ACTIVE INVESTMENT COMPANY ALLIANCE
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AICA Member Profile: Saratoga Investment Corp

Saratoga Investment Corp. is a New York-based business development company (BDC) that provides debt financing and equity capital to middle market companies. The BDC is listed with the NYSE ticker symbol "SAR" and has been managed since 2010 by Saratoga Investment Advisors, LLC, an affiliate of Saratoga Partners, which was founded almost 40 years ago as a division of the New York investment firm Dillon, Read & Co. Saratoga Partners has been an independent firm since its spinoff from Dillon Read in the 90s.

The BDC invests primarily in senior and unitranche leveraged loans and mezzanine debt, and, to a lesser extent, equity to provide financing for change of ownership transactions, strategic acquisitions, recapitalizations, and growth initiatives in partnership with business owners, management teams, and financial sponsors. Saratoga Investment's objective is to create attractive risk-adjusted returns by generating current income and long-term capital appreciation from its debt and equity investments.

As of August 31, 2023, Saratoga Investment's AUM was $1.099 billion, an increase of 15.1% from $954.7 million as of August 31, 2022, and an increase of 1.4% from $1.084 billion as of May 31, 2023.

The public company manages a $650 million collateralized loan obligation (CLO) fund and co-manages a joint venture (JV) fund that owns a $400 million collateralized loan obligation (JV CLO) fund. It also owns 52% of the Class F and 100% of the subordinated notes of the CLO, 87.5% of both the unsecured loans and membership interests of the JV and 87.5% of the Class E notes of the JV CLO. Saratoga Investment's mix of funding sources and permanent capital base enable it to provide a range of financing solutions.

Strategy

Saratoga Investment focuses on the lower end of the middle market, targeting primarily U.S.-based companies with annual revenues between $10 and $150 million and EBITDA in excess of $2 million. The public company typically makes $3 million to $40 million investments in:

- Growth financings
- Debt refinancings
- Acquisition financings
- Transitional financing
- Leveraged and management buyouts
- Recapitalizations

Saratoga Investment prides itself on having some of the largest management ownership in the industry. In fact, almost 13% of the BDC is owned by the management of Saratoga Partners, which means that management is investing its own money with the BDC's shareholders into the middle market businesses it invests in.

The Saratoga Investment team reviews thousands of opportunities annually, completing about nine new lower middle market private credit investments each year, along with regular significant follow-on investing. The CLO and JV CLO portfolios largely consist of broadly syndicated loans.

> ***"What allows us to succeed in the lower middle market is our best-in-class team and underwriting track record."***
>
> *Henri Steenkamp, Saratoga Investment Chief Financial Officer, Chief Compliance Officer, Treasurer & Secretary*

Q&A with Henri Steenkamp

What is one item that most investment professionals regularly misunderstand?

Many investors in our space often think bigger is better, but we don't think that's necessarily true. While bigger companies may have more access to capital, they often take on more risk. Smaller companies and businesses are the heart of America. And we find that smaller companies are nimbler and typically have management teams that know their business inside and out. They live and breathe their business. Because we operate in both the lower middle market in our core BDC and in the larger, broadly syndicated market in our CLOs, we feel comfortable saying the credit agreements afforded by the former are a lot stronger and less standardized, providing greater opportunities for us to meet our business owners' needs. For us as lenders, they also typically offer extra protection and are more likely to give off early warning signs."

What will Saratoga Investment's business look like in three years?

We hope to continue to raise capital accretively and continue to grow our AUM in high quality credits, while also deploying the approximately $250 million of capacity that we currently have available. Scale is important in the BDC and closed-end fund industry because you must be able to absorb a certain level of fixed costs in this very regulated industry. But most importantly we want to look back in three years and see that our credit history and track record has remained as strong as it is now.

When did you join AICA and why did you decide to become a member?

About two years ago. We initially met AICA Chairman John Cole Scott about six or seven years ago working on a project together, but I kept in touch with him, and we jumped at the chance to join AICA when it debuted. Having advocates in this industry, which isn't all that big, is extremely important. BDCs and private credit are small players in the context of the larger financial, political, and regulatory world, so we expect AICA will continue to push the industry forward.

What do you most like about the BDC, closed-end fund, and interval fund industry?

The unique opportunity. There are very few opportunities for the man on the street to invest directly in private credit and to participate in the growth and success of all these lower middle market companies, but this industry does just that. Our BDC has over 55 portfolio companies we are invested in. By buying our stock, you're indirectly investing in 55 small U.S. business and supporting job creation, while potentially enjoying liquidity.

Learn more about Henri Steenkamp, Saratoga Investment, and its listed BDC SAR.