

PennantPark Floating Rate Capital Ltd.

Form POS 8C

December 07, 2018

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As filed with the Securities and Exchange Commission on December 7, 2018.

Securities Act Registration No. 333-215111

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM N-2

Registration Statement under the Securities Act Of 1933

Post-Effective Amendment No. 4

Pre-Effective Amendment

## **PennantPark Floating Rate Capital Ltd.**

(Exact name of Registrant as specified in its charter)

590 Madison Avenue

15th Floor

New York, NY 10022

(Address of Principal Executive Offices)

(212) 905-1000

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(Registrant's Telephone Number, Including Area Code)

**Arthur H. Penn**

**c/o PennantPark Floating Rate Capital Ltd.**

**590 Madison Avenue**

**15th Floor**

**New York, NY 10022**

(Name and Address of Agent for Service)

*Copies to:*

**Thomas Friedmann**

**David Harris**

**Dechert LLP**

**1900 K Street, N.W.**

**Washington, DC 20006-1110**

**APPROXIMATE DATE OF PROPOSED PUBLIC OFFERING:**

**As may be practicable after the effective date of this Registration Statement.**

If any securities being registered on this form will be offered on a delayed or continuous basis in reliance on Rule 415 under the Securities Act of 1933, other than securities offered in connection with a dividend reinvestment plan, check the following box.

It is proposed that this filing will become effective (check appropriate box):

when declared effective pursuant to section 8(c).

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## CALCULATION OF REGISTRATION FEE UNDER THE SECURITIES ACT OF 1933

Title of Securities Being Registered	Amount Being	Proposed Maximum	Proposed Maximum	Amount of
	Registered	Offering Price	Aggregate	
	Registered	Per Unit	Offering Price <sup>(1)</sup>	Registration Fee <sup>(1)</sup>
Common Stock, \$0.001 par value per share <sup>(2)</sup>	\$	\$	\$	\$
Preferred Stock, \$0.001 par value per share <sup>(2)</sup>				
Warrants <sup>(2)</sup>				
Subscription Rights <sup>(3)</sup>				
Debt Securities <sup>(4)</sup>				
<b>Total</b>	<b>\$</b>	<b>\$</b>	<b>\$ 500,000,000<sup>(5)</sup></b>	<b>\$ 57,950<sup>(6)</sup></b>

- (1) Estimated pursuant to Rule 457 solely for the purposes of determining the registration fee. The proposed maximum offering price per security will be determined, from time to time, by the Registrant in connection with the sale by the Registrant of the securities registered under this registration statement.
- (2) Subject to Note 5 below, there is being registered hereunder an indeterminate number of shares of common stock, preferred stock or warrants as may be sold, from time to time. Warrants represent rights to purchase common stock, preferred stock or debt securities.
- (3) Subject to Note 5 below, there is being registered hereunder an indeterminate number of subscription rights as may be sold, from time to time, representing rights to purchase common stock.
- (4) Subject to Note 5 below, there is being registered hereunder an indeterminate principal amount of debt securities as may be sold, from time to time. If any debt securities are issued at an original issue discount, then the offering price shall be in such greater principal amount as shall result in an aggregate price to investors not to exceed \$500,000,000.
- (5) In no event will the aggregate offering price of all securities issued from time to time pursuant to this registration statement exceed \$500,000,000.
- (6) Previously paid.

**The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(c) of the Securities Act of 1933, as amended, or until the Registration Statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(c), may determine.**

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**The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and is not soliciting an offer to buy these securities in any jurisdiction where the offer and sale is not permitted.**

**Subject to Completion**

**PRELIMINARY PROSPECTUS**

**\$500,000,000**

**Common Stock**

**Preferred Stock**

**Warrants**

**Subscription Rights**

**Debt Securities**

PennantPark Floating Rate Capital Ltd. is a closed-end, externally managed, non-diversified investment company that has elected to be treated as a business development company under the Investment Company Act of 1940, as amended.

Our investment objectives are to generate 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. Floating Rate Loans or variable-rate investments pay interest at variable-rates, which are determined periodically, on the basis of a floating base lending rate such as the London Interbank Offered Rate, or LIBOR, with or without a floor, plus a fixed spread. We can offer no assurances that we will achieve our investment objectives.

We are managed by PennantPark Investment Advisers, LLC. PennantPark Investment Administration, LLC provides the administrative services necessary for us to operate.

We may offer, from time to time, in one or more offerings or series, together or separately, up to \$500,000,000 of our common stock, preferred stock, warrants representing rights to purchase shares of our common stock, preferred stock or debt securities, subscription rights, or debt securities, which we refer to, collectively, as the securities. We may sell our securities through underwriters or dealers, at-the-market to or through a market maker into an existing trading market or otherwise directly to one or more purchasers or through agents or through a combination of methods of sale. The identities of such underwriters, dealers, market makers or agents, as the case may be, will be described in one or more supplements to this prospectus. The securities may be offered at prices and on terms to be described in one or more supplements to this prospectus. In the event we offer common stock, the offering price per share of our common stock exclusive of any underwriting commissions or discounts will not be less than the net asset value per share of our common stock at the time we make the offering except (1) in connection with a rights offering to our existing stockholders, (2) with the consent of the majority of our common stockholders and approval of our board of directors, or (3) under such circumstances as the Securities and Exchange Commission, or the SEC, may permit. See Risk Factors on page 8 and Sales of Common Stock Below Net Asset Value on page 69 of this prospectus for more information.

Our common stock is traded on the NASDAQ Global Select Market and the Tel Aviv Stock Exchange, or TASE, under the symbol PFLT. The last reported closing price for our common stock on the NASDAQ Global Select Market on December 6, 2018 was \$12.63 per share, and our net asset value on September 30, 2018 was \$13.82 per share.

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This prospectus and any accompanying prospectus supplement contain important information you should know before investing in our securities. Please read them before you invest in our securities and keep them for future reference. We file annual, quarterly and current reports, proxy statements and other information with the SEC. You may also obtain such information free of charge or make stockholder inquiries by contacting us in writing at 590 Madison Avenue, New York, NY 10022, by calling us collect at (212) 905-1000 or by visiting our website at [www.pennantpark.com](http://www.pennantpark.com). The information on our website is not incorporated by reference into this prospectus. The SEC also maintains a website at [www.sec.gov](http://www.sec.gov) that contains such information free of charge.

**Investing in our securities involves a high degree of risk, including the risk of the use of leverage. Before buying any of our securities, you should read the discussion of the material risks of investing in us in Risk Factors beginning on page 8 of this prospectus.**

**Neither the SEC nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.**

**This prospectus may not be used to consummate sales of securities unless accompanied by a prospectus supplement.**

**Prospectus dated                      , 2018**

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You should rely only on the information contained in this prospectus and any accompanying prospectus supplement when considering whether to purchase any securities offered by this prospectus. We have not authorized anyone to provide you with additional information, or information different from that contained in this prospectus and any accompanying prospectus supplement. If anyone provides you with different or additional information, you should not rely on it. We are offering to sell and seeking offers to buy securities only in jurisdictions where offers are permitted. The information contained in or incorporated by reference in this prospectus and any accompanying prospectus supplement is accurate only as of the date of this prospectus or such prospectus supplement. We will update these documents to reflect material changes only as required by law. Our business, financial condition, results of operations and prospects may have changed since then.

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**ABOUT THIS PROSPECTUS**

This prospectus is part of a registration statement that we have filed with the SEC using the shelf registration process. Under the shelf registration process, we may offer from time to time up to \$500,000,000 of our common stock, preferred stock, warrants representing rights to purchase shares of our common stock, preferred stock or debt securities, subscription rights or debt securities on the terms to be determined at the time of the offering. We may sell our securities through underwriters or dealers, at-the-market to or through a market maker, into an existing trading market or otherwise directly to one or more purchasers or through agents or through a combination of methods of sale. The identities of such underwriters, dealers, market makers or agents, as the case may be, will be described in one or more supplements to this prospectus. The securities may be offered at prices and on terms described in one or more supplements to this prospectus. This prospectus provides you with a general description of the securities that we may offer. The information contained in this prospectus is accurate only as of the date on the front of this prospectus and our business, financial condition, results of operations and prospectus may have changed since that date. Each time we use this prospectus to offer securities, we will provide a prospectus supplement that will contain specific information about the terms of that offering. The prospectus supplement may also add, update or change information contained in this prospectus. Please carefully read this prospectus and any prospectus supplement, together with any exhibits, before you make an investment decision.

**Table of Contents****PROSPECTUS SUMMARY**

*This summary highlights some of the information in this prospectus. It is not complete and may not contain all of the information that you may want to consider in making an investment decision. References to our portfolio, our investments and our business include investments we make through our consolidated subsidiaries. Some of the statements in this prospectus constitute forward-looking statements, which apply to both us and our consolidated subsidiaries, as applicable, and relate to future events, future performance or future financial condition. The forward-looking statements involve risks and uncertainties on a consolidated basis and actual results could differ materially from those projected in the forward-looking statements for many reasons, including those factors discussed in Risk Factors and elsewhere in this prospectus. You should read carefully the more detailed information set forth under Risk Factors and the other information included in this prospectus. In this prospectus and any accompanying prospectus supplement, except where the context suggests otherwise: the terms we, us, our and Company 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; Code refers to the Internal Revenue Code of 1986, as amended; RIC refers to a regulated investment company under the Code; 1940 Act refers to the Investment Company Act of 1940, as amended; 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 .*

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

PennantPark Floating Rate Capital Ltd. is a BDC whose objectives are to generate 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 and the potential for rising interest rates. 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.

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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 Credit Facility, proceeds from the rotation of our portfolio and proceeds from public and private offerings of securities to finance our investment objectives. For a description of our Credit Facility, see Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources.

## **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 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.

## **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 \$8.3 billion in 496 companies with approximately 180 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 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. From our perspective, middle market companies have faced difficulty in raising debt through the private and public capital

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markets. We believe that, as a result of the difficulties in the credit markets and fewer sources of capital for middle-market companies, we see opportunities for improved risk-reward on our investments. Furthermore, we believe that with a large pool of uninvested private equity capital seeking debt capital to complete private investments and a substantial supply of refinancing opportunities, there is an opportunity to attain attractive risk-reward with debt investments. See [Business](#) for more information.

## **Competitive Advantages**

We believe that we have competitive advantages over other capital providers to middle-market companies, such as a management team with an average of over 25 years of experience in senior lending, mezzanine lending, leveraged finance, distressed debt and private equity businesses, a disciplined investment approach with strong value orientation, an ability to source and evaluate transactions through our Investment Adviser's proactive research capability and established network and flexible transaction structuring that allows for us to invest across the capital structure. See [Business](#) for more information.

## **Competition**

Our primary competitors provide financing to middle-market companies and include other BDCs, commercial and investment banks, commercial finance companies, collateralized loan obligation, or CLO, 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](#) [Risk Relating to our Business and Structure](#) We operate in a highly competitive market for investment opportunities for more information.

## **Leverage**

We currently use and expect to continue to use leverage to make investments. As a result, we may continue to be exposed to the risks associated with leverage. See [Risk Factors](#) [Risks Relating to our Business and Structure](#) for more information. 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 70% and 90% of our net assets, or 40% and 50% 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. 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 requirements applicable to us for senior securities will be reduced from 200% to 150%, 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](#) [Liquidity and Capital Resources](#) for more information.



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### **Operating and Regulatory Structure**

Our investment activities are managed by PennantPark Investment Advisers. 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. Under our investment management agreement, or the 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. See [Certain Relationships and Transactions](#) [Investment Management Agreement](#) for more information.

We have also entered into an administration agreement, or the 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. See [Certain Relationships and Transactions](#) [Administration Agreement](#) for more information.

As a BDC, we are required to comply with certain regulatory requirements. Also, while we are permitted to finance investments using debt, our ability to use debt is limited in certain significant respects. See [Regulation](#) for more information. We have elected, and intend to qualify annually, to be treated for federal income tax purposes under the Code as a RIC. See [Material U.S. Federal Income Tax Considerations](#) for more information.

### **Use of Proceeds**

We may use the net proceeds from selling securities pursuant to this prospectus to reduce our then-outstanding debt obligations, to invest in new or existing portfolio companies, to capitalize a subsidiary or for other general corporate or strategic purposes. Any supplements to this prospectus relating to an offering will more fully identify the use of the proceeds from such offering. See [Use of Proceeds](#) for more information.

### **Distributions on Common Stock**

We intend to continue our monthly distributions to our stockholders. Our monthly distributions, if any, are determined by our board of directors. Distributions may include a return of capital. See [Distributions](#) for more information.

### **Dividends on Preferred Stock**

We may issue preferred stock from time to time, although we have no immediate intention to do so. Any such preferred stock will be a senior security for purposes of the 1940 Act and, accordingly, subject to the leverage test under that Act. If we issue shares of preferred stock, holders of such preferred stock will be entitled to receive cash dividends at an annual rate that will be fixed or will vary for the successive dividend periods for each series. In general, the dividend periods for fixed rate preferred stock can range from weekly to quarterly and is subject to extension. The dividend rate could be variable and determined for each dividend period. See [Description of our Preferred Stock](#) for more information.

### **Plan of Distribution**

We may offer, from time to time, up to \$500 million of our securities, on terms to be determined at the time of each such offering and set forth in a supplement to this prospectus.

Securities may be offered at prices and on terms described in one or more supplements to this prospectus. We may sell our securities through underwriters or dealers, at-the-market to or through a market maker, into an

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existing trading market or otherwise directly to one or more purchasers or through agents or through a combination of methods of sale. The supplement to this prospectus relating to the offering will identify any agents or underwriters involved in the sale of our securities, and will set forth any applicable purchase price, fee and commission or discount arrangement or the basis upon which such amount may be calculated. In compliance with the guidelines of the Financial Industry Regulatory Authority, Inc., or FINRA, the compensation to the underwriters or dealers in connection with the sale of our securities pursuant to this prospectus and the accompanying supplement to this prospectus may not exceed 10% of the aggregate offering price of the securities as set forth on the cover page of the supplement to this prospectus.

We may not sell securities pursuant to this prospectus without delivering a prospectus supplement describing the terms of the particular securities to be offered and the method of the offering of such securities. See **Plan of Distribution** for more information.

## **Recent Developments**

On October 30, 2018, we entered into an amendment to our Credit Facility to, among other things, (i) extend the reinvestment period to October 30, 2021, (ii) extend the maturity date to October 30, 2023 and (iii) reduce the asset coverage covenant from 200% to 150%. The interest rate of LIBOR plus 200 basis points remains unchanged. On November 8, 2018, we increased the size of the Credit Facility from \$405 million to \$520 million.

## **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 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 prospectus or any supplements to this prospectus, and you should not consider information contained on our website to be part of this prospectus or any supplements to this prospectus. 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.



**Table of Contents****FEES AND EXPENSES**

The following table will assist you in understanding the various costs and expenses that an investor in shares of our common stock will bear directly or indirectly. However, we caution you that some of the percentages indicated in the table below are estimates and may vary from actual results. The following table should not be considered a representation of our future expenses. Actual expenses may be greater or less than shown. Except where the context suggests otherwise, whenever this prospectus or any prospectus supplements, if any, contains a reference to fees or expenses paid by you or us or that we will pay, stockholders will indirectly bear such fees or expenses as investors in us.

<b>Stockholder transaction expenses (as a percentage of offering price)</b>	
Sales load	%(1)
Offering expenses	%(2)
Total stockholder expenses	%
<b>Estimated annual expenses (as a percentage of average net assets attributable to common shares)(3)</b>	
Management fees	1.80%(4)
Incentive fees	0.45%(5)
Interest on borrowed funds	4.68%(6)
Acquired fund fees and expenses	2.45%(7)
Other expenses	0.98%(8)
<b>Total estimated annual expenses</b>	<b>10.36%(9)</b>

- (1) In the event that the securities to which this prospectus relates are sold to or through underwriters or agents, a corresponding prospectus supplement will disclose the applicable sales load.
- (2) The related prospectus supplement will disclose the estimated amount of offering expenses, the offering price and the offering expenses borne by us as a percentage of the offering price.
- (3) Net assets attributable to common shares equals average net assets for the fiscal year ended September 30, 2018.
- (4) The contractual management fee is calculated at an annual rate of 1.00% of our average adjusted gross assets on September 30, 2018. See Certain Relationships and Transactions Investment Management Agreement for more information.
- (5) The portion of incentive fees paid with respect to net investment income and capital gains, if any, is based on actual amounts incurred during the fiscal year ended September 30, 2018. Such incentive fees are based on performance, vary from period to period and are not paid unless our performance exceeds specified thresholds. Incentive fees in respect of net investment income do not include incentive fees in respect of net capital gains. The portion of our incentive fee paid in respect of net capital gains 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 20.0% 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 purposes of this chart and our Consolidated Financial Statements, our incentive fees on capital gains are calculated in accordance with U.S. generally accepted accounting principles, or GAAP. As we cannot predict our future net investment income or capital gains, the incentive fee paid in future periods, if any, may be substantially different than the fee earned during the fiscal year ended September 30, 2018. For more detailed information about the

incentive fee, please see Certain Relationships and Transactions Investment Management Agreement for more information.

- (6) As of September 30, 2018, we had \$333.7 million in borrowings outstanding under our Credit Facility and \$138.6 million outstanding under our 2023 Notes. We may use proceeds of an offering of securities under this registration statement to repay outstanding obligations under our Credit Facility. After completing any such offering, we may continue to borrow under our Credit Facility to finance our investment objectives. Annual interest expense on borrowed funds represents actual interest expense, amendment costs incurred on our Credit Facility, and debt issuance costs on the 2023 Notes for the fiscal year ended September 30, 2018 and we caution you that our actual interest expense in the future will depend on prevailing interest rates and

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- our rate of borrowing, which may be substantially higher than the amount provided in this table. See Risk Factors Risks Relating to our Business and Structure We currently use borrowed funds to make investments and are exposed to the typical risks associated with leverage for more information.
- (7) Our stockholders indirectly bear 87.5% of the expenses of our investment in PSSL. No management fee is charged by PennantPark Investment Advisers in connection with PSSL. PSSL pays the Administrator an annual fee of 0.25% of average gross assets under management. For this chart, PSSL fees and operating expenses are based on our share of the actual fees and operating expenses of PSSL for the fiscal year ended September 30, 2018. Expenses for PSSL may fluctuate over time and may be substantially higher or lower in the future.
  - (8) Other expenses includes our general and administrative expenses, professional fees, directors fees, insurance costs, expenses of our dividend reinvestment plan (for periods prior to its termination) and the expenses of the Investment Adviser reimbursable under our Investment Management Agreement and of the Administrator reimbursable under our Administration Agreement. Such expenses are based on estimated amounts for the current fiscal year.
  - (9) Total estimated annual expenses as a percentage of average net assets attributable to common shares, to the extent we borrow money to make investments, are higher than the total estimated annual expenses percentage would be for a company that is not leveraged. We may borrow money to leverage our net assets and increase our total assets. The SEC requires that the total estimated annual expenses percentage be calculated as a percentage of average net assets (defined as total assets less indebtedness) rather than total assets, which include assets that have been funded with borrowed money. For a presentation and calculation of total estimated annual expenses based on average total assets, see page 49 of this prospectus.

**Example**

The following example illustrates the projected dollar amount of total cumulative expenses that you would pay on a \$1,000 hypothetical investment in common shares, assuming (1) a 3.00% sales load (underwriting discounts and commissions) and offering expenses totaling 0.50%, (2) total net estimated annual expenses of 9.91% of average net assets attributable to common shares as set forth in the table above (other than performance-based incentive fees) and (3) a 5% annual return.

**You would pay the following expenses on a \$1,000 common stock investment:**

	1 year	3 years	5 years	10 years
Assuming a 5% annual return (assumes no return from net realized capital gains or net unrealized capital appreciation)	\$ 128	\$ 301	\$ 458	\$ 787
Assuming a 5% annual return (assumes return from only realized capital gains and thus subject to the capital gains incentive fee)	\$ 137	\$ 324	\$ 489	\$ 824

This example and the expenses in the table above should not be considered a representation of our future expenses. Actual expenses may be greater or less than those assumed. The table above is provided to assist you in understanding the various costs and expenses that an investor in our common stock will bear directly or indirectly. While the example assumes, as required by the SEC, a 5% annual return, our performance will vary and may result in a return greater or less than 5%. If we were to earn an annual return equal to or less than 5% from net investment income, the incentive fee under our Investment Management Agreement would not be earned or payable. If our returns on our investments, including the realized capital gains, result in an incentive fee, then our expenses would be higher. The example assumes that all distributions are reinvested at NAV. See Distributions for more information.

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**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 prospectus, 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. 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.



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The significant disruptions in the capital markets experienced in the past 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.

### ***We could be subject to reduced availability and/or mandatory prepayments under Funding I's Credit Facility and our 2023 Notes.***

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 contains various covenants which, if not complied with, could accelerate repayment of the 2023 Notes. 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 result in the ability of the trustee and our note holders to accelerate amounts due under the deed of trust governing our 2023 Notes. 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

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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 original issue discount, or OID, income and payment-in-kind, or 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

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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

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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.

### ***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.



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***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 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.



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***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.

***Recently passed legislation will allow 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 Small Business Credit Availability Act (the SBCAA)) was signed into law and amended the 1940 Act to decrease this percentage from 200% to 150% 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. Since on April 5, 2018 our Board has approved such reduction, if we comply with the applicable disclosure requirements, we will be able to incur additional indebtedness on April 5, 2019, which may increase the risk of investing in us. 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 will 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 order to satisfy the requirements to be treated 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 pay applicable income taxes with respect thereto and elect to treat such retained net capital gains as deemed dividend distributions to our stockholders.



As a BDC, we are required to meet a 200% asset coverage ratio through April 4, 2019 and 150% thereafter, subject to certain disclosure requirements of total assets to total senior securities, which includes all of our borrowings, and any preferred stock we may issue in the future. This requirement limits the amount we may

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borrow. If the value of our assets declines, we may be unable to satisfy this 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 RIC distribution requirements. Funding I may be limited by its covenants from making certain distributions to us that may be necessary to fulfill our requirements to be treated as a RIC for federal income tax purposes. We may have 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

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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.*** In addition to issuing securities to raise capital as described above, we anticipate that in the future, as market conditions and the rules and regulations of the SEC permit, we may securitize our loans to generate cash for funding new investments. To securitize loans, we may create a wholly-owned subsidiary, contribute a pool of loans to the subsidiary and have the subsidiary issue primarily investment grade debt securities to purchasers who we would expect to be willing to accept a substantially lower interest rate than the loans earn. Even though we expect the pool of loans that we contribute to any such securitization vehicle to be rated below investment grade, because the securitization vehicle's portfolio of loans would secure all of the debt issued by such vehicle, a portion of such debt may be rated investment grade, subject in each case to market conditions that may require such portion of the debt to be over collateralized and various other restrictions. If applicable accounting pronouncements or SEC staff guidance require us to consolidate the securitization vehicle's financial statements with our financial statements, any debt issued by it would be generally treated as if it were issued by us for purposes of the asset coverage ratio applicable to us. In such case, we would expect to retain all or a portion of the equity and/or subordinated notes in the securitization vehicle. 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 may hold subordinated debentures in any such securitization vehicle and, if so, we would not consider such securities to be senior securities. An inability to successfully securitize our loan portfolio could limit our ability to grow our business and fully execute our business strategy and adversely affect our earnings, if any. Moreover, the successful securitization of a portion of our loan portfolio might expose us to losses as the residual loans in which we do not sell interests will tend to be those that are riskier and less liquid.

***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 and the deed of trust governing the 2023 Notes, 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

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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 and the 2023 Notes 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.

Through April 4, 2019, we are not permitted to incur indebtedness unless immediately after such borrowing we have an asset coverage for total borrowings of at least 200% (i.e., the amount of debt may not exceed 50% of the value of our assets). In addition, through such date we may not be permitted to declare any cash distribution on our outstanding common shares, or purchase any such shares, unless, at the time of such declaration or purchase, we have asset coverage of at least 200% after deducting the amount of such distribution or purchase price. If this ratio declines below 200% before April 5, 2019, we may not be able to incur additional debt and may need to sell a portion of our investments to repay some debt when it is disadvantageous to do so, and we may not be able to make distributions. The SBCAA, which was signed into law in March 2018, modifies this section of the 1940 Act and decreases this percentage from 200% to 150% (subject to either stockholder approval or approval of both a majority of the board of directors and a majority of directors who are not interested persons). 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 will be reduced from 200% to 150%, effective as of April 5, 2019, subject to compliance with certain disclosure requirements. As of such date, we will be able to incur additional indebtedness as a result of this new law and therefore, your risk of an investment in us may increase.

As of September 30, 2018 and 2017, our asset coverage ratio, as computed in accordance with the 1940 Act, was 215% and 278%, respectively. Since our leverage was 87% and 56% of our net assets as of September 30, 2018 and 2017, respectively, we would have to receive an annual return of at least 1.93% and 1.13%, respectively, to cover annual interest payments.

As of September 30, 2018, we had outstanding borrowings of \$333.7 million under our Credit Facility and \$138.6 million outstanding under our 2023 Notes. Our consolidated debt outstanding was \$472.3 million and had a weighted average annual interest rate at the time of 4.13%, exclusive of the fees on the undrawn commitment on our Credit Facility. To cover the annual interest on our borrowings of \$472.3 million outstanding as of September 30, 2018, at the weighted average annual rate of 4.13%, we would have to receive an annual yield of at least 1.93%. 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

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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, 2018 of 43% of total assets (including such borrowed funds), at the current interest rate at the time of 4.13%, 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) <sup>(1)</sup>	(10.0)%	(5.0)%	%	5.0%	10.0%
Corresponding return to common stockholders <sup>(2)</sup>	(23.7)%	(13.7)%	(3.6)%	6.4%	16.5%

- (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 and the 2023 Notes, 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.

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### ***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

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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 a license agreement, or 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.



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### ***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.

### ***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

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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;

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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.

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### ***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 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/

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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.

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### ***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

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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.

- 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,

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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;

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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 our income tax 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

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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.

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***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.



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***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.



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***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.



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**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.

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***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 \$13.15 and \$14.48 on September 30, 2018 and 2017, respectively. Our NAV per share was \$13.82 and \$14.10 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.

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***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.

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**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, 2018, we had \$333.7 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 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.

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***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) of the 1940 Act or any successor provisions;

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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.

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***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 as well as, after December 31, 2018, scheduled payments of principal, early redemption, or sale of 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 as well as any proceeds from the sale or other disposition of 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;

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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.

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**FORWARD-LOOKING STATEMENTS**

This prospectus 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 prospectus 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 markets;

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 set forth in Risk Factors and elsewhere in this prospectus.

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 prospectus 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 prospectus on information available to us on the date of this prospectus, 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 prospectus, 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 a supplemental prospectus or through reports that we in the future may file with the SEC, including reports on Form 10-K/Q and current reports on Form 8-K.



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You should understand that under Section 27A(b)(2)(B) of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E(b)(2)(B) of the Securities Exchange Act of 1934, as amended, or 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 connection with any offering of securities pursuant to this prospectus or in periodic reports we file under the Exchange Act.

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**USE OF PROCEEDS**

We may use the net proceeds from selling securities pursuant to this prospectus to reduce our then-outstanding obligations under our Credit Facility, to invest in new or existing portfolio companies, or for other general corporate or strategic purposes. Any supplements to this prospectus relating to an offering may more fully identify the use of the proceeds from such offering.

As of September 30, 2018, we had \$333.7 million in borrowings outstanding under our multi-currency Credit Facility. Borrowings under our Credit Facility bear interest at LIBOR plus 200 basis points per annum during the revolving period, and the rate resets to LIBOR plus 425 basis points per annum for the remaining two years. At September 30, 2018, the weighted average interest rate was 4.13% exclusive of the fee on the undrawn commitments. The Credit Facility is a revolving facility maturing in October 2023 and is secured by all of the assets held by Funding I. Amounts repaid under our Credit Facility remain available for future borrowings during the revolving period. See Management's Discussion and Analysis of Financial Condition and Results of Operations for more information.

We may invest the proceeds from an offering of securities in new or existing portfolio companies, and such investments may take up to a year from the closing of such offering, in part because privately negotiated investments in illiquid securities or private middle-market companies require substantial due diligence and structuring. During this period, we may use the net proceeds from our offering to reduce then-outstanding obligations under our Credit Facility or to invest such proceeds in cash equivalents, U.S. government securities and other high-quality debt investments that mature in one year or less. We expect to earn yields on such investments, if any, that are lower than the interest income that we anticipate receiving in respect of investments in non-temporary investments. As a result, any distributions we make during this investment period may be lower than the distributions that we would expect to pay when such proceeds are fully invested in non-temporary investments. See Regulation Temporary Investments for more information.

**Table of Contents****SELECTED FINANCIAL DATA**

We have derived the data below from our audited and unaudited financial data. The Consolidated Statement of Operations data, Per share data, Consolidated Statement of Assets and Liabilities data and Total return 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.

	For the years ended September 30,				
	2018	2017	2016	2015	2014
<b>(Dollar amounts in thousands, except per share data)</b>					
<b>Consolidated Statements of Operations data:</b>					
Total investment income	\$ 72,205	\$ 59,497	\$ 46,301	\$ 30,355	\$ 30,357
Total expenses	41,241	26,052	18,965	12,695	13,721
Net investment income	30,964	33,445	27,336	17,660	16,636
Net realized and unrealized gain (loss)	2,526	2,880	6,153	(5,156)	3,878
Net increase in net assets resulting from operations	33,490	36,325	33,489	12,504	20,514
<b>Per share data:</b>					
Net asset value	13.82	14.10	14.06	13.95	14.40
Net investment income <sup>(1)</sup>	0.81	1.10	1.02	1.08	1.12
Net realized and unrealized gain (loss) <sup>(1)</sup>	0.06	0.10	0.23	(0.31)	0.26
Net increase in net assets resulting from operations <sup>(1)</sup>	0.87	1.20	1.25	0.77	1.38
Distributions declared <sup>(1), (2)</sup>	1.14	1.15	1.14	1.16	1.08
<b>Consolidated Statements of Assets and Liabilities data:</b>					
Total assets	1,076,443	747,345	631,420	416,120	372,874
Total investment portfolio	1,000,613	710,499	598,888	391,312	348,428
Debt payable <sup>(3)</sup>	467,632	256,858	232,389	29,600	146,949
Total net asset value	535,842	457,906	375,907	372,890	214,528
<b>Other data:</b>					
Total return <sup>(4)</sup>	(1.29)%	18.71%	21.77%	(6.01)%	8.05%
Number of portfolio companies <sup>(5)</sup>	88	82	98	76	72
Yield on debt portfolio <sup>(5)</sup>	8.8%	8.0%	7.8%	7.9%	8.2%

(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.

- (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.

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

	<b>2018</b>			
	<b>Q4</b>	<b>Q3</b>	<b>Q2</b>	<b>Q1</b>
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

	<b>2017</b>			
	<b>Q4</b>	<b>Q3</b>	<b>Q2</b>	<b>Q1</b>
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.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION  
AND RESULTS OF OPERATIONS**

*The information contained in this section should be read in conjunction with the selected financial data and our consolidated financial statements and notes thereto appearing elsewhere in this prospectus.*

**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 and the potential for rising interest rates. 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

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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

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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.

The SEC requires that Total Estimated Annual Expenses be calculated as a percentage of average net assets in the table on page 6 of this prospectus rather than as a percentage of average total assets. Total assets include assets that have been funded with borrowed money (leverage). For reference, the table below illustrates our Total Estimated Annual Expenses as a percentage of average total assets:

**Estimated Annual Expenses (as a Percentage of Average Total Assets<sup>(1)</sup>)**

Base management fees	1.00% <sup>(2)</sup>
Incentive fees	0.26% <sup>(3)</sup>
Interest on borrowed funds	2.71% <sup>(4)</sup>
Acquired fund fees and expenses	1.41% <sup>(5)</sup>
Other expenses	0.56% <sup>(6)</sup>
<b>Total estimated annual expenses</b>	<b>5.94%<sup>(7)</sup></b>

- (1) Average total assets attributable to common shares equals average gross assets for the fiscal year ended September 30, 2018.
- (2) The contractual management fee is calculated at an annual rate of 1.00% of our average adjusted gross assets. See Certain Relationships and Transactions Investment Management Agreement for more information.
- (3) The portion of incentive fees paid with respect to net investment income and capital gains, if any, is based on actual amounts incurred during the fiscal year ended September 30, 2018. Such incentive fees are based on performance, vary from period to period and are not paid unless our performance exceeds specified thresholds. Incentive fees in respect of net investment income do not include incentive fees in respect of net capital gains. The portion of our incentive fee paid in respect of net capital gains 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 20.0% 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 purposes of this chart and our Consolidated Financial Statements, our incentive fees on capital gains are calculated in accordance with GAAP. As we cannot predict our future net investment income or capital gains, the incentive fee paid in future periods, if any, may be substantially different than the fee earned during the fiscal year ended September 30, 2018. For more detailed information about the incentive fee, please see Certain Relationships and Transactions Investment Management Agreement for more information.
- (4) As of September 30, 2018, we had \$333.7 million in borrowings outstanding under our Credit Facility and \$138.6 million outstanding under our 2023 Notes. We may use proceeds of an offering of securities under this registration statement to repay outstanding obligations under our Credit Facility. After completing any such

offering, we may continue to borrow under our Credit Facility to finance our investment objectives. Annual interest expense on borrowed funds represents actual interest expense, amendment costs incurred on our Credit Facility, and debt issuance costs on the 2023 Notes for the fiscal year ended September 30, 2018 and we caution you that our actual interest expense will depend on prevailing interest rates and our rate of borrowing, which may be substantially higher than the amount provided in this table. See Risk Factors Risks Relating to our Business and Structure We currently use borrowed funds to make investments and are exposed to the typical risks associated with leverage for more information.

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- (5) Our stockholders indirectly bear 87.5% of the expenses of our investment in PSSSL. No management fee is charged by PennantPark Investment Advisers in connection with PSSSL. PSSSL pays the Administrator an annual fee of 0.25% of average gross assets under management. For this chart, PSSSL fees and operating expenses are based on our share of the actual fees and operating expenses of PSSSL for the fiscal year ended September 30, 2018. Expenses for PSSSL may fluctuate over time and may be substantially higher or lower in the future.
- (6) Other expenses includes our general and administrative expenses, professional fees, directors fees, insurance costs, expenses of our dividend reinvestment plan (prior to its termination) and the expenses of the Investment Adviser reimbursable under our Investment Management Agreement and of the Administrator reimbursable under our Administration Agreement. Such expenses are based on estimated amounts for the current fiscal year.
- (7) The table above is intended to assist you in understanding the various costs and expenses that an investor in shares of our common stock will bear as a percentage of our average gross assets for the fiscal year ended September 30, 2018. However, we caution you that these percentages are estimates and may vary with changes in the market value of our investments, the amount of equity capital raised and used to invest in portfolio companies and changes in the level of expenses as a percentage of our gross assets. We may borrow money to leverage our net assets and increase our total assets and such leverage will affect both the total annual expenses and gross assets used in deriving the ratios in the above table. Thus, any differences in the estimated expenses and the corresponding level of average asset balances will affect the estimated percentages and those differences could be material.

**PORTFOLIO AND INVESTMENT ACTIVITY**

As of September 30, 2018, our portfolio totaled \$1,000.6 million and consisted of \$913.3 million of first lien secured debt (of which \$101.1 million was invested in PSSSL), \$21.2 million of second lien secured debt and \$66.1 million of preferred and common equity (of which \$44.8 million was invested in PSSSL). 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 (of which 10% was invested in PSSSL), 2% in second lien secured debt and 7% in preferred and common equity (of which 4% was invested in PSSSL). As of September 30, 2018, all of the investments held by PSSSL were first lien secured debt.

As of September 30, 2017, our portfolio totaled \$710.5 million and consisted of \$609.7 million of first lien secured debt, \$37.8 million of second lien secured debt, \$37.5 million of subordinated debt (of which \$30.1 million was invested in PSSSL) and \$25.5 million of preferred and common equity (of which \$13.4 million was invested in PSSSL). Our debt portfolio consisted of 99% variable-rate investments and 1% fixed-rate investments. As of September 30, 2017, we had one portfolio company on non-accrual, representing 0.4% and 0.2% of our overall portfolio on a cost and fair value basis, respectively. Overall, the portfolio had net unrealized appreciation of \$2.0 million. Our overall portfolio consisted of 82 companies with an average investment size of \$8.7 million, had a weighted average yield on debt investments of 8.0%, and was invested 86% in first lien secured debt, 5% in second lien secured debt, 5% in subordinated debt (of which 4% was invested in PSSSL) and 4% in preferred and common equity (of which 2% was invested in PSSSL). As of September 30, 2017, all of the investments held by PSSSL were first lien secured debt.

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 year ended September 30, 2018 totaled \$391.4 million.

For the year ended September 30, 2017, we invested \$508.9 million of investments in 29 new and 49 existing portfolio companies with a weighted average yield on debt investments of 7.7%. Sales and repayments of investments for the year ended September 30, 2017 totaled \$406.5 million.



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For the year ended September 30, 2016, we invested \$364.4 million of investments in 37 new and 25 existing portfolio companies with a weighted average yield on debt investments of 7.8%. Sales and repayments of investments for the year ended September 30, 2016 totaled \$164.2 million.

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

As of September 30, 2018, PSSSL'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%. As of September 30, 2017, PSSSL's portfolio totaled \$100.0 million, consisted of 18 companies with an average investment size of \$5.6 million and had a weighted average yield on debt investments of 7.2%.

For the year ended September 30, 2018, PSSSL 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%. PSSSL's sales and repayments of investments for the year ended September 30, 2018 totaled \$45.8 million. For the period May 4, 2017 (inception) through September 30, 2017, PSSSL invested \$111.5 million (of which \$85.1 million was purchased from the Company) in 19 new and four existing portfolio companies with a weighted average yield on debt investments of 6.5%. PSSSL's sales and repayments of investments for the period May 4, 2017 (inception) through September 30, 2017 totaled \$12.1 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 below. 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.



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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.

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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 and our Credit Facility are classified as Level 3. Our 2023 Notes are classified as Level 1. 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 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 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 \$10.9 million, \$0.1 million and \$0.9 million, relating to amendment fees on the Credit Facility and debt issuance costs on the 2023 Notes during the years ended September 30, 2018, 2017 and 2016, 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. For the years ended September 30, 2018, 2017 and 2016, our Credit Facility and 2023 Notes had a net change in unrealized depreciation (appreciation) of \$7.8 million, \$(3.6) million and \$0.5 million, respectively. As of September 30, 2018 and 2017, the net unrealized depreciation (appreciation) on our Credit Facility and the 2023 Notes totaled \$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.

## ***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

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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 fair values 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 values 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 have not 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.

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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, 2018, 2017 and 2016.

### ***Investment Income***

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.

Investment income for the year ended September 30, 2017 was \$59.5 million (including \$4.6 million from a litigation settlement related to a former portfolio company of MCG, which is not expected to be recurring) and was attributable to \$50.0 million from first lien secured debt, \$4.9 million from second lien secured debt and subordinated debt. 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, 2016 was \$46.3 million (including \$3.3 million from a litigation settlement related to a former portfolio company of MCG, which is not expected to be recurring) and was attributable to \$33.1 million from first lien secured debt, \$9.9 million from second lien secured debt and subordinated debt.

### ***Expenses***

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.

Expenses for the year ended September 30, 2017 totaled \$26.1 million. Base management fee for the same period totaled \$6.9 million, incentive fee totaled \$6.2 million (including \$0.1 million on realized gains and \$1.2 million on net unrealized gains accrued but not payable), Credit Facility expenses totaled \$8.5 million (including \$0.1 million of Credit Facility amendment expenses), general and administrative expenses totaled \$4.2 million and provision for taxes totaled \$0.3 million. The increase in expenses over the prior year was primarily due to increases in base management and incentive fees as a result from the growth of our portfolio.

Expenses for the year ended September 30, 2016 totaled \$19.0 million. Base management fee for the same period totaled \$5.0 million, incentive fee totaled \$4.8 million (including \$1.1 million on net unrealized gains accrued but not payable), Credit Facility expenses totaled \$5.8 million (including \$0.9 million of Credit Facility amendment expenses) and general and administrative expenses totaled \$3.4 million.

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

Net investment income totaled \$31.0 million or \$0.81 per share, \$33.4 million or \$1.10 per share and \$27.3 million or \$1.02 per share, for the years ended September 30, 2018, 2017 and 2016, respectively. The decrease in

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net investment income 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 Realized Gains or Losses***

Sales and repayments of investments for the years ended September 30, 2018, 2017 and 2016 totaled \$391.4 million, \$406.5 million and \$164.2 million, respectively. Net realized (losses) gains totaled \$(2.3) million, \$5.4 million and \$(1.4) 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, 2018, 2017 and 2016, we reported net change in unrealized (depreciation) appreciation on investments of \$(2.9) million, \$1.1 million and \$7.0 million, respectively. As of September 30, 2018 and 2017, our net unrealized (depreciation) appreciation on investments totaled \$(0.9) million and \$2.0 million, respectively. The net change in unrealized appreciation/depreciation on our investments for the year ended September 30, 2018 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, 2018, our Credit Facility and the 2023 Notes had a net change in unrealized depreciation of \$7.8 million. For the years ended September 30, 2017 and 2016, our Credit Facility had a net change in unrealized (appreciation) depreciation of \$(3.6) million and \$0.5 million. As of September 30, 2018 and 2017, our net unrealized depreciation (appreciation) on our Credit Facility and the 2023 Notes totaled \$4.7 million and \$(3.1) million, respectively. The net change in unrealized depreciation for the year ended September 30, 2018 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 \$33.5 million or \$0.87 per share, \$36.3 million or \$1.20 per share and \$33.5 million or \$1.25 per share, for the years ended September 30, 2018, 2017 and 2016, respectively. The decrease in net assets from operations for year ended September 30, 2018 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, 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, 2018, 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 200% 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 SBCAA). As a result, the asset coverage requirements applicable to us for senior securities will be



reduced from 200% to 150%, effective as of April 5, 2019, subject to compliance with certain

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disclosure requirements. As of September 30, 2018 and 2017, our asset coverage ratio, as computed in accordance with the 1940 Act, was 215% and 278%, respectively.

As of September 30, 2018, Funding I's multi-currency Credit Facility with the Lenders was \$405 million, subject to satisfaction of certain conditions and the regulatory restrictions that the 1940 Act imposes on us as a BDC, had an interest rate spread above LIBOR of 200 basis points, a maturity date of November 2022 and a revolving period ending in November 2020. As of September 30, 2018 and 2017, Funding I had \$333.7 million and \$253.8 million of outstanding borrowings under the Credit Facility, respectively. The Credit Facility had a weighted average interest rate of 4.13% and 3.18%, exclusive of the fee on undrawn commitments as of September 30, 2018 and 2017, respectively.

The annualized weighted average cost of debt for the years ended September 30, 2018, 2017 and 2016, inclusive of the fee on the undrawn commitment of 0.375% on the Credit Facility, amendment costs and debt issuance costs was 7.12%, 3.14% and 4.16%, respectively (excluding amendment and debt issuance costs, amounts are 4.05%, 3.10% and 3.51%). As of September 30, 2018 and 2017, we had \$71.3 million and \$121.2 million of unused borrowing capacity under our Credit Facility, respectively, subject to the regulatory restrictions.

On October 30, 2018, we entered into an amendment to our Credit Facility to, among other things, (i) extend the reinvestment period to October 30, 2021, (ii) extend the maturity date to October 30, 2023 and (iii) reduce the asset coverage covenant from 200% to 150%. The interest rate of LIBOR plus 200 basis points remains unchanged. On November 8, 2018, we increased the size of the Credit Facility from \$405 million to \$520 million.

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. For instance, we must maintain at least \$30 million in equity and must maintain an interest coverage ratio of at least 125%. The Credit Facility compliance reporting is prepared on a basis of accounting other than GAAP. As of September 30, 2018, 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.



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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 iIAA- 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.

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, 2018, 2017 and 2016, we issued 6.3 million, 5.8 million and zero shares, respectively. As a result, we raised approximately \$88.0 million, \$80.5 million and zero in net proceeds from issuances of our equity capital, respectively.

On September 30, 2018 and 2017, we had cash equivalents of \$72.2 million and \$18.9 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 \$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.

Our operating activities used cash of \$76.7 million for the year ended September 30, 2017, and our financing activities provided cash of \$67.1 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 net borrowings under the Credit Facility.

Our operating activities used cash of \$165.5 million for the year ended September 30, 2016, and our financing activities provided cash of \$172.8 million for the same period. Our operating activities used cash primarily for our investment activities and our financing activities provided cash primarily from net borrowings under the Credit Facility.

**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

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limited liability company. As of September 30, 2018, PSSSL had total assets of \$443.4 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 \$45.0 million. PSSSL invests in portfolio companies in the same industries in which we may directly invest. During the three months ended March 31, 2018, the terms of our debt investment in PSSSL were modified to eliminate the subordination provision and to grant us a security interest in certain assets of PSSSL.

We provide capital to PSSSL in the form of first lien secured debt and equity interests. As of September 30, 2018, 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 \$101.1 million and equity interests of \$43.3 million. As of the same date, we had commitments to fund first lien secured debt to PSSSL of \$128.6 million, of which \$27.5 million was unfunded. As of September 30, 2018, we had commitments to fund equity interests in PSSSL of \$55.1 million, of which \$11.8 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, 2018 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, 2018</b>	<b>September 30, 2017</b>
Total investments	\$ 425,420,881	\$ 99,994,314
Weighted average cost yield on income producing investments	7.8%	7.2%
Number of portfolio companies in PSSSL	42	18
Largest portfolio company investment	\$ 21,152,781	\$ 8,080,000
Total of five largest portfolio company investments	\$ 95,941,790	\$ 34,935,330

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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 <sup>(1)</sup>	Par	Cost	Fair Value <sup>(2)</sup>
<b>Investments in Non-Controlled, Non-Affiliated Portfolio Companies 830.9%</b>							
<b>First Lien Secured Debt 830.9%</b>							
Alvogen Pharma US, Inc. <sup>(3)</sup>	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	7.25%	1M L+500	9,925,000	9,832,647	9,813,344

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		Publishing					
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 <sup>(3), (4)</sup>	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. <sup>(3), (4)</sup>	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 <sup>(4)</sup>	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
	12/01/2022		6.49%	1M L+425	15,379,790	15,382,892	15,379,790



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Sonny s Enterprises, LLC		Capital Equipment					
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>						425,336,210	425,420,881
<b>Total Investments in Non-Controlled, Non-Affiliated Portfolio Companies</b>						425,336,210	425,420,881
<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>						13,520,127	13,520,760
<b>Total Investments and Cash Equivalents 857.3%</b>						\$ 438,856,337	\$ 438,941,641
<b>Liabilities in Excess of Other Assets (757.3)%</b>							(387,744,237)
<b>Members Equity 100.0%</b>							\$ 51,197,404

(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.

(2) Valued based on PSSL s accounting policy.

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(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 PSSLS individual investments as of September 30, 2017:

**PennantPark Senior Secured Loan Fund I LLC****Schedule of Investments****September 30, 2017**

<b>Issuer Name</b>	<b>Maturity</b>	<b>Industry</b>	<b>Current Coupon</b>	<b>Basis Point Spread Above Index <sup>(1)</sup></b>	<b>Par</b>	<b>Cost</b>	<b>Fair Value <sup>(2)</sup></b>
<b>Investments in Non-Controlled, Non-Affiliated Portfolio Companies</b>					<b>651.7%</b>		
<b>First Lien Secured Debt</b>					<b>674.2%</b>		
Alvogen Pharma US, Inc. <sup>(3)</sup>	04/04/2022	Healthcare and Pharmaceuticals	6.24%	L+500	5,664,954	\$ 5,597,299	\$ 5,636,629
Anvil International, LLC	08/01/2024	Construction and Building	5.50%	L+450	5,000,000	4,950,000	5,025,000
API Technologies Corp.	04/22/2022	Aerospace and Defense	7.83%	L+650	4,955,919	4,908,646	4,906,360
By Light Professional IT Services, LLC	05/16/2022	High Tech Industries	8.57%	L+725	5,961,702	5,819,267	5,961,702
Cardenas Markets LLC	11/29/2023	Beverage, Food and Tobacco	7.08%	L+575	7,500,000	7,453,125	7,425,000
Country Fresh Holdings, LLC	03/31/2023	Beverage, Food and Tobacco	6.24%	L+500	4,875,132	4,875,132	4,807,559
DigiCert Holdings, Inc.	10/31/2024	High Tech Industries	5.75%	L+475	8,000,000	7,960,000	8,080,000
DISA Global Solutions, Inc.	12/09/2020	Business Services	5.55%	L+425	4,744,586	4,732,725	4,720,863
Driven Performance Brands, Inc.	09/30/2022	Consumer Goods: Durable	6.06%	L+475	5,000,000	4,951,225	5,000,000
IGM RFE1 B.V. <sup>(3)</sup> <sup>(4)</sup>	10/12/2021	Chemicals, Plastics and Rubber	8.00%	E+800	4,937,107	5,742,092	5,836,653
Impact Sales, LLC	12/30/2021	Wholesale	8.30%	L+700	4,984,962	4,970,404	4,984,963
LSF9 Atlantis Holdings, LLC	05/01/2023	Retail	7.24%	L+600	7,453,125	7,521,186	7,468,628
Mission Critical Electronics, Inc.	09/28/2022	Capital Equipment	6.33%	L+500	4,075,442	4,050,930	4,058,871
Morphe, LLC	02/10/2023	Consumer Goods: Non-Durable	7.33%	L+600	4,875,000	4,810,511	4,801,875

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One Sixty Over Ninety, LLC	03/03/2022	Media: Advertising, Printing and Publishing	10.52%	L+918	6,000,000	5,885,356	6,000,000
Snak Club, LLC	07/19/2021	Beverage, Food and Tobacco	6.24%	L+500	4,843,745	4,843,745	4,843,745
The Infosoft Group, LLC	12/02/2021	Media: Broadcasting and Subscription	6.58%	L+525	5,530,997	5,530,997	5,530,997
VIP Cinema Holdings, Inc.	03/01/2023	Consumer Goods: Durable	7.34%	L+600	4,875,000	4,942,263	4,905,469
<b>Total First Lien Secured Debt</b>						99,544,903	99,994,314
<b>Total Investments in Non-Controlled, Non-Affiliated Portfolio Companies</b>						99,544,903	99,994,314
<b>Cash and Cash Equivalents 15.5%</b>							
BlackRock Federal FD Institutional 30						2,226,430	2,226,430
US Bank Cash						144,739	144,833
<b>Total Cash and Cash Equivalents</b>						2,371,169	2,371,263
<b>Total Investments and Cash Equivalents 667.2%</b>						\$ 101,916,072	\$ 102,365,577
<b>Liabilities in Excess of Other Assets (567.2)%</b>							(87,022,556)
<b>Members Equity 100.0%</b>							\$ 15,343,021

- (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 Euros ( ) as denoted.

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Below is the financial information for PSSSL:

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

	<b>September 30, 2018</b>	<b>September 30, 2017</b>
<b>Assets</b>		
Investments at fair value		
Non-controlled, non-affiliated investments (cost \$425,336,210 and \$99,544,903, respectively)	\$ 425,420,881	\$ 99,994,314
Cash and cash equivalents (cost \$13,520,127 and \$2,371,169, respectively)	13,520,760	2,371,263
Interest receivable	1,670,053	332,980
Prepaid expenses and other assets	2,784,477	1,131,029
<b>Total assets</b>	<b>443,396,171</b>	<b>103,829,586</b>
<b>Liabilities</b>		
Payable for investments purchased		27,095,850
PSSL Credit Facility payable	275,285,900	26,783,885
Notes payable to members	115,500,000	34,400,000
Interest payable on PSSL Credit Facility	1,065,306	97,531
Interest payable on notes to members	99,966	12,107
Accrued other expenses	247,595	97,192
<b>Total liabilities</b>	<b>392,198,767</b>	<b>88,486,565</b>
Commitments and contingencies <sup>(1)</sup>		
<b>Members equity</b>	<b>51,197,404</b>	<b>15,343,021</b>
<b>Total liabilities and members equity</b>	<b>\$ 443,396,171</b>	<b>\$ 103,829,586</b>

<sup>(1)</sup> PSSSL had no unfunded commitments as of September 30, 2018 and 2017.

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

	<b>Year Ended September 30, 2018</b>	<b>For the period May 4, 2017 (inception) through September 30, 2017</b>
<b>Investment income:</b>		
From non-controlled, non-affiliated investments:		
Interest	\$ 17,744,486	\$ 1,365,433
Other income	280,080	
<b>Total investment income</b>	<b>18,024,566</b>	<b>1,365,433</b>
<b>Expenses:</b>		
Interest and expenses on PSSL Credit Facility	7,654,035	442,554
Interest expense on notes to members	6,060,468	585,840
Administrative services expenses	650,000	67,528
Other general and administrative expenses <sup>(1)</sup>	692,736	148,936
<b>Total expenses</b>	<b>15,057,239</b>	<b>1,244,858</b>
<b>Net investment income</b>	<b>2,967,327</b>	<b>120,575</b>
<b>Realized and unrealized gain on investments and credit facility foreign currency translations:</b>		
Net realized gain on investments	111,215	100,920
Net change in unrealized (depreciation) appreciation on:		
Non-controlled, non-affiliated investments	(364,201)	449,505
Credit facility foreign currency translations	882,899	(70,836)
<b>Net change in unrealized (depreciation) appreciation on investments and credit facility foreign currency translations</b>	<b>518,698</b>	<b>378,669</b>
<b>Net realized and unrealized gain from investments and credit facility foreign currency translations</b>	<b>629,913</b>	<b>479,589</b>
<b>Net increase in members equity resulting from operations</b>	<b>\$ 3,597,240</b>	<b>\$ 600,164</b>

<sup>(1)</sup> 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**

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A summary of our significant contractual payment obligations at cost as of September 30, 2018, including borrowings under our Credit Facility, the 2023 Notes and other contractual obligations, is as follows:

	Total	Payments due by period (millions)			
		Less than 1 year	1-3 years	3-5 years	More than 5 years
Credit Facility	\$ 332.1	\$	\$	\$ 332.1	\$
2023 Notes	135.5		20.3	40.7	74.5
Total debt outstanding <sup>(1)</sup>	\$ 467.6	\$	\$ 20.3	\$ 372.8	\$ 74.5
Unfunded commitments to PSSL	39.4				39.4
Unfunded investments <sup>(2)</sup>	79.4	0.1	7.2	49.0	23.1
Total contractual obligations	\$ 586.4	\$ 0.1	\$ 27.5	\$ 421.8	\$ 137.0

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- (1) The annualized weighted average cost of debt as of September 30, 2018, excluding amendment costs and debt issuance costs, was 4.25% 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 2018, 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 2018, 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, 2018, 2017 and 2016, we declared distributions of \$1.14, \$1.14 and \$1.14 per share, respectively, for total distributions of \$43.6 million, \$34.8 million and \$30.5 million,



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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.

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 equal to the fair market value of the stock paid by us plus cash received with respect to such dividend. We have not elected to distribute stock as a dividend but reserve the right to do so.

## **Recent Accounting Pronouncements**

In May 2014, the FASB issued guidance to establish a comprehensive and converged standard on revenue recognition to enable financial statement users to better understand and consistently analyze an entity's revenue across industries, transactions, and geographies. An amended guidance defers the effective date of the new guidance to interim reporting periods within annual reporting periods beginning after December 15, 2017. Public business entities are permitted to apply this guidance early, but not before the original effective date (i.e., interim periods within annual periods beginning after December 15, 2016). The Company has evaluated this guidance and determined it will not have a material impact on its financial statements.

## **Recent Developments**

On October 30, 2018, we entered into an amendment to our Credit Facility to, among other things, (i) extend the reinvestment period to October 30, 2021, (ii) extend the maturity date to October 30, 2023 and (iii) reduce the asset coverage covenant from 200% to 150%. The interest rate of LIBOR plus 200 basis points remains unchanged. On November 8, 2018, we increased the size of the Credit Facility from \$405 million to \$520 million.

## **Quantitative And Qualitative Disclosures About Market Risk**

We are subject to financial market risks, including changes in interest rates. As of September 30, 2018, our debt portfolio consisted of 100% 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

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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.

<b>Change In Interest Rates</b>	<b>Change In Interest Income, Net Of Interest Expense (in thousands)</b>	<b>Change In Interest Income, Net Of Interest Expense Per Share</b>
Down 1%	\$ (6,033)	\$ (0.16)
Up 1%	\$ 6,033	\$ 0.16
Up 2%	\$ 12,066	\$ 0.31
Up 3%	\$ 18,253	\$ 0.47
Up 4%	\$ 24,465	\$ 0.63

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 prospectus, we did not engage in interest rate hedging activities or foreign currency derivatives hedging activities.

**Table of Contents****SENIOR SECURITIES**

Information about our senior securities shown in the following table as of September 30, 2018, 2017, 2016, 2015, 2014, 2013, 2012 and 2011 is from our Consolidated Financial Statements which have been audited by an independent registered public accounting firm for those periods. This information about our senior securities 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 for more information.

<b>Class and Year</b>	<b>Total Amount Outstanding<sup>(1)</sup></b>	<b>Asset Coverage per Unit<sup>(2)</sup></b>	<b>Average Market Value Per Unit<sup>(3)</sup></b>
<b>Credit Facility and 2023 Notes</b>			
Fiscal 2018	\$ 472,307	\$ 2,146	N/A
Fiscal 2017	\$ 253,783	\$ 2,783	N/A
Fiscal 2016	\$ 232,908	\$ 2,618	N/A
Fiscal 2015	\$ 29,600	\$ 13,598	N/A
Fiscal 2014	\$ 146,400	\$ 2,460	N/A
Fiscal 2013	\$ 99,600	\$ 3,109	N/A
Fiscal 2012	\$ 75,500	\$ 2,275	N/A
Fiscal 2011	\$ 24,650	\$ 4,735	N/A

- (1) Total cost of each class of senior securities outstanding at the end of the period presented in thousands (000s). As of September 30, 2018, 2017, 2016, 2015, 2014, 2013, 2012 and 2011, the fair value of our senior securities outstanding presented in thousands (000s) was \$467,632, \$256,858, \$232,389, \$29,600, \$146,949, \$99,600, \$75,123 and \$24,650, respectively.
- (2) The asset coverage ratio for a class of senior securities representing indebtedness is calculated as our consolidated total assets, less all liabilities and indebtedness not represented by senior securities, divided by senior securities representing indebtedness. This asset coverage ratio is multiplied by \$1,000 to determine the Asset Coverage Per Unit.
- (3) Not applicable, as senior securities are not registered for public trading in the United States of America.

Table of Contents**PRICE RANGE OF COMMON STOCK**

Our common stock is traded on the NASDAQ Global Select Market and the TASE under the symbol PFLT. The following table lists the high and low closing sale prices for our common stock, the closing sale prices as a premium or (discount) to our NAV per share and distributions per share on the NASDAQ Global Select Market since October 1, 2016. On December 6, 2018, the last reported closing price of our common stock on the NASDAQ Global Select Market was \$12.63 per share.

Period	NAV (1)	Closing Sales Price on NASDAQ High	Closing Sales Price on NASDAQ Low	Premium / (Discount) of High Sales Price to NAV (2)	Premium / (Discount) of Low Sales Price to NAV (2)	Distributions Declared
<b>Fiscal Year Ending September 30, 2019</b>						
First quarter (through December 6, 2018)	\$ N/A	\$ 13.34	\$ 12.61	N/A%	N/A%	\$ 0.285 <sup>(3)</sup>
<b>Fiscal Year Ended September 30, 2018</b>						
Fourth quarter	13.82	13.83	13.15	0	(5)	0.285
Third quarter	13.82	14.10	13.08	2	(5)	0.285
Second quarter	13.98	13.85	12.19	(1)	(13)	0.285
First quarter	13.86	14.61	13.72	5	(1)	0.285
<b>Fiscal Year Ended September 30, 2017</b>						
Fourth quarter	14.10	14.48	13.96	3	(1)	0.285
Third quarter	14.05	14.25	13.61	1	(3)	0.285
Second quarter	14.05	14.17	13.42	1	(4)	0.285
First quarter	14.11	14.17	12.44		(12)	0.285

- (1) NAV per share is determined as of the last day in the relevant quarter and therefore may not reflect the NAV per share on the date of the high and low sales prices. The NAVs shown are based on outstanding shares at the end of each period.
- (2) Calculated as the respective high or low closing sales price less NAV per share, divided by the quarter-end NAV per share.
- (3) Includes a dividend of \$0.095 per share payable on January 2, 2019 to stockholders of record as of December 19, 2018.

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 \$13.15 and \$14.48 on September 30, 2018 and 2017, respectively. Our NAV per share was \$13.82 and \$14.10 for the same periods. 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 30, 2018 we had 42 stockholders of record.



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**SALES OF COMMON STOCK BELOW NET ASSET VALUE**

Our stockholders may approve our ability to sell shares of our common stock below our then current NAV per share in one or more public offerings of our common stock. In making a determination that an offering below NAV per share is in our and our stockholders' best interests, our board of directors, a majority of our directors who have no financial interest in the sale and a majority of our independent directors considered a variety of factors, including:

The effect that an offering below NAV per share would have on our stockholders, including the potential dilution they would experience as a result of the offering;

The amount per share by which the offering price per share and the net proceeds per share are less than the most recently determined NAV per share;

The relationship of recent market prices of our common stock to NAV per share and the potential impact of the offering on the market price per share of our common stock;

Whether the estimated offering price would closely approximate the market value of our shares, less distributing commissions or discounts, and would not be below current market price;

The potential market impact of being able to raise capital in the current financial market;

The nature of any new investors anticipated to acquire shares in the offering;

The anticipated rate of return on and quality, type and availability of investments;

The leverage available to us both before and after the offering and other borrowing terms; and

The potential investment opportunities available relative to the potential dilutive effect of additional capital at the time of the offering.

Our board of directors will also consider the fact that a sale of shares of common stock at a discount will benefit our Investment Adviser, as the Investment Adviser will earn additional investment management fees on the proceeds of such offerings, as it would from the offering of any other securities of PennantPark Floating Rate Capital Ltd. or from the offering of common stock at a premium to NAV per share.

Sales by us of our common stock at a discount from NAV pose potential risks for our existing stockholders whether or not they participate in the offering, as well as for new investors who participate in the offering.

We will not seek to sell shares under a prospectus supplement to the registration statement, or a post-effective amendment to the registration statement, of which this prospectus forms a part (the current registration statement ) if the cumulative dilution to our NAV per share arising from offerings from the effective date of the current registration statement through and including any follow-on offering would exceed 15% based on the anticipated pricing of such follow-on offering. This limit would be measured separately for each offering pursuant to the current registration statement by calculating the percentage dilution or accretion to aggregate NAV from that offering and then summing the anticipated percentage dilution from each subsequent offering. For example, if our most recently determined NAV per share at the time of the first offering is \$10.00, and we have 100 million shares outstanding, the sale of an additional 25 million shares at net proceeds to us of \$5.00 per share (a 50% discount) would produce dilution of 10.0%. If we subsequently determined that our NAV per share increased to \$11.00 on the then outstanding 125 million shares and contemplated an additional offering, we could, for example, propose to sell approximately 31.25 million additional shares at a price that would be expected to yield net proceeds to us of \$8.25 per share, resulting in incremental dilution of 5.0%, before we would reach the aggregate 15% limit. If we file a new post-effective amendment, the threshold would reset.

The following three headings and accompanying tables explain and provide hypothetical examples assuming proceeds are temporarily invested in cash equivalents on the impact of an offering at a price less than NAV per share on three different sets of investors:

existing stockholders who do not purchase any shares in the offering;



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existing stockholders who purchase a relatively small amount of shares in the offering or a relatively large amount of shares in the offering; and

new investors who become stockholders by purchasing shares in the offering.

**Impact on Existing Stockholders who do not Participate in the Offering**

Our existing stockholders who do not participate, or who are not given the opportunity to participate, in an offering below NAV per share or who do not buy additional shares in the secondary market at the same or lower price we obtain in the offering (after any underwriting discounts and commissions) face the greatest potential risks. All stockholders will experience an immediate decrease (often called dilution) in the NAV of the shares they hold. Stockholders who do not participate in the offering will also experience a disproportionately greater decrease in their participation in our earnings and assets and their voting power than stockholders who do participate in the offering. All stockholders may also experience a decline in the market price of their shares, which often reflects, to some degree, announced or potential increases and decreases in NAV per share. This decrease could be more pronounced as the size of the offering and level of discounts increase.

The following examples illustrate the level of NAV dilution that would be experienced by a nonparticipating stockholder in three different hypothetical common stock offerings of different sizes and levels of discount from NAV per share, although it is not possible to predict the level of market price decline that may occur. Actual sales prices and discounts may differ from the presentation below.

The examples assume that Company XYZ has 1,000,000 shares of common stock outstanding, \$15.0 million in total assets and \$5.0 million in total liabilities. The current NAV and NAV per share are thus \$10.0 million and \$10.00, respectively. The table below illustrates the dilutive effect on nonparticipating stockholder A of (1) an offering of 50,000 shares (5% of the outstanding shares) at \$9.50 per share after any underwriting discounts and commissions (a 5% discount from NAV); (2) an offering of 100,000 shares (10% of the outstanding shares) at \$9.00 per share after any underwriting discounts and commissions (a 10% discount from NAV); and (3) an offering of 250,000 shares (25% of the outstanding shares) at \$7.50 per share after any underwriting discounts and commissions (a 25% discount from NAV).

		<b>Example 1 5% Offering at 5% Discount</b>		<b>Example 2 10% Offering at 10% Discount</b>		<b>Example 3 25% Offering at 25% Discount</b>	
	<b>Prior to Sale Below NAV</b>	<b>Following Sale</b>	<b>% Change</b>	<b>Following Sale</b>	<b>% Change</b>	<b>Following Sale</b>	<b>% Change</b>
<b>Offering Price</b>							
Price per share to public		\$ 10.00		\$ 9.47		\$ 7.89	
Net offering proceeds per share to issuer		\$ 9.50		\$ 9.00		\$ 7.50	
<b>Decrease to NAV</b>							
Total shares outstanding	1,000,000	1,050,000	5.00%	1,100,000	10.00%	1,250,000	25.00%

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NAV per share	\$ 10.00	\$ 9.98	(0.20)%	\$ 9.91	(0.90)%	\$ 9.50	(5.00)%
<b><i>Dilution to Stockholder A</i></b>							
Shares held by stockholder A	10,000	10,000		10,000		10,000	
Percentage held by stockholder A	1.00%	0.95%	(5.00)%	0.91%	(9.00)%	0.80%	(20.00)%
<b>Total Asset Values</b>							
Total NAV held by stockholder A	\$ 100,000	\$ 99,800	(0.20)%	\$ 99,100	(0.90)%	\$ 95,000	(5.00)%
Total investment by stockholder A (assumed to be \$10.00 per share)	\$ 100,000	\$ 100,000		\$ 100,000		\$ 100,000	
Total dilution to stockholder A (total NAV less total investment)		\$ (200)		\$ (900)		\$ (5,000)	

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	Example 1 5% Offering at 5% Discount			Example 2 10% Offering at 10% Discount		Example 3 25% Offering at 25% Discount	
	Prior to Sale Below NAV	Following Sale	% Change	Following Sale	% Change	Following Sale	% Change
<b>Per Share Amounts</b>							
NAV per share held by stockholder A		\$ 9.98		\$ 9.91		\$ 9.50	
Investment per share held by stockholder A (assumed to be \$10.00 per share on shares held prior to sale)	\$ 10.00	\$ 10.00		\$ 10.00		\$ 10.00	
Dilution per share held by stockholder A (NAV per share less investment per share)		\$ (0.02)		\$ (0.09)		\$ (0.50)	
Percentage dilution to stockholder A (dilution per share divided by investment per share)			(0.20)%		(0.90)%		(5.00)%

***Impact on Existing Stockholders who Participate in the Offering***

Our existing stockholders who participate in an offering below NAV per share or who buy additional shares in the secondary market at the same or lower price as we obtain in the offering (after any underwriting discounts and commissions) will experience the same types of NAV dilution as the nonparticipating stockholders, albeit at a lower level, to the extent they purchase less than the same percentage of the offering below NAV as their interest in our shares immediately prior to the offering. The level of NAV dilution on an aggregate basis will decrease as the number of shares such stockholders purchase increases. Existing stockholders who buy more than such percentage will experience NAV dilution but will, in contrast to existing stockholders who purchase less than their proportionate share of the offering, experience an increase (often called accretion) in NAV per share over their investment per share and will also experience a disproportionately greater increase in their participation in our earnings and assets and their voting power than our increase in assets, potential earning power and voting interests due to the offering. The level of accretion will increase as the excess number of shares such stockholder purchases increases. Even a stockholder who over-participates will, however, be subject to the risk that we may make additional offerings below NAV in which such stockholder does not participate, in which case such a stockholder will experience NAV dilution as described above in such subsequent offerings. These stockholders may also experience a decline in the market price of their shares, which often reflects to some degree announced or potential increases and decreases in NAV per share. This decrease could be more pronounced as the size of the offering and level of discount to NAV increases.

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The examples assume that Company XYZ has 1,000,000 shares of common stock outstanding, \$15.0 million in total assets and \$5.0 million in total liabilities. The current NAV and NAV per share are thus \$10.0 million and \$10.00, respectively. The table below illustrates the (dilutive) and accretive effect in the hypothetical offering of 25% of the shares outstanding at a 25% discount to NAV from the prior chart for stockholder A that acquires shares equal to (1) 50% of their proportionate share of the offering (i.e. 1,250 shares which is 0.50% of the offering of 250,000 shares rather than their 1.00% proportionate share) and (2) 150% of their proportionate share of the offering (i.e. 3,750 shares which is 1.50% of the offering of 250,000 shares rather than their 1.00% proportionate share).

	Prior to Sale Below NAV	50% Participation Following Sale	% Change	150% Participation Following Sale	% Change
<b>Offering Price</b>					
Price per share to public		\$ 7.89		\$ 7.89	
Net proceeds per share to issuer		\$ 7.50		\$ 7.50	
<b>Increases in Shares and Decrease to NAV</b>					
Total shares outstanding	1,000,000	1,250,000	25.00%	1,250,000	25.00%
NAV per share	\$ 10.00	\$ 9.50	(5.00)%	\$ 9.50	(5.00)%
<b>(Dilution)/Accretion to Participating Stockholder A</b>					
Shares held by stockholder A	10,000	11,250	12.50%	13,750	37.50%
Percentage held by stockholder A	1.00%	0.90%	(10.00)%	1.10%	10.00%
<b>Total Asset Values</b>					
Total NAV held by stockholder A	\$ 100,000	\$ 106,875	6.88%	\$ 130,625	30.63%
Total investment by stockholder A (assumed to be \$10.00 per share on shares held prior to sale)	\$ 100,000	\$ 109,863	9.86%	\$ 129,588	29.59%
Total (dilution)/accretion to stockholder A (total NAV less total investment)		(2,988)		\$ 1,037	
<b>Per Share Amounts</b>					
NAV per share held by stockholder A		\$ 9.50		\$ 9.50	
Investment per share held by stockholder A (assumed to be \$10.00 per share on shares held prior to sale)	\$ 10.00	\$ 9.77	(2.30)%	\$ 9.42	(5.80)%
(Dilution)/accretion per share held by stockholder A (NAV per share less investment per share)		\$ (0.27)		\$ 0.08	
Percentage (dilution)/accretion to stockholder A ((dilution)/accretion per share divided by investment per share)			(2.76)%		0.85%
<b>Impact on New Investors</b>					

The following examples illustrate the level of NAV dilution or accretion that would be experienced by a new stockholder in three different hypothetical common stock offerings of different sizes and levels of discount from NAV per share, although it is not possible to predict the level of market price decline that may occur. Actual sales prices and

discounts may differ from the presentation below.

Investors who are not currently stockholders, but who participate in an offering below NAV and whose investment per share is greater than the resulting NAV per share due to any underwriting discounts and commissions paid by us will experience an immediate decrease, albeit small, in the NAV of their shares and their NAV per share compared to the price they pay for their shares. Investors who are not currently stockholders and who participate in an offering below NAV per share and whose investment per share is also less than the resulting NAV per share due to any underwriting discounts and commissions paid by us being significantly less than the discount per share, will experience an immediate increase in the NAV of their shares and their NAV per share compared to the price they pay for their shares. All these investors will experience a disproportionately greater participation in our earnings and assets and their voting power than our increase in assets, potential earning power and voting interests. These investors will, however, be subject to the risk that we may make additional offerings below NAV in which such new stockholder does not participate, in which case such new

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stockholder will experience dilution as described above in such subsequent offerings. These investors may also experience a decline in the market price of their shares, which often reflects to some degree announced or potential increases and decreases in NAV per share. Their decrease could be more pronounced as the size of the offering and level of discounts increases.

The following examples illustrate the level of NAV dilution or accretion that would be experienced by a new stockholder who purchases the same percentage (1.00%) of the shares in the three different hypothetical offerings of common stock of different sizes and levels of discount from NAV per share. The examples assume that Company XYZ has 1,000,000 shares of common stock outstanding, \$15.0 million in total assets and \$5.0 million in total liabilities. The current NAV and NAV per share are thus \$10.0 million and \$10.00, respectively. The table below illustrates the (dilutive) and accretive effects on a stockholder A at (1) an offering of 50,000 shares (5% of the outstanding shares) at \$9.50 per share after any underwriting discounts and commissions (a 5% discount from NAV); (2) an offering of 100,000 shares (10% of the outstanding shares) at \$9.00 per share after any underwriting discounts and commissions (a 10% discount from NAV); and (3) an offering of 250,000 shares (25% of the outstanding shares) at \$7.50 per share after any underwriting discounts and commissions (a 25% discount from NAV).

	<b>Example 1 5% Offering at 5% Discount</b>			<b>Example 2 10% Offering at 10% Discount</b>		<b>Example 3 25% Offering at 25% Discount</b>	
	<b>Prior to Sale</b>						
	<b>Below NAV</b>	<b>Following Sale</b>	<b>% Change</b>	<b>Following Sale</b>	<b>% Change</b>	<b>Following Sale</b>	<b>% Change</b>
<b>Offering Price</b>							
Price per share to public		\$ 10.00		\$ 9.47		\$ 7.89	
Net offering proceeds per share to issuer		\$ 9.50		\$ 9.00		\$ 7.50	
<b>Decrease to NAV</b>							
Total shares outstanding		1,050,000	5.00%	1,100,000	10.00%	1,250,000	25.00%
NAV per share		\$ 9.98	(0.20)%	\$ 9.91	(0.90)%	\$ 9.50	(5.00)%
<b>Dilution to Stockholder A</b>							
Shares held by stockholder A		500		1,000		2,500	
Percentage held by stockholder A		0.05%		0.90%		0.20%	
<b>Total Asset Values</b>							
Total NAV held by stockholder A		\$ 4,990		\$ 9,910		\$ 23,750	
Total investment by stockholder A		\$ 5,000		\$ 9,470		\$ 19,725	
Total (dilution)/accretion to stockholder A (total NAV less total investment)		\$ (10)		\$ 440		\$ 4,025	
<b>Per Share Amounts</b>							

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NAV per share held by stockholder A	\$ 9.98	\$ 9.91	\$ 9.50
Investment per share held by stockholder A	\$ 10.00	\$ 9.47	\$ 7.89
(Dilution)/accretion per share held by stockholder A (NAV per share less investment per share)	\$ (0.02)	\$ 0.44	\$ 1.61
Percentage (dilution)/accretion to stockholder A ((dilution)/accretion per share divided by investment per share)	(0.20)%	4.65%	20.41%

**Table of Contents****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. The following table reflects the cash distributions per share that we have declared on our common stock since October 1, 2016.

<b>Record Dates</b>	<b>Payment Dates</b>	<b>Distributions Declared</b>
<b>Fiscal Year Ending September 30, 2019</b>		
December 19, 2018	January 2, 2019	\$ 0.095
November 20, 2018	December 3, 2018	0.095
October 17, 2018, October 18, 2018	November 1, 2018	0.095
<b>Total</b>		<b>\$ 0.285</b>
<b>Year Ended September 30, 2018</b>		
September 17, 2018, September 18, 2018	October 2, 2018	\$ 0.095
August 21, 2018, August 22, 2018	September 4, 2018	0.095
July 18, 2018, July 19, 2018	August 1, 2018	0.095
June 18, 2018	July 2, 2018	0.095
May 18, 2018	June 1, 2018	0.095
April 17, 2018	May 1, 2018	0.095
March 19, 2018	April 2, 2018	0.095
February 16, 2018	March 1, 2018	0.095
January 18, 2018	February 1, 2018	0.095
December 26, 2017	January 2, 2018	0.095
November 17, 2017	December 1, 2017	0.095
October 19, 2017	November 1, 2017	0.095
<b>Total</b>		<b>\$ 1.140</b>
<b>Year Ended September 30, 2017</b>		
September 20, 2017	October 2, 2017	\$ 0.095
August 18, 2017	September 1, 2017	0.095
July 20, 2017	August 1, 2017	0.095
June 21, 2017	July 3, 2017	0.095
May 19, 2017	June 1, 2017	0.095
April 19, 2017	May 1, 2017	0.095
March 22, 2017	April 3, 2017	0.095
February 17, 2017	March 1, 2017	0.095
January 20, 2017	February 1, 2017	0.095
December 22, 2016	January 3, 2017	0.095



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November 18, 2016	December 1, 2016	0.095
October 20, 2016	November 1, 2016	0.095
<b>Total</b>		<b>\$ 1.140</b>

In January 2019, 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.

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The tax characteristics of distributions declared, in accordance with Section 19(a) of the 1940 Act, during the years ended September 30, 2018 and 2017 from ordinary income (including short-term gains), if any, totaled \$42.8 million and \$34.8 million, or \$1.14 and \$1.15 per share, respectively, based on the weighted average shares outstanding for the respective periods. Additionally, for the year ended September 30, 2018, we had long-term capital gain distributions of \$0.8 million, or \$0.02 per share, 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.

**Sale of Unregistered Securities**

We did not engage in any sales of unregistered securities during the fiscal year ended September 30, 2018.

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**BUSINESS**

**Pennant Park Floating Rate Capital Ltd.**

PennantPark Floating Rate Capital Ltd. is a BDC whose objectives are to generate 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 and the potential for rising interest rates. 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 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 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.

**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

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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 \$8.3 billion in 496 companies with approximately 180 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 SEC. The Administrator assists in the determination and publication of our 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 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. 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.

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### **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 Objectives and Policies](#) [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.



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### ***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 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 November 30, 2018, 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 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 \$333.7 million outstanding as of September 30, 2018. The Credit Facility had a weighted average interest rate of 4.25% and 3.18%, exclusive of the fee on undrawn commitments as of September 30, 2018 and 2017, respectively. As of September 30, 2018 and 2017, we had \$71.3 million and \$121.2 million, respectively, of unused borrowing capacity under our Credit Facility, subject to regulatory restrictions. We believe that our capital resources 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 70% and 90% of our net assets, or 40% to 50% 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.

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As of September 30, 2018 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.

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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 requirements applicable to us for senior securities will be reduced from 200% to 150%, 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.

**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.

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**INVESTMENT OBJECTIVES AND POLICIES**

**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 Objectives and Policies 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 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 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 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

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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.



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***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 independent auditors 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

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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 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 on 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.

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### **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.

Under normal market conditions, we expect that at least 80% of the value of our Managed Assets will be invested in Floating Rate Loans and other instruments bearing a variable rate of interest which may, from time to time, include variable rate derivative instruments. This policy is not fundamental and may be changed by our board of directors with at least 60 days prior written notice provided to stockholders.

While our investment objectives are to seek high current income and capital appreciation through investments in Floating Rate Loans, we may invest up to 35% of the portfolio in opportunistic investments. These investments may include investments in second-lien secured debt and subordinated debt, high yield, mezzanine and distressed debt securities and, to a lesser extent equity investments and securities of companies located outside of the United States. We expect that these public foreign companies generally will have debt securities that are non-investment grade.

#### ***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.

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***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:

<b>Portfolio Company</b>	<b>2018<sup>(1)</sup></b>	<b>Portfolio Company</b>	<b>2017<sup>(1)</sup></b>
Beauty Industry Group Opco, LLC	4%	Montreign Operating Company, LLC	4%
Integrative Nutrition, LLC	4	Advanced Cable Communications, LLC	3
Credit Infonet, Inc.	3	By Light Professional IT Services, LLC	3
Education Networks of America, Inc.	3	Country Fresh Holdings, LLC	3
Montreign Operating Company, LLC	3	East Valley Tourist Development Authority	3
Research Now Group, Inc. and Survey Sampling International LLC	3	Marketplace Events LLC	3
Tensar Corporation	3	Pathway Partners Vet Management Company LLC	3
East Valley Tourist Development Authority	2	Salient CRGT Inc.	3
Morphe, LLC	2	DecoPac, Inc.	2
NextiraOne Federal, LLC	2	LSF9 Atlantis Holdings, LLC	2





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<b>Industry</b>	<b>2018<sup>(1)</sup></b>	<b>Industry</b>	<b>2017<sup>(1)</sup></b>
Consumer Goods: Non-Durable	11%	High Tech Industries	10%
High Tech Industries	10	Healthcare and Pharmaceuticals	9
Business Services	8	Consumer Goods: Non-Durable	8
Beverage, Food and Tobacco	7	Hotel, Gaming and Leisure	8
Aerospace and Defense	6	Beverage, Food and Tobacco	7
Hotel, Gaming and Leisure	6	Telecommunications	7
Telecommunications	6	Consumer Goods: Durable	6
Capital Equipment	5	Aerospace and Defense	5
Consumer Goods: Durable	5	Capital Equipment	5
Healthcare and Pharmaceuticals	5	Wholesale	5

(1) Excludes investments in PSSSL.

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.

**Table of Contents****PORTFOLIO COMPANIES**

The following is a listing of each portfolio company or its affiliate, together referred to as portfolio companies, in which we had an investment as of September 30, 2018. Percentages shown for class of investment securities held by us represent percentage of voting ownership and not economic ownership. Percentages shown for equity securities, other than warrants or options held, if any, represent the actual percentage of the class of security held before dilution. For additional information see our Consolidated Schedule of Investments in our Consolidated Financial Statements included elsewhere in this prospectus.

The portfolio companies are presented in three categories: Companies less than 5% owned which represent portfolio companies where we directly or indirectly own less than 5% of the outstanding voting securities of such portfolio company and where we have no other affiliations with such portfolio company; Companies 5% to 24% owned which represent portfolio companies where we directly or indirectly own 5% or more but less than 25% of the outstanding voting securities of such portfolio company and, therefore, are deemed to be an affiliated person under the 1940 Act; and Companies 25% or more owned which represent portfolio companies where we directly or indirectly own 25% or more of the outstanding voting securities of such portfolio company and, therefore, are presumed to be controlled by us under the 1940 Act. We make available significant managerial assistance to our portfolio companies. Certain assets are pledged as collateral under our Credit Facility as disclosed in our Consolidated Schedule of Investments. Unless otherwise noted, we held no voting board membership on any of our portfolio companies.

Name and Address of Portfolio Company	Nature of Business	Type of Investment, Interest <sup>(1)</sup> , Maturity	Voting Percentage Ownership <sup>(2)</sup> (in thousands)	Fair Value
<b>Companies Less than 5% Owned</b>				
Affinion Group Holdings, Inc. 100 Connecticut Avenue Norwalk, CT 06850	Consumer Goods: Durable	Common Equity	1.0%	\$ 2,093
Alera Group Intermediate Holdings, Inc. 3 Parkway North, Suite 500 Deerfield, IL 60015	Banking, Finance, Insurance and Real Estate	First Lien Secured Debt, 1M L+450, 08/01/2025		10,100
Allied America, Inc. (CI (Allied) Investment Holdings, LLC) One North LaSalle Street Chicago, IL 60602	Business Services	First Lien Secured Debt, 3M L+700, 08/08/2022  Common Equity <sup>(5)</sup>	2.0%	2,647
				5,770

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American Auto Auction Group, LLC 10333 N. Meridian, Suite 200 Indianapolis, IN 46290	Transportation: Consumer	First Lien Secured Debt, 3M L+525, 11/30/2021	
American Scaffold 3210 Commercial Street San Diego, CA 92113	Aerospace and Defense	First Lien Secured Debt, 3M L+650, 03/31/2022	4,455
American Teleconferencing Services, Ltd. 3280 Peachtree Road, NE Atlanta, GA 30305	Telecommunications	First Lien Secured Debt, 3M L+650, 12/08/2021	9,716
API Technologies Corp. 4705 S. Apopka Vineland Rd., Suite 210 Orlando, FL 32819	Aerospace and Defense	First Lien Secured Debt <sup>(4)</sup> , 1M L+600, 04/22/2024	4,928
Beauty Industry Group Opco, LLC 631 N 400 West Salt Lake City, UT 84103	Consumer Goods: Non-Durable	First Lien Secured Debt, 1M L+475, 04/06/2023	32,883
BEI Precision Systems & Space Company, Inc. 1100 Murphy Drive Maumelle, AR 72113	Aerospace and Defense	First Lien Secured Debt, 3M L+550, 04/28/2023	11,732

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<b>Name and Address of Portfolio Company</b>	<b>Nature of Business</b>	<b>Type of Investment, Interest<sup>(1)</sup>, Maturity</b>	<b>Voting Percentage Ownership<sup>(2)</sup></b>	<b>Fair Value (in thousands)</b>
By Light Professional IT Services, LLC  (By Light Investco LP)  3101 Wilson Boulevard, Suite 850  Arlington, VA 22201	High Tech Industries	First Lien Secured Debt <sup>(4)</sup> , 3M L+725, 05/16/2022  Common Equity <sup>(4)(5)</sup>	2.9%	19,881
Cadence Aerospace, LLC  610 Newport Center Drive, Suite 950  Newport Beach, CA 92660	Aerospace and Defense	First Lien Secured Debt, 3M L+650, 11/14/2023		10,937
Camín Cargo Control, Inc.  230 Marion Avenue  Linden, NJ 07036	Transportation: Cargo	First Lien Secured Debt, 1M L+475, 06/30/2021		2,322
Cardenas Markets LLC  2501 East Guasti Road  Ontario, CA 91761	Beverage, Food and Tobacco	First Lien Secured Debt, 1M L+575, 11/29/2023		3,874
CD&R TZ Purchaser, Inc.  2200 Fletcher Avenue  Fort Lee, NJ 07024	Consumer Goods: Durable	First Lien Secured Debt, 3M L+600, 07/21/2023		15,838
CHA Holdings, Inc.  575 Broadway, Suite 301  Albany, NY 12207	Environmental Industries	First Lien Secured Debt <sup>(4)</sup> , 3M L+450, 04/10/2025		6,183
Challenger Performance Optimization, Inc.  1201 Wilson Blvd.  Arlington, VA 22209	Business Services	First Lien Secured Debt <sup>(4)</sup> , 1M L+575, 08/31/2023		420
Chicken Soup for the Soul	Media:	First Lien Secured Debt,		3,995

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Publishing, LLC 21 Hedgerow Lane Greenwich, CT 06831	Advertising, Printing and Publishing	1M L+625, 01/08/2019		
Condor Borrower, LLC (Condor Holdings Limited <sup>(3)</sup> ) (Condor Top Holdco Limited <sup>(3)</sup> ) 5 Becker Farm Road Roseland, NJ 07068	High Tech Industries	Second Lien Secured Debt, 3M L+875, 04/25/2025  Preferred Equity	1.3%	2,088
Country Fresh Holdings, LLC 15479 Pin Oaks Drive Conroe, TX 77384	Beverage, Food and Tobacco	First Lien Secured Debt, 3M L+500, 03/31/2023		17,195
Credit Infonet, Inc. 4540 Honeywell Court Dayton, OH 45424	High Tech Industries	First Lien Secured Debt <sup>(4)</sup> , 6M L+600, 03/13/2023		26,713
DBI Holding LLC 100 North Conahan Drive Hazleton, PA 18201	Business Services	First Lien Secured Debt, 1M L+525, 08/02/2021		17,395
DecoPac, Inc. (DecoPac Holdings Inc.) 3500 Thurston Avenue Anoka, MN 55303	Beverage, Food and Tobacco	Second Lien Secured Debt, 3M L+825, 03/31/2025  Common Equity	1.0%	13,314
Deva Holdings, Inc. 75 Spring Street, Floor 8 New York, NY 10012	Consumer Goods: Non-Durable	First Lien Secured Debt <sup>(4)</sup> , 3M L+550, 10/31/2023		7,344
Digital Room Holdings, Inc. 8000 Haskell Ave. Van Nuys, CA 91406	Media: Advertising, Printing and Publishing	First Lien Secured Debt, 1M L+500, 12/29/2023		16,192



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<b>Name and Address of Portfolio Company</b>	<b>Nature of Business</b>	<b>Type of Investment, Interest<sup>(1)</sup>, Maturity</b>	<b>Voting Percentage Ownership<sup>(2)</sup> (in thousands)</b>	<b>Fair Value</b>
Douglas Products and Packaging Company LLC 1550 East Old 210 Highway Liberty, MO 64068	Chemicals, Plastics and Rubber	First Lien Secured Debt <sup>(4)</sup> , 3M L+575, 03/29/2022		14,312
Driven Performance Brands, Inc. 100 Stony Point Rd., Suite 125 Santa Rosa, CA 95401	Consumer Goods: Durable	First Lien Secured Debt <sup>(4)</sup> , 2M L+475, 09/30/2022		10,085
East Valley Tourist Development Authority 84245 Indio Springs Dr. Indio, CA 92203	Hotel, Gaming and Leisure	First Lien Secured Debt, 3M L+800, 03/07/2022		20,173
Education Networks of America, Inc. 618 Grassmere Park Drive Suite 12 Nashville, TN 37211	Telecommunications	First Lien Secured Debt <sup>(4)</sup> , 1M L+700, 05/06/2021		22,047
Efficient Collaborative Retail Marketing Company, LLC 27070 Miles Road, Suite A Solon, OH 44139	Media: Diversified and Production	First Lien Secured Debt, 3M L+675, 06/15/2022		9,285
ENC Holding Corporation 100-110 West Columbia Street Schuylkill Haven, PA 17972	Transportation: Cargo	First Lien Secured Debt <sup>(4)</sup> , , 05/30/2025		(2)
Faraday Holdings, LLC 1630 Faraday Avenue Carlsbad, CA 92008	Construction and Building	Common Equity	0.1%	306



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GCOM Software LLC (GCOM InvestCo LP) 24 Madison Avenue (Extension 4) Albany, NY 12203	High Tech Industries	First Lien Secured Debt <sup>(4)</sup> , , 11/14/2022  Common Equity <sup>(4)(5)</sup>	3.1%	1,048
GSM Holdings, Inc. 3385 Roy Orr Blvd., Suite B Grand Prairie, TX 75050	Consumer Goods: Durable	First Lien Secured Debt <sup>(4)</sup> , 3M L+450, 06/03/2024		6,236
Hollander Sleep Products, LLC 6501 Congress Avenue, Ste. 300 Boca Raton, FL 33487	Consumer Goods: Non-Durable	First Lien Secured Debt, 3M L+800, 06/09/2023		10,843
iEnergizer Limited and Aptara, Inc. <sup>(3)</sup> Mont Crevelt House, Bulwer Avenue St. Sampson, Guernsey GY2 4LH	Business Services	First Lien Secured Debt, 1M L+600, 05/01/2019		5,432
Impact Group, LLC 915 W. Jefferson Street Boise, ID 83702	Wholesale	First Lien Secured Debt <sup>(4)</sup> , 1M L+625, 06/27/2023		12,358
Innova Medical Ophthalmics Inc. <sup>(3)</sup> 5358 Robin Hood Road Norfolk, VA 23513	Capital Equipment	First Lien Secured Debt <sup>(4)</sup> , 3M L+675, 04/13/2022		3,497
Integrative Nutrition, LLC (IIN Group Holdings, LLC) 245 5 <sup>th</sup> Avenue New York, NY 10016	Consumer Services	First Lien Secured Debt <sup>(4)</sup> , 3M L+475, 09/29/2023  Common Equity <sup>(5)</sup>	1.5%	36,640
Intralinks, Inc. 150 East 42nd Street, 8th Floor New York, NY 10017	Business Services	First Lien Secured Debt, 1M L+400,11/14/2024		14,478



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<b>Name and Address of Portfolio Company</b>	<b>Nature of Business</b>	<b>Type of Investment, Interest<sup>(1)</sup>, Maturity</b>	<b>Voting Percentage Ownership<sup>(2)</sup></b>	<b>Fair Value (in thousands)</b>
Inventus Power, Inc. 1200 Internationale Parkway Woodridge, IL 60517	Consumer Goods: Durable	First Lien Secured Debt, 1M L+650, 04/30/2020		3,934
JWC/UMA Holdings, L.P. 1515 Broad Street, Suite 120 Bloomfield, NJ 07003	Healthcare and Pharmaceuticals	Common Equity	0.2%	1,000
K2 Pure Solutions NoCal, L.P. 3515 Massillion Road, Ste. 290 Uniontown, OH 44685	Chemicals, Plastics and Rubber	First Lien Secured Debt, 1M L+900, 02/19/2021		3,926
KHC Holdings, Inc. 3300 Brother Boulevard Memphis, TN 38133	Wholesale	First Lien Secured Debt <sup>(4)</sup> , 3M L+600, 10/31/2022		12,371
Lago Resort & Casino, LLC 1133 Ridge Road (Rt 414) Waterloo, NY 13165	Hotel, Gaming and Leisure	First Lien Secured Debt, 3M L+950, 03/07/2022		9,694
Leap Legal Software Pty Ltd <sup>(3)</sup> Level 15, 135 King Street Sydney, NSW, 2000	High Tech Industries	First Lien Secured Debt, 3M L+575, 09/12/2022		7,181
LifeCare Holdings LLC 5340 Legacy Drive Ste. 150, Building 4 Plano, TX 75024	Healthcare and Pharmaceuticals	First Lien Secured Debt, 3M L+800 (PIK 6.00%), 11/30/2021		2,988
Lombart Brothers, Inc. 5358 Robin Hood Road	Capital Equipment	First Lien Secured Debt <sup>(4)</sup> , 3M L+675, 04/13/2022		9,819

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Norfolk, VA 23513

Long Island Vision Management, LLC  805 Broadway  New York, NY 11701	Healthcare and Pharmaceuticals	First Lien Secured Debt <sup>(4)</sup> , 3M L+475, 09/11/2023	5,926
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Long s Drugs Incorporated  111 Executive Center Drive, Suite 228  Columbia, SC 29210	Healthcare and Pharmaceuticals	First Lien Secured Debt <sup>(4)</sup> , 1M L+500, 08/19/2022	9,840
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LSF9 Atlantis Holdings, LLC  775 Prairie Center Drive, Suite 420  Eden Prairie, MN 55344	Retail	First Lien Secured Debt, 1M L+600, 05/01/2023	13,538
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MailSouth, Inc.  5901 Highway 52 East  Helena, AL 35080	Media: Advertising, Printing and Publishing	Second Lien Secured Debt, 3M L+925, 10/23/2024	3,700
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Manna Pro Products, LLC  707 Spirit 40 Park Drive, #150  Chesterfield, MO 63005	Consumer Goods: Non-Durable	First Lien Secured Debt <sup>(4)</sup> , 1M L+600, 12/08/2023	6,923
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Marketplace Events LLC  31105 Bainbridge Road, Suite 3  Solon, OH 44139	Media: Diversified and Production	First Lien Secured Debt <sup>(4)</sup> , USD (3M L+525, 01/27/2021), CAD (P+275, 01/27/2021)	16,514
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McAfee, LLC  2821 Mission College Boulevard  Santa Clara, CA 95054	High Tech Industries	Second Lien Secured Debt, 1M L+850, 09/29/2025	2,544
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Mission Critical Electronics, Inc.  2911 W. Garry Ave.  Santa Ana, CA 92704	Capital Equipment	First Lien Secured Debt <sup>(4)</sup> , , 09/28/2021	(2)
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Montreign Operating Company, LLC  204 State Route 17B	Hotel, Gaming and Leisure	First Lien Secured Debt, 3M L+825, 01/24/2023	23,351
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<b>Name and Address of Portfolio Company</b>	<b>Nature of Business</b>	<b>Type of Investment, Interest<sup>(1)</sup>, Maturity</b>	<b>Voting Percentage Ownership<sup>(2)</sup></b>	<b>Fair Value (in thousands)</b>
Morphe, LLC 10340 Glenoaks Blvd. Pacoima, CA 91331	Consumer Goods: Non-Durable	First Lien Secured Debt, 3M L+600, 02/10/2023		20,541
New Trident HoldCorp, Inc. 930 Ridgebrook Road, 3rd Floor Sparks, MD 21152	Healthcare and Pharmaceuticals	First Lien Secured Debt, 1M L+600 (PIK 3.00%), 08/01/2022		5,655
NextiraOne Federal, LLC NXOF Holdings, Inc. 510 Spring St., #200 Herndon, VA 20170	Aerospace and Defense	First Lien Secured Debt <sup>(4)</sup> , 3M L+575, 08/27/2024  Preferred Equity  Common Equity	1.5%	20,936
Olde Thompson, LLC 3250 Camino Del Sol Oxnard, CA 93030	Beverage, Food and Tobacco	First Lien Secured Debt <sup>(4)</sup> , 1M L+450, 05/14/2024		1,853
Ox Two, LLC 700 Centreville Rd. Constantine, MI 49042	Construction and Building	First Lien Secured Debt <sup>(4)</sup> , 1M L+625, 02/27/2023		13,201
Pestell Minerals and Ingredients Inc. <sup>(3)</sup> 141 Hamilton Road New Hamburg, Ontario, Canada N3A 2H1	Beverage, Food and Tobacco	First Lien Secured Debt, 3M L+525, 06/01/2023		14,850
Profile Products LLC 750 Lake Cook Road, Suite 440 Buffalo Grove, IL 60089	Environmental Industries	First Lien Secured Debt <sup>(4)</sup> , 2M L+500, 01/31/2023		10,075
PT Network, LLC	Healthcare and Pharmaceuticals	Second Lien Secured Debt, 3M L+1,000, 04/12/2023	0.1%	1,873

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(CI (PTN) Investment Holdings II,  
LLC)

Preferred Equity<sup>(5)</sup>

Common Equity<sup>(5)</sup>

500 Park Avenue, 8<sup>th</sup> Floor

New York, NY 10022

Questex, LLC 275 Grove Street, Suite 2-130 Newton, MA 02466	Media: Diversified and Production	First Lien Secured Debt <sup>(4)</sup> , 3M L+625, 09/09/2024	7,526
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Quick Weight Loss Centers, LLC 3161 McNab Road Pompano Beach, FL 33069	Beverage, Food and Tobacco	First Lien Secured Debt, 3M L+475, 08/23/2021	7,922
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Research Horizons, LLC 1140 Broadway, Suite 1002 New York, NY 10001	Media: Advertising, Printing and Publishing	First Lien Secured Debt <sup>(4)</sup> , 1M L+625, 06/28/2022	5,500
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Research Now Group, Inc. and Survey Sampling International LLC 5800 Tennyson Parkway, Suite 600 Plano, TX 75024	Business Services	First Lien Secured Debt, 1M L+550, 12/20/2024	24,882
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Salient CRGT Inc. 4000 Legato Road, Suite 600 Fairfax, VA 22033	High Tech Industries	First Lien Secured Debt, 1M L+575, 02/28/2022	18,318
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SFP Holding, Inc. (CI (Summit) Investment Holdings, LLC)	Construction and Building	First Lien Secured Debt <sup>(4)</sup> , 3M L+625, 09/01/2022	0.8%	6,582
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575 Minnehaha Ave. W.

St. Paul, MN 55103

Snak Club, LLC 5560 E Slauson Ave. Commerce, CA 90040	Beverage, Food and Tobacco	First Lien Secured Debt <sup>(4)</sup> , 1M L+600, 07/19/2021	393
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<b>Name and Address of Portfolio Company</b>	<b>Nature of Business</b>	<b>Type of Investment, Interest<sup>(1)</sup>, Maturity</b>	<b>Voting Percentage Ownership<sup>(2)</sup> (in thousands)</b>	<b>Fair Value</b>
Softvision, LLC 5 Concourse Pkwy., Ste. 500 Atlanta, GA 30328	High Tech Industries	First Lien Secured Debt, 1M L+550, 05/21/2021		10,202
TeleGuam Holdings, LLC 624 North Marine Corps Drive Tamuning, Guam 96913	Telecommunications	First Lien Secured Debt, 1M L+500, 07/25/2023		7,940
Tensar Corporation 2500 Northwinds Parkway, Ste. 500 Alpharetta, GA 30009	Construction and Buildings	First Lien Secured Debt, 3M L+475, 07/09/2021		22,281
The Infosoft Group, LLC (Gauge InfosoftCoInvest, LLC) 1000 North Water Street, Suite 1100 Milwaukee, WI 53202	Media: Broadcasting and Subscription	First Lien Secured Debt, 3M L+525, 12/02/2021 Common Equity	1.1%	7,361
The Original Cakerie, Co. <sup>(3)</sup> The Original Cakerie Ltd. <sup>(3)</sup> 1345 Cliveden Ave. Delta, BC V3M 6C7, Canada	Consumer Goods: Non-Durable	First Lien Secured Debt <sup>(4)</sup> , The Original Cakerie, Co. (2M L+500, 07/20/2022),  The Original Cakerie, Ltd. (2M L+450, 07/20/2022)		13,477
TPC Broadband Investors, LP <sup>(5)</sup> 12409 NW 35 Street Coral Springs, FL 33065	Telecommunications	Common Equity <sup>(4)</sup>	2.2%	1,024
Triad Manufacturing, Inc. 4321 Semple Avenue St. Louis, MO 63120	Capital Equipment	First Lien Secured Debt, 1M L+1,325, 12/28/2020		8,217
UBEO, LLC	Capital Equipment	First Lien Secured Debt <sup>(4)</sup> , 1M L+450, 04/03/2024		3,168

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401 East Sonterra Blvd., Suite 350

San Antonio, TX 78258

UniTek Global Services, Inc. 1777 Sentry Parkway West Gwynedd Hall, Ste. 202 Blue Bell, PA 19422	Telecommunications	First Lien Secured Debt <sup>(4)</sup> , 3M L+550, 08/20/2024  Preferred Equity  Common Equity Warrants	1.5%	11,819
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US Dominion, Inc. (SSC Dominion Holdings, LLC) 215 Spadina Ave, Suite 200	Capital Equipment	First Lien Secured Debt <sup>(4)</sup> , 3M L+675, 07/15/2024  Common Equity	1.0%	6,485
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Toronto, ON MST 2C7

US Med Acquisition, Inc. 8260 NW 27 <sup>th</sup> Street, Suite 401 Doral, FL 33122	Healthcare and Pharmaceuticals	First Lien Secured Debt, 1M L+900, 08/13/2021		2,876
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Veterinary Specialists of North America, LLC 106 Apple Street, Suite 207	Healthcare and Pharmaceuticals	First Lien Secured Debt <sup>(4)</sup> , 1M L+550, 07/15/2021		15,490
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Tinton Falls, NJ 07724

VIP Cinema Holdings, Inc. 101 Industrial Drive New Albany, MS 38652	Consumer Goods: Durable	First Lien Secured Debt, 1M L+600, 03/01/2023		6,955
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Walker Edison Furniture Company LLC (JWC-WE Holdings, L.P.) 4350 West 2100 South, Suite A Salt Lake City, UT 84120	Wholesale	First Lien Secured Debt, 3M L+650, 09/26/2024  Common Equity	1.3%	17,363
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Name and Address of Portfolio Company	Nature of Business	Type of Investment, Interest <sup>(1)</sup> , Maturity	Voting Percentage Ownership <sup>(2)</sup>	Fair Value (in thousands)
WBB Equity, LLC 11790 Sunrise Valley Drive Reston, VA 20191	Aerospace and Defense	Common Equity <sup>(5)</sup>	0.6%	269
Winchester Electronics Corporation 68 Water Street Norwalk, CT 06854	Capital Equipment	First Lien Secured Debt, 1M L+650, 06/30/2022		11,724
<b>Companies 25% or More Owned</b>				
PennantPark Senior Secured Loan Fund I LLC <sup>(3)</sup> 590 Madison Avenue, 15 <sup>th</sup> Floor New York, NY 10022	Financial Services	First Lien Secured Debt, 3M L+800, 05/06/2024  Equity Interest	50.0% <sup>(6)</sup>	145,860
<b>Total Investments</b>				<b>\$ 1,000,613</b>

(1) Represents basis point spread above index for 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 disclosed are the actual interest rate in effect as of 9/30/18. 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.

(2) Voting ownership percentage refers only to common equity, preferred equity and warrants held, if any, were we to have voting rights.

(3) 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.

(4) Includes the purchase of a security with delayed settlement or a revolving line of credit that is currently an unfunded investment, that does not earn a basis point spread above an index while it is unfunded.

(5) Investment is held through our Taxable Subsidiary.

(6) We hold one or more voting seats on the portfolio company's board of directors/managers.

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:

Industry Classification	September 30, 2018 <sup>(1)</sup>	September 30, 2017 <sup>(1)</sup>
Consumer Goods: Non-Durable	11%	8%

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High Tech Industries	10	10
Business Services	8	4
Beverage, Food and Tobacco	7	7
Aerospace and Defense	6	5
Hotel, Gaming and Leisure	6	8
Telecommunications	6	7
Capital Equipment	5	5
Construction and Building	5	3
Consumer Goods: Durable	5	6
Healthcare and Pharmaceuticals	5	9
Wholesale	5	5
Consumer Services	4	1
Media: Diversified and Production	4	4
Media: Advertising, Printing and Publishing	3	4
Chemicals, Plastics and Rubber	2	4
Retail	2	3
Media: Broadcasting and Subscription	1	3
All Other	5	4
Total	100%	100%

(1) Excludes investments in PSSL

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Our business and affairs are managed under the direction of our board of directors. The board of directors currently consists of five members, or directors, four of whom are not interested persons of the Company as defined in Section 2(a)(19) of the 1940 Act. We refer to these individuals as our Independent Directors. Our board of directors elects our officers, who serve at the discretion of the board of directors.

**Board of Directors**

Under our charter, our directors are divided into three classes and are elected for staggered terms of three years each, with a term of office of one of the three classes of directors expiring each year. Each director holds office for the term to which he or she is elected and until his or her successor is duly elected and qualifies.

Information regarding the board of directors is as follows:

<b>Name</b>	<b>Age</b>	<b>Position</b>	<b>Director Since</b>	<b>Expiration of Term</b>
<b>Independent Directors</b>				
Adam K. Bernstein	55	Director	2010	2019
Marshall Brozost	51	Director	2010	2021
Jeffrey Flug	56	Director	2010	2019
Samuel L. Katz	53	Director	2010	2021
<b>Interested director</b>				
Arthur H. Penn	55	Chairman of the Board and Chief Executive Officer	2010	2020

**Executive Officer Who is Not a Director**

The following information pertains to our executive officer who is not a director of PennantPark Floating Rate Capital Ltd.

<b>Name</b>	<b>Age</b>	<b>Position</b>
Aviv Efrat	54	Chief Financial Officer and Treasurer

**Officer Who is Not a Director**

The following information pertains to our officer who is not a director of PennantPark Floating Rate Capital Ltd.

<b>Name</b>	<b>Age</b>	<b>Position</b>
Guy F. Talarico	63	Chief Compliance Officer

The address for each director and executive officer is c/o PennantPark Floating Rate Capital Ltd., 590 Madison Avenue, 15th Floor, New York, New York 10022.

***Board of Directors Composition and Leadership Structure***

The 1940 Act requires that at least a majority of our directors not be interested persons (as defined in the 1940 Act) of the Company. Currently, four of our five directors are Independent Directors. The Chairman of our board of directors is our Chief Executive Officer and therefore an interested person of us. The Independent Directors believe that the combined position of Chief Executive Officer and Chairman of the board of directors results in greater efficiencies in managing us by eliminating the need to transfer substantial information quickly

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and repeatedly between the Chief Executive Officer and the Chairman and by offering the ability to capitalize on the specialized knowledge acquired from the duties of the roles. The board of directors has not identified a lead Independent Director; however, it has determined that its leadership structure, in which 80% of the directors are Independent Directors and, as such, are not affiliated with the Investment Adviser or the Administrator, is appropriate in light of the services that the Investment Adviser and the Administrator provide us and the potential conflicts of interest that could arise from these relationships.

### ***Board of Directors Risk Oversight Role***

The board of directors performs its risk oversight function primarily through (1) its three standing committees, described more fully below, which report to the board of directors and are comprised solely of Independent Directors and (2) monitoring by our Chief Compliance Officer in accordance with our compliance policies and procedures.

As described below in more detail under Audit Committee, Nominating and Corporate Governance Committee and Compensation Committee, the board of directors Audit Committee, Nominating and Corporate Governance Committee and Compensation Committee assist the board of directors in fulfilling its risk oversight responsibilities. The Audit Committee's risk oversight responsibilities include overseeing our accounting and financial reporting processes, including the annual audit of our financial statements and systems of internal controls regarding finance and accounting, pre-approving the engagement of an independent registered public accounting firm to render audit and/or permissible non-audit services; and evaluating the qualifications, performance and independence of the independent registered public accounting firm. The Nominating and Corporate Governance Committee's risk oversight responsibilities include selecting, researching and nominating directors for election by our stockholders, developing and recommending to the board of directors a set of corporate governance principles and overseeing the evaluation of the directors and our management. The Compensation Committee's risk oversight responsibilities include determining, or recommending to the board of directors for determining, the compensation of the Company's chief executive officer and all other executive officers, paid directly by the Company, if any, and assisting the board of directors with matters related to compensation, as directed by the board of directors. The Audit Committee, Nominating and Corporate Governance Committee and Compensation Committee consist solely of Independent Directors.

The board of directors also performs its risk oversight responsibilities with the assistance of the Chief Compliance Officer. Our Chief Compliance Officer prepares a written report annually discussing the adequacy and effectiveness of our compliance policies and procedures and certain of our service providers. The Chief Compliance Officer's report, which is reviewed by the board of directors, addresses at a minimum (1) the operation of our compliance policies and procedures and certain of our service providers since the last report; (2) any material changes to such policies and procedures since the last report; (3) any recommendations for material changes to such policies and procedures as a result of the Chief Compliance Officer's annual review; and (4) any compliance matter that has occurred since the date of the last report about which the board of directors would reasonably need to know to oversee our compliance activities and risks. In addition, the Chief Compliance Officer meets separately in executive session with the Independent Directors at least once each year.

We believe that the board of directors' role in risk oversight is effective and appropriate given the extensive regulation to which it is already subject as a BDC. Specifically, as a BDC, we must comply with certain regulatory requirements that control the levels of risk in our business and operations. For example, our ability to incur indebtedness is limited by the asset coverage ratio set forth in the 1940 Act (including any relief thereto provided by the SEC), and we generally must invest at least 70% of our total assets in qualifying assets. In addition, we elected to be treated as a RIC under the Code. As a RIC, we must, among other things, meet certain income source and asset diversification requirements.

We believe that the extent of the board of directors and its committees roles in risk oversight complements the board of directors leadership structure. Because they are comprised solely of Independent Directors, the



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Audit Committee, the Nominating and Corporate Governance Committee and the Compensation Committee are able to exercise their oversight responsibilities without any conflict of interest that might discourage critical questioning and review. Through regular executive session meetings with our independent public accounting firm, Chief Compliance Officer and Chief Executive Officer, the Independent Directors have similarly established direct communication and oversight channels that the board of directors believes foster open communication and early detection of issues of concern.

We believe that the board of directors' role in risk oversight must be evaluated on a case by case basis and that the current configuration and allocation of responsibilities among the board of directors and its committees with respect to the oversight of risk is appropriate. However, the board of directors and its committees continually re-examine the manner in which they administer their respective risk oversight functions, including through formal annual assessments of performance, to ensure that they meet our needs.

## **Biographical Information**

The board of directors believes that, collectively, the directors have balanced and diverse experience, qualifications, attributes and skills, which allow the board of directors to operate effectively in governing us and protecting the interests of our stockholders. Below is a description of the specific experiences, qualifications, attributes and/or skills that each director possesses and, which the board of directors considered to be an effective director. Our directors have been divided into two groups—interested directors and Independent Directors. Interested directors are interested persons as defined in the 1940 Act.

### ***Independent Directors***

Adam K. Bernstein (55), Director. Mr. Bernstein became a Director of PennantPark Floating Rate Capital Ltd. and PennantPark Investment Corporation in October 2010 and February 2007, respectively. Mr. Bernstein is currently President of The Bernstein Companies, a Washington, D.C.-based real estate investment and development firm which he joined in 1986. Mr. Bernstein runs a diversified company that includes a Hotel division, a Private Real Estate Investment Trust, and a structured financed group that focuses on tax credit syndication and project lending for community development projects nationwide. In 2012, Mr. Bernstein was appointed to the Board of Overseers of the School of Arts and Sciences at the University of Pennsylvania.

Marshall Brozost (51), Director. Mr. Brozost became a Director of PennantPark Floating Rate Capital Ltd. and PennantPark Investment Corporation in October 2010 and February 2007, respectively. Since July 2016, Mr. Brozost has been a Partner at Orrick, Herrington & Sutcliffe LLP, where he practices in the real estate and private equity groups. Prior to Orrick, Herrington & Sutcliffe LLP, Mr. Brozost practiced law at O Melveny & Myers LLP from 2001 to 2004; Solomon & Weinberg LLP from 2004 to 2005; Dewey & LeBoeuf LLP from 2005 to 2012; Schulte Roth & Zabel, LLP from 2012 to 2016. Mr. Brozost also served as a Vice President of Nomura Asset Capital Corporation from 1997 through 2000.

Jeffrey Flug (56), Director. Mr. Flug became a Director of PennantPark Floating Rate Capital Ltd. and PennantPark Investment Corporation in October 2010 and February 2007, respectively. From 2009 to June 2015, Mr. Flug held a variety of senior positions, including, most recently, President, with Union Square Hospitality Group, an exclusive chain of restaurants. Since September 2014, Mr. Flug has served as a director of Shake Shack, Inc. From October 2012 to September 2015, Mr. Flug was a director of Sears Hometown and Outlet Stores, Inc. Mr. Flug was Chief Executive Officer and Executive Director of Millennium Promise Alliance, Inc. from 2006 to 2008. Millennium Promise is a non-profit organization whose mission is to eradicate extreme global poverty. Mr. Flug was Managing Director and Head of North American Institutional Sales at JP Morgan's Investment Bank from 2000 to 2006. From

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1988 to 2000, Mr. Flug was Managing Director for Goldman Sachs & Co. in its Fixed Income Division.

Samuel L. Katz (53), Director. Mr. Katz became a Director of PennantPark Floating Rate Capital Ltd. and PennantPark Investment Corporation in October 2010 and February 2007, respectively. Mr. Katz is the Managing

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Partner of TZP Group, LLC, a private equity fund he formed in 2007. Prior to joining TZP Group, Mr. Katz was Chief Executive Officer of MacAndrews & Forbes Acquisition Holdings, Inc. from 2006 through 2007. From 1996 through 2005, Mr. Katz held a variety of senior positions at Cendant Corporation, including, most recently, Chairman and Chief Executive Officer of the Cendant Travel Distribution Services Division from 2001 to 2005. From 1992 to 1995, Mr. Katz invested in private and public equity as Co-Chairman of Saber Capital, Inc. and Vice President of Dickstein Partners Inc. From 1988 to 1992, Mr. Katz was an Associate and Vice President at The Blackstone Group, where he worked on numerous private equity transactions, including the initial leveraged buyouts of several hotel franchise brands which created the predecessor to Cendant Corporation. From 1986 to 1988, Mr. Katz was a Financial Analyst at Drexel Burnham Lambert.

***Interested Director***

Arthur H. Penn (55), Founder, Chief Executive Officer and Chairman of the board of directors. Mr. Penn became the Chief Executive Officer and a Director of PennantPark Floating Rate Capital Ltd. and PennantPark Investment Corporation at their inception in 2010 and 2007, respectively. He also founded and became Managing Member of PennantPark Investment Advisers in January 2007. Mr. Penn co-founded Apollo Investment Management in 2004, where he was a Managing Partner from 2004 to 2006. He also served as Chief Operating Officer of Apollo Investment Corporation from its inception in 2004 to 2006 and served as President and Chief Operating Officer of that company in 2006. Mr. Penn was formerly a Managing Partner of Apollo Value Fund L.P. (formerly Apollo Distressed Investment Fund, L.P.) from 2003 to 2006. From 2002 to 2003, prior to joining Apollo, Mr. Penn was a Managing Director of CDC-IXIS Capital Markets. Mr. Penn previously served as Global Head of Leveraged Finance at UBS Warburg LLC (now UBS Investment Bank) from 1999 through 2001. Prior to joining UBS Warburg, Mr. Penn was Global Head of Fixed Income Capital markets for BT Securities and BT Alex Brown Incorporated from 1994 to 1999. From 1992 to 1994, Mr. Penn served as Head of High-Yield Capital Markets at Lehman Brothers.

***Executive Officer and Officer who are not Directors***

Aviv Efrat (54), Chief Financial Officer and Treasurer. Mr. Efrat became the Chief Financial Officer and Treasurer of PennantPark Floating Rate Capital Ltd. and PennantPark Investment Corporation in October 2010 and February 2007, respectively. Mr. Efrat is also a Managing Director of PennantPark Investment Administration, LLC. Mr. Efrat was a Director at BlackRock, Inc., where he was responsible for a variety of administrative, operational, and financial aspects of closed-end and open-end registered investment companies, from 1997 to 2007. From 1994 to 1997, Mr. Efrat was in the Investment Companies Business Unit at Deloitte & Touche LLP. He is a member of the American Institute of Certified Public Accountants and the New York State Society of Certified Public Accountants.

Guy F. Talarico (63), Chief Compliance Officer. Mr. Talarico became the Chief Compliance Officer of PennantPark Floating Rate Capital Ltd. and PennantPark Investment Corporation in March 2011 and May 2008, respectively. Mr. Talarico has held the position of Chief Compliance Officer for a number of investment advisers, private funds and investment companies from 2004 when he founded Alaric Compliance Services, LLC.

**Committees of the Board of Directors**

For the fiscal year ended September 30, 2018, we held seven board of directors meetings, four Audit Committee meetings, one Nominating and Corporate Governance Committee meeting and one Compensation Committee meeting. All directors attended at least 75% of the aggregate number of meetings of the board of directors and of the respective committees on which they served. We require each director to make a diligent effort to attend all board of directors and committee meetings, and encourage directors to attend the annual stockholders meeting. For the fiscal year ended September 30, 2018, all of the directors attended the annual stockholders meeting.



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### **Audit Committee**

The members of the Audit Committee are Messrs. Bernstein, Brozost, Flug and Katz, each of whom is independent for purposes of the 1940 Act and the NASDAQ corporate governance rules. Messrs. Flug and Katz serve as Co-Chairmen of the Audit Committee. The Audit Committee operates pursuant to an Audit Committee Charter approved by the board of directors. The charter sets forth the responsibilities of the Audit Committee, which include: selecting or retaining each year an independent registered public accounting firm (the auditors) to audit our accounts and records; reviewing and discussing with management and the auditors our annual audited financial statements, including disclosures made in management's discussion and analysis of financial condition and results of operations, and recommending to the board of directors whether the audited financial statements should be included in our annual report on Form 10-K; reviewing and discussing with management and the auditors our quarterly financial statements prior to the filings of our quarterly reports on Form 10-Q; pre-approving the auditors' engagement to render audit and/or permissible non-audit services; reviewing and approving all related party transactions; and evaluating the qualifications, performance and independence of the auditors. The Audit Committee is also responsible for aiding our board of directors in fair valuing our portfolio securities that are not publicly traded or for which current market values are not readily available. Such investments are valued at fair value as determined in good faith by or under the direction of the board of directors using a documented valuation policy and a consistently applied valuation process. The board of directors and Audit Committee use the services of nationally recognized independent valuation firms to help them determine the fair value of certain securities. Our board of directors has determined that each of Messrs. Flug and Katz is an audit committee financial expert as that term is defined under Item 407 of Regulation S-K under the Exchange Act. The Audit Committee Charter is available on our website [www.pennantpark.com](http://www.pennantpark.com).

### **Nominating and Corporate Governance Committee**

The members of the Nominating and Corporate Governance Committee are Messrs. Bernstein, Brozost, Flug and Katz, each of whom is independent for purposes of the 1940 Act and the NASDAQ corporate governance rules. Messrs. Bernstein and Brozost serve as Co-Chairmen of the Nominating and Corporate Governance Committee. The Nominating and Corporate Governance Committee is responsible for selecting, researching and nominating directors for election by our stockholders, selecting nominees to fill vacancies on the board of directors or a committee of the board of directors, developing and recommending to the board of directors a set of corporate governance principles and overseeing the evaluation of the board of directors and our management. The Nominating and Corporate Governance Committee has adopted a written Nominating and Corporate Governance Committee Charter that is available on our website [www.pennantpark.com](http://www.pennantpark.com).

The Nominating and Corporate Governance Committee will consider stockholder recommendations for possible nominees for election as directors when such recommendations are submitted in accordance with the Company's bylaws, the Nominating and Corporate Governance Committee Charter and any applicable law, rule or regulation regarding director nominations. Nominations should be sent to Thomas J. Friedmann, Secretary, c/o PennantPark Floating Rate Capital Ltd., 590 Madison Avenue, 15th Floor, New York, New York 10022. When submitting a nomination to the Company for consideration, a stockholder must provide all information that would be required under applicable SEC rules to be disclosed in connection with election of a director, including the following minimum information for each director nominee: full name, age and address; principal occupation during the past five years; directorships on publicly held companies and investment companies during the past five years; number of shares of our common stock owned, if any; and a written consent of the individual to stand for election if nominated by the board of directors and to serve if elected by the stockholders.

Criteria considered by the Nominating and Corporate Governance Committee in evaluating the qualifications of individuals for election as a director of the board of directors include: compliance with the independence and other

applicable requirements of the NASDAQ corporate governance rules and the 1940 Act, and all other applicable laws, rules, regulations and listing standards; the criteria, policies and principles set forth in our Nominating and Corporate Governance Committee Charter; and the ability to contribute to our effective management of the Company, taking into account our needs and such factors as the individual's experience, perspective, skills and knowledge of the industry in which we operate. The Nominating and Corporate

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Governance Committee has not adopted a formal policy with regard to the consideration of diversity in identifying individuals for election as members of the board of directors, but the Nominating and Corporate Governance Committee will consider such factors as it may deem are in the best interests of us and our stockholders. Those factors may include a person's differences of viewpoint, professional experience, education and skills, as well as his or her race, gender and national origin. In addition, as part of the board of directors' annual-self assessment, the members of the Nominating and Corporate Governance Committee evaluate the membership of the board of directors and whether the board of directors maintains satisfactory policies regarding membership selection.

***Compensation Committee***

The Compensation Committee is responsible for determining, or recommending to the board of directors for determining, the compensation of the Company's Chief Executive Officer and all other executive officers, paid directly by the Company, if any. The Compensation Committee also assists the board of directors with all matters related to compensation, as directed by the board of directors. The current members of the Compensation Committee are Messrs. Bernstein, Brozost, Flug and Katz, each of whom is independent for purposes of the 1940 Act and the NASDAQ corporate governance rules. As discussed below, none of our executive officers are directly compensated by the Company and, as a result, the Compensation Committee does not produce and/or review and report on executive compensation practices. The Compensation Committee Charter is available on the Company's website [www.pennantpark.com](http://www.pennantpark.com).

***Compensation of Directors and Executive Officer***

The following table shows information regarding the compensation paid by us to our directors for the fiscal year ended September 30, 2018. No compensation is paid directly by us to any interested director or executive officer of the Company.

Name	Aggregate compensation from PennantPark Floating Rate Capital Ltd.	Pension or retirement benefits accrued as part of our expense <sup>(1)</sup>	Total paid to director/officer
<b>Independent directors</b>			
Adam K. Bernstein	\$ 83,750	None	\$ 83,750
Marshall Brozost	\$ 83,750	None	\$ 83,750
Jeffrey Flug	\$ 86,250	None	\$ 86,250
Samuel L. Katz	\$ 86,250	None	\$ 86,250
<b>Interested director</b>			
Arthur H. Penn	None	None	None
<b>Executive officer</b>			
Aviv Efrat <sup>(2)</sup>	None	None	None

(1) We do not have a profit sharing or retirement plan, and directors do not receive any pension or retirement benefits from us.

(2) Mr. Efrat is an employee of the Administrator.

Each Independent Director receives an annual payment of \$70,000, for services performed on behalf of us as a director. The Independent Directors also receive \$2,500 plus reimbursement of reasonable out-of-pocket expenses incurred in connection with attending each board of directors meeting and receive \$500 plus reimbursement of reasonable out-of-pocket expenses incurred in connection with attending each committee meeting (unless combined with a board of directors meeting). In addition, each Co-Chairman of the Audit Committee receives an annual fee of \$3,750 and each Co-Chairman of any other committee receives an annual fee of \$1,250 for his additional services in these capacities. Also, we have purchased directors and officers liability insurance on behalf of our directors and officers and indemnify such persons against certain



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losses. Independent Directors have the option to receive their directors' fees paid in shares of our common stock issued at a price per share equal to the greater of NAV or the market price at the time of payment. No compensation is expected to be paid to directors who are interested persons (as defined in the 1940 Act).

***Portfolio Managers, or Senior Investment Professionals, Biographical Information.***

Our Investment Adviser has three experienced senior investment professionals in addition to Mr. Penn. These 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. Below is a summary of their biographical information. Our senior investment professionals receive no compensation from us. The compensation of these individuals is paid by our Investment Adviser and compensation includes a base salary and a bonus contingent upon past and future performance.

Jose A. Briones joined PennantPark Investment Advisers in December 2009. Previously, Mr. Briones was a Partner of Apollo Investment Management, L.P. and a member of its investment committee since 2006. He was a Managing Director with UBS Securities LLC in the Financial Sponsors and Leveraged Finance Group from 2001 to 2006. Prior to joining UBS he was a Vice President with JP Morgan in the Global Leveraged Finance Group from 1999 to 2001. From 1992 to 1999, Mr. Briones was a Vice President at BT Securities and BT Alex Brown Inc. in the Corporate Finance Department.

Salvatore Giannetti III joined PennantPark Investment Advisers in February 2007. Previously, Mr. Giannetti was a Partner in the private equity firm Wilton Ivy Partners since 2004. He was a Managing Director at UBS Securities LLC in its Financial Sponsors and Leveraged Finance Group from 2000 to 2001. From 1997 to 2000, Mr. Giannetti was a Managing Director in the Investment Banking Division at Deutsche Bank (joining BT Securities and BT Alex Brown Inc.). From 1986 to 1997, Mr. Giannetti worked in the Investment Banking, Syndicated Loan & Private Equity groups at Chase Securities Inc. and its predecessor firms, Chemical Securities and Manufacturers Hanover.

P. Whitridge Williams, Jr. joined PennantPark Investment Advisers in March 2007. Previously, Mr. Williams was a Managing Director in the Financial Sponsors and Leveraged Finance Group at UBS Securities LLC. Mr. Williams worked at UBS and predecessor firms, including Dillon Read and Co. Inc. from 1996 to 2007. During Mr. Williams' tenure at UBS, he spent four years as a senior member of the Telecom, Media and Technology Group.

In addition to managing our investments, as of September 30, 2018 our portfolio managers also managed investments on behalf of the following entities:

<b>Name</b>	<b>Entity</b>	<b>Investment Focus</b>	<b>Gross Assets (\$ in millions)</b>
PennantPark Investment Corporation	Business development company	Primarily in U.S. middle-market companies in the form of first lien secured loans, second lien secured debt, subordinated debt and equity	\$1,160

investments

Other Managed Fund	Direct Lending Fund	Other credit opportunities	\$176
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The management and incentive fees payable by PennantPark Investment Corporation are based on the gross assets and performance of PennantPark Investment Corporation, respectively.

**Table of Contents****CONTROL PERSONS AND PRINCIPAL STOCKHOLDERS**

As of November 30, 2018, to our knowledge, no person would be deemed to control us, as such term is defined in the 1940 Act. Our board of directors consist of an interested director and Independent Directors.

The following table sets forth, as of November 30, 2018, certain ownership information with respect to our common stock for those persons who directly or indirectly own, control or hold with the power to vote, 5 percent or more of our outstanding common stock and all officers and directors, as a group.

Name and address <sup>(1)</sup>	Type of ownership <sup>(2)</sup>	Shares owned	Percentage of
			Common Stock Outstanding <sup>(3)</sup>
<b>Independent directors</b>			
Adam K. Bernstein	Record/Beneficial	5,000	*
Marshall Brozost	Record/Beneficial		
Jeffrey Flug	Record/Beneficial	15,500	*
Samuel L. Katz	Record/Beneficial	147,100	*
<b>Interested director</b>			
Arthur H. Penn <sup>(4)</sup>	Record/Beneficial	184,709	*
<b>Executive officer</b>			
Aviv Efrat	Record/Beneficial	28,750	*
All directors and executive officer as a group (6 persons)	Record/Beneficial	381,059	1%

(1) The address for each officer and director is c/o PennantPark Floating Rate Capital Ltd., 590 Madison Avenue, 15th Floor, New York, New York 10022.

(2) Sole voting power.

(3) Based on a total of 38,772,074 shares of common stock outstanding on November 30, 2018.

(4) Mr. Penn is the Managing Member of PennantPark Investment Advisers, LLC and may therefore be deemed to own beneficially the 184,709 shares held by PennantPark Investment Advisers, LLC.

\* Less than 1 percent.

***Dollar Range of Securities Beneficially Owned by Directors, Officers and Senior Investment Professionals***

The following table sets forth the dollar range of our common stock beneficially owned by each of our