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As filed with the Securities and Exchange Commission on December 13, 2017.
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. 3 ☒
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
(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
William Tuttle
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).

CALCULATION OF REGISTRATION FEE UNDER THE SECURITIES ACT OF 1933

Title of Securities Being Registered	Amount Being Registered	Proposed Maximum Offering Price Per Unit	Proposed Maximum Aggregate Offering Price[1]	Amount of Registration Fee[1]
Common Stock, $0.001 par value[2]	$	$	$	$
Preferred Stock, $0.001 par value[2]				
Warrants[2]				
Subscription Rights[3]				
Debt Securities[4]				
Total	$	$	$ 500,000,000[5]	$ 57,950[6]

(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

PennantPark Floating Rate Capital Ltd.

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 9 and "Sales of Common Stock Below Net Asset Value" on page 65 of this prospectus for more information.

Our common stock is traded on the NASDAQ Global Select Market and the Tel Aviv Stock Exchange under the symbol "PFLT." The last reported closing price for our common stock on the NASDAQ Global Select Market on December 12, 2017 was $13.95 per share, and our net asset value on September 30, 2017 was $14.10 per share.

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*. The information on our website is not incorporated by reference into this prospectus. The SEC also maintains a website at *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 9 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 , 2017

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.

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; "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.

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 August 2015, we completed the acquisition of MCG pursuant to the Agreement and Plan of Merger, or the Merger Agreement, by and among MCG, our Investment Adviser and the Company. As a result of the transactions completed by the Merger Agreement, MCG was ultimately merged with and into PFLT Funding II, LLC with PFLT Funding II, LLC as the surviving company.

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

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 $6.8 billion in 455 companies with almost 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 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 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 provide us with the flexibility to take advantage of market opportunities when they arise. Our use of leverage, as calculated under the asset coverage ratio 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. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources" for more information.

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. 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

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

Subsequent to September 30, 2017, we completed a follow-on public offering of approximately 6.3 million shares of common stock at a public offering price of $14.15 per share resulting in net proceeds of approximately $88.0 million. The Investment Adviser paid approximately $2.1 million as a portion of the sales load payable to the underwriters. We are not obligated to repay the sales load paid by our Investment Adviser.

On November 9, 2017, we entered into an amendment to our Credit Facility to, among other things, (i) increase the size of the Credit Facility from $375 million to $380 million, (ii) extend the reinvestment period to November 9, 2020 and (iii) extend the maturity date to November 9, 2022. The interest rate of LIBOR plus 200 basis points remains unchanged. On December 1, 2017, we increased the size of the Credit Facility from $380 million to $405 million.

In November 2017, we priced an offering of $138.6 million of our 3.83% Series A Notes, or the 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 is payable in four annual installments as follows: 15% of the original principal amount on December 15, 2020, 15% of the original principal amount on December 15, 2021, 15% of the original principal amount on December 15, 2022 and 55% of the original principal amount on December 15, 2023.

The 2023 Notes are general, unsecured obligations, rank equal in right of payment with all of PennantPark Floating Rate Capital Ltd.’s existing and future 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. The 2023 Notes are rated ilAA- by S&P Global Ratings Maalot Ltd. and are listed for trading on the Tel Aviv Stock Exchange, or the TASE.

The 2023 Notes have not been and will not be registered under the Securities Act of 1933, as amended, or 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.

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

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*. 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. You may read and copy the materials that we file with the SEC at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains an internet site at *www.sec.gov* that contains material that we file with the SEC on the EDGAR Database.

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.

Stockholder transaction expenses (as a percentage of offering price)	
Sales load	%(1)
Offering expenses	%(2)
Total stockholder expenses	%
Estimated annual expenses (as a percentage of average net assets attributable to common shares)(3)	
Management fees	1.56%(4)
Incentive fees	1.44%(5)
Interest on borrowed funds	1.96%(6)
Acquired fund fees and expenses	1.07%(7)
Other expenses	1.04%(8)
Total estimated annual expenses	7.07%(9)

(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, 2017.

(4) The contractual management fee is calculated at an annual rate of 1.00% of our average adjusted gross assets on September 30, 2017. 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, 2017. 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, 2017. 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, 2017, we had $253.8 million in borrowings outstanding under our Credit Facility. 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 and amendment costs incurred on our Credit Facility for the fiscal year ended September 30, 2017 and we caution you that our actual interest expense in the future 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.

(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. When applicable, fees and operating expenses estimates are based on historic fees and operating expenses for acquired funds. For PSSL, which has a limited operating history, fees and operating expenses are estimates based on expected fees and operating expenses. 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 47 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 5.63% 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)	$ 89	$ 196	$ 302	$ 561
Assuming a 5% annual return (assumes return from only realized capital gains and thus subject to the capital gains incentive fee)	$ 98	$ 222	$ 342	$ 625

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.

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, uncertainty regarding the United Kingdom referendum decision to leave the European Union (the so called "Brexit"), continuing signs of deteriorating sovereign debt conditions in Europe and an economic slowdown in China create uncertainty that could lead to further disruptions, instability and weakening consumer, corporate and financial confidence. 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, European sovereign debt, Chinese economic slowdown or other global economic conditions could have a material adverse effect on our business, financial condition and results of operations.

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

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

The significant disruptions in the capital markets experienced in the past has had, and may in the future have, a negative effect on the valuations of our investments and on the potential for liquidity events involving our

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

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 to result in the ability of the trustee and noteholders 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 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 investments are recorded as unrealized depreciation or loss. Unrealized losses of any given portfolio company could be an indication of such company's inability in the future to meet its repayment obligations to us.

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

We may be the target of litigation.

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

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

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

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

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

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

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

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

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

In July 2017, the head of the United Kingdom Financial Conduct Authority announced the desire to phase out the use of LIBOR by the end of 2021. Because the statements made by the head of the United Kingdom Financial Conduct Authority are recent in nature, there is no definitive information regarding the future utilization of LIBOR or of any particular replacement rate. As such, the potential effect of any such event on our cost of capital and net investment income cannot yet be determined.

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

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

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

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

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

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

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

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

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

We have operated and continue to operate so as to maintain our election to be treated as a RIC under Subchapter M of the Code. If we meet the annual source of income, quarterly asset diversification, and distribution requirements, 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 the requirement to make distributions to our stockholders because, in certain cases, we may recognize income before or without receiving cash representing such income. If we fail to qualify as a RIC, we will have to pay corporate-level taxes on all of our income whether or not we distribute it, which would substantially reduce the amount of income available for debt service as well as reduce and/or affect the character and amount of our distributions to our stockholders. Even if we qualify as a RIC, we generally will be subject to a 4% nondeductible excise tax if we do not distribute to our stockholders in respect of each calendar year of an amount at least equal to the sum of (1) 98% of our net ordinary income (subject to certain deferrals and elections) for the calendar year, (2) 98.2% of our capital gain net income (adjusted for certain ordinary losses) generally for the one-year period ending on October 31 of the calendar year plus (3) any net ordinary income or capital gain net income for preceding years that was not distributed during such years and on which we did not incur any corporate income tax.

We may have difficulty paying our required distributions 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 tax requirement to distribute at least 90% of the sum of our ordinary income and realized net short-term capital gains, 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.

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 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 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 limits. Our ability to pay distributions or issue additional senior securities would be restricted if our asset coverage ratio was not met. If the value of our assets declines, we may be unable to satisfy the asset coverage ratio. If that happens, we may be required to liquidate a portion of our investments and

repay a portion of our indebtedness at a time when such sales may be disadvantageous, which could materially damage our business, financial condition and results of operations.

- ***Senior Securities.*** As a result of issuing senior securities, including our 2023 Notes, we are exposed to typical risks associated with leverage, including an increased risk of loss. If we issue preferred securities, they would rank "senior" to common stock in our capital structure. Preferred stockholders would have separate voting rights and may have rights, preferences or privileges more favorable than those of holders of our common stock. Furthermore, the issuance of preferred securities could have the adverse effect of delaying, deferring or preventing a transaction or a change of control that might involve a premium price for our common stockholders or otherwise be in your best interest. Our senior securities may include conversion features that cause them to bear risks more closely associated with an investment in our common stock.

- ***Additional Common Stock.*** Our board of directors may decide to issue common stock to finance our operations rather than issuing debt or other senior securities. As a BDC, we are generally not able to issue our common stock at a price below NAV per share without first obtaining certain approvals from our stockholders and our board of directors. Also, subject to the requirements of the 1940 Act, we may issue rights to acquire our common stock at a price below the current NAV per share of the common stock if our board of directors determines that such sale is in our best interests and the best interests of our common stockholders. In any such case, the price at which our securities are to be issued and sold may not be less than a price, that in the determination of our board of directors, closely approximates the market value of such securities. However, when required to be undertaken, the procedures used by the board of directors to determine the NAV per share of our common stock within 48 hours of each offering of our common stock may differ materially from and will necessarily be more abbreviated than the procedures used by the board of directors to determine the NAV per share of our common stock at the end of each quarter because there is an extensive process each quarter to determine the NAV per share of our common stock which cannot be completed in 48 hours. The quarterly process includes preliminary valuation conclusions, engagement of independent valuation firms and review by those firms of preliminary valuation conclusions. See "Determination of Net Asset Value." 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 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.

As of September 30, 2017, we had outstanding borrowings of $253.8 million under our Credit Facility with a current interest rate of 3.18%, exclusive of the fees on the undrawn commitment. To cover the annual interest on our borrowings of $253.8 million outstanding as of September 30, 2017, at the weighted average annual rate of 3.18%, we would have to receive an annual yield of at least 1.13%. This example is for illustrative purposes

only, and actual interest rates on our Credit Facility or any future borrowings are likely to fluctuate. The costs associated with our borrowings, including any increase in the management fee or incentive fee payable to our Investment Adviser, are and will be borne by our common 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, 2017 of 34% of total assets (including such borrowed funds), at the current interest rate at the time of 3.18%, and assumes hypothetical annual returns on our portfolio of minus 10 to plus 10 percent. The table also assumes that we will maintain a constant level of leverage and weighted average interest rate. The amount of leverage and cost of borrowing that we use will vary from time to time. As can be seen, leverage generally increases the return to stockholders when the portfolio return is positive and decreases return when the portfolio return is negative. Actual returns may be greater or less than those appearing in the table.

Assumed return on portfolio (net of expenses) (1)	(10.0)%	(5.0)%	— %	5.0%	10.0%
Corresponding return to common stockholders (2)	(18.1)%	(9.9)%	(1.8)%	6.4%	14.6%

(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 debt securities in the future, it is likely that such securities will be governed by an indenture or other instrument containing covenants restricting our operating flexibility. In addition, such securities may be rated by rating agencies, and in obtaining a rating for such securities, we may be required to abide by operating and investment guidelines that could further restrict our operating flexibility. Furthermore, any cash that we use to service our indebtedness would not be available for the payment of distributions to our common stockholders.

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

Our credit ratings, if any, are an assessment of our ability to pay our obligations. Consequently, real or anticipated changes in our credit ratings will generally affect the market value of any publicly issued debt securities. Our credit ratings may not reflect the potential impact of risks related to market conditions or other factors discussed above on the market value of, or trading market for, any publicly issued debt securities.

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

Our Credit Facility expires in November 2022. We utilize proceeds from the Credit Facility to make investments in our portfolio companies. The duration of many of our investments exceeds the duration of our indebtedness under our Credit Facility. This means that we will have to extend the maturity of our Credit Facility or refinance our indebtedness under our Credit Facility in order to avoid selling investments at maturity of the Credit Facility, at which time such sales may be at prices that are disadvantageous to us, which could materially damage our business. In addition, future market conditions may affect our ability to renew or refinance our Credit Facility on terms as favorable as those in our existing Credit Facility. If we fail to extend or refinance the indebtedness outstanding under our Credit Facility by the time it becomes due and payable, the administrative agent of the Credit Facility may elect to exercise various remedies, including the sale of all or a portion of the collateral securing the Credit Facility, subject to certain restrictions, any of which could have a material adverse effect on our business, financial condition and results of operations. The illiquidity of our investments may make it difficult for us to sell such investments. If we are required to sell our investments on short-term notice, we may not receive the value that we have recorded for such investments, and this could materially affect our results of operations.

Our interests in Funding I are subordinated.

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

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

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

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

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

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

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

We have entered into 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.

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 which no public market exists and for which no public market develops, a purchaser of such securities may not be able to liquidate the investment without considerable delay, if at all. If a market should develop for our debt and other securities, the price may be highly volatile, and our debt and other securities may lose value.

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

We cannot assure you that the issuance of preferred stock and/or debt securities would result in a higher yield or return to the holders of our common stock. The issuance of preferred stock, debt securities and/or convertible debt would likely cause the NAV and market value of our common stock to become more volatile. If the dividend

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

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

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

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

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

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

These factors include the following:

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

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

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

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

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

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

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

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

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

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

We and our portfolio companies are subject to laws and regulation at the local, state and federal levels. These laws and regulations, as well as their interpretation, may be changed from time to time. Accordingly, any change in these laws or regulations that govern our operations or those of our portfolio companies could have a material adverse effect on our business, financial condition and results of operations. See “Regulation” for more information. Changes in U.S. tax laws could have a material adverse effect on our business, financial condition and results of operations. Specifically, tax reform legislation proposed in Congress during November 2017 could have an adverse impact on us notwithstanding the proposed reduction in the corporate tax rate.

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 stock. Nevertheless, the effects may adversely affect our business and impact our ability to make distributions.

RISKS RELATING TO THE ILLIQUID NATURE OF OUR PORTFOLIO ASSETS

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

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

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

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

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

We may acquire our investments directly from the issuer in privately negotiated transactions. Substantially all of these securities are subject to legal and other restrictions on resale or are otherwise less liquid than publicly

traded securities. We typically exit our investments when the portfolio company has a liquidity event such as a sale, refinancing, or initial public offering of the company, but we are generally not required to do so.

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

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

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

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

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

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

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

RISKS RELATED TO OUR INVESTMENTS

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

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

1. ***Floating Rate Loans:*** The Floating Rate Loans we invest in are usually rated below investment grade or may also be unrated. Investments in Floating Rate Loans rated below investment grade are considered speculative because of the credit risk of their issuers. Such companies are more likely than investment grade issuers to default on their payments of interest and principal owed to us, and such defaults could reduce our NAV and income distributions. An economic downturn would generally lead to a higher default rate by

portfolio companies. A Floating Rate Loan may lose significant market value before a default occurs and we may experience losses due to the inherent illiquidity of the investments. Moreover, any specific collateral used to secure a Floating Rate Loan may decline in value or become illiquid, which would adversely affect the Floating Rate Loan's fair value. Floating Rate Loans are subject to a number of risks, including liquidity risk and the risk of investing in below investment-grade, variable-rate securities.

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

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

2. ***First Lien Secured Debt:*** When we extend first lien secured debt, we will generally take a security interest in the available assets of these portfolio companies, including the equity interests of their subsidiaries, although this may not always be the case. We expect this security interest, if any, to help mitigate the risk that we will not be repaid. However, there is a risk that the collateral securing our loans may decrease in value over time, may be difficult to sell in a timely manner, may be difficult to appraise and may fluctuate in value based upon the success of the business and market conditions, including as a result of the inability of the portfolio company to raise additional capital. Also, in some circumstances, our lien could be subordinated to claims of other creditors. In addition, deterioration in a portfolio company's financial condition and prospects, including its inability to raise additional capital, may be accompanied by deterioration in the value of the collateral for the loan. Consequently, the fact that a first lien secured debt investment is secured does not guarantee that we will receive principal and interest payments according to the loan's terms, or at all, or that we will be able to collect on the loan should we be forced to enforce our remedies.

3. ***Second Lien Secured Debt:*** Our second lien secured debt usually ranks junior in priority of payment to first lien secured debt. Second lien secured debt holds a second priority with regard to right of payment in the event of insolvency. Second lien secured debt ranks senior to subordinated debt and common and preferred equity in borrowers' capital structures. This may result in an above average amount of risk and volatility or a loss of principal. These investments may involve additional risks that could adversely affect our investment returns. To the extent interest payments associated with such debt are deferred, such debt may be subject to greater fluctuations in valuations, and such debt could subject us and our stockholders to non-cash income. Since we may not receive cash interest or principal prior to the maturity of some of our second lien secured debt investments, such investments may be of greater risk than cash paying loans.

4. ***Subordinated Debt:*** Our subordinated debt usually ranks junior in priority of payment to first lien secured debt and second lien secured debt, and are often unsecured. As such, other creditors may rank senior to us in the event of insolvency. Subordinated debt ranks senior to common and preferred equity in borrowers' capital structures. This may result in an above average amount of risk and volatility or a loss of principal. These investments may involve additional risks that could adversely affect our investment returns. To the extent interest payments associated with such debt are deferred, such debt may be subject to greater fluctuations in valuations, and such debt could subject us and our stockholders to non-cash income. Since we may not receive cash interest or principal prior to the maturity of some of our subordinated debt investments, such investments may be of greater risk than cash paying loans.

5. ***Equity Investments:*** We have made and expect to continue to make select equity investments, all of which are subordinated to debt investments. In addition, when we invest in first lien secured debt, second lien secured debt or subordinated debt, we may acquire warrants to purchase equity investments from time to time. Our goal is ultimately to dispose of these equity investments and realize gains upon our disposition of such interests. However, the equity investments we receive may not appreciate in value and, in fact, may decline in value. Accordingly, we may not be able to realize gains from our equity investments, and any gains that we do realize on the disposition of any equity investments may not be sufficient to offset any other losses we experience. In addition, many of the equity securities in which we invest may not pay dividends on a regular basis, if at all. Furthermore, we may hold equity investments in partnerships through a taxable subsidiary for federal income tax purposes. Upon sale or exit of such investment, we may pay taxes at regular corporate tax rates, which will reduce the amount of gains or dividends available for distributions to our stockholders.

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

- companies may be highly leveraged, have limited financial resources and may be unable to meet their obligations under their debt securities that we hold, which may be accompanied by a deterioration in the value of any collateral and a reduction in the likelihood of us realizing any guarantees we may have obtained in connection with our investment;
- they typically have shorter operating histories, more limited publicly available information, narrower product lines, more concentration of revenues from customers and smaller market shares than larger businesses, which tend to render them more vulnerable to competitors' actions and changing market conditions, as well as general economic downturns;
- they are more likely to depend on the management talents and efforts of a small group of persons; therefore, the death, disability, resignation or termination of one or more of these persons could have a material adverse impact on our portfolio company and, in turn, on us;
- they generally have less predictable operating results, may from time to time be parties to litigation, may be engaged in rapidly changing businesses with products subject to a substantial risk of obsolescence, and may require substantial additional capital to support their operations, finance expansion or maintain their competitive position. In addition, our executive officers, directors and our Investment Adviser may be named as defendants in litigation arising from our investments in the portfolio companies; and

- they may have difficulty accessing the capital markets to meet future capital needs, which may limit their ability to grow or to refinance their outstanding indebtedness upon maturity.

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

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

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

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

We are classified as a non-diversified investment company within the meaning of the 1940 Act, which means that we are not limited by the 1940 Act with respect to the proportion of our assets that we may invest in securities of a single issuer, excluding limitations on investments in other investment companies and compliance with the RIC tax regulations. To the extent that we assume large positions in the securities of a small number of issuers, our NAV may fluctuate to a greater extent than that of a diversified investment company as a result of changes in the financial condition or the market's assessment of the issuer. We may also be more susceptible to any single economic or regulatory occurrence than a diversified investment company. Beyond 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.

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

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

A portfolio company's failure to satisfy financial or operating covenants imposed by us or other lenders could lead to defaults and potential termination of its debt and foreclosure on its secured assets, which could trigger cross-defaults under other agreements and jeopardize our portfolio company's ability to meet its

obligations under the debt securities that we hold. We may incur expenses to the extent necessary to seek recovery upon default or to negotiate new terms with a defaulting portfolio company, and any restructuring could further cause adverse effects on our business. Depending on the facts and circumstances of our investments and the extent of our involvement in the management of a portfolio company, upon the bankruptcy of a portfolio company, a bankruptcy court may recharacterize our debt investments as equity investments and subordinate all or a portion of our claim to that of other creditors. This could occur regardless of how we may have structured our investment. In addition, we cannot assure you that a bankruptcy court would not take actions contrary to our interests.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Our Investment Adviser is entitled to incentive compensation for each fiscal quarter in an amount equal to a percentage of the excess of our investment income for that quarter (before deducting incentive compensation, net operating losses and certain other items) above a threshold return for that quarter. Our Pre-Incentive Fee Net Investment Income for incentive compensation purposes excludes realized and unrealized capital losses that we may incur in the fiscal quarter, even if such capital losses result in a net loss on our Consolidated Statements of Operations for that quarter. Thus, we may be required to pay the Investment Adviser incentive compensation for a fiscal quarter even if there is a decline in the value of our portfolio, NAV or we incur a net loss for that quarter.

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

If we engage in hedging transactions, we may expose ourselves to risks associated with such transactions. We may borrow under a multicurrency credit facility in currencies selected to minimize our foreign currency exposure or, to the extent permitted by the 1940 Act and applicable commodities laws, use instruments such as forward contracts, currency options and interest rate swaps, caps, collars and floors to seek to hedge against fluctuations in the relative values of our portfolio positions from changes in currency exchange rates and market interest rates.

Hedging against a decline in the values of our interest rate or currency positions does not eliminate the possibility of fluctuations in the values of such positions or prevent losses if the values of such positions decline. However, such hedging designed to gain from those changes in interest rates or foreign currency exposures, for instance, may also limit the opportunity for gain if the changes in the underlying positions should move against such hedges. Moreover, it may not be possible to hedge against an exchange rate or interest rate fluctuation that is so generally anticipated that we are not able to enter into a hedging transaction at an acceptable price.

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

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

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

RISKS RELATING TO AN INVESTMENT IN OUR COMMON STOCK

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

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

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

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

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

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

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

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

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

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

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

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

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

Shares of BDCs may trade at a market price that is less than the NAV that is attributable to those shares. Our shares have traded above and below our NAV. Our shares closed on the NASDAQ Global Select Market at $14.48 and $13.23 on September 30, 2017 and 2016, respectively. Our NAV per share was $14.10 and $14.06 as of the same dates. The possibility that our shares of common stock will trade at a discount from NAV or at a premium that is unsustainable over the long term is separate and distinct from the risk that our NAV will decrease. It is not possible to predict whether our shares will trade at, above or below NAV in the future.

The market price of our common stock may fluctuate significantly.

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

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

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

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

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

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

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

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

As a publicly traded company, we incur legal, accounting and other expenses, including costs associated with the periodic reporting requirements applicable to a company whose securities are registered under the Securities Exchange Act of 1934, as amended, or the Exchange Act, as well as additional corporate governance requirements, including requirements under the Sarbanes-Oxley Act of 2002, or 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 TASE.

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

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

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

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

RISKS RELATING TO OUR 2023 NOTES

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

The 2023 Notes are not secured by any of our assets or any of the assets of our subsidiaries. As a result, the 2023 Notes are subordinated to any secured indebtedness we or our subsidiaries have currently incurred and may incur in the future (or any indebtedness that is initially unsecured to which we subsequently grant security) to the extent of the value of the assets securing such indebtedness. In any liquidation, dissolution, bankruptcy or other similar proceeding, the holders of any of our existing or future secured indebtedness and the secured indebtedness of our subsidiaries may assert rights against the assets pledged to secure that indebtedness in order to receive full payment of their indebtedness before the assets may be used to pay other creditors, including the holders of the 2023 Notes. As of September 30, 2017, we had $253.8 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 2023Notes) 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 2023Notes 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.

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

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

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

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

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

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

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

FATCA withholding may apply to payments to certain foreign entities.

Payments made under the 2023 Notes to a foreign financial institution or non-financial foreign entity (including such an institution or entity acting as an intermediary) may be subject to a U.S. withholding tax of 30% under the Foreign Account Tax Compliance Act (commonly known as “FATCA”) provisions of the Code. This U.S. withholding tax may apply to certain payments of interest on the 2023 Notes 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;
- 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.

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 European sovereign debt, 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.

You should understand that under Section 27A(b)(2)(B) of the Securities Act and Section 21E(b)(2)(B) of the Exchange Act, the “safe harbor” provisions of the Private Securities Litigation Reform Act of 1995 do not apply to forward-looking statements made in connection with any offering of securities pursuant to this prospectus or in periodic reports we file under the Exchange Act.

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, 2017, we had $253.8 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, 2017, the weighted average interest rate was 3.18% exclusive of the fees on the undrawn commitment. The Credit Facility is a revolving facility maturing in November 2022 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.

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 returns 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,				
	2017	2016	2015	2014	2013
(Dollar amounts in thousands, except per share data)					
Consolidated Statements of Operations data:					
Total investment income	$ 59,497	$ 46,301	$ 30,355	$ 30,357	$ 18,867
Total expenses	26,052	18,965	12,695	13,721	8,344
Net investment income	33,445	27,336	17,660	16,636	10,523
Net realized and unrealized gain (loss)	2,880	6,153	(5,156)	3,878	1,461
Net increase in net assets resulting from operations	36,325	33,489	12,504	20,514	11,985
Per share data:					
Net asset value	14.10	14.06	13.95	14.40	14.10
Net investment income[1]	1.10	1.02	1.08	1.12	1.10
Net realized and unrealized gain (loss)[1]	0.10	0.23	(0.31)	0.26	0.15
Net increase in net assets resulting from operations[1]	1.20	1.25	0.77	1.38	1.25
Distributions declared[1], [2]	1.15	1.14	1.16	1.08	1.05
Consolidated Statements of Assets and Liabilities data:					
Total assets	747,345	631,420	416,120	372,874	328,802
Total investment portfolio	710,499	598,888	391,312	348,428	317,804
Credit Facility payable[3]	256,858	232,389	29,600	146,949	99,600
Total net asset value	457,906	375,907	372,890	214,528	210,066
Other data:					
Total return[4]	18.71%	21.77%	(6.01)%	8.05%	17.17%
Number of portfolio companies[5]	82	98	76	72	83
Yield on debt portfolio[5]	8.0%	7.8%	7.9%	8.2%	8.1%

(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 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 prior to its termination on November 22, 2017.
(5) Unaudited, at year end.

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

	2017			
	Q4	Q3	Q2	Q1
Total investment income	$18,455	$15,190	$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

	2016			
	Q4	Q3	Q2	Q1
Total investment income	$15,396	$10,803	$11,346	$ 8,756
Net investment income	$ 8,155	$ 6,830	$ 7,265	$ 5,086
Net realized and unrealized gain (loss)	$ 7,732	$ 6,589	$ (4,829)	$ (3,339)
Net increase in net assets resulting from operations	$15,887	$13,419	$ 2,436	$ 1,747
Net increase in net assets resulting from operations per common share*	$ 0.59	$ 0.50	$ 0.09	$ 0.07
Net asset value per share at the end of the quarter	$ 14.06	$ 13.75	$ 13.54	$ 13.73
Market value per share at the end of the quarter	$ 13.23	$ 12.40	$ 11.70	$ 11.25

	2015			
	Q4	Q3	Q2	Q1
Total investment income	$ 7,791	$ 7,104	$ 7,983	$ 7,477
Net investment income	$ 3,639	$ 4,097	$ 4,456	$ 5,468
Net realized and unrealized (loss) gain	$ (2,424)	$ 630	$ 1,668	$ (5,030)
Net increase in net assets resulting from operations	$ 1,215	$ 4,727	$ 6,124	$ 438
Net increase in net assets resulting from operations per common share*	$ 0.06	$ 0.32	$ 0.41	$ 0.03
Net asset value per share at the end of the quarter	$ 13.95	$ 14.33	$ 14.30	$ 14.16
Market value per share at the end of the quarter	$ 11.94	$ 13.88	$ 14.03	$ 13.73

* Based on the weighted average shares outstanding for the respective periods.

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 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 Credit Facility, 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 total assets as well as an incentive fee based on our investment performance. We have also entered into an Administration Agreement with the Administrator. Under our Administration Agreement, we have agreed to reimburse the Administrator for our allocable portion of overhead and other expenses incurred by the Administrator in performing its obligations under our Administration Agreement, including rent and our allocable portion of the costs of compensation and related expenses of our Chief Compliance Officer, Chief

Financial Officer and their respective staffs. Our board of directors, a majority of whom are independent of us, provides overall supervision of our activities, and the Investment Adviser supervises our day-to-day activities.

Revenues

We generate revenue in the form of interest income on the debt securities we hold and capital gains and dividends, if any, on investment securities that we may acquire in portfolio companies. Our debt investments, whether in the form of first lien secured debt, second lien secured debt or subordinated debt, typically have a term of three to ten years and bear interest at a fixed or floating 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 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 Credit Facility. We bear all other direct or indirect costs and expenses of our operations and transactions, including:

- the cost of calculating our NAV, including the cost of any third-party valuation services;
- the cost of effecting sales and repurchases of shares of our common stock and other securities;
- fees payable to third parties relating to, or associated with, making investments, including fees and expenses associated with performing due diligence and reviews of prospective investments or complementary businesses;
- expenses incurred by the Investment Adviser in performing due diligence and reviews of investments;
- transfer agent and custodial fees;
- fees and expenses associated with marketing efforts;
- federal and state registration fees and any exchange listing fees;
- federal, state, local and foreign taxes;
- independent directors’ fees and expenses;
- brokerage commissions;
- fidelity bond, directors and officers, errors and omissions liability insurance and other insurance premiums;
- direct costs such as printing, mailing, long distance telephone and staff;
- fees and expenses associated with independent audits and outside legal costs;
- costs associated with our reporting and compliance obligations under the 1940 Act and applicable federal and state securities laws; and

- all other expenses incurred by either the Administrator or us in connection with administering our business, including payments under our Administration Agreement that will be based upon our allocable portion of overhead, and other expenses incurred by the Administrator in performing its obligations under our Administration Agreement, including rent and our allocable portion of the costs of compensation and related expenses of our Chief Compliance Officer, Chief Financial Officer and their respective staffs.

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

The SEC requires that "Total Estimated Annual Expenses" be calculated as a percentage of average net assets in the table on page 7 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(1))

Base management fees	1.00%(2)
Incentive fees	0.85%(3)
Interest on borrowed funds	1.15%(4)
Acquired fund fees and expenses	0.62%(5)
Other expenses	0.61%(6)
Total estimated annual expenses	4.23%(7)

(1) Average total assets attributable to common shares equals average gross assets for the fiscal year ended September 30, 2017.

(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, 2017. 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, 2017. 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, 2017, we had $253.8 million in borrowings outstanding under our Credit Facility. 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 and amendment costs incurred on our Credit Facility for the fiscal year ended September 30, 2017 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.

(5) 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. When applicable, fees and operating expenses estimates are based on historic fees and operating expenses for acquired funds. For PSSL, which has a limited operating history, fees and operating expenses are estimates based on expected fees and operating expenses. Expenses for PSSL 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, 2017. 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, 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 (including $30.1 million in PSSL) and $25.5 million of preferred and common equity (including $13.4 million in PSSL). Our debt portfolio consisted of 99% variable-rate investments (including 7% where LIBOR was below the floor) and 1% fixed-rate investments. As of September 30, 2017, we had one 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 (including 4% in PSSL) and 4% in preferred and common equity (including 2% in PSSL). As of September 30, 2017, all of the investments held in PSSL were first lien secured debt.

As of September 30, 2016, our portfolio totaled $598.9 million and consisted of $548.4 million of first lien secured debt, $36.6 million of second lien secured debt, $3.2 million of subordinated debt and $10.7 million of preferred and common equity. Our debt portfolio consisted of 99% variable-rate investments (including 94% where LIBOR was below the floor) and 1% fixed-rate investments. As of September 30, 2016, we had one company on non-accrual, representing 0.2% and 0.1% of our overall portfolio on a cost and fair value basis, respectively. Overall, the portfolio had net unrealized appreciation of $1.0 million. Our overall portfolio consisted of 98 companies with an average investment size of $6.1 million, had a weighted average yield on debt investments of 7.8%, and was invested 92% in first lien secured debt, 6% in second lien secured debt and 2% in subordinated debt, preferred and common equity.

For the fiscal 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.

For the fiscal 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.

For the fiscal year ended September 30, 2015, we invested $224.2 million of investments in 32 new and 34 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, 2015 totaled $195.0 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.

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

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

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

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

A financial instrument’s categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. Generally, most of our investments and our Credit Facility are classified as Level 3. 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 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. We elected to use the fair value option for our Credit Facility 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 $0.1 million, $0.9 million and $2.3 million, relating to amendment fees on the Credit Facility during the years ended September 30, 2017, 2016 and 2015, 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 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 fiscal years ended September 30, 2017, 2016 and 2015, our Credit Facility had a net change in unrealized (appreciation) depreciation of $(3.6) million, $0.5 million and $0.5 million, respectively. As of September 30, 2017 and 2016, the net unrealized (appreciation) depreciation on our Credit Facility totaled $(3.1) million and $0.5 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.

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. Dividend income, if any, is recognized on an accrual basis on the ex-dividend date to the extent that we expect to collect such amounts. From time to time, the Company receives certain fees from portfolio companies, which are non-recurring in nature. Such fees include loan prepayment penalties, structuring fees and amendment fees, and are recorded as other investment income when earned.

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

We measure realized gains or losses by the difference between the net proceeds from the repayment or sale and the amortized cost basis of the investment, using the specific identification method, without regard to unrealized appreciation or depreciation previously recognized, but considering unamortized upfront fees and prepayment penalties. Net change in unrealized appreciation or depreciation reflects the change in fair values of our portfolio investments and Credit Facility 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 Interest or PIK

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 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 capital gains over 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. 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, contingent on maintaining our ability to be subject to tax 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 gains recognized for financial reporting purposes. Differences between tax regulations and GAAP may be permanent or temporary. Permanent differences are reclassified among capital accounts in the Consolidated Financial Statements to reflect their appropriate tax character. Temporary differences arise when certain items of income, expense, gain or loss are recognized at some time in the future.

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

RESULTS OF OPERATIONS

Set forth below are the results of operations for the fiscal years ended September 30, 2017, 2016 and 2015.

Investment Income

Investment income for the fiscal 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, $4.0 million from second lien secured debt and $0.9 million from subordinated debt. The increase in investment income over the prior year was primarily due to the growth of our portfolio.

Investment income for the fiscal 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, $6.1 million from second lien secured debt and $3.8 million from subordinated debt. The increase in investment income over the prior year was primarily due to the growth of our portfolio.

Investment income for the fiscal year ended September 30, 2015 was $30.4 million and was attributable to $23.5 million from first lien secured debt, $5.7 million from second lien secured debt and $1.2 million from subordinated debt.

Expenses

Expenses for the fiscal 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 fiscal 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. 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 fiscal year ended September 30, 2015 totaled $12.7 million. Base management fee for the same period totaled $3.6 million, incentive fee totaled $1.1 million (including $(0.4) million on net realized gains and $(0.7) million on net unrealized gains accrued but not payable), Credit Facility expenses totaled $5.6 million (including $2.3 million of Credit Facility amendment expenses), general and administrative expenses totaled $2.0 million and excise taxes were $0.4 million.

Net Investment Income

Net investment income totaled $33.4 million or $1.10 per share, $27.3 million or $1.02 per share and $17.7 million or $1.08 per share, for the fiscal years ended September 30, 2017, 2016 and 2015, respectively. The increase in net investment income compared to the prior year was primarily due to the growth of our portfolio.

Net Realized Gains or Losses

Sales and repayments of investments for the fiscal years ended September 30, 2017, 2016 and 2015 totaled $406.5 million, $164.2 million and $195.0 million, respectively. Net realized gains (losses) totaled $5.4 million, $(1.4) million and $0.4 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 and Credit Facility

For the fiscal years ended September 30, 2017, 2016 and 2015, we reported unrealized appreciation (depreciation) on investments of $1.1 million, $7.0 million and $(6.1) million, respectively. As of September 30, 2017 and 2016, net unrealized appreciation on investments totaled $2.0 million and $1.0 million, respectively. The net change in unrealized appreciation (depreciation) on our investments for fiscal year ended September 30, 2017 compared to the prior year was driven primarily by changes in the capital market conditions, financial performance of certain portfolio companies, and the reversal of unrealized depreciation (appreciation) of investments sold.

For the fiscal years ended September 30, 2017, 2016 and 2015, our Credit Facility had a change in unrealized (appreciation) depreciation of $(3.6) million, $0.5 million and $0.5 million, respectively. As of September 30, 2017 and 2016, net unrealized (appreciation) depreciation on our Credit Facility totaled $(3.1) million and $0.5 million, respectively. The change for fiscal year ended September 30, 2017 compared to the prior year was due to changes in the capital markets.

Net Change in Net Assets Resulting from Operations

Net change in net assets resulting from operations totaled $36.3 million or $1.20 per share, $33.5 million or $1.25 per share and $12.5 million or $0.77 per share, for the fiscal years ended September 30, 2017, 2016 and 2015, respectively. The dollar increase in the net change in net assets from operations for fiscal year ended September 30, 2017 compared to the prior year reflects the change in portfolio investment valuation during the reporting period.

LIQUIDITY AND CAPITAL RESOURCES

Our liquidity and capital resources are derived primarily from proceeds of securities offerings, our Credit Facility, 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 Credit Facility, the rotation of our portfolio and proceeds from public and private offerings of securities to finance our investment objectives.

As of September 30, 2017, Funding I's multi-currency Credit Facility with the Lenders was $375 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 August 2020 and a revolving period ending in August 2018. As of September 30, 2017 and 2016, Funding I had $253.8 million and $232.9 million of outstanding borrowings under the Credit Facility, respectively. The Credit Facility had a weighted average interest rate of 3.18% and 2.57%, exclusive of the fee on undrawn commitments as of September 30, 2017 and 2016, respectively. The annualized weighted average cost of debt for the fiscal years ended September 30, 2017, 2016 and 2015, inclusive of the fee on the undrawn commitment of 0.375% on the Credit Facility and amendment costs, was 3.14%, 4.16% and 4.48%, respectively. As of September 30, 2017 and 2016, we had $121.2 million and $117.1 million of unused borrowing capacity under our Credit Facility, respectively, subject to the regulatory restrictions.

On November 9, 2017, we entered into an amendment to our Credit Facility to, among other things, (i) increase the size of the Credit Facility from $375 million to $380 million, (ii) extend the reinvestment period to November 9, 2020 and (iii) extend the maturity date to November 9, 2022. The interest rate of LIBOR plus 200 basis points remains unchanged. On December 1, 2017, we increased the size of the Credit Facility from $380 million to $405 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 November 2022. 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 $25 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, 2017, 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. In accordance with the 1940 Act, with certain limited exceptions, we are only allowed to borrow amounts such that we are in compliance with our asset coverage ratio after such borrowing. 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.

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, 2017, 2016 and 2015, we issued 5.8 million, zero and 11.8 million shares, respectively. As a result, we raised approximately $81.0 million, zero and $164.7 million in gross proceeds from issuances of our equity capital.

On September 30, 2017 and 2016, we had cash equivalents of $18.9 million and $28.9 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 $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 our February 2017 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.

Our operating activities used cash of $2.2 million for the year ended September 30, 2015, and our financing activities provided cash of $10.5 million for the same period. Our operating activities used cash primarily for our investment activities and our financing activities provided cash primarily from the MCG merger.

PennantPark Senior Secured Loan Fund I LLC

In May 2017, we and Kemper formed PSSL, an unconsolidated joint venture. PSSL invests primarily in middle-market and other corporate debt securities consistent with our strategy. PSSL was formed as a Delaware limited liability company. As of September 30, 2017, PSSL had total assets of $103.8 million. As of the same date, we and Kemper had remaining commitments to fund subordinated notes and equity interests in PSSL in an aggregate of $50.9 million. PSSL's portfolio consisted of debt investments in 18 portfolio companies as of September 30, 2017. As of September 30, 2017, at fair value, the largest investment in a single portfolio company in PSSL was $8.1 million and the five largest investments totaled $34.9 million. PSSL invests in portfolio companies in the same industries in which we may directly invest.

We provide capital to PSSL in the form of subordinated notes and equity interests. The subordinated notes are junior in right of payment to the repayment of temporary contributions made by us to fund investments of PSSL. As of September 30, 2017, we and Kemper owned 87.5% and 12.5%, respectively, of each of the outstanding subordinated notes and equity interests. Our investment in PSSL consisted of subordinated notes of $30.1 million and equity interests of $12.9 million as of September 30, 2017. As of the same date, we had commitments to fund subordinated notes to PSSL of $61.3 million, of which $31.2 million was unfunded. As of September 30, 2017, we had commitments to fund equity interests in PSSL of $26.2 million, of which $13.3 million was unfunded.

We and Kemper each appointed two members to PSSL's four person board of directors and investment committee. All material decisions with respect to PSSL, 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, PSSL has entered into a senior secured revolving credit facility, or the PSSL Credit Facility, with Capital One, N.A. through its wholly-owned subsidiary PennantPark Senior Secured Loan Facility LLC, or PSSL Subsidiary, which as of September 30, 2017 allowed PSSL Subsidiary to borrow up to $100.0 million at any one time outstanding, subject to leverage and borrowing base restrictions.

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

	September 30, 2017
Total investments	$ 99,994,314
Weighted average cost yield on income producing investments	7.2%
Number of portfolio companies in PSSL	18
Largest portfolio company investment	$ 8,080,000
Total of five largest portfolio company investments	$ 34,935,330

Below is a listing of PSSL's individual investments as of September 30, 2017:

PennantPark Senior Secured Loan Fund I LLC
Schedule of Investments

Issuer Name	Maturity	Industry	Current Coupon	Basis Point Spread Above Index (1)	Par	Cost	Fair Value (2)
Investments in Non-Controlled, Non-Affiliated Portfolio Companies—651.7%							
First Lien Secured Debt—651.7%							
Alvogen Pharma US, Inc. (3)	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. (3), (4)	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
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
Total First Lien Secured Debt						99,544,903	99,994,314
Total Investments in Non-Controlled, Affiliated Portfolio Companies						99,544,903	99,994,314
Cash and Cash Equivalents—15.5%							
BlackRock Federal FD Institutional 30						2,226,430	2,226,430
BNY Mellon Cash						144,739	144,833
Total Cash and Cash Equivalents						2,371,169	2,371,263
Total Investments and Cash Equivalents—667.2%						$ 101,916,072	$ 102,365,577
Liabilities in Excess of Other Assets—(567.2)%							(87,022,556)
Members' Equity—100.0%							$ 15,343,021

(1) Represents floating rate instruments that accrue interest at a predetermined spread relative to an index, typically the applicable LIBOR, the Euro Interbank Offered Rate, or EURIBOR, or Prime rate. 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.

Below is the financial information for PSSL:

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

	September 30, 2017
Assets	
Investments at fair value	
Non-controlled, non-affiliated investments (cost—$99,544,903)	$ 99,994,314
Cash and cash equivalents (cost—$2,371,169)	2,371,263
Interest receivable	332,980
Prepaid expenses and other assets	1,131,029
Total assets	103,829,586
Liabilities	
Payable for investments purchased	27,095,850
PSSL Credit Facility payable	26,783,885
Subordinated notes payable	34,400,000
Interest payable on PSSL Credit Facility	97,531
Interest payable on subordinated notes	12,107
Accrued other expenses	97,192
Total liabilities	88,486,565
Commitments and contingencies (1)	
Members' equity	
Paid-in capital	14,742,857
Undistributed net investment income	120,575
Accumulated net realized gain on investments	100,920
Net unrealized appreciation on investments	449,505
Net unrealized appreciation on foreign currency translations	(70,836)
Total members' equity	15,343,021
Total liabilities and members' equity	$ 103,829,586

(1) PSSL had no outstanding commitments to fund investments as of September 30, 2017.

PennantPark Senior Secured Loan Fund I LLC
Statements of Operations

	For the period May 4, 2017 (inception) through September 30, 2017
Investment income:	
From non-controlled, non-affiliated investments:	
Interest	$ 1,365,433
Total investment income	1,365,433
Expenses:	
Interest and expenses on PSSL Credit Facility	442,554
Interest expense on subordinated notes	585,840
Administrative services expenses	67,528
Other general and administrative expenses (1)	148,936
Total expenses	1,244,858
Net investment income	120,575
Realized and unrealized gain on investments and foreign currency translations	
Net realized gain on investments	100,920
Net change in unrealized appreciation on:	
Non-controlled, non-affiliated investments	449,505
Foreign currency translations	(70,836)
Net change in unrealized appreciation on investments and foreign currency translations	378,669
Net realized and unrealized gain from investments and foreign currency translations	479,589
Net increase in members' equity resulting from operations	$ 600,164

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

Contractual Obligations

A summary of our significant contractual payment obligations as of September 30, 2017, including borrowings under our Credit Facility and other contractual obligations, is as follows:

	Payments due by period (millions)				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Credit Facility	$253.8	$ —	$ —	$ 253.8	$ —
Unfunded commitments to PSSL	44.5	—	—	—	44.5
Unfunded investments(1)	30.6	—	0.7	24.7	5.2
Total contractual obligations	$328.9	$ —	$ 0.7	$ 278.5	$ 49.7

(1) Unfunded 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 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 2017, 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 gross assets and (2) an incentive fee based on our performance.

Under our Administration Agreement, which was reapproved by our board of directors, including a majority of our directors who are not interested persons of us, in February 2017, 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 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 our 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 paid no federal income tax. 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, contingent on our ability to be subject to tax as a RIC, in order to provide us with additional liquidity.

During the years ended September 30, 2017, 2016 and 2015, we declared distributions of $1.14, $1.14 and $1.12 per share, respectively, for total distributions of $34.8 million, $30.5 million and $18.9 million, respectively. 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, common 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 the 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.

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 test 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 a certain 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 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 the new 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 have no material impact on its financial statements.

Recent Developments

Subsequent to September 30, 2017, we completed a follow-on public offering of approximately 6.3 million shares of common stock at a public offering price of $14.15 per share resulting in net proceeds of approximately $88.0 million. The Investment Adviser paid approximately $2.1 million as a portion of the sales load payable to the underwriters. We are not obligated to repay the sales load paid by our Investment Adviser.

On November 9, 2017, we entered into an amendment to our Credit Facility to, among other things, (i) increase the size of the Credit Facility from $375 million to $380 million, (ii) extend the reinvestment period to November 9, 2020 and (iii) extend the maturity date to November 9, 2022. The interest rate of LIBOR plus 200 basis points remains unchanged. On December 1, 2017, we increased the size of the Credit Facility from $380 million to $405 million.

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

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

The 2023 Notes are general, unsecured obligations, rank equal in right of payment with all of PennantPark Floating Rate Capital Ltd.'s existing and future 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. The 2023 Notes are rated ilAA- by S&P Global Ratings Maalot Ltd. and are listed for trading 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.

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

Quantitative And Qualitative Disclosures About Market Risk

We are subject to financial market risks, including changes in interest rates. As of September 30, 2017, our debt portfolio consisted of 99% variable-rate investments (including 7% where LIBOR was below the floor) and 1% fixed-rate investments. The variable-rate loans are usually based on a LIBOR rate and typically have durations of three months, after which they reset to current market interest rates. Variable-rate investments subject to a floor generally reset by reference to the current market index after one to nine months only if the index exceeds the floor. In regards to variable-rate instruments with a floor, we do not benefit from increases in interest rates until such rates exceed the floor and thereafter benefit from market rates above any such floor. In contrast, our cost of funds, to the extent it is not fixed, will fluctuate with changes in interest rates since it has no floor.

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

Change In Interest Rates	Change In Interest Income, Net Of Interest Expense (in thousands)	Change In Interest Income, Net Of Interest Expense Per Share
Down 1%	$ (3,982)	$ (0.12)
Up 1%	$ 3,982	$ 0.12
Up 2%	$ 8,269	$ 0.26
Up 3%	$ 12,604	$ 0.39
Up 4%	$ 16,940	$ 0.52

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.

SENIOR SECURITIES

Information about our senior securities shown in the following table as of September 30, 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.

Class and Year	Total Amount Outstanding(1)	Asset Coverage per Unit(2)	Average Market Value Per Unit(3)
Credit Facility			
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).

(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.

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, 2015. On December 12, 2017, the last reported closing price of our common stock on the NASDAQ Global Select Market was $13.95 per share.

Period	NAV (1)	Closing Sales Price on NASDAQ		Premium / (Discount) of High Sales Price to NAV (2)	Premium / (Discount) of Low Sales Price to NAV (2)	Distributions Declared
		High	Low			
Fiscal Year Ending September 30, 2018						
First quarter (through December 12, 2017)	$ N/A	$14.61	$ 13.77	N/A%	N/A%	$ 0.285(3)
Fiscal Year Ended September 30, 2017						
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
Fiscal Year Ended September 30, 2016						
Fourth quarter	14.06	13.26	12.54	(6)	(11)	0.285
Third quarter	13.75	12.51	11.58	(9)	(16)	0.285
Second quarter	13.54	11.70	10.09	(14)	(25)	0.285
First quarter	13.73	12.42	10.79	(10)	(21)	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, 2018 to stockholders of record as of December 26, 2017.

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 $14.48 and $13.23 on September 30, 2017 and 2016, respectively. Our NAV per share was $14.10 and $14.06 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, 2017 we had 40 stockholders of record.

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;

- 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).

		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
Offering Price							
Price per share to public	—	$ 10.00	—	$ 9.47	—	$ 7.89	—
Net offering proceeds per share to issuer	—	$ 9.50	—	$ 9.00	—	$ 7.50	—
Decrease to NAV							
Total shares outstanding	1,000,000	1,050,000	5.00%	1,100,000	10.00%	1,250,000	25.00%
NAV per share	$ 10.00	$ 9.98	(0.20)%	$ 9.91	(0.90)%	$ 9.50	(5.00)%
Dilution to Stockholder A							
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)%
Total Asset Values							
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)	—

	Prior to Sale Below NAV	Example 1 5% Offering at 5% Discount Following Sale	Example 1 5% Offering at 5% Discount % Change	Example 2 10% Offering at 10% Discount Following Sale	Example 2 10% Offering at 10% Discount % Change	Example 3 25% Offering at 25% Discount Following Sale	Example 3 25% Offering at 25% Discount % Change
Per Share Amounts							
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.

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).

		50% Participation		150% Participation	
	Prior to Sale Below NAV	Following Sale	% Change	Following Sale	% Change
Offering Price					
Price per share to public	—	$ 7.89	—	$ 7.89	—
Net proceeds per share to issuer	—	$ 7.50	—	$ 7.50	—
Increases in Shares and Decrease to NAV					
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)%
(Dilution)/Accretion to Participating Stockholder A					
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%
Total Asset Values					
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	—
Per Share Amounts					
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%

Impact on New Investors

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

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).

		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
Offering Price							
Price per share to public	—	$ 10.00	—	$ 9.47	—	$ 7.89	—
Net offering proceeds per share to issuer	—	$ 9.50	—	$ 9.00	—	$ 7.50	—
Decrease to NAV							
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)%
Dilution to Stockholder A							
Shares held by stockholder A	—	500	—	1,000	—	2,500	—
Percentage held by stockholder A	—	0.05%	—	0.90%	—	0.20%	—
Total Asset Values							
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	—
Per Share Amounts							
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%

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, 2015.

Record Dates	Payment Dates	Distributions Declared
Fiscal Year Ending September 30, 2018		
December 26, 2017	January 2, 2018	$ 0.095
November 17, 2017	December 1, 2017	0.095
October 19, 2017	November 1, 2017	0.095
Total		$ 0.285
Fiscal Year Ended September 30, 2017		
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
November 18, 2016	December 1, 2016	0.095
October 20, 2016	November 1, 2016	0.095
Total		$ 1.140
Fiscal Year Ended September 30, 2016		
September 21, 2016	October 3, 2016	$ 0.095
August 19, 2016	September 1, 2016	0.095
July 20, 2016	August 1, 2016	0.095
June 20, 2016	July 1, 2016	0.095
May 20, 2016	June 1, 2016	0.095
April 20, 2016	May 2, 2016	0.095
March 18, 2016	April 1, 2016	0.095
February 18, 2016	March 1, 2016	0.095
January 20, 2016	February 1, 2016	0.095
December 24, 2015	January 4, 2016	0.095
November 19, 2015	December 1, 2015	0.095
October 21, 2015	November 2, 2015	0.095
Total		$ 1.140

In January 2018, a Form 1099-DIV will be sent to stockholders subject to information reporting that will state the amount and composition of distributions and provide information with respect to appropriate tax treatment of our distributions.

The tax characteristics of distributions declared, in accordance with Section 19(a) of the 1940 Act, during the fiscal years ended September 30, 2017 and 2016 from ordinary income (including short-term gains, if any) totaled $34.8 million and $30.5 million, or $1.15 and $1.14 per share, respectively, based on the weighted average shares outstanding for the respective periods.

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, 2017.

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 instruments 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 Credit Facility, 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 August 2015, we completed the acquisition of MCG pursuant to the Merger Agreement by and among MCG, our Investment Adviser and the Company. As a result of the transactions completed by the Merger Agreement, MCG was ultimately merged with and into PFLT Funding II, LLC with PFLT Funding II, LLC as the surviving company.

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

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 $6.8 billion in 455 companies with almost 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 our capital is well-positioned to partner with such equity investors.
- **We believe there is substantial supply of opportunities resulting from maturing loans that seek refinancing.** A high volume of financings will come due in the next few years. Additionally, we believe that demand for debt financing from middle-market companies will remain strong because these companies will continue to require credit to refinance existing debt, to support growth initiatives

and to finance acquisitions. We believe the combination of strong demand by middle-market companies and from time to time the reduced supply of credit described above should increase lending opportunities for us. We believe this supply of opportunities coupled with a lack of demand offers attractive risk-reward to investors.

Competitive Advantages

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

a) Experienced Management Team

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

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

b) Disciplined Investment Approach with Strong Value Orientation

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

We believe it is critical to conduct extensive due diligence on investment targets. In evaluating new investments we, through our Investment Adviser, conduct a rigorous due diligence process that draws from our Investment Adviser's experience, industry expertise and network of contacts. Among other things, our due diligence is designed to ensure that each prospective portfolio company will be able to meet its debt service obligations. See "Investment 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 the Investment Adviser has long-term relationships with financial sponsors, management consultants and management teams that we believe enable us to evaluate investment opportunities

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

d) Flexible Transaction Structuring

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

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

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

Competition

Our primary competitors provide financing to middle-market companies and include other BDCs, commercial and investment banks, commercial finance companies, CLO funds 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 at 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

We maintain a $405 million Credit Facility, which matures in November 2022, with the Lenders. During the Credit Facility’s revolving period, which extends to November 2020, 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 $253.8 million outstanding as of September 30, 2017. The annualized weighted average cost of debt for the year ended September 30, 2017, inclusive of the fee on the undrawn commitment on the Credit Facility and amendment costs, was 3.14%. As of September 30, 2017 and 2016, we had $121.2 million and $117.1 million of unused borrowing capacity under our Credit Facility, respectively, 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 ratio 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. 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.

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

debt investors receive opportunities to invest directly in the equity securities of borrowers and from time to time may also receive warrants to purchase equity securities. We evaluate these investment opportunities on a case-by-case basis.

Subordinated Debt

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

Investment Selection Criteria

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

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

a) Leading and defensible competitive market positions

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

b) Investing in stable borrowers with positive cash flow

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

c) Proven management teams

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

d) Financial sponsorship

The Investment Adviser may seek to cause us to participate in transactions sponsored by what it believes to be trusted financial sponsors. The Investment Adviser believes that a financial sponsor's willingness to invest significant equity capital in a portfolio company is an implicit endorsement of the quality of that portfolio company. Further, financial sponsors of portfolio companies with significant investments at risk may have an 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

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.

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 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 55 of the 1940 Act. See "Regulation" for more information.

Staffing

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

Our Portfolio

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

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

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

Portfolio Company	2017(1)	Portfolio Company	2016
Montreign Operating Company, LLC	4%	Marketplace Events LLC	3%
Advanced Cable Communications	3	Advanced Cable Communications, LLC	2
By Light Professional IT Services, LLC	3	ALG USA Holdings, LLC	2
Country Fresh Holdings, LLC	3	AMF Bowling Centers, Inc.	2
East Valley Tourist Development Authority	3	CD&R TZ Purchaser, Inc.	2
Marketplace Events LLC	3	CRGT Inc.	2
Pathway Partners Vet Management Company LLC	3	Efficient Collaborative Retail Marketing Company, LLC	2
Salient CRGT Inc.	3	KHC Holdings, Inc.	2
DecoPac, Inc.	2	Novitex Acquisition, LLC	2
LSF9 Atlantis Holdings, LLC	2	Triad Manufacturing, Inc.	2

Industry	2017(1)	Industry	2016
High Tech Industries	10%	Healthcare and Pharmaceuticals	10%
Healthcare and Pharmaceuticals	9	High Tech Industries	10
Consumer Goods: Non-Durable	8	Business Services	8
Hotel, Gaming and Leisure	8	Consumer Goods: Durable	7
Beverage, Food and Tobacco	7	Hotel, Gaming and Leisure	6
Telecommunications	7	Telecommunications	6
Consumer Goods: Durable	6	Aerospace and Defense	5
Aerospace and Defense	5	Media: Diversified and Production	5
Capital Equipment	5	Retail	5
Wholesale	5	Wholesale	5

(1) Excludes investments in PSSL.

Our executive officers and directors, as well as the senior investment professionals of the Investment Adviser and Administrator, may serve as officers, directors or principals of entities that operate in the same or a related line of business as we do. Currently, the executive officers and directors, as well as 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.

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, 2017. 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(1), Maturity	Voting Percentage Ownership (2)	Fair Value (in thousands)
Companies Less than 5% Owned				
Advanced Cable Communications, LLC (TPC Broadband Investors, LP(5)) 12409 NW 35 Street Coral Springs, FL 33065	Telecommunications	First Lien Secured Debt, L+575, 08/09/2021 Common Equity	2.2%	$ 16,882
Affinion Group Holdings, Inc. 100 Connecticut Avenue Norwalk, CT 06850	Consumer Goods: Durable	Common Equity	1.0%	2,270
Alera Group Holdings, Inc. 3 Parkway North, Suite 500 Deerfield, IL 60015	Banking, Finance, Insurance and Real Estate	First Lien Secured Debt(4), L+550, 12/30/2022	—	9,178
American Auto Auction Group, LLC 10333 N. Meridian, Suite 200 Indianapolis, IN 46290	Transportation: Consumer	First Lien Secured Debt, L+525, 11/30/2021	—	10,781
American Gilsonite Company 1717 St. James Place Houston, TX 77056	Metals and Mining	First Lien Secured Debt, 15.00% (PIK 5.00%) fixed, 12/31/2021 Subordinated Debt, 17.00% (PIK 17.00%) fixed, 12/31/2021 Common Equity	0.4%(6)	898
American Scaffold 3210 Commercial Street San Diego, CA 92113	Aerospace and Defense	First Lien Secured Debt, L+650, 03/31/2022	—	4,703
American Teleconferencing Services, Ltd. 3280 Peachtree Road, NE Atlanta, GA 30305	Telecommunications	First Lien Secured Debt, L+650, 12/08/2021	—	10,339
Anesthesia Consulting & Management, LP 6225 State Hwy 161 #200 Irving, TX 75038	Healthcare and Pharmaceuticals	First Lien Secured Debt(4), L+525, 10/31/2022	—	3,871
API Technologies Corp. 4705 S. Apopka Vineland Rd., Suite 210 Orlando, FL 32819	Aerospace and Defense	First Lien Secured Debt, L+650, 04/22/2022	—	4,833

Name and Address of Portfolio Company	Nature of Business	Type of Investment, Interest(1), Maturity	Voting Percentage Ownership (2)	Fair Value (in thousands)
BEI Precision Systems & Space Company, Inc. 1100 Murphy Drive Maumelle, AR 72113	Aerospace and Defense	First Lien Secured Debt, L+550, 04/28/2023	—	11,850
Broder Bros., Co. Six Neshaminy Interplex, 6th Floor Trevose, PA 19053	Consumer Goods: Non-Durable	First Lien Secured Debt, Tranche A (L+575, 06/03/2021), Tranche B (L+1,225, 06/03/2021)	—	4,566
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(4), L+725, 05/16/2022 Common Equity	2.9%	18,232
Camin Cargo Control, Inc. 230 Marion Avenue Linden, NJ 07036	Transportation: Cargo	First Lien Secured Debt, L+475, 06/30/2021	—	2,346
Canyon Valor Companies, Inc.(3) 130 E Randolph St., 7th Floor Chicago, IL 60601	Media: Broadcasting and Subscription	First Lien Secured Debt, L+425, 06/16/2023	—	7,085
Cardenas Markets LLC 2501 East Guasti Road Ontario, CA 91761	Beverage, Food and Tobacco	First Lien Secured Debt, L+575, 11/29/2023	—	3,875
CD&R TZ Purchaser, Inc. 2200 Fletcher Avenue Fort Lee, NJ 07024	Consumer Goods: Durable	First Lien Secured Debt, L+600, 07/21/2023	—	12,360
Charming Charlie LLC 5999 Savoy Drive Houston, TX 77036	Retail	First Lien Secured Debt, L+800 (PIK 3.00%), 12/24/2019	—	3,367
Chicken Soup for the Soul Publishing, LLC 21 Hedgerow Lane Greenwich, CT 06831	Media: Advertising, Printing and Publishing	First Lien Secured Debt, L+625, 01/08/2019	—	4,314
Clarus Glassboards LLC 7537 Jack Newell Blvd. N Fort Worth, TX 76118	Construction and Building	First Lien Secured Debt, L+525, 03/16/2023	—	4,821
Corfin Industries LLC (Corfin InvestCo, L.P.) 7B Raymond Avenue Salem, NH 03079	Aerospace and Defense	First Lien Secured Debt(4), L+975, 11/25/2020 Common Equity	2.7%	6,424
Country Fresh Holdings, LLC 15479 Pin Oaks Drive Conroe, TX 77384	Beverage, Food and Tobacco	First Lien Secured Debt, L+500, 03/31/2023	—	19,598
Credit Infonet, Inc. 4540 Honeywell Court Dayton, OH 45424	High Tech Industries	Subordinated Debt, 13.00% (PIK 0.75%) fixed, 10/26/2020	—	2,091
DBI Holding LLC 100 North Conahan Drive Hazleton, PA 18201	Business Services	First Lien Secured Debt, L+525, 08/02/2021	—	9,900
DecoPac, Inc. (DecoPac Holdings Inc.) 3500 Thurston Avenue Anoka, MN 55303	Beverage, Food and Tobacco	Second Lien Secured Debt, L+825, 03/31/2025 Common Equity	1.0%	16,332

Name and Address of Portfolio Company	Nature of Business	Type of Investment, Interest(1), Maturity	Voting Percentage Ownership (2)	Fair Value (in thousands)
Digital Room LLC 8000 Haskell Ave. Van Nuys, CA 91406	Media: Advertising, Printing and Publishing	First Lien Secured Debt, L+600, 11/21/2022	—	6,670
Douglas Products and Packaging Company LLC 1550 East Old 210 Highway Liberty, MO 64068	Chemicals, Plastics and Rubber	First Lien Secured Debt, L+475, 06/30/2020 Second Lien Secured Debt, L+1,050, 12/31/2020	—	6,394
Driven Performance Brands, Inc. 100 Stony Point Rd. Suite 125 Santa Rosa, CA 95401	Consumer Goods: Durable	First Lien Secured Debt(4), L+475, 09/30/2022	—	10,621
East Valley Tourist Development Authority 84245 Indio Springs Dr. Indio, CA 92203	Hotel, Gaming and Leisure	First Lien Secured Debt, L+800, 03/07/2022	—	16,827
Education Networks of America, Inc. 618 Grassmere Park Drive Suite 12 Nashville, TN 37211	Telecommunications	First Lien Secured Debt(4), L+700, 05/06/2021	—	7,581
Efficient Collaborative Retail Marketing Company, LLC 27070 Miles Road, Suite A Solon, OH 44139	Media: Diversified and Production	First Lien Secured Debt, L+675, 06/15/2022	—	10,266
Hollander Sleep Products, LLC 6501 Congress Avenue, Ste. 300 Boca Raton, FL 33487	Consumer Goods: Non-Durable	First Lien Secured Debt, L+800, 06/09/2023	—	12,344
Howard Berger Co. LLC 324 Half Acre Road #A Cranbury, NJ 08512	Wholesale	Second Lien Secured Debt, L+1,000 (PIK 5.18%), 09/30/2020	—	10,992
Hunter Defense Technologies, Inc. 30500 Aurora Road, Ste. 100 Solon, OH 44139	Aerospace and Defense	First Lien Secured Debt, L+600, 08/05/2019	—	5,386
Icynene U.S. Acquisition Corp.(3) 6747 Campobello Road Mississauga ON L5N2L7 Canada	Construction and Building	First Lien Secured Debt, L+625, 11/04/2020	—	5,741
iEnergizer Limited and Aptara, Inc.(3) Mont Crevelt House, Bulwer Avenue St. Sampson, Guernsey GY2 4LH	Business Services	First Lien Secured Debt, L+600, 05/01/2019	—	6,963
IGM RFE1 B.V.(3) Gompenstraat 49 5145 RM Waalwijk Netherlands	Chemicals, Plastics and Rubber	First Lien Secured Debt, E+800, 10/12/2021	—	14,337
Impact Sales, LLC 915 W. Jefferson Street Boise, ID 83702	Wholesale	First Lien Secured Debt(4), L+700, 12/30/2021	—	6,694
Innova Medical Ophthalmics Inc. (3) 5358 Robin Hood Road Norfolk, VA 23513	Capital Equipment	First Lien Secured Debt(4), L+675, 04/13/2022	—	3,374
Instant Web, LLC 7951 Powers Boulevard Chanhassen, MN 55317	Media: Advertising, Printing and Publishing	First Lien Secured Debt, Term Loan A (L+450, 03/28/2019), Term Loan B (L+1,100, 03/28/2019)	—	12,100

Name and Address of Portfolio Company	Nature of Business	Type of Investment, Interest(1), Maturity	Voting Percentage Ownership (2)	Fair Value (in thousands)
Interior Specialists, Inc. (Faraday Holdings, LLC) 1630 Faraday Avenue Carlsbad, CA 92008	Construction and Building	First Lien Secured Debt, L+800, 06/30/2020 Common Equity	0.1%	6,730
Inventus Power, Inc. 1200 Internationale Parkway Woodridge, IL 60517	Consumer Goods: Durable	First Lien Secured Debt, L+650, 04/30/2020	—	4,443
Jackson Hewitt Inc. 3 Sylvan Way Parsippany, NJ 07054	Consumer Services	First Lien Secured Debt, L+700, 07/30/2020	—	4,467
K2 Pure Solutions NoCal, L.P. 3515 Massillion Road, Ste. 290 Uniontown, OH 44685	Chemicals, Plastics and Rubber	First Lien Secured Debt, L+900, 02/19/2021	—	3,889
KHC Holdings, Inc. 3300 Brother Boulevard Memphis, TN 38133	Wholesale	First Lien Secured Debt(4), L+600, 10/31/2022	—	12,382
Lago Resort & Casino, LLC 1133 Ridge Road (Rt 414) Waterloo, NY 13165	Hotel, Gaming and Leisure	First Lien Secured Debt, L+950, 03/07/2022	—	10,098
Leap Legal Software Pty Ltd(3) Level 15, 135 King Street Sydney, NSW, 2000	High Tech Industries	First Lien Secured Debt, L+575, 09/12/2022	—	7,729
LifeCare Holdings LLC 5340 Legacy Drive Ste. 150, Building 4 Plano, TX 75024	Healthcare and Pharmaceuticals	First Lien Secured Debt, L+525, 11/30/2018	—	3,741
Lombart Brothers, Inc. 5358 Robin Hood Road Norfolk, VA 23513	Capital Equipment	First Lien Secured Debt(4), L+675, 04/13/2022	—	7,023
Long's Drugs Incorporated 111 Executive Center Drive, Suite 228 Columbia, SC 29210	Healthcare and Pharmaceuticals	First Lien Secured Debt, L+525, 08/19/2021	—	4,196
LSF9 Atlantis Holdings, LLC 775 Prairie Center Drive, Suite 420 Eden Prairie, MN 55344	Retail	First Lien Secured Debt, L+600, 05/01/2023	—	14,439
MailSouth, Inc. 5901 Highway 52 East Helena, AL 35080	Media: Advertising, Printing and Publishing	Second Lien Secured Debt, L+1,050, 10/22/2021	—	3,813
Marketplace Events LLC 31105 Bainbridge Road, Suite 3 Solon, OH 44139	Media: Diversified and Production	First Lien Secured Debt(4), USD (L+525, 01/27/2021), CAD (P+275, 01/27/2021)	—	17,418
McAfee, LLC 2821 Mission College Boulevard Santa Clara, CA 95054	High Tech Industries	First Lien Secured Debt, L+450, 09/30/2024 Second Lien Secured Debt, L+850, 09/29/2025	—	10,034
Mission Critical Electronics, Inc. 2911 W. Garry Ave. Santa Ana, CA 92704	Capital Equipment	First Lien Secured Debt(4), —, 09/28/2021	—	(4)
Montreign Operating Company, LLC 204 State Route 17B Monticello, NY 12701	Hotel, Gaming and Leisure	First Lien Secured Debt, L+825, 01/24/2023	—	26,514

Name and Address of Portfolio Company	Nature of Business	Type of Investment, Interest(1), Maturity	Voting Percentage Ownership (2)	Fair Value (in thousands)
Morphe, LLC 10340 Glenoaks Blvd Pacoima, CA 91331	Consumer Goods: Non-Durable	First Lien Secured Debt, L+600, 02/10/2023	—	14,406
New Trident HoldCorp, Inc. 930 Ridgebrook Road, 3rd Floor Sparks, MD 21152	Healthcare and Pharmaceuticals	First Lien Secured Debt, L+525, 07/31/2019	—	7,846
One Sixty Over Ninety, LLC 510 Walnut St, 19th Floor Philadelphia, PA 19106	Media: Advertising, Printing and Publishing	First Lien Secured Debt, L+918, 03/03/2022	—	2,750
Pathway Partners Vet Management Company LLC 3930 Bee Cave Rd. #9 Austin, TX 78746	Healthcare and Pharmaceuticals	First Lien Secured Debt, L+500, 08/19/2022	—	19,928
Patriot National, Inc. 401 E. Las Olas Blvd., Ste. 1650 Fort Lauderdale, FL 33301	Banking, Finance, Insurance and Real Estate	Common Equity	—	16
Profile Products LLC 750 Lake Cook Road, Suite 440 Buffalo Grove, IL 60089	Environmental Industries	First Lien Secured Debt(4), L+500, 01/31/2023	—	10,135
PT Network, LLC 500 Park Avenue, 8th Floor New York, NY 10022	Healthcare and Pharmaceuticals	First Lien Secured Debt(4), L+650, 11/30/2021	—	8,450
Quick Weight Loss Centers, LLC 3161 Mcnab Road Pompano Beach, FL 33069	Beverage, Food and Tobacco	First Lien Secured Debt, L+475, 08/23/2021	—	9,288
Salient CRGT Inc. 4000 Legato Road, Suite 600 Fairfax, VA 22033	High Tech Industries	First Lien Secured Debt, L+575, 02/28/2022	—	19,753
Snak Club, LLC 5560 E Slauson Ave Commerce, CA 90040	Beverage, Food and Tobacco	First Lien Secured Debt(4), L+500, 07/19/2021	—	417
Softvision, LLC 5 Concourse Pkwy., Ste. 500 Atlanta, GA 30328	High Tech Industries	First Lien Secured Debt, L+550, 05/21/2021	—	8,747
Sonny's Enterprises, LLC 5605 Hiatus Road Tamarac, FL 33321	Capital Equipment	Subordinated Debt, 11.00% fixed, 06/01/2023	—	4,750
Sundial Group Holdings LLC 11 Ranick Drive South Amityville, NY 11701	Consumer Goods: Non-Durable	First Lien Secured Debt, L+475, 08/15/2024	—	9,850
Sunshine Oilsands Ltd.(3) 1020, 903 - 8 Avenue S.W. Calgary, Alberta, Canada T2P 0P7	Energy: Oil and Gas	Second Lien Secured Debt, —, 08/01/2018	—	1,145
Survey Sampling International, LLC 6 Research Drive Shelton, CT 06484	Business Services	First Lien Secured Debt, L+500, 12/16/2020	—	5,287
TeleGuam Holdings, LLC 624 North Marine Corps Drive Tamuning, Guam 96913	Telecommunications	First Lien Secured Debt, L+500, 07/25/2023	—	8,000

Name and Address of Portfolio Company	Nature of Business	Type of Investment, Interest(1), Maturity	Voting Percentage Ownership (2)	Fair Value (in thousands)
Tensar Corporation 2500 Northwinds Parkway, Ste. 500 Alpharetta, GA 30009	Construction and Buildings	First Lien Secured Debt, L+475, 07/09/2021	—	4,295
The Infosoft Group, LLC (Gauge InfosoftCoInvest, LLC) 1000 North Water Street, Suite 1100 Milwaukee, WI 53202	Media: Broadcasting and Subscription	First Lien Secured Debt, L+525, 12/02/2021 Common Equity	1.1%	8,841
The Original Cakerie, Co. (3) The Original Cakerie Ltd. (3) 1345 Cliveden Ave Delta, BC V3M 6C7, Canada	Consumer Goods: Non-Durable	First Lien Secured Debt(4), The Original Cakerie, Co. (L+550, 07/20/2021), The Original Cakerie, Ltd. (L+500, 07/20/2021)	—	8,988
Triad Manufacturing, Inc. 4321 Semple Avenue St. Louis, MO 63120	Capital Equipment	First Lien Secured Debt, L+1,125, 12/28/2020	—	8,812
UniTek Global Services, Inc. 1777 Sentry Parkway West Gwynedd Hall, Ste. 202 Blue Bell, PA 19422	Telecommunications	First Lien Secured Debt(4), L+850 (PIK 1.00%), 01/14/2019 Subordinated Debt, 15.00% (PIK 15.00%) fixed, 07/15/2019 Preferred Equity Common Equity Warrants	1.5%	4,085
US Med Acquisition, Inc. 8260 NW 27th Street, Suite 401 Doral, FL 33122	Healthcare and Pharmaceuticals	First Lien Secured Debt, L+900, 08/13/2021	—	2,906
Veritext Corp. (f/k/a VT Buyer Acquisition Corp.) 290 West Mount Pleasant Avenue, Suite 3200 Livingston, NJ 07039	Business Services	Second Lien Secured Debt, L+900, 01/30/2023	—	2,664
Veterinary Specialists of North America, LLC 106 Apple Street, Suite 207 Tinton Falls, NJ 07724	Healthcare and Pharmaceuticals	First Lien Secured Debt(4), L+525, 07/15/2021	—	11,359
VIP Cinema Holdings, Inc. 101 Industrial Drive New Albany, MS 38652	Consumer Goods: Durable	First Lien Secured Debt, L+600, 03/01/2023	—	7,358
Vistage Worldwide, Inc. 11452 El Camino Real, Suite 400 San Diego, CA 92130	Media: Broadcasting and Subscription	First Lien Secured Debt, L+550, 08/19/2021	—	5,042
Winchester Electronics Corporation 68 Water Street Norwalk, CT 06854	Capital Equipment	First Lien Secured Debt(4), L+650, 06/30/2022	—	7,738
Companies 25% or More Owned				
PennantPark Senior Secured Loan Fund I LLC(3) 590 Madison Avenue, 15th Floor New York, NY 10022	Financial Services	Subordinated Debt, L+500, 05/06/2024 Common Equity	50.0%(6)	43,525
Total Investments				$ 710,499

(1) Represents basis point spread above index for floating rate instruments, or fixed rate for instruments if no index is indicated, that accrue interest at a predetermined spread relative to an index, typically the applicable LIBOR, or "L," EURIBOR, or "E," the Bank Bill Swap Bid Rate, or BSSY, or Prime rate, or "P." All securities are subject to a LIBOR or Prime rate floor where a spread is provided, unless noted. The spread provided includes PIK interest and other fee rates, if any.
(2) 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 equivalents) in such industries:

Industry Classification	September 30, 2017 (1)	September 30, 2016
High Tech Industries	10%	10%
Healthcare and Pharmaceuticals	9	10
Consumer Goods: Non-Durable	8	4
Hotel, Gaming and Leisure	8	6
Beverage, Food and Tobacco	7	2
Telecommunications	7	6
Consumer Goods: Durable	6	7
Aerospace and Defense	5	5
Capital Equipment	5	5
Wholesale	5	5
Business Services	4	8
Chemicals, Plastics and Rubber	4	3
Media: Advertising, Printing and Publishing	4	4
Media: Diversified and Production	4	5
Construction and Building	3	3
Media: Broadcasting and Subscription	3	2
Retail	3	5
Banking, Finance, Insurance and Real Estate	1	2
Consumer Services	1	2
Utilities: Water	—	2
All Other	3	4
Total	100%	100%

(1) Excludes investments in PSSL.

MANAGEMENT

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:

Name	Age	Position	Director Since	Expiration of Term
Independent Directors				
Adam K. Bernstein	54	Director	2010	2019
Marshall Brozost	50	Director	2010	2018
Jeffrey Flug	55	Director	2010	2019
Samuel L. Katz	52	Director	2010	2018
Interested director				
Arthur H. Penn	54	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.

Name	Age	Position
Aviv Efrat	53	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.

Name	Age	Position
Guy F. Talarico	62	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

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 controls 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

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 (54), 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 (50), 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 (55), 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 1988 to 2000, Mr. Flug was Managing Director for Goldman Sachs & Co. in its Fixed Income Division.

Samuel L. Katz (52), 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

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 (54), 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 (53), 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 (62), 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, 2017, we held six 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, 2017, three of the directors attended the annual stockholders' meeting.

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. 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*.

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*.

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 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

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 is 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*.

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, 2017. No compensation is paid directly by us to any interested director or executive officer of the Company.

	PennantPark Floating Rate Capital Ltd.			PennantPark Investment Corporation		
Name	**Aggregate compensation from the Company**	**Pension or retirement benefits accrued as part of our expense(1)**	**Total paid to director/officer**	**Aggregate compensation from the Company**	**Pension or retirement benefits accrued as part of our expense(1)**	**Total paid to director/officer**
Independent directors						
Adam K. Bernstein	$ 68,750	None	$ 68,750	$ 125,000	None	$ 125,000
Marshall Brozost	$ 68,750	None	$ 68,750	$ 125,000	None	$ 125,000
Jeffrey Flug	$ 71,250	None	$ 71,250	$ 135,000	None	$ 135,000
Samuel L. Katz	$ 71,250	None	$ 71,250	$ 135,000	None	$ 135,000
Interested director						
Arthur H. Penn	None	None	None	None	None	None
Executive officer						
Aviv Efrat(2)	None	None	None	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.

Effective August 2017, 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

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, 2017 our portfolio managers also managed investments on behalf of the following entities:

Name	Entity	Investment Focus	Gross Assets ($ in millions)
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 investments	$1,202
Other Managed Fund	Direct Lending Fund	Other credit opportunities	$136

The management and incentive fees payable by PennantPark Investment Corporation are based on the gross assets and performance of PennantPark Investment Corporation, respectively.

CONTROL PERSONS AND PRINCIPAL STOCKHOLDERS

As of December 1, 2017, 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 December 1, 2017, 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(1)	Type of ownership(2)	Shares owned	Percentage of Common Stock Outstanding
Independent directors			
Adam K. Bernstein	Record/Beneficial	5,000	*
Marshall Brozost	Record/Beneficial	—	—
Jeffrey Flug	Record/Beneficial	15,500	*
Samuel L. Katz	Record/Beneficial	120,100	*
Interested director			
Arthur H. Penn(3)	Record/Beneficial	149,209	*
Executive officer			
Aviv Efrat	Record/Beneficial	28,750	*
All directors and executive officer as a group (6 persons)	Record/Beneficial	318,559	0.8%

(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) Mr. Penn is the Managing Member of PennantPark Investment Advisers, LLC and may therefore be deemed to own beneficially the 149,209 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 directors and senior investment professionals as of December 31, 2016. Information as to the beneficial ownerships is based on information furnished to us by such persons. We are not part of a "family of investment companies," as that term is defined in the 1940 Act.

Directors	Dollar Range of the Common Stock of the Companies(1)		
Independent directors	**PennantPark Floating Rate Capital Ltd.**	**PennantPark Investment Corporation**	**Total**
Adam K. Bernstein	$ 50,001 - $100,000	$100,001 - $500,000	$100,001 - $500,000
Marshall Brozost	None	$100,001 - $500,000	$100,001 - $500,000
Jeffrey Flug	$100,001 - $500,000	Over $1,000,000	Over $1,000,000
Samuel L. Katz	Over $1,000,000	Over $1,000,000	Over $1,000,000
Interested director			
Arthur H. Penn(2)	Over $1,000,000	Over $1,000,000	Over $1,000,000
Senior Investment Professionals			
Jose A. Briones	Over $1,000,000	$500,001 - $1,000,000	Over $1,000,000
Salvatore Giannetti III	Over $1,000,000	$100,001 - $500,000	Over $1,000,000
P. Whitridge Williams, Jr.	Over $1,000,000	$500,001 - $1,000,000	Over $1,000,000

(1) Dollar ranges are as follows: None; $1-$10,000; $10,001-$50,000; $50,001-$100,000; $100,001-$500,000; $500,001-$1,000,000; or over $1,000,000.
(2) Also reflects holdings of PennantPark Investment Advisers, LLC.

CERTAIN RELATIONSHIPS AND TRANSACTIONS

Investment Management Agreement

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

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

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

Investment Advisory Fees

The base management fee is calculated at an annual rate of 1.00% of our "average adjusted gross assets," which equals our gross assets (net of U.S. Treasury Bills, temporary draws under any credit facility, cash and cash equivalents, repurchase agreements or other balance sheet transactions undertaken at the end of a fiscal quarter for purposes of preserving investment flexibility for the next quarter and adjusted to exclude cash, cash equivalents and unfunded commitments, if any) and is payable quarterly in arrears. The base management fee is calculated based on the average adjusted gross assets at the end of the two most recently completed calendar quarters, and appropriately adjusted for any share issuances or repurchases during the current calendar quarter. For example, if we sold shares on the 45th day of a quarter and did not use the proceeds from the sale to repay outstanding indebtedness, our gross assets for such quarter would give effect to the net proceeds of the issuance for only 45 days of the quarter during which the additional shares were outstanding. For the fiscal years ended September 30, 2017, 2016 and 2015, the Investment Adviser earned a base management fee of $6.9 million, $5.0 million and $3.6 million, respectively, from us.

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

Gross assets as of December 31, 20XX = $160 million
U.S. Treasury bills and temporary draws on credit facilities as of December 31, 20XX = $10 million
Adjusted gross assets as of December 31, 20XX = $150 million

Gross assets as of March 31, 20XX = $200 million
U.S. Treasury bills and temporary draws on credit facilities as of March 31, 20XX = $20 million
Adjusted gross assets as of March 31, 20XX = $180 million

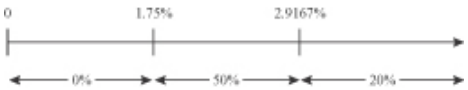
Average value of adjusted gross assets of March 31, 20XX and December 31, 20XX, which are the two most recently completed calendar quarters, and appropriately adjusted for any share issuances or repurchases during the current calendar quarter = ($150 million + $180 million) / 2 = $165 million.

The incentive fee has two parts, as follows:

One part is calculated and payable quarterly in arrears based on our Pre-Incentive Fee Net Investment Income for the immediately preceding calendar quarter. For this purpose, Pre-Incentive Fee Net Investment Income means interest income, dividend income and any other income, including any other fees (other than fees for providing managerial assistance) such as amendment, commitment, origination, prepayment penalties, structuring, diligence and consulting fees or other fees received from portfolio companies, accrued during the calendar quarter, minus our operating expenses for the quarter (including the base management fee, any expenses payable under the Administration Agreement, and any interest expense or amendment fees under any credit facility and distribution paid on any issued and outstanding preferred stock, but excluding the incentive fee). Pre-Incentive Fee Net Investment Income includes, in the case of investments with a deferred interest feature (such as OID, debt instruments with PIK interest and zero coupon securities), accrued income that we have not yet received in cash. Pre-Incentive Fee Net Investment Income does not include any realized capital gains, computed net of all realized capital losses or unrealized capital appreciation or depreciation. Pre-Incentive Fee Net Investment Income, expressed as a percentage of the value of our net assets at the end of the immediately preceding calendar quarter, is compared to the hurdle rate of 1.75% per quarter (7.00% annualized). We pay the Investment Adviser an incentive fee with respect to our Pre-Incentive Fee Net Investment Income in each calendar quarter as follows: (1) no incentive fee in any calendar quarter in which our Pre-Incentive Fee Net Investment Income does not exceed the hurdle rate of 1.75%, (2) 50% of our Pre-Incentive Fee Net Investment Income with respect to that portion of such Pre-Incentive Fee Net Investment Income, if any, that exceeds the hurdle rate but is less than 2.9167% in any calendar quarter (11.67% annualized) (we refer to this portion of our Pre-Incentive Fee Net Investment Income (which exceeds the hurdle but is less than 2.9167%) as the “catch-up,” which is meant to provide our Investment Adviser with 20% of our Pre-Incentive Fee Net Investment Income, as if a hurdle did not apply, if this net investment income exceeds 2.9167% in any calendar quarter), and (3) 20% of the amount of our Pre-Incentive Fee Net Investment Income, if any, that exceeds 2.9167% in any calendar quarter. These calculations are pro-rated for any share issuances or repurchases during the relevant quarter, if applicable. For the years ended September 30, 2017, 2016 and 2015, the Investment Adviser earned $4.9 million, $3.7 million and $2.2 million, respectively, in incentive fees on net investment income from us.

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

Pre-Incentive Fee Net Investment Income
(expressed as a percentage of the value of net assets)



Percentage of Pre-Incentive Fee Net Investment Income
allocated to income-related portion of incentive fee

The second part of the incentive fee is determined and payable in arrears as of the end of each calendar year (or upon termination of the Investment Management Agreement, as of the termination date) and equals 20.0% 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 the fiscal years ended September 30, 2017, 2016 and 2015, we accrued an incentive fee on capital gains of approximately $0.1 million, zero and $(0.4) million, respectively, as calculated under the Investment Management Agreement (as described above).

Under GAAP, we are required to accrue a capital gains incentive fee based upon net realized capital gains and net unrealized capital appreciation and depreciation on investments held at the end of each period. In calculating the capital gains incentive fee accrual, we considered the cumulative aggregate unrealized capital appreciation in the calculation, as a capital gains incentive fee would be payable if such unrealized capital appreciation were realized, even though such unrealized capital appreciation is not permitted to be considered in calculating the fee actually payable under the Investment Management Agreement. This accrual is calculated using the aggregate cumulative realized capital gains and losses and cumulative unrealized capital appreciation or depreciation. If such amount is positive at the end of a period, then we record a capital gains incentive fee equal to 20% of such amount, less the aggregate amount of actual capital gains related incentive fees paid or accrued in all prior years. If such amount is negative, then there is no accrual for such year. There can be no assurance that such unrealized capital appreciation will be realized in the future. The incentive fee accrued for under GAAP on our unrealized and realized capital gains for the years ended September 30, 2017, 2016 and 2015 was $1.2 million, $1.1 million and $(0.7) million, respectively.

Examples of Quarterly Incentive Fee Calculation

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

Alternative 1:

Assumptions

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

Hurdle(1) = 1.75%

Base management fee(2) = 0.25%

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

Pre-Incentive Fee Net Investment Income

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

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

Alternative 2:

Assumptions

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

Hurdle(1) = 1.75%

Base management fee(2) = 0.25%

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

Pre-Incentive Fee Net Investment Income

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

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

Alternative 3:

Assumptions

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

Hurdle(1) = 1.75%

Base management fee(2) = 0.25%

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

Pre-Incentive Fee Net Investment Income

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

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

* The hypothetical amount of Pre-Incentive Fee Net Investment Income shown is based on a percentage of total net assets.
(1) Represents 7.0% annualized hurdle.
(2) Represents 1.0% annualized base management fee.
(3) The "catch-up" provision is intended to provide the Investment Adviser with an incentive fee of approximately 20% on all of our Pre-Incentive Fee Net Investment Income as if a hurdle rate did not apply when our net investment income exceeds 2.9167% in any calendar quarter.

Example 2: Capital Gains Portion of Incentive Fee:

Alternative 1:

Assumptions

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

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

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

Year 4: Investment B sold for $31 million

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

Year 1: None

Year 2: $6 million capital gains incentive fee

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

Year 3: None

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

Year 4: $200,000 capital gains incentive fee

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

Alternative 2:

Assumptions

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

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

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

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

Year 5: Investment B sold for $20 million

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

Year 1: None

Year 2: $5 million capital gains incentive fee

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

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

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

Year 4: $0.6 million capital gains incentive fee

$7 million cumulative fee (20% multiplied by $35 million ($35 million cumulative realized capital gains without regard to $5 million of unrealized appreciation)) less $6.4 million (previous cumulative capital gains fee paid in Year 2 of $5.0 million and Year 3 of $1.4 million)

Year 5: None

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

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

Organization of the Investment Adviser

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

Duration and Termination of Investment Management Agreement

The Investment Management Agreement was reapproved by our board of directors, including a majority of our directors who are not interested persons of us or the Investment Adviser, in February 2017. Unless terminated earlier as described below, the Investment Management Agreement will continue in effect for a period of one year through February 2018. It will remain in effect if approved annually by our board of directors, or by the affirmative vote of the holders of a majority of our outstanding voting securities, including, in either case, approval by a majority of our directors who are not interested persons of us or the Investment Adviser. In determining to reapprove the Investment Management Agreement, our board of directors requested information from the Investment Adviser that enabled it to evaluate a number of factors relevant to its determination. These factors included the nature, quality and extent of services performed by the Investment Adviser, the Investment Adviser's ability to manage conflicts of interest effectively, our short and long-term performance, our costs, including as compared to comparable externally and internally managed publicly traded BDCs that engage in similar investing activities, the Investment Adviser's profitability, any economies of scale, and any other benefits of the relationship for the Investment Adviser. Based on the information reviewed and the considerations detailed above, our board of directors, including all of our directors who are not interested persons of us or the Investment Adviser, concluded that the investment advisory fee rates and terms are fair and reasonable in relation to the services provided and reapproved the Investment Management Agreement as being in the best interests of our stockholders.

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

Administration Agreement

We have entered into an agreement, or the Administration Agreement, with the Administrator, under which the Administrator furnishes us with office facilities, equipment and clerical, bookkeeping and record keeping services. Under our Administration Agreement, the Administrator performs, or oversees the performance of, our required administrative services, which include, among other activities, being responsible for the financial records we are required to maintain and preparing reports to our stockholders and reports filed with the SEC. In addition, the Administrator assists us in determining and publishing our NAV, oversees the preparation and filing of our tax returns and generally oversees the payment of our expenses and the performance of administrative and professional services rendered to us by others. For providing these services, facilities and personnel, we have agreed to reimburse the Administrator for its allocable portion of overhead and other expenses incurred by the Administrator in performing its obligations under the Administration Agreement, including rent, technology systems, insurance and our allocable portion of the cost of compensation and related expenses of our Chief Compliance Officer, Chief Financial Officer and their respective staffs. The Administrator also offers on our behalf, significant managerial assistance to portfolio companies to which we are required to offer such assistance. To the extent that our Administrator outsources any of its functions, we will pay the fees associated with such functions on a direct basis without profit to the Administrator. Reimbursement for certain of these costs is included in administrative services expenses in the Consolidated Statement of Operations. For the years ended September 30, 2017, 2016 and 2015, we reimbured the Investment Adviser approximately $1.7 million, $0.8 million and $0.5 million, respectively, including expenses the Investment Adviser incurred on behalf of the Administrator, for services described above.

Duration and Termination of Administration Agreement

The Administration Agreement was reapproved by our board of directors, including a majority of our directors who are not interested persons of us, in February 2017. Unless terminated earlier as described below,

our Administration Agreement will continue in effect for a period of one year through February 2018. It will remain in effect if approved annually by our board of directors, or by the affirmative vote of the holders of a majority of our outstanding voting securities, including, in either case, approval by a majority of our directors who are not interested persons of us. The Administration Agreement may not be assigned by either party without the consent of the other party. The Administration Agreement may be terminated by either party without penalty upon 60 days' written notice to the other.

Indemnification

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

License Agreement

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

PennantPark Senior Secured Loan Fund I LLC

In May 2017, we and Kemper formed PSSL, an unconsolidated joint venture. PSSL invests primarily in middle-market and other corporate debt securities consistent with our strategy. PSSL was formed as a Delaware limited liability company. As of September 30, 2017, PSSL had total assets of $103.8 million. As of the same date, we and Kemper had remaining commitments to fund subordinated notes and equity interests in PSSL in an aggregate of $50.9 million. PSSL's portfolio consisted of debt investments in 18 portfolio companies as of September 30, 2017. As of September 30, 2017, at fair value, the largest investment in a single portfolio company in PSSL was $8.1 million and the five largest investments totaled $34.9 million. PSSL invests in portfolio companies in the same industries in which we may directly invest.

We provide capital to PSSL in the form of subordinated notes and equity interests. The subordinated notes are junior in right of payment to the repayment of temporary contributions made by us to fund investments of PSSL. As of September 30, 2017, we and Kemper owned 87.5% and 12.5%, respectively, of each of the outstanding subordinated notes and equity interests. Our investment in PSSL consisted of subordinated notes of $30.1 million and equity interests of $12.9 million as of September 30, 2017. As of the same date, we had commitments to fund subordinated notes to PSSL of $61.3 million, of which $31.2 million was unfunded. As of September 30, 2017, we had commitments to fund equity interests in PSSL of $26.2 million, of which $13.3 million was unfunded.

DETERMINATION OF NET ASSET VALUE

The NAV per share of our outstanding shares of common stock is determined quarterly by dividing the value of total assets minus liabilities by the total number of shares outstanding.

As a BDC, we generally invest in illiquid securities including debt and equity investments of middle-market companies.

We expect that there may not be readily available market values for many of the investments, which are or will be in our portfolio, and we value such investments at fair value as determined in good faith by or under the direction of our board of directors using a documented valuation policy and a consistently applied valuation process, as described herein. 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 differences may be material. Our investments are generally structured as Floating Rate Loans, mainly first lien secured debt, but also may include second lien secured debt, subordinated debt, and equity investments. The transaction price, excluding transaction costs, is typically the best estimate of fair value at inception. Ongoing reviews by our Investment Adviser and independent valuation firms are based on an assessment of each underlying investment, incorporating valuations that consider the evaluation of financing and sale transactions with third parties, expected cash flows and market-based information including comparable transactions, performance multiples and yields, among other factors. These non-public investments using unobservable inputs are included in Level 3 of the fair value hierarchy, as described below.

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

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.

To the extent we invest in derivative instruments in the future, such instruments would be valued at fair value in accordance with our valuation policy.

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

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

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

A financial instrument’s categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. Generally, most of our investments and our Credit Facility are classified as Level 3. 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.

Determinations In Connection With Offerings

In connection with each offering of shares of our common stock, our board of directors or a committee thereof is required to make the determination 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 receive the consent of the majority of our common stockholders to do so, and the board of directors decides that such an offering is in the best interests of our common stockholders. Our board of directors will consider the following factors, among others, in making such determination:

- the NAV of our common stock disclosed in the most recent periodic report that we filed with the SEC;
- our management’s assessment of whether any change in the NAV of our common stock has occurred (including through the realization of gains on the sale of our portfolio securities) during the period beginning on the date of the most recent public filing with the SEC that discloses the NAV of our common stock and ending two days prior to the date of the sale of our common stock; and

- the magnitude of the difference between the offering price of the shares of our common stock in the proposed offering and management's assessment of any change in the NAV of our common stock during the period discussed above.

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 (exclusive of 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. See "Sales Of Common Stock Below Net Asset Value" for more information.

In addition, we will only sell shares of our common stock at a price below NAV per share if the following conditions are met:

- A majority of our independent directors who have no financial interest in the sale must have approved the sale; and
- A majority of such directors, in consultation with the underwriters of the offering if it is to be underwritten, must have determined in good faith, and as of a time immediately prior to the first solicitation by us or on our behalf of firm commitments to purchase such shares or immediately prior to the issuance of such shares, that the price at which such shares are to be sold is not less than a price which closely approximates the market value of those shares, less any underwriting commission or discount.

To the extent that the above procedures result in even a remote possibility that we may (i) in the absence of stockholder approval issue 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 (ii) trigger our undertaking to suspend the offering of shares of our common stock pursuant to this prospectus if the NAV fluctuates by certain amounts in certain circumstances until the prospectus is amended, the board of directors or a committee thereof will elect, in the case of clause (i) above, either to postpone the offering until such time that there is no longer the possibility of the occurrence of such event or to undertake to determine NAV within two days prior to any such sale to ensure that such sale will not be below our then current NAV, and, in the case of clause (ii) above, to comply with such undertaking or to undertake to determine NAV to ensure that such undertaking has not been triggered.

We may, however, subject to the requirements of the 1940 Act, issue subscription rights to acquire our common stock at a price below the current NAV 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. 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 the rights represents no more than one-third of our outstanding common stock at the time such rights are issued. In addition, we note that for us to file a post-effective amendment to this registration statement on Form N-2, we must then be qualified to register our securities on Form N-2. 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 may experience dilution.

These processes and procedures are part of our compliance policies and procedures. Records will be made contemporaneously with all determinations of the board of directors described in this section, and we will maintain these records with other records that we are required to maintain under the 1940 Act.

DESCRIPTION OF OUR CAPITAL STOCK

The following description is based on relevant portions of the Maryland General Corporation Law and on our charter and bylaws. This summary is not necessarily complete, and we refer you to the Maryland General Corporation Law and our charter and bylaws for a more detailed description of the provisions summarized below.

Capital Stock

As of September 30, 2017, our authorized capital stock consisted of 100,000,000 shares of stock, par value $0.001 per share, all of which is classified as common stock. Our common stock is quoted on the NASDAQ Global Select Market and the TASE under the ticker symbol “PFLT.” There are no outstanding options or warrants to purchase our stock. No stock has been authorized for issuance under any equity compensation plans. Under Maryland law, our stockholders generally are not personally liable for our debts or obligations.

The last reported closing market price of our common stock on December 12, 2017 was $13.95 per share. As of November 30, 2017, we had 40 stockholders of record.

The following are our outstanding classes of securities as of September 30, 2017:

Title of Class	Amount Authorized	Amount Held by Us or for Our Account	Amount Outstanding
Common Stock, par value $0.001 per share	100,000,000	—	32,480,074

Under our charter, our board of directors is authorized to classify and reclassify any unissued shares of stock into other classes or series of stock and authorize the issuance of shares of stock without obtaining stockholder approval. As permitted by the Maryland General Corporation Law, our charter provides that the board of directors, without any action by our stockholders, may amend the charter from time to time to increase or decrease the aggregate number of shares of stock or the number of shares of stock of any class or series that we have authority to issue.

Common Stock

All shares of our common stock have equal rights as to earnings, assets, distributions and voting and, when they are issued, will be duly authorized, validly issued, fully paid and nonassessable. Distributions may be paid to the holders of our common stock if, as and when authorized by our board of directors and declared by us out of assets legally available. Shares of our common stock have no preemptive, exchange, conversion or redemption rights and are freely transferable, except where their transfer is restricted by federal and state securities laws or by contract. In the event of a liquidation, dissolution or winding up of us, each share of our common stock would be entitled to share ratably in all of our assets that are legally available for distribution after we pay all debts and other liabilities and subject to any preferential rights of holders of our preferred stock, if any preferred stock is outstanding at such time. Each share of our common stock is entitled to one vote on all matters submitted to a vote of stockholders, including the election of directors. Except as provided with respect to any other class or series of stock, the holders of our common stock will possess exclusive voting power. There is no cumulative voting in the election of directors, which means that holders of a majority of the outstanding shares of common stock can elect all of our directors, and holders of less than a majority of such shares will be unable to elect any director.

Limitation on Liability of Directors and Officers; Indemnification and Advance of Expenses

Maryland law permits a Maryland corporation to include in its charter a provision eliminating the liability of its directors and officers to the corporation and its stockholders for money damages except for liability resulting from (a) actual receipt of an improper benefit or profit in money, property or services or (b) active and deliberate

dishonesty established by a final judgment as being material to the cause of action. Our charter contains such a provision which eliminates directors' and officers' liability to the maximum extent permitted by Maryland law, subject to the requirements of the 1940 Act.

Our charter authorizes us, to the maximum extent permitted by Maryland law and subject to the requirements of the 1940 Act, to obligate us to indemnify, and to pay or reimburse reasonable expenses in advance of final disposition of a proceeding to, any present or former director or officer or any individual who, while a director or officer and at our request, serves or has served another corporation, real estate investment trust, partnership, joint venture, trust, employee benefit plan, or any other enterprise as a director, officer, partner or trustee, from and against any claim or liability to which that person may become subject or which that person may incur by reason of his or her service in any such capacity and to pay or reimburse their reasonable expenses in advance of final disposition of a proceeding.

Our bylaws obligate us, to the maximum extent permitted by Maryland law and subject to the requirements of the 1940 Act, to indemnify any present or former director or officer or any individual who, while a director or officer and at our request, serves or has served another corporation, real estate investment trust, partnership, joint venture, trust, employee benefit plan, or any other enterprise as a director, officer, partner or trustee and who is made, or threatened to be made, a party to a proceeding by reason of his or her service in any such capacity from and against any claim or liability to which that person may become subject or which that person may incur by reason of his or her service in any such capacity and, without requiring a preliminary determination of the ultimate entitlement to indemnification, to pay or reimburse their reasonable expenses in advance of final disposition of a proceeding. The charter and bylaws also permit us to indemnify and advance expenses to any person who served a predecessor of us in any of the capacities described above and any of our employees or agents or any employees or agents of our predecessor. In accordance with the 1940 Act, we will not indemnify any person for any liability to which such person would be subject by reason of such person's willful misfeasance, bad faith, gross negligence or reckless disregard of the duties involved in the conduct of his or her office.

In addition to the indemnification provided for in our charter and bylaws, we have entered into indemnification agreements with each of our current directors and certain of our officers that provide for the maximum indemnification permitted under Maryland law and the 1940 Act.

Maryland law requires a corporation (unless its charter provides otherwise, which our charter does not) to indemnify a director or officer who has been successful, on the merits or otherwise, in the defense of any proceeding to which he or she is made, or threatened to be made, a party by reason of his or her service in that capacity. Maryland law permits a corporation to indemnify its present and former directors and officers, among others, against judgments, penalties, fines, settlements and reasonable expenses actually incurred by them in connection with any proceeding to which they may be made, or threatened to be made, a party by reason of their service in those or other capacities unless it is established that (a) the act or omission of the director or officer was material to the matter giving rise to the proceeding and (1) was committed in bad faith or (2) was the result of active and deliberate dishonesty, (b) the director or officer actually received an improper personal benefit in money, property or services or (c) in the case of any criminal proceeding, the director or officer had reasonable cause to believe that the act or omission was unlawful. However, under Maryland law, a Maryland corporation may not indemnify for an adverse judgment in a suit by or in the right of the corporation or for a judgment of liability on the basis that a personal benefit was improperly received unless, in either case, a court orders indemnification, and then only for expenses. In addition, Maryland law permits a corporation to advance reasonable expenses to a director or officer upon the corporation's receipt of (a) a written affirmation by the director or officer of his or her good faith belief that he or she has met the standard of conduct necessary for indemnification by the corporation and (b) a written undertaking by him or her or on his or her behalf to repay the amount paid or reimbursed by the corporation if it is ultimately determined that the standard of conduct was not met.

Provisions of the Maryland General Corporation Law and our Charter and Bylaws

The Maryland General Corporation Law and our charter and bylaws contain provisions that could make it more difficult for a potential acquirer to acquire us by means of a tender offer, proxy contest or otherwise. These provisions are expected to discourage certain coercive takeover practices and inadequate takeover bids and to encourage persons seeking to acquire control of us to negotiate first with our board of directors. We believe that the benefits of these provisions outweigh the potential disadvantages of discouraging any such acquisition proposals because, among other things, the negotiation of such proposals may improve their terms.

Classified board of directors

Our board of directors is divided into three classes of directors serving staggered three-year terms. The terms of the first, second and third classes will expire at the annual meeting of stockholders held in 2018, 2019 and 2020, respectively, and in each case, those directors will serve until their successors are duly elected and qualify. Upon expiration of their current terms, directors of each class will be elected to serve for a term expiring at the annual meeting of stockholders held in the third year following the year of their election and until their successors are duly elected and qualify and each year one class of directors will be elected by the stockholders. A classified board may render a change in control of us or removal of our incumbent management more difficult. We believe, however, that the longer time required to elect a majority of a classified board of directors will help to ensure the continuity and stability of our management and policies.

Election of directors

Our charter and bylaws provide that the affirmative vote of the holders of a majority of the total votes cast for and affirmatively withheld as to a nominee in the election of directors is required to elect a director. Pursuant to the charter, our board of directors may amend the bylaws to alter the vote required to elect directors.

Number of directors; vacancies; removal

Our charter provides that the number of directors will be set only by the board of directors in accordance with our bylaws. Our bylaws provide that a majority of our entire board of directors may at any time increase or decrease the number of directors. However, unless our bylaws are amended, the number of directors may never be less than four nor more than eight. We have elected to be subject to the provision of Subtitle 8 of Title 3 of the Maryland General Corporation Law regarding the filling of vacancies on the board of directors. Accordingly, except as may be provided by the board of directors in setting the terms of any class or series of preferred stock, any and all vacancies on the board of directors may be filled only by the affirmative vote of a majority of the remaining directors in office, even if the remaining directors do not constitute a quorum, and any director elected to fill a vacancy will serve for the remainder of the full term of the directorship in which the vacancy occurred and until a successor is elected and qualifies, subject to any applicable requirements of the 1940 Act.

Our charter provides that a director may be removed only for cause, as defined in our charter, and then only by the affirmative vote of at least two-thirds of the votes entitled to be cast generally in the election of directors.

Action by stockholders

Under the Maryland General Corporation Law, stockholder action can be taken only at an annual or special meeting of stockholders or by unanimous written consent in lieu of a meeting (unless the charter provides for stockholder action by less than unanimous consent, which our charter does not). These provisions may have the effect of delaying consideration of a stockholder proposal until the next annual meeting.

Advance notice provisions for stockholder nominations and stockholder proposals

Our bylaws provide that with respect to an annual meeting of stockholders, nominations of persons for election to the board of directors and the proposal of business to be considered by stockholders may be made

only (1) pursuant to our notice of the meeting, (2) by or at the direction of the board of directors or (3) by a stockholder who was a stockholder of record at the time of provision of notice and at the time of the meeting, who is entitled to vote at the meeting and who has complied with the advance notice procedures of the bylaws. With respect to special meetings of stockholders, only the business specified in our notice of the meeting may be brought before the meeting. Nominations of persons for election to the board of directors at a special meeting may be made only (1) by or at the direction of the board of directors or (2) provided that the special meeting has been called in accordance with our bylaws for the purposes of electing directors by a stockholder who was a stockholder of record at the time of provision of notice and at the time of the meeting, who is entitled to vote at the meeting and who has complied with the advance notice provisions of the bylaws.

The purpose of requiring stockholders to give us advance notice of nominations and other business is to afford our board of directors a meaningful opportunity to consider the qualifications of the proposed nominees and the advisability of any other proposed business and, to the extent deemed necessary or desirable by our board of directors, to inform stockholders and make recommendations about such qualifications or business, as well as to provide a more orderly procedure for conducting meetings of stockholders. Although our bylaws do not give our board of directors any power to disapprove stockholder nominations for the election of directors or proposals recommending certain action, they may have the effect of precluding a contest for the election of directors or the consideration of stockholder proposals if proper procedures are not followed and of discouraging or deterring a third party from conducting a solicitation of proxies to elect its own slate of directors or to approve its own proposal without regard to whether consideration of such nominees or proposals might be harmful or beneficial to us and our stockholders.

Calling of special meetings of stockholders

Our bylaws provide that special meetings of stockholders may be called by our board of directors and certain of our officers. Additionally, our bylaws provide that, subject to the satisfaction of certain procedural and informational requirements by the stockholders requesting the meeting, a special meeting of stockholders will be called by the secretary of the corporation upon the written request of stockholders entitled to cast not less than a majority of all the votes entitled to be cast at such meeting.

Approval of extraordinary corporate action; amendment of charter and bylaws

Under Maryland law, a Maryland corporation generally cannot dissolve, amend its charter, merge, convert, sell all or substantially all of its assets, engage in a share exchange or engage in similar transactions outside the ordinary course of business, unless approved by the affirmative vote of stockholders entitled to cast at least two-thirds of the votes entitled to be cast on the matter. However, a Maryland corporation may provide in its charter for approval of these matters by a lesser percentage, but not less than a majority of all of the votes entitled to be cast on the matter. Our charter generally provides for approval of charter amendments and extraordinary transactions by the stockholders entitled to cast at least a majority of the votes entitled to be cast on the matter. Our charter also provides that certain charter amendments and any proposal for our conversion, whether by merger or otherwise, from a closed-end company to an open-end company or any proposal for our liquidation or dissolution requires the approval of the stockholders entitled to cast at least 80 percent of the votes entitled to be cast on such matter. However, if such amendment or proposal is approved by at least two-thirds of our continuing directors (in addition to approval by our board of directors), such amendment or proposal may be approved by a majority of the votes entitled to be cast on such a matter. The “continuing directors” are defined in our charter as our current directors as well as those directors whose nomination for election by the stockholders or whose election by the directors to fill vacancies is approved by a majority of the continuing directors then on the board of directors.

Our charter and bylaws provide that the board of directors will have the exclusive power to adopt, alter or repeal any provision of our bylaws and to make new bylaws.

No appraisal rights

Except with respect to appraisal rights arising in connection with the Maryland Control Share Acquisition Act discussed below, as permitted by the Maryland General Corporation Law, our charter provides that stockholders will not be entitled to exercise appraisal rights.

Control share acquisitions

The Maryland Control Share Acquisition Act provides that control shares of a Maryland corporation acquired in a control share acquisition have no voting rights except to the extent approved by the affirmative vote of two-thirds of the votes entitled to be cast on the matter. Shares owned by the acquirer, by officers or by directors who are employees of the corporation are excluded from shares entitled to vote on the matter. Control shares are voting shares of stock which, if aggregated with all other shares of stock owned by the acquirer or in respect of which the acquirer is able to exercise or direct the exercise of voting power (except solely by virtue of a revocable proxy), would entitle the acquirer to exercise voting power in electing directors within one of the following ranges of voting power:

- one-tenth or more but less than one-third;
- one-third or more but less than a majority; or
- a majority or more of all voting power.

The requisite stockholder approval must be obtained each time an acquirer crosses one of the thresholds of voting power set forth above. Control shares do not include shares the acquiring person is then entitled to vote as a result of having previously obtained stockholder approval or shares acquired directly from the corporation. A control share acquisition means the acquisition of issued and outstanding control shares, subject to certain exceptions.

A person who has made or proposes to make a control share acquisition may compel the board of directors of the corporation to call a special meeting of stockholders to be held within 50 days of demand to consider the voting rights of the shares. The right to compel the calling of a special meeting is subject to the satisfaction of certain conditions, including an undertaking to pay the expenses of the meeting. If no request for a meeting is made, the corporation may itself present the question at any stockholders meeting.

If voting rights are not approved at the meeting or if the acquiring person does not deliver an acquiring person statement as required by the statute, then the corporation may repurchase for fair value any or all of the control shares, except those for which voting rights have previously been approved. The right of the corporation to repurchase control shares is subject to certain conditions and limitations. Fair value is determined, without regard to the absence of voting rights for the control shares, as of the date of any meeting of stockholders at which the voting rights of the shares are considered and not approved or, if no such meeting is held, as of the date of the last control share acquisition by the acquirer. If voting rights for control shares are approved at a stockholders meeting and the acquirer becomes entitled to vote a majority of the shares entitled to vote, all other stockholders may exercise appraisal rights. The fair value of the shares as determined for purposes of appraisal rights may not be less than the highest price per share paid by the acquirer in the control share acquisition.

The Maryland Control Share Acquisition Act does not apply (a) to shares acquired in a merger, consolidation or share exchange if the corporation is a party to the transaction or (b) to acquisitions approved or exempted by the charter or bylaws of the corporation.

Our bylaws contain a provision exempting from the Maryland Control Share Acquisition Act any and all acquisitions by any person of shares of our stock. There can be no assurance that such provision will not be amended or eliminated at any time in the future to the extent permitted by the 1940 Act.

Business combinations

Under Maryland law, "business combinations" between a Maryland corporation and an interested stockholder or an affiliate of an interested stockholder are prohibited for five years after the most recent date on which the interested stockholder becomes an interested stockholder. These business combinations include a merger, consolidation, share exchange or, in circumstances specified in the statute, an asset transfer or issuance or reclassification of equity securities. An interested stockholder is defined as:

- any person who beneficially owns, directly or indirectly, 10% or more of the voting power of the corporation's shares; or
- an affiliate or associate of the corporation who, at any time within the two-year period prior to the date in question, was the beneficial owner, directly or indirectly, of 10% or more of the voting power of the then outstanding voting stock of the corporation.

A person is not an interested stockholder under this statute if the board of directors approved in advance the transaction by which he otherwise would have become an interested stockholder. However, in approving a transaction, the board of directors may provide that its approval is subject to compliance, at or after the time of approval, with any terms and conditions determined by the board.

After the five-year prohibition, any business combination between the corporation and an interested stockholder generally must be recommended by the board of directors of the corporation and approved by the affirmative vote of at least:

- 80% of the votes entitled to be cast by holders of outstanding shares of voting stock of the corporation; and
- two-thirds of the votes entitled to be cast by holders of voting stock of the corporation other than shares held by the interested stockholder with whom or with whose affiliate the business combination is to be effected or held by an affiliate or associate of the interested stockholder.

These super-majority vote requirements do not apply if the corporation's common stockholders receive a minimum price, as defined under Maryland law, for their shares in the form of cash or other consideration in the same form as previously paid by the interested stockholder for its shares.

The statute permits various exemptions from its provisions, including business combinations that are exempted by the board of directors before the time that the interested stockholder becomes an interested stockholder. Our board of directors has adopted a resolution that any business combination between us and any other person is exempted from the provisions of the Business Combination Act, provided that the business combination is first approved by the board of directors, including a majority of the directors who are not interested persons as defined in the 1940 Act. This resolution, however, may be altered or repealed in whole or in part at any time. If this resolution is repealed, or the board of directors does not otherwise approve a business combination, the statute may discourage others from trying to acquire control of us and increase the difficulty of consummating any offer.

Conflict with 1940 Act

If and to the extent that any provision of the Maryland General Corporation Law, including the Maryland Control Share Acquisition Act (if we amend our bylaws to be subject to such Act) and the Business Combination Act, or any provision of our charter or bylaws conflicts with any provision of the 1940 Act, the applicable provision of the 1940 Act will control.

DESCRIPTION OF OUR PREFERRED STOCK

Our charter authorizes our board of directors to classify and reclassify any unissued shares of stock into other classes or series of stock, including preferred stock. Prior to issuance of shares of each class or series, the board of directors is required by Maryland law and by our charter to set the terms, preferences, conversion or other rights, voting powers, restrictions, limitations as to dividends or other distributions, qualifications and terms or conditions of redemption for each class or series. Thus, the board of directors could authorize the issuance of shares of preferred stock with terms and conditions which could have the effect of delaying, deferring or preventing a transaction or a change in control that might involve a premium price for holders of our common stock or otherwise be in their best interest. You should note, however, that any issuance of preferred stock must comply with the requirements of the 1940 Act.

The 1940 Act generally requires that (1) immediately after issuance and before any distribution is made with respect to our common stock and before any purchase of common stock is made, such preferred stock together with all other senior securities must not exceed an amount equal to 50% of our total assets less liabilities not represented by indebtedness, and (2) the holders of shares of preferred stock, if any are issued, 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. Certain matters under the 1940 Act require the separate vote of the holders of any issued and outstanding preferred stock. For example, holders of preferred stock would vote separately from the holders of common stock on a proposal to cease operations as a BDC. We believe that the availability for issuance of preferred stock will provide us with increased flexibility in structuring future financings and acquisitions.

For any series of preferred stock that we may issue, our board of directors will determine and the prospectus supplement relating to such series will describe:

- the designation and number of shares of such series;
- the rate and time at which, and the preferences and conditions under which, any dividends will be paid on shares of such series, as well as whether such dividends are cumulative or non-cumulative and participating or non-participating;
- any provisions relating to convertibility or exchangeability of the shares of such series;
- the rights and preferences, if any, of holders of shares of such series upon our liquidation, dissolution or winding up of our affairs;
- the voting powers, if any, of the holders of shares of such series;
- any provisions relating to the redemption of the shares of such series;
- any limitations on our ability to pay dividends or make distributions on, or acquire or redeem, other securities while shares of such series are outstanding;
- any conditions or restrictions on our ability to issue additional shares of such series or other securities;
- if applicable, a discussion of certain U.S. federal income tax considerations; and
- any other relative power, preferences and participating, optional or special rights of shares of such series, and the qualifications, limitations or restrictions thereof.

All shares of preferred stock that we may issue will be identical and of equal rank except as to the particular terms thereof that may be fixed by our board of directors, and all shares of each series of preferred stock will be identical and of equal rank except as to the dates from which cumulative dividends, if any, thereon will be cumulative. 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 quarterly to weekly and are subject to extension. We expect the dividend rate to be variable and determined for each dividend period.

DESCRIPTION OF OUR WARRANTS

The following is a general description of the terms of the warrants we may issue from time to time. Particular terms of any warrants we offer will be described in the prospectus supplement relating to such warrants.

We may issue warrants to purchase shares of our common stock, preferred stock or debt securities. Such warrants may be issued independently or together with shares of common or preferred stock or a specified principal amount of debt securities and may be attached or separate from such securities. We will issue each series of warrants under a separate warrant agreement to be entered into between us and a warrant agent. The warrant agent will act solely as our agent and will not assume any obligation or relationship of agency for or with holders or beneficial owners of warrants.

A prospectus supplement will describe the particular terms of any series of warrants we may issue, including the following:

- the title of such warrants;
- the aggregate number of such warrants;
- the price or prices at which such warrants will be issued;
- the currency or currencies, including composite currencies, in which the price of such warrants may be payable;
- if applicable, the designation and terms of the securities with which the warrants are issued and the number of warrants issued with each such security or each principal amount of such security;
- in the case of warrants to purchase debt securities, the principal amount of debt securities purchasable upon exercise of one warrant and the price at which and the currency or currencies, including composite currencies, in which this principal amount of debt securities may be purchased upon such exercise;
- in the case of warrants to purchase common stock or preferred stock, the number of shares of common stock or preferred stock, as the case may be, purchasable upon exercise of one warrant and the price at which and the currency or currencies, including composite currencies, in which these shares may be purchased upon such exercise;
- the date on which the right to exercise such warrants will commence and the date on which such right will expire;
- whether such warrants will be issued in registered form or bearer form;
- if applicable, the minimum or maximum amount of such warrants which may be exercised at any one time;
- if applicable, the date on and after which such warrants and the related securities will be separately transferable;
- information with respect to book-entry procedures, if any;
- the terms of the securities issuable upon exercise of the warrants;
- if applicable, a discussion of certain U.S. federal income tax considerations; and
- any other terms of such warrants, including terms, procedures and limitations relating to the exchange and exercise of such warrants.

We and the warrant agent may amend or supplement the warrant agreement for a series of warrants without the consent of the holders of the warrants issued thereunder to effect changes that are not inconsistent with the provisions of the warrants and that do not materially and adversely affect the interests of the holders of the warrants.

Prior to exercising their warrants, holders of warrants will not have any of the rights of holders of the securities purchasable upon such exercise, including, in the case of warrants to purchase debt securities, the right to receive principal, premium, if any, or interest payments, on the debt securities purchasable upon exercise or to enforce covenants in the applicable indenture or, in the case of warrants to purchase common stock or preferred stock, the right to receive dividends, if any, or payments upon our liquidation, dissolution or winding up or to exercise any voting rights.

Under the 1940 Act, we may generally only offer warrants provided that (1) the warrants expire by their terms within ten years, (2) the exercise price is not less than the market value of our common stock at the date of issuance, (3) if no such market value exists for our common stock, the exercise price is not less than the then current net asset value per share of our common stock (unless the requirements of Section 63 of the 1940 Act are met), (4) our stockholders authorize the proposal to issue such warrants, and our board of directors approves such issuance on the basis that the issuance is in the best interests of us and our stockholders and (5) if the warrants are accompanied by other securities, the warrants are not separately transferable unless no class of such warrants and the securities accompanying them has been publicly distributed. The 1940 Act also provides that the amount of our voting securities that would result from the exercise of all outstanding warrants at the time of issuance may not exceed 25% of our outstanding voting securities.

DESCRIPTION OF OUR SUBSCRIPTION RIGHTS

We may issue subscription rights to purchase common stock. Subscription rights may be issued independently or together with any other offered security and may or may not be transferable by the person purchasing or receiving the subscription rights. In connection with any subscription rights offering to our stockholders, we may enter into a standby underwriting or other arrangement with one or more underwriters or other persons pursuant to which such underwriters or other persons would purchase any offered securities remaining unsubscribed for after such subscription rights offering. We will not offer transferable subscription rights to our stockholders at a price equivalent to less than the then current net asset value 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 the rights represents no more than one-third of our outstanding common stock at the time such rights are issued. In connection with a subscription rights offering to our stockholders, we would distribute certificates evidencing the subscription rights and a prospectus supplement to our stockholders on the record date that we set for receiving subscription rights in such subscription rights offering.

The applicable prospectus supplement would describe the following terms of subscription rights in respect of which this prospectus is being delivered:

- the title of such subscription rights;
- the exercise price or a formula for the determination of the exercise price for such subscription rights;
- the number or a formula for the determination of the number of such subscription rights issued to each stockholder;
- the extent to which such subscription rights are transferable;
- if applicable, a discussion of the material U.S. federal income tax considerations applicable to the issuance or exercise of such subscription rights;
- the date on which the right to exercise such subscription rights would commence, and the date on which such rights will expire (subject to any extension);
- the extent to which such subscription rights include an over-subscription privilege with respect to unsubscribed securities;
- if applicable, the material terms of any standby underwriting or other purchase arrangement that we may enter into in connection with the subscription rights offering; and
- any other terms of such subscription rights, including terms, procedures and limitations relating to the exchange and exercise of such subscription rights.

Exercise of Subscription Rights

Each subscription right would entitle the holder of the subscription right to purchase for cash such amount of shares of common stock or other securities at such exercise price as will in each case be set forth in, or be determinable as set forth in, the prospectus supplement relating to the subscription rights offered thereby or another report filed with the SEC. Subscription rights may be exercised at any time up to the close of business on the expiration date for such subscription rights set forth in the applicable prospectus supplement. After the close of business on the expiration date, all unexercised subscription rights would become void.

Subscription rights may be exercised as set forth in the prospectus supplement relating to the subscription rights offered thereby. Upon receipt of payment and the subscription rights certificate properly completed and duly executed at the corporate trust office of the subscription rights agent or any other office indicated in the prospectus supplement, we will forward, as soon as practicable, the shares of common stock or other securities purchasable upon such exercise. We may determine to offer any unsubscribed offered securities directly to stockholders, persons other than stockholders, to or through agents, underwriters or dealers or through a combination of such methods, including pursuant to standby underwriting or other arrangements, as set forth in the applicable prospectus supplement.

DESCRIPTION OF OUR DEBT SECURITIES

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

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

The 2023 Notes are general, unsecured obligations, rank equal in right of payment with all of PennantPark Floating Rate Capital Ltd.'s existing and future 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. The 2023 Notes are rated ilAA- by S&P Global Ratings Maalot Ltd. and are listed for trading 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 issue additional debt securities in one or more series. The specific terms of each additional series of debt securities will be described in the particular prospectus supplement relating to that series. The prospectus supplement may or may not modify the general terms found in this prospectus and will be filed with the SEC. For a complete description of the terms of a particular series of debt securities, you should read both this prospectus and the prospectus supplement relating to that particular series.

As required by federal law for all bonds and notes of companies that are publicly offered in the United States, the debt securities are governed by a document called an "indenture." An indenture is a contract between us and a financial institution acting as trustee on your behalf, and is subject to and governed by the Trust Indenture Act of 1939, as amended. The trustee has two main roles. First, the trustee can enforce your rights against us if we default. There are some limitations on the extent to which the trustee acts on your behalf, described in the third paragraph under "Description of our Debt Securities —Events of Default." Second, the trustee performs certain administrative duties for us, such as sending interest and principal payments to holders.

Because this section is a summary, it does not describe every aspect of the debt securities and the indenture. We urge you to read the indenture because it, and not this description, defines your rights as a holder of debt securities issued pursuant to this prospectus and any accompanying prospectus supplement. For example, in this section, we use capitalized words to signify terms that are specifically defined in the indenture. Some of the definitions are repeated in this prospectus, but for the rest, you will need to read the indenture. We have filed the form of the indenture with the SEC.

The prospectus supplement, which will accompany this prospectus, will describe the particular series of debt securities being offered by including:

- the designation or title of the series of debt securities;
- the total principal amount of the series of debt securities and whether or not the offering may be reopened for additional securities of that series and on what terms;
- the percentage of the principal amount at which the series of debt securities will be offered;
- the date or dates on which principal will be payable;

- the rate or rates (which may be either fixed or variable) and/or the method of determining such rate or rates of interest, if any;
- the date or dates from which any interest will accrue, or the method of determining such date or dates, and the date or dates on which any interest will be payable;
- the terms for redemption, extension or early repayment, if any;
- the currencies in which the series of debt securities are issued and payable;
- whether the amount of payments of principal, premium or interest, if any, on a series of debt securities will be determined with reference to an index, formula or other method (which could be based on one or more currencies, commodities, equity indices or other indices) and how these amounts will be determined;
- the place or places, if any, other than or in addition to The City of New York, of payment, transfer, conversion and/or exchange of the debt securities;
- the denominations in which the offered debt securities will be issued;
- the provision for any sinking fund;
- any restrictive covenants;
- any Events of Default;
- whether the series of debt securities are issuable in certificated form;
- any provisions for defeasance or covenant defeasance;
- any special federal income tax implications, including, if applicable, federal income tax considerations relating to original issue discount;
- whether and under what circumstances we will pay additional amounts in respect of any tax, assessment or governmental charge and, if so, whether we will have the option to redeem the debt securities rather than pay the additional amounts (and the terms of this option);
- any provisions for convertibility or exchangeability of the debt securities into or for any other securities;
- whether the debt securities are subject to subordination and the terms of such subordination;
- the listing, if any, on a securities exchange; and
- any other terms.

The debt securities may be secured or unsecured obligations. Under the provisions of the 1940 Act, we are permitted, as a BDC, to issue debt only in amounts such that we are in compliance with our asset coverage, as defined in the 1940 Act, after each issuance of debt. Unless the prospectus supplement states otherwise, principal (and premium, if any) and interest, if any, will be paid by us in immediately available funds.

General

The indenture provides that any debt securities proposed to be sold under this prospectus and the attached prospectus supplement (“offered debt securities”) and any debt securities issuable upon the exercise of warrants or upon conversion or exchange of other offered securities (“underlying debt securities”) may be issued under the indenture in one or more series.

For purposes of this prospectus, any reference to the payment of principal of, or premium or interest, if any, on, debt securities will include additional amounts if required by the terms of the debt securities.

The indenture limits the amount of debt securities that may be issued thereunder from time to time. Debt securities issued under the indenture, when a single trustee is acting for all debt securities issued under the indenture, are called the "indenture securities." The indenture also provides that there may be more than one trustee thereunder, each with respect to one or more different series of indenture securities. See "Description of our Debt Securities—Resignation of Trustee" below. At a time when two or more trustees are acting under the indenture, each with respect to only certain series, the term "indenture securities" means the one or more series of debt securities with respect to which each respective trustee is acting. In the event that there is more than one trustee under the indenture, the powers and trust obligations of each trustee described in this prospectus will extend only to the one or more series of indenture securities for which it is trustee. If two or more trustees are acting under the indenture, then the indenture securities for which each trustee is acting would be treated as if issued under separate indentures.

The indenture does not contain any provisions that give you protection in the event we issue a large amount of debt or we are acquired by another entity.

We refer you to the prospectus supplement for information with respect to any deletions from, modifications of or additions to the Events of Default or our covenants that are described below, including any addition of a covenant or other provision providing event risk or similar protection.

We have the ability to issue indenture securities with terms different from those of indenture securities previously issued and, without the consent of the holders thereof, to reopen a previous issue of a series of indenture securities and issue additional indenture securities of that series unless the reopening was restricted when that series was created.

If any debt securities are convertible into shares of our common stock, the exercise price for such conversion will not be less than the net asset value per share at the time of issuance of such debt securities (unless the majority of our board of directors determines that a lower exercise price is in the best interests of us and our stockholders, a majority of our stockholders (including stockholders who are not affiliated persons of us) have approved an issuance of common stock below the then current net asset value per share in the 12 months preceding the issuance and the exercise price closely approximates the market value of our common stock at the time the debt securities are issued).

Conversion and Exchange

If any debt securities are convertible into or exchangeable for other securities, the prospectus supplement will explain the terms and conditions of the conversion or exchange, including the conversion price or exchange ratio (or the calculation method), the conversion or exchange period (or how the period will be determined), if conversion or exchange will be mandatory or at the option of the holder or us, provisions for adjusting the conversion price or the exchange ratio and provisions affecting conversion or exchange in the event of the redemption of the underlying debt securities. These terms may also include provisions under which the number or amount of other securities to be received by the holders of the debt securities upon conversion or exchange would be calculated according to the market price of the other securities as of a time stated in the prospectus supplement.

Issuance of Securities in Registered Form

We may issue the debt securities in registered form, in which case we may issue them either in book-entry form only or in "certificated" form. Debt securities issued in book-entry form will be represented by global securities. We expect that we will issue debt securities in book-entry only form represented by global securities.

We also will have the option of issuing debt securities in non-registered form as bearer securities if we issue the securities outside the United States to non-U.S. persons. In that case, the prospectus supplement will set forth

the mechanics for holding the bearer securities, including the procedures for receiving payments, for exchanging the bearer securities, including the procedures for receiving payments, for exchanging the bearer securities for registered securities of the same series, and for receiving notices. The prospectus supplement will also describe the requirements with respect to our maintenance of offices or agencies outside the United States and the applicable U.S. federal tax law requirements.

Book-Entry Holders

We will issue registered debt securities in book-entry form only, unless we specify otherwise in the applicable prospectus supplement. This means debt securities will be represented by one or more global securities registered in the name of a depositary that will hold them on behalf of financial institutions that participate in the depositary's book-entry system. These participating institutions, in turn, hold beneficial interests in the debt securities held by the depositary or its nominee. These institutions may hold these interests on behalf of themselves or customers.

Under the indenture, only the person in whose name a debt security is registered is recognized as the holder of that debt security. Consequently, for debt securities issued in book-entry form, we will recognize only the depositary as the holder of the debt securities and we will make all payments on the debt securities to the depositary. The depositary will then pass along the payments it receives to its participants, which in turn will pass the payments along to their customers who are the beneficial owners. The depositary and its participants do so under agreements they have made with one another or with their customers; they are not obligated to do so under the terms of the debt securities.

As a result, investors will not own debt securities directly. Instead, they will own beneficial interests in a global security, through a bank, broker or other financial institution that participates in the depositary's book-entry system or holds an interest through a participant. As long as the debt securities are represented by one or more global securities, investors will be indirect holders, and not holders, of the debt securities.

Street Name Holders

In the future, we may issue debt securities in certificated form or terminate a global security. In these cases, investors may choose to hold their debt securities in their own names or in "street name." Debt securities held in street name are registered in the name of a bank, broker or other financial institution chosen by the investor, and the investor holds a beneficial interest in those debt securities through the account he or she maintains at that institution.

For debt securities held in street name, we will recognize only the intermediary banks, brokers and other financial institutions in whose names the debt securities are registered as the holders of those debt securities, and we will make all payments on those debt securities to them. These institutions will pass along the payments they receive to their customers who are the beneficial owners, but only because they agree to do so in their customer agreements or because they are legally required to do so. Investors who hold debt securities in street name will be indirect holders, and not holders, of the debt securities.

Legal Holders

Our obligations, as well as the obligations of the applicable trustee and those of any third parties employed by us or the applicable trustee, run only to the legal holders of the debt securities. We do not have obligations to investors who hold beneficial interests in global securities, in street name or by any other indirect means. This will be the case whether an investor chooses to be an indirect holder of a debt security or has no choice because we are issuing the debt securities only in book-entry form.

For example, once we make a payment or give a notice to the holder, we have no further responsibility for the payment or notice even if that holder is required, under agreements with depositary participants or customers

or by law, to pass it along to the indirect holders but does not do so. Similarly, if we want to obtain the approval of the holders for any purpose (for example, to amend an indenture or to relieve us of the consequences of a default or of our obligation to comply with a particular provision of an indenture), we would seek the approval only from the holders, and not the indirect holders, of the debt securities. Whether and how the holders contact the indirect holders is up to the holders.

When we refer to you, we mean those who invest in the debt securities being offered by this prospectus, whether they are the holders or only indirect holders of those debt securities. When we refer to your debt securities, we mean the debt securities in which you hold a direct or indirect interest.

Special Considerations for Indirect Holders

If you hold debt securities through a bank, broker or other financial institution, either in book-entry form or in street name, we urge you to check with that institution to find out:

- how it handles securities payments and notices;
- whether it imposes fees or charges;
- how it would handle a request for the holders' consent, if ever required;
- whether and how you can instruct it to send you debt securities registered in your own name so you can be a holder, if that is permitted in the future for a particular series of debt securities;
- how it would exercise rights under the debt securities if there were a default or other event triggering the need for holders to act to protect their interests; and
- if the debt securities are in book-entry form, how the depositary's rules and procedures will affect these matters.

Global Securities

As noted above, we expect that we will issue debt securities as registered securities in book-entry form only. A global security represents one or any other number of individual debt securities. Generally, all debt securities represented by the same global securities will have the same terms.

Each debt security issued in book-entry form will be represented by a global security that we deposit with and register in the name of a financial institution or its nominee that we select. The financial institution that we select for this purpose is called the depositary. Unless we specify otherwise in the applicable prospectus supplement, The Depository Trust Company, New York, New York, known as DTC, will be the depositary for all debt securities issued in book-entry form.

A global security may not be transferred to or registered in the name of anyone other than the depositary or its nominee, unless special termination situations arise. We describe those situations below under "Description of our Debt Securities—Global Securities—Special Situations when a Global Security Will Be Terminated." As a result of these arrangements, the depositary, or its nominee, will be the sole registered owner and holder of all debt securities represented by a global security, and investors will be permitted to own only beneficial interests in a global security. Beneficial interests must be held by means of an account with a broker, bank or other financial institution that in turn has an account with the depositary or with another institution that has an account with the depositary. Thus, an investor whose security is represented by a global security will not be a holder of the debt security, but only an indirect holder of a beneficial interest in the global security.

Special Considerations for Global Securities

As an indirect holder, an investor's rights relating to a global security will be governed by the account rules of the investor's financial institution and of the depositary, as well as general laws relating to securities transfers.

The depositary that holds the global security will be considered the holder of the debt securities represented by the global security.

If debt securities are issued only in the form of a global security, an investor should be aware of the following:

- an investor cannot cause the debt securities to be registered in his or her name and cannot obtain certificates for his or her interest in the debt securities, except in the special situations we describe below;
- an investor will be an indirect holder and must look to his or her own bank or broker for payments on the debt securities and protection of his or her legal rights relating to the debt securities, as we describe under “Description of our Debt Securities—Issuance of Securities in Registered Form” above;
- an investor may not be able to sell interests in the debt securities to some insurance companies and other institutions that are required by law to own their securities in non-book-entry form;
- an investor may not be able to pledge his or her interest in a global security in circumstances where certificates representing the debt securities must be delivered to the lender or other beneficiary of the pledge in order for the pledge to be effective;
- the depositary’s policies, which may change from time to time, will govern payments, transfers, exchanges and other matters relating to an investor’s interest in a global security. We and the trustee have no responsibility for any aspect of the depositary’s actions or for its records of ownership interests in a global security. We and the trustee also do not supervise the depositary in any way;
- if we redeem less than all the debt securities of a particular series being redeemed, DTC’s practice is to determine by lot the amount to be redeemed from each of its participants holding that series;
- an investor is required to give notice of exercise of any option to elect repayment of its debt securities, through its participant, to the applicable trustee and to deliver the related debt securities by causing its participant to transfer its interest in those debt securities, on DTC’s records, to the applicable trustee;
- DTC requires that those who purchase and sell interests in a global security deposited in its book-entry system use immediately available funds. Your broker or bank may also require you to use immediately available funds when purchasing or selling interests in a global security; and
- financial institutions that participate in the depositary’s book-entry system, and through which an investor holds its interest in a global security, may also have their own policies affecting payments, notices and other matters relating to the debt securities. There may be more than one financial intermediary in the chain of ownership for an investor. We do not monitor and are not responsible for the actions of any of those intermediaries.

Special Situations when a Global Security Will Be Terminated

In a few special situations described below, a global security will be terminated and interests in it will be exchanged for certificates in non-book-entry form (certificated securities). After that exchange, the choice of whether to hold the certificated debt securities directly or in street name will be up to the investor. Investors must consult their own banks or brokers to find out how to have their interests in a global security transferred on termination to their own names, so that they will be holders. We have described the rights of holders and street name investors under “Description of our Debt Securities—Issuance of Securities in Registered Form” above.

The special situations for termination of a global security are as follows:

- if the depositary notifies us that it is unwilling, unable or no longer qualified to continue as depositary for that global security, and we are unable to appoint another institution to act as depositary;
- if we notify the trustee that we wish to terminate that global security; or

- if an Event of Default has occurred with regard to the debt securities represented by that global security and has not been cured or waived; we discuss defaults later under "Description of our Debt Securities—Events of Default."

The prospectus supplement may list situations for terminating a global security that would apply only to the particular series of debt securities covered by the prospectus supplement. If a global security is terminated, only the depositary, and not we or the applicable trustee, is responsible for deciding the names of the institutions in whose names the debt securities represented by the global security will be registered and, therefore, who will be the holders of those debt securities.

Payment and Paying Agents

We will pay interest to the person listed in the applicable trustee's records as the owner of the debt security at the close of business on a particular day in advance of each due date for interest, even if that person no longer owns the debt security on the interest due date. That day, often about two weeks in advance of the interest due date, is called the "record date." Because we will pay all the interest for an interest period to the holders on the record date, holders buying and selling debt securities must work out between themselves the appropriate purchase price. The most common manner is to adjust the sales price of the debt securities to prorate interest fairly between buyer and seller based on their respective ownership periods within the particular interest period. This prorated interest amount is called "accrued interest."

Payments on Global Securities

We will make payments on a global security in accordance with the applicable policies of the depositary as in effect from time to time. Under those policies, we will make payments directly to the depositary, or its nominee, and not to any indirect holders who own beneficial interests in the global security. An indirect holder's right to those payments will be governed by the rules and practices of the depositary and its participants, as described under "Description of our Debt Securities—Global Securities."

Payments on Certificated Securities

We will make payments on a certificated debt security as follows. We will pay interest that is due on an interest payment date by check mailed on the interest payment date to the holder at his or her address shown on the trustee's records as of the close of business on the regular record date. We will make all payments of principal and premium, if any, by check at the office of the applicable trustee in New York, New York and/or at other offices that may be specified in the prospectus supplement or in a notice to holders against surrender of the debt security.

Alternatively, if the holder asks us to do so, we will pay any amount that becomes due on the debt security by wire transfer of immediately available funds to an account at a bank in the City of New York, on the due date. To request payment by wire, the holder must give the applicable trustee or other paying agent appropriate transfer instructions at least 15 business days before the requested wire payment is due. In the case of any interest payment due on an interest payment date, the instructions must be given by the person who is the holder on the relevant regular record date. Any wire instructions, once properly given, will remain in effect unless and until new instructions are given in the manner described above.

Payment When Offices Are Closed

If any payment is due on a debt security on a day that is not a business day, we will make the payment on the next day that is a business day. Payments made on the next business day in this situation will be treated under the indenture as if they were made on the original due date, except as otherwise indicated in the attached prospectus supplement. Such payment will not result in a default under any debt security or the indenture, and no interest will accrue on the payment amount from the original due date to the next day that is a business day.

Book-entry and other indirect holders should consult their banks or brokers for information on how they will receive payments on their debt securities.

Events of Default

You will have rights if an Event of Default occurs in respect of the debt securities of your series and is not cured, as described later in this subsection.

The term "Event of Default" in respect of the debt securities of your series means any of the following:

- we do not pay the principal of, or any premium on, a debt security of the series on its due date;
- we do not pay interest on a debt security of the series within 30 days of its due date;
- we do not deposit any sinking fund payment in respect of debt securities of the series on its due date;
- we remain in breach of a covenant in respect of debt securities of the series for 60 days after we receive a written notice of default stating we are in breach. The notice must be sent by either the trustee or holders of at least 25% of the principal amount of debt securities of the series;
- we file for bankruptcy or certain other events of bankruptcy, insolvency or reorganization occur; and
- any other Event of Default in respect of debt securities of the series described in the prospectus supplement occurs.

An Event of Default for a particular series of debt securities does not necessarily constitute an Event of Default for any other series of debt securities issued under the same or any other indenture. The trustee may withhold notice to the holders of debt securities of any default, except in the payment of principal, premium or interest, if it considers the withholding of notice to be in the best interests of the holders.

Remedies if an Event of Default Occurs

If an Event of Default has occurred and has not been cured or waived, the trustee or the holders of not less than 25% in principal amount of the debt securities of the affected series may declare the entire principal amount of all the debt securities of that series to be due and immediately payable. This is called a declaration of acceleration of maturity. A declaration of acceleration of maturity may be canceled by the holders of a majority in principal amount of the debt securities of the affected series if the default is cured or waived and certain other conditions are satisfied.

Except in cases of default, where the trustee has certain special duties, the trustee is not required to take any action under the indenture at the request of any holders unless the holders offer the trustee reasonable protection from expenses and liability (called an "indemnity"). If reasonable indemnity is provided, the holders of a majority in principal amount of the outstanding debt securities of the relevant series may direct the time, method and place of conducting any lawsuit or other formal legal action seeking any remedy available to the trustee. The trustee may refuse to follow those directions in certain circumstances. No delay or omission in exercising any right or remedy will be treated as a waiver of that right, remedy or Event of Default.

Before you are allowed to bypass your trustee and bring your own lawsuit or other formal legal action or take other steps to enforce your rights or protect your interests relating to the debt securities, the following must occur:

- you must give the trustee written notice that an Event of Default has occurred and remains uncured;
- the holders of at least 25% in principal amount of all outstanding debt securities of the relevant series must make a written request that the trustee take action because of the default and must offer reasonable indemnity to the trustee against the cost and other liabilities of taking that action;

- the trustee must not have taken action for 60 days after receipt of the above notice and offer of indemnity; and
- the holders of a majority in principal amount of the debt securities must not have given the trustee a direction inconsistent with the above notice during that 60-day period.

However, you are entitled at any time to bring a lawsuit for the payment of money due on your debt securities on or after the due date.

Book-entry and other indirect holders should consult their banks or brokers for information on how to give notice or direction to or make a request of the trustee and how to declare or cancel an acceleration of maturity.

Each year, we will furnish to each trustee a written statement of certain of our officers certifying that to their knowledge we are in compliance with the indenture and the debt securities, or else specifying any default.

Waiver of Default

The holders of a majority in principal amount of the relevant series of debt securities may waive a default for all the relevant series of debt securities. If this happens, the default will be treated as if it had not occurred. No one can waive a payment default on a holder's debt security, however, without the holder's approval.

Merger or Consolidation

Under the terms of the indenture, we are generally permitted to consolidate or merge with another entity. We are also permitted to sell all or substantially all of our assets to another entity. However, we may not take any of these actions unless all the following conditions are met:

- where we merge out of existence or sell our assets, the resulting entity must agree to be legally responsible for our obligations under the debt securities;
- alternatively, we must be the surviving company;
- immediately after the transaction no Event of Default will exist;
- we must deliver certain certificates and documents to the trustee; and
- we must satisfy any other requirements specified in the prospectus supplement relating to a particular series of debt securities.

Modification or Waiver

There are three types of changes we can make to the indenture and the debt securities issued thereunder.

Changes Requiring Your Approval

First, there are changes that we cannot make to your debt securities without your specific approval. The following is a list of those types of changes:

- change the stated maturity of the principal of or interest on a debt security;
- reduce any amounts due on a debt security;
- reduce the amount of principal payable upon acceleration of the maturity of a security following a default;
- adversely affect any right of repayment at the holder's option;

- change the place or currency of payment on a debt security (except as otherwise described in the prospectus or prospectus supplement);
- impair your right to sue for payment;
- adversely affect any right to convert or exchange a debt security in accordance with its terms;
- reduce the percentage of holders of debt securities whose consent is needed to modify or amend the indenture;
- reduce the percentage of holders of debt securities whose consent is needed to waive compliance with certain provisions of the indenture or to waive certain defaults;
- modify any other aspect of the provisions of the indenture dealing with supplemental indentures, modification and waiver of past defaults, changes to the quorum or voting requirements or the waiver of certain covenants; and
- change any obligation we have to pay additional amounts.

Changes Not Requiring Approval

The second type of change does not require any vote by the holders of the debt securities. This type is limited to clarifications and certain other changes that would not adversely affect holders of the outstanding debt securities in any material respect. We also do not need any approval to make any change that affects only debt securities to be issued under the indenture after the change takes effect.

Changes Requiring Majority Approval

Any other change to the indenture and the debt securities would require the following approval:

- if the change affects only one series of debt securities, it must be approved by the holders of a majority in principal amount of that series; and
- if the change affects more than one series of debt securities issued under the same indenture, it must be approved by the holders of a majority in principal amount of all of the series affected by the change, with all affected series voting together as one class for this purpose.

In each case, the required approval must be given by written consent.

The holders of a majority in principal amount of all of the series of debt securities issued under an indenture, voting together as one class for this purpose, may waive our compliance with some of our covenants in that indenture. However, we cannot obtain a waiver of a payment default or of any of the matters covered by the bullet points included above under “Description of our Debt Securities—Modification or Waiver—Changes Requiring Your Approval.”

Further Details Concerning Voting

When taking a vote, we will use the following rules to decide how much principal to attribute to a debt security:

- for original issue discount securities, we will use the principal amount that would be due and payable on the voting date if the maturity of these debt securities were accelerated to that date because of a default;
- for debt securities whose principal amount is not known (for example, because it is based on an index), we will use a special rule for that debt security described in the prospectus supplement; and

- for debt securities denominated in one or more foreign currencies, we will use the U.S. dollar equivalent.

Debt securities will not be considered outstanding, and therefore not eligible to vote, if we have deposited or set aside in trust money for their payment or redemption. Debt securities will also not be eligible to vote if they have been fully defeased as described later under "Description of our Debt Securities—Defeasance—Full Defeasance." We will generally be entitled to set any day as a record date for the purpose of determining the holders of outstanding indenture securities that are entitled to vote or take other action under the indenture. If we set a record date for a vote or other action to be taken by holders of one or more series, that vote or action may be taken only by persons who are holders of outstanding indenture securities of those series on the record date and must be taken within eleven months following the record date.

Book-entry and other indirect holders should consult their banks or brokers for information on how approval may be granted or denied if we seek to change the indenture or the debt securities or request a waiver.

Defeasance

The following provisions will be applicable to each series of debt securities unless we state in the applicable prospectus supplement that the provisions of covenant defeasance and full defeasance will not be applicable to that series.

Covenant Defeasance

Under current U.S. federal tax law, we can make the deposit described below and be released from some of the restrictive covenants in the indenture under which the particular series was issued. This is called "covenant defeasance." In that event, you would lose the protection of those restrictive covenants but would gain the protection of having money and government securities set aside in trust to repay your debt securities. If applicable, you also would be released from the subordination provisions described under "Description of our Debt Securities—Indenture Provisions—Subordination" below. In order to achieve covenant defeasance, we must do the following:

- if the debt securities of the particular series are denominated in U.S. dollars, we must deposit in trust for the benefit of all holders of such debt securities a combination of money and U.S. government or U.S. government agency notes or bonds that will generate enough cash to make interest, principal and any other payments on the debt securities on their various due dates; and
- we may be required to deliver to the trustee a legal opinion of our counsel confirming that, under current U.S. federal income tax law, we may make the above deposit without causing you to be taxed on the debt securities any differently than if we did not make the deposit and just repaid the debt securities ourselves at maturity.

We must deliver to the trustee a legal opinion of our counsel stating that the above deposit does not require registration by us under the 1940 Act, as amended, and a legal opinion and officers' certificate stating that all conditions precedent to covenant defeasance have been complied with.

If we accomplish covenant defeasance, you can still look to us for repayment of the debt securities if there were a shortfall in the trust deposit or the trustee is prevented from making payment. In fact, if one of the remaining Events of Default occurred (such as our bankruptcy) and the debt securities became immediately due and payable, there might be a shortfall. Depending on the event causing the default, you may not be able to obtain payment of the shortfall.

Full Defeasance

If there is a change in U.S. federal tax law, as described below, we can legally release ourselves from all payment and other obligations on the debt securities of a particular series (called "full defeasance") if we put in place the following other arrangements for you to be repaid:

- if the debt securities of the particular series are denominated in U.S. dollars, we must deposit in trust for the benefit of all holders of such debt securities a combination of money and U.S. government or U.S. government agency notes or bonds that will generate enough cash to make interest, principal and any other payments on the debt securities on their various due dates;
- we may be required to deliver to the trustee a legal opinion confirming that there has been a change in current U.S. federal tax law or an Internal Revenue Service, or IRS, ruling that allows us to make the above deposit without causing you to be taxed on the debt securities any differently than if we did not make the deposit and just repaid the debt securities ourselves at maturity. Under current U.S. federal tax law, the deposit and our legal release from the debt securities would be treated as though we paid you your share of the cash and notes or bonds at the time the cash and notes or bonds were deposited in trust in exchange for your debt securities and you would recognize gain or loss on the debt securities at the time of the deposit; and
- we must deliver to the trustee a legal opinion of our counsel stating that the above deposit does not require registration by us under the 1940 Act, as amended, and a legal opinion and officers' certificate certifying compliance with all conditions precedent to defeasance have been complied with.

If we ever did accomplish full defeasance, as described above, you would have to rely solely on the trust deposit for repayment of the debt securities. You could not look to us for repayment in the unlikely event of any shortfall. Conversely, the trust deposit would most likely be protected from claims of our lenders and other creditors if we ever became bankrupt or insolvent. If applicable, you would also be released from the subordination provisions described later under "Description of our Debt Securities—Indenture Provisions—Subordination" for more information.

Form, Exchange and Transfer of Certificated Registered Securities

If registered debt securities cease to be issued in book-entry form, they will be issued:

- only in fully registered certificated form;
- without interest coupons; and
- unless we indicate otherwise in the prospectus supplement, in denominations of $1,000 and amounts that are multiples of $1,000.

Holders may exchange their certificated securities for debt securities of smaller denominations or combined into fewer debt securities of larger denominations, as long as the total principal amount is not changed.

Holders may exchange or transfer their certificated securities at the office of their trustee. We have appointed the trustee to act as our agent for registering debt securities in the names of holders transferring debt securities. We may appoint another entity to perform these functions or perform them ourselves.

Holders will not be required to pay a service charge to transfer or exchange their certificated securities, but they may be required to pay any tax or other governmental charge associated with the transfer or exchange. The transfer or exchange will be made only if our transfer agent is satisfied with the holder's proof of legal ownership.

If we have designated additional transfer agents for your debt security, they will be named in the prospectus supplement. We may appoint additional transfer agents or cancel the appointment of any particular transfer agent. We may also approve a change in the office through which any transfer agent acts.

If any certificated securities of a particular series are redeemable and we redeem less than all the debt securities of that series, we may block the transfer or exchange of those debt securities during the period beginning 15 days before the day we mail the notice of redemption and ending on the day of that mailing, in order to freeze the list of holders to prepare the mailing. We may also refuse to register transfers or exchanges of any certificated securities selected for redemption, except that we will continue to permit transfers and exchanges of the unredeemed portion of any debt security that will be partially redeemed.

If a registered debt security is issued in book-entry form, only the depositary will be entitled to transfer and exchange the debt security as described in this subsection, since it will be the sole holder of the debt security.

Resignation of Trustee

Each trustee may resign or be removed with respect to one or more series of indenture securities provided that a successor trustee is appointed to act with respect to these series. In the event that two or more persons are acting as trustee with respect to different series of indenture securities under the indenture, each of the trustees will be a trustee of a trust separate and apart from the trust administered by any other trustee.

Indenture Provisions—Subordination

Upon any distribution of our assets upon our dissolution, winding up, liquidation or reorganization, the payment of the principal of (and premium, if any) and interest, if any, on any indenture securities denominated as subordinated debt securities is to be subordinated to the extent provided in the indenture in right of payment to the prior payment in full of all Senior Indebtedness, but our obligation to you to make payment of the principal of (and premium, if any) and interest, if any, on such subordinated debt securities will not otherwise be affected. In addition, no payment on account of principal (or premium, if any), sinking fund or interest, if any, may be made on such subordinated debt securities at any time unless full payment of all amounts due in respect of the principal (and premium, if any), sinking fund and interest on Senior Indebtedness has been made or duly provided for in money or money's worth.

In the event that, notwithstanding the foregoing, any payment by us is received by the trustee in respect of subordinated debt securities or by the holders of any of such subordinated debt securities before all Senior Indebtedness is paid in full, the payment or distribution must be paid over to the holders of the Senior Indebtedness or on their behalf for application to the payment of all the Senior Indebtedness remaining unpaid until all the Senior Indebtedness has been paid in full, after giving effect to any concurrent payment or distribution to the holders of the Senior Indebtedness. Subject to the payment in full of all Senior Indebtedness upon this distribution by us, the holders of such subordinated debt securities will be subrogated to the rights of the holders of the Senior Indebtedness to the extent of payments made to the holders of the Senior Indebtedness out of the distributive share of such subordinated debt securities.

By reason of this subordination, in the event of a distribution of our assets upon our insolvency, certain of our senior creditors may recover more, ratably, than holders of any subordinated debt securities. The indenture provides that these subordination provisions will not apply to money and securities held in trust under the defeasance provisions of the indenture.

Senior Indebtedness is defined in the indenture as the principal of (and premium, if any) and unpaid interest on:

- our indebtedness (including indebtedness of others guaranteed by us), whenever created, incurred, assumed or guaranteed, for money borrowed (other than indenture securities issued under the indenture and denominated as subordinated debt securities), unless in the instrument creating or evidencing the same or under which the same is outstanding it is provided that this indebtedness is not senior or prior in right of payment to the subordinated debt securities; and
- renewals, extensions, modifications and refinancings of any of this indebtedness.

If this prospectus is being delivered in connection with the offering of a series of indenture securities denominated as subordinated debt securities, the accompanying prospectus supplement will set forth the approximate amount of our Senior Indebtedness outstanding as of a recent date.

The Trustee under the Indenture

We intend to use American Stock Transfer & Trust Company, LLC to serve as the trustee under the indenture. Mishmeret Trust Company, Ltd. serves as trustee for our 2023 Notes.

Certain Considerations Relating to Foreign Currencies

Debt securities denominated or payable in foreign currencies may entail significant risks. These risks include the possibility of significant fluctuations in the foreign currency markets, the imposition or modification of foreign exchange controls and potential illiquidity in the secondary market. These risks will vary depending upon the currency or currencies involved and will be more fully described in the applicable prospectus supplement.

REGULATION

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

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

Qualifying Assets

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

(1) Securities purchased in transactions not involving any public offering from the issuer of such securities, which issuer (subject to certain limited exceptions) is an eligible portfolio company, or from any person who is, or has been during the preceding 13 months, an affiliated person of an eligible portfolio company, or from any other person, subject to such rules as may be prescribed by the SEC. An eligible portfolio company is defined under the 1940 Act to include any issuer which:

- (a) is organized under the laws of, and has its principal place of business in, the United States;
- (b) is not an investment company (other than a small business investment company wholly-owned by the BDC) or a company that would be an investment company but is excluded from the definition of an investment company by Section 3(c) of the 1940 Act; and
- (c) satisfies any of the following:
  - (i) does not have any class of securities listed on a national securities exchange;
  - (ii) has any class of securities listed on a national securities exchange subject to a maximum market capitalization of $250.0 million; or
  - (iii) is controlled by a BDC, either alone or as part of a group acting together, and such BDC in fact exercises a controlling influence over the management or policies of such eligible portfolio company and, as a result of such control, has an affiliated person who is a director of such eligible portfolio company.

(2) Securities of any eligible portfolio company which we control.

(3) Securities purchased in a private transaction from a U.S. operating company or from an affiliated person of the issuer, or in transactions incidental thereto, if such issuer is in bankruptcy and subject to reorganization or if the issuer, immediately prior to the purchase of its securities was unable to meet its obligations as they came due without material assistance other than conventional lending or financing arrangements.

(4) Securities of an eligible portfolio company purchased from any person in a private transaction if there is no ready market for such securities and we already own 60% of the outstanding equity of the eligible portfolio company.

(5) Securities received in exchange for or distributed on or with respect to securities described in (1) through (4) above, or pursuant to the exercise of warrants or rights relating to such securities.

(6) Cash, cash equivalents, U.S. Government securities or high-quality debt securities maturing in one year or less from the time of investment.

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

Managerial Assistance to Portfolio Companies

As a BDC, we are required to make available managerial assistance to our portfolio companies that constitute a qualifying asset within the meaning of Section 55 of the 1940 Act. However, if a BDC purchases securities in conjunction with one or more other persons acting together, one of the other persons in the group may make available such managerial assistance. Making available managerial assistance means any arrangement whereby the BDC, through its directors, officers or employees, offers to provide, and, if accepted, does provide, significant guidance and counsel concerning the management, operations or business objectives and policies of a portfolio company. Our Administrator may provide such assistance on our behalf to portfolio companies that request such assistance. Officers of our Investment Adviser and Administrator may provide assistance to controlled affiliates.

Temporary Investments

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

Senior Securities

We are permitted, under specified conditions, to issue multiple classes of indebtedness and one class of stock senior to our common stock if our asset coverage, as defined in the 1940 Act, is compliant with the 1940

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

Joint Code of Ethics and Code of Conduct

We and PennantPark Investment Advisers have adopted a joint code of ethics pursuant to Rule 17j-1 under the 1940 Act and a code of conduct that establish procedures for personal investments and restricts certain personal securities transactions. Personnel subject to each code may invest in securities for their personal investment accounts, including securities that may be purchased or held by us, so long as such investments are made in accordance with the codes' requirements. Our joint code of ethics and code of conduct are available, free of charge, on our website at *www.pennantpark.com*. You may read and copy the code of ethics at the SEC's Public Reference Room in Washington, D.C. You may obtain information on the operation of the Public Reference Room by calling the SEC at (202) 551-8090. In addition, the joint code of ethics is attached as an exhibit to our annual report on Form 10-K and is available on the EDGAR Database on the SEC's Internet site at *www.sec.gov*. You may also obtain a copy of our joint code of ethics, after paying a duplicating fee, by electronic request at the following email address: *publicinfo@sec.gov*, or by writing the SEC's Public Reference Section, 100 F Street, N.E., Washington, D.C. 20549.

Proxy Voting Policies and Procedures

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

Introduction

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

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

Proxy Policies

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

Our proxy voting decisions are made by the senior investment professionals who are responsible for monitoring each of our clients' investments. To ensure that our vote is not the product of a conflict of interest, we require that: (1) anyone involved in the decision making process disclose to our Chief Compliance Officer any potential conflict that he or she is aware of and any contact that he or she has had with any interested party

regarding a proxy vote; and (2) employees involved in the decision making process or vote administration are prohibited from revealing how we intend to vote on a proposal in order to reduce any attempted influence from interested parties.

Proxy Voting Records

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

Privacy Protection Principles

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

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

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

Our privacy protection policies are available, free of charge, on our website at *www.pennantpark.com*. In addition, the privacy policy is available on the EDGAR Database on the SEC's Internet site at *www.sec.gov*, filed as an exhibit to our annual report on Form 10-K (File No. 814-00891 filed on November 17, 2011). You may also obtain copies of our privacy policy, after paying a duplicating fee, by electronic request at the following email address: *publicinfo@sec.gov*, or by writing the SEC's Public Reference Section, 100 F Street, N.E., Washington, D.C. 20549.

Other

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

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

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

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

Sarbanes-Oxley Act of 2002

The Sarbanes-Oxley Act imposes several regulatory requirements on publicly held companies and their insiders. Many of these requirements affect us.

For example:

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

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

BROKERAGE ALLOCATIONS AND OTHER PRACTICES

Since we generally acquire and dispose of our investments in privately negotiated transactions, we infrequently use brokers in the normal course of our business. Subject to policies established by our board of directors, the Investment Adviser is primarily responsible for the execution of the publicly traded securities portion of our portfolio transactions and the allocation of brokerage commissions. The Investment Adviser does not expect to execute transactions through any particular broker or dealer, but seeks to obtain the best net results for us, taking into account such factors as price (including the applicable brokerage commission or dealer spread), size of order, difficulty of execution, and operational facilities of the brokerage firm and the firm's risk and skill in positioning blocks of securities. While the Investment Adviser generally seeks reasonably competitive trade execution costs, we will not necessarily pay the lowest spread or commission available. Subject to applicable legal requirements, the Investment Adviser may select a broker based partly upon brokerage or research services provided to the Investment Adviser and us and any other clients. In return for such services, we may pay a higher commission than other brokers would charge if the Investment Adviser determines in good faith that such commission is reasonable in relation to the services provided.

MATERIAL U.S. FEDERAL INCOME TAX CONSIDERATIONS

The following discussion is a general summary of the material U.S. federal income tax considerations applicable to us and to an investment in our common stock. This summary does not purport to be a complete description of the income tax considerations applicable to an investment in any of our securities. For example, we have not described tax consequences that we assume to be generally known by investors or certain considerations that may be relevant to certain types of holders subject to special treatment under U.S. federal income tax laws, including stockholders subject to the alternative minimum tax, persons that have a functional currency (as such term is defined in the Code) other than the U.S. dollar, tax-exempt organizations, insurance companies, dealers in securities, pension plans and trusts, and financial institutions. This summary assumes that investors hold our common stock as capital assets (as such term is defined the Code). The discussion is based upon the Code, Treasury regulations, and administrative and judicial interpretations, each as of the date of this prospectus and all of which are subject to change, possibly retroactively, which could affect the continuing validity of this discussion. We have not sought and will not seek any ruling from the IRS regarding this offering. This summary does not discuss any aspects of U.S. estate or gift tax or foreign, state or local tax. It does not discuss the special treatment under U.S. federal income tax laws that could result if we invested in tax-exempt securities or certain other investment assets.

A “U.S. stockholder” generally is a beneficial owner of shares of our common stock that is for U.S. federal income tax purposes:

- a citizen or individual resident of the United States;
- a corporation, or other entity treated as a corporation for U.S. federal income tax purposes, created or organized in or under the laws of the United States or any state thereof or the District of Columbia; or
- a trust, if a court in the United States has primary supervision over its administration and one or more U.S. persons have the authority to control all substantial decisions of the trust, or the trust has a valid election in effect under applicable U.S. Treasury regulations to be treated as a U.S. person; or
- an estate, the income of which is subject to U.S. federal income taxation regardless of its source.

A “Non-U.S. stockholder” is a beneficial owner of shares of our common stock that is neither a U.S. stockholder nor a partnership for U.S. federal income tax purposes.

If a partnership (including an entity treated as a partnership for U.S. federal income tax purposes) holds shares of our common stock, the tax treatment of a partner in the partnership will generally depend upon the status of the partner and the activities of the partnership. A prospective stockholder that is a partner of a partnership holding shares of our common stock should consult its tax advisors with respect to the purchase, ownership and disposition of shares of our common stock.

Tax matters are very complicated and the tax consequences to an investor of an investment in our shares will depend on the facts of his, her or its particular situation. We encourage investors to consult their own tax advisors regarding the specific consequences of such an investment, including tax reporting requirements, the applicability of U.S. federal, state, local and foreign tax laws, eligibility for the benefits of any applicable tax treaty and the effect of any possible changes in the tax laws.

Taxation in Connection with Holding Securities other than our Common Stock

We intend to describe in any prospectus supplement related to the offering of preferred stock, debt securities, warrants or rights offerings to purchase our common stock, the U.S. federal income tax considerations applicable to such securities as will be sold by us pursuant to that supplement, including the taxation of any debt securities that will be sold at an original issue discount or acquired with market discount or amortizable bond premium and the tax treatment of sales, exchanges or retirements of our debt securities. In addition, we may describe in the applicable prospectus supplement the U.S. federal income tax considerations applicable to holders of our debt securities who are not “U.S. persons.”

Election to be Treated as a RIC

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

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

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

    1) at least 50% of the value of our assets consists of cash, cash equivalents, U.S. government securities, securities of other RICs, and other securities if such other securities of any one issuer neither represents more than 5% of the value of our assets nor more than 10% of the outstanding voting securities of the issuer; and

    2) no more than 25% of the value of our assets is invested in the securities, other than U.S. government securities or securities of other RICs, of one issuer or of two or more issuers that are controlled, as determined under applicable tax rules, by us and that are engaged in the same or similar or related trades or businesses or in certain qualified publicly traded partnerships.

Although not required for us to maintain our RIC tax status, in order to preclude the imposition of a 4% nondeductible federal excise tax imposed on RICs, we must distribute in respect of each calendar year dividends to our stockholders 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 our capital gain net income (i.e., the excess, if any, of our capital gains over capital losses), adjusted for certain ordinary losses, generally for the one-year period ending on October 31 of the calendar year plus (3) any net ordinary income or capital gain net income for the preceding years that was not distributed during such years and on which we did not incur any corporate income tax, or the Excise Tax Avoidance Requirement. 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 may retain and incur tax on such net capital gains or investment company taxable income, subject to maintaining our ability to be treated as a RIC for federal income tax purposes, in order to provide us with additional liquidity.

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

We may invest in partnerships which may result in our being subject to additional state, local or foreign income, franchise or other tax liabilities. In addition, some of the income and fees that we may recognize will not

satisfy the 90% Income Test. In order to mitigate the risk that such income and fees would disqualify us as a RIC as a result of a failure to satisfy the 90% Income Test, we may be required to recognize such income and fees indirectly through the Taxable Subsidiary, which is classified as corporations for U.S. federal income tax purposes. The Taxable Subsidiary generally will be subject to corporate income taxes on their earnings, which ultimately will reduce our return on such income and fees.

Taxation as a RIC

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

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

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

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

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

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

Failure to Qualify as a RIC

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

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

The remainder of this discussion assumes that we qualify as a RIC and have satisfied the Annual Distribution Requirement.

Taxation of U.S. Stockholders

Distributions by us, including distributions where stockholders can elect to receive cash or stock, generally are taxable to U.S. stockholders as ordinary income or capital gains. Distributions of our "investment company taxable income" (which is, generally, our ordinary income plus realized net short-term capital gains in excess of realized net long-term capital losses) will be taxable as ordinary income to U.S. stockholders to the extent of our current or accumulated earnings and profits, whether paid in cash or reinvested in additional common stock. To the extent such distributions paid by us to non-corporate stockholders (including individuals) are attributable to dividends from U.S. corporations and certain qualified foreign corporations, properly designated by us as "qualified dividend income," such distributions generally will be eligible for a reduced U.S. federal income tax

rate, if certain holding period and other requirements are satisfied. In this regard, it is anticipated that distributions paid by us will generally not be attributable to dividends and, therefore, generally will not qualify for the reduced U.S. federal income tax rate. Distributions of our net capital gains (which is generally our realized net long-term capital gains in excess of realized net short-term capital losses) properly reported by us as "capital gain dividends" will be taxable to a U.S. stockholder as long-term capital gains at a reduced rate in the case of individuals, trusts or estates, regardless of the U.S. stockholder's holding period in such common stock and regardless of whether paid in cash or reinvested in additional common stock. Distributions in excess of our earnings and profits first will reduce a U.S. stockholder's adjusted tax basis in such stockholder's common stock and, after the adjusted basis is reduced to zero, will constitute capital gains to such U.S. stockholder.

Although we currently intend to distribute any long-term capital gains as capital gain dividends at least annually, we may in the future decide to retain some or all of our long-term capital gains, but designate the retained amount as a "deemed distribution." In that case, among other consequences, we will be subject to tax on the retained amount, each U.S. stockholder will be required to include his, her or its share of the deemed distribution of net capital gains in income as if it had been actually distributed to the U.S. stockholder, and the U.S. stockholder will be entitled to claim a credit equal to his, her or its allocable share of the tax paid thereon by us. The amount of the deemed distribution of net capital gains net of such tax will be added to the U.S. stockholder's tax basis for his, her or its common stock. Since we expect to be subject to tax on any retained capital gains at our regular corporate tax rate, and since that rate is currently in excess of the maximum rate generally payable by individuals on long-term capital gains, the amount of tax that individual stockholders will be treated as having paid and for which they will receive a credit generally will exceed the tax they owe on the retained net capital gain. Such excess generally may be claimed as a credit against the U.S. stockholder's other U.S. federal income tax obligations or may be refunded to the extent it exceeds a stockholder's liability for U.S. federal income tax. A stockholder that is not subject to U.S. federal income tax or otherwise required to file a U.S. federal income tax return would be required to file a U.S. federal income tax return on the appropriate form in order to claim a refund for the taxes we paid. In order to use the deemed distribution approach, we must provide written notice to our stockholders. We cannot treat any of our investment company taxable income as a "deemed distribution."

For purposes of determining (1) whether the Annual Distribution Requirement is satisfied for any year and (2) the amount of capital gain distributions paid for that year, we may, under certain circumstances, elect to treat a distribution that is paid during the following taxable year as if it had been paid during the taxable year in question. If we make such an election, the U.S. stockholder will still be treated as receiving the distribution in the taxable year in which the distribution is made. However, any distribution declared by us in October, November or December of any calendar year, payable to stockholders of record on a specified date in such a month and actually paid during January of the following calendar year, will be treated as if it had been received by our U.S. stockholders on December 31 of the calendar year in which the distribution was declared.

If an investor purchases shares of our common stock shortly before the record date of a distribution, the price of the shares will include the value of the distribution and the investor will be subject to tax on the distribution even though economically it represents a return of his, her or its investment.

A stockholder generally will recognize taxable gain or loss if the stockholder sells or otherwise disposes of his, her or its shares of our common stock. Any gain or loss arising from such sale or disposition generally will be treated as long-term capital gain or loss if the stockholder has held his, her or its shares for more than one year. Otherwise, such gain or loss will be classified as short-term capital gain or loss. However, any capital loss arising from the sale or disposition of shares of our common stock held for six months or less will be treated as long-term capital loss to the extent of the amount of capital gain distributions received or undistributed capital gain deemed received, with respect to such shares. In addition, all or a portion of any loss recognized upon a disposition of shares of our common stock may be disallowed if other shares of our common stock are purchased (whether through reinvestment of dividends or other distributions or otherwise) within 30 days before or after the disposition.

In general, individual U.S. stockholders currently are subject to a maximum federal income tax rate of 20% (depending on whether the stockholder's income exceeds certain threshold amounts) on their net capital gain, i.e., the excess of realized net long-term capital gain over realized net short-term capital loss for a taxable year, including a long-term capital gain derived from an investment in our shares. Such rate is lower than the maximum rate on ordinary income currently payable by individuals. Corporate U.S. stockholders currently are subject to federal income tax on net capital gain at the maximum 35% rate also applied to ordinary income. Non-corporate stockholders with net capital losses for a taxable year (i.e., capital losses in excess of capital gains) generally may deduct up to $3,000 of such losses against their ordinary income each year; any net capital losses of a non-corporate stockholder in excess of $3,000 generally may be carried forward and used in subsequent years as provided in the Code. Corporate stockholders generally may not deduct any net capital losses for a taxable year, but may carryback such losses for three taxable years or carry forward such losses for five taxable years.

A 3.8% Medicare tax is imposed on certain net investment income (including ordinary dividends and capital gain distributions received from us and net gains from redemptions or other taxable dispositions of our shares) of U.S. individuals and on the undistributed net investment income of certain estates and trusts to the extent that such person's "modified adjusted gross income" (in the case of an individual) or "adjusted gross income" (in the case of an estate or trust) exceeds certain threshold amounts.

We (or if a U.S. stockholder holds our shares through an intermediary, such intermediary) will provide information to our U.S. stockholders, as promptly as possible after the end of each calendar year, detailing, on a per share and per distribution basis, the amounts includible in such U.S. stockholder's taxable income for such year as ordinary income and as long-term capital gain. In addition, the federal tax status of each year's distributions generally will be reported to the IRS (including the amount of distributions, if any, eligible for the preferential rate). Distributions may also be subject to additional state, local and foreign taxes depending on a U.S. stockholder's particular situation.

The Code requires reporting of adjusted cost basis information for covered securities, which generally include shares of a RIC acquired after January 1, 2012, to the IRS and to taxpayers. Stockholders should contact their financial intermediaries with respect to reporting of cost basis and available elections for their accounts.

A U.S. stockholder (other than an "exempt recipient," including a "C" corporation and certain other persons who, when required, demonstrate their exempt status) may be subject to federal income tax withholding ("backup withholding") at a rate of 28% from all taxable distributions to any U.S. stockholder (1) who fails to furnish a correct taxpayer identification number or a certificate that such stockholder is exempt from backup withholding, or (2) with respect to whom the IRS notifies a withholding agent that such stockholder has failed to properly report certain interest and distribution income to the IRS and to respond to notices to that effect. An individual's taxpayer identification number is his or her social security number. Backup withholding is not an additional tax. Any amount withheld under backup withholding is allowed as a credit against the U.S. stockholder's federal income tax liability and may entitle such stockholder to a refund, provided that proper information is timely provided to the IRS.

Taxation of Non-U.S. Stockholders

Whether an investment in the shares is appropriate for a Non-U.S. stockholder will depend upon that person's particular circumstances. An investment in the shares by a Non-U.S. stockholder may have adverse tax consequences. Non-U.S. stockholders should consult their tax advisers before investing in our common stock.

Subject to the discussion below, distributions of our "investment company taxable income" to Non-U.S. stockholders (including interest income and net short-term capital gain) are generally expected to be subject to withholding of U.S. federal taxes at a 30% rate (or lower rate provided by an applicable treaty) to the extent of our current and accumulated earnings and profits. If the distributions are effectively connected with a U.S. trade

or business of the Non-U.S. stockholder, we will not be required to withhold U.S. federal tax if the Non-U.S. stockholder complies with applicable certification and disclosure requirements, although the distributions will be subject to U.S. federal income tax at the rates applicable to U.S. persons. Special certification requirements apply to a Non-U.S. stockholder that is a foreign partnership or a foreign trust, and such entities are urged to consult their own tax advisors. Backup withholding will not be applied to payments that have been subject to the 30% (or lower applicable treaty rate) withholding tax described in this paragraph.

In addition, with respect to certain distributions made by RICs to Non-U.S. Stockholders, no withholding is required and the distributions generally are not subject to U.S. federal income tax if (i) the distributions are properly reported in a notice timely delivered to our stockholders as "interest-related dividends" or "short-term capital gain dividends," (ii) the distributions are derived from sources specified in the Code for such dividends and (iii) certain other requirements are satisfied. Nevertheless, it should be noted that in the case of shares of our stock held through an intermediary, the intermediary may have withheld U.S. federal income tax even if we designated the payment as an interest-related dividend or as a short-term capital gain dividend. Moreover, depending on the circumstances, we may designate all, some or none of our potentially eligible dividends as ineligible for this exemption from withholding.

Actual or deemed distributions of our net long-term capital gains to a Non-U.S. stockholder, and gains realized by a Non-U.S. stockholder upon the sale of our common stock, will not be subject to federal withholding tax and generally will not be subject to federal income tax unless, (i) the distributions or gains, as the case may be, are effectively connected with a U.S. trade or business of the Non-U.S. stockholder and, if an income tax treaty applies, are attributable to a permanent establishment maintained by the Non-U.S. stockholder in the United States or (ii) in the case of an individual stockholder, the stockholder is present in the United States for a period or periods aggregating 183 days or more during the year of the sale or the receipt of the distributions or gains and certain other conditions are met.

We are required to withhold U.S. tax (at a 30% rate) on payments of taxable dividends and (effective January 1, 2019) redemption proceeds and certain capital gain dividends made to certain non-U.S. entities that fail to comply (or be deemed compliant) with extensive reporting and withholding requirements designed to inform the U.S. Department of the Treasury of U.S.-owned foreign investment accounts. Stockholders may be requested to provide additional information to the withholding agents to enable the withholding agents to determine whether withholding is required. A non-U.S. stockholder may be exempt from the withholding described in this paragraph under an applicable intergovernmental agreement between the U.S. and a foreign government, provided that the non-U.S. stockholder and the applicable foreign government comply with the terms of such agreement.

If we distribute our net capital gains in the form of deemed rather than actual distributions (which we may do in the future), a Non-U.S. stockholder will be entitled to claim a U.S. federal income tax credit or tax refund equal to the stockholder's allocable share of the tax we pay on the capital gains deemed to have been distributed. In order to obtain the refund, the Non-U.S. stockholder would be required to obtain a U.S. taxpayer identification number and file a U.S. federal income tax return even if the Non-U.S. stockholder would not otherwise be required to obtain a U.S. taxpayer identification number or file a U.S. federal income tax return. For a corporate Non-U.S. stockholder, distributions (both actual and deemed), and gains realized upon the sale of our common stock that are effectively connected with a U.S. trade or business may, under certain circumstances, be subject to an additional "branch profits tax" at a 30% rate (or at a lower rate if provided for by an applicable treaty). Accordingly, investment in the shares of our common stock may not be appropriate for a Non-U.S. stockholder.

A Non-U.S. stockholder who is a non-resident alien individual, and who is otherwise subject to withholding of federal income tax, may be subject to information reporting and backup withholding of federal income tax on distributions unless the Non-U.S. stockholder provides us or the distribution paying agent with an IRS Form W-8BEN, IRS Form W-8BEN-E, or an acceptable substitute form, or otherwise meets documentary

evidence requirements for establishing that it is a Non-U.S. stockholder or otherwise establishes an exemption from backup withholding.

Non-U.S. stockholders may also be subject to U.S. estate tax with respect to their investment in our common shares.

Non-U.S. persons should consult their own tax advisors with respect to the U.S. federal income tax and withholding tax, and state, local and foreign tax consequences of an investment in the shares.

PLAN OF DISTRIBUTION

We may sell the securities in any of three ways (or in any combination): (a) through underwriters or dealers; (b) directly to a limited number of purchasers or to a single purchaser; or (c) through agents. The securities may be sold "at-the-market" to or through a market maker or into an existing trading market for the securities, on an exchange or otherwise. The prospectus supplement will set forth the terms of the offering of such securities, including:

- the name or names of any underwriters, dealers or agents and the amounts of securities underwritten or purchased by each of them;
- the offering price of the securities and the proceeds to us and any discounts, commissions or concessions allowed or reallowed or paid to dealers; and
- any securities exchanges on which the securities may be listed.

Any offering price and any discounts or concessions allowed or reallowed or paid to dealers may be changed from time to time.

We may offer our shares of common stock in a public offering at-the-market to a select group of investors, in which case a stockholder may not be able to participate in such offering and a stockholder will experience dilution unless the stockholder purchases additional shares of our common stock in the secondary market at the same or lower price.

If underwriters are used in the sale of any securities, the securities will be acquired by the underwriters for their own accounts and may be resold from time to time in one or more transactions, including negotiated transactions, at a fixed public offering price or at varying prices determined at the time of sale. The securities may be either offered to the public through underwriting syndicates represented by managing underwriters, or directly by underwriters. Generally, the underwriters' obligations to purchase the securities will be subject to certain conditions precedent. The underwriters will be obligated to purchase all of the securities if they purchase any of the securities.

In compliance with the guidelines of FINRA, the maximum 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 sell the securities through agents from time to time. The prospectus supplement will name any agent involved in the offer or sale of the securities and any commissions we pay to them. Generally, any agent will be acting on a best efforts basis for the period of its appointment.

We may authorize underwriters, dealers or agents to solicit offers by certain purchasers to purchase the securities from us at the public offering price set forth in the prospectus supplement pursuant to delayed delivery contracts providing for payment and delivery on a specified date in the future. The contracts will be subject only to those conditions set forth in the prospectus supplement, and the prospectus supplement will set forth any commissions we pay for soliciting these contracts. Agents and underwriters may be entitled to indemnification by us against certain civil liabilities, including liabilities under the Securities Act, or to contribution with respect to payments which the agents or underwriters may be required to make in respect thereof. Agents and underwriters may be customers of, engage in transactions with, or perform services for us in the ordinary course of business. Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers or persons controlling the Registrant pursuant to the foregoing provisions, the Registrant has been informed that in the opinion of the SEC such indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable.

We may enter into derivative transactions with third parties, or sell securities not covered by this prospectus to third parties in privately negotiated transactions. If the applicable prospectus supplement indicates, in connection with those derivatives, the third parties may sell securities covered by this prospectus and the applicable prospectus supplement, including in short sale transactions. If so, the third party may use securities pledged by us or borrowed from us or others to settle those sales or to close out any related open borrowings of stock, and may use securities received from us in settlement of those derivatives to close out any related open borrowings of stock. The third party in such sale transactions will be an underwriter and, if not identified in this prospectus, will be identified in the applicable prospectus supplement (or a post-effective amendment). We or one of our affiliates may loan or pledge securities to a financial institution or other third party that in turn may sell the securities using this prospectus. Such financial institution or third party may transfer its short position to investors in our securities or in connection with a simultaneous offering of other securities offered by this prospectus or otherwise.

SUB-ADMINISTRATOR, CUSTODIAN, TRANSFER AGENT AND TRUSTEE

BNY Mellon Investment Servicing (US) Inc., a subsidiary of The Bank of New York Mellon, provides administrative and accounting services to us under a sub-administration and accounting services agreement. The Bank of New York Mellon provides custodian services to us pursuant to a custodian services agreement. The principal business address of The Bank of New York Mellon is 225 Liberty Street, New York, NY 10286. American Stock Transfer & Trust Company, LLC acts as our transfer agent, distribution paying agent and registrar. The principal business address of American Stock Transfer & Trust Company, LLC is 6201 15th Avenue, 3rd floor, Brooklyn, NY 11219, telephone number: (800) 937-5449. American Stock Transfer & Trust Company, LLC may also serve as trustee for offerings of our debt securities. Mishmeret Trust Company, Ltd. serves as trustee for our 2023 Notes. The principal business address of Mishmeret Trust Company, Ltd. is 46-48 Menachem Begin Road, Tel Aviv, Israel 66184.

LEGAL MATTERS

Certain legal matters regarding the securities offered by this prospectus will be passed upon for us by Dechert LLP, Washington, D.C., and by Venable LLP, as special Maryland counsel.

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Our current independent registered public accounting firm, RSM US LLP, located at 1185 Avenue of the Americas, New York, NY 10036, has audited our financial statements as of September 30, 2017 and 2016.

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PennantPark Floating Rate Capital Ltd. and subsidiaries

Annual Financial Statements

Management's Report on Internal Control Over Financial Reporting

The management of PennantPark Floating Rate Capital Ltd., or "we," "us," "our" and "Company," is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f), and for performing an assessment of the effectiveness of internal control over financial reporting as of September 30, 2017. Our internal control system is a process designed to provide reasonable assurance to our management and board of directors regarding the preparation and fair presentation of published financial statements.

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

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

Management assessed the effectiveness of the Company's internal control over financial reporting as of September 30, 2017. In making this assessment, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in 2013 *Internal Control—Integrated Framework*. Based on the assessment management believes that, as of September 30, 2017, our internal control over financial reporting is effective based on those criteria.

The Company's independent registered public accounting firm has issued an audit report on the effectiveness of our internal control over financial reporting as of September 30, 2017. This report appears on page F-4.

Report of Independent Registered Public Accounting Firm

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

We have audited the accompanying consolidated statements of assets and liabilities, including the consolidated schedules of investments, of PennantPark Floating Rate Capital Ltd. and its Subsidiaries (collectively referred to as the "Company") as of September 30, 2017 and 2016, and the related consolidated statements of operations, changes in net assets and cash flows for each of the three years in the period ended September 30, 2017. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. Our procedures included confirmation of investments owned as of September 30, 2017, by correspondence with the custodian. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of PennantPark Floating Rate Capital Ltd. and its Subsidiaries as of September 30, 2017 and 2016, and the results of their operations, changes in net assets and their cash flows for each of the three years in the period ended September 30, 2017, in conformity with U.S. generally accepted accounting principles.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), PennantPark Floating Rate Capital Ltd. and its Subsidiaries' internal control over financial reporting as of September 30, 2017, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013, and our report dated November 30, 2017, expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ RSM US LLP
New York, New York
November 30, 2017

Report of Independent Registered Public Accounting Firm
On Internal Control Over Financial Reporting

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

We have audited PennantPark Floating Rate Capital Ltd. and its Subsidiaries' (collectively referred to as the "Company") internal control over financial reporting as of September 30, 2017, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, PennantPark Floating Rate Capital Ltd. and its Subsidiaries maintained, in all material respects, effective internal control over financial reporting as of September 30, 2017, based on criteria established in *Internal Control—Integrated Framework* issued by Committee of Sponsoring Organizations of the Treadway Commission in 2013.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated statements of assets and liabilities of PennantPark Floating Rate Capital Ltd. and its Subsidiaries, including the schedules of investments as of September 30, 2017 and 2016, and the related consolidated statements of operations, changes in net assets and cash flows for each of the three years in the period ended September 30, 2017 and our report dated November 30, 2017 expressed an unqualified opinion.

/s/ RSM US LLP
New York, New York
November 30, 2017

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

	September 30, 2017	September 30, 2016
Assets		
Investments at fair value		
Non-controlled, non-affiliated investments (cost—$665,514,821 and $597,910,267, respectively)	$ 666,973,639	$ 598,887,525
Controlled, affiliated investments (cost—$43,000,000 and $0, respectively)	43,525,143	—
Total of investments (cost—$708,514,821 and $597,910,267, respectively)	710,498,782	598,887,525
Cash and cash equivalents (cost—$18,847,673 and $28,903,359, respectively)	18,910,756	28,910,973
Interest receivable	2,520,506	2,480,406
Receivable for investments sold	14,185,850	—
Prepaid expenses and other assets	1,229,505	1,141,191
Total assets	747,345,399	631,420,095
Liabilities		
Distributions payable	3,085,607	2,539,357
Payable for investments purchased	21,730,512	14,935,970
Credit Facility payable (cost—$253,783,301 and $232,907,500, respectively) (See Notes 5 and 11)	256,858,457	232,389,498
Interest payable on Credit Facility	693,787	531,926
Base management fee payable (See Note 3)	1,784,806	1,458,625
Performance-based incentive fee payable (See Note 3)	5,061,217	3,454,914
Accrued other expenses	224,739	202,977
Total liabilities	289,439,125	255,513,267
Commitments and contingencies (See Note 12)		
Net assets		
Common stock, 32,480,074 and 26,730,074 shares issued and outstanding, respectively		
Par value $0.001 per share and 100,000,000 shares authorized	32,480	26,730
Paid-in capital in excess of par value	451,448,872	371,194,366
Undistributed net investment income	3,163,645	4,559,646
Accumulated net realized gain (loss) on investments	4,289,389	(1,376,788)
Net unrealized appreciation on investments	2,047,044	984,872
Net unrealized (appreciation) depreciation on Credit Facility	(3,075,156)	518,002
Total net assets	$ 457,906,274	$ 375,906,828
Total liabilities and net assets	$ 747,345,399	$ 631,420,095
Net asset value per share	$ 14.10	$ 14.06

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

	Years Ended September 30,		
	2017	2016	2015
Investment income:			
From non-controlled, non-affiliated investments:			
Interest	$ 52,772,368	$ 40,561,694	$ 29,203,963
Other income	1,660,371	2,334,330	1,151,336
Settlement proceeds	4,551,485	3,299,764	—
From controlled, affiliated investments:			
Interest	512,610	105,502	—
Total investment income	59,496,834	46,301,290	30,355,299
Expenses:			
Base management fee (See Note 3)	6,902,645	5,015,077	3,572,614
Performance-based incentive fee (See Note 3)	6,217,210	4,791,574	1,114,972
Interest and expenses on the Credit Facility (See Note 11)	8,338,880	4,923,219	3,251,761
Administrative services expenses (See Note 3)	2,245,000	1,148,281	837,708
Other general and administrative expenses	1,935,000	2,179,257	1,176,769
Expenses before provision for taxes and amendment costs	25,638,735	18,057,408	9,953,824
Provision for taxes	300,000	—	440,000
Credit Facility amendment costs (See Notes 5 and 11)	112,736	907,722	2,301,478
Total expenses	26,051,471	18,965,130	12,695,302
Net investment income	33,445,363	27,336,160	17,659,997
Realized and unrealized gain (loss) on investments and Credit Facility:			
Net realized gain (loss) on investments	5,410,903	(1,376,788)	395,862
Net change in unrealized appreciation (depreciation) on:			
Non-controlled, non-affiliated investments	537,029	7,011,289	(6,100,614)
Controlled, affiliated investments	525,143	—	—
Credit Facility (appreciation) depreciation (See Note 5 and 11)	(3,593,158)	518,002	549,000
Net change in unrealized (depreciation) appreciation on investments and Credit Facility	(2,530,986)	7,529,291	(5,551,614)
Net realized and unrealized gain (loss) from investments and Credit Facility	2,879,917	6,152,503	(5,155,752)
Net increase in net assets resulting from operations	$ 36,325,280	$ 33,488,663	$ 12,504,245
Net increase in net assets resulting from operations per common share (See Note 7)	$ 1.20	$ 1.25	$ 0.77
Net investment income per common share	$ 1.10	$ 1.02	$ 1.08

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

	Years Ended September 30,		
	2017	2016	2015
Net increase in net assets from operations:			
Net investment income	$ 33,445,363	$ 27,336,160	$ 17,659,997
Net realized gain (loss) on investments	5,410,903	(1,376,788)	395,862
Net change in unrealized appreciation (depreciation) on investments	1,062,172	7,011,289	(6,100,614)
Net change in unrealized (appreciation) depreciation on Credit Facility	(3,593,158)	518,002	549,000
Net increase in net assets resulting from operations	36,325,280	33,488,663	12,504,245
Distributions to stockholders:			
Distribution of net investment income	(34,842,284)	(30,076,422)	(15,976,507)
Distribution of realized gains	—	(395,862)	(2,882,909)
Total distributions to stockholders	(34,842,284)	(30,472,284)	(18,859,416)
Capital transactions			
Public offering (See Note 1)	80,986,450	—	—
Offering costs	(470,000)	—	—
Acquisition of MCG assets	—	—	164,717,910
Net increase in net assets resulting from capital transactions	80,516,450	—	164,717,910
Net increase in net assets	81,999,446	3,016,379	158,362,739
Net assets:			
Beginning of year	375,906,828	372,890,449	214,527,710
End of year	$ 457,906,274	$ 375,906,828	$ 372,890,449
Undistributed net investment income, end of year	$ 3,163,645	$ 4,559,646	$ 6,991,473
Capital share activity:			
Shares issued from public offering	5,750,000	—	11,832,018

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

	Years Ended September 30,		
	2017	2016	2015
Cash flows from operating activities:			
Net increase in net assets resulting from operations	$ 36,325,280	$ 33,488,663	$ 12,504,245
Adjustments to reconcile net increase in net assets resulting from operations to net cash used in operating activities:			
Net change in unrealized (appreciation) depreciation on investments	(1,062,172)	(7,011,289)	6,100,614
Net change in unrealized appreciation (depreciation) on Credit Facility	3,593,158	(518,002)	(549,000)
Net realized (gain) loss on investments	(5,410,903)	1,376,788	(395,862)
Net accretion of discount and amortization of premium	(1,741,190)	(1,679,006)	(1,240,781)
Purchases of investments	(508,906,932)	(364,442,810)	(224,170,119)
Payment-in-kind interest	(590,703)	(108,066)	(655,580)
Proceeds from dispositions of investments	406,484,118	164,178,802	195,049,580
Increase in interest receivable	(40,100)	(521,002)	(185,534)
(Increase) decrease in receivable for investments sold	(14,185,850)	—	9,001,938
(Increase) decrease in prepaid expenses and other assets	(88,314)	279,338	(315,139)
Increase in payable for investments purchased	6,794,542	5,568,470	6,205,500
Increase (decrease) in interest payable on Credit Facility	161,861	307,293	(60,273)
Increase in base management fee payable	326,181	502,510	41,137
Increase (decrease) in performance-based incentive fee payable	1,606,303	3,451,978	(2,177,668)
Increase (decrease) in accrued other expenses	21,762	(336,370)	(1,358,635)
Net cash used in operating activities	(76,712,959)	(165,462,703)	(2,205,577)
Cash flows from financing activities:			
Public offering	80,986,450	—	—
Offering costs	(470,000)	—	—
Acquisition of MCG assets	—	—	144,981,158
Distributions paid to stockholders	(34,296,034)	(30,472,284)	(17,660,884)
Borrowings under Credit Facility (See Notes 5 and 11)	309,680,000	260,707,500	130,700,000
Repayments under Credit Facility (See Notes 5 and 11)	(288,804,200)	(57,400,000)	(247,500,000)
Net cash provided by financing activities	67,096,216	172,835,216	10,520,274
Net (decrease) increase in cash equivalents	(9,616,743)	7,372,513	8,314,697
Effect of exchange rate changes on cash	(383,474)	109,946	—
Cash and cash equivalents, beginning of year	28,910,973	21,428,514	13,113,817
Cash and cash equivalents, end of year	$ 18,910,756	$ 28,910,973	$ 21,428,514
Supplemental disclosure of cash flow information:			
Interest paid	$ 8,289,755	$ 4,615,926	$ 3,313,701
Taxes paid	$ 256,719	$ 308,795	$ 430,242
Non-cash exchanges and conversions	$ 35,659,395	$ 4,843,385	$ 670,283
Investments acquired from MCG in exchange for shares issued	$ —	$ —	$ 20,277,132
Acquisition of other assets from MCG	$ —	$ —	$ 549,031
Acquisition of other liabilities from MCG	$ —	$ —	$ 1,089,411

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PENNANTPARK FLOATING RATE CAPITAL LTD. AND SUBSIDIARIES
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Issuer Name	Maturity	Industry	Current Coupon	Basis Point Spread Above Index (1)	Par / Shares	Cost	Fair Value (2)
Investments in Non-Controlled, Non-Affiliated Portfolio Companies—145.7% (3), (4)							
First Lien Secured Debt—133.1%							
Advanced Cable Communications, LLC	08/09/2021	Telecommunications	7.08%	L+575	16,225,000	$16,029,514	$ 16,225,000
Alera Group Holdings, Inc.	12/30/2022	Banking, Finance, Insurance and Real Estate	6.74%	L+550	9,177,637	9,098,312	9,177,637
Alera Group Holdings, Inc. (Revolver) (8), (9)	12/30/2021	Banking, Finance, Insurance and Real Estate	—	—	1,771,962	—	—
Alera Group Holdings, Inc. (8), (9)	12/30/2022	Banking, Finance, Insurance and Real Estate	—	—	2,983,500	—	—
American Auto Auction Group, LLC	11/30/2021	Transportation: Consumer	6.48%	L+525	10,945,000	10,805,812	10,780,825
American Gilsonite Company (8)	12/31/2021	Metals and Mining	15.00% (PIK 5.00%)	—	128,248	124,746	141,073
American Scaffold	03/31/2022	Aerospace and Defense	7.83%	L+650	4,750,000	4,691,657	4,702,500
American Teleconferencing Services, Ltd.	12/08/2021	Telecommunications	7.78%	L+650	10,741,453	10,574,347	10,338,648
Anesthesia Consulting & Management, LP	10/31/2022	Healthcare and Pharmaceuticals	6.58%	L+525	3,970,000	3,935,087	3,890,600
Anesthesia Consulting & Management, LP (8), (9)	10/31/2022	Healthcare and Pharmaceuticals	—	—	1,000,000	—	(20,000)
API Technologies Corp.	04/22/2022	Aerospace and Defense	7.83%	L+650	4,881,581	4,803,856	4,832,765
BEI Precision Systems & Space Company, Inc.	04/28/2023	Aerospace and Defense	6.84%	L+550	11,970,000	11,854,093	11,850,300
Broder Bros., Co., Tranche A	06/03/2021	Consumer Goods: Non-Durable	7.08%	L+575	2,239,494	2,207,741	2,239,494
Broder Bros., Co., Tranche B	06/03/2021	Consumer Goods: Non-Durable	13.58%	L+1,225	2,326,329	2,291,698	2,326,329
By Light Professional IT Services, LLC	05/16/2022	High Tech Industries	8.57%	L+725	15,630,360	15,263,130	15,630,360
By Light Professional IT Services, LLC (Revolver) (8), (9)	05/16/2022	High Tech Industries	—	—	2,311,784	—	—
Camin Cargo Control, Inc.	06/30/2021	Transportation: Cargo	6.08%	L+475	2,443,750	2,427,358	2,346,000
Canyon Valor Companies, Inc. (10)	06/16/2023	Media: Broadcasting and Subscription	5.58%	L+425	7,000,000	6,982,500	7,084,560
Cardenas Markets LLC	11/29/2023	Beverage, Food and Tobacco	7.08%	L+575	3,913,750	3,923,223	3,874,613
CD&R TZ Purchaser, Inc.	07/21/2023	Consumer Goods: Durable	7.33%	L+600	12,375,000	12,094,894	12,359,531
Charming Charlie LLC	12/24/2019	Retail	12.33% (PIK 3.00%)	L+800	3,961,544	3,935,418	3,367,313
Chicken Soup for the Soul Publishing, LLC	01/08/2019	Media: Advertising, Printing and Publishing	7.50%	L+625	4,589,286	4,573,873	4,313,929
Clarus Glassboards LLC	03/16/2023	Construction and Building	6.49%	L+525	4,845,000	4,799,506	4,820,775
Corfin Industries LLC	11/25/2020	Aerospace and Defense	10.99%	L+975	6,024,894	5,941,505	5,994,770
Corfin Industries LLC (Revolver) (8), (9)	11/25/2020	Aerospace and Defense	—	—	518,033	—	—
Country Fresh Holdings, LLC	03/31/2023	Beverage, Food and Tobacco	6.24%	L+500	19,874,245	19,826,088	19,598,775
DBI Holding, LLC	08/02/2021	Business Services	6.49%	L+525	9,900,075	9,817,138	9,900,075
Digital Room LLC	11/21/2022	Media: Advertising, Printing and Publishing	7.24%	L+600	6,737,500	6,618,201	6,670,125
Douglas Products and Packaging Company LLC	06/30/2020	Chemicals, Plastics and Rubber	6.09%	L+475	4,373,643	4,353,783	4,373,643
Driven Performance Brands, Inc.	09/30/2022	Consumer Goods: Durable	6.01%	L+475	10,621,111	10,592,972	10,621,111
Driven Performance Brands, Inc. (Revolver) (8), (9)	09/30/2022	Consumer Goods: Durable	—	—	1,000,000	—	—
East Valley Tourist Development Authority	03/07/2022	Hotel, Gaming and Leisure	9.33%	L+800	16,743,500	16,527,764	16,827,218
Education Networks of America, Inc.	05/06/2021	Telecommunications	8.33%	L+700	7,657,615	7,627,450	7,581,039
Education Networks of America, Inc. (Revolver) (8), (9)	05/06/2021	Telecommunications	—	—	1,304,348	—	—
Efficient Collaborative Retail Marketing Company, LLC	06/15/2022	Media: Diversified and Production	8.08%	L+675	10,265,559	10,180,889	10,265,559
Hollander Sleep Products, LLC	06/09/2023	Consumer Goods: Non-Durable	9.30%	L+800	12,468,750	12,228,162	12,344,063
Hunter Defense Technologies, Inc. (8)	08/05/2019	Aerospace and Defense	7.31%	L+600	5,862,500	5,846,053	5,386,172
Icynene U.S. Acquisition Corp. (6), (10)	11/04/2020	Construction and Building	7.56%	L+625	5,918,532	5,850,581	5,740,976
iEnergizer Limited and Aptara, Inc. (6), (10)	05/01/2019	Business Services	7.25%	L+600	7,032,993	6,999,227	6,962,663
IGM RFE1 B.V. (6), (10), (11)	10/12/2021	Chemicals, Plastics and Rubber	8.00%	E+800	€12,127,444	12,605,265	14,337,076
Impact Sales, LLC	12/30/2021	Wholesale	8.30%	L+700	6,693,709	6,693,709	6,693,710
Impact Sales, LLC (8), (9)	12/30/2021	Wholesale	—	—	3,234,375	—	—
Innova Medical Ophthalmics Inc. (6), (10)	04/13/2022	Capital Equipment	8.08%	L+675	3,373,623	3,328,240	3,373,623
Innova Medical Ophthalmics Inc. (Revolver) (6), (8), (9), (10)	04/13/2022	Capital Equipment	—	—	530,973	—	—
Instant Web, LLC, Term Loan A	03/28/2019	Media: Advertising, Printing and Publishing	5.80%	L+450	7,600,388	7,465,921	7,600,388
Instant Web, LLC, Term Loan B	03/28/2019	Media: Advertising, Printing and Publishing	12.30%	L+1,100	4,500,000	4,475,493	4,500,000
Interior Specialists, Inc.	06/30/2020	Construction and Building	9.25%	L+800	6,525,437	6,486,278	6,525,437
Inventus Power, Inc.	04/30/2020	Consumer Goods: Durable	7.74%	L+650	4,726,503	4,701,985	4,442,913
Jackson Hewitt Inc.	07/30/2020	Consumer Services	8.31%	L+700	4,653,450	4,596,122	4,467,312

PENNANTPARK FLOATING RATE CAPITAL LTD. AND SUBSIDIARIES
CONSOLIDATED SCHEDULE OF INVESTMENTS—(Continued)
SEPTEMBER 30, 2017

Issuer Name	Maturity	Industry	Current Coupon	Basis Point Spread Above Index (1)	Par / Shares	Cost	Fair Value (2)
K2 Pure Solutions NoCal, L.P. (8)	02/19/2021	Chemicals, Plastics and Rubber	10.24%	L+900	4,002,471	$ 3,936,841	$ 3,889,079
KHC Holdings, Inc.	10/31/2022	Wholesale	7.33%	L+600	12,140,282	11,975,690	12,140,282
KHC Holdings, Inc. (Revolver) (8)	10/30/2020	Wholesale	6.16%	L+425	241,935	241,935	241,935
KHC Holdings, Inc. (Revolver) (8), (9)	10/30/2020	Wholesale	—	—	967,742	—	—
Lago Resort & Casino, LLC	03/07/2022	Hotel, Gaming and Leisure	10.83%	L+950	10,200,000	10,036,631	10,098,000
Leap Legal Software Pty Ltd (6), (10), (11)	09/12/2022	High Tech Industries	7.54%	L+575	A$10,000,000	7,728,822	7,728,822
LifeCare Holdings LLC (8)	11/30/2018	Healthcare and Pharmaceuticals	6.58%	L+525	4,954,937	4,935,975	3,740,977
Lombart Brothers, Inc.	04/13/2022	Capital Equipment	8.08%	L+675	6,244,708	6,170,275	6,244,708
Lombart Brothers, Inc. (Revolver) (8)	04/13/2022	Capital Equipment	9.75%	P+550	778,761	778,761	778,761
Lombart Brothers, Inc. (Revolver) (8), (9)	04/13/2022	Capital Equipment	—	—	460,177	—	—
Long's Drugs Incorporated	08/19/2021	Healthcare and Pharmaceuticals	6.49%	L+525	4,238,073	4,204,738	4,195,692
LSF9 Atlantis Holdings, LLC	05/01/2023	Retail	7.24%	L+600	14,409,375	14,275,705	14,439,347
Marketplace Events LLC	01/27/2021	Media: Diversified and Production	6.58%	L+525	3,377,372	3,335,177	3,377,372
Marketplace Events LLC (11)	01/27/2021	Media: Diversified and Production	6.25%	P+275	C$17,070,749	11,982,846	13,581,250
Marketplace Events LLC (Revolver) (8)	01/27/2021	Media: Diversified and Production	7.00%	P+275	459,854	459,854	459,854
Marketplace Events LLC (Revolver) (8), (9)	01/27/2021	Media: Diversified and Production	—	—	1,243,309	—	—
McAfee, LLC (8)	09/30/2024	High Tech Industries	5.50%	L+450	7,500,000	7,425,000	7,533,750
Mission Critical Electronics, Inc. (Revolver) (8), (9)	09/28/2021	Capital Equipment	—	—	883,392	—	(3,592)
Montreign Operating Company, LLC	01/24/2023	Hotel, Gaming and Leisure	9.49%	L+825	26,294,872	26,729,488	26,513,908
Morphe, LLC	02/10/2023	Consumer Goods: Non-Durable	7.33%	L+600	14,625,000	14,241,842	14,405,625
New Trident HoldCorp, Inc.	07/31/2019	Healthcare and Pharmaceuticals	7.08%	L+575	8,717,647	8,682,164	7,845,882
One Sixty Over Ninety, LLC	03/03/2022	Media: Advertising, Printing and Publishing	10.52%	L+918	2,750,000	2,699,796	2,750,000
Pathway Partners Vet Management Company LLC (8)	08/19/2022	Healthcare and Pharmaceuticals	6.24%	L+500	19,927,985	19,874,203	19,927,985
Profile Products LLC	01/31/2023	Environmental Industries	6.33%	L+500	10,135,136	10,045,209	10,135,136
Profile Products LLC (8), (9)	01/31/2019	Environmental Industries	—	—	573,770	—	—
Profile Products LLC (Revolver) (8), (9)	01/31/2022	Environmental Industries	—	—	2,459,016	—	—
PT Network, LLC	11/30/2021	Healthcare and Pharmaceuticals	7.82%	L+650	8,450,400	8,383,771	8,450,400
PT Network, LLC (8), (9)	11/30/2021	Healthcare and Pharmaceuticals	—	—	2,291,100	—	—
Quick Weight Loss Centers, LLC	08/23/2021	Beverage, Food and Tobacco	6.02%	L+475	9,625,000	9,509,035	9,288,125
Salient CRGT Inc.	02/28/2022	High Tech Industries	6.99%	L+575	19,654,762	19,296,231	19,753,036
Snak Club, LLC (Revolver) (8)	07/19/2021	Beverage, Food and Tobacco	6.24%	L+500	416,667	416,667	416,667
Snak Club, LLC (Revolver) (8), (9)	07/19/2021	Beverage, Food and Tobacco	—	—	83,333	—	—
Softvision, LLC	05/21/2021	High Tech Industries	6.74%	L+550	8,747,271	8,678,587	8,747,271
Sundial Group Holdings LLC	08/15/2024	Consumer Goods: Non-Durable	5.99%	L+475	10,000,000	9,851,797	9,850,000
Survey Sampling International, LLC	12/16/2020	Business Services	6.27%	L+500	5,394,946	5,366,833	5,287,047
TeleGuam Holdings, LLC	07/25/2023	Telecommunications	6.24%	L+500	8,000,000	7,882,265	8,000,000
Tensar Corporation	07/09/2021	Construction and Building	6.08%	L+475	4,631,234	4,603,617	4,295,470
The Infosoft Group, LLC	12/02/2021	Media: Broadcasting and Subscription	6.58%	L+525	8,210,074	8,139,730	8,210,074
The Original Cakerie, Co. (6), (10)	07/20/2021	Consumer Goods: Non-Durable	6.81%	L+550	3,061,372	3,037,176	3,061,372
The Original Cakerie Ltd. (6), (10)	07/20/2021	Consumer Goods: Non-Durable	6.31%	L+500	5,926,142	5,879,466	5,926,142
The Original Cakerie Ltd. (Revolver) (6), (8), (9), (10)	07/20/2021	Consumer Goods: Non-Durable	—	—	1,418,484	—	—
Triad Manufacturing, Inc.	12/28/2020	Capital Equipment	12.49%	L+1,125	8,856,365	8,730,717	8,812,084
UniTek Global Services, Inc. (8)	01/14/2019	Telecommunications	9.84% (PIK 1.00%)	L+850	42,809	42,809	42,809
UniTek Global Services, Inc. (8)	01/14/2019	Telecommunications	9.84%	L+850	599,702	577,759	611,696
UniTek Global Services, Inc. (8), (9)	01/14/2019	Telecommunications	—	—	151,090	—	—
US Med Acquisition, Inc. (8)	08/13/2021	Healthcare and Pharmaceuticals	10.33%	L+900	3,058,594	3,058,594	2,905,664
Veterinary Specialists of North America, LLC	07/15/2021	Healthcare and Pharmaceuticals	6.56%	L+525	11,374,590	11,277,723	11,362,740
Veterinary Specialists of North America, LLC (8), (9)	07/15/2021	Healthcare and Pharmaceuticals	—	—	2,660,000	—	(2,771)
Veterinary Specialists of North America, LLC (Revolver) (8), (9)	07/15/2021	Healthcare and Pharmaceuticals	—	—	880,000	—	(917)
VIP Cinema Holdings, Inc.	03/01/2023	Consumer Goods: Durable	7.34%	L+600	7,312,500	7,278,094	7,358,203
Vistage Worldwide, Inc.	08/19/2021	Media: Broadcasting and Subscription	6.74%	L+550	5,029,514	4,994,127	5,042,087
Winchester Electronics Corporation	06/30/2022	Capital Equipment	7.83%	L+650	7,695,662	7,636,513	7,734,140
Winchester Electronics Corporation (8), (9)	06/30/2022	Capital Equipment	—	—	708,333	—	3,542
Total First Lien Secured Debt						607,582,054	609,668,554

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Issuer Name	Maturity	Industry	Current Coupon	Basis Point Spread Above Index (1)	Par / Shares	Cost	Fair Value (2)
Second Lien Secured Debt—8.3%							
DecoPac, Inc. (8)	03/31/2025	Beverage, Food and Tobacco	9.58%	L+825	15,000,000	$ 14,700,169	$ 14,700,000
Douglas Products and Packaging Company LLC	12/31/2020	Chemicals, Plastics and Rubber	11.84%	L+1,050	2,000,000	1,976,823	2,020,000
Howard Berger Co. LLC	09/30/2020	Wholesale	11.34% (PIK 5.18%)	L+1,000	11,450,000	11,064,344	10,992,000
MailSouth, Inc.	10/22/2021	Media: Advertising, Printing and Publishing	11.80%	L+1,050	3,775,000	3,714,927	3,812,750
McAfee, LLC (8)	09/29/2025	High Tech Industries	9.50%	L+850	2,500,000	2,462,500	2,500,000
Sunshine Oilsands Ltd. (5), (6), (8), (10)	08/01/2018	Energy: Oil and Gas	— (7)	—	2,792,500	2,720,508	1,144,925
Veritext Corp.	01/30/2023	Business Services	10.33%	L+900	2,690,625	2,623,765	2,663,719
Total Second Lien Secured Debt						39,263,036	37,833,394
Subordinated Debt/Corporate Notes—1.6% (8)							
American Gilsonite Company (5)	12/31/2021	Metals and Mining	17.00% (PIK 17.00%)	—	382,989	382,989	417,458
Credit Infonet, Inc.	10/26/2020	High Tech Industries	13.00% (PIK 0.75%)	—	2,090,982	2,051,232	2,090,982
Sonny's Enterprises, LLC	06/01/2023	Capital Equipment	11.00%	—	4,750,000	4,662,663	4,750,000
UniTek Global Services, Inc.	07/15/2019	Telecommunications	15.00% (PIK 15.00%)	—	170,523	170,523	173,933
Total Subordinated Debt/Corporate Notes						7,267,407	7,432,373
Preferred Equity—0.5% (7), (8)							
UniTek Global Services, Inc.—Senior Preferred Equity	—	Telecommunications	18.00%	—	448,851	448,851	472,846
UniTek Global Services, Inc.	—	Telecommunications	13.50%	—	1,047,317	670,283	1,509,417
Total Preferred Equity						1,119,134	1,982,263
Common Equity/Warrants—2.2% (7), (8)							
Affinion Group Holdings, Inc.	—	Consumer Goods: Durable	—	—	99,029	3,514,572	2,263,885
Affinion Group Holdings, Inc., Series C and Series D	—	Consumer Goods: Durable	—	—	4,298	1,186,649	6,398
American Gilsonite Company	—	Metals and Mining	—	—	1,000	215,182	339,402
By Light Investco LP	—	High Tech Industries	—	—	21,908	2,190,771	2,601,944
By Light Investco LP (9)	—	High Tech Industries	—	—	5,592	—	—
Corfin InvestCo, L.P.	—	Aerospace and Defense	—	—	3,000	300,000	429,091
Corfin InvestCo, L.P. (9)	—	Aerospace and Defense	—	—	3,000	—	—
DecoPac Holdings Inc.	—	Beverage, Food and Tobacco	—	—	1,633	1,632,744	1,632,744
Faraday Holdings, LLC (Interior Specialists, Inc.)	—	Construction and Building	—	—	1,141	58,044	204,710
Gauge InfosoftCoInvest, LLC (The Infosoft Group, LLC)	—	Media: Broadcasting and Subscription	—	—	500	500,000	631,240
Patriot National, Inc. (13)	—	Banking, Finance, Insurance and Real Estate	—	—	11,867	27,995	16,020
TPC Broadband Investors, LP (Advanced Cable Communications, LLC) (12)	—	Telecommunications	—	—	657,233	657,233	657,233
TPC Broadband Investors, LP (Advanced Cable Communications, LLC) (9), (12)	—	Telecommunications	—	—	342,767	—	—
UniTek Global Services, Inc.	—	Telecommunications	—	—	213,739	—	1,274,388
UniTek Global Services, Inc. (Warrants)	—	Telecommunications	—	—	23,889	—	—
Total Common Equity/Warrants						10,283,190	10,057,055
Total Investments in Non-Controlled, Non-Affiliated Portfolio Companies						665,514,821	666,973,639
Investments in Controlled, Affiliated Portfolio Companies—9.5% (3), (4)							
Subordinated Debt/Corporate Notes—6.6%							
PennantPark Senior Secured Loan Fund I LLC (8), (10)	05/06/2024	Financial Services	6.34%	L+500	30,100,000	30,100,000	30,100,000
Equity Interests—2.9% (7), (8)							
PennantPark Senior Secured Loan Fund I LLC (10)	—	Financial Services	—	—	—	12,900,000	13,425,143
Total Investments in Controlled, Affiliated Portfolio Companies						43,000,000	43,525,143
Total Investments—155.2%						708,514,821	710,498,782

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PENNANTPARK FLOATING RATE CAPITAL LTD. AND SUBSIDIARIES
CONSOLIDATED SCHEDULE OF INVESTMENTS—(Continued)
SEPTEMBER 30, 2017

Issuer Name	Cost	Fair Value (2)
Cash and Cash Equivalents—4.1%		
BlackRock Federal FD Institutional 30	$ 16,818,166	$ 16,818,166
BNY Mellon Cash	2,029,507	2,092,590
Total Cash and Cash Equivalents	18,847,673	18,910,756
Total Investments and Cash Equivalents—159.3%	$ 727,362,494	$ 729,409,538
Liabilities in Excess of Other Assets—(59.3)%		(271,503,264)
Net Assets—100.0%		$ 457,906,274

(1) Represents floating rate instruments that accrue interest at a predetermined spread relative to an index, typically the applicable London Interbank Offered Rate, or LIBOR or "L," the Euro Interbank Offered Rate, or EURIBOR, the Bank Bill Swap Bid Rate, or BBSY or Prime rate, or "P." All securities are subject to a LIBOR or Prime rate floor where a spread is provided, unless noted. The spread provided includes payment-in-kind, or PIK, interest and other fee rates, if any.
(2) Valued based on our accounting policy (see Note 2).
(3) The provisions of the 1940 Act classify investments based on the level of control that we maintain in a particular portfolio company. As defined in the 1940 Act, a company is generally presumed to be "non-controlled" when we own 25% or less of the portfolio company's voting securities and "controlled" when we own more than 25% of the portfolio company's voting securities.
(4) The provisions of the 1940 Act classify investments further based on the level of ownership that we maintain in a particular portfolio company. As defined in the 1940 Act, a company is generally deemed as "non-affiliated" when we own less than 5% of a portfolio company's voting securities and "affiliated" when we own 5% or more of a portfolio company's voting securities.
(5) Security is exempt from registration under Rule 144A promulgated under the Securities Act. The security may be resold in transactions that are exempt from registration, normally to qualified institutional buyers.
(6) Non-U.S. company or principal place of business outside the United States.
(7) Non-income producing securities.
(8) The securities, or a portion thereof, are not pledged as collateral under the Credit Facility. All other securities are pledged as collateral under the Credit Facility and held through Funding I.
(9) Represents the purchase of a security with delayed settlement or a revolving line of credit that is currently an unfunded investment. This security does not earn a basis point spread above an index while it is unfunded.
(10) The investment is treated as a non-qualifying asset under Section 55(a) of the 1940 Act. Under the 1940 Act, we may not acquire any non-qualifying asset unless, at the time the acquisition is made, qualifying assets represent at least 70% of our total assets. As of September 30, 2017, qualifying assets represent 87% of our total assets and non-qualifying assets represent 13% of our total assets.
(11) Par amount is denominated in Australian Dollars (A$), Canadian Dollars (C$) or in Euros (€) as denoted.
(12) Investment is held through our Taxable Subsidiary (see Note 1).
(13) The security was not valued using significant unobservable inputs. The value of all other securities was determined using significant unobservable inputs (see Note 5).

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PENNANTPARK FLOATING RATE CAPITAL LTD. AND SUBSIDIARIES
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Issuer Name	Maturity	Industry	Current Coupon	Basis Point Spread Above Index (1)	Par / Shares	Cost	Fair Value (2)
Investments in Non-Controlled, Non-Affiliated Portfolio Companies—159.3% (3), (4)							
First Lien Secured Debt—145.9%							
Advanced Cable Communications, LLC	08/09/2021	Telecommunications	6.75%	L+575	12,500,000	$ 12,255,990	$ 12,250,000
Advanced Cable Communications, LLC (10)	08/09/2021	Telecommunications	—	—	4,000,000	—	(80,000)
ALG USA Holdings, LLC	02/28/2019	Hotel, Gaming and Leisure	7.00%	L+575	12,064,454	12,037,105	12,064,454
Alvogen Pharma US, Inc. (6), (11)	04/04/2022	Healthcare and Pharmaceuticals	6.00%	L+500	3,943,925	3,925,777	3,946,410
American Bath Group, LLC	10/02/2023	Consumer Goods: Durable	6.75%	L+575	3,000,000	2,970,000	2,992,500
American Scaffold	03/31/2022	Aerospace and Defense	7.50%	L+650	4,937,500	4,866,801	4,888,125
AMF Bowling Centers, Inc.	09/19/2023	Retail	6.00%	L+500	15,000,000	14,850,608	14,931,300
AP Gaming I, LLC	12/21/2020	Hotel, Gaming and Leisure	9.25%	L+825	6,534,878	6,462,308	6,220,419
API Technologies Corp.	04/22/2022	Aerospace and Defense	7.50%	L+650	9,975,000	9,787,810	9,825,375
Azure Midstream Energy LLC	11/15/2018	Energy: Oil and Gas	7.50%	L+650	5,125,684	5,042,414	4,228,689
Blue Bird Body Company	06/29/2020	Automotive	6.50%	L+550	3,498,670	3,462,806	3,498,670
Broder Bros., Co., Tranche A	06/03/2021	Consumer Goods: Non-Durable	7.00%	L+575	2,440,000	2,397,229	2,422,820
Broder Bros., Co., Tranche B	06/03/2021	Consumer Goods: Non-Durable	13.50%	L+1,225	2,460,000	2,415,653	2,442,679
Camin Cargo Control, Inc.	06/30/2021	Transportation: Cargo	5.75%	L+475	2,468,750	2,448,157	2,370,000
CareCentrix, Inc.	07/08/2021	Healthcare and Pharmaceuticals	6.00%	L+500	4,950,000	4,847,215	4,863,375
CBAC Borrower, LLC (8)	07/02/2020	Hotel, Gaming and Leisure	8.25%	L+700	4,962,500	4,930,912	4,850,844
CD&R TZ Purchaser, Inc.	07/21/2023	Consumer Goods: Durable	7.00%	L+600	12,500,000	12,179,928	12,343,750
Charming Charlie LLC	12/24/2019	Retail	9.00%	L+800	4,098,750	4,061,551	3,750,357
Chicken Soup for the Soul Publishing, LLC	01/08/2019	Media: Advertising, Printing and Publishing	7.50%	L+625	4,828,571	4,801,254	4,732,000
Corfin Industries LLC	11/25/2020	Aerospace and Defense	10.75%	L+975	6,272,600	6,163,749	6,272,600
Corfin Industries LLC (Revolver) (10)	11/25/2020	Aerospace and Defense	—	—	518,033	—	—
CRGT Inc.	12/21/2020	High Tech Industries	7.50%	L+650	10,531,671	10,451,145	10,505,342
Curo Health Services Holdings, Inc.	02/07/2022	Healthcare and Pharmaceuticals	6.50%	L+550	1,970,000	1,953,997	1,970,000
DBI Holding LLC	08/02/2021	Business Services	6.25%	L+525	10,000,000	9,900,163	9,900,000
DCS Business Services, Inc.	03/19/2018	Business Services	8.75%	L+725	2,237,139	2,225,615	2,237,139
DISA Global Solutions, Inc.	12/09/2020	Business Services	5.50%	L+450	4,925,000	4,889,096	4,875,750
Douglas Products and Packaging Company LLC	06/30/2020	Chemicals, Plastics and Rubber	5.75%	L+475	4,687,500	4,659,016	4,687,500
Driven Performance Brands, Inc. (8)	09/10/2020	Consumer Goods: Durable	5.75%	L+475	8,550,000	8,513,835	8,507,250
Driven Performance Brands, Inc. (Revolver) (8), (10)	09/10/2020	Consumer Goods: Durable	—	—	1,000,000	—	—
Education Networks of America, Inc.	05/06/2021	Telecommunications	8.00%	L+700	8,641,304	8,599,431	8,598,098
Education Networks of America, Inc. (Revolver)	05/06/2021	Telecommunications	8.00%	L+700	434,783	434,783	434,783
Education Networks of America, Inc. (Revolver) (10)	05/06/2021	Telecommunications	—	—	869,565	—	—
Efficient Collaborative Retail Marketing Company, LLC	06/15/2022	Media: Diversified and Production	7.75%	L+675	10,972,500	10,864,398	10,972,500
Emerging Markets Communications, LLC	07/01/2021	Telecommunications	6.75%	L+575	4,937,500	4,875,844	4,702,969
FHC Health Systems, Inc.	12/23/2021	Healthcare and Pharmaceuticals	5.00%	L+400	4,925,000	4,884,041	4,798,821
GlobalLogic Holdings, Inc.	05/31/2019	High Tech Industries	6.25%	L+525	3,890,000	3,867,640	3,880,275
Greenway Health, LLC	11/04/2020	High Tech Industries	6.00%	L+500	6,807,500	6,765,938	6,620,294
GTCR Valor Companies, Inc.	06/16/2023	Media: Broadcasting and Subscription	7.00%	L+600	7,481,250	7,191,975	7,116,539
Harbortouch Payments, LLC	05/31/2022	Banking, Finance, Insurance and Real Estate	7.00%	L+600	6,956,250	6,889,369	7,025,812
Highline Aftermarket Acquisition, LLC (f/k/a DYK Prime Acquisition, LLC)	04/01/2022	Wholesale	5.75%	L+475	7,312,500	7,244,146	7,275,937
Hollander Sleep Products, LLC	10/21/2020	Consumer Goods: Non-Durable	9.00%	L+800	1,165,886	1,153,016	1,142,569
Hostway Corporation	12/13/2019	High Tech Industries	6.00%	L+475	2,624,730	2,610,592	2,183,890
Hunter Defense Technologies, Inc. (8)	08/05/2019	Aerospace and Defense	7.00%	L+600	6,256,250	6,218,559	5,505,500
Icynene U.S. Acquisition Corp. (6), (11)	11/04/2020	Construction and Building	7.25%	L+625	6,225,820	6,133,990	6,225,820
Idera, Inc.	04/09/2021	High Tech Industries	6.50%	L+550	7,942,494	7,293,179	7,684,363
iEnergizer Limited and Aptara, Inc. (6), (11)	05/01/2019	Business Services	7.25%	L+600	8,676,097	8,614,521	8,242,292
Imagine! Print Solutions, LLC	03/30/2022	Media: Advertising, Printing and Publishing	7.00%	L+600	5,974,987	5,914,562	6,027,269
Instant Web, LLC, Term Loan A	03/28/2019	Media: Advertising, Printing and Publishing	5.50%	L+450	5,277,938	5,235,239	5,277,938
Instant Web, LLC, Term Loan B	03/28/2019	Media: Advertising, Printing and Publishing	12.00%	L+1,100	4,500,000	4,460,571	4,500,000
Interior Specialists, Inc.	06/30/2020	Construction and Building	9.00%	L+800	6,662,719	6,609,864	6,662,719
Inventus Power, Inc. (f/k/a ICC-Nexergy, Inc.)	04/30/2020	Consumer Goods: Durable	6.50%	L+550	4,882,266	4,846,935	4,686,976
Jackson Hewitt Inc.	07/30/2020	Consumer Services	8.00%	L+700	4,900,000	4,820,995	4,753,000

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Issuer Name	Maturity	Industry	Current Coupon	Basis Point Spread Above Index (1)	Par / Shares	Cost	Fair Value (2)
K2 Pure Solutions NoCal, L.P. (8)	02/19/2021	Chemicals, Plastics and Rubber	10.00%	L+900	4,002,471	$ 3,932,760	$ 3,925,841
Kendra Scott, LLC	07/17/2020	Retail	7.00%	L+600	2,850,000	2,827,307	2,821,500
KHC Holdings, Inc.	10/31/2022	Wholesale	7.00%	L+600	12,406,250	12,210,683	12,344,219
KHC Holdings, Inc. (Revolver) (8), (10)	10/30/2020	Wholesale	—	—	1,209,677	—	—
Lago Resort & Casino, LLC	03/07/2022	Hotel, Gaming and Leisure	10.50%	L+950	10,174,500	9,984,965	9,971,010
Lanyon Solutions, Inc.	11/13/2020	High Tech Industries	5.50%	L+450	1,945,020	1,940,066	1,930,432
LifeCare Holdings LLC (8)	11/30/2018	Healthcare and Pharmaceuticals	6.50%	L+525	5,407,864	5,371,524	5,272,668
Lindblad Expeditions, Inc. (6), (11)	05/10/2021	Hotel, Gaming and Leisure	5.50%	L+450	2,186,607	2,177,539	2,186,607
Lindblad Maritime Enterprises, Ltd. (6), (11)	05/10/2021	Hotel, Gaming and Leisure	5.50%	L+450	282,143	280,973	282,143
Lombart Brothers, Inc.	04/13/2022	Capital Equipment	7.75%	L+675	5,985,000	5,901,046	6,014,925
Lombart Brothers, Inc. (Revolver) (8)	04/13/2022	Capital Equipment	7.75%	L+675	176,991	176,991	176,991
Lombart Brothers, Inc. (Revolver) (8), (10)	04/13/2022	Capital Equipment	—	—	1,061,947	—	—
Long's Drugs Incorporated	08/19/2021	Healthcare and Pharmaceuticals	6.25%	L+525	5,000,000	4,951,874	4,950,000
LSF9 Atlantis Holdings, LLC	01/15/2021	Retail	10.00%	L+900	9,542,392	9,417,467	9,542,392
LTI Holdings, Inc.	04/18/2022	Chemicals, Plastics and Rubber	5.25%	L+425	5,431,250	4,973,326	5,254,734
Marketplace Events LLC	01/27/2021	Media: Diversified and Production	6.25%	L+525	1,362,530	1,342,162	1,342,092
Marketplace Events LLC (12)	01/27/2021	Media: Diversified and Production	6.25%	P+275	C$17,244,188	12,065,652	13,078,215
Marketplace Events LLC (Revolver) (8)	01/27/2021	Media: Diversified and Production	6.25%	P+275	1,090,024	1,090,024	1,090,024
Marketplace Events LLC (Revolver) (8), (10)	01/27/2021	Media: Diversified and Production	—	—	613,139	—	—
Mission Critical Electronics, Inc. (8)	09/28/2022	Capital Equipment	6.00%	L+500	4,116,608	4,075,499	4,075,442
Mission Critical Electronics, Inc. (Revolver) (8), (10)	09/28/2021	Capital Equipment	—	—	883,392	—	—
New Trident HoldCorp, Inc.	07/31/2019	Healthcare and Pharmaceuticals	6.50%	L+525	8,817,647	8,767,669	8,288,588
Pathway Partners Vet Management Company LLC (8)	08/19/2022	Healthcare and Pharmaceuticals	6.00%	L+500	6,268,657	6,205,970	6,205,970
Pathway Partners Vet Management Company LLC (8), (10)	08/19/2022	Healthcare and Pharmaceuticals	—	—	3,731,343	—	—
Polycom, Inc.	09/27/2023	Telecommunications	7.50%	L+650	6,000,000	5,760,000	5,775,000
Precyse Acquisition Corp.	10/20/2022	Healthcare and Pharmaceuticals	6.50%	L+550	3,990,000	3,932,956	4,014,938
Premier Dental Services, Inc.	11/01/2018	Consumer Services	7.50%	L+650	7,528,230	7,473,587	7,490,588
Profile Products LLC	05/20/2021	Environmental Industries	5.75%	L+475	7,281,762	7,222,561	7,281,762
Profile Products LLC (Revolver) (8), (10)	05/20/2020	Environmental Industries	—	—	2,459,016	—	—
Quick Weight Loss Centers, LLC	08/23/2021	Beverage, Food and Tobacco	5.75%	L+475	10,000,000	9,852,456	9,900,000
Research Now Group, Inc.	03/18/2021	High Tech Industries	5.50%	L+450	6,895,000	6,867,800	6,688,150
Robertshaw US Holding Corp.	06/18/2019	Consumer Goods: Durable	8.50%	L+700	4,252,830	4,233,671	4,258,699
Ryan, LLC	08/07/2020	Business Services	6.75%	L+575	4,218,750	4,166,413	4,163,400
Sensus USA, Inc.	04/05/2023	Utilities: Water	6.50%	L+550	9,975,000	9,692,511	9,999,938
Snak Club, LLC	07/19/2021	Beverage, Food and Tobacco	6.00%	L+500	4,968,748	4,896,623	4,919,060
Snak Club, LLC (Revolver) (10)	07/19/2021	Beverage, Food and Tobacco	—	—	500,000	—	—
Software Paradigms International Group, LLC	05/21/2021	High Tech Industries	6.50%	L+550	9,875,000	9,781,596	9,825,625
Sotera Defense Solutions, Inc.	04/21/2017	Aerospace and Defense	9.00%	L+750	5,668,843	5,614,696	5,640,499
Sundial Group Holdings LLC	10/19/2021	Consumer Goods: Non-Durable	7.25%	L+625	7,312,500	7,200,786	7,312,500
Survey Sampling International, LLC	12/16/2020	Business Services	6.00%	L+500	7,446,562	7,395,200	7,409,329
Systems Maintenance Services Holding, Inc.	10/18/2019	High Tech Industries	5.00%	L+400	5,850,000	5,834,217	5,733,000
Tensar Corporation	07/09/2021	Construction and Building	5.75%	L+475	4,822,723	4,786,985	4,071,198
The Original Cakerie, Co. (6), (11)	07/20/2021	Consumer Goods: Non-Durable	6.50%	L+550	3,092,295	3,062,366	3,061,372
The Original Cakerie Ltd. (6), (11)	07/20/2021	Consumer Goods: Non-Durable	6.00%	L+500	5,986,002	5,928,120	5,926,142
The Original Cakerie Ltd. (Revolver) (6), (8), (10), (11)	07/20/2021	Consumer Goods: Non-Durable	—	—	1,418,484	—	(7,092)
TOMS Shoes, LLC	11/02/2020	Consumer Goods: Non-Durable	6.50%	L+550	1,970,000	1,825,559	1,576,000
Triad Manufacturing, Inc.	12/28/2020	Capital Equipment	11.27%	L+1,075(9)	10,306,936	10,124,477	10,306,936
UniTek Global Services, Inc. (8)	01/14/2019	Telecommunications	9.50% (PIK 1.00%)	L+850	256,971	256,971	256,971
UniTek Global Services, Inc. (8)	01/14/2019	Telecommunications	8.50%	L+750	599,702	562,432	590,706
UniTek Global Services, Inc. (8), (10)	01/14/2019	Telecommunications	—	—	151,090	—	—
Universal Fiber Systems, LLC	10/04/2021	Chemicals, Plastics and Rubber	6.50%	L+550	4,962,500	4,919,423	4,937,688
U.S. Anesthesia Partners, Inc.	12/31/2019	Healthcare and Pharmaceuticals	6.00%	L+500	9,900,000	9,818,407	9,850,500
US Med Acquisition, Inc. (8)	08/13/2021	Healthcare and Pharmaceuticals	10.00%	L+900	3,089,844	3,089,844	3,089,844
Vistage Worldwide, Inc.	08/19/2021	Media: Broadcasting and Subscription	6.50%	L+550	4,792,831	4,752,002	4,792,831
Winchester Electronics Corporation	06/30/2022	Capital Equipment	7.50%	L+650	7,773,579	7,703,094	7,668,171
Winchester Electronics Corporation (10)	06/30/2022	Capital Equipment	—	—	708,333	—	(9,605)
Worley Claims Services, LLC	10/30/2020	Banking, Finance, Insurance and Real Estate	9.00%	L+800	7,316,440	7,259,010	7,316,440
Total First Lien Secured Debt						549,736,982	548,410,095

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Issuer Name	Maturity	Industry	Current Coupon	Basis Point Spread Above Index (1)	Par / Shares	Cost	Fair Value (2)
Second Lien Secured Debt—9.7%							
Affinion Group, Inc. (8)	10/31/2018	Consumer Goods: Durable	8.50%	L+700	1,000,000	$ 942,276	$ 879,170
American Gilsonite Company (5), (8)	09/01/2017	Metals and Mining	— (7)	—	1,000,000	1,000,000	700,000
Douglas Products and Packaging Company LLC	12/31/2020	Chemicals, Plastics and Rubber	11.34%	L+1,050(9)	2,000,000	1,971,030	2,020,000
Howard Berger Co. LLC	09/30/2020	Wholesale	11.00%	L+1,000	11,000,000	10,511,818	9,900,000
MailSouth, Inc.	10/22/2021	Media: Advertising, Printing and Publishing	11.50%	L+1,050	3,775,000	3,703,724	3,775,000
Novitex Acquisition, LLC	07/07/2021	Business Services	12.25%	L+1,100	11,000,000	10,914,618	11,000,000
Penton Media, Inc. (8)	10/02/2020	Media: Diversified and Production	9.00%	L+775	4,872,042	4,826,926	4,853,772
Sunshine Oilsands Ltd. (5), (6), (8), (11)	08/01/2017	Energy: Oil and Gas	12.50%	—	2,812,500	2,756,732	1,631,250
VT Buyer Acquisition Corp.	01/30/2023	Business Services	10.75%	L+975	1,837,500	1,777,304	1,837,500
Total Second Lien Secured Debt						38,404,428	36,596,692
Subordinated Debt/Corporate Notes—0.8% (8)							
Affinion International Holdings Limited (5), (6), (11)	07/30/2018	Consumer Goods: Durable	7.50%	—	1,135,273	1,030,320	1,035,937
Credit Infonet, Inc.	10/26/2018	High Tech Industries	13.00% (PIK 1.75%)	—	2,069,078	2,050,767	1,975,969
UniTek Global Services, Inc.	07/15/2019	Telecommunications	15.00% (PIK 15.00%)	—	146,996	146,996	148,466
Total Subordinated Debt/Corporate Notes						3,228,083	3,160,372
Preferred Equity—0.4% (7), (8)							
UniTek Global Services, Inc.	—	Telecommunications	13.50%	—	1,047,317	670,283	1,319,308
Common Equity/Warrants—2.5% (7), (8)							
Affinion Group Holdings, Inc.	—	Consumer Goods: Durable	—	—	99,029	3,514,572	3,700,216
Affinion Group Holdings, Inc., Series C and Series D	—	Consumer Goods: Durable	—	—	4,298	1,186,649	20,096
Corfin InvestCo, L.P.	—	Aerospace and Defense	—	—	3,000	300,000	621,550
Corfin InvestCo, L.P. (10)	—	Aerospace and Defense	—	—	3,000	—	—
e.l.f. Beauty, Inc. (f/k/a J.A. Cosmetics US, Inc.) (13)	—	Consumer Goods: Durable	—	—	110,399	295,670	2,957,767
Faraday Holdings, LLC (Interior Specialists, Inc.)	—	Construction and Building	—	—	1,141	58,044	94,560
Patriot National, Inc. (13)	—	Banking, Finance, Insurance and Real Estate	—	—	11,867	27,995	106,922
TPC Broadband Investors, LP (Advanced Cable Communications, LLC)	—	Telecommunications	—	—	430,666	430,666	430,666
TPC Broadband Investors, LP (Advanced Cable Communications, LLC) (10)	—	Telecommunications	—	—	569,334	—	—
UniTek Global Services, Inc.	—	Telecommunications	—	—	149,617	—	892,276
Vestcom Parent Holdings, Inc.	—	Media: Advertising, Printing and Publishing	—	—	15,179	56,895	577,005
Total Common Equity/Warrants						5,870,491	9,401,058
Total Investments in Non-Controlled, Non-Affiliated Portfolio Companies						597,910,267	598,887,525
Cash and Cash Equivalents—7.7%							
BlackRock Liquidity Funds, Temp Cash and Temp Fund, Institutional Shares						28,212,041	28,212,041
BNY Mellon Cash Reserve and Cash						691,318	698,932
Total Cash and Cash Equivalents						28,903,359	28,910,973
Total Investments and Cash Equivalents—167.0%						$ 626,813,626	$ 627,798,498
Liabilities in Excess of Other Assets—(67.0)%							(251,891,670)
Net Assets—100.0%							$ 375,906,828

(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." All securities are subject to a LIBOR or Prime rate floor where a spread is provided, unless noted. The spread provided includes PIK interest and other fee rates, if any.
(2) Valued based on our accounting policy (see Note 2).
(3) The provisions of the 1940 Act classify investments based on the level of control that we maintain in a particular portfolio company. As defined in the 1940 Act, a company is generally presumed to be "non-controlled" when we own 25% or less of the portfolio company's voting securities and "controlled" when we own more than 25% of the portfolio company's voting securities.
(4) The provisions of the 1940 Act classify investments further based on the level of ownership that we maintain in a particular portfolio company. As defined in the 1940 Act, a company is generally deemed as "non-affiliated" when we own less than 5% of a portfolio company's voting securities and "affiliated" when we own 5% or more of a portfolio company's voting securities.
(5) Security is exempt from registration under Rule 144A promulgated under the Securities Act. The security may be resold in transactions that are exempt from registration, normally to qualified institutional buyers.

PENNANTPARK FLOATING RATE CAPITAL LTD. AND SUBSIDIARIES
CONSOLIDATED SCHEDULE OF INVESTMENTS—(Continued)
SEPTEMBER 30, 2016

(6) Non-U.S. company or principal place of business outside the United States.
(7) Non-income producing securities.
(8) The securities, or a portion thereof, are not pledged as collateral under the Credit Facility. All other securities are pledged as collateral under the Credit Facility and held through Funding I.
(9) Coupon is not subject to a LIBOR or Prime rate floor.
(10) Represents the purchase of a security with delayed settlement or a revolving line of credit that is currently an unfunded investment. This security does not earn a basis point spread above an index while it is unfunded.
(11) The investment is treated as a non-qualifying asset under Section 55(a) of the 1940 Act. Under the 1940 Act, we may not acquire any non-qualifying asset unless, at the time the acquisition is made, qualifying assets represent at least 70% of our total assets. As of September 30, 2016, qualifying assets represent 95% of our total assets and non-qualifying assets represent 5% of our total assets.
(12) Par amount is denominated in Canadian Dollars (C$).
(13) The security was not valued using significant unobservable inputs. The value of all other securities was determined using significant unobservable inputs (see Note 5).

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

PENNANTPARK FLOATING RATE CAPITAL LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

1. ORGANIZATION

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

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

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

Funding I, our wholly owned subsidiary and a special purpose entity, was organized in Delaware as a limited liability company in May 2011. We formed Funding I in order to establish our Credit Facility. The Investment Adviser serves as the collateral manager to Funding I and has irrevocably directed that the management fee owed with respect to such services is to be paid to us so long as the Investment Adviser remains the collateral manager. This arrangement does not increase our consolidated management fee. The Credit Facility allows Funding I to borrow up to $375 million as of September 30, 2017 at LIBOR plus 200 basis points during the revolving period. The Credit Facility is secured by all of the assets held by Funding I. See Note 11.

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

In February 2017, we completed a follow-on public offering of 5,750,000 shares of common stock, which resulted in proceeds to us of $14.08 per share, including the exercise of the underwriters' option to purchase additional shares, for gross proceeds of $81.0 million and net proceeds of $80.5 million after offering expenses. Our Investment Adviser paid $5.0 million in connection with this offering, which included the sales load and an additional supplemental payment.

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

2. SIGNIFICANT ACCOUNTING POLICIES

The preparation of our Consolidated Financial Statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amount of our assets and liabilities at the date of the

PENNANTPARK FLOATING RATE CAPITAL LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
SEPTEMBER 30, 2017

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

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

Our significant accounting policies consistently applied are as follows:

(a) Investment Valuations

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

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

(1) Our quarterly valuation process begins with each portfolio company or investment being initially valued by the investment professionals of our Investment Adviser responsible for the portfolio investment;

(2) Preliminary valuation conclusions are then documented and discussed with the management of 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;

PENNANTPARK FLOATING RATE CAPITAL LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
SEPTEMBER 30, 2017

(4) The audit committee of our board of directors reviews the preliminary valuations of our Investment Adviser and those of the independent valuation firms on a quarterly basis, periodically assesses the valuation methodologies of the independent valuation firms, and responds to and supplements the valuation recommendations of the independent valuation firms to reflect any comments; and

(5) Our board of directors discusses these valuations and determines the fair value of each investment in our portfolio in good faith, based on the input of our Investment Adviser, the respective independent valuation firms and the audit committee.

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

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

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

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

Loans are placed on non-accrual status when principal or interest payments are past due 30 days or more and/or if there is reasonable doubt that principal or interest will be collected. Accrued interest is generally reversed when a loan is placed on non-accrual status. Interest payments received on non-accrual loans may be recognized as income or applied to principal depending upon management’s judgment. Non-accrual loans are restored to accrual status when past due principal and interest is paid and, in management’s judgment, are likely to remain current.

PENNANTPARK FLOATING RATE CAPITAL LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
SEPTEMBER 30, 2017

(c) Income Taxes

We have complied with the requirements of Subchapter M of the Code and expect to be treated as a RIC for federal income tax purposes. As a result, we account for income taxes using the asset and liability method prescribed by ASC 740, Income Taxes. Under this method, income taxes are provided for amounts currently payable and for amounts deferred as tax assets and liabilities based on differences between the financial statement carrying amounts and the tax basis of existing assets and liabilities. Based upon our qualification and election to be treated as a RIC for federal income tax purposes, we typically do not incur any material level of federal income taxes. Although we generally do not incur income taxes as a RIC, we may elect to retain a portion of our calendar year income, which may result in the imposition of an excise tax, or we may incur taxes through our Taxable Subsidiaries. For the fiscal years ended September 30, 2017, 2016 and 2015, we recorded a provision for taxes of $0.3 million, zero and $0.4 million, respectively, pertaining to U.S. federal excise tax.

We recognize the effect of a tax position in our Consolidated Financial Statements when it is more likely than not, based on the technical merits, that the position will be sustained upon examination by the applicable tax authority. Tax positions not considered to satisfy the “more-likely-than-not” threshold would be recorded as a tax expense or benefit. Penalties or interest, if applicable, that may be assessed relating to income taxes would be classified as other operating expenses in the financial statements. As of September 30, 2017, there were no uncertain tax positions and no amounts accrued for interest or penalties. The Company’s determinations regarding ASC 740 may be subject to review and adjustment at a later date based upon factors including, but not limited to, an on-going analysis of tax laws, regulations and interpretations thereof. Although the Company files both federal and state income tax returns, the Company’s major tax jurisdiction is federal. The Company’s tax returns for each of its federal taxable years since 2014 remain subject to examination by the Internal Revenue Service.

We recognize the effect of a tax position in our Consolidated Financial Statements when it is more likely than not, based on the technical merits, that the position will be sustained upon examination by the applicable tax authority. Tax positions not considered to satisfy the “more-likely-than-not” threshold would be recorded as a tax expense or benefit. We did not have any material uncertain tax positions or any unrecognized tax benefits that met the recognition or measurement criteria of ASC 740-10-25 as of the periods presented herein.

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

(d) Distributions and Capital Transactions

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

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

PENNANTPARK FLOATING RATE CAPITAL LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
SEPTEMBER 30, 2017

(e) Foreign Currency Translation

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

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

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

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

(f) Consolidation

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

(g) Asset Transfers and Servicing

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

(h) Recent Accounting Pronouncements

In 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 the new 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 have no material impact on its financial statements.

PENNANTPARK FLOATING RATE CAPITAL LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
SEPTEMBER 30, 2017

3. AGREEMENTS AND RELATED PARTY TRANSACTIONS

The Investment Management Agreement with the Investment Adviser was reapproved by our board of directors, including a majority of our directors who are not interested persons of us or the Investment Advisers, in February 2017. Under the Investment Management Agreement, the Investment Adviser, subject to the overall supervision of our board of directors, manages the day-to-day operations of and provides investment advisory services to us. The Investment Adviser serves as the collateral manager to Funding I and has irrevocably directed that the management fee owed with respect to such services is to be paid to the Company so long as the Investment Adviser remains the collateral manager. This arrangement does not increase our consolidated management fee. For providing these services, the Investment Adviser receives a fee from us consisting of two components—a base management fee and an incentive fee.

The base management fee is calculated at an annual rate of 1.00% of our "average adjusted gross assets," which equals our gross assets (net of U.S. Treasury Bills, temporary draws under any credit facility, cash and cash equivalents, repurchase agreements or other balance sheet transactions undertaken at the end of a fiscal quarter for purposes of preserving investment flexibility for the next quarter and adjusted to exclude cash, cash equivalents and unfunded commitments, if any) and is payable quarterly in arrears. The base management fee is calculated based on the average adjusted gross assets at the end of the two most recently completed calendar quarters, and appropriately adjusted for any share issuances or repurchases during the current calendar quarter. For example, if we sold shares on the 45th day of a quarter and did not use the proceeds from the sale to repay outstanding indebtedness, our gross assets for such quarter would give effect to the net proceeds of the issuance for only 45 days of the quarter during which the additional shares were outstanding. For the fiscal years ended September 30, 2017, 2016 and 2015, the Investment Adviser earned a base management fee of $6.9 million, $5.0 million and $3.6 million, respectively, from us.

The incentive fee has two parts, as follows:

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

PENNANTPARK FLOATING RATE CAPITAL LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
SEPTEMBER 30, 2017

Pre-Incentive Fee Net Investment Income, if any, that exceeds 2.9167% in any calendar quarter. These calculations are pro-rated for any share issuances or repurchases during the relevant quarter, if applicable. For the years ended September 30, 2017, 2016 and 2015, the Investment Adviser earned $4.9 million, $3.7 million and $2.2 million, respectively, in incentive fees on net investment income from us.

The second part of the incentive fee is determined and payable in arrears as of the end of each calendar year (or upon termination of the Investment Management Agreement, as of the termination date) and equals 20% of our realized capital gains, if any, on a cumulative basis from inception through the end of each calendar year, computed net of all realized capital losses and unrealized capital depreciation on a cumulative basis, less the aggregate amount of any previously paid capital gain incentive fees. For the fiscal years ended September 30, 2017, 2016 and 2015, we accrued an incentive fee on capital gains of approximately $0.1 million, zero and $(0.4) million, respectively, as calculated under the Investment Management Agreement (as described above).

Under GAAP, we are required to accrue a capital gains incentive fee based upon net realized capital gains and net unrealized capital appreciation and depreciation on investments held at the end of each period. In calculating the capital gains incentive fee accrual, we considered the cumulative aggregate unrealized capital appreciation in the calculation, as a capital gains incentive fee would be payable if such unrealized capital appreciation were realized, even though such unrealized capital appreciation is not permitted to be considered in calculating the fee actually payable under the Investment Management Agreement. This accrual is calculated using the aggregate cumulative realized capital gains and losses and cumulative unrealized capital appreciation or depreciation. If such amount is positive at the end of a period, then we record a capital gains incentive fee equal to 20% of such amount, less the aggregate amount of actual capital gains related to incentive fees paid in all prior years. If such amount is negative, then there is no accrual for such year. There can be no assurance that such unrealized capital appreciation will be realized in the future. The incentive fee accrued for under GAAP on our unrealized and realized capital gains for the years ended September 30, 2017, 2016 and 2015 was $1.2 million, $1.1 million and $(0.7) million, respectively.

The Administration Agreement with the Administrator was reapproved by our board of directors, including a majority of the directors who are not interested persons of us, in February 2017. Under the Administration Agreement, the Administrator provides administration services and office facilities to us. For providing these services, facilities and personnel, we have agreed to reimburse the Administrator for its allocable portion of overhead and other expenses incurred by the Administrator in performing its obligations under the Administration Agreement, including rent and our allocable portion of the costs of compensation and related expenses of our Chief Compliance Officer, Chief Financial Officer and their respective staffs. The Administrator also offers, on our behalf, significant managerial assistance to portfolio companies to which we are required to offer such assistance. Reimbursement for certain of these costs is included in administrative services expenses in the Consolidated Statements of Operations. For the years ended September 30, 2017, 2016 and 2015, we reimbursed the Investment Adviser approximately $1.7 million, $0.8 million and $0.5 million, respectively, including expenses the Investment Adviser incurred on behalf of the Administrator, for services described above.

For the year ended September 30, 2017, the Company purchased $38.1 million and sold $5.0 million in total investments to an affiliated fund managed by our Investment Adviser in accordance with, and pursuant to procedures adopted under, Rule 17a-7 of the 1940 Act. Realized gains on those sales amounted to less than $0.1 million. There were no transactions in accordance with Rule 17a-7 of the 1940 Act during the fiscal years ended September 30, 2016 and 2015.

PENNANTPARK FLOATING RATE CAPITAL LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
SEPTEMBER 30, 2017

For the year ended September 30, 2017, we sold $85.1 million investments to PSSL at fair value and recognized $0.4 million of net realized gains. There were no transactions with PSSL during the years ended September 30, 2016 and 2015.

4. INVESTMENTS

Purchases of investments, including PIK, for the years ended September 30, 2017, 2016 and 2015 totaled $509.5 million, $364.6 million and $224.8 million, respectively. Sales and repayments of investments for the same periods totaled $406.5 million, $164.2 million and $195.0 million, respectively.

Investments and cash and cash equivalents consisted of the following:

	September 30, 2017		September 30, 2016	
Investment Classification	**Cost**	**Fair Value**	**Cost**	**Fair Value**
First lien	$ 607,582,054	$ 609,668,554	$ 549,736,982	$ 548,410,095
Second lien	39,263,036	37,833,394	38,404,428	36,596,692
Subordinated debt / corporate notes	7,267,407	7,432,373	3,228,083	3,160,372
Subordinated note in PSSL	30,100,000	30,100,000	—	—
Equity	11,402,324	12,039,318	6,540,774	10,720,366
Equity interests in PSSL	12,900,000	13,425,143	—	—
Total investments	708,514,821	710,498,782	597,910,267	598,887,525
Cash and cash equivalents	18,847,673	18,910,756	28,903,359	28,910,973
Total investments, cash and cash equivalents	$ 727,362,494	$ 729,409,538	$ 626,813,626	$ 627,798,498

PENNANTPARK FLOATING RATE CAPITAL LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
SEPTEMBER 30, 2017

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, 2017 (1)	September 30, 2016
High Tech Industries	10%	10%
Healthcare and Pharmaceuticals	9	10
Consumer Goods: Non-Durable	8	4
Hotel, Gaming and Leisure	8	6
Beverage, Food and Tobacco	7	2
Telecommunications	7	6
Consumer Goods: Durable	6	7
Aerospace and Defense	5	5
Capital Equipment	5	5
Wholesale	5	5
Business Services	4	8
Chemicals, Plastics and Rubber	4	3
Media: Advertising, Printing and Publishing	4	4
Media: Diversified and Production	4	5
Construction and Building	3	3
Media: Broadcasting and Subscription	3	2
Retail	3	5
Banking, Finance, Insurance and Real Estate	1	2
Consumer Services	1	2
Utilities: Water	—	2
All Other	3	4
Total	100%	100%

(1) Excludes investments in PSSL.

PennantPark Senior Secured Loan Fund I LLC

In May 2017, we and Kemper formed PSSL, an unconsolidated joint venture. PSSL invests primarily in middle-market and other corporate debt securities consistent with our strategy. PSSL was formed as a Delaware limited liability company. As of September 30, 2017, PSSL had total assets of $103.8 million. As of the same date, we and Kemper had remaining commitments to fund subordinated notes and equity interests in PSSL in an aggregate of $50.9 million. PSSL's portfolio consisted of debt investments in 18 portfolio companies as of September 30, 2017. As of September 30, 2017, at fair value, the largest investment in a single portfolio company in PSSL was $8.1 million and the five largest investments totaled $34.9 million. PSSL invests in portfolio companies in the same industries in which we may directly invest.

We provide capital to PSSL in the form of subordinated notes and equity interests. The subordinated notes are junior in right of payment to the repayment of temporary contributions made by us to fund investments of PSSL. As of September 30, 2017, we and Kemper owned 87.5% and 12.5%, respectively, of each of the outstanding subordinated notes and equity interests. Our investment in PSSL consisted of subordinated notes of $30.1 million and equity interests of $12.9 million as of September 30, 2017. As of the same date, we had commitments to fund subordinated notes to PSSL of $61.3 million, of which $31.2 million was unfunded. As of September 30, 2017, we had commitments to fund equity interests in PSSL of $26.2 million, of which $13.3 million was unfunded.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
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We and Kemper each appointed two members to PSSL's four person board of directors and investment committee. All material decisions with respect to PSSL, 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, PSSL has entered into the PSSL Credit Facility with Capital One, N.A. through its wholly-owned subsidiary PSSL Subsidiary, which as of September 30, 2017 allowed PSSL Subsidiary to borrow up to $100.0 million at any one time outstanding, subject to leverage and borrowing base restrictions.

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

	September 30, 2017
Total investments	$ 99,994,314
Weighted average cost yield on income producing investments	7.2%
Number of portfolio companies in PSSL	18
Largest portfolio company investment	$ 8,080,000
Total of five largest portfolio company investments	$ 34,935,330

PENNANTPARK FLOATING RATE CAPITAL LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
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Below is a listing of PSSL's individual investments as of September 30, 2017:

PennantPark Senior Secured Loan Fund I LLC
Schedule of Investments

Issuer Name	Maturity	Industry	Current Coupon	Basis Point Spread Above Index (1)	Par	Cost	Fair Value (2)
Investments in Non-Controlled, Non-Affiliated Portfolio Companies—651.7%							
First Lien Secured Debt—651.7%							
Alvogen Pharma US, Inc. (3)	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. (3), (4)	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
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
Total First Lien Secured Debt						99,544,903	99,994,314
Total Investments in Non-Controlled, Affiliated Portfolio Companies						99,544,903	99,994,314
Cash and Cash Equivalents—15.5%							
BlackRock Federal FD Institutional 30						2,226,430	2,226,430
BNY Mellon Cash						144,739	144,833
Total Cash and Cash Equivalents						2,371,169	2,371,263
Total Investments and Cash Equivalents—667.2%						$ 101,916,072	$ 102,365,577
Liabilities in Excess of Other Assets—(567.2)%							(87,022,556)
Members' Equity—100.0%							$ 15,343,021

(1) Represents floating rate instruments that accrue interest at a predetermined spread relative to an index, typically the applicable LIBOR, EURIBOR or Prime rate. All securities are subject to a LIBOR or Prime rate floor where a spread is provided, unless noted. The spread provided includes payment-in-kind, or PIK, interest and other fee rates, if any.
(2) Valued based on 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.

PENNANTPARK FLOATING RATE CAPITAL LTD. AND SUBSIDIARIES
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Below is the financial information for PSSL:

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

	September 30, 2017
Assets	
Investments at fair value	
Non-controlled, non-affiliated investments (cost—$99,544,903)	$ 99,994,314
Cash and cash equivalents (cost—$2,371,169)	2,371,263
Interest receivable	332,980
Prepaid expenses and other assets	1,131,029
Total assets	103,829,586
Liabilities	
Payable for investments purchased	27,095,850
PSSL Credit Facility payable	26,783,885
Subordinated notes payable	34,400,000
Interest payable on PSSL Credit Facility	97,531
Interest payable on subordinated notes	12,107
Accrued other expenses	97,192
Total liabilities	88,486,565
Commitments and contingencies (1)	
Members' equity	
Paid-in capital	14,742,857
Undistributed net investment income	120,575
Accumulated net realized gain on investments	100,920
Net unrealized appreciation on investments	449,505
Net unrealized appreciation on foreign currency translations	(70,836)
Total members' equity	15,343,021
Total liabilities and members' equity	$ 103,829,586

(1) PSSL had no outstanding commitments to fund investments as of September 30, 2017.

PENNANTPARK FLOATING RATE CAPITAL LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
SEPTEMBER 30, 2017

PennantPark Senior Secured Loan Fund I LLC
Statements of Operations

	For the period May 4, 2017 (inception) through September 30, 2017
Investment income:	
From non-controlled, non-affiliated investments:	
Interest	$ 1,365,433
Total investment income	1,365,433
Expenses:	
Interest and expenses on PSSL Credit Facility	442,554
Interest expense on subordinated notes	585,840
Administrative services expenses	67,528
Other general and administrative expenses (1)	148,936
Total expenses	1,244,858
Net investment income	120,575
Realized and unrealized gain on investments and foreign currency translations	
Net realized gain on investments	100,920
Net change in unrealized appreciation on:	
Non-controlled, non-affiliated investments	449,505
Foreign currency translations	(70,836)
Net change in unrealized appreciation on investments and foreign currency translations	378,669
Net realized and unrealized gain from investments and foreign currency translations	479,589
Net increase in members' equity resulting from operations	$ 600,164

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

5. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

PENNANTPARK FLOATING RATE CAPITAL LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
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ASC 820 classifies the inputs used to measure these fair values into the following hierarchies:

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

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. Generally, most of our investments and our Credit Facility are classified as Level 3. Due to the inherent uncertainty of determining the fair value of investments that do not have a readily available market value, the price used in an actual transaction may be different than our valuation and those differences may be material.

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

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

A review of fair value hierarchy classifications is conducted on a quarterly basis. Changes in our ability to observe valuation inputs may result in a reclassification for certain financial assets or liabilities. Reclassifications impacting Level 3 of the fair value hierarchy are reported as transfers in or out of the Level 3 category as of the end of the quarter in which the reclassifications occur. Our ability to observe valuation inputs resulted in no reclassifications during the year ended September 30, 2017. During the year ended September 30, 2016, there was one reclassification from Level 2 to 1 and one reclassification from Level 3 to 2.

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

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

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

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

Asset Category	Fair value at September 30, 2017	Valuation Technique	Unobservable Input	Range of Input (Weighted Average)
First lien	$ 260,595,796	Market Comparable	Broker/Dealer bids or quotes	N/A
Second lien	2,500,000	Market Comparable	Broker/Dealer bids or quotes	N/A
First lien	349,072,758	Market Comparable	Market Yield	5.8% – 20.6% (8.6%)
Second lien	35,333,394	Market Comparable	Market Yield	9.6% – 14.0% (11.7%)
Subordinated debt / corporate notes	37,532,373	Market Comparable	Market Yield	9.8% – 16.7% (10.4%)
Equity	12,023,298	Enterprise Market Value	EBITDA multiple	6.5x – 9.0x (7.8x)
Total Level 3 investments	$ 697,057,619			
Long-Term Credit Facility	$ 256,858,457	Market Comparable	Market Yield	3.7%

PENNANTPARK FLOATING RATE CAPITAL LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
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Asset Category	Fair value at September 30, 2016	Valuation Technique	Unobservable Input	Range of Input (Weighted Average)
First lien	$ 264,299,729	Market Comparable	Broker/ Dealer bids or quotes	N/A
Second lien	8,064,192	Market Comparable	Broker/ Dealer bids or quotes	N/A
Subordinated debt / corporate notes	1,035,937	Market Comparable	Broker/ Dealer bids or quotes	N/A
First lien	284,110,366	Market Comparable	Market Yield	5.3% – 13.9% (8.3%)
Second lien	28,532,500	Market Comparable	Market Yield	10.2% – 15.9% (13.7%)
Subordinated debt / corporate notes	2,124,435	Market Comparable	Market Yield	15.7% – 16.5% (15.8%)
Equity	7,655,677	Enterprise Market Value	EBITDA multiple	4.3x – 9.0x (7.2x)
Total Level 3 investments	$ 595,822,836			
Long-Term Credit Facility	$ 232,389,498	Market Comparable	Market Yield	3.4%

Our investments, cash and cash equivalents and Credit Facility were categorized as follows in the fair value hierarchy for ASC 820 purposes:

	Fair Value at September 30, 2017				
Description	Fair Value	Level 1	Level 2	Level 3	Measured at Net Asset Value (1)
First lien	$ 609,668,554	$ —	$ —	$ 609,668,554	$ —
Second lien	37,833,394	—	—	37,833,394	—
Subordinated debt / corporate notes	37,532,373	—	—	37,532,373	—
Equity	25,464,461	16,020	—	12,023,298	13,425,143
Total investments	710,498,782	16,020	—	697,057,619	13,425,143
Cash and cash equivalents	18,910,756	18,910,756	—	—	—
Total investments, cash and cash equivalents	$ 729,409,538	$ 18,926,776	$ —	$ 697,057,619	$ 13,425,143
Long-Term Credit Facility	$ 256,858,457	$ —	$ —	$ 256,858,457	$ —

(1) In accordance with ASC 820-10, certain investments that are measured using the net asset value per share (or its equivalent) as a practical expedient for fair value, have not been classified in the fair value hierarchy.

PENNANTPARK FLOATING RATE CAPITAL LTD. AND SUBSIDIARIES
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Description	Fair Value at September 30, 2016			
	Fair Value	Level 1	Level 2	Level 3
First lien	$ 548,410,095	$ —	$ —	$ 548,410,095
Second lien	36,596,692	—	—	36,596,692
Subordinated debt / corporate notes	3,160,372	—	—	3,160,372
Equity	10,720,366	106,922	2,957,767	7,655,677
Total investments	598,887,525	106,922	2,957,767	595,822,836
Cash and cash equivalents	28,910,973	28,910,973	—	—
Total investments, cash and cash equivalents	$ 627,798,498	$ 29,017,895	$ 2,957,767	$ 595,822,836
Long-Term Credit Facility	$ 232,389,498	$ —	$ —	$ 232,389,498

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

Description	Year Ended September 30, 2017		
	First Lien	Second lien, subordinated debt and equity investments	Totals
Beginning Balance	$ 548,410,095	$ 47,412,741	$ 595,822,836
Net realized gains	2,751,432	508,716	3,260,148
Net unrealized appreciation (depreciation)	3,413,386	346,315	3,759,701
Purchases, PIK interest, net discount accretion and non-cash exchanges	433,620,964	77,617,862	511,238,826
Sales, repayments and non-cash exchanges	(378,527,323)	(25,071,426)	(403,598,749)
Transfers in and/or out of Level 3	—	—	—
Ending Balance	$ 609,668,554	$ 100,814,208	$ 710,482,762
Net change in unrealized appreciation reported within the net change in unrealized appreciation (depreciation) on investments in our Consolidated Statements of Operations attributable to our Level 3 assets still held at the reporting date.	$ 2,819,530	$ 621,165	$ 3,440,695

PENNANTPARK FLOATING RATE CAPITAL LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
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	Year Ended September 30, 2016		
Description	First Lien	Second lien, subordinated debt and equity investments	Totals
Beginning Balance	$ 334,957,341	$ 56,163,940	$ 391,121,281
Net realized gains (losses)	744,464	(2,223,584)	(1,479,120)
Net unrealized (depreciation) appreciation	2,282,976	4,804,379	7,087,355
Purchases, PIK interest, net discount accretion and non-cash exchanges	357,140,895	9,088,987	366,229,882
Sales, repayments and non-cash exchanges	(146,715,581)	(17,463,214)	(164,178,795)
Transfers in and/or out of Level 3	—	(2,957,767)	(2,957,767)
Ending Balance	$ 548,410,095	$ 47,412,741	$ 595,822,836
Net change in unrealized depreciation reported within the net change in unrealized appreciation (depreciation) on investments in our Consolidated Statements of Operations attributable to our Level 3 assets still held at the reporting date.	$ 2,617,111	$ (693,738)	$ 1,923,373

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

	Years Ended September 30,	
Long-Term Credit Facility	2017	2016
Beginning Balance (cost – $232,907,500 and $29,600,000, respectively)	$ 232,389,498	$ 29,600,000
Net change in unrealized appreciation (depreciation) included in earnings	3,593,159	(518,002)
Borrowings	309,680,000	260,707,500
Repayments	(288,804,200)	(57,400,000)
Transfers in and/or out of Level 3	—	—
Ending Balance (cost – $253,783,301 and $232,907,500, respectively)	$ 256,858,457	$ 232,389,498

As of September 30, 2017, we had outstanding non-U.S. dollar borrowings on our Credit Facility. Net change in fair value from foreign currency translation on outstanding borrowings is listed below:

Foreign Currency	Amount Borrowed	Borrowing Cost	Current Value	Reset Date	Change in Fair Value
Canadian Dollar	C$ 17,500,000	$ 12,407,501	$ 13,992,720	October 2, 2017	$ 1,585,219
Euro	€ 12,200,000	12,675,800	14,422,852	October 2, 2017	1,747,052
		$ 25,083,301	$ 28,415,572		$ 3,332,271

PENNANTPARK FLOATING RATE CAPITAL LTD. AND SUBSIDIARIES
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As of September 30, 2016, we had outstanding non-U.S. dollar borrowings on our Credit Facility. Net change in fair value from foreign currency translation on outstanding borrowings is listed below:

Foreign Currency	Amount Borrowed	Borrowing Cost	Current Value	Reset Date	Change in Fair Value
Canadian Dollar	C$ 17,500,000	$ 12,407,501	$13,338,920	October 3, 2016	$ 931,419

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. We elected to use the fair value option for our Credit Facility 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 $0.1 million, $0.9 million and $2.3 million relating to amendment fees on the Credit Facility during the years ended September 30, 2017, 2016 and 2015, 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 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 fiscal 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, respectively. As of September 30, 2017 and 2016, the net unrealized (appreciation) depreciation on our Credit Facility totaled $(3.1) million and $0.5 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.

6. TRANSACTIONS WITH AFFILIATED COMPANIES

An affiliated portfolio company is a company in which we have ownership of 5% or more of its voting securities. A portfolio company is generally presumed to be a non-controlled affiliate when we own at least 5% but 25% or less of its voting securities and a controlled affiliate when we own more than 25% of its voting securities. Transactions related to our funded investments with both controlled and non-controlled affiliates for the year ended September 30, 2017 were as follows:

Name of Investment	Fair value at September 30, 2016	Purchases of / Advances to Affiliates	Sale of / Distributions from Affiliates	Income Accrued	Net Change in Appreciation	Fair value at September 30, 2017	Net Realized Gains (Losses)
Controlled Affiliates							
PennantPark Senior Secured Loan Fund I LLC *	$ —	$43,000,000	$ —	$512,610	$ 525,143	$43,525,143	$ —
Total Controlled Affiliates	$ —	$43,000,000	$ —	$512,610	$ 525,143	$43,525,143	$ —

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

PENNANTPARK FLOATING RATE CAPITAL LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
SEPTEMBER 30, 2017

7. CHANGE IN NET ASSETS FROM OPERATIONS PER COMMON SHARE

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

	Years Ended September 30,		
	2017	2016	2015
Numerator for net increase in net assets resulting from operations	$ 36,325,280	$ 33,488,663	$ 12,504,245
Denominator for basic and diluted weighted average shares	30,274,595	26,730,074	16,291,965
Basic and diluted net increase in net assets per share resulting from operations	$ 1.20	$ 1.25	$ 0.77

8. TAXES AND DISTRIBUTIONS

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

As of September 30, 2017 and 2016, the cost of investments for federal income tax purposes was $710.9 million and $600.1 million, respectively, resulting in a gross unrealized appreciation of $8.7 million and $10.6 million, respectively, and depreciation of $9.1 million and $11.8 million, respectively.

The following amounts were reclassified for tax purposes:

	Years Ended September 30,		
	2017	2016	2015
Decrease in paid-in capital	$(256,194)	$(308,435)	$(429,892)
Increase in accumulated net realized gain	255,274	—	—
Increase in undistributed net investment income	920	308,435	429,892

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

	Years Ended September 30,		
	2017	2016	2015
Net increase in net assets resulting from operations	$ 36,325,280	$ 33,488,663	$ 12,504,245
Net realized (gain) loss on investments	(5,410,903)	1,376,788	—
Net change in unrealized depreciation (appreciation) on investments and Credit Facility	2,530,986	(7,529,291)	5,551,614
Other book-to-tax differences	956,942	642,719	5,788
Other non-deductible expenses	300,000	—	440,000
Taxable income before dividends paid deduction	$ 34,702,305	$ 27,978,879	$ 18,501,647

PENNANTPARK FLOATING RATE CAPITAL LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
SEPTEMBER 30, 2017

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

	As of September 30,		
	2017	2016	2015
Undistributed ordinary income – tax basis	$ 13,882,332	$ 10,097,684	$ 12,591,089
Undistributed long-term capital gain/(Realized loss carried forward)	808,615	(1,121,514)	—
Distributions payable and other book to tax differences	(7,237,913)	(5,793,312)	(5,203,754)
Net unrealized (depreciation) appreciation of investments and Credit Facility	(1,028,112)	1,502,874	(6,026,417)
Total accumulated surplus – book basis	$ 6,424,922	$ 4,685,732	$ 1,360,918

The tax characteristics of distributions declared are as follows:

	Years Ended September 30,		
	2017	2016	2015
Ordinary income (including short-term gains)	$ 34,842,284	$ 30,472,284	$ 17,206,311
Long-term capital gain	—	—	1,653,105
Total distributions	$ 34,842,284	$ 30,472,284	$ 18,859,416
Total distributions per share based on weighted average shares	$ 1.15	$ 1.14	$ 1.16

9. CASH AND CASH EQUIVALENTS

Cash equivalents represent cash in money market funds pending investment in longer-term portfolio holdings. Our portfolio may consist of temporary investments in U.S. Treasury Bills (of varying maturities), repurchase agreements, money market funds or repurchase agreement-like treasury securities. These temporary investments with original maturities of 90 days or less are deemed cash equivalents and are included in the Consolidated Schedule of Investments. At the end of each fiscal quarter, we may take proactive steps to preserve investment flexibility for the next quarter by investing in cash equivalents, which is dependent upon the composition of our total assets at quarter-end. We may accomplish this in several ways, including purchasing U.S. Treasury Bills and closing out positions on a net cash basis after quarter-end, temporarily drawing down on the Credit Facility, or utilizing repurchase agreements or other balance sheet transactions as are deemed appropriate for this purpose. These amounts are excluded from adjusted gross assets for purposes of computing the Investment Adviser's management fee. U.S. Treasury Bills with maturities greater than 60 days from the time of purchase are valued consistent with our valuation policy. As of September 30, 2017 and 2016, cash and cash equivalents consisted of money market funds in the amounts of $18.9 million and $28.9 million at fair value, respectively.

PENNANTPARK FLOATING RATE CAPITAL LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
SEPTEMBER 30, 2017

10. FINANCIAL HIGHLIGHTS

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

	2017	2016	2015	2014	2013 (6)
Per Share Data:					
Net asset value, beginning of year	$ 14.06	$ 13.95	$ 14.40	$ 14.10	$ 13.98
Net investment income (1)	1.10	1.02	1.08	1.12	1.10
Net change in realized and unrealized gain (loss) (1)	0.10	0.23	(0.31)	0.26	0.15
Net increase in net assets resulting from operations (1)	1.20	1.25	0.77	1.38	1.25
Distributions to stockholders (1), (2)					
Distribution of net investment income	(1.15)	(1.13)	(0.98)	(0.84)	(0.95)
Distribution of realized gains	—	(0.01)	(0.18)	(0.24)	(0.10)
Total distributions to stockholders	(1.15)	(1.14)	(1.16)	(1.08)	(1.05)
Effect of offering costs and acquisition of MCG (1)	(0.01)	—	(0.06)	—	(0.08)
Net asset value, end of year	$ 14.10	$ 14.06	$ 13.95	$ 14.40	$ 14.10
Per share market value, end of year	$ 14.48	$ 13.23	$ 11.94	$ 13.78	$ 13.78
Total return (3)	18.71%	21.77%	(6.01)%	8.05%	17.17%
Shares outstanding at end of year	32,480,074	26,730,074	26,730,074	14,898,056	14,898,056
Ratios / Supplemental Data:					
Ratio of operating expenses to average net assets (4)	4.13%	3.56%	3.01%	4.45%	4.43%
Ratio of Credit Facility related expenses to average net assets	1.98%	1.58%	2.34%	1.95%	1.66%
Ratio of total expenses to average net assets	6.11%	5.14%	5.35%	6.40%	6.09%
Ratio of net investment income to average net assets	7.85%	7.42%	7.43%	7.77%	7.68%
Net assets at end of year	$457,906,274	$375,906,828	$372,890,449	$214,527,710	$210,066,394
Weighted average debt outstanding	$269,319,832	$140,218,095	$123,924,384	$147,599,452	$ 71,678,836
Weighted average debt per share (1)	$ 8.90	$ 5.25	$ 7.61	$ 9.91	$ 7.48
Asset coverage per unit (5)	$ 2,783	$ 2,618	$ 13,598	$ 2,460	$ 3,109
Portfolio turnover ratio	59.70%	32.16%	51.02%	62.74%	81.89%

(1) Based on the weighted average shares outstanding for the respective periods.
(2) The tax status of distributions is calculated in accordance with income tax regulations, which may differ from amounts determined under GAAP, and reported on Form 1099-DIV each calendar year.
(3) Based on the change in market price per share during the period and takes into account distributions, if any, reinvested in accordance with our dividend reinvestment plan.
(4) Excludes Credit Facility related costs.
(5) The asset coverage ratio for a class of senior securities representing indebtedness is calculated on our consolidated total assets, less all liabilities and indebtedness not represented by senior securities, divided by the senior securities representing indebtedness. This asset coverage ratio is multiplied by $1,000 to determine the asset coverage per unit.
(6) Audited by predecessor auditors.

PENNANTPARK FLOATING RATE CAPITAL LTD. AND SUBSIDIARIES
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11. CREDIT FACILITY

Funding I's multi-currency Credit Facility with the Lenders was $375 million as of September 30, 2017, subject to satisfaction of certain conditions and the regulatory restrictions that the 1940 Act imposes on us as a BDC, has an interest rate spread above LIBOR of 200 basis points, a maturity date of August 2020 and a revolving period that ends in August 2018. As of September 30, 2017 and 2016, Funding I had $253.8 million and $232.9 million of outstanding borrowings under the Credit Facility, respectively. The Credit Facility had a weighted average interest rate of 3.18% and 2.57%, exclusive of the fee on undrawn commitments as of September 30, 2017 and 2016, respectively. The annualized weighted average cost of debt for the fiscal years ended September 30, 2017, 2016 and 2015, inclusive of the fee on the undrawn commitment of 0.375% on the Credit Facility and amendment costs, was 3.14%, 4.16% and 4.48%, respectively.

During the revolving period, the Credit Facility bears interest at LIBOR plus 200 basis points and, after the revolving period, the rate sets to LIBOR plus 425 basis points for the remaining two years, maturing in August 2020. The Credit Facility is secured by all of the assets of Funding I. Both PennantPark Floating Rate Capital Ltd. and Funding I have made customary representations and warranties and are required to comply with various covenants, reporting requirements and other customary requirements for similar credit facilities.

The Credit Facility contains covenants, including, but not limited to, restrictions of loan size, industry requirements, average life of loans, geographic and individual portfolio concentrations, minimum portfolio yield and loan payment frequency. Additionally, the Credit Facility requires the maintenance of a minimum equity investment in Funding I and income ratio as well as restrictions on certain payments and issuance of debt. For instance, we must maintain at least $25 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, 2017, 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. In accordance with the 1940 Act, with certain limited exceptions, we are only allowed to borrow amounts such that we are in compliance with our asset coverage ratio after such borrowing. Our Investment Adviser serves as collateral manager to Funding I under the Credit Facility.

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

12. COMMITMENTS AND CONTINGENCIES

From time to time, we, the Investment Adviser or the Administrator may be a party to legal proceedings, including proceedings relating to the enforcement of our rights under contracts with our portfolio companies. While the outcome of these legal proceedings cannot be predicted with certainty, we do not expect that these proceedings will have a material effect upon our financial condition or results of operations. Unfunded debt investments, if any, are disclosed in the Consolidated Schedules of Investments. As of September 30, 2017 and 2016, we had $30.6 million and $20.0 million, respectively, in commitments to fund investments. Additionally, as described in Note 4, the Company had unfunded commitments of up to $44.6 million to PSSL as of September 30, 2017, which amounts may be contributed primarily for the purpose of funding new investments approved by the PSSL board of directors or investment committee.

PENNANTPARK FLOATING RATE CAPITAL LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
SEPTEMBER 30, 2017

13. SUBSEQUENT EVENTS

Subsequent to September 30, 2017, we completed a follow-on public offering of approximately 6.3 million shares of common stock at a public offering price of $14.15 per share resulting in net proceeds of approximately $88.0 million. The Investment Adviser paid approximately $2.1 million as a portion of the sales load payable to the underwriters. We are not obligated to repay the sales load paid by our Investment Adviser.

On November 9, 2017, we entered into an amendment to our Credit Facility to, among other things, (i) increase the size of the Credit Facility from $375 million to $380 million, (ii) extend the reinvestment period to November 9, 2020 and (iii) extend the maturity date to November 9, 2022. The interest rate of LIBOR plus 200 basis points remains unchanged.

On November 28, 2017, we priced an offering of $138.6 million of our 3.83% Series A Notes, or the 2023 Notes. The principal on the 2023 Notes will be payable in four annual installments as follows: 15% of the original principal amount on December 15, 2020, 15% of the original principal amount on December 15, 2021, 15% of the original principal amount on December 15, 2022 and 55% on December 15, 2023. The 2023 Notes are general, unsecured obligations and rank equal in right of payment with all of our existing and future senior unsecured indebtedness. The 2023 Notes are listed on the Tel Aviv Stock Exchange, or TASE. In connection with this offering, we have dual listed our common stock on TASE.

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

PART C
OTHER INFORMATION

Item 25. Financial statements and exhibits

1 *Financial Statements*

The Index to Consolidated Financial Statements on page F-1 of this Registration Statement is hereby incorporated by reference.

2 Exhibits.

(a) Articles of Amendment and Restatement of the Registrant (Incorporated by reference to Exhibit 99(A) to the Registrant's Pre-Effective Amendment No. 3 to the Registration Statement on Form N-2 (File No. 333-170243), filed on March 29, 2011).

(b) Amended and Restated Bylaws of the Registrant (Incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K (File No. 814-00891), filed on December 2, 2015).

(d)(1) Form of Share Certificate (Incorporated by reference to Exhibit 99(D) to the Registrant's Pre-Effective Amendment No. 5 to the Registration Statement on Form N-2 (File No. 333-170243), filed on April 5, 2011).

(d)(2) Form of Subscription Certificate (Incorporated by reference to Exhibit 99(D)(2) to the Registrant's Registration Statement on Form N-2 (File No. 333-180084), filed on March 14, 2012).

(d)(3) Form of Indenture (Incorporated by reference to Exhibit 99(D)(3) to the Registrant's Registration Statement on Form N-2 (File No. 333-180084), filed on March 14, 2012).

(d)(4) Form of Subscription Agent Agreement (Incorporated by reference to Exhibit 99(D)(4) to the Registrant's Registration Statement on Form N-2 (File No. 333-180084), filed on March 14, 2012).

(d)(5) Form of Warrant Agreement (Incorporated by reference to Exhibit 99(D)(5) to the Registrant's Registration Statement on Form N-2 (File No. 333-180084), filed on March 14, 2012).

(d)(6) Form T-1 Statement of Eligibility with respect to the Form of Indenture (Incorporated by reference to Exhibit 99(D)(6) to the Registrant's Registration Statement on Form N-2 (File No. 333-180084), filed on March 14, 2012).

(d)(7) Form of Articles Supplementary (Incorporated by reference to Exhibit 99(D)(7) to the Registrant's Registration Statement on Form N-2 (File No. 333-180084), filed on March 14, 2012).

(d)(8)* Deed of Trust dated November 23, 2017, between PennantPark Floating Rate Capital Ltd. and Mishmeret Trust Company, Ltd.

(d)(9)* Supplementary Notice dated November 23, 2017.

(g) Second Amended and Restated Investment Advisory Agreement, dated as of February 2, 2016, between PennantPark Floating Rate Capital Ltd. and PennantPark Investment Advisers, LLC (Incorporated by reference to the Registrant's Quarterly Report on Form 10-Q (File No. 814-00891), filed on February 4, 2016).

(h)(1) Form of Underwriting Agreement for equity (Incorporated by reference to Exhibit 99(H)(1) to the Registrant's Registration Statement on Form N-2 (File No. 333-180084), filed on March 14, 2012).

(h)(2) Form of Underwriting Agreement for debt (Incorporated by reference to Exhibit 99(H)(2) to the Registrant's Registration Statement on Form N-2 (File No. 333-180084), filed on March 14, 2012).

(h)(3) Underwriting Agreement dated February 14, 2017 (Incorporated by reference to Exhibit 99(H)(3) to the Registrant's Post-Effective Amendment No. 1 to the Registration Statement on Form N-2 (File No. 333-215111), filed on February 16, 2017).

(h)(4) Underwriting Agreement dated October 25, 2017 (Incorporated by reference to Exhibit 99(H)(4) to the Registrant's Post-Effective Amendment No. 2 to the Registration Statement on Form N-2 (File No. 333-215111), filed on October 27, 2017).

(j) Form of Custodian Agreement between the Registrant and The Bank of New York Mellon (Incorporated by reference to Exhibit 99(J) to the Registrant's Pre-Effective Amendment No. 3 to the Registration Statement on Form N-2 (File No. 333-170243), filed on March 29, 2011).

(k)(1) Form of Stock Transfer Agency Agreement between the Registrant and American Stock Transfer & Trust Company, LLC (Incorporated by reference to Exhibit 99(K)(1) to the Registrant's Pre-Effective Amendment No. 3 to the Registration Statement on Form N-2 (File No. 333-170243), filed on March 29, 2011).

(k)(2) Form of Administration Agreement between the Registrant and PennantPark Investment Administration, LLC (Incorporated by reference to Exhibit 99(K)(2) to the Registrant's Pre-Effective Amendment No. 3 to the Registration Statement on Form N-2 (File No. 333-170243), filed on March 29, 2011).

(k)(3) Form of Trademark License Agreement (Incorporated by reference to Exhibit 99(K)(3) to the Registrant's Pre-Effective Amendment No. 3 to the Registration Statement on Form N-2 (File No. 333-170243), filed on March 29, 2011).

(k)(4) Third Amended and Restated Revolving Credit and Security Agreement, dated as of May 22, 2015, among PennantPark Floating Rate Funding I, LLC, as borrower, PennantPark Investment Advisers, LLC, as collateral manager, the lenders from time to time parties thereto, SunTrust Bank, as administrative agent, and U.S. Bank National Association, as collateral agent, as backup collateral manager, and as custodian (Incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q (File No. 814-00891), filed on August 6, 2015).

(k)(5) First Amendment to Third Amended and Restated Revolving Credit and Security Agreement, dated as of August 26, 2015, among PennantPark Floating Rate Funding I, LLC, as borrower, PennantPark Investment Advisers, LLC, as collateral manager, the lenders from time to time party thereto, SunTrust Bank, as administrative agent, and U.S. Bank National Association, as collateral agent, as backup collateral manager and as custodian (Incorporated by reference to Exhibit 10.1 to the Registrant's Annual Report on Form 10-K (File No. 814-00891), filed on November 12, 2015).

(k)(6) Second Amendment to Third Amended and Restated Revolving Credit and Security Agreement, dated as of November 9, 2017, among PennantPark Floating Rate Funding I, LLC, as borrower, PennantPark Investment Advisers, LLC, as collateral manager, the lenders from time to time parties thereto, SunTrust Bank, as administrative agent, and U.S. Bank National Association, as collateral agent, as custodian, as collateral administrator and as backup collateral manager (Incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K (File No. 814-00891), filed on November 13, 2017).

(k)(7) Purchase and Contribution Agreement, dated as of June 23, 2011, among PennantPark Floating Rate Capital Ltd., as the seller, and PennantPark Floating Rate Funding I, LLC, as the buyer (Incorporated by reference to Exhibit 10.2 to the Registrant's Periodic Report on Form 8-K (File No. 814-00891), filed on June 29, 2011).

(k)(8) Limited Liability Company Agreement of PennantPark Senior Secured Loan Fund I LLC, dated as of May 4, 2017, by and between PennantPark Floating Rate Capital Ltd. and Trinity Universal Insurance Company (Incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q (File No. 814-00891), filed on August 8, 2017).

(k)(9) Indemnification Agreement, dated as of November 15, 2016, between PennantPark Floating Rate Capital Ltd. and each of the directors and officers listed on Schedule A attached thereto (Incorporated by reference to Exhibit 10.6 on the Registrant's Annual Report on Form 10-K (File No. 814-00891), filed on November 22, 2016).

Item 25. Financial statements and exhibits (continued)

2 *Exhibits (Continued)*

(l)(1) Opinion and Consent of Venable LLP (Incorporated by reference to Exhibit 99(L)(1) to the Registrant's Registration Statement on Form N-2 (File No. 333-215111), filed on December 15, 2016).

(l)(2) Opinion and Consent of Dechert LLP (Incorporated by reference to Exhibit 99(L)(2) to the Registrant's Registration Statement on Form N-2 (File No. 333-215111), filed on December 15, 2016).

(l)(3) Opinion and Consent of Venable LLP (Incorporated by reference to Exhibit 99(L)(3) to the Registrant's Post-Effective Amendment No. 1 to the Registration Statement on Form N-2 (File No. 333-215111), filed on February 16, 2017).

(l)(4) Opinion and Consent of Venable LLP (Incorporated by reference to Exhibit 99(L)(4) to the Registrant's Post-Effective Amendment No. 2 to the Registration Statement on Form N-2 (File No. 333-215111), filed on October 27, 2017).

(n)(1)* Consent of RSM US LLP.

(n)(2)* Report of RSM US LLP regarding senior securities table contained herein.

(r)(1) Joint Code of Ethics of the Registrant, PennantPark Investment Corporation and PennantPark Investment Advisers, LLC (Incorporated by reference to Exhibit 14.1 to the Registrant's Annual Report on Form 10-K (File No. 814-00891), filed on November 30, 2017).

(s)(1) Form of Prospectus Supplement For Common Stock Offerings (Incorporated by reference to Exhibit 99(S)(1) to the Registrant's Registration Statement on Form N-2 (File No. 333-180084), filed on March 14, 2012).

(s)(2) Form of Prospectus Supplement For Preferred Stock Offerings (Incorporated by reference to Exhibit 99(S)(2) to the Registrant's Registration Statement on Form N-2 (File No. 333-180084), filed on March 14, 2012).

(s)(3) Form of Prospectus Supplement For Debt Offerings (Incorporated by reference to Exhibit 99(S)(3) to the Registrant's Registration Statement on Form N-2 (File No. 333-180084), filed on March 14, 2012).

(s)(4) Form of Prospectus Supplement For Rights Offerings (Incorporated by reference to Exhibit 99(S)(4) to the Registrant's Registration Statement on Form N-2 (File No. 333-180084), filed on March 14, 2012).

(s)(5) Form of Prospectus Supplement For Warrant Offerings (Incorporated by reference to Exhibit 99(S)(5) to the Registrant's Registration Statement on Form N-2 (File No. 333-180084), filed on March 14, 2012).

* Filed herewith

Item 26. Marketing arrangements

The information contained under the heading "Plan of Distribution" in this Registration Statement is hereby incorporated by reference.

Item 27. Other expenses of issuance and distribution

The following table sets forth the estimated expenses to be incurred by the Registrant in connection with the offering described in this Registration Statement:

SEC registration fee	$ 57,950*
NASDAQ listing fee	$ 65,000**
FINRA filing fee	$ 75,500*
Printing (other than certificates)	$ ***
Legal fees and expenses	$ ***
Accounting fees and expenses	$ ***
Miscellaneous fees and expenses	$ ***
Total	$ ***

All of the expenses set forth above shall be borne by the Registrant.

* This amount has been offset against a filing fee associated with unsold securities registered under a previous registration statement.
** This amount is estimated.
*** To be provided by amendment.

Item 28. Persons controlled by or under common control with the registrant

The following lists sets forth each of the companies considered to be controlled by us as defined by the 1940 Act.

Name of entity and place of jurisdiction	Voting Securities Owned Percentage
PennantPark Floating Rate Funding I, LLC (Delaware)	100%
PFLT Funding II, LLC (Delaware)	100%
PFLT Investment Holdings, LLC (Delaware)	100%
GMC Television Broadcasting Holdings, Inc. (Delaware)	100% (1)
GMC Television Broadcasting, LLC (Delaware)	100% (1)
Solutions Capital G.P., LLC (Delaware)	100%
Solutions Capital I, L.P. (Delaware)	100%

(1) The entity is directly owned by PFLT Funding II, LLC, which is wholly owned by us.

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Item 29. Number of holders of shares

As of September 30, 2017

Title of Class	Number of Record Holders
Common Stock, $0.001 par value	41

Item 30. Indemnification

The information contained under the heading “Description of our Capital Stock —Limitation on Liability of Directors and Officers; Indemnification and Advance of Expenses” is incorporated herein by reference.

Item 31. Business and other connections of Investment Adviser

Neither the Investment Adviser nor any officer, director or partner of the Investment Adviser has been substantially engaged in any business, profession, vocation or employment since the inception of the Investment Adviser other than as set forth under the headings “Management” and “Business—Our Investment Adviser and Administrator” which are hereby incorporated by reference. Additional information regarding the Investment Adviser and its officers and directors is set forth in its Form ADV, as filed with the SEC (SEC File No. 801-67622), and is incorporated herein by reference.

Item 32. Location of accounts and records

All accounts, books and other documents required to be maintained by Section 31(a) of the 1940 Act, and the rules thereunder are maintained at the offices of:

(1) the Registrant, PennantPark Floating Rate Capital Ltd., 590 Madison Avenue, 15th Floor, New York, NY 10022;

(2) the Transfer Agent, American Stock Transfer & Trust Company, LLC 6201 15th Avenue, 3rd floor, Brooklyn, NY 11219;

(3) the Custodian, The Bank of New York Mellon, 225 Liberty Street, New York, NY 10286; and

(4) the Investment Adviser, PennantPark Investment Advisers, LLC, 590 Madison Avenue, 15th Floor, New York, NY 10022.

Item 33. Management services

Not Applicable.

Item 34. Undertakings

The Registrant hereby undertakes:

(1) to suspend the offering of shares until it amends its prospectus if (1) subsequent to the effective date of its registration statement, the net asset value declines more than 10 percent from its net asset value as of the effective date of the registrations statement or (2) the net asset value increases to an amount greater than its net proceeds as stated in the prospectus;

(2) not applicable;

(3) in the event that the securities being registered are to be offered to existing shareholders pursuant to warrants or rights, and any securities not taken by shareholders are to be reoffered to the public, to supplement the prospectus, after the expiration of the subscription period, to set forth the results of the subscription offer, the transactions by underwriters during the subscription period, the amount of unsubscribed securities to be purchased by underwriters, and the terms of any subsequent reoffering thereof; and further, if any public offering by the underwriters of the securities being registered is to be made on terms differing from those set forth on the cover page of the prospectus, to file a post-effective amendment to set forth the terms of such offering;

(4)(a) to file, during any period in which offers or sales are being made, a post-effective amendment to the registration statement:

(i) to include any prospectus required by Section 10(a)(3) of the Securities Act;

(ii) to reflect in the prospectus any facts or events after the effective date of the registration statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the registration statement; and

(iii) to include any material information with respect to the plan of distribution not previously disclosed in the registration statement or any material change to such information in the registration statement;

(b) to file, in connection with any offering of securities, a post-effective amendment to the registration statement under Rule 462(d) to include as an exhibit a legal opinion regarding the valid issuance of any shares of common stock being sold;

(c) that, for the purpose of determining any liability under the Securities Act, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered herein, and the offering of those securities at that time shall be deemed to be the initial bona fide offering thereof;

(d) to remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering;

(e) that, for the purpose of determining liability under the Securities Act to any purchaser, if the Registrant is subject to Rule 430C: Each prospectus filed pursuant to Rule 497(b), (c), (d) or (e) under the Securities Act as part of a registration statement relating to an offering, other than prospectuses filed in reliance on Rule 430A under the Securities Act, shall be deemed to be part of and included in the registration statement as of the date it is first used after effectiveness; *provided*, *however*, that no statement made in a registration statement or prospectus that is part of the registration statement or made in a document incorporated or deemed incorporated by reference into the registration statement or prospectus that is part of the registration statement will, as to a purchaser with a time of contract of sale prior to such first use, supersede or modify any statement that was made in the registration statement or prospectus that was part of the registration statement or made in any such document immediately prior to such date of first use; and

(f) that, for the purpose of determining liability of the Registrant under the Securities Act to any purchaser in the initial distribution of securities, the undersigned Registrant undertakes that in a primary offering of securities of the undersigned Registrant pursuant to this registration statement, regardless of the underwriting method used to sell the securities to the purchaser, if the securities are offered or sold to such purchaser by means of any of the following communications, the undersigned Registrant will be a seller to the purchaser and will be considered to offer or sell such securities to the purchaser:

(i) any preliminary prospectus or prospectus of the undersigned Registrant relating to the offering required to be filed pursuant to Rule 497 under the Securities Act;

(ii) the portion of any advertisement pursuant to Rule 482 under the Securities Act relating to the offering containing material information about the undersigned Registrant or its securities provided by or on behalf of the undersigned Registrant; and

(iii) any other communication that is an offer in the offering made by the undersigned Registrant to the purchaser;

(g) to file a post-effective amendment to the registration statement, and to suspend any offers or sales pursuant the registration statement until such post-effective amendment has been declared effective under the 1933 Act, in the event the shares of the Registrant are trading below its net asset value and either (a) the Registrant receives, or has been advised by its independent registered accounting firm that it will receive, an audit report reflecting substantial doubt regarding the Registrant's ability to continue as a going concern or (b) the Registrant has concluded that a material adverse change has occurred in its financial position or results of operations that has caused the financial statements and other disclosures on the basis of which the offering would be made to be materially misleading; and

(5)(a) that for the purposes of determining any liability under the Securities Act of 1933, the information omitted from the form of prospectus filed as part of a registration statement in reliance upon Rule 430A and contained in the form of prospectus filed by the Registrant under Rule 497(h) under the Securities Act of 1933 shall be deemed to be part of the Registration Statement as of the time it was declared effective and

(b) that for the purpose of determining any liability under the Securities Act of 1933, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of the securities at that time shall be deemed to be the initial bona fide offering thereof.

(6) not applicable.

(7) to not seek to sell shares under a prospectus supplement to the registration statement, or a post-effective amendment to the registration statement, of which the prospectus forms a part (the "current registration statement") if the cumulative dilution to the Registrant's net asset value ("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. If the Registrant files a new post-effective amendment, the threshold would reset.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the Registrant has duly caused this Post-Effective Amendment No. 3 to the Registration Statement on Form N-2 to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of New York, and State of New York, on the 13th day of December 2017.

By: /s/ Arthur H. Penn
Name: **Arthur H. Penn**

Title: **Chief Executive Officer and Chairman of the Board**

Pursuant to the requirements of the Securities Act of 1933, this Post-Effective Amendment No. 3 to the Registration Statement on Form N-2 has been signed by the following persons in the capacities set forth below on the 13th day of December 2017.

Name	Title
/s/ Arthur H. Penn **Arthur H. Penn**	Chief Executive Officer and Chairman of the Board of Directors (Principal Executive Officer)
/s/ Aviv Efrat **Aviv Efrat**	Chief Financial Officer and Treasurer (Principal Financial and Accounting Officer)
* **Adam K. Bernstein**	Director
* **Jeffrey Flug**	Director
* **Marshall Brozost**	Director
* **Samuel L. Katz**	Director

* Signed by Aviv Efrat on behalf of those identified pursuant to his designation as an attorney-in-fact signed by each on December 15, 2016.

PennantPark Floating Rate Capital Ltd.

Deed of Trust
For Notes Offered to the Public

Prepared and executed on the 23 day of November 2017
Between PennantPark Floating Rate Capital Ltd. and Mishmeret Trust Company, Ltd.

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DEED OF TRUST

Made and entered into on the 23th day of November, 2017

Between: PennantPark Floating Rate Capital Ltd.
CIK Number 0001504619
590 Madison Ave., 15th Floor
New York, NY 10022
Telephone: +1.212.905.1000
Fax: +1.202.905.1075
(the "**Company**")
The Company's address in Israel for purposes of service of process:
98 Yigal Alon Street, Tel Aviv 6789141
c/o Goldfarb Seligman & Co. Law Offices
Telephone: 03-6089999
Facsimile: 03-6089909

on one side;

And: Mishmeret Trust Company, Ltd.
46-48 Menachem Begin Road
Tel: 03-6374352
Fax: 03-6374344
(hereinafter: the "**Trustee**")

on the other;

WHEREAS: The Company is incorporated under the laws of Maryland, USA, shares of its common stock, par value $0.001 per share, are listed on the Nasdaq and, subject to the closing of the Offering, will be listed on the Tel Aviv Stock Exchange Ltd.; and

WHEREAS: The Company's board of directors resolved on September 19, 2017, and on November 21, 2017, to approve an offering to the public in Israel of notes *('Igrot Hov')* (the "**Offering**" and the "**Notes**", as applicable) under the terms and conditions set forth in this Deed of Trust, and no additional act or resolution is required by the Company for the Offering and for its undertaking of the obligations set forth in this Deed of Trust; and

WHEREAS: The Company represents that it has obtained all approvals required under applicable law and/or contract for issuing the Notes, and there is no impediment by law (Israel and foreign law) and/or contract to effectuating the Offering; and

WHEREAS: In the context of the Offering, the Company intends to issue the Notes in the manner and in accordance with the provisions set forth in this Deed of Trust; and

WHEREAS: On October 26, 2017, Standard & Poor's Maalot ("**Maalot**") issued with respect to the Notes a rating of ilAA- (such rating, or any corresponding rating issued by a successor Rating Agency, the "**Base Credit Rating**") for a Note issuance by the

Company in an amount of up to NIS 400 million and on November 22, 2017, and pursuant to the publication made by Maalot on October 26, 2017, Maalot notified that the Credit Base Rating is valid for a Note issuance of up to NIS 580 million; and

WHEREAS: The Trustee is a company limited by shares and is incorporated in Israel under the Companies Law, 5759-1999 (the "**Companies Law**"), whose main purpose is to engage in trusteeships; and

WHEREAS: The Trustee represents that there is no impediment under the Securities Law (as defined below) and/or any other law for its appointment as the trustee for the Notes, nor to its entering into this Deed of Trust with the Company, and that it complies with the requirements and the conditions of qualification, if any, to serve as trustee for the holders of the Notes; and

WHEREAS: The Company has requested the Trustee to serve as trustee for the Noteholders, and the Trustee has agreed to serve under Chapter E' of the Securities Law, all subject to and in accordance with the terms of this Deed of Trust; and

WHEREAS: The Trustee has no interest in the Company, and the Company has no interest in the Trustee; and

WHEREAS: This Deed of Trust replaces in its entirety the Deed of Trust in respect of the Notes (Series A) dated November 20, 2017.

Now, therefore, it is agreed, declared and stipulated by the parties as follows:

1. <u>Preamble, Interpretation and Definitions</u>

1.1 The preamble to this Deed of Trust and the schedules attached hereto constitute a material and integral part hereof.

1.2 The division of this Deed of Trust into sections and the provision of headings for such Sections are for the sake of convenience and reference only, and shall not be used for purposes of interpretation.

1.3 All references in this Deed of Trust in the plural shall also include the singular and *vice versa*, anything appearing in the masculine gender shall also include the feminine and *vice versa*, and any use of the word "person" shall also include a corporate body, all to the extent this Deed of Trust contains no express and/or implied provision to the contrary and/or to the extent the content or context does not dictate otherwise.

1.4 In this Deed of Trust, its schedules and the Notes, the following capitalized terms will have the meanings prescribed opposite them, unless stated specifically otherwise:

"Affiliate" - A company in which another person (which is not its parent company) holds 25% or more of its Voting Stock or in which it may appoint 25% or more of its directors;

"**Base Rate**" -	The Representative Rate published on the day after the institutional tender for the Notes, as set forth in the Prospectus;
"Note Certificate" -	A certificate in the form set forth in Schedule I to this Deed;
"Noteholder" or **"Holder"** -	As the term "holder" or "holder of obligation certificates" is defined in the Securities Law;
"Noteholders' Meeting" -	A general meeting of the Noteholders convened in accordance with the terms of this Deed of Trust;
"Notes" -	The notes *('Igrot hov')* issued by the Company pursuant to this Deed, the terms of which are set forth in the Note Certificate;
"Business Day" -	Any day on which the Stock Exchange Clearing House and most of the banks in Israel are open for carrying out transactions;
"Change of Control" -	If PennantPark Investment Advisers, LLC ceases to be the sole provider of investment management and/or advisory services to the Company;
"Clearing House" -	The Tel Aviv Stock Exchange Clearing House Ltd.;
"Codex of Regulation" -	The Codex of Regulation – Title 5 – principles for conducting businesses, Part 2 – equity, measurement and risk management, Chapter 4 – managing investment assets, as published by the Capital Market, Insurance and Savings Authority of the Ministry of Finance, as updated from time to time;
"CFO Certificate" -	A certificate executed by the principal financial officer of the Company with respect to the Company's compliance with specific provisions of this Deed of Trust, which in any event in which it is required under this Deed of Trust, will be in form reasonably satisfactory to the Trustee;

"**Consumer Price Index**" -	The price index known in Israel as the "*madad hamechirim la-tzrchan*", which includes vegetables and fruit and is published by the Israeli Central Bureau of Statistics, and any similar index published by any successor institute or body, whether or not such index will be based on the same data on which the existing index is based as of the date of this Deed, provided that if such similar index shall be published by a successor institute or body which has not determined the ratio between the existing index as of the date of this Deed and the similar index, such ratio shall be determined by the Israeli Central Bureau of Statistics, and in the event that such ratio shall not have been determined, then the ratio shall be determined by the Trustee following its consultation with an economic expert chosen by the Trustee for such purpose;
"**Date of Issuance**" -	The Business Day on which proceeds derived from the issuance are deposited in the account of the arranger of the Offering and the Note Certificates are issued in accordance with this Deed of Trust;
"**Deed**" or the "**Deed of Trust**" -	This Deed of Trust including the schedules attached hereto, which form an integral part thereof;
"**Dollar**" -	United States dollar;
"**Financial Statements**" -	The Company's consolidated statements of assets and liabilities, consolidated statements of operations, consolidated statements of changes in net assets, consolidated statements of cash flows and consolidated schedules of investments for a given fiscal period filed with the U.S. Securities and Exchange Commission and prepared in accordance with U.S. GAAP and to the extent required according to any other accounting standard to which the Company may be subject, as it may be in effect from time to time (including additional statements), with a copy or a reference to such filing published on the TASE messaging system ('*MAYA*');
"**Group**" -	The Company together with any other entity required to be consolidated by the Company in its Financial Statements in accordance with U.S. GAAP and to the extent required according to any other accounting standard to which the Company may be subject, as it may be in effect from time to time;
"**Listing**" or "**Listed**" -	Listing or listed for trade on the Stock Exchange;
"Material Adverse Effect" -	A material adverse effect on the business or financial condition of the Group compared to the Date of Issuance, that impacts the Company's ability to pay interest and Principal as set out in this Deed;

"**NIS**" -	New Israeli Shekel;
"**Nominee Company**" -	Mizrahi Tefahot Nominee Company Ltd. or any other substitute nominee company;
"**Ordinary Resolution**" -	A resolution adopted at a Noteholders' Meeting, in which there were present (in person or through their representatives), at least two Noteholders that have at least twenty-five percent (25%) of the outstanding balance of the par value of the Notes or at an adjourned meeting in which there were present any number of holders (in person or through their representatives), by a simple majority;
"**Payment Rate**" -	In respect of any payment of Principal or interest under this Deed of Trust (including, without limitation, upon early redemption or acceleration of Notes), the Representative Rate published on the third Business Day before the applicable payment date, or if the Representative Rate was not published on such date, on the first subsequent Business Day;
"**Principal**" -	The aggregate outstanding balance of the principal amount of the Notes in circulation;
"Prospectus" -	The Company's prospectus, published on November 21, 2017, under which the Company offered the Notes to the public in Israel;
"Public Tender" -	The public tender to be held in connection with the initial public offering of the Notes;
"**Publication**" or "**Publish**" -	Publication on the U.S. Securities and Exchange Commission's EDGAR website, publication on the Israel Security Authority's MAGNA website or the Stock Exchange's MAYA website, or if the Company is no longer a Reporting Company – also reporting to the Trustee in accordance with sub-Section 28.4 hereunder;
"**Rating Agency**" -	An Israeli company engaged in credit ratings that is registered under the Regulation of Activities of Credit Rating Companies Law, 5774-2014;
"**Register**" -	The register of Noteholders as referred to in Section 26 of this Deed;

"**Reporting Company**" -	As defined in the Securities Law ('*ta'agid medave'ach*') or any company listed for trading on the TASE or on a stock exchange outside of Israel set forth in the Second Schedule or in the Third Schedule of the Securities Law;
"**Representative Rate**" -	The representative exchange rate of the Dollar to the NIS as published by the Bank of Israel, or any other official exchange rate of the Dollar to the NIS that may replace it, if applicable, provided that during any period in which the Bank of Israel does not publish exchange rates of the Dollar to the NIS, the Representative Rate shall be the exchange rate of the Dollar to the NIS determined by the Minister of Finance together with the Governor of the Bank of Israel for purposes of Dollar-linked government notes;
"**Securities Law**" -	The Securities Law, 5728-1968, and the regulations enacted thereunder, as in effect on the date of this Deed;
"**Special Resolution**" -	A resolution adopted at a Noteholders' Meeting, convened and adopted in accordance with Schedule II to this Deed of Trust, by a 2/3 (two thirds) majority of Noteholders participating in the vote, excluding abstentions;
"**Stock Exchange**" or "**TASE**" -	The Tel Aviv Stock Exchange Ltd.;
"**Trading Day**" -	Any day on which trading takes place on the Stock Exchange, provided however that it is a Business Day;
"**Trustee**" -	Mishmeret Trust Company Ltd. or any other person which will act from time to time as trustee for the Noteholders under this Deed pursuant to Chapter E' of the Securities Law;
"U.S. GAAP" -	United States Generally Accepted Accounting Principles
"**Voting Stock**" -	The capital stock of any corporation or other legal entity as of any date that has a right to vote on the election of directors and in general meetings.

Other terms not defined above shall have the meaning prescribed in the Securities Law, unless it is written otherwise.

1.5 An Italics phrase appearing inside brackets and bordered by apostrophes is the Hebrew term of the phrase which it follows. In case that the English and the Hebrew phrases do not have the exact same meaning, for matters of interpretation of this Deed of Trust, the Hebrew meaning ascribed to such term shall prevail.

1.6 In any case of conflict between this Deed of Trust and its schedules, the provisions of this Deed of Trust shall govern. The Company hereby confirms and clarifies, that as of the date of this Deed, no conflict exists between this Deed of Trust and the documents ancilllary thereto and the provisions described in the Prospectus relating to this Deed and/or the Notes.

1.7 So long as the Notes are Listed, this Deed of Trust, including its schedules, shall be subject to the applicable provisions of the bylaws and guidelines of the Stock Exchange, as in effect from time to time, and anywhere the rules of the Stock Exchange apply or shall apply to any action under this Deed of Trust, the rules of the Stock Exchange shall govern.

1.8 Subject to applicable law, the restrictions applying to the Company vis-a-vis the Noteholders and the Trustee shall be limited to those restrictions set forth in this Deed of Trust or in the Note Certificate. The Company shall be entitled to carry out any act unless such act is explicitly prohibited under this Deed of Trust or the Note Certificate or under applicable law.

1.9 Wherever the phrase "including" is used, it shall be construed as an example that does not reduce or limit the generality of that certain term.

1.10 Wherever "subject to the provisions of applicable law" or a similar term is used, it shall be construed as subject to the provisions of mandatory law.

2. **Issuance of the Notes**

2.1 The Company shall issue the Notes, which shall be registered by name, in a total amount of up to NIS 565 million.

2.2 The Principal of the Notes shall be repaid in four (4) annual installments, as follows: (1) a payment of fifteen percent (15%) of the original principal on December 15, 2020; (2) a payment of fifteen percent (15%) of the original principal on December 15, 2021; (3) a payment of fifteen percent (15%) of the original principal on December 15, 2022; and (4) a payment of fifty-five percent (55%) of the original principal on December 15, 2023.

2.3 Principal on the Notes shall bear fixed annual interest at a rate to be determined in the public tender in response to the Offering (such rate, the "**Base Interest**" or the "**Annual Interest**"), subject to adjustments as set forth in Section 7 hereunder. Such interest shall be payable semi-annually in arrears, on the 15th day of June and the 15th day of December of each of the years 2018 through 2023 inclusive (each, an "**Interest Payment Date**"), for the six (6) month period commencing on the previous Interest Payment Date and ending on the day immediately preceding the applicable Interest Payment Date (the "**Interest Period**"), except for the initial Interest Payment Date, which shall be June 15th, 2018, for the period commencing on the first trading date after the date of closing of the subscriptions list and ending on the day immediately preceding such initial Interest Payment Date (the "**Initial Interest Period**") and which shall be calculated on the basis of a 365-day year and the actual number of days in such period. The final interest payment shall be paid on December 15, 2023, together with final payment of the Principal and against the surrender of the Note Certificates to the Company and/or any third party as instructed by the Company.

The Company shall Publish the Annual Interest rate, the semi-annual interest rate (which shall apply to each full interest period in which the interest rate does not change and shall be calculated based on the Annual Interest rate divided by two (2)), and the interest amount that shall be payable for the Initial Interest Period, within two (2) Business Days of the Date of the Public Tender.

2.4 **Record date** – Payments on account of the Principal and/or any interest thereon shall be paid to the relevant Noteholder on the following dates:

2.4.1. Payments due onJune 15 – shall be paid to persons holding Notes at the end of the Trading Day on June 3.

2.4.2. Payments due on December 15 (excluding the last payment of Principal and interest) – shall be paid to persons holding Notes at the end of the Trading Day on December 3.

2.4.3. The final payment of Principal and interest shall be made against the surrender of the Note Certificates to the Company, on the date of payment, at a location in Israel as the Company shall instruct the Trustee, no later than five (5) Business Days prior to the last date of payment.

In the event a certain date of payment on account of Principal and/or interest is not a Business Day, the date of such payment shall be postponed to the following Business Day and no interest or other payment shall be due on account of such delay, and the "record date" for determining the eligibility for redemption or interest shall not be changed as a result of such postponement.

2.5 **Currency of repayment and linkage** – Other than payments for the fees and expenses set out in this Deed (including those of the Trustee), all payments required to be made by the Company under this Deed, including but not limited to, repayment of the Principal (whether scheduled, accelerated or upon an early redemption) and interest payments on the outstanding balance of the Principal, shall be made to the Noteholders in NIS, collectively linked to the Payment Rate, as follows: (i) if the Payment Rate is higher than the Base Rate, then such payment in NIS shall be increased proportionally to the rate of increase of the Payment Rate compared with the Base Rate; (ii) if the Payment Rate is lower than the Base Rate, then such payment in NIS shall be reduced proportionately to the rate of decline of the Payment Rate compared with the Base Rate; and (iii) if the Payment Rate is equal to the Base Rate, then such payment shall be made in the amount of NIS as originally scheduled. Unless explicitly stipulated, payments will not be linked to the Consumer Price Index.

2.6 **Offering** – The Notes are being offered initially in the framework of a public offering in Israel only.

2.7 **Default interest** – See Section 3.8 of the Terms and Conditions Overleaf.

2.8 **Stock Exchange Listing** – The Company shall List the Notes for trade on the Stock Exchange.

2.9 **Expansion of the series and issue of additional securities**:

Expansion of the series

2.9.1. The Company shall be entitled, from time to time, at its sole discretion, without being required to obtain approval from the Trustee or the Noteholders, to expand the series of Notes and issue additional Notes (whether by means of a public offering, private placement or otherwise), the terms and conditions of which will be the same as the terms and conditions of this series of Notes issued for the first time, at any price and in any manner as the Company deems fit, including at such discount or premium (including no discount or no premium) that differ from those applicable to other issuances of the Notes, provided the following conditions are met: (1) the expansion of the series of the Notes will not lead to the downgrading of the rating of the Notes, as in effect immediately prior to the expansion date, and prior written confirmation thereof is obtained from the Rating Agency, prior to the institutional tender for qualified investors being held, to the extent held, including by way of issuance of a rating approval for the Notes to be issued in the framework of the expansion (in the event more than one Rating Agency is rating the Notes, the higher rating shall apply); (2) a CFO Certificate will be delivered by the Company pursuant to Section 6.1 prior to the expansion date, and no later than two Trading Days prior to the date on which the institutional tender for qualified investors will be held, to the extent held, stating that (a) the Company is in compliance with all of the Financial Covenants (as defined below) immediately prior to the expansion and will be in compliance with all of the Financial Covenants on a pro forma basis after giving effect to the expansion of the series. The CFO Certificate will include a calculation of the Financial Covenants prior to the expansion and on pro-forma basis as aforesaid; (b) immediately prior to the expansion, there are no grounds for accelerating the repayment of the Notes, nor will they be as a result of the expansion of the series of the Notes; (c) the expansion will not affect the Company's ability to repay its debt as they become due; and (d) the Company meets its material obligations to the Noteholders; and (3) immediately prior to the expansion, there are no grounds for accelerating the repayment of the Notes, nor will they be as a result of the expansion.

2.9.2. The expansion shall be subject to the approval of the Stock Exchange for Listing the additional Notes.

2.9.3. The Trustee shall serve, subject to the provisions of this Deed of Trust, as Trustee for the Notes in circulation from time to time, including those issued in an expansion, and the Trustee's consent for serving as such for the expanded series shall not be required. Notes in circulation and any additional Notes that shall be issued in accordance with this Section 2.9 shall constitute (from their date of issuance) a single series for all intents and purposes, and this Deed of Trust for the Notes shall apply also to all additional Notes of the same series. The Notes issued in the expansion shall not confer any right to payment of Principal or interest if the record date for their payment lapsed prior to the date of issuance of the additional Notes. In the event of the issuance of additional Notes, the Trustee shall be entitled to demand an increase in the fees payable to it, in proportion to the increase in the amount of issued Notes (compared to the original issuance), and the Company hereby grants its consent to the increase in the Trustee's fees as set forth above.

2.9.4. In the event the discount rate applicable for the Notes issued in the expansion is different than the discount rate (if any) of the existing Notes in circulation at such time, the Company shall submit a request to the Israeli Tax Authority, if necessary, prior to expanding the series of Notes, to obtain its approval for the application of a uniform discount rate on withholding tax at source on the discount amount according to a formula weighting the different discount rates (if any). Should such approval be obtained, the Company shall calculate, upon expansion of the series, the weighted discount rate for all of the Notes, and the Company shall Publish in an immediate report together with the results of the offering prior to the Listing of the additional Notes, the uniform weighted discount rate and shall withhold tax at the payment dates of such Notes, according to such rate and the provisions of applicable law. In the event the Company shall fail to obtain such approval, the Company shall Publish, prior to the Listing of the additional Notes, the uniform discount rate, which shall be the highest discount rate created for the Notes. In any event, all the provisions of applicable law pertaining to taxation of the discount rate shall apply.

2.9.5. The applicable Stock Exchange members shall withhold tax at source, for purposes of Israeli tax law, upon payment of the Notes, according to the discount rate notified as set forth above. In addition, the Company shall withhold tax at source, in accordance with any other tax laws that may apply at the time. Accordingly, there may be instances in which tax shall be withheld at source for the discount at a rate that is higher than the discount fees determined for the Notes prior to the expansion of the series. In such event, a Noteholder that held Notes prior to an expansion of the series shall be entitled to submit a request to the Israel Tax Authority for the obtainment of a refund for tax withheld from the discount payment, in accordance with applicable law.

2.9.6. The Company shall notify the Trustee immediately after the adoption of a resolution by the Company's board of directors to expand the series of Notes and shall deliver to the Trustee immediately thereafter (on the aforesaid dates): (i) a CFO Certificate confirming the Company's compliance with the provisions of sub-Sections 2.9.1(1), (2) and (3) above and providing documentation thereof, all to the satisfaction of the Trustee; and (ii) the written approval of the Rating Agency as set forth in sub-Section 2.9.1(1). Publication of the Rating Agency's aforementioned approval or a rating report which affirms that the rating of the Notes shall not be prejudiced due to the expansion (including by way of a rating approval of the Notes to be issued in the framework of the expansion) shall satisfy the requirement of delivery of the approval of the Rating Agency to the Trustee as set forth in this sub-Section 2.9.6. For the removal of doubt, it is clarified that in the event of an expansion of the series that is performed for the purpose of using an At The Market (ATM) mechanism, the Company will

deliver the abovementioned approval at the time of the expansion, i.e. at the date of the issuance of the additional Notes to the Company and/or a subsidiary thereof, as applicable (the creation of the cartridge), and not at the date of publication of the offering report regarding the additional Notes nor at the time of execution of actual ATM sales on the market.

2.9.7. For the avoidance of doubt, the obligations of the Company set forth in these Sub-Sections 2.9.1-2.9.6 shall apply only with respect to additional issuances of Notes by way of expanding the series of Notes issued hereunder, and such obligations shall not apply with respect to issuances of notes by way of expansion of other series in circulation at such time, or with respect to new series of notes, or any other debt incurred by the Company, whether these other or new series, or other debt as aforesaid, are rated or not, without regard to the dates of issuance or incurrence of such debt or the proximity of such dates to the date of the expansion of the series or the date of change in rating.

Issuance of additional securities

2.9.8. Notwithstanding the foregoing and subject to the provisions of applicable law, the Company reserves the right to issue, at any time and from time to time (by means of a private placement or prospectus or shelf offering report or in any other way), additional series of notes or other securities of any kind or type, without being required to obtain the approval of the Trustee and/or the Noteholders existing at such time, and on such terms and conditions as it deems fit, including with respect to conditions of payment, interest and security, all without derogating from the payment obligations imposed on the Company pursuant to this Deed, provided only that any new note issued without any security (collateral) thereon shall not have any preference in regard to priority in repayment over the Notes at the time of a liquidation.

2.9.9. Nothing in the foregoing shall derogate from any of the rights of the Trustee and the Noteholders under this Deed of Trust, including from their right to immediate repayment of the Notes in accordance with the provisions of this Deed of Trust.

2.10 The provisions of this Deed of Trust shall apply to the Notes issued pursuant to this Deed and which shall be held from time to time by any purchaser of the Notes, unless otherwise provided herein. Each Note, whether issued on the Date of Issuance or as a result of an expansion of the Notes series, will have equal rights compared to any other Note in the series (*Pari-Passu)* without a priority to any Note. Notwithstanding the above, clause 52(N)1 to Securities Law will apply.

2.11 This Deed of Trust shall become effective on the first date the Notes are issued by the Company and shall apply as of the Date of Issuance. It is agreed that in the event the Offering is cancelled for any reason, this Deed of Trust shall be void *ab initio*.

3. **Appointment and Duties of the Trustee**

3.1 The Company hereby appoints the Trustee as trustee solely for the Noteholders.

3.2 The Trustee shall also serve as Trustee for a Person which was a Note Holder on a certain Record Date and in connection of due payment with such Record Date that was not paid.

3.3 As of the effective date of this Deed of Trust as set forth in Section 2.11 of this Deed, the duties of the Trustee shall be in accordance with applicable law and the provisions of the Deed.

3.4 In the event the Trustee is replaced with another Trustee, such other Trustee shall act as trustee for the Noteholders, including for those persons entitled to payments by virtue of the Notes that were not paid when due.

3.5 The Trustee is not required to act in any manner not explicitly set forth in this Deed of Trust in order to obtain any information, including information regarding the Company or its business or its ability to meet its obligations to the Noteholders and such action is not included among its duties.

4. **Powers of the Trustee**

4.1 The Trustee shall use the powers, permissions and authorities conferred upon it pursuant to the law and this Deed of Trust, at its sole discretion, or in accordance with a resolution of a Noteholders' Meeting and all subject to the provisions of applicable law which cannot be conditioned. The Trustee shall not be liable for any damage that may be caused as a result of an error in such discretion, unless the Trustee acted in bad faith or with gross negligence (unless exempt by law), willful misconduct or malicious intent.

4.2 The Trustee shall be entitled to deposit any deeds and other documents which evidence, represent and/or stipulate its rights in connection with the trusteeship subject of this Deed of Trust, including with respect to any asset that is in its possession at such time, in a safe deposit box and/or at another place it may select, including at any bank, with an attorney and/or with an accountant. The Trustee shall not be liable for any loss that may be incurred in connection with a deposit made in accordance with this Section 4.2, unless the Trustee acted in bad faith or with gross negligence (unless exempt by law), willful misconduct or malicious intent.

4.3 The Trustee is entitled to grant its consent and/or approval to any motion filed with a court brought on behalf of any Noteholder, and the Company shall compensate the Trustee for all reasonable expenses incurred due to such motion and any actions taken as a result therefrom or in connection therewith, unless the Trustee acted in bad faith or with gross negligence (unless exempt by law), willful misconduct or malicious intent.

4.4 The Trustee shall represent the Noteholders with respect to any matter deriving from the Company's obligations towards them, and for such purpose it shall be entitled to act for the exercise of the rights conferred to the Holders by law or in accordance with this Deed of Trust.

4.5 The Trustee may initiate any proceeding to protect the rights of the Holders in accordance with applicable law and the provisions set forth in this Deed of Trust.

4.6 The Trustee shall be entitled to appoint agents as set forth in Section 22 of this Deed.

4.7 Actions of the Trustee shall be valid even if a defect is discovered in its appointment or qualifications.

4.8 The Trustee's execution of this Deed of Trust does not constitute an opinion on its part with respect to the quality of the Notes or with respect to the advisability of investing therein.

4.9 The Trustee shall not be obliged to notify any party with respect to the execution of this Deed of Trust. The Trustee shall not interfere and shall not be entitled to interfere in any way in the conduct and management of the Company's business or its affairs, and no action or inaction on the part of the Company requires its approval, and these matters are not included among its duties. Nothing in this section shall limit the Trustee with respect to any action it is required to carry out in accordance with the provisions of this Deed or applicable law.

4.10 In the framework of its trusteeship, the Trustee may rely on any written document including letter of instructions, notice, request, consent or approval, appearing to be executed or prepared by any person or entity, which the Trustee believes in good faith that it had been executed or prepared by them unless the Trustee acted in bad faith or with gross negligence (unless exempt by law) or malicious intent.

4.11 It is clarified that termination of the Trustee's term of office shall not derogate from the rights, claims or demands of the Company and/or the Noteholders towards the Trustee if any, in so far as their grounds precede the termination date of the Trustee's term of office, and the Trustee shall not be released from any liability in accordance with applicable law. In addition, the termination of the Trustee's term of office shall not derogate from the rights, claims or demands of the Trustee towards the Company and/or the Noteholders, if any, in so far as their grounds precede the termination date of the Trustee's term of office, and the Company and/or Noteholders shall not be released from any liability in accordance with applicable law.

5. **Repurchase of Notes**

5.1 The Company reserves, subject to any law, the right to purchase all or a portion of the Notes at any time and from time to time, without derogating from the repayment obligation of the Notes in circulation. In the event of such purchase, the Company shall inform the Trustee in writing.

In the event of such purchase by the Company as aforesaid, such purchased Notes shall automatically expire and be cancelled and delisted from trade, and the Company shall not be entitled to reissue them.

In the event that the Notes are purchased by the Company in the framework of trading on the Stock Exchange, the Company will apply to the Clearing House to withdraw the certificates so purchased, and all unless otherwise determined by the provisions of the law as it may be at such time. If and in accordance with the provisions of the law at such time, the Notes are not cancelled nor delisted from trade on the Stock Exchange, the Company will be entitled to sell all or a portion of the purchased Notes, at its sole discretion, in accordance with the provisions of the law as it will be at such time, without receiving the authorization of the Trustee and/or the Noteholders.

The foregoing shall not derogate from the Company's right to repay the Notes in an early redemption as set forth in Section 9 below.

Any subsidiary of the Company and/or a corporation under its control and/or associated company (i.e., as defined in the Securities Regulations (Periodic and Immediate Reports), 5730-1970) and/or Affiliated company of the Company and/or a controlling stockholder of the Company (directly and/or indirectly) and/or any family member thereof *('Ben Mishpaha')* (namely, spouse and sibling, parent, parent's parent, descendant or descendant of the spouse, or spouse of any of the above), and/or any company under the control of any of the aforementioned (directly or indirectly) (other than the Company itself (to which the provisions of this Section 5.1 above shall apply) (each, an "**Affiliated Holder**"), may purchase and/or sell at any time and from time to time on or off the Stock Exchange, including by means of an issuance by the Company, Notes that will be issued pursuant to the Deed of Trust. In the event of a purchase or sale as set forth above by a subsidiary of the Company and/or any company under its control, or in the event the Company becomes aware of a purchase or sale by any other Affiliated Holder, the Company shall notify the Trustee with respect thereto. Such Notes that will be held as aforesaid by an Affiliated Holder shall be deemed to be an asset of the applicable Affiliated Holder and, if they are Listed, shall not be delisted from trade on the Stock Exchange and shall be transferable as the other Notes. Notes that are owned by an Affiliated Holder shall not confer on the Affiliated Holder voting rights at any Noteholders' Meeting and shall not be taken into account for purposes of determining whether a legal quorum is present as required for convening such a meeting. Holders' meetings shall be held in accordance with the provisions of Schedule II to the Deed of Trust. An Affiliated Holder shall report to the Company, to the extent that it is required by law to do so, on the purchase of Notes by it and the Company shall provide to the Trustee, upon its demand, the list of Affiliated Holders and the quantities held by them on the date requested by the Trustee and this according to the said reports received as aforesaid from Affiliated Holders. For the purpose of this clause, an immediate report on the Magna filing system or the Maya website shall constitute a report to the Trustee for the purposes of this clause.

5.2 Nothing in this Section above shall in itself obligate the Company or any Affiliated Holder or the Noteholders to purchase and/or sell any Notes held by them.

6. Covenants of the Company

The Company undertakes to the Noteholders to pay all Principal and interest thereon, including any default interest in accordance with Section 2.7 above and interest applicable in the event of a decrease in rating and/or default of a Financial Covenant (as defined below) (all as applicable and in accordance with the provisions of this Deed), payable to the Noteholders in accordance with the terms of the Notes and to fulfill any other conditions and obligations imposed on it in accordance with the Notes and this Deed of Trust[1].

1 It should be noted that the Company is not subject to restrictions on distribution of dividends, except for restrictions under the applicable law.

In addition, during the term of the Notes, the Company shall (unless the Trustee or the Noteholders by Special Resolution resolved on at a properly convened Extraordinary Meeting of the Noteholders have agreed otherwise) comply with the following covenants:

6.1 **Financial Covenants**:

6.1.1 The total net assets (NAV) of the Company shall not be less than 325 million US Dollars.

6.1.2 The ratio of the debt of the Company and its consolidated subsidiaries to their total assets shall not be more than 70%.

The Company's compliance with the covenants set forth in sub-Sections 6.1.1 and 6.1.2 (such covenants, the "**Financial Covenants**") shall be measured on the Publication date of the Financial Statements for each fiscal quarter of the Company, commencing from the Publication date of the Company's Financial Statements as of and for the three months ending December 31, 2017. Within ten (10) days of the Publication of the Company's quarterly or annual Financial Statements, the Company shall deliver a CFO Certificate to the Trustee with respect to the Company's compliance with the Financial Covenants including the calculation of the Financial Covenants, to the extent necessary. The Trustee will present the CFO Certificate to any Noteholder upon written request.

The terms employed in connection with the Financial Covenants shall be calculated and determined in accordance with U.S. GAAP as in effect from time to time.

6.2 Should the ratio of the Company's consolidated debt to total assets as aforesaid in Section 6.1.2 above exceed 65%, and as long as it so exceeds, the Company shall not make any additional loans.

6.3 **Investment Criteria**

6.3.1 No more than 8% of the Group's total assets (measured at cost) shall be invested in any single portfolio company (a portfolio company required to be disclosed under Item 8.6(a) of Form N-2, other than PennantPark Senior Secured Loan Fund I LLC and its consolidated subsidiaries or any other investment joint venture that may be formed from time to time by the Company, and other than loans to financing entities, i.e., entities which one or more of its main businesses include providing credit, including loans) ("**Single Borrower Limitation**").

The Company's compliance with the Single Borrower Limitation shall be measured, with respect to each investment, on the date on which the loan agreement relevant to the investment is executed and with respect to the total assets of the Company as appearing in the Company's Financial Statements last Published prior to the date of measurement.

6.3.2 No more than 20% of the Company's total assets (measured at cost) shall be invested in any single industry (as determined based on the classification used by the Company for financial reporting purposes) ("**Single Industry Limitation**").

The Company's compliance with the Single Industry Limitation shall be measured, with respect to each investment, on the date on which the loan agreement relevant to the investment is executed, and with respect to the total assets of the Company as appearing in the Company's Financial Statements last Published prior to the date of measurement. It is hereby clarified, that the Trustee cannot monitor this covenant independently and will rely fully on the CFO Certificate.

Each of the Single Borrower Limitation and the Single Industry Limitation shall be considered as a material obligation of the Company.

6.4 **Negative pledge** – The Company shall not create a *floating charge* (or the equivalent thereof under the law that applies to the Company) on all its direct assets in favor of any third party to secure its obligations to such third party, unless it obtains the prior consent of the Noteholders by Special Resolution, or unless it grants, concurrently with granting such *floating charge* on all the direct assets of the Company as aforesaid in favor of a third party, a floating charge in favor of the Noteholders, and such charges shall be *pari passu* according to the ratio of the Company's debts to each of the parties. If any such charge is being effectuated, it shall be made in coordination with the Trustee and in forms approved by the Trustee. Notwithstanding the above, the Company shall be entitled to create a charge, that is not placed on all of the Company's assets, if such charge is created (1) to secure obligations against a loan or credit facility from a bank, financing institution or other entity primarily engaged in the business of commercial lending or other lender (including a financing facility used to fund the acquisition of a business or substantially all of the assets of a business and/or any refinancing of any credit facility), or (2) to secure obligations under notes issued as part of one or more collateralized loan obligations into which the Company may sell or contribute a portion of its assets and cause such notes to be issued to institutional investors, provided such collateralized loan obligation is treated by the Company as balance sheet financing; all without being required to obtaining the consent of the Trustee and/or the Noteholders and without creating a charge in favor of the Noteholders.

For the avoidance of doubt, the foregoing shall not limit (1) the Company from creating fixed charges on all or any of its assets, (2) the Company from creating floating charges on one or more specific asset of the Company or (3) the ability of corporations controlled by the Company to create any type of charge (whether fixed or floating) on any (including all or most) of their assets, in each case without any limitation.

For the avoidance of doubt, the Trustee is not responsible for examining the possibility and/or the need for registering negative pledges or any registration corresponding thereto in its nature and substance outside of Israel. The Company's declarations in this regard will be adequate with respect to the registration of charges.

The Company represents and warrants that as of the date of this Deed of Trust it has not created or registered floating charges covering all its direct assets in relation to which the aforementioned undertaking has been granted.

6.5 **Rating**: The Company undertakes to take action, to the extent within its control, and so long as the Principal has not been fully repaid, to ensure the Notes shall be rated by a Rating Agency and, accordingly, the Company further undertakes, *inter alia*, to pay the Rating Agency the amounts, and to deliver to the Rating Agency the statements, required by it in the framework of the engagement between the Company

and the Rating Agency. Among others, the Company's failure to pay the Rating Agency, and its failure to deliver the statements required by the Rating Agency, in the framework of the engagement between the Company and the Rating Agency, shall be deemed reasons and circumstances within the Company's control. For the avoidance of doubt, the placement of the Notes on a watch list or any other similar act performed by the Rating Agency shall not be deemed a termination of the rating.

The Company does not undertake not to replace the Rating Agency nor does it undertake not to terminate its engagement therewith during the term of the Notes. In the event the Company replaces the Rating Agency and/or terminates its engagement therewith, including in the event there is more than one Rating Agency that rates the Notes, the Company undertakes to notify the Trustee regarding the circumstances of the replacement of the Rating Agency or the termination of its engagement therewith, as applicable, within no later than one (1) Business Day of the earlier of (i) the said replacement and (ii) the date of resolving to terminate the engagement with the Rating Agency. The Company shall further provide the Trustee with a comparison of the rating scales of the former Rating Agency and those of the new Rating Agency.

It is hereby clarified that the aforementioned provisions shall not derogate from the Company's right to replace a Rating Agency at any time or terminate the engagement of a Rating Agency (in the event it is not the only Rating Agency) at its sole discretion and for any reason it deems fit and without the Trustee and/or the Noteholders having any claim in such respect (without derogating from section 10.1.13 below).

6.6 The Company undertakes to maintain liquid balances (including by way of available credit facilities) at the level of annual interest for the Noteholders. Such balance will not be pledged in favor of the Trustee or the Noteholders and will not be used to secure any obligation of the Company under this Deed of Trust. Nothing in the above shall prejudice the Noteholders' rights and priority as unsecured creditors of the Company under insolvency proceedings.

6.7 **Appointment of a Representative of the Company in Israel**

Until the date of the full, final and accurate settlement of the Notes under the terms of the Deed of Trust towards the Noteholders, the Company undertakes that it will have a representative on its behalf in Israel, to whom it will be possible to serve court documents to the Company and/or its officers in respect of all matters related to this Deed of Trust, in lieu of their service at the Company's address abroad, as set forth in the preamble to this Deed.

As of the date of execution of the Deed, the Company's representative in Israel is Goldfarb Seligman & Co. Law Office (the address of which is as specified in the preamble to this Deed) (the "**Company's Representative in Israel**"). Service upon the Company's Representative in Israel shall be considered valid and binding with respect to any claim and/or demand of the Trustee and/or the Holders of the Notes pursuant to this Deed of Trust. The Company may change the identity of a Company's Representative in Israel from time to time, provided that upon its replacement, the Company shall file an immediate report specifying the details of the new Company's Representative in Israel and deliver a notice thereof to the Trustee. In the event of the appointment of a new representative, the immediate report and the

notice to the Trustee shall include, in addition, the date on which the appointment of the new representative entered into effect. As long as the appointment of the new representative has not taken effect, the address of the replaced representative shall be the address for the said service.

6.8 **Controlling Shareholder Transactions**: The Company shall comply with the requirements of Section 3-602 of the Maryland General Corporation Law, which generally imposes procedural burdens on transactions with (1) any person who beneficially owns, directly or indirectly, 10% or more of the voting power of the Company's common stock or (2) an affiliate or associate (each as defined in the Maryland General Corporation Law) of the Company who, at any time within the two-year period prior to the date in question, was the beneficial owner, directly or indirectly, of 10% or more of the voting power of the then outstanding Voting Stock of the Company. In addition, the Company shall comply with the requirements of Section 57 of the Investment Company Act of 1940, as amended ("**Investment Company Act**"), which places restrictions on transactions between business development companies, such as the Company, and certain of their affiliates and affiliated persons (each as defined in the Investment Company Act) of such persons, including, for the avoidance of doubt, the Company's investment adviser and holders of greater than 5% of the Company's outstanding voting securities.

6.9 **Expenses Cushion**

Without derogating from the provisions of Section 23 of the Deed of Trust, out of the net proceeds from the Offering, the Company shall pay to the Trustee an amount equal to 300 thousand Dollars (according to the Representative Rate known on the first Trading Day after the date of the Public Tender) to be used for the payment of ongoing expenses and administrative expenses of the Trustee in the event that the Notes are called for immediate repayment and/or in the event the Company committed a material or fundamental breach of the provisions of the Deed of Trust (the "**Prepaid Expenses**"). It is clarified that the actual expenses will be borne by the Company whilst the Trustee will deposit the Prepaid Expenses in a bank account opened by it in its name in trust for the Noteholders only and which will secure these payments. The Trustee shall be permitted to make use of the Prepaid Expenses for the purposes set forth above at its discretion. Should the Trustee use the Prepaid Expenses as set forth above, the Company shall pay the Trustee, within 14 Business Days from the date the Company received from the Trustee a written demand for such payment, additional amounts so that the Trustee will have in such account Prepaid Expenses of 300 thousand Dollars. The Prepaid Expenses shall be kept by the Trustee as set forth above until the date of full and final repayment of the Notes. After full and final repayment of the Notes, the balance, if any, of the Prepaid Expenses will be transferred (together with all proceeds accrued thereon), inasmuch as it has not been used, to the Company in accordance with details to be provided by the Company to the Trustee in writing and in advance.

In the event that the Prepaid Expenses are not sufficient to cover the expenses of the Trustee in connection with the immediate repayment of the Notes and/or the breach of the provisions of the Deed of Trust by the Company as stated above, the Trustee shall act in accordance with the provisions of Section 23 below.

For the removal of doubt it is hereby clarified, that the account in which the Prepaid Expenses are deposited, will be managed solely by the Trustee, which will have sole signatory rights therein. The Prepaid Expenses will be invested in accordance with Section 13 below. The Trustee will not be liable towards the Noteholders and/or the Company to any loss that will be incurred due to these investments.

The Trustee will provide the Company, upon its written request, information on the manner of investment of the Prepaid Expenses and the balance thereof. The Company shall bear all costs of opening said account, its management and its closing.

It shall be clarified that the amounts of the Prepaid Expenses paid by the Company as aforesaid in this section, shall be counted towards amounts the Company will be required under any law, in as much as it will be required, to deposit in an expenses deposit account, and this to the extent legal provisions applicable to the Company in this context will enter into effect.

It shall further be clarified, that any rights the Company may have with respect to the Prepaid Expenses, if any, are not pledged in favor of the Trustee and/or the Noteholders. Therefore, there may be a situation in which a third party (including a holder of an office on behalf of a court and the like) will claim that the Company has rights in the Prepaid Expenses and that they belong to the Company and/or all its creditors and not the Noteholders alone. Nothing herein shall derogate from the Company's undertakings under Section 30 below, which, for the removal of doubt, shall apply also with respect to the Prepaid Expenses.

7. Interest Rate Adjustments

7.1 Mechanism for interest rate adjustment due to rating change

7.1.1 In the event the Base Credit Rating is downgraded by two "notches" (i.e., two rating declines) or more during any Interest Period (the "**Downgraded Rating**"), the interest rate on the outstanding balance of the Principal shall be increased by a rate of 0.25% per annum (in addition to the Base Interest) against the first two (2) downgraded notches from the Base Credit Rating, plus 0.25% against each additional downgraded notch, up to a maximum additional interest rate of one percent (1%) per annum above the Base Interest, commencing on the date of the publication of the applicable Downgraded Rating by the applicable Rating Agency and until the earlier of (i) the full repayment of the Principal and (ii) the date on which the applicable Rating Agency subsequently upgrades the rating of the Notes to a rating that is higher than the Downgraded Rating (such rating, the "**Upgraded Rating**").

7.1.2 It is hereby clarified that the maximum increase in Base Interest pursuant to this Section 7.1 shall not exceed one percent (1%) per annum, regardless of any cumulative Downgraded Ratings and regardless of whether the credit rating is first downgraded and later ceases to be rated.

7.1.3 By no later than two (2) Business Day following the receipt of notice of the Rating Agency regarding the downgrading of the Notes' rating to the Downgraded Rating, the Company shall Publish an immediate report as follows: (A) the fact that the rating was downgraded, the Downgraded Rating and the commencement date of the Downgraded Rating (the "**Rating Downgrading Date**"); (B) the interest rate that the Principal shall bear for the period commencing on the first day of the then-current Interest Period and until the Rating Downgrading Date (calculated on the basis of a 365-day year and the actual number of days in such period) (in this Section 7.1.3 the "**Original Interest**"); (C) the interest rate the Principal shall bear commencing on the Rating Downgrading Date and until the following Interest Payment Date (assuming no other events affecting such interest rate shall occur and calculated on the basis of a 365-day year and the actual number of days in such period); (D) the weighted interest rate to be paid by the Company to the Noteholders on the next Interest Payment Date, deriving from the interest payments described in clauses (B) and (C) above; (E) the annual interest rate reflected from the weighted interest rate; and (F) the updated annual interest rate and the semi-annual interest rate for the period commencing on the next Interest Payment Date (i.e., the period commencing immediately following the period during which the Rating Downgrading Date occurred).

7.1.4 In the event the Rating Downgrading Date occurs within the four (4) days prior to the record date for a given interest payment and ending on the Interest Payment Date closest to such record date (in this sub-Section 7.1.4, the "**Deferral Period**"), the Company shall pay the Original Interest to the Noteholders on such Interest Payment Date, and the amount of interest deriving from the additional interest at a rate equal to the additional interest rate per annum for the Deferral Period (calculated on the basis of a 365-day year and the actual number of days in such period) shall be paid on the following Interest Payment Date. The Company shall Publish an immediate report which includes the amount of additional interest to be paid on such following Interest Payment Date.

7.1.5 It is hereby clarified, that in the event that after the downgrading of the rating in a manner affecting the Base Interest, the Rating Agency shall issue an Upgraded Rating, then the Interest rate shall be decreased by a rate of 0.25% per annum for each notch above the Downgraded Rating, up to a total maximum decrease in the interest rate of one percent (1%) per annum (i.e., such that the increase in rating to the Base Credit Rating shall reinstate the Base Interest on the outstanding balance of the Principal, without any additional interest), and until the full discharge of the unpaid balance of the Principal or until a change in the rating of the Notes in accordance with and subject to the provisions of this Section 7.1.

7.1.6 In the event the Notes cease to be rated for reasons attributable to the Company (e.g., due to the Company's failure to meet its obligations towards the Rating Agency, including its failure to comply with its payment and/or reporting obligations to the Rating Agency) for a period exceeding twenty-one (21) consecutive days, commencing on the date of such rating cessation and until the earlier of: (1) the full repayment of the Principal; and (2) the date on which the Notes become rated again, additional interest shall be paid

at the rate of 1% per annum above the Base Interest (calculated on the basis of a 365-day year and the actual number of days in such period), including in the event of a call for immediate repayment of the Notes by the Noteholders pursuant to Section 10.1. For the avoidance of doubt, it is hereby clarified that (1) in the event the Notes cease to be rated for reasons not attributable to the Company, the interest rate on the Notes shall not be changed and the provisions of this Section 7.1.6 shall not apply, and (2) in the event the Notes were rated by more than one Rating Agency, the interest rate adjustment pursuant to this Section 7.1.6 shall not apply for so long as the Notes are rated by at least one Rating Agency.

7.1.7 In the event the Notes cease to be rated by a Rating Agency, the Company shall Publish an immediate report as to the circumstances associated with such cessation.

7.1.8 In the event the Notes are rated by more than one Rating Agency, the lower rating shall be deemed to be the applicable rating for the Notes, as updated from time to time.

7.1.9 Any change in the rating outlook of the Notes and/or any downgrade in rating due to a change in the methodology or rating scales of the applicable Rating Agency shall not be deemed a change in the rating and shall not have any effect on (including by way of increase and/or decrease of) the interest rate applicable on the Principal.

7.2 **Mechanism for adjusting interest rate as a result of non-compliance with Financial Covenants**

7.2.1 In the event the Company is not in compliance with either of the Financial Covenants (each such instance of non-compliance, a "**Deviation**"), the annual interest rate on the outstanding balance of the Principal shall be increased by a rate of one-quarter percent (0.25%) per annum (in addition to the Base Interest) for each Financial Covenant with respect to which there exists a Deviation for the period commencing on the date of the Company's Publication of Financial Statement according to which a Deviation has occurred (the "**Deviation Date**") and until the earlier of: (1) the full repayment of the Principal; and (2) the Company's Publication of Financial Statements and such a CFO Certificate in which such Deviation is shown to have been remedied. Notwithstanding the foregoing, the maximum increase in Base Interest pursuant to this Section 7.2.1 shall not exceed one half percent (0.5%) per annum.

7.2.2 By no later than one (1) Business Day from the delivery of a CFO Certificate pursuant to Section 6.1 regarding a Deviation from a Financial Covenant (one or more) according to financial statements published by the Company, the Company shall provide the Trustee with a notice including information and shall publish in an immediate report details as follows: (A) details regarding the non-compliance with the Financial Covenants; (B) the precise accurate interest rate that the Principal shall bear for the period commencing on the first day of the then-current Interest Period and until the

Deviation Date (calculated on the basis of a 365-day year and the actual number of days in such period) (in this Section 7.2.2, the "**Original Interest**"); (C) the interest rate the Principal shall bear commencing on the Deviation Date and until the following Interest Payment Date (assuming no other events affecting such interest shall occur and calculated on the basis of a 365-day year and the actual number of days in such period); (D) the weighted interest rate to be paid by the Company to the Noteholders on the next Interest Payment Date, deriving from the interest payments described in clauses (B) and (C) above; (E) the annual interest rate reflected from the weighted interest rate; and (F) the updated annual interest rate and the semi-annual interest rate for the period commencing on the next Interest Payment Date (i.e., that period commencing immediately following the period during which the Deviation occurred).

7.2.3 In the event a Deviation occurs within the four (4) days prior to the record date for a given Interest Payment and ending on the Interest Payment Date closest to such record date (in this sub-Section 7.2.3, the "**Deferral Period**"), the Company shall pay the Noteholders, on such Interest Payment Date, the Original Interest, and the amount of interest deriving from the additional interest at a rate equal to the additional interest rate per annum for the Deferral Period (calculated on the basis of a 365-day year and the actual number of days in such period) shall be paid on the following Interest Payment Date. The Company shall notify in an immediate report the amount of such additional interest that shall be paid on such following Interest Payment Date.

7.2.4 In the event that after the occurrence of a Deviation in a manner affecting the Base Interest, the Company delivers a CFO Certificate pursuant to Section 6.1 wherein a Deviation is shown to have been remedied, then the Interest rate shall be decreased by a rate of one-quarter percent (0.25%) per annum for each Financial Covenant for which a Deviation is shown in the CFO Certificate to have been remedied, up to a total maximum decrease of a half percent (0.5%) per annum (i.e., such that if all Deviations are remedied, the Base Interest (as determined in the tender) on the outstanding balance of the Principal on the Notes will be reinstated, without any additional interest) and this for a period commencing on the date of Publication of the Financial Statements which evidence the termination of the Deviation as aforesaid and until the earlier of the full discharge of the unpaid balance of the Principal or until the creation of an additional Deviation (the interest rate shall be calculated for any partial interest period on the basis of a 365-day year and the actual number of days in such period). In such instance, the Company shall act in accordance with Sections 7.2.2 and 7.2.3 above, with the changes required deriving from the fact that the Deviation ceased to exist.

7.3 Notwithstanding the foregoing, in the event of a downgrading of the rating entitling the Noteholders to additional interest pursuant to Section 7.1 above and a Deviation entitling the Noteholders to additional interest pursuant to Section 7.2, the maximum aggregate additional interest which will be received by the Noteholders shall not deviate from the rate of 1.25% per annum. It is further clarified that a Downgraded Rating deriving from the Company's non-compliance with either of the Financial Covenants shall not entitle the Noteholders to any additional interest payments under Section 7.1 but rather solely in accordance with Section 7.2.

7.4 In addition to the above, in the event that the Rating Agency reduced the rating of the Notes to a rating equal to or lower than "ilBB+", and as long as the rating is equal or lower to such rating, the interest rate on the outstanding balance of the Principal of the Notes will increase by two percent (2%) per annum (i.e., such that, together with the additional interest payable to the Noteholders under Section 7.1, the Base Interest will be increased by a total rate of up to 3%, and if the additional interest is 1.25% per annum as aforesaid in Section 7.3 above, the Base Interest will be increased at a total rate of 3.25%). In such instance as well as in the event the rating is increased to a rating higher than "ilBB+" (in which case the Company will cease paying this additional 2%), the Company will act in accordance with section 7.1.2–7.1.4, *mutatis mutandis.*

8. **Security and Seniority of the Notes**

8.1 The Notes are not secured by any collateral, and are classified by the Company as unsecured Notes.

8.2 The Trustee has not examined, nor shall it be under any obligation to examine, the need for furnishing collateral to secure the payments to the Noteholders. By its entering into this Deed of Trust, including by its consenting to serve as a trustee for the Noteholders, the Trustee is not expressing any opinion, whether expressed or implied, with respect to the Company's ability to meet its obligations to the Noteholders. Nothing in the foregoing shall derogate from the duties of the Trustee according to applicable law and/or this Deed of Trust.

8.3 All of the Notes shall rank *pari passu* with one another in respect of the Company's obligations pursuant to the Notes, and without any Note having a preferential right or priority over another, and together shall rank *pari passu* with all other senior unsecured obligations of the Company, other than obligations having priority pursuant to applicable law. The Notes shall be senior to any subordinated obligations of the Company.

8.4 Subject to Section 6.4 above and without derogating from the provisions of Section 10 below, the Company shall be entitled, from time to time, at its sole and absolute discretion, to sell, pledge, lease, assign, deliver or otherwise transfer, all, most or some of its assets, in any way whatsoever, without the consent of the Trustee and/or the Noteholders. It is hereby clarified that no limitation shall apply to the Company with respect to the grant of guarantees for the benefit of other(s), including to corporations held by it, directly or indirectly, and subject to Section 2.9.8 above, the Company shall not be prohibited from obtaining any new credit.

9. **Early Redemption**

9.1 Early Redemption Initiated by the Company

The Company may, at its sole discretion, at any time after sixty (60) days from the Date of the Listing of the Notes, to effect the early redemption of all or a portion of the Notes, subject to the provisions of the bylaws of the Stock Exchange and the guidelines promulgated thereunder, as in effect at the relevant time, and in such case the following provisions shall apply:

9.1.1 The frequency of the early redemptions shall not exceed one early redemption per quarter. In the event that an early redemption is scheduled for a quarter in which an interest payment date, a partial redemption payment date or a final redemption payment date is also scheduled, the early redemption shall be effected on the date prescribed for such payment. For purposes hereof, a "**quarter**" shall mean any of the following periods: January through March, April through June, July through September, or October through December.

9.1.2 The minimum amount of any early redemption shall not be less than 1 million NIS. Notwithstanding the aforementioned, the Company may effectuate an early redemption in an amount lower than 1 million NIS provided that the frequency of the early redemptions shall not exceed one early redemption per year. If a partial early redemption is effected, the final redemption amount shall not be less than three million two hundred thousand (3,200,000) NIS. Any amount that shall be paid in an early redemption by the Company shall be paid with respect to all of the Noteholders, pro rata to the par value of the Notes held by them.

9.1.3 Upon the Company's resolution to effectuate an early redemption, and in any event no less than seventeen (17) days and not more than forty five (45) days prior to the effective date of the early redemption (the "**Early Redemption Date**"), the Company shall Publish an immediate report about the execution of the early redemption.

9.1.4 The Early Redemption Date shall not occur during the period between the record date for payment of interest and the date of its actual payment. In the immediate report as aforementioned , the Company shall include the number of Notes (expressed as the amount of Principal) subject to early redemption as well as the interest accrued on said amount of Principal until the Early Redemption Date.

9.1.5 On a partial Early Redemption Date, if any, the Company shall notify an immediate report the following details: (1) the percentage of the partial redemption in terms of the outstanding balance; (2) the percentage of the partial redemption in terms of the original series; (3) the interest rate in partial redemption on the portion of the Principal that is to be redeemed; (4) the interest rate to be paid, calculated with respect to the outstanding balance; (5) an update of the remaining partial redemption rates, in terms of the original series; (6) the record date for entitlement to receive early redemption of the Principal, which shall be twelve (12) days before the Early Redemption Date. A partial early redemption will be carried out pari passu to each one of the Noteholders.

9.1.6 In the event a partial redemption, if any, the Company shall pay to the Noteholders the interest accrued until the Early Redemption Date only on the portion of the Principal being redeemed in the early redemption rather than on the total outstanding balance of Notes and all as part of the early partial redemption amount that will be determined in accordance with Section 9.1.7 below.

9.1.7 The amount that shall be paid to the Noteholders in the case of early redemption shall be the greatest of the following: (1) the liability value of the Notes in circulation that are to be redeemed early, i.e., the Principal plus accrued interest and linkage, until the date of early redemption; (2) the market value of the Notes that are to be redeemed early (based on the average closing price of the Notes on the Stock Exchange for the 30 trading days prior to the board resolution approving such redemption); However, in the event that the redemption date is on an interest payment date, the interest amount, which will be paid separately, will be deducted from the aforementioned average Note closing price; and (3) the balance of the cash flow of the Notes subject to early redemption, according to the original amortization table (i.e., Principal plus interest differentials), considering the date of early redemption, discounted at the Government Bond Yield (as defined hereunder) plus annual interest of 1.2%. The discount of the Notes subject to early redemption shall be calculated as of the date of early redemption and until the last payment date set forth with respect to the Notes subject to early redemption (i.e., December 15, 2023). In this respect, "**Government Bond Yield**" means the average weighted yield (gross) to maturity, in a period of seven Business Days, ending two Business Days prior to the date of the early redemption notice, of two series of Israeli Government Dollar-linked Notes, bearing interest at a fixed rate, and having an average duration most similar to the average duration of the Notes at the relevant time, i.e., one series with the most similar average duration higher than the average duration of the Notes at the relevant time, and one series with the most similar average duration lower than the average duration of the Notes at the relevant time, and whose weighting will reflect the average duration of the Notes at the relevant time. Set forth is an example illustrating said calculation:

If the average duration ('MAHAM') of Government Bond A is 4 years, and the average duration of Government Bond B is 2 years, and the average duration of the balance of the Notes is 3.5 years, the yield shall be calculated as follows:

$4X + 2(1-X) = 3.5$

Whilst

X = weight of the yield of Government Bond A.

1-X = weight of the yield of Government Bond B.

According to the calculation, the annual yield of Government Bond A shall be weighted at a rate of seventy five percent (75%) of the yield, and the average yield of Government Bond B shall be weighted at a rate of twenty five percent (25%) of the yield.

MAHAM = average duration.

9.1.8 The Company shall present the Trustee with a CFO Certificate detailing the manner of calculation of the early redemption amount, including an active Excel spreadsheet which demonstrates the calculation performed by the Company, all in wording to the satisfaction of the Trustee, no later than two (2) Business Days after the decision of the relevant organs of the Company regarding early redemption of the Notes.

9.1.9 Payments made in the scope of a partial redemption shall be deemed to have been made on account of payments of Principal closest in time to the Early Redemption Date.

9.1.10 On the Early Redemption Date, the par value of Notes outstanding shall decrease and future payments of the Principal shall be reduced pursuant to sub-Section 9.1.9, and in the event of redemption of all the Notes, the Notes shall be extinguished and shall not accrue interest after the redemption date.

9.2 Early Redemption Initiated by the Stock Exchange

In the event that the Stock Exchange decides to delist the Notes in circulation, because the value of the Notes has decreased below the minimum amount prescribed in the Stock Exchange rules regarding the delisting of Notes, the Company shall effect an early redemption of the Notes, as follows

9.2.1 Within forty five (45) days from the date of the resolution of the board of directors of the Stock Exchange to delist the Notes as set forth above, the Company shall announce by an immediate report an early redemption date on which a Holder of Notes shall be entitled to redeem such Notes.

9.2.2 The early redemption date shall occur no earlier than seventeen (17) days from the date of publication of the notice and no later than forty-five (45) days after such date, but not during the period between the record date for an interest payment and the date of actual payment thereof.

9.2.3 On the early redemption date, the Company shall redeem the Notes that the Holders thereof requested to redeem, at the par value of such Notes and interest accrued thereon until the date of actual payment (collectively linked to the Payment Rate) (calculated on the basis of a 365-day year and the actual number of days that elapsed since the date of the last interest payment).

9.2.4 Determination of an early redemption date as set forth above shall not prejudice the redemption rights of any of the Holders of Notes who shall not redeem them on the foregoing early redemption date, but such Notes shall be delisted from the Stock Exchange and, among other things, the tax implications deriving therefrom shall apply to such Notes.

9.2.5 Notes that have been redeemed as set forth herein shall be extinguished and shall not accrue interest after the redemption date. Early redemption of the Notes as aforementioned shall deny the holders of the Notes that shall be redeemed, the right to payment on account of Principal and/or of interest for the period after the date of redemption. The notice of the early redemption date will be published by an immediate report delivered to the ISA and the Stock Exchange. Such notice shall specify the amount set for early redemption.

9.3 For the avoidance of doubt, the provisions of this Deed pertaining to withholding tax at source shall also apply in full in the events described in this Section 9.

10. **Acceleration**

10.1. Upon the occurrence of one or more of the events set forth below, the Trustee and the Noteholders shall be entitled to accelerate the balance of the amount due to the Noteholders under the Notes:

10.1.1. If the Company fails to pay the Noteholders any amount it is obligated to pay under the Notes and/or this Deed of Trust, within seven (7) Business Days after the relevant payment due date.

10.1.2. If the Company is in fundamental breach of the terms of the Notes and/or this Deed of Trust and/or does not fulfill any of its material obligations in the framework of any of them, and the Trustee has provided notice to the Company to remedy the breach and the Company fails to remedy such breach within seven (7) Business Days from the date such notice of breach was received.

10.1.3. If it turns out that a material representation of the Company's representations under the Notes and/or this Deed of Trust is not correct or is not complete, and the Trustee has provided notice to the Company to remedy the breach, and the Company failed to remedy such breach within fourteen (14) Business Days from the date notice of such breach was received.

10.1.4. If the Company adopts a resolution to wind up (except for winding up for purposes of a merger with another company and provided the surviving company (if not the Company) assumed all obligations of the Company towards the Noteholders) or if a permanent and final liquidation order is granted by a court with respect to the Company, or a permanent liquidator is appointed with respect to the Company.

10.1.5. If a provisional liquidation order has been granted by a court or a temporary liquidator has been appointed with respect to the Company or any other judicial decision is granted with similar substance and such order, or appointment or decision is not set aside or cancelled within forty-five (45) days from the date of grant of the order, appointment or decision, as the case may be. Notwithstanding the foregoing, the Company shall not be afforded any additional cure period with respect to motions filed by the Company or orders granted at its request or with its consent.

10.1.6. If an order of attachment is imposed on, or if any execution action is issued against, all or substantially all of the Company's assets (as computed below), and the order of attachment is not removed, or the action is not cancelled, within forty-five (45) days from the date imposed or executed. Notwithstanding the foregoing, the Company shall not be afforded any additional cure period with respect to motions filed by the Company or orders granted at its request or if any of the foregoing occurs with its consent.

10.1.7. If a motion was filed for receivership or appointment of a receiver (provisional or permanent) with respect to all or substantially all of the Company's assets (as computed below), or if an order is granted for the appointment of a provisional receiver with respect to the Company or all or substantially all of its assets (as computed below), and such motion or order is not cancelled within forty-five (45) Business Days from the date of its filing or grant, or if an order is granted for the appointment of a permanent receiver with respect to the Company or all or substantially all of its assets (as computed below). Notwithstanding the foregoing, the Company shall not be afforded any additional cure period with respect to motions filed by the Company or with its consent or orders granted at its request or with its consent.

10.1.8. (A) If the Company files for a stay of proceedings order under Section 350 of the Companies Law, or a similar proceeding in accordance with applicable law, or if such order is granted; or if the Company files for a motion to effect an arrangement or settlement with the Company's creditors in accordance with Section 350 of the Companies Law**,** or a similar proceeding in accordance with applicable law (except for purposes of effectuating (i) a merger with another company and/or a restructuring of the Company, including changes in the Company's capital structure which are not prohibited under the terms of this Deed and/or (ii) an arrangement between the Company and its stockholders which does not affect the Company's ability to repay the Notes, and which is not otherwise prohibited under this Deed of Trust); or if the Company offers its creditors in some other manner an arrangement or settlement as aforesaid due to its inability to meet its obligations thereto as they fall due or if any such motions are filed at the Company's demand or with its consent; or (B) if a motion was filed under Section 350 of the Companies Law (or any similar proceeding in accordance with applicable law) against the Company and without its consent and not set aside or cancelled within forty-five (45) days of the filing thereof.

10.1.9. If the Company ceases or gives notice of its intention to cease its payments or ceases or gives notice of its intention to cease carrying on business, as they may be from time to time.

10.1.10. If the Company's ceases to be regulated as a business development company or closed-end fund each within the meaning of the Investment Company Act of 1940, as it may be in effect from time to time, or if the Company does not have a license or permit it is required to have, under applicable law, for the management of these businesses, the absence of which has a Material Adverse Effect.

10.1.11. If there occurs a Material Adverse Effect on the Company's business in relation to its condition on the Date of Issuance, and there is a substantial concern the Company will not be able to repay the Notes when due; or if there is substantial concern that the Company would fail to meet its material obligations to the Noteholders.

10.1.12. If the Company fails to publish any Financial Statements under applicable law or under this Deed of Trust that it is required to publish within 30 days from the last date it is required to publish them.

10.1.13. If the Notes cease to be rated by a Rating Agency for a period exceeding sixty (60) consecutive days, for reasons and/or circumstances under the Company's control. An occurrence of the aforementioned event shall not constitute grounds for the acceleration of payment so long as the Notes are rated by one Rating Agency.

10.1.14. If (A) a series of other publicly traded notes of the Company (on a standalone basis) was accelerated, or (B) any other financial indebtedness, one or more (if accelerated at the same time or in proximity to one another), of the Company (on a standalone basis), which is not a non-recourse loan, in a cumulative amount in excess of fifty million US Dollars (US $50,000,000), is accelerated due to a default by the Company, unless such acceleration is rescinded (including by way of settling such debt) within ten (10) Business Days from the date of notice of such acceleration.

10.1.15. If the Company effectuates a merger (as defined in the Companies Law or as defined under applicable law, including a merger pursuant to Section 350 of the Companies Law or any similar proceeding under applicable law) with another entity (which is not a company consolidated in the Financial Statements of the Company) in the framework of which the Company is the target company, without receiving the prior consent, by simple majority, of the Noteholders, unless the surviving entity represents to the Noteholders and the Trustee, at least ten (10) Business Days prior to the effective date of such merger, that there is no reasonable concern that the surviving entity will not be able to meet its obligations towards the Noteholders as a result of such merger.

10.1.16. If the Company sold, other than in the ordinary course of its business, all or substantially all of its assets (as computed below) within a 6-month period (except if during the 12-month period following such sale, the Group acquired other assets associated with its area of activity in an amount not lower than 50% of the consideration received from the assets sold) without the prior approval of the Noteholders' Meeting at a special meeting and by Special Resolution. For the purpose of this sub-section, the sale of loans or debt securities shall be deemed to be the ordinary course of business of the Company.

10.1.17. If the Company fails to comply with one or more of the Financial Covenants set forth in Section 6.1 above, for two consecutive quarters.

10.1.18. If the Company breaches a condition under Section 2.9.1 with respect to an expansion of the series of the Notes.

10.1.19. If the Stock Exchange has suspended the trading of the Notes, except on the grounds of the creation of lack of clarity, as specified in Part IV of the Stock Exchange bylaws, and such suspension has not been canceled within sixty (60) days.

10.1.20. If the Notes are delisted from the Stock Exchange.

10.1.21. If a Change of Control occurs, and the Company has not published a tender offer for the purchase of all of the Notes, at a price not lower than their liability value (pari), within 45 days of such occurrence.

10.1.22. If the Company will cease to be a Reporting Company.

10.1.23. If the Company fails to nominate a Company's Representative in Israel as set forth in Section 6.7 above, for a period of at least 30 consecutive days.

Sub-sections 10.1.4 – 10.1.8 will apply upon the occurrence of legal proceedings as set forth therein, whether according to Israeli law and whether according to foreign law applicable to the Company.

With respect to sub-Sections 10.1.6, 10.1.7 and 10.1.16, "**substantially all of the Company's assets**" shall mean those assets, owned by the Group, with an overall stated value, according to the most recent Financial Statements of the Company Published prior to the occurrence of the relevant event, constituting at least 50% of the total assets of the Group, on the basis of such Financial Statements.

10.2. Upon the occurrence of any of the events set forth in Section 10.1 above and in accordance with the provisions thereof including its sub-sections:

10.2.1 The Trustee shall be required to convene a Noteholders' Meeting, which shall be held twenty-one (21) days following the date of the notice of the meeting (or any earlier date according to the provisions of sub-Section 10.2.7 hereunder), and the agenda of which shall include a resolution to call for the acceleration of payment of the outstanding Notes due to the occurrence of any of the events specified in Section 10.1 above.

10.2.2 The notice of the aforesaid meeting shall state that if the Company shall cause the cancellation, remedy or removal of the event specified in Section 10.1 above for which the meeting has been called, prior to the date of the meeting, the meeting of the Noteholders shall be cancelled.

10.2.3 Nothing in the foregoing shall prevent the Trustee from convening a Noteholders' Meeting at an earlier date according to the provisions of sub-Section 10.2.7 below.

10.2.4 The resolution of the Noteholders to accelerate the payment of the Notes shall be adopted at a Noteholders' Meeting at which Holders of at least fifty percent (50%) of the outstanding Principal of the Notes were present, by a majority vote of the Holders participating in the vote, or by majority of the votes of the participants at an adjourned meeting of the Noteholders in which Holders of at least twenty percent (20%) of the outstanding Principal amount of the Notes were present.

10.2.5 If prior to the aforesaid meeting, the events specified in Section 10.1 above for which the meeting has been called are not cancelled, remedied or removed, and the resolution of the meeting of the Noteholders as set forth in sub-Section 10.2.1 above to accelerate the payment of the outstanding Notes has been adopted in accordance with sub-Section 10.2.4 above, the Trustee shall be required, within a reasonable period of time, to accelerate the payment of the outstanding Notes, provided it provides the Company with seven (7) days' prior written notice of its intention to do so and the event due to which the resolution was adopted was not cancelled, remedied or removed within such period.

10.2.6 A copy of the notice of the meeting as set forth in sub-Section 10.2.1 above shall be sent by the Trustee to the Company immediately upon publishing the notice and shall constitute advance written notice to the Company regarding its intention to act toward the acceleration of payment of the outstanding Notes.

10.2.7 The Trustee may, at its sole discretion, shorten and even cancel the twenty-one (21) day period (as set forth in sub-Section 10.2.1 above) and/or the seven (7) day notice period (as set forth in sub-Section 10.2.5 above), if the Trustee is of the opinion that there is reasonable concern that delivering such notice or delaying the meeting or acceleration date shall prejudice the possibility to accelerate the payment of the Notes.

10.2.8 If any of the sub-Sections of Section 10.1 above sets forth a cure period during which the Company may act or adopt resolutions resulting in the removal of the grounds for acceleration, the Trustee or the Noteholders shall be entitled to accelerate the payment of the outstanding Notes as set forth in this Section 10 only upon the lapse of such period and if the grounds therefor were not removed within such period, provided, however, the Trustee may shorten the period prescribed in the Deed of Trust if it believes that a delay may materially prejudice the rights of the Noteholders.

10.2.9 In the event the Company is provided notice whereby the Notes have been accelerated for immediate repayment according to the provisions of this Section 10, the Company undertakes to carry out, from time to time and at any time requested to do so by the Trustee, all reasonable actions necessary to allow exercise of the authorities conferred on the Trustee, and in particular the Company shall carry out all the following actions, no later than 10 Business Days of the date of the Trustee's request:

10.2.9.1. Transfer and deliver to the Trustee the Principal and accrued interest (if any) of the Notes due for repayment, collectively linked to the Payment Rate, whether their scheduled due dates have occurred or not. Such amounts will be applied according to the priorities of Section 12 below. Should the Company transfer the full amount of the Principal and interest (after the amount was applied according to Section 12 below) as set forth above, the Company shall be deemed to have discharged its obligations towards the Noteholders with respect to the relevant payment of Principal and interest (if any), and the Noteholders and/or the Trustee shall have no claim against the Company in connection with such payments; and

10.2.9.2. Provide any declarations and/or execute all documents and/or perform and/or cause the performance of all actions necessary and/or required according to law for validating the exercise of authority, power and rights of the Trustee and/or its representative in connection with the immediate repayment.

10.2.9.3. Provide all notices, orders and instructions as the Trustee deems beneficial in connection with the immediate repayment.

For purpose of this Section 10 – written notice executed by the Trustee and confirming that an action requested by it, within the scope of its authority, is reasonable, shall constitute *prima facie* evidence thereof.

10.2.10 Immediate repayment shall be made of the outstanding Notes, in the amount of Principal and interest accrued thereon, whilst the interest shall be calculated for the period commencing after the last day for which interest was paid and until the date of actual repayment of the Notes (calculation to be based on of a 365-day year and the actual number of days in such period), collectively linked to the Payment Rate.

10.2.11 Subject to the provisions of applicable law, the duties of the Trustee under this Section 10 are subject to its actual knowledge of the facts, events, circumstances and occurrences specified therein.

10.2.12 Notwithstanding the foregoing, if in connection with non-compliance with Financial Covenants as set forth in sub-Section 10.1.17 above, the Company requests in writing that the Trustee appoints an Emergency Committee, the Trustee shall act in accordance with the provisions set forth in Schedule III to this Deed.

10.2.13 Nothing in the above shall derogate from the Trustee's right to call for an immediate repayment according to the Securities Law and/or pursuant to the provisions of the Deed of Trust.

11. **Claims and Proceedings by the Trustee**

11.1. Without derogating from any provision of this Deed of Trust, subject to compliance with applicable law, the Trustee shall be entitled, at its sole discretion, and with written notice to the Company of 7 days in advance insofar as such notice would not impair the rights of the Noteholders, and subject to Section 23 (Indemnification of the Trustee) shall be obliged to do so if so required by a Ordinary Resolution adopted by the Noteholders in accordance with the provisions hereunder, to initiate all such legal proceedings as it deems fit and subject to the provisions of any law for the exercise and/or protection of the rights of the Noteholders and/or enforcement of the performance by the Company of any undertaking of the Company pursuant to this Deed of Trust. Notwithstanding the foregoing, the right to accelerate repayment shall be governed by the provisions of Section 10 above and not pursuant to this Section 11.

11.2. The Trustee may, at its sole discretion, submit a motion to the court to receive instructions on any matter connected with and/or pertaining to this Deed of Trust. For the avoidance of doubt, the Trustee shall not delay the submission of such a motion where such delay is likely to prejudice the rights of the Noteholders.

11.3. Subject to the provisions of this Deed of Trust, the Trustee may, but shall not be required to, convene a Noteholders' Meeting at any time in order to discuss and/or receive instructions on any matter pertaining to this Deed of Trust, provided that the meeting is convened promptly and the delay thereof is not likely to materially prejudice the rights of the Noteholders.

11.4. The Trustee may, at its sole discretion, delay the performance of any act thereby pursuant to this Deed of Trust, for purposes of referring to a Noteholders' Meeting and/or court for instructions as to how to act, provided that the Trustee is not entitled to delay proceedings initiated following the approval of the Noteholders at a Noteholders' Meeting to cause the acceleration of Notes or to take any proceedings and when the delay is likely to prejudice the rights of the Noteholders.

11.5. For the avoidance of doubt, nothing in the foregoing provisions shall prejudice and/or derogate from the Trustee's right hereby conferred on it to refer to the court, at its sole discretion, even before the Notes are payable, for purposes of issuance of any order in connection with its role as trustee. Expenses accrued under this clause will be cover according to Section 23 (Indemnification of the Trustee).

12. **Trust over Receipts**

All amounts received by the Trustee from the Company in accordance with this Deed, other than the Trustee's fees and expenses, shall be held in trust by the Trustee. Amounts received by the Trustee from the Company in accordance with this Deed shall first be applied by it for payment of the Trustee's remuneration and reasonable expenses, payments, levies and obligations incurred by the Trustee or imposed on it in the course of or as a consequence of its performance of any action associated with its role pursuant to this Deed or otherwise in connection with the terms and conditions of hereof (provided that the Trustee shall not receive duplicative fees from both the Company and from the Noteholders). The balance shall be applied, unless otherwise decided by a Special Resolution in advance from the Noteholders, for the following purposes and according to the following order of priorities: **first** – for repayment to Noteholders, if any, who incurred obligations and made payments beyond their Pro Rata Portion (as defined in Section 23 below) in connection with an Indemnification Obligation pursuant to Section 23 below; **second** – for repayment to Noteholders who incurred obligations and made payments in accordance with their Pro Rata Portion in connection with an Indemnification Obligation pursuant to Section 23 below; **third** - for payment to the Noteholders, to the extent applicable, of any default interest due to them in accordance with the terms of the Notes, *pari passu* and *pro rata*, without any individual Noteholder being entitled to any preference or right of priority over another; **fourth** – for payment to Noteholders of late Principal amounts due thereto in accordance with the terms of the Notes, *pari passu* and *pro rata*, without any individual Noteholder being entitled to any preference or right of priority over another; **fifth** – for payment to Noteholders of interest payments due to them in accordance with the terms of the Notes, *pari passu* and *pro rata*, without any individual Noteholder being entitled to any preference or right of priority over another; **sixth** – for payment to Noteholders of the Principal, regardless of whether or not the Principal has come due at that time, *pari passu* and *pro rata*, without any individual Noteholder being entitled to any preference or right of priority over

another. Any excess amounts, to the extent that they remain after the completion of all of the abovementioned distributions, shall be paid by the Trustee to the Company or to any successor entity. Withholding tax shall be withheld from any payments to the Noteholders in accordance with applicable law.

For the avoidance of doubt, to the extent the Company has to bear any of the expenses but has not done so, the Trustee will act to receive such amounts from the Company, and in the event it succeeds in receiving them, such amounts will be held by the Trustee in trust and will be used for the purposes and in accordance with the order of priority set forth in this section above.

13. **Power to Withhold Distribution of Funds**

Notwithstanding the provisions of Section 12 above, should the amount received as a result of proceedings pursuant to Section 11 above and that is available at any given time for distribution to the Noteholders, as set forth in Section 12 above, be equal or less than NIS one million (1,000,000) (the "**Minimal Amount**"), the Trustee shall not be required to distribute such amount and may invest such amount, in whole or in part, in Permitted Investments, as it deems fit.

"**Permitted Investments**" – Investments in bank deposits in Dollars with one or more of the five largest banks in Israel whose credit rating is not lower than ilAA (S&P Maalot) (or any corresponding rating by another rating agency) or in Dollar-linked Notes issued by the Government of Israel or by the Government of the United States.

At the earlier of (i) the time when the aforementioned investments, including any profits resulting therefrom, equal or exceed the Minimal Amount and (ii) the next payment date of Principal and/or interest thereon to the Noteholders (even if the amount accrued by such date is less than the Minimal Amount), the Trustee shall distribute such accrued amounts to the Noteholders in the manner stated in Section 12 above.

Notwithstanding the foregoing in this Section 13, following its receipt of a duly taken resolution of the Noteholders' general meeting to do so, the Trustee shall distribute the amounts received by it as a result of the proceedings pursuant to Section 11 above, even if such amounts are less than the Minimal Amount.

14. **Failure to Make Payment for Reason Beyond the Company's Control**

14.1. Any amount payable to a Noteholder which was not actually paid to such Noteholder on the due date of such payment for a reason beyond the Company's control, despite the Company's ability and willingness to make such payment, shall cease to bear interest from the due date for such payment, and such Noteholder shall be entitled to receive only those amounts to which it was entitled on the due date for such payment, provided that such amount has been deposited with the Trustee as provided in Section 14.2 below. Notwithstanding the foregoing, to the extent such amount, under the circumstances, remains in the Company's account, the Company shall transfer it to the Noteholder (or the Trustee as stated in Section 14.2 below) together with any earnings actually accrued on such amount, after deduction of the applicable tax, if any.

14.2. The Company shall deposit with the Trustee, within fourteen (14) days following the due date for such payment, the amount of such payment that was not paid for a reason beyond the Company's control, and shall give written notice to the applicable Noteholders with respect thereto, and such deposit shall be deemed to be a discharge of such payment, and in the case of a discharge of all amounts that are due in respect of the Notes, shall also be deemed to be a final redemption of the Notes.

14.3. The Trustee shall invest any amount that has been deposited in its name pursuant to this Deed of Trust in Permitted Investments (as defined in Section 13 above), as the Trustee shall see fit and subject to the provisions of applicable law. Where the Trustee has done so, it will not be liable to those entitled on account of such amounts, except for proceeds to be received from the realization of such investments, *less* the expenses associated therewith, including trust administration costs and net of any mandatory payments. The payment to the Noteholders shall be made against the presentation of such evidence as shall be acceptable to the Trustee in its absolute discretion.

The Trustee shall hold such funds and shall invest them in the foregoing manner, until the earlier of (i) the end of one (1) year from the final repayment date of the Notes and (ii) the date of payment thereof to the Noteholders. After such date, the Trustee shall transfer such amounts to the Company, including any profits earned from the investment thereof, less the Trustee's fees and expenses incurred in accordance with the provisions of this Deed of Trust. The Company shall hold the aforementioned amounts in trust for an additional period of six (6) years from the date of transfer thereof to it by the Trustee, for and on behalf of the Noteholders who are entitled to such amounts, and the provisions regarding the investment of funds set forth above shall apply, *mutatis mutandis*. After remitting the sums to the Company, the Trustee will be released from any payment requirement with respect to such amounts to the entitled Noteholders. The Company shall confirm in writing to the Trustee that such funds were remitted to the Company and the fact that such funds were received in trust for the entitled Noteholders, and the Company shall indemnify the Trustee in respect of any claim, expense and/or damage that may be incurred by the Trustee as a result of and in respect of the transfer of such funds, unless the Trustee acted in bad faith or with gross negligence (unless exempt by law), or malicious intent. Funds that are not demanded from the Company by a Noteholder at the end of seven (7) years from the date of final repayment of the Notes shall revert to the benefit of the Company, and the Company shall be entitled to use them for any purpose. For the avoidance of doubt, the foregoing shall not derogate from the Company's obligation to pay to the Noteholders such amounts to which they are entitled under applicable law.

15. **Receipts as Proof**

Without derogating from any other provisions of the Notes, a receipt signed by any Noteholder or any documented evidence from the transferring member of the Stock Exchange shall constitute proof of the full discharge of any payment that was made by the Company as set forth in such receipt or document.

A receipt from a Noteholder regarding the amounts of Principal and interest that were paid to it by the Trustee in respect of a Note or any documented evidence from a transferring member of the Stock Exchange shall release the Trustee and/or the Company in respect of the payment of the amounts set forth in the receipt or document.

Subject to Section 14 above, a receipt from the Trustee regarding the deposit of amounts of Principal and interest with it for the benefit of the Noteholders shall be deemed a receipt from such Noteholders and a release of the Company in connection therewith.

16. **Obligations of the Company Toward the Trustee**

The Company hereby undertakes to the Trustee that so long as the Notes (including any interest thereon) remain unpaid, it shall:

16.1 To notify the Trustee of and permit the Trustee to participate at all of the general meetings (whether annual general meetings or special general meetings) of the stockholders of the Company, without granting the Trustee voting rights at such meetings. Notices through the Magna or Maya systems will be deemed sufficient notice of the general meetings.

16.2 Deliver to the Trustee or to its authorized representative (of whose appointment the Trustee shall notify the Company upon appointment) any information about the Company, within ten (10) Business Days of the Trustee's request, and instruct its accountants and legal advisors to do so no later than ten (10) Business Days from the Trustee's request, so long as, according to the Trustee's reasonable opinion, the information is required by the Trustee for exercising and applying the authorities, powers and rights of the Trustee under this Deed of Trust.

16.3 Maintain and save books of account and records as required by U.S. GAAP and enable the Trustee, and/or anyone the Trustee may appoint in writing for such purpose, to inspect upon advance coordination and at any reasonable time, no later than ten (10) Business Days from the Trustee's request, any such books and/or records. It should be noted that the documents can be transferred by electronic means and/or by courier, subject to the approval of the Company or by the Trustee to its advisor subject to the same confidentiality requirement as applies to the Trustee.

16.4 Notify the Trustee in writing, promptly upon becoming aware of any case in which an imposition of an attachment and/or execution action was issued against substantially all of the Company's assets (as this term is defined in Section 10.1 above), and in any case which a receiver is appointed over substantially all of the Company's assets (as this term is defined in Section 10.1 above), or a permanent liquidator or a Trustee appointed in the framework of a request for stay of proceedings pursuant to Section 350 of the Companies Law against the Company, or any law applicable to the Company, and to take at its expense as soon as possible all the reasonable means required to remove such imposition or cancel such execution action or cancellation of the receiver, the liquidation or trusteeship, as applicable.

16.5 Notify the Trustee promptly and in writing (without taking into consideration the remedy and waiting periods set forth in same sections, if relevant), after the Company has become aware, or after the concern of the Company has been crystallized, as applicable, of the occurrence of any of the events mentioned in Section 10.1 above, including all subsections.

16.6 Together with the delivery of the CFO Certificate regarding the Financial Covenants pursuant to Section 6.1, the Company shall deliver to the Trustee a certificate signed by the Company's chief executive officer or principal financial officer whereby, in reliance upon examinations he or she conducted, during the period from the later of

the date of this Deed and the date of the previous such certificate delivered to the Trustee, and until the date of such certificate, the Company has not breached this Deed, including a breach of any of the provisions of the Notes, unless explicitly stated otherwise in such certificate.

16.7 Upon the Trustee's request, provide the Trustee with any declarations, representations, documents, details and/or additional information that shall be reasonably required by the Trustee in order to protect the rights of the Noteholders not later than 15 Business Days from the date of the Trustee's request.

16.8 Provide the Trustee with a copy of any document or information that the Company has delivered to the Noteholders.

16.9 Notify the Trustee in writing with respect to any change in the name or address of the Company not later than 10 Business Days from the date of such change.

16.10 Provide the Trustee, not later than the completion of 30 days from the date of issuance of the Notes under this Deed, an amortization schedule for payment of the Notes (Principal and interest).

16.11 Notify the Trustee in a written notice signed by the Company's principal financial officer within five Business Days of the execution of any payment to the Noteholders and the balance of the debt to the Noteholders on that date (and after the payment).

16.12 Provide the Trustee with copies of the notices and invitations that the Company shall give to the Noteholders as specified in Section 24 of this Deed.

16.13 Provide the Trustee, at his first written request, a written confirmation signed by an accountant that all the payments to the Noteholders were paid on time and the balance of the par value of the Notes in circulation.

The Trustee hereby undertakes to maintain in confidence all information about the Company provided in connection with this Deed of Trust. For the avoidance of doubt, the transfer of information to the Noteholders (including in way of Publication of the information) for purposes of the adoption of a resolution relating to the their rights under this Deed of Trust, or for purposes of providing a report on the Company's condition and/or pursuant to a requirement under applicable law, shall not constitute a breach of the aforesaid confidentiality undertaking.

For the avoidance of doubt, it is hereby clarified that the Company's obligation under this Deed and the Notes to repay the Principal and interest thereon is not an obligation toward the Trustee but toward the Noteholders.

17. **Trustee as Representative**

The Company hereby irrevocably appoints the Trustee as its representative to execute and perform in its name and in its stead all the acts it is obliged to perform according to the terms and conditions contained in this Deed, and to appoint any other person the Trustee may deem fit for performing its duties pursuant to this Deed of Trust (subject to appropriate confidentiality undertakings), in each case, if the Company has not performed the acts which it is obliged to perform under the provisions of this Deed within a reasonable period of time, as reasonably determined by the Trustee, from the date of the Trustee's written demand.

The appointment pursuant to this Section 17 does not oblige the Trustee to perform any act, and the Company hereby releases the Trustee in advance in the event that the Trustee does not perform any act and/or fails to timely and/or correctly perform any act. In addition, the Company hereby waives in advance any claim against the Trustee and/or its agents in respect of any damage that has been incurred and/or is likely to be incurred by it, whether directly and/or indirectly, by virtue of any acts and/or omission of the Trustee in accordance this Section 17, unless the Trustee acted in bad faith or with gross negligence, willful misconduct or malicious intent.

18. **Other Agreements between the Trustee and the Company**

Subject to applicable law, neither the fulfillment of the Trustee's duties hereunder nor its mere status as a trustee pursuant to this Deed of Trust, shall prevent it from entering into transactions with the Company in the ordinary course of business, provided that such transactions do not place the Trustee in a conflict of interest toward the Noteholders.

19. **Reporting by the Trustee**

Commencing from the date of the Offering, the Trustee shall prepare, no later than the 30th day of June of each calendar year, an annual report regarding the affairs of the trust in relation to the Notes (the "**Annual Report**"), which shall contain reports on irregular events in connection with the trust that occurred during the preceding year and other details as required under the Securities Law.

The Trustee shall notify the Noteholders of any material breach by the Company of this Deed of Trust of which it is aware, including the actions it has taken to prevent such breach or secure the fulfillment of the Company's obligations, as the case may be.

The Trustee shall notify the Noteholders of any irregular event that is likely to have a material effect on the rights of the Noteholders, shortly after it has become aware of the fact.

Until the full redemption of the Notes, upon request from Noteholders holding more than five percent (5%) of the outstanding Principal amount of the Notes, for details regarding the examinations conducted by the Trustee with respect to the Notes, including with respect to the Company's fulfillment of its obligations towards the Noteholders pursuant to this Deed of Trust, the Trustee shall cooperate with such Noteholders in connection with receiving such information, subject to appropriate confidentiality undertakings and applicable law.

Upon the request of Noteholders holding more than ten percent (10%) of the outstanding Principal of the Notes, the Trustee shall furnish to the Noteholders details of its expenses in connection with the trusteeship pursuant to this Deed of Trust.

As of the signing date of this Deed, the Trustee declares that it is insured under professional liability insurance in an amount of USD 10 million for a period (hereinafter: "**the amount of coverage**"). To the extent that before the full repayment of the Notes, the amount of the coverage will be reduced below an amount of USD 8 million for any reason, then the Trustee will update the Company no later than 7 Business Days from the date on which it was notified by the insurer of the abovementioned reduction in order to publish an immediate report on the matter. The provisions of this Section shall apply until the date of entry into force of the Securities Law Regulations which shall regulate the requirement of the insurance coverage of the Trustee. After the said regulations take effect, the Trustee shall be required to update the Company only in the event that the Trustee fails to comply with the requirements of the regulations.

20. **Trustee's Remuneration**

The Company shall pay the Trustee the fees for its performance of its services in connection with this Deed of Trust, as follows:

20.1 In respect of its services as trustee during the first twelve (12) months after the Date of Issuance, a fee of NIS 26,000, which shall be paid immediately following completion of the Offering (the "**Initial Term**"). In addition, the Trustee is entitled to a onetime fee of NIS 5,000.

20.2 For each succeeding twelve (12) month period in which it serves as trustee with respect to the outstanding Notes following the Initial Term, an annual fee of NIS 26,000 to be paid at the beginning of each such period. Notwithstanding the provisions set forth in Section 20.8 below, in the event the Trustee's term of office should terminate during the course of a given trust period, the Trustee shall be entitled to payment of its full fees for the year in which it served as trustee for the Noteholders.

20.3 For each hour of work in respect of special actions taken by the Trustee in connection with its service as trustee for the Noteholders – a fee of NIS 600. Special actions will include any action which is not in the ordinary course of business, including the following:

20.3.1 Actions which the Trustee may take in respect of a breach or an alleged breach by the Company of its obligations under this Deed of Trust.

20.3.2 The convening of Noteholders' Meetings, and/or taking such actions in connection with fulfilling its obligations in accordance with this Deed of Trust.

20.3.3 Involvement in any judicial or *quasi-judicial* proceedings in connection with fulfilling its obligations in accordance with this Deed of Trust, including according to any order or instruction by an authorized authority.

20.3.4 Any action or duty which will be added or modified by law (including any regulation, order, judicial instructions, opinion letters of the ISA, etc.).

20.4 The amounts mentioned in Sections 20.2-20.3 above shall be linked to the Consumer Price Index, where the base index is the index in respect of the month of July 2017, which was published on August 15, 2017.

20.5 Reimbursement of reasonable expenses incurred by it as a result of its position as trustee for the Noteholders.

20.6 Should there be any changes in the provisions of applicable law pursuant to which the Trustee is required to perform additional actions, examinations and/or preparation of reports, the Company undertakes to bear any reasonable expenses incurred by the Trustee in connection therewith.

20.7 Value added tax shall be added to all payments specified above in this Section 20 in accordance with applicable law at the time of payment.

20.8 If the Trustee's term of office is terminated in accordance with Section 27 below, the Trustee shall not be entitled to additional payment of remuneration following the termination date. For the avoidance of doubt, the Trustee shall be entitled to receive remuneration even if, during its term office, a receiver is appointed for the Company or if the Company enters into liquidation proceedings.

21. **Special Powers of the Trustee**

21.1 In the framework of performing its duties pertaining to the trust created pursuant to this Deed of Trust, the Trustee shall be entitled to commission the opinion and/or advice of any attorney, accountant, appraiser, assessor, broker or other expert. The Trustee is entitled to rely upon the opinion and/or advice of such person whether such opinion and/or advice was prepared at the request of the Trustee or by the Company or any person on its behalf, and the Trustee shall not be required to pay (and no amount shall be offset from the payments due to the Trustee hereunder) any amount associated with any loss or damage that may be caused as a result of any act and/or omission performed by it in reliance upon such opinion and/or advice, unless the Trustee acted in bad faith or with gross negligence, willful misconduct or malicious intent. The Company will bear reasonable remuneration of engaging the advisors so appointed, provided the Trustee will provide the Company with advance notice of its intention to obtain an expert opinion or advice as aforesaid to the extent possible under the circumstances of the matter and to the extent it will not prejudice the rights of the Noteholders, and in such case the notice shall be provided retroactively, together with details of the remuneration required for the purpose of executing the consultation and the purpose of the opinion or the advice and that the said remuneration does not exceed what is customary and acceptable.. Notwithstanding, publication of the results of a Noteholders' meeting of a resolution regarding election of advisors as aforesaid shall be sufficient notice to the Company for about matter.

21.2 Any opinion and/or advice may be provided, sent or received by way of letter, telegram, facsimile, e-mail and/or any other electronic means for the transmission of information in writing, and the Trustee will not be responsible in respect of actions it took in reliance on advice and/or an opinion or information transferred in one of the forms mentioned above even if it contains errors and/or were not authentic, unless the Trustee acted in bad faith or with gross negligence (unless exempt by law), or malicious intent.

21.3 The Trustee shall have the authority to make decisions on behalf of the Noteholders with respect to any question or doubt which may arise in relation to any provision contained in this Deed, and any decision of the Trustee in such matter shall be binding on all the Noteholders, without derogating from any reservation the Company may have in connection with such matter or doubt.

22. **Trustee's Authority to Engage Agents**

The Trustee shall be entitled to appoint an agent, or agents, to act in its stead, whether an attorney or other person, in order to perform, or to participate in the performance of, special actions that are required to be carried out in connection with the trust created pursuant to this Deed, and without derogating from the generality of the foregoing, to initiate legal proceedings, provided that the Trustee provided the Company with advance written notice with respect to the appointment of such agent(s) (unless such advance notice shall materially prejudice the rights of the Noteholders, in which case the notice shall be provided retrospectively, as soon as practicable thereafter). The Trustee shall further be entitled to pay, at the Company's expense, the reasonable, documented out-of-pocket fees of any such agent, and the Company shall, upon the Trustee's first demand, promptly reimburse any such expense to the Trustee, provided that the Trustee gave the Company prior notice regarding the appointment of such agent, subject to the foregoing exception. The Company may object in writing, within seven (7) Business Days of the receipt of such notice, to the appointment of a particular agent on any reasonable grounds, including if the agent is a competitor or has or is likely to have a conflict of interests, whether directly or indirectly, with the Company.

23. **Indemnification of the Trustee**

23.1. The Company and the Noteholders (as of a given record date, as provided in Section 23.5 below), each in respect of its obligations set forth in this Section 23, hereby undertake to indemnify the Trustee and each of its officers, employees, agents or advisors appointed on its behalf in accordance with the provisions of this Deed and/or a resolution duly adopted by the Noteholders at a Noteholders' Meeting in accordance with the provisions of this Deed (hereinafter, all or any part of, together or separately: the "**Indemnitees**"), with respect to the following:

23.1.1 Any loss or liability in tort and/or any financial liability pursuant to a final and conclusive judgment (regarding which no stay of execution has been issued), arbitration award or settlement that has concluded (and so far as the settlement concerns the Company, the Company's consent to the settlement has been granted) arising from actions performed by any Indemnitees, or actions they must perform by virtue of this Deed and/or by applicable law and/or by an order of a competent authority in connection with the Notes and/or at the request of the Noteholders and/or the Company; and

23.1.2 The remuneration of the Indemnitees and reimbursement for reasonable expenses incurred by them and/or which shall be incurred by them, including in the course of performing the trusteeship or in connection therewith, which in their opinion were necessary for the performance of the aforementioned actions and/or in connection with the use of powers and authorizations provided under this Deed, as well as in connection with any legal proceeding, obtainment of legal or other expert opinions, negotiations, arguments, bankruptcy proceedings, collection proceedings, debt arrangements, assessment of status of debt, appraisals, claims and demands relating to any matter and/or actions taken and/or omitted in any manner relating to the above.

The indemnification obligation provided under this Section 23 shall be subject to the following conditions:

23.1.3 The Indemnitees shall not demand advance indemnification in respect of an urgent matter (without derogating from their right to retroactive indemnification for such matter to the extent they have such right);

23.1.4 It shall not have been determined in a conclusive judicial decision that the Indemnitees have acted not in good faith, and/or that the action with respect to which the indemnification is required, was performed outside the scope of their duties, and/or not in accordance with applicable law and/or this Deed of Trust;

23.1.5 It shall not have been determined in a conclusive judicial decision, that the Indemnitees have acted with gross negligence not exempt by law as it may be from time to time; and

23.1.6 It shall not have been determined in a conclusive judicial decision that the Indemnitees have acted with malicious intent.

The indemnification obligations under this section 23.1 shall be referred to as the "**Indemnification Obligation**".

It is hereby agreed, that in any event it is determined in a conclusive judicial decision, that the Indemnitees are not entitled to indemnification, the Indemnitees with respect to which such determination was made shall reimburse the amounts of Indemnification Obligations, to the extent they were paid to them.

23.2. Without derogating from the rights of the Indemnitees pursuant to the Indemnification Obligation, whenever the Trustee is obligated to take any action under the terms of this Deed of Trust, by applicable law, by an order issued by a competent authority or at the request of the Noteholders or the Company, including without limitation, the initiation of proceedings or the filing of claims at the request of the Noteholders, the Trustee may refrain from taking any action as aforesaid, until it receives to its satisfaction a monetary deposit to cover the Indemnification Obligation (the "**Indemnification Fund**") in an amount required at first priority from the Company, and in the event that the Company does not deposit the entire amount of the Indemnification Fund by the date required by the Trustee, and after the Trustee took reasonable actions required of the Trustee to collect the monies from the Company, the Trustee shall contact the Noteholders holding Notes at the record date (as provided in Section 23.5 below) and request each such Holder to deposit its Pro Rata Portion (as defined below) of the amount of the Indemnification Fund with the Trustee.

23.3. The Indemnification Obligation:

23.3.1 **Shall apply to the Company** in any event of (1) actions taken at the discretion of the Trustee and/or by applicable law and/or required to be taken under the terms of this Deed of Trust or in order to protect the rights of the Noteholders (including at the request of a Noteholder for such protection) and (2) actions taken and/or actions required to be taken at the request of the Company.

23.3.2 **Shall apply to Noteholders** who held Notes on the applicable record date (as provided in Section 23.5 below) in any event of (1) actions that were taken and/or required to be taken at the request of the Noteholders (excluding actions taken at the request of the Noteholders in order to protect the rights of the Noteholders); and (2) the Company's failure to pay the Indemnification Obligation it was required to pay under sub-Section 23.3.1 above (subject to Section 23.7 below). For the avoidance of doubt, the payment in accordance with this sub-Section 23.3.2 shall not derogate from the duty of the Company to assume the Indemnification Obligation in accordance with Section 23.3.1 above.

23.4. In any case in which (a) the Company fails to pay the amounts required to cover the Indemnification Obligation and/or fails to deposit the amount of the Indemnification Fund, as applicable, following a request made in accordance with Section 23.3 above, (b) the Indemnification Obligation applies to the Noteholders pursuant to sub-Section 23.3.2 above or (c) the Noteholders were called to deposit the amount of the Indemnification Fund pursuant to Section 23.3 above, the following provisions shall apply to the payment of the applicable amount:

23.4.1 **First** – such amount shall be funded out of the interest and/or the Principal payments that the Company pays to the Noteholders after the date of the required action, and the provisions of Section 12 above shall apply; and

23.4.2 **Second** – if the Trustee is of the opinion that the amounts deposited in the Indemnification Fund will not sufficiently satisfy the Indemnification Obligation, each Noteholder (as of the record date, as provided in Section 23.5 below) shall deposit its Pro Rata Portion of the shortfall with the Trustee. The amount deposited by each Noteholder shall bear annual interest at a rate equal to the annual interest rate of the Notes (as aforesaid in Schedule I to the Deed of Trust), and shall be paid with priority as set forth in Section 12 above.

"**Pro Rata Portion**" means the relative portion of the Notes held by a Noteholder on a given record date (as provided in Section 23.6 below), out of the total number of Notes outstanding on such date. For the avoidance of doubt, the calculation of the Pro Rata Portion of any Noteholder shall remain unchanged even if, after such record date, a change shall occur in the number of Notes held by such Noteholder.

23.5. For the avoidance of doubt it is hereby clarified, that Noteholders that shall bear responsibility to cover expenses as aforesaid in this section above, may bear expenses as aforesaid in this section above beyond their Pro Rata Portion, in which case the reimbursement of such funds shall be in accordance with the order of priority set forth in Section 12 above. The record date for determining the Noteholders' Indemnification Obligation and/or for the Noteholders' liability of payment of the Indemnification Fund shall be as follows:

23.5.1 In any case where the Indemnification Obligation or payment of the Indemnification Fund is required due to an urgent action which is necessary in order to prevent material adverse harm to the rights of the Noteholders, without a prior resolution adopted at a Noteholders' Meeting – the record date shall be the end of the Trading Day on which the action has been taken (and if such day is not a Trading Day, the preceding Trading Day).

23.5.2 In any case where the Indemnification Obligation or payment of the Indemnification Fund is required pursuant to a resolution adopted at a Noteholders' Meeting – the record date for the Indemnification Obligation shall be the record date for participation at such Noteholders' Meeting (as such date shall be set forth in the notice convening the Noteholders' Meeting) and such date shall apply to all the Noteholders, including those who were not present or did not participate in the Noteholders' Meeting.

23.5.3 In any other case or in the event of any disagreement with respect to the record date – the record date shall be determined by the Trustee at its sole discretion.

23.6. For the avoidance of doubt, the Trustee's receipt from Noteholders of payments paid in connection with the Indemnification Obligation pursuant to sub-Section 23.3.2(2), shall not derogate from the Company's liability to make such payments, and the Trustee will use its best efforts to obtain such amounts from the Company in accordance with this Section 23.

23.7. For the purposes of repayment priority to the Holders who bore the payments under this Section out of the proceeds in possession of the Trustee, see Section 12 of the Deed.

24. **Notices**

24.1 Any notice on behalf of the Company and/or the Trustee to the Noteholders, shall be provided by way of a Publication on the MAGNA website of the Israel Securities Authority. The Trustee may instruct the Company and the Company will be required to Publish on the Magna system on behalf of the Trustee any report in the language as provided in writing by the Trustee.

24.2 Any notice or demand on behalf of the Trustee to the Company or on behalf of the Company to the Trustee may be provided by way of registered mail to the address set forth in this Deed of Trust, or to another address of which one party has notified the other in writing, or by way of e-mail, facsimile transmission or courier, and any such notice or demand will be deemed to have been received by the addressee as follows:

24.2.1. If by registered mail – upon the lapse of three (3) Business Days of the date in which the addressee was invited to collect the mail according to the post office registries.

24.2.2. If by facsimile transmission (followed by telephone receipt confirmation) – upon the lapse of one (1) Business Day of transmission.

24.2.3. If by courier – upon delivery by the courier to the addressee or upon presenting to the addressee for receipt.

24.2.4. If by e-mail – upon receipt of telephone or written confirmation whereby the message was received by the recipient.

24.3. Copies of notices and invitations provided on behalf of the Company and/or the Trustee to the Noteholders shall be sent by the Company to the Trustee, and by the Trustee to the Company, as the case may be.

25. **Waiver and Compromise**

25.1 The Trustee may from time to time, if convinced that such action does not prejudice the Noteholders, waive any breach or non-fulfillment by the Company of any of the terms of this Deed of Trust, provided that such action does not relate to changes in payment terms of the Notes (including payment dates, interest rates and linkage terms), grounds for acceleration, negative pledge, restrictions on expansion of the series, the Financial Covenants, the Single Borrower Limitation, the Single Industry Limitation, interest adjustment mechanisms, change in the identity of the Trustee or its remuneration, replacement of a trustee whose term of office has ended and reports that the Company is required to furnish to the Trustee.

25.2 The Trustee and the Company may, either before or after the payment of the outstanding Principal has been accelerated, amend this Deed of Trust, enter into a compromise in connection with any rights or claims of the Noteholders, and agree to any arrangement in connection with the rights of the Noteholders, including the waiver of any right or claim of the Noteholders against the Company in accordance with this Deed of Trust, if one of the following conditions is met:

25.2.1 The Trustee is of the opinion that the proposed change does not prejudice the Noteholders, provided that such amendment does not pertain to the payment terms under the terms of the Notes (including payment dates, interest rates and linkage terms), grounds for acceleration, negative pledge, restrictions on expansion of the series, the Financial Covenants, the Single Borrower Limitation, the Single Industry Limitation, interest adjustment mechanisms, change in the identity of the Trustee or its remuneration, replacement of a trustee whose term of office has ended and reports that the Company is required to furnish to the Trustee; or

25.2.2 The Noteholders have agreed to the proposed amendment by way of a Special Resolution.

25.3 Where the Trustee has compromised with the Company after having received the prior approval of the Noteholders at a Noteholders' Meeting in accordance with the foregoing, the Trustee shall be released from any liability in respect of such act.

25.4 The Trustee shall be entitled to demand that the Noteholders deliver the Note Certificates to it or to the Company in each case of exercise of the Trustee's rights pursuant to this Section 25, for purposes of recording a notation therein with regard to any compromise, waiver, or amendment as aforesaid, and at the Trustee's request, the Company shall record such notation.

25.5 The Trustee shall notify the Noteholders in each case of exercise of the Trustee's rights pursuant to this Section 25 within a reasonable period of time thereafter, except that in case of exercise of the Trustee's right pursuant to sub-Section 25.2.1, the Trustee shall notify the Noteholders within a reasonable period of time prior thereto.

26. **Register of Noteholders**

26.1. The Company shall keep and maintain a Register of Noteholders at its registered office, in accordance with the provisions of the Securities Law.

The Register shall also record all transfers of registered ownership of Notes in accordance with the provisions of this Deed of Trust. The Trustee and any Noteholder may, at any reasonable time, inspect the Register. The Company is entitled to close the Register from time to time for a period or for periods of time that shall not exceed thirty (30) cumulative days per year.

26.2. The Company shall not be required to record in the Register any notice in regard to a trust, pledge or charge of any sort or any right in equity, claim or set-off or any other right in connection with the Notes. The Company shall only recognize the ownership of a person in whose name the Notes have been registered, provided that the lawful heirs, executors or administrators of the registered Noteholder and any person who may be entitled to the Notes as a consequence of the winding-up of the holder thereof, shall be entitled to be registered as holders thereof after providing evidence which in the Company's opinion shall suffice to prove their right to be registered as the holders thereof.

26.3. The Company undertakes to provide a copy of the Register to the Trustee, promptly after the issuance of the Notes. The Company undertakes to notify the Trustee of any change or update made in the Register.

27. **Replacement of the Trustee**

27.1 The Trustee's term of office, including the termination thereof and the appointment and the termination of any new trustee, shall be governed by the provisions of the Securities Law, pursuant to which each of the Trustee and any successor thereof shall be entitled to resign from its position as trustee, subject to approval of the court, effective as of the date set forth in such approval.

27.2 A court may dismiss a trustee if the trustee has not performed its function properly or if a court finds another reason for its dismissal.

27.3 The holders of five percent (5%) of the outstanding Principal of the Notes and/or the Company may convene a Noteholders' Meeting to resolve on the termination of office of the the Trustee. The Office of the Trustee may be terminated at a meeting convened as aforesaid, by a resolution to be adopted by the majority of the holders present, whether at the meeting or at an adjourned meeting. A Quorum in such meeting will be achieved by the presence of Noteholders representing at least fifty percent (50%) of the outstanding Notes in circulation or, if in an adjourned meeting, by the presence of Noteholders representing at least ten percent (10%) of such outstanding Notes.

27.4 Where the term of office of a trustee has expired pursuant to Section 35B(a) of the Securities Law or this Section 27, a court may appoint another trustee for such period and on such terms as it sees fit.

27.5 A trustee whose term has expired shall continue to serve in such capacity until its successor has been appointed. The successor trustee shall be appointed at a Noteholders' Meeting convened by the outgoing trustee or by Noteholders, in accordance with sub-Section 27.3 above.

27.6 Any successor trustee shall have the same powers, authorities and other permissions as the outgoing Trustee and may act as though it were appointed as trustee from the outset.

28. **Reporting to the Trustee and to the Noteholders**

So long as any Notes are outstanding, the Company shall prepare and deliver to the Trustee the following reports and notices:

28.1 Audited annual Financial Statements, promptly upon Publication thereof, in accordance with the dates required of the Company, under any law, even if the Company is not a reporting corporation.

28.2 Reviewed quarterly Financial Statements, promptly upon Publication thereof, in accordance with the dates required of the Company, under any law, even if the Company is not a reporting corporation.

28.3 Notices regarding the purchase of Notes by the Company or by a company under its control, or in the event the Company becomes aware of the purchase thereof by any other Affiliated Holder, as set forth in Section 5 above, as well as copies of notices to the public which the Company is required to provide according to applicable law, and of any other notices and/or invitations to Noteholders' Meetings the Company may provide to the Noteholders in its name or on behalf of the Trustee.

28.4 In the event the Company ceases to be a Reporting Company, any report required from a company that is not a Reporting Company in accordance with the Codex of Regulation, including those provisions with respect to investments by institutional investors in non-government Notes. Any such report will be executed by the CEO (or such person fulfilling this position even if his or her title is different) and the principal financial officer in the Company.

The issuance by the Company of documents as set forth in this Section 28 on the MAGNA website of the Israel Securities Authority shall be deemed a delivery of the documents required above to the Trustee (it being clarified, that the foregoing does not obligate the Company to file such documents on such system).

The Trustee shall be entitled, at its sole discretion, to forward to the Noteholders documents it shall receive as set forth above.

29. **Meetings of Noteholders**

Noteholders' Meetings shall be convened and held in accordance with the provisions set forth in the Schedule II to this Deed of Trust.

30. **Governing Law**

All matters arising from or connected with this Deed shall be construed in accordance with and governed by the laws of the State of Israel, including, so long as the Notes are Listed, the provisions of the bylaws and guidelines of the Stock Exchange. Without derogating from the provisions of Section 1.7 above, with respect to any matter which is not addressed in this Deed and in any event of a conflict between the mandatory provisions of the applicable laws of the State of Israel and the provisions of this Deed, the parties shall act in accordance with the provisions of the laws of the State of Israel. The competent courts of Tel Aviv – Jaffa shall have exclusive jurisdiction to settle any dispute arising from or connected with this Deed and/or the Notes.

The Company shall not object to any motion brought on behalf of the Trustee and/or a Noteholder that was submitted to a court in Israel for the application of Israeli law in the context of a settlement, debt arrangement and/or bankruptcy, the Company shall not object to the application of Israeli law by a court in Israel in the context of a settlement, debt arrangement and/or bankruptcy involving the Company, and the Company shall not raise arguments against Israeli jurisdiction with respect to proceedings brought by the Trustee and/or the Noteholders as set forth above.

31. **Binding Version**

This Deed of Trust has been translated, for the sake of convenience, into Hebrew and such translation has been certified by a notary. The Deed of Trust which was signed by the parties is in the English language. In the event of a conflict between the wording of the Deed of Trust in Hebrew and the wording of the Deed of Trust in English, the provisions of the Deed of Trust in English shall prevail.

32. **Addresses**

The addresses of the parties are as appear in the preamble of this Deed, or any other address in respect of which appropriate written notice is provided to the other party.

In witness whereof the parties have hereunto signed:

/s/ Arthur H. Penn
PennantPark Floating Rate Capital Ltd.

I the undersigned, Thomas J. Friedmann from Dechert LLP, serving as the secretary for PennantPark Floating Rate Capital Ltd. hereby confirm that this Deed of Trust was signed by Arthur H. Penn, and that his signature binds **PennantPark Floating Rate Capital Ltd.** (the "**Company**"), in all respects.

/s/ Thomas J. Friedmann
Thomas J. Friedmann, Secretary

/s/ Rami Sebty
/s/ Giyora Luftig
Mishmeret Trust Company Ltd.

I the undersigned, Adv. Shlomy Ilany hereby confirm that this Deed of Trust was signed by Rami Sebty and Giyora Luftig**,** and that their signatures bind **Mishmeret Trust Company Ltd.** (the "**Trustee**"), in all respects.

/s/ Shlomy Ilany
Shlomy Ilany, Adv.

PennantPark Floating Rate Capital Ltd.

Schedule I

Form of Note Certificate

NIS_____, Series A Notes

The Principal of the Notes shall be repaid in four (4) annual installments, as follows: (1) a payment of fifteen percent (15%) of the original principal on December 15, 2020; (2) a payment of fifteen percent (15%) of the original principal on December 15, 2021; (3) a payment of fifteen percent (15%) of the original principal on December 15, 2022; and (4) a payment of fifty-five percent (55%) of the original principal on December 15, 2023.

The Principal of the Notes shall bear annual interest at a rate to be determined in the Public Tender, subject to adjustments as set forth in Section 7 of the Deed of Trust, which shall be payable semi-annually in arrears, on the 15th day of June and the 15th day of December of each of the years 2018 through 2023 inclusive (each, an "**Interest Payment Date**"), for the six (6) month period commencing on the previous Interest Payment Date and ending on the day immediately preceding the relevant Interest Payment Date (the "**Interest Period**"), except for the initial Interest Payment Date which shall be June 15, 2018 for the period commencing on the Date of Issuance and ending on the day immediately preceding the initial Interest Payment Date, calculated on the basis of a 365-day year and the actual number of days in such period.

Registered Holder of this Note: _____ (the "**Noteholder**" or "**Holder**")
Certificate Number: _____
Par value of Notes subject to this Certificate: _____
Interest: _____% per annum

This certificate witnesses that **PennantPark Floating Rate Capital Ltd.** (the "**Company**") shall pay to the Holder or to whomever is the registered holder of this Note the amount it has undertaken, all subject to the remaining provisions set forth in the Terms and Conditions Overleaf.

The final interest payment shall be paid on December 15, 2023, together with final payment of the Principal and against the surrender of the Note Certificates to the Company and/or any third party as instructed by the Company.

All of the Notes of this series are not secured by any collateral and will rank *pari passu* among them, without any single Note having preference over another.

This Note is being issued subject to the conditions recorded on the reverse side hereof and the terms and conditions set forth in the Deed of Trust between the Company and Mishmeret – Trust Company, Ltd. (the "**Trustee**"), dated [ ] November, 2017 (the "**Deed of Trust**").

Signed by the Company on [ ], 20

By: _____
Name: _____
Title: _____

TERMS AND CONDITIONS OVERLEAF

1. **General**

1.1 In this Note, defined terms and expressions shall have the meanings prescribed to them in the Deed of Trust, unless a different intention is to be inferred from the context.

1.2 The provisions of the Deed of Trust relating to the Note Certificate (including the Terms and Conditions Overleaf) shall be deemed explicitly incorporated into the conditions hereunder.

1.3 The Note shall rank *pari passu* with other Notes of the same series, without any Note having preference over another.

1.4 In case of contradiction between the instructions of the Deed of Trust and the overleaf, the Deed of Trust shall prevail.

2. **Repayment of the Notes; Interest**

2.1 Repayment of the Notes

The Principal of the Notes shall be repaid in four (4) annual installments, as follows: (1) a payment of fifteen percent (15%) of the original principal on December 15, 2020; (2) a payment of fifteen percent (15%) of the original principal on December 15, 2021; (3) a payment of fifteen percent (15%) of the original principal on December 15, 2022; and (4) a payment of fifty-five percent (55%) of the original principal on December 15, 2023.

2.2 Interest

Principal on the Notes shall bear fixed annual interest at a rate to be determined in the public tender relating to the Offering, subject to adjustments as set forth in Section 7 of the Deed of Trust. Such interest shall be payable semi-annually in arrears, on the 15th day of June and the 15th day of December of each of the years 2018 through 2023 inclusive (each, an "**Interest Payment Date**"), for the six (6) month period commencing on the previous Interest Payment Date and ending on the day immediately preceding the relevant Interest Payment Date, except for the initial Interest Payment Date which shall be June 15th, 2018, for the period commencing on the Date of Issuance and ending on the day immediately preceding the initial Interest Payment Date, calculated on the basis of a 365-day year and the actual number of days in such period. The last interest payment shall be paid on December 15th, 2023, together with the final repayment of the Principal and against the surrender of the Note Certificates to the Company and/or any third party as instructed by the Company.

3. **Payments of Principal and Interest**

3.1. **Record date** – Payments on account of the Principal and/or any interest thereon shall be paid to the relevant Noteholder on the following dates:

3.1.1. Payments due on June 15 shall be made to persons holding Notes at the end of the Trading Day on June 3.

3.1.2. Payments due on December 15 (excluding the last payment of Principal and interest) shall be made to persons holding Notes at the end of the Trading Day on December 3.

3.1.3. The last payment of Principal and interest shall be made against the surrender of the Note Certificates to the Company, on the date of payment, at a location in Israel as the Company shall instruct the Trustee, no later than five (5) Business Days prior to the last date of payment.

In the event any date of payment on account of Principal and/or interest is not a Business Day, the date of payment shall be postponed to the following Business Day and no interest or other payment shall be due on account of such delay, and the record date for determining the eligibility for redemption or interest shall not be changed as a result of such postponement.

3.2 Repayment of the Principal (whether scheduled, accelerated or upon an early redemption) and interest payments on the outstanding balance of the Principal, shall be made to the Noteholders in NIS, collectively linked to the Payment Rate, as follows: (i) if the Payment Rate is higher than the Base Rate, then such payment in NIS shall be increased proportionally to the rate of increase of the Payment Rate compared with the Base Rate; (ii) if the Payment Rate is lower than the Base Rate, then such payment in NIS shall be reduced proportionately to the rate of decline of the Payment Rate compared with the Base Rate; and (iii) if the Payment Rate is equal to the Base Rate, then such payment shall be made in the amount of NIS as originally determined.

3.3 Payment to the a Registered Noteholder *('Machzik Rashum')* will be made by check or wire transfer to the persons whose names are registered in the Register or who deliver the Note Certificates in accordance with sub-Section 3.1.3 above.

3.4 The Noteholder will inform the Company of its bank account details for crediting the payments in connection with the Notes, or of any change in the details thereof or in the Noteholder's address, as applicable, by notice sent to the Company by registered mail to the Company. The Company will be obligated to act in accordance with the Noteholder's notice with regard to a change as stated provided such notice was received after thirty (30) Business Days have elapsed after the notification of the holder reaches the Company. If a Noteholder who is entitled to payment as aforesaid fails to duly provide the Company with details pertaining to its bank account, then each payment on account of the Principal and/or interest shall be made by way of a check sent by registered mail to its last address recorded in the Register. The sending of a check to a registered Holder via registered mail in accordance with the foregoing shall be deemed, for all intents and purposes, as payment of the amount stated therein on the date of sending, unless it shall not have been cleared at the time of its lawful presentation for collection.

3.5 A Noteholder wishing to alter the payment instruction it had provided, may do so by providing notice sent by registered mail to the Company's registered office, and the Company shall comply with such instructions only if they received at the Company's registered office at least 30 days before the record date for a given payment. In the event such instructions are received after such day, the Company shall act in accordance with such instructions with respect to subsequent payments.

3.6 Tax shall be withheld at source from each payment made by the Company to the Noteholders as required according to applicable law, unless the said Noteholders have provided the Company with a valid withholding tax exemption, in a form satisfactory to the Company, from the applicable tax authority. The Company shall be entitled to rely on the information provided to it by the Nominee Company and which appears in the register maintained with the Clearing House for those Noteholders entitled to payment, including details of the scope of their holdings of the Notes and the interest to which they are entitled on any applicable Interest Payment Date.

3.7 Payment to an Unregistered Noteholder *('Machzik lo-Rashum')* will be made through the Tel Aviv Stock-Exchange Clearing House.

3.8 Any payment of Principal and/or interest thereon that is paid later than seven (7) days from the applicable scheduled payment date pursuant to the terms of the Notes, for reasons within the Company's control, shall bear additional interest for the period of delay, at an annual interest rate of three percent (3%), which shall be added to the interest borne by the Notes at such time. Once applied, the additional interest will be calculated from the scheduled payment date. The Company shall issue an immediate report in the Magna and/or Maya filling system no later than two (2) Business Days after such additional interest will apply on the Notes.

4. **Failure to Make Payment for Reason Beyond the Control of the Company**

See Section 14 of the Deed of Trust.

5. **Register of Noteholders**

See Section 26 of the Deed of Trust.

6. **Transfer and Split of Notes**

The Notes are transferrable with respect to any par value amount, provided that it will be in whole New Israeli Shekels. Any transfer of Notes (excluding a transfer executed through trade on the Stock Exchange or a transfer between accounts of Noteholders held through a Stock Exchange member) will be effectuated by way of a deed of transfer in a standard form for transferring securities, duly signed by the registered Noteholder (or its lawful representative) and by the transferee (or its lawful representative), which shall be delivered to the Company at its registered office, together with the Note Certificate(s) transferred thereby and any other reasonable poof required by the Company in order to ascertain the transferor's right to effectuate their transfer.

The transferring party shall provide the Company with reasonable evidence for the payment of any payment required under applicable law for a transfer.

In the event of a transfer of only part of the Principal amount stated in the Note Certificate, the Note Certificate should first be split into several Certificates, in the manner specified below.

After the fulfillment of all such conditions, the transfer will be registered in the Register and the transferee shall be bound by the terms specified in the Deed of Trust and the Note Certificate and will be deemed a "Noteholder" for purposes of the Note.

Each Note Certificate may be split into several new certificates and the total Principal amounts stated thereon shall be equal to the par value amount of Principal of the Note Certificate subject to such split, provided that the new certificates shall each have par value amounts in whole NIS. The split will be effectuated against the delivery of such Note Certificate to the Company at its registered office for the execution of the split. All expenses associated with splitting of Notes, including any stamp duty and other public fees, if any, shall apply to the person requesting the split.

7. **Early Redemption**

See Section 9 of the Deed of Trust.

8. **Repurchase of Notes**

See Section 5 of the Deed of Trust.

9. **Additional Issuances**

See Section 2.9 of the Deed of Trust.

10. **Waiver and Compromise**

See Section 25 of the Deed of Trust.

11. **Noteholders' Meetings**

Noteholders' Meetings shall be convened and conducted in accordance with the provisions of Schedule II of the Deed of Trust.

12. **Receipts as Proof**

See Section 15 of the Deed of Trust.

13. **Replacement of Note Certificates**

Should this Note Certificate become worn, lost or destroyed, the Company may issue a new certificate in its stead, which shall be subject to the same terms and conditions thereof, provided that in the event the Note Certificate becomes worn, such worn Note Certificate shall be returned to the Company before the new certificate is issued. Any levies, taxes and other expenses associated with the issue of the new certificate shall be borne by the person requesting the said certificate.

14. **Acceleration**

See Section 10 of the Deed of Trust.

15. **Notices**

See Section 24 of the Deed of Trust.

PennantPark Floating Rate Capital Ltd.
Schedule II

General Meetings of Noteholders

In any event that a different and/or supplementary mechanism for convening and/or holding of a Noteholders' Meeting shall be prescribed under any applicable law, including pursuant to the bylaws and guidelines of the Stock Exchange, the provisions of this Schedule shall be automatically adjusted to the provisions of the law, to the extent the provisions of such law so mandate.

Without derogating from any other provision prescribed under applicable law or the Deed of Trust, the following provisions shall apply to Noteholders' Meetings:

Calling of Noteholders' Meetings

1. The Trustee, if it deems it necessary, if necessitated under law or if requested by the Company, will convene a Noteholders' Meeting at the expense of the Company. In the event that the Trustee convenes such a meeting, it will convene it by publishing an invitation in an immediate report in the Magna and/or Maya system. Such invitation will include notice of the place, date and time of the meeting, as well as the agenda of the matters to be discussed therein.

2. The Trustee shall convene a Noteholders' Meeting at the request of one or more Noteholders, holding at least five percent (5%) of the outstanding balance of the par value of the Notes. The agenda of such meeting will include the subject which was requested by such Noteholder and may include additional subjects at the discretion of the Trustee. The Trustee may demand reimbursement from the Noteholders requesting the meeting, for the reasonable expenses incurred by it in connection therewith. For the avoidance of doubt, the Trustee's demand for reimbursement shall not prejudice the calling of a meeting convened for the purpose of taking an action intended for the prevention of a breach of the rights of the Noteholders. It is noted, that the Trustee's demand for reimbursement will not constitute a condition for convening a Noteholders' Meeting required in order to protect the Noteholders' rights and will not derogate from the Company's obligation the bear the costs of such meeting.

3. The Trustee shall convene a Noteholders' Meeting pursuant to Section 2 above on such date that is not earlier than seven (7) days and not later than twenty-one (21) days from the date of the Noteholders' request, provided that the Trustee may convene a Noteholders' Meeting on an earlier date if it believes that such is required for the protection of the Noteholders' rights and subject to the provisions of Section 7 below. In such an event, the Trustee shall specify in the notice for convening such meeting its reasons for convening the Noteholders' Meeting at such earlier date.

   In the event the Trustee failed to convene a Noteholders' Meeting upon the request of a Noteholder entitled to do so within the period prescribed for above, the Noteholder may convene a Noteholders' Meeting, provided that the meeting shall take place on a date that is within fourteen (14) days from the end of the period in which the Trustee was required to convene such meeting, and the Trustee shall bear any expenses incurred by the Noteholder in connection with the convening thereof.

Notwithstanding the above, a Noteholders' Meeting convened for only purpose of consultation and/or reporting, may be convened with a one day prior notice (or more). No Noteholders' resolutions will be taken in such meeting ("**Consultation Meeting**").

4. Subject to the law, the Trustee is authorized to reschedule any Noteholders' Meeting. In the event that a Noteholders' Meeting was not held as set forth in Sections 2 and 3 above or as set forth in Section 35B(a1) of the Securities Law, a court shall be entitled, at the request of a Noteholder, to order the convening thereof. In the event the aforesaid court order is granted, the Trustee shall bear the reasonable expenses incurred by the requesting Noteholder in connection with the obtainment of such court order, in the amount determined by the court.

5. A court may, at the request of a Noteholder, order the revocation of a resolution adopted at a Noteholders' Meeting that was convened or conducted without complying with the terms prescribed therefor under applicable law or the Deed of Trust. In case the fault pertains to the notice regarding the place or time of convening the Noteholders' Meeting, a Noteholder who appeared at such meeting, notwithstanding the fault, may not demand the revocation of the resolution.

6. Each Noteholders' Meeting shall take place at the Company's registered office in Israel, or at such other address decided by the Company, provided that such address is in Israel.

Effective Date; Proof of Ownership

7. The record date for ownership of Notes for determining the entitlement of the Noteholders to participate and vote at the Noteholders' Meeting shall be the date prescribed in the notice of the Noteholders' Meeting. The record date shall be determined by the Trustee subject to the law, which currently provides that such date shall be no less than three (3) Trading Days prior to the date of the convening of the Noteholders' Meeting, and no more than fourteen (14) days prior to the date of such meeting.

8. A Noteholder wishing to vote at a Noteholders' Meeting is entitled to receive from the Stock Exchange member through which the Notes are held, a confirmation proving his ownership of the Notes. The Noteholder shall deliver to the Trustee at its registered office in Israel or through the ISA's electronic voting system (or in any other way which will be specified in the invitation), by the date as determined by the caller of the Noteholder Meeting in the notice of such meeting, such a confirmation specifying the number of Notes held by the Noteholder as of the date specified in such confirmation, together with a proxy if such ownership confirmation does not list the name of the person participating at the meeting.

Meeting Chairperson

9. The Trustee or a person appointed thereby shall serve as the chairman of the Noteholders' Meeting.

Legal Quorum; Adjourned Meeting

10. The Noteholders' Meeting will commence after it has been proven that the legal quorum required for holding a discussion in respect of any of the issues on the agenda of the meeting is present. In the Noteholders' Meeting, only resolutions which were included in the meeting's agenda will be put to the vote, and with respect to which the legal quorum required for adoption thereof is present as further provided for below.

11. The presence of Noteholders (one or more) without consideration of the amount of voting rights held by them will constitute a legal quorum in a Consultation Meeting. The presence of two or more Noteholders, present in person or by proxy within half an hour from the time prescribed for the beginning of a Noteholders' Meeting, and holding or representing together at least twenty five percent (25%) of the voting rights conferred by the Notes, shall constitute a legal quorum at a Noteholder Meeting, except in regard to resolutions for which a different quorum is mandated by applicable law or by the Deed of Trust.

12. If a legal quorum shall not be present within half an hour from the time prescribed for the beginning of a Noteholders' Meeting, such meeting shall be adjourned to another date which shall be no earlier than two (2) Business Days after the date prescribed for the convening of the original meeting or, if the Trustee believes that the Noteholders' Meeting is required for the protection of the Noteholders' rights in the Notes, not earlier than one (1) Business Day after the date prescribed for the convening of the original meeting. In the event the Noteholders' Meeting was adjourned, the Trustee shall specify the reasons therefor in the notice announcing the new time and place of the adjourned Noteholders' Meeting.

13. In the event that a legal quorum shall not be present at an adjourned Noteholders' Meeting within half an hour from the time prescribed for the beginning thereof, such meeting shall be held with any number of participants, unless otherwise provided by applicable law or the Deed of Trust. Notwithstanding the foregoing, if the Noteholders' Meeting was convened at the request of Noteholders as set forth in Section 2 above, the adjourned Noteholders' Meeting may be held only if at least such number of Noteholders as required thereunder for the convening of a Noteholders' Meeting are present.

14. The presence of two or more Noteholders, present in person or by proxy within half an hour from the time prescribed for the beginning of a Noteholders' Meeting, and holding or representing together at least fifty percent (50%) of the outstanding balance of the par value of the Notes, shall constitute a legal quorum at any Noteholders' Meeting on the agenda of which is a proposal to approve a Special Resolution. If, within half an hour of the time from the time prescribed for the beginning of such meeting, a legal quorum shall not be present, such meeting shall be adjourned and the provisions of Section 12 above shall apply, *mutatis mutandis*. At a Noteholders' Meeting on the agenda of which is a proposal to approve a Special Resolution which was adjourned, the presence of at least two Noteholders or more, present in person or by proxy in the meeting and holding or representing together at least twenty percent (20%) of the outstanding balance of the par value of the Notes, shall constitute a legal quorum.

15. An Affiliated Holder shall not be counted for purposes of determining the presence of a legal quorum required to open a Noteholders' Meeting (including any adjourned meeting) and will not entitled to exercise the voting rights embodied by the Notes held by it. The Notes of whomever the Trustee has determined, according to the provisions of this Schedule and/or any other applicable law, to be a Holder of Conflicting Interest (as defined below), shall be counted for the purpose of determining the presence of a legal quorum (including in an adjourned meeting) but its vote will not be counted.

Notwithstanding the above, in the event that disqualifying votes due to a Conflicting Interest will result in a participation rate of less than five percent (5%) of the total principal of the Notes outstanding, the Trustee will include in the voting also the votes of the Noteholders with Conflicting Interests.

"Conflicting Interest" – Each of the following: (1) the Noteholder has material interest, other than as a Noteholder, in the Company or its business or in the Company's controlling shareholder or in the outcome of the specific resolution; or (2) the Noteholder is part of a group which was defined as having a conflicting interest in the voting card or in the meeting invitation; or (3) a Noteholder which did not properly and fully filled conflict of interest declaration in the voting card; or (4) the Noteholder is considered to have a conflicting interest according to law, ISA's decisions, or court judgments (including when applying a general test specified by them).

In order to examine and decide which circumstances constitute a Conflicting Interest, the Trustee may rely on a legal opinion. The cost of such opinion will be subject to the instructions of this Deed of Trust.

Continued Meeting

16. The majority of Noteholders at a Noteholders' Meeting in which a legal quorum is present, or the Trustee, may resolve to postpone the continuation of a Noteholders' Meeting, including any discussion or adoption of a resolution in respect of a matter specified in the agenda of such meeting, to another date and place to be determined (a "**Continued Meeting**"). At a Continued Meeting, only such matter which was on the agenda of the original Noteholders' Meeting and in respect of which a resolution was not previously adopted shall be addressed. In the event that the Noteholders' Meeting was adjourned without amending its agenda, notification regarding the date of the new meeting shall be provided as soon as possible, but in any event no later than twelve (12) hours prior to the convening of the new Noteholders' Meeting. Notice of such a meeting shall be issued in accordance with Section 31 below.

Vote; Required majority

17. Any Noteholder who is present, in person or by proxy, at a Noteholders' Meeting, is entitled to one vote for every NIS 1 par value of the Principal of the Notes held by such Noteholder, subject to the provisions of the Deed of Trust. The Trustee shall participate at Noteholders' Meetings, but without any voting right.

18. In the event Notes are jointly held by two or more Noteholders, only the vote of the Noteholder listed first from among them in the Register for same series of Notes, and seeking to vote either in person or by proxy, will be counted.

19. A resolution at a Noteholders' Meeting will be decided based on a count of votes.

20. Resolutions shall be adopted at Noteholders' Meetings by a simple majority of all of the participating votes, excluding abstentions, unless a different majority is prescribed under applicable law or the Deed of Trust or if the Trustee determined, pursuant to the authority granted to it under the Deed of Trust, that a resolution shall be adopted by a majority which is not a simple majority. The adoption of a Special Resolution at a Noteholders' Meeting shall require a majority of at least two thirds (2/3) of all of the participating votes, excluding abstentions.

21. The chairperson's announcement of the adoption or rejection of a resolution and the entry thereof into the book of minutes, will serve as *prima facie* evidence of its adoption or rejection as aforesaid.

22. A Noteholder may vote in Noteholders' Meetings by himself or via proxy and also by way of a voting card in which he shall state the manner of his vote, as specified in Section 28 below. A proxy appointment letter shall be made in writing and signed by the appointer or by his representative who has been authorized in writing to do so. If the appointer is a corporation, the appointment shall be made in writing, signed by the corporate stamp together with the signature of a corporate official or an attorney representing the corporation who is authorized to do so. The proxy appointment letter may be drawn-up in any standard form. A proxy does not have to be a Noteholder.

23. A proxy appointment letter and a power of attorney pursuant to which the appointment form was signed, or a certified copy of such power of attorney, shall be delivered to the Trustee's registered office in Israel (or as will be instructed in the invitation) by a date as shall be determined by the person calling the Noteholders' Meeting and set forth in the notice of the meeting, unless otherwise determined by the Trustee. The proxy appointment letter will be valid for any adjourned meeting of a meeting referred to in the proxy appointment letter, unless provided otherwise therein.

24. A vote cast in accordance with the provisions set forth in the proxy appointment letter shall be valid even if prior thereto, the appointer shall have deceased or been declared legally incompetent or the proxy appointment letter shall have been revoked or the Notes with respect to which the vote was granted shall have been transferred.

25. A Noteholder or his proxy may cast a portion of his votes in favor of a certain proposal, and a portion against, and abstain in respect of others, all as he deems fit.

26. A Noteholder shall refrain from abusing his voting power at any Noteholders' Meeting.

Minutes

27. The Trustee will record minutes of the Noteholders' Meetings and shall keep a copy of such at its registered office for a period of seven (7) years following the date of such meeting. Minutes executed by the chairperson of the meeting shall serve as *prima facie* evidence of the contents recorded therein. The Trustee shall maintain at its registered office a register containing the minutes recorded at Noteholders' Meetings which shall be open for the inspection of the Noteholders and a copy thereof shall be sent to any Noteholder at its request.

Voting Card

28. Noteholders may vote at Noteholders' Meetings by way of voting cards. A voting card shall be published by the Trustee in the Magna or Maya system and will specify the deadline for voting. A Noteholder may state the manner of his vote in the voting card and send it to the Trustee. Subject to applicable law, each Noteholder is entitled to receive a voting card from the Stock Exchange member through which its Notes are held. Voting by way of a voting card, shall be subject to the following conditions (i) the voting card shall be delivered to the place, at the dates and to the person, as shall be set forth in the notice of the Noteholders' Meetings and/or in the voting card, and (ii) the voting card shall be filled-in, duly signed and accompanied by all of the required documents attached thereto. A voting

card received by the Trustee in respect of a certain matter which was not voted on at a Noteholders' Meeting shall be considered as abstaining from the vote at such meeting in respect of a resolution to hold a Continued Meeting according to the provisions of Section 16 above, and shall be counted at the adjourned Noteholders' Meeting to be held pursuant to the provisions of Sections 13 or 16 above. A voting card which was submitted without the relevant documents or which was not properly completed or signed, will be disqualified from the voting.

29. The Trustee may, at its discretion and subject to any applicable law, hold meetings in which votes shall be held by way of voting cards without convening the Noteholders, provided that the votes shall be held in respect of matters deliberated at Noteholders' Meetings.

Presence

30. A person or persons appointed by the Trustee may be present but shall not be entitled to vote at Noteholders' Meetings. At Noteholders' Meetings called by the Trustee, the Company's representatives and any other person or persons permitted by the Trustee, may be present, with no voting right. In the event that, at the Trustee's discretion, part of a Noteholders' Meeting calls for a discussion in the absence of a certain person, including the Company's representatives, such person shall not participate in such part of the discussion. A duly completed and signed voting card submitted to the Trustee before the meeting opened, enclosing all relevant documents would be counted for establishing a legal quorum of a Noteholders Meeting.

Meeting Notice; Agenda

31. Notice of Noteholders' Meetings shall be Published and delivered to the Company in accordance with applicable law and in accordance with the provisions of Section 24 of the Deed of Trust, and shall include the agenda, the proposed resolutions and the arrangements pertaining to written votes.

32. The Trustee shall determine the agenda for a Noteholders' Meeting and shall include thereon the matters in respect of which the convening of the Noteholders' Meeting was required in accordance with Section 2 above and any issue requested by a Noteholder as specified in Section 33 below. The Noteholders at a Noteholders' Meeting shall only adopt resolutions in respect of matters specified on the agenda. Notwithstanding the foregoing, the Noteholders at a Noteholders' Meeting may adopt resolutions that differ in wording from the resolutions on the agenda, according to the provisions of applicable law.

33. One Noteholder or more, holding at least five percent (5%) of the outstanding balance of the par value of a series of Notes, may request that the Trustee include a given matter on the agenda of a Noteholders' Meeting that shall be convened in the future, provided that such matter is appropriate for discussion at such meeting, subject to applicable law.

Additional Provisions

34. Nothing stated in Sections 2, 32 and 33 above shall derogate from the Trustee's authority to convene a Noteholders' Meeting, if it deems such necessary to consult with the Noteholders. The notice of such a Noteholders' Meeting need not specify the matters on its agenda, and the date of such meeting shall be at least one day after the date of the notice. No vote shall be held and no resolutions shall be adopted at such meeting and the provisions of the Securities Law shall apply thereto, other than the provisions specified in Section 35(12)26 of the Securities Law.

35. Where it is not practicable to convene a Noteholders' Meeting or to hold such in the manner prescribed by the Deed of Trust or by the Securities Law, a court may, at the request of the Company, a Noteholder entitled to vote at a Noteholders' Meeting or the Trustee, order that a Noteholders' Meeting be convened and held in a manner determined by the court, and the court shall be entitled to render additional instructions for such purpose to the extent deemed fit thereby.

36. No resolution duly adopted at a Noteholders' Meeting convened in accordance with this Schedule shall be revoked, even if due to an error, notice thereof was not provided to all Noteholders, or if such notice was not received by all of the Noteholders, provided that notice of such meeting (or the adjourned meeting, as applicable) was Published on the MAGNA website of the Israel Securities Authority.

* * *

PennantPark Floating Rate Capital Ltd.

Schedule III

Emergency Committee of Noteholders

With respect to the Notes, if an Emergency Committee of the Noteholders is appointed, the Company undertakes that the Emergency Committee shall be appointed to act in accordance with the relevant provisions of the Codex, its amendments and updates from time to time, and in addition the Company undertakes to act in cooperation with the Emergency Committee and with the Trustee as necessary to allow them to conduct the investigations required thereby and the formalization of the decisions of the Emergency Committee, and to provide the Emergency Committee with any data and documents required to it regarding the Company.

1. Appointment; term of tenure

1.1 The Trustee shall appoint and assemble an emergency committee from among the Noteholders, as specified below (the "**Emergency Committee**"), at its own initiative or following receipt of the Company's written request for such.

1.2 The Trustee shall appoint to the Emergency Committee the three (3) Noteholders, which, based on information provided by the Company, hold the highest par value of outstanding Notes among the Noteholders and which affirm that the following specified conditions are true in respect thereof (the "**Members of the** Emergency **Committee**"). In the event any of the aforementioned Noteholders are not able to serve as Members of the Emergency Committee, the Trustee shall appoint in its stead the Noteholder holding the next highest par value of outstanding Notes and for which all of the conditions specified hereunder hold true:

1.2.1 The Noteholder is not in a material conflict of interest due to the existence of any additional material matter that conflicts with the matter deriving from his service on the Emergency Committee and his holding the Notes. For avoidance of doubt, a Holder who is an Affiliated Holder (as defined in Section 5.1 of the Deed of Trust) shall be deemed to be in a material conflict of interest as aforementioned and shall not serve as a Member of the Emergency Committee; and

1.2.2 In the course of the same calendar year, the Noteholder does not serve on similar committees in respect of other Notes with an aggregate value exceeding the percentage of the asset portfolio managed by him, that was determined as the maximum percentage permitting service on an emergency committee under the directives of the Commissioner of the Anti-Trust Authority ("**the Commissioner**") which apply to the establishment of emergency committees.

1.3 In the event that during the service of the Emergency Committee, one of the conditions set forth in sub-Sections 1.2.1 to 1.2.2 above shall have ceased to hold true to any of its members, the office of such member shall expire and it shall notify the Trustee thereby, and the Trustee shall appoint another member in his stead from among the Noteholders as set forth in Section 1.2 above.

1.4 Before appointing the Members of the Emergency Committee, the Trustee shall receive from the candidates for service as Members of the Emergency Committee, a declaration regarding the existence or absence of material conflicts of interest as set forth in sub-Section 1.2.1 above, and regarding service on additional emergency committees as set forth in sub-Section 1.2.2 above. In addition, the Trustee shall be entitled to demand such declaration from Members of the Emergency Committee at any time during the service of the Emergency Committee. A Holder that fails to provide such declaration shall be deemed to have a material conflict of interest or to be prohibited from serving by virtue of the directives of the Commissioner, as applicable. With respect to the declarations regarding conflict of interests, the Trustee shall examine the existence of the conflicted interests, and if necessary decide if the conflict of interests disqualifies such Holder from serving in the Emergency Committee. It is hereby clarified that the Trustee shall rely on such declarations and shall not conduct examinations or other independent investigations. Subject to applicable law, the determination of the Trustee in these matters shall be final.

1.5 Immediately after the appointment of the Emergency Committee, the Trustee shall notify the Company of such appointment, while specifying the names of the Members serving on it.

1.6 The term of office of the Emergency Committee shall end on the date on which the Company shall publish the decisions of the Emergency Committee regarding the grant of an extension to the Company for the purpose of its compliance with the terms of the Deed of Trust as detailed in Section 1.7 hereinafter. The Company shall publish publicly all of the information delivered to the Emergency Committee at the time of termination of service of the Emergency Committee.

1.7 The Company shall publish an immediate report immediately after the appointment of the Emergency Committee, on the appointment of the Emergency Committee, the identity of its Members and its powers. In addition, the Company shall publish an immediate report regarding the decisions of the Emergency Committee.

2. <u>Authority</u>

2.1 The Emergency Committee shall have authority to grant a one-time extension to the Company of the dates by which the Company must comply with any of the Financial Covenants set forth in Sections 6.1 and 6.2 of the Deed of Trust, until the earlier of (i) a period of additional ninety (90) days; or (ii) the date of the Publication of the Company's next consolidated, audited or reviewed (as the case may be) Financial Statements which the Company must publish until such date. It is clarified that the period of time until the appointment of the

Emergency Committee shall be taken into account in the framework of such extension, and shall not constitute grounds for the grant of any additional extension to the Company beyond the aforementioned period of time. It is additionally clarified, that the operation of the Emergency Committee and cooperation between its Members shall be limited to the discussion of the grant of such extension, and no other information which does not concern the grant of such extension shall be transferred among the Members of the Emergency Committee.

2.2 In the event that no Emergency Committee is appointed according to the provisions of this Schedule, or if the Emergency Committee decides not to grant the Company an extension as set forth in Section 2.1 above, the Trustee shall act in accordance with the provisions of Section 10.2 of the Deed of Trust, except that the time of convening of the meeting shall be 7 days of the date of its summon.

3. Company Undertakings

3.1 The Company undertakes to provide the Trustee with all of the information in its possession or in its ability to obtain regarding the identity of the Noteholders and the scope of their holdings. In addition, the Trustee shall act to receive such information in accordance with powers granted to it according to the law.

3.2 In additions, the Company undertakes to act in full cooperation with the Emergency Committee and with the Trustee as necessary to allow them to conduct the investigations required thereby and the formalization of the decisions of the Emergency Committee, and to provide the Emergency Committee with any data and documents required by it regarding the Company, subject to the restrictions of the law. Without derogating from the generality of the foregoing, the Company shall provide the Emergency Committee with information relevant for it to arrive at a conclusion, and shall not include any misleading or incomplete information.

3.3 The Company shall bear all of the expenses of the Emergency Committee, including expenses with respect to the engagement of advisors and experts by, or on behalf of, the Emergency Committee.

3.4 The appointment of the Emergency Committee or its operation shall not harm any of the powers imbued to the Trustee according to the law and the Deed of Trust and they will not limit the Trustee in its actions according to the law and the Deed of Trust.

4. Liability

4.1 The Emergency Committee shall act on and decide the matters at hand, at its sole and absolute discretion and shall not be liable, nor shall any of its members or their officers, employees or advisors be liable, and the Company and the Noteholders hereby hold them harmless, with respect to any lawsuit, demand or claim advanced against them due to their use of, or failure to use, the powers, authorities or discretion conferred upon them pursuant to the Deed of Trust and this Schedule and in connection therewith or for any other action carried out thereunder, unless they acted maliciously and/or without good faith.

4.2 The indemnity provisions set forth in Section 23 of the Deed of Trust shall apply to the actions of the Members of the Emergency Committee and any person acting on their behalf as if they were the Trustee.

4.3 Nothing stated shall derogate from the powers of the Trustee to convene a general meeting of the Noteholders and to put on its agenda any matter it deems fit in the circumstances, including the matter of acceleration of payment. If such general meeting had been convened and any resolutions were received by it, the resolutions of the general meeting shall override decisions of the Emergency Committee.

* * *

November 23, 2017

PennantPark Floating Rate Capital Ltd.

פננטפארק פלוטינג רייט קפיטל לימיטד

A company incorporated under the laws of the state of Maryland

(The "Company")

Supplementary Notice

Pursuant to the Supplementary Prospectus of the Company, of November 21, 2017 bearing the date of November 22, 2017 (the "**Prospectus**"), and in accordance with the provisions of Article 16(1a)(2) of the Securities Law, 5728-1968 (the "**Securities Law**") and the provisions of the Securities Regulations (Supplementary Notice and Draft Prospectus), 5767-2007, the Company is pleased to publish a Supplementary Notice to the issuance and registration for trading of the securities set forth below (the "**Supplementary Notice**").

The terms contained in this Supplementary Notice shall have the meaning ascribed to them in the Prospectus, unless otherwise expressly stated.

The offer to the public pursuant to the Prospectus and this Supplementary Notice will only be carried out in Israel and not in the US, to a US Person and/or to a person in the US, each within the meaning of Regulation S enacted under the United States Securities Act of 1933, as amended from time to time ("Regulation S" and the "Securities Act", respectively).

The Company furnished the TASE with an opinion letter of a U.S. law firm stating that, subject to the assumptions, qualifications and limitations set forth in such opinion letter, no registration of the Notes under the Securities Act is required for the offer and sale of the Notes in the offering in the manner contemplated hereby.

Any purchaser of the Notes offered pursuant to the Prospectus and this Supplementary Notice shall be deemed to have declared that he/she is an Israeli resident, that he/she is not a US Person or a person in the US, that he/she is not acquiring the Notes offered pursuant to the Prospectus and this Supplementary Notice for a US person or a person in the US, that he/she was not in the US at the time of submitting a request to purchase the Notes offered pursuant to the Prospectus and this Supplementary Notice and he/she is not acquiring the Notes offered pursuant to the Prospectus and this Supplementary Notice with the intention to conduct a "Distribution" (as this term is defined in the US securities laws) in the US. The distributors with whom the Company entered into agreements, for the distribution of the Offered Securities (pursuant to the Prospectus and this Supplementary Notice), their affiliated

companies and anyone acting on their behalf, shall declare, among other things, that they will offer the Offered Securities to Israeli residents only, and not to any US Person, and that they did not take nor will they take any action or make any publication in the US in connection with the promotion of the sale of Offered Securities as aforesaid.

Under Rule 904 of Regulation S, Notes offered pursuant to the Prospectus and this Supplementary Notice may be resold on the TASE by any individual (with the exception of the Company, a distributor or affiliates of any of them (except any officer or director who is an affiliate solely by virtue of holding such position) or any person acting on behalf of any of the foregoing persons) provided that: (a) the offer is not made to a person in the United States, (b) neither the seller nor anyone acting on the seller's behalf has knowledge that the purchase was pre-arranged with a buyer in the United States, and (c) no "directed selling efforts" (as defined in Regulation S) are made in the United States by the seller, an affiliate, or any person acting on their behalf. In the case of an offer or resale of Notes by an officer or director of the Company or a distributor, who is an affiliate of the Company or distributor solely by virtue of holding such position, no selling concession, fee or other remuneration may be paid in connection with such offer or sale, other than the usual and customary broker's commission that would be received by a person executing such transaction as an agent.

The Prospectus and this Supplementary Notice are not intended for publication, circulation and/or distribution in the US, to a US Person and/or to a person in the US as defined in Regulation S, and no person is authorized to sell securities offered under the Prospectus and this Supplementary Notice in the US.

The Prospectus and this Supplementary Notice have not been filed with the SEC. Subject to the following provisions, Securities offered under the Prospectus and this Supplementary Notice may not necessarily be registered in the US under the Securities Act and the holders of securities offered under the Prospectus and this Supplementary Notice not allowed to offer and/or sell them in the US to a US Person and/or to a person in the US, unless they have been registered in accordance with the Securities Act or if an exemption from the registration requirement exists in accordance with the Securities Act. Subject to the following provisions, the Company does not undertake to register the securities in the US in accordance with the Securities Act.

The Prospectus and this Supplementary Notice and the securities offering and acquisition pursuant thereto and anything arising from and/or relating to the Prospectus and this Supplementary Notice, shall be subject solely to the laws of the State of Israel and no other laws shall apply, and the exclusive jurisdiction in any matter concerning the foregoing is granted to the competent courts of Israel and them only, and the offerees, by consenting to purchase the securities offered under the Prospectus and this Supplementary Notice, accept this exclusive jurisdiction and this choice of law.

A decision to purchase the securities offered under the Prospectus and this Supplementary Notice shall be made solely in reliance on the information contained (including by way of reference) in the Prospectus and this Supplementary Notice. The Company has not authorized and will not allow any other person or entity to disclose information that varies from that that is detailed in the Prospectus and this Supplementary Notice. The Prospectus and this Supplementary Notice do not and will not constitute an offer of securities in any other country other than Israel.

1. The Securities Offered and the Method of the Offer

1.1 Notes (Series A)

1.1.1 Series A Notes, NIS 565,000,000 par value registered by name (the "**Notes**"), shall be offered to the public in consideration for their par value, bearing fixed annual interest at a rate to be determined in a public tender to be held by the Company on the rate of annual interest to be borne by the Notes. The principal of the Notes and the interest thereon shall be linked to the representative rate of the Dollar. For details regarding linkage terms, see Section 2.1.1 of the Prospectus. The Base Rate[1] is NIS 3.525 = USD 1.

1.1.2 The annual interest rate by which the Notes will be offered shall not exceed 3.83% per year (the "**Maximum Interest Rate**")[2].

1.1.3 For details regarding the maturity dates of the principal and interest on the Notes, see Section 2.1.2 and 2.1.3 of the Prospectus.

1.1.4 The Notes are offered to the public in 565,000 units (the "**Note Units**" or the "**Units**") by way of a uniform offer pursuant to Chapter B of the Securities Regulations (Manner of Offering Securities to the Public), 5767-2007 (the "**Manner of Public Offering Regulations**") in a single tender on the annual interest rate to be borne by the Notes, which shall be held on the day and hour set forth in this notice, whereby the interest rate determined in the tender will not exceed the Maximum Interest Rate. The composition and price of each Unit are as follows:

	Price
NIS 1,000 par value Notes	NIS 1,000
Total price per Unit	**NIS 1,000**

1.1.5 Since the Notes are issued at par value, there will be no discount in the offering pursuant to the Prospectus and this Supplementary Notice. For details regarding taxation of the Notes see Section 2.7 of the Prospectus.

1.1.6 For additional details regarding the terms and conditions of the Notes, see Section 2.8 of the Prospectus as well as the provisions of the Deed of Trust which was signed on November 23, 2017, between the Company, on one side, and Mishmeret Trust Company, Ltd., on the other side, in the form attached as **Appendix A** herewith (the "**Deed of Trust**")[3].

1.2 The Public Tender for purchasing Notes

The Notes will be offered to the public in a public tender, all as set forth in this Section 1.2.

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1 The Base Rate, as such term is defined in the Deed of Trust, as defined below.

2 Subject to adjustments as specified in Section 7 of the Deed of Trust and/or the entitlement to interest in arrears (as specified in Section 3.8 of the Terms and Conditions Overleaf which are in Schedule I of the Deed of Trust, annexed as Appendix A to this Supplementary Notice).

3 In this Deed of Trust, typographical and proofreading errors were corrected as compared to the Deed of Trust signed on November 20 2017 and which was attached to the Prospectus, and the scope of the series was also updated.

In case of cancellation of the said tender, the offered Notes will not be issued, they will not be listed for trading on the TASE and no money will be collected from the investors in connection with those units.

Due to the change in amount of the Notes offered pursuant to the Supplementary Notice vi-s-vis the amount noted in section 2.1.1 of the Prospectus, and after the Company's request to the Israeli Securities Authority to shorten the period to accept subscriptions has been granted, the Subscription List for the purchase of the units offered to the public shall open on Sunday, November 26, 2017 (the "**Tender Date**") at 16:00 and shall close on that day at 17:00 ("**the Subscription List Closing Time**"), provided that the period for submitting subscriptions will not end earlier than the end of seven (7) hours, of which at least five (5) are trading hours, from publication of the Supplementary Notice.

Subscriptions to purchase Units in the tender should be submitted through Leader Underwriting (1993) Ltd., of 21 Ha'arba'a Street, Tel Aviv (the "**Dealer Manager**"). Subscriptions may be submitted to the Dealer Manager directly or through bank branches or other TASE members (the "**Authorized Recipients**"), no later than the Subscription List Closing Time, on customary forms for this purpose that can be obtained from the Authorized Recipients.

Each subscriber may submit up to three offers at different interest rates, not exceeding the Maximum Interest Rate, provided that the interest rate offered by it is stated in percentages in increments of 0.01%. That is to say, it shall be possible to submit subscriptions at the Maximum Interest Rate and at lower rates in increments of 0.01%, i.e. 3.83%, 3.82%, 3.81% and so on. Subscriptions that do not state such increments shall be rounded up to the nearest interest step.

Each subscription to purchase Units in the tender submitted to an Authorized Recipient on the Tender Date shall be deemed to have been submitted on the same day, if received by the Authorized Recipient before the Subscription List Closing Date, and provided it is subsequently transferred by the Authorized Recipient to the Dealer Manager, and received by the Dealer Manager no later than one hour after the Subscription List Closing Date ("**the deadline for submission to the Dealer Manager**"). An application that is received by the Authorized Recipients after the closing date of the Subscription List or received by the Dealer Manager after the deadline for submission to the Dealer Manager, will not be accepted by the Company.

The subscriptions will be transferred to the Dealer Manager from the Authorized Recipients on the Tender Date, until the deadline for submission to the Dealer Manager, by transmitting the subscriptions digitally in a virtual safe or through closed envelopes that will remain closed until after the deadline for submission to the Dealer Manager has passed, and will be entered by the Dealer Manager into a closed and locked box together with the subscriptions that were submitted directly to the Dealer Manager, up to the said time.

Subject to applicable law, the subscriptions are irrevocable. Submission to purchase units by the Authorized Recipients for their clients shall be deemed an irrevocable commitment by them to be responsible for the purchase of all Notes issued to their clients as a result of full or partial acceptance of the subscriptions submitted by them in accordance of the provisions of the Prospectus and this Supplementary Notice, and to pay through the Dealer Manager the full consideration according to the provisions of the Prospectus and this Supplementary Notice.

On the Tender Date, after the deadline for submission to the Dealer Manager, the virtual safe and the envelopes will be opened and in addition the subscriptions in the virtual safe shall be presented, in the presence of the Company's representative, the Dealer Manager representative and an auditor who will oversee the proper conduct of the tender process, and in addition, the results of the tender will be summed up and processed.

For further details regarding the manner of submitting subscriptions, the tender's proceedings, publication of its results and the manner of allocating Units to subscribers, see Section 2.4 of the Prospectus.

2. Qualified Investors

With respect to 488,124 Units out of the offered Units of Notes, which constitute approximately 86.39% of the total Units of Notes offered to the public under the Prospectus and the Supplementary Notice, the Company has entered into a prior engagement with Qualified Investors, as defined in Section 1 of the Manner of Public Offering Regulations,[4] whose names are listed below (in this Section: "**Qualified Investors**"), whereby the Qualified Investors undertook to submit subscriptions to the Public Tender for purchase of the Notes in an amount not less, and at interest rate that's not higher than that noted next to their names:

Serial number	Name of Qualified Investor	Number of Units	Interest Rate (%)
1	SPHERA FIXED INCOME STRATEGIES GP LC	5,000	3.74
2	EDMOND DE ROTHSCHILD MUTUAL FUNDS MANAGEMENT (ISRAEL) LTD	18,320	3.59
3	EDMOND DE ROTHSCHILD PORTFOLIO MANAGEMENT (ISRAEL) LTD	5,149	3.69
4	Orcom Strategies, Ltd.*	7,500	3.60
5	Orcom Strategies, Ltd.*	10,000	3.80
6	I.B.I Amban Portfolio Management	12,967	3.70
7	INFINITY PROVIDENT FUNDS MANAGEMENT LTD	9,000	3.80
8	INFINITY PORTFOLIO MANAGEMENT (ISRAEL AND WORLDWIDE) LTD	6,795	3.80
9	Altris Finance Ltd.*	15,450	3.60
10	Altris Finance Ltd.*	15,500	3.75
11	ALTSHULER SHAHAM NETZ, LIMITED PARTNERSHIP	5,000	3.79
12	ALFI BENEDEK INVESTMENT MANAGEMENT LTD	20,906	3.75
13	Enigma Capital Markets Ltd for Portfolio Management	1,600	3.00
14	Academic Study Tradable	5,000	3.80
15	EXCELLENCE NESSUAH ASSET MANAGEMENT LTD*	1,315	3.80

4 "**Qualified Investor**" - is a person who undertook in advance to purchase from the offer to the public units with a monetary value of at least NIS 800 thousands, provided that he is one of the following: (1) a portfolio manager within the meaning of Section 8(b) of the Regulation of Engagement in Investment Counseling, Investments, 5755-1995, which, at its discretion, purchases the account of a customer; (2) a corporation wholly owned by one or more classified investors who acquire for himself or another classified investor; (3) an investor listed in Section 15A(b)(2) of the Securities Law; (4) an investor who subscribes to details (1) to (9) or (11) of the First Schedule to the Securities Law, who purchases for himself.

Serial number	Name of Qualified Investor	Number of Units	Interest Rate (%)
16	Arbitrage Global L.P.*	12,000	3.60
17	Best Invest – Yelin Lapidot	5,000	3.83
18	Academic Provident Funds Tradable	2,000	3.80
19	The First International Bank – Nostro	20,000	3.35
20	Hachshara Insurance Company – Nostro	9,500	3.45
21	Hachshara Insurance Company – Amitim	2,807	3.45
22	Halman Aldubi Provident and Pension	16,739	3.78
23	Halman Aldubi Portfolia Management 2007 Ltd	9,632	3.74
24	Vardan Investment House Ltd.	2,398	3.40
25	Vardan Investment House Ltd.	1,131	3.75
26	YELIN LAPIDOT PROVIDENT FUNDS MANAGEMENT LTD	10,000	3.83
27	YELIN LAPIDOT – MUTUAL FUNDS MANAGEMENT LTD	8,493	3.70
28	Lehava Investment Portfolio Management Ltd.	17,000	3.75
29	Mahog Ltd	3,000	3.83
30	Meitav Dash Best Invest	1,425	3.63
31	Meitav Dash Provident and Pension Ltd	50,000	3.65
32	Meitav Dash Portfolio Management Ltd	6,411	3.63
33	Meitav Dash Portfolio Management Ltd-Mifaliot	18,870	3.63
34	Meitav Dash Mutual Funds – Enigma Mutual Funds	3,600	3.00
35	Meitav Dash Mutual Funds Ltd	21,895	3.63
36	Meitav Dash Mutual Funds Ltd	5,276	3.80
37	Marathon Investments House Ltd.	2,810	3.50
38	CYBELE CAPITAL MARKETS LTD*	2,500	3.50
39	CYBELE CAPITAL MARKETS LTD*	3,500	3.82
40	Inbar Derivatives Ltd.*	40,000	3.49
41	Fidelity Venture Capital Ltd.	1,755	3.64
42	Fidelity Venture Capital Ltd.	1,755	3.74
43	Priority Asset Management Ltd.	3,000	3.65
44	K.H.R Study Fund	1,000	3.80
45	Legendary Group Ltd.	10,000	3.30
46	Legendary Group Ltd.	10,000	3.50
47	R.I.L Spirit Investment Management Ltd.*	23,000	3.58
48	R.I.L Spirit Investment Management Ltd.*	5,500	3.68
49	R.I.L Spirit Investment Management Ltd.*	6,500	3.78
50	Shekef Maof Investments Ltd.	10,125	3.79
	Total	**488,124**	**—**

(*) To the best knowledge of the Company, a Qualified Investor which is a distributor of the issuance or a related party of a distributor of the issuance. In the overall, prior commitments for the purchase of 142,765 Units of Notes were provided by Qualified Investors which are distributors or related to distributers, constituting approximately 29% of all the Units of the Notes in respect of which prior commitments were provided by Qualified Investors.

The Company shall pay Qualified Investors an early commitment fee at a rate of 0.5% of the total immediate proceeds for the Units regarding which the Qualified Investors undertook to submit subscriptions.

A Qualified Investor may, on the Tender Date, reduce the interest rate compared to the interest rate stated by such investor in the said early commitment (in increments of 0.01%), by written notice to the Dealer Manager, to be received by the Dealer Manager prior to the Subscription List Closing Time. In addition, a Qualified Investor may, on the Tender Date, subscribe for a number of Units exceeding the number stated in their early commitment; however, excess Units subscribed for will not be deemed to be commitments made by Qualified Investors in the context of the Prospectus, but as a subscription submitted by a member of the public.

For additional Details regarding the Company’s engagement in a prior engagement with Qualified Investors see Section 2.4.5 of the Prospectus.

3. Permits and Approvals

3.1 The Company applied to TASE to list the Notes offered under the Prospectus and the Supplementary Notice, for trading thereon, and TASE gave its approval to do so, subject to Section 3.3 below.

3.2 The said approval of TASE shall not be deemed approval for the details presented in the Prospectus and/or the Supplementary Notice, nor for the reliability and completeness thereof, and nothing in the said approval shall be considered an expression of opinion on the Company or the nature of the offered securities or the price at which they are offered.

3.3 Pursuant to TASE Regulations and the Directives thereunder, the registration of the Notes for trading on TASE is subject to fulfillment of minimum distribution and public holdings value of the Notes, all as set forth in Sections 2.3.1.1 and 2.3.1.2 of the Prospectus. Since the Company's Notes, at a total of up to NIS 580 million par value, are rated **ilAA-** by S&P Global Ratings Maalot Ltd. ("**the Rating Company**"), the Company is exempt from the requirements of equity. For details of said rating, see Section 4 below.

Additionally, the listing of the Notes for trading on the TASE offered by the Prospectus and the Supplementary Notice is contingent upon publication of a registration document pursuant to the provisions relating to dual listing under Chapter E-3 of the Securities Law and the regulations promulgated thereunder in connection with the listing on the TASE of the Company's Common Stock (the "**Registration Document**") and the actual listing of the shares for trade as aforesaid.

3.4 In the event of a failure to comply with the TASE requirements as specified in Sections 2.3.1.1 and/or 2.3.1.2 of the Prospectus and/or if the Registration Document is not published within fourteen (14) business days of receipt of funds by the Dealer Manager, then the Offering of the Notes shall be void, the Notes will not be registered for trading on the TASE, funds received by the Dealer Manager will be returned to the subscribers and the Notes shall not be assigned to subscribers and the Company will issue an immediate report.

3.5 The Company considers the deposit of proceeds of the Offering in the Dealer Manager's account as a transfer of proceeds to the Company, and on that basis the Company will apply to the TASE to register the Notes offered under the Prospectus and this Supplementary Notice for trading.

3.6 All of the distributors undertook that any offering of securities that will be done by them or by an agent on their behalf, will be done in an offshore transaction[5].

4. Rating of the Notes

4.1 On October 26, 2017, the Rating Company determined a preliminary rating of **ilAA-** for the issuance of new Series A Notes of the Company in the amount of up to NIS 400 million par value.

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5 I.e. a transaction in which the offer is not made to a person in the US, the transaction is made through a stock exchange located outside of the US, and neither the seller nor anyone on its behalf knows that the transaction was prearranged with a buyer in the US.

4.2 On November 22, 2017 the Rating Company determined that the rating of **ilAA-** for the issuance of new Series A Notes of the Company is valid for a Note issuance of up to NIS 580 million par value, for further details, see **Appendix B1 and Appendix B2** to this Notice.

5. Fees; Proceeds from the Offering

For the offering the Company will pay the following fees:

5.1 Early Commitment Fee

For further details regarding early commitment fee to Qualified Investors, see Section 2 above.

5.2 Distribution and Consultation Fee, Success Fee and Coordination Fee

Leader Underwriters (1993) Ltd., Excellence Nesuah Underwriting (1993) Ltd., Barak Capital Underwriting Ltd., Inbar Issuances and Finances Ltd., Egoz Issuances and Finances Ltd., Cybel Capital Markets Ltd., Alpha Beta issuances Ltd., A.S. Bartman Investments Ltd. and Y.A.Z. Investments and Assets Ltd. (together: the "**Distributors**"), shall serve as Distributors for the offering of the Notes offered pursuant to the Prospectus and this Supplementary Notice.

5.2.1 For its services, and subject to the completion of the Offering, the issuance of the Notes to the public and their listing for trade, Leader shall be entitled to a consulting, distribution and management fee of in a total amount of 1.5% of the immediate proceeds actually received for the Notes offered under the Prospectus and the Supplementary Notice. Leader shall distribute the distribution fee among the Distributors at its sole discretion, provided that a Distributor will not be entitled to a fee for securities it actually purchased as a result of execution of early commitments it had submitted in the tender for Qualified Investors. In addition, the Company may pay Leader a success fee at its sole discretion of 0.25% of the total immediate proceeds actually received for the Notes offered under the Prospectus and the Supplementary Notice

5.2.2 The Dealer Manager will be entitled to a coordination fee of USD 8,000.

6. Proceeds from the offering

The immediate proceeds expected by the Company from the issuance of the Notes under the Prospectus and this Supplementary Notice, assuming all offered Units will be purchased, net of the expenses included in the Offering, are expected to be as follows:

The expected immediate proceeds (gross)	Approx. NIS 565,000 thousands
Net of early commitment fees, distribution and consultation fees and coordination fees[6]	Approx. NIS 10,915 thousands
Net other expenses[7] (estimated)	Approx. NIS 11,475 thousands
Expected net proceeds	**Approx. NIS 542,610 thousands**

6 Excluding success fee as specified above.
7 Including consultation fees to FCC Ltd. and/or related entities.

The total expenses of the Issuance constitute approximately 4% of the gross proceeds expected in connection with the Offered Securities under the Prospectus and the Supplementary Notice[8]. For details regarding the designation of proceeds, see Section 5.2 of the Prospectus.

Since the issuance pursuant to the Prospectus and this Supplementary Notice is not underwritten, there is no certainty that all the offered Units will be purchased and accordingly, the proceeds as well as the expenses entailed in the offering, might be different than detailed above.

For additional information on the Capitalization of the Company assuming the completion of the offering and the receipt of the proceeds of the offering, see Appendix C to this Supplementary Notice.

8 Assuming that all Units offered under the Prospectus and the Supplementary Notice will be purchased.

Signatures

6.1 The Company

PennantPark Floating Rate Capital Ltd.	/s/ Arthur H. Penn

6.2 The Directors

Arthur H. Penn	/s/ Arthur H. Penn
Adam K. Bernstein	/s/ Adam K. Bernstein
Marshall Brozost	/s/ Marshall Brozost
Jeffrey Flug	/s/ Jeffrey Flug
Samuel L. Katz	/s/ Samuel L. Katz

Exhibit (n)(1)

Consent of Independent Registered Public Accounting Firm

We consent to use in this Post-Effective Amendment No. 3 to the Registration Statement (No. 333-215111) on Form N-2 of PennantPark Floating Rate Capital Ltd. and Subsidiaries of our reports dated November 30, 2017, relating to the consolidated financial statements and the effectiveness of internal control over financial reporting of PennantPark Floating Rate Capital Ltd. and Subsidiaries, appearing in the Prospectus, which is part of this Registration Statement, and of our report dated November 30, 2017, relating to the senior securities table appearing elsewhere in this Registration Statement.

We also consent to the reference to our firm under the caption “Independent Registered Public Accounting Firm” in such Prospectus.

/s/ RSM US LLP

New York, New York
December 13, 2017

Exhibit (n)(2)

Report of Independent Registered Public Accounting Firm

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

Our audit of the consolidated financial statements and internal control over financial reporting referred to in our reports dated November 30, 2017, (appearing in the accompanying registration statement on Form N-2) also included an audit of the senior securities table of PennantPark Floating Rate Capital Ltd. and Subsidiaries appearing in this Registration Statement on Form N-2. This table is the responsibility of PennantPark Floating Rate Capital Ltd. and Subsidiaries' management. Our responsibility is to express an opinion based on our audit of the consolidated financial statements.

In our opinion, the senior securities table, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/ RSM US LLP

New York, NY
November 30, 2017