24 June 2025

HARDMAN&CO.

Closed End Investments

Source: LSEG, 2025

Market data

EPIC/TKR	VTA.NA, VTA.LN, VTAS LN
Price (€)	6.36/6.45/540p
12m high (€)	6.60/6.62/565p
12m low (€)	5.05/5.00/416p
NAV p/sh (Apr'25, €)	7.19
Disc. to NAV (%)	-12
Shares (m)	36.6
Mkt cap (€m)	233
Country of listing	NL/UK
Currency of listing	€/€/GBP
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. Chair	Dagmar Kent Kershaw
Ind. NEDs	Simon Holden, Stephen Le Page, Yedau Ogundele Joanne Peacegood,
Fund Manager	AXA IM
Co. sec./ Administrator	BNP Paribas Securities Services SCA, Guernsey
BNP:	+44 (0)1481 750853
Website:	www.voltafinance.com

Key shareholders (31 July 2024)

AXA SA Bank	21.75%
BNP Paribas	16.01%
AXA Framlington IM	8.23%
BNP Wealth Mgt.	5.91%

Diary

Mid-Jul	Jun estimated NAV

Analyst

Mark Thomas
mt@hardmanandco.com

THIS DOCUMENT IS NOT AVAILABLE TO 'U.S. PERSONS', NOR TO PARTIES WHO ARE NOT CONSIDERED 'RELEVANT PERSONS' IN THE UNITED KINGDOM, NOR SHOULD IT BE TAKEN, TRANSMITTED OR DISTRIBUTED, DIRECTLY OR INDIRECTLY, TO EITHER OF THESE CATEGORIES. SEE P2 FOR FURTHER DETAILS.

VOLTA FINANCE LIMITED

Volatility put into context

In this report we review Volta's volatility during recent "crisis" periods (2025 tariff uncertainty, Russia's 2022 invasion of Ukraine, early COVID-19 experience). In one of these events, Volta's share price showed more volatility than that of equity markets, in one it was broadly in line, and in one it displayed less volatility. There is insufficient evidence to say Volta is more or less volatile than equity markets in risk-off periods, which may come as a surprise to some investors. Investors need to consider both sentiment effects (on the VTA share price and the price of its assets) and fundamentals (CLO structures build in many downside risk protections).

- **Sentiment:** In our view, the biggest factor driving whether VTA has shown more or less volatility has been stock-specific sentiment at the time. In some risk-off periods this has been more positive than for overall markets, and in others less so. With real value volatility driven by different factors, mispricing anomalies arise.

- **Fundamentals:** While in sentiment terms CLOs may be viewed by some equity investors as being risky, and so volatile, the reality is that CLO structures have many risk-reduction features that limit downside sensitivity. Both historical and expected CLO losses are below the broader corporate market equivalents.

- **Valuation:** Volta trades at a double discount: its share price is at a 12% discount to NAV, and we believe its MTM NAV still includes a further sentiment-driven discount to the present value of expected cashflows. Volta targets an 8% of NAV dividend (9.4% 2025E yield, on current share price).

- **Risks:** Credit risk is a key sensitivity. In this note, we examine the valuation of assets, highlighting the multiple controls to ensure validity. The NAV is exposed to sentiment towards its own and underlying markets. Volta's long dollar position is only partially hedged.

- **Investment summary:** Volta's NAV, and the discount to NAV, may be volatile over time. Fundamental long-term returns have been robust: 9.1% p.a. (dividend-reinvested basis) since inception. Volta's performance relative to that of its peers, and the market it operates in, has been strong. Returns on investments made after the financial crisis have been double those pre crisis.

Financial summary and valuation (Hardman & Co adjusted basis)

Year-end Jul (€m)	2021	2022	2023	2024	2025E	2026E
Coupons & dividends	41.8	42.9	47.0	57.1	55.6	53.7
Operating income	44.5	41.6	44.1	51.5	36.7	59.8
Total inv. manager fees (stat.)	(14.2)	(3.9)	(5.6)	(10.1)	(6.3)	(10.9)
Other expenses	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)
Total comp. inc.	35.2	33.4	35.2	41.0	29.3	47.8
Statutory PTP	76.8	(17.8)	27.0	45.0	30.5	49.1
Underlying EPS (€)	1.0	0.9	1.0	1.1	0.8	1.3
NAV per share (€)	7.28	6.22	6.45	7.13	7.37	8.08
S/P prem./disc. (-) to NAV*	-17%	-16%	-21%	-27%	-14%	-21%
Gearing	0%	0%	0%	0%	0%	0%
Dividend (€)	0.52	0.61	0.51	0.55	0.60	0.62
Dividend yield	8.0%	9.0%	8.0%	8.6%	9.4%	9.8%

**2021-24 actual NAV and s/p, 2025-26E NAV to current s/p; Source: Hardman & Co Research*

IMPORTANT INFORMATION

Due to legal restrictions, the information in this document is not available to any person who is a "U.S. person" (as defined below) or to any person who is physically present in the United States, and it is available only to persons who are "relevant persons" (as defined below) for U.K. regulatory purposes.

A "U.S. person" is:

- any natural person resident in the United States;
- any partnership or corporation organised or incorporated under the laws of the United States;
- any estate of which any executor or administrator is a "U.S. person";
- 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";
- any discretionary account or similar account (other than an estate or trust) held by a dealer or other fiduciary organised, incorporated, or (if an individual) resident in the United States; and
- any partnership or corporation if:
    - organised or incorporated under the laws of any foreign jurisdiction; and
    - formed by a "U.S. person" principally for the purpose of investing in securities not registered under the U.S. Securities Act, unless it is organised or incorporated, and owned, by accredited investors (as defined in the rules of the U.S. Securities and Exchange Commission) who are not natural persons, estates or trusts.

"Relevant persons" are (i) persons who are outside the United Kingdom or (ii) investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order") or (iii) high net worth companies, and other persons to whom it may lawfully be communicated, falling within Article 49(2) (a) to (d) of the Order. The securities of the Company are only available to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such securities will be engaged in only with relevant persons. Any person who is not a relevant person should not access, or seek to act or rely on, this report or any of its contents.

This document should not be taken, transmitted or distributed, directly or indirectly, to "U.S. persons" as defined above nor to parties that are not "relevant persons" as defined above. In reading this document the readers also acknowledge that they have read and understood the notices set forth above and the disclaimers contained in the document.

If you are not a "relevant person" or you are a "U.S. person", you should not have received or accessed this document and accordingly should return this document as soon as possible and take no further action. Any investment or investment activity to which this document relates is only available to "relevant persons". By accepting receipt of this document, each recipient is deemed to confirm, represent and warrant to Hardman & Co that it is a "relevant person" and that it is not a "US person", and accordingly a person to whom this document can be lawfully communicated.

Summary of Volta's performance in risk-off environments

Summary

No consistency in whether Volta shows more or less volatility than equity markets in risk-off periods

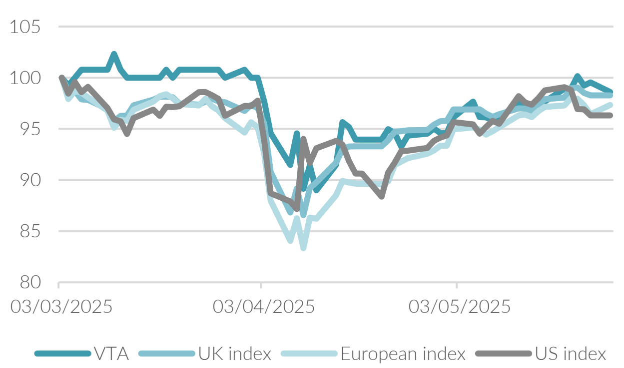
Taking the last three great risk-off events (2025 tariff uncertainty, Russia's 2022 invasion of Ukraine, early COVID-19 experience), in one event Volta's share price showed more volatility than that of equity markets, in one it was broadly in line and in one it has shown less volatility. We conclude there is insufficient evidence to say Volta is more or less volatile than equity markets in risk-off periods, which may come as a surprise to some investors.

Tariff driven (March/April 2025)

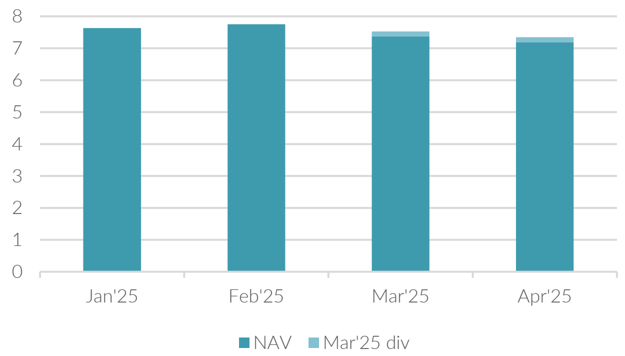
Less than market volatility in early 2025

The left-hand chart below shows Volta's share price relative to UK and European indices (major US indices have followed a similar trend). Notably, Volta's share price fell less than that of equity indices and has since recovered to a similar level. The right-hand chart shows Volta's NAV (reported month-end). The NAV (adjusted for the March 2025 €0.155 dividend) fell 2.9% in March (a timing difference from equity markets, which only fell at the start of April) and a further 2.4% in April (most equity markets largely recovered their losses by the end of the month). Noting the NAV is only reported once monthly, the initial fall in NAV (right-hand chart) appears less than that of the equity markets drop shown in the left-hand chart below.

Volta share price, UK, European and US equity market indices indexed to 1/3/25 at 100



Volta NAV month-end Jan-Apr 2025



Source: LSEG, Volta Factsheets, Hardman & Co Research

In terms of why there was lower volatility in both Volta's NAV and its share price compared with major indices, we believe some of the key factors were:

Inflation expectations key driver of both equity and credit markets, but with different sensitivities

- Inflation expectations (and so interest rates) have proved volatile and unpredictable, often seemingly driven by single news events. Within the noise, we think that the overall trend is a higher-for-longer view, leading to higher bond yields, which has triggered pressure on credit spreads. The impact on credit markets was more evident than in equity markets and visible before equity markets priced in tariff effects. In our view, and from comments by central bankers globally, in their view as well, the impact of tariffs on inflation remains too early to predict with any certainty. The bias appears to be towards more inflation pressure, however, especially in the US.

- Continued robust corporate profitability is good for continued low credit default expectations and even better for equity markets. S&P consensus estimates are still for double-digit earnings growth in 2025.[1]

Sector performance in equity markets can be big driver

- The impact on different sector and sub-sector weightings is important for overall market performance. Apple and Amazon alone account for nearly 10% of the S&P 500 and the impact on these companies, together with potential export controls on Nvidia, means tech was a drag on equity markets in the recent period when, in the past, it has been a major positive contributor.

Discount to NAV reduced, in our view, driven by sustained strong performance from Apr'23 to Feb'25

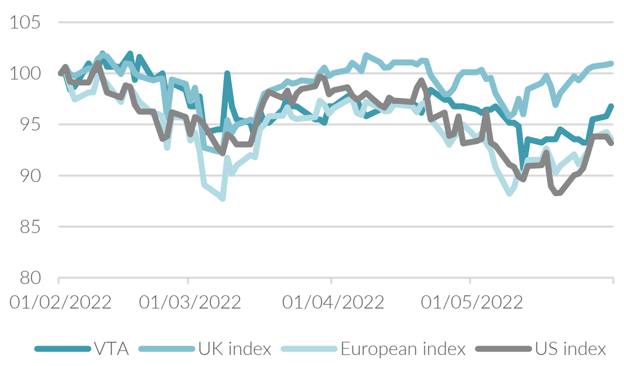
- In our view, a major reason VTA's share price has outperformed the equity markets has not only been the relatively stable NAV but also the discount to NAV falling from around 20% at the start of 2025 to the low teens by end-March and the mid-teens at end-April. This was a continuation of the discount-reducing trend in 2024 (discount nearly 30% in summer 2024). In our view, the consistent and strong performance being, and forecast to continue to be, delivered (see our notes FY'24: another year of outperformance,11 September 2024, and 2024 experience bodes well for 2025, 17 February 2025) has been a major factor here . Volta generated positive, sequential monthly returns every month from April 2023 to February 2025 and this consistent performance was being valued by investors with a lower discount.

Russia's invasion of Ukraine (24 February 2022)

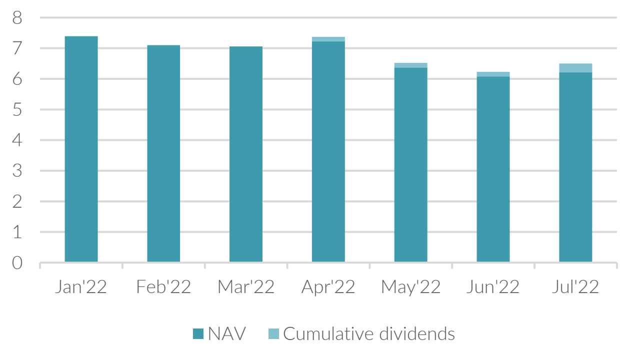
Early 2020 more mixed picture

The charts below show a more mixed picture following Russia's invasion of Ukraine in 2022. Volta's share price showed i) about half the volatility of the European index with both a lower initial fall and subsequent recovery than the index, ii) a slightly lower fall than UK and US indices immediately after the invasion but a smaller recovery.

Volta share price, UK, European and US equity market indices indexed to 100 at 1 Feb 2022



Volta NAV month-end January-July 2022



Source: LSEG, Volta factsheets, Hardman & Co Research

[1] https://www.reuters.com/markets/us/which-us-sectors-are-most-risk-an-earnings-let-down-guild-2025-04-21/

Early stages of COVID-19 (2020-21)

Some key factors in relative performance were sector exposures (especially less tech), stimulus packages, absence of buyers (either central bank or usual CLO investors)

In the early stages of COVID-19, Volta's NAV fell by ca.30%, in line with equity markets, and then steadily rebuilt to be broadly back to its pre-COVID-19 level by mid-2021. The share price, however, fell by a greater-than-average 50% and took a full year to catch up with UK/European indices. In our view, some of the factors driving this performance included:

- Sector sensitivity, with certain sectors like tech driving overall equity markets, while the debt markets had exposure to the whole market. This was most evident in US markets, where indices have a heavier weighting to tech.

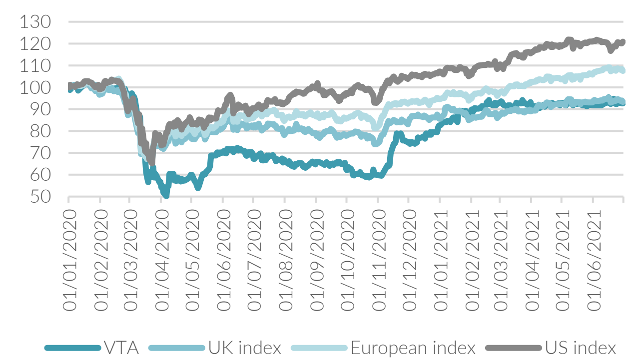
- Massive, broad-brush stimulus packages, quickly delivered, had an immediate beneficial impact on equity markets (ca.15% rises from mid-March to mid-April) that was greater than the impact on debt markets.

- Additionally, there was selective buying of corporate debt by central banks to support the economy, but this did not include CLO debt. Given the uncertainty, many managers, including Volta, increased their liquidity position, which, combined with the absence of central bank purchases, created an absence of buyers of CLO assets, thus depressing their prices and Volta's NAV.

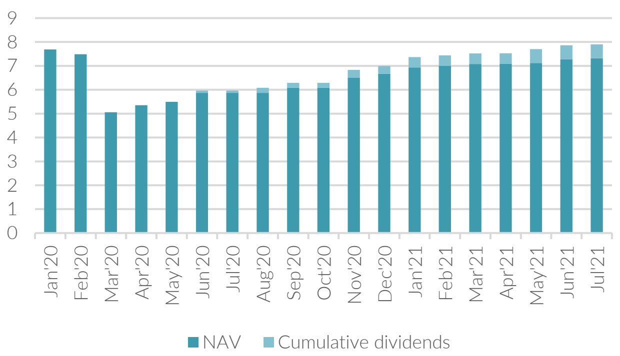
Discount to NAV more than doubled and was the key driver of VTA's share underperforming indices

- The discount to NAV widened from the mid-teens in percentage terms at the start of 2020 to around 30% in April and to 40% in late autumn before falling back to the mid-teens again in early 2021. In our view, this stock sensitivity was driven by, among other things: i) broad sector exposures raising the risk of widespread default, ii) uncertainty over the impact of the ultra-low-rate environment on spreads, iii) the fact the central banks were not buying CLO debt sent an adverse signal about that market.

Volta share price, UK, European and US equity market indices indexed to 100 at 1 Jan 2020



Volta NAV month-end January 2020 to July 2021



Source: LSEG, Volta factsheets, Hardman & Co Research

Sentiment

Summary

Sentiment affects both assets (and so NAV) and Volta's share price (and so the discount to NAV)

In our view, investors need to be sensitive to the volatility impact of sentiment on both Volta's assets (which are marked to market, meaning credit-market sensitivity is directly reflected in the NAV) and to Volta's share price (resulting in a variable discount to NAV). The former is driven by debt market sensitivities, the timing and scale of which will vary from the drivers of equity markets and Volta's share price. In uncertain times, investors need a cushion against the increased risk of unexpected losses as well as marking down prices for any known losses. The latter is influenced not only by equity investors' view of the CLO market but also by Volta's own performance. In our view, both the NAV and the discount to NAV have the potential to overreact compared with a fundamental valuation based on expected long-term cash flows creating pricing anomalies.

To underlying assets and so in the NAV

Volta's mark-to-market approach conservative but introduces volatility

We discussed Volta's approach to valuation in our *initiation* (see pages 35-37). Some of its competitors have adopted a mark-to-model approach, which materially reduces the sensitivity of NAV to CLO investor sentiment. Volta's use of mark-to-market is driven by having assets that it may choose to sell, creating investment flexibility but meaning it cannot value the assets on a held-to-maturity basis.

Multiple factors drive CLOs markets and by using MTM valuation Volta has no control

Some of the key drivers of sentiment include expectations on i) overall interest rates, ii) default rates, iii) spreads – both assets (loan spreads) and liabilities (CLO debt issued), iv) liquidity, and v) market issuance. Additionally, unexpected defaults, where individual borrowers have acted unilaterally, such as Altice France SA, can create uncertainty (the who is next syndrome) and the prices of assets across the board can, at least temporarily, be impacted. As Volta is taking the price from the market there is little it can do to directly limit the impact of these market sentiment issues on its assets; it exerts control via asset allocation.

To Volta share price and so in the discount

Investors should exercise caution about over-relying on single-month discount levels because of the timing and frequency of NAV announcements

We think multi-month trends in the discount have been a major driver of whether Volta has shown more or less sensitivity than markets overall. However, investors need to be careful when considering a single-month's discount because of the timing of information flows: the NAV is a monthly release typically two to three weeks after the end of the month. While equity investors in Volta can access CLO market information, they may or may not accurately judge how this will have impacted the NAV. For most of 2022 the discount to NAV was in the mid-teens but there was an anomaly in May when, to quote Volta's factsheet, "*the CLO market experienced a brutal price adjustment, reversing 4 months of solid outperformance relative to classic credit and equity markets*". The end-May NAV was down 12% on end-April but the share price did not fall at all from end-April to end-May. We believe this was primarily due to timing differences, with the impact of pressures in the CLO market being most visible to Volta's equity investors when Volta released its May factsheet in mid-June. The end-May share price reflected investors' attitude to the April factsheet and with new information in the end-May factsheet, in June the share price caught up with the reduction in NAV (falling 10%).

Some of the key potential drivers of stock-specific sentiment, and so the discount, include i) trends in monthly performance – we believe a major positive contributor in 2025, ii) major exposures – for example, Volta reported exposure to Altice France that was well below the CLO average and so should have seen less NAV drag from that situation, and iii) default expectations.

Stock liquidity

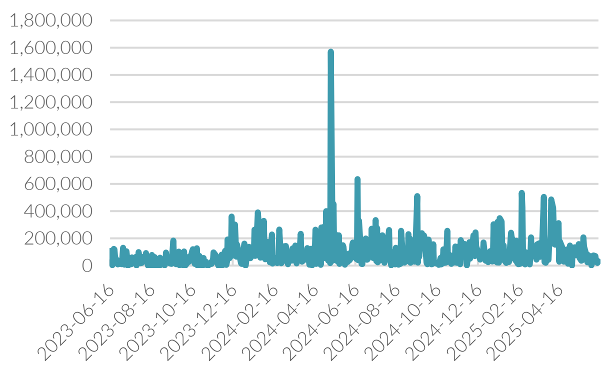
Modest liquidity…

…results in a single, large buyer or seller, driving the level of discount

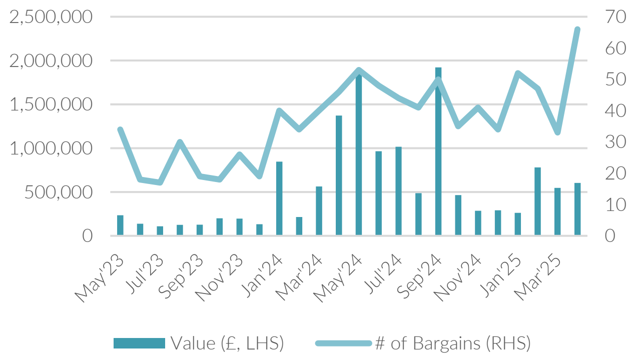
May or may not be related to a risk-off event

Volta is not the most actively traded stock across its three exchanges (€ on Euronext, € on the LSE and £ on the LSE). To illustrate this point, the chart below shows the daily value of the share trading on the Euronext (LHS), its most active market, and the sterling value of the euro-denominated shares and the number of trades on the LSE (RHS), its second most active listing. The average daily value traded over the past two years on Euronext is just under €92k, while the LSE quotes £573k per month. Over the past two years a daily average of just 16,747 shares has been traded on Euronext and ca.4,300 on the LSE. We highlight this as, at any given date, a significant buyer or seller can exert a material impact on the share price and so the discount. If there is a large seller, the discount will be wider, and a large buyer would shrink it. In our view, such trades may be, but are not always, linked to risk-off events with, for example, April 2025 volumes broadly around the average. Single, large trades thus add noise around the level of discount.

Volta's daily value traded (€) on Euronext (16 Jun '23-'25)



Monthly value (£) and number of trades in € stock on LSE



Source: LSEG, Volta Factsheets, Hardman & Co Research

Competitor news flow

Very different models, but peer announcing winddown unhelpful to sentiment to Volta

Historically, Volta had an active peer in Blackstone Loan Financing Limited (BGLF), although, as we have highlighted in previous notes, its different approach to managing the business and accounting (on a mark-to-model basis) meant direct comparisons needed to be treated with caution. BGLF proposed a winddown on 23 June 2023, with the formal commencement of the summary winding-up process occurring on 15 January 2025, following a shareholder vote. In our view, the decision by the closest competitor to wind down will have impacted sentiment towards Volta. Going forward, the absence of a competitor will reduce the immediate-peer news-flow risk, but it also means that potential investors have a smaller pool of investments, so the time spent getting to know the CLO market is less spread and making new investors less likely.

On top of weak sentiment to all debt ICs and ICs generally

Additionally, Volta will have been impacted by wider sentiment towards debt investment companies. Across the wider space, of the 32 debt investment companies in our February 2019 Debt Investment Companies: Diving deep finds you the treasure report, nearly two-thirds have been put into winddown or have merged. Furthermore, sentiment towards investment companies as a whole is poor, with a whole AIC ex-3i average discount of nearly 14%.

Fundamentals

Expected cashflows key driver of fundamental valuation. With CLO structures building in risk-enhancement features, downside risks are controlled.

In our view, the fundamental value of Volta's assets should be driven by their expected cashflows. Volatility in this is primarily driven by the modelled expectation of default together with discount rates. While in sentiment terms CLOs may be viewed by some equity investors as illiquid, high-risk, volatile assets with limited transparency, the reality is they have many risk-enhancement features built into their structures and both historical and expected losses are below the corporate market equivalent.

Risk enhancement within CLO structures

The attractive credit profile of CLOs is not just about diversification and pooling benefits. CLO creditworthiness is enhanced by a series of risk controls/features, including:

Ongoing risk profile of SPV is within known parameters

- A number of tests are in place to ensure that the ongoing metrics of the CLO are within known parameters, and these include:
  - The weighted average risk factor (WARF) is a numeric calculation that applies scores to the different ratings of the assets in the portfolio. The overall average indicates the creditworthiness of the portfolio as a whole.
  - Over-collateralisation tests haircut the value of CCC (i.e. risky) positions down to current market value from the original purchase price. In effect this acts as a constraint on CCC holdings and many CLO managers manage out of positions before they are downgraded to CCC.
  - To ensure diversification, CLOs build in concentration limits, typically to individual names (1%-2% normal cap) and sectors (typically 10%-12%).
  - There may be limits on factors like the percentage of a covenant light (cov-lite) portfolio or borrower size in order to enhance the liquidity of the underlying assets. A covenant-lite loan is a type of financing with fewer restrictions (covenants) on the borrower and consequently fewer protections for the lender and is often used in leveraged buyouts. The easing may be financial (e.g. interest cover) or may be operational (e.g. on sales of subsidiaries).
  - A weighted average spread (WAS) must typically be maintained.
  - The weighted average life of the loans (WAL) is also typically limited.
- Once a CLO has been created, it is actively managed, with loans both bought and sold to optimise returns.
  - Sector exposures are actively managed so that the utilisation of risk may be low at times when a sector is stressed. In 2022-23 speculative grade corporate debt saw elevated levels of downgrades but broadly syndicated CLOs saw more upgrades than downgrades. S&P commented in its 2024 CLO review that "*CLO managers [are] actively repositioning portfolios away from sectors likely to underperform*".
  - The active management of CLOs by their managers is important. The S&P report also noted that the creditworthiness of CLO structures had been enhanced with "*some CLO managers purchasing corporate bonds at a discount*

to par in the midst of a high rate environment, improving their CLOs' overcollateralization (O/C) ratios and collateral credit quality at the same time".

Less maturity mismatch, with interest and principal repayments from assets matching CLO liabilities

- While major corporations have highly sophisticated treasury functions to manage their debt, they need to finance large bullet repayments by either building cash balances in advance (with significant cash drag costs) or issuing new debt (into what may or may not be favourable markets). In a CLO, there is a clear alignment between the maturity of debt that it issues and the loan assets held within the SPV. It does not face the same maturity mismatch as a corporate, as the principal repayments are aligned to the CLO's own.

Assets backed by good-quality security

- The vast majority of the corporate loans are senior secured (typically over 90%), with first liens over specified assets. Investors benefit because they are investing in a structure that is secured, with specific assets backing the debt. A typical corporate loan is a general claim against the borrower and may not have specific income-generating assets assigned to it.

Cash is retained in SPV/used to repay investment-grade debt if the level of collateral or interest cover falls below set levels

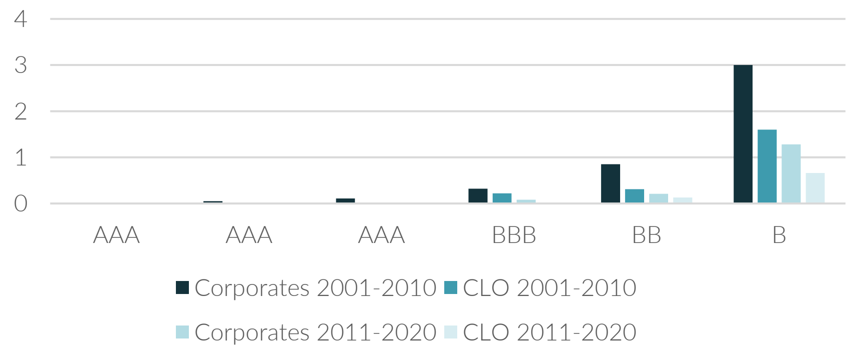
- "Cash diversion" tests mean that, when a covenant is broken, cash must be retained within the SPV (or used to repay the investment-grade debt) and not paid out to equity holders. These are sometimes referred to as re-investment tests, as they constrain how a CLO structure can re-invest the cash it has received from its loan assets. The tests enhance the position for higher-quality bondholders, while reducing cash distributions for equity holders. Typical covenants triggering cash diversion include:

  - over-collateralisation: the value of outstanding loans must exceed the value of non-equity liabilities by a set proportion. The structures usually define how assets are valued as a further constraint on higher-risk loans. Performing assets are generally valued at par, while defaulted loans may be valued at the lower of the market price or net assumed recovery. The CCC haircut in over-collateralisation ratios acts as an early warning signal and help to keep in check the balance between performing and non-performing assets against liabilities; and

  - interest cover in order to provide a cushion for debt holders' interest payments.

Creditworthiness shown by absence of any CLO investment-grade defaults over 2012-21

Diversification, credit enhancement and cash diversion mean that CLO debt has attractive risk characteristics compared with single-company corporate credit. This is not always reflected in the ratings, but it is in defaults. Athene noted, in its April 2022 report, Understanding Structural Credit, that there had been no defaults in investment-grade CLO debt in the previous decade (see chart below), Historical credit impairments pre-/post-2008 by type



Source: Athene[2], Hardman & Co Research

Looking forward in our 2023 report, An easy guide to the benefits of CLOs, we noted that losses under the Fed stress test scenario were 1/35th that of corporate loans. S&P's 2024 CLO review reported "*more than 99% of CLO 'AAA' ratings remaining investment-grade even under our harshest scenario, where 20% of loans default with a 30% recovery and CLO 'CCC' baskets expand to 40%*".

Market changes since the GFC

CLO market fundamentals different from during GFC, with changes including:

The Global Financial Crisis (GFC) of 2008-2009 saw investor appetite for all structured credit vehicles, including CLOs, wane, even though the highest losses were concentrated in non-CLO vehicles. Since then, the overall CLO market has changed significantly, which should help sentiment. The main changes include:

Fewer originate-and-distribute models, which did not align originators with CLOs

- Before the GFC, a market feature was originate-and-distribute (often through securitisation) business models. In our view, this created much greater moral hazard, as the originator of loans was not aligned with the end-investors, and, consequently, some asset classes had fundamentally weak asset-backing. CLOs invest in corporate debt that has been originated for real, fundamental reasons, and there is much more alignment between originators and investors.

More robust investor base, including pension funds (from 6% of issuance in 2007 to 42% now)

- The investor base in CLOs is markedly different and is now dominated by "real investor money" participants creating lower contagion risk. In 2007, 37% of securitisation debt was purchased by other securitisations and SPVs, and a further 28% by banks. This has changed fundamentally, not least due to regulation that means banks, insurers and many pension funds now cannot invest in what would be defined as a re-securitisation. The portion of new issuances purchased by pension funds and insurers directly has increased from 6% in 2007 to over 42% today.

Tightening in all aspects of regulation

- The regulatory environment has been strengthened significantly. Changes have included higher capital requirements for banks and insurers, risk retention (in Europe, since 2010, CLO managers have had to hold 5% of the original value of the assets to ensure that their interests are aligned to the CLO), and the

[2] The Athene report notes: Represents the average annual default rate of U.S. products for all categories, except CLOs. CLOs represent the average of US CLO trailing 12-month impairment rate. However, 2001-2010 CLO B impairments were based on the average of Moody's trailing 12-month impairments rates from Feb 2010-Dec 2010 as 12-month impairment data was not available prior to Feb 2010. 2001-2010 includes a discounted buyback of a pre-GFC CLO tranche (current CLO documents prohibit such activity); the related CLO transaction performed as expected and repaid all of its debt at par with no underlying impairment. Source: Moody's Annual Default Study (February 2022). S&P Annual Global Structured Finance Default and Rating Transition Study (May 2021). Moody's Impairment and loss rates of Global CLOs (June 2021).

Volcker rules enacted in the US (which originally meant that banks were prohibited from purchasing the notes of any CLO that held any assets other than loans and cash equivalents). The latter were eased somewhat in 2020 (details of which are summarised in the Loan Syndications and Trading Association report).

Impact of refinancing

Refinancing, by end borrowers and by CLO structures, will affect expected cashflows

The performance of the different CLO tranches (sub-investment and investment-grade debt, equity) is also subject to the impact of refinancing. In addition to liquidity management/contractual maturities, refinancing may be carried out if the interest rate environment appears favourable.

- When the underlying loans (which are assets) in CLOs refinance, they typically do so at par, which generates capital gains when they had previously been bought at a discount. This is clearly good for CLO equity tranches and was seen throughout 2024.
- However, after refinancing, the spread is usually lower and this can put pressure on the overall weighted average spread covenants noted in the risk-enhancement section above. The structures may make fewer distributions than in the past, impacting CLO equity holders negatively. US loan markets experienced a large wave of refinancing activity in 2H'24 and 1Q'25, which have brought loan spreads tighter but also resulted in US CLO quarterly equity distributions in April below 3% for the first time in more than two years (vs. 4.3% in the prior year).
- When CLO-issued debt refinances, the reverse is the case, with lower spreads paid leading to enhanced equity returns.

Volta better-than-average CLO performance

In previous reports, we have highlighted that Volta's market performance has been better than the CLO average. In particular, we draw readers' attention to pages 3-4 and 5-6 of our report *The benefits of having AXA IM as the manager* (7 December 2023), summarised below.

- The table below compares the performance of AXA IM-managed CLOs with the market. Specifically, we were looking at the performance through the GFC and so looked at CLOs that were originated before the crisis and their IRR (internal rate of return) to redemption. We think this table is especially useful given it shows multiple years of originations, a long-term investment return and performance through a financial crisis. In terms of conclusions i) in every year, CLOs originated by AXA IM delivered superior IRRs to those originated across the market, ii) AXA IM CLOs delivered a minimum of double-digit returns while market returns were as low as 5.9%, and peak-to-trough volatility of AXA IM CLOs was at two thirds of that of the market.

US CLO tranches redeemed IRR (%)

Vintage	2001	2002	2003	2004	2005	2006	2007
AXA IM	11.4	17.9	11.9	12.2	14.8	20.0	21.4
Market data	n/a	n/a	5.9	11.7	16.0	20.1	21.3
AXA IM vs. benchmark (x)	n/a	n/a	202	105	92	100	100

Source: AXA IM BofA Global Research/Intex – Update 25 October 2023 – IRR of redeemed US CLO Equity investments by vintage of issuance (excluding any static transaction), Hardman & Co Research

Early in the pandemic, ca.20% US CLOs saw cash diversion. Volta had none.

- In its 2020 Report and Accounts, Volta (page 4) noted "*Although early in the COVID crisis, almost 20% of the overall USD CLO universe suffered a partial or total diversion of cashflows due to a breach of the Reinvestment Test. None of Volta's CLO equity positions breached that test*". This number of market-wide cash diversions shows that the CLO controls are effective in times of stress, while the fact that Volta achieved its market-beating performance shows the benefits of having AXA IM as the manager.

- In the past five years, at peak Volta has had only 4% of its portfolio with a test fail (no deal where Volta was involved at the CLO equity level). By comparison, market data indicates that a peak of around a third of US CLOs failed their equivalent tests.

Financials

Our estimates are unchanged

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.

Hardman & Co adjusted profit and loss account

Year-end Jul (€m)	2018	2019	2020	2021	2022	2023	2024	2025E	2026E
Coupons and dividends received	38.5	42.0	39.4	41.8	42.9	47.0	57.1	55.6	53.7
Net gains on sales	0.0	0.5	(7.0)	2.7	(1.3)	(3.4)	(6.8)	(20.0)	5.0
Net gain on fin. assets at FV through P/L	**38.5**	**42.5**	**32.4**	**44.5**	**41.7**	**43.6**	**50.4**	**35.6**	**58.7**
Interest expense on repo	(1.4)	(1.6)	(0.8)	-	-	-	-	-	-
Net bank interest & charges	(0.1)	0.1	0.0	(0.0)	(0.0)	0.5	1.1	1.1	1.1
Operating income	**37.0**	**41.0**	**31.5**	**44.5**	**41.6**	**44.1**	**51.5**	**36.7**	**59.8**
Inv. manager fees	(4.6)	(4.4)	(3.6)	(3.3)	(3.9)	(3.3)	(3.6)	(3.9)	(4.0)
Inv. manager performance fees	(1.3)	(2.1)	(0.6)	(4.6)	(3.0)	(4.3)	(5.5)	(2.1)	(6.6)
Directors' remuneration & expenses	(0.5)	(0.5)	(0.5)	(0.3)	(0.4)	(0.3)	(0.4)	(0.4)	(0.4)
Other expenses	(0.9)	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)
Total expenses	(7.3)	(8.0)	(5.7)	(9.3)	(8.3)	(8.9)	(10.5)	(7.4)	(12.0)
Profit and total comp. income	**29.7**	**32.9**	**25.8**	**35.2**	**33.4**	**35.2**	**41.0**	**29.3**	**47.8**
Adjusted EPS (€)	**0.81**	**0.90**	**0.71**	**0.96**	**0.91**	**0.96**	**1.12**	**0.80**	**1.31**
Dividend cover (x)	**1.31**	**1.45**	**1.36**	**1.85**	**1.49**	**1.89**	**2.04**	**1.33**	**2.09**

Source: Volta, Hardman & Co Research

Appendix 1: glossary

When looking at Volta, investors are likely to come across a number of technical terms. Here an explanation of the most important terms:

Glossary

Term	Meaning
ABS	Asset-backed securities.
ABS residual positions	Residual income positions, which are a sub-classification of ABS, backed by any of the following: residential mortgage loans; commercial mortgage loans; automobile loans; student loans; credit card receivables; or leases.
Bank Balance Sheet Transactions (BBST)	Synthetic transactions that permit banks to transfer part of their exposures, such as exposures to corporate loans, mortgage loans, counterparty risks, trade finance loans, or any classic and recurrent risks that banks take in conducting their core business.
Cash Corporate Credit (CCC)	Deal-structured credit positions, exposed predominantly to corporate credit risks by direct investments in cash instruments (loans and/or bonds).
Cash diversion	In periods of stress (typically measured by a specific deterioration in the proportion of the portfolio with worse-quality ratings), cash is diverted from being distributed to equity holders and is retained to provide additional protection for bondholders.
Cash waterfall	The clear priority in which income from the SPV is allocated to stakeholders.
CLOs or CLO	A collateralised loan obligation (CLO) is a single security backed by a pool of debt. CLOs are often corporate loans with low credit ratings, or loans taken out by PE firms to conduct leveraged buyouts.
CLO 1.0	The first vintage of modern CLOs (issued from mid- to late-1990s). It included some high-yield bonds, as well as loans, and was the standard CLO structure until the financial crisis struck in 2008. Now under 1% of CLOs in issue.
CLO 2.0	Issued 2010-14, in response to the financial crisis, by strengthening credit support and shortening the period in which loan interest and proceeds could be reinvested into additional loans.
CLO 3.0	Began in 2014 and aimed to further reduce risk by eliminating high-yield bonds and adhering to the post-GFC regulatory changes. Currently, few CLOs allow for investments into high-yield bonds, and those that do generally limit the exposure to 5%-10%. To compensate for the exposure to high-yield bonds, these CLOs have increased levels of subordination to better protect debt tranches.
Capitalised Manager Vehicle (CMV)	A CMV is a long-term, closed-ended structure, which is established to act as a CLO manager and to also provide capital in order to meet risk retention obligations when issuing a CLO, and also to provide warehousing capabilities.
CPR	Constant prepayment rate.
Refi	Consists in refinancing part, or all, of the debt tranches of a CLO, while operating very modest changes in the CLO documentation.
Reset	Consists in calling all the debt tranches of a CLO, remarketing a full new debt package, with new CLO documentation, almost as if it were a new CLO.
Synthetic Corporate Credit (SCC)	Structured credit positions predominantly exposed to corporate credit risks by synthetic contracts.
Underlying assets	The assets in which the company may invest, either directly or indirectly, include, but are not limited to, corporate credits, sovereign and quasi-sovereign debt, residential mortgage loans, commercial mortgage loans, automobile loans, student loans, credit card receivables, leases, and debt and equity interests in infrastructure projects.
Warehouse	A warehouse is a short-term structure put in place before a CLO happens in order to accumulate assets, in order, in turn, to facilitate the issue of the CLO. A warehouse is leveraged and can be marked to market.
Weighted average life of the loans (WAL);	The average length of time that each dollar of unpaid principal on a loan or an amortising bond remains outstanding.
Weighted average risk factor (WARF)	The WARF measure aggregates the credit ratings of the portfolio's holdings into a single rating. The credit rating letter rating corresponds to a numerical rating factor, which, in turn, corresponds to the 10-year probability of default. The WARF is determined by calculating the weighted average of these numerical factors.
Weighted average spreads (WAS)	A percentage equal to i) the Aggregate Funded Spread, divided by ii) the Aggregate Eligible Collateral Obligation Amount (excluding any interest that has been deferred and capitalised on any Deferrable Collateral Obligation).

Source: Hardman & Co Research

Appendix 2: Previous Hardman & Co research on Volta

Given the regulatory restrictions on distributing research on this company, the monthly book entry for Volta Finance can be accessed through our website, *Hardman & Co Research*. More detailed research reports include:

- 2018: Our *initiation report* (5 September 2018).
- *Investment opportunities at this point of the cycle* (14 January 2019),
- Reports on the manager's *March 2019* and *June 2019* presentations,
- *9%+ yield in uncertain times* (7 October 2019).
- *Follow the money* (3 February 2020),
- *Q&A with Hardman analyst* (12 May 2020),
- *Value added by active portfolio management* (15 September 2020).
- *Volta's seven yield uplifts* (11 January 2021),
- *Re-Set, Re-Fi, Re-Light my Fire* (5 May 2021),
- *Yield (10%, covered and growing) + capital growth* (28 July 2021),
- *Simple Simon Says* (30 November 2021).
- *What Volta brings to investors* (17 February 2022),
- *Hardman presentation: Carpe Diem* (29 June 2022),
- *Cash is king and the king is rocking and rolling* (16 September 2022).
- *R&A shining light on 20%+ IRR base-case scenarios* (11 January 2023).
- *An easy guide to the benefits of CLOs* (18 April 2023).
- *The benefits of having AXA IM as the manager* (7 December 2023).
- *Insights from the Report and Accounts* (24 January 2024).
- *Putting the discount into perspective* (17 May 2024).
- *FY'24: another year of outperformance* (11 September 2024).
- *2024 experience bodes well for 2025* (17 February 2025).

Each link contains a click-through to our five-minute *Directors Talk* audio interviews, summarising each report. Regulatory announcements, such as the *April 2025 €0.155c quarterly dividend* can be found on the company's *LSE page*.

Disclaimer

Hardman & Co provides professional independent research services and all information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable. However, no guarantee, warranty or representation, express or implied, can be given by Hardman & Co as to the accuracy, adequacy or completeness of the information contained in this research and they are not responsible for any errors or omissions or results obtained from use of such information. Neither Hardman & Co, nor any affiliates, officers, directors or employees accept any liability or responsibility in respect of the information which is subject to change without notice and may only be correct at the stated date of their issue, except in the case of gross negligence, fraud or wilful misconduct. In no event will Hardman & Co, its affiliates or any such parties be liable to you for any direct, special, indirect, consequential, incidental damages or any other damages of any kind even if Hardman & Co has been advised of the possibility thereof.

This research has been prepared purely for information purposes, and nothing in this report should be construed as an offer, or the solicitation of an offer, to buy or sell any security, product, service or investment. The research reflects the objective views of the analyst(s) named on the front page and does not constitute investment advice. However, the companies or legal entities covered in this research may pay us a fixed fee in order for this research to be made available. A full list of companies or legal entities that have paid us for coverage within the past 12 months can be viewed at http://www.hardmanandco.com/legals/research-disclosures. Hardman may provide other investment banking services to the companies or legal entities mentioned in this report.

Hardman & Co has a personal dealing policy which restricts staff and consultants' dealing in shares, bonds or other related instruments of companies or legal entities which pay Hardman & Co for any services, including research. No Hardman & Co staff, consultants or officers are employed or engaged by the companies or legal entities covered by this document in any capacity other than through Hardman & Co.

Hardman & Co does not buy or sell shares, either for their own account or for other parties and neither do they undertake investment business. We may provide investment banking services to corporate clients. Hardman & Co does not make recommendations. Accordingly, they do not publish records of their past recommendations. Where a Fair Value price is given in a research note, such as a DCF or peer comparison, this is the theoretical result of a study of a range of possible outcomes, and not a forecast of a likely share price. Hardman & Co may publish further notes on these securities, companies and legal entities but has no scheduled commitment and may cease to follow these securities, companies and legal entities without notice.

The information provided in this document is not intended for distribution to, or use by, any person or entity in any jurisdiction or country where such distribution or use would be contrary to law or regulation or which would subject Hardman & Co or its affiliates to any registration requirement within such jurisdiction or country.

Some or all alternative investments may not be suitable for certain investors. Investments in small and mid-cap corporations and foreign entities are speculative and involve a high degree of risk. An investor could lose all or a substantial amount of his or her investment. Investments may be leveraged and performance may be volatile; they may have high fees and expenses that reduce returns. Securities or legal entities mentioned in this document may not be suitable or appropriate for all investors. Where this document refers to a particular tax treatment, the tax treatment will depend on each investor's particular circumstances and may be subject to future change. Each investor's particular needs, investment objectives and financial situation were not taken into account in the preparation of this document and the material contained herein. Each investor must make his or her own independent decisions and obtain their own independent advice regarding any information, projects, securities, tax treatment or financial instruments mentioned herein. The fact that Hardman & Co has made available through this document various information constitutes neither a recommendation to enter into a particular transaction nor a representation that any financial instrument is suitable or appropriate for you. Each investor should consider whether an investment strategy of the purchase or sale of any product or security is appropriate for them in the light of their investment needs, objectives and financial circumstances.

(Disclaimer Version 8 – Approved January 2025)

Status of Hardman & Co's research under MiFID II

Hardman & Co's research is paid for by the companies, legal entities and issuers about which we write and, as such, falls within the scope of 'acceptable minor non-monetary benefits', as defined in the Markets in Financial Instruments Directive.

The FCA Handbook (COBS 2.3A.19) states: 'An acceptable non-monetary benefit is one which:[…] (5) consists of: […] (b) written material from a third party that is commissioned and paid for by a corporate issuer or potential issuer to promote a new issuance by the company, or where the third party firm is contractually engaged and paid by the issuer to produce such material on an ongoing basis, provided that the relationship is clearly disclosed in the material and that the material is made available at the same time to any firms wishing to receive it, or to the general public.'

The fact that Hardman & Co is commissioned to write the research is disclosed in the disclaimer, and the research is widely available.

research@hardmanandco.com

9 Bonhill Street
London
EC2A 4DJ

www.hardmanandco.com