

DAY AND DANY LIKE APOLLO INVESTMENT

"In the turmoil in the financial sector over the past several months, the proverbial baby has been thrown out with the bathwater and we are able to buy some very solid companies at extraordinary prices. We like the Business Development Companies (BDC) that lend money to small and middle market businesses, frequently obtain equity kickers and pay out net income to investors in the form of high dividends. Our current favorite is **Apollo Investment Corporation** (AINV 15.40 NASDAQ GS – yield 13.51%). Apollo was caught up with the rest of the finance companies following the credit crisis in late August, but hurt more than most because of a slight miss on earnings. But for these companies net operating income is more important than earnings, which can be volatile. We judge the dividend to be safe: it was just increased in the September quarter, and has risen steadily since the company went public in 2004. It is one of the more experience and solid of the BDCs: though public only three years, the eponymous management firm is a well-established private equity company. Apollo, with an average investment size of \$47 million and just over 50% in subordinated debt, has an Internal Rate of Return on its investments of 21%. Although opportunistic, it emphasizes risk-control in all its investments and has independent valuations on all holdings every quarter. Though the dividend may not grow much in the coming year, we believe it is safe, and with the stock selling below its net asset value (\$18.44), Apollo represents an outstanding and safe investment for long-term income investors."

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