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**This brochure (“Brochure”) provides information about the qualifications and business practices of PennantPark Investment Advisers, LLC. If you have any questions about the contents of this brochure, please contact us at (212) 905-1000 and/or [www.pennantpark.com](http://www.pennantpark.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (“SEC”) or by any state securities authority.**

**Additional information about PennantPark Investment Advisers, LLC also is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

## **Item 2: Material Changes**

This Item 2 summarizes only the “material changes” to our Brochure since our last annual updating amendment filed on March 29, 2023:

- We updated Item 8 to reflect annual changes to risk factors applicable to our Clients.

We can, at any time, update this Brochure and send to you an updated copy including a summary of material changes, or a summary of material changes that includes an offer to send you a copy (by electronic means (which you consent to by providing us with your email address) or in hard copy form).

If you would like another copy of this Brochure, please download it from the SEC website or contact us.

### ***Important Note about this Brochure***

This Brochure is not:

- an offer or agreement to provide advisory services to any person;
- an offer to sell interests (or a solicitation of an offer to purchase interests) in any investment vehicle; or
- a complete discussion of the features, risks or conflicts associated with any investment vehicle or advisory service.

As required by the Investment Advisers Act of 1940, as amended ("**Advisers Act**"), PennantPark Investment Advisers, LLC ("**PennantPark**", "**we**", "**our**" and "**us**") provides this Brochure to current and prospective clients and can also, in its discretion, provide this Brochure to current or prospective investors in an investment vehicle, together with other relevant documents, such as the investment vehicle's offering or private placement memorandum, registration statement, organizational documents and related transaction documents, as applicable, prior to, or in connection with, such persons' investment. Additionally, this Brochure is available through the SEC's Investment Adviser Public Disclosure website at [adviserinfo.sec.gov](http://adviserinfo.sec.gov).

Although this publicly available Brochure describes investment advisory services and products of PennantPark, persons who receive this Brochure (whether or not from us) should be aware that it is designed solely to provide information about us as necessary to respond to certain disclosure obligations under the Advisers Act. As such, the information in this Brochure could differ from information provided in relevant client governing documents. More complete information about each investment vehicle and account is included in relevant client governing documents, certain of which may be provided to current and eligible prospective investors only by PennantPark. To the extent that there is any conflict between discussions herein and similar or related discussions in any applicable client governing documents, such relevant client governing documents shall govern and control.

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#### Item 4: Advisory Business

PennantPark is organized as a Delaware limited liability company, and was formed on January 10, 2007. Our principal owner is Arthur Howard Penn. Our senior investment professionals 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.

##### Advisory Services

Our current clients consist of (i) PennantPark Investment Corporation (“**PNNT**”) and PennantPark Floating Rate Capital Ltd. (“**PFLT**”), two closed-end management investment companies that have elected to be regulated as business development companies (“**BDCs**”) under the Investment Company Act of 1940, as amended (“**1940 Act**”), and (ii) privately-offered investment vehicles (“**Funds**”), which, for purposes of this Brochure, includes fund-of-one structures, institutional separately managed accounts, and similar investment relationships. Certain Clients maintain subordinated debt and/or equity investments in collateralized loan obligation vehicles, which we manage (collectively, the “**CLOs**”) Each of the BDCs, Funds, and CLOs are referred to herein as a “**Client**” and collectively as “**Clients**.”

Funds can be established with one or more feeder funds which invest substantially all of their assets in their applicable master fund.

Client assets are managed in accordance with the particular investment objectives, strategies, restrictions and guidelines set forth in each Client’s investment advisory agreement, limited liability company agreement, limited partnership agreement, registration statements filed with the SEC and any other applicable Client governing documents (“**Governing Documents**”). We do not tailor our advisory services to the needs of individual investors in Funds, however, at the establishment of a Fund relationship, specific investment criteria, obligations, or restrictions, can be set-out for a Fund in consultation with prospective investors. Investment criteria for each Client, including investment objectives, restrictions, guidelines, and other information are set-out in the Governing Documents for each Client. Prior to investing, prospective investors should carefully review their applicable Governing Documents.

We typically advise our Clients on senior secured loans, mezzanine debt and equity investments in U.S. middle-market private companies. The companies in which we advise our Clients to invest are typically highly leveraged, often as a result of leveraged buy-outs or other recapitalization transactions. We may also provide investment advice regarding high-yield debt, stressed and distressed debt, international debt, short opportunities, long- and short-term purchases of general equity securities (including exchange listed, over-the-counter and foreign-issued securities), US government securities, warrants and options contracts on securities. Client investments may be held directly or indirectly through subsidiaries including securitization vehicles.

PennantPark or one of our affiliates serves as the general partner or managing member of the Funds (each, and as applicable, a “**General Partner**” or “**Managing Member**”); however, the investment management services are performed by us pursuant to an investment advisory agreement by and between us and the respective Client.

We do not participate in any wrap fee program.

As of December 31, 2023 our assets under management (“**AUM**”) were approximately \$3.9 billion on a discretionary basis and \$0.1 billion on a non- discretionary basis.

## Item 5: Fees and Compensation

As compensation for the services received, Clients (i) typically pay a management fee or investment advisory fee based on the assets held by such Client (“**Management Fees**”) and (ii) may pay incentive or performance-based fees (“**Incentive Fees**”). See Item 6 for more information about Incentive Fees. All Management Fees and Incentive Fees are negotiated with each Client or established in connection with the formation of the Client. We have no set fee schedules. We may waive Management Fees and/or Incentive Fees at our discretion. The exact nature, timing, and calculation of Management Fees and Incentive Fees is set-forth in applicable Governing Documents.

### Management Fees

The scope and level of Management Fees will vary across each Client and is specifically set-forth in applicable Governing Documents.

Asset-based management fees may be calculated on a gross basis, which can create conflicts of interests when we control the timing and amount of leverage, if any, used by a Client, since the use of leverage would provide additional capital to such Client enabling such Client to make additional investments and thus increase the base against which management fees are calculated. This opportunity to earn higher fees could give us an incentive to allocate investment opportunities based on a Client’s use of leverage. We seek to mitigate this conflict through our allocation policy.

### Incentive Fees

#### *Funds*

PennantPark and its affiliates, in their role as General Partners or Managing Members of Funds, are generally eligible to receive performance-based compensation, which may be in the form of an incentive allocation or carried interest (collectively, “**Carried Interest**”), with respect to the Fund’s Investment Proceeds, or such similar metric as set forth in applicable Governing Documents, which is generally determined as a percentage of profits derived from interest, principal repayment, dividends, sale, or distribution proceeds of all investments (after taking into account expenses of the Fund, including management fees, following a preferred return to investors). If the payment of Carried Interest results in a distribution in excess of the amount of Carried Interest contemplated in the Governing Documents to the applicable Fund’s General Partner or Managing Member, such General Partner or Managing Member is generally subject to a “claw back” arrangement in which instance the excess amounts are returned to the Fund.

#### *BDCs*

The Incentive Fees with respect to the BDCs have two parts: the first part is based on the BDC’s net investment income and the second part is based on a share of realized capital gains. More information on the Incentive Fees payable by the BDCs is available in the Governing Documents for the BDCs, including their publicly-available registration statements.

### Transaction Fees and Other Obligor Related Expenses

We may receive and retain compensation from related loan obligors (*i.e.*, each borrower or guarantor of a loan) or otherwise receives fees or compensation in connection with such loans. Such fees and

compensation that may be retained by us are set-forth in Client Governing Documents but generally could include, but is not limited to, commitment, origination, prepayment penalties, structuring, diligence and consulting fees or other fees received from portfolio companies in connection with such loans (**"Transaction Fees"**). In addition, loan obligors may be obligated to reimburse us and/or Clients for current expenses that are reimbursable pursuant to loan agreements with such obligors and consistent with administration agreements with applicable Clients.

Our receipt of fees for services and reimbursement of expenses with respect to loans that could be offered to or acquired by Clients represents a conflict of interest to the extent that we have an economic incentive to underwrite and originate, and recommend or cause Clients to invest in, such loans. However, Client Governing Documents may provide that our receipt of Transaction Fees will offset the Management Fees payable by such Client. We mitigate conflicts that may arise as a result of Transaction Fees through our allocation policy (as described in Item 11).

### **Client Expenses**

In addition to Management Fees, Incentive Fees, and other fees described above, Clients pay or reimburse us for certain fees and expenses. These fees and expenses vary from Client to Client and are specifically set-out in each Client's Governing Documents. Funds may be established with or without expense caps or other limitations on the bearing of expenses. Expense caps or other limitations vary from Client to Client and are specifically set-out in each Client's Governing Documents.

BDCs and Funds will typically bear organizational and offering expenses and operating expenses, which may include but are not limited to investment related expenses, travel and entertainment expenses incurred in sourcing loans from fund sponsors, transaction related expenses, professional fees, valuation fees, audit and tax preparation fees, insurance, and other similar costs and expenses.

### **Administration Fees**

Clients may enter into administration agreements with us or an affiliate for the provision of administrative services on behalf of such Clients. As compensation for administrative services, Clients may be obligated to pay their allocable portion of overhead and other expenses incurred by the administrator in performing its obligations under such administration agreement, including rent and an allocable portion of the costs of compensation and related expenses of the internal corporate counsel, chief compliance officer, chief financial officer and their respective staffs.

### **Other Fees**

Clients may be charged other fees in addition to the fees described herein (**"Other Fees"**). The scope and composition of Other Fees will vary across each Client based on terms of the Client Governing Documents thereof and will differ over time.

### **Billing Arrangements**

BNY Mellon Investment Servicing (US) Inc., a subsidiary of The Bank of New York Mellon, provides administrative and accounting services to the BDCs and Funds under administration and sub-administration and accounting services agreements.



When billing is in arrears we generally assess fees for investment management services based on the market value of each Client's account at the end of the preceding calendar quarter. If the account has been under management for less than the full quarter, the fee is prorated for the partial period. If we are unable to collect the account's final fee payment through Client's custodial service provider (e.g. Client's custodial account has been terminated), we reserve the right to bill the Client directly for the assessed amount of the final fee.

Item 12 below further describes the factors that we consider in selecting or recommending broker-dealers for Client transactions and determining the reasonableness of their compensation (e.g., commissions).

### **Allocation of Fees, Costs, and Expenses Among Multiple Clients**

We may incur, from time to time, fees, costs and expenses on behalf of one or more Clients. To the extent that such fees, costs, and expenses are incurred for the account or for the benefit of one or more Clients, such Clients will typically bear an allocable portion of any such fees, costs, and expenses (subject to the terms of the applicable Governing Documents of such Clients) or in such other manner as we consider to be fair and reasonable, and in accordance with our policies and procedures. We endeavor to allocate such fees, costs, and expenses on a fair and reasonable basis.

### **Co-Investors**

Subject to restrictions in Client Governing Documents and applicable law, we may offer to an investor in Fund or a third party the opportunity to co-invest in any transaction in which a Fund has made, or will make, an investment, ("**Co-Investors**"), subject to the provisions of the Governing Documents applicable to the Fund, the terms of any side-letter or other document, and our policies and procedures regarding co-investments. If any Co-Investors are participating in a co-investment alongside a Client (indirectly through a co-investment vehicle established by us or directly in the relevant investment), such Co-Investors will typically bear their pro rata share of fees, costs, and expenses. We may (or may not) in our discretion (i) charge Carried Interest, Management Fees, or other fees to Co-Investors and (ii) collect customary fees in connection with actual or contemplated investments that are the subject of such co-investment arrangements.

### **Item 6: Performance-Based Fees and Side-By-Side Management**

Our majority owner and Managing Member, Arthur H. Penn, is also the CEO and Chairman of the Board of the BDCs and each of the Funds. As described above, we are entitled to Incentive Fees in connection with our management of the BDCs and Funds.

Performance-based compensation arrangements can create an incentive for us to make investments on behalf of such Clients that are riskier or more speculative than would be the case in the absence of such performance based compensation. Performance-based fees are typically payable only after a certain return target has been achieved. The payment by some, but not all, Clients of Incentive Fees, or the payment of Management Fees or Incentive Fees (as applicable) at varying rates, can create an incentive for us to disproportionately allocate time, services or functions to Clients paying Incentive Fees, or Clients paying Management Fees and/or Incentive Fees at a higher rate, or allocate more favorable investment opportunities to such Clients. We seek to mitigate risks and conflicts of interest with respect to differing fee arrangements by, among other things, allocating investments among clients with similar investment programs but different fee structures in a manner consistent with our investment allocation policy ("**Allocation Policy**"). Please see Item 11 below. In addition, we seek to address this conflict by

implementing a number of controls, including between us and the Administrator and/or Sub Administrator.

## Item 7: Types of Clients

We currently provide investment advice to BDCs, Funds, and CLOs. The minimum investment amount, if any and as applicable, and other criteria for investments in Clients are set forth in the relevant Client Governing Documents.

The BDCs are publicly traded and no minimum applies. The Funds are excepted from the definition of an “investment company” and are exempt from registration under the Securities Act of 1933, as amended (the “**Securities Act**”).

We and/or the relevant General Partner or Managing Member have entered into and in the future may enter into additional separate agreements, commonly referred to as “side letters”, with certain investors in the Funds, which may have the effect of establishing preferential rights under, altering, or supplementing the terms of, the Governing Documents of the applicable Fund with respect to such investor, in a manner more favorable to such investor than those applicable to other investors in such Fund. Such rights or terms pursuant to such side letters may include, for example (and without limitation), fee arrangements or hurdle rates with respect to an investor, reporting obligations, waiver of certain confidentiality obligations, consent to certain transfers or withdrawals by an investor, or rights or terms necessary in light of particular legal, regulatory, or tax requirements or concerns of an investor. The provisions set forth in any such side letter may be available for review (but not necessarily adoption) by all of the investors in the relevant Fund that have entered into side letters.

## **Item 8: Methods of Analysis, Investment Strategies and Risk of Loss**

### **Overview of Investment Process**

Our senior investment professionals 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 have 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. We have a rigorous investment approach, which is based upon intensive financial analysis with a focus on capital preservation, diversification and active management.

We make selective investments in companies primarily backed by middle market private equity sponsors. Our capital is deployed across every segment of the capital structure, from senior secured debt, to subordinated debt, to non-controlling equity. The core tenets of our investment approach include a focus on capital preservation, identifying strong cash flows, and cultivating strong working relationships with our sponsors and portfolio companies.

We are trained to identify defensible business models, auspicious market positions, and proven management teams. To aid our search for value in the middle market, we have established lasting, productive relationships with a number of leading financial sponsors. We believe it is not sufficient for us to deploy capital on the basis of a balance sheet alone. We prefer to de-risk and deleverage our investments on the basis of a company's demonstrated ability to generate cash. Consistent with our focus on strong cash flow, we avoid businesses with heavy capital expenditure requirements. We also generally avoid industries such as fashion, retail, and restaurants. Our value-oriented approach ensures that investments have an appropriate return profile in relation to risk.

In any given deal, we expect to invest between \$10 and \$100 million across the capital structure (senior secured loans, subordinated debt, and other investments). Our capital preservation and risk calibration efforts are aided further by our robust industry diversification.

### *ESG Approach*

As of November 24, 2021, we became a signatory to the United Nations-supported Principles for Responsible Investment. As part of our credit research and analysis process, we take into account environmental, social, and governance ("ESG") factors. We believe that ESG factors can influence investment outcomes and is an important component in evaluating credit risk. Our evaluation of ESG factors includes but is not limited to:

- Evaluating the impact the company we propose to invest in has on the environment and society as a whole. We examine the specific products or services a company provides, but also their business practices and how it interacts with society as a whole.
- Analyzing ESG factors from a sector-wide perspective as well as at company level.
- Encouraging companies, when applicable, to adopt a responsible ESG approach and promote transparency.
- Ongoing diligence throughout the course of ownership.

We evaluate ESG factors on both a general and specific basis as they vary by industry and across geography. ESG factors are raised and discussed as a part of the investment evaluation and diligence process and ESG has been incorporated into our investment memos. ESG risk evaluation is a component of our investment process as non-financial issues have the potential to affect the value of our Client's portfolio investments as well as impact the underlying portfolio companies. Similar to financial risks, we evaluate ESG risks holistically and they can become the basis to eliminate an investment from consideration. Post investment, we continue to diligence holdings for risk, including ESG factors, during our holding period. In this regard, we have established an internal cross-functional ESG Committee that periodically meets to discuss potential enhancements to our ESG practices.

### **Overlapping Investment Strategies**

Our Clients have similar investment objectives and strategies. Because the principals of PennantPark are the portfolio managers of our Clients, an absolute level of independent judgment as it relates to matters affecting each Client may be absent under certain circumstances. While the Clients have similar investment strategies, the Funds employ a broader investment mandates than the BDCs and may make investments which are not consistent with the strategy of the BDCs. Other situations may occur where the Funds could be disadvantaged because of the investment activities we conduct for the BDCs or for other accounts that we may advise. We address this conflict by implementing a number of policies, procedures, and controls. Item 12 below further describes the factors we consider in trade allocation.

### **Risks**

The Governing Documents for each of our Clients may provide general descriptions of the risks associated with investments made for such Clients. Clients and investors should refer to their applicable Governing Documents for detailed discussion of investment strategies and risk factors associated with their investments in Clients. Below is a summary of the risks associated with our Clients, but these will not be a complete or detailed list of the risks involved in investing in our Clients.

***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 Clients' Client's 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. Furthermore, uncertainty between the United States and other countries with respect to trade policies, treaties and tariffs, among other factors, have caused disruptions in the global markets, including markets in which Clients participate, and these market conditions will not continue or worsen in the future. Clients 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, geopolitical crises, supply chain disruptions or other global

economic conditions could have a material adverse effect on our Clients' as well as our Client portfolio companies' business, financial condition and results of operations.

***Volatility or a prolonged disruption in the credit markets could materially damage our Clients' businesses.***

Client assets are valued in accordance with our Clients' Governing Documents and our valuation policies. Volatility in the capital markets may have a material adverse effect on valuations of our assets, even if Clients hold investments to maturity. Volatility or dislocation in the capital markets may depress the value of interests in Clients. Additionally, our Clients' ability to incur indebtedness may be limited by their Governing Documents and applicable laws and regulations. Declining portfolio values can negatively impact our Clients' ability to borrow additional funds. If the fair value of our Clients' assets declines substantially, Clients may lose their regulatory status under applicable laws or materially impair their business operations. A lengthy disruption in the credit markets could also materially decrease demand for our Clients' investments and could materially damage our Clients' 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 Clients' investments and on the potential for liquidity events involving our Clients' investments. The debt capital that may be available to Clients in the future may be at a higher cost and have less favorable terms and conditions than those currently in effect. A prolonged inability to raise capital may require Clients to reduce the volume of investments Clients originate and could have a material adverse impact on our Clients' business, financial condition and results of operations. This may also increase the probability that other structural risks negatively impact Clients. These situations may arise due to circumstances that Clients 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 Clients' business, financial condition and results of operations.

***Risks Related to Non-U.S. Investments.***

Clients may invest in portfolio companies and other investments domiciled or located outside of the United States. Non-U.S. investments typically involve risks not associated with investments in U.S. companies and securities. These risks include changes in exchange control regulations, political and social instability, expropriation, imposition of foreign taxes, less liquid markets, higher transaction costs, less government supervision of exchanges, brokers and issuers and greater price volatility.

Although Client investments are expected to 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 short-term interest rates, differences in relative values of similar assets in different currencies, long-term opportunities for investment and capital appreciation, and political developments.

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

Economic sanction laws in the United States and other jurisdictions may prohibit Clients or our Clients' affiliates from transacting with certain countries, individuals and companies. In the United States, the U.S. Department of the Treasury's Office of Foreign Assets Control administers and enforces laws, executive

orders and regulations establishing U.S. economic and trade sanctions, which prohibit, among other things, transactions with, and the provision of services to, certain non-U.S. countries, territories, entities and individuals. These types of sanctions may significantly restrict or completely prohibit investment activities in certain jurisdictions, and if Clients, our Clients' portfolio companies or other issuers in which Clients invest were to violate any such laws or regulations, Clients may face significant legal and monetary penalties.

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

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

A number of entities compete with Clients to make the types of investments that Clients make in middle-market companies. Clients 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 Clients' potential competitors are substantially larger and have considerably greater financial, technical and marketing resources than Clients do. Some competitors may have a lower cost of funds and access to funding sources that are not available to Clients. In addition, some of our Clients' competitors have higher risk tolerances or different risk assessments, which could allow them to consider a wider variety of investments and establish more relationships. Competitive pressures faced by Clients could have a material adverse effect on Clients.

Participants in middle market lending compete on several factors, including price, flexibility in transaction structuring, customer service, reputation, market knowledge and speed in decision-making. Competitors may make loans with interest rates that are lower than the rates Clients offer. Clients may lose investment opportunities if Clients do not match competitors' pricing, terms and structure. However, if Clients match the pricing, terms and structures offered by competitors, Clients may experience decreased net interest income and increased risk of credit loss.

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

Our Clients' portfolios are exposed to credit risk, and the quality of our Clients' portfolios has a significant impact on our Clients' earnings. Credit risk is a component of our Clients' fair valuation of our Clients' portfolio companies. Negative credit events will lead to a decrease in the value of our Clients' portfolio companies.

In addition, market conditions have affected consumer confidence levels, which may harm the business of our Clients' portfolio companies and result in adverse changes in payment patterns. Increased

delinquencies and default rates would negatively impact our Clients' results of operations. Deterioration in the credit quality of our Clients' portfolio could have a material adverse effect on our Clients' business, financial condition and results of operations. When interest rates rise, some of our Clients' portfolio companies may not be able to pay the escalating interest on our Clients' loans and may default.

Clients may make long-term loans and debt investments, which may involve a high degree of repayment risk. Our Clients' investments with a deferred interest feature, such as OID income and PIK interest, could represent a higher credit risk than investments that must pay interest in full in cash on a regular basis. Clients 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 Clients' borrowers to repay their loans, which could significantly damage our Clients' businesses. 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 Clients 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 Clients' portfolio company's ability to meet its obligations under the loans or debt securities that Clients hold. In addition, our Clients' portfolio companies may have, or may be permitted to incur, other debt that ranks senior to or equally with our Clients' securities. This means that payments on such senior-ranking securities may have to be made before Clients receive any payments on their 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 Clients' financial condition and results of operations.

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

Decreases in the market values or fair values of our Clients' investments may be 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 Clients. If the value of our Clients' portfolio companies reflects unrealized losses that are subsequently realized, Clients could experience reductions of their income available for distribution in future periods that could materially harm our Clients' results of operations.

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

Clients could generally be subject to litigation. Any litigation could result in substantial costs and divert management's attention and resources from our Clients' business and cause a material adverse effect on our Clients' business, financial condition and results of operations.

***Clients are dependent upon our key personnel for their future success, and if we are unable to hire and retain qualified personnel or if we lose any member of our management team, our Clients' ability to achieve their investment objectives could be significantly harmed.***

Clients depend on the diligence, skill and network of business contacts of our senior investment professionals for their future success. Clients also depend, to a significant extent, on our access to the investment information and deal flow generated by these senior investment professionals and any others that we may hire. We evaluate, negotiate, structure, close and monitor our Clients' investments. Our Clients' future success depends on the continued service of management personnel. The departure of our



managers could have a material adverse effect on our Clients' ability to achieve their investment objectives. We may have the right, under applicable Governing Documents, to resign from our investment management responsibilities, whether Clients have found a replacement or not.

If our investment management relationship is terminated, our Clients' costs under new agreements that Clients enter into may increase. In addition, Clients will likely incur significant time and expense in locating alternative parties to provide investment management services.

***Clients are exposed to risks associated with changes in interest rates that may affect our Clients' cost of capital and performance.***

Since Clients borrow money to make investments, our Clients' performance depends, in part, upon the difference between the rate at which Clients borrow funds and the rate at which Clients invest those funds. As a result, a significant change in market interest rates could have a material adverse effect on our Clients' performance. In periods of rising interest rates, our Clients' 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 Clients' performance. Clients may use interest rate risk management techniques, such as total return swaps and interest rate swaps, in an effort to limit exposure to interest rate fluctuations. These activities may limit our Clients' 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 Clients' business, financial condition and results of operations. Also, we have limited experience in entering into hedging transactions and Clients could initially have to purchase or develop such expertise, which may diminish the actual benefits of any hedging strategy Clients employ.

An increase in interest rates could make it easier for Clients to meet or exceed the incentive fee hurdle applicable to them and may result in a substantial increase of the amount of incentive fees payable to us.

General interest rate fluctuations may have a substantial negative impact on our Clients' investments, the value of Fund interests or BDC shares and our Clients' 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 Clients' performance. An increase in interest rates could decrease the value of any investments Clients hold which earn fixed interest rates or are subject to interest rate floors and also could increase our Clients' interest expense on borrowing facilities, thereby decreasing our Clients' performance. Also, an increase in interest rates available to investors could make an investment in our Clients less attractive if Clients are not able to increase their distributions.

When general interest rates rise, there is a risk that the portfolio companies in which Clients 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 Clients to provide fixed rate loans to our Clients' portfolio companies, which could adversely affect our Clients' performance, as increases in our Clients' cost of borrowed funds would not be accompanied by increased interest income from such fixed-rate investments.

As of June 30, 2023, no settings of the London Inter Bank Offered Rate ("**LIBOR**") continue to be published on a representative basis and publication of many non-U.S. dollar LIBOR settings have been entirely

discontinued. On July 29, 2021, the U.S. Federal Reserve, in conjunction with the Alternative Reference Rates Committee, a steering committee comprised of large U.S. financial institutions, recommended replacing U.S. dollar LIBOR with alternative reference rates based on the Secured Overnight Financing Rate (“SOFR”). SOFR significantly differs from LIBOR, both in the actual rate and how it is calculated. Further, on March 15, 2022, the Consolidation Appropriations Act of 2022, which includes the Adjustable Interest Rate (LIBOR) Act (“LIBOR Act”), was signed into law in the United States. This legislation established a uniform benchmark replacement process for certain financial contracts that mature after June 30, 2023 that do not contain clearly defined or practicable LIBOR fallback provisions. The legislation also created a safe harbor that shields lenders from litigation if they choose to utilize a replacement rate recommended by the Board of Governors of the U.S. Federal Reserve. In addition, the U.K. Financial Conduct Authority, which regulates the publisher of LIBOR (ICR Benchmark Administration) has announced that it will require the continued publication of one, three and six month tenors of U.S. dollar LIBOR on a non-representative synthetic basis until the end of September 2024, which may result in certain non-U.S. law-governed contracts and U.S. law-governed contracts not being covered by the federal legislation remaining on synthetic U.S. dollar LIBOR until the end of this period. The transition from LIBOR as a result of certain statutory regimes (e.g., Section 18-401 of the New York State General Obligations Law or the LIBOR Act) or the use of synthetic LIBOR in floating-rate debt securities in our portfolio or issued by us and could have a material and adverse impact on the value or liquidity of those instruments.

Given the inherent differences between LIBOR and SOFR, or any other alternative benchmark rate established, there are many uncertainties regarding a transition from LIBOR, including, but not limited to, the need to amend contracts which continue to reference LIBOR and how the transition from LIBOR will impact the cost of variable rate debt and certain derivative financial instruments. In addition, SOFR or other replacement rates may fail to gain market acceptance. Any failure of SOFR or alternative reference rates to gain market acceptance could adversely affect the return on, value of and market for securities linked to such rates. The elimination of LIBOR, the replacement of LIBOR with any alternative reference rate, such as SOFR (or an alternative reference rate based on SOFR) or any other changes or reforms to floating rate benchmarks could have an adverse impact on the market value of and/or transferability of any floating-rate debt securities in our Client’s portfolios or issued by Clients.

The Internal Revenue Service has issued regulations regarding the tax consequences of the transition from LIBOR or another interbank offered rate (“IBOR”) to a new reference rate in debt instruments and non-debt contracts. Under the regulations, alteration or modification of the terms of a debt instrument to replace an operative rate that uses a discontinued IBOR with a qualified rate (as defined in the regulations) including true up payments equalizing the fair market value of contracts before and after such IBOR transition, to add a qualified rate as a fallback rate to a contract whose operative rate uses a discontinued IBOR or to replace a fallback rate that uses a discontinued IBOR with a qualified rate would not be taxable. The IRS may provide additional guidance, with potential retroactive effect.

***Clients are exposed to risks associated with inflation and deflation which may affect the value of Client assets.***

Clients and their investments are subject to inflation risk, which is the risk that the intrinsic value (i.e., nominal price of the asset adjusted for inflation) of assets or income from investments will be less in the future as inflation decreases the purchasing power and value of money (i.e., as inflation increases, the intrinsic value of assets can decline). Inflation rates may change frequently and significantly as a result of various factors, including unexpected shifts in the domestic or global economy and changes in monetary or economic policies (or expectations that these policies may change). The market price of debt securities

generally falls as inflation increases because the purchasing power of the future income and repaid principal is expected to be worth less. The risk of inflation is greater for debt instruments with longer maturities and especially those that pay a fixed rather than variable interest rate. The investments of the BDCs and Funds may not keep pace with inflation, which would adversely affect the real value of Clients' investments. In times of inflation, certain portfolio companies may have less ability to push through price increases and may see margins and ability to service debt suffer as a result.

Deflation risk is the risk that prices throughout the economy decline over time. Deflation may have an adverse effect on the creditworthiness of issuers and may make issuer default more likely, which may result in a decline in the value of assets held by Clients.

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

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

***Clients may be exposed to securitization risks.***

Clients may wholly own all of the equity of one or more securitization vehicles and be exposed to risks associated with the securitization of the underlying loans. Under applicable accounting pronouncements and SEC staff guidance, Clients may be required to consolidate a securitization issuers' financial statements with our Clients' financial statements, any debt issued by the securitization issuers would be generally treated as if it were issued by the Client. Retained equity of securitization issuers 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, Clients would earn an incremental amount of income on our Clients' retained equity but Clients would be exposed, up to the amount of equity Clients retained, to that proportion of any losses Clients would have experienced if Clients had continued to hold the loans in their portfolio.

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

Because Clients borrow funds to make investments, Clients are exposed to increased risk of loss due to our Clients' use of debt to make investments. A decrease in the value of our Clients' investments will have a greater negative impact on performance than it would if Clients did not use debt. Our Clients' ability to pay distributions may be restricted when our Clients' leverage limitations are not met and any cash that Clients use to service our Clients' indebtedness is not available for distribution.

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

The professionals of the PennantPark and its affiliates may serve as officers, directors or principals of entities that operate in the same or a related line of business as Clients do or of investment funds managed by affiliates of Clients that currently exist or may be formed in the future. We and our affiliates may be engaged by such funds at any time and without the prior approval of our Clients. Our investment professionals may have obligations to investors in those entities, the fulfillment of which might not be in

the best interests of Clients or their investors. Our senior investment professionals may serve as officers and directors of affiliated funds. Affiliated investment vehicles currently formed or formed in the future and managed by us or our affiliates may have overlapping investment objectives with our Clients' own and, accordingly, may invest in asset classes similar to those targeted by us. As a result, we may face conflicts in allocating investment opportunities between Clients and such other entities. Although we will endeavor to allocate investment opportunities in a fair and equitable manner, it is possible that, in the future, Clients may not be given the opportunity to participate in investments made by investment funds managed by us or an affiliate. In any such case, when we identify an investment, we must choose which investment fund(s) should make the investment. Clients may co-invest on a concurrent basis with any other affiliates or Clients that we currently have or form in the future, subject to compliance with applicable regulations and regulatory guidance, our Clients' allocation procedures, and our Clients' Governing Documents.

In the ordinary course of our Clients' investing activities, Clients pay investment advisory and incentive fees to us, and reimburse us for certain expenses. As a result, investors in our Clients may 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 our management team has interests that differ from those of our Clients' investors, giving rise to a conflict. For example, we could seek to invest in more speculative investments in order to increase our Incentive Fees, which practice could result in higher investment losses, particularly during economic downturns.

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

Our Clients' 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 Clients' information resources (*i.e.*, cyber incidents). These attacks could involve gaining unauthorized access to our or our Clients' 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 or our Clients' business relationships, any of which could have a material adverse effect on us or our Clients' business, financial condition and results of operations. As our and our Clients' reliance on technology has increased, so have the risks posed to our and our Clients' information systems, both internal and those provided by us and third-party service providers. We and our Clients have implemented processes, procedures and internal controls to help mitigate cybersecurity risks and cyber intrusions, but these measures, as well as our Clients' 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 Clients' financial results, operations or confidential information will not be negatively impacted by such an incident. In addition, the costs related to cyber or other security threats or disruptions may not be fully insured or indemnified by other means. Furthermore, cybersecurity has become a top priority for regulators around the world, and some jurisdictions have enacted laws requiring companies to notify individuals of data security breaches involving certain types of personal data. If Clients fail to comply with the relevant laws and regulations, Clients could suffer financial losses, a disruption of our Clients' businesses, liability to investors, regulatory intervention or reputational damage.

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

Clients and our Clients' 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 Clients' operations or those of our Clients' portfolio companies could have a material adverse effect on our Clients' business, financial condition and results of operations. In particular, on December 22, 2017, the Tax Cuts and Jobs Act was signed into law. This tax legislation lowered the general corporate income tax rate from 35 percent to 21 percent, makes changes regarding the use of net operating losses, repealed the corporate alternative minimum tax and made significant changes with respect to the U.S. international tax rules. In addition, the legislation generally requires a holder that uses the accrual method of accounting for U.S. tax purposes to include certain amounts in income no later than the time such amounts are reflected on certain financial statements, which therefore if applicable would require Clients to accrue income earlier than under prior law, although the precise application of this rule is unclear at this time. The legislation also limits the amount or value of interest deductions of certain borrowers and in that way may potentially affect the loan market and our Clients' and our Clients' portfolio companies' use of leverage.

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

Clients may acquire 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. Clients typically exit their investments when the portfolio company has a liquidity event such as a sale, refinancing, or initial public offering of the company, but Clients are generally not required to do so.

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

Investments purchased by Clients 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 Clients' businesses.

***A general disruption in the credit markets could materially damage our Clients' businesses.***

Clients are susceptible to the risk of significant loss if Clients are forced to discount the value of their investments in order to provide liquidity to meet their obligations under leverage facilities. Our Clients' borrowings may be collateralized by the assets in our Clients' investment portfolio. If the fair value of our Clients' assets declines substantially, Clients may fail to meet their leverage restrictions. These situations may arise due to circumstances that Clients 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 Clients' counterparties or us, and could materially damage our Clients' business.

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

The market for over-the-counter traded securities has and may continue to experience limited liquidity and 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.

***Client investments in prospective portfolio companies may be risky, and the Clients could lose all or part of their investment.***

Clients may invest in first lien secured debt, second lien secured debt, subordinated debt and selected equity investments issued by U.S. and foreign middle-market companies.

- ***Floating Rate Loans:*** The floating rate loans Clients 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 Clients 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, Clients 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 action could materially negatively affect our performance.

Clients 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 Clients 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, Clients generally will have no right to enforce compliance by the borrower with the terms of the loan agreement against the borrower, and Clients may not directly benefit from the collateral supporting the debt obligation in which Clients have purchased the participation. As a result, Clients will be exposed to the credit risk of both the borrower and the institution selling the participation. Further, in purchasing participations in lending syndicates, Clients 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 Clients are buying a participation as Clients would conduct if Clients were investing directly in the floating rate loan. This difference may result in Clients being exposed to greater credit or fraud risk with respect to such floating rate loans than Clients expected when initially purchasing the participation. Floating rate loans can be first lien secured debt, second lien secured debt or subordinated debt.

- *First Lien Secured Debt:* When Clients invest in first lien secured debt, they 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. Clients expect this security interest, if any, to help mitigate the risk that Clients will not be repaid. However, there is a risk that the collateral securing a Client's 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, a Client's 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 Clients will receive principal and interest payments according to the loan's terms, or at all, or that Clients will be able to collect on the loan should Clients be forced to enforce our Clients' remedies.
- *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 borrower's 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 Clients' 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 Clients and investors to non-cash income. Since Clients may not receive cash interest or principal prior to the maturity of some of our Clients' second lien secured debt investments, such investments may be of greater risk than cash paying loans.
- *Subordinated Debt:* 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 Clients 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 Clients' 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 Clients and their investors to non-cash income. Since Clients may not receive cash interest or principal prior to the maturity of some of their subordinated debt investments, such investments may be of greater risk than cash paying loans.

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

***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 our Clients' Clients hold, which may be accompanied by a deterioration in the value of any collateral and a reduction in the likelihood of our Clients' Clients realizing any guarantees Clients may have obtained on their behalf in connection with their 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 Clients' Clients;
- 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, Clients and our Clients' BDC Clients' executive officers or directors may, in the ordinary course of business, be named as defendants in litigation arising from our Clients' 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 repay their outstanding indebtedness upon maturity.



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

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

A portfolio company's failure to satisfy financial or operating covenants imposed by Clients 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 Clients' portfolio company's ability to meet its obligations under the debt securities that Clients hold. Clients 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 Clients' business. Depending on the facts and circumstances of our Clients' investments and the extent of our Clients' involvement in the management of a portfolio company, upon the bankruptcy of a portfolio company, a bankruptcy courts may re-characterize our Clients' debt investments as equity investments and subordinate all or a portion of our Clients' claim to that of other creditors. This could occur regardless of how Clients may have structured our Clients' investment. In addition, Clients cannot assure you that a bankruptcy court would not take actions contrary to our Clients' interests.

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

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

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

Clients have the discretion to make any follow-on investments, subject to the availability of capital resources and regulatory considerations. Clients 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 Clients' initial investment, or may result in a missed opportunity for Clients to increase our Clients' participation in a successful transaction or business. Even if Clients have sufficient capital to make a desired follow-on investment, Clients may elect not to make a follow-on investment because Clients may not want to increase our Clients' concentration of risk, because Clients prefer other opportunities, or because Clients are inhibited by compliance with regulatory requirements or a desire to maintain their tax status.

***Because Clients may not hold controlling equity interests in portfolio companies, Clients may not be in a position to exercise control over portfolio companies or to prevent decisions by management of portfolio companies that could decrease the value of our Clients' investments.***

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

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

Distressed debt investments may not produce income and may require Clients to bear certain additional expenses in order to protect and recover their investment. Therefore, to the extent Clients invest in distressed debt, our Clients' ability to perform for investors may be diminished. Clients also will be subject to significant uncertainty as to when and in what manner and for what value the distressed debt in which Clients 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 Clients hold, there can be no assurance that the securities or other assets received by Clients 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 Clients upon completion of an exchange offer or plan of reorganization may be restricted as to resale. If Clients participate in negotiations with respect to any exchange offer or plan of reorganization with respect to an issuer of distressed debt, Clients may be restricted from disposing of such securities.

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

Our Clients' may invest in securities of companies located outside of the United States. Investing in companies located outside of the United States may expose Clients 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 we expect Client 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. Clients may

employ hedging techniques to minimize these risks, but there is no assurance that Clients will, in fact, hedge currency risk or, that if Clients do, such strategies will be effective.

***The COVID-19 pandemic resulted in a period of capital markets disruption and economic uncertainty.***

The U.S. capital markets experienced extreme volatility and disruption following the global outbreak of COVID-19. Disruptions in the capital markets have in the past increased the spread between the yields realized on risk-free and higher risk securities, resulting in illiquidity in parts of the capital markets. Such disruptions adversely affected the business, financial condition, results of operations and cash flows of our Clients, and future market disruptions and/or illiquidity may again negatively impact our Clients. Such unfavorable economic conditions could also increase our funding costs and limit our Clients' access to the capital markets, and may result in a decision by lenders not to extend credit to our Clients in the future. These events could limit our Clients' investment originations, limit their ability to grow and negatively impact their operating results and the fair values of their debt and equity investments. As such, our Clients could also face an increased risk of investor, creditor or portfolio company disputes, litigation and governmental and regulatory scrutiny as a result of the effects of COVID-19 on economic and market conditions.

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

There may be evidence of global climate change. Climate change creates physical and financial risk and some of our Clients' 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 Clients' 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 Clients' portfolio companies' financial condition, through, for example, 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 securitization vehicles.***

Clients can also invest in leveraged subsidiaries that are bankruptcy-remote vehicles that hold pools of loans. Clients may invest in the subordinated notes, preferred equity or the equivalent tranche of such securitization vehicle that owns middle market or other loans. Clients invested in securitization vehicles rely on payments made from the underlying asset pools of the vehicles and clients invested in such vehicles do not have a direct claim on the underlying assets. If proceeds of the underlying asset pools are not large enough to provide payments on the securities in which our clients invest, our clients could lose money. In an event of default, the trustee could liquidate the vehicle but if the trustee does not, payment on securitization vehicles other than the most senior securities is likely to be deferred and the vehicle likely will be unable to exercise additional remedies under the vehicles documentation without the direction or consent of the most senior class of securities. The value of the underlying collateral in the asset pools could decrease in value. Securitization equity or subordinated notes could have a limited market or no market, and we could be unable to sell such securities or be unable to do so at favorable prices.

Securitization vehicles may have leverage embedded in their structures, which can affect the risk and return profile of various tranches of these structures. While leverage presents opportunities for increasing

total return, it has the effect of potentially increasing losses as well. Clients could have concentrated exposure to a small number of financing providers, such as securitization market investors and commercial lenders, which could result in such Clients being dependent on the continued availability of financing from a concentrated number of providers, possibly resulting in more expensive financing or on terms that are less desirable.

**Item 9: Disciplinary Information**

There have been no material legal or disciplinary events.

#### **Item 10: Other Financial Industry Activities and Affiliations**

Our majority owner is Arthur H. Penn. Mr. Penn is the CEO and Chairman of the boards of directors of our BDC Clients, and the Managing Member of the General Partner and Managing Member, as appropriate, of the Funds.

Our affiliate, PennantPark Investment Administration, LLC (“**PennantPark Administration**”) performs (or oversees, or arranges for, the performance of) administrative services for certain Clients, including office facilities, equipment, clerical, bookkeeping and record keeping services.

Our business relationships that are material to our advisory business or to our clients could cause our interests to diverge from the best interests of a client. For information on how we address conflicts of interests, please see Item 11, below.

## **Item 11: Code of Ethics, Participation or Interest in Client Transactions and Personal Trading**

### **Code of Ethics and Personal Trading**

We have adopted a joint Code of Ethics (the “**Code**”) that governs all our “**Access Persons**”, as the term is defined below. The purpose of the Code is to establish standards and procedures for the detection and prevention of activities by which persons having knowledge of the investments and investment intentions of the Client may not abuse their fiduciary duty to our Clients, and otherwise to deal with the types of conflict of interests addressed by Rule 17j-1 under the 1940 Act and Rule 204(a)-1 under the Advisers Act.

The Code is based on the principle that our managers, officers and employees who provide services to a Client owe a fiduciary duty to the Client to conduct their personal securities transactions in a manner that does not interfere with the Client’s transactions or otherwise take unfair advantage of their relationship with the Client. All directors, managers, partners, officers, and employees of PennantPark and PennantPark Administration (collectively, “**Covered Personnel**” or “**Access Persons**”) are expected to adhere to this general principle and to comply with all of the specific provisions of the Code that are applicable to them.

Covered Personnel may not engage in any investment transaction which will interfere with the purchase or sale of investments by the Client or benefit the Covered Personnel. Furthermore, Covered Personnel may not use information concerning the investments or investment intentions of the Client, or their ability to influence such investment intentions, for personal gain or in a manner detrimental to the interests of the Client. Covered Personnel may not engage in conduct that is deceitful, fraudulent or manipulative, or that involves false or misleading statements, in connection with the purchase or sale of investments by the Client.

**Prohibited Transactions:** An Access Person may not purchase or otherwise acquire direct or indirect beneficial ownership of any covered security as defined in the Code (“**Covered Security**”) that is on the restricted list as defined in Code (“**Restricted List**”), and may not sell or otherwise dispose of any Covered Security that is on the Restricted List. The Restricted List is updated and provided to all Access Persons weekly, and quarterly trading activity is provided by Access Persons and checked by the Chief Compliance Officer.

Personnel of PennantPark and or PennantPark Administration must obtain approval from our Chief Executive Officer or other designated personnel before trading any securities, including directly or indirectly acquiring beneficial ownership in any securities in an initial public offering (or other type of offering).

No Access Person shall recommend any transaction in any Covered Securities by the Client without having disclosed to the Chief Compliance Officer his or her interest, if any, in such Covered Securities or the issuer thereof, including: the Access Person’s beneficial ownership of any Covered Securities of such issuer; any contemplated transaction by the Access Person in such Covered Securities; any position the Access Person has with such issuer; and any present or proposed business relationship between such issuer and the Access Person (or a party in which the Access Person has a significant interest).

**Reports by Access Persons:** All Access Persons are required to file quarterly and annual securities holding reports with the Chief Compliance Officer detailing the amount of all Covered Securities in which they have a beneficial ownership.

**Additional Prohibitions:** All information concerning the securities being considered for purchase or sale by the Client shall be kept confidential by all Covered Personnel and disclosed by them only on a “need to know” basis. It is the responsibility of the Chief Compliance Officer to report any inadequacy found in this regard to the directors of the Client.

**Annual Certification:** Access Persons who are directors, managers, officers or employees of PennantPark and PennantPark Administration must certify annually that they have read the Code of Ethics, that they understand it, and that they recognize that they are subject to it, and that they have complied with its requirements.

At least annually, we must furnish our Clients’ board of directors or general partner a written report that: (A) describes any issues arising under the Code of Ethics or procedures since the last report to the board, including, but not limited to, information about material violations of the Code or procedures and sanctions imposed in response to such violations; and (B) certifies that we have adopted procedures reasonably necessary to prevent Access Persons from violating the Code.

A copy of our Code of Ethics will be provided upon request to any Client, prospective client, investor or prospective investor in any fund that we manage or advise.

### **Shared Services Expense**

In the operation of our business and the management of Clients, an inherent conflict might arise in connection with shared service expenses. Pursuant to Client Governing Documents, certain shared services expenses could be allocated to Clients. Subject to Client Governing Documents, the allocation of expenses will require judgment to determine whether the expense is to be allocated to us, to Clients or split ratably between us and one or more Clients. Additionally, we will bear the portion of any shared service expense attributable to a Client whose Client Governing Documents prohibit the Client from bearing such expense. Where we must allocate a shared service expense with respect to an item that is attributable to us and Clients or to multiple Clients, then we would have an incentive to allocate relatively more of an expense to Clients who can bear such expenses under their Client Governing Documents and relatively less of an expense to us or to Clients whose Client Governing Documents prohibit bearing such expense. Accordingly, our exercise of judgment in allocating shared service expenses would create a conflict of interest since it would be both in our best interest and in the Client’s best interest to pay less service expenses.

### **Duty to Multiple Holders of Loans**

We could have fiduciary duties to multiple holders of loans, and it is not always the case that each such holder’s interest is aligned with the interests of other holders’ with respect to waivers of prepayment or call protections. Those who participate in a refinancing of a loan could benefit from a waiver, while those that do not participate could prefer to receive the benefit of any prepayment premiums that would otherwise be due and other prepayment protections. Whether or not a Client would be able to participate in a refinancing depends on a variety of factors that would vary based on each Client. Where one or more Clients do not participate in a refinancing, we would face a conflict of interest between our duty to such Clients and the interests of those Clients, if any, that do participate in the refinancing. We could take actions that could be adverse to certain Clients.

Except as might be required by applicable law, we do not have any duty, in making or maintaining such investments or roles, to act in a way that would be favorable to a Client. In such instances we could take



action with respect to its investments which could differ from the timing or nature of any action taken with respect to the investments of a Client. Such actions could be adverse to Clients. As a result of such actions, the prices and availability of assets in which a Client could invest or might seek to invest, and the performance of the assets expected to be owned by a Client, could be materially adversely affected.

### **Principal and Cross Transactions**

We could effect principal transactions where a Client acquires an asset from or sells an asset to us or our affiliates. Before completion of a principal transaction, we will provide disclosures to and obtain the consent of the Client in accordance with Section 206(3) of the Advisers Act and any applicable Client Governing Document. We could also cause Clients to enter into cross-transactions whereby one Client sells assets to another Client. Any investment we make on behalf of our Clients or any related disposition will be consistent with applicable law, our fiduciary obligations to act in the best interests of our Clients and such Clients' investment objectives. Whenever we intend to have two Clients enter into cross trades with each other, we first make a determination that the cross trade is fair and equitable to each Client. Cross trades involving loans are executed at prices as determined in accordance with Client Governing Documents and our Valuation Procedures. Because most of the assets in which Clients are expected to invest are not publicly traded, the value of such assets can be difficult to determine. We will seek to value such assets in good faith. Such good faith valuations require the application of a significant amount of judgment, are inherently uncertain, will fluctuate and will often be based on estimates and assumptions. For BDCs, participation in a principal or cross transaction would generally be prohibited under the 1940 Act, unless an exception or exemption applies. BDCs are subject to additional restrictions with respect to, among other things, portfolio management, the use of leverage, and conflicts of interest. Additional information about restrictions applicable to any Clients that are BDCs will be disclosed to BDCs and their investors in Client Governing Documents.

### **Differing Investments in the Capital Structure of Portfolio Companies**

Our Clients could invest in a range of asset classes throughout the corporate capital structure of portfolio companies (which could include investments in loans and debt securities, equity securities, and warrants) of issuers in which Clients invest. Accordingly, Clients could invest in issuers in which one or more other Clients are also investors, which could hold interests that are of a different class or type than the class or type of interest held by such Client and which could be senior, *pari passu* or junior to the other Client's investment. Investments by one Client in the same class and type as another Client could create conflicts of interests, including conflicts of interests when such portfolio companies are in stressed or distressed situations or in connection with restructurings, reorganizations, or bankruptcies of such portfolio companies.

### **Investments in Clients**

From time to time, us or our employees could invest or otherwise have an interest, directly or indirectly, in the Funds we manage. These investments may present conflicts of interest, and we have implemented policies and procedures relating to personal securities transactions, insider trading and side-by-side management, including the Code of Ethics, which are designed to identify actual and potential conflicts of interest, to prevent or mitigate actual conflicts of interest and to resolve such conflicts appropriately as they arise.

## **Item 12: Brokerage and Allocation 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. We are primarily responsible for the execution of the publicly traded securities portion of our portfolio transactions and the allocation of brokerage commissions. We do not expect to execute transactions through any particular broker or dealer, but we seek to obtain the best net results for our Clients, 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 we generally seek reasonably competitive trade execution costs, we will not necessarily pay the lowest spread or commission available. Subject to applicable legal requirements, we may select a broker based partly upon brokerage or research services provided to our Client and us. In return for such services, we may pay a higher commission than other brokers would charge if we determine in good faith that such commission is reasonable in relation to the services provided.

The practice by which firms direct brokerage transactions for Client accounts to broker-dealers who provide them with research and brokerage products and services is known as “**soft dollar**” arrangements. We do not engage in soft dollar arrangements nor do we receive any soft dollar benefits. However, we do obtain research including advice, analysis and reports from broker dealers from time to time.

Our current agreements with broker-dealers or third parties are placement agreements for our current or proposed funds. If an investor requests a unique portfolio we may create an SMA or similar account and compensate the third party for the referral.

We do not recommend, request or require Client direction regarding broker-dealers.

### **Allocation Policy**

We and our principals and affiliates now and may in the future act in a variety of discretionary capacities, including investment adviser, general partner, or investment manager, for other Clients. PennantPark is a fiduciary to each Client, owes a duty of loyalty to each Client and must treat each Client fairly and equitably over time. The following are the core principles governing our trading activities and the allocation of potential investment opportunities to Clients.

As a general matter, we provide individual advice and treatment to each Client based on the Client's investment objectives, restrictions, risk profile and other relevant characteristics as set forth in applicable Governing Documents for such Client. We may from time to time become aware of investment opportunities which could be appropriate for multiple Clients or groups of Clients. Moreover, because our Clients may have similar or overlapping investment objectives, restrictions, risk profiles and other characteristics, an investment may be held in or considered for multiple Clients contemporaneously. For this reason, we will frequently be in the position of seeking to acquire or sell the same securities for more than one Client (or group of Clients) at the same time while, at other times, we may determine that a particular opportunity is appropriate for only a sub-set of the Clients initially considered (or that the opportunity is more appropriate for such Clients than others) based on the factors described below.

The purpose of our Allocation Policy is to ensure that investment opportunities are allocated fairly and equitably among our Clients over time. The Allocation Policy also seeks to achieve reasonable efficiency and provides the flexibility to allocate investments among Clients in a manner that is consistent with the particular investment strategy and Client base. PennantPark's employees who are responsible for

allocating investment opportunities among Client accounts must ensure that allocations comply with the requirements of this Allocation Policy, applicable law, regulations and any exemptive relief, and the terms of each relevant Client agreement.

The following have been compiled to ensure that each Client is, at all times, treated fairly in respect of the allocation of investment opportunities.

#### **A. General Principles**

Pennant Park seeks to allocate investment opportunities among Clients fairly and equitably over time. When making investment allocation decisions, we may consider a variety of factors, among others, on a relative, or absolute basis and may, as discussed below, establish ratios, formulas or similar metrics to assist in making allocation decisions when the opportunity being considered may be appropriate for two or more Clients utilizing a similar investment strategy. The factors we consider when determining investment allocations include, but are not limited to:

- (1) investment objectives or strategies for particular accounts;
- (2) tax considerations of an account;
- (3) risk, diversification or investment concentration parameters for a Client (including fixed or floating rate requirements, industry categories and credit rating requirements);
- (4) supply or demand for a security at a given price level;
- (5) size of available investment;
- (6) available liquidity (including through borrowings or sales of liquid assets) and liquidity requirements for accounts;
- (7) regulatory or Client-imposed restrictions;
- (8) minimum investment size for a Client;
- (9) relative total assets; and
- (10) such other factors as may be relevant to a particular transaction.

However, we will not make investment allocation decisions based on any of the following considerations:

- (1) to unduly favor one Client at the expense of another, including any proprietary or personal accounts of PennantPark or its employees, over time;
- (2) to generate higher fees paid by one Client over another or to produce greater performance compensation to PennantPark;
- (3) to develop or enhance a relationship with a Client or prospective Client;
- (4) to compensate a Client for past services or benefits rendered to us or to induce future services or benefits to be rendered to us; and

(5) to manage or equalize investment performance among different Clients.

#### ***B. Allocation Procedures***

All allocations will be subject, where relevant, to compliance constraints or other factors identified under “Section A. General Principles” above and “Section D. Compliance with Exemptive Relief” below. If the aggregate amount of securities available in an investment opportunity is less than the amount proposed to be invested by all of our discretionary Clients, each Client will be allocated a pro rata share of the investment opportunity based on the amount of each Client’s total assets. All Clients participating in the same investment opportunity will participate on the same terms, conditions, price, class of securities to be purchased, settlement date and registration rights, unless otherwise directed by the Client and permitted by applicable law.

If we, on behalf of a Client, desire to make a “follow-on investment” (*i.e.*, an additional investment in an issuer) in the securities, or to exercise warrants or other rights, of an issuer whose securities were previously acquired and allocated in accordance with this Allocation Policy, we will allocate all follow-on investments in the same manner as it would allocate a new investment opportunity, except as otherwise instructed by the Client or required by “Section D. Compliance with Exemptive Relief” below.

If we, on behalf of a Client, desire to sell, exchange, or otherwise dispose of an interest in a security of an issuer that was previously acquired and allocated in accordance with this Allocation Policy, we will determine whether the interest in the security should be disposed of by all Clients that hold such interest. If we determines that more than one Client should dispose of the interest, each Client will participate in the disposition on a proportionate basis, based on the amount of the interest available for sale by each Client and the total amount to be sold by all Clients, at the same price and on the same terms and conditions, except as otherwise instructed by the Client or required by “Section D. Compliance with Exemptive Relief” below.

#### ***C. Subject to Client Approval***

The above requirements are subject to further or overriding instructions from a Client, as specified in the applicable agreement between PennantPark and the Client. As such, a Client may determine not to participate in an investment opportunity identified by us for which the Client would otherwise be eligible. In the event that a Client opts not to participate in an investment opportunity, other Clients shall not be restricted from participating in such opportunity. If a Client does not participate in an initial investment opportunity, we are not required to include such Client in future follow-on investments in such issuer as specified in this Policy.

#### ***D. Compliance with Exemptive Relief***

To maximize the ability of the Clients to co-invest with each other, PennantPark has obtained exemptive relief from the SEC, which, imposes certain requirements on the terms and allocation of investment opportunities among Clients. PennantPark and the Funds and/or other Clients will comply with all conditions or requirements, including those related to the allocation of investment opportunities, our allocation procedures will be interpreted in light of these conditions.

**Item 13: Review of Accounts**

We manage our Clients' accounts on a daily basis. In addition, each Client's account is reviewed on at least a quarterly basis to assess performance. The purpose of the review is to ensure that our investment policies are reflected in the management of the account. The reviewers are: Arthur H. Penn, Investment Committee Chair; José A. Briones, Jr. and Salvatore Giannetti III, with all such persons being Investment Committee Members.

As a general policy, we provide each Client with a statement at least quarterly.

**Item 14: Client Referrals and Other Compensation**

For details regarding economic benefits provided to us or affiliates including a description of related material conflicts of interest and how they are addressed, please see the disclosures above.

While not necessarily a client solicitation arrangement, we from time to time engage one or more persons to act as a placement agent for a Client in connection with the offer and sale of interests to potential investors and such persons will receive fees for such services.

## Item 15: Custody

We are an affiliate of the General Partner of the Funds and, as such, are deemed to have custody of client funds or securities of the Funds as defined in Rule 206(4)-2 under the Advisers Act (the “**Custody Rule**”). Except as permitted by the Custody Rule, cash and securities of Clients are maintained in accounts established with qualified custodians. Funds that are audited in accordance with GAAP on an annual basis and that distribute audited financial statements to each investor within 120 days of the Fund’s fiscal year end are able to take advantage of certain exceptions from the Custody Rule’s requirements.

We generally open accounts with custodians on the Clients’ behalf. When we open a custody account on behalf of a Client, we comply with the notification requirements under the Custody Rule, as applicable. We require each qualified custodian to send us copies of Client account statements at least quarterly. We maintain copies of such statements or representations, directly or through an agent, in accordance with our general recordkeeping obligations. We rely on the Client’s custodians to also send account statements directly to the Client. We may also send quarterly account statements showing positions and market values. Either we or Client’s custodian send notifications and account statements to an independent representative, if so instructed in writing by the Client. We ensure that the independent representative meets the requirements of the Custody Rule. Upon determining that the independent representative meets these requirements, account statements and notifications will be sent only to the designated independent representative until such time as the Client may revoke the designation. Independent representatives may not control, be controlled by, or be under common control with PennantPark, nor may they have or have had a material business relationship with us within the past two years.

We do not have custody, for purposes of the Custody Rule, of our BDC Clients’ funds or securities. Custody of BDC assets is governed by the 1940 Act and the rules and regulations thereunder.

#### **Item 16: Investment Discretion**

Decisions regarding the purchase and sale of securities on behalf of our Clients are deliberated by the investment committee. Our Clients' Governing Documents typically provide us with the authority to purchase or sell securities for our Clients. Certain Clients are advised on a non-discretionary basis and such Clients must pre-approve investments, after which we may arrange for the execution of such investments.

We may cause our Clients to pay a broker-dealer who furnishes brokerage and/or research services a commission that is in excess of the commission another broker-dealer would have received for executing the transaction if it is determined that such commission is reasonable in relation to the value of the brokerage and/or research services which have been provided to PennantPark as a whole. We believe that all such services qualify as *bona fide* research and trading services under Section 28(e) of the Securities Act of 1934, as amended.



## **Item 17: Voting Client Securities**

We have adopted written proxy voting policies and procedures, as required by Rule 206(4)-6 under the Advisers Act, governing conflict of interest resolution, disclosure, reporting and recordkeeping relating to voting proxies. We vote proxies relating to portfolio securities in what we perceive to be the best interest of our Clients' shareholders. We review on a case-by-case basis each proposal submitted to a shareholder vote to determine its impact on the portfolio securities held by our Client. 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 we believe there exist compelling long-term reasons to do so.

Our proxy voting decisions are made by the senior officers who are responsible for monitoring each of the Client's 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 the Chief Compliance Officer any potential conflict of which he or she is aware, and any contact that he or she has had with any interested party regarding a proxy vote; and (2) in order to reduce any attempted influence from interested parties, employees involved in the decision making process or vote administration are prohibited from revealing how we intend to vote on a proposal.

On request, we provide our Client a copy of our proxy voting policies and procedures and/or information about how we have voted securities in their account. We do not disclose proxy votes for a Client to other Clients or third parties unless specifically requested, in writing, by the Client. However, to the extent that we may serve as sub-adviser to another adviser to a Client, we will be deemed to be authorized to provide proxy voting records on such accounts to such other adviser.

**Item 18: Financial Information**

Our fees are generally assessed and collected in arrears.

There are no financial conditions reasonably likely to impair our ability to meet our contractual commitments to our Clients.