

PennantPark Environmental Social Governance (“ESG”) Approach

We believe that credit investors have an obligation to evaluate and consider ESG issues before making and investment. Our evaluation 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

PennantPark believes sound ESG management can help manage business risks and enhance the value of our portfolio investments. We evaluate ESG factors on both a general and specific basis as they vary by industry and across geography. Examples include but are not limited to:

Environmental	Social	Governance
Pollution	Human capital	Management structure
Natural resource usage	Product liability	Risk management
Climate change	Controversial sourcing	Stakeholder issues
Opportunities in renewables	Consumer protection	Transparency

Evaluation

ESG factors are raised and discussed as a part of the investment evaluation and diligence process. As of December 17, 2018, a formal ESG process and checklist has been incorporated into our investment memos. Through the use of the checklist our diligence team is able to highlight issues that are relevant for further discussion. Most of these issues are evaluated by our investment team, but we will engage outside advisers if the team deems it appropriate.

ESG risks evaluation is a crucial component of our investment process as non-financial issues have the potential to have a large impact on our portfolio’s value and, most importantly, society as a whole.

Similar to financial risks, we evaluate them collectively and they can eliminate an investment from our consideration.

If any of the checklist items are marked “yes,” we analyze the magnitude of the issue and discuss in more depth with the investment committee. ESG factors do not necessarily eliminate investments on a standalone basis, but they are always evaluated. Additionally, we evaluate whether management has an action plan to address ESG concerns and / or whether there is a need to change their ESG approach.

Post-investment

We continue to diligence holdings for risk, including ESG factors, during our holding period. Responsibility for monitoring falls on the investment team and changes to ESG status are submitted to the investment committee if deemed relevant based on any change to status in the checklist and they will determine the appropriate course of action.