Volta Finance Limited (VTA / VTAS) – May 2022 monthly report

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Guernsey, 14 June 2022

AXA IM has published the Volta Finance Limited (the "Company" or "Volta Finance" or "Volta") monthly report for May. The full report is attached to this release and will be available on Volta's website shortly (www.voltafinance.com).

PERFORMANCE and PORTFOLIO ACTIVITY

In May, the CLO market experienced a brutal price adjustment, reversing 4 months of solid outperformance relative to classic credit and equity markets. In May Volta NAV was down 11.8%, and with a year-to-date performance for Volta at -10.5%, the five-month performance has moved to be roughly in line with that of US or European High Yield, which are down respectively at -7.8% and -8.7%.

Over the investment cycle, Volta is targeting a far higher return than conventional high-yield bonds and continues to receive a cash-on-cash return in the high teens from its investments, which is our expectation even in mildly stressed markets.

In May, Volta received the equivalent of €1.6m in terms of interest and coupons. For the 6 months ended May 2022, Volta received €22.7m interest and coupons representing a 19.3% annualized cash flow to NAV.

Turning to the broad underlying asset classes, the monthly performances** were: +2.4% for Bank Balance Sheet transactions, -13.6% for CLO equity tranches; -9.0% for CLO debt; -0.4% for Cash Corporate Credit and ABS (together representing 2.9% of NAV).

At the time of writing this comment, there is anecdotal evidence of improving prices in the secondary market and we expect that part of the downward price adjustment in May to be recouped in June.

Our medium-term view is unchanged: we still think that we may see an increase in default rates: towards circa 1% this year, rising to the 2% to 3% range for 2023 (albeit US loans being less impacted than European). We consider such default levels should not be a concern given that the longer-term historical average is slightly below 3%.

Although the consensus view is that inflation is an issue, it is worthwile reflecting that inflation has not been a major problem for the credit market historically. Despite rising inflationary pressures over the last 18 months, default rates have remained very low (over the last 12 months default rates are at 0.2% in the US and 0.8% in Europe). Furthermore, the longest period of inflation (for the last 50 years) was between 1972 and 1981 and that period coincides with the longest period of benign defaults in the US (through these 10 years the US high-yield bond and loan markets averaged annual default rates close to 1.5/2%). It is all too easy to underestimate the effect of inflation on debt erosion. In 2021, the vast majority of CLO loans, both in Europe and the US were refinanced, and now have maturities in 2028/29. Everything else being equal, with 5% inflation and 2% growth, the real value of 1$ debt is only 62 cents after 7 years, far easier to refinance.

It is also worthwhile reflecting that in 2020/21, in just 2 years, corporate profits rose by 30% or so (in the US and Europe). US corporate profits (excluding financials), for example, reached an unprecedented high last year at 8% of US GDP (a 50-year record high), compared with an average level for the last 25 years of 6.18%. When considering the last 15 years (including the GFC and the Covid Crisis) defaults have tended to start to seriously materialize once corporate profits fall below 6% of GDP (the previous two lows were 4.43% in Q2 2009 and 5.49% in Q2 2020). This suggests that if overall profits were to be flat or even to decrease by 10 or 15% in the coming 2 years it is not expected to cause any significant wave of defaults.

Looking ahead to the next few quarters, we do not believe that there are any signs that Volta is likely to suffer from a diversion of cash flows from its CLO Equity positions. Indeed, Volta cashflows have been increasing every month for the last 4 months (measured as the rolling 6-month cashflows to avoid seasonality). Receiving a continuing high level of cash flows should allow us to take advantage of opportunities arising from the current market environment while maintaining the payment of a steady quarterly dividend.

As at the end of May 2022, Volta's NAV was €233.0m or €6.37 per share.

**It should be noted that approximately 4.0% of Volta's GAV comprises investments for which the relevant NAVs as at the month-end date are normally available only after Volta's NAV has already been published. Volta's policy is to publish its NAV on as timely a basis as possible to provide shareholders with Volta's appropriately up-to-date NAV information. Consequently, such investments are valued using the most recently available NAV for each fund or quoted price for such subordinated notes. The most recently available fund NAV or quoted price was 3.4% as at 30 April 2022 and 0.6% as at 31 March 2022.*

*** "performances" of asset classes are calculated as the Dietz-performance of the assets in each bucket, taking into account the Mark-to-Market of the assets at period ends, payments received from the assets over the period, and ignoring changes in cross-currency rates. Nevertheless, some residual currency effects could impact the aggregate value of the portfolio when aggregating each bucket.*

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ABOUT VOLTA FINANCE LIMITED
Volta Finance Limited is incorporated in Guernsey under The Companies (Guernsey) Law, 2008 (as amended) and listed on Euronext Amsterdam and the London Stock Exchange's Main Market for listed securities. Volta's home member state for the purposes of the EU Transparency Directive is the Netherlands. As such, Volta is subject to regulation and supervision by the AFM, being the regulator for financial markets in the Netherlands.

Volta's investment objectives are to preserve capital across the credit cycle and to provide a stable stream of income to its shareholders through dividends. Volta seeks to attain its investment objectives predominantly through diversified investments in structured finance assets. The assets that the Company may invest in either directly or indirectly include, but are not limited to: corporate credits; sovereign and quasi-sovereign debt; residential mortgage loans; and, automobile loans. The Company's approach to investment is through vehicles and arrangements that essentially provide leveraged exposure to portfolios of such underlying assets. The Company has appointed AXA Investment Managers Paris an investment management company with a division specialised in structured credit, for the investment management of all its assets.

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The valuation of financial assets can vary significantly from the prices that the AXA IM could obtain if it sought to liquidate the positions on behalf of the Volta Finance due to market conditions and general economic environment. Such valuations do not constitute a fairness or similar opinion and should not be regarded as such.

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