

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

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Guernsey, 13 July 2022

AXA IM has published the Volta Finance Limited (the “Company” or “Volta Finance” or “Volta”) monthly report for June. 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 June, the CLO market continued to suffer in conjunction with other credit markets. Year-to-date performances is largely in line with more traditional credit asset classes like High Yield. In June Volta’s NAV was down 4.6%, bringing the year to date total return to -14.6%.

This negative performance was mostly driven by CLO Equity performances with detailed monthly performances** by asset classes being +0.7% for Bank Balance Sheet transactions, -7.2% for CLO equity tranches; -4.4% for CLO debt; +0.3% for Cash Corporate Credit and ABS (together representing 2.9% of NAV).

Loans and CLOs are now priced at level that are relatively similar to May/June 2020, just after the worst of Covid while the situation is significantly different this time. Two years ago, rating agencies were in the process of completing a huge wave of loan downgrades (in the end circa 40% of loans were downgraded in a few months) and default rates were expected to be in the 10 to 15% range on one year/18 month horizon. This time, the rating downgrade/upgrade ratio is still balanced, rating agencies are expected to downgrade loans on a case by case basis and, even though we expect to see more defaults over, we are expecting default rates (in line with the number of loans currently trading below 80% of par) to rise by only a few percentage points in the coming year/18 months, a level that is absolutely manageable.

It is clear to us that the particularly attractive spreads available from loans and CLO tranches are partially due to 2 technical effects: there is a significant number of warehouses opened which partially ramped before or during the first weeks after the Ukraine invasion and the market is pricing in the probability of the liquidation of the warehouses. Even though other options exist (re-pricing and re-use of such warehouses to price a new CLO) this option clearly weighs on the technical of both the loan and the CLO market, pushing prices lower waiting for a capitulation for such positions. The second thing is that fixed income credit markets are down due to the dual effect of spread increases and rate increases. Floating rate instruments, like CLO tranches, being in competition with traditional fixed rate markets, are suffering from the fact that many players tend to sell where they have limited losses from floating rate instruments to seize opportunities at far higher projected yields in traditional fixed rate markets. Rotating portfolios out of floating based instruments into fixed rate instruments did not help for the last 2 months.

Capturing the bottom in loan and CLO markets is always challenging when considering, for example, the time to market in pricing a new CLO Equity tranche. So after accumulating cash for already several months, Volta will seek to reinvest, considering buying mezzanine CLO debts at significant discounts and/or opening new CLO warehouses to be able to purchase loans at even deeper prices if some others are forced to capitulate.

In June, Volta received the equivalent of €0.6m in terms of interest and coupons. For the 6 months ended June 2022, Volta received €22.5m interest and coupons representing a 20.6% annualized cash flow to NAV.

Considering that the fundamental risk for our positions is not inflation but recession we recently entered into a fixed rate overlay, adding 1.5 year of duration to Volta through T-notes futures/options and Euro



5 year swaptions. At the time of writing, these positions have generated circa 0.5% performance. These positions, due to their size, are not going to dramatically change Volta's performance but if recession were to materialize, term rates may not continue to rise and this kind of performance kicker may help.

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's 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 June 2022, Volta's NAV was €222.3m or €6.08 per share.

**It should be noted that approximately 1.6% 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 1.0% as at 31 May 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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AXA Investment Managers (AXA IM) is a multi-expert asset management company within the AXA Group, a global leader in financial protection and wealth management. AXA IM is one of the largest European-based asset managers with 2,460 professionals and €887 billion in assets under management as of the end of December 2021.

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The figures provided that relate to past months or years and past performance cannot be relied on as a guide to future performance or construed as a reliable indicator as to future performance. Throughout this review, the citation of specific trades or strategies is intended to illustrate some of the investment methodologies and philosophies of Volta Finance, as implemented by AXA IM. The historical success or AXA IM's belief in the future success, of any of these trades or strategies is not indicative of, and has no bearing on, future results.

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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