

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549**

**FORM 10-K**

(Mark One)  
 **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2019**

**OR**

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
FOR THE TRANSITION PERIOD FROM \_\_\_\_\_ TO \_\_\_\_\_**

**COMMISSION FILE NUMBER: 814-00891**

**PENNANTPARK FLOATING RATE CAPITAL LTD.**

(Exact name of registrant as specified in its charter)

**MARYLAND**  
(State or other jurisdiction of incorporation or organization)

**590 Madison Avenue, 15th Floor**  
**New York, N.Y.**  
(Address of principal executive offices)

**27-3794690**  
(I.R.S. Employer Identification No.)

**10022**  
(Zip Code)

**(212) 905-1000**  
(Registrant's Telephone Number, Including Area Code)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Trading Symbol(s)	Name of Each Exchange on Which Registered
Common Stock, par value \$0.001 per share	PFLT	The Nasdaq Stock Market LLC

**Securities registered pursuant to Section 12(g) of the Act: None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No .

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No .

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No .

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes  No .

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
Emerging growth company	<input type="checkbox"/>		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No .

The aggregate market value of common stock held by non-affiliates of the Registrant on March 31, 2019 based on the closing price on that date of \$12.81 on The Nasdaq Global Select Market was approximately \$489 million. For the purposes of calculating the aggregate market value of common stock held by non-affiliates, all directors and executive officers of the Registrant have been treated as affiliates. There were 38,772,074 shares of the Registrant's common stock outstanding as of November 20, 2019.

Documents Incorporated by Reference: Portions of the Registrant's Proxy Statement relating to the Registrant's 2020 Annual Meeting of Stockholders to be filed not later than 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K are incorporated by reference into Part III of this Report.

PENNANTPARK FLOATING RATE CAPITAL LTD.  
FORM 10-K  
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2019  
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In this annual report on Form 10-K, or the Report, except where the context suggests otherwise, the terms “Company,” “we,” “our” or “us” refer to PennantPark Floating Rate Capital Ltd. and its wholly-owned consolidated subsidiaries; “Funding I” refers to PennantPark Floating Rate Funding I, LLC; “Taxable Subsidiary” refers to PFLT Investment Holdings, LLC; “PSSL” refers to PennantPark Senior Secured Loan Fund I LLC, an unconsolidated joint venture; “PennantPark Investment Advisers” or “Investment Adviser” refers to PennantPark Investment Advisers, LLC; “PennantPark Investment Administration” or “Administrator” refers to PennantPark Investment Administration, LLC; “2023 Notes” refers to our 3.83% Series A notes due 2023; “1940 Act” refers to the Investment Company Act of 1940, as amended; “SBCAA” refers to the Small Business Credit Availability Act; “Code” refers to the Internal Revenue Code of 1986, as amended; “RIC” refers to a regulated investment company under the Code; “BDC” refers to a business development company under the 1940 Act; “MCG” refers to MCG Capital Corporation; and “Credit Facility” refers to our multi-currency senior secured revolving credit facility, as amended and restated with SunTrust Bank and other lenders, or the Lenders; “Securitization Issuer” refers to PennantPark CLO I, Ltd.; “Securitization Issuers” refers to the Securitization Issuer and PennantPark CLO I, LLC; “Debt Securitization” refers to the \$301.4 million term debt securitization completed by the Securitization Issuers; “2031 Asset-Backed Debt” refers to (i) the issuance of the Class A-1 Senior Secured Floating Rate Notes due 2031, the Class A-2 Senior Secured Fixed Rate Notes due 2031, the Class B-1 Senior Secured Floating Rate Notes due 2031, the Class B-2 Senior Secured Fixed Rate Notes due 2031, the Class C-1 Secured Deferrable Floating Rate Notes due 2031, the Class C-2 Notes Secured Deferrable Fixed Rate Notes due 2031, and the Class D Secured Deferrable Floating Notes due 2031 and (ii) the borrowing of the Class A-1 Senior Secured Floating Rate Notes due 2031 by the Securitization Issuers in connection with the Debt Securitization; “Depositor” refers to PennantPark CLO I Depositor, LLC. References to our portfolio, our investments, our multi-currency, senior secured revolving credit facility, as amended and restated, or the Credit Facility, and our business include investments we make through our subsidiaries. Some of the statements in this annual report constitute forward-looking statements, which apply to us and relate to future events, future performance or future financial condition. The forward-looking statements involve risks and uncertainties for us and actual results could differ materially from those projected in the forward-looking statements for any reason, including those factors discussed in “Risk Factors” and elsewhere in this Report.

## Item 1. Business

### General Business of PennantPark Floating Rate Capital Ltd.

PennantPark Floating Rate Capital Ltd. is a BDC whose objectives are to generate both current income and capital appreciation while seeking to preserve capital by investing primarily in loans bearing a variable-rate of interest, or Floating Rate Loans, and other investments made to U.S. middle-market companies.

We believe that Floating Rate Loans to U.S. middle-market companies offer attractive risk-reward to investors due to a limited amount of capital available for such companies. We use the term “middle-market” to refer to companies with annual revenues between \$50 million and \$1 billion. Our investments are typically rated below investment grade. Securities rated below investment grade are often referred to as “leveraged loans” or “high yield” securities or “junk bonds” and are often higher risk compared to debt instruments that are rated above investment grade and have speculative characteristics. However, when compared to junk bonds and other non-investment grade debt, senior secured Floating Rate Loans typically have more robust capital-preserving qualities, such as historically lower default rates than junk bonds, represent the senior source of capital in a borrower’s capital structure and often have certain of the borrower’s assets pledged as collateral. Our debt investments may generally range in maturity from three to ten years and are made to U.S. and, to a limited extent, non-U.S. corporations, partnerships and other business entities which operate in various industries and geographical regions.

Under normal market conditions, we generally expect that at least 80% of the value of our Managed Assets, which means our net assets plus any borrowings for investment purposes, will be invested in Floating Rate Loans and other investments bearing a variable-rate of interest. We generally expect that first lien secured debt will represent at least 65% of our overall portfolio. We also generally expect to invest up to 35% of our overall portfolio opportunistically in other types of investments, including second lien secured debt and subordinated debt and, to a lesser extent, equity investments. We seek to create a diversified portfolio by generally targeting an investment size between \$5 million and \$30 million, on average, although we expect that this investment size will vary proportionately with the size of our capital base.

Our investment activity depends on many factors, including the amount of debt and equity capital available to middle-market companies, the level of merger and acquisition activity for such companies, the general economic environment and the competitive environment for the types of investments we make. We have used, and expect to continue to use, our debt capital, proceeds from the rotation of our portfolio and proceeds from public and private offerings of securities to finance our investment objectives.

### Organization and Structure of PennantPark Floating Rate Capital Ltd.

PennantPark Floating Rate Capital Ltd., a Maryland corporation organized in October 2010, is a closed-end, externally managed, non-diversified investment company that has elected to be treated as a BDC under the 1940 Act. In addition, for federal income tax purposes we have elected to be treated, and intend to qualify annually, as a RIC under the Code.

Funding I, our wholly owned subsidiary and a special purpose entity, was organized in Delaware as a limited liability company in May 2011. We formed Funding I in order to establish our Credit Facility.

In May 2017, we and a subsidiary of Kemper Corporation (NYSE: KMPR), Trinity Universal Insurance Company, or Kemper, formed PSSL, an unconsolidated joint venture. PSSL invests primarily in middle-market and other corporate debt securities consistent with our strategy. PSSL was formed as a Delaware limited liability company.

In April 2019, our wholly owned subsidiary, the Securitization Issuer, was incorporated in the Cayman Islands as an exempted company with limited liability. We formed the Securitization Issuer in order to complete the Debt Securitization.

### Our Investment Adviser and Administrator

We utilize the investing experience and contacts of PennantPark Investment Advisers in developing what we believe is an attractive and diversified portfolio. The senior investment professionals of the Investment Adviser have worked together for many years and average over 25 years of experience in the senior lending, mezzanine lending, leveraged finance, distressed debt and private equity businesses. In addition, our senior investment professionals have been involved in originating, structuring, negotiating, managing and monitoring investments in each of these businesses across changing economic and market cycles. We believe this experience and history has resulted in a strong reputation with financial sponsors, management teams, investment bankers, attorneys and accountants, which provides us with access to substantial investment opportunities across the capital markets. Our Investment Adviser has a rigorous investment approach, which is based upon intensive financial analysis with a focus on capital preservation, diversification and active management. Since our Investment Adviser’s inception in 2007, it has invested \$10 billion in 526 companies with approximately 185 different financial sponsors through its managed funds.

Our Administrator has experienced professionals with substantial backgrounds in finance and administration of registered investment companies. In addition to furnishing us with clerical, bookkeeping and record keeping services, the Administrator also oversees our financial records as well as the preparation of our reports to stockholders and reports filed with the Securities and Exchange Commission, or the SEC. The Administrator assists in the determination and publication of our net asset value, or NAV, oversees the preparation and filing of our tax returns, and monitors the payment of our expenses as well as the performance of administrative and professional services rendered to us by others. Furthermore, our Administrator offers, on our behalf, significant managerial assistance to those portfolio companies to which we are required to offer such assistance. See “Risk Factors—Risks Relating to our Business and Structure—There are significant potential conflicts of interest which could impact our investment returns” for more information.

## Market Opportunity

We believe that the limited amount of capital available to middle-market companies, coupled with the desire of these companies for flexible sources of capital, creates an attractive investment environment for us.

- **We believe middle-market companies have faced difficulty raising debt in private markets.** From time to time, banks, finance companies, hedge funds and collateralized loan obligation, or CLO, funds have withdrawn, and may again withdraw, capital from the middle-market, resulting in opportunities for alternative funding sources.
- **We believe middle-market companies have faced difficulty in raising debt through the capital markets.** Many middle-market companies look to raise funds by issuing high-yield bonds and broadly syndicated loans. We believe this approach to financing becomes difficult at times when institutional investors seek to invest in larger, more liquid offerings. We believe this has made it harder for middle-market companies to raise funds by issuing high-yield securities from time to time.
- **We believe that credit market dislocation for middle-market companies improves the risk-reward on our investments.** From time to time, market participants have reduced lending to middle-market and non-investment grade borrowers. As a result, we believe there is less competition in our market, more conservative capital structures, higher yields and stronger covenants.
- **We believe there is a large pool of uninvested private equity capital likely to seek to combine their capital with sources of debt capital to complete private investments.** We expect that private equity firms will continue to be active investors in middle-market companies. These private equity funds generally seek to leverage their investments by combining their capital with loans provided by other sources, and we believe that we are well-positioned to partner with such equity investors.
- **We believe there is substantial supply of opportunities resulting from maturing loans that seek refinancing.** A high volume of financings will come due in the next few years. Additionally, we believe that demand for debt financing from middle-market companies will remain strong because these companies will continue to require credit to refinance existing debt, to support growth initiatives and to finance acquisitions. We believe the combination of strong demand by middle-market companies and from time to time the reduced supply of credit described above should increase lending opportunities for us. We believe this supply of opportunities coupled with a lack of demand offers attractive risk-reward to investors.

## Competitive Advantages

We believe that we have the following competitive advantages over other capital providers to middle-market companies:

### a) *Experienced Management Team*

The senior investment professionals of our Investment Adviser have worked together for many years and average over 25 years of experience in senior lending, mezzanine lending, leveraged finance, distressed debt and private equity businesses. These senior investment professionals have been involved in originating, structuring, negotiating, managing and monitoring investments in each of these businesses across changing economic and market cycles. We believe this extensive experience and history has resulted in a strong reputation across the capital markets.

Lending to middle-market companies requires in-depth diligence, credit expertise, restructuring experience and active portfolio management. For example, lending to middle-market companies in the United States is generally more labor intensive than lending to larger companies due to the smaller size of each investment and the fragmented nature of the information available with respect to such companies. We are able to provide value-added customized financial solutions to middle-market companies as a result of specialized due diligence, underwriting capabilities and more extensive ongoing monitoring required as lenders.

### b) *Disciplined Investment Approach with Strong Value Orientation*

We employ a disciplined approach in selecting investments that meet the long-standing, consistent value-oriented investment selection criteria employed by our Investment Adviser. Our value-oriented investment philosophy focuses on preserving capital and ensuring that our investments have an appropriate return profile in relation to risk. When market conditions make it difficult for us to invest according to our criteria, we are highly selective in deploying our capital. We believe this approach continues to enable us to build an attractive investment portfolio that meets our return and value criteria over the long-term.

We believe it is critical to conduct extensive due diligence on investment targets. In evaluating new investments we, through our Investment Adviser, conduct a rigorous due diligence process that draws from our Investment Adviser's experience, industry expertise and network of contacts. Among other things, our due diligence is designed to ensure that each prospective portfolio company will be able to meet its debt service obligations. See "Investment Selection Criteria" for more information.

In addition to engaging in extensive due diligence, our Investment Adviser seeks to reduce risk by focusing on businesses with:

- strong competitive positions;
- positive cash flow that is steady and stable;
- experienced management teams with strong track records;
- potential for growth and viable exit strategies; and
- capital structures offering appropriate risk-adjusted terms and covenants.

### c) *Ability to Source and Evaluate Transactions through our Investment Adviser's Proactive Research Capability and Established Network*

The management team of our Investment Adviser has long-term relationships with financial sponsors, management consultants and management teams that we believe enable us to evaluate investment opportunities effectively in numerous industries, as well as provide us access to substantial information concerning those industries. We identify potential investments both through active origination and through dialogue with numerous financial sponsors, management teams, members of the financial community and corporate partners with whom the professionals of our Investment Adviser have long-term relationships.

### d) *Flexible Transaction Structuring*

We are flexible in structuring investments and tailor investments to meet the needs of a portfolio company while also generating attractive risk-adjusted returns. We can invest in all parts of a capital structure and our Investment Adviser has extensive experience in a wide variety of securities for leveraged companies throughout economic and market cycles.

Our Investment Adviser seeks to minimize the risk of capital loss without foregoing potential for capital appreciation. In making investment decisions, we seek to invest in companies that we believe can generate consistent positive risk-adjusted returns.

We believe that the in-depth experience of our Investment Adviser will enable us to invest throughout various stages of the economic and market cycles and to provide us with ongoing market insights in addition to a significant investment opportunity.

### **Competition**

Our primary competitors provide financing to middle-market companies and include other BDCs, commercial and investment banks, commercial finance companies, CLO funds, private direct lending funds and, to the extent they provide an alternative form of financing, private equity funds. Additionally, alternative investment vehicles, such as hedge funds, frequently invest in middle-market companies. As a result, competition for investment opportunities in middle-market companies can be intense. However, we believe that from time to time there has been a reduction in the amount of debt capital available to middle-market companies, which we believe has resulted in a less competitive environment for making new investments.

Many of our competitors are substantially larger and have considerably greater financial, technical and marketing resources than we do. For example, we believe some competitors have a lower cost of funds and access to funding sources that are not available to us. In addition, some of our competitors have higher risk tolerances or different risk assessments, which could allow them to consider a wider variety of investments and establish more relationships than us. Furthermore, many of our competitors are not subject to the regulatory restrictions that the 1940 Act imposes on us as a BDC. See “Risk Factors—Risks Relating to our Business and Structure—We operate in a highly competitive market for investment opportunities” for more information.

### **Leverage**

As of September 30, 2019, we maintained a \$520 million Credit Facility, which matures in October 2023, with the lenders. During the Credit Facility’s revolving period, which extends to October 2021, it bears interest at London Interbank Offered Rate, or LIBOR, plus 200 basis points, and after the revolving period, the rate sets to LIBOR plus 425 basis points for the remaining two years. The Credit Facility is secured by all of the assets held by Funding I, under which we had \$265.3 million outstanding as of September 30, 2019. The Credit Facility had a weighted average interest rate of 4.1% and 4.3%, exclusive of the fee on undrawn commitments as of September 30, 2019 and 2018, respectively. As of September 30, 2019 and 2018, we had \$254.7 million and \$71.3 million, respectively, of unused borrowing capacity under our Credit Facility, subject to the regulatory restrictions. We believe that our capital resources will provide us with the flexibility to take advantage of market opportunities when they arise. Our use of leverage, as calculated under the asset coverage requirements of the 1940 Act, may generally range between 140% and 170% of our net assets, or approximately 60% to 65% of our managed assets. We cannot assure investors that our leverage will remain within the range. The amount of leverage that we employ will depend on our assessment of the market and other factors at the time of any proposed borrowing.

As of September 30, 2019 we had \$138.6 million in aggregate principal amount of 2023 Notes outstanding. The 2023 Notes were issued pursuant to a deed of trust between the Company and Mishmeret Trust Company, Ltd. as trustee. The 2023 Notes pay interest at a rate of 3.83% per year. Interest on the 2023 Notes is payable semi-annually in arrears on June 15 and December 15 of each year, commencing June 15, 2018. The principal on the 2023 Notes will be payable in four annual installments as follows: 15% of the original principal amount on December 15, 2020, 15% of the original principal amount on December 15, 2021, 15% of the original principal amount on December 15, 2022 and 55% of the original principal amount on December 15, 2023.

In September 2019, the Securitization Issuers completed the Debt Securitization. The 2031 Asset-Backed Debt is secured by the middle market loans, participation interests in middle market loans and other assets of the Securitization Issuer. The 2031 Asset-Backed Debt is scheduled to mature on October 15, 2031. On the closing date of the Debt Securitization, in consideration of our transfer to the Securitization Issuer of the initial closing date loan portfolio, which included loans distributed to us by certain of our wholly owned subsidiaries, the Securitization Issuer transferred to us 100% of the Preferred Shares of the Securitization Issuer, 100% of the Class D Secured Deferrable Floating Rate Notes issued by the Securitization Issuer and a portion of the net cash proceeds received from the sale of the 2031 Asset-Backed Debt. As of September 30, 2019 and 2018, the Company had \$228.0 million and zero of 2031 Asset-Backed Debt outstanding, respectively, with a weighted average interest rate of 4.2%. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources” for more information.

On April 5, 2018, our board of directors approved the application of the modified asset coverage requirements set forth in Section 61(a)(2) of the 1940 Act, as amended by the Consolidated Appropriations Act of 2018 (which includes the Small Business Credit Availability Act). As a result, the asset coverage requirement applicable to us for senior securities was reduced from 200% (i.e., \$1 of debt outstanding for each \$1 of equity) to 150% (i.e., \$2 of debt outstanding for each \$1 of equity), effective as of April 5, 2019, subject to compliance with certain disclosure requirements. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations” for more information.

### **Investment Policy Overview**

We seek to create a diversified portfolio primarily of Floating Rate Loans by generally targeting an investment size of \$5 million to \$30 million in securities, on average, of middle-market companies. We expect this investment size to vary proportionately with the size of our capital base. We generally expect that first lien secured debt will represent at least 65% of our overall portfolio. We also generally expect to invest up to 35% of our overall portfolio opportunistically in other types of investments, including second lien secured debt and subordinated debt and, to a lesser extent, equity investments. The companies in which we invest are typically highly leveraged, and, in most cases, are not rated by national rating agencies. If such unrated companies were rated, we believe that they would typically receive a rating below investment grade (between BB and CCC under the Standard & Poor’s system) from the national rating agencies. Securities rated below investment grade are often referred to as “leveraged loans” or “high yield” securities or “junk bonds” and are often higher risk compared to debt instruments that are rated above investment grade and have speculative characteristics. In addition, we expect our debt investments to range in maturity from three to ten years.

Over time, we expect that our portfolio will continue to consist primarily of Floating Rate Loans in qualifying assets such as private, or thinly traded or small market-capitalization, U.S. middle-market public companies. In addition, we may invest up to 30% of our portfolio in non-qualifying assets. These non-qualifying assets may include investments in public companies whose securities are not thinly traded or have a market capitalization of greater than \$250 million, securities of middle-market companies located outside of the United States and investment companies as defined in the 1940 Act. We may acquire investments in the secondary markets. See “Regulation—Qualifying Assets” and “Investment Selection Criteria” for more information.

Our board of directors has the authority to modify or waive certain of our operating policies and strategies without prior notice and without stockholder approval (except as required by the 1940 Act). However, absent stockholder approval, under the 1940 Act we may not change the nature of our business so as to cease to be, or withdraw our election as, a BDC. We cannot predict the effect any changes to our current operating policies and strategies would have on our business, operating results and value of our common stock. Nevertheless, the effects of changes to our operating policies and strategies may adversely affect our business, our ability to make distributions and the value of our common stock.

### **First Lien Secured Debt**

Structurally, first lien secured debt ranks senior in priority of payment to second lien secured debt, subordinated debt and equity and benefits from a senior security interest in the assets of the borrower. As such, other creditors rank junior to our investments in these securities in the event of insolvency. Due to its lower risk profile and often more restrictive covenants as compared to second lien secured debt and subordinated debt, first lien secured debt generally earns a lower return than second lien secured debt and subordinated debt. In some cases first lien secured debt lenders receive opportunities to invest directly in the equity securities of borrowers and from time to time may also receive warrants to purchase equity securities. We evaluate these investment opportunities on a case-by-case basis.

### **Second Lien Secured Debt**

Second lien secured debt usually ranks junior in priority of payment to first lien secured debt. Second lien secured debt holds a second priority with regard to right of payment in the event of insolvency. Second lien secured debt ranks senior to subordinated debt and common and preferred equity in borrowers' capital structures. Due to its higher risk profile and often less restrictive covenants as compared to first lien secured debt, second lien secured debt generally earns a higher return than first lien secured debt. In many cases, second lien secured debt investors receive opportunities to invest directly in the equity securities of borrowers and from time to time may also receive warrants to purchase equity securities. We evaluate these investment opportunities on a case-by-case basis.

### **Subordinated Debt**

Structurally, subordinated debt usually ranks junior in priority of payment to first lien secured debt and second lien secured debt, and are often unsecured. As such, other creditors may rank senior to us in the event of insolvency. Subordinated debt ranks senior to common and preferred equity in borrowers' capital structures. Due to its higher risk profile and often less restrictive covenants as compared to first lien secured debt and second lien secured debt, subordinated debt generally earns a higher return than first lien secured debt and second lien secured debt. In many cases, subordinated debt investors receive opportunities to invest directly in the equity securities of borrowers, and from time to time, may also receive warrants to purchase equity securities. We evaluate these investment opportunities on a case-by-case basis.

### **Investment Selection Criteria**

We are committed to a value-oriented philosophy used by the senior investment professionals who manage our portfolio and seek to minimize the risk of capital loss without foregoing potential for capital appreciation.

We have identified several criteria, discussed below, that we believe are important in identifying and investing in prospective portfolio companies. These criteria provide general guidelines for our investment decisions. However, we caution that not all of these criteria will be met by each prospective portfolio company in which we choose to invest. Generally, we seek to use our experience and access to market information to identify investment opportunities and to structure investments efficiently and effectively.

#### **a) *Leading and defensible competitive market positions***

The Investment Adviser invests in portfolio companies that it believes have developed strong positions within their markets. The Investment Adviser also seeks to invest in portfolio companies that it believes possess competitive advantages, for example, in scale, scope, customer loyalty, product pricing or product quality as compared to their competitors to protect their market position.

#### **b) *Investing in stable borrowers with positive cash flow***

Our investment philosophy places a premium on fundamental analysis and has a distinct value-orientation. The Investment Adviser invests in portfolio companies it believes to be stable and well-established, with strong cash flows and profitability. The Investment Adviser believes these attributes indicate portfolio companies that may be well-positioned to maintain consistent cash flow to service and repay their liabilities and maintain growth in their businesses or their relative market share. The Investment Adviser currently does not expect to invest significantly in start-up companies, companies in turnaround situations or companies with speculative business plans, although we are permitted to do so.

#### **c) *Proven management teams***

The Investment Adviser focuses on investments in which the portfolio company has an experienced management team with an established track record of success. The Investment Adviser typically requires that portfolio companies have in place proper incentives to align management's goals with our goals, including having equity interests.

#### **d) *Financial sponsorship***

The Investment Adviser may seek to cause us to participate in transactions sponsored by what it believes to be trusted financial sponsors. The Investment Adviser believes that a financial sponsor's willingness to invest significant equity capital in a portfolio company is an implicit endorsement of the quality of that portfolio company. Further, financial sponsors of portfolio companies with significant investments at risk may have the ability, and a strong incentive, to contribute additional capital in difficult economic times should financial or operational issues arise so as to maintain their ownership position.

#### **e) *Investments in different borrowers, industries and geographies***

The Investment Adviser seeks to invest our assets broadly among portfolio companies, across industries and geographical regions. The Investment Adviser believes that this approach may reduce the risk that a downturn in any one portfolio company, industry or geographical region will have a disproportionate impact on the value of our portfolio, although we are permitted to be non-diversified under the 1940 Act.

#### **f) *Viable exit strategy***

The Investment Adviser seeks to invest in portfolio companies that it believes will provide a steady stream of cash flow to repay our loans while also reinvesting in their respective businesses. The Investment Adviser expects that such internally generated cash flow, leading to the payment of interest on, and the repayment of the principal of, our investments in portfolio companies to be a key means by which we will exit from our investments over time. In addition, the Investment Adviser also seeks to invest in portfolio companies whose business models and expected future cash flows offer attractive exit possibilities. These companies include candidates for strategic acquisition by other industry participants and companies that may repay our investments through an initial public offering of common stock, refinancing or other capital markets transaction.

### **Due Diligence**

We believe it is critical to conduct extensive due diligence in evaluating new investment targets. Our Investment Adviser conducts a rigorous due diligence process that is applied to prospective portfolio companies and draws from our Investment Adviser's experience, industry expertise and network of contacts. In conducting due diligence, our Investment Adviser uses information provided by companies, financial sponsors and publicly available information as well as information from relationships with former and current management teams, consultants, competitors and investment bankers.

Our due diligence may include:

- review of historical and prospective financial information;
- research relating to the portfolio company's management, industry, markets, products and services and competitors;
- interviews with management, employees, customers and vendors of the potential portfolio company;
- on-site visits;
- review of loan documents; and
- background checks.

Additional due diligence with respect to any investment may be conducted on our behalf by attorneys and accountants prior to the closing of the investment, as well as other outside advisers, as appropriate.

Upon the completion of due diligence on a portfolio company, the team leading the investment presents the investment opportunity to our Investment Adviser's investment committee. This committee determines whether to pursue the potential investment. All new investments are required to be reviewed by the investment committee of our Investment Adviser. The members of the investment committee receive no compensation from us. Rather, they are employees of and receive compensation from our Investment Adviser.

### ***Investment Structure***

Once we determine that a prospective portfolio company is suitable for investment, we work with the management of that portfolio company and its other capital providers, including senior, junior and equity capital providers, to structure an investment. We negotiate with these parties to agree on how our investment is structured relative to the other capital in the portfolio company's capital structure.

We expect our Floating Rate Loans to have terms of three to ten years. We generally obtain security interests in the assets of our portfolio companies that will serve as collateral in support of the repayment of these loans. This collateral may take the form of first priority liens on the assets of a portfolio company.

Typically, our second lien secured debt and subordinated debt investments have maturities of three to ten years. Second lien secured debt and subordinated debt may take the form of a second priority lien on the assets of a portfolio company and have interest-only payments in the early years with cash or payment-in-kind, or PIK, payments with amortization of principal deferred to the later years. In some cases, we may invest in debt securities that, by their terms, convert into equity or additional debt securities or defer payments of interest for the first few years after our investment. Also, in some cases, our second lien secured debt and subordinated debt may be collateralized by a subordinated lien on some or all of the assets of the borrower.

We seek to tailor the terms of the investment to the facts and circumstances of the transaction and the prospective portfolio company, negotiating a structure that protects our rights and manages our risk while creating incentives for the portfolio company to achieve its business plan and improve its profitability. For example, in addition to seeking a senior position in the capital structure of our portfolio companies, we seek to limit the downside potential of our investments by:

- requiring a total return on our investments (including both interest in the form of a floor and potential equity appreciation) that compensates us for credit risk;
- incorporating "put" rights and call protection into the investment structure; and
- negotiating covenants in connection with our investments that afford our portfolio companies as much flexibility in managing their businesses as possible, consistent with our focus of preserving capital. Such restrictions may include affirmative and negative covenants, default penalties, lien protection, change of control provisions and board rights, including either observation or participation rights.

Our investments may include equity features, such as direct investments in the equity securities of borrowers or warrants or options to buy a minority interest in a portfolio company. Any warrants we may receive with our debt securities generally require only a nominal cost to exercise, so as a portfolio company appreciates in value, we may achieve additional investment return from these equity investments. We may structure the warrants to provide provisions protecting our rights as a minority-interest holder, as well as puts, or rights to sell such securities back to the portfolio company, upon the occurrence of specified events. In many cases, we may also obtain registration rights in connection with these equity investments, which may include demand and "piggyback" registration rights.

We expect to hold most of our investments to maturity or repayment, but we may exit certain investments earlier when a liquidity event, such as the sale or refinancing of a portfolio company, takes place. We also may turn over investments to better position the portfolio in light of market conditions.

### ***Ongoing Relationships with Portfolio Companies***

#### ***Monitoring***

The Investment Adviser monitors our portfolio companies on an ongoing basis. The Investment Adviser also monitors the financial trends of each portfolio company to determine if it is meeting its respective business plans and to assess the appropriate course of action for each portfolio company.

The Investment Adviser has several methods of evaluating and monitoring the performance and fair value of our investments, which may include the following:

- assessment of success in adhering to a portfolio company's business plan and compliance with covenants;
- periodic or regular contact with portfolio company management and, if appropriate, the financial or strategic sponsor, to discuss financial position, requirements and accomplishments;
- comparisons to other portfolio companies in the industry, if any;
- attendance at and participation in board meetings or presentations by portfolio companies; and
- review of periodic financial statements and financial projections for portfolio companies.

The Investment Adviser monitors credit risk of each portfolio company regularly with a goal toward identifying early, and when able and appropriate, exiting investments with potential credit problems. This monitoring process may include reviewing: (1) a portfolio company's financial resources and operating history; (2) comparing a portfolio company's current operating results with the Investment Adviser's initial thesis for the investment and its expectations for the performance of the investment; (3) a portfolio company's sensitivity to economic conditions; (4) the performance of a portfolio company's management; (5) a portfolio company's debt maturities and capital requirements; (6) a portfolio company's interest and asset coverage; and (7) the relative value of an investment based on a portfolio company's anticipated cash flow.

#### Managerial Assistance

We offer significant managerial assistance to our portfolio companies. As a BDC, we are required to make available such significant managerial assistance within the meaning of Section 2(a)(47) of the 1940 Act. See "Regulation" for more information.

#### Staffing

We do not currently have any employees. Our Investment Adviser and Administrator have hired and expect to continue to hire professionals with skills applicable to our business plan, including experience in middle-market investing, senior lending, mezzanine lending, leveraged finance, distressed debt and private equity businesses.

#### Our Corporate Information

Our administrative and principal executive offices are located at 590 Madison Avenue, 15th Floor, New York, NY 10022. Our common stock is quoted on The Nasdaq Global Select Market and the Tel Aviv Stock Exchange, or TASE, under the symbol "PFLT." Our phone number is (212) 905-1000, and our Internet website address is [www.pennantpark.com](http://www.pennantpark.com). Information contained on our website is not incorporated by reference into this Report and you should not consider information contained on our website to be part of this Report. We file periodic reports, proxy statements and other information with the SEC and make such reports available on our website free of charge as soon as reasonably practicable. In addition, the SEC maintains an Internet site at [www.sec.gov](http://www.sec.gov) that contains material that we file with the SEC on the EDGAR Database.

#### Our Portfolio

Our principal investment focus is to invest in Floating Rate Loans to U.S. middle-market companies in a variety of industries. We generally seek to target companies that generate positive cash flows from the broad variety of industries in which our Investment Adviser has direct expertise. The following is an illustrative list of the industries in which the Investment Adviser has invested:

- Aerospace and Defense
- Auto Sector
- Beverage, Food and Tobacco
- Broadcasting and Entertainment
- Buildings and Real Estate
- Building Materials
- Business Services
- Cable Television
- Capital Equipment
- Cargo Transportation
- Chemicals, Plastics and Rubber
- Communications
- Consumer Products
- Consumer Services
- Containers Packaging & Glass
- Distribution
- Diversified/Conglomerate Manufacturing
- Diversified/Conglomerate Services
- Diversified Natural Resources, Precious Metals and Minerals
- Education
- Electronics
- Energy/Utilities
- Environmental Services
- Financial Services
- Grocery
- Healthcare, Education and Childcare
- High Tech Industries
- Home & Office Furnishings, Housewares & Durable Consumer Products
- Hotels, Motels, Inns and Gaming
- Insurance
- Leisure, Amusement, Motion Picture, Entertainment
- Logistics
- Manufacturing/Basic Industries
- Media
- Mining, Steel, Iron and Non-Precious Metals
- Oil and Gas
- Other Media
- Personal, Food and Miscellaneous Services
- Printing and Publishing
- Retail
- Wholesale

Listed below are our top ten portfolio companies and industries represented as a percentage of our consolidated portfolio assets (excluding cash and cash equivalents) as of September 30:

Portfolio Company	2019 (1)	Portfolio Company	2018 (1)
MeritDirect, LLC	4%	Beauty Industry Group Opco, LLC	4%
Cano Health, LLC	3	Integrative Nutrition, LLC	4
Douglas Products	3	Credit Infonet, Inc.	3
GSM Holdings, Inc.	3	Education Networks of America, Inc.	3
Integrative Nutrition, LLC	3	Montreign Operating Company, LLC	3
Montreign Operating Company, LLC	3	Research Now Group, Inc. and Survey Sampling International LLC	3
Research Now Group, Inc. and Survey Sampling International LLC	3	Tensar Corporation	3
By Light Professional IT Services, LLC	2	East Valley Tourist Development Authority	2
eCommission Financial Services, Inc.	2	Morphe, LLC	2
Tyto Athene, LLC	2	NextiraOne Federal, LLC	2

Industry	2019 (1)	Industry	2018 (1)
Aerospace and Defense	7%	Consumer Goods: Non-Durable	11%
Hotel, Gaming and Leisure	7	High Tech Industries	10
Beverage, Food and Tobacco	6	Business Services	8
Healthcare and Pharmaceuticals	6	Beverage, Food and Tobacco	7
Business Services	5	Aerospace and Defense	6
Capital Equipment	5	Hotel, Gaming and Leisure	6
High Tech Industries	5	Telecommunications	6
Media	5	Capital Equipment	5
Construction and Building	4	Consumer Goods: Durable	5
Telecommunications	4	Healthcare and Pharmaceuticals	5

(1) Excludes investments in PSSL.

Our executive officers and directors, as well as the senior investment professionals of the Investment Adviser and Administrator, may serve as officers, directors or principals of entities that operate in the same or a related line of business as we do. Currently, the executive officers and directors, as well as certain of the current senior investment professionals of the Investment Adviser and Administrator, serve as officers and directors of PennantPark Investment Corporation, a publicly traded BDC, and other managed funds, as applicable. Accordingly, they may have obligations to investors in those entities, the fulfillment of which obligations might not be in the best interest of us or our stockholders. In addition, we note that any affiliated investment vehicle currently existing, or formed in the future, and managed by the Investment Adviser and or its affiliates may, notwithstanding different stated investment objectives, have overlapping investment objectives with our own and, accordingly, may invest in asset classes similar to those targeted by us. As a result, the Investment Adviser may face conflicts in allocating investment opportunities among us and such other entities. The Investment Adviser will allocate investment opportunities in a fair and equitable manner consistent with our allocation policy, and we have received exemptive relief with respect to certain co-investment transactions. Where co-investment is unavailable or inappropriate, the Investment Adviser will choose which investment fund should receive the allocation. See “Risk Factors—Risks Relating to our Business and Structure—There are significant potential conflicts of interest which could impact our investment returns” for more information.

We may invest, to the extent permitted by law, in the securities and instruments of other investment companies and companies that would be investment companies but are excluded from the definition of an investment company provided in Section 3(c) of the 1940 Act. We may also co-invest in the future on a concurrent basis with our affiliates, subject to compliance with applicable regulations, our trade allocation procedures and, if applicable, the terms of our exemptive relief.

#### **Investment Management Agreement**

We have entered into an agreement with the Investment Adviser, or the Investment Management Agreement, under which the Investment Adviser, subject to the overall supervision of our board of directors, manages the day-to-day operations of, and provides investment advisory services to, us. Mr. Penn, our Chairman and Chief Executive Officer, is the managing member and a senior investment professional of, and has a financial and controlling interest in, PennantPark Investment Advisers. PennantPark Floating Rate Capital Ltd., through the Investment Adviser, provides similar services to Funding I under its collateral management agreement. Funding I’s collateral management agreement does not affect the management or incentive fees that we pay to the Investment Adviser on a consolidated basis. Under the terms of our Investment Management Agreement, the Investment Adviser:

- determines the composition of our portfolio, the nature and timing of the changes to our portfolio and the manner of implementing such changes;
- identifies, evaluates and negotiates the structure of the investments we make (including performing due diligence on our prospective portfolio companies);
- closes and monitors the investments we make; and
- provides us with such other investment advisory, research and related services as we may need from time to time.

PennantPark Investment Advisers’ services under our Investment Management Agreement are not exclusive, and it is free to furnish similar services, without the prior approval of our stockholders or our board of directors, to other entities so long as its services to us are not impaired. Our board of directors monitors for any potential conflicts that may arise upon such a development. For providing these services, the Investment Adviser receives a fee from us, consisting of two components—a base management fee and an incentive fee or, collectively, Management Fees.

#### **Investment Advisory Fees**

The base management fee is calculated at an annual rate of 1.00% of our “average adjusted gross assets,” which equals our gross assets (net of U.S. Treasury Bills, temporary draws under any credit facility, cash and cash equivalents, repurchase agreements or other balance sheet transactions undertaken at the end of a fiscal quarter for purposes of preserving investment flexibility for the next quarter and unfunded commitments, if any) and is payable quarterly in arrears. The base management fee is calculated based on the average adjusted gross assets at the end of the two most recently completed calendar quarters, and appropriately adjusted for any share issuances or repurchases during the current calendar quarter. For example, if we sold shares on the 45th day of a quarter and did not use the proceeds from the sale to repay outstanding indebtedness, our gross assets for such quarter would give effect to the net proceeds of the issuance for only 45 days of the quarter during which the additional shares were outstanding. For the years ended September 30, 2019, 2018 and 2017, the Investment Adviser earned a base management fee of \$10.2 million, \$8.4 million and \$6.9 million, respectively, from us.

The following is a hypothetical example of the calculation of average adjusted gross assets:

Gross assets as of December 31, 20XX = \$160 million

U.S. Treasury bills and temporary draws on credit facilities as of December 31, 20XX = \$10 million

Adjusted gross assets as of December 31, 20XX = \$150 million

Gross assets as of March 31, 20XX = \$200 million

U.S. Treasury bills and temporary draws on credit facilities as of March 31, 20XX = \$20 million

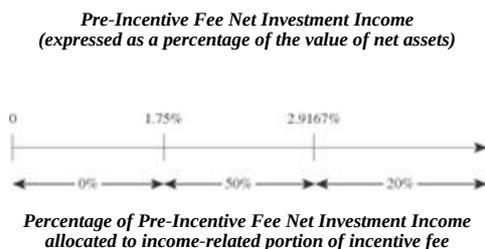
Adjusted gross assets as of March 31, 20XX = \$180 million

Average value of adjusted gross assets as of March 31, 20XX and December 31, 20XX, which are the two most recently completed calendar quarters, and appropriately adjusted for any share issuances or repurchases during the current calendar quarter equals  $(\$150 \text{ million} + \$180 \text{ million}) / 2 = \$165 \text{ million}$ .

The incentive fee has two parts, as follows:

One part is calculated and payable quarterly in arrears based on our Pre-Incentive Fee Net Investment Income for the immediately preceding calendar quarter. For this purpose, Pre-Incentive Fee Net Investment Income means interest income, dividend income and any other income, including any other fees (other than fees for providing managerial assistance), such as amendment, commitment, origination, prepayment penalties, structuring, diligence and consulting fees or other fees received from portfolio companies, accrued during the calendar quarter, minus our operating expenses for the quarter (including the base management fee, any expenses payable under the Administration Agreement (as defined below), and any interest expense or amendment fees under any credit facility and distribution paid on any issued and outstanding preferred stock, but excluding the incentive fee). Pre-Incentive Fee Net Investment Income includes, in the case of investments with a deferred interest feature (such as original issue discount, or OID, debt instruments with PIK interest and zero coupon securities), accrued income that we have not yet received in cash. Pre-Incentive Fee Net Investment Income does not include any realized capital gains, computed net of all realized capital losses or unrealized capital appreciation or depreciation. Pre-Incentive Fee Net Investment Income, expressed as a percentage of the value of our net assets at the end of the immediately preceding calendar quarter, is compared to the hurdle rate of 1.75% per quarter (7.00% annualized). We pay the Investment Adviser an incentive fee with respect to our Pre-Incentive Fee Net Investment Income in each calendar quarter as follows: (1) no incentive fee in any calendar quarter in which our Pre-Incentive Fee Net Investment Income does not exceed the hurdle rate of 1.75%, (2) 50% of our Pre-Incentive Fee Net Investment Income with respect to that portion of such Pre-Incentive Fee Net Investment Income, if any, that exceeds the hurdle rate but is less than 2.9167% in any calendar quarter (11.67% annualized) (we refer to this portion of our Pre-Incentive Fee Net Investment Income (which exceeds the hurdle but is less than 2.9167%) as the "catch-up," which is meant to provide our Investment Adviser with 20% of our Pre-Incentive Fee Net Investment Income, as if a hurdle did not apply, if this net investment income exceeds 2.9167% in any calendar quarter), and (3) 20% of the amount of our Pre-Incentive Fee Net Investment Income, if any, that exceeds 2.9167% in any calendar quarter. These calculations are pro-rated for any share issuances or repurchases during the relevant quarter, if applicable. For the years ended September 30, 2019, 2018 and 2017, the Investment Adviser earned \$7.6 million, \$3.5 million and \$4.9 million, respectively, in incentive fees on net investment income from us.

The following is a graphical representation of the calculation of quarterly incentive fee based on Pre-Incentive Fee Net Investment Income:



The second part of the incentive fee is determined and payable in arrears as of the end of each calendar year (or upon termination of the Investment Management Agreement, as of the termination date) and equals 20% of our realized capital gains, if any, on a cumulative basis from inception through the end of each calendar year, computed net of all realized capital losses and unrealized capital depreciation on a cumulative basis, less the aggregate amount of any previously paid capital gain incentive fees. For the years ended September 30, 2019, 2018 and 2017, we accrued an incentive fee on capital gains of approximately zero, \$(0.1) million and \$0.1 million, respectively, as calculated under the Investment Management Agreement (as described above).

Under U.S. generally accepted accounting principles, or GAAP, we are required to accrue a capital gains incentive fee based upon net realized capital gains and net unrealized capital appreciation and depreciation on investments held at the end of each period. In calculating the capital gains incentive fee accrual, we considered the cumulative aggregate unrealized capital appreciation in the calculation, as a capital gains incentive fee would be payable if such unrealized capital appreciation were realized, even though such unrealized capital appreciation is not permitted to be considered in calculating the fee actually payable under the Investment Management Agreement. This accrual is calculated using the aggregate cumulative realized capital gains and losses and cumulative unrealized capital appreciation or depreciation. If such amount is positive at the end of a period, then we record a capital gains incentive fee equal to 20% of such amount, less the aggregate amount of actual capital gains related to incentive fees paid or accrued in all prior years. If such amount is negative, then there is no accrual for such year. There can be no assurance that such unrealized capital appreciation will be realized in the future. The incentive fee accrued for under GAAP on our unrealized and realized capital gains for the years ended September 30, 2019, 2018 and 2017 was \$(1.4) million, \$(1.0) million and \$1.2 million, respectively.

#### Examples of Quarterly Incentive Fee Calculation

##### Example 1: Income Related Portion of Incentive Fee (\*):

###### Alternative 1:

###### Assumptions

Investment income (including interest, dividends, fees, etc.) = 1.25%

Hurdle (1) = 1.75%

Base management fee (2) = 0.25%

Other expenses (legal, accounting, custodian, transfer agent, etc.) = 0.20%

Pre-Incentive Fee Net Investment Income

(investment income—(base management fee + other expenses)) = 0.80%

Pre-Incentive Fee Net Investment Income does not exceed hurdle; therefore, there is no incentive fee.

**Alternative 2:***Assumptions*

Investment income (including interest, dividends, fees, etc.) = 2.70%

Hurdle (1) = 1.75%

Base management fee (2) = 0.25%

Other expenses (legal, accounting, custodian, transfer agent, etc.) = 0.20%

Pre-Incentive Fee Net Investment Income

(investment income—(base management fee + other expenses)) = 2.25%

Incentive fee	= 50% X Pre-Incentive Fee Net Investment Income, subject to “catch-up”
	= 50% X (2.25% - 1.75%)
	= 0.25%

**Alternative 3:***Assumptions*

Investment income (including interest, dividends, fees, etc.) = 4.00%

Hurdle (1) = 1.75%

Base management fee (2) = 0.25%

Other expenses (legal, accounting, custodian, transfer agent, etc.) = 0.20%

Pre-Incentive Fee Net Investment Income

(investment income—(base management fee + other expenses)) = 3.55%

Incentive fee	= 20% X Pre-Incentive Fee Net Investment Income, subject to “catch-up” (3)
Incentive fee	= 50% X “catch-up” + (20% x (Pre-Incentive Fee Net Investment Income - 2.9167%))
Catch-up	= 2.9167% - 1.75%
	= 1.1667%
	= (50% X 1.1667%) + (20% X (3.55% - 2.9167%))
	= 0.5833% + (20% X 0.6333%)
	= 0.5833% + 0.1267%
	= 0.71%

\* The hypothetical amount of Pre-Incentive Fee Net Investment Income shown is based on a percentage of total net assets.

(1) Represents 7.0% annualized hurdle.

(2) Represents 1.0% annualized base management fee.

(3) The “catch-up” provision is intended to provide the Investment Adviser with an incentive fee of approximately 20% on all of our Pre-Incentive Fee Net Investment Income as if a hurdle rate did not apply when our net investment income exceeds 2.9167% in any calendar quarter.

**Example 2: Capital Gains Portion of Incentive Fee:****Alternative 1:***Assumptions*

Year 1: \$20 million investment made in Company A (“Investment A”), and \$30 million investment made in Company B (“Investment B”)

Year 2: Investment A sold for \$50 million and fair market value (“FMV”) of Investment B determined to be \$32 million

Year 3: FMV of Investment B determined to be \$25 million

Year 4: Investment B sold for \$31 million

The capital gains portion of the incentive fee, if any, would be:

Year 1: None

Year 2: \$6 million capital gains incentive fee

\$30 million realized capital gains on sale of Investment A multiplied by 20%

Year 3: None

\$5 million cumulative fee (20% multiplied by \$25 million (\$30 million cumulative capital gains less \$5 million cumulative capital depreciation)) less \$6 million (previous capital gains fee paid in Year 2)

Year 4: \$200,000 capital gains incentive fee

\$6.2 million cumulative fee (\$31 million cumulative realized capital gains multiplied by 20%) less \$6 million (previous capital gains fee paid in Year 2).

## Alternative 2:

### Assumptions

Year 1: \$20 million investment made in Company A (“Investment A”), \$30 million investment made in Company B (“Investment B”) and \$25 million investment made in Company C (“Investment C”)

Year 2: Investment A sold for \$50 million, FMV of Investment B determined to be \$25 million and FMV of Investment C determined to be \$25 million

Year 3: FMV of Investment B determined to be \$27 million and Investment C sold for \$30 million

Year 4: FMV of Investment B determined to be \$35 million

Year 5: Investment B sold for \$20 million

The capital gains portion of the incentive fee, if any, would be:

Year 1: None

Year 2: \$5 million capital gains incentive fee

20% multiplied by \$25 million (\$30 million realized capital gains on sale of Investment A less \$5 million unrealized capital depreciation on Investment B)

Year 3: \$1.4 million capital gains incentive fee (1)

\$6.4 million cumulative fee (20% multiplied by \$32 million (\$35 million cumulative realized capital gains less \$3 million unrealized capital depreciation)) less \$5 million (previous capital gains fee paid in Year 2)

Year 4: \$0.6 million capital gains incentive fee

\$7 million cumulative fee (20% multiplied by \$35 million (\$35 million cumulative realized capital gains without regard to \$5 million of unrealized appreciation)) less \$6.4 million (previous cumulative capital gains fee paid in Year 2 of \$5 million and Year 3 of \$1.4 million)

Year 5: None

\$7 million cumulative fee (20% multiplied by \$35 million (\$35 million cumulative realized capital gains without regard to \$10 million realized capital losses in subsequent year)) less \$7 million (previous cumulative capital gains fee paid in Years 2, 3 and Year 4)

- (1) As illustrated in Year 3 of Alternative 2 above, if we were to be wound up on a date other than December 31 of any year after year 3, we may have paid aggregate capital gain incentive fees that are more than the amount of such fees that would be payable if we had been wound up on December 31 of such year.

### Organization of the Investment Adviser

PennantPark Investment Advisers is a registered investment adviser under the Investment Advisers Act of 1940, as amended, or Advisers Act. The principal executive office of PennantPark Investment Advisers is located at 590 Madison Avenue, 15th Floor, New York, NY 10022.

### Duration and Termination of Investment Management Agreement

The Investment Management Agreement was reapproved by our board of directors, including a majority of our directors who are not interested persons of us or the Investment Adviser, in February 2019. Unless terminated earlier as described below, the Investment Management Agreement will continue in effect for a period of one year through February 2020. It will remain in effect if approved annually by our board of directors, or by the affirmative vote of the holders of a majority of our outstanding voting securities, including, in either case, approval by a majority of our directors who are not interested persons of us or the Investment Adviser. In determining to reapprove the Investment Management Agreement, our board of directors requested information from the Investment Adviser that enabled it to evaluate a number of factors relevant to its determination. These factors included the nature, quality and extent of services performed by the Investment Adviser, the Investment Adviser’s ability to manage conflicts of interest effectively, our short and long-term performance, our costs, including as compared to comparable externally and internally managed publicly traded BDCs that engage in similar investing activities, the Investment Adviser’s profitability, any economies of scale, and any other benefits of the relationship for the Investment Adviser. Based on the information reviewed and the considerations detailed above, our board of directors, including all of our directors who are not interested persons of us or the Investment Adviser, concluded that the investment advisory fee rates and terms are fair and reasonable in relation to the services provided and reapproved the Investment Management Agreement as being in the best interests of our stockholders.

The Investment Management Agreement will automatically terminate in the event of its assignment. The Investment Management Agreement may be terminated by either party without penalty upon 60 days’ written notice to the other. See “Risk Factors—Risks Relating to our Business and Structure—We are dependent upon our Investment Adviser’s key personnel for our future success, and if our Investment Adviser is unable to hire and retain qualified personnel or if our Investment Adviser loses any member of its management team, our ability to achieve our investment objectives could be significantly harmed” for more information.

### Administration Agreement

We have entered into an agreement, or the Administration Agreement, with the Administrator, under which the Administrator furnishes us with office facilities, equipment and clerical, bookkeeping and record keeping services. Under our Administration Agreement, the Administrator performs, or oversees the performance of, our required administrative services, which include, among other activities, being responsible for the financial records we are required to maintain and preparing reports to our stockholders and reports filed with the SEC. In addition, the Administrator assists us in determining and publishing our NAV, oversees the preparation and filing of our tax returns and generally oversees the payment of our expenses and the performance of administrative and professional services rendered to us by others. For providing these services, facilities and personnel, we have agreed to reimburse the Administrator for its allocable portion of overhead and other expenses incurred by the Administrator in performing its obligations under the Administration Agreement, including rent, technology systems, insurance and our allocable portion of the cost of compensation and related expenses of our Chief Compliance Officer, Chief Financial Officer and their respective staffs. The Administrator also offers on our behalf, significant managerial assistance to portfolio companies to which we are required to offer such assistance. To the extent that our Administrator outsources any of its functions, we will pay the fees associated with such functions on a direct basis without profit to the Administrator. Reimbursement for certain of these costs is included in administrative services expenses in the Consolidated Statements of Operations. For the years ended September 30, 2019, 2018 and 2017, we reimbursed the Investment Adviser approximately \$1.9 million, \$1.3 million and \$1.7 million, respectively, including expenses the Investment Adviser incurred on behalf of the Administrator, for services described above.

### ***Duration and Termination of Administration Agreement***

The Administration Agreement was reapproved by our board of directors, including a majority of our directors who are not interested persons of us, in February 2019. Unless terminated earlier as described below, our Administration Agreement will continue in effect for a period of one year through February 2020. It will remain in effect if approved annually by our board of directors, or by the affirmative vote of the holders of a majority of our outstanding voting securities, including, in either case, approval by a majority of our directors who are not interested persons of us. The Administration Agreement may not be assigned by either party without the consent of the other party. The Administration Agreement may be terminated by either party without penalty upon 60 days' written notice to the other.

### ***Indemnification***

Our Investment Management Agreement and Administration Agreement provide that, absent willful misfeasance, bad faith or gross negligence in the performance of their duties or by reason of the reckless disregard of their duties and obligations, PennantPark Investment Advisers and PennantPark Investment Administration and their officers, managers, partners, agents, employees, controlling persons, members and any other person or entity affiliated with them are entitled to indemnification from us for any damages, liabilities, costs and expenses (including reasonable attorneys' fees and amounts reasonably paid in settlement) arising from the rendering of PennantPark Investment Advisers' and PennantPark Investment Administration's services under our Investment Management Agreement or Administration Agreement or otherwise as Investment Adviser or Administrator for us.

### ***License Agreement***

We have entered into a license agreement, or the License Agreement, with PennantPark Investment Advisers pursuant to which PennantPark Investment Advisers has granted us a royalty-free, non-exclusive license to use the name "PennantPark." Under this agreement, we have a right to use the PennantPark name, for so long as PennantPark Investment Advisers or one of its affiliates remains our Investment Adviser. Other than with respect to this limited license, we have no legal right to the "PennantPark" name.

### ***PennantPark Senior Secured Loan Fund I LLC***

In May 2017, we and Kemper formed PSSSL, an unconsolidated joint venture. PSSSL invests primarily in middle-market and other corporate debt securities consistent with our strategy. PSSSL was formed as a Delaware limited liability company. As of September 30, 2019, PSSSL had total assets of \$506.7 million. As of the same date, we and Kemper had remaining commitments to fund first lien secured debt and equity interests in PSSSL in an aggregate of \$10.5 million. PSSSL's portfolio consisted of debt investments in 45 portfolio companies as of September 30, 2019. As of September 30, 2019, at fair value, the largest investment in a single portfolio company in PSSSL was \$22.0 million and the five largest investments totaled \$102.9 million. PSSSL invests in portfolio companies in the same industries in which we may directly invest.

We provide capital to PSSSL in the form of first lien secured debt and equity interests. As of September 30, 2019, we and Kemper owned 87.5% and 12.5%, respectively, of each of the outstanding first lien secured debt and equity interests. As of the same date, our investment in PSSSL consisted of first lien secured debt of \$122.2 million and equity interests of \$52.4 million. As of the same date, we had commitments to fund first lien secured debt to PSSSL of \$128.6 million, of which \$6.4 million was unfunded. As of September 30, 2019, we had commitments to fund equity interests in PSSSL of \$55.1 million, of which \$2.8 million was unfunded.

## **REGULATION**

### ***Business Development Company and Regulated Investment Company Regulations***

We are a BDC under the 1940 Act, which has qualified and intends to continue to qualify to maintain an election to be treated as a RIC under Subchapter M of the Code. The 1940 Act contains prohibitions and restrictions relating to transactions between a BDC and its affiliates (including any investment advisers or sub-advisers), principal underwriters and affiliates of those affiliates or underwriters and requires that a majority of the directors be persons other than "interested persons," as that term is defined in the 1940 Act. In addition, the 1940 Act provides that we may not change the nature of our business so as to cease to be, or to withdraw our election as, a BDC unless approved by holders of a majority of our outstanding voting securities.

We may invest up to 100% of our assets in securities acquired directly from issuers in privately negotiated transactions. With respect to such securities, we may, for the purpose of public resale, be deemed an "underwriter" as that term is defined in the Securities Act of 1933, as amended, or the Securities Act. We may purchase or otherwise receive warrants to purchase the common stock of our portfolio companies in connection with acquisition financing or other investments. Similarly, in connection with an acquisition, we may acquire rights to require the issuers of securities we own or their affiliates to repurchase them under certain circumstances. We do not intend to acquire securities issued by any registered investment company that exceed the limits imposed by the 1940 Act. Under these limits, we generally cannot acquire more than 3% of the voting stock of any registered investment company, invest more than 5% of the value of our total assets in the securities of one registered investment company or invest more than 10% of the value of our total assets in the securities of more than one registered investment company. With regard to that portion of our portfolio invested in securities issued by investment companies, it should be noted that such investments might subject our stockholders to additional expenses. We may enter into hedging transactions to manage the risks associated with interest rate and currency fluctuations. None of these policies are fundamental and they may be changed without stockholder approval.

### ***Qualifying Assets***

Under the 1940 Act, a BDC may not acquire any asset other than assets of the type listed in Section 55(a) of the 1940 Act, which are referred to as qualifying assets, unless, at the time the acquisition is made, qualifying assets represent at least 70% of the BDC's total assets. The principal categories of qualifying assets relevant to our business are the following:

- (1) Securities purchased in transactions not involving any public offering from the issuer of such securities, which issuer (subject to certain limited exceptions) is an eligible portfolio company, or from any person who is, or has been during the preceding 13 months, an affiliated person of an eligible portfolio company, or from any other person, subject to such rules as may be prescribed by the SEC. An eligible portfolio company is defined under the 1940 Act to include any issuer which:
  - (a) is organized under the laws of, and has its principal place of business in, the United States;
  - (b) is not an investment company (other than a small business investment company wholly-owned by the BDC) or a company that would be an investment company but is excluded from the definition of an investment company by Section 3(c) of the 1940 Act; and
  - (c) satisfies any of the following:
    - (i) does not have any class of securities listed on a national securities exchange;
    - (ii) has any class of securities listed on a national securities exchange subject to a maximum market capitalization of \$250.0 million; or
    - (iii) is controlled by a BDC, either alone or as part of a group acting together, and such BDC in fact exercises a controlling influence over the management or policies of such eligible portfolio company and, as a result of such control, has an affiliated person who is a director of such eligible portfolio company.

- (2) Securities of any eligible portfolio company which we control.
- (3) Securities purchased in a private transaction from a U.S. operating company or from an affiliated person of the issuer, or in transactions incidental thereto, if such issuer is in bankruptcy and subject to reorganization or if the issuer, immediately prior to the purchase of its securities was unable to meet its obligations as they came due without material assistance other than conventional lending or financing arrangements.
- (4) Securities of an eligible portfolio company purchased from any person in a private transaction if there is no ready market for such securities and we already own 60% of the outstanding equity of the eligible portfolio company.
- (5) Securities received in exchange for or distributed on or with respect to securities described in (1) through (4) above, or pursuant to the exercise of warrants or rights relating to such securities.
- (6) Cash, cash equivalents, U.S. government securities or high-quality debt securities maturing in one year or less from the time of investment.

In addition, a BDC must have been organized and have its principal place of business in the United States and must be operated for the purpose of making investments in the types of securities described in (1), (2) or (3) above.

#### ***Managerial Assistance to Portfolio Companies***

As a BDC, we are required to make available significant managerial assistance to our portfolio companies that constitute a qualifying asset within the meaning of Section 2(a)(47) of the 1940 Act. However, if a BDC purchases securities in conjunction with one or more other persons acting together, one of the other persons in the group may make available such significant managerial assistance. Making available significant managerial assistance means any arrangement whereby the BDC, through its directors, officers or employees, offers to provide, and, if accepted, does provide, significant guidance and counsel concerning the management, operations or business objectives and policies of a portfolio company. Our Administrator may provide such assistance on our behalf to portfolio companies that request such assistance. Officers of our Investment Adviser and Administrator may provide assistance to controlled affiliates.

#### ***Temporary Investments***

Pending investments in other types of qualifying assets, as described above, may consist of cash, cash equivalents, U.S. government securities or high-quality debt securities maturing in one year or less from the time of investment, which we refer to, collectively, as temporary investments, so that 70% of our assets are qualifying assets. We may invest in U.S. Treasury bills or in repurchase agreements, provided that such agreements are fully collateralized by cash or securities issued by the U.S. government or its agencies. A repurchase agreement involves the purchase by an investor, such as us, of a specified security and the simultaneous agreement by the seller to repurchase it at an agreed-upon future date and at a price which is greater than the purchase price by an amount that reflects an agreed-upon interest rate. There is no percentage restriction on the proportion of our assets that may be invested in such repurchase agreements. However, if more than 25% of our total assets constitute repurchase agreements from a single counterparty, we would not meet the Diversification Tests, as defined below under "Regulation—Election to be Treated as a RIC," in order to qualify as a RIC for federal income tax purposes. Thus, we do not intend to enter into repurchase agreements with a single counterparty in excess of this limit. Our Investment Adviser will monitor the creditworthiness of the counterparties with which we may enter into repurchase agreement transactions.

#### ***Senior Securities***

We are permitted, under specified conditions, to issue multiple classes of indebtedness and one class of stock senior to our common stock if our asset coverage, as defined in the 1940 Act and referred to as the asset coverage ratio, is compliant with the 1940 Act, immediately after each such issuance. In addition, while any senior securities remain outstanding, we must make provisions to prohibit any distribution to our stockholders or the repurchase of such securities or shares unless we meet the applicable asset coverage requirement at the time of the distribution or repurchase. We may also borrow amounts up to 5% of the value of our total assets for temporary or emergency purposes without regard to our asset coverage ratio. For a discussion of the risks associated with leverage, see "Risk Factors—Risks Relating to our Business and Structure—Regulations governing our operation as a BDC will affect our ability to, and the way in which we, raise additional capital" for more information.

#### ***Joint Code of Ethics and Code of Conduct***

We and PennantPark Investment Advisers have adopted a joint code of ethics pursuant to Rule 17j-1 under the 1940 Act and a code of conduct that establish procedures for personal investments and restricts certain personal securities transactions. Personnel subject to each code may invest in securities for their personal investment accounts, including securities that may be purchased or held by us, so long as such investments are made in accordance with the codes' requirements. Our joint code of ethics and code of conduct are available, free of charge, on our website at [www.pennantpark.com](http://www.pennantpark.com). In addition, the joint code of ethics is attached as an exhibit to this Report and is available on the EDGAR Database on the SEC's Internet site at [www.sec.gov](http://www.sec.gov). You may also obtain a copy of our joint code of ethics, after paying a duplicating fee, by electronic request at the following email address: [publicinfo@sec.gov](mailto:publicinfo@sec.gov).

#### ***Proxy Voting Policies and Procedures***

We have delegated our proxy voting responsibility to our Investment Adviser. The Proxy Voting Policies and Procedures of our Investment Adviser are set forth below. The guidelines are reviewed periodically by our Investment Adviser and our non-interested directors, and, accordingly, are subject to change. For purposes of these Proxy Voting Policies and Procedures described below, "we," "our" and "us" refer to our Investment Adviser.

##### ***Introduction***

As an investment adviser registered under the Advisers Act, we have a fiduciary duty to act solely in the best interests of our clients. As part of this duty, we recognize that we must vote client securities in a timely manner free of conflicts of interest and in the best interests of our clients.

These policies and procedures for voting proxies for our investment advisory clients are intended to comply with Section 206 of, and Rule 206(4)-6 under, the Advisers Act.

##### ***Proxy Policies***

We vote proxies relating to our portfolio securities in what we perceive to be the best interests of our stockholders. We review on a case-by-case basis each proposal submitted to a stockholder vote to determine its impact on the portfolio securities held by our clients. Although we will generally vote against proposals that may have a negative impact on our clients' portfolio securities, we may vote for such a proposal if there exists compelling long-term reasons to do so.

Our proxy voting decisions are made by the senior investment professionals who are responsible for monitoring each of our clients' investments. To ensure that our vote is not the product of a conflict of interest, we require that: (1) anyone involved in the decision making process disclose to our Chief Compliance Officer any potential conflict that he or she is aware of and any contact that he or she has had with any interested party regarding a proxy vote; and (2) employees involved in the decision making process or vote administration are prohibited from revealing how we intend to vote on a proposal in order to reduce any attempted influence from interested parties.

### *Proxy Voting Records*

You may obtain information about how we voted proxies, free of charge, by calling us collect at (212) 905-1000 or by making a written request for proxy voting information to: Aviv Efrat, Chief Financial Officer and Treasurer, 590 Madison Avenue, 15th Floor, New York, New York 10022.

### **Privacy Protection Principles**

We are committed to maintaining the privacy of our stockholders and to safeguarding their non-public personal information. The following information is provided to help you understand what personal information we collect, how we protect that information and why, in certain cases, we may share information with select other parties.

Generally, we do not receive any non-public personal information relating to our stockholders, although certain non-public personal information of our stockholders may become available to us. We do not disclose any non-public personal information about our stockholders or former stockholders to anyone, except as permitted by law or as is necessary in order to service stockholder accounts (for example, to a transfer agent or third party administrator).

We restrict access to non-public personal information about our stockholders to employees of our Investment Adviser and its affiliates with a legitimate business need for the information. We maintain physical, electronic and procedural safeguards designed to protect the non-public personal information of our stockholders.

Our privacy protection policies are available, free of charge, on our website at [www.pennantpark.com](http://www.pennantpark.com). In addition, the privacy policy is available on the EDGAR Database on the SEC's Internet site at [www.sec.gov](http://www.sec.gov), filed as an exhibit to our annual report on Form 10-K (File No. 814-00891 filed on November 17, 2011).

### **Other**

We may also be prohibited under the 1940 Act from knowingly participating in certain transactions with our affiliates without the prior approval of our board of directors, including a majority of our directors who are not interested persons of us, and, in some cases, prior approval by the SEC.

We will be periodically examined by the SEC for compliance with the 1940 Act.

We are required by law to provide and maintain a bond issued by a reputable fidelity insurance company to protect us against larceny and embezzlement. Furthermore, as a BDC, we are prohibited from protecting any director or officer against any liability to us or our stockholders arising from willful misfeasance, bad faith, gross negligence or reckless disregard of the duties involved in the conduct of such person's office.

We and PennantPark Investment Advisers have each adopted and implemented written policies and procedures reasonably designed to prevent violation of the federal securities laws. We review these policies and procedures annually for their adequacy and the effectiveness of their implementation, and we designate a Chief Compliance Officer to be responsible for administering the policies and procedures.

### **Sarbanes-Oxley Act of 2002**

The Sarbanes-Oxley Act of 2002, as amended, or the Sarbanes-Oxley Act, imposes several regulatory requirements on publicly held companies and their insiders. Many of these requirements affect us.

For example:

- pursuant to Rule 13a-14 of the Securities Exchange Act of 1934, as amended, or the Exchange Act, our Chief Executive Officer and Chief Financial Officer must certify the accuracy of the financial statements contained in our periodic reports;
- pursuant to Item 307 of Regulation S-K, our periodic reports must disclose our conclusions about the effectiveness of our disclosure controls and procedures;
- pursuant to Rule 13a-15 of the Exchange Act, our management must prepare an annual report regarding its assessment of our internal controls over financial reporting; and
- pursuant to Item 308 of Regulation S-K and Rule 13a-15 of the Exchange Act, our periodic reports must disclose whether there were significant changes in our internal controls over financial reporting or in other factors that could significantly affect these controls subsequent to the date of their evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

The Sarbanes-Oxley Act requires us to review our current policies and procedures to determine whether we comply with the Sarbanes-Oxley Act and the regulations promulgated thereunder. We continue to monitor our compliance with all regulations that are adopted under the Sarbanes-Oxley Act and continue to take actions necessary to ensure that we are in compliance with that act.

### **Election to be Treated as a RIC**

We have elected to be treated, and intend to qualify annually to maintain our election to be treated, as a RIC under Subchapter M of the Code. To maintain our RIC tax election, we must, among other requirements, meet certain annual source-of-income and quarterly asset diversification requirements (as described below). We also must annually distribute dividends for U.S. federal income tax purposes to our stockholders of an amount generally at least equal to 90% of the sum of our ordinary income and realized net short-term capital gains in excess of realized net long-term capital losses, or investment company taxable income, and determined without regard to any deduction for dividends paid, out of the assets legally available for distribution, or the Annual Distribution Requirement.

In order to qualify as a RIC for federal income tax purposes, we must:

- maintain an election to be treated as a BDC under the 1940 Act at all times during each taxable year;
- derive in each taxable year at least 90% of our gross income from dividends, interest, payments with respect to certain securities loans, gains from the sale of stock or other securities, net income from certain qualified publicly traded partnerships or other income derived with respect to our business of investing in such stock or securities, or the 90% Income Test; and

• diversify our holdings, or the Diversification Tests, so that at the end of each quarter of the taxable year:

- 1) at least 50% of the value of our assets consists of cash, cash equivalents, U.S. government securities, securities of other RICs, and other securities if such other securities of any one issuer neither represents more than 5% of the value of our assets nor more than 10% of the outstanding voting securities of the issuer; and
- 2) no more than 25% of the value of our assets is invested in the securities, other than U.S. government securities or securities of other RICs, of one issuer or of two or more issuers that are controlled, as determined under applicable tax rules, by us and that are engaged in the same or similar or related trades or businesses or in certain qualified publicly traded partnerships.

Although not required for us to maintain our RIC tax status, in order to preclude the imposition of a 4% nondeductible federal excise tax imposed on RICs, we must distribute dividends for U.S. federal income tax purposes to our stockholders in respect of each calendar year of an amount at least equal to the sum of (1) 98% of our net ordinary income (subject to certain deferrals and elections) for the calendar year, (2) 98.2% of the excess, if any, of our capital gains over our capital losses, or capital gain net income (adjusted for certain ordinary losses) for the one-year period ending on October 31 of the calendar year plus (3) the sum of any net ordinary income plus capital gain net income for preceding years that was not distributed during such years and on which we did not incur any federal income tax, or the Excise Tax Avoidance Requirement. In addition, although we may distribute realized net capital gains (i.e., net long-term capital gains in excess of net short-term capital losses), if any, at least annually, out of the assets legally available for such distributions in the manner described above, we have retained and may continue to retain such net capital gains or investment company taxable income, subject to maintaining our ability to be taxed as a RIC, in order to provide us with additional liquidity.

While we intend to make sufficient distributions each taxable year to avoid incurring any material U.S. federal excise tax on our earnings, we may not be able to, or may choose not to, distribute amounts sufficient to avoid the imposition of the tax entirely. In that event, we generally will be liable for the excise tax only on the amount by which we do not meet the Excise Tax Avoidance Requirement. Under certain circumstances, however, we may, in our sole discretion, determine that it is in our best interests to retain a portion of our income or capital gains rather than distribute such amount as dividends and accordingly cause us to bear the excise tax burden associated therewith.

We may invest in partnerships which may result in our being subject to additional state, local or foreign income, franchise or other tax liabilities. In addition, some of the income and fees that we may recognize will not satisfy the 90% Income Test. In order to mitigate the risk that such income and fees would disqualify us as a RIC as a result of a failure to satisfy the 90% Income Test, we may be required to recognize such income and fees indirectly through the Taxable Subsidiary, which is classified as a corporation for U.S. federal income tax purposes. The Taxable Subsidiary generally will be subject to corporate income taxes on its earnings, which ultimately will reduce our return on such income and fees.

#### **Taxation as a RIC**

If we qualify as a RIC, and satisfy the Annual Distribution Requirement, then we will not be subject to federal income tax on the portion of our investment company taxable income and net capital gains, determined without regard to any deduction for dividends paid, we distribute (or are deemed to distribute) as dividends for U.S. federal income tax purposes to stockholders. Additionally, upon satisfying these requirements, we will be subject to U.S. federal income tax at the regular corporate rates on any investment company taxable income or net capital gains, determined without regard to any deduction for dividends paid, that is not distributed (or not deemed to have been distributed) as dividends for U.S. federal income tax purposes to our stockholders.

We may be required to recognize taxable income in circumstances in which we do not receive cash. For example, if we hold a debt instrument that is treated under applicable tax rules as having OID (such as debt instruments with PIK interest or, in certain cases, increasing interest rates or issued with warrants), we must include in income each taxable year a portion of the OID that accrues over the life of the debt instrument, regardless of whether cash representing such income is received by us in the same taxable year. Because any OID accrued will be included in our investment company taxable income in the taxable year of accrual, we may be required to make a distribution to our stockholders in order to satisfy the Annual Distribution Requirement, even though we will not have received any corresponding cash amount.

We invest in below investment grade instruments. Investments in these types of instruments may present special tax issues for us. U.S. federal income tax rules are not entirely clear about issues such as when we may cease to accrue interest, OID or market discount, when and to what extent deductions may be taken for bad debts or worthless debt instruments, how payments received on obligations in default should be allocated between principal and income and whether exchanges of debt instruments in a bankruptcy or workout context are taxable. We will address these and other issues to the extent necessary in order to continue to maintain our qualification to be subject to tax as a RIC.

Gain or loss realized by us from equity securities and warrants acquired by us, as well as any loss attributable to the lapse of such warrants, generally will be treated as capital gain or loss. Such gain or loss generally will be long-term or short-term, depending on how long we held a particular warrant.

We are authorized to borrow funds and to sell assets in order to satisfy our Annual Distribution Requirement or the Excise Tax Avoidance Requirement. However, under the 1940 Act, we are not permitted to make distributions to our stockholders while our debt instruments and other senior securities are outstanding unless certain asset coverage requirements are met. Moreover, our ability to dispose of assets to meet our distribution requirements may be limited by (1) the illiquid nature of our portfolio and/or (2) other requirements relating to our status as a RIC, including the Diversification Tests. If we dispose of assets in order to meet the Annual Distribution Requirement or the Excise Tax Avoidance Requirement, we may make such dispositions at times that, from an investment standpoint, are not advantageous.

We may distribute our common stock as a dividend from our taxable income and a stockholder could receive a portion of such distributions declared and distributed by us in shares of our common stock with the remaining amount in cash. A stockholder will be considered to have recognized dividend income generally equal to the fair market value of the stock paid by us plus cash received with respect to such dividend. The total dividend declared and distributed by us would be taxable income to a stockholder even though only a small portion of the dividend was paid in cash to pay any taxes due on the total dividend. We have not yet elected to distribute stock as a dividend but reserve the right to do so.

#### **Failure to Qualify as a RIC**

If we fail to satisfy the Annual Distribution Requirement or fail to qualify as a RIC in any taxable year, unless certain cure provisions of the Code apply, we will be subject to tax in that taxable year on all of our taxable income at regular corporate rates, regardless of whether we make any dividend distributions to our stockholders. In that case, all of our income will be subject to corporate-level federal income tax, reducing the amount available to be distributed to our stockholders. In contrast, assuming we qualify as a RIC, our corporate-level federal income tax should be substantially reduced or eliminated. See "Election to be Treated as a RIC" above for more information.

If we are unable to maintain our status as a RIC, we also would not be able to deduct distributions to stockholders, nor would distributions be required to be made. Distributions would generally be taxable as dividends to our stockholders as ordinary dividend income to the extent of our current and accumulated earnings and profits. Subject to certain limitations under the Code, U.S. non-corporate stockholders generally would be eligible to treat such dividends as "qualified dividend income," which generally would be subject to reduced rates of U.S. federal income tax, and dividends paid by us to certain U.S. corporate stockholders would be eligible for the dividends received deduction. Distributions in excess of our current and accumulated earnings and profits would be treated first as a return of capital to the extent of the stockholder's tax basis in our common stock, and any remaining distributions would be treated as a capital gain. Moreover, if we fail to qualify as a RIC in any taxable year, to qualify again to be treated as a RIC for federal income tax purposes in a subsequent taxable year, we would be required to distribute our earnings and profits attributable to any of our non-RIC taxable years as dividends to our stockholders. In addition, if we fail to qualify as a RIC for a period greater than two consecutive taxable years, to qualify as a RIC in a subsequent taxable year we may be subject to regular corporate tax on any net built-in gains with respect to certain of our assets (that is, the excess of the aggregate gains, including items of income, over aggregate losses that would have been realized with respect to such assets if we had sold the property at fair market value at the end of the taxable year) that we elect to recognize on requalification or when recognized over the next five taxable years.

## Item 1A. Risk Factors

Before you invest in our securities, you should be aware of various risks, including those described below. You should carefully consider these risk factors, together with all of the other information included in this Report, before you decide whether to make an investment in our securities. The risks set out below are not the only risks we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may have a material adverse effect on our business, financial condition and/or operating results. If any of the following events occur, our business, financial condition and results of operations could be materially adversely affected. In such case, our NAV, the trading price of our common stock, our 2023 Notes or any securities we may issue, may decline, and you may lose all or part of your investment.

### RISKS RELATING TO OUR BUSINESS AND STRUCTURE

**Global capital markets could enter a period of severe disruption and instability. These market conditions have historically and could again have a materially adverse effect on debt and equity capital markets in the United States, which could have a materially negative impact on our business, financial condition and results of operations.**

The U.S. and global capital markets have, from time to time, experienced periods of disruption characterized by the freezing of available credit, a lack of liquidity in the debt capital markets, significant losses in the principal value of investments, the re-pricing of credit risk in the broadly syndicated credit market, the failure of major financial institutions and general volatility in the financial markets. During these periods of disruption, general economic conditions deteriorated with material and adverse consequences for the broader financial and credit markets, and the availability of debt and equity capital for the market as a whole, and financial services firms in particular, was reduced significantly. These conditions may reoccur for a prolonged period of time or materially worsen in the future. In addition, continuing uncertainty arising from the United Kingdom's decision to leave the European Union (the so called "Brexit") could lead to further market disruptions and currency volatility, potentially weakening consumer, corporate and financial confidence and resulting in lower economic growth for companies that rely significantly on Europe for their business activities and revenues. Furthermore, uncertainty between the United States and other countries with respect to trade policies, treaties and tariffs, among other factors, have caused disruptions in the global markets, including markets in which we participate, and we cannot assure you that these market conditions will not continue or worsen in the future. We may in the future have difficulty accessing debt and equity capital markets, and a severe disruption in the global financial markets, deterioration in credit and financing conditions or uncertainty regarding U.S. government spending and deficit levels, Brexit or other global economic conditions could have a material adverse effect on our business, financial condition and results of operations.

**Volatility or a prolonged disruption in the credit markets could materially damage our business.**

We are required to record our assets at fair value, as determined in good faith by our board of directors, in accordance with our valuation policy. As a result, volatility in the capital markets may have a material adverse effect on our valuations and our NAV, even if we hold investments to maturity. Volatility or dislocation in the capital markets may depress our stock price below our NAV per share and create a challenging environment in which to raise equity and debt capital. As a BDC, we are generally not able to issue additional shares of our common stock at a price less than our NAV without first obtaining approval for such issuance from our stockholders and our independent directors. Additionally, our ability to incur indebtedness is limited by the asset coverage ratio requirements for a BDC, as defined under the 1940 Act. Declining portfolio values negatively impact our ability to borrow additional funds under our Credit Facility because our NAV is reduced for purposes of the asset coverage ratio. If the fair value of our assets declines substantially, we may fail to maintain the asset coverage ratio stipulated by the 1940 Act, which could, in turn, cause us to lose our status as a BDC and materially impair our business operations. A lengthy disruption in the credit markets could also materially decrease demand for our investments and could materially damage our business, financial condition and results of operations.

The significant disruptions in the capital markets experienced in the past has had, and may in the future have, a negative effect on the valuations of our investments and on the potential for liquidity events involving our investments. The debt capital that may be available to us in the future may be at a higher cost and have less favorable terms and conditions than those currently in effect. If our financing costs increase and we have no increase in interest income, then our net investment income will decrease. A prolonged inability to raise capital may require us to reduce the volume of investments we originate and could have a material adverse impact on our business, financial condition and results of operations. This may also increase the probability that other structural risks negatively impact us. These situations may arise due to circumstances that we may be unable to control, such as a lengthy disruption in the credit markets, a severe decline in the value of the U.S. dollar, a sharp economic downturn or recession or an operational problem that affects third parties or us, and could materially damage our business, financial condition and results of operations.

**Economic sanction laws in the United States and other jurisdictions may prohibit us and our affiliates from transacting with certain countries, individuals and companies.**

Economic sanction laws in the United States and other jurisdictions may prohibit us or our affiliates from transacting with certain countries, individuals and companies. In the United States, the U.S. Department of the Treasury's Office of Foreign Assets Control administers and enforces laws, executive orders and regulations establishing U.S. economic and trade sanctions, which prohibit, among other things, transactions with, and the provision of services to, certain non-U.S. countries, territories, entities and individuals. These types of sanctions may significantly restrict or completely prohibit investment activities in certain jurisdictions, and if we, our portfolio companies or other issuers in which we invest were to violate any such laws or regulations, we may face significant legal and monetary penalties.

The Foreign Corrupt Practices Act, or FCPA, and other anti-corruption laws and regulations, as well as anti-boycott regulations, may also apply to and restrict our activities, our portfolio companies and other issuers of our investments. If an issuer or we were to violate any such laws or regulations, such issuer or we may face significant legal and monetary penalties. The U.S. government has indicated that it is particularly focused on FCPA enforcement, which may increase the risk that an issuer or us becomes the subject of such actual or threatened enforcement. In addition, certain commentators have suggested that private investment firms and the funds that they manage may face increased scrutiny and/or liability with respect to the activities of their underlying portfolio companies. As such, a violation of the FCPA or other applicable regulations by us or an issuer of our portfolio investments could have a material adverse effect on us. We are committed to complying with the FCPA and other anti-corruption laws and regulations, as well as anti-boycott regulations, to which it is subject. As a result, we may be adversely affected because of our unwillingness to enter into transactions that violate any such laws or regulations.

**We could be subject to reduced availability and/or mandatory prepayments under Funding I's Credit Facility, our 2023 Notes, and our 2031 Asset-Backed Debt.**

In addition to the asset coverage ratio requirements, our Credit Facility contains various covenants applicable to Funding I, which restricts our ability to borrow funds, and the deed of trust governing our 2023 Notes and the indenture governing our 2031 Asset-Backed Debt contain various covenants which, if not complied with, could accelerate repayment of the 2023 Notes and the 2031 Asset-Backed Debt, respectively. For example, the Credit Facility's income coverage covenant, or test, requires us to maintain a ratio whereby the aggregate amount of interest received on the portfolio loans must equal at least 125% of the interest payable in respect to the Lenders and other parties. Failure to satisfy the various covenants under the Credit Facility could accelerate repayment under the Credit Facility or otherwise prevent us from receiving distributions under the payment waterfall. This could materially and adversely affect our liquidity, financial condition and results of operations. Funding I's borrowings under the Credit Facility are collateralized by the assets in Funding I's investment portfolio. The agreements governing the Credit Facility require Funding I to comply with certain financial and operational covenants. These covenants include:

- A requirement to retain our status as a RIC;
- A requirement to maintain a minimum amount of stockholder's equity; and
- A requirement that our outstanding borrowings under the Credit Facility not exceed a certain percentage of the value of our portfolio.

Our continued compliance with these covenants depends on many factors, some of which are beyond our control. A material decrease in our NAV in connection with additional borrowings could result in an inability to comply with our obligation to restrict the level of indebtedness that we are able to incur in relation to the value of our assets or to maintain a minimum level of stockholders' equity in Funding I or to result in the ability of the trustee and our note holders to accelerate amounts due under the deed of trust governing our 2023 Notes or the indenture governing our 2031 Asset-Backed Debt. This could have a material adverse effect on our operations, as it would reduce availability under the Credit Facility and could trigger mandatory prepayment obligations under the terms of the Credit Facility.

***We operate in a highly competitive market for investment opportunities.***

A number of entities compete with us to make the types of investments that we make in middle-market companies. We compete with public and private funds, including other BDCs, commercial and investment banks, commercial financing companies, CLO funds and, to the extent they provide an alternative form of financing, private equity funds. Additionally, alternative investment vehicles, such as hedge funds, also invest in middle-market companies. As a result, competition for investment opportunities at middle-market companies can be intense. Many of our potential competitors are substantially larger and have considerably greater financial, technical and marketing resources than we do. For example, we believe some competitors have a lower cost of funds and access to funding sources that are not available to us. In addition, some of our competitors have higher risk tolerances or different risk assessments, which could allow them to consider a wider variety of investments and establish more relationships than us. Furthermore, many of our competitors are not subject to the regulatory restrictions that the 1940 Act imposes on us as a BDC. We cannot assure you that the competitive pressures we face will not have a material adverse effect on our business, financial condition and results of operations. Also, as a result of this competition, we may not be able to take advantage of attractive investment opportunities from time to time, and we can offer no assurance that we will be able to identify and make investments that are consistent with our investment objectives.

Participants in our industry compete on several factors, including price, flexibility in transaction structuring, customer service, reputation, market knowledge and speed in decision-making. We do not seek to compete primarily based on the interest rates we offer, and we believe that some of our competitors may make loans with interest rates that are lower than the rates we offer. We may lose investment opportunities if we do not match our competitors' pricing, terms and structure. However, if we match our competitors' pricing, terms and structure, we may experience decreased net interest income and increased risk of credit loss.

***Our borrowers may default on their payments, which may have a materially negative effect on our financial performance.***

Our primary business exposes us to credit risk, and the quality of our portfolio has a significant impact on our earnings. Credit risk is a component of our fair valuation of our portfolio companies. Negative credit events will lead to a decrease in the fair value of our portfolio companies.

In addition, market conditions have affected consumer confidence levels, which may harm the business of our portfolio companies and result in adverse changes in payment patterns. Increased delinquencies and default rates would negatively impact our results of operations. Deterioration in the credit quality of our portfolio could have a material adverse effect on our business, financial condition and results of operations. If interest rates rise, some of our portfolio companies may not be able to pay the escalating interest on our loans and may default.

We make long-term loans and debt investments, which may involve a high degree of repayment risk. Our investments with a deferred interest feature, such as OID income and PIK interest, could represent a higher credit risk than investments that must pay interest in full in cash on a regular basis. We invest in companies that may have limited financial resources, typically are highly leveraged and may be unable to obtain financing from traditional sources. Accordingly, a general economic downturn or severe tightening in the credit markets could materially impact the ability of our borrowers to repay their loans, which could significantly damage our business. Numerous other factors may affect a borrower's ability to repay its loan, including the failure to meet its business plan or a downturn in its industry. A portfolio company's failure to satisfy financial or operating covenants imposed by us or other lenders could lead to defaults and, potentially, termination of its loans or foreclosure on the secured assets. This could trigger cross-defaults under other agreements and jeopardize our portfolio company's ability to meet its obligations under the loans or debt securities that we hold. In addition, our portfolio companies may have, or may be permitted to incur, other debt that ranks senior to or equally with our securities. This means that payments on such senior-ranking securities may have to be made before we receive any payments on our subordinated loans or debt securities. Deterioration in a borrower's financial condition and prospects may be accompanied by deterioration in any related collateral and may have a material adverse effect on our financial condition and results of operations.

***Any unrealized losses we experience on our investment portfolio may be an indication of future realized losses, which could reduce our income available for distribution.***

As a BDC, we are required to carry our investments at fair value, which is derived from a market value or, if no market value is ascertainable or if market value does not reflect the fair value of such investment in the bona fide determination of our board of directors, then we would carry our investments at fair value as determined in good faith by or under the direction of our board of directors. Decreases in the market values or fair values of our investments are recorded as unrealized depreciation or loss. Unrealized losses of any given portfolio company could be an indication of such company's inability in the future to meet its repayment obligations to us.

If the fair value of our portfolio companies reflects unrealized losses that are subsequently realized, we could experience reductions of our income available for distribution in future periods that could materially harm our results of operations and cause a material decline in the value of our publicly traded common stock.

***We may be the target of litigation.***

We may be the target of securities litigation in the future, particularly if the trading price of our common stock and our 2023 Notes fluctuates significantly. We could also generally be subject to litigation, including derivative actions by our stockholders. Any litigation could result in substantial costs and divert management's attention and resources from our business and cause a material adverse effect on our business, financial condition and results of operations.

***We are dependent upon our Investment Adviser's key personnel for our future success, and if our Investment Adviser is unable to hire and retain qualified personnel or if our Investment Adviser loses any member of its management team, our ability to achieve our investment objectives could be significantly harmed.***

We depend on the diligence, skill and network of business contacts of the senior investment professionals of our Investment Adviser for our future success. We also depend, to a significant extent, on PennantPark Investment Advisers' access to the investment information and deal flow generated by these senior investment professionals and any others that may be hired by PennantPark Investment Advisers. Subject to the overall supervision of our board of directors, the managers of our Investment Adviser evaluate, negotiate, structure, close and monitor our investments. Our future success depends on the continued service of management personnel of our Investment Adviser. The departure of managers of PennantPark Investment Advisers could have a material adverse effect on our ability to achieve our investment objectives. In addition, we can offer no assurance that PennantPark Investment Advisers will remain our Investment Adviser. The Investment Adviser has the right, under the Investment Management Agreement, to resign at any time upon 60 days' written notice, whether we have found a replacement or not.

If our Investment Management Agreement is terminated, our costs under new agreements that we enter into may increase. In addition, we will likely incur significant time and expense in locating alternative parties to provide the services we expect to receive under our Investment Management Agreement. Any new investment management agreement would also be subject to approval by our stockholders.

***We are exposed to risks associated with changes in interest rates that may affect our cost of capital and net investment income.***

Since we borrow money to make investments, our net investment income depends, in part, upon the difference between the rate at which we borrow funds and the rate at which we invest those funds. As a result, we can offer no assurance that a significant change in market interest rates will not have a material adverse effect on our net investment income. In periods of rising interest rates, our cost of funds will increase and the interest rate on investments with an interest rate floor will not increase until interest rates exceed the applicable floor, which will reduce our net investment income. We may use interest rate risk management techniques, such as total return swaps and interest rate swaps, in an effort to limit our exposure to interest rate fluctuations. These techniques may include various interest rate hedging activities to the extent permitted by the 1940 Act and applicable commodities laws. These activities may limit our ability to participate in the benefits of lower interest rates with respect to the hedged portfolio. Adverse developments resulting from changes in interest rates or hedging transactions could have a material adverse effect on our business, financial condition and results of operations. Also, we have limited experience in entering into hedging transactions and we will initially have to purchase or develop such expertise, which may diminish the actual benefits of any hedging strategy we employ. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Quantitative and Qualitative Disclosures about Market Risk” for more information.

A rise in the general level of interest rates can be expected to lead to higher interest rates applicable to our debt investments once the interest rate exceeds the applicable floor. Accordingly, an increase in interest rates would make it easier for us to meet or exceed the incentive fee hurdle and may result in a substantial increase of the amount of incentive fees payable to our Investment Adviser with respect to Pre-Incentive Fee Net Investment Income.

General interest rate fluctuations may have a substantial negative impact on our investments, the value of our common stock and our rate of return on invested capital. A reduction in interest rates may result in both lower interest rates on new investments and higher repayments on current investments with higher interest rates, which may have an adverse impact on our net investment income. An increase in interest rates could decrease the value of any investments we hold which earn fixed interest rates or are subject to interest rate floors and also could increase our interest expense on our Credit Facility, thereby decreasing our net investment income. Also, an increase in interest rates available to investors could make an investment in our common stock less attractive if we are not able to increase our dividend rate, which could reduce the value of our common stock.

If general interest rates rise, there is a risk that the portfolio companies in which we hold floating rate securities will be unable to pay escalating interest amounts, which could result in a default under their loan documents with us. Rising interest rates could also cause portfolio companies to shift cash from other productive uses to the payment of interest, which may have a material adverse effect on their business and operations and could, over time, lead to increased defaults. In addition, rising interest rates may increase pressure on us to provide fixed rate loans to our portfolio companies, which could adversely affect our net investment income, as increases in our cost of borrowed funds would not be accompanied by increased interest income from such fixed-rate investments.

In July 2017, the head of the United Kingdom Financial Conduct Authority announced the desire to phase out the use of LIBOR by the end of 2021. Because the statements made by the head of the United Kingdom Financial Conduct Authority are recent in nature, there is no definitive information regarding the future utilization of LIBOR or of any particular replacement rate. As such, the potential effect of any such event on our cost of capital and net investment income cannot yet be determined. If LIBOR ceases to exist, we may need to renegotiate any credit or similar agreements extending beyond 2021 with our portfolio companies that utilize LIBOR as a factor in determining the interest rate and our Credit Facility to replace LIBOR with the new standard that is established. If the agreements with our portfolio companies are unable to be renegotiated, our investments may bear interest at a lower rate, which would decrease investment income and potentially the value of such investments. If we are unable to renegotiate our Credit Facility, amounts drawn under our Credit Facility may bear interest at a higher rate, which would increase the cost of our borrowings and, in turn, affect our results of operations.

***Our financial condition and results of operation depend on our ability to manage future growth effectively.***

Our ability to achieve our investment objectives depends on our ability to grow, which depends, in turn, on our Investment Adviser’s ability to identify, invest in and monitor companies that meet our investment selection criteria. Accomplishing this result on a cost-effective basis is largely a function of our Investment Adviser’s structuring of the investment process, its ability to provide competent, attentive and efficient services to us and our access to financing on acceptable terms. The management team of PennantPark Investment Advisers has substantial responsibilities under our Investment Management Agreement. In order for us to grow, our Investment Adviser will need to hire, train, supervise and manage new employees. However, we can offer no assurance that any current or future employees will contribute effectively to the work of, or remain associated with, the Investment Adviser. We caution you that the principals of our Investment Adviser or Administrator may also be called upon to provide and currently do provide significant managerial assistance to portfolio companies and other investment vehicles, including other BDCs, which are managed by the Investment Adviser. Such demands on their time may distract them or slow our rate of investment. Any failure to manage our future growth effectively could have a material adverse effect on our business, financial condition and results of operations.

***We are highly dependent on information systems and systems failures could have a material adverse effect on our business, financial condition and results of operations.***

Our business depends on the communications and information systems, including financial and accounting systems, of the Investment Adviser, the Administrator and our sub-administrator. Any failure or interruption of such systems could cause delays or other problems in our activities. This, in turn, could have a material adverse effect on our business, financial condition and results of operations.

***We may not replicate the historical performance of other investment companies and funds with which our senior and other investment professionals have been affiliated.***

The 1940 Act imposes numerous constraints on the investment activities of BDCs. For example, BDCs are required to invest at least 70% of their total assets primarily in securities of U.S. private companies or thinly traded public companies (public companies with a market capitalization of less than \$250 million), cash, cash equivalents, U.S. government securities and high-quality debt investments that mature in one year or less. These constraints may hinder the Investment Adviser’s ability to take advantage of attractive investment opportunities and to achieve our investment objectives. In addition, the investment philosophy and techniques used by the Investment Adviser may differ from those used by other investment companies and funds advised by the Investment Adviser. Accordingly, we can offer no assurance that we will replicate the historical performance of other investment companies and funds with which our senior and other investment professionals have been affiliated, and we caution that our investment returns could be substantially lower than the returns achieved by such other companies.

***Any failure on our part to maintain our status as a BDC would reduce our operating flexibility.***

If we do not remain a BDC, we might be regulated as a closed-end investment company under the 1940 Act, which would subject us to substantially more regulatory restrictions under the 1940 Act and correspondingly decrease our operating flexibility, which could have a material adverse effect on our business, financial condition and results of operations.

***Loss of RIC tax status would substantially reduce our net assets and income available for debt service and distributions.***

We have operated and continue to operate so as to maintain our election to be treated as a RIC under Subchapter M of the Code. If we meet the 90% Income Test, the Diversification Tests, and the Annual Distribution Requirement, we generally will not be subject to corporate-level income taxation on income we timely distribute, or deem to distribute, as dividends for U.S. federal income tax purposes to our stockholders. We would cease to qualify for such tax treatment if we were unable to comply with these requirements. In addition, we may have difficulty meeting our Annual Distribution Requirement to our stockholders because, in certain cases, we may recognize income before or without receiving cash representing such income. If we fail to qualify as a RIC, we will have to pay corporate-level taxes on all of our income whether or not we distribute it, which would substantially reduce the amount of income available for debt service as well as reduce and/or affect the character and amount of our distributions to our stockholders. Even if we qualify as a RIC, we generally will be subject to a 4% nondeductible excise tax if we do not distribute to our stockholders in respect of each calendar year of an amount at least equal to the Excise Tax Avoidance Requirement.

***We may have difficulty paying our Annual Distribution Requirement if we recognize income before or without receiving cash representing such income.***

For federal income tax purposes, we include in income certain amounts that we have not yet received in cash, such as OID and PIK interest, which represents interest added to the loan balance and due at the end of the loan term. OID, which could be significant relative to our overall investment assets, and increases in loan balances as a result of PIK interest will be included in income before we receive any corresponding cash payments. We also may be required to include in income certain other amounts that we will not receive in cash, such as amounts attributable to foreign currency transactions. Our investments with a deferred interest feature, such as PIK interest, may represent a higher credit risk than loans for which interest must be paid in full in cash on a regular basis. For example, even if the accounting conditions for income accrual are met, the borrower could still default when our actual collection is scheduled to occur upon maturity of the obligation.

The part of the incentive fee payable by us that relates to our net investment income is computed and paid on income that may include interest that has been accrued but not yet received in cash. If a portfolio company defaults on a loan that is structured to provide PIK or OID interest, it is possible that accrued interest previously used in the calculation of the incentive fee will become uncollectible.

If we are unable to satisfy the Annual Distribution Requirement, we may have to sell some of our investments at times or prices we would not consider advantageous, or raise additional debt or equity capital or reduce new investment originations to meet these distribution requirements, which could have a material adverse effect on our business, financial condition and results of operations. If we are not able to obtain cash from other sources, we may lose our ability to be subject to tax as a RIC and thus be subject to corporate-level income tax.

***Legislation enacted in 2018 allows us to incur additional leverage.***

A BDC has historically been able to issue "senior securities," including borrowing money from banks or other financial institutions, only in amounts such that its asset coverage, as defined in Section 61(a)(2) of the 1940 Act, equals at least 200% after such incurrence or issuance. In March 2018, the Consolidated Appropriations Act of 2018 (which includes the SBCAA) was enacted which amended the 1940 Act to decrease this percentage from 200% (i.e., \$1 of debt outstanding for each \$1 of equity) to 150% (i.e., \$2 of debt outstanding for each \$1 of equity) for a BDC that has received either stockholder approval or approval of a "required majority" (as defined in Section 57(o) of the 1940 Act) of its board of directors of the application of such lower asset coverage ratio to the BDC. On April 5, 2018, our board of directors approved such reduction. As of April 5, 2019, we are able to incur additional indebtedness so long as we comply with the applicable disclosure requirement, which may increase the risk of investing in us. Under the 200% minimum asset coverage ratio, we were permitted to borrow up to one dollar for investment purposes for every one dollar of investor equity and, under the 150% minimum asset coverage ratio, we are permitted to borrow up to two dollars for investment purposes for every one dollar of investor equity. In other words, Section 61(a)(2) of the 1940 Act permits BDCs to potentially increase their debt-to-equity ratio from a maximum of 1-to-1 to a maximum of 2-to-1. In addition, since our base management fee is determined and payable based upon our average adjusted gross assets, which includes any borrowings for investment purposes, our base management fee expense may increase if we incur additional leverage.

***Because we intend to distribute substantially all of our income to our stockholders to maintain our ability to be subject to tax as a RIC, we may need to raise additional capital to finance our growth. If funds are not available to us, we may need to curtail new investments, and our common stock value could decline.***

In connection with satisfying the requirements to be subject to tax as a RIC for federal income tax purposes, we intend to distribute to our stockholders substantially all of our investment company taxable income and net capital gains each taxable year. However, we may retain all or a portion of our net capital gains and incur applicable income taxes with respect thereto and elect to treat such retained net capital gains as deemed dividend distributions to our stockholders.

On April 5, 2018, our board of directors, including a "required majority" (as such term is defined in Section 57(o) of the 1940 Act), approved a reduction of our asset coverage ratio from 200% to 150%. As a result, as of April 5, 2019, the asset coverage requirement applicable to us for senior securities was reduced from 200% (i.e., \$1 of debt outstanding for each \$1 of equity) to 150% (i.e., \$2 of debt outstanding for each \$1 of equity). If we incur additional indebtedness under this provision, the risk of investing in us will increase. If the value of our assets declines, we may be unable to satisfy this asset coverage test. If that happens, we may be required to sell a portion of our investments or sell additional common stock and, depending on the nature of our leverage, to repay a portion of our indebtedness at a time when such sales and repayments may be disadvantageous. In addition, the issuance of additional securities could dilute the percentage ownership of our current stockholders in us.

We are partially dependent on our subsidiary Funding I for cash distributions to enable us to meet the distribution requirements in order to permit us to be subject to tax as a RIC. In this regard, Funding I is limited by its covenants from making certain distributions to us that may be necessary to fulfill our requirements to be subject to tax as a RIC. In such case, we would need to request a waiver of these covenants' restrictions for Funding I to make certain distributions to enable us to be subject to tax as a RIC. We cannot assure you that Funding I will be granted such a waiver, and if Funding I is unable to obtain a waiver, compliance with the covenants may cause us to incur a corporate-level income tax.

***Regulations governing our operation as a BDC will affect our ability to, and the way in which we, raise additional capital.***

Our business requires a substantial amount of capital. We may acquire additional capital from the issuance of additional senior securities or other indebtedness, the issuance of additional shares of our common stock, the issuance of warrants or subscription rights to purchase certain of our securities, or from securitization transactions. However, we may not be able to raise additional capital in the future on favorable terms or at all. We may issue debt securities or preferred securities, which we refer to collectively as "senior securities," and we may borrow money from banks, or other financial institutions, up to the maximum amount permitted by the 1940 Act. Under the 1940 Act, the asset coverage ratio requirements permit us to issue senior securities or incur indebtedness subject to certain limitations. Our ability to pay distributions or issue additional senior securities would be restricted if our asset coverage ratio was not met. If the value of our assets declines, we may be unable to satisfy the asset coverage ratio. If that happens, we may be required to liquidate a portion of our investments and repay a portion of our indebtedness at a time when such sales may be disadvantageous, which could materially damage our business, financial condition and results of operations.

- **Senior Securities.** As a result of issuing senior securities, including our 2023 Notes, we are exposed to typical risks associated with leverage, including an increased risk of loss. If we issue preferred securities, they would rank "senior" to common stock in our capital structure. Preferred stockholders would have separate voting rights and may have rights, preferences or privileges more favorable than those of holders of our common stock. Furthermore, the issuance of preferred securities could have the adverse effect of delaying, deferring or preventing a transaction or a change of control that might involve a premium price for our common stockholders or otherwise be in your best interest. Our senior securities may include conversion features that cause them to bear risks more closely associated with an investment in our common stock.
- **Additional Common Stock.** Our board of directors may decide to issue common stock to finance our operations rather than issuing debt or other senior securities. As a BDC, we are generally not able to issue our common stock at a price below NAV per share without first obtaining certain approvals from our stockholders and our board of directors. Also, subject to the requirements of the 1940 Act, we may issue rights to acquire our common stock at a price below the current NAV per share of the common stock if our board of directors determines that such sale is in our best interests and the best interests of our common stockholders. In any such case, the price at which our securities are to be issued and sold may not be less than a price, that in the determination of our board of directors, closely approximates the market value of such securities. However, when required to be undertaken, the procedures used by the board of directors to determine the NAV per share of our common stock within 48 hours of each offering of our common stock may differ materially from and will necessarily be more abbreviated than the procedures used by the board of directors to determine the NAV per share of our common stock at the end of each quarter because there is an extensive process each quarter to determine the NAV per share of our common stock which cannot be completed in 48 hours. The quarterly process includes preliminary valuation conclusions, engagement of independent valuation firms and review by those firms of preliminary valuation conclusions. By contrast, the procedures in

connection with an offering may yield a NAV that is less precise than the NAV determined at the end of each quarter. We will not offer transferable subscription rights to our stockholders at a price equivalent to less than the then current NAV per share of common stock, excluding underwriting commissions, unless we first file a post-effective amendment that is declared effective by the SEC with respect to such issuance and the common stock to be purchased in connection with such rights represents no more than one-third of our outstanding common stock at the time such rights are issued. In addition, for us to file a post-effective amendment to a registration statement on Form N-2, we must then be qualified to register our securities under the requirements of Form S-3. We may actually issue shares above or below a future NAV. If we raise additional funds by issuing more common stock or warrants or senior securities convertible into, or exchangeable for, our common stock, the percentage ownership of our common stockholders at that time would decrease, and our common stockholders would experience voting dilution.

- **Securitization.** As a result of the completion of the Debt Securitization, we are exposed to typical risks associated with the securitization of loans to generate cash for funding new investments. As applicable accounting pronouncements and SEC staff guidance requires us to consolidate the Securitization Issuers' financial statements with our financial statements, any debt issued by the Securitization Issuers would be generally treated as if it were issued by us for purposes of the asset coverage ratio applicable to us. We retain all of the equity in the Securitization Issuers and our retained equity would be exposed to any losses on the portfolio of loans before any of the debt securities would be exposed to such losses. Accordingly, if the pool of loans experienced a low level of losses due to defaults, we would earn an incremental amount of income on our retained equity but we would be exposed, up to the amount of equity we retained, to that proportion of any losses we would have experienced if we had continued to hold the loans in our portfolio.

**We currently use borrowed funds to make investments and are exposed to the typical risks associated with leverage.**

Because we borrow funds to make investments, we are exposed to increased risk of loss due to our use of debt to make investments. A decrease in the value of our investments will have a greater negative impact on the NAV attributable to our common stock than it would if we did not use debt. Our ability to pay distributions may be restricted when our asset coverage ratio is not met and any cash that we use to service our indebtedness is not available for distribution to our common stockholders.

Our current debt is governed by the terms of the Credit Facility, the deed of trust governing the 2023 Notes and the indenture governing the 2031 Asset-Backed Debt, and future debt may be governed by an indenture or other instrument containing covenants restricting our operating flexibility. We, and indirectly our stockholders, bear the cost of issuing and servicing debt. Any convertible or exchangeable securities that we issue in the future may have rights, preferences and privileges more favorable than those of our common stock and may also carry leverage related risks. Leverage magnifies the potential risks for loss and the risks of investing in us, both as detailed below.

**If we incur additional debt, it could increase the risk of investing in our shares.**

We have indebtedness outstanding pursuant to our Credit Facility, 2023 Notes and the 2031 Asset-Backed Debt and expect in the future to borrow additional amounts under our Credit Facility or other debt securities, subject to market availability, and, may increase the size of our Credit Facility. We cannot assure you that our leverage will remain at current levels. The amount of leverage that we employ will depend upon our assessment of the market and other factors at the time of any proposed borrowing. Lenders have fixed dollar claims on our assets that are superior to the claims of our common stockholders or preferred stockholders, if any, and we have granted a security interest in Funding I's assets in connection with our Credit Facility borrowings. In the case of a liquidation event, those lenders would receive proceeds before our stockholders. Any future debt issuance will increase our leverage and may be subordinate to our Credit Facility. In addition, borrowings or debt issuances, also known as leverage, magnify the potential for loss or gain on amounts invested and, therefore, increase the risks associated with investing in our securities. Leverage is generally considered a speculative investment technique. If the value of our assets decreases, then leveraging would cause the NAV attributable to our common stock to decline more than it otherwise would have had we not utilized leverage. Similarly, any decrease in our revenue would cause our net income to decline more than it would have had we not borrowed funds and could negatively affect our ability to make distributions on our common or preferred stock. Our ability to service any debt that we incur depends largely on our financial performance and is subject to prevailing economic conditions and competitive pressures.

On April 5, 2018, our board of directors, including a "required majority" (as such term is defined in Section 57(o) of the 1940 Act), and our stockholders, respectively, approved a reduction of our asset coverage ratio. As a result, as of April 5, 2019, the asset coverage requirement applicable to us for senior securities was reduced from 200% to 150%. As of such date, we are able to incur additional indebtedness so long as we comply with the applicable disclosure requirements, which may increase the risk of investing in us.

As of September 30, 2019 and 2018, our asset coverage ratio, as computed in accordance with the 1940 Act, was 179% and 212%, respectively. Since our leverage was 127% and 89% of our net assets as of September 30, 2019 and 2018, respectively, we would have to receive an annual return of at least 2.3% and 1.9%, respectively, to cover annual interest payments.

As of September 30, 2019, we had outstanding borrowings of \$265.3 million under our Credit Facility, \$138.6 million outstanding under our 2023 Notes, and \$228.0 million outstanding under the 2031 Asset-Backed Debt. Our consolidated debt outstanding was \$631.9 million and had a weighted average annual interest rate at the time of 4.1%, exclusive of the fees on the undrawn commitment on our Credit Facility. This example is for illustrative purposes only, and actual interest rates on our Credit Facility or any future borrowings are likely to fluctuate. The costs associated with our borrowings, including any increase in the management fee or incentive fee payable to our Investment Adviser, are and will be borne by our stockholders.

The following table is designed to illustrate the effect on the return to a holder of our common stock of the leverage created by our use of borrowing as of September 30, 2019 of 54% of total assets (including such borrowed funds), at the current interest rate at the time of 4.1%, and assumes hypothetical annual returns on our portfolio of minus 10 to plus 10 percent. The table also assumes that we will maintain a constant level of leverage and weighted average interest rate. The amount of leverage and cost of borrowing that we use will vary from time to time. As can be seen, leverage generally increases the return to stockholders when the portfolio return is positive and decreases return when the portfolio return is negative. Actual returns may be greater or less than those appearing in the table.

Assumed return on portfolio (net of expenses) (1)	(10.0)%	(5.0)%	—%	5.0%	10.0%
Corresponding return to common stockholders (2)	(28.0)%	(16.6)%	(5.1)%	6.4%	17.8%

(1) The assumed portfolio return is required by regulation of the SEC and is not a prediction of, and does not represent, our projected or actual performance.

(2) In order to compute the "corresponding return to common stockholders," the "assumed return on portfolio" is multiplied by the total value of our assets at the beginning of the period to obtain an assumed return to us. From this amount, all interest expense expected to be accrued during the period is subtracted to determine the return available to stockholders. The return available to stockholders is then divided by the total value of our net assets as of the beginning of the period to determine the "corresponding return to common stockholders."

**We may in the future determine to fund a portion of our investments with preferred stock, which is another form of leverage and would magnify the potential for loss and the risks of investing in us.**

Preferred stock, which is another form of leverage, has the same risks to our common stockholders as borrowings because the distributions on any preferred stock we issue must be cumulative. If we issue preferred securities they would rank "senior" to common stock in our capital structure. Payment of distributions on, and repayment of the liquidation preference of, such preferred stock would typically take preference over any distributions or other payments to our common stockholders. Also, preferred stockholders are not typically subject to any of our expenses or losses and are not entitled to participate in any income or appreciation in excess of their stated preference. Furthermore, preferred stockholders would have separate voting rights and may have rights, preferences or privileges more favorable than those of our common stockholders. Also, the issuance of preferred securities could have the adverse effect of delaying, deferring or preventing a transaction or a change of control that might involve a premium price for our common stockholders or otherwise be in the best interest of stockholders.

***We may in the future determine to fund a portion of our investments with debt securities, which would magnify the potential for loss and the risks of investing in us.***

As a result of any issuance of debt securities and borrowings under our Credit Facility, the 2023 Notes, and the 2031 Asset-Backed Debt, we would be exposed to typical risks associated with leverage, including an increased risk of loss and an increase in expenses, which are ultimately borne by our common stockholders. Payment of interest on such debt securities must take preference over any other distributions or other payments to our common stockholders. If we issue additional debt securities in the future, it is likely that such securities will be governed by an indenture or other instrument containing covenants restricting our operating flexibility. In addition, such securities may be rated by rating agencies, and in obtaining a rating for such securities, we may be required to abide by operating and investment guidelines that could further restrict our operating flexibility. Furthermore, any cash that we use to service our indebtedness would not be available for the payment of distributions to our common stockholders.

***Our credit ratings may not reflect all risks of an investment in our debt securities.***

Our credit ratings, if any, are an assessment of our ability to pay our obligations. Consequently, real or anticipated changes in our credit ratings will generally affect the market value of any publicly issued debt securities. Our credit ratings may not reflect the potential impact of risks related to market conditions or other factors discussed above on the market value of, or trading market for, any publicly issued debt securities. Rating agencies have reviewed, and may continue to review, our credit ratings and those of other business development companies in light of the SBCAA as well as any corresponding changes to asset coverage ratios and, in certain cases, downgrade such ratings. Such a downgrade in our credit ratings may adversely affect our securities.

***Market conditions may make it difficult to extend the maturity of or refinance our existing indebtedness and any failure to do so could have a material adverse effect on our business.***

Our Credit Facility expires in October 2023. We utilize proceeds from the Credit Facility to make investments in our portfolio companies. The duration of many of our investments exceeds the duration of our indebtedness under our Credit Facility. This means that we will have to extend the maturity of our Credit Facility or refinance our indebtedness under our Credit Facility in order to avoid selling investments at maturity of the Credit Facility, at which time such sales may be at prices that are disadvantageous to us, which could materially damage our business. In addition, future market conditions may affect our ability to renew or refinance our Credit Facility on terms as favorable as those in our existing Credit Facility. If we fail to extend or refinance the indebtedness outstanding under our Credit Facility by the time it becomes due and payable, the administrative agent of the Credit Facility may elect to exercise various remedies, including the sale of all or a portion of the collateral securing the Credit Facility, subject to certain restrictions, any of which could have a material adverse effect on our business, financial condition and results of operations. The illiquidity of our investments may make it difficult for us to sell such investments. If we are required to sell our investments on short-term notice, we may not receive the value that we have recorded for such investments, and this could materially affect our results of operations.

***Our interests in Funding I are subordinated.***

We own 100% of the equity interests in Funding I. We consolidate Funding I in our Consolidated Financial Statements and treat the indebtedness of Funding I as our leverage. Our interests in Funding I (other than the management fees that the Investment Adviser has irrevocably directed to be paid to us) are subordinate in priority of payment to every other obligation of Funding I and are subject to certain payment restrictions set forth in the Credit Facility documents. We may receive cash distributions on our equity interests in Funding I only after it has made all (1) required cash interest and, if applicable, principal payments to the Lenders, (2) required administrative expenses and (3) claims of other unsecured creditors of Funding I. We cannot assure you that there will be sufficient funds available to make any distributions to us or that such distributions will meet our expectations.

Our equity interests in Funding I are subordinate to all of the secured and unsecured creditors, known or unknown, of Funding I, including the Lenders. Consequently, to the extent that the value of Funding I's portfolio of loan investments has been reduced as a result of conditions in the credit markets, defaulted loans, capital losses exceeding gains on the underlying assets, prepayments or changes in interest rates, the return on our investment in Funding I could be reduced. Accordingly, our investment in Funding I is subject to a complete risk of loss.

***We may not receive cash on our equity interests from Funding I.***

Except for management fees that PennantPark Investment Advisers has irrevocably directed to be paid to us, we receive cash from Funding I only to the extent that we receive distributions on our equity interests in Funding I. Funding I may make equity distributions on such interests only to the extent permitted by the payment priority provisions of the Credit Facility. The Credit Facility generally provides that payments on such interests may not be made on any payment date unless all amounts owing to the Lenders and other secured parties are paid in full. In the event that we fail to receive cash from Funding I, we could be unable to make distributions to our stockholders in amounts sufficient to maintain our ability to be subject to tax as a RIC. We also could be forced to sell investments in portfolio companies at less than their fair value in order to continue making such distributions.

***There are significant potential conflicts of interest which could impact our investment returns.***

The professionals of the Investment Adviser and Administrator may serve as officers, directors or principals of entities that operate in the same or a related line of business as we do or of investment funds managed by affiliates of us that currently exist or may be formed in the future. The Investment Adviser and Administrator may be engaged by such funds at any time and without the prior approval of our stockholders or our board of directors. Our board of directors monitors any potential conflict that may arise upon such a development. Accordingly, if this occurs, they may have obligations to investors in those entities, the fulfillment of which might not be in the best interests of us or our stockholders. Currently, the executive officers and directors, as well as the current senior investment professionals of the Investment Adviser, may serve as officers and directors of our affiliated funds. In addition, we note that any affiliated investment vehicles currently formed or formed in the future and managed by the Investment Adviser or its affiliates may have overlapping investment objectives with our own and, accordingly, may invest in asset classes similar to those targeted by us. As a result, the Investment Adviser may face conflicts in allocating investment opportunities between us and such other entities. Although the Investment Adviser will endeavor to allocate investment opportunities in a fair and equitable manner, it is possible that, in the future, we may not be given the opportunity to participate in investments made by investment funds managed by the Investment Adviser or an investment manager affiliated with the Investment Adviser. In any such case, when the Investment Adviser identifies an investment, it is forced to choose which investment fund should make the investment. We may co-invest on a concurrent basis with any other affiliates that the Investment Adviser currently has or forms in the future, subject to compliance with applicable regulations and regulatory guidance, our exemptive relief and our allocation procedures.

In the ordinary course of our investing activities, we pay investment advisory and incentive fees to the Investment Adviser, and reimburse the Investment Adviser for certain expenses it incurs. As a result, investors in our common stock invest on a "gross" basis and receive distributions on a "net" basis after expenses, resulting in a lower rate of return than an investor might achieve through direct investments. Accordingly, there may be times when the management team of the Investment Adviser has interests that differ from those of our stockholders, giving rise to a conflict. For example, the Investment Adviser may seek to invest in more speculative investments in order to increase its incentive fee, which practice could result in higher investment losses, particularly during economic downturns.

We have entered into the License Agreement with PennantPark Investment Advisers, pursuant to which the Investment Adviser has agreed to grant us a royalty-free non-exclusive license to use the name "PennantPark." The License Agreement will expire (i) upon expiration or termination of the Investment Management Agreement, (ii) if the Investment Adviser ceases to serve as our investment adviser, (iii) by either party upon 60 days' written notice or (iv) by the Investment Adviser at any time in the event we assign or attempt to assign or sublicense the License Agreement or any of our rights or duties thereunder without the prior written consent of the Investment Adviser. Other than with respect to this limited license, we have no legal right to the "PennantPark" name.

In addition, we pay PennantPark Investment Administration, an affiliate of the Investment Adviser, our allocable portion of overhead and other expenses incurred by PennantPark Investment Administration in performing its obligations under the Administration Agreement, including rent and our allocable portion of the cost of our Chief Financial Officer and Chief Compliance Officer and their respective staffs. These arrangements may create conflicts of interest that our board of directors must monitor.

***We are subject to risks associated with cybersecurity and cyber incidents.***

Our business relies on secure information technology systems. These systems are subject to potential attacks, including through adverse events that threaten the confidentiality, integrity or availability of our information resources (i.e., cyber incidents). These attacks could involve gaining unauthorized access to our information systems for purposes of misappropriating assets, stealing confidential information, corrupting data or causing operational disruption and result in disrupted operations, misstated or unreliable financial data, liability for stolen assets or information, increased cybersecurity protection and insurance costs, litigation and damage to our business relationships, any of which could have a material adverse effect on our business, financial condition and results of operations. As our reliance on technology has increased, so have the risks posed to our information systems, both internal and those provided by the Investment Adviser and third-party service providers. We, along with our Investment Adviser, have implemented processes, procedures and internal controls to help mitigate cybersecurity risks and cyber intrusions, but these measures, as well as our increased awareness of the nature and extent of the risk of a cyber incident, may be ineffective and do not guarantee that a cyber incident will not occur or that our financial results, operations or confidential information will not be negatively impacted by such an incident. In addition, the costs related to cyber or other security threats or disruptions may not be fully insured or indemnified by other means. Furthermore, cybersecurity has become a top priority for regulators around the world, and some jurisdictions have enacted laws requiring companies to notify individuals of data security breaches involving certain types of personal data. If we fail to comply with the relevant laws and regulations, we could suffer financial losses, a disruption of our businesses, liability to investors, regulatory intervention or reputational damage.

***We may experience fluctuations in our quarterly results.***

We could experience fluctuations in our quarterly operating results due to a number of factors, including the interest rate payable on the debt securities we acquire, the default rate on such securities, the level of our expenses, variations in, and the timing of the recognition of, realized and unrealized gains or losses, the degree to which we encounter competition in our markets and general economic conditions. However, as a result of our irrevocable election to apply the fair value option to our Credit Facility future decreases of fair value of our debt is expected to have a corresponding increase to our NAV. Similarly, future increases in the fair value of our debt may have a corresponding decrease to our NAV. Any future indebtedness that we elect the fair value option for may have similar effects on our NAV as our Credit Facility. This is expected to mitigate volatility in our earnings and NAV. As a result of these factors, results for any period should not be relied upon as being indicative of performance in future periods.

***Holders of any preferred stock that we may issue will have the right to elect members of the board of directors and have class voting rights on certain matters.***

The 1940 Act requires that holders of shares of preferred stock must be entitled as a class to elect two directors at all times and to elect a majority of the directors if distributions on such preferred stock are in arrears by two years or more, until such arrearage is eliminated. In addition, certain matters under the 1940 Act require the separate vote of the holders of any issued and outstanding preferred stock, including conversion to open-end status and, accordingly, preferred stockholders could veto any such changes in addition to any ability of common and preferred stockholders, voting together as a single class, to veto such matters. Restrictions imposed on the declarations and payment of distributions to the holders of our common stock and preferred stock, both by the 1940 Act and by requirements imposed by rating agencies, might impair our ability to maintain our qualification as a RIC for U.S. federal income tax purposes, which could have a material adverse effect on our business, financial condition and results of operations.

***We may in the future issue securities for which there is no public market and for which we expect no public market to develop.***

In order to raise additional capital, we may issue debt or other securities for which no public market exists, and for which no public market is expected to develop. If we issue shares of our common stock as a component of a unit security, we would expect the common stock to separate from the other securities in such unit after a period of time or upon occurrence of an event and to trade publicly on The Nasdaq Global Select Market and the TASE, which may cause volatility in our publicly traded common stock. To the extent we issue securities for which no public market exists and for which no public market develops, a purchaser of such securities may not be able to liquidate the investment without considerable delay, if at all. If a market should develop for our debt and other securities, the price may be highly volatile, and our debt and other securities may lose value.

***If we issue preferred stock, debt securities or convertible debt securities the NAV and market value of our common stock may become more volatile.***

We cannot assure you that the issuance of preferred stock and/or debt securities would result in a higher yield or return to the holders of our common stock. The issuance of preferred stock, debt securities and/or convertible debt would likely cause the NAV and market value of our common stock to become more volatile. If the dividend rate on the preferred stock, or the interest rate on the debt securities, were to approach the net rate of return on our investment portfolio, the benefit of leverage to the holders of our common stock would be reduced or entirely eliminated. If the dividend rate on the preferred stock, or the interest rate on the debt securities, were to exceed the net rate of return on our portfolio, the use of leverage would result in a lower rate of return to the holders of common stock than if we had not issued the preferred stock or debt securities. Any decline in the NAV of our investment would be borne entirely by the holders of our common stock. Therefore, if the market value of our portfolio were to decline, the leverage would result in a greater decrease in NAV to the holders of our common stock than if we were not leveraged through the issuance of preferred stock, debt securities or convertible debt. This decline in NAV would also tend to cause a greater decline in the market price for our common stock.

There is also a risk that, in the event of a sharp decline in the value of our net assets, we would be in danger of failing to maintain required asset coverage ratios or other covenants which may be required by the preferred stock, debt securities and/or convertible debt or risk a downgrade in the ratings of the preferred stock, debt securities and/or convertible debt or our current investment income might not be sufficient to meet the dividend requirements on the preferred stock or the interest payments on the debt securities. In order to counteract such an event, we might need to liquidate investments in order to fund redemption of some or all of the preferred stock, debt securities or convertible debt. In addition, we would pay (and the holders of our common stock would bear) all costs and expenses relating to the issuance and ongoing maintenance of the preferred stock, debt securities, convertible debt or any combination of these securities. Holders of preferred stock, debt securities, convertible debt or any combination of these securities may have different interests than holders of common stock and may at times have disproportionate influence over our business.

***The ability to sell investments held by Funding I is limited.***

The Credit Facility places restrictions on the collateral manager's ability to sell investments. As a result, there may be times or circumstances during which the collateral manager is unable to sell investments or take other actions that might be in our best interests.

***The trading market or market value of any publicly issued debt or convertible debt securities may be volatile.***

If we publicly issue debt or convertible debt securities, they initially will not have an established trading market. We cannot assure investors that a trading market for our publicly issued debt or convertible debt securities would develop or be maintained if developed. In addition to our creditworthiness, many factors may have a material adverse effect on the trading market for, and market value of, our publicly issued debt or convertible debt securities.

These factors include the following:

- the time remaining to the maturity of these debt securities;
- the outstanding principal amount of debt securities with terms identical or similar to these debt securities;
- the supply of debt securities trading in the secondary market, if any;
- the redemption, repayment or convertible features, if any, of these debt securities;
- the level, direction and volatility of market interest rates; and
- market rates of interest higher or lower than rates borne by the debt securities.

There also may be a limited number of buyers for our debt securities. This too may have a material adverse effect on the market value of the debt securities or the trading market for the debt securities. Our debt securities may include convertible features that cause them to more closely bear risks associated with an investment in our common stock.

***Terms relating to debt redemption may have a material adverse effect on the return on any debt securities.***

If we issue debt securities that are redeemable at our option, we may choose to redeem the debt securities at times when prevailing interest rates are lower than the interest rate paid on the debt securities. In addition, if the debt securities are subject to mandatory redemption, we may be required to redeem the debt securities at times when prevailing interest rates are lower than the interest rate paid on the debt securities. In this circumstance, a holder of our debt securities may not be able to reinvest the redemption proceeds in a comparable security at an effective interest rate as high as the debt securities being redeemed.

***If we issue subscription rights or warrants for our common stock, your interest in us may be diluted as a result of such rights or warrants offering.***

Stockholders who do not fully exercise rights or warrants issued to them in an offering of subscription rights or warrants to purchase our common stock should expect that they will, at the completion of an offering, own a smaller proportional interest in us than would otherwise be the case if they fully exercised their rights or warrants. We cannot state precisely the amount of any such dilution in share ownership because we do not know what proportion of the common stock would be purchased as a result of any such offering.

In addition, if the subscription price or warrant exercise price is less than our NAV per share of common stock at the time of an offering, then our stockholders would experience an immediate dilution of the aggregate NAV of their shares as a result of the offering. The amount of any such decrease in NAV is not predictable because it is not known at this time what the subscription price, warrant exercise price or NAV per share will be on the expiration date of such rights offering or what proportion of our common stock will be purchased as a result of any such offering.

***The impact of recent financial reform legislation on us is uncertain.***

In light of current conditions in the U.S. and global financial markets and the U.S. and global economy, legislators, the presidential administration and regulators have increased their focus on the regulation of the financial services industry. The Dodd-Frank Wall Street Reform and Consumer Protection Act, or the Dodd-Frank Act, institutes a wide range of reforms that will have an impact on financial institutions. However, the current presidential administration has announced its intention to repeal, amend or replace certain portions of the Dodd-Frank Act and the regulations implemented thereunder. Given the uncertainty associated with the manner in which and whether the provisions of the Dodd-Frank Act might be implemented, repealed, amended or replaced, the full impact such requirements will have on our business, results of operations or financial condition is unclear. While we cannot predict what effect any changes in the laws or regulations or their interpretations would have on us as a result of recent financial reform legislation, these changes could be materially adverse to us and our stockholders. Accordingly, we are continuing to evaluate the effect the Dodd-Frank Act or implementing its regulations or any repeal or revision thereto will have on our business, financial condition and results of operations.

***Changes in laws or regulations governing our operations or those of our portfolio companies may adversely affect our business.***

We and our portfolio companies are subject to laws and regulation at the local, state and federal levels. These laws and regulations, as well as their interpretation, may be changed from time to time. Accordingly, any change in these laws or regulations that govern our operations or those of our portfolio companies could have a material adverse effect on our business, financial condition and results of operations. In particular, on December 22, 2017, the Tax Cuts and Jobs Act was signed into law. This tax legislation lowers the general corporate income tax rate from 35 percent to 21 percent, makes changes regarding the use of net operating losses, repeals the corporate alternative minimum tax and makes significant changes with respect to the U.S. international tax rules. In addition, the legislation generally requires a holder that uses the accrual method of accounting for U.S. tax purposes to include certain amounts in income no later than the time such amounts are reflected on certain financial statements, which therefore if applicable would require us to accrue income earlier than under prior law, although the precise application of this rule is un-clear at this time. The legislation also limits the amount or value of interest deductions of borrowers and in that way may potentially affect the loan market and our and our portfolio companies' use of leverage. For individual taxpayers, the legislation reduces the maximum individual income tax rate and eliminates the deductibility of miscellaneous itemized deductions for taxable years 2018 through 2025. The impact of this new legislation is uncertain. See "Business—Regulation" for more information.

***Uncertainty about presidential administration initiatives could negatively impact our business, financial condition and results of operations.***

The current administration has called for significant changes to U.S. trade, healthcare, immigration, foreign and government regulatory policy. In this regard, there is significant uncertainty with respect to legislation, regulation and government policy at the federal level, as well as the state and local levels. Recent events have created a climate of heightened uncertainty and introduced new and difficult-to-quantify macroeconomic and political risks with potentially far-reaching implications. There has been a corresponding meaningful increase in the uncertainty surrounding interest rates, inflation, foreign exchange rates, trade volumes and fiscal and monetary policy. To the extent the U.S. Congress or the current administration implements changes to U.S. policy, those changes may impact, among other things, the U.S. and global economy, international trade and relations, unemployment, immigration, corporate taxes, healthcare, the U.S. regulatory environment, inflation and other areas. Although we cannot predict the impact, if any, of these changes to our business, they could adversely affect our business, financial condition, operating results and cash flows. Until we know what policy changes are made and how those changes impact our business and the business of our competitors over the long term, we will not know if, overall, we will benefit from them or be negatively affected by them.

***Our board of directors may change our investment objectives, operating policies and strategies without prior notice or stockholder approval.***

Our board of directors has the authority to modify or waive certain of our operating policies and strategies without prior notice and without stockholder approval (except as required by the 1940 Act). However, absent stockholder approval, under the 1940 Act, we may not change the nature of our business so as to cease to be, or withdraw our election as, a BDC. We cannot predict the effect any changes to our current operating policies and strategies would have on our business, operating results and value of our common stock. Nevertheless, the effects may adversely affect our business and impact our ability to make distributions.

***Our business and operations could be negatively affected if we become subject to stockholder activism, which could cause us to incur significant expense, hinder the execution of our investment strategy or impact our stock price.***

Stockholder activism, which could take many forms, including making public demands that we consider certain strategic alternatives, engaging in public campaigns to attempt to influence our corporate governance and/or our management, and commencing proxy contests to attempt to elect the activists' representatives or others to our board of directors, or arise in a variety of situations, has been increasing in the BDC space recently. While we are currently not subject to any stockholder activism, due to the potential volatility of our stock price and for a variety of other reasons, we may in the future become the target of stockholder activism. Stockholder activism could result in substantial costs and divert management's and our board of directors' attention and resources from our business. Additionally, such stockholder activism could give rise to perceived uncertainties as to our future and adversely affect our relationships with service providers and our portfolio companies. Also, we may be required to incur significant legal and other expenses related to any activist stockholder matters. Further, our stock price could be subject to significant fluctuation or otherwise be adversely affected by the events, risks and uncertainties of any stockholder activism.

#### **RISKS RELATING TO THE ILLIQUID NATURE OF OUR PORTFOLIO ASSETS**

***We invest in illiquid assets, and our valuation procedures with respect to such assets may result in recording values that are materially different than the values we ultimately receive upon disposition of such assets.***

All of our investments are recorded using broker or dealer quotes, if available, or at fair value as determined in good faith by our board of directors. We expect that most, if not all, of our investments (other than cash and cash equivalents) and the fair value of the Credit Facility will be classified as Level 3 under the Financial Accounting Standards Board, or FASB, Accounting Standards Codification, or ASC, Topic 820, Fair Value Measurements and Disclosures, or ASC 820. This means that the portfolio valuations will be based on unobservable inputs and our own assumptions about how market participants would price the asset or liability. We expect that inputs into the determination of fair values of our portfolio investments and Credit Facility borrowings will require significant management judgment or estimation. Even if observable market data are available, such information may be the result of consensus pricing information or broker quotes, which include a disclaimer that the broker would not be held to such a price in an actual transaction. The non-binding nature of consensus pricing and/or quotes accompanied by such a disclaimer materially reduces the reliability of such information. As a result, there will be uncertainty as to the value of our portfolio investments.

Determining fair value requires that judgment be applied to the specific facts and circumstances of each portfolio investment while employing a consistently applied valuation process for the types of investments we make. In determining fair value in good faith, we generally obtain financial and other information from portfolio companies, which may represent unaudited, projected or pro forma financial information. Unlike banks, we are not permitted to provide a general reserve for anticipated loan losses; we are instead required by the 1940 Act to specifically fair value each individual investment on a quarterly basis. We record unrealized appreciation if we believe that our investment has appreciated in value. Likewise, we record unrealized depreciation if we believe that our investment has depreciated in value. We adjust quarterly the valuation of our portfolio to reflect our board of directors' determination of the fair value of each investment in our portfolio. Any changes in fair value are recorded on our Consolidated Statements of Operations as net change in unrealized appreciation or depreciation.

All of our investments are recorded at fair value as determined in good faith by our board of directors. Our board of directors uses the services of nationally recognized independent valuation firms to aid it in determining the fair value of our investments. The factors that may be considered in fair value pricing of our investments include the nature and realizable value of any collateral, the portfolio company's ability to make payments and its earnings and cash flows, the markets in which the portfolio company does business, comparison to publicly traded companies and other relevant factors. Because valuations may fluctuate over short periods of time and may be based on estimates, our determinations of fair value may differ materially from the value received in an actual transaction. Additionally, valuations of private securities and private companies are inherently uncertain. Our NAV could be adversely affected if our determinations regarding the fair value of our investments were materially lower than the values that we ultimately realize upon the disposal of such investments.

***The lack of liquidity in our investments may adversely affect our business.***

We may acquire our investments directly from the issuer in privately negotiated transactions. Substantially all of these securities are subject to legal and other restrictions on resale or are otherwise less liquid than publicly traded securities. We typically exit our investments when the portfolio company has a liquidity event such as a sale, refinancing, or initial public offering of the company, but we are generally not required to do so.

The illiquidity of our investments may make it difficult or impossible for us to sell such investments if the need arises, particularly at times when the market for illiquid securities is substantially diminished. In addition, if we are required to liquidate all or a portion of our portfolio quickly, we may realize significantly less than the value at which we have previously recorded our investments, which could have a material adverse effect on our business, financial condition and results of operations. In addition, we may face other restrictions on our ability to liquidate an investment in a portfolio company to the extent that we have material non-public information regarding such portfolio company.

Investments purchased by us that are liquid at the time of purchase may subsequently become illiquid due to events relating to the issuer of the investments, market events, economic conditions or investor perceptions. Domestic and foreign markets are complex and interrelated, so that events in one sector of the world markets or economy, or in one geographical region, can reverberate and have materially negative consequences for other market, economic or regional sectors in a manner that may not be foreseen and which may materially harm our business.

***A general disruption in the credit markets could materially damage our business.***

We are susceptible to the risk of significant loss if we are forced to discount the value of our investments in order to provide liquidity to meet our debt maturities. Funding I's borrowings under its Credit Facility are collateralized by the assets in our investment portfolio. A general disruption in the credit markets could result in diminished demand for our securities. In addition, with respect to over-the-counter traded securities, the continued viability of any over-the-counter secondary market depends on the continued willingness of dealers and other participants to purchase the securities.

If the fair value of our assets declines substantially, we may fail to maintain the asset coverage ratio stipulated by the 1940 Act, which could, in turn, cause us to lose our status as a BDC and materially impair our business operations. Our liquidity could be impaired further by an inability to access the capital markets or to draw down Funding I's Credit Facility. These situations may arise due to circumstances that we may be unable to control, such as a general disruption in the credit markets, a severe decline in the value of the U.S. dollar, a sharp economic downturn or an operational problem that affects our counterparties or us, and could materially damage our business.

***We may invest in over-the-counter securities, which have and may continue to face liquidity constraints, to provide us with liquidity.***

The market for over-the-counter traded securities has and may continue to experience limited liquidity and other weakness as the viability of any over-the-counter secondary market depends on the continued willingness of dealers and other participants to purchase the securities.

## RISKS RELATED TO OUR INVESTMENTS

### *Our investments in prospective portfolio companies may be risky, and you could lose all or part of your investment.*

We intend to invest primarily in Floating Rate Loans, which may consist of first lien secured debt, second lien secured debt, subordinated debt and selected equity investments issued by U.S. middle-market companies.

1. **Floating Rate Loans:** The Floating Rate Loans we invest in are usually rated below investment grade or may also be unrated. Investments in Floating Rate Loans rated below investment grade are considered speculative because of the credit risk of their issuers. Such companies are more likely than investment grade issuers to default on their payments of interest and principal owed to us, and such defaults could reduce our NAV and income distributions. An economic downturn would generally lead to a higher default rate by portfolio companies. A Floating Rate Loan may lose significant market value before a default occurs and we may experience losses due to the inherent illiquidity of the investments. Moreover, any specific collateral used to secure a Floating Rate Loan may decline in value or become illiquid, which would adversely affect the Floating Rate Loan's fair value. Floating Rate Loans are subject to a number of risks, including liquidity risk and the risk of investing in below investment grade, variable-rate securities.

Floating Rate Loans are subject to the risk of non-payment of scheduled interest or principal. Such non-payment would result in a reduction of income to us, a reduction in the fair value of the investment and a potential decrease in our NAV. There can be no assurance that the liquidation of any collateral securing a Floating Rate Loan would satisfy the borrower's obligation in the event of non-payment of scheduled interest or principal payments, or that the collateral could be readily liquidated. In the event of bankruptcy or insolvency of a borrower, we could experience delays or limitations with respect to our ability to realize the benefits of the collateral securing a Floating Rate Loan. The collateral securing a Floating Rate Loan may lose all or substantially all of its value in the event of the bankruptcy or insolvency of a borrower. Some loans are subject to the risk that a court, pursuant to fraudulent conveyance or other similar laws, could subordinate the rights in collateral of such loans to presently existing or future indebtedness of the borrower or take other actions detrimental to the holders of loans including, in certain circumstances, invalidating such loans or causing interest previously paid to be refunded to the borrower. Either such step could materially negatively affect our performance.

We may acquire Floating Rate Loans through assignments or participations of interests in such loans. The purchaser of an assignment typically succeeds to all the rights and obligations of the assigning institution and becomes a lender under the credit agreement with respect to such debt obligation. However, the purchaser's rights can be more restricted than those of the assigning institution, and we may not be able to unilaterally enforce all rights and remedies under an assigned debt obligation and with regard to any associated collateral. A participation typically results in a contractual relationship only with the institution participating out the interest and not directly with the borrower. Sellers of participations typically include banks, broker-dealers, other financial institutions and lending institutions. In purchasing participations, we generally will have no right to enforce compliance by the borrower with the terms of the loan agreement against the borrower, and we may not directly benefit from the collateral supporting the debt obligation in which we have purchased the participation. As a result, we will be exposed to the credit risk of both the borrower and the institution selling the participation. Further, in purchasing participations in lending syndicates, we will not be able to conduct the same level of due diligence on a borrower or the quality of the Floating Rate Loan with respect to which we are buying a participation as we would conduct if we were investing directly in the Floating Rate Loan. This difference may result in us being exposed to greater credit or fraud risk with respect to such Floating Rate Loans than we expected when initially purchasing the participation. Floating Rate Loans can be first lien secured debt, second lien secured debt or subordinated debt.

2. **First Lien Secured Debt:** When we extend first lien secured debt, we will generally take a security interest in the available assets of these portfolio companies, including the equity interests of their subsidiaries, although this may not always be the case. We expect this security interest, if any, to help mitigate the risk that we will not be repaid. However, there is a risk that the collateral securing our loans may decrease in value over time, may be difficult to sell in a timely manner, may be difficult to appraise and may fluctuate in value based upon the success of the business and market conditions, including as a result of the inability of the portfolio company to raise additional capital. Also, in some circumstances, our lien could be subordinated to claims of other creditors. In addition, deterioration in a portfolio company's financial condition and prospects, including its inability to raise additional capital, may be accompanied by deterioration in the value of the collateral for the loan. Consequently, the fact that a first lien secured debt investment is secured does not guarantee that we will receive principal and interest payments according to the loan's terms, or at all, or that we will be able to collect on the loan should we be forced to enforce our remedies.
3. **Second Lien Secured Debt:** Our second lien secured debt usually ranks junior in priority of payment to first lien secured debt. Second lien secured debt holds a second priority with regard to right of payment in the event of insolvency. Second lien secured debt ranks senior to subordinated debt and common and preferred equity in borrowers' capital structures. This may result in an above average amount of risk and volatility or a loss of principal. These investments may involve additional risks that could adversely affect our investment returns. To the extent interest payments associated with such debt are deferred, such debt may be subject to greater fluctuations in valuations, and such debt could subject us and our stockholders to non-cash income. Since we may not receive cash interest or principal prior to the maturity of some of our second lien secured debt investments, such investments may be of greater risk than cash paying loans.
4. **Subordinated Debt:** Our subordinated debt usually ranks junior in priority of payment to first lien secured debt and second lien secured debt, and are often unsecured. As such, other creditors may rank senior to us in the event of insolvency. Subordinated debt ranks senior to common and preferred equity in borrowers' capital structures. This may result in an above average amount of risk and volatility or a loss of principal. These investments may involve additional risks that could adversely affect our investment returns. To the extent interest payments associated with such debt are deferred, such debt may be subject to greater fluctuations in valuations, and such debt could subject us and our stockholders to non-cash income. Since we may not receive cash interest or principal prior to the maturity of some of our subordinated debt investments, such investments may be of greater risk than cash paying loans.
5. **Equity Investments:** We have made and expect to continue to make select equity investments, all of which are subordinated to debt investments. In addition, when we invest in first lien secured debt, second lien secured debt or subordinated debt, we may acquire warrants to purchase equity investments from time to time. Our goal is ultimately to dispose of these equity investments and realize gains upon our disposition of such interests. However, the equity investments we receive may not appreciate in value and, in fact, may decline in value. Accordingly, we may not be able to realize gains from our equity investments, and any gains that we do realize on the disposition of any equity investments may not be sufficient to offset any other losses we experience. In addition, many of the equity securities in which we invest may not pay dividends on a regular basis, if at all. Furthermore, we may hold equity investments in partnerships through a taxable subsidiary for federal income tax purposes. Upon sale or exit of such investment, we may pay taxes at regular corporate tax rates, which will reduce the amount of gains or dividends available for distributions to our stockholders.

In addition, investing in middle-market companies involves a number of significant risks, including:

- companies may be highly leveraged, have limited financial resources and may be unable to meet their obligations under their debt securities that we hold, which may be accompanied by a deterioration in the value of any collateral and a reduction in the likelihood of us realizing any guarantees we may have obtained in connection with our investment;
- they typically have shorter operating histories, more limited publicly available information, narrower product lines, more concentration of revenues from customers and smaller market shares than larger businesses, which tend to render them more vulnerable to competitors' actions and changing market conditions, as well as general economic downturns;

- they are more likely to depend on the management talents and efforts of a small group of persons; therefore, the death, disability, resignation or termination of one or more of these persons could have a material adverse impact on our portfolio company and, in turn, on us;
- they generally have less predictable operating results, may from time to time be parties to litigation, may be engaged in rapidly changing businesses with products subject to a substantial risk of obsolescence, and may require substantial additional capital to support their operations, finance expansion or maintain their competitive position. In addition, our executive officers, directors and our Investment Adviser may be named as defendants in litigation arising from our investments in the portfolio companies; and
- they may have difficulty accessing the capital markets to meet future capital needs, which may limit their ability to grow or to refinance their outstanding indebtedness upon maturity.

***Under the 1940 Act we may invest up to 30% of our assets in investments that are not qualifying assets for BDCs. If we do not invest a sufficient portion of our assets in qualifying assets, we could be precluded from investing in assets that we deem to be attractive.***

As a BDC, we may not acquire any asset other than qualifying assets, as defined under the 1940 Act, unless at the time the acquisition is made such qualifying assets represent at least 70% of the value of our total assets. Qualifying assets include investments in U.S. operating companies whose securities are not listed on a national securities exchange and companies listed on a national securities exchange subject to a maximum market capitalization of \$250 million. Qualifying assets also include cash, cash equivalents, government securities and high quality debt securities maturing in one year or less from the time of investment.

We believe that most of our debt and equity investments do and will constitute qualifying assets. However, we may be precluded from investing in what we believe are attractive investments if such investments are not qualifying assets for purposes of the 1940 Act. If we have not invested a sufficient portion of our assets in qualifying assets at the time of a proposed investment, we will be prohibited from making any additional investment that is not a qualifying asset and could be forced to forgo attractive investment opportunities. Similarly, these rules could prevent us from making follow-on investments in existing portfolio companies (which could result in the dilution of our position) or could require us to dispose of investments at inappropriate times in order to comply with the 1940 Act. If we need to dispose of such investments quickly, it would be difficult to dispose of such investments on favorable terms. For example, we may have difficulty in finding a buyer and, even if we do find a buyer, we may have to sell the investments at a substantial loss.

***We are a non-diversified investment company within the meaning of the 1940 Act, and therefore we generally are not limited with respect to the proportion of our assets that may be invested in securities of a single issuer.***

We are classified as a non-diversified investment company within the meaning of the 1940 Act, which means that we are not limited by the 1940 Act with respect to the proportion of our assets that we may invest in securities of a single issuer, excluding limitations on investments in other investment companies and compliance with the RIC tax regulations. To the extent that we assume large positions in the securities of a small number of issuers, our NAV may fluctuate to a greater extent than that of a diversified investment company as a result of changes in the financial condition or the market's assessment of the issuer. We may also be more susceptible to any single economic or regulatory occurrence than a diversified investment company. Beyond the Diversification Requirements, we do not have fixed guidelines for portfolio diversification, and our investments could be concentrated in relatively few portfolio companies or industries. Although we are classified as a non-diversified investment company within the meaning of the 1940 Act, we maintain the flexibility to operate as a diversified investment company and have done so for an extended period of time. To the extent that we operate as a non-diversified investment company in the future, we may be subject to greater risk.

***Economic recessions or downturns could impair our portfolio companies and harm our operating results.***

Many of our portfolio companies are susceptible to economic or industry centric slowdowns or recessions and may be unable to repay debt from us during these periods. Therefore, our non-performing assets are likely to increase, and the value of our portfolio is likely to decrease during these periods. Adverse economic conditions also may decrease the value of collateral securing some of our debt investments and the value of our equity investments. Economic slowdowns or recessions could lead to financial losses in our portfolio and a material decrease in revenues, net income and assets. Unfavorable economic conditions also could increase our funding costs, limit our access to the capital markets or result in a decision by lenders not to extend credit to us. These events could prevent us from increasing investments and materially harm our operating results.

A portfolio company's failure to satisfy financial or operating covenants imposed by us or other lenders could lead to defaults and potential termination of its debt and foreclosure on its secured assets, which could trigger cross-defaults under other agreements and jeopardize our portfolio company's ability to meet its obligations under the debt securities that we hold. We may incur expenses to the extent necessary to seek recovery upon default or to negotiate new terms with a defaulting portfolio company, and any restructuring could further cause adverse effects on our business. Depending on the facts and circumstances of our investments and the extent of our involvement in the management of a portfolio company, upon the bankruptcy of a portfolio company, a bankruptcy court may recharacterize our debt investments as equity investments and subordinate all or a portion of our claim to that of other creditors. This could occur regardless of how we may have structured our investment. In addition, we cannot assure you that a bankruptcy court would not take actions contrary to our interests.

***If we fail to make follow-on investments in our portfolio companies, this could materially impair the value of our portfolio.***

Following an initial investment in a portfolio company, we may make additional investments in that portfolio company as "follow-on" investments, in order to:

- increase or maintain in whole or in part our equity ownership percentage;
- exercise warrants, options or convertible securities that were acquired in the original or subsequent financing; or
- attempt to preserve or enhance the value of our investment.

We have the discretion to make any follow-on investments, subject to the availability of capital resources and regulatory considerations. We may elect not to make follow-on investments or otherwise lack sufficient funds to make those investments. Any failure to make follow-on investments may, in some circumstances, jeopardize the continued viability of a portfolio company and our initial investment, or may result in a missed opportunity for us to increase our participation in a successful transaction or business. Even if we have sufficient capital to make a desired follow-on investment, we may elect not to make a follow-on investment because we may not want to increase our concentration of risk, because we prefer other opportunities, or because we are inhibited by compliance with BDC requirements or the desire to maintain our RIC tax status.

***Because we do not generally hold controlling equity interests in our portfolio companies, we are not in a position to exercise control over our portfolio companies or to prevent decisions by management of our portfolio companies that could decrease the value of our investments.***

Because we do not generally have controlling equity positions in our portfolio companies, we are subject to the risk that a portfolio company may make business decisions with which we disagree, and the stockholders and management of a portfolio company may take risks or otherwise act in ways that are adverse to our interests. Due to the lack of liquidity for the debt and equity investments that we typically hold in our portfolio companies, we may not be able to dispose of our investments in the event we disagree with the actions of a portfolio company, and may therefore suffer a decrease in the market value of our investments.

**An investment strategy focused primarily on privately held companies, including controlling equity interests, presents certain challenges, including the lack of available or comparable information about these companies, a dependence on the talents and efforts of only a few key portfolio company personnel and a greater vulnerability to economic downturns.**

We have invested and intend to continue to invest primarily in privately held companies. Generally, little public information exists about these companies, and we rely on the ability of our Investment Adviser's investment professionals to obtain adequate information to evaluate the potential returns from investing in these companies. If they are unable to uncover all material information about these companies, we may not make a fully informed investment decision, and we may lose value on our investments. Also, privately held companies frequently have less diverse product lines and smaller market presence than larger competitors. These factors could have a material adverse impact on our investment returns as compared to companies investing primarily in the securities of public companies.

**Our portfolio companies may incur debt that ranks equally with, or senior to, our investments in such companies and our portfolio companies may be highly leveraged.**

We invest primarily in Floating Rate Loans issued by our portfolio companies. The portfolio companies usually will have, or may be permitted to incur, other debt that ranks equally with, or senior to, our investments, and they may be highly leveraged. By their terms, such debt instruments may provide that the holders are entitled to receive payment of interest or principal on or before the dates on which we are entitled to receive payments with respect to our debt investments. Also, in the event of insolvency, liquidation, dissolution, reorganization or bankruptcy of a portfolio company, holders of debt instruments ranking senior to our investment in that portfolio company would typically be entitled to receive payment in full before we receive any distribution in respect of our investment. After repaying such senior creditors, the portfolio company may not have any remaining assets to use for repaying its obligation to us. In the case of debt ranking equally with debt securities in which we invest, we would have to share on an equal basis any distributions with other creditors holding such debt in the event of an insolvency, liquidation, dissolution, reorganization or bankruptcy of the relevant portfolio company.

**Our incentive fee may induce the Investment Adviser to make speculative investments.**

The incentive fee payable by us to PennantPark Investment Advisers may create an incentive for PennantPark Investment Advisers to make investments on our behalf that are risky or more speculative than would be the case in the absence of such compensation arrangement. The incentive fee payable to our Investment Adviser is calculated based on a percentage of our NAV. This may encourage our Investment Adviser to use leverage to increase the return on our investments. Under certain circumstances, the use of leverage may increase the likelihood of default, which would disfavor the holders of our common stock. In addition, our Investment Adviser will receive the incentive fee based, in part, upon net capital gains realized on our investments. Unlike that portion of the incentive fee based on income, there is no hurdle applicable to the portion of the incentive fee based on net capital gains. As a result, the Investment Adviser may have a tendency to invest more capital in investments that are likely to result in capital gains as compared to income producing securities. Such a practice could result in our investing in more speculative securities than would otherwise be the case, which could result in higher investment losses, particularly during economic downturns.

The part of our incentive fee payable by us to PennantPark Investment Advisers that relates to net investment income is computed and paid on income that has been accrued but that has not been received in cash. PennantPark Investment Advisers is not obligated to reimburse us for any such incentive fees even if we subsequently incur losses or never receive in cash the deferred income that was previously accrued. As a result, there is a risk that we will pay incentive fees with respect to income that we never receive in cash.

**Any investments in distressed debt may not produce income and may require us to bear large expenses in order to protect and recover our investment.**

Distressed debt investments may not produce income and may require us to bear certain additional expenses in order to protect and recover our investment. Therefore, to the extent we invest in distressed debt, our ability to achieve current income for our stockholders may be diminished. We also will be subject to significant uncertainty as to when and in what manner and for what value the distressed debt in which we invest will eventually be satisfied (e.g., through liquidation of the obligor's assets, an exchange offer or plan of reorganization involving the distressed debt securities or a payment of some amount in satisfaction of the obligation). In addition, even if an exchange offer is made or plan of reorganization is adopted with respect to distressed debt we hold, there can be no assurance that the securities or other assets received by us in connection with such exchange offer or plan of reorganization will not have a lower value or income potential than may have been anticipated when the investment was made. Moreover, any securities received by us upon completion of an exchange offer or plan of reorganization may be restricted as to resale. If we participate in negotiations with respect to any exchange offer or plan of reorganization with respect to an issuer of distressed debt, we may be restricted from disposing of such securities.

**Our investments in foreign securities may involve significant risks in addition to the risks inherent in U.S. investments.**

Our investment strategy contemplates potential investments in securities of companies located outside of the United States. Investments in securities of companies located outside the United States would not be qualifying assets under Section 55(a) of the 1940 Act. Investing in companies located outside of the United States may expose us to additional risks not typically associated with investing in U.S. companies. These risks include changes in exchange control regulations, political, economic and social instability, expropriation, imposition of foreign taxes, less liquid markets and less available information than is generally the case in the United States, higher transaction costs, less government supervision of exchanges, brokers and issuers, less developed bankruptcy laws, difficulty in enforcing contractual obligations, lack of uniform accounting and auditing standards and greater price volatility.

Although most of our investments will be U.S. dollar-denominated, any investments denominated in a foreign currency will be subject to the risk that the value of a particular currency will change in relation to one or more other currencies. Among the factors that may affect currency values are trade balances, the level of interest rates, differences in relative values of similar assets in different currencies, long-term opportunities for investment and capital appreciation, economic and political developments. We may employ hedging techniques such as using our Credit Facility's multicurrency capability to minimize these risks, but we can offer no assurance that we will, in fact, hedge currency risk or, that if we do, such strategies will be effective.

**We may make investments that cause our stockholders to bear investment advisory fees and other expenses on such investments in addition to our management fees and expenses.**

We may invest, to the extent permitted by law, in the securities and instruments of other investment companies and companies that would be investment companies but are excluded from the definition of an investment company provided in Section 3(c) of the 1940 Act. To the extent we so invest, we will bear our ratable share of any such investment company's expenses, including management and performance fees. We will also remain obligated to pay investment advisory fees, consisting of a base management fee and an incentive fee, to PennantPark Investment Advisers with respect to investments in the securities and instruments of other investment companies under our Investment Management Agreement. With respect to any such investments, each of our stockholders will bear his or her share of the investment advisory fees of PennantPark Investment Advisers as well as indirectly bearing the investment advisory fees and other expenses of any investment companies in which we invest.

**We may be obligated to pay our Investment Adviser incentive compensation even if we incur a loss.**

Our Investment Adviser is entitled to incentive compensation for each fiscal quarter in an amount equal to a percentage of the excess of our investment income for that quarter (before deducting incentive compensation, net operating losses and certain other items) above a threshold return for that quarter. Our Pre-Incentive Fee Net Investment Income for incentive compensation purposes excludes realized and unrealized capital losses that we may incur in the fiscal quarter, even if such capital losses result in a net loss on our Consolidated Statements of Operations for that quarter. Thus, we may be required to pay the Investment Adviser incentive compensation for a fiscal quarter even if there is a decline in the value of our portfolio, NAV or we incur a net loss for that quarter. In addition, increases in interest rates may increase the amount of incentive fees we pay to the Investment Adviser even though our performance relative to the market has not increased.

***We may expose ourselves to risks if we engage in hedging transactions.***

If we engage in hedging transactions, we may expose ourselves to risks associated with such transactions. We may borrow under a multicurrency credit facility in currencies selected to minimize our foreign currency exposure or, to the extent permitted by the 1940 Act and applicable commodities laws, use instruments such as forward contracts, currency options and interest rate swaps, caps, collars and floors to seek to hedge against fluctuations in the relative values of our portfolio positions from changes in currency exchange rates and market interest rates. Hedging against a decline in the values of our interest rate or currency positions does not eliminate the possibility of fluctuations in the values of such positions or prevent losses if the values of such positions decline. However, such hedging designed to gain from those changes in interest rates or foreign currency exposures, for instance, may also limit the opportunity for gain if the changes in the underlying positions should move against such hedges. Moreover, it may not be possible to hedge against an exchange rate or interest rate fluctuation that is so generally anticipated that we are not able to enter into a hedging transaction at an acceptable price.

While we may enter into such transactions to seek to reduce currency exchange rate and interest rate risks, unanticipated changes in currency exchange rates or interest rates may result in worse overall investment performance than if we had not engaged in any such hedging transactions. In addition, the degree of correlation between price movements of the instruments used in a hedging strategy and price movements in the portfolio positions being hedged may vary. Moreover, for a variety of reasons, we may not seek to establish a perfect correlation between such hedging instruments and the portfolio holdings being hedged. Any such imperfect correlation may prevent us from achieving the intended hedge and expose us to risk of loss. In addition, it may not be possible to hedge fully or perfectly against currency fluctuations affecting the value of securities denominated in non-U.S. currencies because the value of those securities is likely to fluctuate as a result of factors not related to currency fluctuations. Our ability to engage in hedging transactions may also be adversely affected by the rules of the Commodity Futures Trading Commission.

***The effect of global climate change may impact the operations of our portfolio companies.***

There may be evidence of global climate change. Climate change creates physical and financial risk and some of our portfolio companies may be adversely affected by climate change. For example, the needs of customers of energy companies vary with weather conditions, primarily temperature and humidity. To the extent weather conditions are affected by climate change, energy use could increase or decrease depending on the duration and magnitude of any changes. Increases in the cost of energy could adversely affect the cost of operations of our portfolio companies if the use of energy products or services is material to their business. A decrease in energy use due to weather changes may affect some of our portfolio companies' financial condition, through decreased revenues. Extreme weather conditions in general require more system backup, adding to costs, and can contribute to increased system stresses, including service interruptions.

**RISKS RELATING TO AN INVESTMENT IN OUR COMMON STOCK**

***We may obtain the approval of our stockholders to issue shares of our common stock at prices below the then current NAV per share of our common stock. If we receive such approval from stockholders in the future, we may issue shares of our common stock at a price below the then current NAV per share of common stock. Any such issuance could materially dilute your interest in our common stock and reduce our NAV per share.***

We may seek to obtain from our stockholders and they may approve a proposal that authorizes us to issue shares of our common stock at prices below the then current NAV per share of our common stock in one or more offerings for a 12-month period. Such approval would allow us to access the capital markets in a way that we were previously unable to do as a result of restrictions that, absent stockholder approval, apply to BDCs under the 1940 Act.

Any sale or other issuance of shares of our common stock at a price below NAV per share will result in an immediate dilution to your interest in our common stock and a reduction of our NAV per share. This dilution would occur as a result of a proportionately greater decrease in a stockholder's interest in our earnings and assets and voting interest in us than the increase in our assets resulting from such issuance. Because the number of future shares of common stock that may be issued below our NAV per share and the price and timing of such issuances are not currently known, we cannot predict the actual dilutive effect of any such issuance. We also cannot determine the resulting reduction in our NAV per share of any such issuance at this time. We caution you that such effects may be material, and we undertake to describe all the material risks and dilutive effects of any offerings we make at a price below our then current NAV in the future in a prospectus supplement issued in connection with any such offering.

The determination of NAV in connection with an offering of shares of common stock will involve the determination by our board of directors or a committee thereof that we are not selling shares of our common stock at a price below the then current NAV of our common stock at the time at which the sale is made or otherwise in violation of the 1940 Act unless we have previously received the consent of the majority of our common stockholders to do so and the board of directors decides such an offering is in the best interests of our common stockholders. Whenever we do not have current stockholder approval to issue shares of our common stock at a price per share below our then current NAV per share, the offering price per share (after any distributing commission or discount) will equal or exceed our then current NAV per share, based on the value of our portfolio securities and other assets determined in good faith by our board of directors as of a time within 48 hours (excluding Sundays and holidays) of the sale.

***There is a risk that our stockholders may not receive distributions or that our distributions may not grow over time.***

We intend to make distributions on a monthly basis to our stockholders out of assets legally available for distribution. We cannot assure you that we will achieve investment results that will allow us to make a specified level of cash distributions or year-to-year increases in cash distributions. In addition, due to the asset coverage ratio requirements applicable to us as a BDC, we may be limited in our ability to make distributions. Further, we may be forced to liquidate some of our investments and raise cash in order to make distribution payments, which could materially harm our business. Finally, to the extent we make distributions to stockholders which include a return of capital, that portion of the distribution essentially constitutes a return of the stockholders' investment. Although such return of capital may not be taxable, such distributions may increase an investor's tax liability for capital gains upon the future sale of our common stock.

***Investing in our shares may involve an above average degree of risk.***

The investments we make in accordance with our investment objectives may result in a higher amount of risk and volatility than alternative investment options or loss of principal. Our investments in portfolio companies may be highly speculative and aggressive and therefore, an investment in our shares may not be suitable for someone with lower risk tolerance.

***Sales of substantial amounts of our securities may have an adverse effect on the market price of our securities.***

Sales of substantial amounts of our securities, or the availability of such securities for sale, could adversely affect the prevailing market prices for our securities. If this occurs and continues it could impair our ability to raise additional capital through the sale of securities should we desire to do so.

***We may allocate the net proceeds from any offering of our securities in ways with which you may not agree.***

We have significant flexibility in investing the net proceeds of any offering of our securities and may use the net proceeds from an offering in ways with which you may not agree or for purposes other than those contemplated at the time of the offering.

***Our shares may trade at discounts from NAV or at premiums that are unsustainable over the long term.***

Shares of BDCs may trade at a market price that is less than the NAV that is attributable to those shares. Our shares have traded above and below our NAV. Our shares closed on The Nasdaq Global Select Market at \$11.60 and \$13.15 on September 30, 2019 and 2018, respectively. Our NAV per share was \$12.97 and \$13.82 as of the same dates. The possibility that our shares of common stock will trade at a discount from NAV or at a premium that is unsustainable over the long term is separate and distinct from the risk that our NAV will decrease. It is not possible to predict whether our shares will trade at, above or below NAV in the future.

***The market price of our common stock may fluctuate significantly.***

The market price and liquidity of the market for shares of our common stock may be significantly affected by numerous factors, some of which are beyond our control and may not be directly related to our operating performance. These factors include:

- significant volatility in the market price and trading volume of securities of BDCs or other companies in our sector, which are not necessarily related to the operating performance of these companies;
- changes in regulatory policies or tax guidelines, particularly with respect to RICs or BDCs;
- any loss of our BDC or RIC status;
- changes in earnings or variations in operating results;
- changes in prevailing interest rates;
- changes in the value of our portfolio of investments;
- any shortfall in revenue or net income or any increase in losses from levels expected by investors or securities analysts;
- the inability of our Investment Adviser to employ additional experienced investment professionals or the departure of any of the Investment Adviser's key personnel;
- operating performance of companies comparable to us;
- general national and international economic trends and other external factors;
- general price and volume fluctuations in the stock markets, including as a result of short sales;
- conversion features of subscription rights, warrants or convertible debt; and
- loss of a major funding source.

Since our initial listing on The Nasdaq Global Select Market, our shares of common stock have traded at a wide range of prices. We can offer no assurance that our shares of common stock will not display similar volatility in future periods.

***We may be unable to invest the net proceeds raised from offerings on acceptable terms, which would harm our financial condition and operating results.***

Until we identify new investment opportunities, we intend to either invest the net proceeds of future offerings in cash equivalents, U.S. government securities and other high-quality debt investments that mature in one year or less or use the net proceeds from such offerings to reduce then-outstanding obligations under our Credit Facility or any future credit facility. We cannot assure you that we will be able to find enough appropriate investments that meet our investment selection criteria or that any investment we complete using the proceeds from an offering will produce a sufficient return.

***There is a risk that our common stockholders may receive our stock as distributions in which case they may be required to pay taxes in excess of the cash they receive.***

We may distribute our common stock as a dividend of our taxable income and a stockholder could receive a portion of the dividends declared and distributed by us in shares of our common stock with the remaining amount in cash. A stockholder will be considered to have recognized dividend income generally equal to the fair market value of the stock paid by us plus cash received with respect to such dividend. The total dividend declared would be taxable income to a stockholder even though he or she may only receive a relatively small portion of the dividend in cash to pay any taxes due on the dividend. We have not elected to distribute stock as a dividend but reserve the right to do so.

***We incur significant costs as a result of being a publicly traded company.***

As a publicly traded company, we incur legal, accounting and other expenses, including costs associated with the periodic reporting requirements applicable to a company whose securities are registered under the Exchange Act, as well as additional corporate governance requirements, including requirements under the Sarbanes-Oxley Act, and other rules implemented by the SEC and the listing standards of The Nasdaq Stock Market LLC and the clearing house guidelines of the TASE.

***Provisions of the Maryland General Corporation Law and of our charter and bylaws could deter takeover attempts and have an adverse impact on the price of our common stock.***

The Maryland General Corporation Law, our charter and our bylaws contain provisions that may discourage, delay or make more difficult a change in control of us or the removal of our directors. We are subject to the Maryland Business Combination Act, or the Business Combination Act, the application of which is subject to any applicable requirements of the 1940 Act. Our board of directors has adopted a resolution exempting from the Business Combination Act any business combination between us and any other person, subject to prior approval of such business combination by our board, including approval by a majority of our disinterested directors. If the resolution exempting business combinations is repealed or our board does not approve a business combination, the Business Combination Act may discourage third parties from trying to acquire control of us and increase the difficulty of consummating such an offer.

In addition, our bylaws exempt from the Maryland Control Share Acquisition Act acquisitions of our common stock by any person. If we amend our bylaws to repeal the exemption from such act, it may make it more difficult for a third party to obtain control of us and increase the difficulty of consummating such an offer. Our bylaws require us to consult with the SEC staff before we repeal such exemption. Also, our charter provides for classifying our board of directors in three classes serving staggered three-year terms, and provisions of our charter authorize our board of directors to classify or reclassify shares of our stock in one or more classes or series, to cause the issuance of additional shares of our stock, and to amend our charter, without stockholder approval, to increase or decrease the number of shares of stock that we have authority to issue.

These anti-takeover provisions may inhibit a change of control in circumstances that could give our stockholders the opportunity to realize a premium over the market price for our common stock.

## RISKS RELATING TO OUR 2023 NOTES

***The 2023 Notes are unsecured and therefore are effectively subordinated to any secured indebtedness we have currently incurred or may incur in the future.***

The 2023 Notes are not secured by any of our assets or any of the assets of our subsidiaries. As a result, the 2023 Notes are subordinated to any secured indebtedness we or our subsidiaries have currently incurred and may incur in the future (or any indebtedness that is initially unsecured to which we subsequently grant security) to the extent of the value of the assets securing such indebtedness. In any liquidation, dissolution, bankruptcy or other similar proceeding, the holders of any of our existing or future secured indebtedness and the secured indebtedness of our subsidiaries may assert rights against the assets pledged to secure that indebtedness in order to receive full payment of their indebtedness before the assets may be used to pay other creditors, including the holders of the 2023 Notes. As of September 30, 2019, we had \$265.3 million outstanding under the Credit Facility. The Credit Facility is secured by substantially all of the assets of Funding I, and the indebtedness under the Credit Facility is therefore effectively senior in right of payment to the 2023 Notes to the extent of the value of such assets.

***The 2023 Notes are structurally subordinated to the indebtedness and other liabilities of our subsidiaries.***

The 2023 Notes are obligations exclusively of PennantPark Floating Rate Capital Ltd. and not of any of our subsidiaries. None of our subsidiaries is or acts as a guarantor of the 2023 Notes and the 2023 Notes are not required to be guaranteed by any subsidiaries we may acquire or create in the future.

Except to the extent we are a creditor with recognized claims against our subsidiaries, all claims of creditors (including holders of preferred stock, if any, of our subsidiaries) will have priority over our equity interests in such subsidiaries (and therefore the claims of our creditors, including holders of the 2023 Notes) with respect to the assets of such subsidiaries. Even if we are recognized as a creditor of one or more of our subsidiaries, our claims would still be effectively subordinated to any security interests in the assets of any such subsidiary and to any indebtedness or other liabilities of any such subsidiary senior to our claims. Consequently, the 2023 Notes are structurally subordinated to all indebtedness and other liabilities (including trade payables) of our subsidiaries and any subsidiaries that we may in the future acquire or establish as financing vehicles or otherwise.

***The 2023 Notes are linked to the U.S. Dollar and therefore holders of the 2023 Notes are subject to currency risk.***

Payments of principal and interest under the 2023 Notes will be adjusted for increases or decreases in the representative exchange rate of the U.S. Dollar to the New Israeli Shekel, or NIS, from the time of the public offering of the 2023 Notes. Accordingly, if such exchange rate declines, the rate of interest holders of the 2023 Notes receive in NIS terms effectively will be lower than the stated interest rate of the 2023 Notes and they will be entitled to receive fewer NIS upon repayment of the 2023 Notes than the par value thereof.

***If an active trading market does not develop for the 2023 Notes holders of the 2023 Notes may not be able to sell them.***

The 2023 Notes are a new issue of debt securities, and they may trade at a discount to their initial offering price depending on prevailing interest rates, foreign currency exchange rates, the market for similar securities, our credit ratings, our financial condition or other relevant factors. We cannot assure holders of the 2023 Notes that a liquid trading market will develop for the 2023 Notes, that they will be able to sell their 2023 Notes at a particular time or that the price they receive when they sell will be favorable. To the extent an active trading market does not develop, the liquidity and trading price for the 2023 Notes may be harmed. Accordingly, investors may be required to bear the financial risk of an investment in the 2023 Notes for an indefinite period of time.

***The market price of the 2023 Notes may fluctuate.***

If an active trading market for the 2023 Notes does develop on the TASE, the 2023 Notes may trade at prices lower than the offering price. The trading price of the 2023 Notes depends on many factors, including:

- prevailing interest rates;
- the prevailing exchange rate of the U.S. Dollar to the NIS;
- the market for similar securities;
- general political, economic and financial market conditions in Israel and globally;
- our issuance of debt or preferred equity securities; and
- our financial condition, results of operations and prospects.

In addition, a downgrade, suspension or withdrawal of the credit rating assigned by a rating agency to us or the 2023 Notes, if any, or change in the debt markets could cause the liquidity or market value of the 2023 Notes to decline significantly.

Our credit ratings are an assessment by rating agencies of our ability to pay our debts when due. Consequently, real or anticipated changes in our credit ratings will generally affect the market value of the 2023 Notes. These credit ratings may not reflect the potential impact of risks relating to the structure or marketing of the 2023 Notes. Credit ratings are not a recommendation to buy, sell or hold any security, and may be revised or withdrawn at any time by the issuing organization in its sole discretion. Neither we nor any underwriter undertakes any obligation to maintain our credit ratings or to advise holders of 2023 Notes of any changes in our credit ratings. There can be no assurance that our credit ratings will remain for any given period of time or that they will not be lowered or withdrawn entirely if in the judgment of the rating agency future circumstances relating to the basis of our credit ratings, such as adverse changes in our company, so warrant. In addition, the interest rate payable under the 2023 Notes will increase in the event of certain ratings declines or if a rating agency ceases to rate the 2023 Notes for more than 21 days until such declines are reversed and/or the 2023 Notes are again rated by a rating agency.

***The deed of trust under which the 2023 Notes were issued contains limited protection for holders of the 2023 Notes.***

The deed of trust under which the 2023 Notes were issued offers limited protection to holders of the 2023 Notes. The terms of the deed of trust and the 2023 Notes do not restrict our or any of our subsidiaries' ability to engage in, or otherwise be a party to, a variety of corporate transactions, circumstances or events that could have an adverse impact on each holder's investment in the 2023 Notes. In particular, subject to the satisfaction of certain financial covenants, the terms of the deed of trust and the 2023 Notes will not place any restrictions on our or our subsidiaries' ability to:

- issue securities or otherwise incur additional indebtedness or other obligations, including (1) any indebtedness or other obligations that would be equal in right of payment to the 2023 Notes, (2) any indebtedness or other obligations that would be secured and therefore rank effectively senior in right of payment to the 2023 Notes to the extent of the values of the assets securing such debt, (3) indebtedness of ours that is guaranteed by one or more of our subsidiaries and which therefore would rank structurally senior to the 2023 Notes and (4) securities, indebtedness or other obligations issued or incurred by our subsidiaries that would be senior in right of payment to our equity interests in our subsidiaries and therefore would rank structurally senior in right of payment to the 2023 Notes with respect to the assets of our subsidiaries, in each case other than an incurrence of indebtedness or other obligation that would cause a violation of Section 18(a)(1)(A) as modified by Section 61(a)(1)-(2) of the 1940 Act or any successor provisions;

- pay dividends on, or purchase or redeem or make any payments in respect of, capital stock or other securities ranking junior in right of payment to the 2023 Notes;
- sell assets;
- enter into transactions with affiliates;
- enter into sale and leaseback transactions;
- make investments; or
- create restrictions on the payment of dividends or other amounts to us from our subsidiaries.

Our ability to recapitalize, incur additional debt and take a number of other actions that are not limited by the terms of the 2023 Notes may have important consequences for holders of the 2023 Notes, including making it more difficult for us to satisfy our obligations with respect to the 2023 Notes or negatively affecting the trading value of the 2023 Notes.

Other debt we issue or incur in the future could contain more protections for its holders than the deed of trust and the 2023 Notes, including additional covenants and events of default. The issuance or incurrence of any such debt with incremental protections could affect the market for and trading levels and prices of the 2023 Notes.

***The optional redemption provision may materially adversely affect the return on the 2023 Notes.***

The 2023 Notes are redeemable in whole or in part upon certain conditions at any time or from time to time at our option. We may choose to redeem the 2023 Notes at times when prevailing interest rates are lower than the interest rate paid on the 2023 Notes. In this circumstance, holders of the 2023 Notes may not be able to reinvest the redemption proceeds in a comparable security at an effective interest rate as high as the 2023 Notes being redeemed.

***If we default on our obligations to pay our other indebtedness, we may not be able to make payments on the 2023 Notes.***

Any default under the agreements governing our indebtedness, including a default under our Credit Facility, or under other indebtedness to which we may be a party that is not waived by the required lenders or holders, and the remedies sought by the holders of such indebtedness could make us unable to pay principal, premium, if any, and interest on the 2023 Notes and substantially decrease the market value of the 2023 Notes. If we are unable to generate sufficient cash flow and are otherwise unable to obtain funds necessary to meet required payments of principal, premium, if any, and interest on our indebtedness, or if we otherwise fail to comply with the various covenants, including financial and operating covenants, in the instruments governing our indebtedness, we could be in default under the terms of the agreements governing such indebtedness. In the event of such default, the holders of such indebtedness could elect to declare all the funds borrowed thereunder to be due and payable, together with accrued and unpaid interest, the lenders under our Credit Facility or other debt we may incur in the future could elect to terminate their commitments, cease making further loans and institute foreclosure proceedings against our assets, and we could be forced into bankruptcy or liquidation. If our operating performance declines, we may in the future need to seek to obtain waivers from the required lenders under the agreements relating to our Credit Facility, or other debt that we may incur in the future to avoid being in default. If we breach our covenants under our Credit Facility or other debt and seek a waiver, we may not be able to obtain a waiver from the required lenders or holders. If this occurs, we would be in default and our lenders or debt holders could exercise their rights as described above, and we could be forced into bankruptcy or liquidation. If we are unable to repay debt, lenders having secured obligations, including the lenders under our Credit Facility, could proceed against the collateral securing the debt. Because our Credit Facility has, and any future debt will likely have, customary cross-default provisions, if the indebtedness thereunder or under any future credit facility is accelerated, we may be unable to repay or finance the amounts due.

***FATCA withholding may apply to payments to certain foreign entities.***

Payments made under the 2023 Notes to a foreign financial institution or non-financial foreign entity (including such an institution or entity acting as an intermediary) may be subject to a U.S. withholding tax of 30% under the Foreign Account Tax Compliance Act (commonly known as “FATCA”) provisions of the Code. This U.S. withholding tax may apply to certain payments of interest on the 2023 Notes, unless the foreign financial institution or non-financial foreign entity complies with certain information reporting, withholding, identification, certification and related requirements imposed by FATCA. Depending upon the status of a holder and the status of an intermediary through which any notes are held, the holder could be subject to this 30% U.S. withholding tax in respect of any interest paid on the notes. Holders of the 2023 Notes should consult their own tax advisors regarding FATCA and how it may affect their investment in the notes.

***It may be difficult to obtain and enforce civil judgments against us and our directors, officers and experts.***

We are a Maryland corporation and our principal executive offices are located in New York City. All of our assets are located outside of Israel. As a result, even though the deed of trust for the 2023 Notes is governed by Israeli law and any disputes thereunder are stipulated to be adjudicated in Israeli courts, holders of the 2023 Notes may have difficulty enforcing in Israel judgments they may obtain in an Israeli court against us.

U.S. courts may refuse to hear a securities law claim of a non-U.S. investor who purchased our securities on the TASE. In addition, since our directors, officers and experts are located outside of Israel, it may be difficult serving legal process upon any of these persons. It also may be difficult enforcing judgments holders of the 2023 Notes may obtain in Israeli courts against us or those persons in any action, including actions based upon the civil liability provisions of U.S. securities laws.

It may also be difficult to assert U.S. securities laws claims in original actions instituted in Israel. Israeli courts may refuse to hear a claim based on an alleged violation of U.S. securities laws reasoning that Israel is not the most appropriate forum to bring such a claim. In particular, the Israeli Securities Law expressly authorizes Israeli courts to stay a securities lawsuit against a dual-listed company while a lawsuit on similar grounds is being adjudicated in a non-Israeli court.

Subject to specified time limitations and legal procedures, under the rules of private international law currently prevailing in Israel, Israeli courts may enforce a U.S. judgment in a civil matter, including a judgment based upon the civil liability provisions of the U.S. securities laws, as well as a monetary or compensatory judgment in a non-civil matter, provided that the following key conditions are met:

- subject to limited exceptions, the judgment is final and non-appealable;
- the judgment was given by a court competent under the laws of the state of the court and is otherwise enforceable in such state;
- the judgment was rendered by a court competent under the rules of private international law applicable in Israel;
- the laws of the state in which the judgment was given provide for the enforcement of judgments of Israeli courts;
- adequate service of process has been effected and the defendant has had a reasonable opportunity to present his arguments and evidence;

- the judgment and its enforcement are not contrary to the law, public policy, security or sovereignty of the State of Israel;
- the judgment was not obtained by fraud and does not conflict with any other valid judgment in the same matter between the same parties; and
- an action between the same parties in the same matter was not pending in any Israeli court at the time the lawsuit was instituted in the U.S. court.

## **RISKS RELATING TO OUR DEBT SECURITIZATION**

***We are subject to certain risks as a result of our interests in connection with the Debt Securitization and our equity interest in the Securitization Issuers.***

On September 19, 2019, in connection with the Debt Securitization and the offering of the 2031 Asset-Backed Debt by the Securitization Issuers, we sold and/or contributed to the Depositor certain senior loans made to certain of our portfolio companies, or the Securitization Loans, which the Depositor in turn sold and/or contributed to the Securitization Issuer in exchange for 100% of the Preferred Shares of the Securitization Issuer, 100% of the Class D Secured Deferrable Floating Rate Notes issued by the Securitization Issuer, and a portion of the net cash proceeds received from the sale of the 2031 Asset-Backed Debt. Following these transfers, the Securitization Issuer, and not the Depositor or us, held all of the ownership interest in the Securitization Loans.

As a result of the Debt Securitization, we hold, indirectly through the Depositor, 100% of the equity interests in the Securitization Issuers. As a result, we consolidate the financial statements of the Depositor and the Securitization Issuers, as well as our other subsidiaries, in our consolidated financial statements. Because each of the Depositor and the Securitization Issuer is disregarded as an entity separate from its owners for U.S. federal income tax purposes, the sale or contribution by us to the Depositor, and by the Depositor to the Securitization Issuer, as applicable, did not constitute a taxable event for U.S. federal income tax purposes. If the IRS were to take a contrary position, there could be a material adverse effect on our business, financial condition, results of operations or cash flows.

Further, a failure of the Securitization Issuer to be treated as a disregarded entity for U.S. federal income tax purposes would constitute an event of default pursuant to the applicable indenture under the Debt Securitization, upon which the trustee under the Debt Securitization, or the Securitization Trustee, may and will at the direction of a majority of the holders of the 2031 Asset-Backed Debt, or the Securitization Debtholders, declare the 2031 Asset-Backed Debt to be immediately due and payable and exercise remedies under the indenture, including (i) to institute proceedings for the collection of all amounts then payable on the 2031 Asset-Backed Debt, or under the indenture, enforce any judgment obtained, and collect from the Securitization Issuers and any other obligor upon the 2031 Asset-Backed Debt monies adjudged due; (ii) institute proceedings from time to time for the complete or partial foreclosure of the indenture with respect to the property of the Securitization Issuers; (iii) exercise any remedies as a secured party under the relevant Uniform Commercial Code and take other appropriate action under applicable law to protect and enforce the rights and remedies of the Securitization Trustee and the Securitization Debtholders; or (iv) sell the property of the Securitization Issuers or any portion thereof or rights or interest therein at one or more public or private sales called and conducted in any matter permitted by law. Any such exercise of remedies could have a material adverse effect on our business, financial condition, results of operations or cash flows.

***An event of default in connection with the Debt Securitization could give rise to a cross-default under our other material indebtedness.***

The documents governing our other material indebtedness contain customary cross-default provisions that could be triggered if an event of default occurs in connection with the Debt Securitization. An event of default with respect to our other indebtedness could lead to the acceleration of such indebtedness and the exercise of other remedies as provided in the documents governing such other indebtedness. This could have a material adverse effect on our business, financial condition, results of operations and cash flows and may result in our inability to make distributions sufficient to maintain our ability to be subject to tax as a RIC.

***We may not receive cash distributions in respect of our indirect ownership interests in the Securitization Issuers.***

Apart from fees payable to us in connection with our role as servicer of the Securitization Loans and the reimbursement of related amounts under the documents governing the Debt Securitization, we receive cash in connection with the Debt Securitization only to the extent that the Depositor receives payments in respect of its equity interests in the Securitization Issuers. The respective holders of the equity interests in the Securitization Issuers are the residual claimants on distributions, if any, made by the Securitization Issuers after the Securitization Debtholders and other claimants have been paid in full on each payment date or upon maturity of the 2031 Asset-Backed Debt, subject to the priority of payments under the documents governing the Debt Securitization. To the extent that the value of the Securitization Issuer's portfolio of loans is reduced as a result of conditions in the credit markets (relevant in the event of a liquidation event), other macroeconomic factors, distressed or defaulted loans or the failure of individual portfolio companies to otherwise meet their obligations in respect of the loans, or for any other reason, the ability of the Securitization Issuers to make cash distributions in respect of the Depositor's equity interests would be negatively affected and consequently, the value of the equity interests in the Securitization Issuers would also be reduced. In the event that we fail to receive cash indirectly from the Securitization Issuers, we could be unable to make distributions, if at all, in amounts sufficient to maintain our ability to be subject to tax as a RIC.

***The interests of the Securitization Debtholders may not be aligned with our interests.***

The 2031 Asset-Backed Debt constitutes debt obligations ranking senior in right of payment to the rights of the holders of the equity interests in the Securitization Issuers, as residual claimants in respect of distributions, if any, made by the Securitization Issuers. As such, there are circumstances in which the interests of the Securitization Debtholders may not be aligned with the interests of holders of the equity interests in the Securitization Issuers. For example, under the terms of the documents governing the Debt Securitization, the Securitization Debtholders have the right to receive payments of principal and interest prior to holders of the equity interests.

For as long as the 2031 Asset-Backed Debt remains outstanding, the respective Securitization Debtholders have the right to act in certain circumstances with respect to the Securitization Loans in ways that may benefit their interests but not the interests of the respective holders of the equity interests in the Securitization Issuers, including by exercising remedies under the documents governing the Debt Securitization.

If an event of default occurs, the Securitization Debtholders will be entitled to determine the remedies to be exercised, subject to the terms of the documents governing the Debt Securitization. For example, upon the occurrence of an event of default with respect to the 2031 Asset-Backed Debt, the Securitization Trustee may and will at the direction of the holders of a majority of the applicable 2031 Asset-Backed Debt declare the principal, together with any accrued interest, of the debt to be immediately due and payable. This would have the effect of accelerating the principal on such debt, triggering a repayment obligation on the part of the Securitization Issuers. The 2031 Asset-Backed Debt then outstanding will be paid in full before any further payment or distribution on the equity interest is made. There can be no assurance that there will be sufficient funds through collections on the Securitization Loans or through the proceeds of the sale of the Securitization Loans in the event of a bankruptcy or insolvency to repay in full the obligations under the 2031 Asset-Backed Debt, or to make any distribution to holders of the equity interests in the Securitization Issuers.

Remedies pursued by the Securitization Debtholders could be adverse to our interests as the indirect holder of the equity interests in the Securitization Issuers. The Securitization Debtholders have no obligation to consider any possible adverse effect on such other interests. Thus, there can be no assurance that any remedies pursued by the Securitization Debtholders will be consistent with the best interests of the Depositor or that we will receive, indirectly through the Depositor, any payments or distributions upon an acceleration of the 2031 Asset-Backed Debt. Any failure of the Securitization Issuers to make distributions in respect of the equity interests that we indirectly hold, whether as a result of an event of default and the acceleration of payments on the 2031 Asset-Backed Debt or otherwise, could have a material adverse effect on our business, financial condition, results of operations and cash flows and may result in our inability to make distributions sufficient to maintain our ability to be subject to tax as a RIC.

***We have certain repurchase obligations with respect to the Securitization Loans transferred in connection with the Debt Securitization.***

As part of each Debt Securitization, we entered into a master loan agreement under which we would be required to repurchase any Securitization Loan (or participation interest therein) which was sold to the Securitization Issuer in breach of certain customary representations and warranties made by us or by the Depositor with respect to such Securitization Loan or the legal structure of the applicable Debt Securitization. To the extent that there is a breach of such representations and warranties and we fail to satisfy any such repurchase obligation, the Securitization Trustee may, on behalf of the Securitization Issuer, bring an action against us to enforce these repurchase obligations.

**Item 1B. Unresolved Staff Comments**

None.

**Item 2. Properties**

As of September 30, 2019, we did not own any real estate or other physical properties materially important to our operation. We believe that the office facilities of the Investment Adviser and Administrator are suitable and adequate for our business as it is contemplated to be conducted.

**Item 3. Legal Proceedings**

None of us, our Investment Adviser or our Administrator, is currently subject to any material legal proceedings, nor, to our knowledge, is any material legal proceeding threatened against us, or against our Investment Adviser or Administrator. From time to time, we, our Investment Adviser or Administrator may be a party to certain legal proceedings, including proceedings relating to the enforcement of our rights under contracts with our portfolio companies. While the outcome of these legal proceedings cannot be predicted with certainty, we do not expect that these proceedings will have a material effect upon our financial condition or results of operations.

**Item 4. Mine Safety Disclosures**

Not applicable.

**Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities****PRICE RANGE OF COMMON STOCK**

Our common stock is traded on The Nasdaq Global Select Market and the TASE under the symbol "PFLT."

Shares of BDCs may trade at a market price both above and below the NAV that is attributable to those shares. Our shares have traded above and below our NAV. Our shares closed on The Nasdaq Global Select Market at \$11.60 and \$13.15 on September 30, 2019 and 2018, respectively. Our NAV per share was \$12.97 and \$13.82 as of the same dates. The possibility that our shares of common stock will trade at a discount from NAV or at a premium that is unsustainable over the long term is separate and distinct from the risk that our NAV will decrease. It is not possible to predict whether our shares will trade at, above or below our NAV in the future. As of November 20, 2019, we had 45 stockholders of record.

***Sale of Unregistered Securities***

We did not engage in any sales of unregistered securities during the year ended September 30, 2019.

***Issuer Purchases of Equity Securities***

We did not repurchase any of our common stock under our share repurchase plan during the year ended September 30, 2019.

**DISTRIBUTIONS**

We intend to continue making monthly distributions to our stockholders. The timing and amount of our monthly distributions, if any, is determined by our board of directors. Any distributions to our stockholders are declared out of assets legally available for distribution. We monitor available net investment income to determine if a tax return of capital may occur for the fiscal year. To the extent our taxable earnings fall below the total amount of our distributions for any given fiscal year, a portion of those distributions may be deemed to be a tax return of capital to our common stockholders.

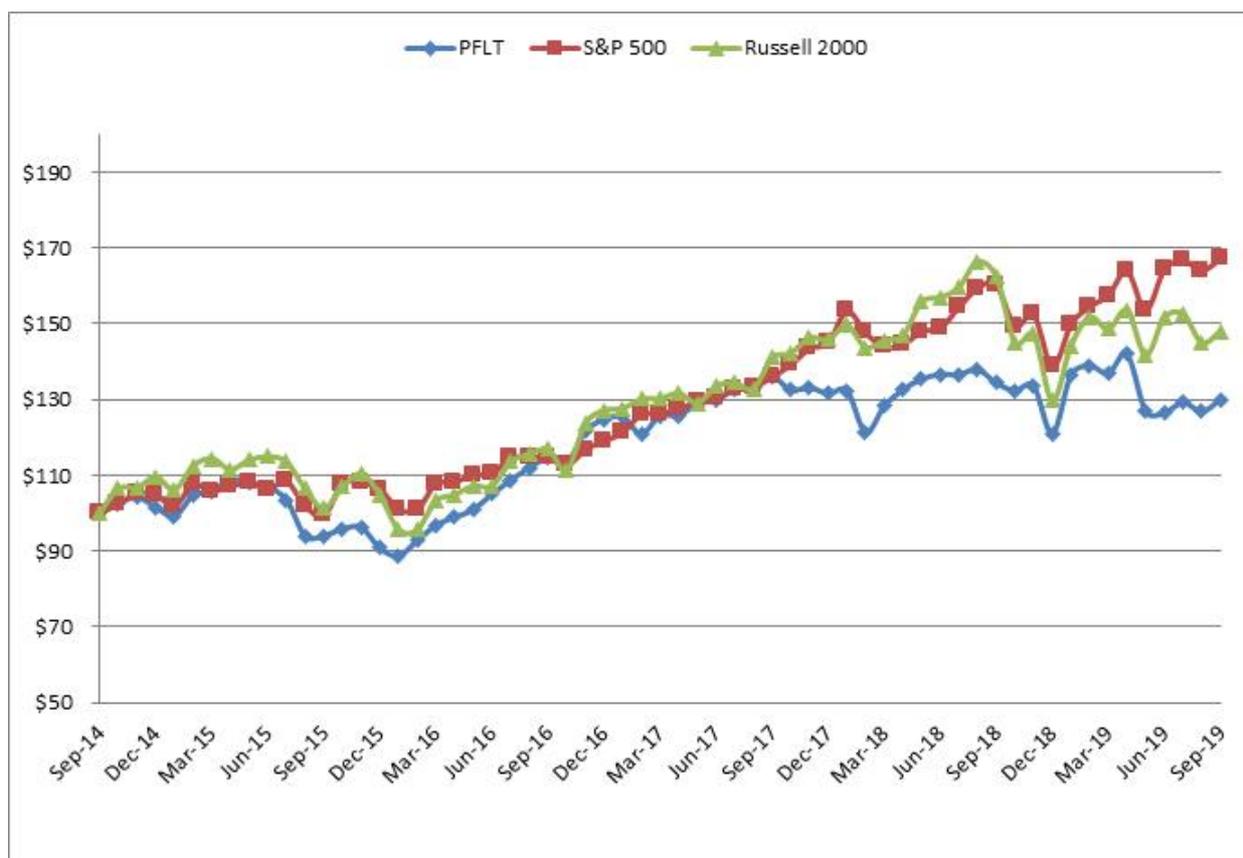
In January, a Form 1099-DIV will be sent to stockholders subject to information reporting that will state the amount and composition of distributions and provide information with respect to appropriate tax treatment of our distributions.

The tax characteristics of distributions declared, in accordance with Section 19(a) of the 1940 Act, during the years ended September 30, 2019 and 2018 from ordinary income (including short-term gains), if any, totaled \$44.2 million and \$42.8 million, or \$1.14 and \$1.14 per share, respectively, based on the weighted average shares outstanding for the respective periods. Additionally, for the year ended September 30, 2019 and 2018, we had long-term capital gain distributions of zero and \$0.8 million, or zero and \$0.02 per share, respectively, based on the weighted average shares outstanding.

We may not be able to achieve operating results that will allow us to make distributions at a specific level or to increase the amount of these distributions from time to time. In addition, we may be limited in our ability to make distributions due to the asset coverage ratio for borrowings when applicable to us as a BDC under the 1940 Act and due to provisions in future credit facilities. If we do not distribute a certain minimum percentage of our income annually, we will suffer adverse tax consequences, including possible loss of our ability to be subject to tax as a RIC. We cannot assure stockholders that they will receive any distributions or distributions at a particular level.

### Stock Performance Graph

This graph compares the return on our common stock with that of the Standard & Poor's 500 Stock Index and the Russell 2000 Financial Services Index, for the last five fiscal years. The graph assumes that, on September 30, 2014, a person invested \$100 in each of our common stock, the S&P 500 Index, and the Russell 2000 Financial Services Index. The graph measures total stockholder return, which takes into account both changes in stock price and distributions. It assumes that distributions paid are invested in like securities.



The graph and other information furnished under this Part II Item 5 of this Report shall not be deemed to be "soliciting material" or to be "filed" with the SEC or subject to Regulation 14A or 14C, or to the liabilities of Section 18 of the Exchange Act. The stock price performance included in the above graph is not necessarily indicative of future stock price performance.

**Item 6. Selected Financial Data**

We have derived the data below from our audited and unaudited financial data. The Consolidated Statements of Operations data, per share data and Consolidated Statements of Assets and Liabilities data presented are derived from our audited Consolidated Financial Statements. These selected financial data should be read in conjunction with our Consolidated Financial Statements and related notes thereto and "Management's Discussion and Analysis of Financial Condition and Results of Operations."

	<b>For the years ended September 30,</b>				
	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
<b>(Dollar amounts in thousands, except per share data)</b>					
<b>Consolidated Statements of Operations data:</b>					
Total investment income	\$ 92,947	\$ 72,205	\$ 59,497	\$ 46,301	\$ 30,355
Total expenses	47,485	41,241	26,052	18,965	12,695
Net investment income	45,462	30,964	33,445	27,336	17,660
Net realized and unrealized gain (loss)	(34,046)	2,526	2,880	6,153	(5,156)
Net increase in net assets resulting from operations	11,416	33,490	36,325	33,489	12,504
<b>Per share data:</b>					
Net asset value	12.97	13.82	14.10	14.06	13.95
Net investment income (1)	1.17	0.81	1.10	1.02	1.08
Net realized and unrealized (loss) gain (1)	(0.88)	0.06	0.10	0.23	(0.31)
Net increase in net assets resulting from operations (1)	0.29	0.87	1.20	1.25	0.77
Distributions declared (1), (2)	1.14	1.14	1.15	1.14	1.16
<b>Consolidated Statements of Assets and Liabilities data:</b>					
Total assets	1,152,376	1,076,443	747,345	631,420	416,120
Total investment portfolio	1,081,707	1,000,613	710,499	598,888	391,312
Debt payable (3)	623,551	467,632	256,858	232,389	29,600
Total net asset value	503,058	535,842	457,906	375,907	372,890
<b>Other data:</b>					
Total return (4)	(3.20)%	(1.29)%	18.71%	21.77%	(6.01)%
Number of portfolio companies (5)	95	88	82	98	76
Yield on debt portfolio (5)	8.7%	8.8%	8.0%	7.8%	7.9%

(1) Based on the weighted average shares outstanding for the respective periods.

(2) The tax status of our distributions is calculated in accordance with income tax regulations, which may differ from amounts determined under GAAP and is reported on Form 1099-DIV each calendar year to stockholders subject to such information reporting.

(3) At fair value, excluding the 2031 Asset-Backed Debt.

(4) Based on the change in market price per share during the periods and takes into account distributions, if any, reinvested in accordance with our dividend reinvestment plan, which was terminated on November 22, 2017.

(5) Unaudited, at year end.

**FORWARD-LOOKING STATEMENTS**

This Report, including Management's Discussion and Analysis of Financial Condition and Results of Operations, contains statements that constitute forward-looking statements, which relate to us and our consolidated subsidiaries regarding future events or our future performance or future financial condition. These forward-looking statements are not historical facts, but rather are based on current expectations, estimates and projections about our Company, our industry, our beliefs and our assumptions. The forward-looking statements contained in this Report involve risks and uncertainties, including statements as to:

- our future operating results;
- our business prospects and the prospects of our prospective portfolio companies;
- the dependence of our future success on the general economy and its impact on the industries in which we invest;
- the impact of a protracted decline in the liquidity of credit markets on our business;
- the impact of investments that we expect to make;
- the impact of fluctuations in interest rates and foreign exchange rates on our business and our portfolio companies;
- our contractual arrangements and relationships with third parties;
- the valuation of our investments in portfolio companies, particularly those having no liquid trading market;
- the ability of our prospective portfolio companies to achieve their objectives;
- our expected financings and investments and ability to fund capital commitments to PSSL;
- the adequacy of our cash resources and working capital;
- the timing of cash flows, if any, from the operations of our prospective portfolio companies;
- the impact of price and volume fluctuations in the stock market;
- the ability of our Investment Adviser to locate suitable investments for us and to monitor and administer our investments;
- the impact of future legislation and regulation on our business and our portfolio companies; and
- the impact of Brexit and other world economic and political issues.

We use words such as "anticipates," "believes," "expects," "intends," "seeks," "plans," "estimates" and similar expressions to identify forward-looking statements. You should not place undue influence on the forward-looking statements as our actual results could differ materially from those projected in the forward-looking statements for any reason, including the factors in "Risk Factors" and elsewhere in this Report.

Although we believe that the assumptions on which these forward-looking statements are based are reasonable, any of those assumptions could prove to be inaccurate, and, as a result, the forward-looking statements based on those assumptions also could be inaccurate. Important assumptions include our ability to originate new loans and investments, certain margins and levels of profitability and the availability of additional capital. In light of these and other uncertainties, the inclusion of a projection or forward-looking statement in this Report should not be regarded as a representation by us that our plans and objectives will be achieved.

We have based the forward-looking statements included in this Report on information available to us on the date of this Report, and we assume no obligation to update any such forward-looking statements. Although we undertake no obligation to revise or update any forward-looking statements in this Report, whether as a result of new information, future events or otherwise, you are advised to consult any additional disclosures that we may make directly to you or through reports that we in the future may file with the SEC, including reports on Form 10-Q/K and current reports on Form 8-K.

You should understand that under Section 27A(b)(2)(B) of the Securities Act and Section 21E(b)(2)(B) of the Exchange Act, the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995 do not apply to forward-looking statements made in periodic reports we file under the Exchange Act.

The following analysis of our financial condition and results of operations should be read in conjunction with our Consolidated Financial Statements and the related notes thereto contained elsewhere in this Report.

**Overview**

PennantPark Floating Rate Capital Ltd. is a BDC whose objectives are to generate both current income and capital appreciation while seeking to preserve capital by investing primarily in Floating Rate Loans and other investments made to U.S. middle-market companies.

We believe that Floating Rate Loans to U.S. middle-market companies offer attractive risk-reward to investors due to a limited amount of capital available for such companies. We use the term "middle-market" to refer to companies with annual revenues between \$50 million and \$1 billion. Our investments are typically rated below investment grade. Securities rated below investment grade are often referred to as "leveraged loans" or "high yield" securities or "junk bonds" and are often higher risk compared to debt instruments that are rated above investment grade and have speculative characteristics. However, when compared to junk bonds and other non-investment grade debt, senior secured Floating Rate Loans typically have more robust capital-preserving qualities, such as historically lower default rates than junk bonds, represent the senior source of capital in a borrower's capital structure and often have certain of the borrower's assets pledged as collateral. Our debt investments may generally range in maturity from three to ten years and are made to U.S. and, to a limited extent, non-U.S. corporations, partnerships and other business entities which operate in various industries and geographical regions.

Under normal market conditions, we generally expect that at least 80% of the value of our managed assets will be invested in Floating Rate Loans and other investments bearing a variable-rate of interest. We generally expect that first lien secured debt will represent at least 65% of our overall portfolio. We also generally expect to invest up to 35% of our overall portfolio opportunistically in other types of investments, including second lien secured debt and subordinated debt and, to a lesser extent, equity investments. We seek to create a diversified portfolio by generally targeting an investment size between \$5 million and \$30 million, on average, although we expect that this investment size will vary proportionately with the size of our capital base.

Our investment activity depends on many factors, including the amount of debt and equity capital available to middle-market companies, the level of merger and acquisition activity for such companies, the general economic environment and the competitive environment for the types of investments we make. We have used, and expect to continue to use, our debt capital, proceeds from the rotation of our portfolio and proceeds from public and private offerings of securities to finance our investment objectives.

#### **Organization and Structure of PennantPark Floating Rate Capital Ltd.**

PennantPark Floating Rate Capital Ltd., a Maryland corporation organized in October 2010, is a closed-end, externally managed, non-diversified investment company that has elected to be treated as a BDC under the 1940 Act. In addition, for federal income tax purposes we elected to be treated, and intend to qualify annually, as a RIC under the Code.

Our investment activities are managed by the Investment Adviser. Under our Investment Management Agreement, we have agreed to pay our Investment Adviser an annual base management fee based on our average adjusted gross assets as well as an incentive fee based on our investment performance. We have also entered into an Administration Agreement with the Administrator. Under our Administration Agreement, we have agreed to reimburse the Administrator for our allocable portion of overhead and other expenses incurred by the Administrator in performing its obligations under our Administration Agreement, including rent and our allocable portion of the costs of compensation and related expenses of our Chief Compliance Officer, Chief Financial Officer and their respective staffs. Our board of directors, a majority of whom are independent of us, provides overall supervision of our activities, and the Investment Adviser supervises our day-to-day activities.

#### **Revenues**

We generate revenue in the form of interest income on the debt securities we hold and capital gains and dividends, if any, on investment securities that we may acquire in portfolio companies. Our debt investments, whether in the form of first lien secured debt, second lien secured debt or subordinated debt, typically have a term of three to ten years and bear interest at a floating or fixed rate. Interest on debt securities is generally payable quarterly or semiannually. In some cases, our investments provide for deferred interest payments or PIK interest. The principal amount of the debt securities and any accrued but unpaid interest generally becomes due at the maturity date. In addition, we may generate revenue in the form of amendment, commitment, origination, structuring or diligence fees, fees for providing significant managerial assistance and possibly consulting fees. Loan origination fees, OID and market discount or premium are capitalized and accreted or amortized using the effective interest method as interest income or, in the case of deferred financing costs, as interest expense. Dividend income, if any, is recognized on an accrual basis on the ex-dividend date to the extent that we expect to collect such amounts. From time to time, the Company receives certain fees from portfolio companies, which are non-recurring in nature. Such fees include loan prepayment penalties, structuring fees and amendment fees, and are recorded as other investment income when earned. Litigation settlements are accounted for in accordance with the gain contingency provisions of ASC Subtopic 450-30, Gain Contingencies, or ASC 450-30.

#### **Expenses**

Our primary operating expenses include the payment of a management fee and the payment of an incentive fee to our Investment Adviser, if any, our allocable portion of overhead under our Administration Agreement and other operating costs as detailed below. Our management fee compensates our Investment Adviser for its work in identifying, evaluating, negotiating, consummating and monitoring our investments. Additionally, we pay interest expense on the outstanding debt and unused commitment fees on undrawn amounts, under our various debt facilities. We bear all other direct or indirect costs and expenses of our operations and transactions, including:

- the cost of calculating our NAV, including the cost of any third-party valuation services;
- the cost of effecting sales and repurchases of shares of our common stock and other securities;
- fees payable to third parties relating to, or associated with, making investments, including fees and expenses associated with performing due diligence and reviews of prospective investments or complementary businesses;
- expenses incurred by the Investment Adviser in performing due diligence and reviews of investments;
- transfer agent and custodial fees;
- fees and expenses associated with marketing efforts;
- federal and state registration fees and any exchange listing fees;
- federal, state, local and foreign taxes;
- independent directors' fees and expenses;
- brokerage commissions;
- fidelity bond, directors and officers, errors and omissions liability insurance and other insurance premiums;
- direct costs such as printing, mailing, long distance telephone and staff;
- fees and expenses associated with independent audits and outside legal costs;
- costs associated with our reporting and compliance obligations under the 1940 Act and applicable federal and state securities laws; and
- all other expenses incurred by either the Administrator or us in connection with administering our business, including payments under our Administration Agreement that will be based upon our allocable portion of overhead, and other expenses incurred by the Administrator in performing its obligations under our Administration Agreement, including rent and our allocable portion of the costs of compensation and related expenses of our Chief Compliance Officer, Chief Financial Officer and their respective staffs.

Generally, during periods of asset growth, we expect our general and administrative expenses to be relatively stable or to decline as a percentage of total assets and increase during periods of asset declines. Incentive fees, interest expense and costs relating to future offerings of securities would be additive to the expenses described above.

## PORTFOLIO AND INVESTMENT ACTIVITY

As of September 30, 2019, our portfolio totaled \$1,081.7 million and consisted of \$944.9 million of first lien secured debt (including \$122.2 million invested in PSSL), \$34.4 million of second lien secured debt and \$102.4 million of preferred and common equity (including \$50.0 million invested in PSSL). Our debt portfolio consisted of 99% variable-rate investments. As of September 30, 2019, we had one portfolio company on non-accrual, representing 0.4% and zero of our overall portfolio on a cost and fair value basis, respectively. Overall, the portfolio had net unrealized depreciation of \$3.5 million. Our overall portfolio consisted of 95 companies with an average investment size of \$11.4 million, had a weighted average yield on debt investments of 8.7%, and was invested 87% in first lien secured debt (including 11% invested in PSSL), 3% in second lien secured debt and 10% in preferred and common equity (including 5% invested in PSSL). As of September 30, 2019, 97% of the investments held by PSSL were first lien secured debt.

As of September 30, 2018, our portfolio totaled \$1,000.6 million and consisted of \$913.3 million of first lien secured debt (including \$101.1 million invested in PSSL), \$21.2 million of second lien secured debt and \$66.1 million of preferred and common equity (including \$44.8 million invested in PSSL). Our debt portfolio consisted of 100% variable-rate investments. As of September 30, 2018, we had no portfolio companies on non-accrual. Overall, the portfolio had net unrealized depreciation of \$0.9 million. Our overall portfolio consisted of 88 companies with an average investment size of \$11.4 million, had a weighted average yield on debt investments of 8.8%, and was invested 91% in first lien secured debt (including 10% invested in PSSL), 2% in second lien secured debt and 7% in preferred and common equity (including 4% invested in PSSL). As of September 30, 2018, all of the investments held by PSSL were first lien secured debt.

For the year ended September 30, 2019, we invested \$640.1 million of investments in 28 new and 83 existing portfolio companies with a weighted average yield on debt investments of 8.8%. Sales and repayments of investments for the same period totaled \$527.3 million.

For the year ended September 30, 2018, we invested \$682.7 million of investments in 32 new and 66 existing portfolio companies with a weighted average yield on debt investments of 8.1%. Sales and repayments of investments for the same period totaled \$391.4 million.

### **PennantPark Senior Secured Loan Fund I LLC**

As of September 30, 2019, PSSL's portfolio totaled \$488.5 million, consisted of 45 companies with an average investment size of \$10.9 million and had a weighted average yield on debt investments of 7.6%. As of September 30, 2018, PSSL's portfolio totaled \$425.4 million, consisted of 42 companies with an average investment size of \$10.1 million and had a weighted average yield on debt investments of 7.8%.

For the year ended September 30, 2019, PSSL invested \$228.6 million (of which \$89.6 million was purchased from the Company) in 16 new and 16 existing portfolio companies with a weighted average yield on debt investments of 8.1%. PSSL's sales and repayments of investments for the same period totaled \$159.9 million.

For the period ended September 30, 2018, PSSL invested \$371.3 million (of which \$108.0 million was purchased from the Company) in 28 new and 14 existing portfolio companies with a weighted average yield on debt investments of 7.5%. PSSL's sales and repayments of investments for the same period totaled \$45.8 million.

## CRITICAL ACCOUNTING POLICIES

The preparation of our Consolidated Financial Statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amount of our assets and liabilities at the date of the Consolidated Financial Statements and the reported amounts of income and expenses during the reported periods. In the opinion of management, all adjustments, which are of a normal recurring nature, considered necessary for the fair presentation of financial statements have been included. Actual results could differ from these estimates due to changes in the economic and regulatory environment, financial markets and any other parameters used in determining such estimates and assumptions. We may reclassify certain prior period amounts to conform to the current period presentation. We have eliminated all intercompany balances and transactions. References to ASC serve as a single source of accounting literature. Subsequent events are evaluated and disclosed as appropriate for events occurring through the date the Consolidated Financial Statements are issued. In addition to the discussion below, we describe our critical accounting policies in the notes to our Consolidated Financial Statements.

### **Investment Valuations**

We expect that there may not be readily available market values for many of our investments which are or will be in our portfolio, and we value such investments at fair value as determined in good faith by or under the direction of our board of directors using a documented valuation policy and a consistently applied valuation process, as described in this Report. With respect to investments for which there is no readily available market value, the factors that the board of directors may take into account in pricing our investments at fair value include, as relevant, the nature and realizable value of any collateral, the portfolio company's ability to make payments and its earnings and discounted cash flow, the markets in which the portfolio company does business, comparison to publicly traded securities and other relevant factors. When an external event such as a purchase transaction, public offering or subsequent equity sale occurs, we consider the pricing indicated by the external event to corroborate or revise our valuation. Due to the inherent uncertainty of determining the fair value of investments that do not have a readily available market value, the price used in an actual transaction may be different than our valuation and the difference may be material.

Our portfolio generally consists of illiquid securities, including debt and equity investments. With respect to investments for which market quotations are not readily available, or for which market quotations are deemed not reflective of the fair value, our board of directors undertakes a multi-step valuation process each quarter, as described below:

- (1) Our quarterly valuation process begins with each portfolio company or investment being initially valued by the investment professionals of our Investment Adviser responsible for the portfolio investment;
- (2) Preliminary valuation conclusions are then documented and discussed with the management of our Investment Adviser;
- (3) Our board of directors also engages independent valuation firms to conduct independent appraisals of our investments for which market quotations are not readily available or are readily available but deemed not reflective of the fair value of the investment. The independent valuation firms review management's preliminary valuations in light of their own independent assessment and also in light of any market quotations obtained from an independent pricing service, broker, dealer or market maker;
- (4) The audit committee of our board of directors reviews the preliminary valuations of our Investment Adviser and those of the independent valuation firms on a quarterly basis, periodically assesses the valuation methodologies of the independent valuation firms, and responds to and supplements the valuation recommendations of the independent valuation firms to reflect any comments; and
- (5) Our board of directors discusses these valuations and determines the fair value of each investment in our portfolio in good faith, based on the input of our Investment Adviser, the respective independent valuation firms and the audit committee.

Our board of directors generally uses market quotations to assess the value of our investments for which market quotations are readily available. We obtain these market values from independent pricing services or at the bid prices obtained from at least two brokers or dealers, if available, or otherwise from a principal market maker or a primary market dealer. The Investment Adviser assesses the source and reliability of bids from brokers or dealers. If the board of directors has a bona fide reason to believe any such market quote does not reflect the fair value of an investment, it may independently value such investments by using the valuation procedure that it uses with respect to assets for which market quotations are not readily available.

Fair value, as defined under ASC 820, is the price that we would receive upon selling an investment or pay to transfer a liability in an orderly transaction to a market participant in the principal or most advantageous market for the investment or liability. ASC 820 emphasizes that valuation techniques maximize the use of observable market inputs and minimize the use of unobservable inputs. Inputs refer broadly to the assumptions that market participants would use in pricing an asset or liability, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs reflect the assumptions market participants would use in pricing an asset or liability based on market data obtained from sources independent of us. Unobservable inputs reflect the assumptions market participants would use in pricing an asset or liability based on the best information available to us on the reporting period date.

ASC 820 classifies the inputs used to measure these fair values into the following hierarchies:

- Level 1: Inputs that are quoted prices (unadjusted) in active markets for identical assets or liabilities, accessible by us at the measurement date.
- Level 2: Inputs that are quoted prices for similar assets or liabilities in active markets, or that are quoted prices for identical or similar assets or liabilities in markets that are not active and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term, if applicable, of the financial instrument.
- Level 3: Inputs that are unobservable for an asset or liability because they are based on our own assumptions about how market participants would price the asset or liability.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. Generally, most of our investments, our 2031 Asset-Backed Debt and our Credit Facility are classified as Level 3. Our 2023 Notes are classified as Level 1, as they are valued using closing price from the primary exchange. Due to the inherent uncertainty of determining the fair value of investments that do not have a readily available market value, the price used in an actual transaction may be different than our valuation and those differences may be material.

In addition to using the above inputs in cash equivalents, investments, our 2023 Notes, our 2031 Asset-Backed Debt and our Credit Facility valuations, we employ the valuation policy approved by our board of directors that is consistent with ASC 820. Consistent with our valuation policy, we evaluate the source of inputs, including any markets in which our investments are trading, in determining fair value.

The carrying value of our consolidated financial liabilities approximates fair value. We have adopted the principles under ASC 825-10, which provides companies with an option to report selected financial assets and liabilities at fair value, and made an irrevocable election to apply ASC 825-10 to our Credit Facility and the 2023 Notes. We elected to use the fair value option for our Credit Facility and the 2023 Notes to align the measurement attributes of both our assets and liabilities while mitigating volatility in earnings from using different measurement attributes. Due to that election and in accordance with GAAP, we incurred expenses of \$4.5 million and \$10.9 million relating to amendment costs on the Credit Facility and debt issuance costs on the 2023 Notes during the years ended September 30, 2019 and 2018, respectively. ASC 825-10 establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities and to more easily understand the effect on earnings of a company's choice to use fair value. ASC 825-10 also requires entities to display the fair value of the selected assets and liabilities on the face of the Consolidated Statements of Assets and Liabilities and changes in fair value of the Credit Facility and the 2023 Notes are reported in our Consolidated Statements of Operations. We elected not to apply ASC 825-10 to any other financial assets or liabilities, including the 2031 Asset-Backed Debt. For the years September 30, 2019 and 2018, our Credit Facility and the 2023 Notes had a net change in unrealized (appreciation) depreciation of less than \$(0.1) million and, \$7.8 million, respectively. As of September 30, 2019 and 2018, the net unrealized (appreciation) depreciation on our Credit Facility and the 2023 Notes totaled \$4.7 million and \$4.7 million, respectively. We use a nationally recognized independent valuation service to measure the fair value of our Credit Facility in a manner consistent with the valuation process that the board of directors uses to value our investments. Our 2023 Notes trade on the TASE and we use the closing price on the exchange to determine the fair value.

#### **Revenue Recognition**

We record interest income on an accrual basis to the extent that we expect to collect such amounts. For loans and debt investments with contractual PIK interest, which represents interest accrued and added to the loan balance that generally becomes due at maturity, we will generally not accrue PIK interest when the portfolio company valuation indicates that such PIK interest is not collectable. We do not accrue as a receivable interest on loans and debt investments if we have reason to doubt our ability to collect such interest. Loan origination fees, OID, market discount or premium and deferred financing costs on liabilities, which we do not fair value, are capitalized and then accreted or amortized using the effective interest method as interest income or, in the case of deferred financing costs, as interest expense. We record prepayment penalties on loans and debt investments as income. Dividend income, if any, is recognized on an accrual basis on the ex-dividend date to the extent that we expect to collect such amounts. From time to time, the Company receives certain fees from portfolio companies, which are non-recurring in nature. Such fees include loan prepayment penalties, structuring fees and amendment fees, and are recorded as other investment income when earned.

#### **Net Realized Gains or Losses and Net Change in Unrealized Appreciation or Depreciation**

We measure realized gains or losses by the difference between the net proceeds from the repayment or sale and the amortized cost basis of the investment, using the specific identification method, without regard to unrealized appreciation or depreciation previously recognized, but considering unamortized upfront fees and prepayment penalties. Net change in unrealized appreciation or depreciation reflects the change in the fair value of our portfolio investments, our Credit Facility and the 2023 Notes during the reporting period, including any reversal of previously recorded unrealized appreciation or depreciation, when gains or losses are realized.

#### **Foreign Currency Translation**

Our books and records are maintained in U.S. dollars. Any foreign currency amounts are translated into U.S. dollars on the following basis:

1. Fair value of investment securities, other assets and liabilities – at the exchange rates prevailing at the end of the applicable period; and
2. Purchases and sales of investment securities, income and expenses – at the exchange rates prevailing on the respective dates of such transactions.

Although net assets and fair values are presented based on the applicable foreign exchange rates described above, we do not isolate that portion of the results of operations due to changes in foreign exchange rates on investments, other assets and debt from the fluctuations arising from changes in fair value of investments and liabilities held. Such fluctuations are included with the net realized and unrealized gain or loss from investments and liabilities.

### ***Payment-in-Kind, or PIK, Interest***

We have investments in our portfolio which contain a PIK interest provision. PIK interest is added to the principal balance of the investment and is recorded as income. In order for us to maintain our ability to be subject to tax as a RIC, substantially all of this income must be paid out to stockholders in the form of dividends for U.S. federal income tax purposes, even though we may not have collected any cash with respect to interest on PIK securities.

### ***Federal Income Taxes***

We have elected to be treated, and intend to qualify annually to maintain our election to be treated, as a RIC under Subchapter M of the Code. To maintain our RIC tax election, we must, among other requirements, meet certain annual source-of-income and quarterly asset diversification requirements. We also must annually distribute dividends for U.S. federal income tax purposes to our stockholders out of the assets legally available for distribution of an amount generally at least equal to 90% of the sum of our net ordinary income and realized net short-term capital gains in excess of realized net long-term capital losses, or investment company taxable income, determined without regard to any deduction for dividends paid.

Although not required for us to maintain our RIC tax status, in order to preclude the imposition of a 4% nondeductible federal excise tax imposed on RICs, we must distribute dividends for U.S. federal income tax purposes to our stockholders in respect of each calendar year of an amount at least equal to the Excise tax Avoidance Requirement. In addition, although we may distribute realized net capital gains (i.e., net long-term capital gains in excess of net short-term capital losses), if any, at least annually, out of the assets legally available for such distributions in the manner described above, we have retained and may continue to retain such net capital gains or investment company taxable income, subject to maintaining our ability to be taxed as a RIC, in order to provide us with additional liquidity.

Because federal income tax regulations differ from GAAP, distributions in accordance with tax regulations may differ from net investment income and net realized gain recognized for financial reporting purposes. Differences between tax regulations and GAAP may be permanent or temporary. Permanent differences are reclassified among capital accounts in the Consolidated Financial Statements to reflect their appropriate tax character. Temporary differences arise when certain items of income, expense, gain or loss are recognized at some time in the future.

We have formed and expect to continue to form certain taxable subsidiaries, including the Taxable Subsidiary, which are taxed as corporations. These taxable subsidiaries allow us to hold equity securities of certain portfolio companies treated as pass-through entities for U.S. federal income tax purposes while facilitating our ability to qualify as a RIC under the Code.

### **RESULTS OF OPERATIONS**

Set forth below are the results of operations for the years ended September 30, 2019 and 2018. For information regarding results of operations for the year ended September 30, 2017, see the Company's Form 10-K for the fiscal year ended September 30, 2018, as filed with the SEC on November 14, 2018.

#### ***Investment Income***

Investment income for the year ended September 30, 2019 was \$92.9 million and was attributable to \$84.0 million from first lien secured debt, \$8.9 million from second lien secured debt, subordinated debt and preferred equity. The increase in investment income over the prior year was primarily due to the growth of our portfolio.

Investment income for the year ended September 30, 2018 was \$72.2 million and was attributable to \$65.5 million from first lien secured debt, \$6.7 million from second lien secured debt, subordinated debt and preferred equity. The increase in investment income over the prior year was primarily due to the growth of our portfolio.

#### ***Expenses***

Expenses for the year ended September 30, 2019 totaled \$47.5 million. Base management fee for the same period totaled \$10.2 million, incentive fee totaled \$6.2 million (including zero on realized gains and \$(1.4) million on net unrealized gains accrued but not payable), debt related interest and expenses totaled \$27.1 million (including \$4.5 million in Credit Facility amendment fees) and general and administrative expenses totaled \$4.0 million. The increase in expenses compared to the prior year was primarily due to the growth of our portfolio which resulted in higher management and financing costs in the current year.

Expenses for the year ended September 30, 2018 totaled \$41.2 million. Base management fee for the same period totaled \$8.4 million, incentive fee totaled \$2.4 million (including \$(0.1) million on realized gains and \$(1.0) million on net unrealized gains accrued but not payable), debt related interest and expenses totaled \$25.2 million (including \$10.9 million in Credit Facility amendment and debt issuance costs on the 2023 Notes), general and administrative expenses totaled \$4.4 million and provision for taxes totaled \$0.8 million. The increase in expenses compared to the prior year was primarily due to the expenses incurred in connection with the Credit Facility amendment and debt issuance costs on the 2023 Notes in the current year.

#### ***Net Investment Income***

Net investment income totaled \$45.5 million or \$1.17 per share and \$31.0 million or \$0.81 per share for the years ended September 30, 2019 and 2018, respectively. The increase in net investment income compared to the prior year was primarily due to higher investment income in the current year as well as expenses incurred in connection with the Credit Facility amendment and debt issuance costs on the 2023 Notes in the prior year.

#### ***Net Realized Gains or Losses***

Sales and repayments of investments for the years ended September 30, 2019 and 2018 totaled \$527.3 million and \$391.4 million, respectively. Net realized losses totaled \$31.4 million and \$2.3 million for the same periods, respectively. The change in realized gains/losses was primarily due to changes in the market conditions of our investments and the values at which they were realized.

#### ***Unrealized Appreciation or Depreciation on Investments, the Credit Facility and the 2023 Notes***

For the years ended September 30, 2019 and 2018, we reported net change in unrealized depreciation on investments of \$2.6 million and \$2.9 million, respectively. As of September 30, 2019 and 2018, our net unrealized depreciation on investments totaled \$3.5 million and \$0.9 million, respectively. The net change in unrealized appreciation/depreciation on our investments for the year ended September 30, 2019 compared to the prior year was primarily due to changes in the capital market conditions, the financial performance of certain portfolio companies and the reversal of unrealized appreciation/depreciation on investments that were realized.

For the year ended September 30, 2019 and 2018, our Credit Facility and the 2023 Notes had a net change in unrealized (appreciation) depreciation of less than \$(0.1) million and \$7.8 million, respectively. As of September 30, 2019 and 2018, our net unrealized depreciation on our Credit Facility and the 2023 Notes totaled \$4.7 million and \$4.7 million, respectively. The net change in unrealized depreciation for the year ended September 30, 2019 compared to the prior year was primarily due to changes in the capital markets.

## Net Change in Net Assets Resulting from Operations

Net change in net assets resulting from operations totaled \$11.4 million or \$0.29 per share and \$33.5 million or \$0.87 per share, for the years ended September 30, 2019 and 2018, respectively. The decrease in net assets from operations for the year ended September 30, 2019 compared to the prior year was primarily due net realized losses and change in unrealized depreciation on our investment portfolio, partially offset by an increase in investment income due to the growth of our portfolio.

## LIQUIDITY AND CAPITAL RESOURCES

Our liquidity and capital resources are derived primarily from proceeds of securities offerings, debt capital and cash flows from operations, including investment sales and repayments, and income earned. Our primary use of funds from operations includes investments in portfolio companies and payments of fees and other operating expenses we incur. We have used, and expect to continue to use, our debt capital, proceeds from the rotation of our portfolio and proceeds from public and private offerings of securities to finance our investment objectives. As of September 30, 2019, in accordance with the 1940 Act, with certain limited exceptions, we are only allowed to borrow amounts such that we are in compliance with a 150% asset coverage ratio requirement after such borrowing. For information regarding liquidity and capital resources for the year ended September 30, 2017, see the Company's Form 10-K for the fiscal year ended September 30, 2018, as filed with the SEC on November 14, 2018.

On April 5, 2018, our board of directors approved the application of the modified asset coverage requirements set forth in Section 61(a)(2) of the 1940 Act, as amended by the Consolidated Appropriations Act of 2018 (which includes the SBCAA). As a result, the asset coverage requirements applicable to us for senior securities was reduced from 200% (i.e., \$1 of debt outstanding for each \$1 of equity) to 150% (i.e., \$2 of debt outstanding for each \$1 of equity), effective as of April 5, 2019, subject to compliance with certain disclosure requirements. As of September 30, 2019 and 2018, our asset coverage ratio, as computed in accordance with the 1940 Act, was 179% and 212%, respectively.

The annualized weighted average cost of debt for the years ended September 30, 2019 and 2018, inclusive of the fee on the undrawn commitment on the Credit Facility, amendment costs and debt issuance costs, was 5.3% and 7.1%, respectively (excluding amendment and debt issuance costs, amounts are 4.4% and 4.1%). As of September 30, 2019 and 2018, we had \$254.7 million and \$71.3 million of unused borrowing capacity under our Credit Facility, respectively, subject to the regulatory restrictions.

Funding I's multi-currency Credit Facility with the Lenders was \$520 million as of September 30, 2019, subject to satisfaction of certain conditions and regulatory restrictions that the 1940 Act imposes on us as a BDC, has an interest rate spread above LIBOR of 200 basis points, a maturity date of October 2023 and a revolving period that ends in October 2021. As of September 30, 2019 and 2018, Funding I had \$265.3 million and \$333.7 million of outstanding borrowings under the Credit Facility, respectively. The Credit Facility had a weighted average interest rate of 4.1% and 4.1%, exclusive of the fee on undrawn commitments, as of September 30, 2019 and 2018, respectively.

During the revolving period, the Credit Facility bears interest at LIBOR plus 200 basis points and, after the revolving period, the rate sets to LIBOR plus 425 basis points for the remaining two years, maturing in October 2023. The Credit Facility is secured by all of the assets of Funding I. Both PennantPark Floating Rate Capital Ltd. and Funding I have made customary representations and warranties and are required to comply with various covenants, reporting requirements and other customary requirements for similar credit facilities.

The Credit Facility contains covenants, including, but not limited to, restrictions of loan size, currency types and amounts, industry requirements, average life of loans, geographic and individual portfolio concentrations, minimum portfolio yield and loan payment frequency. Additionally, the Credit Facility requires the maintenance of a minimum equity investment in Funding I and income ratio as well as restrictions on certain payments and issuance of debt. The Credit Facility compliance reporting is prepared on a basis of accounting other than GAAP. As of September 30, 2019, we were in compliance with the covenants relating to our Credit Facility.

We own 100% of the equity interest in Funding I and treat the indebtedness of Funding I as our leverage. Our Investment Adviser serves as collateral manager to Funding I under the Credit Facility.

Our interest in Funding I (other than the management fee) is subordinate in priority of payment to every other obligation of Funding I and is subject to certain payment restrictions set forth in the Credit Facility. We may receive cash distributions on our equity interests in Funding I only after it has made (1) all required cash interest and, if applicable, principal payments to the Lenders, (2) required administrative expenses and (3) claims of other unsecured creditors of Funding I. We cannot assure you that there will be sufficient funds available to make any distributions to us or that such distributions will meet our expectations from Funding I. The Investment Adviser has irrevocably directed that the management fee owed with respect to such services is to be paid to the Company so long as the Investment Adviser remains the collateral manager.

In November 2017, we issued \$138.6 million of our 2023 Notes. The 2023 Notes were issued pursuant to a deed of trust between the Company and Mishmeret Trust Company, Ltd. as trustee.

The 2023 Notes pay interest at a rate of 3.83% per year. Interest on the 2023 Notes is payable semi-annually in arrears on June 15 and December 15 of each year, commencing June 15, 2018. The principal on the 2023 Notes will be payable in four annual installments as follows: 15% of the original principal amount on December 15, 2020, 15% of the original principal amount on December 15, 2021, 15% of the original principal amount on December 15, 2022 and 55% of the original principal amount on December 15, 2023.

The 2023 Notes are general, unsecured obligations, rank equal in right of payment with all of our existing and future senior unsecured indebtedness and are generally redeemable at our option. The deed of trust governing the 2023 Notes includes certain customary covenants, including minimum equity requirements, and events of default. Please refer to the deed of trust filed as Exhibit (d)(8) to our post-effective amendment filed on December 13, 2017 for more information. The 2023 Notes are rated iA+ by S&P Global Ratings Maalot Ltd. and are listed on the TASE. In connection with this offering, we have dual listed our common stock on the TASE.

The 2023 Notes have not been and will not be registered under the Securities Act and may not be offered or sold in the United States absent registration under the Securities Act or in transactions exempt from, or not subject to, such registration requirements.

In September 2019, the Securitization Issuers completed the Debt Securitization. The 2031 Asset-Backed Debt is secured by the middle market loans, participation interests in middle market loans and other assets of the Securitization Issuer. The Debt Securitization was executed through (A) a private placement of: (i) \$78.5 million Class A-1 Senior Secured Floating Rate Notes maturing 2031, which bear interest at the three-month LIBOR plus 1.80%, (ii) \$15.0 million Class A-2 Senior Secured Fixed Rate Notes due 2031, which bear interest at 3.66%, (iii) \$14.0 million Class B-1 Senior Secured Floating Rate Notes due 2031, which bear interest at the three-month LIBOR plus 2.90%, (iv) \$16.0 million Class B-2 Senior Secured Fixed Rate Notes due 2031, which bear interest at 4.266%, (v) \$19.0 million Class C-1 Secured Deferrable Floating Rate Notes due 2031, which bear interest at the three-month LIBOR plus 4.00%, (vi) \$8.0 million Class C-2 Secured Deferrable Fixed Rate Notes due 2031, which bear interest at 5.379%, and (vii) \$18.0 million Class D Secured Deferrable Floating Rate Notes due 2031, which bear interest at the three-month LIBOR plus 4.75% and (B) the borrowing of \$77.5 million Class A-1 Senior Secured Floating Rate Loans due 2031, which bear interest at the three-month LIBOR plus 1.80%, under a credit agreement by and among the Securitization Issuers, as borrowers, various financial institutions, as lenders, and U.S. Bank National Association, as collateral agent and as loan agent. The 2031 Asset-Backed Debt is scheduled to mature on October 15, 2031.

On the closing date of the Debt Securitization, in consideration of our transfer to the Securitization Issuer of the initial closing date loan portfolio, which included loans distributed to us by our wholly owned subsidiary, the Securitization Issuer transferred to us 100% of the Preferred Shares of the Securitization Issuer, 100% of the Class D Secured Deferrable Floating Rate Notes issued by the Securitization Issuer, and a portion of the net cash proceeds received from the sale of the 2031 Asset-Backed Debt. The Preferred Shares of the Securitization Issuer do not bear interest and had a stated value of \$55.4 million at the closing of the Debt Securitization.

The 2031 Asset-Backed Debt constitutes secured obligations of the Securitization Issuers, and the indenture governing the 2031 Asset-Backed Debt includes customary covenants and events of default. The 2031 Asset-Backed Debt has not been, and will not be, registered under the Securities Act or any state securities or “blue sky” laws and may not be offered or sold in the United States absent registration with the SEC or an applicable exemption from registration.

Our Investment Adviser serves as collateral manager to the Securitization Issuer pursuant to a collateral management agreement between our Investment Adviser and the Securitization Issuer, or the Collateral Management Agreement. For so long as our Investment Adviser serves as collateral manager, it will elect to irrevocably waive any collateral management fee to which it may be entitled under the Collateral Management Agreement.

We may raise equity or debt capital through both registered offerings off our shelf registration statement and private offerings of securities, securitizing a portion of our investments among other considerations or mergers and acquisitions. Furthermore, our Credit Facility availability depends on various covenants and restrictions as discussed in the preceding paragraphs. The primary use of existing funds and any funds raised in the future is expected to be for repayment of indebtedness, investments in portfolio companies, cash distributions to our stockholders or for other general corporate purposes. For the years ended September 30, 2019 and 2018, we issued zero and 6.3 million shares, respectively. As a result, we raised approximately zero and \$88.0 million in net proceeds from our issuances of our equity capital, respectively.

As of September 30, 2019 and 2018, we had cash equivalents of \$63.3 million and \$72.2 million, respectively, available for investing and general corporate purposes. We believe our liquidity and capital resources are sufficient to take advantage of market opportunities.

Our operating activities used cash of \$121.4 million for the year ended September 30, 2019, and our financing activities provided cash of \$111.7 million for the same period. Our operating activities used cash primarily for our investment activities and our financing activities provided cash primarily from the issuance of 2031 Asset-Backed Debt.

Our operating activities used cash of \$208.3 million for the year ended September 30, 2018, and our financing activities provided cash of \$263.6 million for the same period. Our operating activities used cash primarily for our investment activities and our financing activities provided cash primarily from a follow-on equity offering and the issuance of the 2023 Notes.

#### **PennantPark Senior Secured Loan Fund I LLC**

In May 2017, we and Kemper formed PSSSL, an unconsolidated joint venture. PSSSL invests primarily in middle-market and other corporate debt securities consistent with our strategy. PSSSL was formed as a Delaware limited liability company. As of September 30, 2019, PSSSL had total assets of \$506.7 million. As of the same date, we and Kemper had remaining commitments to fund first lien secured debt and equity interests in PSSSL in an aggregate amount of \$10.5 million. PSSSL invests in portfolio companies in the same industries in which we may directly invest.

We provide capital to PSSSL in the form of first lien secured debt and equity interests. As of September 30, 2019, we and Kemper owned 87.5% and 12.5%, respectively, of each of the outstanding first lien secured debt and equity interests. As of the same date, our investment in PSSSL consisted of first lien secured debt of \$122.2 million and equity interests of \$52.4 million. As of the same date, we had commitments to fund first lien secured debt to PSSSL of \$128.6 million, of which \$6.4 million was unfunded. As of September 30, 2019, we had commitments to fund equity interests in PSSSL of \$55.1 million, of which \$2.8 million was unfunded.

We and Kemper each appointed two members to PSSSL’s four person board of directors and investment committee. All material decisions with respect to PSSSL, including those involving its investment portfolio, require unanimous approval of a quorum of the board of directors or investment committee. Quorum is defined as (i) the presence of two members of the board of directors or investment committee; provided that at least one individual is present that was elected, designated or appointed by each member; (ii) the presence of three members of the board of directors or investment committee, provided that the individual that was elected, designated or appointed by the member with only one individual present shall be entitled to cast two votes on each matter; and (iii) the presence of four members of the board of directors or investment committee shall constitute a quorum, provided that two individuals are present that were elected, designated or appointed by each member.

Additionally, PSSSL has entered into a senior secured revolving credit facility, or the PSSSL Credit Facility, with Capital One, N.A. through its wholly-owned subsidiary PennantPark Senior Secured Loan Facility LLC, or PSSSL Subsidiary, which as of September 30, 2019 allowed PSSSL Subsidiary to borrow up to \$420 million at any one time outstanding, subject to leverage and borrowing base restrictions.

Below is a summary of PSSSL’s portfolio at fair value:

	<b>September 30, 2019</b>	<b>September 30, 2018</b>
Total investments	\$ 488,549,847	\$ 425,420,881
Weighted average cost yield on income producing investments	7.6%	7.8%
Number of portfolio companies in PSSSL	45	42
Largest portfolio company investment	\$ 22,026,186	\$ 21,152,781
Total of five largest portfolio company investments	\$ 102,872,275	\$ 95,941,790

**PennantPark Senior Secured Loan Fund I LLC**  
**Schedule of Investments**  
**September 30, 2019**

Issuer Name	Maturity	Industry	Current Coupon	Basis Point Spread Above Index (1)	Par	Cost	Fair Value (2)
<b>Investments in Non-Controlled, Non-Affiliated Portfolio Companies—810.7%</b>							
<b>First Lien Secured Debt—830.5%</b>							
Altamira Technologies, LLC	07/24/2025	High Tech Industries	8.28%	3M L+600	5,000,000	\$ 4,927,149	\$ 5,000,000
American Auto Auction Group, LLC	01/02/2024	Transportation: Consumer	6.85%	3M L+475	7,749,274	7,674,216	7,671,781
By Light Professional IT Services, LLC	05/16/2022	High Tech Industries	8.52%	1M L+725	13,772,261	13,531,751	13,772,261
Cadence Aerospace, LLC	11/14/2023	Aerospace and Defense	8.54%	3M L+650	11,735,208	11,644,440	11,680,054
Cardenas Markets LLC	11/29/2023	Beverage, Food and Tobacco	7.79%	1M L+575	7,348,866	7,311,507	7,128,400
Centauri Group Holdings, LLC	02/12/2024	Aerospace and Defense	7.36%	1M L+525	10,422,726	10,413,416	10,396,669
Challenger Performance Optimization, Inc.	08/31/2023	Business Services	7.87%	1M L+575	10,127,447	10,040,432	9,874,261
Country Fresh Holdings, LLC	05/01/23	Beverage, Food and Tobacco	7.10%	1M L+500	182,403	179,170	182,403
Country Fresh Holdings, LLC (Revolver)	05/01/23	Beverage, Food and Tobacco	7.10%	1M L+500	126,031	126,031	126,031
Country Fresh Holdings, LLC - (Revolver) (5)	05/01/23	Beverage, Food and Tobacco	—	—	324,080	—	—
Deva Holdings, Inc.	10/31/2023	Consumer Goods: Non-Durable	7.54%	3M L+625	19,748,744	19,748,744	19,748,744
Douglas Products and Packaging Company LLC	10/19/2022	Chemicals, Plastics and Rubber	7.85%	3M L+575	12,312,500	12,157,345	12,189,375
Douglas Sewer Intermediate, LLC	10/19/2022	Chemicals, Plastics and Rubber	7.85%	3M L+575	8,166,594	8,116,022	8,084,928
Findex Group Limited (3), (4)	05/31/2024	Banking, Finance, Insurance and Real Estate	6.26%	3M L+525 A	\$ 10,000,000	7,376,173	6,542,165
GCOM Software LLC	11/14/2022	High Tech Industries	8.37%	1M L+750	17,384,864	17,263,748	17,384,864
Good2Grow LLC	11/18/2024	Beverages	6.35%	3M L+425	11,752,655	11,649,126	11,576,366
Good Source Solutions, Inc.	06/29/2023	Beverage, Food and Tobacco	6.37%	3M L+600	14,357,813	14,241,579	14,135,267
GSM Holdings, Inc.	06/03/2024	Consumer Goods: Durable	6.60%	3M L+450	19,669,098	19,524,460	19,472,406
IMIA Holdings, Inc.	10/28/2024	Aerospace and Defense	6.60%	3M L+450	12,406,250	12,351,255	12,344,219
Impact Group, LLC	06/27/2023	Wholesale	8.60%	1M L+650	9,390,185	9,296,753	9,296,283
Infrastructure Supply Operations Pty Ltd. (3), (4)	12/12/2023	Wholesale	5.80%	1M L+425 A	\$ 15,000,000	10,973,919	9,717,138
Integrative Nutrition, LLC	09/29/2023	Diversified Consumer Services	6.85%	1M L+475	9,974,874	9,974,874	9,974,874
K2 Pure Solutions NoCal, L.P.	12/20/2023	Chemicals, Plastics and Rubber	7.30%	1M L+525	19,850,000	19,586,294	19,609,815
LAV Gear Holdings, Inc.	10/31/2024	Capital Equipment	7.60%	3M L+550	9,925,000	9,837,686	9,916,068
Leap Legal Software Pty Ltd (3), (4)	09/12/2022	High Tech Industries	6.80%	3M L+575 A	\$ 14,755,747	10,483,859	9,952,014
Long's Drugs Incorporated	08/19/2022	Healthcare and Pharmaceuticals	7.10%	1M L+500	17,820,000	17,688,160	17,641,800
LSF9 Atlantis Holdings, LLC	05/01/2023	Retail	8.04%	1M L+600	7,078,125	7,118,977	6,575,083
Manna Pro Products, LLC	12/08/2023	Consumer Goods: Non-Durable	8.05%	1M L+600	6,877,500	6,797,207	6,688,369
Marketplace Events LLC (4)	01/27/2021	Media: Diversified and Production	7.20%	P+275 C	\$ 5,760,254	4,461,926	4,350,645
Mission Critical Electronics, Inc.	09/28/2022	Capital Equipment	7.10%	3M L+500	6,009,982	5,977,867	6,009,982
New Milani Group LLC	06/06/2024	Consumer Goods: Non-Durable	6.35%	1M L+425	14,812,500	14,691,710	14,664,375
Olde Thompson, LLC	05/14/2024	Beverage, Food and Tobacco	6.54%	1M L+450	11,876,667	11,757,900	11,876,667
Output Services Group, Inc.	03/27/2024	Business Services	6.54%	1M L+425	7,883,419	7,909,754	6,779,740
Pestell Minerals and Ingredients Inc.	06/01/2023	Beverage, Food and Tobacco	7.57%	3M L+525	9,925,000	9,840,202	9,825,750
Pestell Minerals and Ingredients Inc.	06/01/2023	Beverage, Food and Tobacco	7.23%	3M L+525 C	\$ 3,242,655	2,412,626	2,424,644
PH Beauty Holdings III, Inc.	09/29/2025	Wholesale	7.04%	1M L+500	9,892,519	9,804,058	9,397,893
Plant Health Intermediate, Inc.	10/19/2022	Chemicals, Plastics and Rubber	8.00%	3M L+575	1,758,406	1,736,386	1,740,822
PlayPower, Inc.	05/8/2026	Leisure Products	7.60%	3M L+550	4,189,500	4,148,451	4,184,263
Smile Brands Inc.	10/14/2024	Healthcare and Pharmaceuticals	6.66%	3M L+450	11,289,688	11,189,470	11,176,791
Snak Club, LLC	07/19/2021	Beverage, Food and Tobacco	8.10%	1M L+600	4,687,495	4,687,495	4,359,370
Sonny's Enterprises, LLC	12/01/2022	Capital Equipment	6.35%	3M L+425	15,224,842	15,227,900	15,224,842
Teneo Holdings LLC			7.29%	1M L+525	5,000,000	4,804,110	4,762,500
The Infosoft Group, LLC	12/02/2021	Media: Broadcasting and Subscription	7.43%	6M L+500	8,823,392	8,790,069	8,735,157
TVC Enterprises, LLC			7.55%	1M L+550	9,974,874	9,974,874	9,974,874
TWS Acquisition Corporation			8.28%	1M L+625	7,075,000	6,937,888	6,933,500
UBEO, LLC	04/03/2024	Capital Equipment	6.78%	3M L+450	22,248,673	22,045,879	22,026,186
Urology Management Associates, LLC	08/30/2024	Healthcare and Pharmaceuticals	7.04%	3M L+450	11,572,122	11,388,612	11,572,122
Walker Edison Furniture Company LLC	09/26/2024	Wholesale	8.83%	3M L+650	16,001,734	15,724,459	16,121,747
Whitney, Bradley & Brown, Inc.	10/18/2022	Aerospace and Defense	9.55%	1M L+750	5,466,024	5,389,938	5,466,024
<b>Total First Lien Secured Debt</b>						<b>478,935,867</b>	<b>474,289,532</b>
<b>Second Lien Secured Debt—14.8%</b>							
Country Fresh Holdings, LLC	04/29/2024	Beverage, Food and Tobacco	10.60% (PIK 10.60%)	1M L+850	870,886	870,886	870,886
DBI Holding, LLC, Term Loan B	03/26/2021	Business Services	8.00% (PIK 8.00%)	6M L+525	15,206	15,206	15,206
DBI Holding, LLC, Term Loan C	02/02/2026	Business Services	8.00% (PIK 8.00%)	—	7,607,291	7,607,291	7,569,255
<b>Total Second Lien Secured Debt</b>						<b>8,493,383</b>	<b>8,455,347</b>
<b>Equity Securities—10.2%</b>							
Country Fresh Holding Company Inc.	—	Beverage, Food and Tobacco	—	—	1,317	1,713,106	1,124,929
DBI Holding, LLC, Series A-1	—	Business Services	—	—	5,034	5,034,310	4,680,039
DBI Holding, LLC, Series B	—	Business Services	—	—	1,065,021	236,521	-
<b>Total Equity Securities</b>						<b>6,983,937</b>	<b>5,804,968</b>
<b>Total Investments in Non-Controlled, Non-Affiliated Portfolio Companies</b>						<b>494,413,187</b>	<b>488,549,847</b>
<b>Cash and Cash Equivalents—26.8%</b>							
BlackRock Federal FD Institutional 30						12,166,301	12,166,301
US Bank Cash						3,156,230	3,128,580
<b>Total Cash and Cash Equivalents</b>						<b>15,322,531</b>	<b>15,294,881</b>
<b>Total Investments and Cash Equivalents—882.3%</b>						<b>\$ 509,735,718</b>	<b>\$ 503,844,728</b>
<b>Liabilities in Excess of Other Assets—(782.3)%</b>							<b>(446,736,922)</b>
<b>Members' Equity—100.0%</b>							<b>\$ 57,107,806</b>

- Represents floating rate instruments that accrue interest at a predetermined spread relative to an index, typically the applicable LIBOR or "L" or Prime rate or "P". The spread may change based on the type of rate used. The terms in the Schedule of Investments disclose the actual interest rate in effect as of the reporting period. LIBOR loans are typically indexed to a 30-day, 60-day, 90-day or 180-day LIBOR rate (1M L, 2M L, 3M L, or 6M L, respectively), at the borrower's option. All securities are subject to a LIBOR or Prime rate floor where a spread is provided, unless noted. The spread provided includes PIK interest and other fee rates, if any.
- Valued based on PSSSL's accounting policy.
- Non-U.S. company or principal place of business outside the United States.
- Par amount is denominated in Australian Dollars (A\$) or Canadian Dollars (C\$) as denoted.

**PennantPark Senior Secured Loan Fund I LLC**  
**Schedule of Investments**  
**September 30, 2018**

Issuer Name	Maturity	Industry	Current Coupon	Basis Point Spread Above Index (1)	Par	Cost	Fair Value (2)
<b>Investments in Non-Controlled, Non-Affiliated Portfolio Companies—830.9%</b>							
<b>First Lien Secured Debt—830.9%</b>							
Alvogen Pharma US, Inc. (3)	04/04/2022	Healthcare and Pharmaceuticals	6.99%	1M L+475	5,424,261	\$ 5,370,876	\$ 5,464,943
American Auto Auction Group, LLC	11/30/2021	Transportation: Consumer	7.34%	3M L+525	4,949,622	4,910,720	4,875,378
Anvil International, LLC	08/01/2024	Construction and Building	6.70%	2M L+450	5,944,975	5,900,529	5,985,876
API Technologies Corp.	04/22/2024	Aerospace and Defense	8.25%	1M L+600	19,950,000	19,710,688	19,750,500
Beauty Industry Group Opco, LLC	04/06/2023	Consumer Goods: Non-Durable	7.00%	1M L+475	21,259,078	21,057,494	21,152,781
By Light Professional IT Services, LLC	05/16/2022	High Tech Industries	9.57%	3M L+725	10,761,235	10,538,732	10,761,235
Cadence Aerospace, LLC	11/14/2023	Aerospace and Defense	8.83%	3M L+650	11,854,375	11,745,013	11,875,641
Cardenas Markets LLC	11/29/2023	Beverage, Food and Tobacco	7.99%	1M L+575	7,424,433	7,381,442	7,424,433
Challenger Performance Optimization, Inc.	08/31/2023	Business Services	7.85%	1M L+575	10,387,126	10,284,272	10,283,255
Country Fresh Holdings, LLC	03/31/2023	Beverage, Food and Tobacco	7.39%	3M L+500	4,348,465	4,348,465	4,218,011
DBI Holdings, LLC	08/02/2021	Business Services	7.51%	1M L+525	12,437,500	12,334,446	12,437,500
Deva Holdings, Inc.	10/31/2023	Consumer Goods: Non-Durable	7.74%	3M L+550	19,949,749	19,949,749	19,949,749
Digital Room Holdings, Inc.	12/29/2023	Media: Advertising, Printing and Publishing	7.25%	1M L+500	9,925,000	9,832,647	9,813,344
Douglas Products and Packaging Company LLC	03/29/2022	Chemicals, Plastics and Rubber	8.14%	3M L+575	12,437,500	12,243,681	12,313,125
Driven Performance Brands, Inc.	09/30/2022	Consumer Goods: Durable	6.86%	1M L+475	4,750,000	4,712,239	4,750,000
ENC Holding Corporation	05/30/2025	Transportation: Cargo	6.64%	3M L+425	10,345,500	10,320,383	10,319,636
Findex Group Limited (3), (4)	05/31/2024	Banking, Finance, Insurance and Real Estate	7.23%	2M L+525 A \$	10,000,000	7,348,975	7,018,455
GCOM Software LLC	11/14/2022	High Tech Industries	9.67%	3M L+750	14,666,667	14,597,068	14,666,667
Good Source Solutions, Inc.	06/29/2023	Beverage, Food and Tobacco	8.39%	3M L+600	14,871,563	14,724,626	14,670,097
GSM Holdings, Inc.	06/03/2024	Consumer Goods: Durable	6.87%	3M L+450	15,461,250	15,313,430	15,383,940
Impact Group, LLC	06/27/2023	Wholesale	8.64%	1M L+625	9,975,000	9,860,343	9,925,125
Infrastructure Supply Operations Pty Ltd. (3), (4)	12/12/2023	Wholesale	6.64%	1M L+475 A \$	15,000,000	10,941,545	10,810,400
Long's Drugs Incorporated	08/19/2022	Healthcare and Pharmaceuticals	7.12%	1M L+500	18,000,000	17,831,930	17,820,000
LSF9 Atlantis Holdings, LLC	05/01/2023	Retail	8.12%	1M L+600	7,265,625	7,319,871	7,002,246
Manna Pro Products, LLC	12/08/2023	Consumer Goods: Non-Durable	8.15%	1M L+600	6,947,500	6,853,205	6,894,684
Marketplace Events LLC (4)	01/27/2021	Media: Diversified and Production	7.08%	P+275 C \$	5,820,254	4,486,587	4,502,752
Maytex Mills, Inc.	12/27/2023	Consumer Goods: Durable	6.71%	1M L+450	8,761,452	8,721,691	8,783,355
McAfee, LLC	09/30/2024	High Tech Industries	6.74%	1M L+450	7,425,000	7,359,161	7,482,024
Mission Critical Electronics, Inc.	09/28/2022	Capital Equipment	7.20%	2M L+500	4,005,973	3,986,058	3,996,350
Morphe, LLC	02/10/2023	Consumer Goods: Non-Durable	8.40%	3M L+600	17,355,538	17,229,100	17,268,760
New Milani Group LLC	06/06/2024	Consumer Goods: Non-Durable	6.37%	1M L+425	15,000,000	14,856,552	14,925,000
Olde Thompson, LLC	05/14/2024	Beverage, Food and Tobacco	6.66%	1M L+450	13,965,000	13,825,350	13,965,000
Output Services Group, Inc.	03/27/2024	Business Services	6.49%	1M L+425	7,983,419	8,015,803	8,023,336
Snak Club, LLC	07/19/2021	Beverage, Food and Tobacco	8.10%	1M L+600	4,687,495	4,687,495	4,054,683
Sonny's Enterprises, LLC	12/01/2022	Capital Equipment	6.49%	1M L+425	15,379,790	15,382,892	15,379,790
The Infosoft Group, LLC	12/02/2021	Media: Broadcasting and Subscription	7.58%	3M L+525	10,516,049	10,459,746	10,410,888
UBEO, LLC	04/03/2024	Capital Equipment	6.60%	1M L+450	12,468,750	12,352,721	12,468,750
Urology Management Associates, LLC	08/30/2024	Healthcare and Pharmaceuticals	7.24%	1M L+500	8,500,000	8,352,305	8,351,250
US Dominion, Inc.	07/15/2024	Capital Equipment	9.14%	3M L+675	3,990,000	3,921,923	3,990,000
VIP Cinema Holdings, Inc.	03/01/2023	Consumer Goods: Durable	8.25%	1M L+600	4,625,000	4,678,730	4,636,563
Whitney, Bradley & Brown, Inc.	10/18/2022	Aerospace and Defense	11.25%	1M L+900	4,950,000	4,866,299	4,950,000
Xebec Global Holdings, LLC	02/12/2024	Aerospace and Defense	7.84%	3M L+550	6,749,730	6,721,428	6,665,359
<b>Total First Lien Secured Debt</b>						<b>425,336,210</b>	<b>425,420,881</b>
<b>Total Investments in Non-Controlled, Non-Affiliated Portfolio Companies</b>						<b>425,336,210</b>	<b>425,420,881</b>
<b>Cash and Cash Equivalents—26.4%</b>							
BlackRock Federal FD Institutional 30						12,510,098	12,510,098
US Bank Cash						1,010,029	1,010,662
<b>Total Cash and Cash Equivalents</b>						<b>13,520,127</b>	<b>13,520,760</b>
<b>Total Investments and Cash Equivalents—857.3%</b>						<b>\$ 438,856,337</b>	<b>\$ 438,941,641</b>
<b>Liabilities in Excess of Other Assets—(757.3)%</b>							(387,744,237)
<b>Members' Equity—100.0%</b>							<b>\$ 51,197,404</b>

- (1) Represents floating rate instruments that accrue interest at a predetermined spread relative to an index, typically the applicable LIBOR or "L" or EURIBOR or "E". All securities are subject to a LIBOR or Prime rate floor where a spread is provided, unless noted. The spread provided includes PIK interest and other fee rates, if any.
- (2) Valued based on PSSSL's accounting policy.
- (3) Non-U.S. company or principal place of business outside the United States.
- (4) Par amount is denominated in Australian Dollars (A\$) or Canadian Dollars (C\$) as denoted.

**PennantPark Senior Secured Loan Fund I LLC**  
**Statements of Assets and Liabilities**

	September 30, 2019	September 30, 2018
<b>Assets</b>		
Investments at fair value		
Non-controlled, non-affiliated investments (cost—\$494,413,190 and \$425,336,210, respectively)	\$ 488,549,847	\$ 425,420,881
Cash and cash equivalents (cost—\$15,322,531 and \$13,520,127, respectively)	15,294,881	13,520,760
Interest receivable	1,855,545	1,670,053
Prepaid expenses and other assets	996,333	2,784,477
<b>Total assets</b>	<b>506,696,606</b>	<b>443,396,171</b>
<b>Liabilities</b>		
PSSL Credit Facility payable	308,724,305	275,285,900
Notes payable to members	139,650,000	115,500,000
Interest payable on PSSL Credit Facility	1,015,468	1,065,306
Interest payable on notes to members	176,273	99,966
Accrued other expenses	22,754	247,595
<b>Total liabilities</b>	<b>449,588,800</b>	<b>392,198,767</b>
Commitments and contingencies (1)	—	—
<b>Members' equity</b>	<b>57,107,806</b>	<b>51,197,404</b>
<b>Total liabilities and members' equity</b>	<b>\$ 506,696,606</b>	<b>\$ 443,396,171</b>

(1) PSSL had no unfunded commitments as of September 30, 2019 and 2018.

**PennantPark Senior Secured Loan Fund I LLC**  
**Statements of Operations**

	Year Ended September 30, 2019	Year Ended September 30, 2018	For the period May 4, 2017 (inception) through September 30, 2017
<b>Investment income:</b>			
From non-controlled, non-affiliated investments:			
Interest	\$ 39,288,981	\$ 17,744,486	\$ 1,365,433
Other income	785,111	280,080	—
<b>Total investment income</b>	<b>40,074,092</b>	<b>18,024,566</b>	<b>1,365,433</b>
<b>Expenses:</b>			
Interest and expenses on PSSL Credit Facility	16,487,783	7,654,035	442,554
Interest expense on notes to members	14,247,817	6,060,468	585,840
Administrative services expenses	1,150,000	650,000	67,528
Other general and administrative expenses (1)	454,600	692,736	148,936
<b>Total expenses</b>	<b>32,340,200</b>	<b>15,057,239</b>	<b>1,244,858</b>
<b>Net investment income</b>	<b>7,733,892</b>	<b>2,967,327</b>	<b>120,575</b>
<b>Realized and unrealized (loss) gain on investments and credit facility foreign currency translations:</b>			
Net realized (loss) gain on investments	(885,069)	111,215	100,920
Net change in unrealized (depreciation) appreciation on:			
Non-controlled, non-affiliated investments	(5,976,299)	(364,201)	449,505
Credit facility foreign currency translation	1,887,878	882,899	(70,836)
<b>Net change in unrealized (depreciation) appreciation on investments and credit facility foreign currency translations</b>	<b>(4,088,421)</b>	<b>518,698</b>	<b>378,669</b>
<b>Net realized and unrealized (loss) gain from investments and credit facility foreign currency translations</b>	<b>(4,973,490)</b>	<b>629,913</b>	<b>479,589</b>
<b>Net increase in members' equity resulting from operations</b>	<b>\$ 2,760,402</b>	<b>\$ 3,597,240</b>	<b>\$ 600,164</b>

(1) Currently, no management or incentive fees are payable by PSSL. If any fees were to be charged, they would be separately disclosed in the Statements of Operations.

**Contractual Obligations**

A summary of our significant contractual payment obligations at cost as of September 30, 2019, including borrowings under our Credit Facility, the 2023 Notes and other contractual obligations, is as follows:

	Payments due by period (millions)				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Credit Facility	\$ 265.3	\$ —	\$ —	\$ 265.3	\$ —
2023 Notes	\$ 138.6	—	41.6	97.0	—
2031 Asset-Backed Debt	\$ 228.0	—	—	—	228.0
Total debt outstanding (1)	\$ 631.9	\$ —	\$ 41.6	\$ 362.3	\$ 228.0
Unfunded commitments to PSSS	9.2	—	—	—	9.2
Unfunded investments (2)	101.2	—	24.9	54.8	21.4
Total contractual obligations	\$ 742.3	\$ —	\$ 66.5	\$ 417.1	\$ 258.6

- (1) The annualized weighted average cost of debt as of September 30, 2019, excluding amendment costs and debt issuance costs, was 4.4% exclusive of the fee on the undrawn commitment on the Credit Facility.
- (2) Unfunded debt and equity investments are disclosed in the Consolidated Schedule of Investments and Note 12 of our Consolidated Financial Statements.

We have entered into certain contracts under which we have material future commitments. Under our Investment Management Agreement, which was most recently reapproved by our board of directors, including a majority of our directors who are not interested persons of us or the Investment Adviser, in February 2019, PennantPark Investment Advisers serves as our investment adviser. Payments under our Investment Management Agreement in each reporting period are equal to (1) a management fee equal to a percentage of the value of our average adjusted gross assets and (2) an incentive fee based on our performance.

Under our Administration Agreement, which was most recently reapproved by our board of directors, including a majority of our directors who are not interested persons of us, in February 2019, the Administrator furnishes us with office facilities and administrative services necessary to conduct our day-to-day operations. If requested to provide significant managerial assistance to our portfolio companies, we or the Administrator will be paid an additional amount based on the services provided. Payment under our Administration Agreement is based upon our allocable portion of the Administrator's overhead in performing its obligations under our Administration Agreement, including rent and our allocable portion of the costs of our Chief Compliance Officer, Chief Financial Officer and their respective staffs.

If any of our contractual obligations discussed above are terminated, our costs under new agreements that we enter into may increase. In addition, we will likely incur significant time and expense in locating alternative parties to provide the services we expect to receive under our Investment Management Agreement and our Administration Agreement. Any new investment management agreement would also be subject to approval by our stockholders.

#### Off-Balance Sheet Arrangements

We currently engage in no off-balance sheet arrangements other than our funding requirements for the unfunded investments described above.

#### Distributions

In order to be treated as a RIC for federal income tax purposes and to not be subject to corporate-level tax on undistributed income or gains, we are required, under Subchapter M of the Code, to annually distribute dividends for U.S. federal income tax purposes to our stockholders out of the assets legally available for distribution of an amount generally at least equal to 90% of investment company taxable income, determined without regard to any deduction for dividends paid.

Although not required for us to maintain our RIC tax status, in order to preclude the imposition of a 4% nondeductible federal excise tax imposed on RICs, we must distribute dividends for U.S. federal income tax purposes to our stockholders in respect of each calendar year of an amount at least equal to the Excise Tax Avoidance Requirement. In addition, although we may distribute realized net capital gains (i.e., net long-term capital gains in excess of net short-term capital losses), if any, at least annually, out of the assets legally available for such distributions in the manner described above, we have retained and may continue to retain such net capital gains or investment company taxable income, subject to maintaining our ability to be taxed as a RIC, in order to provide us with additional liquidity.

During the years ended September 30, 2019 and 2018 and, we declared distributions of \$1.14 and \$1.14 per share, respectively, for total distributions of \$44.2 million \$43.6 million, respectively. We monitor available net investment income to determine if a return of capital for tax purposes may occur for the fiscal year. To the extent our taxable earnings fall below the total amount of our distributions for any given fiscal year, stockholders will be notified of the portion of those distributions deemed to be a tax return of capital. Tax characteristics of all distributions will be reported to stockholders subject to information reporting on Form 1099-DIV after the end of each calendar year and in our periodic reports filed with the SEC.

We intend to continue to make monthly distributions to our stockholders. Our monthly distributions, if any, are determined by our board of directors quarterly.

On November 22, 2017, we terminated our dividend reinvestment plan. The termination of the plan applies to the reinvestment of cash distributions paid on or after December 22, 2017.

We may not be able to achieve operating results that will allow us to make distributions at a specific level or to increase the amount of these distributions from time to time. In addition, we may be limited in our ability to make distributions due to the asset coverage ratio for borrowings applicable to us as a BDC under the 1940 Act and due to provisions in future credit facilities. If we do not distribute at least a certain percentage of our income annually, we could suffer adverse tax consequences, including possible loss of our ability to be subject to tax as a RIC. We cannot assure stockholders that they will receive any distributions at a particular level.

#### Recent Accounting Pronouncements

In August 2018, the FASB issued ASU 2018-13, which changed the fair value measurement disclosure requirements of ASC 820. The key provisions include new, eliminated and modified disclosure requirements. The new guidance is effective for fiscal years beginning after December 15, 2019, including interim periods therein. Early application is permitted. The Company is currently evaluating the impact the adoption of this new accounting standard will have on its consolidated financial statements, but the impact of the adoption is not expected to be material.

In August 2018, the SEC issued Securities Act Release No. 33-10532, *Disclosure Update and Simplification*, or the Final Rule Release, amending certain disclosure requirements that were redundant, duplicative, overlapping, outdated or superseded. The amendments are intended to facilitate the disclosure of information to investors and simplify compliance. The Final Rule Release became effective for all filings on or after November 5, 2018. We adopted these amendments as currently required and they are reflected in the Company's consolidated financial statements and related disclosures. Certain prior year information has been adjusted to conform to these amendments.

In March 2019, the SEC issued the Final Rule Release No. 33-10618, *FAST Act Modernization and Simplification of Regulation S-K*, which amends certain SEC disclosure requirements. The amendments are intended to simplify certain disclosure requirements and to provide for a consistent set of rules to govern incorporating information by reference and hyperlinking, improve readability and navigability of disclosure documents, and discourage repetition and disclosure of immaterial information. The amendments are effective for all filings submitted on or after May 2, 2019. We adopted these amendments as currently required and they are reflected in the Company's consolidated financial statements and related disclosures. Certain prior year information has been adjusted to conform to these amendments.

**Item 7A. Quantitative and Qualitative Disclosures About Market Risk**

We are subject to financial market risks, including changes in interest rates. As of September 30, 2019, our debt portfolio consisted of 99% variable-rate investments. The variable-rate loans are usually based on a LIBOR rate and typically have durations of three months, after which they reset to current market interest rates. Variable-rate investments subject to a floor generally reset by reference to the current market index after one to nine months only if the index exceeds the floor. In regards to variable-rate instruments with a floor, we do not benefit from increases in interest rates until such rates exceed the floor and thereafter benefit from market rates above any such floor. In contrast, our cost of funds, to the extent it is not fixed, will fluctuate with changes in interest rates since it has no floor.

Assuming that the most recent Consolidated Statements of Assets and Liabilities was to remain constant, and no actions were taken to alter the existing interest rate sensitivity, the following table shows the annualized impact of hypothetical base rate changes in interest rates:

Change in Interest Rates	Change in Interest Income, Net of Interest Expense (in thousands)	Change in Interest Income, Net of Interest Expense Per Share
Down 1%	\$ (5,139)	\$ (0.13)
Up 1%	\$ 5,139	\$ 0.13
Up 2%	\$ 10,279	\$ 0.27
Up 3%	\$ 15,510	\$ 0.40
Up 4%	\$ 20,835	\$ 0.54

Although management believes that this measure is indicative of our sensitivity to interest rate changes, it does not adjust for potential changes in the credit market, credit quality, size and composition of the assets on the Consolidated Statements of Assets and Liabilities and other business developments that could affect net increase in net assets resulting from operations or net investment income. Accordingly, no assurances can be given that actual results would not differ materially from those shown above.

Because we borrow money to make investments, our net investment income is dependent upon the difference between the rate at which we borrow funds and the rate at which we invest these funds, as well as our level of leverage. As a result, there can be no assurance that a significant change in market interest rates will not have a material adverse effect on our net investment income or net assets.

We may hedge against interest rate and foreign currency fluctuations by using standard hedging instruments such as futures, options and forward contracts or our Credit Facility subject to the requirements of the 1940 Act and applicable commodities laws. While hedging activities may insulate us against adverse changes in interest rates and foreign currencies, they may also limit our ability to participate in benefits of lower interest rates or higher exchange rates with respect to our portfolio of investments with fixed interest rates or investments denominated in foreign currencies. During the periods covered by this Report, we did not engage in interest rate hedging activities or foreign currency derivatives hedging activities.

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## Management's Report on Internal Control Over Financial Reporting

The management of PennantPark Floating Rate Capital Ltd., or “we,” “us,” “our” and “Company,” is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f), and for performing an assessment of the effectiveness of internal control over financial reporting as of September 30, 2019. Our internal control system is a process designed to provide reasonable assurance to our management and board of directors regarding the preparation and fair presentation of published financial statements.

The Company's internal control over financial reporting includes policies and procedures that pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions and dispositions of assets; provide reasonable assurances that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. Generally Accepted Accounting Principles, and that receipts and expenditures are being made only in accordance with authorizations of management and the directors of the Company; and provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on our consolidated financial statements.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of the Company's internal control over financial reporting as of September 30, 2019. In making this assessment, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in 2013 *Internal Control—Integrated Framework*. Based on the assessment management believes that, as of September 30, 2019, our internal control over financial reporting is effective based on those criteria.

The Company's independent registered public accounting firm has issued an audit report on the effectiveness of our internal control over financial reporting as of September 30, 2019. This report appears on page 51.

To the Stockholders and the Board of Directors of  
PennantPark Floating Rate Capital Ltd. and its Subsidiaries:

**Opinion on the Financial Statements**

We have audited the accompanying consolidated statements of assets and liabilities, including the consolidated schedules of investments, of PennantPark Floating Rate Capital Ltd. and its Subsidiaries (collectively referred to as the Company) as of September 30, 2019 and 2018, and the related consolidated statements of operations, changes in net assets and cash flows for each of the three years in the period ended September 30, 2019, and the related notes to the consolidated financial statements of the Company (collectively, the financial statements). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of September 30, 2019 and 2018, and the results of its operations and its cash flows for each of the three years in the period ended September 30, 2019, in conformity with accounting principles generally accepted in the United States of America, and in our opinion, the related financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), PennantPark Floating Rate Capital Ltd. and its Subsidiaries' internal control over financial reporting as of September 30, 2019, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013, and our report dated November 20, 2019 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

**Basis for Opinion**

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. Our procedures included confirmation of investments owned as of September 30, 2019, by correspondence with the custodians and brokers or by other appropriate auditing procedures where replies from brokers were not received. We believe that our audits provide a reasonable basis for our opinion.

/s/ RSM US LLP

We have served as the Company's auditor since 2013.

New York, New York  
November 20, 2019

To the Stockholders and the Board of Directors of  
PennantPark Floating Rate Capital Ltd. and its Subsidiaries

**Opinion on the Internal Control Over Financial Reporting**

We have audited PennantPark Floating Rate Capital Ltd. and its Subsidiaries' (collectively referred to as the Company) internal control over financial reporting as of September 30, 2019, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of September 30, 2019, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated statements of assets and liabilities, including the consolidated schedules of investments as of September 30, 2019 and 2018, the related consolidated statements of operations, changes in net assets and cash flows for each of the three years in the period ended September 30, 2019, and the related notes to the consolidated financial statements (collectively, the financial statements) of the Company and our report dated November 20, 2019 expressed an unqualified opinion.

**Basis for Opinion**

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

**Definition and Limitations of Internal Control Over Financial Reporting**

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ RSM US LLP

New York, New York  
November 20, 2019

**PENNANTPARK FLOATING RATE CAPITAL LTD. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES**

	<u>September 30, 2019</u>	<u>September 30, 2018</u>
<b>Assets</b>		
Investments at fair value		
Non-controlled, non-affiliated investments (cost—\$886,955,156 and \$856,893,017, respectively)	\$ 889,113,264	\$ 854,753,064
Non-controlled, affiliated investments (cost—\$23,645,693 and zero, respectively)	20,430,565	—
Controlled, affiliated investments (cost—\$174,562,500 and \$144,375,000, respectively)	172,163,080	145,860,229
Total of investments (cost—\$1,085,172,349 and \$1,001,268,017, respectively)	1,081,706,909	1,000,613,293
Cash and cash equivalents (cost—\$63,367,237 and \$72,231,801, respectively)	63,337,728	72,224,183
Interest receivable	3,892,292	2,813,808
Receivable for investments sold	2,997,546	—
Prepaid expenses and other assets	441,337	792,069
<b>Total assets</b>	<u>1,152,375,812</u>	<u>1,076,443,353</u>
<b>Liabilities</b>		
Distributions payable	3,683,347	3,683,347
Payable for investments purchased	12,033,794	59,587,222
Credit Facility payable, at fair value (cost—\$265,307,500 and \$333,727,520, respectively) (See Notes 5 and 11)	263,988,583	332,128,815
2023 Notes payable, at fair value (par—\$138,579,858 and \$138,579,858, respectively) (See Notes 5 and 11)	135,240,084	135,503,385
2031 Asset-Backed Debt, net (par—\$228,000,000 and zero, respectively) (See Notes 5 and 11)	224,321,845	—
Interest payable on debt	3,275,481	2,638,504
Base management fee payable (See Note 3)	2,728,019	2,419,629
Performance-based incentive fee payable (See Note 3)	2,532,205	3,298,404
Accrued other expenses	1,514,943	1,342,479
<b>Total liabilities</b>	<u>649,318,301</u>	<u>540,601,785</u>
Commitments and contingencies (See Note 12)		
<b>Net assets</b>		
Common stock, 38,772,074 and 38,772,074 shares issued and outstanding, respectively	38,772	38,772
Par value \$0.001 per share and 100,000,000 shares authorized	538,632,828	539,462,336
Paid-in capital in excess of par value	(35,614,089)	(3,659,540)
Distributable income	503,057,511	535,841,568
<b>Total net assets</b>	<u>\$ 503,057,511</u>	<u>\$ 535,841,568</u>
<b>Total liabilities and net assets</b>	<u>\$ 1,152,375,812</u>	<u>\$ 1,076,443,353</u>
<b>Net asset value per share</b>	<u>\$ 12.97</u>	<u>\$ 13.82</u>

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

PENNANTPARK FLOATING RATE CAPITAL LTD. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF OPERATIONS

	Years Ended September 30,		
	2019	2018	2017
<b>Investment income:</b>			
From non-controlled, non-affiliated investments:			
Interest	\$ 69,319,954	\$ 62,469,275	\$ 52,772,368
Other income	3,497,784	2,244,895	1,660,371
Settlement proceeds	—	—	4,551,485
From non-controlled, affiliated investments:			
Interest	1,237,675	—	—
Other income	127,734	—	—
From controlled, affiliated investments:			
Interest	12,464,035	5,302,909	512,610
Dividend	6,300,000	2,187,500	—
<b>Total investment income</b>	<u>92,947,182</u>	<u>72,204,579</u>	<u>59,496,834</u>
<b>Expenses:</b>			
Base management fee (See Note 3)	10,209,566	8,351,653	6,902,645
Performance-based incentive fee (See Note 3)	6,204,112	2,399,249	6,217,210
Interest and expenses on debt (See Note 11)	22,540,098	14,359,908	8,338,880
Administrative services expenses (See Note 3)	1,550,000	2,000,000	2,245,000
Other general and administrative expenses	2,464,306	2,460,582	1,935,000
<b>Expenses before amendment costs, debt issuance costs and provision for taxes</b>	<u>42,968,082</u>	<u>29,571,392</u>	<u>25,638,735</u>
Credit Facility amendment costs and debt issuance costs (See Notes 5 and 11)	4,517,292	10,869,098	112,736
Provision for taxes	—	800,000	300,000
<b>Total expenses</b>	<u>47,485,374</u>	<u>41,240,490</u>	<u>26,051,471</u>
<b>Net investment income</b>	<u>45,461,808</u>	<u>30,964,089</u>	<u>33,445,363</u>
<b>Realized and unrealized (loss) gain on investments and debt:</b>			
Net realized (loss) gain on:			
Non-controlled, non-affiliated investments	(18,802,365)	(2,327,118)	5,410,903
Controlled and non-controlled, affiliated investments	(12,621,504)	—	—
<b>Net realized (loss) gain on investments</b>	<u>(31,423,869)</u>	<u>(2,327,118)</u>	<u>5,410,903</u>
Net change in unrealized appreciation (depreciation) on:			
Non-controlled, non-affiliated investments	2,640,050	(3,857,170)	537,029
Controlled and non-controlled, affiliated investments	(5,245,396)	960,087	525,143
Debt (appreciation) depreciation (See Note 5 and 11)	(16,487)	7,750,334	(3,593,158)
<b>Net change in unrealized (depreciation) appreciation on investments and debt</b>	<u>(2,621,833)</u>	<u>4,853,251</u>	<u>(2,530,986)</u>
<b>Net realized and unrealized (loss) gain from investments and debt</b>	<u>(34,045,702)</u>	<u>2,526,133</u>	<u>2,879,917</u>
<b>Net increase in net assets resulting from operations</b>	<u>\$ 11,416,106</u>	<u>\$ 33,490,222</u>	<u>\$ 36,325,280</u>
Net increase in net assets resulting from operations per common share (See Note 7)	<u>\$ 0.29</u>	<u>\$ 0.87</u>	<u>\$ 1.20</u>
Net investment income per common share	<u>\$ 1.17</u>	<u>\$ 0.81</u>	<u>\$ 1.10</u>

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

PENNANTPARK FLOATING RATE CAPITAL LTD. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

	Years Ended September 30,		
	2019	2018	2017
<b>Net increase in net assets from operations:</b>			
Net investment income	\$ 45,461,808	\$ 30,964,089	\$ 33,445,363
Net realized (loss) gain on investments	(31,423,869)	(2,327,118)	5,410,903
Net change in unrealized (depreciation) appreciation on investments	(2,605,346)	(2,897,083)	1,062,172
Net change in unrealized (appreciation) depreciation on debt	(16,487)	7,750,334	(3,593,158)
<b>Net increase in net assets resulting from operations</b>	<u>11,416,106</u>	<u>33,490,222</u>	<u>36,325,280</u>
<b>Distributions to stockholders:</b>			
Distribution of net investment income	(44,200,163)	(39,387,692)	(34,842,284)
Distribution of realized gains	—	(4,186,992)	—
<b>Total distributions to stockholders</b>	<u>(44,200,163)</u>	<u>(43,574,684)</u>	<u>(34,842,284)</u>
<b>Capital transactions</b>			
Public offering (See Note 1)	—	89,031,800	80,986,450
Offering costs	—	(1,012,044)	(470,000)
<b>Net increase in net assets resulting from capital transactions</b>	<u>—</u>	<u>88,019,756</u>	<u>80,516,450</u>
<b>Net (decrease) increase in net assets</b>	<u>(32,784,057)</u>	<u>77,935,294</u>	<u>81,999,446</u>
<b>Net assets:</b>			
Beginning of year	535,841,568	457,906,274	375,906,828
End of year	<u>\$ 503,057,511</u>	<u>\$ 535,841,568</u>	<u>\$ 457,906,274</u>
<b>Capital share activity:</b>			
Shares issued from public offering	<u>—</u>	<u>6,292,000</u>	<u>5,750,000</u>

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**PENNANTPARK FLOATING RATE CAPITAL LTD. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	<b>Years Ended September 30,</b>		
	<b>2019</b>	<b>2018</b>	<b>2017</b>
<b>Cash flows from operating activities:</b>			
Net increase in net assets resulting from operations	\$ 11,416,106	\$ 33,490,222	\$ 36,325,280
Adjustments to reconcile net increase in net assets resulting from operations to net cash used in operating activities:			
Net change in unrealized depreciation (appreciation) on investments	2,605,346	2,897,083	(1,062,172)
Net change in unrealized appreciation (depreciation) on debt	16,487	(7,750,334)	3,593,158
Net realized loss (gain) on investments	31,423,869	2,327,118	(5,410,903)
Net accretion of discount and amortization of premium	(1,482,887)	(1,401,358)	(1,741,190)
Purchases of investments	(640,110,232)	(682,735,730)	(508,906,932)
Payment-in-kind interest	(1,635,155)	(669,290)	(590,703)
Proceeds from dispositions of investments	527,253,378	391,442,572	406,484,118
Amortization of deferred financing costs	20,238	—	—
Increase in interest receivable	(1,078,484)	(293,302)	(40,100)
(Increase) decrease in receivable for investments sold	(2,997,546)	14,185,850	(14,185,850)
Decrease (increase) in prepaid expenses and other assets	350,732	437,436	(88,314)
(Decrease) increase in payable for investments purchased	(47,553,428)	37,856,710	6,794,542
Increase in interest payable on debt	636,977	1,944,717	161,861
Increase in base management fee payable	308,390	634,823	326,181
(Decrease) increase in performance-based incentive fee payable	(766,199)	(1,762,813)	1,606,303
Increase in accrued other expenses	172,464	1,117,740	21,762
Net cash used in operating activities	<u>(121,419,944)</u>	<u>(208,278,556)</u>	<u>(76,712,959)</u>
<b>Cash flows from financing activities:</b>			
Public offering	—	89,031,800	80,986,450
Offering costs	—	(1,012,044)	(470,000)
Distributions paid to stockholders	(44,200,163)	(42,976,944)	(34,296,034)
Proceeds from 2023 Notes issuance (See Notes 5 and 11)	—	138,579,858	—
Proceeds from 2031 Asset-Backed Debt issuance (See Notes 5 and 11)	228,000,000	—	—
Capitalized borrowing costs	(3,698,393)	—	—
Borrowings under Credit Facility (See Notes 5 and 11)	370,700,000	246,485,010	309,680,000
Repayments under Credit Facility (See Notes 5 and 11)	(439,120,020)	(166,540,790)	(288,804,200)
Net cash provided by financing activities	<u>111,681,424</u>	<u>263,566,890</u>	<u>67,096,216</u>
<b>Net (decrease) increase in cash equivalents</b>	<u>(9,738,520)</u>	<u>55,288,334</u>	<u>(9,616,743)</u>
Effect of exchange rate changes on cash	852,065	(1,974,907)	(383,474)
<b>Cash and cash equivalents, beginning of year</b>	<u>72,224,183</u>	<u>18,910,756</u>	<u>28,910,973</u>
<b>Cash and cash equivalents, end of year</b>	<u>\$ 63,337,728</u>	<u>\$ 72,224,183</u>	<u>\$ 18,910,756</u>
<b>Supplemental disclosure of cash flow information:</b>			
Interest paid	<u>\$ 21,882,883</u>	<u>\$ 23,284,289</u>	<u>\$ 8,289,755</u>
Taxes paid	<u>\$ 293,672</u>	<u>\$ 395,555</u>	<u>\$ 256,719</u>
Non-cash exchanges and conversions	<u>\$ 37,166,983</u>	<u>\$ 53,200,000</u>	<u>\$ 35,659,395</u>

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**PENNANTPARK FLOATING RATE CAPITAL LTD. AND SUBSIDIARIES**  
**CONSOLIDATED SCHEDULE OF INVESTMENTS**  
**SEPTEMBER 30, 2019**

Issuer Name	Maturity	Industry	Current Coupon	Basis Point Spread Above Index (1)	Par / Shares	Cost	Fair Value (2)
<b>Investments in Non-Controlled, Non-Affiliated Portfolio Companies—176.7% (3), (4)</b>							
<b>First Lien Secured Debt—162.7%</b>							
18 Freemont Street Acquisition, LLC	08/11/2025	Hotels, Restaurants and Leisure	10.04%	1M L+800	15,000,000	\$ 14,702,672	\$ 15,000,000
Altamira Technologies, LLC	07/24/2025	IT Services	8.28%	3M L+600	6,500,000	6,404,125	6,500,000
Altamira Technologies, LLC (Revolver) (7), (9)	07/24/2025	IT Services	—	—	2,156,250	—	—
American Auto Auction Group, LLC	01/02/2024	Transportation: Consumer	7.07%	3M L+475	5,798,444	5,727,667	5,740,459
American Insulated Glass, LLC	12/21/2023	Building Products	8.10%	3M L+550	14,925,000	14,670,272	14,701,125
American Insulated Glass, LLC (7), (9)	12/21/2023	Building Products	—	—	649,351	—	(9,740)
American Teleconferencing Services, Ltd.	12/08/2021	Telecommunications	8.69%	3M L+650	9,672,954	9,590,848	6,771,068
API Technologies Corp.	05/11/2026	Electronic Equipment, Instruments, and Components	6.45%	1M L+425	5,985,000	5,955,320	5,783,006
BEI Precision Systems & Space Company, Inc.	04/28/2023	Aerospace and Defense	7.61%	3M L+550	11,730,000	11,651,612	11,612,700
By Light Professional IT Services, LLC	05/16/2022	High Tech Industries	8.56%	3M L+625	13,096,955	12,864,397	13,096,955
By Light Professional IT Services, LLC (7)	05/16/2022	High Tech Industries	—	—	15,745,817	—	—
By Light Professional IT Services, LLC (Revolver) (7), (9)	05/16/2022	High Tech Industries	—	—	2,504,092	—	—
Cadence Aerospace, LLC	11/14/2023	Aerospace and Defense	8.54%	3M L+650	2,868,106	2,848,592	2,854,626
Cano Health, LLC	12/23/2021	Healthcare and Pharmaceuticals	8.36%	1M L+650	23,306,224	23,094,603	23,306,224
Cardenas Markets LLC	11/29/2023	Beverage, Food and Tobacco	7.86%	1M L+575	3,834,884	3,840,082	3,719,837
CHA Holdings, Inc.	04/10/2025	Environmental Industries	6.79%	3M L+450	7,366,205	7,340,067	7,329,374
CHA Holdings, Inc. (7), (9)	04/10/2025	Environmental Industries	—	—	53,571	—	(268)
Challenger Performance Optimization, Inc. (Revolver) (7)	08/31/2023	Business Services	7.87%	1M L+575	284,579	284,579	277,464
Challenger Performance Optimization, Inc. (Revolver) (7), (9)	08/31/2023	Business Services	—	—	426,868	—	(10,672)
Confluent Health, LLC	06/24/2026	Health Providers and Services	7.40%	1M L+500	4,000,000	3,960,046	3,940,000
Deva Holdings, Inc.	10/31/2023	Consumer Goods: Non-Durable	7.60%	3M L+550	944,900	931,008	944,900
Deva Holdings, Inc. (Revolver) (7), (9)	10/31/2022	Consumer Goods: Non-Durable	—	—	2,115,000	—	—
Digital Room Holdings, Inc. (7)	05/22/2026	Media: Advertising, Printing and Publishing	7.09%	1M L+500	9,975,000	9,827,383	9,495,003
Douglas Products and Packaging Company LLC	10/19/2022	Chemicals, Plastics and Rubber	8.08%	3M L+575	14,340,441	14,159,516	14,197,037
Douglas Products and Packaging Company LLC (Revolver) (7), (9)	10/19/2022	Chemicals, Plastics and Rubber	9.75%	P+475	439,118	439,118	434,726
Douglas Products and Packaging Company LLC (Revolver) (7), (9)	10/19/2022	Chemicals, Plastics and Rubber	—	—	3,952,059	—	(39,522)
Douglas Sewer Intermediate, LLC (7)	10/19/2022	Chemicals, Plastics and Rubber	7.85%	3M L+575	9,816,712	9,755,921	9,718,545
East Valley Tourist Development Authority	03/07/2022	Hotel, Gaming and Leisure	10.06%	3M L+800	18,592,082	18,478,010	18,406,161
eCommission Financial Services, Inc. (10)	10/05/2023	Banking, Finance, Insurance & Real Estate	7.07%	1M L+500	21,564,375	21,564,375	21,564,375
eCommission Financial Services, Inc. (Revolver) (7), (9), (10)	10/05/2023	Banking, Finance, Insurance & Real Estate	—	—	5,000,000	—	—
Education Networks of America, Inc.	05/06/2021	Telecommunications	9.62%	1M L+750 (PIK 2.50%)	10,401,338	10,401,338	10,349,331
Education Networks of America, Inc. (Revolver) (7), (9)	05/06/2021	Telecommunications	9.66%	1M L+750	2,189,535	2,189,535	2,178,587
Efficient Collaborative Retail Marketing Company, LLC	06/15/2022	Media: Diversified and Production	8.85%	3M L+675	7,250,797	7,220,335	7,178,290
FlexPrint, LLC	01/02/2024	Professional Services	8.61%	3M L+620	4,281,014	4,213,518	4,216,799
FlexPrint, LLC (7), (9)	01/02/2024	Professional Services	—	—	3,772,226	—	(28,292)
GCOM Software LLC	11/14/2022	High Tech Industries	8.37%	1M L+625	12,112,187	11,880,407	12,112,187
GCOM Software LLC (Revolver) (7), (9)	11/14/2022	High Tech Industries	—	—	2,666,667	—	—
Good2Grow LLC	11/18/2024	Beverages	6.57%	3M L+425	7,051,593	6,989,296	6,945,819
Good2Grow LLC (Revolver) (7), (9)	11/16/2023	Beverages	—	—	3,137,000	—	(31,370)
GSM Holdings, Inc.	06/03/2024	Consumer Goods: Durable	6.66%	3M L+450	19,325,409	19,215,204	19,132,154
GSM Holdings, Inc. (Revolver) (7)	06/03/2024	Consumer Goods: Durable	6.69%	3M L+450	5,938,737	5,938,737	5,879,350
GSM Holdings, Inc. (Revolver) (7), (9)	06/03/2024	Consumer Goods: Durable	—	—	1,187,747	—	(11,877)
HW Holdco, LLC	12/10/2024	Media	8.39%	1M L+625	7,491,774	7,422,604	7,491,774
HW Holdco, LLC (Revolver) (7)	12/10/2024	Media	8.39%	1M L+625	209,032	209,032	209,032
HW Holdco, LLC (Revolver) (7), (9)	12/10/2024	Media	—	—	1,242,581	—	—
IMIA Holdings, Inc. (Revolver) (7), (9)	10/28/2024	Aerospace and Defense	—	—	1,968,504	—	—
Impact Group, LLC	06/27/2023	Wholesale	8.72%	1M L+650	12,807,129	12,742,367	12,679,058
Innova Medical Ophthalmics Inc. (5), (10)	04/13/2023	Capital Equipment	8.35%	3M L+625	3,305,640	3,271,191	3,272,584
Innova Medical Ophthalmics Inc. (Revolver) (5), (7), (10)	04/13/2023	Capital Equipment	10.00%	P+500	159,292	159,292	158,495
Innova Medical Ophthalmics Inc. (Revolver) (5), (7), (9), (10)	04/13/2023	Capital Equipment	—	—	371,681	—	(1,858)
Integrative Nutrition, LLC	09/29/2023	Consumer Services	6.85%	3M L+475	25,755,126	25,541,479	25,755,126
Integrative Nutrition, LLC (Revolver) (7), (9)	09/29/2023	Consumer Services	—	—	5,000,000	—	—
Inventus Power, Inc.	04/30/2020	Consumer Goods: Durable	8.54%	1M L+650	4,105,494	4,100,506	3,777,055
K2 Pure Solutions NoCal, L.P. (Revovler) (7)	12/20/2023	Chemicals, Plastics and Rubber	7.30%	1M L+525	500,000	500,000	493,950
K2 Pure Solutions NoCal, L.P. (Revovler) (7), (9)	12/20/2023	Chemicals, Plastics and Rubber	—	—	928,571	—	(11,236)
Kentucky Downs, LLC	03/07/2025	Hotels, Restaurants and Leisure	10.60%	1M L+850	5,429,692	5,327,414	5,429,692
Kentucky Downs, LLC (7), (9)	03/07/2025	Hotels, Restaurants and Leisure	—	—	1,344,828	—	—
KHC Holdings, Inc.	10/31/2022	Wholesale	8.23%	3M L+600	12,031,250	11,925,121	12,031,250
KHC Holdings, Inc. (Revolver) (7)	10/30/2020	Wholesale	6.29%	1M L+425	479,839	479,839	479,839
KHC Holdings, Inc. (Revolver) (7), (9)	10/30/2020	Wholesale	—	—	729,839	—	—
Lago Resort & Casino, LLC	03/07/2022	Hotel, Gaming and Leisure	11.60%	3M L+950	9,316,000	9,224,654	9,176,260
LAV Gear Holdings, Inc.	10/31/2024	Capital Equipment	7.60%	1M L+550	8,357,143	8,311,279	8,349,621
LAV Gear Holdings, Inc. (Revolver) (7)	10/31/2024	Capital Equipment	7.61%	1M L+550	126,984	126,984	126,870
LAV Gear Holdings, Inc. (Revolver) (7), (9)	10/31/2024	Capital Equipment	—	—	1,460,317	—	(1,314)
LifeCare Holdings LLC (7)	11/30/2021	Healthcare and Pharmaceuticals	0.00% (6)	—	4,736,107	4,599,788	94,722
Lombart Brothers, Inc.	04/13/2022	Capital Equipment	8.35%	3M L+625	13,783,976	13,628,111	13,646,136
Lombart Brothers, Inc. (Revolver) (7)	04/13/2022	Capital Equipment	10.00%	P+500	437,272	437,272	435,086
Lombart Brothers, Inc. (Revolver) (7), (9)	04/13/2022	Capital Equipment	—	—	801,666	—	(4,009)
Long Island Vision Management, LLC	09/11/2023	Healthcare and Pharmaceuticals	7.05%	3M L+475	8,165,763	8,114,887	8,124,934
Long Island Vision Management, LLC (7), (9)	09/11/2023	Healthcare and Pharmaceuticals	—	—	1,788,843	—	(8,944)
Long's Drugs Incorporated	08/19/2022	Healthcare and Pharmaceuticals	7.10%	1M L+500	9,900,000	9,830,562	9,801,000
Long's Drugs Incorporated (Revolver) (7), (9)	08/19/2022	Healthcare and Pharmaceuticals	—	—	3,000,000	—	(60,000)

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**PENNANTPARK FLOATING RATE CAPITAL LTD. AND SUBSIDIARIES**  
**CONSOLIDATED SCHEDULE OF INVESTMENTS—(Continued)**  
**SEPTEMBER 30, 2019**

Issuer Name	Maturity	Industry	Current Coupon	Basis Point Spread Above Index (1)	Par / Shares	Cost	Fair Value (2)
LSF9 Atlantis Holdings, LLC	05/01/2023	Retail	8.04%	1M L+600	13,684,375	\$ 13,590,322	\$ 12,711,826
Manna Pro Products, LLC	12/08/2023	Consumer Goods: Non-Durable	8.11%	1M L+600	8,390,000	8,327,947	8,159,275
Marketplace Events LLC	01/27/2023	Media: Diversified and Production	7.35%	3M L+525	5,312,015	5,243,388	5,245,616
Marketplace Events LLC (11)	01/27/2023	Media: Diversified and Production	7.20%	P+275	C\$ 16,299,990	11,428,057	12,311,171
Marketplace Events LLC (Revolver) (7)	01/27/2023	Media: Diversified and Production	7.75%	P+275	476,886	476,886	476,886
Marketplace Events LLC (Revolver) (7), (9)	01/27/2023	Media: Diversified and Production	—	—	1,226,277	—	—
MeritDirect, LLC	05/23/2024	Media	8.06%	3M L+550	34,772,838	34,280,848	34,251,245
MeritDirect, LLC (Revolver) (7), (9)	05/23/2024	Media	—	—	4,481,655	—	(67,225)
Mission Critical Electronics, Inc. (Revolver) (7)	09/28/2021	Capital Equipment	7.18%	1M L+500	212,014	212,014	212,014
Mission Critical Electronics, Inc. (Revolver) (7), (9)	09/28/2021	Capital Equipment	—	—	1,113,074	—	—
Montreign Operating Company, LLC	01/24/2023	Hotel, Gaming and Leisure	10.37%	3M L+825	27,189,858	27,394,375	24,344,712
Nuvei Technologies Corp. (5), (10)	09/28/2025	Diversified Financial Services	8.43%	P+400	19,949,780	19,652,494	19,650,534
Olde Thompson, LLC	05/14/2024	Beverage, Food and Tobacco	6.54%	1M L+450	1,575,476	1,559,721	1,575,476
Olde Thompson, LLC - Revolver (7), (9)	05/14/2024	Beverage, Food and Tobacco	—	—	2,642,857	—	—
Output Services Group, Inc.	03/27/2024	Business Services	6.54%	1M L+450	2,962,422	2,684,289	2,547,683
Ox Two, LLC	02/27/2023	Construction and Building	8.29%	1M L+625	12,780,524	12,708,453	12,780,524
Ox Two, LLC (Revolver) (7)	02/27/2023	Construction and Building	12.25%	P+725	508,444	508,444	508,444
Ox Two, LLC (Revolver) (7), (9)	02/27/2023	Construction and Building	—	—	47,111	—	—
Peninsula Pacific Entertainment LLC (7)	11/13/2024	Hotel, Gaming and Leisure	9.35%	1M L+725	13,275,810	13,225,232	13,275,810
Pestell Minerals and Ingredients Inc. (5), (10)	06/01/2023	Beverage, Food and Tobacco	7.57%	3M L+525	14,887,500	14,769,736	14,738,625
Plant Health Intermediate, Inc. (7)	10/19/2022	Chemicals, Plastics and Rubber	8.00%	3M L+575	2,113,704	2,087,235	2,092,567
PlayPower, Inc.	05/08/2026	Leisure Products	7.60%	1M L+550	5,586,000	5,531,151	5,579,018
PRA Events, Inc.	08/08/2022	Business Services	9.11%	1M L+700	2,585,319	2,543,697	2,585,319
Quantum Spatial, Inc.	09/04/2024	Aerospace and Defense	7.32%	1M L+525	19,000,000	18,717,745	18,715,000
Questex, LLC	09/09/2024	Media: Diversified and Production	7.11%	3M L+500	7,425,000	7,297,539	7,350,750
Questex, LLC (Revolver) (7), (9)	09/09/2024	Media: Diversified and Production	—	—	1,196,809	—	(11,968)
Research Horizons, LLC	06/28/2022	Media: Advertising, Printing and Publishing	8.36%	3M L+625	7,241,807	7,167,727	7,096,971
Research Now Group, Inc. and Survey Sampling International LLC	12/20/2024	Business Services	7.84%	3M L+550	24,562,500	23,577,849	24,600,818
Riverpoint Medical, LLC	06/20/2025	Healthcare Equipment and Supplies	7.39%	3M L+500	4,987,500	4,938,821	4,961,565
Riverpoint Medical, LLC (Revolver) (7), (9)	06/20/2025	Healthcare Equipment and Supplies	—	—	909,091	—	(4,727)
Salient CRGT Inc.	02/28/2022	High Tech Industries	8.05%	1M L+600	1,771,740	1,752,209	1,674,294
Schlesinger Global, Inc.	07/14/2025	Professional Services	7.14%	1M L+500	18,256,482	17,988,515	18,256,482
Schlesinger Global, Inc. (7), (9)	07/14/2025	Professional Services	—	—	4,007,789	—	—
Schlesinger Global, Inc. (Revolver) (7)	07/14/2025	Professional Services	7.82%	3M L+500	667,965	667,965	667,965
Schlesinger Global, Inc. (Revolver) (7), (9)	07/14/2025	Professional Services	—	—	1,202,337	—	—
Signature Systems Holding Company	05/03/2024	Commercial Services & Supplies	8.60%	1M L+650	12,918,768	12,735,120	12,918,768
Signature Systems Holding Company (Revolver) (7), (9)	05/03/2024	Commercial Services & Supplies	—	—	1,747,312	—	—
Smile Brands Inc. (7)	10/14/2024	Healthcare and Pharmaceuticals	6.64%	1M L+450	2,136,667	2,136,667	2,115,300
Smile Brands Inc. (7), (9)	10/14/2024	Healthcare and Pharmaceuticals	—	—	2,362,585	—	(23,626)
Smile Brands Inc. (Revolver) (7)	10/14/2024	Healthcare and Pharmaceuticals	8.61%	P+350	242,438	242,438	238,025
Smile Brands Inc. (Revolver) (7), (9)	10/14/2024	Healthcare and Pharmaceuticals	—	—	1,373,813	—	(25,003)
Snak Club, LLC (Revolver) (7)	07/19/2021	Beverage, Food and Tobacco	8.23%	3M L+600	50,000	50,000	46,500
Snak Club, LLC (Revolver) (7), (9)	07/19/2021	Beverage, Food and Tobacco	—	—	445,136	—	(31,160)
Solutionreach, Inc.	01/17/2024	Healthcare Technology	7.83%	3M L+575	13,253,400	13,019,272	13,082,432
Solutionreach, Inc. (7), (9)	01/17/2024	Healthcare Technology	—	—	1,665,000	—	(21,478)
TeleGuam Holdings, LLC	07/25/2023	Telecommunications	7.10%	1M L+500	7,473,846	7,393,786	7,399,108
Teneo Holdings LLC	07/18/2025	Diversified Financial Services	7.45%	1M L+525	10,000,000	9,600,726	9,525,000
Tensar Corporation	07/09/2021	Construction and Building	6.85%	3M L+475	22,620,696	22,523,390	21,715,869
The Infosoft Group, LLC	09/16/2024	Media: Broadcasting and Subscription	7.37%	3M L+525	18,667,460	18,511,339	18,480,783
The Original Cakerie, Co. (5), (10)	07/20/2022	Consumer Goods: Non-Durable	7.15%	2M L+500	7,624,976	7,550,542	7,586,851
The Original Cakerie Ltd. (5), (10)	07/20/2022	Consumer Goods: Non-Durable	6.65%	2M L+450	5,431,292	5,398,553	5,404,135
The Original Cakerie Ltd. (Revolver) (5), (7), (10)	07/20/2022	Consumer Goods: Non-Durable	6.65%	3M L+450	170,218	170,218	169,367
The Original Cakerie Ltd. (Revolver) (5), (7), (9), (10)	07/20/2022	Consumer Goods: Non-Durable	—	—	1,248,266	—	(6,241)
Triad Manufacturing, Inc.	12/28/2020	Capital Equipment	13.29%	1M L+1,125	7,710,575	7,664,214	7,633,469
TVC Enterprises, LLC	01/18/2024	Professional Services	7.61%	1M L+550	5,928,804	5,824,179	5,928,804
TVC Enterprises, LLC (7), (9)	01/18/2024	Professional Services	—	—	1,955,719	—	—
TVC Enterprises, LLC (Revolver) (7)	01/18/2024	Professional Services	7.61%	1M L+550	467,022	467,022	467,022
TVC Enterprises, LLC (Revolver) (7), (9)	01/18/2024	Professional Services	—	—	836,791	—	—
TWS Acquisition Corporation	06/16/2025	Diversified Consumer Services	8.28%	1M L+625	7,075,000	6,906,190	6,933,500
TWS Acquisition Corporation (Revolver) (7)	06/16/2025	Diversified Consumer Services	8.28%	1M L+625	808,571	808,571	792,400
TWS Acquisition Corporation (Revolver) (7), (9)	06/16/2025	Diversified Consumer Services	—	—	1,819,286	—	(36,385)
Tyto Athene, LLC	08/27/2024	Aerospace and Defense	7.80%	1M L+575	18,000,068	17,763,278	17,463,665
Tyto Athene, LLC (Revolver) (7)	08/27/2024	Aerospace and Defense	7.80%	1M L+575	4,465,909	4,465,909	4,332,825
Tyto Athene, LLC (Revolver) (7), (9)	08/27/2024	Aerospace and Defense	—	—	2,352,273	—	(70,098)
UBEO, LLC	04/03/2024	Capital Equipment	6.75%	3M L+450	14,169,914	14,069,246	14,028,214
UBEO, LLC (Revolver) (7), (9)	04/03/2024	Capital Equipment	—	—	2,933,333	—	(38,661)
UniTek Global Services, Inc.	08/20/2024	Telecommunications	8.42%	3M L+550	10,395,000	10,209,742	9,771,301
US Med Acquisition, Inc. (7)	08/13/2021	Healthcare and Pharmaceuticals	11.10%	1M L+900	2,996,094	2,996,094	2,996,094
Vision Purchaser Corporation	06/10/2025	Media	8.30%	1M L+625	3,440,998	3,373,821	3,406,588
Whitney, Bradley & Brown, Inc.	10/18/2022	Aerospace and Defense	9.55%	1M L+750	5,187,498	5,083,748	5,187,498
<b>Total First Lien Secured Debt</b>						<b>829,387,687</b>	<b>818,357,018</b>
<b>Second Lien Secured Debt—5.7%</b>							
Condor Borrower, LLC (7)	04/25/2025	High Tech Industries	11.01%	3M L+875	1,655,172	1,628,190	1,638,621

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**PENNANTPARK FLOATING RATE CAPITAL LTD. AND SUBSIDIARIES**  
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**SEPTEMBER 30, 2019**

Issuer Name	Maturity	Industry	Current Coupon	Basis Point Spread Above Index (1)	Par / Shares	Cost	Fair Value (2)
DBI Holdings, LLC, Term Loan B	02/01/2026	Business Services	8.00 % (PIK 8.00 %)	—	10,639,343	\$ 10,639,343	\$ 10,586,145
DBI Holdings, LLC, Term Loan C (7)	03/26/2021	Business Services	8.00 % (PIK 8.00 %)	—	21,276	21,276	21,276
DecoPac, Inc. (7)	03/31/2025	Beverage, Food and Tobacco	10.35 %	3M L+825	9,738,580	9,643,427	9,738,580
MailSouth, Inc.	10/23/2024	Media: Advertising, Printing and Publishing	12.00 %	12M L+925	2,871,025	2,822,554	2,784,894
McAfee, LLC (7)	09/29/2025	High Tech Industries	10.62 %	1M L+850	2,187,500	2,158,107	2,205,284
PT Network, LLC (7)	11/30/2024	Healthcare and Pharmaceuticals	12.30 % (PIK 12.30 %)	3M L+1,000	1,864,409	1,846,555	1,845,765
<b>Total Second Lien Secured Debt</b>						<b>28,759,453</b>	<b>28,820,565</b>
<b>Preferred Equity— 1.9% (6)</b>							
CI (PTN) Investment Holdings II, LLC (PT Network, LLC) (7), (11)	—	Healthcare and Pharmaceuticals	—	—	1,458	21,870	450
Condor Holdings Limited (5), (7), (10)	—	High Tech Industries	—	—	88,000	10,173	11,325
Condor Top Holdco Limited (5), (7), (10)	—	High Tech Industries	—	—	88,000	77,827	86,640
DBI Holding, LLC, Series A-1 (8)	—	Business Services	13.00 %	—	7,041	7,040,844	6,545,361
MeritDirect Holdings, LP (7), (8)	—	Media	—	—	960	960,000	1,002,057
NXOF Holdings, Inc. (NextiraOne Federal, LLC) (7)	—	Aerospace and Defense	—	—	490	490,000	362,645
PT Network Intermediate Holdings, LLC (7), (10)	—	Healthcare and Pharmaceuticals	12.14 %	3M L+1,000	33	359,000	370,570
Signature CR Intermediate Holdco, Inc. (7)	—	Commercial Services & Supplies	12.00 %	—	1,167	1,166,993	1,224,860
UniTek Global Services, Inc. - Super Senior Preferred Equity (7)	—	Telecommunications	20.00 %	—	343,861	343,861	30,743
UniTek Global Services, Inc. - Senior Preferred Equity (7)	—	Telecommunications	18.00 %	—	448,851	448,851	—
UniTek Global Services, Inc. (7)	—	Telecommunications	13.50 %	—	1,047,317	670,283	—
<b>Total Preferred Equity</b>						<b>11,589,702</b>	<b>9,634,652</b>
<b>Common Equity/Warrants— 6.4% (6)</b>							
Affinion Group Holdings, Inc. (Warrants) (7)	—	Consumer Goods: Durable	—	—	8,893	244,998	94,129
AG Investco LP (7), (8)	—	Software	—	—	714,652	714,652	714,652
AG Investco LP (7), (8), (9)	—	Software	—	—	285,348	—	—
Altamira Intermediate Company II, Inc. (7)	—	IT Services	—	—	1,437,500	1,437,500	1,437,500
By Light Investco LP (7), (8)	—	High Tech Industries	—	—	21,908	2,190,771	9,218,753
By Light Investco LP (7), (8), (9)	—	High Tech Industries	—	—	5,592	—	—
CI (Allied) Investment Holdings, LLC (Allied America, Inc.) (7), (8)	—	Business Services	—	—	120,962	1,243,217	1,260,269
CI (PTN) Investment Holdings II, LLC (PT Network, LLC) (7), (8)	—	Healthcare and Pharmaceuticals	—	—	13,333	200,000	—
CI (Summit) Investment Holdings, LLC (SFP Holding, Inc.) (7)	—	Construction and Building	—	—	54,907	581,995	720,588
DBI Holding, LLC, Series B (10), (8)	—	Business Services	—	—	1,489,508	330,791	—
DecoPac Holdings Inc. (7)	—	Beverage, Food and Tobacco	—	—	1,633	1,632,744	3,149,261
eCommission Holding Corporation (7), (10)	—	Banking, Finance, Insurance & Real Estate	—	—	20	251,156	370,436
Faraday Holdings, LLC (7)	—	Construction and Building	—	—	1,141	58,044	331,562
Gauge InfosoftCoInvest, LLC (The Infosoft Group, LLC) (7)	—	Media: Broadcasting and Subscription	—	—	500	143,663	497,465
Gauge Schlesinger Coinvest LLC (7)	—	Professional Services	—	—	403	403,005	403,005
Gauge TVC Coinvest, LLC (TVC Enterprises, LLC) (7)	—	Professional Services	—	—	391,144	391,144	399,678
GCOM InvestCo LP (7), (8)	—	High Tech Industries	—	—	1,549,209	1,549,209	2,233,506
GCOM InvestCo LP (7), (8), (9)	—	High Tech Industries	—	—	450,791	—	—
Go Dawgs Capital III, LP (American Insulated Glass, LLC) (7), (8)	—	Building Products	—	—	324,675	324,675	331,169
IIN Group Holdings, LLC (Integrative Nutrition, LLC) (7), (8)	—	Consumer Services	—	—	1,000	1,000,000	1,392,905
ITC Rumba, LLC (Cano Health, LLC)	—	Healthcare and Pharmaceuticals	—	—	21,529	430,576	607,059
JWC/UMA Holdings, L.P. (7)	—	Healthcare and Pharmaceuticals	—	—	1,000	1,000,000	1,210,541
JWC-WE Holdings, L.P. (Walker Edison Furniture Company LLC) (7), (8)	—	Wholesale	—	—	1,381,741	1,381,741	3,595,627
Kentucky Racing Holdco, LLC (Warrants) (7), (8)	—	Hotels, Restaurants and Leisure	—	—	87,345	—	166,773
MeritDirect Holdings, LP (7), (8)	—	Media	—	—	960	—	98,635
NXOF Holdings, Inc. (NextiraOne Federal, LLC) (7)	—	Aerospace and Defense	—	—	10,000	10,000	—
PT Network Intermediate Holdings, LLC (7)	—	Healthcare and Pharmaceuticals	—	—	25	239,333	680,580
Signature CR Intermediate Holdco, Inc. (7)	—	Commercial Services & Supplies	—	—	61	61,421	29,886
SSC Dominion Holdings, LLC Class A (US Dominion, Inc.) (7)	—	Capital Equipment	—	—	500	500,000	540,000
SSC Dominion Holdings, LLC Class B (US Dominion, Inc.) (7)	—	Capital Equipment	—	—	500	—	728,601
TPC Broadband Investors, LP (7)	—	Telecommunications	—	—	754,821	754,820	1,589,878
TPC Broadband Investors, LP (7), (8), (9)	—	Telecommunications	—	—	245,179	—	—
UniTek Global Services, Inc. (7)	—	Telecommunications	—	—	213,739	—	—
UniTek Global Services, Inc. (Warrants) (7)	—	Telecommunications	—	—	23,889	—	—
WBB Equity, LLC (7), (8)	—	Aerospace and Defense	—	—	142,857	142,857	498,572
<b>Total Common Equity/Warrants</b>						<b>17,218,314</b>	<b>32,301,030</b>
<b>Total Investments in Non-Controlled, Non-Affiliated Portfolio Companies</b>						<b>886,955,156</b>	<b>889,113,264</b>

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**PENNANTPARK FLOATING RATE CAPITAL LTD. AND SUBSIDIARIES**  
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**SEPTEMBER 30, 2019**

Issuer Name	Maturity	Industry	Current Coupon	Basis Point Spread Above Index (1)	Par / Shares	Cost	Fair Value (2)
<b>Investments in Non-Controlled, Affiliated Portfolio Companies—4.1% (3), (4)</b>							
<b>First Lien Secured Debt—0.9%</b>							
Country Fresh Holdings, LLC (7)	05/01/2023	Beverage, Food and Tobacco	7.10%	3M L+500	1,544,161	\$ 1,505,589	\$ 1,544,161
Country Fresh Holdings, LLC (Revolver) (7)	05/01/2023	Beverage, Food and Tobacco	7.10%	3M L+500	769,038	769,038	769,038
Country Fresh Holdings, LLC (Revolver) (7), (9)	05/01/2023	Beverage, Food and Tobacco	—	—	1,977,526	—	—
Quick Weight Loss Centers, LLC (7)	10/12/2023	Beverage, Food and Tobacco	4.00%	—	2,016,667	2,016,667	2,036,833
<b>Total First Lien Secured Debt</b>			(PIK 4.00%)			4,291,294	4,350,032
<b>Second Lien Secured Debt—1.1%</b>							
Country Fresh Holdings, LLC (7)	04/29/2024	Beverage, Food and Tobacco	10.60%	1M L+850	5,314,125	5,314,125	5,314,125
			(PIK 10.60%)				
Quick Weight Loss Centers, LLC (7)	10/12/2023	Beverage, Food and Tobacco	4.00%	—	233,572	233,572	235,908
<b>Total Second Lien Secured Debt</b>			(PIK 4.00%)			5,547,697	5,550,033
<b>Preferred Equity—0.2% (6)</b>							
Quick Weight Loss Centers Holdings, LLC (7), (8)	—	Beverage, Food and Tobacco	—	—	9,568,216	842,352	891,816
<b>Total Preferred Equity</b>						842,352	891,816
<b>Common Equity/Warrants—1.9% (6)</b>							
Country Fresh Holding Company Inc. (7)	—	Beverage, Food and Tobacco	—	—	8,034	10,453,350	6,864,302
Quick Weight Loss Centers, LLC (7), (8)	—	Beverage, Food and Tobacco	—	—	60	2,520,000	2,774,382
<b>Total Common Equity/Warrants</b>						12,973,350	9,638,684
<b>Total Investments in Non-Controlled, Affiliated Portfolio Companies</b>							
						23,654,693	20,430,565
<b>Investments in Controlled, Affiliated Portfolio Companies—34.2% (3), (4)</b>							
<b>First Lien Secured Debt—24.3%</b>							
PennantPark Senior Secured Loan Fund I LLC (7), (9), (10)	05/06/2024	Financial Services	10.10%	3M L+800	122,193,750	122,193,750	122,193,750
<b>Total First Lien Secured Debt</b>						122,193,750	122,193,750
<b>Equity Interests—9.9%</b>							
PennantPark Senior Secured Loan Fund I LLC (7), (9), (10)	—	Financial Services	—	—	52,369	52,368,750	49,969,330
<b>Total Equity Interests</b>						52,368,750	49,969,330
<b>Total Investments in Controlled, Affiliated Portfolio Companies</b>							
						174,562,500	172,163,080
<b>Total Investments—215.0%</b>							
						1,085,172,349	1,081,706,909
<b>Cash and Cash Equivalents—12.6%</b>							
BlackRock Federal FD Institutional 30						18,053,873	18,053,873
BNY Mellon Cash						45,313,364	45,283,855
<b>Total Cash and Cash Equivalents</b>						63,367,237	63,337,728
<b>Total Investments and Cash Equivalents—227.6%</b>							
						\$ 1,148,539,586	\$ 1,145,044,637
<b>Liabilities in Excess of Other Assets—(127.6)%</b>							
							641,987,126
<b>Net Assets—100.0%</b>							
							\$ 503,057,511

- (1) Represents floating rate instruments that accrue interest at a predetermined spread relative to an index, typically the applicable LIBOR or "L" or Prime rate, or "P." The spread may change based on the type of rate used. The terms in the Schedule of Investments disclose the actual interest rate in effect as of the reporting period. LIBOR loans are typically indexed to a 30-day, 60-day, 90-day or 180-day LIBOR rate (1M L, 2M L, 3M L, or 6M L, respectively), at the borrower's option. All securities are subject to a LIBOR or Prime rate floor where a spread is provided, unless noted. The spread provided includes payment-in-kind, or PIK, interest and other fee rates, if any.
- (2) Valued based on our accounting policy (See Note 2). The value of all securities was determined using significant unobservable inputs (See Note 5).
- (3) The provisions of the 1940 Act classify investments based on the level of control that we maintain in a particular portfolio company. As defined in the 1940 Act, a company is generally presumed to be "non-controlled" when we own 25% or less of the portfolio company's voting securities and "controlled" when we own more than 25% of the portfolio company's voting securities.
- (4) The provisions of the 1940 Act classify investments further based on the level of ownership that we maintain in a particular portfolio company. As defined in the 1940 Act, a company is generally deemed as "non-affiliated" when we own less than 5% of a portfolio company's voting securities and "affiliated" when we own 5% or more of a portfolio company's voting securities.
- (5) Non-U.S. company or principal place of business outside the United States.
- (6) Non-income producing securities.
- (7) The securities, or a portion thereof, are not 1) pledged as collateral under the Credit Facility and held through Funding I; or, 2) secure the 2031 Asset-Backed Debt (See Note 11) and held through PennantPark CLO I, Ltd.
- (8) Investment is held through our Taxable Subsidiary (See Note 1).
- (9) Represents the purchase of a security with delayed settlement or a revolving line of credit that is currently an unfunded investment. This security does not earn a basis point spread above an index while it is unfunded.
- (10) The investment is treated as a non-qualifying asset under Section 55(a) of the 1940 Act. Under the 1940 Act, we may not acquire any non-qualifying asset unless, at the time the acquisition is made, qualifying assets represent at least 70% of our total assets. As of September 30, 2019, qualifying assets represent 79% of our total assets and non-qualifying assets represent 21% of our total assets.
- (11) Par amount is denominated in Australian Dollars (AS) or Canadian Dollars (CS) as denoted.

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**PENNANTPARK FLOATING RATE CAPITAL LTD. AND SUBSIDIARIES**  
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Issuer Name	Maturity	Industry	Current Coupon	Basis Point Spread Above Index (1)	Par / Shares	Cost	Fair Value (2)
<b>Investments in Non-Controlled, Non-Affiliated Portfolio Companies—159.5% (3), (4)</b>							
<b>First Lien Secured Debt—151.6%</b>							
Alera Group Intermediate Holdings, Inc.	08/01/2025	Banking, Finance, Insurance and Real Estate	6.74%	1M L+450	9,975,000	\$ 9,950,063	\$ 10,099,688
Allied America, Inc.	08/08/2022	Business Services	9.39%	3M L+700	1,685,452	1,685,452	1,688,823
American Auto Auction Group, LLC	11/30/2021	Transportation: Consumer	7.34%	3M L+525	5,857,878	5,800,066	5,770,010
American Scaffold	03/31/2022	Aerospace and Defense	8.89%	3M L+650	4,500,000	4,455,413	4,455,000
American Teleconferencing Services, Ltd.	12/08/2021	Telecommunications	8.84%	3M L+650	10,107,368	9,986,139	9,715,708
API Technologies Corp.	04/22/2024	Aerospace and Defense	8.25%	1M L+600	4,987,500	4,927,669	4,937,625
API Technologies Corp. (Revolver) (7), (8)	04/22/2024	Aerospace and Defense	—	—	1,968,504	—	(9,843)
Beauty Industry Group Opco, LLC	04/06/2023	Consumer Goods: Non-Durable	7.00%	1M L+475	33,047,995	32,717,900	32,882,753
BEI Precision Systems & Space Company, Inc.	04/28/2023	Aerospace and Defense	7.89%	3M L+550	11,850,000	11,752,654	11,731,500
By Light Professional IT Services, LLC	05/16/2022	High Tech Industries	9.57%	3M L+725	15,454,395	15,157,019	15,454,395
By Light Professional IT Services, LLC (Revolver) (7), (8)	05/16/2022	High Tech Industries	—	—	2,311,784	—	—
Cadence Aerospace, LLC	11/14/2023	Aerospace and Defense	8.82%	3M L+650	10,917,500	10,824,456	10,937,086
Camin Cargo Control, Inc.	06/30/2021	Transportation: Cargo	6.99%	1M L+475	2,418,750	2,406,335	2,322,000
Cardenas Markets LLC	11/29/2023	Beverage, Food and Tobacco	7.99%	1M L+575	3,874,317	3,881,627	3,874,317
CD&R TZ Purchaser, Inc. (7)	07/21/2023	Consumer Goods: Durable	8.39%	3M L+600	16,161,170	15,861,453	15,837,947
CHA Holdings, Inc. (7)	04/10/2025	Environmental Industries	6.89%	3M L+450	6,145,313	6,115,613	6,176,039
CHA Holdings, Inc. (7), (8)	04/10/2025	Environmental Industries	—	—	1,339,286	—	6,696
Challenger Performance Optimization, Inc. (Revolver) (7)	08/31/2023	Business Services	7.89%	1M L+575	426,868	426,868	422,599
Challenger Performance Optimization, Inc. (Revolver) (7), (8)	08/31/2023	Business Services	—	—	284,579	—	(2,846)
Chicken Soup for the Soul Publishing, LLC	01/08/2019	Media: Advertising, Printing and Publishing	8.35%	1M L+625	4,539,286	4,535,666	3,994,572
Country Fresh Holdings, LLC	03/31/2023	Beverage, Food and Tobacco	7.39%	3M L+500	17,727,205	17,691,760	17,195,389
Credit Infonet, Inc.	03/13/2023	High Tech Industries	8.52%	6M L+600	26,713,426	26,527,311	26,713,426
Credit Infonet, Inc. (Revolver) (7), (8)	03/13/2023	High Tech Industries	—	—	1,000,000	—	—
DBI Holding, LLC	08/02/2021	Business Services	7.51%	1M L+525	17,395,068	17,297,351	17,395,068
Deva Holdings, Inc.	10/31/2023	Consumer Goods: Non-Durable	7.74%	3M L+550	7,344,001	7,214,912	7,344,001
Deva Holdings, Inc. (Revolver) (7), (8)	10/31/2022	Consumer Goods: Non-Durable	—	—	2,115,000	—	—
Digital Room Holdings, Inc. (7)	12/29/2023	Media: Advertising, Printing and Publishing	7.25%	1M L+500	16,376,250	16,227,058	16,192,017
Douglas Products and Packaging Company LLC	03/29/2022	Chemicals, Plastics and Rubber	8.14%	3M L+575	14,486,029	14,260,279	14,341,169
Douglas Products and Packaging Company LLC (Revolver) (7), (8)	03/29/2022	Chemicals, Plastics and Rubber	—	—	2,941,176	—	(29,412)
Driven Performance Brands, Inc.	09/30/2022	Consumer Goods: Durable	6.92%	2M L+475	10,085,149	10,062,733	10,085,149
Driven Performance Brands, Inc. (Revolver) (7), (8)	09/30/2022	Consumer Goods: Durable	—	—	1,000,000	—	—
East Valley Tourist Development Authority	03/07/2022	Hotel, Gaming and Leisure	10.39%	3M L+800	19,923,750	19,762,133	20,172,797
Education Networks of America, Inc.	05/06/2021	Telecommunications	9.24%	1M L+700	20,742,489	20,646,931	20,742,489
Education Networks of America, Inc. (Revolver) (7)	05/06/2021	Telecommunications	9.19%	1M L+700	1,304,348	1,304,348	1,304,348
Education Networks of America, Inc. (Revolver) (7), (8)	05/06/2021	Telecommunications	—	—	869,565	—	—
Efficient Collaborative Retail Marketing Company, LLC	06/15/2022	Media: Diversified and Production	9.14%	3M L+675	9,331,620	9,268,771	9,284,961
ENC Holding Corporation (7), (8)	05/30/2025	Transportation: Cargo	—	—	628,571	—	(1,571)
GCOM Software LLC (Revolver) (7), (8)	11/14/2022	High Tech Industries	—	—	2,666,667	—	—
GSM Holdings, Inc. (7)	06/03/2024	Consumer Goods: Durable	6.86%	3M L+450	5,097,491	5,072,239	5,072,003
GSM Holdings, Inc. (Revolver) (7)	06/03/2024	Consumer Goods: Durable	6.87%	3M L+450	1,187,750	1,187,750	1,181,811
GSM Holdings, Inc. (Revolver) (7), (8)	06/03/2024	Consumer Goods: Durable	—	—	3,563,250	—	(17,817)
Hollander Sleep Products, LLC	06/09/2023	Consumer Goods: Non-Durable	10.39%	3M L+800	10,952,132	10,770,250	10,842,611
iNergizer Limited and Aptara, Inc. (5), (9)	05/01/2019	Business Services	8.25%	1M L+600	5,445,988	5,434,106	5,432,373
Impact Group, LLC (7)	06/27/2023	Wholesale	8.64%	1M L+625	12,482,923	12,364,105	12,420,509
Impact Group, LLC (7), (8)	06/27/2023	Wholesale	—	—	12,491,009	—	(62,455)
Innova Medical Ophthalmics Inc. (5), (9)	04/13/2022	Capital Equipment	9.14%	3M L+675	3,339,631	3,303,281	3,322,933
Innova Medical Ophthalmics Inc. (Revolver) (5), (7), (9)	04/13/2022	Capital Equipment	10.75%	P+550	176,991	176,991	176,106
Innova Medical Ophthalmics Inc. (Revolver) (5), (7), (8), (9)	04/13/2022	Capital Equipment	—	—	353,982	—	(1,770)
Integrative Nutrition, LLC	09/29/2023	Consumer Services	7.15%	3M L+475	36,000,000	35,640,000	35,640,000
Integrative Nutrition, LLC (Revolver) (7), (8)	09/29/2023	Consumer Services	—	—	5,000,000	—	—
Intralinks, Inc.	11/14/2024	Business Services	6.25%	1M L+400	14,451,316	14,384,410	14,478,484
Inventus Power, Inc.	04/30/2020	Consumer Goods: Durable	8.74%	1M L+650	4,230,023	4,216,353	3,933,921
K2 Pure Solutions NoCal, L.P. (7)	02/19/2021	Chemicals, Plastics and Rubber	11.24%	1M L+900	3,925,501	3,865,568	3,925,501
KHC Holdings, Inc.	10/31/2022	Wholesale	8.39%	3M L+600	12,109,261	11,972,865	12,109,261
KHC Holdings, Inc. (Revolver) (7)	10/30/2020	Wholesale	6.49%	1M L+425	262,097	262,097	262,097
KHC Holdings, Inc. (Revolver) (7), (8)	10/30/2020	Wholesale	—	—	947,581	—	—
Lago Resort & Casino, LLC	03/07/2022	Hotel, Gaming and Leisure	11.89%	3M L+950	10,098,000	9,966,385	9,694,080
Leap Legal Software Pty Ltd (5), (9), (10)	09/12/2022	High Tech Industries	7.73%	3M L+575 A \$	9,925,000	7,688,759	7,181,254
LifeCare Holdings LLC (7)	11/30/2021	Healthcare and Pharmaceuticals	10.33%	3M L+800	4,596,389	4,528,529	2,987,653
			(PIK 6.00%)				
Lombart Brothers, Inc.	04/13/2022	Capital Equipment	9.14%	3M L+675	9,251,830	9,147,743	9,205,570
Lombart Brothers, Inc. (Revolver) (7)	04/13/2022	Capital Equipment	10.75%	P+550	619,469	619,469	616,372
Lombart Brothers, Inc. (Revolver) (7), (8)	04/13/2022	Capital Equipment	—	—	619,469	—	(3,098)
Long Island Vision Management, LLC	09/11/2023	Healthcare and Pharmaceuticals	7.14%	3M L+475	6,052,632	5,992,433	5,976,091
Long Island Vision Management, LLC (7), (8)	09/11/2023	Healthcare and Pharmaceuticals	—	—	3,947,368	—	(49,918)
Long's Drugs Incorporated	08/19/2022	Healthcare and Pharmaceuticals	7.12%	1M L+500	10,000,000	9,914,849	9,900,000
Long's Drugs Incorporated (Revolver) (7), (8)	08/19/2022	Healthcare and Pharmaceuticals	—	—	3,000,000	—	(60,000)
LSF9 Atlantis Holdings, LLC	05/01/2023	Retail	8.12%	1M L+600	14,046,875	13,932,255	13,537,676
Manna Pro Products, LLC (7)	12/08/2023	Consumer Goods: Non-Durable	8.17%	1M L+600	6,983,750	6,909,661	6,930,659
Manna Pro Products, LLC (7), (8)	12/08/2023	Consumer Goods: Non-Durable	—	—	975,000	—	(7,412)
Marketplace Events LLC	01/27/2021	Media: Diversified and Production	7.64%	3M L+525	3,343,309	3,313,221	3,343,309
Marketplace Events LLC (10)	01/27/2021	Media: Diversified and Production	7.07%	P+275 C \$	16,473,429	11,599,021	12,744,421

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**PENNANTPARK FLOATING RATE CAPITAL LTD. AND SUBSIDIARIES**  
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**SEPTEMBER 30, 2018**

Issuer Name	Maturity	Industry	Current Coupon	Basis Point Spread Above Index (1)	Par / Shares	Cost	Fair Value (2)	
Marketplace Events LLC (Revolver) (7)	01/27/2021	Media: Diversified and Production	8.00%	P+275	425,791	\$ 425,791	\$ 425,791	
Marketplace Events LLC (Revolver) (7), (8)	01/27/2021	Media: Diversified and Production	—	—	1,277,372	—	—	
Mission Critical Electronics, Inc. (Revolver) (7), (8)	09/28/2021	Capital Equipment	—	—	883,392	—	(2,122)	
Montreign Operating Company, LLC	01/24/2023	Hotel, Gaming and Leisure	10.59%	3M L+825	26,163,397	26,518,501	23,350,832	
Morphe, LLC	02/10/2023	Consumer Goods: Non-Durable	8.40%	3M L+600	20,644,462	20,276,981	20,541,240	
New Trident HoldCorp, Inc.	08/01/2022	Healthcare and Pharmaceuticals	8.24%	1M L+600	7,068,161	6,998,756	5,654,528	
			(PIK 3.00%)					
NextiraOne Federal, LLC	08/27/2024	Aerospace and Defense	8.07%	3M L+575	18,181,818	17,911,938	17,906,255	
NextiraOne Federal, LLC (Revolver) (7)	08/27/2024	Aerospace and Defense	8.07%	3M L+575	2,647,727	2,647,727	2,607,599	
NextiraOne Federal, LLC (Revolver) (7), (8)	08/27/2024	Aerospace and Defense	—	—	4,170,455	—	(63,207)	
Olde Thompson, LLC	05/14/2024	Beverage, Food and Tobacco	6.66%	1M L+450	1,852,500	1,833,975	1,852,500	
Olde Thompson, LLC - Revolver (7), (8)	05/14/2024	Beverage, Food and Tobacco	—	—	2,642,857	—	—	
Ox Two, LLC	02/27/2023	Construction and Building	8.49%	1M L+625	13,034,722	12,946,045	13,034,722	
Ox Two, LLC (Revolver) (7)	02/27/2023	Construction and Building	12.50%	P+725	166,667	166,667	166,667	
Ox Two, LLC (Revolver) (7), (8)	02/27/2023	Construction and Building	—	—	388,889	—	—	
Pestell Minerals and Ingredients Inc. (5), (9)	06/01/2023	Beverage, Food and Tobacco	7.51%	3M L+525	15,000,000	14,850,000	14,850,000	
Profile Products LLC (7)	01/31/2023	Environmental Industries	7.29%	2M L+500	10,075,023	9,997,462	10,075,023	
Profile Products LLC (Revolver) (7), (8)	01/31/2022	Environmental Industries	—	—	2,459,016	—	—	
Questex, LLC	09/09/2024	Media: Diversified and Production	8.57%	3M L+625	7,500,000	7,351,373	7,350,000	
Questex, LLC (Revolver) (7)	09/09/2024	Media: Diversified and Production	8.57%	3M L+625	199,468	199,468	195,479	
Questex, LLC (Revolver) (7), (8)	09/09/2024	Media: Diversified and Production	—	—	997,340	—	(19,947)	
Quick Weight Loss Centers, LLC	08/23/2021	Beverage, Food and Tobacco	7.06%	3M L+475	9,375,000	9,288,885	7,921,875	
Research Horizons, LLC	06/28/2022	Media: Advertising, Printing and Publishing	8.36%	1M L+625	5,250,000	5,150,977	5,145,000	
Research Horizons, LLC (7), (8)	06/28/2022	Media: Advertising, Printing and Publishing	—	—	2,128,378	—	(42,568)	
Research Horizons, LLC (Revolver) (7)	06/28/2022	Media: Advertising, Printing and Publishing	8.36%	1M L+625	416,216	416,216	407,892	
Research Horizons, LLC (Revolver) (7), (8)	06/28/2022	Media: Advertising, Printing and Publishing	—	—	529,730	—	(10,595)	
Research Now Group, Inc. and Survey Sampling International LLC	12/20/2024	Business Services	7.74%	1M L+550	24,812,500	23,676,196	24,882,223	
Salient CRGT Inc.	02/28/2022	High Tech Industries	7.99%	1M L+575	18,136,905	17,867,722	18,318,274	
SFP Holding, Inc. (7)	09/01/2022	Construction and Building	8.59%	3M L+625	5,985,000	5,898,822	5,985,000	
SFP Holding, Inc. (7), (8)	09/01/2022	Construction and Building	—	—	4,125,000	—	—	
SFP Holding, Inc. (Revolver) (7), (8)	09/01/2022	Construction and Building	—	—	500,000	—	—	
Snak Club, LLC (Revolver) (7)	07/19/2021	Beverage, Food and Tobacco	8.10%	1M L+600	483,333	483,333	418,084	
Snak Club, LLC (Revolver) (7), (8)	07/19/2021	Beverage, Food and Tobacco	—	—	183,333	—	(24,750)	
Snak Club, LLC (Revolver) (7), (8)	02/22/2019	Beverage, Food and Tobacco	—	—	133,333	—	(667)	
Softvison, LLC	05/21/2021	High Tech Industries	7.74%	1M L+550	10,201,863	10,146,148	10,201,863	
TeleGuam Holdings, LLC	07/25/2023	Telecommunications	7.24%	1M L+500	7,920,000	7,818,453	7,939,800	
Tensar Corporation	07/09/2021	Construction and Building	7.14%	3M L+475	22,620,696	22,474,697	22,281,386	
The Infosoft Group, LLC	12/02/2021	Media: Broadcasting and Subscription	7.56%	3M L+525	6,689,308	6,644,404	6,622,415	
The Original Cakerie, Co. (5), (9)	07/20/2022	Consumer Goods: Non-Durable	7.20%	2M L+500	7,721,739	7,658,431	7,721,739	
The Original Cakerie Ltd. (5), (9)	07/20/2022	Consumer Goods: Non-Durable	6.70%	2M L+450	5,500,217	5,459,582	5,500,217	
The Original Cakerie Ltd. (Revolver) (5), (7), (9)	07/20/2022	Consumer Goods: Non-Durable	6.58%	3M L+450	255,327	255,327	255,327	
The Original Cakerie Ltd. (Revolver) (5), (7), (8), (9)	07/20/2022	Consumer Goods: Non-Durable	—	—	1,163,157	—	—	
Triad Manufacturing, Inc.	12/28/2020	Capital Equipment	15.49%	1M L+1,325	8,470,850	8,383,257	8,216,724	
UBEO, LLC (7)	04/03/2024	Capital Equipment	6.60%	1M L+450	1,995,000	1,976,435	1,995,000	
UBEO, LLC (Revolver) (7)	04/03/2024	Capital Equipment	6.88%	3M L+450	1,173,333	1,173,333	1,173,333	
UBEO, LLC (Revolver) (7), (8)	04/03/2024	Capital Equipment	—	—	1,026,667	—	—	
UniTek Global Services, Inc. (7)	08/20/2024	Telecommunications	7.89%	3M L+550	8,750,000	8,533,866	8,662,500	
UniTek Global Services, Inc. (7), (8)	08/20/2024	Telecommunications	—	—	1,750,000	—	(17,500)	
US Dominion, Inc.	07/15/2024	Capital Equipment	9.14%	3M L+675	5,985,000	5,883,015	5,985,000	
US Dominion, Inc. (Revolver) (7), (8)	07/15/2024	Capital Equipment	—	—	2,500,000	—	—	
US Med Acquisition, Inc. (7)	08/13/2021	Healthcare and Pharmaceuticals	11.39%	1M L+900	3,027,344	3,027,344	2,875,976	
Veterinary Specialists of North America, LLC (7)	07/15/2021	Healthcare and Pharmaceuticals	7.75%	1M L+550	15,398,203	15,324,732	15,475,194	
Veterinary Specialists of North America, LLC (7), (8)	07/15/2021	Healthcare and Pharmaceuticals	—	—	2,094,671	—	10,473	
Veterinary Specialists of North America, LLC (Revolver) (7), (8)	07/15/2021	Healthcare and Pharmaceuticals	—	—	880,000	—	4,400	
VIP Cinema Holdings, Inc.	03/01/2023	Consumer Goods: Durable	8.25%	1M L+600	6,937,500	6,910,133	6,954,844	
Walker Edison Furniture Company LLC (7)	09/26/2024	Wholesale	8.88%	3M L+650	16,307,500	15,981,904	15,981,350	
Winchester Electronics Corporation	06/30/2022	Capital Equipment	8.74%	1M L+650	11,724,183	11,675,472	11,724,182	
<b>Total First Lien Secured Debt</b>						<u>817,243,688</u>	<u>812,235,476</u>	
<b>Second Lien Secured Debt—4.0%</b>								
Condor Borrower, LLC (7)	04/25/2025	High Tech Industries	11.09%	3M L+875	2,000,000	1,963,478	2,000,000	
DecoPac, Inc. (7)	03/31/2025	Beverage, Food and Tobacco	10.64%	3M L+825	11,341,463	11,136,261	11,341,463	
MailSouth, Inc.	10/23/2024	Media: Advertising, Printing and Publishing	12.00%	3M L+925	3,775,000	3,702,622	3,699,500	
McAfee, LLC (7)	09/29/2025	High Tech Industries	10.74%	1M L+850	2,500,000	2,464,229	2,543,750	
PT Network, LLC (7)	04/12/2023	Healthcare and Pharmaceuticals	12.34%	3ML+1,000	1,666,667	1,638,368	1,650,000	
<b>Total Second Lien Secured Debt</b>						<u>20,904,958</u>	<u>21,234,713</u>	
<b>Preferred Equity—0.6% (6), (7)</b>								
CI (PTN) Investment Holdings II, LLC (PT Network, LLC) (11)	—	Healthcare and Pharmaceuticals	—	—	1,458	21,870	22,614	
Condor Holdings Limited (5), (9)	—	High Tech Industries	—	—	88,000	10,173	10,173	
Condor Top Holdco Limited (5), (9)	—	High Tech Industries	—	—	88,000	77,827	77,827	

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**PENNANTPARK FLOATING RATE CAPITAL LTD. AND SUBSIDIARIES**  
**CONSOLIDATED SCHEDULE OF INVESTMENTS—(Continued)**  
**SEPTEMBER 30, 2018**

Issuer Name	Maturity	Industry	Current Coupon	Basis Point Spread Above Index (1)	Par / Shares	Cost	Fair Value (2)
NXOF Holdings, Inc. (NextiraOne Federal, LLC)	—	Aerospace and Defense	—	—	490	\$ 490,000	\$ 453,077
UniTek Global Services, Inc. - Super Senior Preferred Equity	—	Telecommunications	20.00%	—	343,861	343,861	351,752
UniTek Global Services, Inc. - Senior Preferred Equity	—	Telecommunications	18.00%	—	448,851	448,851	570,762
UniTek Global Services, Inc.	—	Telecommunications	13.50%	—	1,047,317	670,283	1,726,920
<b>Total Preferred Equity</b>						<u>2,062,865</u>	<u>3,213,125</u>
<b>Common Equity/Warrants—3.3% (6), (7)</b>							
Affinion Group Holdings, Inc.	—	Consumer Goods: Durable	—	—	99,029	3,514,571	2,089,710
Affinion Group Holdings, Inc., Series C and Series D	—	Consumer Goods: Durable	—	—	4,298	1,186,649	3,449
By Light Investco LP (11)	—	High Tech Industries	—	—	21,908	2,190,771	4,426,169
By Light Investco LP (8), (11)	—	High Tech Industries	—	—	5,592	—	—
CI (Allied) Investment Holdings, LLC (Allied America, Inc.) (11)	—	Business Services	—	—	84,000	840,004	957,866
CI (PTN) Investment Holdings II, LLC (PT Network, LLC) (11)	—	Healthcare and Pharmaceuticals	—	—	13,333	200,000	200,000
CI (Summit) Investment Holdings, LLC (SFP Holding, Inc.)	—	Construction and Building	—	—	47,893	500,000	596,660
DecoPac Holdings Inc.	—	Beverage, Food and Tobacco	—	—	1,633	1,632,744	1,972,251
Faraday Holdings, LLC	—	Construction and Building	—	—	1,141	58,044	305,907
Gauge InfosoftColinvest, LLC (The Infosoft Group, LLC)	—	Media: Broadcasting and Subscription	—	—	500	500,000	738,439
GCOM InvestCo LP (11)	—	High Tech Industries	—	—	1,281,433	1,281,433	1,132,039
GCOM InvestCo LP (8), (11)	—	High Tech Industries	—	—	718,567	—	(83,773)
IIN Group Holdings, LLC (Integrative Nutrition, LLC) (11)	—	Consumer Services	—	—	1,000	1,000,000	1,000,000
JWC/UMA Holdings, L.P.	—	Healthcare and Pharmaceuticals	—	—	1,000	1,000,000	1,000,000
JWC-WE Holdings, L.P. (Walker Edison Furniture Company LLC)	—	Wholesale	—	—	1,381,741	1,381,741	1,381,741
NXOF Holdings, Inc. (NextiraOne Federal, LLC)	—	Aerospace and Defense	—	—	10,000	10,000	32,308
SSC Dominion Holdings, LLC Class A (US Dominion, Inc.)	—	Capital Equipment	—	—	500	500,000	500,000
SSC Dominion Holdings, LLC Class B (US Dominion, Inc.)	—	Capital Equipment	—	—	500	—	—
TPC Broadband Investors, LP (11)	—	Telecommunications	—	—	742,692	742,692	1,024,002
TPC Broadband Investors, LP (8), (11)	—	Telecommunications	—	—	257,308	—	—
UniTek Global Services, Inc.	—	Telecommunications	—	—	213,739	—	524,411
UniTek Global Services, Inc. (Warrants)	—	Telecommunications	—	—	23,889	—	—
WBB Equity, LLC (11)	—	Aerospace and Defense	—	—	142,857	142,857	268,571
<b>Total Common Equity/Warrants</b>						<u>16,681,506</u>	<u>18,069,750</u>
<b>Total Investments in Non-Controlled, Non-Affiliated Portfolio Companies</b>						<u>856,893,017</u>	<u>854,753,064</u>
<b>Investments in Controlled, Affiliated Portfolio Companies—27.2% (3), (4)</b>							
<b>First Lien Secured Debt—18.9%</b>							
PennantPark Senior Secured Loan Fund I LLC (7), (9)	05/06/2024	Financial Services	10.39%	3M L+800	101,062,500	101,062,500	101,062,500
<b>Equity Interests—8.3%</b>							
PennantPark Senior Secured Loan Fund I LLC (7), (9)	—	Financial Services	—	—	—	43,312,500	44,797,729
<b>Total Investments in Controlled, Affiliated Portfolio Companies</b>						<u>144,375,000</u>	<u>145,860,229</u>
<b>Total Investments—186.7%</b>						<u>1,001,268,017</u>	<u>1,000,613,293</u>
<b>Cash and Cash Equivalents—13.5%</b>							
BlackRock Federal FD Institutional 30						69,502,018	69,502,018
BNY Mellon Cash						2,729,783	2,722,165
<b>Total Cash and Cash Equivalents</b>						<u>72,231,801</u>	<u>72,224,183</u>
<b>Total Investments and Cash Equivalents—200.2%</b>						<u>\$ 1,073,499,818</u>	<u>\$ 1,072,837,476</u>
<b>Liabilities in Excess of Other Assets—(100.2)%</b>							<u>(536,995,908)</u>
<b>Net Assets—100.0%</b>							<u>\$ 535,841,568</u>

- (1) Represents floating rate instruments that accrue interest at a predetermined spread relative to an index, typically the applicable LIBOR or "L," EURIBOR or "E," or Prime rate, or "P." All securities are subject to a LIBOR or Prime rate floor where a spread is provided, unless noted. The spread provided includes PIK interest and other fee rates, if any.
- (2) Valued based on our accounting policy (See Note 2).
- (3) The provisions of the 1940 Act classify investments based on the level of control that we maintain in a particular portfolio company. As defined in the 1940 Act, a company is generally presumed to be "non-controlled" when we own 25% or less of the portfolio company's voting securities and "controlled" when we own more than 25% of the portfolio company's voting securities.
- (4) The provisions of the 1940 Act classify investments further based on the level of ownership that we maintain in a particular portfolio company. As defined in the 1940 Act, a company is generally deemed as "non-affiliated" when we own less than 5% of a portfolio company's voting securities and "affiliated" when we own 5% or more of a portfolio company's voting securities.
- (5) Security is exempt from registration under Rule 144A promulgated under the Securities Act. The security may be resold in transactions that are exempt from registration, normally to qualified institutional buyers.
- (6) Non-U.S. company or principal place of business outside the United States.
- (7) Non-income producing securities.
- (8) The securities, or a portion thereof, are not pledged as collateral under the Credit Facility. All other securities are pledged as collateral under the Credit Facility and held through Funding I.
- (9) Represents the purchase of a security with delayed settlement or a revolving line of credit that is currently an unfunded investment. This security does not earn a basis point spread above an index while it is unfunded.
- (10) The investment is treated as a non-qualifying asset under Section 55(a) of the 1940 Act. Under the 1940 Act, we may not acquire any non-qualifying asset unless, at the time the acquisition is made, qualifying assets represent at least 70% of our total assets. As of September 30, 2018, qualifying assets represent 82% of our total assets and non-qualifying assets represent 18% of our total assets.
- (11) Par amount is denominated in Australian Dollars (A\$), Canadian Dollars (C\$) or in Euros (€) as denoted.
- (12) Investment is held through our Taxable Subsidiary (See Note 1).
- (13) The security was not valued using significant unobservable inputs. The value of all other securities was determined using significant unobservable inputs (See Note 5).

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 1. ORGANIZATION

PennantPark Floating Rate Capital Ltd. was organized as a Maryland corporation in October 2010. We are a closed-end, externally managed, non-diversified investment company that has elected to be treated as a BDC under the 1940 Act.

Our investment objectives are to generate both current income and capital appreciation while seeking to preserve capital. We seek to achieve our investment objective by investing primarily in Floating Rate Loans and other investments made to U.S. middle-market private companies whose debt is rated below investment grade. Floating Rate Loans pay interest at variable rates, which are determined periodically, on the basis of a floating base lending rate such as LIBOR, with or without a floor, plus a fixed spread. Under normal market conditions, we generally expect that at least 80% of the value of our Managed Assets will be invested in Floating Rate Loans and other investments bearing a variable rate of interest, which may include, from time to time, variable rate derivative instruments. We generally expect that first lien secured debt, will represent at least 65% of our overall portfolio. We generally expect to invest up to 35% of our overall portfolio opportunistically in other types of investments, including second lien secured debt, subordinated debt, and, to a lesser extent, equity investments.

We entered into the Investment Management Agreement with the Investment Adviser, an external adviser that manages our day-to-day operations. We also entered into the Administration Agreement with the Administrator, which provides the administrative services necessary for us to operate.

Funding I, our wholly owned subsidiary and a special purpose entity, was organized in Delaware as a limited liability company in May 2011. We formed Funding I in order to establish our Credit Facility. The Investment Adviser serves as the collateral manager to Funding I and has irrevocably directed that the management fee owed with respect to such services is to be paid to us so long as the Investment Adviser remains the collateral manager. This arrangement does not increase our consolidated management fee. The Credit Facility allows Funding I to borrow up to \$520 million at LIBOR plus 200 basis points during the revolving period. The Credit Facility is secured by all of the assets held by Funding I. See Note 11.

We have formed and expect to continue to form certain taxable subsidiaries, including the Taxable Subsidiary, which are subject to tax as corporations. These taxable subsidiaries allow us to hold equity securities of certain portfolio companies treated as pass-through entities for U.S. federal income tax purposes while facilitating our ability to qualify as a RIC under the Code.

In May 2017, we and Kemper formed PSSL, an unconsolidated joint venture. PSSL invests primarily in middle-market and other corporate debt securities consistent with our strategy. PSSL was formed as a Delaware limited liability company. See Note 4.

In November 2017, we completed a follow-on public offering of 6,292,000 shares of common stock at a public offering price of \$14.15 per share resulting in net proceeds of approximately \$88.0 million. The Investment Adviser paid approximately \$2.1 million of the sales load payable to the underwriters. We are not obligated to repay the sales load paid by our Investment Adviser.

In November 2017, we issued \$138.6 million of our 2023 Notes. The principal on the 2023 Notes will be payable in four annual installments as follows: 15% of the original principal amount on December 15, 2020, 15% of the original principal amount on December 15, 2021, 15% of the original principal amount on December 15, 2022 and 55% on December 15, 2023. The 2023 Notes are general, unsecured obligations and rank equal in right of payment with all of our existing and future senior unsecured indebtedness. The 2023 Notes are listed on the TASE. In connection with this offering, we have dual listed our common stock on the TASE.

In September 2019, the Securitization Issuers completed the Debt Securitization. The 2031 Asset-Backed Debt is secured by a diversified portfolio of the Securitization Issuer consisting primarily of middle market loans and participation interests in middle market loans. The 2031 Asset-Backed Debt is scheduled to mature on October 15, 2031. On the closing date of the Debt Securitization, in consideration of our transfer to the Securitization Issuer of the initial closing date loan portfolio, which included loans distributed to us by certain of our wholly owned subsidiaries, the Securitization Issuer transferred to us 100% of the Preferred Shares of the Securitization Issuer, 100% of the Class D Secured Deferrable Floating Rate Notes issued by the Securitization Issuer, and a portion of the net cash proceeds received from the sale of the 2031 Asset-Backed Debt. See Note 11.

## 2. SIGNIFICANT ACCOUNTING POLICIES

The preparation of our Consolidated Financial Statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amount of our assets and liabilities at the date of the Consolidated Financial Statements and the reported amounts of income and expenses during the reported periods. In the opinion of management, all adjustments, which are of a normal recurring nature, considered necessary for the fair presentation of financial statements have been included. Actual results could differ from these estimates due to changes in the economic and regulatory environment, financial markets and any other parameters used in determining such estimates and assumptions. We may reclassify certain prior period amounts to conform to the current period presentation. We have eliminated all intercompany balances and transactions. References to ASC serve as a single source of accounting literature. Subsequent events are evaluated and disclosed as appropriate for events occurring through the date the Consolidated Financial Statements are issued.

Our Consolidated Financial Statements are prepared in accordance with GAAP, consistent with ASC Topic 946, Financial Services – Investment Companies, and pursuant to the requirements for reporting on Form 10-K/Q and Articles 6, 10 and 12 of Regulation S-X, as appropriate. In accordance with Article 6-09 of Regulation S-X, we have provided a Consolidated Statement of Changes in Net Assets in lieu of a Consolidated Statement of Changes in Stockholders' Equity.

Our significant accounting policies consistently applied are as follows:

### (a) Investment Valuations

We expect that there may not be readily available market values for many of the investments, which are or will be in our portfolio, and we value such investments at fair value as determined in good faith by or under the direction of our board of directors using a documented valuation policy and a consistently applied valuation process, as described in this Report. With respect to investments for which there is no readily available market value, the factors that the board of directors may take into account in pricing our investments at fair value include, as relevant, the nature and realizable value of any collateral, the portfolio company's ability to make payments and its earnings and discounted cash flow, the markets in which the portfolio company does business, comparison to publicly traded securities and other relevant factors. When an external event such as a purchase transaction, public offering or subsequent equity sale occurs, we consider the pricing indicated by the external event to corroborate or revise our valuation. Due to the inherent uncertainty of determining the fair value of investments that do not have a readily available market value, the price used in an actual transaction may be different than our valuation and the difference may be material. See Note 5.

Our portfolio generally consists of illiquid securities, including debt and equity investments. With respect to investments for which market quotations are not readily available, or for which market quotations are deemed not reflective of the fair value, our board of directors undertakes a multi-step valuation process each quarter, as described below:

- (1) Our quarterly valuation process begins with each portfolio company or investment being initially valued by the investment professionals of our Investment Adviser responsible for the portfolio investment;
- (2) Preliminary valuation conclusions are then documented and discussed with the management of the Investment Adviser;
- (3) Our board of directors also engages independent valuation firms to conduct independent appraisals of our investments for which market quotations are not readily available or are readily available but deemed not reflective of the fair value of the investment. The independent valuation firms review management's preliminary valuations in light of their own independent assessment and also in light of any market quotations obtained from an independent pricing service, broker, dealer or market maker;
- (4) The audit committee of our board of directors reviews the preliminary valuations of our Investment Adviser and those of the independent valuation firms on a quarterly basis, periodically assesses the valuation methodologies of the independent valuation firms, and responds to and supplements the valuation recommendations of the independent valuation firms to reflect any comments; and
- (5) Our board of directors discusses these valuations and determines the fair value of each investment in our portfolio in good faith, based on the input of our Investment Adviser, the respective independent valuation firms and the audit committee.

Our board of directors generally uses market quotations to assess the value of our investments for which market quotations are readily available. We obtain these market values from independent pricing services or at bid prices obtained from at least two brokers or dealers, if available, or otherwise from a principal market maker or a primary market dealer. The Investment Adviser assesses the source and reliability of bids from brokers or dealers. If the board of directors has a bona fide reason to believe any such market quote does not reflect the fair value of an investment, it may independently value such investments by using the valuation procedure that it uses with respect to assets for which market quotations are not readily available.

**(b) Security Transactions, Revenue Recognition, and Realized/Unrealized Gains or Losses**

Security transactions are recorded on a trade-date basis. We measure realized gains or losses by the difference between the net proceeds from the repayment or sale and the amortized cost basis of the investment, using the specific identification method, without regard to unrealized appreciation or depreciation previously recognized, but considering prepayment penalties. Net change in unrealized appreciation or depreciation reflects the change in the fair values of our portfolio investments, the Credit Facility and the 2023 Notes during the reporting period, including any reversal of previously recorded unrealized appreciation or depreciation, when gains or losses are realized.

We record interest income on an accrual basis to the extent that we expect to collect such amounts. For loans and debt investments with contractual PIK interest, which represents interest accrued and added to the loan balance that generally becomes due at maturity, we will generally not accrue PIK interest when the portfolio company valuation indicates that such PIK interest is not collectable. We do not accrue as a receivable interest on loans and debt investments if we have reason to doubt our ability to collect such interest. Loan origination fees, OID, market discount or premium and deferred financing costs on liabilities, which we do not fair value, are capitalized and then accreted or amortized using the effective interest method as interest income or, in the case of deferred financing costs, as interest expense. Dividend income, if any, is recognized on an accrual basis on the ex-dividend date to the extent that we expect to collect such amounts. From time to time, the Company receives certain fees from portfolio companies, which are non-recurring in nature. Such fees include loan prepayment penalties, structuring fees and amendment fees, and are recorded as other investment income when earned. Litigation settlements are accounted for in accordance with the gain contingency provisions of ASC 450-30.

Loans are placed on non-accrual status when principal or interest payments are past due 30 days or more and/or if there is reasonable doubt that principal or interest will be collected. Accrued interest is generally reversed when a loan is placed on non-accrual status. Interest payments received on non-accrual loans may be recognized as income or applied to principal depending upon management's judgment. Non-accrual loans are restored to accrual status when past due principal and interest is paid and, in management's judgment, are likely to remain current. As of September 30, 2019, we had one portfolio company on non-accrual, representing 0.4% and zero of our overall portfolio on a cost and fair value basis, respectively.

**(c) Income Taxes**

We have complied with the requirements of Subchapter M of the Code and expect to be treated as a RIC for federal income tax purposes. In this regard, we account for income taxes using the asset and liability method prescribed by ASC 740, Income Taxes, or ASC 740. Under this method, income taxes are provided for amounts currently payable and for amounts deferred as tax assets and liabilities based on differences between the financial statement carrying amounts and the tax basis of existing assets and liabilities. Based upon our qualification and election to be treated as a RIC for federal income tax purposes, we typically do not incur any material federal income taxes. However, we may choose to retain a portion of our calendar year income, which may result in the imposition of an excise tax, or we may incur taxes through our taxable subsidiaries, including the Taxable Subsidiary. For the years ended September 30, 2019, 2018 and 2017, we recorded a provision for taxes of zero, \$0.8 million and \$0.3, respectively, pertaining to U.S. federal excise tax.

We recognize the effect of a tax position in our Consolidated Financial Statements in accordance of ASC 740 when it is more likely than not, based on the technical merits, that the position will be sustained upon examination by the applicable tax authority. Tax positions not considered to satisfy the "more-likely-than-not" threshold would be recorded as a tax expense or benefit. Penalties or interest, if applicable, that may be assessed relating to income taxes would be classified as other operating expenses in the financial statements. As of September 30, 2019, there were no tax accruals relating to uncertain tax positions and no amounts accrued for any related interest or penalties with respect to the periods presented herein. The Company's determinations regarding ASC 740 may be subject to review and adjustment at a later date based upon factors including, but not limited to, an on-going analysis of tax laws, regulations and interpretations thereof. Although the Company files both federal and state income tax returns, the Company's major tax jurisdiction is federal.

Because federal income tax regulations differ from GAAP, distributions in accordance with tax regulations may differ from net investment income and net realized gains recognized for financial reporting purposes. Differences between tax regulations and GAAP may be permanent or temporary. Permanent differences are reclassified among capital accounts in the Consolidated Financial Statements to reflect their tax character. Temporary differences arise when certain items of income, expense, gain or loss are recognized at some time in the future.

**(d) Distributions and Capital Transactions**

Distributions to common stockholders are recorded on the ex-dividend date. The amount to be paid, if any, as a distribution is determined by the board of directors each quarter and is generally based upon the earnings estimated by management. Net realized capital gains, if any, are distributed at least annually. The tax attributes for distributions will generally include ordinary income and capital gains, but may also include certain tax-qualified dividends and/or a return of capital.

Capital transactions, in connection with our dividend reinvestment plan, which was terminated on November 22, 2017, or through offerings of our common stock, are recorded when issued and offering costs are charged as a reduction of capital upon issuance of our common stock.

**(e) Foreign Currency Translation**

Our books and records are maintained in U.S. dollars. Any foreign currency amounts are translated into U.S. dollars on the following basis:

1. Fair value of investment securities, other assets and liabilities – at the exchange rates prevailing at the end of the applicable period; and
2. Purchases and sales of investment securities, income and expenses – at the exchange rates prevailing on the respective dates of such transactions.

Although net assets and fair values are presented based on the applicable foreign exchange rates described above, we do not isolate that portion of the results of operations due to changes in foreign exchange rates on investments, other assets and debt from the fluctuations arising from changes in fair value of investments and liabilities held. Such fluctuations are included with the net realized and unrealized gain or loss from investments and liabilities.

Foreign security and currency translations may involve certain considerations and risks not typically associated with investing in U.S. companies and U.S. government securities. These risks include, but are not limited to, currency fluctuations and revaluations and future adverse political, social and economic developments, which could cause investments in foreign markets to be less liquid and prices to be more volatile than those of comparable U.S. companies or U.S. government securities.

**(f) Consolidation**

As permitted under Regulation S-X and as explained by ASC paragraph 946-810-45-3, PennantPark Floating Rate Capital Ltd. will generally not consolidate its investment in a company other than an investment company wholly-owned subsidiary or a controlled operating company whose business consists of providing services to us. Accordingly, we have consolidated the results of our taxable subsidiaries, including the Taxable Subsidiary, Funding I and the Securitization Issuer in our Consolidated Financial Statements. We do not consolidate our non-controlling interest in PSSL. See further description of our investment in PSSL in Note 4.

**(g) Asset Transfers and Servicing**

Asset transfers that do not meet ASC Topic 860, Transfers and Servicing, requirements for sale accounting treatment are reflected in the Consolidated Statements of Assets and Liabilities and Consolidated Schedules of Investments as investments. The creditors of Funding I have received a security interest in all its assets and such assets are not intended to be available to the creditors of PennantPark Floating Rate Capital Ltd. or any of its affiliates.

**(h) Recent Accounting Pronouncements**

In August 2018, the FASB issued ASU 2018-13, which changed the fair value measurement disclosure requirements of ASC 820. The key provisions include new, eliminated and modified disclosure requirements. The new guidance is effective for fiscal years beginning after December 15, 2019, including interim periods therein. Early application is permitted. The Company is currently evaluating the impact the adoption of this new accounting standard will have on its consolidated financial statements, but the impact of the adoption is not expected to be material.

In August 2018, the SEC issued Securities Act Release No. 33-10532, *Disclosure Update and Simplification*, or the Final Rule Release, amending certain disclosure requirements that were redundant, duplicative, overlapping, outdated or superseded. The amendments are intended to facilitate the disclosure of information to investors and simplify compliance. The Final Rule Release became effective for all filings on or after November 5, 2018. We adopted these amendments as currently required and they are reflected in the Company's consolidated financial statements and related disclosures. Certain prior year information has been adjusted to conform to these amendments.

In March 2019, the SEC issued the Final Rule Release No. 33-10618, *FAST Act Modernization and Simplification of Regulation S-K*, which amends certain SEC disclosure requirements. The amendments are intended to simplify certain disclosure requirements and to provide for a consistent set of rules to govern incorporating information by reference and hyperlinking, improve readability and navigability of disclosure documents, and discourage repetition and disclosure of immaterial information. The amendments are effective for all filings submitted on or after May 2, 2019. The Company adopted the requisite amendments effective May 2, 2019. We adopted these amendments as currently required and they are reflected in the Company's consolidated financial statements and related disclosures. Certain prior year information has been adjusted to conform to these amendments.

**3. AGREEMENTS AND RELATED PARTY TRANSACTIONS**

The Investment Management Agreement with the Investment Adviser was reapproved by our board of directors, including a majority of our directors who are not interested persons of us or the Investment Adviser, in February 2019. Under the Investment Management Agreement, the Investment Adviser, subject to the overall supervision of our board of directors, manages the day-to-day operations of and provides investment advisory services to us. The Investment Adviser serves as the collateral manager to Funding I and has irrevocably directed that the management fee owed with respect to such services is to be paid to the Company so long as the Investment Adviser remains the collateral manager. This arrangement does not increase our consolidated management fee. For providing these services, the Investment Adviser receives a fee from us consisting of two components—a base management fee and an incentive fee.

The base management fee is calculated at an annual rate of 1.00% of our "average adjusted gross assets," which equals our gross assets (net of U.S. Treasury Bills, temporary draws under any credit facility, cash and cash equivalents, repurchase agreements or other balance sheet transactions undertaken at the end of a fiscal quarter for purposes of preserving investment flexibility for the next quarter and unfunded commitments, if any) and is payable quarterly in arrears. The base management fee is calculated based on the average adjusted gross assets at the end of the two most recently completed calendar quarters, and appropriately adjusted for any share issuances or repurchases during the current calendar quarter. For example, if we sold shares on the 45th day of a quarter and did not use the proceeds from the sale to repay outstanding indebtedness, our gross assets for such quarter would give effect to the net proceeds of the issuance for only 45 days of the quarter during which the additional shares were outstanding. For the years ended September 30, 2019, 2018 and 2017, the Investment Adviser earned a base management fee of \$10.2 million, \$8.4 million and \$6.9 million, respectively, from us.

The incentive fee has two parts, as follows:

One part is calculated and payable quarterly in arrears based on our Pre-Incentive Fee Net Investment Income for the immediately preceding calendar quarter. For this purpose, Pre-Incentive Fee Net Investment Income means interest income, dividend income and any other income, including any other fees (other than fees for providing managerial assistance), such as amendment, commitment, origination, prepayment penalties, structuring, diligence and consulting fees or other fees received from portfolio companies, accrued during the calendar quarter, minus our operating expenses for the quarter (including the base management fee, any expenses payable under the Administration Agreement and any interest expense or amendment fees under any credit facility and distribution paid on any issued and outstanding preferred stock, but excluding the incentive fee). Pre-Incentive Fee Net Investment Income includes, in the case of investments with a deferred interest feature (such as OID, debt instruments with PIK interest and zero coupon securities), accrued income not yet received in cash. Pre-Incentive Fee Net Investment Income does not include any realized capital gains, computed net of all realized capital losses or unrealized capital appreciation or depreciation. Pre-Incentive Fee Net Investment Income, expressed as a percentage of the value of our net assets at the end of the immediately preceding calendar quarter, is compared to the hurdle rate of 1.75% per quarter (7.00% annualized). We pay the Investment Adviser an incentive fee with respect to our Pre-Incentive Fee Net Investment Income in each calendar quarter as follows: (1) no incentive fee in any calendar quarter in which our Pre-Incentive Fee Net Investment Income does not exceed the hurdle rate of 1.75%, (2) 50% of our Pre-Incentive Fee Net Investment Income with respect to that portion of such Pre-Incentive Fee Net Investment Income, if any, that exceeds the hurdle rate but is less than 2.9167% in any calendar quarter (11.67% annualized) (we refer to this portion of our Pre-Incentive Fee Net Investment Income (which exceeds the hurdle but is less than 2.9167%) as the “catch-up,” which is meant to provide our Investment Adviser with 20% of our Pre-Incentive Fee Net Investment Income, as if a hurdle did not apply, if this net investment income exceeds 2.9167% in any calendar quarter), and (3) 20% of the amount of our Pre-Incentive Fee Net Investment Income, if any, that exceeds 2.9167% in any calendar quarter. These calculations are pro-rated for any share issuances or repurchases during the relevant quarter, if applicable. For the years ended September 30, 2019, 2018 and 2017, the Investment Adviser earned \$7.6 million, \$3.5 million and \$4.9 million, respectively, in incentive fees on net investment income from us.

The second part of the incentive fee is determined and payable in arrears as of the end of each calendar year (or upon termination of the Investment Management Agreement, as of the termination date) and equals 20% of our realized capital gains, if any, on a cumulative basis from inception through the end of each calendar year, computed net of all realized capital losses and unrealized capital depreciation on a cumulative basis, less the aggregate amount of any previously paid capital gain incentive fees. For the years ended September 30, 2019, 2018 and 2017, the Investment Adviser accrued an incentive fee on capital gains of approximately zero, \$(0.1) million and \$0.1 million, respectively, as calculated under the Investment Management Agreement (as described above).

Under GAAP, we are required to accrue a capital gains incentive fee based upon net realized capital gains and net unrealized capital appreciation and depreciation on investments held at the end of each period. In calculating the capital gains incentive fee accrual, we considered the cumulative aggregate unrealized capital appreciation in the calculation, as a capital gains incentive fee would be payable if such unrealized capital appreciation were realized, even though such unrealized capital appreciation is not permitted to be considered in calculating the fee actually payable under the Investment Management Agreement. This accrual is calculated using the aggregate cumulative realized capital gains and losses and cumulative unrealized capital appreciation or depreciation. If such amount is positive at the end of a period, then we record a capital gains incentive fee equal to 20% of such amount, less the aggregate amount of actual capital gains related to incentive fees paid in all prior years. If such amount is negative, then there is no accrual for such year. There can be no assurance that such unrealized capital appreciation will be realized in the future. The incentive fee accrued for under GAAP on our unrealized and realized capital gains for the years ended September 30, 2019, 2018 and 2017 was \$(1.4) million, \$(1.0) million and \$1.2 million, respectively.

The Administration Agreement with the Administrator was reapproved by our board of directors, including a majority of the directors who are not interested persons of us, in February 2019. Under the Administration Agreement, the Administrator provides administrative services and office facilities to us. For providing these services, facilities and personnel, we have agreed to reimburse the Administrator for its allocable portion of overhead and other expenses incurred by the Administrator in performing its obligations under the Administration Agreement, including rent and our allocable portion of the costs of compensation and related expenses of our Chief Compliance Officer, Chief Financial Officer and their respective staffs. The Administrator also offers, on our behalf, significant managerial assistance to portfolio companies to which we are required to offer such assistance. Reimbursement for certain of these costs is included in administrative services expenses in the Consolidated Statements of Operations. For the years ended September 30, 2019, 2018 and 2017, we reimbursed the Investment Adviser approximately \$1.9 million, \$1.3 million and \$1.7 million, respectively, including expenses the Investment Adviser incurred on behalf of the Administrator, for services described above.

During the years ended September 30, 2019, 2018 and 2017, the Company purchased zero, \$3.9 million and \$38.1 million, respectively, from and sold zero, zero and \$5.0 million in total investments to an affiliated fund managed by our Investment Adviser in accordance with, and pursuant to procedures adopted under, Rule 17a-7 of the 1940 Act. Realized gains on those sales for the same periods amounted to zero, zero and less than \$0.1 million, respectively.

For the years ended September 30, 2019, 2018 and 2017, we sold \$89.6 million, \$108.0 million and \$85.1 million investments, respectively, in investments to PSSSL at fair value and recognized \$0.5 million, \$0.8 million and \$0.4 million of net realized gains for the same periods, respectively.

#### 4. INVESTMENTS

Purchases of investments, including PIK interest, for the years ended September 30, 2019, 2018 and 2017 totaled \$641.7 million, \$683.4 million and \$509.5 million, respectively. Sales and repayments of investments for the same periods totaled \$527.3 million, \$391.4 million and \$406.5 million, respectively.

Investments and cash and cash equivalents consisted of the following:

Investment Classification	September 30, 2019		September 30, 2018	
	Cost	Fair Value	Cost	Fair Value
First lien	\$ 833,678,981	\$ 822,707,050	\$ 817,243,688	\$ 812,235,476
First lien in PSSSL	122,193,750	122,193,750	101,062,500	101,062,500
Second lien	34,307,150	34,370,598	20,904,958	21,234,713
Equity	42,623,718	52,466,181	18,744,371	21,282,875
Equity interests in PSSSL	52,368,750	49,969,330	43,312,500	44,797,729
Total investments	1,085,172,349	1,081,706,909	1,001,268,017	1,000,613,293
Cash and cash equivalents	63,367,237	63,337,728	72,231,801	72,224,183
Total investments and cash and cash equivalents	\$ 1,148,539,586	\$ 1,145,044,637	\$ 1,073,499,818	\$ 1,072,837,476

**PENNANTPARK FLOATING RATE CAPITAL LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**  
**SEPTEMBER 30, 2019**

The table below describes investments by industry classification and enumerates the percentage, by fair value, of the total portfolio assets (excluding cash and cash equivalents) in such industries:

<b>Industry Classification</b>	<b>September 30, 2019 (1)</b>	<b>September 30, 2018 (1)</b>
Aerospace and Defense	7%	6%
Hotel, Gaming and Leisure	7	6
Beverage, Food and Tobacco	6	7
Healthcare and Pharmaceuticals	6	5
Business Services	5	8
Capital Equipment	5	5
High Tech Industries	5	10
Media	5	—
Construction and Building	4	5
Media: Diversified and Production	4	4
Telecommunications	4	6
Chemicals, Plastics and Rubber	3	2
Consumer Goods: Durable	3	5
Consumer Goods: Non-Durable	3	11
Consumer Services	3	4
Diversified Financial Services	3	—
Professional Services	3	—
Wholesale	3	5
Banking, Finance, Insurance & Real Estate	2	—
Building Products	2	—
Commercial Services & Supplies	2	—
Hotels, Restaurants and Leisure	2	—
Media: Advertising, Printing and Publishing	2	3
Media: Broadcasting and Subscription	2	1
Diversified Consumer Services	1	—
Healthcare Technology	1	—
IT Services	1	—
Retail	1	2
All Other	5	5
<b>Total</b>	<b>100%</b>	<b>100%</b>

(1) Excludes investments in PSSSL.

**PennantPark Senior Secured Loan Fund I LLC**

In May 2017, we and Kemper formed PSSSL, an unconsolidated joint venture. PSSSL invests primarily in middle-market and other corporate debt securities consistent with our strategy. PSSSL was formed as a Delaware limited liability company. As of September 30, 2019, PSSSL had total assets of \$506.7 million. As of the same date, we and Kemper had remaining commitments to fund first lien secured debt and equity interests in PSSSL in an aggregate amount of \$10.5 million. PSSSL invests in portfolio companies in the same industries in which we may directly invest.

We provide capital to PSSSL in the form of first lien secured debt and equity interests. As of September 30, 2019, we and Kemper owned 87.5% and 12.5%, respectively, of each of the outstanding first lien secured debt and equity interests. As of the same date, our investment in PSSSL consisted of first lien secured debt of 122.2 million and equity interests of \$52.4 million. As of the same date, we had commitments to fund first lien secured debt to PSSSL of \$128.6 million, of which \$6.4 million was unfunded. As of September 30, 2019, we had commitments to fund equity interests in PSSSL of \$55.1 million, of which \$2.8 million was unfunded.

We and Kemper each appointed two members to PSSSL's four-person board of directors and investment committee. All material decisions with respect to PSSSL, including those involving its investment portfolio, require unanimous approval of a quorum of the board of directors or investment committee. Quorum is defined as (i) the presence of two members of the board of directors or investment committee; provided that at least one individual is present that was elected, designated or appointed by each member; (ii) the presence of three members of the board of directors or investment committee, provided that the individual that was elected, designated or appointed by the member with only one individual present shall be entitled to cast two votes on each matter; and (iii) the presence of four members of the board of directors or investment committee shall constitute a quorum, provided that two individuals are present that were elected, designated or appointed by each member.

Additionally, PSSSL has entered into the PSSSL Credit Facility, with Capital One, N.A. through PSSSL Subsidiary, which as of September 30, 2019 allowed PSSSL Subsidiary to borrow up to \$420 million at any one time outstanding, subject to leverage and borrowing base restrictions.

Below is a summary of PSSSL's portfolio at fair value:

	<b>September 30, 2019</b>	<b>September 30, 2018</b>
Total investments	\$ 488,549,847	\$ 425,420,881
Weighted average cost yield on income producing investments	7.6%	7.8%
Number of portfolio companies in PSSSL	45	42
Largest portfolio company investment	\$ 22,026,186	\$ 21,152,781
Total of five largest portfolio company investments	\$ 102,872,275	\$ 95,941,790

**PENNANTPARK FLOATING RATE CAPITAL LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**  
**SEPTEMBER 30, 2019**

Below is a listing of PSSS's individual investments as of September 30, 2019:

**PennantPark Senior Secured Loan Fund I LLC**  
**Schedule of Investments**  
**September 30, 2019**

Issuer Name	Maturity	Industry	Current Coupon	Basis Point Spread Above Index (1)	Par	Cost	Fair Value (2)
<b>Investments in Non-Controlled, Non-Affiliated Portfolio Companies—810.7%</b>							
<b>First Lien Secured Debt—830.5%</b>							
Altamira Technologies, LLC	07/24/2025	High Tech Industries	8.28%	3M L+600	5,000,000	\$ 4,927,149	\$ 5,000,000
American Auto Auction Group, LLC	01/02/2024	Transportation: Consumer	6.85%	3M L+475	7,749,274	7,674,216	7,671,781
By Light Professional IT Services, LLC	05/16/2022	High Tech Industries	8.52%	1M L+725	13,772,261	13,531,751	13,772,261
Cadence Aerospace, LLC	11/14/2023	Aerospace and Defense	8.54%	3M L+650	11,735,208	11,644,440	11,680,054
Cardenas Markets LLC	11/29/2023	Beverage, Food and Tobacco	7.79%	1M L+575	7,348,866	7,311,507	7,128,400
Centauri Group Holdings, LLC	02/12/2024	Aerospace and Defense	7.36%	1M L+525	10,422,726	10,413,416	10,396,669
Challenger Performance Optimization, Inc.	08/31/2023	Business Services	7.87%	1M L+575	10,127,447	10,040,432	9,874,261
Country Fresh Holdings, LLC	05/01/23	Beverage, Food and Tobacco	7.10%	1M L+500	182,403	179,170	182,403
Country Fresh Holdings, LLC (Revolver)	05/01/23	Beverage, Food and Tobacco	7.10%	1M L+500	126,031	126,031	126,031
Country Fresh Holdings, LLC - (Revolver) (5)	05/01/23	Beverage, Food and Tobacco	—	—	324,080	—	—
Deva Holdings, Inc.	10/31/2023	Consumer Goods: Non-Durable	7.54%	3M L+625	19,748,744	19,748,744	19,748,744
Douglas Products and Packaging Company LLC	10/19/2022	Chemicals, Plastics and Rubber	7.85%	3M L+575	12,312,500	12,157,345	12,189,375
Douglas Sewer Intermediate, LLC	10/19/2022	Chemicals, Plastics and Rubber	7.85%	3M L+575	8,166,594	8,116,022	8,084,928
Findex Group Limited (3), (4)	05/31/2024	Banking, Finance, Insurance and Real Estate	6.26%	3M L+525 A	\$ 10,000,000	7,376,173	6,542,165
GCOM Software LLC	11/14/2022	High Tech Industries	8.37%	1M L+750	17,384,864	17,263,748	17,384,864
Good2Grow LLC	11/18/2024	Beverages	6.35%	3M L+425	11,752,655	11,649,126	11,576,366
Good Source Solutions, Inc.	06/29/2023	Beverage, Food and Tobacco	6.37%	3M L+600	14,357,813	14,241,579	14,135,267
GSM Holdings, Inc.	06/03/2024	Consumer Goods: Durable	6.60%	3M L+450	19,669,098	19,524,460	19,472,406
IMIA Holdings, Inc.	10/28/2024	Aerospace and Defense	6.60%	3M L+450	12,406,250	12,351,255	12,344,219
Impact Group, LLC	06/27/2023	Wholesale	8.60%	1M L+650	9,390,185	9,296,753	9,296,283
Infrastructure Supply Operations Pty Ltd. (3), (4)	12/12/2023	Wholesale	5.80%	1M L+425 A	\$ 15,000,000	10,973,919	9,717,138
Integrative Nutrition, LLC	09/29/2023	Diversified Consumer Services	6.85%	1M L+475	9,974,874	9,974,874	9,974,874
K2 Pure Solutions NoCal, L.P.	12/20/2023	Chemicals, Plastics and Rubber	7.30%	1M L+525	19,850,000	19,586,294	19,609,815
LAV Gear Holdings, Inc.	10/31/2024	Capital Equipment	7.60%	3M L+550	9,925,000	9,837,686	9,916,068
Leap Legal Software Pty Ltd (3), (4)	09/12/2022	High Tech Industries	6.80%	3M L+575 A	\$ 14,755,747	10,483,859	9,952,014
Long's Drugs Incorporated	08/19/2022	Healthcare and Pharmaceuticals	7.10%	1M L+500	17,820,000	17,688,160	17,641,800
LSF9 Atlantis Holdings, LLC	05/01/2023	Retail	8.04%	1M L+600	7,078,125	7,118,977	6,575,083
Manna Pro Products, LLC	12/08/2023	Consumer Goods: Non-Durable	8.05%	1M L+600	6,877,500	6,797,207	6,688,369
Marketplace Events LLC (4)	01/27/2021	Media: Diversified and Production	7.20%	P+275 C	\$ 5,760,254	4,461,926	4,350,645
Mission Critical Electronics, Inc.	09/28/2022	Capital Equipment	7.10%	3M L+500	6,009,982	5,977,867	6,009,982
New Milani Group LLC	06/06/2024	Consumer Goods: Non-Durable	6.35%	1M L+425	14,812,500	14,691,710	14,664,375
Olde Thompson, LLC	05/14/2024	Beverage, Food and Tobacco	6.54%	1M L+450	11,976,667	11,757,900	11,876,667
Output Services Group, Inc.	03/27/2024	Business Services	6.54%	1M L+425	7,883,419	7,909,754	6,779,740
Pestell Minerals and Ingredients Inc.	06/01/2023	Beverage, Food and Tobacco	7.57%	3M L+525	9,925,000	9,840,202	9,825,750
Pestell Minerals and Ingredients Inc.	06/01/2023	Beverage, Food and Tobacco	7.23%	3M L+525 C	\$ 3,242,655	2,412,626	2,424,644
PH Beauty Holdings III, Inc.	09/29/2025	Wholesale	7.04%	1M L+500	9,892,519	9,804,058	9,397,893
Plant Health Intermediate, Inc.	10/19/2022	Chemicals, Plastics and Rubber	8.00%	3M L+575	1,758,406	1,736,386	1,740,822
PlayPower, Inc.	05/8/2026	Leisure Products	7.60%	3M L+550	4,189,500	4,148,451	4,184,263
Smile Brands Inc.	10/14/2024	Healthcare and Pharmaceuticals	6.66%	3M L+450	11,289,688	11,189,470	11,176,791
Snak Club, LLC	07/19/2021	Beverage, Food and Tobacco	8.10%	1M L+600	4,687,495	4,687,495	4,359,370
Sonny's Enterprises, LLC	12/01/2022	Capital Equipment	6.35%	3M L+425	15,224,842	15,227,900	15,224,842
Teneo Holdings LLC	—	—	7.29%	1M L+525	5,000,000	4,804,110	4,762,500
The Infosoft Group, LLC	12/02/2021	Media: Broadcasting and Subscription	7.43%	6M L+500	8,823,392	8,790,069	8,735,157
TVC Enterprises, LLC	—	—	7.55%	1M L+550	9,974,874	9,974,874	9,974,874
TWS Acquisition Corporation	—	—	8.28%	1M L+625	7,075,000	6,937,888	6,933,500
UBEO, LLC	04/03/2024	Capital Equipment	6.78%	3M L+450	22,248,673	22,045,879	22,026,186
Urology Management Associates, LLC	08/30/2024	Healthcare and Pharmaceuticals	7.04%	3M L+450	11,572,122	11,388,612	11,572,122
Walker Edison Furniture Company LLC	09/26/2024	Wholesale	8.83%	3M L+650	16,001,734	15,724,459	16,121,747
Whitney, Bradley & Brown, Inc.	10/18/2022	Aerospace and Defense	9.55%	1M L+750	5,466,024	5,389,938	5,466,024
<b>Total First Lien Secured Debt</b>						<b>478,935,867</b>	<b>474,289,532</b>
<b>Second Lien Secured Debt—14.8%</b>							
Country Fresh Holdings, LLC	04/29/2024	Beverage, Food and Tobacco	10.60%	1M L+850	870,886	870,886	870,886
			(PIK 10.60%)				
DBI Holding, LLC, Term Loan B	03/26/2021	Business Services	8.00%	6M L+525	15,206	15,206	15,206
			(PIK 8.00%)				
DBI Holding, LLC, Term Loan C	02/02/2026	Business Services	8.00%	—	7,607,291	7,607,291	7,569,255
			(PIK 8.00%)				
<b>Total Second Lien Secured Debt</b>						<b>8,493,383</b>	<b>8,455,347</b>
<b>Equity Securities—10.2%</b>							
Country Fresh Holding Company Inc.	—	Beverage, Food and Tobacco	—	—	1,317	1,713,106	1,124,929
DBI Holding, LLC, Series A-1	—	Business Services	—	—	5,034	5,034,310	4,680,039
DBI Holding, LLC, Series B	—	Business Services	—	—	1,065,021	236,521	-
<b>Total Equity Securities</b>						<b>6,983,937</b>	<b>5,804,968</b>
<b>Total Investments in Non-Controlled, Non-Affiliated Portfolio Companies</b>							
<b>Cash and Cash Equivalents—26.8%</b>							
BlackRock Federal FD Institutional 30						12,166,301	12,166,301
US Bank Cash						3,156,230	3,128,580
<b>Total Cash and Cash Equivalents</b>						<b>15,322,531</b>	<b>15,294,881</b>
<b>Total Investments and Cash Equivalents—882.3%</b>						<b>\$ 509,735,718</b>	<b>\$ 503,844,728</b>
<b>Liabilities in Excess of Other Assets—(782.3)%</b>							
<b>Members' Equity—100.0%</b>						<b>\$ 57,107,806</b>	<b>\$ 57,107,806</b>

(1) Represents floating rate instruments that accrue interest at a predetermined spread relative to an index, typically the applicable LIBOR or "L" or Prime rate or "P". The spread may change based on the type of rate used. The terms in the Schedule of Investments disclose the actual interest rate in effect as of the reporting period. LIBOR loans are typically indexed to a 30-day, 60-day, 90-day or 180-day LIBOR rate (1M L, 2M L, 3M L, or 6M L, respectively), at the borrower's option. All securities are subject to a LIBOR or Prime rate floor where a spread is provided, unless noted. The spread provided includes PIK interest and other fee rates, if any.

**PENNANTPARK FLOATING RATE CAPITAL LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**  
**SEPTEMBER 30, 2019**

- (2) Valued based on PSSL's accounting policy.  
(3) Non-U.S. company or principal place of business outside the United States.  
(4) Par amount is denominated in Australian Dollars (A\$) or Canadian Dollars (C\$) as denoted.

Below is a listing of PSSL's individual investments as of September 30, 2018:

**PennantPark Senior Secured Loan Fund I LLC**  
**Schedule of Investments**  
**September 30, 2018**

Issuer Name	Maturity	Industry	Current Coupon	Basis Point Spread Above Index (1)	Par	Cost	Fair Value (2)
<b>Investments in Non-Controlled, Non-Affiliated Portfolio Companies—830.9%</b>							
<b>First Lien Secured Debt—830.9%</b>							
Alvogen Pharma US, Inc. (3)	04/04/2022	Healthcare and Pharmaceuticals	6.99%	1M L+475	5,424,261	\$ 5,370,876	\$ 5,464,943
American Auto Auction Group, LLC	11/30/2021	Transportation: Consumer	7.34%	3M L+525	4,949,622	4,910,720	4,875,378
Anvil International, LLC	08/01/2024	Construction and Building	6.70%	2M L+450	5,944,975	5,900,529	5,985,876
API Technologies Corp.	04/22/2024	Aerospace and Defense	8.25%	1M L+600	19,950,000	19,710,688	19,750,500
Beauty Industry Group Opco, LLC	04/06/2023	Consumer Goods: Non-Durable	7.00%	1M L+475	21,259,078	21,057,494	21,152,781
By Light Professional IT Services, LLC	05/16/2022	High Tech Industries	9.57%	3M L+725	10,761,235	10,538,732	10,761,235
Cadence Aerospace, LLC	11/14/2023	Aerospace and Defense	8.83%	3M L+650	11,854,375	11,745,013	11,875,641
Cardenas Markets LLC	11/29/2023	Beverage, Food and Tobacco	7.99%	1M L+575	7,424,433	7,381,442	7,424,433
Challenger Performance Optimization, Inc.	08/31/2023	Business Services	7.85%	1M L+575	10,387,126	10,284,272	10,283,255
Country Fresh Holdings, LLC	03/31/2023	Beverage, Food and Tobacco	7.39%	3M L+500	4,348,465	4,348,465	4,218,011
DBI Holdings, LLC	08/02/2021	Business Services	7.51%	1M L+525	12,437,500	12,334,446	12,437,500
Deva Holdings, Inc.	10/31/2023	Consumer Goods: Non-Durable	7.74%	3M L+550	19,949,749	19,949,749	19,949,749
Digital Room Holdings, Inc.	12/29/2023	Media: Advertising, Printing and Publishing	7.25%	1M L+500	9,925,000	9,832,647	9,813,344
Douglas Products and Packaging Company LLC	03/29/2022	Chemicals, Plastics and Rubber	8.14%	3M L+575	12,437,500	12,243,681	12,313,125
Driven Performance Brands, Inc.	09/30/2022	Consumer Goods: Durable	6.86%	1M L+475	4,750,000	4,712,239	4,750,000
ENC Holding Corporation	05/30/2025	Transportation: Cargo	6.64%	3M L+425	10,345,500	10,320,383	10,319,636
Findex Group Limited (3), (4)	05/31/2024	Banking, Finance, Insurance and Real Estate	7.23%	2M L+525 A\$	10,000,000	7,348,975	7,018,455
GCOM Software LLC	11/14/2022	High Tech Industries	9.67%	3M L+750	14,666,667	14,597,068	14,666,667
Good Source Solutions, Inc.	06/29/2023	Beverage, Food and Tobacco	8.39%	3M L+600	14,871,563	14,724,626	14,670,097
GSM Holdings, Inc.	06/03/2024	Consumer Goods: Durable	6.87%	3M L+450	15,461,250	15,313,430	15,383,940
Impact Group, LLC	06/27/2023	Wholesale	8.64%	1M L+625	9,975,000	9,860,343	9,925,125
Infrastructure Supply Operations Pty Ltd. (3), (4)	12/12/2023	Wholesale	6.64%	1M L+475 A\$	15,000,000	10,941,545	10,810,400
Long's Drugs Incorporated	08/19/2022	Healthcare and Pharmaceuticals	7.12%	1M L+500	18,000,000	17,831,930	17,820,000
LSF9 Atlantis Holdings, LLC	05/01/2023	Retail	8.12%	1M L+600	7,265,625	7,319,871	7,002,246
Manna Pro Products, LLC	12/08/2023	Consumer Goods: Non-Durable	8.15%	1M L+600	6,947,500	6,853,205	6,894,684
Marketplace Events LLC (4)	01/27/2021	Media: Diversified and Production	7.08%	P+275 C\$	5,820,254	4,486,587	4,502,752
Maytex Mills, Inc.	12/27/2023	Consumer Goods: Durable	6.71%	1M L+450	8,761,452	8,721,691	8,783,355
McAfee, LLC	09/30/2024	High Tech Industries	6.74%	1M L+450	7,425,000	7,359,161	7,482,024
Mission Critical Electronics, Inc.	09/28/2022	Capital Equipment	7.20%	2M L+500	4,005,973	3,986,058	3,996,350
Morphe, LLC	02/10/2023	Consumer Goods: Non-Durable	8.40%	3M L+600	17,355,538	17,229,100	17,268,760
New Milani Group LLC	06/06/2024	Consumer Goods: Non-Durable	6.37%	1M L+425	15,000,000	14,856,552	14,925,000
Olde Thompson, LLC	05/14/2024	Beverage, Food and Tobacco	6.66%	1M L+450	13,965,000	13,825,350	13,965,000
Output Services Group, Inc.	03/27/2024	Business Services	6.49%	1M L+425	7,983,419	8,015,803	8,023,336
Snak Club, LLC	07/19/2021	Beverage, Food and Tobacco	8.10%	1M L+600	4,687,495	4,687,495	4,054,683
Sonny's Enterprises, LLC	12/01/2022	Capital Equipment	6.49%	1M L+425	15,379,790	15,382,892	15,379,790
The Infosoft Group, LLC	12/02/2021	Media: Broadcasting and Subscription	7.58%	3M L+525	10,516,049	10,459,746	10,410,888
UBEO, LLC	04/03/2024	Capital Equipment	6.60%	1M L+450	12,468,750	12,352,721	12,468,750
Urology Management Associates, LLC	08/30/2024	Healthcare and Pharmaceuticals	7.24%	1M L+500	8,500,000	8,352,305	8,351,250
US Dominion, Inc.	07/15/2024	Capital Equipment	9.14%	3M L+675	3,990,000	3,921,923	3,990,000
VIP Cinema Holdings, Inc.	03/01/2023	Consumer Goods: Durable	8.25%	1M L+600	4,625,000	4,678,730	4,636,563
Whitney, Bradley & Brown, Inc.	10/18/2022	Aerospace and Defense	11.25%	1M L+900	4,950,000	4,866,299	4,950,000
Xebec Global Holdings, LLC	02/12/2024	Aerospace and Defense	7.84%	3M L+550	6,749,730	6,721,428	6,665,359
<b>Total First Lien Secured Debt</b>						<u>425,336,210</u>	<u>425,420,881</u>
<b>Total Investments in Non-Controlled, Non-Affiliated Portfolio Companies</b>						<u>425,336,210</u>	<u>425,420,881</u>
<b>Cash and Cash Equivalents—26.4%</b>							
BlackRock Federal FD Institutional 30						12,510,098	12,510,098
US Bank Cash						<u>1,010,029</u>	<u>1,010,662</u>
<b>Total Cash and Cash Equivalents</b>						<u>13,520,127</u>	<u>13,520,760</u>
<b>Total Investments and Cash Equivalents—857.3%</b>						<u>\$ 438,856,337</u>	<u>\$ 438,941,641</u>
<b>Liabilities in Excess of Other Assets—(757.3)%</b>							
<b>Members' Equity—100.0%</b>							<u>(387,744,237)</u>
							<u>\$ 51,197,404</u>

- (1) Represents floating rate instruments that accrue interest at a predetermined spread relative to an index, typically the applicable LIBOR or "L" or EURIBOR or "E". All securities are subject to a LIBOR or Prime rate floor where a spread is provided, unless noted. The spread provided includes PIK interest and other fee rates, if any.  
(2) Valued based on PSSL's accounting policy.  
(3) Non-U.S. company or principal place of business outside the United States.  
(4) Par amount is denominated in Australian Dollars (A\$) or Canadian Dollars (C\$) as denoted.

Below is the financial information for PSSL:

PennantPark Senior Secured Loan Fund I LLC  
Statements of Assets and Liabilities

	September 30, 2019	September 30, 2018
<b>Assets</b>		
Investments at fair value		
Non-controlled, non-affiliated investments (cost—\$494,413,190 and \$425,336,210, respectively)	\$ 488,549,847	\$ 425,420,881
Cash and cash equivalents (cost—\$15,322,531 and \$13,520,127, respectively)	15,294,881	13,520,760
Interest receivable	1,855,545	1,670,053
Prepaid expenses and other assets	996,333	2,784,477
<b>Total assets</b>	<u>506,696,606</u>	<u>443,396,171</u>
<b>Liabilities</b>		
PSSL Credit Facility payable	308,724,305	275,285,900
Notes payable to members	139,650,000	115,500,000
Interest payable on PSSL Credit Facility	1,015,468	1,065,306
Interest payable on notes to members	176,273	99,966
Accrued other expenses	22,754	247,595
<b>Total liabilities</b>	<u>449,588,800</u>	<u>392,198,767</u>
Commitments and contingencies (1)	—	—
<b>Members' equity</b>	<u>57,107,806</u>	<u>51,197,404</u>
<b>Total liabilities and members' equity</b>	<u>\$ 506,696,606</u>	<u>\$ 443,396,171</u>

(1) PSSL had no unfunded commitments as of September 30, 2019 and 2018.

PennantPark Senior Secured Loan Fund I LLC  
Statements of Operations

	Year Ended September 30, 2019	Year Ended September 30, 2018	For the period May 4, 2017 (inception) through September 30, 2017
<b>Investment income:</b>			
From non-controlled, non-affiliated investments:			
Interest	\$ 39,288,981	\$ 17,744,486	\$ 1,365,433
Other income	785,111	280,080	—
<b>Total investment income</b>	<u>40,074,092</u>	<u>18,024,566</u>	<u>1,365,433</u>
<b>Expenses:</b>			
Interest and expenses on PSSL Credit Facility	16,487,783	7,654,035	442,554
Interest expense on notes to members	14,247,817	6,060,468	585,840
Administrative services expenses	1,150,000	650,000	67,528
Other general and administrative expenses (1)	454,600	692,736	148,936
<b>Total expenses</b>	<u>32,340,200</u>	<u>15,057,239</u>	<u>1,244,858</u>
<b>Net investment income</b>	<u>7,733,892</u>	<u>2,967,327</u>	<u>120,575</u>
<b>Realized and unrealized (loss) gain on investments and credit facility foreign currency translations:</b>			
Net realized (loss) gain on investments	(885,069)	111,215	100,920
Net change in unrealized (depreciation) appreciation on:			
Non-controlled, non-affiliated investments	(5,976,299)	(364,201)	449,505
Credit facility foreign currency translation	1,887,878	882,899	(70,836)
<b>Net change in unrealized (depreciation) appreciation on investments and credit facility foreign currency translations</b>	<u>(4,088,421)</u>	<u>518,698</u>	<u>378,669</u>
<b>Net realized and unrealized (loss) gain from investments and credit facility foreign currency translations</b>	<u>(4,973,490)</u>	<u>629,913</u>	<u>479,589</u>
<b>Net increase in members' equity resulting from operations</b>	<u>\$ 2,760,402</u>	<u>\$ 3,597,240</u>	<u>\$ 600,164</u>

(1) Currently, no management or incentive fees are payable by PSSL. If any fees were to be charged, they would be separately disclosed in the Statements of Operations.

5. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value, as defined under ASC 820 is the price that we would receive upon selling an investment or pay to transfer a liability in an orderly transaction to a market participant in the principal or most advantageous market for the investment or liability. ASC 820 emphasizes that valuation techniques maximize the use of observable market inputs and minimize the use of unobservable inputs. Inputs refer broadly to the assumptions that market participants would use in pricing an asset or liability, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs reflect the assumptions market participants would use in pricing an asset or liability based on market data obtained from sources independent of us. Unobservable inputs reflect the assumptions market participants would use in pricing an asset or liability based on the best information available to us on the reporting period date.

ASC 820 classifies the inputs used to measure these fair values into the following hierarchies:

- Level 1: Inputs that are quoted prices (unadjusted) in active markets for identical assets or liabilities, accessible by us at the measurement date.
- Level 2: Inputs that are quoted prices for similar assets or liabilities in active markets, or that are quoted prices for identical or similar assets or liabilities in markets that are not active and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term, if applicable, of the financial instrument.
- Level 3: Inputs that are unobservable for an asset or liability because they are based on our own assumptions about how market participants would price the asset or liability.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. Generally, most of our investments, our 2031 Asset-Backed Debt and our Credit Facility are classified as Level 3. Our 2023 Notes are classified as Level 1, as they were valued using the closing price from the primary exchange. Due to the inherent uncertainty of determining the fair value of investments that do not have a readily available market value, the price used in an actual transaction may be different than our valuation and those differences may be material.

The inputs into the determination of fair value may require significant management judgment or estimation. Even if observable market data is available, such information may be the result of consensus pricing information, disorderly transactions or broker quotes which include a disclaimer that the broker would not be held to such a price in an actual transaction. The non-binding nature of consensus pricing and/or quotes accompanied by disclaimer would result in classification as Level 3 information, assuming no additional corroborating evidence were available. Corroborating evidence that would result in classifying these non-binding broker/dealer bids as a Level 2 asset includes observable orderly market-based transactions for the same or similar assets or other relevant observable market-based inputs that may be used in pricing an asset.

Our investments are generally structured as Floating Rate Loans, mainly first lien secured debt, but also may include second lien secured debt, subordinated debt and equity investments. The transaction price, excluding transaction costs, is typically the best estimate of fair value at inception. Ongoing reviews by our Investment Adviser and independent valuation firms are based on an assessment of each underlying investment, incorporating valuations that consider the evaluation of financing and sale transactions with third parties, expected cash flows and market-based information including comparable transactions, performance multiples and yields, among other factors. These non-public investments valued using unobservable inputs are included in Level 3 of the fair value hierarchy.

A review of fair value hierarchy classifications is conducted on a quarterly basis. Changes in our ability to observe valuation inputs may result in a reclassification for certain financial assets or liabilities. Reclassifications impacting Level 3 of the fair value hierarchy are reported as transfers in or out of the Level 3 category as of the end of the quarter in which the reclassifications occur. Our ability to observe valuation inputs resulted in no reclassifications during the years ended September 30, 2019 and 2018.

In addition to using the above inputs in cash equivalents, investments, our 2023 Notes, our 2031 Asset-Backed Debt and our Credit Facility valuations, we employ the valuation policy approved by our board of directors that is consistent with ASC 820. Consistent with our valuation policy, we evaluate the source of inputs, including any markets in which our investments are trading, in determining fair value. See Note 2.

As outlined in the table below, some of our Level 3 investments using a market approach valuation technique are valued using the average of the bids from brokers or dealers. The bids include a disclaimer, may not have corroborating evidence, may be the result of a disorderly transaction and may be the result of consensus pricing. The Investment Adviser assesses the source and reliability of bids from brokers or dealers. If the board of directors has a bona fide reason to believe any such market quote does not reflect the fair value of an investment, it may independently value such investments by using the valuation procedure that it uses with respect to assets for which market quotations are not readily available. We have adopted FASB Accounting Standards Update 2015-07, Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (or Its Equivalent), which removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient.

The remainder of our investment portfolio and our long-term Credit Facility are valued using a market comparable or an enterprise market value technique. With respect to investments for which there is no readily available market value, the factors that the board of directors may take into account in pricing our investments at fair value include, as relevant, the nature and realizable value of any collateral, the portfolio company's ability to make payments, its earnings and discounted cash flow, the markets in which the portfolio company does business, comparison to publicly traded securities and other relevant factors. When an external event such as a purchase transaction, public offering or subsequent equity sale occurs, the pricing indicated by the external event, excluding transaction costs, is used to corroborate the valuation. When using earnings multiples to value a portfolio company, the multiple used requires the use of judgment and estimates in determining how a market participant would price such an asset. These non-public investments using unobservable inputs are included in Level 3 of the fair value hierarchy. Generally, the sensitivity of unobservable inputs or combination of inputs such as industry comparable companies, market outlook, consistency, discount rates and reliability of earnings and prospects for growth, or lack thereof, affects the multiple used in pricing an investment. As a result, any change in any one of those factors may have a significant impact on the valuation of an investment. Generally, an increase in a market yield will result in a decrease in the valuation of a debt investment, while a decrease in a market yield will have the opposite effect. Generally, an increase in an EBITDA multiple will result in an increase in the valuation of an investment, while a decrease in an EBITDA multiple will have the opposite effect.

Our Level 3 valuation techniques, unobservable inputs and ranges were categorized as follows for ASC 820 purposes:

<b>Asset Category</b>	<b>Fair value at September 30, 2019</b>	<b>Valuation Technique</b>	<b>Unobservable Input</b>	<b>Range of Input (Weighted Average)</b>
First lien	\$ 274,095,799	Market Comparable	Broker/Dealer bids or quotes	N/A
Second lien	2,205,284	Market Comparable	Broker/Dealer bids or quotes	N/A
First lien	661,720,734	Market Comparable	Market Yield	3.9% – 29.2% (8.3%)
Second lien	26,851,188	Market Comparable	Market Yield	3.9% – 14.2% (10.6%)
First lien	9,084,267	Enterprise Market Value	EBITDA multiple	5.0x – 10.9x (6.5x)
Second lien	5,314,125	Enterprise Market Value	EBITDA multiple	10.9x
Equity	52,466,181	Enterprise Market Value	EBITDA multiple	6.3x – 50.8x (15.4x)
Total Level 3 investments	<u>\$ 1,031,737,579</u>			
Long-Term Credit Facility	<u>\$ 263,988,583</u>	Market Comparable	Market Yield	4.0%

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<b>Asset Category</b>	<b>Fair value at September 30, 2018</b>	<b>Valuation Technique</b>	<b>Unobservable Input</b>	<b>Range of Input (Weighted Average)</b>
First lien	\$ 303,786,401	Market Comparable	Broker/Dealer bids or quotes	N/A
Second lien	2,543,750	Market Comparable	Broker/Dealer bids or quotes	N/A
First lien	609,511,575	Market Comparable	Market Yield	6.6% – 17.5% (9.7%)
Second lien	18,690,963	Market Comparable	Market Yield	10.7% – 14.1% (11.7%)
Equity	21,282,875	Enterprise Market Value	EBITDA multiple	6.2x – 12.0x (9.2x)
Total Level 3 investments	\$ 955,815,564			
Long-Term Credit Facility	\$ 332,128,815	Market Comparable	Market Yield	5.3%

Our investments, cash and cash equivalents, Credit Facility, 2023 Notes and the 2031 Asset-Backed Debt were categorized as follows in the fair value hierarchy for ASC 820 purposes:

<b>Description</b>	<b>Fair Value at September 30, 2019</b>				<b>Measured at Net Asset Value (1)</b>
	<b>Fair Value</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	
First lien	\$ 944,900,800	\$ —	\$ —	\$ 944,900,800	\$ —
Second lien	34,370,598	—	—	34,370,598	—
Equity	102,435,511	—	—	52,466,181	49,969,330
Total investments	1,081,706,909	—	—	1,031,737,579	49,969,330
Cash and cash equivalents	63,337,728	63,337,728	—	—	—
Total investments and cash and cash equivalents	\$ 1,145,044,637	\$ 63,337,728	\$ —	\$ 1,031,737,579	\$ 49,969,330
Long-Term Credit Facility	\$ 263,988,583	\$ —	\$ —	\$ 263,988,583	\$ —
2023 Notes	135,240,084	\$ 135,240,084	\$ —	\$ —	\$ —
2031 Asset-Backed Debt(2)	224,321,845	—	—	224,321,845	—
Total debt	\$ 623,550,512	\$ 135,240,084	\$ —	\$ 488,310,428	\$ —

- (1) In accordance with ASC Subtopic 820-10, Fair Value Measurements and Disclosures, or ASC 820-10, our equity investment in PSSS is measured using the net asset value per share (or its equivalent) as a practical expedient for fair value, and thus has not been classified in the fair value hierarchy.
- (2) We elected not to apply ASC 825-10 to the 2031 Asset-Backed Debt and thus the balance reported in the Consolidated Statement of Assets and Liabilities represents the carrying value, which approximates the fair value.

<b>Description</b>	<b>Fair Value at September 30, 2018</b>				<b>Measured at Net Asset Value (1)</b>
	<b>Fair Value</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	
First lien	\$ 913,297,976	\$ —	\$ —	\$ 913,297,976	\$ —
Second lien	21,234,713	—	—	21,234,713	—
Subordinated debt / corporate notes	—	—	—	—	—
Equity	66,080,604	—	—	21,282,875	44,797,729
Total investments	1,000,613,293	—	—	955,815,564	44,797,729
Cash and cash equivalents	72,224,183	72,224,183	—	—	—
Total investments and cash and cash equivalents	\$ 1,072,837,476	\$ 72,224,183	\$ —	\$ 955,815,564	\$ 44,797,729
Long-Term Credit Facility	332,128,815	\$ —	\$ —	\$ 332,128,815	\$ —
2023 Notes	135,503,385	\$ 135,503,385	\$ —	\$ —	\$ —
Total debt	\$ 467,632,200	\$ 135,503,385	\$ —	\$ 332,128,815	\$ —

- (1) In accordance with ASC Subtopic 820-10, Fair Value Measurements and Disclosures, or ASC 820-10, our equity investment in PSSS is measured using the net asset value per share (or its equivalent) as a practical expedient for fair value, and thus has not been classified in the fair value hierarchy.

The tables below show a reconciliation of the beginning and ending balances for fair valued investments measured using significant unobservable inputs (Level 3):

<b>Description</b>	<b>Year Ended September 30, 2019</b>		
	<b>First Lien</b>	<b>Second lien, subordinated debt and equity investments</b>	<b>Totals</b>
Beginning Balance	\$ 913,297,976	\$ 42,517,588	\$ 955,815,564
Net realized losses	(27,622,557)	(4,448,014)	(32,070,571)
Net change in unrealized (depreciation) appreciation	(5,963,719)	7,037,654	1,073,935
Purchases, PIK interest, net discount accretion and non-cash exchanges	605,767,518	28,404,511	634,172,029
Sales, repayments and non-cash exchanges	(522,089,023)	(5,164,355)	(527,253,378)
Transfers in and/or out of Level 3	—	—	—
Ending Balance	\$ 963,390,195	\$ 68,347,384	\$ 1,031,737,579
Net change in unrealized (depreciation) appreciation reported within the net change in unrealized (depreciation) appreciation on investments in our Consolidated Statements of Operations attributable to our Level 3 assets still held at the reporting date.	\$ (7,423,502)	\$ 4,988,683	\$ (2,434,819)

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Description	Year Ended September 30, 2018		
	First Lien	Second lien, subordinated debt and equity investments	Totals
Beginning Balance	\$ 609,668,554	\$ 87,389,065	\$ 697,057,619
Net realized losses	279,771	(862,383)	(582,612)
Net unrealized (depreciation) appreciation	(7,094,712)	3,483,965	(3,610,747)
Purchases, PIK interest, net discount accretion and non-cash exchanges	670,431,163	37,162,713	707,593,876
Sales, repayments and non-cash exchanges	(359,986,800)	(84,655,772)	(444,642,572)
Transfers in and/or out of Level 3	—	—	—
Ending Balance	<u>\$ 913,297,976</u>	<u>\$ 42,517,588</u>	<u>\$ 955,815,564</u>
Net change in unrealized (depreciation) appreciation reported within the net change in unrealized (depreciation) appreciation on investments in our Consolidated Statements of Operations attributable to our Level 3 assets still held at the reporting date.	<u>\$ (5,553,426)</u>	<u>\$ 2,435,268</u>	<u>\$ (3,118,158)</u>

The table below shows a reconciliation of the beginning and ending balances for liabilities recognized at fair value and measured using significant unobservable inputs (Level 3):

Long-Term Credit Facility	Years Ended September 30,	
	2019	2018
Beginning Balance (cost – \$333,727,520 and \$253,783,301, respectively)	\$ 332,128,815	\$ 256,858,457
Net change in unrealized (depreciation) appreciation included in earnings	279,788	(4,673,861)
Borrowings	370,700,000	246,485,010
Repayments	(439,120,020)	(166,540,791)
Transfers in and/or out of Level 3	—	—
Ending Balance (cost – \$265,307,500 and \$333,727,520, respectively)	<u>\$ 263,988,583</u>	<u>\$ 332,128,815</u>

As of September 30, 2019, we had outstanding non-U.S. dollar borrowings on our Credit Facility. Net change in fair value from foreign currency translation on outstanding borrowings is listed below:

Foreign Currency	Amount Borrowed	Borrowing Cost	Current Value	Reset Date	Change in Fair Value
Canadian Dollar	C\$ 17,500,000	\$ 12,407,501	13,217,523	October 1, 2019	810,022
		<u>\$ 12,407,501</u>	<u>\$ 13,217,523</u>		<u>\$ 810,022</u>

As of September 30, 2018, we had outstanding non-U.S. dollar borrowings on our Credit Facility. Net change in fair value from foreign currency translation on outstanding borrowings is listed below:

Foreign Currency	Amount Borrowed	Borrowing Cost	Current Value	Reset Date	Change in Fair Value
Australian Dollar	A\$ 9,900,000	\$ 7,720,020	\$ 7,163,165	October 1, 2018	\$ (556,855)
Canadian Dollar	C\$ 17,500,000	12,407,500	13,538,612	October 1, 2018	1,131,112
		<u>\$ 20,127,520</u>	<u>\$ 20,701,777</u>		<u>\$ 574,257</u>

The carrying value of our consolidated financial liabilities approximates fair value. We have adopted ASC 825-10, which provides companies with an option to report selected financial assets and liabilities at fair value, and made an irrevocable election to apply ASC 825-10 to our Credit Facility and the 2023 Notes. We elected to use the fair value option for our Credit Facility and the 2023 Notes to align the measurement attributes of both our assets and liabilities while mitigating volatility in earnings from using different measurement attributes. Due to that election and in accordance with GAAP, we incurred expenses of \$4.5 million, \$10.9 million and \$0.1 million relating to amendment costs on the Credit Facility and debt issuance costs on the 2023 Notes during the years ended September 30, 2019, 2018 and 2017, respectively. ASC 825-10 establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities and to more easily understand the effect on earnings of a company's choice to use fair value. ASC 825-10 also requires entities to display the fair value of the selected assets and liabilities on the face of the Consolidated Statements of Assets and Liabilities and changes in fair value of the Credit Facility and the 2023 Notes are reported in our Consolidated Statements of Operations. We elected not to apply ASC 825-10 to any other financial assets or liabilities, including our 2031 Asset-Backed Debt. For the years ended September 30, 2019, 2018 and 2017, our Credit Facility and the 2023 Notes had a net change in unrealized depreciation (appreciation) of less than \$(0.1) million, \$7.8 million and \$(3.6) million, respectively. As of September 30, 2019, 2018 and 2017, the net unrealized depreciation (appreciation) on our Credit Facility and the 2023 Notes totaled \$4.7 million, \$4.7 million and \$(3.1) million, respectively. We use a nationally recognized independent valuation service to measure the fair value of our Credit Facility in a manner consistent with the valuation process that the board of directors uses to value our investments. Our 2023 Notes trade on the TASE and we use the closing price on the exchange to determine the fair value.

## 6. TRANSACTIONS WITH AFFILIATED COMPANIES

An affiliated portfolio company is a company in which we have ownership of 5% or more of its voting securities. A portfolio company is generally presumed to be a non-controlled affiliate when we own at least 5% but 25% or less of its voting securities and a controlled affiliate generally when we own more than 25% of its voting securities. Transactions related to our funded investments with both controlled and non-controlled affiliates for the year ended September 30, 2019 were as follows:

Name of Investment	Fair Value at September 30, 2018	Gross Additions	Gross Reductions	Net Change in Unrealized (Depreciation) Appreciation	Fair Value at September 30, 2019	Interest Income	Other Income	Dividend Income	Net Realized Gains (Losses)
<b>Non-Controlled Affiliates</b>									
Country Fresh Holding Company Inc.	\$ 17,195,389	\$ 7,528,757	\$ (7,178,415)	\$ (3,054,105)	\$ 14,491,626	\$ 1,272,869	\$ 127,734	\$ —	\$ (7,164,304)
Quick Weight Loss Centers, LLC	\$ 7,921,875	\$ 2,016,667	\$ (5,692,961)	\$ 1,693,358	\$ 5,938,939	\$ (35,194)	\$ —	\$ —	\$ (5,457,200)
<b>Total Non-Controlled Affiliates</b>	<b>\$ 25,117,264</b>	<b>\$ 9,545,424</b>	<b>\$ (12,871,376)</b>	<b>\$ (1,360,747)</b>	<b>\$ 20,430,565</b>	<b>\$ 1,237,675</b>	<b>\$ 127,734</b>	<b>\$ —</b>	<b>\$ (12,621,504)</b>
<b>Controlled Affiliates</b>									
PennantPark Senior Secured Loan Fund I LLC *	\$ 145,860,229	\$ 30,187,500	\$ —	\$ (3,884,649)	\$ 172,163,080	\$ 12,464,035	\$ —	\$ 6,300,000	\$ —
<b>Total Controlled Affiliates</b>	<b>\$ 145,860,229</b>	<b>\$ 30,187,500</b>	<b>\$ —</b>	<b>\$ (3,884,649)</b>	<b>\$ 172,163,080</b>	<b>\$ 12,464,035</b>	<b>\$ —</b>	<b>\$ 6,300,000</b>	<b>\$ —</b>

\* We and Kemper are the members of PSSSL, a joint venture formed as a Delaware limited liability company that is not consolidated by us for financial reporting purposes. The members of PSSSL make investments in the PSSSL in the form of first lien secured debt and equity interests, and all portfolio and other material decision regarding PSSSL must be submitted to PSSSL's board of directors or investment committee, both of which are comprised of two members appointed by each of us and Kemper. Because management of PSSSL is shared equally between us and Kemper, we do not believe we control PSSSL for purposes of the 1940 Act or otherwise.

## 7. CHANGE IN NET ASSETS FROM OPERATIONS PER COMMON SHARE

The following information sets forth the computation of basic and diluted per share net increase in net assets resulting from operations:

	Years Ended September 30,		
	2019	2018	2017
Numerator for net increase in net assets resulting from operations	\$ 11,416,106	\$ 33,490,222	\$ 36,325,280
Denominator for basic and diluted weighted average shares	38,772,074	38,299,077	30,274,595
Basic and diluted net increase in net assets per share resulting from operations	\$ 0.29	\$ 0.87	\$ 1.20

## 8. TAXES AND DISTRIBUTIONS

Distributions from net investment income and net realized capital gains are determined in accordance with U.S. federal tax regulations, which may materially differ from amounts determined in accordance with GAAP. These book-to-tax differences are either temporary or permanent in nature. To the extent these differences are permanent, they are reclassified to undistributed net investment income, accumulated net realized gain or paid-in-capital, as appropriate. Distributions from net realized capital gains, if any, are normally declared and paid annually, but the Company may make distributions on a more frequent basis to comply with the distribution requirements for RICs under the Code.

As of September 30, 2019 and 2018, the cost of investments for federal income tax purposes approximates amortized cost reported in the Consolidated Schedule of Investments.

The following amounts were reclassified for tax purposes:

	Years Ended September 30,		
	2019	2018	2017
Decrease in paid-in capital	\$ (829,509)	\$ —	\$ (256,194)
(Decrease) increase in accumulated net realized loss	(240,568)	(106,509)	255,274
Increase in undistributed net investment income	1,070,077	106,509	920

The following reconciles net increase in net assets resulting from operations to taxable income:

	Years Ended September 30,		
	2019	2018	2017
Net increase in net assets resulting from operations	\$ 11,416,106	\$ 33,490,222	\$ 36,325,280
Net realized loss (gain) on investments	31,423,869	2,327,118	(5,410,903)
Net change in unrealized depreciation (appreciation) on investments and debt	2,621,833	(4,853,251)	2,530,986
Other book-to-tax differences	(3,080,010)	8,448,942	956,942
Other non-deductible expenses	271,170	804,113	300,000
Taxable income before dividends paid deduction	<u>\$ 42,652,968</u>	<u>\$ 40,217,144</u>	<u>\$ 34,702,305</u>

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The components of undistributed taxable income on a tax basis and reconciliation to accumulated surplus on a book basis are as follows:

	As of September 30,		
	2019	2018	2017
Undistributed ordinary income – tax basis	\$ 12,118,162	\$ 12,020,827	\$ 13,882,332
(Realized loss carried forward)/Undistributed long-term capital gain	(34,695,983)	(2,381,225)	808,615
Distributions payable and other book to tax differences	(14,239,573)	(17,124,281)	(7,237,913)
Net unrealized appreciation (depreciation) of investments and debt	1,203,305	3,825,139	(1,028,112)
<b>Total accumulated (deficit) surplus – book basis</b>	<b>\$ (35,614,089)</b>	<b>\$ (3,659,540)</b>	<b>\$ 6,424,922</b>

The tax characteristics of distributions declared are as follows:

	Years Ended September 30,		
	2019	2018	2017
Ordinary income (including short-term gains, if any)	\$ 44,200,163	\$ 42,766,069	\$ 34,842,284
Long-term capital gain	—	808,615	—
<b>Total distributions</b>	<b>\$ 44,200,163</b>	<b>\$ 43,574,684</b>	<b>\$ 34,842,284</b>
Total distributions per share based on weighted average shares	<u>\$ 1.14</u>	<u>\$ 1.14</u>	<u>\$ 1.15</u>

## 9. CASH AND CASH EQUIVALENTS

Cash equivalents represent cash in money market funds pending investment in longer-term portfolio holdings. Our portfolio may consist of temporary investments in U.S. Treasury Bills (of varying maturities), repurchase agreements, money market funds or repurchase agreement-like treasury securities. These temporary investments with original maturities of 90 days or less are deemed cash equivalents and are included in the Consolidated Schedule of Investments. At the end of each fiscal quarter, we may take proactive steps to preserve investment flexibility for the next quarter by investing in cash equivalents, which is dependent upon the composition of our total assets at quarter-end. We may accomplish this in several ways, including purchasing U.S. Treasury Bills and closing out positions on a net cash basis after quarter-end, temporarily drawing down on the Credit Facility, or utilizing repurchase agreements or other balance sheet transactions as are deemed appropriate for this purpose. These amounts are excluded from average adjusted gross assets for purposes of computing the Investment Adviser's management fee. U.S. Treasury Bills with maturities greater than 60 days from the time of purchase are valued consistent with our valuation policy. As of September 30, 2019 and 2018, cash and cash equivalents consisted of money market funds in the amounts of \$63.3 million and \$72.2 million at fair value, respectively.

## 10. FINANCIAL HIGHLIGHTS

Below are the financial highlights for the years ended September 30:

	2019	2018	2017	2016	2015
<b>Per Share Data:</b>					
Net asset value, beginning of year	\$ 13.82	\$ 14.10	\$ 14.06	\$ 13.95	\$ 14.40
Net investment income (1)	1.17	0.81	1.10	1.02	1.08
Net change in realized and unrealized (loss) gain (1)	(0.88)	0.06	0.10	0.23	(0.31)
Net increase in net assets resulting from operations (1)	0.29	0.87	1.20	1.25	0.77
Distributions to stockholders (1), (2)					
Distribution of net investment income	(1.14)	(1.03)	(1.15)	(1.13)	(0.98)
Distribution of realized gains	—	(0.11)	—	(0.01)	(0.18)
Total distributions to stockholders	(1.14)	(1.14)	(1.15)	(1.14)	(1.16)
(Dilutive) effect of common stock issuance and acquisition of MCG (1)	—	(0.01)	(0.01)	—	(0.06)
Net asset value, end of year	<u>\$ 12.97</u>	<u>\$ 13.82</u>	<u>\$ 14.10</u>	<u>\$ 14.06</u>	<u>\$ 13.95</u>
Per share market value, end of year	<u>\$ 11.60</u>	<u>\$ 13.15</u>	<u>\$ 14.48</u>	<u>\$ 13.23</u>	<u>\$ 11.94</u>
Total return (3)	(3.20)%	(1.29)%	18.71%	21.77%	(6.01)%
Shares outstanding at end of year	38,772,074	38,772,074	32,480,074	26,730,074	26,730,074
<b>Ratios / Supplemental Data:</b>					
Ratio of operating expenses to average net assets (4)	8.28%	3.01%	4.13%	3.56%	3.01%
Ratio of debt related expenses to average net assets	0.87%	4.73%	1.98%	1.58%	2.34%
Ratio of total expenses to average net assets	9.15%	7.74%	6.11%	5.14%	5.35%
Ratio of net investment income to average net assets	8.76%	5.81%	7.85%	7.42%	7.43%
Net assets at end of year	\$ 503,057,511	\$ 535,841,568	\$ 457,906,274	\$ 375,906,828	\$ 372,890,449
Weighted average debt outstanding	\$ 512,134,647	\$ 354,321,752	\$ 269,319,832	\$ 140,218,095	\$ 123,924,384
Weighted average debt per share (1)	\$ 13.21	\$ 9.25	\$ 8.90	\$ 5.25	\$ 7.61
Asset coverage per unit (5)	\$ 1,786	\$ 2,122	\$ 2,780	\$ 2,601	\$ 13,598
Portfolio turnover ratio	52.64%	47.15%	59.70%	32.16%	51.02%

(1) Based on the weighted average shares outstanding for the respective periods.

(2) The tax status of distributions is calculated in accordance with income tax regulations, which may differ from amounts determined under GAAP, and reported on Form 1099-DIV each calendar year.

- (3) Based on the change in market price per share during the period and takes into account distributions, if any, reinvested in accordance with our dividend reinvestment plan, which was terminated on November 22, 2017.
- (4) Excludes debt related costs.
- (5) The asset coverage ratio for a class of senior securities representing indebtedness is calculated on our consolidated total assets, less all liabilities and indebtedness not represented by senior securities, divided by the senior securities representing indebtedness at par (changed from fair value). This asset coverage ratio is multiplied by \$1,000 to determine the asset coverage per unit.

## 11. DEBT

The annualized weighted average cost of debt for the years ended September 30, 2019, 2018 and 2017, inclusive of the fee on the undrawn commitment on the Credit Facility, amendment costs and debt issuance costs, was 5.3%, 7.1% and 3.1%, respectively. As of September 30, 2019, in accordance with the 1940 Act, with certain limited exceptions, we are only allowed to borrow amounts such that we are in compliance with a 150% asset coverage ratio requirement after such borrowing.

On April 5, 2018, our board of directors approved the application of the modified asset coverage requirements set forth in Section 61(a)(2) of the 1940 Act, as amended by the Consolidated Appropriations Act of 2018 (which includes the Small Business Credit Availability Act, or SBCAA). As a result, the asset coverage requirement applicable to us for senior securities was reduced from 200% (i.e., \$1 of debt outstanding for each \$1 of equity) to 150% (i.e., \$2 of debt outstanding for each \$1 of equity), effective as of April 5, 2019, subject to compliance with certain disclosure requirements. As of September 30, 2019 and 2018, our asset coverage ratio, as computed in accordance with the 1940 Act, was 179% and 212%, respectively.

### *Credit Facility*

Funding I's multi-currency Credit Facility with the Lenders was \$520 million as of September 30, 2019, subject to satisfaction of certain conditions and the regulatory restrictions that the 1940 Act imposes on us as a BDC, has an interest rate spread above LIBOR of 200 basis points, a maturity date of October 2023 and a revolving period that ends in October 2021. As of September 30, 2019 and 2018, Funding I had \$265.3 million and \$333.7 million of outstanding borrowings under the Credit Facility, respectively. The Credit Facility had a weighted average interest rate of 4.1% and 4.3%, exclusive of the fee on undrawn commitments as of September 30, 2019 and 2018, respectively.

During the revolving period, the Credit Facility bears interest at LIBOR plus 200 basis points and, after the revolving period, the rate sets to LIBOR plus 425 basis points for the remaining two years, maturing in October 2023. The Credit Facility is secured by all of the assets of Funding I. Both PennantPark Floating Rate Capital Ltd. and Funding I have made customary representations and warranties and are required to comply with various covenants, reporting requirements and other customary requirements for similar credit facilities.

The Credit Facility contains covenants, including, but not limited to, restrictions of loan size, industry requirements, average life of loans, geographic and individual portfolio concentrations, minimum portfolio yield and loan payment frequency. Additionally, the Credit Facility requires the maintenance of a minimum equity investment in Funding I and income ratio as well as restrictions on certain payments and issuance of debt. The Credit Facility compliance reporting is prepared on a basis of accounting other than GAAP. As of September 30, 2019, we were in compliance with the covenants relating to our Credit Facility.

We own 100% of the equity interest in Funding I and treat the indebtedness of Funding I as our leverage. Our Investment Adviser serves as collateral manager to Funding I under the Credit Facility.

Our interest in Funding I (other than the management fee) is subordinate in priority of payment to every other obligation of Funding I and is subject to certain payment restrictions set forth in the Credit Facility. We may receive cash distributions on our equity interests in Funding I only after it has made all required payments of (1) cash interest and, if applicable, principal to the Lenders, (2) administrative expenses and (3) claims of other unsecured creditors of Funding I. The Investment Adviser has irrevocably directed that any management fee owed with respect to such services is to be paid to the Company so long as the Investment Adviser remains the collateral manager.

### *2023 Notes*

In November 2017, we issued \$138.6 million of our 2023 Notes. The 2023 Notes were issued pursuant to a deed of trust between the Company and Mishmeret Trust Company, Ltd. as trustee.

The 2023 Notes pay interest at a rate of 3.83% per year. Interest on the 2023 Notes is payable semi-annually in arrears on June 15 and December 15 of each year, commencing June 15, 2018. The principal on the 2023 Notes will be payable in four annual installments as follows: 15% of the original principal amount on December 15, 2020, 15% of the original principal amount on December 15, 2021, 15% of the original principal amount on December 15, 2022 and 55% of the original principal amount on December 15, 2023.

The 2023 Notes are general, unsecured obligations, rank equal in right of payment with all of PennantPark Floating Rate Capital Ltd.'s existing and future senior unsecured indebtedness and are generally redeemable at our option. The deed of trust governing the 2023 Notes includes certain customary covenants, including minimum equity requirements, and events of default. Please refer to the deed of trust filed as Exhibit (d)(8) to our post-effective amendment filed on December 13, 2017 for more information. The 2023 Notes are rated iA+ by S&P Global Ratings Maalot Ltd. and are listed on the TASE. In connection with this offering, we have dual listed our common stock on the TASE.

The 2023 Notes have not been and will not be registered under the Securities Act and may not be offered or sold in the United States absent registration under the Securities Act or in transactions exempt from, or not subject to, such registration requirements.

### 2031 Asset-Backed Debt

In September 2019, the Company completed the 301.4 million term debt securitization. Term debt securitizations, also known as CLOs, are a form of secured financing incurred by the Company, which is consolidated by the Company and subject to the Company's asset coverage requirements. The 2031 Asset-Backed Debt was issued by the Securitization Issuer. The 2031 Asset-Backed Debt is secured by the middle market loans, participation interests in middle market loans and other assets of the Securitization Issuer. The Debt Securitization was executed through (A) a private placement of: (i) \$78.5 million Class A-1 Senior Secured Floating Rate Loans maturing 2031, which bear interest at the three-month LIBOR plus 1.80%, (ii) \$15.0 million Class A-2 Senior Secured Fixed Rate Notes due 2031, which bear interest at 3.66%, (iii) \$14.0 million Class B-1 Senior Secured Floating Rate Notes due 2031, which bear interest at the three-month LIBOR plus 2.90%, (iv) \$16.0 million Class B-2 Senior Secured Fixed Rate Notes due 2031, which bear interest at 4.266%, (v) \$19.0 million Class C-1 Secured Deferrable Floating Rate Notes due 2031, which bear interest at the three-month LIBOR plus 4.00%, (vi) \$8.0 million Class C-2 Secured Deferrable Fixed Rate Notes due 2031, which bear interest at 5.379%, and (vii) \$18.0 million Class D Secured Deferrable Floating Rate Notes due 2031, which bear interest at the three-month LIBOR plus 4.75% and (B) the borrowing of \$77.5 million Class A-1 Senior Secured Floating Rate Notes due 2031, which bear interest at the three-month LIBOR plus 1.80%, under a credit agreement by and among the Securitization Issuers, as borrowers, various financial institutions, as lenders, and U.S. Bank National Association, as collateral agent and as loan agent. The annualized interest on the 2031 Asset-Backed Debt will be paid, to the extent of funds available. The reinvestment period of the Debt Securitization ends on October 15, 2023 and the 2031 Asset-Backed Debt is scheduled to mature on October 15, 2031.

On the closing date of the Debt Securitization, in consideration of our transfer to the Securitization Issuer of the initial closing date loan portfolio, which included loans distributed to us by certain of our wholly owned subsidiaries, the Securitization Issuer transferred to us 100% of the Preferred Shares of the Securitization Issuer, 100% of the Class D Secured Deferrable Floating Rate Notes issued by the Securitization Issuer, and a portion of the net cash proceeds received from the sale of the 2031 Asset-Backed Debt. The Preferred Shares of the Securitization Issuer do not bear interest and had a stated value of approximately \$55.4 million at the closing of the Debt Securitization.

The 2031 Asset-Backed Debt is included in the Consolidated Statement of Assets and Liabilities as debt of the Company and the Class D Secured Deferrable Floating Rate Notes and the Preferred Shares of the Securitization Issuer were eliminated in consolidation. As of September 30, 2019 and 2018, the Company had \$228.0 million and zero of 2031 Asset-Backed Debt outstanding, respectively, with a weighted average interest rate of 4.2%. As of September 30, 2019 and 2018, the unamortized fees on the 2031 Asset-Backed Debt were \$3.7 million and zero, respectively.

Our Investment Adviser serves as collateral manager to the Securitization Issuer pursuant to the Collateral Management Agreement. For so long as our Investment Adviser serves as collateral manager, it will elect to irrevocably waive any collateral management fee to which it may be entitled under the Collateral Management Agreement.

### 12. COMMITMENTS AND CONTINGENCIES

From time to time, we, the Investment Adviser or the Administrator may be a party to legal proceedings, including proceedings relating to the enforcement of our rights under contracts with our portfolio companies. While the outcome of these legal proceedings cannot be predicted with certainty, we do not expect that these proceedings will have a material effect upon our financial condition or results of operations. Unfunded debt and equity investments, if any, are disclosed in the Consolidated Schedules of Investments. As of September 30, 2019 and 2018, we had \$101.1 million and \$79.4 million, respectively, in commitments to fund investments. Additionally, as described in Note 4, the Company had unfunded commitments of up to \$9.2 million and \$39.4 million to PSSL as of September 30, 2019 and 2018, respectively, that may be contributed primarily for the purpose of funding new investments approved by the PSSL board of directors or investment committee.

### 13. SUBSEQUENT EVENTS

The Company has evaluated subsequent events through the date of issuance of this report and has determined that there are no material events other than those noted above that require disclosure.

**Supplementary Data**  
**Selected Quarterly Data (Unaudited)**  
(dollar amounts in thousands, except per share data)

	2019			
	Q4	Q3	Q2	Q1
Total investment income	\$ 23,882	\$ 22,876	\$ 23,005	\$ 23,184
Net investment income (loss)	\$ 11,401	\$ 11,332	\$ 11,785	\$ 10,944
Net realized and unrealized (loss) gain	\$ (4,026)	\$ (6,814)	\$ (17,257)	\$ (5,949)
Net increase in net assets resulting from operations	\$ 7,374	\$ 4,519	\$ (5,472)	\$ 4,995
Net increase in net assets resulting from operations per common share	\$ 0.18	\$ 0.12	\$ (0.14)	\$ 0.13
Net asset value per share at the end of the quarter	\$ 12.97	\$ 13.07	\$ 13.24	\$ 13.66
Market value per share at the end of the quarter	\$ 11.60	\$ 11.56	\$ 12.81	\$ 11.57

	2018			
	Q4	Q3	Q2	Q1
Total investment income	\$ 21,339	\$ 19,529	\$ 16,501	\$ 14,836
Net investment income (loss)	\$ 11,669	\$ 11,835	\$ 9,400	\$ (1,940)
Net realized and unrealized (loss) gain	\$ (656)	\$ (6,867)	\$ 6,190	\$ 3,859
Net increase in net assets resulting from operations	\$ 11,013	\$ 4,968	\$ 15,590	\$ 1,919
Net increase in net assets resulting from operations per common share *	\$ 0.28	\$ 0.13	\$ 0.40	\$ 0.05
Net asset value per share at the end of the quarter	\$ 13.82	\$ 13.82	\$ 13.98	\$ 13.86
Market value per share at the end of the quarter	\$ 13.15	\$ 13.66	\$ 13.09	\$ 13.72

	2017			
	Q4	Q3	Q2	Q1
Total investment income	\$ 18,454	\$ 15,191	\$ 13,221	\$ 12,631
Net investment income	\$ 10,409	\$ 8,185	\$ 8,029	\$ 6,822
Net realized and unrealized gain (loss)	\$ 442	\$ 1,157	\$ (746)	\$ 2,027
Net increase in net assets resulting from operations	\$ 10,851	\$ 9,342	\$ 7,283	\$ 8,849
Net increase in net assets resulting from operations per common share *	\$ 0.33	\$ 0.29	\$ 0.25	\$ 0.33
Net asset value per share at the end of the quarter	\$ 14.10	\$ 14.05	\$ 14.05	\$ 14.11
Market value per share at the end of the quarter	\$ 14.48	\$ 14.11	\$ 13.94	\$ 14.11

\* Based on the weighted average shares outstanding for the respective periods.

**Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

None.

**Item 9A. Controls and Procedures**

**(a) Evaluation of Disclosure Controls and Procedures**

As of September 30, 2019, we, including our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) of the Exchange Act). Based on that evaluation, our management, including the Chief Executive Officer and Chief Financial Officer, concluded that our disclosure controls and procedures were effective and provided reasonable assurance that information required to be disclosed in our periodic SEC filings is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. However, in evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated can provide only reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of such possible controls and procedures.

**(b) Management's Report on Internal Control Over Financial Reporting**

Management's Report on Internal Control Over Financial Reporting, which appears on page 49 of this Report, is incorporated by reference herein.

**(c) Changes in Internal Controls Over Financial Reporting**

There have been no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act) during our most recently completed fiscal quarter, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**Item 9B. Other Information**

None.

**PART III**

We will file a definitive Proxy Statement for our 2020 Annual Meeting of Stockholders with the SEC, pursuant to Regulation 14A, not later than 120 days after the end of our fiscal year. Accordingly, certain information required by Part III has been omitted under General Instruction G(3) to Form 10-K. Only those sections of our definitive Proxy Statement that specifically address the items set forth herein are incorporated by reference.

**Item 10. Directors, Executive Officers and Corporate Governance**

The information required by Item 10 is hereby incorporated by reference from our definitive Proxy Statement relating to our 2020 Annual Meeting of Stockholders, to be filed with the SEC within 120 days following the end of our fiscal year.

**Item 11. Executive Compensation**

The information required by Item 11 is hereby incorporated by reference from our definitive Proxy Statement relating to our 2020 Annual Meeting of Stockholders, to be filed with the SEC within 120 days following the end of our fiscal year.

**Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters**

The information required by Item 12 is hereby incorporated by reference from our definitive Proxy Statement relating to our 2020 Annual Meeting of Stockholders, to be filed with the SEC within 120 days following the end of our fiscal year.

**Item 13. Certain Relationships and Related Transactions, and Director Independence**

The information required by Item 13 is hereby incorporated by reference from our definitive Proxy Statement relating to our 2020 Annual Meeting of Stockholders, to be filed with the SEC within 120 days following the end of our fiscal year.

**Item 14. Principal Accountant Fees and Services**

The information required by Item 14 is hereby incorporated by reference from our definitive Proxy Statement relating to our 2020 Annual Meeting of Stockholders, to be filed with the SEC within 120 days following the end of our fiscal year.

**Item 15. Exhibits and Financial Statement Schedules**

The following documents are filed as part of this Annual Report:

- (1) Index to Financial Statements — Refer to Item 8 starting on page 48.
- (2) Financial Statement Schedules — None.
- (3) Exhibits
  - 3.1 [Articles of Amendment and Restatement of the Registrant \(Incorporated by reference to the Registrant's Pre-Effective Amendment No. 3 to the Registration Statement on Form N-2 \(File No. 333-170243\), filed on March 29, 2011\).](#)
  - 3.2 [Amended and Restated Bylaws of the Registrant \(Incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K \(File No. 814-00891\), filed on December 2, 2015\).](#)
  - 4.1 [Form of Share Certificate \(Incorporated by reference to the Registrant's Pre-Effective Amendment No. 5 to the Registration Statement on Form N-2 \(File No. 333-170243\), filed on April 5, 2011\).](#)
  - 4.2 [Deed of Trust dated November 23, 2017, between PennantPark Floating Rate Capital Ltd. and Mishmeret Trust Company, Ltd. \(Incorporated by reference to Exhibit \(d\)\(8\) to the Registrant's Post-Effective Amendment No. 3 to the Registration Statement on Form N-2 \(File No. 333-215111\), filed on December 13, 2017\).](#)
  - 4.3 [Indenture, dated as of September 19, 2019, by and among PennantPark CLO I, Ltd., as issuer, PennantPark CLO I, LLC, as co-issuer, and U.S. Bank National Association, as trustee and as collateral agent \(Incorporated by reference to Exhibit 99.2 to the Registrant's Current Report on Form 8-K \(File No. 814-00891\), filed on September 20, 2019\).](#)
  - 4.4\* [Description of Securities](#)
  - 10.1 [Purchase and Contribution Agreement, dated as of June 23, 2011, among PennantPark Floating Rate Capital Ltd., as the seller, and PennantPark Floating Rate Funding I, LLC, as the buyer \(Incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K, filed on June 29, 2011\).](#)
  - 10.2 [First Amendment to Purchase and Contribution Agreement, dated as of January 16, 2018, between PennantPark Floating Rate Capital Ltd., as the seller, and PennantPark Floating Rate Funding I, LLC, as the buyer \(Incorporated by reference to Exhibit 10.4 to the Registrant's Quarterly Report on Form 10-Q \(File No. 814-00891\), filed on February 8, 2018\).](#)
  - 10.3 [Form of Administration Agreement between the Registrant and PennantPark Investment Administration, LLC \(Incorporated by reference to Exhibit 99\(k\)\(2\) to the Registrant's Pre-Effective Amendment No. 3 to the Registration Statement on Form N-2 \(File No. 333-170243\), filed on March 29, 2011\).](#)
  - 10.4 [Dividend Reinvestment Plan \(Incorporated by reference to Exhibit 99\(e\) to the Registrant's Pre-Effective Amendment No. 3 to the Registration Statement on Form N-2 \(File No. 333-170243\), filed on March 29, 2011\).](#)
  - 10.5 [Second Amended and Restated Investment Advisory Agreement, dated as of February 2, 2016, between PennantPark Floating Rate Capital Ltd. and PennantPark Investment Advisers, LLC \(Incorporated by reference to the Registrant's Quarterly Report on Form 10-Q \(File No. 814-00891\), filed on February 4, 2016\).](#)
  - 10.6 [Limited Liability Company Agreement of PennantPark Senior Secured Loan Fund I LLC, dated as of May 4, 2017, by and between PennantPark Floating Rate Capital Ltd. and Trinity Universal Insurance Company \(Incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q \(File No. 814-00891\), filed on August 8, 2017\).](#)
  - 10.7 [Indemnification Agreement, dated as of November 15, 2016, between PennantPark Floating Rate Capital Ltd. and each of the directors and officers listed on Schedule A attached thereto \(Incorporated by reference to Exhibit 10.6 to the Registrant's Annual Report on Form 10-K \(File No. 814-00891\) filed on November 22, 2016\).](#)
  - 10.8 [Credit Agreement, dated as of September 19, 2019, by and among PennantPark CLO I, Ltd., as borrower, PennantPark CLO I, LLC, as co-borrower, the various financial institutions party thereto from time to time, as lenders, and U.S. Bank National Association, as collateral agent and as loan agent \(Incorporated by reference to Exhibit 99.3 to the Registrant's Current Report on Form 8-K \(File No. 814-00891\), filed on September 20, 2019\).](#)
  - 10.9 [Collateral Management Agreement, dated as of September 19, 2019, between PennantPark CLO I, Ltd., as issuer, and PennantPark Investment Advisers, LLC, as collateral manager \(Incorporated by reference to Exhibit 99.4 to the Registrant's Current Report on Form 8-K \(File No. 814-00891\), filed on September 20, 2019\).](#)
  - 10.10 [Master Loan Sale Agreement, dated as of September 19, 2019, among PennantPark Floating Rate Capital Ltd., as seller, PennantPark CLO I Depositor, LLC, as intermediate seller, and PennantPark CLO I, Ltd., as buyer \(Incorporated by reference to Exhibit 99.5 to the Registrant's Current Report on Form 8-K \(File No. 814-00891\), filed on September 20, 2019\).](#)
  - 10.11 [Master Participation Agreement, dated as of September 19, 2019, between PennantPark Floating Rate Funding I, LLC, as seller and PennantPark CLO I, Ltd., as buyer \(Incorporated by reference to Exhibit 99.6 to the Registrant's Current Report on Form 8-K \(File No. 814-00891\), filed on September 20, 2019\).](#)
  - 10.12 [Fourth Amended and Restated Revolving Credit and Security Agreement, dated as of October 30, 2018, among PennantPark Floating Rate Funding I, LLC, as borrower, PennantPark Investment Advisers, LLC, as collateral manager, the lenders from time to time parties thereto, SunTrust Bank, as administrative agent, SunTrust Robinson Humphrey, Inc., as lead arranger, and U.S. Bank National Association, as collateral agent, as collateral administrator, as backup collateral manager, and as custodian \(Incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K \(File No. 814-00891\), filed on November 8, 2018\).](#)
  - 14.1\* [Joint Code of Ethics of the Registrant.](#)
  - 21.1\* [Subsidiaries of the Registrant.](#)
  - 31.1\* [Certification of Chief Executive Officer pursuant to Rule 13a-14 of the Securities Exchange Act of 1934, as amended.](#)

- 31.2\* [Certification of Chief Financial Officer pursuant to Rule 13a-14 of the Securities Exchange Act of 1934, as amended.](#)
- 32.1\* [Certification of Chief Executive Officer pursuant to section 906 of the Sarbanes-Oxley Act of 2002.](#)
- 32.2\* [Certification of Chief Financial Officer pursuant to section 906 of the Sarbanes-Oxley Act of 2002.](#)
- 99.1 [Privacy Policy of the Registrant. \(Incorporated by reference to the Registrant's Annual Report on Form 10-K \(File No. 814-00891\), filed November 17, 2011\).](#)

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\* Filed herewith



**JOINT CODE OF ETHICS  
FOR  
PENNANTPARK INVESTMENT CORPORATION  
PENNANTPARK FLOATING RATE CAPITAL LTD.  
PENNANTPARK INVESTMENT ADVISERS, LLC**

**Section I Statement of General Fiduciary Principles**

This Joint Code of Ethics (the “Code”) has been adopted by each of PennantPark Investment Corporation, PennantPark Floating Rate Capital, Ltd. (each individually, the “Corporation”), and PennantPark Investment Advisers, LLC, the Corporations’ investment adviser (the “Adviser”), in compliance with Rule 17j-1 under the Investment Company Act of 1940 (the “Act”) and Section 204A of the Investment Advisers Act of 1940 (the “Advisers Act”). The purpose of the Code is to establish standards and procedures for the detection and prevention of activities by which persons having knowledge of the investments and investment intentions of the Corporations may abuse their fiduciary duty to the Corporations, and otherwise to deal with the types of conflict of interest situations to which Rule 17j-1 is addressed. As it relates to Section 204A of the Advisers Act, the purpose of this Code is to establish procedures that, taking into consideration the nature of the Adviser’s business, are reasonably designed to prevent misuse of material non-public information in violation of the federal securities laws by persons associated with the Adviser.

The Code is based on the principle that the directors and officers of the Corporations, and the managers, partners, officers and employees of the Adviser, who provide services to the Corporations, owe a fiduciary duty to the Corporations to conduct their personal securities transactions in a manner that does not interfere with the Corporations’ transactions or otherwise take unfair advantage of their relationship with the Corporations. All directors, managers, partners, officers and employees of the Corporations, and the Adviser (“Covered Personnel”) are expected to adhere to this general principle as well as to comply with all of the specific provisions of this Code that are applicable to them. Any Covered Personnel who is affiliated with another entity that is a registered investment adviser is, in addition, expected to comply with the provisions of the code of ethics that has been adopted by such other investment adviser.

Technical compliance with the Code will not automatically insulate any Covered Personnel from scrutiny of transactions that show a pattern of compromise or abuse of the individual’s fiduciary duty to the Corporation. Accordingly, all Covered Personnel must seek to avoid any actual or potential conflicts between their personal interests and the interests of the Corporation and its shareholders. In sum, all Covered Personnel shall place the interests of the Corporation before their own personal interests.

All Covered Personnel must read and retain this Code.

**Section II Definitions**

- (A) “Access Person” means any director, officer, general partner or Advisory Person (as defined below) of the Corporations or the Adviser.
- (B) An “Advisory Person” of the Corporation or the Adviser means: (i) any employee of the Corporation or the Adviser, or any company in a Control (as defined below) relationship to the Corporation or the Adviser, who in connection with his or her regular functions or duties makes, participates in, or obtains information regarding the purchase or sale of any Covered Security (as defined below) by the Corporation, or whose functions relate to the making of any recommendation with respect to such purchases or sales; and (ii) any natural person in a Control relationship to the Corporation or the Adviser, who obtains information concerning recommendations made to the Corporation with regard to the purchase or sale of any Covered Security by the Corporation.
- (C) “Beneficial Ownership” is interpreted in the same manner as it would be under Rule 16a-1(a)(2) under the Securities Exchange Act of 1934 (the “1934 Act”) in determining whether a person is a beneficial owner of a security for purposes of Section 16 of the 1934 Act and the rules and regulations thereunder.
- (D) “Chief Compliance Officer” means the Chief Compliance Officer of the Corporation (who also may serve as the compliance officer of the Adviser and/or one or more affiliates of the Adviser).
- (E) “Control” shall have the same meaning as that set forth in Section 2(a)(9) of the Act.
- (F) “Covered Security” means a security as defined in Section 2(a)(36) of the Act, which includes: any note, stock, treasury stock, security future, bond, debenture, evidence of indebtedness, certificate of interest or participation in any profit-sharing agreement, collateral-trust certificate, pre-organization certificate or subscription, transferable share, investment contract, voting-trust certificate, certificate of deposit for a security, fractional undivided interest in oil, gas, or other mineral rights, any put, call, straddle, option, or privilege on any security (including a certificate of deposit) or on any group or index of securities (including any interest therein or based on the value thereof), or any put, call, straddle, option, or privilege entered into on a national securities exchange relating to foreign currency, or, in general, any interest or instrument commonly known as a “security,” or any certificate of interest or participation in, temporary or interim certificate for, receipt for, guarantee of, or warrant or right to subscribe to or purchase, any of the foregoing.
- Except that “Covered Security” does not include: (i) direct obligations of the Government of the United States; (ii) bankers’ acceptances, bank certificates of deposit, commercial paper and high quality short-term debt instruments, including repurchase agreements; and (iii) shares issued by open-end investment companies registered under the Act. References to a Covered Security in this Code (e.g., a prohibition or requirement applicable to the purchase or sale of a Covered Security) shall be deemed to refer to and to include any warrant for, option in, or security immediately convertible into that Covered Security, and shall also include any instrument that has an investment return or value that is based, in whole or in part, on that Covered Security (collectively, “Derivatives”). Therefore, except as otherwise specifically provided by this Code: (i) any prohibition or requirement of this Code applicable to the purchase or sale of a Covered Security shall also be applicable to the purchase or sale of a Derivative relating to that Covered Security; and (ii) any prohibition or requirement of this Code applicable to the purchase or sale of a Derivative shall also be applicable to the purchase or sale of a Covered Security relating to that Derivative.
- (G) “Independent Director” means a director of the Corporation who is not an “interested person” of the Corporation within the meaning of Section 2(a)(19) of the Act.
- (H) “Initial Public Offering” means an offering of securities registered under the Securities Act of 1933 (the “1933 Act”), the issuer of which, immediately before the registration, was not subject to the reporting requirements of Sections 13 or 15(d) of the 1934 Act.
- (I) “Limited Offering” means an offering that is exempt from registration under the 1933 Act pursuant to Section 4(2) or Section 4(6) thereof or pursuant to Rule 504, Rule 505, or Rule 506 thereunder.

- (J) “Restricted List” means the “Pipeline” report of potential investments combined with the current holdings of the clients. PennantPark Access Persons are restricted from trading any security on the Restricted List.
- (K) “Security Held or to be Acquired” by the Corporation means: (i) any Covered Security which, within the most recent 15 days: (A) is or has been held by the Corporation; or (B) is being or has been considered by the Corporation or the Adviser for purchase by the Corporation; and (ii) any option to purchase or sell, and any security convertible into or exchangeable for, a Covered Security described in Section II (K)(i).
- (L) “17j-1 Organization” means the Corporation or the Adviser, as the context requires.

### Section III Objective and General Prohibitions

Covered Personnel may not engage in any investment transaction under circumstances in which the Covered Personnel benefits from or interferes with the purchase or sale of investments by the Corporation. In addition, Covered Personnel may not use information concerning the investments or investment intentions of the Corporation, or their ability to influence such investment intentions, for personal gain or in a manner detrimental to the interests of the Corporation.

Covered Personnel may not engage in conduct that is deceitful, fraudulent or manipulative, or that involves false or misleading statements, in connection with the purchase or sale of investments by the Corporation. In this regard, Covered Personnel should recognize that Rule 17j-1 makes it unlawful for any affiliated person of the Corporation, or any affiliated person of an investment adviser for the Corporation, in connection with the purchase or sale, directly or indirectly, by the person of a Security Held or to be Acquired by the Corporation to:

- (i) employ any device, scheme or artifice to defraud the Corporation;
- (ii) make any untrue statement of a material fact to the Corporation or omit to state to the Corporation a material fact necessary in order to make the statements made, in light of the circumstances under which they are made, not misleading;
- (iii) engage in any act, practice or course of business that operates or would operate as a fraud or deceit upon the Corporation; or
- (iv) engage in any manipulative practice with respect to the Corporation.

Covered Personnel should also recognize that a violation of this Code or of Rule 17j-1 may result in the imposition of: (1) sanctions as provided by Section VIII below; or (2) administrative, civil and, in certain cases, criminal fines, sanctions or penalties.

### Section IV Pre-Clearance of Personal Account Transactions; Window Period to Trade PennantPark shares

Except as noted below, all Access Persons must obtain the prior written approval of the Managing Member (or such person as the Managing Member may designate) (“Approving Officer”) before engaging in any transaction in his or her Personal Account. The Approving Officer may approve the transaction if he concludes that the transaction would comply with the provisions of this Code of Ethics and is not likely to have any adverse economic impact on clients. A request for preclearance must be made by email, with a copy to the Compliance Officer, in advance of the contemplated transaction. No particular form is required, but the email must include sufficient detail for the Approving Officer to decide if a trade is permissible.

Any approval given under this paragraph will be provided by email and will remain in effect for 72 hours.

#### Exceptions to the Pre-Clearance Requirement Policy.

Access Persons will be allowed to trade securities of the Corporations during a “window period” that may be announced following the release of Corporations’ earnings release. If the window is opened for trading, it will begin no earlier than the second business day after a Corporation publicly releases quarterly or annual financial results and extends no later than 30 calendar days after the release of results (29 calendar days in all). Note that the ability of an officer, director or other Access Person to engage in transactions in the securities of a Corporation during a window period is not automatic or absolute because no trades may be made even during a window period by an individual who possesses material, nonpublic information. Further, the window period may not open in a particular quarter, and it may be closed prior to the expiration of 30 days, as events require.

Additionally, Independent Directors are not required to seek preapproval for any transactions other than those which would trigger reporting requirements as set forth in Section VI (C) of this Code below.

### Section V Prohibited Transactions

- (A) An Access Person may not purchase or otherwise acquire direct or indirect Beneficial Ownership of any Covered Security on the Restricted List, and may not sell or otherwise dispose of any Covered Security on the Restricted List in which he or she has direct or indirect Beneficial Ownership, if he or she knows or should know at the time of entering into the transaction that: (1) the Corporation has purchased or sold the Covered Security within the last 15 calendar days, or is purchasing or selling or intends to purchase or sell the Covered Security in the next 15 calendar days; or (2) the Adviser has within the last 15 calendar days considered purchasing or selling the Covered Security for the Corporation or within the next 15 calendar days intend to consider purchasing or selling the Covered Security for the Corporation.
- (B) Every Advisory Person of the Corporation or the Adviser must obtain approval from the Corporation or the Adviser, as the case may be, before directly or indirectly acquiring Beneficial Ownership in any securities in an Initial Public Offering or in a Limited Offering. Such approval must be obtained from the Chief Compliance Officer, unless he is the person seeking such approval, in which case it must be obtained from the President of the 17j-1 Organization.
- (C) No Access Person shall recommend any transaction in any Covered Securities by the Corporation without having disclosed to the Chief Compliance Officer his or her interest, if any, in such Covered Securities or the issuer thereof, including: the Access Person’s Beneficial Ownership of any Covered Securities of such issuer; any contemplated transaction by the Access Person in such Covered Securities; any position the Access Person has with such issuer; and any present or proposed business relationship between such issuer and the Access Person (or a party which the Access Person has a significant interest).

## Section VI Reports by Access Persons

### (A) Personal Securities Holdings Reports.

All Access Persons shall within 10 days of the date on which they become Access Persons, and thereafter, within 30 days after the end of each calendar year, disclose the title, number of shares and principal amount of all Covered Securities in which they have a Beneficial Ownership as of the date the person became an Access Person, in the case of such person's initial report, and as of the last day of the year, as to annual reports. A form of such report, which is hereinafter called a "Personal Securities Holdings Report," is attached as Schedule A. Each Personal Securities Holdings Report must also disclose the name of any broker, dealer or bank with whom the Access Person maintained an account in which any securities were held for the direct or indirect benefit of the Access Person as of the date the person became an Access Person or as of the last day of the year, as the case may be. Each Personal Securities Holdings Report shall state the date it is being submitted.

### (B) Quarterly Transaction Reports.

Within 30 days after the end of each calendar quarter, each Access Person shall make a written report to the Chief Compliance Officer of all transactions occurring in the quarter in a Covered Security in which he or she had any Beneficial Ownership. A form of such report, which is hereinafter called a "Quarterly Securities Transaction Report," is attached as Schedule B.

A Quarterly Securities Transaction Report shall be in the form of Schedule B or such other form approved by the Chief Compliance Officer and must contain the following information with respect to each reportable transaction:

- (1) Date and nature of the transaction (purchase, sale or any other type of acquisition or disposition);
  - (2) Title, interest rate and maturity date (if applicable), number of shares and principal amount of each Covered Security involved and the price of the Covered Security at which the transaction was effected;
  - (3) Name of the broker, dealer or bank with or through whom the transaction was effected; and
  - (4) The date the report is submitted by the Access Person.
- (C) Independent Directors.

Notwithstanding the reporting requirements set forth in this Section V, an Independent Director who would be required to make a report under this Section V solely by reason of being a director of the Corporation is not required to file a Personal Securities Holding Report upon becoming a director of the Corporation or an annual Personal Securities Holding Report. Such an Independent Director also need not file a Quarterly Securities Transaction Report unless such director knew or, in the ordinary course of fulfilling his or her official duties as a director of the Corporation, should have known that during the 15-day period immediately preceding or after the date of the transaction in a Covered Security by the director such Covered Security is or was purchased or sold by the Corporation or the Corporation or the Adviser considered purchasing or selling such Covered Security.

### (D) Access Persons of the Adviser.

An Access Person of the Adviser need not make a Quarterly Transaction Report if all of the information in the report would duplicate information required to be recorded pursuant to Rules 204-2(a)(12) or (13) under the Investment Advisers Act of 1940, as amended.

### (E) Brokerage Accounts and Statements.

Access Persons, except Independent Directors, shall:

- (1) within 10 days after the end of each calendar quarter, identify the name of the broker, dealer or bank with whom the Access Person established an account in which any securities were held during the quarter for the direct or indirect benefit of the Access Person and identify any new account(s) and the date the account(s) were established. This information shall be included on the appropriate Quarterly Securities Transaction Report.
  - (2) instruct the brokers, dealers or banks with whom they maintain such an account to provide duplicate account statements to the Chief Compliance Officer.
  - (3) on an annual basis, certify that they have complied with the requirements of (1) and (2) above.
- (F) Form of Reports.

A Quarterly Securities Transaction Report may consist of broker statements or other statements that provide a list of all personal Covered Securities holdings and transactions in the time period covered by the report and contain the information required in a Quarterly Securities Transaction Report.

### (G) Responsibility to Report.

It is the responsibility of each Access Person to take the initiative to comply with the requirements of this Section V. Any effort by the Corporation, or by the Adviser and its affiliates, to facilitate the reporting process does not change or alter that responsibility. A person need not make a report hereunder with respect to transactions effected for, and Covered Securities held in, any account over which the person has no direct or indirect influence or control.

### (H) Where to File Reports.

All Quarterly Securities Transaction Reports and Personal Securities Holdings Reports must be filed with the Chief Compliance Officer.

### (I) Disclaimers.

Any report required by this Section V may contain a statement that the report will not be construed as an admission that the person making the report has any direct or indirect Beneficial Ownership in the Covered, Security to which the report relates.

(J) Exceptions from Reporting Requirements.

Reports are not required: (1) with respect to securities held in accounts over which the access person has no direct or indirect influence or control as determined by the CCO in accordance with applicable guidance, a "Third Party Managed Account"; (2) with respect to transactions effected pursuant to an automatic investment plan; or (3) which would duplicate information contained in broker trade confirmations or account statements provided the adviser receives such confirmations or statements within 30 days after the end of the applicable calendar quarter and holds them in its books and records. PennantPark allows, but does not require, Access Persons to direct their brokers to provide duplicate statements and confirmations for this purpose.

(K) Blind Trusts and other Third Party Managed Accounts.

Rule 204A-1(b)(3)(i) provides that an access person is not required "to submit . . . any report [(i.e., initial and annual holdings reports and quarterly transaction reports)] with respect to securities held in accounts over which the access person has no direct or indirect influence or control." Examples of such accounts include "Blind Trusts" where the access person has no knowledge of specific actions taken by the Trustee with respect to Trust investments and no right to intervene in the trustee's management. Additionally, accounts with similar features that limit the access person's involvement, including other types of trusts and accounts managed by an unaffiliated manager with discretionary authority. However, the mere retention of a trustee or manager to advise an access person's account on a discretionary basis is not, by itself, sufficient to allow for a conclusion that the access person has no direct or indirect influence or control. Rather, under the Guidance, the adviser must make a reasonable determination, based on reasonably designed policies and procedures, whether "the access person actually had direct or indirect influence or control over the trust or account, rather than whether the third-party manager had discretionary or non-discretionary investment authority."

Access persons who wish to rely on this exception with respect to any account which otherwise would be reportable must register the account with the CCO who will determine, based on relevant facts and circumstances (including the terms of the account), whether the access person has direct or indirect influence or control over the account. An access person would have direct or indirect influence or control over an account where the access person (i) has the ability to suggest or direct purchases or sales; (ii) consults with the trustee or manager as to the particular allocation of investments to be made in the account; or (iii) engages in regular and substantive discussions with the trustee or manager with respect to account holdings. However, the following activities would not preclude the CCO from determining that an account is a Third Party Managed Account: (i) the access person provides information about his or her investment objectives and reasonable restrictions; (ii) the trustee or manager provides summary descriptions or explanations (whether written or oral) regarding account activity to the access person, provided that the access person does not provide suggestions or directions to the trustee or manager; and (iii) the access person is able to make contributions to and withdrawals from the account, provided that the access person may not instruct the trustee or manager as to specific securities or types of securities which should be purchased or liquidated in connection with the contribution or withdrawal.

No account shall be treated as a Third Party Managed Account until the CCO determines and informs the access person that the account meets the relevant requirements. In making a determination that an account meets the requirements to be treated as a Third Party Managed Account, the CCO may consider, as he or she determines relevant under the circumstances:

- (1) The terms of the account or trust documentation, including the advisory agreement;
- (2) Information obtained from the access person as to the nature of the access person's relationship with the trustee or manager (e.g., whether the trustee or manager is a friend or relative of the access person; whether the advisory firm is affiliated with PennantPark);
- (3) Specific periodic certifications from the access person, trustee and/or manager, as to the nature of the account and whether the access person has sought to exercise influence or control over the trustee or manager;
- (4) Certification or representation from the access person that he or she has reviewed the Code, including this section defining the exception and describing the relevant determinative factors as to concluding that the access person does not exercise direct or indirect influence or control; and
- (5) Any other information that the CCO believes necessary or appropriate to determine whether the account meets the standards set forth herein.

The CCO will document, in writing, his or her conclusion as to whether the account meets the requirements to be treated as a Third Party Managed Account to rely on the reporting exception and will periodically review such determination with the access person. The CCO may require that the access person (and, where appropriate, the manager/trustee) provide additional or renewed certifications or information about the account. Additionally, the CCO may require that the access person provide reports on a sample basis as to account holdings and/or transactions. The CCO will review any such reports to determine whether transactions in the account would have been inconsistent with this Code absent reliance on the reporting exception. The CCO will keep relevant records to document these reviews and support his or her conclusions as to the status of the relevant account(s).

## Section VII Additional Prohibitions

(A) Confidentiality of the Corporation's Transactions.

Until disclosed in a public report to shareholders or to the Securities and Exchange Commission in the normal course, all information concerning the securities "being considered for purchase or sale" by the Corporation shall be kept confidential by all Covered Personnel and disclosed by them only on a "need to know" basis. It shall be the responsibility of the Chief Compliance Officer to report any inadequacy found in this regard to the directors of the Corporation.

(B) Outside Business Activities and Directorships.

Access Persons may not engage in any outside business activities that may give rise to conflicts of interest or jeopardize the integrity or reputation of the Corporation. Similarly, no such outside business activities may be inconsistent with the interests of the Corporation. All directorships of public or private companies held by Access Persons shall be reported to the Chief Compliance Officer.

(C) Gratuities.

Covered Personnel shall not, directly or indirectly, take, accept or receive gifts or other consideration in merchandise, services or otherwise of more than nominal value from any person, firm, corporation, association or other entity other than such person's employer that does business, or proposes to do business, with the Corporation.

## Section VIII Prohibition Against Insider Trading

This Section is intended to satisfy the requirements of Section 204A of the Advisers Act, which is applicable to the Adviser and requires that the Adviser establish and enforce procedures designed to prevent the misuse of material, non-public information by its associated persons. It applies to all Advisory Persons. Trading securities while in possession of material, non-public information, or improperly communicating that information to others, may expose an Advisory Person to severe penalties. Criminal sanctions may include a fine of up to \$1,000,000 and/or ten years imprisonment. The SEC can recover the profits gained or losses avoided through the violative trading, a penalty of up to three times the illicit windfall, and an order permanently barring an Advisory Person from the securities industry. Finally, an Advisory Person may be sued by investors seeking to recover damages for insider trading violations.

- (A) No Advisory Person may trade a security, either personally or on behalf of any other person or account (including any fund), while in possession of material, non-public information concerning that security or the issuer thereof, nor may any Advisory Person communicate material, non-public information to others in violation of the law.
- (B) Information is “material” where there is a substantial likelihood that a reasonable investor would consider it important in making his or her investment decisions. Generally, this includes any information the disclosure of which will have a substantial effect on the price of a security. No simple test exists to determine when information is material; assessments of materiality involve a highly fact specific inquiry. For this reason, an Advisory Person should direct any questions about whether information is material to the Chief Compliance Officer. Material information often relates to a company’s results and operations, including, for example, dividend changes, earnings results, changes in previously released earnings estimates, significant merger or acquisition proposals or agreements, major litigation, liquidation problems, and extraordinary management developments. Material information may also relate to the market for a company’s securities. Information about a significant order to purchase or sell Securities may, in some contexts, be material. Pre-publication information regarding reports in the financial press may also be material.
- (C) Information is “public” when it has been disseminated broadly to investors in the marketplace. For example, information is public after it has become available to the general public through a public filing with the SEC or some other government agency, the Dow Jones “tape” or *The Wall Street Journal* or some other publication of general circulation, and after sufficient time has passed so that the information has been disseminated widely.
- (D) An Advisory Person, before executing any trade for himself or herself, or others, including the Corporation or other accounts managed by the Adviser or by a stockholder of the Adviser, or any affiliate of the stockholder (“Client Accounts”), must determine whether he or she has material, non-public information. Any Advisory Person who believes he or she is in possession of material, non-public information must take the following steps:
  - (1) Report the information and proposed trade immediately to the Chief Compliance Officer.
  - (2) Do not purchase or sell the securities on behalf of anyone, including Client Accounts.
  - (3) Do not communicate the information to any person, other than to the Chief Compliance Officer.

After the Chief Compliance Officer has reviewed the issue, the Chief Compliance Officer will determine whether the information is material and non-public and, if so, what action the Advisory Person should take. An Advisory Person must consult with the Chief Compliance Officer before taking any further action. This degree of caution will protect the Advisory Person and the Adviser.

- (E) To prevent and detect insider trading from occurring, the Chief Compliance Officer shall prepare and maintain a “Restricted List” in order to monitor and prevent the occurrence of insider trading in certain securities that Access Persons are prohibited or restricted from trading. The Chief Compliance Officer manages, maintains and updates the Restricted List to actually restrict trading (no buying, no selling, no shorting, no trading, etc.) in the securities of specific issuers for personal accounts and on behalf Adviser’s clients. Before executing any trade for himself or herself, Advisory Persons are required to determine whether the transaction involves a security on the Restricted List. Advisory Persons are prohibited from trading any security which appears on the Restricted List, except that, with prior approval, an Advisory Person may sell securities which were not on the Restricted List when acquired (or which were acquired at a time when the Advisory Person was not subject to such restrictions). The Restricted List must be maintained strictly confidential and not disclosed to anyone outside of the Adviser and the Corporation.
- (F) Contacts with public companies will sometimes be a part of an Adviser’s research efforts. Persons providing investment advisory services to the Corporation may make investment decisions on the basis of conclusions formed through such contacts and analysis of publicly available information. Difficult legal issues arise, however, when, in the course of these contacts, an Advisory Person becomes aware of material, non-public information. This could happen, for example, if a company’s chief financial officer prematurely discloses quarterly results to an analyst, or an investor relations representative makes selective disclosure of adverse news to a handful of investors. In such situations, the Adviser must make a judgment as to its further conduct. To protect yourself, clients and the Adviser, you should contact the Chief Compliance Officer immediately if you believe that you may have received material, non-public information.

## Section IX Annual Certification

- (A) Access Persons.

Access Persons who are directors, managers, officers or employees of the Corporation or the Adviser shall be required to certify annually that they have read this Code and that they understand it and recognize that they are subject to it. Further, such Access Persons shall be required to certify annually that they have complied with the requirements of this Code.

- (B) Board Review.

No less frequently than annually, the Corporation and the Adviser must furnish to the Corporation’s board of directors, and the board must consider, a written report that: (A) describes any issues arising under this Code or procedures since the last report to the board, including, but not limited to, information about material violations of the Code or procedures and sanctions imposed in response to material violations; and (B) certifies that the Corporation or the Adviser, as applicable, has adopted procedures reasonably necessary to prevent Access Persons from violating the Code.

## Section X Sanctions

Any violation of this Code shall be subject to the imposition of such sanctions by the 17j-1 Organization as may be deemed appropriate under the circumstances to achieve the purposes of Rule 17j-1 and this Code. The sanctions to be imposed shall be determined by the board of directors, including a majority of the Independent Directors, provided, however, that with respect to violations by persons who are directors, managers, officers or employees of the Adviser (or of a company that controls the Adviser), the sanctions to be imposed shall be determined by the Adviser (or the controlling person thereof). Sanctions may include, but are not limited to, suspension or termination of employment, a letter of censure and/or restitution of an amount equal to the difference between the price paid or received by the Corporation and the more advantageous price paid or received by the offending person.

## Section XI Administration and Construction

- (A) The administration of this Code shall be the responsibility of the Chief Compliance Officer.
- (B) The duties of the Chief Compliance Officer are as follows:
  - (1) Continuous maintenance of a current list of the names of all Access Persons with an appropriate description of their title or employment, including a notation of any directorships held by Access Persons who are officers or employees of the Adviser or of any company that controls the Adviser, and informing all Access Persons of their reporting obligations hereunder;
  - (2) On an annual basis, providing all Covered Personnel a copy of this Code and informing such persons of their duties and obligations hereunder including any supplemental training that may be required from time to time;
  - (3) Maintaining or supervising the maintenance of all records and reports required by this Code;
  - (4) Preparing listings of all transactions effected by Access Persons who are subject to the requirement to file Quarterly Securities Transaction Reports and reviewing such transactions against a listing of all transactions effected by the Corporation;
  - (5) Issuance either personally or with the assistance of counsel as may be appropriate, of any interpretation of this Code that may appear consistent with the objectives of Rule 17j-1 and this Code;
  - (6) Conduct such inspections or investigations as shall reasonably be required to detect and report, with recommendations, any apparent violations of this Code to the board of directors of the Corporation;
  - (7) Submission of a report to the board of directors of the Corporation, no less frequently than annually, a written report that describes any issues arising under the Code since the last such report, including but not limited to the information described in Section VII (B); and
- (C) The Chief Financial Officer shall maintain and cause to be maintained in an easily accessible place at the principal place of business of the 17j-1 Organization, the following records:
  - (1) A copy of all codes of ethics adopted by the Corporation or the Adviser and its affiliates, as the case may be, pursuant to Rule 17j-1 that have been in effect at any time during the past five (5) years;
  - (2) A record of each violation of such codes of ethics and of any action taken as a result of such violation for at least five (5) years after the end of the fiscal year in which the violation occurs;
  - (3) A copy of each report made by an Access Person for at least two (2) years after the end of the fiscal year in which the report is made, and for an additional three (3) years in a place that need not be easily accessible;
  - (4) A copy of each report made by the Chief Compliance Officer to the board of directors for two (2) years from the end of the fiscal year of the Corporation in which such report is made or issued and for an additional three (3) years in a place that need not be easily accessible;
  - (5) A list of all persons who are, or within the past five (5) years have been, required to make reports pursuant to the Rule and this Code of Ethics, or who are or were responsible for reviewing such reports;
  - (6) A copy of each report required by Section VII (B) for at least two (2) years after the end of the fiscal year in which it is made, and for an additional three (3) years in a place that need not be easily accessible; and
  - (7) A record of any decision, and the reasons supporting the decision, to approve the acquisition by an Advisory Person of securities in an Initial Public Offering or Limited Offering for at least five (5) years after the end of the fiscal year in which the approval is granted.
- (D) This Code may not be amended or modified except in a written form that is specifically approved by majority vote of the Independent Directors.

This Joint Code of Ethics, originally adopted December 12, 2007, is annually reviewed and approved by the Board of Directors of the Corporation, including a majority of the Independent Directors.

## Subsidiaries of the Registrant

Name of entity and place of jurisdiction	Voting Securities Owned Percentage
PennantPark Floating Rate Funding I, LLC (Delaware)	100%
PennantPark CLO I, LLC (Delaware)	100%
PennantPark CLO I, Ltd. (Cayman Islands)	100%
PennantPark CLO I Depositor, LLC (Delaware)	100%
PFLT Funding II, LLC (Delaware)	100%
PFLT Investment Holdings, LLC (Delaware)	100%
GMC Television Broadcasting Holdings, Inc. (Delaware)	100% (1)
GMC Television Broadcasting, LLC (Delaware)	100% (1)
Solutions Capital G.P., LLC (Delaware)	100%
Solutions Capital I, L.P. (Delaware)	100%

(1) The entity is directly owned by PFLT Funding II, LLC, which is wholly-owned by us.

**CERTIFICATION PURSUANT TO SECTION 302  
CHIEF EXECUTIVE OFFICER CERTIFICATION**

I, Arthur H. Penn, Chief Executive Officer of PennantPark Floating Rate Capital Ltd., certify that:

1. I have reviewed this Annual Report on Form 10-K of PennantPark Floating Rate Capital Ltd.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared; and
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles; and
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 20, 2019

/s/ Arthur H. Penn

Name: Arthur H. Penn

Title: Chief Executive Officer

**CERTIFICATION PURSUANT TO SECTION 302  
CHIEF FINANCIAL OFFICER CERTIFICATION**

I, Aviv Efrat, Chief Financial Officer of PennantPark Floating Rate Capital Ltd., certify that:

1. I have reviewed this Annual Report on Form 10-K of PennantPark Floating Rate Capital Ltd.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared; and
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles; and
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 20, 2019

/s/ Aviv Efrat

Name: Aviv Efrat  
Title: Chief Financial Officer

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER  
PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002 (18 U.S.C. 1350)**

In connection with the Annual Report on Form 10-K of PennantPark Floating Rate Capital Ltd. (the "Company") for the annual period ended September 30, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Arthur H. Penn, as Chief Executive Officer of the Registrant hereby certify, to the best of my knowledge that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

/s/ Arthur H. Penn

Name: Arthur H. Penn  
Title: Chief Executive Officer  
Date: November 20, 2019

**CERTIFICATION OF CHIEF FINANCIAL OFFICER  
PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002 (18 U.S.C. 1350)**

In connection with the Annual Report on Form 10-K of PennantPark Floating Rate Capital Ltd. (the "Company") for the annual period ended September 30, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Aviv Efrat, as Chief Financial Officer of the Registrant hereby certify, to the best of my knowledge that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

/s/ Aviv Efrat

Name: Aviv Efrat  
Title: Chief Financial Officer  
Date: November 20, 2019

## DESCRIPTION OF SECURITIES

### **Common Stock, \$0.001 par value per share**

As of September 30, 2019, the authorized capital stock of PennantPark Floating Rate Capital Ltd. (the “Company,” “we,” “our” or “us”) consisted of 100,000,000 shares of stock, par value \$0.001 per share, all of which is classified as common stock. Our common stock is quoted on The Nasdaq Global Select Market and the Tel Aviv Stock Exchange under the ticker symbol “PFLT.” There are no outstanding options or warrants to purchase our stock. No stock has been authorized for issuance under any equity compensation plans. Under Maryland law, our stockholders generally are not personally liable for our debts or obligations.

Under our charter, our board of directors is authorized to classify and reclassify any unissued shares of stock into other classes or series of stock and authorize the issuance of shares of stock without obtaining stockholder approval. As permitted by the Maryland General Corporation Law, our charter provides that the board of directors, without any action by our stockholders, may amend the charter from time to time to increase or decrease the aggregate number of shares of stock or the number of shares of stock of any class or series that we have authority to issue.

All shares of our common stock have equal rights as to earnings, assets, distributions and voting and, when they are issued, will be duly authorized, validly issued, fully paid and nonassessable. Distributions may be paid to the holders of our common stock if, as and when authorized by our board of directors and declared by us out of assets legally available. Shares of our common stock have no preemptive, exchange, conversion or redemption rights and are freely transferable, except where their transfer is restricted by federal and state securities laws or by contract. In the event of a liquidation, dissolution or winding up of the Company and its consolidated subsidiaries, each share of our common stock would be entitled to share ratably in all of our assets that are legally available for distribution after we pay all debts and other liabilities and subject to any preferential rights of holders of our preferred stock, if any preferred stock is outstanding at such time. Each share of our common stock is entitled to one vote on all matters submitted to a vote of stockholders, including the election of directors. Except as provided with respect to any other class or series of stock, the holders of our common stock will possess exclusive voting power. There is no cumulative voting in the election of directors, which means that holders of a majority of the outstanding shares of common stock can elect all of our directors, and holders of less than a majority of such shares will be unable to elect any director.

### **Provisions of the Maryland General Corporation Law and our Charter and Bylaws**

The Maryland General Corporation Law and our charter and bylaws contain provisions that could make it more difficult for a potential acquirer to acquire us by means of a tender offer, proxy contest or otherwise. These provisions are expected to discourage certain coercive takeover practices and inadequate takeover bids and to encourage persons seeking to acquire control of us to negotiate first with our board of directors. We believe that the benefits of these provisions outweigh the potential disadvantages of discouraging any such acquisition proposals because, among other things, the negotiation of such proposals may improve their terms.

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### ***Classified board of directors***

Our board of directors is divided into three classes of directors serving staggered three-year terms. The terms of the first, second and third classes will expire at the annual meeting of stockholders held in 2021, 2022 and 2020, respectively, and in each case, those directors will serve until their successors are duly elected and qualify. Upon expiration of their current terms, directors of each class will be elected to serve for a term expiring at the annual meeting of stockholders held in the third year following the year of their election and until their successors are duly elected and qualify and each year one class of directors will be elected by the stockholders. A classified board may render a change in control of us or removal of our incumbent management more difficult. We believe, however, that the longer time required to elect a majority of a classified board of directors will help to ensure the continuity and stability of our management and policies.

### ***Election of directors***

Our charter and bylaws provide that the affirmative vote of the holders of a majority of the total votes cast for and affirmatively withheld as to a nominee in the election of directors is required to elect a director. Pursuant to the charter, our board of directors may amend the bylaws to alter the vote required to elect directors.

### ***Number of directors; vacancies; removal***

Our charter provides that the number of directors will be set only by the board of directors in accordance with our bylaws. Our bylaws provide that a majority of our entire board of directors may at any time increase or decrease the number of directors. However, unless our bylaws are amended, the number of directors may never be less than four nor more than eight. We have elected to be subject to the provision of Subtitle 8 of Title 3 of the Maryland General Corporation Law regarding the filling of vacancies on the board of directors. Accordingly, except as may be provided by the board of directors in setting the terms of any class or series of preferred stock, any and all vacancies on the board of directors may be filled only by the affirmative vote of a majority of the remaining directors in office, even if the remaining directors do not constitute a quorum, and any director elected to fill a vacancy will serve for the remainder of the full term of the directorship in which the vacancy occurred and until a successor is elected and qualifies, subject to any applicable requirements of the Investment Company Act of 1940, as amended (the "1940 Act").

Our charter provides that a director may be removed only for cause, as defined in our charter, and then only by the affirmative vote of at least two-thirds of the votes entitled to be cast generally in the election of directors.

### ***Action by stockholders***

Under the Maryland General Corporation Law, stockholder action can be taken only at an annual or special meeting of stockholders or by unanimous written consent in lieu of a meeting (unless the charter provides for stockholder action by less than unanimous consent, which our charter does not). These provisions may have the effect of delaying consideration of a stockholder proposal until the next annual meeting.

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### ***Advance notice provisions for stockholder nominations and stockholder proposals***

Our bylaws provide that with respect to an annual meeting of stockholders, nominations of persons for election to the board of directors and the proposal of business to be considered by stockholders may be made only (1) pursuant to our notice of the meeting, (2) by or at the direction of the board of directors or (3) by a stockholder who was a stockholder of record at the time of provision of notice and at the time of the meeting, who is entitled to vote at the meeting and who has complied with the advance notice procedures of the bylaws. With respect to special meetings of stockholders, only the business specified in our notice of the meeting may be brought before the meeting. Nominations of persons for election to the board of directors at a special meeting may be made only (1) by or at the direction of the board of directors or (2) provided that the special meeting has been called in accordance with our bylaws for the purposes of electing directors by a stockholder who was a stockholder of record at the time of provision of notice and at the time of the meeting, who is entitled to vote at the meeting and who has complied with the advance notice provisions of the bylaws.

The purpose of requiring stockholders to give us advance notice of nominations and other business is to afford our board of directors a meaningful opportunity to consider the qualifications of the proposed nominees and the advisability of any other proposed business and, to the extent deemed necessary or desirable by our board of directors, to inform stockholders and make recommendations about such qualifications or business, as well as to provide a more orderly procedure for conducting meetings of stockholders. Although our bylaws do not give our board of directors any power to disapprove stockholder nominations for the election of directors or proposals recommending certain action, they may have the effect of precluding a contest for the election of directors or the consideration of stockholder proposals if proper procedures are not followed and of discouraging or deterring a third party from conducting a solicitation of proxies to elect its own slate of directors or to approve its own proposal without regard to whether consideration of such nominees or proposals might be harmful or beneficial to us and our stockholders.

### ***Calling of special meetings of stockholders***

Our bylaws provide that special meetings of stockholders may be called by our board of directors and certain of our officers. Additionally, our bylaws provide that, subject to the satisfaction of certain procedural and informational requirements by the stockholders requesting the meeting, a special meeting of stockholders will be called by the secretary of the corporation upon the written request of stockholders entitled to cast not less than a majority of all the votes entitled to be cast at such meeting.

### ***Approval of extraordinary corporate action; amendment of charter and bylaws***

Under Maryland law, a Maryland corporation generally cannot dissolve, amend its charter, merge, convert, sell all or substantially all of its assets, engage in a share exchange or engage in similar transactions outside the ordinary course of business, unless approved by the affirmative vote of stockholders entitled to cast at least two-thirds of the votes entitled to be cast on the matter.

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However, a Maryland corporation may provide in its charter for approval of these matters by a lesser percentage, but not less than a majority of all of the votes entitled to be cast on the matter. Our charter generally provides for approval of charter amendments and extraordinary transactions by the stockholders entitled to cast at least a majority of the votes entitled to be cast on the matter. Our charter also provides that certain charter amendments and any proposal for our conversion, whether by merger or otherwise, from a closed-end company to an open-end company or any proposal for our liquidation or dissolution requires the approval of the stockholders entitled to cast at least 80 percent of the votes entitled to be cast on such matter. However, if such amendment or proposal is approved by at least two-thirds of our continuing directors (in addition to approval by our board of directors), such amendment or proposal may be approved by a majority of the votes entitled to be cast on such a matter. The “continuing directors” are defined in our charter as our current directors as well as those directors whose nomination for election by the stockholders or whose election by the directors to fill vacancies is approved by a majority of the continuing directors then on the board of directors.

Our charter and bylaws provide that the board of directors will have the exclusive power to adopt, alter or repeal any provision of our bylaws and to make new bylaws.

### ***No appraisal rights***

Except with respect to appraisal rights arising in connection with the Maryland Control Share Acquisition Act discussed below, as permitted by the Maryland General Corporation Law, our charter provides that stockholders will not be entitled to exercise appraisal rights.

### ***Control share acquisitions***

The Maryland Control Share Acquisition Act provides that control shares of a Maryland corporation acquired in a control share acquisition have no voting rights except to the extent approved by the affirmative vote of two-thirds of the votes entitled to be cast on the matter. Shares owned by the acquirer, by officers or by directors who are employees of the corporation are excluded from shares entitled to vote on the matter. Control shares are voting shares of stock which, if aggregated with all other shares of stock owned by the acquirer or in respect of which the acquirer is able to exercise or direct the exercise of voting power (except solely by virtue of a revocable proxy), would entitle the acquirer to exercise voting power in electing directors within one of the following ranges of voting power:

- one-tenth or more but less than one-third;
- one-third or more but less than a majority; or
- a majority or more of all voting power.

The requisite stockholder approval must be obtained each time an acquirer crosses one of the thresholds of voting power set forth above. Control shares do not include shares the acquiring person is then entitled to vote as a result of having previously obtained stockholder approval or shares acquired directly from the corporation. A control share acquisition means the acquisition of issued and outstanding control shares, subject to certain exceptions.

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A person who has made or proposes to make a control share acquisition may compel the board of directors of the corporation to call a special meeting of stockholders to be held within 50 days of demand to consider the voting rights of the shares. The right to compel the calling of a special meeting is subject to the satisfaction of certain conditions, including an undertaking to pay the expenses of the meeting. If no request for a meeting is made, the corporation may itself present the question at any stockholders meeting.

If voting rights are not approved at the meeting or if the acquiring person does not deliver an acquiring person statement as required by the statute, then the corporation may repurchase for fair value any or all of the control shares, except those for which voting rights have previously been approved. The right of the corporation to repurchase control shares is subject to certain conditions and limitations. Fair value is determined, without regard to the absence of voting rights for the control shares, as of the date of any meeting of stockholders at which the voting rights of the shares are considered and not approved or, if no such meeting is held, as of the date of the last control share acquisition by the acquirer. If voting rights for control shares are approved at a stockholders meeting and the acquirer becomes entitled to vote a majority of the shares entitled to vote, all other stockholders may exercise appraisal rights. The fair value of the shares as determined for purposes of appraisal rights may not be less than the highest price per share paid by the acquirer in the control share acquisition.

The Maryland Control Share Acquisition Act does not apply (a) to shares acquired in a merger, consolidation or share exchange if the corporation is a party to the transaction or (b) to acquisitions approved or exempted by the charter or bylaws of the corporation.

Our bylaws contain a provision exempting from the Maryland Control Share Acquisition Act any and all acquisitions by any person of shares of our stock. There can be no assurance that such provision will not be amended or eliminated at any time in the future to the extent permitted by the 1940 Act.

### ***Business combinations***

Under Maryland law, “business combinations” between a Maryland corporation and an interested stockholder or an affiliate of an interested stockholder are prohibited for five years after the most recent date on which the interested stockholder becomes an interested stockholder. These business combinations include a merger, consolidation, share exchange or, in circumstances specified in the statute, an asset transfer or issuance or reclassification of equity securities. An interested stockholder is defined as:

- any person who beneficially owns, directly or indirectly, 10% or more of the voting power of the corporation’s shares; or
  - an affiliate or associate of the corporation who, at any time within the two-year period prior to the date in question, was the beneficial owner, directly or indirectly, of 10% or more of the voting power of the then outstanding voting stock of the corporation.
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A person is not an interested stockholder under this statute if the board of directors approved in advance the transaction by which he otherwise would have become an interested stockholder. However, in approving a transaction, the board of directors may provide that its approval is subject to compliance, at or after the time of approval, with any terms and conditions determined by the board.

After the five-year prohibition, any business combination between the corporation and an interested stockholder generally must be recommended by the board of directors of the corporation and approved by the affirmative vote of at least:

- 80% of the votes entitled to be cast by holders of outstanding shares of voting stock of the corporation; and
- two-thirds of the votes entitled to be cast by holders of voting stock of the corporation other than shares held by the interested stockholder with whom or with whose affiliate the business combination is to be effected or held by an affiliate or associate of the interested stockholder.

These super-majority vote requirements do not apply if the corporation's common stockholders receive a minimum price, as defined under Maryland law, for their shares in the form of cash or other consideration in the same form as previously paid by the interested stockholder for its shares.

The statute permits various exemptions from its provisions, including business combinations that are exempted by the board of directors before the time that the interested stockholder becomes an interested stockholder. Our board of directors has adopted a resolution that any business combination between us and any other person is exempted from the provisions of the Business Combination Act, provided that the business combination is first approved by the board of directors, including a majority of the directors who are not interested persons as defined in the 1940 Act. This resolution, however, may be altered or repealed in whole or in part at any time. If this resolution is repealed, or the board of directors does not otherwise approve a business combination, the statute may discourage others from trying to acquire control of us and increase the difficulty of consummating any offer.

#### ***Conflict with 1940 Act***

If and to the extent that any provision of the Maryland General Corporation Law, including the Maryland Control Share Acquisition Act (if we amend our bylaws to be subject to such Act) and the Business Combination Act, or any provision of our charter or bylaws conflicts with any provision of the 1940 Act, the applicable provision of the 1940 Act will control.