subject to a double whammy of the NAV being affected by sentiment and then the shares also being affected. As the performance through 2020 shows, this can be reversed quickly – with sharp recoveries and outperformance after sharp falls. This is demonstrated in the chart below, which compares Volta's NAV performance with that of Blackstone Loan Financing Ltd (BGLF), which marks to model rather than marks to market.

Volta's and BGLF's NAV, indexed to December 2019 at 100

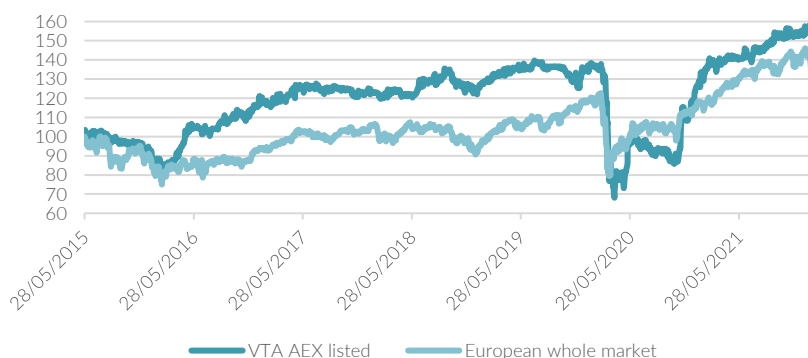


Source: Refinitiv, Hardman & Co Research

Since 2015, seen average of roughly 2% p.a. long-term outperformance against European equities

The chart below shows the total return of Volta's AEX-listed shares compared with the European whole stock market since listing on the UK exchange. The AEX-listed shares delivered a return of 15% (roughly 2% p.a.) above the overall European market over this period.

Total return of Volta's AEX-listed shares (indexed to 28 May 2015 at 100) compared with European whole market



Source: Refinitiv, Hardman & Co Research

UK equity market returns more in line on currency-adjusted basis

UK investors have seen a similar nominal outperformance, with the London-listed shares' total return beating the UK whole market. This is somewhat distorted, as the London shares are Euro-quoted and the sterling shares were only quoted in 2018, and the liquidity in the latter remains modest. Over the period, if we adjust for the strength of sterling, especially in the past year, the returns from Volta are more in line with the UK equity market over the period on a currency-adjusted basis.

Returns against property more in line, but very dependent on specific property class

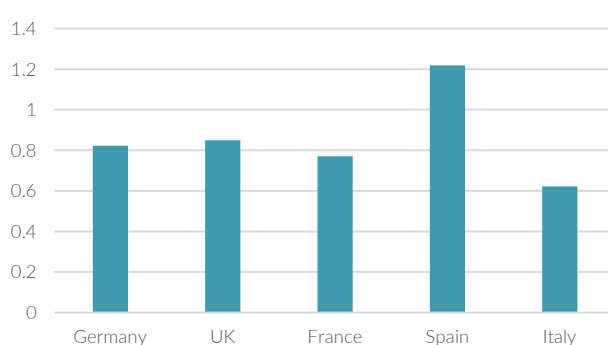
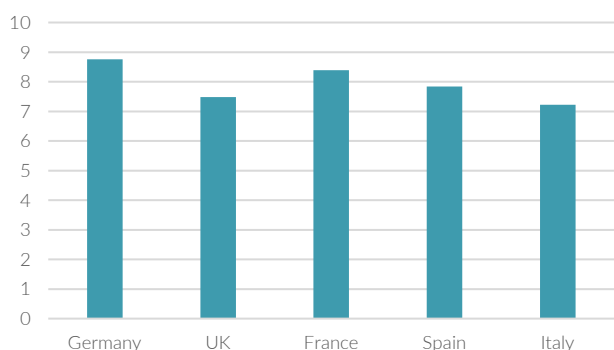
Against European property, the picture is very dependent on specific geographical and country allocations. Taking the Schroder European Real Estate trust as a proxy for the whole market, though, its total sterling return since listing on 27 November 2015 was 51%, in line with Volta's currency-adjusted return to the same date.

High current income

High and increasing gap over benchmark yields

Volta has a stated dividend target to pay out quarterly dividends equivalent to 8% annualised of NAV. On our forecasts, this is expected to see dividend yields of 9.7% and 10.3% in FY'22 and FY'23, respectively. The historical dividend yield thus represents a huge premium over benchmark rates (as shown in the left-hand chart below). Importantly, this gap has been widening (the right-hand chart shows the increase since 28 May 2015).

Volta – yield over 10-year benchmark rates **Volta – increases in surplus yield since 28 May 2015**



Source: Refinitiv, Hardman & Co Research

Volta Finance Limited

2022E dividend cover ca.2x near term, driven by allocation to CLO equity vehicles and their cashflow uplift on debt re-financing...

...together with lower-than-expected market defaults

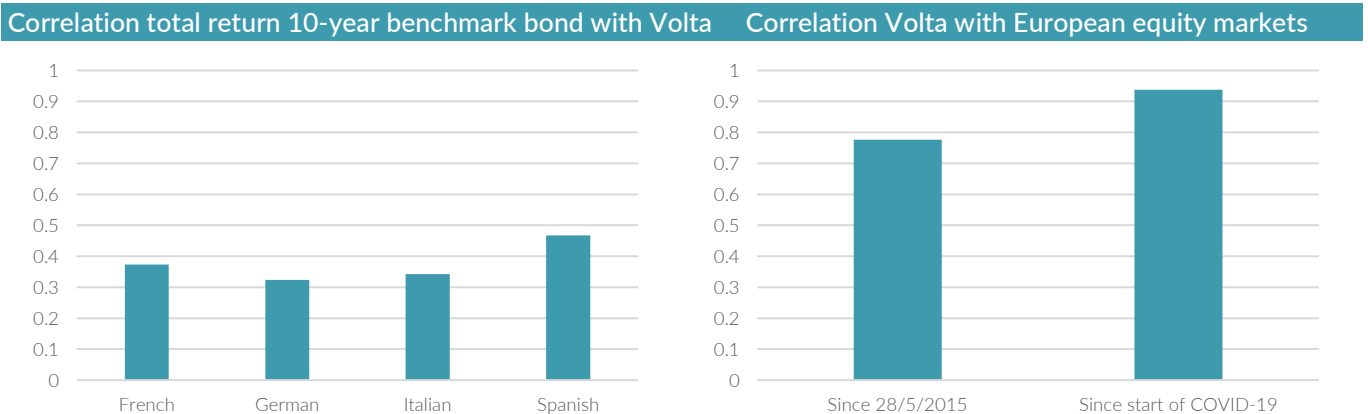
Having a high yield is of limited value if the dividend is not going to be sustained. On our numbers, we are forecasting 2022 cover of ca.2x, and we note that, in its latest [factsheet](#), Volta stated that the actual six-monthly rolling annualised cashflow yield was 15.5% of the end-month NAV (against a target 8% dividend payout). We have, in our recent notes, explored the business reasons behind this strong cover (in particular, see [Volta's seven yield uplifts](#) (11 January 2021), [Re-Set, Re-Fi, Re-Light my Fire](#) (5 May 2021) and [Yield \(10%, covered and growing\) + capital growth](#) (28 July 2021)). We summarise these points briefly below:

- ▶ Favourable market conditions mean that CLO vehicles can re-finance debt cheaply. This enhances the value of Volta's CLO equity positions, which have been increased substantially in recent years. This is expected to lift total returns by 1%-1.5% p.a. for several years.
- ▶ There have been lower-than-expected market defaults, CLO vehicles have rules and restrictions, which mean their defaults have typically been around half the wider market average, and AXA IM, the manager, has picked below-average CLO defaults – so there has been a triple benefit in terms of credit.
- ▶ With returns well above the dividend, the NAV is likely to grow, which, in turn, fuels dividend growth – so investors benefit not only from high dividends but also from capital and income growth.

Low correlation with benchmark bonds

Low correlation with bonds

The charts below show the correlation between the total returns for the AEX-listed shares and the European 10-year benchmark government bonds since May 2015. As can be seen, there is no statistical correlation. There is a stronger correlation with equity markets, especially since COVID-19.



Source: Refinitiv, Hardman & Co Research

Volatility

Volatility of returns may mean Volta is not for all investors

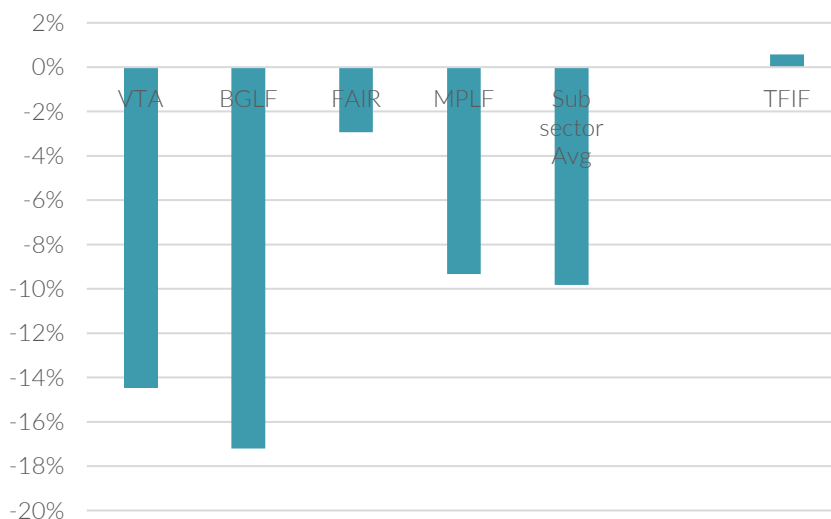
The volatility that Volta faced through COVID-19 was more extreme than that experienced by many other closed-ended investment companies, compounded, as we noted above, by sentiment affecting both the underlying investments and the shares themselves. We recognise that such sentiment-driven risk means that, for some investors, Volta is unappealing. We believe it is important to recognise when the risk is fundamentally real, or sentiment- or accounting-driven. Others may prefer to wait, and buy on the dips. We also note that timing the latter can be challenging, as the periods of recovery can be equally as sharp as the falls.

Valuation

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 17 February 2022

Financials

Our estimates are unchanged.

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 re-translation 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 received	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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