

BABSON CAPITAL PARTICIPATION INVESTORS

Form N-CSRS

September 04, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM N-CSR

CERTIFIED SHAREHOLDER REPORT OF REGISTERED MANAGEMENT
INVESTMENT COMPANIES

Investment Company Act file number 811-5531

Babson Capital Participation Investors

(Exact name of registrant as specified in charter)

1500 Main Street, P.O. Box 15189, Springfield, MA 01115-5189

(Address of principal executive offices) (Zip code)

Christopher A. DeFrancis

Vice President, Secretary and Chief Legal Officer

1500 Main Street, Suite 2800

P.O. Box 15189

Springfield, MA 01115-5189

(Name and address of agent for service)

Registrant's telephone number, including area code: 413-226-1000

Date of fiscal year end: 12/31

Date of reporting period: 06/30/15

Form N-CSR is to be used by management investment companies to file reports with the Commission not later than 10 days after the transmission to stockholders of any report that is required to be transmitted to stockholders under Rule 30e-1 under the Investment Company Act of 1940 (17 CFR 270.30e-1). The Commission may use the information provided on Form N-CSR in its regulatory, disclosure review, inspection and policymaking roles.

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A registrant is required to disclose the information specified by Form N-CSR, and the Commission will make this information public. A registrant is not required to respond to the collection of information contained in Form N-CSR unless the Form displays a currently valid Office of Management and Budget ("OMB") control number. Please direct comments concerning the accuracy of the information collection burden estimate and any suggestions for reducing the burden to Secretary, Securities and Exchange Commission, 110 F Street NE, Washington, DC 20549. The OMB has reviewed this collection of information under the clearance requirements of 44 U.S.C. ss. 3507.

ITEM 1. REPORT TO STOCKHOLDERS.

Attached hereto is the semi-annual shareholder report transmitted to shareholders pursuant to Rule 30e-1 of the Investment Company Act of 1940, as amended.

Babson Capital
Participation Investors

Report for the
Six Months Ended June 30, 2015



Adviser

Babson Capital Management LLC
1500 Main Street, P.O. Box 15189
Springfield, Massachusetts 01115-5189

Transfer Agent & Registrar

DST Systems, Inc.
P.O. Box 219086
Kansas City, Missouri 64121-9086
1-800-647-7374

Independent Registered Public Accounting Firm

KPMG LLP
Boston, Massachusetts 02110

Internet Website

www.babsoncapital.com/mpv

Counsel to the Trust

Ropes & Gray LLP
Boston, Massachusetts 02110

Babson Capital Participation Investors
c/o Babson Capital Management LLC
1500 Main Street, Suite 2200
Springfield, Massachusetts 01115
(413) 226-1516

Custodian

State Street Bank and Trust Company
Boston, Massachusetts 02116

Investment Objective and Policy

Babson Capital Participation Investors (the “Trust”) is a closed-end management investment company, first offered to the public in 1988, whose shares are traded on the New York Stock Exchange under the trading symbol “MPV”. The Trust’s share price can be found in the financial section of most newspapers under either the New York Stock Exchange listings or Closed-End Fund Listings.

Babson Capital manages the Trust on a total return basis. The Trust distributes substantially all of its net income to shareholders each year. Accordingly, the Trust pays dividends to shareholders in January, May, August, and November. All registered shareholders are automatically enrolled in the Dividend Reinvestment and Cash Purchase Plan unless cash distributions are requested.

The Trust’s investment objective is to maximize total return by providing a high level of current income, the potential for growth of income, and capital appreciation. The Trust’s principal investments are privately placed, below-investment grade, long-term debt obligations purchased directly from their issuers, which tend to be smaller companies. The Trust will also invest in publicly traded debt securities (including high yield securities) again with an emphasis on those with equity features, and in convertible preferred stocks and, subject to certain limitations, readily marketable equity securities. Below-investment grade or high yield securities have predominantly speculative characteristics with respect to the capacity of the issuer to pay interest and repay principal. The Trust is prohibited from purchasing below-investment grade securities if, after giving effect to the purchase, more than 75% of the Trust’s total assets

Form N-Q

The Trust files its complete schedule of portfolio holdings with the U.S. Securities and Exchange Commission (“SEC”) for the first and third quarters of each fiscal year on Form N-Q. This information is available (i) on the SEC’s website at <http://www.sec.gov>; and (ii) at the SEC’s Public Reference Room in Washington, DC (which information on their operation may be obtained by calling 1-800-SEC-0330). A complete schedule of portfolio holdings as of each quarter-end is available upon request by calling, toll-free, 866-399-1516.

Proxy Voting Policies & Procedures; Proxy Voting Record

The Trustees of the Trust have delegated proxy voting responsibilities relating to the voting of securities held by the Trust to Babson Capital. A description of Babson Capital’s proxy voting policies and procedures is available

would be invested in below-investment grade securities, which are securities that are rated, at the time of purchase, BB or B by S&P or Ba or B by Moody's, or, if unrated, are believed by Babson Capital Management LLC ("Babson Capital") to be of an equivalent quality. In addition, the Trust will not invest in any debt security that is rated, at the time of acquisition, below B by S&P or Moody's, or if unrated, is believed by Babson Capital to be of an equivalent quality. In addition, the Trust may invest in high quality, readily marketable securities.

(1) without charge, upon request, by calling, toll-free 866-399-1516; (2) on the Trust's website: <http://www.babsoncapital.com/mpv>; and (3) on the SEC's website at <http://www.sec.gov>. Information regarding how the Trust voted proxies relating to portfolio securities during the most recent 12-month period ended June 30 is available (1) on the Trust's website: <http://www.babsoncapital.com/mpv>; and (2) on the SEC's website at <http://www.sec.gov>.

Babson Capital Participation Investors

TO OUR SHAREHOLDERS

July 31, 2015

We are pleased to present the June 30, 2015 Quarterly Report of Babson Capital Participation Investors (the “Trust”).

The Board of Trustees declared a quarterly dividend of \$0.27 per share, payable on August 14, 2015 to shareholders of record on August 3, 2015. The Trust paid a \$0.27 per share dividend for the preceding quarter. The Trust earned \$0.25 per share of net investment income, including \$0.02 per share of non-recurring income, for the second quarter of 2015, compared to \$0.24 per share, including \$0.03 per share of non-recurring income, in the previous quarter.

During the second quarter, the net assets of the Trust decreased to \$143,105,029 or \$13.87 per share compared to \$143,704,328 or \$13.93 per share on March 31, 2015. This translates into a 1.5% total return for the quarter, based on the change in the Trust’s net assets assuming the reinvestment of all dividends. Longer term, the Trust returned 11.2%, 13.7%, 13.6%, 11.6% and 12.4% for the 1, 3, 5, 10, and 25-year periods, respectively, based on the change in the Trust’s net assets assuming the reinvestment of all dividends.

The Trust’s share price increased 1.8% during the quarter, from \$12.13 per share as of March 31, 2015 to \$12.35 per share as of June 30, 2015. The Trust’s market price of \$12.35 per share equates to an 11.0% discount to the June 30, 2015 net asset value per share of \$13.87. The Trust’s average quarter-end premium for the 3, 5 and 10-year periods was 4.5%, 10.5% and 8.45%, respectively. U.S. equity markets, as approximated by the Russell 2000 Index, increased 0.4% for the quarter. U.S. fixed income markets, as approximated by the Barclays Capital U.S. Corporate High Yield Index, was flat for the quarter.

The Trust closed six new private placement investments, as well as one add-on investment in an existing portfolio company, during the second quarter. The six new investments were in BlueSpire Holding, Inc., FMH Holdings Corporation, GlynnDevins Acquisition Corporation, Master Cutlery LLC, Power Stop Holdings LLC and Randy’s Worldwide Automotive, while the add-on investment was in Hartland Controls Holding Corporation. A brief description of these investments can be found in the Consolidated Schedule of Investments. The total amount invested by the Trust in these transactions was \$9,156,000.

It was another active quarter for the Trust in terms of new investments. Middle market merger and acquisition activity, a key driver of deal flow for the Trust, has been strong in 2015. We expect deal flow to remain steady for the rest of the year, assuming no significant external shocks to the market, so we are optimistic about the level of new investment activity for the Trust through year end. The dark cloud on the horizon, however, continues to be the high purchase prices and leverage levels that are common in buyout transactions today. Average purchase price multiples for small companies continue to be at their highest levels in the past 15 years. Leverage multiples have also been elevated and are near their highs of the past 15 years. Though we are actively making new investments on behalf of the Trust in this market, we do so cautiously and with discipline, consistent with our longstanding investment philosophy of seeking to take prudent levels of risk and getting paid appropriately for the risk taken. We are not willing to provide financial leverage at levels that we believe are imprudent. This approach has served us well over the long term and through all kinds of market cycles.

The condition of the Trust’s existing portfolio remained solid through the second quarter. We had significantly more credit upgrades than downgrades during the quarter. The number of companies on our watch list and in default continues to be at or near the lowest level we have seen over the last five years. We exited four investments during the

quarter, and benefited from a dividend associated with the recapitalization of one company. In three of these exits we realized gains, while our investment in MicroGoup, Inc. was realized at a loss. We continue to have a backlog of portfolio companies that are in the process of being sold, with a number of these expected to close this year. We had five portfolio companies fully or partially prepay their debt instruments held by the Trust during the quarter. This lower level of prepayment activity is welcome after the unprecedented levels of prepayments we experienced in 2013 and early 2014.

(Continued)

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The Trust was able to maintain its \$0.27 per share quarterly dividend for the second quarter even though net investment income per share, excluding non-recurring income, was once again below the dividend rate. Net investment income per share from recurring sources has been below the dividend rate for every quarter since the second quarter of 2012. As we have discussed in prior reports, net investment income is down due principally to the considerable reduction in the number of private debt securities in the portfolio resulting from the high level of exit and prepayment activity that occurred in 2013 and 2014. We have been able to maintain the \$0.27 per share quarterly dividend with current income, non-recurring income and earnings carried forward from prior quarters. Over time, however, the Trust's dividend-paying ability tends to be correlated with its recurring earnings capacity. Absent non-recurring income, earnings available for the quarterly dividend would have been \$0.23 per share for the second quarter. This quarter, the Trust earned an additional \$0.02 per share of non-recurring income, and utilized \$0.02 per share of earnings carry-forwards to maintain the \$0.27 per share quarterly dividend. Despite several strong quarters of new investment activity, we have not been able to grow the portfolio. It is unlikely that we will be able to rebuild the portfolio back to its former size and net-income producing capability in the near term. We cannot rely on non-recurring income due to its unpredictable nature. The Trust does continue to have available earnings carry-forwards which should be available to supplement recurring income for at least the third quarter. As a result, it is likely that later in 2015 we will have to reduce the dividend from the current \$0.27 per share quarterly rate. As we move through the year, we and the Board of Trustees will continue to evaluate the current and future earnings capacity of the Trust and formulate a dividend strategy that is consistent with that earnings level.

Thank you for your continued interest in and support of Babson Capital Participation Investors.

Sincerely,

Michael L. Klofas

President

* Based on market value of total investments (including cash)

Cautionary Notice: Certain statements contained in this report may be "forward looking" statements. Investors are cautioned not to place undue reliance on forward-looking statements, which speak only as of the date on which they are made and which reflect management's current estimates, projections, expectations or beliefs, and which are subject to risks and uncertainties that may cause actual results to differ materially. These statements are subject to change at any time based upon economic, market or other conditions and may not be relied upon as investment advice or an indication of the Trust's trading intent. References to specific securities are not recommendations of such securities, and may not be representative of the Trust's current or future investments. We undertake no obligation to publicly update forward looking statements, whether as a result of new information, future events, or otherwise.

Babson Capital Participation Investors

CONSOLIDATED STATEMENT OF ASSETS AND LIABILITIES

June 30, 2015

(Unaudited)

Assets:

Investments

(See Consolidated Schedule of Investments)

Corporate restricted securities at fair value

(Cost - \$90,249,842)

\$ 92,361,107

Corporate restricted securities at market value

(Cost - \$20,258,430)

20,372,742

Corporate public securities at market value

(Cost - \$33,558,005)

33,581,925

Short-term securities at amortized cost

5,999,478

Total investments (Cost - \$150,065,755)

152,315,252

Cash

5,576,191

Interest receivable

1,685,183

Other assets

8,755

Total assets

159,585,381

Liabilities:

Note payable

15,000,000

Deferred tax liability

605,342

Investment advisory fee payable

321,986

Tax payable

306,507

Interest payable

27,267

Accrued expenses

219,250

Total liabilities

16,480,352

Total net assets

\$ 143,105,029

Net Assets:

Common shares, par value \$.01 per share

\$ 103,148

Additional paid-in capital

97,901,079

Retained net realized gain on investments, prior years

40,289,888

Undistributed net investment income

3,301,613

Accumulated net realized loss on investments

(134,854)

Net unrealized appreciation of investments

1,644,155

Total net assets

\$ 143,105,029

Common shares issued and outstanding (14,787,750 authorized)

10,314,898

Net asset value per share

\$ 13.87

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENT OF OPERATIONS

For the six months ended June 30, 2015

(Unaudited)

Investment Income:

Interest	\$ 6,316,600
Dividends	208,766
Other	60,572
Total investment income	6,585,938

Expenses:

Investment advisory fees	645,321
Interest	306,750
Professional fees	119,315
Trustees' fees and expenses	99,000
Reports to shareholders	36,000
Custodian fees	14,064
Other	35,632
Total expenses	1,256,082
Investment income - net	5,329,856

Net realized and unrealized gain on investments:

Net realized gain on investments before taxes	521,722
Income tax expense	(3,632)
Net realized gain on investments after taxes	518,090
Net change in unrealized appreciation of investments before taxes	2,483,680
Net change in deferred income tax expense	(195,723)

Net change in unrealized appreciation of investments after taxes	2,287,957
Net gain on investments	2,806,047
Net increase in net assets resulting from operations	\$ 8,135,903

See Notes to Consolidated Financial Statements

Babson Capital Participation Investors

CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended June 30, 2015

(Unaudited)

Net decrease in cash:

Cash flows from operating activities:

Purchases/Proceeds/Maturities from short-term portfolio securities, net	\$	504,635
Purchases of portfolio securities		(25,461,226)
Proceeds from disposition of portfolio securities		26,122,182
Interest, dividends and other income received		5,737,467
Interest expense paid		(306,750)
Operating expenses paid		(952,720)
Income taxes paid		(1,145,410)
Net cash provided by operating activities		4,498,178

Cash flows from financing activities:

Cash dividends paid from net investment income		(5,566,315)
Receipts for shares issued on reinvestment of dividends		185,229
Net cash used for financing activities		(5,381,086)
Net decrease in cash		(882,908)
Cash - beginning of year		6,459,099
Cash - end of period	\$	5,576,191

Reconciliation of net increase in net assets to net cash provided by operating activities:

Net increase in net assets resulting from operations	\$	8,135,903
Increase in investments		(2,491,699)
Increase in interest receivable		(205,671)
Decrease in other assets		9,088
Increase in deferred tax liability		195,723
Increase in investment advisory fee payable		12,456
Decrease in tax payable		(1,141,778)
Decrease in accrued expenses		(15,844)
Total adjustments to net assets from operations		(3,637,725)
Net cash provided by operating activities	\$	4,498,178

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

	For the six months ended 06/30/2015 (Unaudited)	For the year ended 12/31/2014
Increase in net assets:		
Operations:		
Investment income - net	\$ 5,329,856	\$ 10,671,491
Net realized gain on investments after taxes	518,090	5,032,760
Net change in unrealized appreciation of investments after taxes	2,287,957	800,181
Net increase in net assets resulting from operations	8,135,903	16,504,432
Increase from common shares issued on reinvestment of dividends		
Common shares issued (2015 - 13,813; 2014 - 56,918)	185,229	751,903
Dividends to shareholders from:		
Net investment income (2015 - \$0.27 per share; 2014 - \$0.96 per share)	(2,785,022)	(9,866,694)
Net realized gains (2015 - \$0.00 per share; 2014 - \$0.12 per share)	—	(1,236,130)
Total increase in net assets	5,536,110	6,153,511
Net assets, beginning of period	137,568,919	131,415,408
Net assets, end of period/year (including undistributed net investment income of \$3,301,613 and \$756,779, respectively)	\$ 143,105,029	\$ 137,568,919

See Notes to Consolidated Financial Statements

Babson Capital Participation Investors

CONSOLIDATED SELECTED FINANCIAL HIGHLIGHTS

Selected data for each share of beneficial interest outstanding:

	For the six months ended 06/30/15 (Unaudited)	2014	For the years ended December 31, 2013	2012	2011
Net asset value:					
Beginning of year	\$ 13.35	\$ 12.83	\$ 12.56	\$ 11.90	\$ 11.89
Net investment income (a)	0.52	1.04	1.00	1.08	1.14
Net realized and unrealized gain (loss) on investments	0.27	0.57	0.35	0.64	0.08
Total from investment operations	0.79	1.61	1.35	1.72	1.22
Dividends from net investment income to common shareholders	(0.27)	(0.96)	(1.08)	(1.04)	(1.23)
Dividends from realized gain on investments to common shareholders	—	(0.12)	—	(0.04)	(0.00)(b)
Increase from dividends reinvested	(0.00)(b)	(0.01)	(0.00)(b)	0.02	0.02
Total dividends	(0.27)	(1.09)	(1.08)	(1.06)	(1.21)
Net asset value: End of period/year	\$ 13.87	\$ 13.35	\$ 12.83	\$ 12.56	\$ 11.90
Per share market value: End of period/year	\$ 12.35	\$ 13.23	\$ 12.88	\$ 13.91	\$ 15.85
Total investment return					
Net asset value (c)	5.93%	13.61%	10.97%	15.89%	10.56%
Market value (c)	(4.64)%	12.54%	0.47%	(4.54)%	24.16%
Net assets (in millions):					
End of period/year	\$ 143.11	\$ 137.57	\$ 131.42	\$ 127.87	\$ 120.32
Ratio of total expenses to average net assets	1.80%(e)	2.84%	2.15%	2.83%	2.18%
Ratio of operating expenses to average net assets	1.35%(e)	1.49%	1.51%	1.51%	1.42%
Ratio of interest expense to average net assets	0.44%(e)	0.45%	0.47%	0.49%	0.56%
Ratio of income tax expense to average net assets (d)	0.01%(e)	0.90%	0.17%	0.83%	0.20%
	7.61%(e)	7.82%	7.77%	8.82%	9.33%

Ratio of net investment
income to average net assets

Portfolio turnover 17% 32% 30% 34% 21%

- (a) Calculated using average shares.
 (b) Rounds to less than \$0.01 per share.
 (c) Net asset value return represents portfolio returns based on change in the Trust's net asset value assuming the reinvestment of all dividends and distributions which differs from the total investment return based on the Trust's market value due to the difference between the Trust's net asset value and the market value of its shares outstanding; past performance is no guarantee of future results.
 (d) As additional information, this ratio is included to reflect the taxes paid on retained long-term gains. These taxes paid are netted against realized capital gains in the Statement of Operations. The taxes paid are treated as deemed distributions and a credit for the taxes paid is passed on to shareholders.
 (e) Annualized.

Senior borrowings:

Total principal amount (in millions) \$	15	\$ 15	\$ 15	\$ 15	\$ 15
Asset coverage per \$1,000 of indebtedness	\$ 10,540	\$ 10,171	\$ 9,761	\$ 9,525	\$ 9,021

See Notes to Consolidated Financial Statements

CONSOLIDATED SCHEDULE OF INVESTMENTS

June 30, 2015

(Unaudited)

Corporate Restricted Securities - 78.78%: (A)	Principal Amount, Shares, Units or Ownership Percentage	Acquisition Date	Cost	Fair Value
Private Placement Investments - 64.54%: (C)				
1492 Acquisition LLC				
A leading producer of premium Italian cured meats and deli meats in the U.S.				
14% Senior Subordinated				
Note due 10/17/2019	\$ 684,281	10/17/12	\$ 674,612	\$ 682,319
Limited Liability Company				
Unit Class A Common (B)	11,364 uts.	10/17/12	11,364	—
Limited Liability Company				
Unit Class A Preferred (B)	102 uts.	10/17/12	102,270	87,512
			788,246	769,831
A S C Group, Inc.				
A designer and manufacturer of high reliability encryption equipment, communications products, computing systems and electronic components primarily for the military and aerospace sectors.				
14% Senior Subordinated				
Note due 12/21/2020	\$ 1,054,503	12/20/13	1,036,965	1,065,047
Limited Liability Company				
Unit Class A (B)	3,094 uts.	*	153,704	389,453
Limited Liability Company				
Unit Class B (B)	1,479 uts.	10/09/09	52,999	186,167
* 10/09/09 and 12/20/13.			1,243,668	1,640,667
A W X Holdings Corporation				
A provider of aerial equipment rental, sales and repair services to non-residential construction and maintenance contractors operating in the State of Indiana.				
10.5% Senior Secured Term				
Note due 12/20/2016 (D)	\$ 420,000	05/15/08	413,944	210,000
13% Senior Subordinated				
Note due 12/20/2016 (D)	\$ 420,000	05/15/08	384,627	—
Common Stock (B)	60,000 shs.	05/15/08	60,000	—
Warrant, exercisable until 2016, to purchase common stock at \$.01 per share (B)	21,099 shs.	05/15/08	35,654	—
			894,225	210,000
ABC Industries, Inc.				
A manufacturer of mine and tunneling ventilation products in the U.S.				
13% Senior Subordinated				
Note due 07/31/2019	\$ 181,818	08/01/12	168,363	183,636

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Preferred Stock Series A (B)	125,000 shs.	08/01/12	125,000	238,188
Warrant, exercisable until 2022, to purchase common stock at \$.02 per share (B)	22,414 shs.	08/01/12	42,446 335,809	40,476 462,300
ACP Cascade Holdings LLC				
A manufacturer and distributor of vinyl windows and patio doors throughout the northwestern United States.				
Limited Liability Company				
Unit Class B (B)	32 uts.	11/09/12	—	—
Advanced Manufacturing Enterprises LLC				
A designer and manufacturer of large, custom gearing products for a number of critical customer applications.				
Limited Liability Company				
Unit (B)	1,945 uts.	*	207,910	249,627
* 12/07/12 and 07/11/13.				

Babson Capital Participation Investors

CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

June 30, 2015

(Unaudited)

Corporate Restricted Securities: (A) (Continued)	Principal Amount, Shares, Units or Ownership Percentage	Acquisition Date	Cost	Fair Value
Advanced Technologies Holdings A provider of factory maintenance services to industrial companies. Preferred Stock Series A (B)	332 shs.	12/27/07	\$ 164,016	\$ 546,154
Convertible Preferred Stock Series B (B)	28 shs.	01/04/11	21,600	45,791
			185,616	591,945

AFC - Dell Holding Corporation

A distributor and provider of inventory management services for "C-Parts" used by OEMs in their manufacturing and production facilities.

12.5% Senior Subordinated Note due 09/27/2020	\$ 1,185,437	03/27/15	1,162,603	1,199,076
Preferred Stock (B)	1,122 shs.	03/27/15	112,154	106,546
Common Stock (B)	346 shs.	03/27/15	346	329
			1,275,103	1,305,951

Airxcel Holdings

A leading manufacturer of a broad range of climate control solutions, including air-conditioners, heat pumps, cooking appliances, furnaces, powered vents, and water heaters.

12.5% Senior Subordinated Note due 11/18/2020	\$ 1,450,392	11/18/14	1,423,716	1,433,081
Limited Liability Company Unit	288 uts.	11/18/14	288,000	250,882
			1,711,716	1,683,963

American Hospice
Management Holding
LLC

A for-profit hospice care provider in the United States.

12% Senior Subordinated Note due 03/31/2020 (D)	\$ 1,237,502	*	1,237,361	1,216,889
Preferred Class A Unit (B)	1,706 uts.	**	170,600	—

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Preferred Class B Unit (B)	808 uts.	06/09/08	80,789	64,101
Common Class B Unit (B)	16,100 uts.	01/22/04	1	—
Common Class D Unit (B)	3,690 uts.	09/12/06	—	—
* 01/22/04 and 06/09/08.			1,488,751	1,280,990
** 01/22/04 and 09/16/06.				

AMS Holding LLC

A leading multi-channel direct marketer of high-value collectible coins and proprietary-branded jewelry and watches.

Limited Liability

Company Unit Class A

Preferred (B)	114 uts.	10/04/12	113,636	325,362
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Animal Supply Company

A distributor of pet products to independent pet stores, veterinary clients and other pet specialty retailers.

9.5% Second Lien Term

Loan due 09/17/2019	\$	1,725,000	03/30/15	1,700,603	1,696,310
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CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

June 30, 2015

(Unaudited)

Corporate Restricted Securities: (A) (Continued)	Principal Amount, Shares, Units or Ownership Percentage	Acquisition Date	Cost	Fair Value
Arch Global Precision LLC				
A leading manufacturer of high tolerance precision components and consumable tools.				
Limited Liability Company				
Unit Class B (B)	20 uts.	12/21/11	\$ 28,418	\$ 133,906
Limited Liability Company				
Unit Class C (B)	230 uts.	12/21/11	221,582	1,266,263
			250,000	1,400,169
ARI Holding Corporation				
A leading national supplier of products used primarily by specialty contractors.				
11.5% Senior Subordinated				
Note due 02/01/2020	\$ 1,700,320	*	1,676,853	1,705,024
Limited Partnership Interest	524 uts.	08/01/14	523,950	450,530
* 05/21/13 and 08/01/14.			2,200,803	2,155,554
Arrow Tru-Line Holdings, Inc.				
A manufacturer of hardware for residential and commercial overhead garage doors in North America.				
Preferred Stock (B)	27 shs.	10/16/09	26,825	112,964
Common Stock (B)	213 shs.	05/18/05	212,588	55,790
Warrant, exercisable until 2016, to purchase common stock at \$.01 per share (B)	56 shs.	05/18/05	47,929	14,627
			287,342	183,381
Avantech Testing Services LLC				
A manufacturer of custom Non-Destructive Testing ("NDT") systems and provider of NDT and inspections services primarily to the oil country tubular goods market.				
15% Senior Subordinated				
Note due 07/31/2021	\$ 544,041	07/31/14	535,316	272,020
Limited Liability Company				
Unit	36,964 uts.	07/31/14	369,643	247,550
			904,959	519,570
Blue Wave Products, Inc.				
A distributor of pool supplies.				
10% Senior Secured Term				
Note due 09/30/2018	\$ 258,156	10/12/12	254,967	258,156
	\$ 326,488	10/12/12	309,519	333,017

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13% Senior Subordinated

Note due 09/30/2019

Common Stock (B)	51,064 shs.	10/12/12	51,064	117,681
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Warrant, exercisable until

2022, to purchase common

stock at \$.01 per share (B)	20,216 shs.	10/12/12	20,216	46,589
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			635,766	755,443
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BlueSpire Holding, Inc.

A marketing services firm that integrates strategy, technology, and content to deliver customized marketing solutions for clients in the senior living, financial services and healthcare end markets.

12.5% Senior Subordinated

Note due 06/30/2021	\$ 1,568,200	06/30/15	1,536,846	1,568,200
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Common Stock (B)	1,417 shs.	06/30/15	156,800	148,965
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			1,693,646	1,717,165
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Babson Capital Participation Investors

CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

June 30, 2015

(Unaudited)

Corporate Restricted Securities: (A) (Continued)	Principal Amount, Shares, Units or Ownership Percentage	Acquisition Date	Cost	Fair Value
BP SCI LLC				
A leading value-added distributor of branded pipes, valves, and fittings (PVF) to diversified end markets.				
Limited Liability Company				
Unit Class A (B)	417 uts.	10/17/12	\$ 41,667	\$ 260,353
Limited Liability Company				
Unit Class B (B)	167 uts.	10/17/12	166,666	223,626
			208,333	483,979

CG Holdings Manufacturing Company

A coating provider serving the automotive, agricultural, heavy truck and other end markets.

13% Senior Subordinated

Note due 11/01/2019	\$ 1,412,605	*	1,347,131	1,426,731
Preferred Stock (B)	1,350 shs.	*	134,972	151,061
Preferred Stock (B)	489 shs.	*	48,721	54,751
Common Stock (B)	140 shs.	*	14,864	71,803
Warrant, exercisable until 2023, to purchase common stock at \$.01 per share (B)	58 shs.	*	5,430	29,824
* 05/09/13 and 11/01/13.			1,551,118	1,734,170

CHG Alternative Education Holding Company

A leading provider of publicly-funded, for profit pre-K-12 education services targeting special needs children at therapeutic day schools and "at risk" youth through alternative education programs.

13.5% Senior Subordinated

Note due 01/19/2018	\$ 762,252	01/19/11	741,521	762,252
14% Senior Subordinated				
Note due 08/03/2019	\$ 198,855	08/03/12	196,239	200,844
Common Stock (B)	375 shs.	01/19/11	37,500	53,977
Warrant, exercisable until 2021, to purchase common stock at \$.01 per share (B)	295 shs.	01/19/11	29,250	42,429
			1,004,510	1,059,502

Church Services Holding Company

A provider of diversified residential services to homeowners in the Houston, Dallas, and Austin markets.

14.5% Senior Subordinated

Note due 03/26/2018	\$	426,889	03/26/12	419,135	423,858
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10% Senior Subordinated

Note due 09/12/2015	\$	6,488	09/15/14	6,488	6,484
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Common Stock (B)		1,327 shs.	*	132,700	77,538
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Warrant, exercisable until

2022, to purchase common

stock at \$.01 per share (B)		57 shs.	03/26/12	5,740	3,331
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* 03/26/12, 05/25/12 and

06/19/12.				564,063	511,211
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Clarion Brands Holding Corp.

A portfolio of six over-the-counter (OTC) pharmaceutical brands whose products are used to treat tinnitus or ringing of the ear, excessive sweating, urinary tract infections, muscle pain, and skin conditions.

12.5% Senior Subordinated

Note due 09/31/2021	\$	1,585,890	10/01/14	1,556,720	1,590,403
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Common Stock (B)		1,568 shs.	10/01/14	156,818	124,825
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				1,713,538	1,715,228
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CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

June 30, 2015

(Unaudited)

Corporate Restricted Securities: (A) (Continued)	Principal Amount, Shares, Units or Ownership Percentage	Acquisition Date	Cost	Fair Value
Clough, Harbour and Associates An engineering service firm that is located in Albany, NY. Preferred Stock (B)	147 shs.	12/02/08	\$ 146,594	\$ 373,279
Compass Chemical International LLC A manufacturer and supplier of standard and specialty formulated chemicals, primarily phosphoric acid derivatives called phosphonates. 13% Senior Subordinated Note due 10/04/2020	\$ 1,504,645	03/04/15	1,475,602	1,474,424
Limited Liability Company Unit (B)	230 uts.	03/04/15	230,000 1,705,602	216,610 1,691,034
Connecticut Electric, Inc. A supplier and distributor of electrical products sold into the retail and wholesale markets. Limited Liability Company Unit Class A (B)	82,613 uts.	01/12/07	82,613	78,939
Limited Liability Company Unit Class C (B)	59,756 uts.	01/12/07	59,756	61,301
Limited Liability Company Unit Class D (B)	671,525 uts.	05/03/10	—	772,363
Limited Liability Company Unit Class E (B)	1,102 uts.	05/03/10	— 142,369	2,567 915,170
CTM Holding, Inc. A leading owner and operator of coin-operated children's rides, penny presses and candy kiosks in the U.S. 15% Senior Subordinated Note due 11/22/2019	\$ 1,240,024	11/22/13	1,220,791	1,254,319
Common Stock (B)	78 shs.	11/22/13	443,182 1,663,973	377,683 1,632,002
Custom Engineered Wheels, Inc. A manufacturer of custom engineered, non-pneumatic plastic wheels and plastic tread cap tires used primarily for lawn and garden products and wheelchairs. Preferred Stock PIK (B)	156 shs.	10/26/09	156,468	230,735
Preferred Stock Series A (B)	114 shs.	10/27/09	104,374	168,580
Common Stock (B)	38 shs.	10/26/09	38,244	—

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Warrant, exercisable until 2016, to purchase common stock at \$.01 per share (B)	28 shs.	10/27/09	25,735 324,821	— 399,315
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DPL Holding Corporation