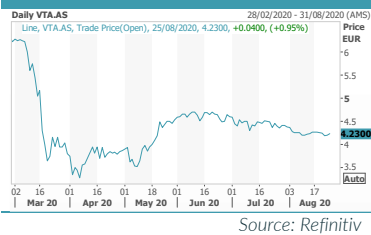


Financials

Market data

EPIC/TKR	VTANA, VTALN, VTAS LN
Price (€)	4.20/4.30/384p
12m High (€)	6.74/7.04/642p
12m Low (€)	3.20/3.38/285p
NAV (July €)	5.69
Shares (m)	36.6
Mkt Cap (€m)	154
2020E yield	9.8%
Free Float	70%
Market	AEX, LSE

Description

Volta Finance (Volta) is a closed-ended, limited liability investment company with a diversified investment strategy across structured finance assets (primarily CLOs). It aims to provide a stable stream of income through quarterly dividends.

Company information

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

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www.voltafinance.com

Key shareholders

Axa Group	30%
BBVA Madrid & BNP WM	7%
Ironside Partners & Deutsche	6%

Diary

Mid-Sep	Aug estimated NAV
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Analyst

Mark Thomas 020 7194 7622
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VOLTA FINANCE LIMITED

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Only one of Volta's USD CLO positions in Volta did not receive any cashflows, due to an IC (Interest Coverage) test breach, versus 24% of the markets. July CLO equity payments were lower than in April (€3.9m vs. €5.7m), due to i) ca. €1m less due lower short-term rates in the US, where there is basis risk – this should reverse when rates rise, and ii) since April, roughly 40% of European loans have elected to pay their coupons on a six-month basis, instead of three months. This effect (€1m) will unwind, with higher cashflows in October. Management believes that, further lockdowns aside, full cashflow payments should be the norm for Volta's portfolio.

- ▶ **Volta monthly report:** Volta's July NAV fell 1.2%, after strong performances in June (6.9%), May (4.5%) and April (5.7%). YTD, the fall is 22.5%. CLO debt fell 0.5%, equity tranches rose 1.1%, Bank Balance Sheet transactions fell 0.3%, and ABS positions rose 1.7%. Cash is 4% of GAV, down from 10% at end-April, but up on June's 2%.
- ▶ **July peer reports:** Blackstone GSO Loan Financing's € NAV rose 2% (mark-to-model accounting basis, YTD -5%), Fair Oaks Income's \$ NAV rose 3% (one year down 35%), TwentyFour Income Fund's £ NAV rose 2% (one year down 1%, but includes significant residential mortgages), and Marblepoint's £ NAV rose 5% (YTD -29%).
- ▶ **Valuation:** Volta trades at a 26% discount to NAV (subject to significant external input and oversight). The relative discounts to Fair Oaks and Marblepoint seem anomalous, as, over the long term, Volta has delivered a better NAV performance. Volta declared a €0.1 dividend on 11 May, and aims for 8% NAV distribution.
- ▶ **Risks:** Credit risk is a key sensitivity (Volta has a widely diversified portfolio). We examined the valuation of assets, highlighting the multiple controls to ensure its validity, in our initiation note. NAV is affected by 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 both the NAV and the discount to NAV reflect sentiment. This may be expected to normalise over time, and we note that BGLF's model-based approach saw its NAV drop by only a third that of Volta in March 2020. Fundamental long-term returns have been good: pre-COVID-19, ca.11% p.a. (dividend re-invested basis) over five years. Volta's performance relative to its peers has been strong, and returns for investments made after the financial crisis were double those in prior years.

Financial summary and valuation (Hardman & Co adjusted basis)

Year-end Jul (€m)	2015	2016	2017	2018	2019	2020E	2021E
Coupons & dividends	33.7	34.7	33.2	38.5	42.0	42.3	28.3
Operating income	46.0	36.5	35.0	37.0	41.0	41.3	27.3
Inv. Manager's fees	-4.5	-4.3	-4.6	-4.6	-4.4	-3.6	-1.5
Adj. perform. fees	-3.5	-1.3	-1.2	-1.3	-2.1	-2.6	-1.5
Total expenses	-1.8	-0.9	-0.8	-0.9	-1.0	-1.0	-1.0
Total comp. income	35.7	29.3	28.0	29.7	32.9	33.6	22.7
Statutory PTP	47.6	12.6	38.7	22.7	7.1	-67.7	86.1
Underlying EPS (€)	0.98	0.80	0.77	0.81	0.90	0.92	0.62
NAV	299.2	289.3	305.5	305.7	290.6	208.0	275.5
S/P prem./disc. to NAV	49%	47%	50%	50%	47%	26%	44%
Gearing	9%	12%	12%	14%	12%	0%	0%
Dividend yield	14.8%	14.8%	14.8%	14.8%	14.8%	9.8%	12.2%

Source: Hardman & Co Research