

PROSPECT CAPITAL

July 26, 2017

Fellow Owners:

For the twelve months ended June 30, 2017, Prospect Capital Corporation (“PSEC”) delivered total market return to shareholders – stock price appreciation plus reinvested dividends – of 16.8% (3.8% from capital appreciation and 13.0% from monthly dividends). Below are total market returns versus key benchmarks.

Name	Ticker	1 Year Ended 6/30/2017	3 Years Ended 6/30/2017	5 Years Ended 6/30/2017	7 Years Ended 6/30/2017	10 Years Ended 6/30/2017
Prospect Capital	PSEC	16.8%	12.6%	33.0%	98.5%	59.1%
WF BDC Index ETRACS	BDCS	18.0%	9.7%	44.0%	N/A	N/A
S&P 500 High Yield Corp. Bond Index	SP5HYBIT	8.9%	18.3%	40.4%	75.2%	129.1%
S&P/LSTA Leveraged Loan Index	SPBDAL	7.4%	10.4%	25.1%	41.6%	55.1%
S&P 500 Inv. Grade Corp. Bond Index	SP5IGBIT	1.5%	10.5%	19.8%	37.7%	69.8%
iShares 7-10 Year Treasury Bond ETF	IEF	-4.0%	8.8%	8.2%	28.8%	71.1%

Our twelve month return for the fiscal year just ended will not easily be repeated in any year. We nonetheless keep advancing the systems that have enabled us to earn the returns you see above. Our experienced team of more than 100 investment, accounting, legal, administrative, and other professionals is working each day for you in high pressure jobs in a hypercompetitive market to find good investments, enhance operational performance and generate long-term shareholder value. I thank all of the people at Prospect for the passion, dedication, and loyalty that sets them apart.

In addition to deploying capital in senior and secured corporate loans to U.S. middle-market companies, we are also committed to improving future results by optimizing our structured credit portfolio, monetizing certain multi-family real estate investments, progressing our online lending business, divesting lower yielding assets, improving operations in our controlled investments, lowering our cost of capital, and executing on additional accretive opportunities. Improvement is our constant goal as there is always room for improvement at Prospect.

We enhanced our liability structure in April with \$225 million in aggregate principal amount of 4.95% Convertible Notes due 2022. This leverage-neutral transaction retired higher coupon term debt, extended our maturity ladder, and lowered PSEC’s interest expense as a first of its kind transaction in the BDC industry and another first in the market for Prospect.

Following the most recent Federal Reserve rate increase last month, we continue to be well positioned to benefit from interest rate increases. As of March 31, 2017, 90.7% of our interest bearing assets benefit from floating rate spreads above LIBOR and other benchmarks, while 99.9% of our liabilities bear fixed rates.

Our monthly dividend at March 31, 2017 generated an annualized cash yield of 12.3%, or 10% more than 10 year Treasuries. Since our 2004 Initial Public Offering (IPO), we have declared cumulative cash dividends aggregating \$15.96 per share, returning more than \$2.3 billion of capital to shareholders.

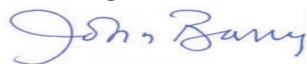
Over the last three quarters, our distributions to shareholders have exceeded our GAAP net investment income, as investment caution has caused us to be less than fully invested. We are actively screening a healthy pipeline of opportunities initially meeting our risk/reward requirements, and hope to be fully invested. However, the market continues to experience yield compression with an influx of new capital.

Our managers and employees own significant equity in PSEC along with you and so are aligned with all shareholders to maximize value. Managers and employees have purchased more than \$175 million of PSEC stock in the open market since our 2004 IPO, aggregating nearly 7% of all shares outstanding. We are committed to the long-term and have never sold a single share. Additional data for the quarter ended March 31, 2017:

- **Reliability**: Recurring interest income aggregating 94.6% of gross income
- **Diversification**: Industry concentrations below 9.6%
- **Portfolio Yield**: 12.3% portfolio yield (top BDC quintile)
- **Credit Quality**: 1.40% non-accrual rate (outperforming BDC average)
- **Rates**: 90.7% floating rate assets (with floors) and 99.9% fixed rate liabilities
- **Originations**: \$450 million invested across our diversified strategies
- **Exits**: \$303 million repaid, providing capital for new investments
- **CLO Team**: Annualized cash yield of 17.9% and GAAP yield of 13.6% at fair value
- **Online Team**: \$785.5 million of online loans and securitization interests
- **Security**: 78.8% of interest bearing securities secured, 55.5% first lien
- **Leverage**: Net debt to equity leverage 75.6%
- **Ratings**: Investment grade ratings from S&P and Kroll
- **Portfolio**: Average portfolio company attachment leverage 4.15x EBITDA (\$49.4M average EBITDA)
- **Valuations**: Best practice third party positive assurance full valuations quarterly
- **Dividend Plus NAV Outperformance**: Above industry median past ten years
- **Net Investment Income/NAV (NII Yield)**: Above industry median each of past five years
- **Efficiency**: Five-year average cost efficiency ratio better than industry median

As always, we welcome your commentary and questions. We have included summary information about our performance in the pages that follow. To download a more detailed presentation, please visit psec.prospectstreet.com.

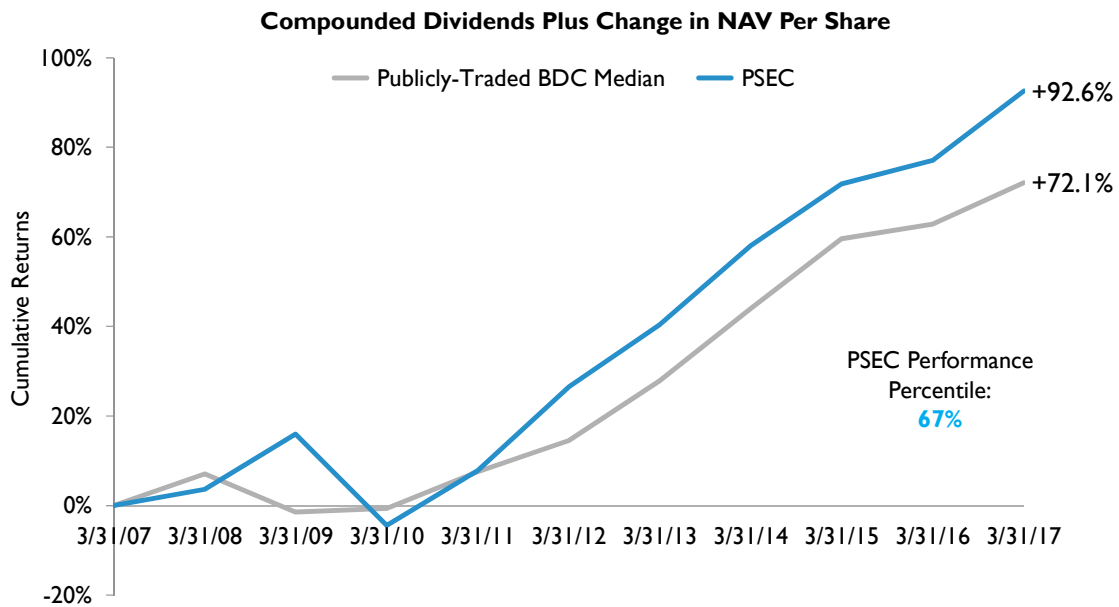
Warm regards,



John F. Barry III
Chairman and Chief Executive Officer

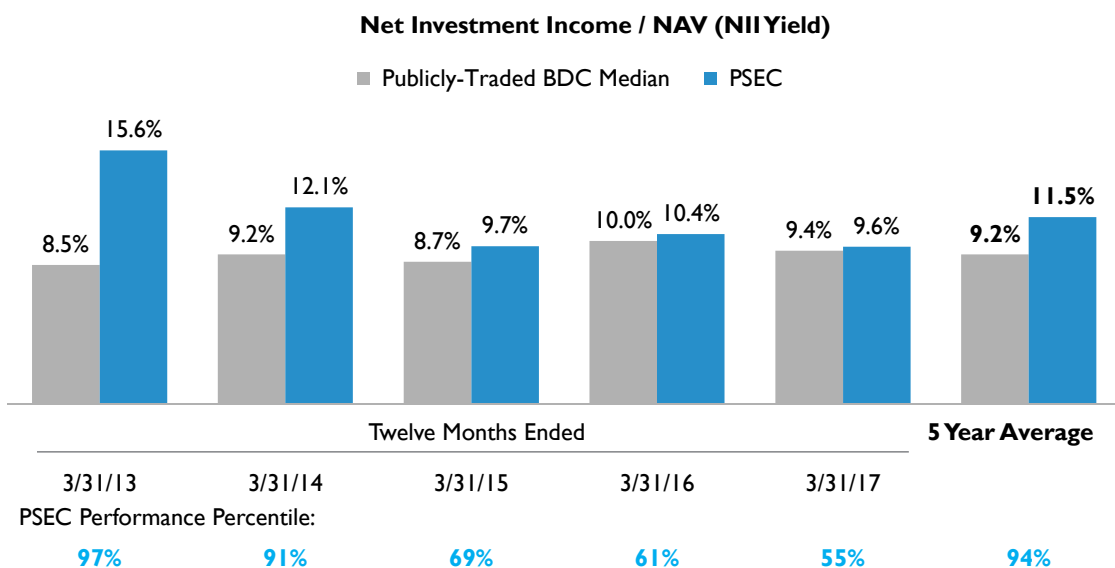


PSEC HAS GENERATED SUPERIOR OPERATING RETURNS COMPARED WITH PUBLICLY-TRADED BDC MEDIAN OVER THE PAST 10 YEARS



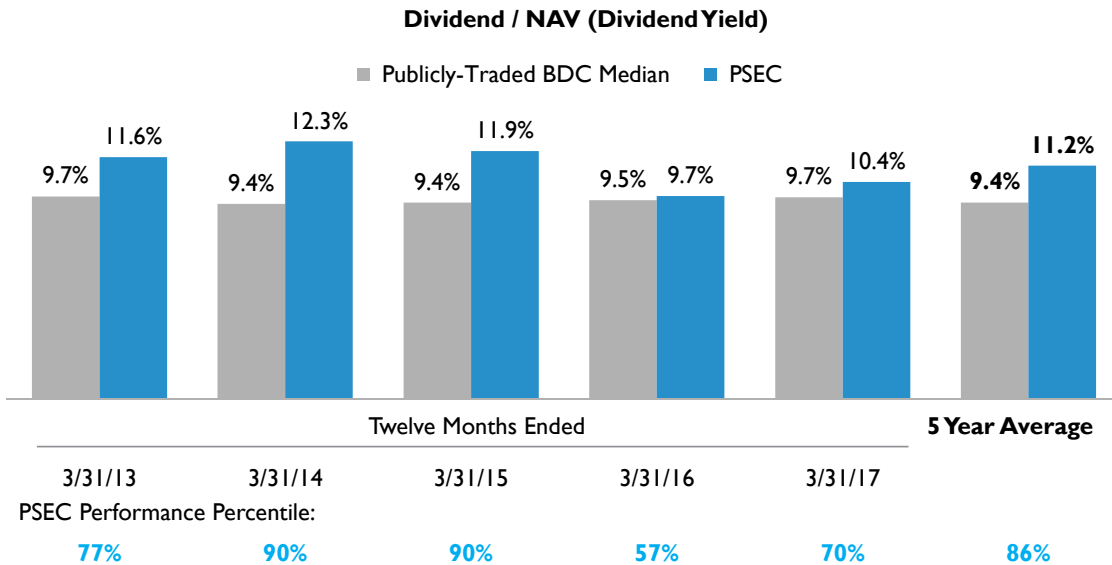
Note: Dividends plus change in net asset value compounded on a quarterly basis. Investors purchase and sell shares of PSEC common stock at prevailing market prices, which may be higher or lower than NAV. Information related to past performance, while potentially helpful as an evaluative tool, is not indicative of future results. Source: PSEC analysis of Capital IQ data as of 5/26/17 for the 16 BDCs for which there is quarterly data for the ten years ended 3/31/17.

PSEC'S BOOK EQUITY NET INVESTMENT INCOME YIELD HAS OUTPERFORMED PUBLICLY-TRADED BDC MEDIAN OVER EACH OF THE PAST 5 YEARS



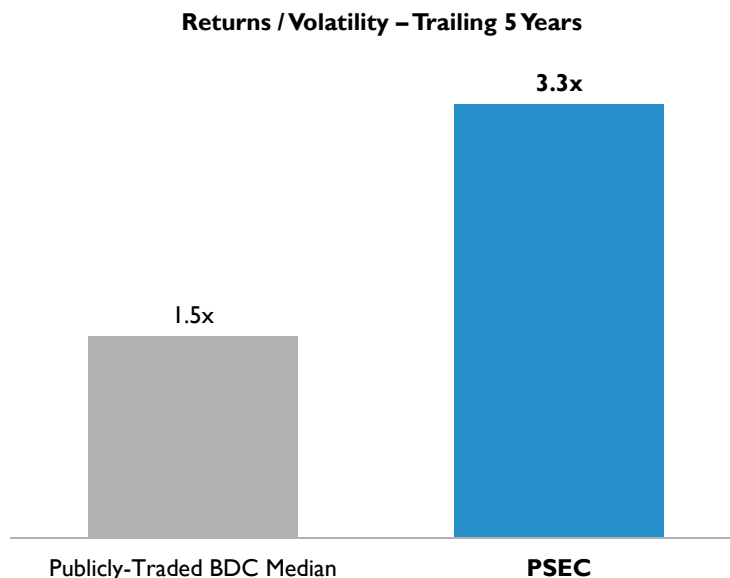
Note: Book equity earnings yield calculated as twelve month period net investment income divided by average of beginning and ending book value of equity. Information related to past performance, while potentially helpful as an evaluative tool, is not indicative of future results. Approximately 14% of BDCs do not focus on generation of current income, which has the effect of making it easier for PSEC's net income, net investment income and dividends to exceed the BDC median. Source: PSEC analysis of Capital IQ data as of 5/26/17 of BDCs for which there is quarterly data for each entire period (40 for the twelve months ended 3/31/13, 45 for twelve months ended 3/31/14, 49 for twelve months ended 3/31/15, 50 for twelve months ended 3/31/16, and 48 for twelve months ended 3/31/17).

PSEC'S BOOK EQUITY DIVIDEND YIELD HAS OUTPERFORMED PUBLICLY-TRADED BDC MEDIAN OVER EACH OF THE PAST 5 YEARS



Note: Dividend yield calculated as dividends per share over twelve month period divided by NAV per share at the beginning of the period. Information related to past performance, while potentially helpful as an evaluative tool, is not indicative of future results. Approximately 14% of BDCs do not focus on generation of current income, which has the effect of making it easier for PSEC's net income, net investment income and dividends to exceed the BDC median. Source: PSEC analysis of Capital IQ data as of 5/26/17 of BDCs for which there is quarterly data for each entire period (36 for the twelve months ended 3/31/13, 43 for twelve months ended 3/31/14, 49 for twelve months ended 3/31/15, 50 for twelve months ended 3/31/16, and 47 for twelve months ended 3/31/17).

PSEC HAS GENERATED SUPERIOR RISK-ADJUSTED OPERATING RETURNS FOR THE TRAILING FIVE YEARS ENDED 3/31/17



Note: Returns calculated as change in net asset value per share plus dividends. Volatility measured as one standard deviation in returns. Returns and volatility are measured on a quarterly basis and annualized to calculate returns / volatility ratio. Information related to past performance, while potentially helpful as an evaluative tool, is not indicative of future results. Source: PSEC analysis of Capital IQ data as of 5/26/17 for the 33 BDCs for which there is quarterly data for the five years ended 3/31/17.