

BABSON CAPITAL PARTICIPATION INVESTORS

Form N-30D

May 27, 2016

Adviser

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

Independent Registered Public Accounting Firm

KPMG LLP  
Boston, Massachusetts 02110

Counsel to the Trust

Ropes & Gray LLP  
Boston, Massachusetts 02110

Custodian

State Street Bank and Trust Company  
Boston, Massachusetts 02116  
Transfer Agent & Registrar

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

Internet Website

[www.babsoncapital.com/funds/closed-end-funds/babson-capital-participation-investors](http://www.babsoncapital.com/funds/closed-end-funds/babson-capital-participation-investors)

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

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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.

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 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.

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.

#### 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 (1) without charge, upon request, by calling, toll-free 866-399-1516; (2) on the Trust's website:

<http://www.babsoncapital.com/funds/closed-end-funds/babson-capital-participation-investors>; 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/funds/closed-end-funds/babson-capital-participation-investors>; and (2) on the SEC's website at <http://www.sec.gov>.

#### Legal Matters

The Trust has entered into contractual arrangements with an investment adviser, transfer agent and custodian (collectively "service providers") who each provide services to the Trust. Shareholders are not parties to, or intended beneficiaries of, these contractual arrangements, and these contractual arrangements are not intended to create any shareholder right to enforce them against the service providers or to seek any remedy under them against the service providers, either directly or on behalf of the Trust.

Under the Trust's Bylaws, any claims asserted against or on behalf of the Trust, including claims against Trustees and officers must be brought in courts located within the Commonwealth of Massachusetts.

The Trust's registration statement and this shareholder report are not contracts between the Trust and its shareholders and do not give rise to any contractual rights or obligations or any shareholder rights other than any rights conferred explicitly by federal or state securities laws that may not be waived.



Babson Capital Participation Investors  
TO OUR SHAREHOLDERS  
April 30, 2016

We are pleased to present the March 31, 2016 Quarterly Report of Babson Capital Participation Investors (the "Trust").

The Board of Trustees declared a quarterly dividend of \$0.27 per share, payable on May 13, 2016 to shareholders of record on May 2, 2016. The Trust paid a \$0.27 per share dividend for the preceding quarter. The Trust earned \$0.22 per share of net investment income, including \$0.02 per share of non-recurring charges, for the first quarter of 2016, compared to \$0.24 per share, including \$0.01 per share of non-recurring income, in the previous quarter.

During the first quarter, the net assets of the Trust increased to \$138,443,220 or \$13.39 per share compared to \$135,349,634 or \$13.10 per share on December 31, 2015. This translates into a 2.1% 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 4.1%, 9.6%, 11.1%, 10.0% and 12.3% for the 1-, 3-, 5-, 10-, and 25-year periods ended March 31, 2016, respectively, based on the change in the Trust's net asset value (net of all fees and expenses) assuming the reinvestment of all dividends and distributions.

The Trust's share price increased 3.9% during the quarter, from \$13.75 per share as of December 31, 2015 to \$14.29 per share as of March 31, 2016. The Trust's market price of \$14.29 per share equates to a 6.7% premium over the March 31, 2016 net asset value per share of \$13.39. The Trust's average quarter-end premium for the 3-, 5- and 10-year periods was 7.2%, 11.6% and 8.9%, respectively. U.S. equity markets, as approximated by the Russell 2000 Index, decreased 1.5% for the quarter. U.S. fixed income markets, as approximated by the Barclays Capital U.S. Corporate High Yield Index, increased 3.4% for the quarter.

The Trust closed four new private placement investments, as well as one add-on investment in an existing portfolio company, during the first quarter. The four new investments were in Glynlyon Holding Companies, Inc., PANOS Brands LLC, Veritext Corporation and Wolf-Gordon, Inc., while the add-on investment was in PPC Event Services. 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 \$6,942,000.

It was an active first quarter for the Trust in terms of new investments. Middle market merger and acquisition activity, a key driver of deal flow for the Trust, was steady during the quarter. 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 in 2016. The dark cloud on the horizon though, continues to be the high purchase prices and leverage levels that have been common in buyout transactions for the last couple of years. Average purchase price multiples for small companies continue to be at their highest levels in the past 15 years. Leverage multiples have also been worrisomely high for several years and are near their highs of the past 15 years as well. 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 first 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 successfully exited one investment during the quarter. We have a solid backlog of portfolio companies that are in the process of being sold, with three companies already having been sold so far in the second quarter. We had no companies pay their debt instruments held by the Trust during the quarter.

While the Trust was able to maintain its \$0.27 per share quarterly dividend for the first quarter, we must make note again, as we have for over two years now, that this dividend level may not be sustainable through 2016. The Trust's net investment income per share from recurring sources of \$0.24 for the first quarter 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. With several strong recent quarters of new investment activity, we have made some progress in rebuilding the private portfolio, but it is still well below its former size. 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. This quarter, the Trust utilized \$0.05 per share of earnings carry-forwards to maintain the \$0.27 per share quarterly dividend. The Trust continues to have earnings carry-forwards which should be available to supplement recurring income for the next few quarters. But unless market conditions change dramatically, it is still

(Continued)

unlikely that we will be able to completely rebuild the portfolio back to its former size in the near term and grow net investment income. As a result, it is likely that in 2016 we will have to reduce the dividend from the current \$0.27 per share quarterly rate. As we move through 2016, 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.

On behalf of the Trust's shareholders, the members of the Board of Trustees and the officers of the Trust, I would like to thank William J. Barrett for his many years of dedicated service to the Trust as a Trustee. Bill retired from the Board of Trustees effective as of the Trust's Annual Meeting of Shareholders which occurred on April 22, 2016. Bill had been a Trustee since 2006, and has provided the Trust with invaluable insight and guidance and has served our shareholders extremely well during his long tenure as a Trustee.

Lastly, as I announced at the Annual Meeting of Shareholders, I will be retiring from Babson Capital and as President of the Trust, effective June 1, 2016. At their April 22, 2016 meeting, the Board of Trustees elected Robert M. Shettle to succeed me as President of the Trust. Bob joined Babson Capital in 1998 and is currently a Vice President of the Trust and also head of Babson Capital's Mezzanine and Private Equity Group, where he oversees a team of investment professionals who originate, analyze, structure and document mezzanine and private equity investments.

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

Sincerely,

Michael L. Klofas

President

Portfolio Composition as of 03/31/16\*

\* 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  
March 31, 2016  
(Unaudited)

## Assets:

## Investments

(See Consolidated Schedule of Investments)

|  |               |
|--|---------------|
| Corporate restricted securities at fair value<br>(Cost - \$96,708,386)   | \$98,538,386  |
| Corporate restricted securities at market value<br>(Cost - \$19,908,885) | 18,999,004    |
| Corporate public securities at market value<br>(Cost - \$24,233,254)     | 23,024,262    |
| Short-term securities at amortized cost                                  | 1,999,867     |
| Total investments (Cost - \$142,850,392)                                 | 142,561,519   |
| Cash   | 10,607,379    |
| Interest receivable  | 1,363,925     |
| Receivable for investments sold  | 313,362       |
| Other assets   | 28,355        |
| Total assets   | 154,874,540   |
| Liabilities:   |               |
| Note payable   | 15,000,000    |
| Deferred tax liability   | 538,272       |
| Investment advisory fee payable  | 311,497       |
| Payable for investments purchased  | 305,304       |
| Interest payable   | 27,267        |
| Accrued expenses   | 248,980       |
| Total liabilities  | 16,431,320    |
| Total net assets   | \$138,443,220 |

## Net Assets:

|  |            |
|--|------------|
| Common shares, par value \$.01 per share               | \$103,424  |
| Additional paid-in capital                             | 95,439,990 |
| Retained net realized gain on investments, prior years | 40,511,310 |
| Undistributed net investment gain                      | 3,657,424  |
| Accumulated net realized loss on investments           | (441,783 ) |
| Net unrealized depreciation of investments             | (827,145 ) |



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|  |               |
|--|---------------|
| Total net assets   | \$138,443,220 |
| Common shares issued and outstanding (14,787,750 authorized) | 10,342,412    |
| Net asset value per share                                    | \$13.39       |

See Notes to Consolidated Financial Statements

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## CONSOLIDATED STATEMENT OF OPERATIONS

For the three months ended March 31, 2016

(Unaudited)

|   |             |
|---|-------------|
| Investment Income:  |             |
| Interest  | \$2,855,135 |
| Dividends   | 41,909      |
| Other   | 17,174      |
| Total investment income   | 2,914,218   |
| Expenses:   |             |
| Investment advisory fees  | 311,497     |
| Interest  | 153,375     |
| Trustees' fees and expenses                                       | 75,000      |
| Professional fees   | 61,104      |
| Reports to shareholders   | 24,000      |
| Custodian fees  | 6,000       |
| Other   | 30,206      |
| Total expenses  | 661,182     |
| Investment income - net   | 2,253,036   |
| Net realized and unrealized gain on investments:                  |             |
| Net realized loss on investments before taxes                     | (369,989 )  |
| Income tax expense  | (160,104 )  |
| Net realized loss on investments after taxes                      | (530,093 )  |
| Net change in unrealized appreciation of investments before taxes | 1,214,335   |
| Net change in deferred income tax expense                         | (29,184 )   |
| Net change in unrealized appreciation of investments after taxes  | 1,185,151   |
| Net gain on investments   | 655,058     |
| Net increase in net assets resulting from operations              | \$2,908,094 |

See Notes to Consolidated Financial Statements



Babson Capital Participation Investors  
CONSOLIDATED STATEMENT OF CASH FLOWS  
For the three months ended March 31, 2016  
(Unaudited)

|   |              |
|---|--------------|
| Net increase in cash:   |              |
| Cash flows from operating activities:   |              |
| Purchases/Proceeds/Maturities from short-term portfolio securities, net                       | \$2,008,704  |
| Purchases of portfolio securities   | (8,684,370 ) |
| Proceeds from disposition of portfolio securities   | 11,976,171   |
| Interest, dividends and other income received   | 2,527,928    |
| Interest expense paid   | (153,375 )   |
| Operating expenses paid   | (512,216 )   |
| Income taxes paid   | (634,551 )   |
| Net cash provided by operating activities   | 6,528,291    |
| Cash flows from financing activities:   |              |
| Cash dividends paid from net investment income  | (2,788,666 ) |
| Receipts for shares issued on reinvestment of dividends                                       | 185,492      |
| Net cash used for financing activities  | (2,603,174 ) |
| Net increase in cash  | 3,925,117    |
| Cash - beginning of year  | 6,682,262    |
| Cash - end of period  | \$10,607,379 |
| Reconciliation of net increase in net assets to<br>net cash provided by operating activities: |              |
| Net increase in net assets resulting from operations  | \$2,908,094  |
| Decrease in investments   | 3,830,162    |
| Decrease in interest receivable   | 249,337      |
| Increase in receivable for investments sold   | (313,362 )   |
| Increase in other assets  | (1,572 )     |
| Increase in deferred tax liability  | 29,184       |
| Increase in investment advisory fee payable   | 6,960        |
| Increase in payable for investments purchased   | 305,304      |
| Decrease in accrued expenses  | (11,369 )    |
| Decrease in tax payable   | (474,447 )   |
| Total adjustments to net assets from operations   | 3,620,197    |
| Net cash provided by operating activities   | \$6,528,291  |

See Notes to Consolidated Financial Statements

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## CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

|   | For the three<br>months ended<br>03/31/16<br>(Unaudited) | For the<br>year ended<br>12/31/2015 |
|---|--|-------------------------------------|
| Increase in net assets:   |  |                                     |
| Operations:   |  |                                     |
| Investment income - net   | \$2,253,036  | \$9,762,813                         |
| Net realized (loss)/gain on investments after taxes   | (530,093 )   | 161,395                             |
| Net change in unrealized appreciation/(depreciation) of investments after taxes   | 1,185,151  | (1,368,494 )                        |
| Net increase in net assets resulting from operations  | 2,908,094  | 8,555,714                           |
| Increase from common shares issued on reinvestment of dividends   |  |                                     |
| Common shares issued (2016 - 14,021; 2015 - 27,306)   | 185,492  | 368,734                             |
| Dividends to shareholders from:   |  |                                     |
| Net investment income (2016 - \$0.00 per share; 2015 - \$1.08 per share)  | —  | (11,143,733 )                       |
| Total increase/(decrease) in net assets   | 3,093,586  | (2,219,285 )                        |
| Net assets, beginning of period/year  | 135,349,634  | 137,568,919                         |
| Net assets, end of period/year (including undistributed net investment income of \$3,657,424 and \$1,404,388, respectively) | \$ 138,443,220   | \$ 135,349,634                      |

See Notes to Consolidated Financial Statements

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Babson Capital Participation Investors

CONSOLIDATED SELECTED FINANCIAL HIGHLIGHTS

Selected data for each share of beneficial interest outstanding:

|  | For the<br>three<br>months<br>ended<br>03/31/16<br>(Unaudited) | For the years ended December 31, |           |           |           |
|--|--|----------------------------------|-----------|-----------|-----------|
|  | 2015   | 2014                             | 2013      | 2012      |           |
| Net asset value:   |  |                                  |           |           |           |
| Beginning of period/year   | \$ 13.10   | \$ 13.35                         | \$ 12.83  | \$ 12.56  | \$ 11.90  |
| Net investment income (a)  | 0.22   | 0.95                             | 1.04      | 1.00      | 1.08      |
| Net realized and unrealized gain (loss) on investments             | 0.06   | (0.12)                           | 0.57      | 0.35      | 0.64      |
| Total from investment operations                                   | 0.28   | 0.83                             | 1.61      | 1.35      | 1.72      |
| Dividends from net investment income to common shareholders        | —  | (1.08)                           | (0.96)    | (1.08)    | (1.04)    |
| Dividends from realized gain on investments to common shareholders | —  | —                                | (0.12)    | —         | (0.04)    |
| Increase from dividends reinvested                                 | 0.01   | (0.00)(b)                        | (0.01)    | (0.00)(b) | 0.02      |
| Total dividends  | 0.01   | (1.08)                           | (1.09)    | (1.08)    | (1.06)    |
| Net asset value: End of period/year                                | \$ 13.39   | \$ 13.10                         | \$ 13.35  | \$ 12.83  | \$ 12.56  |
| Per share market value:  |  |                                  |           |           |           |
| End of period/year   | \$ 14.29   | \$ 13.75                         | \$ 13.23  | \$ 12.88  | \$ 13.91  |
| Total investment return  |  |                                  |           |           |           |
| Net asset value (c)  | 2.14%  | 6.23%                            | 13.61%    | 10.97%    | 15.89%    |
| Market value (c)   | 3.93%  | 12.66%                           | 12.54%    | 0.47%     | (4.54%)   |
| Net assets (in millions):  |  |                                  |           |           |           |
| End of period/year   | \$ 138.44  | \$ 135.35                        | \$ 137.57 | \$ 131.42 | \$ 127.87 |
| Ratio of total expenses to average net assets                      | 2.42%(e)   | 2.17%                            | 2.84%     | 2.15%     | 2.83%     |
| Ratio of operating expenses to average net assets                  | 1.50%(e)   | 1.49%                            | 1.49%     | 1.51%     | 1.51%     |
| Ratio of interest expense to average net assets                    | 0.45%(e)   | 0.44%                            | 0.45%     | 0.47%     | 0.49%     |
| Ratio of income tax expense to average net assets (d)              | 0.47%(e)   | 0.24%                            | 0.90%     | 0.17%     | 0.83%     |
| Ratio of net investment income to average net assets               | 6.64%(e)   | 6.95%                            | 7.82%     | 7.77%     | 8.82%     |
| Portfolio turnover   | 6%   | 30%                              | 32%       | 30%       | 34%       |

(a) Calculated using average shares.

(b) Rounds to less than \$0.01 per share.

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)

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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 | \$10,230 | \$10,023 | \$10,171 | \$9,761 | \$9,525 |

See Notes to Consolidated Financial Statements

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## CONSOLIDATED SCHEDULE OF INVESTMENTS

March 31, 2016

(Unaudited)

|   | Principal<br>Amount,<br>Shares,<br>Units or<br>Ownership<br>Percentage | Acquisition<br>Date | Cost       | Fair<br>Value |
|---|--|---------------------|------------|---------------|
| Corporate Restricted Securities - 84.90%: (A)   |  |                     |            |               |
| Private Placement Investments - 71.18%: (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   | \$ 694,597   | 10/17/12            | \$ 686,223 | \$ 694,597    |
| Limited Liability Company Unit Class A Preferred (B)  | 102 uts.   | 10/17/12            | 102,270    | 131,676       |
| Limited Liability Company Unit Class A Common (B)   | 11,364 uts.  | 10/17/12            | 11,364     | 111,268       |
|   |  |                     | 799,857    | 937,541       |
| 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    | 405,300       |
| 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    | 405,300       |
| 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            | 170,259    | 181,818       |
|   | 125,000  |                     |            |               |
| Preferred Stock Series A (B)  | shs.   | 08/01/12            | 125,000    | 232,289       |
| Warrant, exercisable until 2022, to purchase common stock at \$.02 per share (B)  | 22,414 shs.  | 08/01/12            | 42,446     | 39,301        |
|   |  |                     | 337,705    | 453,408       |
| 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    | 7,777         |
| * 12/07/12, 07/11/13 and 06/30/15.  |  |                     |            |               |
| Advanced Technologies Holdings  |  |                     |            |               |
| A provider of factory maintenance services to industrial companies.   |  |                     |            |               |
| Preferred Stock Series A (B)  | 152 shs.   | 12/27/07            | 75,131     | 294,699       |
| Convertible Preferred Stock Series B (B)  | 28 shs.  | 01/04/11            | 21,600     | 53,940        |
|   |  |                     | 96,731     | 348,639       |



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Babson Capital Participation Investors

CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

March 31, 2016

(Unaudited)

| Corporate Restricted Securities: (A) (Continued)  | Principal Amount, Shares, Units or Ownership Percentage | Acquisition Date | Cost         | Fair Value   |
|---|---|------------------|--------------|--------------|
| <b>AFC - Dell Holding Corporation</b>   |   |                  |              |              |
| 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   | \$ 1,194,350  | 03/27/15         | \$ 1,173,934 | \$ 1,217,337 |
| Preferred Stock (B)   | 1,122 shs.  | 03/27/15         | 112,154      | 112,722      |
| Common Stock (B)  | 346 shs.  | 03/27/15         | 346          | —            |
|   |   |                  | 1,286,434    | 1,330,059    |
| <b>Airxcel Holdings</b>   |   |                  |              |              |
| 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   | \$ 1,466,770  | 11/18/14         | 1,442,810    | 1,477,025    |
| Limited Liability Company Unit  | 288 uts.  | 11/18/14         | 288,000      | 306,663      |
|   |   |                  | 1,730,810    | 1,783,688    |
| <b>AMS Holding LLC</b>  |   |                  |              |              |
| 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      | 331,345      |
| <b>Animal Supply Company</b>  |   |                  |              |              |
| A distributor of pet products to independent pet stores, veterinary clients and other pet specialty retailers.  |   |                  |              |              |
| 10.5% Second Lien Term Loan due 09/17/2019  | \$ 1,759,500  | 03/30/15         | 1,739,474    | 1,670,894    |
| <b>ARI Holding Corporation</b>  |   |                  |              |              |
| A leading national supplier of products used primarily by specialty contractors.  |   |                  |              |              |
| 11.5% Senior Subordinated Note due 02/01/2020   | \$ 1,706,704  | *                | 1,686,272    | 1,710,392    |
| Limited Partnership Interest  | 524 uts.  | 08/01/14         | 523,950      | 612,763      |
| * 05/21/13 and 08/01/14.  |   |                  | 2,210,222    | 2,323,155    |
| <b>ASC Holdings, Inc.</b>   |   |                  |              |              |
| A manufacturer of capital equipment used by corrugated box manufacturers.   |   |                  |              |              |
| 13% Senior Subordinated Note due 05/18/2021   | \$ 743,096  | 11/19/15         | 728,982      | 740,900      |
| Limited Liability Company Unit (B)  | 111,100 uts.  | 11/18/15         | 111,100      | 49,662       |
|   |   |                  | 840,082      | 790,562      |

Aurora Parts & Accessories LLC

A distributor of aftermarket over-the-road semi-trailer parts and accessories sold to customers across North America.

|   |              |          |           |           |
|---|--------------|----------|-----------|-----------|
| 11% Senior Subordinated Note due 02/17/2022 | \$ 1,515,400 | 08/17/15 | 1,487,566 | 1,527,153 |
| Preferred Stock (B)                         | 210 shs.     | 08/17/15 | 209,390   | 207,642   |
| Common Stock (B)                            | 210 shs.     | 08/17/15 | 210       | —         |
|   |              |          | 1,697,166 | 1,734,795 |

## CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

March 31, 2016

(Unaudited)

| Corporate Restricted Securities: (A) (Continued)   | Principal<br>Amount,<br>Shares,<br>Units or<br>Ownership<br>Percentage | Acquisition<br>Date | Cost       | Fair Value |
|--|--|---------------------|------------|------------|
| <b>Avantech Testing Services LLC</b>   |  |                     |            |            |
| 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 01/31/2020 (D)  | \$ 500,587   | 07/31/14            | \$ 491,228 | \$—        |
| Limited Liability Company Unit   | 45,504 uts.  | *                   | —          | —          |
| * 07/31/14 and 10/14/15.   |  |                     | 491,228    | —          |
| <b>Blue Wave Products, Inc.</b>  |  |                     |            |            |
| A distributor of pool supplies.  |  |                     |            |            |
| 10% Senior Secured Term Note due 09/30/2018  | \$ 198,582   | 10/12/12            | 196,627    | 198,582    |
| 13% Senior Subordinated Note due 09/30/2019  | \$ 328,942   | 10/12/12            | 314,275    | 328,942    |
| Common Stock (B)   | 51,064 shs.  | 10/12/12            | 51,064     | 184,835    |
| Warrant, exercisable until 2022, to purchase common stock at \$.01 per share (B)   | 20,216 shs.  | 10/12/12            | 20,216     | 73,175     |
|  |  |                     | 582,182    | 785,534    |
| <b>BlueSpire Holding, Inc.</b>   |  |                     |            |            |
| 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  | \$ 1,585,909   | 06/30/15            | 1,557,300  | 1,542,004  |
| Common Stock (B)   | 1,417 shs.   | 06/30/15            | 156,800    | 114,637    |
|  |  |                     | 1,714,100  | 1,656,641  |
| <b>BP SCI LLC</b>  |  |                     |            |            |
| 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     | 134,171    |
| Limited Liability Company Unit Class B (B)   | 167 uts.   | 10/17/12            | 166,666    | 244,757    |
|  |  |                     | 208,333    | 378,928    |
| <b>CG Holdings Manufacturing Company</b>   |  |                     |            |            |
| A coating provider serving the automotive, agricultural, heavy truck and other end markets.  |  |                     |            |            |
| 13% Senior Subordinated Note due 11/01/2019  | \$ 1,412,605   | *                   | 1,354,208  | 1,426,731  |
| Preferred Stock (B)  | 1,350 shs.   | *                   | 134,972    | 159,761    |
| Preferred Stock (B)  | 489 shs.   | *                   | 48,721     | 57,904     |
| Common Stock (B)   | 140 shs.   | *                   | 14,864     | 67,834     |
| Warrant, exercisable until 2023, to purchase common stock at \$.01 per share (B)   | 58 shs.  | *                   | 5,430      | 28,176     |

\* 05/09/13 and 11/01/13.

1,558,195 1,740,406

## Babson Capital Participation Investors

## CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

March 31, 2016

(Unaudited)

| Corporate Restricted Securities: (A) (Continued)   | Principal Amount, Shares, Units or Ownership Percentage | Acquisition Date | Cost       | Fair Value |
|--|---|------------------|------------|------------|
| <b>CHG Alternative Education Holding Company</b>   |   |                  |            |            |
| 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  | \$ 771,020  | 01/19/11         | \$ 755,678 | \$ 771,020 |
| 14% Senior Subordinated Note due 08/03/2019  | \$ 201,909  | 08/03/12         | 199,668    | 201,909    |
| Common Stock (B)   | 375 shs.  | 01/19/11         | 37,500     | 46,355     |
| Warrant, exercisable until 2021, to purchase common stock at \$.01 per share (B)   | 295 shs.  | 01/19/11         | 29,250     | 36,437     |
|  |   |                  | 1,022,096  | 1,055,721  |
| <b>Church Services Holding Company</b>   |   |                  |            |            |
| A provider of diversified residential services to homeowners in the Houston, Dallas, and Austin markets.   |   |                  |            |            |
| 14.5% Senior Subordinated Note due 03/26/2018  | \$ 190,933  | 03/26/12         | 188,125    | 175,046    |
| 10% Senior Subordinated Note due 09/15/2099  | \$ 6,492  | 09/15/14         | 6,492      | —          |
| Common Stock (B)   | 1,327 shs.  | *                | 132,700    | —          |
| Warrant, exercisable until 2022, to purchase common stock at \$.01 per share (B)   | 57 shs.   | 03/26/12         | 5,740      | —          |
| * 03/26/12, 05/25/12 and 06/19/12.   |   |                  | 333,057    | 175,046    |
| <b>Clarion Brands Holding Corp.</b>  |   |                  |            |            |
| 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 04/01/2021  | \$ 1,603,799  | 10/01/14         | 1,577,036  | 1,619,837  |
| Common Stock (B)   | 1,568 shs.  | 10/01/14         | 156,818    | 85,436     |
|  |   |                  | 1,733,854  | 1,705,273  |
| <b>Clough, Harbour and Associates</b>  |   |                  |            |            |
| An engineering service firm that is located in Albany, NY.   |   |                  |            |            |
| Preferred Stock (B)  | 147 shs.  | 12/02/08         | 146,594    | 672,523    |
| <b>Compass Chemical International LLC</b>  |   |                  |            |            |
| A manufacturer and supplier of standard and specialty formulated chemicals, primarily phosphoric acid derivatives called phosphonates.   |   |                  |            |            |

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|   |             |          |           |           |
|---|-------------|----------|-----------|-----------|
| 13% Senior Subordinated Note due 10/04/2020 | \$1,527,328 | 03/04/15 | 1,501,975 | 1,525,784 |
| Limited Liability Company Unit (B)          | 230 uts.    | 03/04/15 | 230,000   | 237,599   |
|   |             |          | 1,731,975 | 1,763,383 |



## CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

March 31, 2016

(Unaudited)

|  | Principal<br>Amount,<br>Shares,<br>Units or<br>Ownership | Acquisition<br>Date | Cost | Fair Value |
|--|--|---------------------|------|------------|
| Corporate Restricted Securities: (A) (Continued) | Percentage   |                     |      |            |

## 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 | \$104,200 |
| Limited Liability Company Unit Class C (B) | 59,756 uts.  | 01/12/07 | 59,756   | 80,209    |
| Limited Liability Company Unit Class D (B) | 671,525 uts. | 05/03/10 | —        | 829,401   |
| Limited Liability Company Unit Class E (B) | 1,102 uts.   | 05/03/10 | —        | 121,420   |
|  |              |          | 142,369  | 1,135,230 |

## 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 | \$1,268,134 | 11/22/13 | 1,251,348 | 1,254,891 |
| Common Stock (B)                            | 78 shs.     | 11/22/13 | 443,182   | 484,218   |
|   |             |          | 1,694,530 | 1,739,109 |

## 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 | 265,493 |
| Preferred Stock Series A (B)   | 114 shs. | 10/27/09 | 104,374 | 193,974 |
| Common Stock (B)   | 38 shs.  | 10/26/09 | 38,244  | 119,834 |
| Warrant, exercisable until 2016, to purchase common stock at \$.01 per share (B) | 28 shs.  | 10/27/09 | 25,735  | 87,556  |
|  |          |          | 324,821 | 666,857 |

## DPL Holding Corporation

A distributor and manufacturer of aftermarket undercarriage parts for medium and heavy duty trucks and trailers.

|   |             |          |           |           |
|---|-------------|----------|-----------|-----------|
| 14% Senior Subordinated Note due 05/04/2019 | \$1,383,110 | 05/04/12 | 1,368,640 | 1,383,110 |
| Preferred Stock (B)                         | 25 shs.     | 05/04/12 | 252,434   | 329,419   |
| Common Stock (B)                            | 25 shs.     | 05/04/12 | 28,048    | 7,292     |
|   |             |          | 1,649,122 | 1,719,821 |

## Dunn Paper

A provider of specialty paper for niche product applications.

|                     |          |          |         |         |
|---------------------|----------|----------|---------|---------|
| Preferred Stock (B) | 261 shs. | 12/30/14 | 261,364 | 885,158 |
|---------------------|----------|----------|---------|---------|

## Eagle Family Foods, Inc.

A producer of low-cost branded and private label canned milk.

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10.05% Last Out Term Loan due 06/30/2016      \$1,725,000 12/22/15      1,700,211      1,702,730

## Babson Capital Participation Investors

## CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

March 31, 2016

(Unaudited)

| Corporate Restricted Securities: (A) (Continued)  | Principal Amount, Shares, Units or Ownership Percentage | Acquisition Date | Cost        | Fair Value  |
|---|---|------------------|-------------|-------------|
| <b>ECG Consulting Group</b>   |   |                  |             |             |
| A healthcare management consulting company who provides strategic, financial, operational, and technology related consulting services to healthcare providers.  |   |                  |             |             |
| 11.75% Senior Subordinated Note due 11/21/2020  | \$1,306,986   | 11/21/14         | \$1,282,473 | \$1,333,125 |
| Limited Liability Company Unit (B)  | 230 uts.  | 11/19/14         | 71,875      | 84,644      |
|   |   |                  | 1,354,348   | 1,417,769   |
| <b>ERG Holding Company LLC</b>  |   |                  |             |             |
| A provider of inpatient and outpatient clinical trial services to pharmaceutical companies and contract research organizations.   |   |                  |             |             |
| 13.5% Senior Subordinated Note due 10/04/2019   | \$958,522   | 04/04/14         | 945,095     | 961,702     |
| Common Stock (B)  | 31 shs.   | 04/04/14         | 77,533      | 83,727      |
|   |   |                  | 1,022,628   | 1,045,429   |
| <b>F F C Holding Corporation</b>  |   |                  |             |             |
| A leading U.S. manufacturer of private label frozen novelty and ice cream products.   |   |                  |             |             |
| Limited Liability Company Unit Preferred (B)  | 171 uts.  | 09/27/10         | 58,345      | 74,274      |
| Limited Liability Company Unit Common (B)   | 171 uts.  | 09/27/10         | 17,073      | 103,298     |
|   |   |                  | 75,418      | 177,572     |
| <b>F G I Equity LLC</b>   |   |                  |             |             |
| A manufacturer of a broad range of filters and related products that are used in commercial, light industrial, healthcare, gas turbine, nuclear, laboratory, clean room, hotel, educational system, and food processing settings. |   |                  |             |             |
| Limited Liability Company Unit Preferred (B)  | 80,559 uts.   | 04/15/14         | —           | 80,559      |
| Limited Liability Company Unit Class B-1 (B)  | 65,789 uts.   | 12/15/10         | 65,789      | 148,450     |
| Limited Liability Company Unit Class B-2 (B)  | 8,248 uts.  | 12/15/10         | 8,248       | 18,611      |
| Limited Liability Company Unit Class B-3 (B)  | 6,522 uts.  | 08/30/12         | 15,000      | 16,412      |
| Limited Liability Company Unit Class C (B)  | 1,575 uts.  | 12/20/10         | 16,009      | 29,928      |
|   |   |                  | 105,046     | 293,960     |
| <b>FMH Holdings Corporation</b>   |   |                  |             |             |
| A designer and manufacturer of highly engineered components for the aerospace, defense and space industries.  |   |                  |             |             |
| 11.5% Senior Subordinated Note due 11/01/2020   | \$1,443,937   | 05/01/15         | 1,418,988   | 1,472,816   |
| Common Stock (B)  | 148 shs.  | 05/01/15         | 148,096     | 237,069     |
|   |   |                  | 1,567,084   | 1,709,885   |

G C Holdings

A leading manufacturer of gaming tickets, industrial recording charts, security-enabled point-of sale receipts, and medical charts and supplies.

Warrant, exercisable until 2018, to purchase

|                                     |          |          |        |         |
|-------------------------------------|----------|----------|--------|---------|
| common stock at \$.01 per share (B) | 198 shs. | 10/19/10 | 46,958 | 118,252 |
|-------------------------------------|----------|----------|--------|---------|

## CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

March 31, 2016

(Unaudited)

| Corporate Restricted Securities: (A) (Continued)   | Principal Amount, Shares, Units or Ownership Percentage | Acquisition Date | Cost      | Fair Value |
|--|---|------------------|-----------|------------|
| <b>GD Dental Services LLC</b>  |   |                  |           |            |
| A provider of convenient "onestop" general, specialty, and cosmetic dental services with 21 offices located throughout South and Central Florida.                          |   |                  |           |            |
| Limited Liability Company Unit Preferred (B)   | 76 uts.   | 10/05/12         | \$75,920  | \$95,000   |
| Limited Liability Company Unit Common (B)  | 767 uts.  | 10/05/12         | 767       | 50,627     |
|  |   |                  | 76,687    | 145,627    |
| <b>GenNx Novel Holding, Inc.</b>   |   |                  |           |            |
| A manufacturer and distributor of nutraceutical ingredients.   |   |                  |           |            |
| 13% Senior Subordinated Note due 03/27/2020  | \$1,597,905   | 03/27/14         | 1,574,475 | 1,517,913  |
| Common Stock (B)   | 15,500 shs.   | 03/27/14         | 155,000   | 114,705    |
|  |   |                  | 1,729,475 | 1,632,618  |
| <b>gloProfessional Holdings, Inc.</b>  |   |                  |           |            |
| A marketer and distributor of premium mineral-based cosmetics, cosmeceuticals and professional hair care products to the professional spa and physician's office channels. |   |                  |           |            |
| 14% Senior Subordinated Note due 03/27/2019  | \$1,201,902   | 03/27/13         | 1,188,258 | 1,174,208  |
| Common Stock (B)   | 1,181 shs.  | 03/27/13         | 118,110   | 114,538    |
|  |   |                  | 1,306,368 | 1,288,746  |
| <b>Glynlyon Holding Companies, Inc.</b>  |   |                  |           |            |
| A technology-enabled curriculum provider of K-12 and support services predominantly to small and medium public school districts.   |   |                  |           |            |
| 12% Senior Subordinated Note due 01/05/2022  | \$1,580,894   | 01/15/16         | 1,550,105 | 1,613,977  |
| Common Stock (B)   | 147 shs.  | 01/15/16         | 147,436   | 124,227    |
|  |   |                  | 1,697,541 | 1,738,204  |
| <b>GlynnDevins Acquisition Corporation</b>   |   |                  |           |            |
| A marketing communications agency that services senior living facilities.  |   |                  |           |            |
| 13% Senior Subordinated Note due 12/19/2020  | \$792,816   | 06/19/15         | 778,766   | 797,533    |
| Preferred Stock Series A (B)   | 342 shs.  | 06/19/15         | 70,683    | 73,696     |
| Common Stock (B)   | 342 shs.  | 06/19/15         | 2,945     | 1,009      |
|  |   |                  | 852,394   | 872,238    |
| <b>Grakon Parent</b>   |   |                  |           |            |
| The leading designer and manufacturer of highly-engineered and customized LED and incandescent lighting systems for transportation-based markets.                          |   |                  |           |            |
| Common Stock (B)   | 175 shs.  | 10/31/14         | 174,831   | 237,488    |



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CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

March 31, 2016

(Unaudited)

| Corporate Restricted Securities: (A) (Continued)  | Principal Amount, Shares, Units or Ownership Percentage | Acquisition Date | Cost      | Fair Value |
|---|---|------------------|-----------|------------|
| <b>GTI Holding Company</b>  |   |                  |           |            |
| A designer, developer, and marketer of precision specialty hand tools and handheld test instruments.  |   |                  |           |            |
| 12% Senior Subordinated Note due 02/05/2020   | \$727,865   | 02/05/14         | \$690,354 | \$691,317  |
| Common Stock (B)  | 846 shs.  | 02/05/14         | 84,636    | 64,752     |
| Warrant, exercisable until 2024, to purchase common stock at \$.01 per share (B)  | 397 shs.  | 02/05/14         | 36,816    | 30,386     |
|   |   |                  | 811,806   | 786,455    |
| <b>Handi Quilter Holding Company</b>  |   |                  |           |            |
| A designer and manufacturer of long-arm quilting machines and related components for the consumer quilting market.  |   |                  |           |            |
| 12% Senior Subordinated Note due 06/19/2021   | \$1,437,500   | 12/19/14         | 1,412,766 | 1,425,973  |
| Limited Liability Company Unit Preferred (B)  | 288 uts.  | 12/19/14         | 287,500   | 213,849    |
| Limited Liability Company Unit Common Class A (B)   | 2,875 uts.  | 12/19/14         | —         | —          |
|   |   |                  | 1,700,266 | 1,639,822  |
| <b>Hartland Controls Holding Corporation</b>  |   |                  |           |            |
| A manufacturer and distributor of electronic and electromechanical components.  |   |                  |           |            |
| 14% Senior Subordinated Note due 08/14/2019   | \$1,089,948   | 02/14/14         | 1,074,628 | 1,100,847  |
| 12% Senior Subordinated Note due 08/14/2019   | \$431,250   | 06/22/15         | 427,602   | 434,453    |
| Preferred Stock Series A (B)  | 1,208 shs.  | 02/14/14         | 114,011   | 127,293    |
| Common Stock (B)  | 821 shs.  | 02/14/14         | 822       | 97,021     |
|   |   |                  | 1,617,063 | 1,759,614  |
| <b>Healthcare Direct Holding Company</b>  |   |                  |           |            |
| A direct-to-customer marketer of discount dental plans.   |   |                  |           |            |
| Common Stock (B)  | 517 shs.  | 03/09/12         | 51,724    | 100,711    |
| <b>HHI Group, LLC</b>   |   |                  |           |            |
| A developer, marketer, and distributor of hobby-grade radio control products.   |   |                  |           |            |
| 14% Senior Subordinated Note due 01/17/2020   | \$1,615,730   | 01/17/14         | 1,593,578 | 1,402,912  |
| Limited Liability Company Unit (B)  | 102 uts.  | 01/17/14         | 101,563   | 5,945      |
|   |   |                  | 1,695,141 | 1,408,857  |
| <b>Hi-Rel Group LLC</b>   |   |                  |           |            |
| A manufacturer and distributor of precision metal piece parts for the microelectronic packaging industry, serving the aerospace/defense, telecommunications, and medical end markets. |   |                  |           |            |

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|   |             |          |                   |                     |
|---|-------------|----------|-------------------|---------------------|
| 12% Senior Subordinated Note due 03/15/2018   | \$703,125   | 04/15/13 | 680,380           | 702,643             |
| Limited Liability Company Unit (B)  | 234 uts.    | 04/15/13 | 234,375           | 331,590             |
| Warrant, exercisable until 2020, to purchase<br>common stock at \$.01 per share (B) | 37,177 shs. | 04/15/13 | 32,344<br>947,099 | 65,743<br>1,099,976 |



## CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

March 31, 2016

(Unaudited)

| Corporate Restricted Securities: (A) (Continued)  | Principal Amount, Shares, Units or Ownership Percentage | Acquisition Date | Cost        | Fair Value  |
|---|---|------------------|-------------|-------------|
| <b>Hollandia Produce LLC</b>  |   |                  |             |             |
| A hydroponic greenhouse producer of branded root vegetables.  |   |                  |             |             |
| 13.75% Senior Subordinated Note due 03/31/2021  | \$1,302,743   | 12/30/15         | \$1,277,820 | \$1,329,624 |
| <b>HOP Entertainment LLC</b>  |   |                  |             |             |
| A provider of post production equipment and services to producers of television shows and motion pictures.  |   |                  |             |             |
| Limited Liability Company Unit Class F (B)  | 47 uts.   | 10/14/11         | —           | —           |
| Limited Liability Company Unit Class G (B)  | 114 uts.  | 10/14/11         | —           | —           |
| Limited Liability Company Unit Class H (B)  | 47 uts.   | 10/14/11         | —           | —           |
| Limited Liability Company Unit Class I (B)  | 47 uts.   | 10/14/11         | —           | —           |
| <b>Hospitality Mints Holding Company</b>  |   |                  |             |             |
| A manufacturer of individually-wrapped imprinted promotional mints.   |   |                  |             |             |
| 12% Senior Subordinated Note due 08/19/2016   | \$1,098,837   | 08/19/08         | 1,091,124   | 1,080,965   |
| Common Stock (B)  | 251 shs.  | 08/19/08         | 251,163     | 35,203      |
| Warrant, exercisable until 2016, to purchase common stock at \$.01 per share (B)  | 65 shs.   | 08/19/08         | 60,233      | 9,099       |
|   |   |                  | 1,402,520   | 1,125,267   |
| <b>HVAC Holdings, Inc.</b>  |   |                  |             |             |
| A provider of integrated energy efficiency services and maintenance programs for HVAC systems.  |   |                  |             |             |
| 12.5% Senior Subordinated Note due 09/27/2019   | \$1,202,372   | 09/27/12         | 1,188,211   | 1,202,372   |
| Limited Liability Company Unit Class A Preferred (B)  | 1,127 uts.  | 09/27/12         | 112,726     | 157,222     |
| Limited Liability Company Unit Class A Common (B)   | 910 uts.  | 09/27/12         | 910         | 54,474      |
|   |   |                  | 1,301,847   | 1,414,068   |
| <b>Ideal Tridon Holdings, Inc.</b>  |   |                  |             |             |
| A designer and manufacturer of clamps and couplings used in automotive and industrial end markets.  |   |                  |             |             |
| Common Stock  | 93 shs.   | 10/27/11         | 77,462      | 158,300     |
| <b>Impact Confections</b>   |   |                  |             |             |
| An independent manufacturer and marketer of confectionery products including Warheads® brand sour candies, Melster® brand classic candies, and co-manufactured/private label classic candies. |   |                  |             |             |
| 13% Senior Subordinated Note due 11/10/2020   | \$1,078,639   | 11/10/14         | 1,060,918   | 1,084,575   |

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|                  |            |          |           |           |
|------------------|------------|----------|-----------|-----------|
| Common Stock (B) | 2,300 shs. | 11/10/14 | 230,000   | 187,964   |
|                  |            |          | 1,290,918 | 1,272,539 |

Insurance Claims Management, Inc.

A third party administrator providing auto and property claim administration services for insurance companies.

|                  |         |          |       |         |
|------------------|---------|----------|-------|---------|
| Common Stock (B) | 47 shs. | 02/27/07 | 1,424 | 148,162 |
|------------------|---------|----------|-------|---------|

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Babson Capital Participation Investors

CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

March 31, 2016

(Unaudited)

| Corporate Restricted Securities: (A) (Continued)  | Principal Amount, Shares, Units or Ownership Percentage | Acquisition Date | Cost       | Fair Value |
|---|---|------------------|------------|------------|
| <b>J A C Holding Enterprises, Inc.</b>  |   |                  |            |            |
| A supplier of luggage racks and accessories to the original equipment manufacturers.                    |   |                  |            |            |
| Preferred Stock A (B)   | 165 shs.  | 12/20/10         | \$ 165,000 | \$307,744  |
| Preferred Stock B (B)   | 0.06 shs.   | 12/20/10         | —          | 112        |
| Common Stock  | 33 shs.   | 12/20/10         | 1,667      | 63,459     |
| Warrant, exercisable until 2020, to purchase common stock at \$.01 per share (B)                        | 12 shs.   | 12/20/10         | 105,643    | 115,665    |
|   |   |                  | 272,310    | 486,980    |
| <b>Janus Group Holdings LLC</b>   |   |                  |            |            |
| A manufacturer of roll-up doors and hallway systems that are primarily used in self-storage facilities. |   |                  |            |            |
| 13.5% Senior Subordinated Note due 06/10/2019   | \$ 1,107,473  | 12/11/13         | 1,092,634  | 1,118,547  |
| Limited Liability Company Unit Class A (B)  | 283 uts.  | 12/11/13         | 611,794    | 981,887    |
|   |   |                  | 1,704,428  | 2,100,434  |
| <b>JMH Investors LLC</b>  |   |                  |            |            |
| A developer and manufacturer of custom formulations for a wide variety of foods.                        |   |                  |            |            |
| 14.25% Senior Subordinated Note due 12/05/2019  | \$ 1,112,525  | 12/05/12         | 1,099,143  | 967,167    |
|   | 1,038,805   |                  |            |            |
| Limited Liability Company Unit (B)  | uts.  | 12/05/12         | 232,207    | 13,575     |
|   |   |                  | 1,331,350  | 980,742    |
| <b>K &amp; N Parent, Inc.</b>   |   |                  |            |            |
| A manufacturer and supplier of automotive aftermarket performance air filters and intake systems.       |   |                  |            |            |
| Preferred Stock Series A  | 102 shs.  | 12/23/11         | —          | —          |
| Preferred Stock Series B  | 29 shs.   | 12/23/11         | —          | —          |
| Common Stock  | 163 shs.  | *                | 6,522      | 163,612    |
| * 12/23/11 and 06/30/14.  |   |                  | 6,522      | 163,612    |
| <b>K N B Holdings Corporation</b>   |   |                  |            |            |
| A designer, manufacturer and marketer of products for the custom framing market.                        |   |                  |            |            |
| Common Stock (B)  | 71,053 shs.   | 05/24/06         | 71,053     | 79,379     |
| Warrant, exercisable until 2016, to purchase common stock at \$.01 per share (B)                        | 43,600 shs.   | 05/25/06         | 37,871     | 48,709     |
|   |   |                  | 108,924    | 128,088    |

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K P I Holdings, Inc.

The largest player in the U.S. non-automotive, non-ferrous die casting segment.

|  |          |          |         |         |
|--|----------|----------|---------|---------|
| Limited Liability Company Unit Class C Preferred (B) | 40 uts.  | 06/30/15 | —       | 73,350  |
| Common Stock (B)                                     | 353 shs. | 07/15/08 | 285,619 | 413,634 |
|  |          |          | 285,619 | 486,984 |

## CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

March 31, 2016

(Unaudited)

| Corporate Restricted Securities: (A) (Continued)  | Principal Amount, Shares, Units or Ownership Percentage | Acquisition Date | Cost        | Fair Value  |
|---|---|------------------|-------------|-------------|
| <b>Kyjen Company</b>  |   |                  |             |             |
| A designer and distributor of branded and private label dog toys and accessories primarily in the US.       |   |                  |             |             |
| 13% Senior Subordinated Note due 10/14/2021   | \$1,299,722   | 10/14/15         | \$1,275,206 | \$1,312,493 |
| <b>Mail Communications Group, Inc.</b>  |   |                  |             |             |
| A provider of mail processing and handling services, lettershop services, and commercial printing services. |   |                  |             |             |
| Limited Liability Company Unit  | 12,764 uts.   | *                | 166,481     | 163,412     |
| Warrant, exercisable until 2017, to purchase common stock at \$.01 per share (B)                            | 1,787 shs.  | 05/04/07         | 22,781      | 22,879      |
| * 05/04/07 and 01/02/08.  |   |                  | 189,262     | 186,291     |
| <b>Manhattan Beachwear Holding Company</b>  |   |                  |             |             |
| A designer and distributor of women's swimwear.   |   |                  |             |             |
| 12.5% Senior Subordinated Note due 01/15/2018   | \$419,971   | 01/15/10         | 401,962     | 401,984     |
| 15% Senior Subordinated Note due 01/15/2018   | \$117,427   | 10/05/10         | 116,688     | 108,343     |
| Common Stock (B)  | 35 shs.   | 10/05/10         | 35,400      | 3,941       |
| Common Stock Class B (B)  | 118 shs.  | 01/15/10         | 117,647     | 13,098      |
| Warrant, exercisable until 2019, to purchase common stock at \$.01 per share (B)                            | 104 shs.  | 10/05/10         | 94,579      | 11,591      |
|   |   |                  | 766,276     | 538,957     |
| <b>Master Cutlery LLC</b>   |   |                  |             |             |
| A designer and marketer of a wide assortment of knives and swords.  |   |                  |             |             |
| 13% Senior Subordinated Note due 04/17/2020   | \$879,203   | 04/17/15         | 870,143     | 852,635     |
| Limited Liability Company Unit  | 5 uts.  | 04/17/15         | 678,329     | 346,292     |
|   |   |                  | 1,548,472   | 1,198,927   |
| <b>MC Sign Holdings LLC</b>   |   |                  |             |             |
| A provider of sign and lighting services nationwide.  |   |                  |             |             |
| 11.75% Senior Subordinated Note due 09/15/2021  | \$763,999   | 09/22/15         | 749,728     | 772,018     |
|   | 101,500   |                  |             |             |
| Limited Liability Company Unit Class B (B)  | uts.  | 09/22/15         | 101,500     | 99,683      |
|   |   |                  | 851,228     | 871,701     |
| <b>MedSystems Holdings LLC</b>  |   |                  |             |             |

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A manufacturer of enteral feeding products, such as feeding tubes and other products related to assisted feeding.

|                         |          |          |         |         |
|-------------------------|----------|----------|---------|---------|
| Preferred Unit (B)      | 66 uts.  | 08/29/08 | 46,152  | 101,852 |
| Common Unit Class A (B) | 671 uts. | 08/29/08 | 671     | 287,766 |
| Common Unit Class B (B) | 263 uts. | 08/29/08 | 63,564  | 112,889 |
|                         |          |          | 110,387 | 502,507 |

## Babson Capital Participation Investors

## CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

March 31, 2016

(Unaudited)

| Corporate Restricted Securities: (A) (Continued)  | Principal Amount, Shares, Units or Ownership Percentage | Acquisition Date | Cost      | Fair Value |
|---|---|------------------|-----------|------------|
| <b>Merex Holding Corporation</b>  |   |                  |           |            |
| A provider of after-market spare parts and components, as well as Maintenance, Repair and Overhaul services for "out of production" or "legacy" aerospace and defense systems that are no longer effectively supported by the original equipment manufacturers. |   |                  |           |            |
| 16% Senior Subordinated Note due 10/30/2019   | \$454,295   | 09/22/11         | \$449,013 | \$441,236  |
| 15% Senior Subordinated Note due 04/30/2022   | \$23,839  | 08/18/15         | 23,839    | 21,455     |
| Limited Liability Company Unit Series A (B)   | 228 uts.  | 05/07/14         | 14,760    | 2,476      |
| Limited Liability Company Unit Series B (B)   | 155,945 uts.  | 09/22/11         | 155,945   | 34,185     |
| Common Stock Class A (B)  | 1,859 shs.  | 08/18/15         | —         | 20,183     |
|   |   |                  | 643,557   | 519,535    |
| <b>MES Partners, Inc.</b>   |   |                  |           |            |
| An industrial service business offering an array of cleaning and environmental services to the Gulf Coast region of the U.S.  |   |                  |           |            |
| 12% Senior Subordinated Note due 09/30/2021   | \$1,098,377   | 09/30/14         | 1,079,965 | 1,115,166  |
| Common Stock Class B (B)  | 219,545 shs.  | 09/30/14         | 219,545   | 174,959    |
|   |   |                  | 1,299,510 | 1,290,125  |
| <b>MNX Holding Company</b>  |   |                  |           |            |
| An international third party logistics company providing customized logistics services to customers across the globe.   |   |                  |           |            |
| 14% Senior Subordinated Note due 11/02/2019   | \$1,290,315   | 11/02/12         | 1,275,065 | 1,290,315  |
| Common Stock (B)  | 45 shs.   | 11/02/12         | 44,643    | 48,434     |
|   |   |                  | 1,319,708 | 1,338,749  |
| <b>Money Mailer</b>   |   |                  |           |            |
| A leading provider of hyperlocal shared direct mail advertising as well as interactive and online advertising solutions through its nationwide production and distribution network.   |   |                  |           |            |
| Preferred Stock   | 1,332,865 shs.  | 12/10/14         | 1,312,872 | 1,332,865  |
| <b>Motion Controls Holdings</b>   |   |                  |           |            |
| A manufacturer of high performance mechanical motion control and linkage products.  |   |                  |           |            |
| 14.25% Senior Subordinated Note due 08/15/2020  | \$996,103   | 11/30/10         | 987,800   | 996,103    |
| Limited Liability Company Unit Class B-1 (B)  | 75,000 uts.   | 11/30/10         | —         | 86,344     |
| Limited Liability Company Unit Class B-2 (B)  | 6,801 uts.  | 11/30/10         | —         | 7,830      |
|   |   |                  | 987,800   | 1,090,277  |

NABCO, Inc.

A producer of explosive containment vessels in the United States.

|                  |          |          |         |        |
|------------------|----------|----------|---------|--------|
| Common Stock (B) | 429 shs. | 12/20/12 | 306,091 | 58,845 |
|------------------|----------|----------|---------|--------|



## CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

March 31, 2016

(Unaudited)

| Corporate Restricted Securities: (A) (Continued) | Principal Amount, Shares, Units or Ownership Percentage | Acquisition Date | Cost | Fair Value |
|--|---|------------------|------|------------|
|--|---|------------------|------|------------|

## NetShape Technologies, Inc.

A manufacturer of powder metal and metal injection molded precision components used in industrial, consumer, and other applications.

|   |            |          |            |            |
|---|------------|----------|------------|------------|
| 12% Senior Subordinated Note due 06/10/2020                               | \$ 810,000 | 02/02/07 | \$ 809,408 | \$ 377,530 |
| Limited Partnership Interest of Saw Mill PCG Partners LLC (B)             | 1.38% int. | 02/01/07 | 588,077    | —          |
| Limited Liability Company Unit Class D of Saw Mill PCG Partners LLC (B)   | 9 uts.     | *        | 8,873      | —          |
| Limited Liability Company Unit Class D-1 of Saw Mill PCG Partners LLC (B) | 121 uts.   | 09/30/09 | 121,160    | —          |
| Limited Liability Company Unit Class D-2 of Saw Mill PCG Partners LLC (B) | 68 uts.    | 04/29/11 | 34,547     | 43,528     |
| Limited Liability Company Unit Class D-3 of Saw Mill PCG Partners LLC (B) | 104 uts.   | 12/10/14 | 103,904    | 105,251    |
| * 12/18/08 and 09/30/09.  |            |          | 1,665,969  | 526,309    |

## Northwest Mailing Services, Inc.

A producer of promotional materials for companies that use direct mail as part of their customer retention and loyalty programs.

|  |            |   |         |         |
|--|------------|---|---------|---------|
| Limited Partnership Interest (B)   | 1,740 uts. | * | 174,006 | 196,723 |
| Warrant, exercisable until 2019, to purchase common stock at \$.01 per share (B) | 2,605 shs. | * | 260,479 | 294,485 |
| * 07/09/09 and 08/09/10.   |            |   | 434,485 | 491,208 |

## O E C Holding Corporation

A provider of elevator maintenance, repair and modernization services.

|                              |          |          |        |         |
|------------------------------|----------|----------|--------|---------|
| Preferred Stock Series A (B) | 554 shs. | 06/04/10 | 55,354 | 82,562  |
| Preferred Stock Series B (B) | 311 shs. | 06/04/10 | 31,125 | 53,003  |
| Common Stock (B)             | 344 shs. | 06/04/10 | 344    | 21,034  |
|                              |          |          | 86,823 | 156,599 |

## PANOS Brands LLC

A marketer and distributor of branded consumer foods in the specialty, natural, better-for-you, "free from" healthy and gluten-free categories.

|   |              |          |           |           |
|---|--------------|----------|-----------|-----------|
| 12% Senior Subordinated Note due 07/29/2021 | \$ 1,451,496 | 01/29/16 | 1,423,161 | 1,481,858 |
| Common Stock Class A (B)                    |              | 01/29/16 | 276,000   | 276,000   |

276,000  
shs.

1,699,161 1,757,858

## Babson Capital Participation Investors

## CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

March 31, 2016

(Unaudited)

| Corporate Restricted Securities: (A) (Continued)   | Principal<br>Amount,<br>Shares,<br>Units or<br>Ownership<br>Percentage | Acquisition<br>Date | Cost      | Fair Value  |
|--|--|---------------------|-----------|-------------|
| <b>Pearlman Enterprises, Inc.</b>  |  |                     |           |             |
| A developer and distributor of tools, equipment and supplies to the natural and engineered stone industry. |  |                     |           |             |
| Preferred Stock Series A (B)   | 1,236 shs.   | 05/22/09            | \$59,034  | \$1,235,800 |
| Preferred Stock Series B (B)   | 7,059 shs.   | 05/22/09            | 290,050   | 92,224      |
| Common Stock (B)   | 21,462 shs.  | 05/22/09            | 993,816   | —           |
|  |  |                     | 1,342,900 | 1,328,024   |
| <b>Petroplex Inv Holdings LLC</b>  |  |                     |           |             |
| A leading provider of acidizing services to E&P customers in the Permian Basin.                            |  |                     |           |             |
| Limited Liability Company Unit   | 156,250 uts.   | 11/29/12            | 156,250   | —           |
| <b>Polytex Holdings LLC</b>  |  |                     |           |             |
| A manufacturer of water based inks and related products serving primarily the wall covering market.        |  |                     |           |             |
| 13% Senior Subordinated Note due 01/31/2020  | \$1,054,074  | 07/31/14            | 1,038,131 | 1,018,934   |
| Limited Liability Company Unit   | 148,096 uts.   | 07/31/14            | 148,096   | 113,086     |
|  |  |                     | 1,186,227 | 1,132,020   |
| <b>Power Stop Holdings LLC</b>   |  |                     |           |             |
| A supplier of performance upgrade aftermarket brake products.  |  |                     |           |             |
| 11% Senior Subordinated Note due 05/29/2022  | \$1,610,100  | 05/29/15            | 1,581,495 | 1,641,154   |
| Limited Liability Company Unit Preferred (B)   | 1,149 uts.   | 05/29/15            | 114,900   | 121,824     |
| Limited Liability Company Unit Common (B)  | 1,149 uts.   | 05/29/15            | —         | 47,015      |
|  |  |                     | 1,696,395 | 1,809,993   |
| <b>PPC Event Services</b>  |  |                     |           |             |
| A special event equipment rental business.   |  |                     |           |             |
| 14% Senior Subordinated Note due 05/20/2020  | \$1,149,563  | 11/20/14            | 1,131,319 | 1,172,554   |
| Limited Liability Company Unit (B)   | 3,450 uts.   | 11/20/14            | 172,500   | 388,125     |
| Limited Liability Company Unit Series A-1 (B)  | 339 uts.   | 03/16/16            | 42,419    | 42,419      |
|  |  |                     | 1,346,238 | 1,603,098   |
| <b>Randy's Worldwide Automotive</b>  |  |                     |           |             |
| A designer and distributor of automotive aftermarket parts.  |  |                     |           |             |
| 11.5% Senior Subordinated Note due 05/12/2021  | \$1,135,898  | 05/12/15            | 1,116,226 | 1,137,637   |
| Common Stock (B)   | 118 shs.   | 05/12/15            | 118,476   | 134,480     |

1,234,702 1,272,117

## CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

March 31, 2016

(Unaudited)

| Corporate Restricted Securities: (A) (Continued)   | Principal Amount, Shares, Units or Ownership Percentage | Acquisition Date | Cost       | Fair Value |
|--|---|------------------|------------|------------|
| <b>REVSpring, Inc.</b>   |   |                  |            |            |
| A provider of accounts receivable management and revenue cycle management services to customers in the healthcare, financial and utility industries. |   |                  |            |            |
| Limited Liability Company Unit Class A (B)   | 13,548 uts.   | *                | \$ 135,477 | \$ 223,708 |
| * 10/21/11 and 08/03/12.   |   |                  |            |            |
| <b>Safety Infrastructure Solutions</b>   |   |                  |            |            |
| A provider of trench safety equipment to a diverse customer base across multiple end markets in Texas and the Southwestern United States.            |   |                  |            |            |
| Preferred Stock (B)  | 2,098 shs.  | 03/30/12         | 83,920     | 118,102    |
| Common Stock (B)   | 983 shs.  | 03/30/12         | 9,830      | 154,113    |
|  |   |                  | 93,750     | 272,215    |
| <b>Signature Systems Holding Company</b>   |   |                  |            |            |
| A seller and installer of a variety of modular surfaces, industrial matting and related products used for ground protection.                         |   |                  |            |            |
| Common Stock (B)   | 76 shs.   | 03/15/13         | 75,509     | 121,134    |
| Warrant, exercisable until 2023, to purchase common stock A at \$.01 per share (B)   | 31 shs.   | 03/15/13         | 28,316     | 49,490     |
|  |   |                  | 103,825    | 170,624    |
| <b>Smart Source Holdings LLC</b>   |   |                  |            |            |
| A short-term computer rental company.  |   |                  |            |            |
| Limited Liability Company Unit (B)   | 328 uts.  | *                | 261,262    | 354,597    |
| Warrant, exercisable until 2016, to purchase common stock at \$.01 per share (B)   | 83 shs.   | *                | 67,467     | 89,820     |
| * 08/31/07 and 03/06/08.   |   |                  |            |            |
|  |   |                  | 328,729    | 444,417    |
| <b>SMB Machinery Holdings, Inc.</b>  |   |                  |            |            |
| A reseller of used, rebuilt and refurbished packaging and processing equipment, primarily serving the bottling and food manufacturing industries.    |   |                  |            |            |
| 14% Senior Subordinated Note due 10/18/2019 (D)  | \$ 738,694  | 10/18/13         | 726,147    | —          |
| Common Stock (B)   | 841 shs.  | 10/18/13         | 84,100     | —          |
|  |   |                  | 810,247    | —          |

Strahman Holdings Inc

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A manufacturer of industrial valves and wash down equipment for a variety of industries, including chemical, petrochemical, polymer, pharmaceutical, food processing, beverage and mining.

|   |             |          |           |           |
|---|-------------|----------|-----------|-----------|
| 14% Senior Subordinated Note due 06/13/2019 | \$1,059,783 | 12/13/13 | 1,043,394 | 1,070,381 |
|   | 158,967     |          |           |           |
| Preferred Stock Series A (B)                | shs.        | 12/13/13 | 158,967   | 284,551   |
| Preferred Stock Series A-2 (B)              | 26,543 shs. | 09/10/15 | 29,994    | 47,512    |
|   |             |          | 1,232,355 | 1,402,444 |

## Babson Capital Participation Investors

## CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

March 31, 2016

(Unaudited)

| Corporate Restricted Securities: (A) (Continued)   | Principal Amount, Shares, Units or Ownership Percentage | Acquisition Date | Cost        | Fair Value  |
|--|---|------------------|-------------|-------------|
| <b>Sunrise Windows Holding Company</b>   |   |                  |             |             |
| A manufacturer and marketer of premium vinyl windows exclusively selling to the residential remodeling and replacement market.                         |   |                  |             |             |
| 16% Senior Subordinated Note due 12/14/2017  | \$1,217,936   | *                | \$1,243,795 | \$1,140,476 |
| Common Stock (B)   | 38 shs.   | 12/14/10         | 38,168      | 24,684      |
| Warrant, exercisable until 2020, to purchase common stock at \$.01 per share (B)   | 37 shs.   | 12/14/10         | 37,249      | 24,089      |
| * 12/14/10, 08/17/12 and 03/31/16.   |   |                  | 1,319,212   | 1,189,249   |
| <b>Sunvair Aerospace Group Inc.</b>  |   |                  |             |             |
| An aerospace maintenance, repair, and overhaul provider servicing landing gears on narrow body aircraft.   |   |                  |             |             |
| 12% Senior Subordinated Note due 07/31/2021  | \$1,215,600   | 07/31/15         | 1,193,491   | 1,225,118   |
| Common Stock (B)   | 68 shs.   | 07/31/15         | 78,150      | 73,811      |
|  |   |                  | 1,271,641   | 1,298,929   |
| <b>Syneract Holdings Corporation</b>   |   |                  |             |             |
| A provider of outsourced clinical trial management services to pharmaceutical and biotechnology companies.   |   |                  |             |             |
| 14% Senior Subordinated Note due 02/26/2019  | \$2,330,583   | 09/02/08         | 2,290,332   | 2,330,583   |
| Preferred Stock Series D (B)   | 257 shs.  | 02/27/13         | 25,678      | —           |
| Redeemable Preferred Stock Series A (B)  | 678 shs.  | 10/03/08         | 6,630       | —           |
| Warrant, exercisable until 2018, to purchase common stock at \$.01 per share (B)   | 6,778 shs.  | 09/02/08         | 59,661      | —           |
|  |   |                  | 2,382,301   | 2,330,583   |
| <b>Team Drive-Away Holdings LLC</b>  |   |                  |             |             |
| An asset-light provider of over the road driveaway services for class 8 trucks and specialized equipment.  |   |                  |             |             |
| 12.5% Senior Subordinated Note due 04/15/2021  | \$766,700   | 10/15/15         | 752,284     | 774,978     |
| Limited Liability Company Unit (B)   | 95,800 uts.   | 10/15/15         | 95,800      | 94,363      |
|  |   |                  | 848,084     | 869,341     |
| <b>Torrent Group Holdings, Inc.</b>  |   |                  |             |             |
| A contractor specializing in the sales and installation of engineered drywells for the retention and filtration of stormwater and nuisance water flow. |   |                  |             |             |
| 3% Senior Subordinated Note due 12/31/2018 (D)   | \$770,572   | 12/05/13         | —           | 732,043     |
| 15% Senior Subordinated Note due 12/05/2020 (D)  | \$46,798  | 12/05/13         | 219,203     | 44,458      |

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|   |             |          |         |         |
|---|-------------|----------|---------|---------|
| Warrant, exercisable until 2023, to purchase<br>common stock at \$.01 per share (B) | 28,079 shs. | 12/05/13 | —       | 562     |
|   |             |          | 219,203 | 777,063 |



## CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

March 31, 2016

(Unaudited)

| Corporate Restricted Securities: (A) (Continued)   | Principal Amount, Shares, Units or Ownership Percentage | Acquisition Date | Cost      | Fair Value |
|--|---|------------------|-----------|------------|
| <b>Transpac Holding Company</b>  |   |                  |           |            |
| A designer, importer, and wholesaler of home décor and seasonal gift products.   |   |                  |           |            |
| 8% Senior Subordinated Note due 10/31/2016 (D)   | \$938,651   | 10/31/07         | \$909,276 | \$—        |
| Common Stock (B)   | 110 shs.  | 10/31/07         | 110,430   | —          |
| Warrant, exercisable until 2016, to purchase common stock at \$.01 per share (B)   | 50 shs.   | 10/31/07         | 46,380    | —          |
|  |   |                  | 1,066,086 | —          |
| <b>Tranzonic Holdings LLC</b>  |   |                  |           |            |
| A producer of commercial and industrial supplies, such as safety products, janitorial supplies, work apparel, washroom and restroom supplies and sanitary care products. |   |                  |           |            |
| 14% Senior Subordinated Note due 07/05/2019  | \$1,560,154   | 07/05/13         | 1,541,057 | 1,560,154  |
|  | 147,727   |                  |           |            |
| Limited Liability Company Unit Preferred Class A (B)   | shs.  | 07/05/13         | 147,727   | 201,927    |
|  |   |                  | 1,688,784 | 1,762,081  |
| <b>Tristar Global Energy Solutions, Inc.</b>   |   |                  |           |            |
| A hydrocarbon and decontamination services provider serving refineries worldwide.  |   |                  |           |            |
| 12.5% Senior Subordinated Note due 07/31/2020  | \$1,130,623   | 01/23/15         | 1,111,627 | 1,042,460  |
| <b>Veritext Corporation</b>  |   |                  |           |            |
| A provider of stenographic staffing and other services used during the legal deposition process.   |   |                  |           |            |
| 10.75% Second Lien Term Loan due 01/29/2023  | \$1,725,000   | 01/21/16         | 1,691,350 | 1,694,244  |
| <b>Vitex Packaging Group, Inc.</b>   |   |                  |           |            |
| A manufacturer of specialty packaging, primarily envelopes and tags used on tea bags.  |   |                  |           |            |
|  | 406,525   |                  |           |            |
| Class B Unit (B)   | uts.  | 10/29/09         | 184,266   | —          |
|  | 450,000   |                  |           |            |
| Class C Unit (B)   | uts.  | 10/29/09         | 413,244   | 129,358    |
|  | 383,011   |                  |           |            |
| Limited Liability Company Unit Class A (B)   | uts.  | *                | 229,353   | —          |
| Limited Liability Company Unit Class B (B)   | 96,848 uts.   | 07/19/04         | 96,848    | —          |
| * 07/19/04 and 10/29/09.   |   |                  | 923,711   | 129,358    |

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VP Holding Company

A provider of school transportation services for special-needs and homeless children in Massachusetts.

|                  |            |          |         |         |
|------------------|------------|----------|---------|---------|
| Common Stock (B) | 3,632 shs. | 03/31/14 | 363,158 | 566,538 |
|------------------|------------|----------|---------|---------|

Wellborn Forest Holding Company

A manufacturer of semi-custom kitchen and bath cabinetry.

|  |             |          |         |           |
|--|-------------|----------|---------|-----------|
| 8% Senior Subordinated Note due 09/30/2017 (D) | \$1,680,931 | 11/30/06 | 867,531 | 1,260,698 |
|--|-------------|----------|---------|-----------|

|                  |          |          |         |   |
|------------------|----------|----------|---------|---|
| Common Stock (B) | 101 shs. | 11/30/06 | 101,250 | — |
|------------------|----------|----------|---------|---|

|  |         |          |           |           |
|--|---------|----------|-----------|-----------|
| Warrant, exercisable until 2016, to purchase common stock at \$.01 per share (B) | 51 shs. | 11/30/06 | 45,790    | —         |
|  |         |          | 1,014,571 | 1,260,698 |

## Babson Capital Participation Investors

## CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

March 31, 2016

(Unaudited)

| Corporate Restricted Securities: (A) (Continued)  | Principal Amount, Shares, Units or Ownership Percentage | Acquisition Date | Cost                 | Fair Value           |
|---|---|------------------|----------------------|----------------------|
| <b>Westminster Acquisition LLC</b>  |   |                  |                      |                      |
| A manufacturer of premium, all-natural oyster cracker products sold under the Westminster and Olde Cape Cod brands.                     |   |                  |                      |                      |
| 12% Senior Subordinated Note due 02/03/2021   | \$372,684<br>370,241                                    | 08/03/15         | \$366,021            | \$374,451            |
| Limited Liability Company Unit (B)  | uts.  | 08/03/15         | 370,241<br>736,262   | 512,561<br>887,012   |
| <b>Whitcraft Holdings, Inc.</b>   |   |                  |                      |                      |
| A leading independent manufacturer of precision formed, machined, and fabricated flight-critical aerospace components.                  |   |                  |                      |                      |
| Common Stock (B)  | 205 shs.  | 12/16/10         | 205,480              | 202,395              |
| Warrant, exercisable until 2018, to purchase common stock at \$.01 per share (B)  | 55 shs.   | 12/16/10         | 49,334<br>254,814    | 54,391<br>256,786    |
| <b>Wolf-Gordon, Inc.</b>  |   |                  |                      |                      |
| A designer and specialty distributor of wallcoverings and related building products, including textiles, paint, and writeable surfaces. |   |                  |                      |                      |
| 12.5% Senior Subordinated Note due 07/22/2021   | \$1,572,691   | 01/22/16         | 1,542,092            | 1,591,546            |
| Common Stock (B)  | 157 shs.  | 01/22/16         | 156,818<br>1,698,910 | 140,521<br>1,732,067 |
| <b>WP Supply Holding Corporation</b>  |   |                  |                      |                      |
| A distributor of fresh fruits and vegetables to grocery wholesalers and foodservice distributors in the upper Midwest.                  |   |                  |                      |                      |
| 14.5% Senior Subordinated Note due 06/12/2020   | \$948,779   | 11/03/11         | 940,394              | 948,778              |
| Common Stock  | 1,500 shs.  | 11/03/11         | 150,000<br>1,090,394 | 218,360<br>1,167,138 |
| <b>York Wall Holding Company</b>  |   |                  |                      |                      |
| A designer, manufacturer and marketer of wall covering products for both residential and commercial wall coverings.                     |   |                  |                      |                      |
| 12.5% Senior Subordinated Note due 03/04/2021   | \$1,566,448   | 03/04/15         | 1,539,572            | 1,468,958            |
| Common Stock (B)  | 1,835 shs.  | 03/04/15         | 183,500<br>1,723,072 | 106,429<br>1,575,387 |

|   |              |              |
|---|--------------|--------------|
| Total Private Placement Investments (E) | \$96,708,386 | \$98,538,386 |
|---|--------------|--------------|

## CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

March 31, 2016

(Unaudited)

| Corporate Restricted Securities: (A) (Continued) | Interest Rate | Maturity Date | Principal Amount | Cost       | Market Value |
|--|---------------|---------------|------------------|------------|--------------|
| Rule 144A Securities - 13.72%:                   |               |               |                  |            |              |
| Bonds - 13.72%                                   |               |               |                  |            |              |
| Amsted Industries                                | 5.375%        | 09/15/24      | \$ 240,000       | \$ 240,000 | \$ 230,700   |
| ArcelorMittal                                    | 6.125         | 06/01/18      | 500,000          | 506,217    | 505,000      |
| Belden Inc.                                      | 5.250         | 07/15/24      | 210,000          | 210,000    | 200,550      |
| CCOH Safari, LLC                                 | 5.750         | 02/15/26      | 500,000          | 500,000    | 517,500      |
| Cimpress N.V.                                    | 7.000         | 04/01/22      | 500,000          | 485,883    | 495,000      |
| CITGO Petroleum Corporation                      | 6.250         | 08/15/22      | 425,000          | 425,000    | 410,125      |
| Consolidated Energy Finance S.A.                 | 6.750         | 10/15/19      | 500,000          | 493,949    | 476,250      |
| Constellium N.V.                                 | 7.875         | 04/01/21      | 373,000          | 373,000    | 372,675      |
| Cornerstone Chemical Company                     | 9.375         | 03/15/18      | 375,000          | 379,554    | 349,687      |
| CTP Transportation Products, LLC                 | 8.250         | 12/15/19      | 310,000          | 310,000    | 305,350      |
| Dean Foods                                       | 6.500         | 03/15/23      | 329,000          | 329,000    | 338,459      |
| Endo Finance LLC                                 | 5.375         | 01/31/23      | 500,000          | 490,881    | 476,250      |
| Family Tree Escrow, LLC                          | 5.750         | 03/01/23      | 156,000          | 156,000    | 165,360      |
| First Data Corporation                           | 5.000         | 01/15/24      | 406,000          | 406,000    | 406,508      |
| Harron Communications, L.P.                      | 9.125         | 04/01/20      | 250,000          | 267,725    | 261,407      |
| HD Supply, Inc.                                  | 5.250         | 12/15/21      | 127,000          | 127,000    | 133,350      |
| Hilcorp Energy Company                           | 5.000         | 12/01/24      | 335,000          | 335,000    | 282,237      |
| H.J. Heinz Company                               | 4.875         | 02/15/25      | 209,000          | 209,000    | 230,247      |
| HP Enterprise Company                            | 4.900         | 10/15/25      | 500,000          | 498,624    | 514,583      |
| International Wire Group                         | 8.500         | 10/15/17      | 500,000          | 514,385    | 498,125      |
| J.B. Poindexter Co., Inc.                        | 9.000         | 04/01/22      | 500,000          | 500,000    | 523,750      |
| Jupiter Resources Inc.                           | 8.500         | 10/01/22      | 500,000          | 474,094    | 265,000      |
| OPE KAG Finance Sub                              | 7.875         | 07/31/23      | 500,000          | 522,804    | 498,750      |
| LBC Tank Terminals Holding Netherlands B.V.      | 6.875         | 05/15/23      | 663,000          | 680,107    | 616,590      |
| Mallinckrodt PLC                                 | 5.750         | 08/01/22      | 500,000          | 500,000    | 460,625      |
| MEG Energy Corporation                           | 6.375         | 01/30/23      | 500,000          | 500,000    | 295,000      |
| Micron Technology, Inc.                          | 5.250         | 08/01/23      | 494,000          | 494,000    | 403,845      |
| Moog Inc.  | 5.250         | 12/01/22      | 500,000          | 503,637    | 500,625      |
| MPLX LP  | 4.875         | 12/01/24      | 500,000          | 500,000    | 461,618      |
| Nielsen Finance LLC                              | 5.000         | 04/15/22      | 271,000          | 272,760    | 277,775      |
| Numericable Group SA                             | 4.875         | 05/15/19      | 240,000          | 240,000    | 238,800      |
| Paragon Offshore plc. (D)                        | 6.750         | 07/15/22      | 500,000          | 175,711    | 131,250      |
| Penske Corporation                               | 4.875         | 07/11/22      | 500,000          | 498,482    | 533,888      |
| Prestige Brands Holdings, Inc.                   | 5.375         | 12/15/21      | 650,000          | 650,000    | 658,125      |
| Sabre GLOBL, Inc.                                | 5.375         | 04/15/23      | 500,000          | 494,528    | 513,125      |
| Sabre GLOBL, Inc.                                | 5.250         | 11/15/23      | 122,000          | 122,000    | 124,123      |
| Safway Group Holding LLC/Finance Corporation     | 7.000         | 05/15/18      | 250,000          | 250,000    | 250,625      |
| Sinclair Broadcast Group, Inc.                   | 5.875         | 03/15/26      | 204,000          | 204,000    | 208,845      |
| Sirius XM Radio Inc.                             | 5.875         | 10/01/20      | 445,000          | 445,000    | 464,958      |



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Babson Capital Participation Investors

CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

March 31, 2016

(Unaudited)

| Corporate Restricted Securities: (A) (Continued) | Interest Rate | Maturity Date | Shares or Principal Amount | Cost           | Market Value   |
|--|---------------|---------------|----------------------------|----------------|----------------|
| TeamHealth Holdings Inc                          | 7.250%        | 12/15/23      | \$ 115,000                 | \$ 115,000     | \$ 123,050     |
| Topaz Marine S.A.                                | 8.625         | 11/01/18      | 500,000                    | 500,000        | 452,500        |
| Unitymedia KabelBW GmbH                          | 6.125         | 01/15/25      | 500,000                    | 500,000        | 519,690        |
| Univision Communications, Inc.                   | 5.125         | 05/15/23      | 160,000                    | 160,000        | 159,200        |
| Univision Communications, Inc.                   | 5.125         | 02/15/25      | 419,000                    | 424,761        | 413,763        |
| UPCB Finance IV Limited                          | 5.375         | 01/15/25      | 208,000                    | 208,000        | 210,600        |
| Valeant Pharmaceuticals International            | 7.000         | 10/01/20      | 250,000                    | 250,513        | 210,000        |
| Virgin Media Secured Finance PLC                 | 5.250         | 01/15/26      | 500,000                    | 504,057        | 500,000        |
| VRX Escrow Corp.                                 | 6.125         | 04/15/25      | 382,000                    | 382,000        | 294,140        |
| Welltec A/S                                      | 8.000         | 02/01/19      | 375,000                    | 371,267        | 340,313        |
| West Corporation                                 | 5.375         | 07/15/22      | 500,000                    | 491,746        | 458,650        |
| Western Digital Corporation                      | 10.500        | 04/01/24      | 253,000                    | 253,000        | 253,633        |
| XPO Logistics, Inc.                              | 7.875         | 09/01/19      | 451,000                    | 464,200        | 466,785        |
| Total Bonds                                      |               |               |                            | 19,908,885     | 18,999,004     |
| Common Stock - 0.00%                             |               |               |                            |                |                |
| TherOX, Inc. (B)                                 |               |               | 26                         | —              | —              |
| Touchstone Health Partnership (B)                |               |               | 292                        | —              | —              |
| Total Common Stock                               |               |               |                            | —              | —              |
| Total Rule 144A Securities                       |               |               |                            | 19,908,885     | 18,999,004     |
| Total Corporate Restricted Securities            |               |               |                            | \$ 116,617,271 | \$ 117,537,390 |





## CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

March 31, 2016

(Unaudited)

| Corporate Public Securities - 16.63%: (A)  | Interest Rate | Maturity Date | Principal Amount | Cost      | Market Value |
|--|---------------|---------------|------------------|-----------|--------------|
| Bank Loans - 0.27%                         |               |               |                  |           |              |
| Aquilex Holdings LLC                       | 5.000%        | 12/31/20      | \$167,977        | \$167,689 | \$155,378    |
| Seadrill Partners Finco, LLC               | 4.000         | 02/21/21      | 498,724          | 193,276   | 219,439      |
| Total Bank Loans                           |               |               |                  | 360,965   | 374,817      |
| Bonds - 16.36%                             |               |               |                  |           |              |
| Accuride Corp                              | 9.500         | 08/01/18      | 500,000          | 491,279   | 460,000      |
| Alcoa, Inc.                                | 6.150         | 08/15/20      | 600,000          | 618,482   | 624,000      |
| Anglogold Holdings PLC                     | 5.375         | 04/15/20      | 600,000          | 603,157   | 591,750      |
| Anixter, Inc.                              | 5.125         | 10/01/21      | 165,000          | 165,000   | 165,825      |
| Antero Resources Corporation               | 5.375         | 11/01/21      | 395,000          | 395,000   | 365,375      |
| Bank of America Corporation                | 4.000         | 04/01/24      | 500,000          | 498,443   | 524,480      |
| Bonanza Creek Energy, Inc.                 | 5.750         | 02/01/23      | 500,000          | 500,000   | 132,500      |
| Brunswick Corporation                      | 7.125         | 08/01/27      | 500,000          | 504,201   | 527,500      |
| Calumet Specialty Products Partners L.P.   | 7.625         | 01/15/22      | 500,000          | 498,915   | 353,750      |
| CCO Holdings Capital Corporation           | 5.750         | 01/15/24      | 500,000          | 485,478   | 520,625      |
| Clearwater Paper Corporation               | 4.500         | 02/01/23      | 500,000          | 496,288   | 476,875      |
| Commercial Metals Company                  | 4.875         | 05/15/23      | 750,000          | 751,198   | 663,750      |
| CVR Refining LLC                           | 6.500         | 11/01/22      | 350,000          | 340,444   | 309,750      |
| DaVita Healthcare Partners, Inc.           | 5.000         | 05/01/25      | 500,000          | 483,012   | 495,000      |
| D.R. Horton, Inc.                          | 4.000         | 02/15/20      | 500,000          | 500,000   | 515,000      |
| Duke Realty Limited Partnership            | 3.875         | 10/15/22      | 500,000          | 502,779   | 509,824      |
| EP Energy Corporation                      | 9.375         | 05/01/20      | 406,000          | 176,679   | 204,776      |
| Ferrellgas Partners, L.P.                  | 8.625         | 06/15/20      | 650,000          | 650,725   | 601,250      |
| Forum Energy Technologies                  | 6.250         | 10/01/21      | 160,000          | 160,000   | 137,600      |
| Frontier Communications Corporation        | 6.875         | 01/15/25      | 500,000          | 490,914   | 422,187      |
| HealthSouth Corporation                    | 7.750         | 09/15/22      | 203,000          | 203,330   | 211,569      |
| Hertz Corporation                          | 6.750         | 04/15/19      | 220,000          | 218,350   | 223,188      |
| Hornbeck Offshore Services, Inc.           | 1.500         | 09/01/19      | 500,000          | 257,500   | 296,563      |
| Hospital Corporation of America            | 5.375         | 02/01/25      | 100,000          | 101,691   | 101,094      |
| Hospital Corporation of America            | 5.250         | 06/15/26      | 174,000          | 174,000   | 178,350      |
| Icahn Enterprises L.P.                     | 6.000         | 08/01/20      | 600,000          | 608,413   | 583,500      |
| Jabil Circuit, Inc.                        | 4.700         | 09/15/22      | 500,000          | 499,982   | 495,000      |
| Kindred Healthcare, Inc.                   | 8.750         | 01/15/23      | 500,000          | 500,000   | 478,750      |
| Laboratory Corporation of America Holdings | 3.600         | 02/01/25      | 500,000          | 499,293   | 506,161      |
| Lamar Media Corp.                          | 5.375         | 01/15/24      | 160,000          | 160,000   | 166,848      |
| Lazard Group LLC                           | 4.250         | 11/14/20      | 500,000          | 498,860   | 522,143      |
| Lennar Corporation                         | 4.500         | 11/15/19      | 250,000          | 250,402   | 260,000      |
| Lennar Corporation                         | 4.750         | 04/01/21      | 500,000          | 500,000   | 506,250      |
| Lennar Corporation                         | 4.750         | 11/15/22      | 375,000          | 370,707   | 375,937      |
| Lifepoint Hospitals, Inc.                  | 5.500         | 12/01/21      | 350,000          | 358,205   | 365,750      |



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Babson Capital Participation Investors

CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

March 31, 2016

(Unaudited)

| Corporate Public Securities: (A) (Continued) | Interest Rate | Maturity Date | Shares or Principal Amount | Cost         | Market Value |
|--|---------------|---------------|----------------------------|--------------|--------------|
| Masco Corporation                            | 7.125%        | 03/15/20      | \$ 350,000                 | \$ 349,999   | \$ 402,937   |
| MasTec, Inc.                                 | 4.875         | 03/15/23      | 500,000                    | 491,906      | 428,750      |
| Meritor, Inc.                                | 6.750         | 06/15/21      | 1,000,000                  | 1,000,000    | 927,500      |
| Netflix, Inc.                                | 5.500         | 02/15/22      | 299,000                    | 299,000      | 313,035      |
| NRG Energy, Inc.                             | 6.250         | 07/15/22      | 500,000                    | 500,000      | 465,000      |
| Omnova Solutions, Inc.                       | 7.875         | 11/01/18      | 450,000                    | 454,121      | 445,500      |
| Orbital ATK, Inc.                            | 5.250         | 10/01/21      | 500,000                    | 500,000      | 518,750      |
| Perry Ellis International, Inc.              | 7.875         | 04/01/19      | 125,000                    | 124,346      | 125,625      |
| Precision Drilling Corporation               | 6.625         | 11/15/20      | 250,000                    | 254,803      | 200,000      |
| R.R. Donnelley & Sons Company                | 6.000         | 04/01/24      | 500,000                    | 500,000      | 410,000      |
| Sanchez Energy Corporation                   | 6.125         | 01/15/23      | 500,000                    | 350,384      | 270,000      |
| Sprint Corporation                           | 7.125         | 06/15/24      | 155,000                    | 155,000      | 115,087      |
| Sprint Nextel Corporation                    | 6.000         | 12/01/16      | 500,000                    | 502,093      | 496,875      |
| Steelcase, Inc.                              | 6.375         | 02/15/21      | 500,000                    | 504,901      | 564,758      |
| Suburban Propane Partners, L.P.              | 5.750         | 03/01/25      | 500,000                    | 500,000      | 477,500      |
| Time Warner Cable, Inc.                      | 5.000         | 02/01/20      | 500,000                    | 495,442      | 542,735      |
| Tyson Foods, Inc.                            | 4.500         | 06/15/22      | 500,000                    | 511,266      | 547,819      |
| Weatherford International                    | 4.500         | 04/15/22      | 500,000                    | 514,597      | 401,250      |
| William Lyon Homes                           | 7.000         | 08/15/22      | 500,000                    | 500,000      | 480,000      |
| WPX Energy, Inc.                             | 5.250         | 09/15/24      | 425,000                    | 425,000      | 295,375      |
| Xerium Technologies, Inc.                    | 8.875         | 06/15/18      | 416,000                    | 426,703      | 343,200      |
| Total Bonds                                  |               |               |                            | 23,872,288   | 22,644,616   |
| Common Stock - 0.00%                         |               |               |                            |              |              |
| Nortek, Inc. (B)                             |               |               | 100                        | 1            | 4,829        |
| Total Common Stock                           |               |               |                            | 1            | 4,829        |
| Total Corporate Public Securities            |               |               |                            | \$24,233,254 | \$23,024,262 |



CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

March 31, 2016

(Unaudited)

| Short-Term Security:               | Interest Rate | Maturity Date | Principal Amount | Cost          | Market Value  |
|------------------------------------|---------------|---------------|------------------|---------------|---------------|
| Commercial Paper - 1.44%           |               |               |                  |               |               |
| Enterprise Products Operating, LLC | 0.800%        | 04/04/16      | \$2,000,000      | \$1,999,867   | \$1,999,867   |
| Total Short-Term Security          |               |               |                  | \$1,999,867   | \$1,999,867   |
| Total Investments                  | 102.97%       |               |                  | \$142,850,392 | \$142,561,519 |
| Other Assets                       | 8.90          |               |                  |               | 12,313,021    |
| Liabilities                        | (11.87)       |               |                  |               | (16,431,320)  |
| Total Net Assets                   | 100.00%       |               |                  |               | \$138,443,220 |

(A) In each of the convertible note, warrant, and common stock investments, the issuer has agreed to provide certain registration rights.

(B) Non-income producing security.

(C) Security valued at fair value using methods determined in good faith by or under the direction of the Board of Trustees.

(D) Defaulted security; interest not accrued.

(E) Illiquid security. As of March 31, 2016 the values of these securities amounted to \$98,538,386 or 71.18% of net assets.

PIK - Payment-in-kind

Babson Capital Participation Investors  
CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)  
March 31, 2016  
(Unaudited)

| Industry Classification:                                     | Fair Value/<br>Market<br>Value |
|--|--------------------------------|
| <b>AEROSPACE &amp; DEFENSE - 3.11%</b>                       |                                |
| FMH Holdings Corporation                                     | \$1,709,885                    |
| Merex Holding Corporation                                    | 519,535                        |
| Orbital ATK, Inc.  | 518,750                        |
| Sunvair Aerospace Group Inc.                                 | 1,298,929                      |
| Whitcraft Holdings, Inc.                                     | 256,786                        |
|  | 4,303,885                      |
| <b>AIRLINES - 0.34%</b>                                      |                                |
| XPO Logistics, Inc.  | 466,785                        |
| <b>AUTOMOTIVE - 8.36%</b>                                    |                                |
| Accuride Corp  | 460,000                        |
| Aurora Parts & Accessories LLC                               | 1,734,795                      |
| CG Holdings Manufacturing Company                            | 1,740,406                      |
| DPL Holding Corporation                                      | 1,719,821                      |
| Grakon Parent  | 237,488                        |
| J A C Holding Enterprises, Inc.                              | 486,980                        |
| J.B. Poindexter Co., Inc.                                    | 523,750                        |
| K & N Parent, Inc.   | 163,612                        |
| Meritor, Inc.  | 927,500                        |
| Moog Inc.  | 500,625                        |
| Power Stop Holdings LLC                                      | 1,809,993                      |
| Randy's Worldwide Automotive                                 | 1,272,117                      |
|  | 11,577,087                     |
| <b>BANKING - 0.38%</b>                                       |                                |
| Bank of America Corporation                                  | 524,480                        |
| <b>BROKERAGE, ASSET MANAGERS &amp;<br/>EXCHANGES - 0.80%</b> |                                |
| Icahn Enterprises L.P.                                       | 583,500                        |
| Lazard Group LLC   | 522,143                        |
|  | 1,105,643                      |
| <b>BUILDING MATERIALS - 8.15%</b>                            |                                |
| ARI Holding Corporation                                      | 2,323,155                      |
| Janus Group Holdings LLC                                     | 2,100,434                      |
| Masco Corporation  | 402,937                        |
| Nortek, Inc.   | 4,829                          |
| Pearlman Enterprises, Inc.                                   | 1,328,024                      |

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|   |            |                                |
|---|------------|--------------------------------|
| Signature Systems Holding Company           | 170,624    |                                |
| Sunrise Windows Holding Company             | 1,189,249  |                                |
| Torrent Group Holdings, Inc.                | 777,063    |                                |
| Wellborn Forest Holding Company             | 1,260,698  |                                |
| Wolf - Gordon, Inc.                         | 1,732,067  |                                |
|   | 11,289,080 |                                |
|   |            | Fair Value/<br>Market<br>Value |
| CABLE & SATELLITE - 2.39%                   |            |                                |
| CCO Holdings Capital Corporation            | \$ 520,625 |                                |
| CCOH Safari, LLC                            | 517,500    |                                |
| Harron Communications, L.P.                 | 261,407    |                                |
| Numericable Group SA                        | 238,800    |                                |
| Time Warner Cable, Inc.                     | 542,735    |                                |
| Unitymedia KabelBW GmbH                     | 519,690    |                                |
| UPCB Finance IV Limited                     | 210,600    |                                |
| Virgin Media Secured Finance PLC            | 500,000    |                                |
|   | 3,311,357  |                                |
| CHEMICALS - 3.45%                           |            |                                |
| Compass Chemical International LLC          | 1,763,383  |                                |
| Consolidated Energy Finance S.A.            | 476,250    |                                |
| Cornerstone Chemical Company                | 349,687    |                                |
| LBC Tank Terminals Holding Netherlands B.V. | 616,590    |                                |
| Omnova Solutions, Inc.                      | 445,500    |                                |
| Polytex Holdings LLC                        | 1,132,020  |                                |
|   | 4,783,430  |                                |
| CONSTRUCTION MACHINERY - 0.49%              |            |                                |
| A W X Holdings Corporation                  | 405,300    |                                |
| Safety Infrastructure Solutions             | 272,215    |                                |
|   | 677,515    |                                |
| CONSUMER CYCLICAL SERVICES - 2.74%          |            |                                |
| CHG Alternative Education Holding Company   | 1,055,721  |                                |
| Church Services Holding Company             | 175,046    |                                |
| Cimpres N.V.                                | 495,000    |                                |
| PPC Event Services                          | 1,603,098  |                                |
| West Corporation                            | 458,650    |                                |
|   | 3,787,515  |                                |
| CONSUMER PRODUCTS - 10.40%                  |            |                                |
| AMS Holding LLC                             | 331,345    |                                |
| Animal Supply Company                       | 1,670,894  |                                |
| Blue Wave Products, Inc.                    | 785,534    |                                |
| gloProfessional Holdings, Inc.              | 1,288,746  |                                |
| GTI Holding Company                         | 786,455    |                                |

See Notes to Consolidated Financial Statements

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## CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

March 31, 2016

(Unaudited)

| Industry Classification: (Continued)   | Fair Value/<br>Market<br>Value |
|--|--------------------------------|
| Handi Quilter Holding Company          | \$ 1,639,822                   |
| HHI Group, LLC                         | 1,408,857                      |
| HP Enterprise Company                  | 514,583                        |
| K N B Holdings Corporation             | 128,088                        |
| Kyjen Company                          | 1,312,493                      |
| Manhattan Beachwear Holding Company    | 538,957                        |
| MasTec, Inc.                           | 428,750                        |
| Master Cutlery LLC                     | 1,198,927                      |
| Perry Ellis International, Inc.        | 125,625                        |
| Prestige Brands Holdings, Inc.         | 658,125                        |
| Transpac Holding Company               | —                              |
| York Wall Holding Company              | 1,575,387                      |
|  | 14,392,588                     |
| <br>                                   |                                |
| DIVERSIFIED MANUFACTURING - 6.00%      |                                |
| ABC Industries, Inc.                   | 453,408                        |
| Advanced Manufacturing Enterprises LLC | 7,777                          |
| Airxcel Holdings                       | 1,783,688                      |
| Amsted Industries                      | 230,700                        |
| Belden Inc.                            | 200,550                        |
| BP SCI LLC                             | 378,928                        |
| CTP Transportation Products, LLC       | 305,350                        |
| Custom Engineered Wheels, Inc.         | 666,857                        |
| F G I Equity LLC                       | 293,960                        |
| Forum Energy Technologies              | 137,600                        |
| G C Holdings                           | 118,252                        |
| Ideal Tridon Holdings, Inc.            | 158,300                        |
| K P I Holdings, Inc.                   | 486,984                        |
| Motion Controls Holdings               | 1,090,277                      |
| NABCO, Inc.                            | 58,845                         |
| NetShape Technologies, Inc.            | 526,309                        |
| Strahman Holdings Inc                  | 1,402,444                      |
|  | 8,300,229                      |
| <br>                                   |                                |
| ELECTRIC - 0.34%                       |                                |
| NRG Energy, Inc.                       | 465,000                        |
| <br>                                   |                                |
| FINANCIAL OTHER - 0.11%                |                                |
| Insurance Claims Management, Inc.      | 148,162                        |
| <br>                                   |                                |
| FOOD & BEVERAGE - 10.18%               |                                |
| 1492 Acquisition LLC                   | 937,541                        |

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|  |                                |
|--|--------------------------------|
| Dean Foods                                 | 338,459                        |
| Eagle Family Foods, Inc.                   | 1,702,730                      |
|  | Fair Value/<br>Market<br>Value |
| F F C Holding Corporation                  | \$ 177,572                     |
| GenNx Novel Holding, Inc.                  | 1,632,618                      |
| H.J. Heinz Company                         | 230,247                        |
| Hollandia Produce LLC                      | 1,329,624                      |
| Hospitality Mints Holding Company          | 1,125,267                      |
| Impact Confections                         | 1,272,539                      |
| JMH Investors LLC                          | 980,742                        |
| PANOS Brands LLC                           | 1,757,858                      |
| Tyson Foods, Inc.                          | 547,819                        |
| Westminster Acquisition LLC                | 887,012                        |
| WP Supply Holding Corporation              | 1,167,138                      |
|  | 14,087,166                     |
| GAMING - 1.26%                             |                                |
| CTM Holding, Inc.                          | 1,739,109                      |
| HEALTHCARE - 5.39%                         |                                |
| DaVita Healthcare Partners, Inc.           | 495,000                        |
| ECG Consulting Group                       | 1,417,769                      |
| GD Dental Services LLC                     | 145,627                        |
| Healthcare Direct Holding Company          | 100,711                        |
| HealthSouth Corporation                    | 211,569                        |
| Hospital Corporation of America            | 279,444                        |
| Kindred Healthcare, Inc.                   | 478,750                        |
| Laboratory Corporation of America Holdings | 506,161                        |
| Lifepoint Hospitals, Inc.                  | 365,750                        |
| MedSystems Holdings LLC                    | 502,507                        |
| Synteract Holdings Corporation             | 2,330,583                      |
| TeamHealth Holdings Inc                    | 123,050                        |
| TherOX, Inc.                               | —                              |
| Touchstone Health Partnership              | —                              |
| Valeant Pharmaceuticals International      | 210,000                        |
| VRX Escrow Corp.                           | 294,140                        |
|  | 7,461,061                      |
| HOME CONSTRUCTION - 1.54%                  |                                |
| D.R. Horton, Inc.                          | 515,000                        |
| Lennar Corporation                         | 1,142,187                      |
| William Lyon Homes                         | 480,000                        |
|  | 2,137,187                      |
| INDEPENDENT - 1.16%                        |                                |
| Antero Resources Corporation               | 365,375                        |

See Notes to Consolidated Financial Statements

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Babson Capital Participation Investors  
CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)  
March 31, 2016  
(Unaudited)

| Industry Classification: (Continued)         | Fair Value/<br>Market<br>Value |
|--|--------------------------------|
| EP Energy Corporation                        | \$204,776                      |
| Jupiter Resources Inc.                       | 265,000                        |
| MEG Energy Corporation                       | 295,000                        |
| Precision Drilling Corporation               | 200,000                        |
| Sanchez Energy Corporation                   | 270,000                        |
|  | 1,600,151                      |
| <br>   |                                |
| INDUSTRIAL OTHER - 10.07%                    |                                |
| Advanced Technologies Holdings               | 348,639                        |
| AFC-Dell Holding Corporation                 | 1,330,059                      |
| Aquilex Holdings LLC                         | 155,378                        |
| Brunswick Corporation                        | 527,500                        |
| Clough, Harbour and Associates               | 672,523                        |
| Connecticut Electric, Inc.                   | 1,135,230                      |
| Hartland Controls Holding Corporation        | 1,759,614                      |
| Hi-Rel Group LLC                             | 1,099,976                      |
| HVAC Holdings, Inc.                          | 1,414,068                      |
| International Wire Group                     | 498,125                        |
| Mail Communications Group, Inc.              | 186,291                        |
| MC Sign Holdings LLC                         | 871,701                        |
| Nielsen Finance LLC                          | 277,775                        |
| Northwest Mailing Services, Inc.             | 491,208                        |
| O E C Holding Corporation                    | 156,599                        |
| Safway Group Holding LLC/Finance Corporation | 250,625                        |
| Smart Source Holdings LLC                    | 444,417                        |
| SMB Machinery Holdings, Inc.                 | —                              |
| Steelcase, Inc.                              | 564,758                        |
| Tranzonic Holdings LLC                       | 1,762,081                      |
|  | 13,946,567                     |
| <br>   |                                |
| MEDIA & ENTERTAINMENT - 4.33%                |                                |
| BlueSpire Holding, Inc.                      | 1,656,641                      |
| GlynnDevins Acquisition Corporation          | 872,238                        |
| HOP Entertainment LLC                        | —                              |
| Lamar Media Corp.                            | 166,848                        |
| Money Mailer                                 | 1,332,865                      |
| Netflix, Inc.                                | 313,035                        |
| R.R. Donnelley & Sons Company                | 410,000                        |
| Sinclair Broadcast Group, Inc.               | 208,845                        |
| Sirius XM Radio Inc.                         | 464,958                        |
| Univision Communications, Inc.               | 572,963                        |

5,998,393

|                                    | Fair Value/<br>Market<br>Value |
|------------------------------------|--------------------------------|
| <b>METALS &amp; MINING - 1.99%</b> |                                |
| Alcoa, Inc.                        | \$624,000                      |
| Anglogold Holdings PLC             | 591,750                        |
| ArcelorMittal                      | 505,000                        |
| Commercial Metals Company          | 663,750                        |
| Constellium N.V.                   | 372,675                        |
|                                    | 2,757,175                      |
| <b>MIDSTREAM - 1.00%</b>           |                                |
| CVR Refining LLC                   | 309,750                        |
| Ferrellgas Partners, L.P.          | 601,250                        |
| Suburban Propane Partners, L.P.    | 477,500                        |
|                                    | 1,388,500                      |
| <b>OIL FIELD SERVICES - 3.19%</b>  |                                |
| Avantech Testing Services LLC      | —                              |
| Bonanza Creek Energy, Inc.         | 132,500                        |
| Enterprise Products Operating, LLC | 1,999,867                      |
| Hilcorp Energy Company             | 282,237                        |
| Hornbeck Offshore Services, Inc.   | 296,563                        |
| Petroplex Inv Holdings LLC         | —                              |
| Seadrill Partners Finco, LLC       | 219,439                        |
| Topaz Marine S.A.                  | 452,500                        |
| Weatherford International          | 401,250                        |
| Welltec A/S                        | 340,313                        |
| WPX Energy, Inc.                   | 295,375                        |
|                                    | 4,420,044                      |
| <b>OTHER-REITS - 0.37%</b>         |                                |
| Duke Realty Limited Partnership    | 509,824                        |
| <b>PACKAGING - 0.66%</b>           |                                |
| ASC Holdings, Inc.                 | 790,562                        |
| Vitex Packaging Group, Inc.        | 129,358                        |
|                                    | 919,920                        |
| <b>PAPER - 1.23%</b>               |                                |
| Clearwater Paper Corporation       | 476,875                        |
| Dunn Paper                         | 885,158                        |
| Xerium Technologies, Inc.          | 343,200                        |
|                                    | 1,705,233                      |
| <b>PHARMACEUTICALS - 2.66%</b>     |                                |
| Clarion Brands Holding Corp.       | 1,705,273                      |
| Endo Finance LLC                   | 476,250                        |

See Notes to Consolidated Financial Statements

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## CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

March 31, 2016

(Unaudited)

| Industry Classification: (Continued)     | Fair Value/<br>Market<br>Value |
|--|--------------------------------|
| ERG Holding Company LLC                  | \$1,045,429                    |
| Mallinckrodt PLC                         | 460,625                        |
|  | 3,687,577                      |
| REFINING - 2.66%                         |                                |
| Calumet Specialty Products Partners L.P. | 353,750                        |
| CITGO Petroleum Corporation              | 410,125                        |
| MES Partners, Inc.                       | 1,290,125                      |
| MPLX LP                                  | 461,618                        |
| Paragon Offshore plc.                    | 131,250                        |
| Tristar Global Energy Solutions, Inc.    | 1,042,460                      |
|  | 3,689,328                      |
| RETAILERS - 0.22%                        |                                |
| Family Tree Escrow, LLC                  | 165,360                        |
| HD Supply, Inc.                          | 133,350                        |
|  | 298,710                        |
| TECHNOLOGY - 4.35%                       |                                |
| Anixter, Inc.                            | 165,825                        |
| First Data Corporation                   | 406,508                        |
| Glynlyon Holding Companies, Inc.         | 1,738,204                      |
| Jabil Circuit, Inc.                      | 495,000                        |
| Micron Technology, Inc.                  | 403,845                        |
| REVSpring, Inc.                          | 223,708                        |
| Sabre GLOBL, Inc.                        | 637,248                        |
| Veritext Corporation                     | 1,694,244                      |
| Western Digital Corporation              | 253,633                        |
|  | 6,018,215                      |
|  | Fair Value/<br>Market Value    |
| TRANSPORTATION SERVICES - 2.91%          |                                |
| Hertz Corporation                        | \$223,188                      |
| MNX Holding Company                      | 1,338,749                      |
| OPE KAG Finance Sub                      | 498,750                        |
| Penske Corporation                       | 533,888                        |
| Team Drive-Away Holdings LLC             | 869,341                        |
| VP Holding Company                       | 566,538                        |
|  | 4,030,454                      |

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WIRELESS - 0.44%

|                           |         |
|---------------------------|---------|
| Sprint Corporation        | 115,087 |
| Sprint Nextel Corporation | 496,875 |
|                           | 611,962 |

WIRELINES - 0.30%

|                                     |         |
|-------------------------------------|---------|
| Frontier Communications Corporation | 422,187 |
|-------------------------------------|---------|

Total Investments - 102.97%      \$142,561,519

See Notes to Consolidated Financial Statements

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Babson Capital Participation Investors  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

### 1. History

Babson Capital Participation Investors (the "Trust") was organized as a Massachusetts business trust under the laws of the Commonwealth of Massachusetts pursuant to a Declaration of Trust dated April 7, 1988.

The Trust is a diversified closed-end management investment company. Babson Capital Management LLC ("Babson Capital"), a wholly-owned indirect subsidiary of Massachusetts Mutual Life Insurance Company ("MassMutual"), acts as its investment adviser. 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), 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 capital. In addition, the Trust may invest in high quality, readily marketable securities.

On January 27, 1998, the Board of Trustees authorized the formation of a wholly-owned subsidiary of the Trust ("PI Subsidiary Trust") for the purpose of holding certain investments. The results of the PI Subsidiary Trust are consolidated in the accompanying financial statements. Footnote 2.D below discusses the Federal tax consequences of the PI Subsidiary Trust.

### 2. Significant Accounting Policies

The following is a summary of significant accounting policies followed consistently by the Trust in the preparation of its consolidated financial statements in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP").

The Trustees have determined that the Trust is an investment company in accordance with Accounting Standards Codification ("ASC") 946, Financial Services — Investment Companies, for the purpose of financial reporting.

#### A. Fair Value Measurements:

Under U.S. GAAP, fair value represents the price that should be received to sell an asset (exit price) in an orderly transaction between willing market participants at the measurement date.

#### Determination of Fair Value

The determination of the fair value of the Trust's investments is the responsibility of the Trust's Board of Trustees (the "Trustees"). The Trustees have adopted procedures for the valuation of the Trust's securities and has delegated responsibility for applying those procedures to Babson Capital. Babson Capital has established a Pricing Committee

which is responsible for setting the guidelines used in following the procedures adopted by the Trustees ensuring that those guidelines are being followed. Babson Capital considers all relevant factors that are reasonably available, through either public information or information available to Babson Capital, when determining the fair value of a security. The Trustees meet at least once each quarter to approve the value of the Trust's portfolio securities as of the close of business on the last business day of the preceding quarter. This valuation requires the approval of a majority

of the Trustees of the Trust, including a majority of the Trustees who are not interested persons of the Trust or of Babson Capital. In approving valuations, the Trustees will consider reports by Babson Capital analyzing each portfolio security in accordance with the procedures and guidelines referred to above, which include the relevant factors referred to below. Babson Capital has agreed to provide such reports to the Trust at least quarterly. The consolidated financial statements include private placement restricted securities valued at \$98,538,386 (71.18% of net assets) as of March 31, 2016 whose values have been estimated by the Trustees based on the process described above in the absence of readily ascertainable market values. Due to the inherent uncertainty of valuation, those estimated values may differ significantly from the values that would have been used had a ready market for the securities existed, and the differences could be material.

Following is a description of valuation methodologies used for assets recorded at fair value.

Corporate Public Securities – Bank Loans, Corporate Bonds, Preferred Stocks and Common Stocks

The Trust uses external independent third-party pricing services to determine the fair values of its Corporate Public Securities. At March 31, 2016, 100% of the carrying value of these investments was from external pricing services. In the event that the primary pricing service does not provide a price, the Trust utilizes the pricing provided by a secondary pricing service.

Public debt securities generally trade in the over-the-counter market rather than on a securities exchange. The Trust's pricing services use multiple valuation techniques to determine fair value. In instances where significant market activity exists, the pricing services may utilize a market based approach through which quotes from market makers are used to determine fair value. In instances where significant market activity may not exist or is limited, the pricing services also utilize proprietary valuation models which may consider market characteristics such as benchmark yield curves, option adjusted spreads, credit spreads, estimated default rates, coupon rates, anticipated timing of principal underlying prepayments, collateral, and other unique security features in order to estimate the relevant cash flows, which are then discounted to calculate the fair value.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Unaudited)

The Trust's investments in bank loans are normally valued at the bid quotation obtained from dealers in loans by an independent pricing service in accordance with the Trust's valuation policies and procedures approved by the Trustees.

Public equity securities listed on an exchange or on the NASDAQ National Market System are valued at the last quoted sales price of that day.

Annually, Babson Capital conducts reviews of the primary pricing vendors to validate that the inputs used in that vendors' pricing process are deemed to be market observable as defined in the standard. While Babson Capital is not provided access to proprietary models of the vendors, the reviews have included on-site walk-throughs of the pricing process, methodologies and control procedures for each asset class and level for which prices are provided. The review also includes an examination of the underlying inputs and assumptions for a sample of individual securities across asset classes, credit rating levels and various durations, a process Babson Capital continues to perform annually. In addition, the pricing vendors have an established challenge process in place for all security valuations, which facilitates identification and resolution of prices that fall outside expected ranges. Babson Capital believes that the prices received from the pricing vendors are representative of prices that would be received to sell the assets at the measurement date (exit prices) and are classified appropriately in the hierarchy.

#### Corporate Restricted Securities – Corporate Bonds

The fair value of certain notes is determined using an internal model that discounts the anticipated cash flows of those notes using a specific discount rate. Changes to that discount rate are driven by changes in general interest rates, probabilities of default and credit adjustments. The discount rate used within the models to discount the future anticipated cash flows is considered a significant unobservable input. Significant increases/(decreases) in the discount rate would result in a significant (decrease)/increase to the notes' fair value.

The fair value of certain distressed notes is based on an enterprise waterfall methodology which is discussed in the equity security valuation section below.

#### Corporate Restricted Securities – Common Stock, Preferred Stock and Partnerships & LLC's

The fair value of equity securities is determined using an enterprise waterfall methodology. Under this methodology, the enterprise value of the company is first estimated and that value is then allocated to the company's outstanding debt and equity securities based on the documented priority of each class of securities in the capital structure. Generally, the waterfall proceeds from senior debt tranches of the capital structure to senior then junior subordinated debt, followed by each class of preferred stock and finally the common stock.

To estimate a company's enterprise value, the company's trailing twelve months earnings before interest, taxes, depreciation and amortization ("EBITDA") is multiplied by a valuation multiple.

Both the company's EBITDA and valuation multiple are considered significant unobservable inputs. Significant increases/(decreases) to the company's EBITDA and/or valuation multiple would result in significant increases/(decreases) to the equity value. An increase/(decrease) to the discount would result in a (decrease)/increase to the equity value.

#### Short-Term Securities

Short-term securities, of sufficient credit quality, with more than sixty days to maturity are valued at fair value, using external independent third-party services. Short-term securities having a maturity of sixty days or less are valued at amortized cost, which approximates fair value.

Quantitative Information about Level 3 Fair Value Measurements

The following table represents quantitative information about Level 3 fair value measurements as of March 31, 2016.

|                   | Fair Value   | Valuation Technique   | Unobservable Inputs                | Range                            | Weighted Average |
|-------------------|--------------|-----------------------|------------------------------------|----------------------------------|------------------|
| Corporate Bonds   | \$70,986,437 | Discounted Cash Flows | Discount Rate                      | 9.1% to 20.3%                    | 12.7%            |
|                   | \$3,582,975  | Market Approach       | Valuation Multiple                 | 4.3x to 10.1x                    | 7.7x             |
|                   |              |                       | EBITDA                             | \$0.0 million to \$7.3 million   | \$5.1 million    |
| Equity Securities | \$23,968,974 | Market Approach       | Valuation Multiple                 | 3.7x to 12.4x                    | 7.7x             |
|                   |              |                       | Discount for lack of marketability | 0% to 20%                        | 0.3%             |
|                   |              |                       | EBITDA                             | \$0.0 million to \$152.0 million | \$20.4 million   |

## Babson Capital Participation Investors

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Unaudited)

## Fair Value Hierarchy

The Trust categorizes its investments measured at fair value in three levels, based on the inputs and assumptions used to determine fair value. These levels are as follows:

Level 1 – quoted prices in active markets for identical securities

Level 2 – other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment speeds, credit risk, etc.)

Level 3 – significant unobservable inputs (including the Trust's own assumptions in determining the fair value of investments)

The following is a summary of the inputs used to value the Trust's net assets as of March 31, 2016:

| Assets:                      | Total         | Level   |              |              |
|------------------------------|---------------|---------|--------------|--------------|
|                              |               | 1       | Level 2      | Level 3      |
| <b>Restricted Securities</b> |               |         |              |              |
| Corporate Bonds              | \$93,568,417  | \$—     | \$18,999,004 | \$74,569,413 |
| Common Stock - U.S.          | 7,094,164     | —       | —            | 7,094,164    |
| Preferred Stock              | 7,220,989     | —       | —            | 7,220,989    |
| Partnerships and LLCs        | 9,653,820     | —       | —            | 9,653,820    |
| <b>Public Securities</b>     |               |         |              |              |
| Bank Loans                   | 374,817       | —       | 374,817      | —            |
| Corporate Bonds              | 22,644,616    | —       | 22,644,616   | —            |
| Common Stock - U.S.          | 4,829         | 4,829   | —            | —            |
| Short-term Securities        | 1,999,867     | —       | 1,999,867    | —            |
| Total                        | \$142,561,519 | \$4,829 | \$44,018,304 | \$98,538,386 |

See information disaggregated by security type and industry classification in the Consolidated Schedule of Investments.

Following is a reconciliation of Level 3 assets for which significant unobservable inputs were used to determine fair value:

| Assets:                      | Beginning balance at 12/31/2015 | Included in earnings | Purchases   | Sales     | Prepayments  | Transfers    |                | Ending balance at 3/31/2016 |
|------------------------------|---------------------------------|----------------------|-------------|-----------|--------------|--------------|----------------|-----------------------------|
|                              |                                 |                      |             |           |              | into Level 3 | out of Level 3 |                             |
| <b>Restricted Securities</b> |                                 |                      |             |           |              |              |                |                             |
| Corporate Bonds              | \$67,658,072                    | \$492,690            | \$6,440,729 | \$—       | \$ (22,078 ) | \$ —         | \$ —           | \$74,569,413                |
| Common Stock - U.S.          | 7,806,723                       | (751,915)            | 580,254     | (540,898) | —            | —            | —              | 7,094,164                   |

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|                          |              |           |             |             |             |    |     |              |
|--------------------------|--------------|-----------|-------------|-------------|-------------|----|-----|--------------|
| Preferred Stock          | 6,609,176    | 621,761   | —           | (9,948 )    | —           | —  | —   | 7,220,989    |
| Partnerships and<br>LLCs | 9,670,199    | 124,087   | 42,418      | (182,884)   | —           | —  | —   | 9,653,820    |
|                          | \$91,744,170 | \$486,623 | \$7,063,401 | \$(733,730) | \$(22,078 ) | \$ | —\$ | \$98,538,386 |

There were no transfers into or out of Level 1 and Level 2 assets.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Unaudited)

Income, Gains and Losses included in Net Increase in Net Assets resulting from Operations for the year are presented in the following accounts on the Statement of Operations:

|   | Net<br>Increase in<br>Net Assets<br>Resulting<br>from<br>Operations | Change in<br>Unrealized<br>Gains &<br>(Losses) in<br>Net Assets<br>from assets<br>still held |
|---|---|--|
| Interest (Amortization)   | \$ 58,081   | —  |
| Net realized gain on investments before taxes                     | \$ 552,402  | —  |
| Net change in unrealized depreciation of investments before taxes | \$ (123,860 )   | (149,449 )   |

## B. Accounting for Investments:

Investment transactions are accounted for on the trade date. Dividend income is recorded on the ex-dividend date. Interest income is recorded on the accrual basis, including the amortization of premiums and accretion of discounts on bonds held using the yield-to-maturity method. The Trust does not accrue income when payment is delinquent and when management believes payment is questionable.

Realized gains and losses on investment transactions and unrealized appreciation and depreciation of investments are reported for financial statement and Federal income tax purposes on the identified cost method.

## C. Use of Estimates:

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

## D. Federal Income Taxes:

The Trust has elected to be taxed as a "regulated investment company" under the Internal Revenue Code, and intends to maintain this qualification and to distribute substantially all of its net taxable income to its shareholders. In any year when net long-term capital gains are realized by the Trust, management, after evaluating the prevailing economic conditions, will recommend that Trustees either designate the net realized long-term gains as undistributed and pay the federal capital gains taxes thereon, or distribute all or a portion of such net gains. For the three months ended March 31, 2016, the Trust did not have any realized taxable long-term capital gains.

The Trust is taxed as a regulated investment company and is therefore limited as to the amount of non-qualified income that it may receive as the result of operating a trade or business, e.g. the Trust's pro rata share of income allocable to the Trust by a partnership operating company. The Trust's violation of this limitation could result in the loss of its status as a regulated investment company, thereby subjecting all of its net income and capital gains to corporate taxes prior to distribution to its shareholders. The Trust, from time-to-time, identifies investment opportunities in the securities of entities that could cause such trade or business income to be allocable to the Trust. The PI Subsidiary Trust (described in Footnote 1, above) was formed in order to allow investment in such securities

without adversely affecting the Trust's status as a regulated investment company.

The PI Subsidiary Trust is not taxed as a regulated investment company. Accordingly, prior to the Trust receiving any distributions from the PI Subsidiary Trust, all of the PI Subsidiary Trust's taxable income and realized gains, including non-qualified income and realized gains, is subject to taxation at prevailing corporate tax rates. As of March 31, 2016, the PI Subsidiary Trust has incurred income tax expense of \$160,104.

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of the existing assets and liabilities and their respective tax basis. As of March 31, 2016, the PI Subsidiary Trust has a deferred tax liability of \$538,272.

The Trust recognizes a tax benefit from an uncertain position only if it is more likely than not that the position is sustainable, based solely on its technical merits and consideration of the relevant taxing authority's widely understood administrative practices and precedents. If this threshold is met, the Trust measures the tax benefit as the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. The Trust has evaluated and determined that the tax positions did not have a material effect on the Trust's financial position and results of operations for the three months ended March 31, 2016.

#### E. Distributions to Shareholders:

The Trust records distributions to shareholders from net investment income and net realized gains, if any, on the ex-dividend date. The Trust's net investment income dividend is declared four times per year, in April, July, October, and December. The Trust's net realized capital gain distribution, if any, is declared in December.

### 3. Investment Advisory and Administrative Services Contract

#### A. Services:

Under an Investment Advisory and Administrative Services Contract (the "Contract") with the Trust, Babson Capital has agreed to use its best efforts to present to the Trust a continuing and suitable investment program consistent with the investment objectives and policies of the Trust. Babson Capital represents the Trust in any negotiations with issuers,



Babson Capital Participation Investors  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
 (Unaudited)

investment banking firms, securities brokers or dealers and other institutions or investors relating to the Trust's investments. Under the Contract, Babson Capital also provides administration of the day-to-day operations of the Trust and provides the Trust with office space and office equipment, accounting and bookkeeping services, and necessary executive, clerical and secretarial personnel for the performance of the foregoing services.

B. Fee:

For its services under the Contract, Babson Capital is paid a quarterly investment advisory fee equal to 0.225% of the value of the Trust's net assets as of the last business day of each fiscal quarter, an amount approximately equivalent to 0.90% on an annual basis. A majority of the Trustees, including a majority of the Trustees who are not interested persons of the Trust or of Babson Capital, approve the valuation of the Trust's net assets as of such day.

4. Senior Indebtedness

MassMutual holds the Trust's \$15,000,000 Senior Fixed Rate Convertible Note (the "Note") issued by the Trust on December 13, 2011. The Note is due December 13, 2023 and accrues interest at 4.09% per annum. MassMutual, at its option, can convert the principal amount of the Note into common shares. The dollar amount of principal would be converted into an equivalent dollar amount of common shares based upon the average price of the common shares for ten business days prior to the notice of conversion. For the three months ended March 31, 2016, the Trust incurred total interest expense on the Note of \$153,375.

The Trust may redeem the Note, in whole or in part, at the principal amount proposed to be redeemed together with the accrued and unpaid interest thereon through the redemption date plus the Make Whole Premium. The Make Whole Premium equals the excess of (i) the present value of the scheduled payments of principal and interest which the Trust would have paid but for the proposed redemption, discounted at the rate of interest of U.S. Treasury obligations whose maturity approximates that of the Note plus 0.50% over (ii) the principal of the Note proposed to be redeemed.

5. Purchases and Sales of Investments

|                                 | For the three<br>months ended<br>03/31/2016 |  |
|---------------------------------|---|--|
|                                 | Cost of<br>Investments<br>Acquired          | Proceeds<br>from<br>Sales or<br>Maturities |
| Corporate restricted securities | \$7,696,639                                 | \$4,507,078                                |
| Corporate public securities     | 1,293,035                                   | 7,469,093                                  |

The aggregate cost of investments is substantially the same for financial reporting and Federal income tax purposes as of March 31, 2016. The net unrealized depreciation of investments for financial reporting and Federal tax purposes as of March 31, 2016 is \$288,873 and consists of \$12,453,704 appreciation and \$12,742,577 depreciation.

Net unrealized depreciation of investments on the Statement of Assets and Liabilities reflects the balance net of a deferred tax liability of \$538,272 on net unrealized gains on the PI Subsidiary Trust.



THIS PRIVACY NOTICE IS BEING PROVIDED ON BEHALF OF BABSON CAPITAL MANAGEMENT LLC AND ITS AFFILIATES;  
BABSON CAPITAL SECURITIES LLC;  
BABSON CAPITAL MANAGEMENT (AUSTRALIA) PTY LTD.  
BABSON CAPITAL MANAGEMENT (JAPAN) KK;  
BABSON CAPITAL CORNERSTONE ASIA LIMITED;  
BABSON CAPITAL FUNDS TRUST;  
BABSON CAPITAL GLOBAL SHORT DURATION HIGH YIELD FUND;  
BABSON CAPITAL CORPORATE INVESTORS AND BABSON CAPITAL PARTICIPATION INVESTORS (TOGETHER, FOR PURPOSES OF THIS PRIVACY NOTICE, "BABSON CAPITAL").

When you use Babson Capital you entrust us not only with your hard-earned assets but also with your personal and financial data. We consider your data to be private and confidential, and protecting its confidentiality is important to us. Our policies and procedures regarding your personal information are summarized below.

We may collect non-public personal information about you from:

- Applications or other forms, interviews, or by other means;
- Consumer or other reporting agencies, government agencies, employers or others;
- Your transactions with us, our affiliates, or others; and
- Our Internet website.

We may share the financial information we collect with our financial service affiliates, such as insurance companies, investment companies and securities broker-dealers. Additionally, so that we may continue to offer you products and services that best meet your investment needs and to effect transactions that you request or authorize, we may disclose the information we collect, as described above, to companies that perform administrative or marketing services on our behalf, such as transfer agents, custodian banks, service providers or printers and mailers that assist us in the distribution of investor materials or that provide operational support to Babson Capital. These companies are required to protect this information and will use this information only for the services for which we hire them, and are not permitted to use or share this information for any other purpose. Some of these companies may perform such services in jurisdictions other than the United States. We may share some or all of the information we collect with other financial institutions with whom we jointly market products. This may be done only if it is permitted by the state in which you live. Some disclosures may be limited to your name, contact and transaction information with us or our affiliates.

Any disclosures will be only to the extent permitted by federal and state law. Certain disclosures may require us to get an "opt-in" or "opt-out" from you. If this is required, we will do so before information is shared. Otherwise, we do not share any personal information about our customers or former customers unless authorized by the customer or as permitted by law.

We restrict access to personal information about you to those employees who need to know that information to provide products and services to you. We maintain physical, electronic and procedural safeguards that comply with legal standards to guard your personal information. As an added measure, we do not include personal or account information in non-secure e-mails that we send you via the Internet without your prior consent. We advise you not to send such information to us in non-secure e-mails.

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This joint notice describes the privacy policies of Babson Capital, the Funds and Babson Capital Securities LLC. It applies to all Babson Capital and the Funds accounts you presently have, or may open in the future, using your social security number or federal taxpayer identification number - whether or not you remain a shareholder of our Funds or as an advisory client of Babson Capital. As mandated by rules issued by the Securities and Exchange Commission, we will be sending you this notice annually, as long as you own shares in the Funds or have an account with Babson Capital.

Babson Capital Securities LLC is a member of the Financial Industry Regulatory Authority (FINRA) and the Securities Investor Protection Corporation (SIPC). Investors may obtain information about SIPC including the SIPC brochure by contacting SIPC online at [www.sipc.org](http://www.sipc.org) or calling (202)-371-8300. Investors may obtain information about FINRA including the FINRA Investor Brochure by contacting FINRA online at [www.finra.org](http://www.finra.org) or by calling (800) 289-9999.

May 2016

Members of the DIVIDEND REINVESTMENT AND CASH PURCHASE PLAN

Board of  
Trustees

Babson Capital Participation Investors (the "Trust") offers a Dividend Reinvestment and Cash Purchase Plan (the "Plan"). The Plan provides a simple and automatic way for shareholders to add to their holdings in the Trust through the receipt of dividend shares issued by the Trust or through the reinvestment of cash dividends in Trust shares purchased in the open market. The dividends of each shareholder will be automatically reinvested in the Trust by DST Systems, Inc., the Transfer Agent, in accordance with the Plan, unless such shareholder elects not to participate by providing written notice to the Transfer Agent. A shareholder may terminate his or her participation by notifying the Transfer Agent in writing.

William J.  
Barrett

Barbara M.  
Ginader

Participating shareholders may also make additional contributions to the Plan from their own funds. Such contributions may be made by personal check or other means in an amount not less than \$100 nor more than \$5,000 per quarter. Cash contributions must be received by the Transfer Agent at least five days (but no more than 30 days) before the payment date of a dividend or distribution.

Edward P.  
Grace III

Robert E. Joyal  
Clifford M.  
Noreen

Whenever the Trust declares a dividend payable in cash or shares, the Transfer Agent, acting on behalf of each participating shareholder, will take the dividend in shares only if the net asset value is lower than the market price plus an estimated brokerage commission as of the close of business on the valuation day. The valuation day is the last day preceding the day of dividend payment. When the dividend is to be taken in shares, the number of shares to be received is determined by dividing the cash dividend by the net asset value as of the close of business on the valuation date or, if greater than net asset value, 95% of the closing share price. If the net asset value of the shares is higher than the market value plus an estimated commission, the Transfer Agent, consistent with obtaining the best price and execution, will buy shares on the open market at current prices promptly after the dividend payment date.

Susan B.  
Sweeney\*

Maleyne M.  
Syracuse\*

The reinvestment of dividends does not, in any way, relieve participating shareholders of any federal, state or local tax. For federal income tax purposes, the amount reportable in respect of a dividend received in newly-issued shares of the Trust will be the fair market value of the shares received, which will be reportable as ordinary income and/or capital gains.

\*Member of the  
Audit  
Committee

As compensation for its services, the Transfer Agent receives a fee of 5% of any dividend and cash contribution (in no event in excess of \$2.50 per distribution per shareholder.)

Officers  
Clifford M.  
Noreen  
Chairman

Any questions regarding the Plan should be addressed to DST Systems, Inc., Agent for Babson Capital Participation Investors' Dividend Reinvestment and Cash Purchase Plan, P.O. Box 219086, Kansas City, MO 64121-9086.

Michael L.  
Klofas  
President

James M. Roy  
Vice  
President &  
Chief Financial  
Officer

Janice M.  
Bishop  
Vice President,  
Secretary &  
Chief Legal  
Officer

Sean Feeley  
Vice President

Robert M.  
Shettle  
Vice President

Daniel J.  
Florence  
Treasurer

Melissa M.  
LaGrant  
Chief  
Compliance  
Officer

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