

# **PENNANTPARK INVESTMENT CORPORATION**

## **AUDIT COMMITTEE CHARTER**

### **I. Purpose**

The Audit Committee is appointed by the Board of Directors of the PennantPark Investment Corporation (the “Corporation”), pursuant to authority delegated to it by the Board of Directors, to monitor (i) the integrity of the financial statements of the Corporation, (ii) the independent auditor’s qualifications and independence, (iii) the performance of the Corporation’s internal audit function and independent auditors, and (iv) the compliance by the Corporation with legal and regulatory requirements.

### **II. Committee Membership**

The Audit Committee of the Corporation shall at all times have at least three members and be composed solely of independent directors. For purposes of this Audit Committee Charter, “independent directors” are directors of the Corporation who (i) are not “interested persons” as defined in the Investment Company Act of 1940, as amended (the “1940 Act”) of the Corporation, (ii) are “independent directors” as defined in Rule 5605(a)(2) of the Nasdaq listing rules and (iii) meet the independence requirements of Section 10A(m)(3) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and the rules and regulations of the Securities and Exchange Commission (the “SEC”), including the requirements that such persons not accept directly or indirectly any consulting, advisory, or other compensation from the Corporation or any subsidiary thereof (other than Directors’ fees received in his or her capacity as a member of the Audit Committee, Board of Directors or another committee of the Board of Directors of the Corporation or such subsidiary) and that such persons cannot have participated in the preparation of the financial statements of the Corporation in the previous three years. The Board of Directors shall designate the members of the Audit Committee. The Board of Directors shall have the power at any time to change the membership of the Audit Committee, to fill all vacancies and to designate alternate members to replace any absent or disqualified members, so long as the Audit Committee shall at all times have at least three members and be composed solely of Independent Directors. If a member of the Audit Committee ceases to be independent for reasons outside the reasonable control of such member, the member may remain on the Audit Committee until the earlier of the next annual shareholders’ meeting of the Corporation or one year from the occurrence of the event that caused the failure of such member to be independent, provided that the Corporation provides notice to The Nasdaq Stock Market LLC immediately upon learning of the event or circumstance that caused the noncompliance pursuant to Rule 5605(c)(4) of the Nasdaq listing rules and subject to the exception contained in Rule 5605(c)(5) of the Nasdaq listing rules. The members of the Audit Committee shall select its chairman.

For so long as the Corporation’s common stock is listed on The NASDAQ Global Market or The NASDAQ Global Select Market (i) the Audit Committee shall at all times have at least one member that has past employment experience in finance or accounting, requisite professional certification in accounting, or any other comparable experience or background which results in the individual’s financial sophistication, including being or having been a chief executive officer, chief financial officer or other senior officer with financial oversight

responsibilities and (ii) all members of the Audit Committee shall be able to read and understand fundamental financial statements, including a company's balance sheet, income statement and cash flow statement.

As a matter of best practice, the Audit Committee will endeavor to have at least one of its members with the requisite qualifications to be designated by the Board of Directors as an "audit committee financial expert," as such term is defined by the Sarbanes-Oxley Act of 2002, as amended, and the rules and regulations adopted thereunder from time to time (the "Sarbanes-Oxley Act"). To that end, the Audit Committee shall consider at least annually whether one or more of its members qualifies to be designated by the Board of Directors as an "audit committee financial expert." The Audit Committee shall report the results of its deliberations to the Board of Directors for further action as appropriate, including a determination by the Board of Directors that the Audit Committee membership includes or does not include one or more "audit committee financial expert(s)" and any related disclosure to be made concerning this matter. If a vacancy on the Audit Committee exists due to the retirement or resignation of a member of the Audit Committee who has been designated as an "audit committee financial expert," the Board of Directors will endeavor to fill such vacancy with another "audit committee financial expert," as soon as reasonably practicable thereafter. The designation of a member of the Audit Committee as an "audit committee financial expert" does not increase the duties, obligations or liability of the designee as compared to the duties, obligations and liability otherwise imposed on the designee as a member of the Audit Committee and of the Board of Directors.

### **III. Authority**

The function of the Audit Committee is oversight. Management<sup>1</sup> is primarily responsible for maintaining appropriate systems for accounting and financial reporting principles and policies and internal controls and procedures that provide for compliance with accounting standards and applicable laws and regulations. The independent accountants are primarily responsible for planning and carrying out a proper audit of the Corporation's annual financial statements in accordance with generally accepted accounting standards. The independent accountants are accountable to the Board of Directors and the Audit Committee, as representatives of the Corporation's shareholders. The Board of Directors and the Audit Committee have the ultimate authority and responsibility to select, evaluate and, where appropriate, replace the Corporation's independent accountants (subject, if applicable, to shareholder ratification).

Members of the Audit Committee are not full-time employees of the Corporation or management and are not, and do not represent themselves to be, accountants or auditors by profession. Accordingly, it is not the duty or the responsibility of the Audit Committee or its members to conduct "field work" or other types of auditing or accounting reviews or procedures, to determine that the financial statements are complete and accurate and are in accordance with generally accepted accounting principles, or to set auditor independence standards. Each

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<sup>1</sup> For purposes of this Charter, the term "management" means the appropriate officers of the Corporation, and its investment adviser, administrator, fund accounting agent and other key service providers (other than the independent accountants). Also, for purposes of this Charter, the phrase "internal accounting staff" means the appropriate officers and employees of the Corporation, and its investment adviser, administrator, fund accounting agent and other key service providers (other than the Corporation's independent accountants).

member of the Audit Committee shall be entitled to rely on (i) the integrity of those persons within and outside the Corporation and management from which it receives information; (ii) the accuracy of the financial and other information provided to the Audit Committee absent actual knowledge to the contrary (which shall be promptly reported to the Board of Directors); and (iii) statements made by the officers and employees of the Corporation, its investment adviser or other third parties as to any information technology, internal audit and other non-audit services provided by the independent accountants to the Corporation. In carrying out its responsibilities, the Audit Committee's policies and procedures shall be adapted, as appropriate, to best react to a changing environment.

In discharging its responsibilities, the Audit Committee shall have authority to retain outside counsel or other consultants as the Audit Committee determines necessary to carry out its duties. The Audit Committee shall also have sole authority to approve the fees and other retention terms of such consultants and to terminate such consultants. The Audit Committee shall have the authority to create subcommittees with such powers as the Audit Committee shall from time to time confer. The Audit Committee shall also be given the resources, as determined by the Audit Committee, for payment of (i) compensation to any registered public accounting firm engaged for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the Corporation and (ii) ordinary administrative expenses of the Audit Committee that are necessary or appropriate in carrying out its duties.

#### **IV. Responsibilities**

The following are the general responsibilities of the Audit Committee and are set forth only for its guidance. The Audit Committee may assume such other responsibilities as it deems necessary or appropriate in carrying out its purpose. The Audit Committee shall consult, on an ongoing basis, with management, the independent accountants and counsel as to legal or regulatory developments affecting its responsibilities, as well as relevant tax, accounting and industry developments.

Nothing in this Charter shall be interpreted as diminishing or derogating from the responsibilities of the Board of Directors.

Pursuant to authority granted to it by the Board of Directors, the responsibilities of the Audit Committee are:

##### *Retention of Independent Accountants and Approval of Services*

1. To appoint and retain each year a firm or firms of independent accountants to audit the accounts and records of the Corporation, to approve the terms of compensation of such independent accountants and to terminate such independent accountants as it deems appropriate.
2. To pre-approve any independent accountants' engagement to render audit and/or permissible non-audit services (including the fees charged and proposed to be charged by the independent accountants), subject to the de minimis exceptions

under Section 10A(i)(1)(B) of the Exchange Act, and as otherwise required by law.<sup>2</sup>

3. The Audit Committee may delegate its pre-approval responsibilities to one or more of its members. The member(s) to whom such responsibility is delegated must report any pre-approval decisions to the Audit Committee at its next scheduled meeting for informational purposes only.

*Oversight of the Corporation's Relationship with the Independent Accountants*

4. To obtain and review a report from the independent accountants at least annually regarding:
  - (a) the independent accountants' internal quality-control procedures;
  - (b) any material issues raised by the most recent internal quality-control review, or peer review, of the firm, or by any inquiry or investigation by governmental or professional authorities within the preceding five years respecting one or more independent audits carried out by the firm;
  - (c) any steps taken to deal with any such issues; and
  - (d) all relationships between the independent accountants and the Corporation.
5. To evaluate the qualifications, performance and independence of the independent accountants, including the following:
  - (a) evaluating the performance of the lead partner, and the quality and depth of the professional staff assigned to the Corporation;
  - (b) considering whether the accountant's quality controls are adequate;
  - (c) considering whether the provision of permitted non-audit services is compatible with maintaining the accountant's independence; and
  - (d) taking into account the opinions of management and the internal accounting staff (or other personnel responsible for the internal audit function).

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<sup>2</sup> In addition to the requirement to pre-approve audit and permissible non-audit services (subject to the *de minimis* exceptions under Section 10A(i)(1)(B)) to be rendered to the Corporation by its independent accountants, the Audit Committee is required to pre-approve non-audit services (subject to the *de minimis* exceptions under Section 10A(i)(1)(B)) rendered by the Corporation's independent accountants to the Corporation's investment adviser (not including any sub-adviser whose role is primarily portfolio management and is sub-contracted or overseen by another investment adviser), and to any entity controlling, controlled by or under common control with its investment adviser that provides ongoing services to the Corporation if the engagement relates directly to the operations and financial reporting of the Corporation.

The Audit Committee shall present its conclusions with respect to the independent accountants to the Board of Directors.

6. To ensure the regular rotation of the lead (or coordinating) audit partner having primary responsibility for the audit and the audit partner responsible for reviewing the audit as required by law and consider whether, in order to assure continuing auditor independence, it is appropriate to adopt a policy of rotating the independent accounting firm on a regular basis.
7. To recommend to the Board of Directors policies for the Corporation's hiring of employees or former employees of the independent accountants who participated in any capacity in the audit of the Corporation.
8. To discuss with the national office of the independent accountants, if appropriate, issues on which they were consulted by the Corporation's audit team and matters of audit quality and consistency.
9. To consider the effect on the Corporation of:
  - (a) any changes in accounting principles or practices proposed by management or the independent accountants;
  - (b) any changes in service providers, such as the Corporation's accountants or administrators, that could impact the Corporation's internal controls; and
  - (c) any changes in schedules (such as fiscal or tax year-end changes) or structures or transactions that require special accounting activities or resources.
10. To review a presentation by the independent accountants with respect to the Corporation's qualification under Subchapter M of the Internal Revenue Code of 1986, as amended, and amounts distributed and reported to shareholders for federal tax purposes.
11. To annually review a formal written statement from the independent accountants delineating all relationships between the independent accountants and the Corporation, consistent with applicable standards of the Independence Standards Board, and discussing with the independent accountants their methods and procedures for insuring independence.
12. To interact with the Corporation's independent accountants, including reviewing and, where necessary, assisting in resolution of disagreements that have arisen between management and the independent accountants regarding financial reporting.

*Financial Statements and Disclosure Matters*

13. To review and discuss with management and the independent accountants the annual audited financial statements, including disclosures made in management's discussion and analysis, and recommend to the Board of Directors whether the audited financial statements should be included in the Corporation's Annual Report on Form 10-K.
14. To review and discuss with management and the independent accountants the Corporation's earnings releases and quarterly financial statements prior to the filing of its Quarterly Reports on Form 10-Q, including the results of the independent accountants' reviews of the quarterly financial statements.
15. To meet with the Corporation's independent accountants periodically during each fiscal year, including private meetings, and review written materials prepared by the independent accountants, and, as appropriate:
  - (a) to review the arrangements for and the scope of the annual audit and any special audits or other special permissible services;
  - (b) to review the Corporation's financial statements and to discuss any matters of concern arising in connection with audits of such financial statements, including any adjustments to such statements recommended by the independent accountants or any other results of the audits;
  - (c) to consider and review, as appropriate and in consultation with the independent accountants, the appropriateness and adequacy of the Corporation's financial and accounting policies, procedures and internal accounting controls and, as appropriate, the internal controls of key service providers, and to review management's responses to the independent accountants' comments relating to those policies, procedures and controls, and to any special steps adopted in light of material control deficiencies;
  - (d) to review with the independent accountants their opinions as to the fairness of the financial statements;
  - (e) to review and discuss quarterly reports from the independent accountants relating to:
    - (1) all critical accounting policies and practices to be used;
    - (2) all alternative treatment of financial information within generally accepted accounting principles that have been discussed with management, ramifications of the use of such alternative disclosures and treatments and the treatment preferred by the independent accountants; and

- (3) other material written communications between the independent accountant and management, such as any management letter or schedule of unadjusted differences; and
  - (f) to review with the independent accountants the matters required to be discussed by Statements on Auditing Standards or other professional standards relating to the conduct of an audit.
- 16. To prepare the report required by the SEC to be included in the Corporation's annual proxy statement.

*Compliance Oversight*

- 17. To obtain from the independent accountants assurance that Section 10A(b) of the Securities Exchange Act of 1934, as amended, has not been implicated.
- 18. To investigate, when the Audit Committee deems it necessary, improprieties or suspected improprieties in Corporation operations.
- 19. To establish and maintain procedures for the following, including considering exceptions to and responding to alleged violations of such procedures as the Audit Committee shall consider appropriate:
  - (a) the receipt, retention and treatment of complaints received by the Corporation regarding accounting, internal accounting controls or auditing matters; and
  - (b) the confidential, anonymous submission by employees of the Corporation of concerns regarding questionable accounting or auditing matters.
- 20. To discuss with management and the independent accountants any correspondence with regulators or governmental agencies and any published reports that raise material issues regarding the Corporation's financial statements or accounting policies.
- 21. To discuss with the Corporation's counsel legal matters that may have a material impact on the financial statements or the Corporation's compliance policies.
- 22. To review and approve or ratify all Related Party Transactions (as defined below).
- 23. To review with both management and the Corporation's independent accountants all Related Party Transactions or dealings with parties related to the Corporation.
- 24. To review and discuss with management and the Corporation's independent accountants all off-balance sheet transactions and obligations.

*Oversight of the Corporation's Internal Audit Function*

25. To recommend to the Board of Directors the appointment of the Corporation's principal accounting officer and principal financial officer.
26. To consider whether to grant any approvals or waivers sought under the Corporation's Code of Conduct (the "Code") adopted pursuant to the Sarbanes-Oxley Act and the Nasdaq listing rules.
27. To review any alleged violations under the Corporation's Code and to make any recommendations to the Board of Directors as it deems appropriate.
28. To require the appropriate officers of the Corporation, internal accounting staff and individuals with internal audit responsibilities to meet with the Audit Committee for consultation on audit, accounting and related financial matters.
29. To review proposed disclosures in the Corporation's periodic reports to the SEC concerning any significant deficiencies in the design or operation of internal controls or material weaknesses in such controls, and any fraud involving management or other employees who have a significant role in the Corporation's internal controls, deemed necessary by management during such officers' certification process for the Corporation's Annual Report on Form 10-K and Quarterly Reports on Form 10-Q.
30. To discuss with management the Corporation's major financial risk exposures and the steps management has taken to monitor and control such exposures, including the Corporation's risk assessment and risk management policies.

*Other*

31. Review and assess the adequacy of this Charter of the Audit Committee annually and submit any proposed modifications to the Board of Directors.
32. To report its activities to the Board of Directors on a regular basis and to make such recommendations with respect to the matters described above and other matters as the Audit Committee may deem necessary or appropriate.
33. With the assistance of one or more independent valuation firms, aid the Board of Directors in fair valuing the Corporation's portfolio securities that are not publicly traded or for which current market values are not readily available and in determining the Corporation's net asset value, all in accordance with the Corporation's Valuation Policies and Procedures.



## V. Related Party Transactions Review

Generally, the Audit Committee must review any transaction or series of similar transactions that, in the aggregate, exceed \$120,000, involve the Corporation and in which persons related to the Corporation have a material direct or indirect interest.

The Corporation's Chief Executive Officer, Chief Financial Officer, Chief Compliance Officer ("CCO") and legal counsel shall determine whether a potential transaction or relationship constitutes a Related Party Transaction<sup>3</sup> that requires compliance with the Corporation's related party transactions review policy (the "Related Party Transactions Policy") and/or disclosure under applicable rules promulgated by the SEC. Each such Related Party Transaction will be referred to the Audit Committee in accordance with the Related Party Transactions Policy and dealt with in accordance with this Charter. When the Audit Committee reviews each Related Party Transaction as outlined by this Charter, it shall also consider any conflicts of interest brought to its attention pursuant to the Corporation's Code or Code of Ethics.

Any Related Party Transaction subject to the limitations of section 57 of the 1940 Act, as determined by the CCO in consultation with the Corporation's legal counsel, shall be subject to a review on such basis in addition to review under the Related Party Transactions Policy. Any such Related Party Transaction must comply with SEC no-action guidance or exemptive relief under the 1940 Act.

All Related Party Transactions subject to review must be approved or ratified by the Audit Committee. In approving or ratifying any such Related Party Transactions, the Audit Committee should consider all of the relevant facts and circumstances and approve or ratify those Related Party Transactions that are, in the Audit Committee's judgment, appropriate or desirable under the circumstances. If the Related Party Transaction involves a director or an Immediate Family Member of a director, such director may not participate in the deliberations or vote respecting such approval or ratification; *provided, however*, that such director may be counted in determining the presence of a quorum at a meeting of the Audit Committee which considers such Related Party Transaction.

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<sup>3</sup> A "Related Party Transaction" shall mean a transaction in which (i) the Corporation is a participant, (ii) any Related Person has a direct or indirect material interest and (iii) the amount involved exceeds \$120,000. A Related Party Transaction includes, but is not limited to, any financial transaction, arrangement or relationship (including indebtedness or a guarantee of indebtedness) or *series* of similar transactions, arrangements or relationships that aggregate to \$120,000 or more.

A "Related Person" shall mean (i) any director, director nominee or officer of the Corporation, (ii) any child, stepchild, parent, stepparent, spouse, sibling, mother-in-law, father-in-law, son-in-law, daughter-in-law, brother-in-law or sister-in-law, or any person (other than a tenant or employee) sharing the household (each, an "Immediate Family Member"), in each case, of such director, director nominee or officer or (iii) any beneficial owner of more than 5% of the Corporation's outstanding voting securities or any Immediate Family Member of such beneficial owner.

In determining whether to approve a Related Party Transaction, the Audit Committee, in consultation with the Corporation's legal counsel, will consider, among other things, the following factors to the extent relevant to the Related Party Transaction:

- 1) whether the terms of the Related Party Transaction are fair to the Corporation and such terms would be on the same basis if such Related Party Transaction did not involve a Related Person;
- 2) whether there are legitimate business reasons for the Corporation to enter into the Related Party Transaction;
- 3) whether the Related Party Transaction would impair the independence of any independent director;
- 4) whether the Related Party Transaction would present an improper conflict of interest for any director or officer of the Corporation, taking into account: (i) the size of the Related Party Transaction, (ii) the overall financial position of the director or officer, (iii) the direct or indirect nature of the director's or officer's interest in the Related Party Transaction and (iv) the ongoing nature of any proposed relationship, and (v) any other factors deemed relevant; and
- 5) whether the Related Party Transaction is material, taking into account: (i) the importance of the interest to the Related Person, (ii) the relationship of the Related Person to the transaction and of Related Persons to each other, (iii) the dollar amount involved and (iv) the significance of the transaction to the Corporation's investors in light of all the circumstances.

In any case where the Audit Committee determines not to approve a Related Party Transaction or ratify a Related Party Transaction that has been entered into without approval, the Audit Committee may consider additional action, in consultation with the Corporation's legal counsel, including termination of the Related Party Transaction, rescission of such Related Party Transaction or modification of the Related Party Transaction in a manner that would permit it to be ratified by the Audit Committee.

Notwithstanding the foregoing, the following transactions are not subject to review by the Audit Committee:

- 1) any director compensation arrangement approved by the Board of Directors of the Corporation;
- 2) ordinary course business travel and expenses, advances and reimbursements;
- 3) indemnification payments or any other payments under any directors or officers insurance policy approved by the Board of Directors of the Corporation;
- 4) any transaction in which the rates or charges involved in the transaction are determined by competitive bids or such rates or charges are fixed in conformity with applicable law;
- 5) any transaction that involves services as a bank depository of funds, transfer agent, registrar, trustee under a trust indenture or similar services; or
- 6) any transaction in which the interest of the Related Person arises solely from the ownership of a class of equity securities of the Corporation and all holders of that class of equity securities of the Corporation received the same benefit on a pro rata basis.

## **VI. Meetings**

Subject to the Bylaws and resolutions of the Board of Directors, the Audit Committee shall meet as often as it determines, but not less frequently than quarterly, and is empowered to hold special meetings as circumstances require. The chairman of the Audit Committee or any two members of the Audit Committee may fix the time and place of the Audit Committee's meetings unless the Board of Directors shall otherwise provide. Members of the Audit Committee may participate in a meeting by means of a conference telephone or similar communications equipment if all persons participating can hear each other at the same time. Subject to the provisions of the 1940 Act, participation in a meeting by these means constitutes presence in person at the meeting. Any action required or permitted to be taken at a meeting of the Audit Committee may also be taken without a meeting if all members of the Audit Committee consent thereto in writing. The Audit Committee shall keep regular minutes of its meetings and records of decisions taken without a meeting and cause them to be recorded in the Corporation's minute book. The Audit Committee may invite any director who is not a member of the Audit Committee, management, counsel, representatives of service providers or other persons to attend meetings and provide information as the Audit Committee, in its sole discretion, considers appropriate.

One third, but not less than two, of the members of the Audit Committee shall be present at any meeting of the Audit Committee in order to constitute a quorum for the transaction of business at such meeting, and the act of a majority present shall be the act of the Audit Committee. In the absence or disqualification of any member of the Audit Committee, the member or members thereof present at any meeting and not disqualified from voting, whether or not he/she or they constitute a quorum, may unanimously appoint another member of the Board of Directors to act at the meeting in the place of any such absent or disqualified member, so long as such appointee is an Independent Director.

Amended: November 11, 2014.