

BABSON CAPITAL PARTICIPATION INVESTORS
Form N-CSRS
September 04, 2015

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM N-CSR

CERTIFIED SHAREHOLDER REPORT OF REGISTERED MANAGEMENT
INVESTMENT COMPANIES

Investment Company Act file number 811-5531

Babson Capital Participation Investors

(Exact name of registrant as specified in charter)

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

(Address of principal executive offices) (Zip code)

Christopher A. DeFrancis
Vice President, Secretary and Chief Legal Officer
1500 Main Street, Suite 2800
P.O. Box 15189
Springfield, MA 01115-5189

(Name and address of agent for service)

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

Date of fiscal year end: 12/31

Date of reporting period: 06/30/15

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

Edgar Filing: BABSON CAPITAL PARTICIPATION INVESTORS - Form N-CSRS

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

ITEM 1. REPORT TO STOCKHOLDERS.

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

Babson Capital
Participation Investors

Report for the
Six Months Ended June 30, 2015

Adviser

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

Transfer Agent & Registrar

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

Independent Registered Public Accounting Firm

KPMG LLP
Boston, Massachusetts 02110

Internet Website

www.babsoncapital.com/mpv

Counsel to the Trust

Ropes & Gray LLP
Boston, Massachusetts 02110

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

Custodian

State Street Bank and Trust Company
Boston, Massachusetts 02116

Investment Objective and Policy

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

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

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

Form N-Q

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

Proxy Voting Policies & Procedures; Proxy Voting Record

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

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

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

Babson Capital Participation Investors

TO OUR SHAREHOLDERS

July 31, 2015

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

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

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

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

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

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

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

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

(Continued)

1

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

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

Sincerely,

Michael L. Klofas

President

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

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

Babson Capital Participation Investors

CONSOLIDATED STATEMENT OF ASSETS AND LIABILITIES

June 30, 2015

(Unaudited)

Assets:

Investments

(See Consolidated Schedule of Investments)

| | |
|--|-----------------|
| Corporate restricted securities at fair value (Cost - \$90,249,842) | \$ 92,361,107 |
| Corporate restricted securities at market value (Cost - \$20,258,430) | 20,372,742 |
| Corporate public securities at market value (Cost - \$33,558,005) | 33,581,925 |
| Short-term securities at amortized cost | 5,999,478 |
| Total investments (Cost - \$150,065,755) | 152,315,252 |
| Cash | 5,576,191 |
| Interest receivable | 1,685,183 |
| Other assets | 8,755 |
| Total assets | 159,585,381 |

Liabilities:

| | |
|---------------------------------|----------------|
| Note payable | 15,000,000 |
| Deferred tax liability | 605,342 |
| Investment advisory fee payable | 321,986 |
| Tax payable | 306,507 |
| Interest payable | 27,267 |
| Accrued expenses | 219,250 |
| Total liabilities | 16,480,352 |
| Total net assets | \$ 143,105,029 |

Net Assets:

| | |
|--|----------------|
| Common shares, par value \$.01 per share | \$ 103,148 |
| Additional paid-in capital | 97,901,079 |
| Retained net realized gain on investments, prior years | 40,289,888 |
| Undistributed net investment income | 3,301,613 |
| Accumulated net realized loss on investments | (134,854) |
| Net unrealized appreciation of investments | 1,644,155 |
| Total net assets | \$ 143,105,029 |
| Common shares issued and outstanding (14,787,750 authorized) | 10,314,898 |
| Net asset value per share | \$ 13.87 |

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENT OF OPERATIONS

For the six months ended June 30, 2015

(Unaudited)

| | |
|---|--------------|
| Investment Income: | |
| Interest | \$ 6,316,600 |
| Dividends | 208,766 |
| Other | 60,572 |
| Total investment income | 6,585,938 |
| Expenses: | |
| Investment advisory fees | 645,321 |
| Interest | 306,750 |
| Professional fees | 119,315 |
| Trustees' fees and expenses | 99,000 |
| Reports to shareholders | 36,000 |
| Custodian fees | 14,064 |
| Other | 35,632 |
| Total expenses | 1,256,082 |
| Investment income - net | 5,329,856 |
| Net realized and unrealized gain on investments: | |
| Net realized gain on investments before taxes | 521,722 |
| Income tax expense | (3,632) |
| Net realized gain on investments after taxes | 518,090 |
| Net change in unrealized appreciation of investments before taxes | 2,483,680 |
| Net change in deferred income tax expense | (195,723) |
| Net change in unrealized appreciation of investments after taxes | 2,287,957 |
| Net gain on investments | 2,806,047 |
| Net increase in net assets resulting from operations | \$ 8,135,903 |

See Notes to Consolidated Financial Statements

Babson Capital Participation Investors

CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended June 30, 2015

(Unaudited)

Net decrease in cash:

Cash flows from operating activities:

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

Cash flows from financing activities:

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

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

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

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

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

See Notes to Consolidated Financial Statements

Babson Capital Participation Investors

CONSOLIDATED SELECTED FINANCIAL HIGHLIGHTS

Selected data for each share of beneficial interest outstanding:

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

Ratio of net investment
income to average net assets

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

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

Senior borrowings:

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

See Notes to Consolidated Financial Statements

CONSOLIDATED SCHEDULE OF INVESTMENTS

June 30, 2015

(Unaudited)

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

Edgar Filing: BABSON CAPITAL PARTICIPATION INVESTORS - Form N-CSRS

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

Babson Capital Participation Investors

CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

June 30, 2015

(Unaudited)

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

AFC - Dell Holding Corporation

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

12.5% Senior

Subordinated Note due

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

Airxcel Holdings

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

12.5% Senior

Subordinated Note due

| | | | | |
|--------------------------------|--------------|----------|-----------|-----------|
| 11/18/2020 | \$ 1,450,392 | 11/18/14 | 1,423,716 | 1,433,081 |
| Limited Liability Company Unit | 288 uts. | 11/18/14 | 288,000 | 250,882 |
| | | | 1,711,716 | 1,683,963 |

American Hospice
Management Holding
LLC

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

12% Senior Subordinated

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

Edgar Filing: BABSON CAPITAL PARTICIPATION INVESTORS - Form N-CSRS

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

AMS Holding LLC

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

Limited Liability

Company Unit Class A

| | | | | |
|---------------|----------|----------|---------|---------|
| Preferred (B) | 114 uts. | 10/04/12 | 113,636 | 325,362 |
|---------------|----------|----------|---------|---------|

Animal Supply Company

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

9.5% Second Lien Term

| | | | | | |
|---------------------|----|-----------|----------|-----------|-----------|
| Loan due 09/17/2019 | \$ | 1,725,000 | 03/30/15 | 1,700,603 | 1,696,310 |
|---------------------|----|-----------|----------|-----------|-----------|

Edgar Filing: BABSON CAPITAL PARTICIPATION INVESTORS - Form N-CSRS

CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

June 30, 2015

(Unaudited)

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

Edgar Filing: BABSON CAPITAL PARTICIPATION INVESTORS - Form N-CSRS

13% Senior Subordinated

Note due 09/30/2019

| | | | | |
|------------------|-------------|----------|--------|---------|
| Common Stock (B) | 51,064 shs. | 10/12/12 | 51,064 | 117,681 |
|------------------|-------------|----------|--------|---------|

Warrant, exercisable until

2022, to purchase common

| | | | | |
|------------------------------|-------------|----------|--------|--------|
| stock at \$.01 per share (B) | 20,216 shs. | 10/12/12 | 20,216 | 46,589 |
|------------------------------|-------------|----------|--------|--------|

| | | | | |
|--|--|--|---------|---------|
| | | | 635,766 | 755,443 |
|--|--|--|---------|---------|

BlueSpire Holding, Inc.

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

12.5% Senior Subordinated

| | | | | |
|---------------------|--------------|----------|-----------|-----------|
| Note due 06/30/2021 | \$ 1,568,200 | 06/30/15 | 1,536,846 | 1,568,200 |
|---------------------|--------------|----------|-----------|-----------|

| | | | | |
|------------------|------------|----------|---------|---------|
| Common Stock (B) | 1,417 shs. | 06/30/15 | 156,800 | 148,965 |
|------------------|------------|----------|---------|---------|

| | | | | |
|--|--|--|-----------|-----------|
| | | | 1,693,646 | 1,717,165 |
|--|--|--|-----------|-----------|

Edgar Filing: BABSON CAPITAL PARTICIPATION INVESTORS - Form N-CSRS

Babson Capital Participation Investors

CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

June 30, 2015

(Unaudited)

| Corporate Restricted Securities: (A) (Continued) | Principal Amount, Shares, Units or Ownership Percentage | Acquisition Date | Cost | Fair Value |
|---|---|------------------|--------------------|--------------------|
| BP SCI LLC | | | | |
| A leading value-added distributor of branded pipes, valves, and fittings (PVF) to diversified end markets. | | | | |
| Limited Liability Company | | | | |
| Unit Class A (B) | 417 uts. | 10/17/12 | \$ 41,667 | \$ 260,353 |
| Limited Liability Company | | | | |
| Unit Class B (B) | 167 uts. | 10/17/12 | 166,666 208,333 | 223,626 483,979 |
| CG Holdings Manufacturing Company | | | | |
| A coating provider serving the automotive, agricultural, heavy truck and other end markets. | | | | |
| 13% Senior Subordinated | | | | |
| Note due 11/01/2019 | \$ 1,412,605 | * | 1,347,131 | 1,426,731 |
| Preferred Stock (B) | 1,350 shs. | * | 134,972 | 151,061 |
| Preferred Stock (B) | 489 shs. | * | 48,721 | 54,751 |
| Common Stock (B) | 140 shs. | * | 14,864 | 71,803 |
| Warrant, exercisable until 2023, to purchase common stock at \$.01 per share (B) | | | | |
| * 05/09/13 and 11/01/13. | 58 shs. | * | 5,430 | 29,824 |
| | | | 1,551,118 | 1,734,170 |
| CHG Alternative Education Holding Company | | | | |
| A leading provider of publicly-funded, for profit pre-K-12 education services targeting special needs children at therapeutic day schools and "at risk" youth through alternative education programs. | | | | |
| 13.5% Senior Subordinated | | | | |
| Note due 01/19/2018 | \$ 762,252 | 01/19/11 | 741,521 | 762,252 |
| 14% Senior Subordinated | | | | |
| Note due 08/03/2019 | \$ 198,855 | 08/03/12 | 196,239 | 200,844 |
| Common Stock (B) | 375 shs. | 01/19/11 | 37,500 | 53,977 |
| Warrant, exercisable until 2021, to purchase common stock at \$.01 per share (B) | | | | |
| | 295 shs. | 01/19/11 | 29,250 | 42,429 |
| | | | 1,004,510 | 1,059,502 |
| Church Services Holding Company | | | | |

Edgar Filing: BABSON CAPITAL PARTICIPATION INVESTORS - Form N-CSRS

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

14.5% Senior Subordinated

| | | | | | |
|---------------------|----|---------|----------|---------|---------|
| Note due 03/26/2018 | \$ | 426,889 | 03/26/12 | 419,135 | 423,858 |
|---------------------|----|---------|----------|---------|---------|

10% Senior Subordinated

| | | | | | |
|---------------------|----|-------|----------|-------|-------|
| Note due 09/12/2015 | \$ | 6,488 | 09/15/14 | 6,488 | 6,484 |
|---------------------|----|-------|----------|-------|-------|

| | | | | | |
|------------------|--|------------|---|---------|--------|
| Common Stock (B) | | 1,327 shs. | * | 132,700 | 77,538 |
|------------------|--|------------|---|---------|--------|

Warrant, exercisable until

| | | | | | |
|---|--|---------|----------|-------|-------|
| 2022, to purchase common stock at \$.01 per share (B) | | 57 shs. | 03/26/12 | 5,740 | 3,331 |
|---|--|---------|----------|-------|-------|

* 03/26/12, 05/25/12 and

| | | | | | |
|-----------|--|--|--|---------|---------|
| 06/19/12. | | | | 564,063 | 511,211 |
|-----------|--|--|--|---------|---------|

Clarion Brands Holding Corp.

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

12.5% Senior Subordinated

| | | | | | |
|---------------------|----|-----------|----------|-----------|-----------|
| Note due 09/31/2021 | \$ | 1,585,890 | 10/01/14 | 1,556,720 | 1,590,403 |
|---------------------|----|-----------|----------|-----------|-----------|

| | | | | | |
|------------------|--|------------|----------|---------|---------|
| Common Stock (B) | | 1,568 shs. | 10/01/14 | 156,818 | 124,825 |
|------------------|--|------------|----------|---------|---------|

| | | | | | |
|--|--|--|--|-----------|-----------|
| | | | | 1,713,538 | 1,715,228 |
|--|--|--|--|-----------|-----------|

CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

June 30, 2015

(Unaudited)

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

Edgar Filing: BABSON CAPITAL PARTICIPATION INVESTORS - Form N-CSRS

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

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 | \$ 1,362,569 | 05/04/12 | 1,345,443 | 1,362,569 |
| Preferred Stock (B) | 25 shs. | 05/04/12 | 252,434 | 306,024 |
| Common Stock (B) | 25 shs. | 05/04/12 | 28,048 | 127,504 |
| | | | 1,625,925 | 1,796,097 |

12

Edgar Filing: BABSON CAPITAL PARTICIPATION INVESTORS - Form N-CSRS

Babson Capital Participation Investors

CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

June 30, 2015

(Unaudited)

| Corporate Restricted Securities: (A) (Continued) | Principal Amount, Shares, Units or Ownership Percentage | Acquisition Date | Cost | Fair Value |
|--|---|---------------------|--------------|--------------|
| Dunn Paper | | | | |
| A provider of specialty paper for niche product applications. | | | | |
| 11.25% Senior Subordinated | | | | |
| Note due 06/30/2020 | \$ 1,463,636 | 12/30/14 | \$ 1,436,344 | \$ 1,479,248 |
| Preferred Stock (B) | 261 shs. | 12/30/14 | 261,364 | 354,054 |
| | | | 1,697,708 | 1,833,302 |
| E S P Holdco, Inc. | | | | |
| A manufacturer of power protection technology for commercial office equipment, primarily supplying the office equipment dealer network. | | | | |
| Common Stock (B) | 349 shs. | 01/08/08 | 174,701 | 348,855 |
| Eatem Holding Company | | | | |
| A developer and manufacturer of savory flavor systems for soups, sauces, gravies, and other products produced by food manufacturers for retail and foodservice end products. | | | | |
| Common Stock (B) | 50 shs. | 02/01/10 | 50,000 | 92,444 |
| Warrant, exercisable until 2018, to purchase common stock at \$.01 per share | | | | |
| (B) | 119 shs. | 02/01/10 | 107,100 | 220,423 |
| | | | 157,100 | 312,867 |
| ECG Consulting Group | | | | |
| 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 | \$ 1,299,661 | 11/21/14 | 1,272,324 | 1,307,404 |
| Limited Liability Company Unit | | | | |
| (B) | 230 uts. | 11/19/14 | 71,875 | 71,664 |
| | | | 1,344,199 | 1,379,068 |
| EPM Holding Company | | | | |
| A provider of non-discretionary regulatory driven engineering services that support mission critical safety and operational aspects of nuclear power plants. | | | | |
| 14.5% Senior Subordinated Note | | | | |
| due 07/26/2019 | \$ 290,314 | 07/26/13 | 285,883 | 296,121 |
| Common Stock (B) | 1,535 shs. | 07/26/13 | 153,474 | 394,425 |

439,357 690,546

ERG Holding Company LLC

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 | \$ | 947,819 | 04/04/14 | 932,272 | 943,585 |
| Common Stock (B) | | 31 shs. | 04/04/14 | 77,533 | 77,525 |
| | | | | 1,009,805 | 1,021,110 |

F F C Holding Corporation

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 | 69,954 |
| Limited Liability Company Unit | | | | | |
| Common (B) | | 171 uts. | 09/27/10 | 17,073 | 120,773 |
| | | | | 75,418 | 190,727 |

Edgar Filing: BABSON CAPITAL PARTICIPATION INVESTORS - Form N-CSRS

CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

June 30, 2015

(Unaudited)

| Corporate Restricted Securities: (A) (Continued) | Principal Amount, Shares, Units or Ownership Percentage | Acquisition Date | Cost | Fair Value |
|---|---|---------------------|-----------|------------|
| F G I Equity LLC | | | | |
| 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 | 124,870 |
| Limited Liability Company Unit Class B-2 (B) | 8,248 uts. | 12/15/10 | 8,248 | 15,655 |
| Limited Liability Company Unit Class B-3 (B) | 6,522 uts. | 08/30/12 | 15,000 | 13,989 |
| Limited Liability Company Unit Class C (B) | 1,575 uts. | 12/20/10 | 16,009 | 25,300 |
| | | | 105,046 | 260,373 |
| FMH Holdings Corporation | | | | |
| 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 | 1,415,527 | 1,450,227 |
| Common Stock (B) | 148 shs. | 05/01/15 | 148,096 | 140,695 |
| | | | 1,563,623 | 1,590,922 |
| 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 | 127,937 |
| GD Dental Services LLC | | | | |
| A provider of convenient “onestop” general, specialty, and cosmetic dental services with 21 offices located throughout South and Central Florida. | | | | |
| Limited Liability Company Unit | | | | |
| Common (B) | 767 uts. | 10/05/12 | 767 | 45,963 |
| Limited Liability Company Unit Preferred (B) | 76 uts. | 10/05/12 | 75,920 | 89,497 |
| | | | 76,687 | 135,460 |

GenNx Novel Holding, Inc.

Edgar Filing: BABSON CAPITAL PARTICIPATION INVESTORS - Form N-CSRS

A manufacturer and distributor of
nutraceutical ingredients.

13% Senior Subordinated Note due

| | | | | | |
|------------------|----|-------------|----------|-----------|-----------|
| 03/27/2020 | \$ | 1,585,980 | 03/27/14 | 1,559,353 | 1,548,276 |
| Common Stock (B) | | 15,500 shs. | 03/27/14 | 155,000 | 178,607 |
| | | | | 1,714,353 | 1,726,883 |

gloProfessional Holdings, Inc.

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 | \$ | 1,184,052 | 03/27/13 | 1,167,790 | 1,184,052 |
| Common Stock (B) | | 1,181 shs. | 03/27/13 | 118,110 | 163,012 |
| | | | | 1,285,900 | 1,347,064 |

Babson Capital Participation Investors

CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

June 30, 2015

(Unaudited)

| Corporate Restricted Securities: (A) (Continued) | Principal Amount, Shares, Units or Ownership Percentage | Acquisition Date | Cost | Fair Value |
|---|--|---------------------|------------|------------|
| GlynnDevins Acquisition Corporation | | | | |
| A marketing communications agency that services senior living facilities. | | | | |
| 13% Senior Subordinated Note due 12/19/2020 | \$ 788,872 | 06/19/15 | \$ 773,187 | \$ 786,119 |
| Preferred Stock Series A (B) | 342 shs. | 06/19/15 | 70,683 | 70,684 |
| Common Stock (B) | 342 shs. | 06/19/15 | 2,945 | 2,798 |
| | | | 846,815 | 859,601 |
| Golden County Foods Holding, Inc. | | | | |
| A manufacturer of frozen appetizers and snacks. | | | | |
| 14% Senior Subordinated Note due 11/13/2019 (D) | \$ 38,950 | 11/13/13 | 231,183 | — |
| Preferred Stock (B) | 151,643 shs. | 11/13/13 | 77,643 | — |
| Preferred Stock Series F (B) | 155,800 shs. | 11/13/13 | 924,731 | — |
| | | | 1,233,557 | — |
| Grakon Parent | | | | |
| The leading designer and manufacturer of highly-engineered and customized LED and incandescent lighting systems for transportation-based markets. | | | | |
| 12% Senior Subordinated Note due 04/30/2021 | \$ 1,550,169 | 10/31/14 | 1,521,348 | 1,555,974 |
| Common Stock (B) | 175 shs. | 10/31/14 | 174,831 | 195,552 |
| | | | 1,696,179 | 1,751,526 |
| GTI Holding Company | | | | |
| 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 | 685,051 | 716,275 |
| Common Stock (B) | 846 shs. | 02/05/14 | 84,636 | 83,958 |
| Warrant, exercisable until 2024, to purchase common stock at \$.01 per share (B) | 397 shs. | 02/05/14 | 36,816 | 39,399 |
| | | | 806,503 | 839,632 |

Handi Quilter Holding Company

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 | 1,410,333 | 1,409,349 |
| Limited Liability Company Unit-Preferred (B) | | 288 uts. | 12/19/14 | 287,500 | 277,095 |
| Limited Liability Company Unit Common Class A (B) | | 2,875 uts. | 12/19/14 | — | — |
| | | | | 1,697,833 | 1,686,444 |

Hartland Controls Holding
Corporation

A manufacturer and distributor of electronic and electromechanical components.

| | | | | | |
|--|----|------------|----------|-----------|-----------|
| 14% Senior Subordinated Note due 08/14/2019 | \$ | 1,089,948 | 02/14/14 | 1,072,114 | 1,111,747 |
| 12% Senior Subordinated Note due 08/14/2019 | \$ | 431,250 | 06/22/15 | 426,958 | 431,389 |
| Preferred Stock Series A (B) | | 2,547 shs. | 02/14/14 | 120,857 | 124,032 |
| Common Stock (B) | | 821 shs. | 02/14/14 | 822 | 153,283 |
| | | | | 1,620,751 | 1,820,451 |

CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

June 30, 2015

(Unaudited)

| Corporate Restricted Securities: (A) (Continued) | Principal Amount, Shares, Units or Ownership Percentage | Acquisition Date | Cost | Fair Value |
|--|--|---------------------|-----------|------------|
| Healthcare Direct Holding Company A direct-to-customer marketer of discount dental plans. | | | | |
| Common Stock (B) | 517 shs. | 03/09/12 | \$ 51,724 | \$ 76,977 |
| HHI Group, LLC A developer, marketer, and distributor of hobby-grade radio control products. | | | | |
| 14% Senior Subordinated Note due 01/17/2020 | \$ 1,568,327 | 01/17/14 | 1,543,046 | 1,599,693 |
| Limited Liability Company Unit (B) | 102 uts. | 01/17/14 | 101,563 | 95,882 |
| | | | 1,644,609 | 1,695,575 |
| Hi-Rel Group LLC A manufacturer and distributor of precision metal piece parts for the microelectronic packaging industry, serving the aerospace/defense, telecommunications, and medical end markets. | | | | |
| 12% Senior Subordinated Note due 03/15/2018 | \$ 703,125 | 04/15/13 | 673,440 | 694,356 |
| Limited Liability Company Unit (B) | 234 uts. | 04/15/13 | 234,375 | 203,004 |
| Warrant, exercisable until 2020, to purchase common stock at \$.01 per share (B) | 37,177 shs. | 04/15/13 | 32,344 | 30,589 |
| | | | 940,159 | 927,949 |
| HOP Entertainment LLC 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 | — | — |
| Hospitality Mints Holding Company A manufacturer of individually-wrapped imprinted promotional mints. | | | | |
| | \$ 1,098,837 | 08/19/08 | 1,079,664 | 1,091,364 |

Edgar Filing: BABSON CAPITAL PARTICIPATION INVESTORS - Form N-CSRS

12% Senior Subordinated Note due
08/19/2016

| | | | | |
|------------------|----------|----------|---------|--------|
| Common Stock (B) | 251 shs. | 08/19/08 | 251,163 | 64,367 |
|------------------|----------|----------|---------|--------|

Warrant, exercisable until 2016, to
purchase

| | | | | |
|-------------------------------------|---------|----------|--------|--------|
| common stock at \$.01 per share (B) | 65 shs. | 08/19/08 | 60,233 | 16,638 |
|-------------------------------------|---------|----------|--------|--------|

| | | | | |
|--|--|--|-----------|-----------|
| | | | 1,391,060 | 1,172,369 |
|--|--|--|-----------|-----------|

HVAC Holdings, Inc.

A provider of integrated energy efficiency services and maintenance programs for HVAC systems.

12.5% Senior Subordinated Note due

| | | | | | |
|------------|----|-----------|----------|-----------|-----------|
| 09/27/2019 | \$ | 1,193,399 | 09/27/12 | 1,176,892 | 1,186,437 |
|------------|----|-----------|----------|-----------|-----------|

Limited Liability Company Unit

| | | | | | |
|--------------------|--|----------|----------|-----|--------|
| Class A Common (B) | | 910 uts. | 09/27/12 | 910 | 30,895 |
|--------------------|--|----------|----------|-----|--------|

Limited Liability Company Unit

| | | | | | |
|-----------------------|--|------------|----------|---------|---------|
| Class A Preferred (B) | | 1,127 uts. | 09/27/12 | 112,726 | 145,761 |
|-----------------------|--|------------|----------|---------|---------|

| | | | | |
|--|--|--|-----------|-----------|
| | | | 1,290,528 | 1,363,093 |
|--|--|--|-----------|-----------|

16

Babson Capital Participation Investors

CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

June 30, 2015

(Unaudited)

| Corporate Restricted Securities: (A) (Continued) | Principal Amount, Shares, Units or Ownership Percentage | Acquisition Date | Cost | Fair Value |
|---|---|------------------|-----------|--------------|
| Ideal Tridon Holdings, Inc. | | | | |
| A designer and manufacturer of clamps and couplings used in automotive and industrial end markets. | | | | |
| Common Stock (B) | 93 shs. | 10/27/11 | \$ 92,854 | \$ 188,629 |
| Impact Confections | | | | |
| 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 11/04/2020 | \$ 1,070,590 | 11/10/14 | 1,050,875 | \$ 1,066,508 |
| Common Stock (B) | 2,300 shs. | 11/10/14 | 230,000 | 174,808 |
| | | | 1,280,875 | 1,241,316 |
| I n s u r a n c e C l a i m s | | | | |
| 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 | 188,047 |
| J A C Holding Enterprises, Inc. | | | | |
| A supplier of luggage racks and accessories to the original equipment manufacturers. | | | | |
| Preferred Stock A (B) | 165 shs. | 12/20/10 | 165,000 | 174,072 |
| Preferred Stock B (B) | 0.06 shs. | 12/20/10 | — | 63 |
| Common Stock | 33 shs. | 12/20/10 | 1,667 | — |
| Warrant, exercisable until 2020, to purchase common stock at \$.01 per share (B) | 12 shs. | 12/20/10 | 105,643 | 49,784 |
| | | | 272,310 | 223,919 |
| Janus Group Holdings LLC | | | | |
| A manufacturer of roll-up doors and hallway systems that are primarily used in self-storage facilities. | | | | |
| 13.5% Senior Subordinated Note due 06/11/2019 | \$ 1,342,391 | 12/11/13 | 1,321,196 | 1,369,239 |
| | 283 uts. | 12/11/13 | 139,258 | 492,205 |

Edgar Filing: BABSON CAPITAL PARTICIPATION INVESTORS - Form N-CSRS

Limited Liability Company
Unit Class A (B)

1,460,454 1,861,444

JMH Investors LLC

A developer and manufacturer of custom formulations for a wide variety of foods.

14.25% Senior Subordinated

| | | | | | |
|---------------------|----|-----------|----------|-----------|---------|
| Note due 12/05/2019 | \$ | 1,093,961 | 12/05/12 | 1,078,612 | 984,373 |
|---------------------|----|-----------|----------|-----------|---------|

Limited Liability Company

| | | | | | |
|----------|--|----------------|----------|-----------|---------|
| Unit (B) | | 1,038,805 uts. | 12/05/12 | 232,207 | 10,388 |
| | | | | 1,310,819 | 994,761 |

K & N Parent, Inc.

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 | 98,296 |
|--------------|----------|---|-------|--------|

| | | | | |
|--------------------------|--|--|-------|--------|
| * 12/23/11 and 06/30/14. | | | 6,522 | 98,296 |
|--------------------------|--|--|-------|--------|

CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

June 30, 2015

(Unaudited)

| Corporate Restricted Securities: (A) (Continued) | Principal Amount, Shares, Units or Ownership Percentage | Acquisition Date | Cost | Fair Value |
|---|---|------------------|----------------------|----------------------|
| K N B Holdings Corporation | | | | |
| A designer, manufacturer and marketer of products for the custom framing market. | | | | |
| Common Stock (B) | 71,053 shs. | 05/24/06 | \$ 71,053 | \$ 74,160 |
| Warrant, exercisable until 2016, to purchase common stock at \$.01 per share (B) | 43,600 shs. | 05/25/06 | 37,871 108,924 | 45,507 119,667 |
| 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 | — | 42,833 |
| Common Stock (B) | 353 shs. | 07/15/08 | 285,619 285,619 | 378,025 420,858 |
| Master Cutlery LLC | | | | |
| A designer and marketer of a wide assortment of knives and swords. | | | | |
| 13% Senior Subordinated Note due 04/17/2020 | \$ 885,864 | 04/17/15 | 875,053 | 878,090 |
| Limited Liability Company Unit (B) | 5 uts. | 04/17/15 | 678,329 1,553,382 | 687,552 1,565,642 |
| Mail Communications Group, Inc. | | | | |
| A provider of mail processing and handling services, lettershop services, and commercial printing services. | | | | |
| Limited Liability Company Unit | 12,764 uts. | * | 166,481 | 335,310 |
| Warrant, exercisable until 2017, to purchase common stock at \$.01 per share (B) | 1,787 shs. | 05/04/07 | 22,781 | 46,946 |
| * 05/04/07 and 01/02/08. | | | 189,262 | 382,256 |
| Manhattan Beachwear Holding Company | | | | |

Edgar Filing: BABSON CAPITAL PARTICIPATION INVESTORS - Form N-CSRS

A designer and distributor of women's swimwear.

| | | | | |
|--|------------|----------|---------|---------|
| 12.5% Senior Subordinated Note due 01/15/2018 | \$ 419,971 | 01/15/10 | 395,745 | 419,609 |
| 15% Senior Subordinated Note due 01/15/2018 | \$ 115,253 | 10/05/10 | 114,251 | 109,381 |
| Common Stock (B) | 35 shs. | 10/05/10 | 35,400 | 43,663 |
| Common Stock Class B (B) | 118 shs. | 01/15/10 | 117,647 | 145,113 |
| Warrant, exercisable until 2019, to purchase common stock at \$.01 per share (B) | 104 shs. | 10/05/10 | 94,579 | 128,424 |
| | | | 757,622 | 846,190 |

MedSystems Holdings LLC

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 | 88,956 |
| Common Unit Class A (B) | 671 uts. | 08/29/08 | 671 | 136,912 |
| Common Unit Class B (B) | 263 uts. | 08/29/08 | 63,564 | 53,710 |
| | | | 110,387 | 279,578 |

Babson Capital Participation Investors

CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

June 30, 2015

(Unaudited)

| Corporate Restricted Securities: (A) (Continued) | Principal Amount, Shares, Units or Ownership Percentage | Acquisition Date | Cost | Fair Value |
|---|---|------------------|------------|------------|
| Merex Holding Corporation | | | | |
| 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. | | | | |
| 14% Senior Subordinated Note due 10/30/2019 | \$ 454,295 | 09/22/11 | \$ 449,119 | \$ 435,152 |
| Limited Liability Company Unit Series A | 228 uts. | 05/07/14 | 14,760 | 2,583 |
| Limited Liability Company Unit Series B (B) | 155,945 uts. | 09/22/11 | 155,945 | 35,679 |
| | | | 619,824 | 473,414 |
| MES Partners, Inc. | | | | |
| 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 | \$ 1,090,181 | 09/30/14 | 1,070,085 | 1,095,895 |
| Common Stock Class B (B) | 219,545 shs. | 09/30/14 | 219,545 | 305,622 |
| | | | 1,289,630 | 1,401,517 |
| MNX Holding Company | | | | |
| An international third party logistics company providing customized logistics services to customers across the globe. | | | | |
| 14% Senior Subordinated Note due 11/02/2019 | \$ 1,271,152 | 11/02/12 | 1,253,576 | 1,246,949 |
| Common Stock (B) | 45 shs. | 11/02/12 | 44,643 | 24,146 |
| | | | 1,298,219 | 1,271,095 |
| Money Mailer | | | | |
| 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 |
| Motion Controls Holdings | | | | |
| A manufacturer of high performance mechanical motion control and linkage products. | | | | |
| 14.25% Senior Subordinated Note due 08/15/2020 | \$ 982,905 | 11/30/10 | 973,564 | 982,905 |

Edgar Filing: BABSON CAPITAL PARTICIPATION INVESTORS - Form N-CSRS

| | | | | |
|---|-------------|----------|---------|-----------|
| Limited Liability Company Unit Class B-1 (B) | 75,000 uts. | 11/30/10 | — | 79,650 |
| Limited Liability Company Unit Class B-2 (B) | 6,801 uts. | 11/30/10 | — | 7,223 |
| | | | 973,564 | 1,069,778 |
| NABCO, Inc. A producer of explosive containment vessels in the United States. | | | | |
| Common Stock (B) | 429 shs. | 12/20/12 | 306,091 | 202,830 |

19

CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

June 30, 2015

(Unaudited)

| Corporate Restricted Securities: (A) (Continued) | Principal Amount, Shares, Units or Ownership Percentage | Acquisition Date | Cost | Fair Value |
|--|---|------------------|------------|------------|
| 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 | \$ 809,291 | \$ 796,095 |
| 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 | 132,886 |
| Limited Liability Company Unit Class D-3 of Saw Mill PCG Partners LLC (B) | 104 uts. | 12/10/14 | 103,904 | 109,718 |
| * 12/18/08 and 09/30/09. | | | 1,665,852 | 1,038,699 |
| 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 | 138,700 |
| Warrant, exercisable until 2019, to purchase common stock at \$.01 per share (B) | 2,605 shs. | * | 260,479 | 207,627 |
| * 07/09/09 and 08/09/10. | | | 434,485 | 346,327 |
| O E C Holding Corporation A provider of elevator maintenance, repair and modernization services. | | | | |
| 13% Senior Subordinated Note due 08/23/2018 | \$ 444,445 | 06/04/10 | 426,450 | 444,445 |
| Preferred Stock Series A (B) | 554 shs. | 06/04/10 | 55,354 | 85,955 |

Edgar Filing: BABSON CAPITAL PARTICIPATION INVESTORS - Form N-CSRS

| | | | | |
|------------------------------|----------|----------|---------|---------|
| Preferred Stock Series B (B) | 311 shs. | 06/04/10 | 31,125 | — |
| Common Stock (B) | 344 shs. | 06/04/10 | 344 | — |
| | | | 513,273 | 530,400 |

Pearlman Enterprises, Inc.

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 | 1,938,474 |
| Preferred Stock Series B (B) | 7,059 shs. | 05/22/09 | 290,050 | 114,082 |
| Common Stock (B) | 21,462 shs. | 05/22/09 | 993,816 | — |
| | | | 1,342,900 | 2,052,556 |

Petroplex Inv Holdings LLC

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 | 194,180 |
|------|--------------|----------|---------|---------|

Babson Capital Participation Investors

CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

June 30, 2015

(Unaudited)

| Corporate Restricted Securities: (A) (Continued) | Principal Amount, Shares, Units or Ownership Percentage | Acquisition Date | Cost | Fair Value |
|---|---|------------------|--------------|--------------|
| Polytex Holdings LLC | | | | |
| A manufacturer of water based inks and related products serving primarily the wall covering market. | | | | |
| 13% Senior Subordinated Note due 01/31/2020 | \$ 1,046,208 | 07/31/14 | \$ 1,027,982 | \$ 1,032,032 |
| Limited Liability Company Unit | 148,096 uts. | 07/31/14 | 148,096 | 150,779 |
| | | | 1,176,078 | 1,182,811 |
| Power Stop Holdings LLC | | | | |
| A supplier of performance upgrade aftermarket brake products. | | | | |
| 11% Senior Subordinated Note due 05/29/2022 | \$ 1,610,100 | 05/29/15 | 1,578,306 | 1,623,412 |
| Limited Liability Company Unit Common (B) | 1,149 uts. | 05/29/15 | — | — |
| Limited Liability Company Unit Preferred (B) | 1,149 uts. | 05/29/15 | 114,900 | 114,900 |
| | | | 1,693,206 | 1,738,312 |
| PPC Event Services | | | | |
| A special event equipment rental business. | | | | |
| 14% Senior Subordinated Note due 05/20/2020 | \$ 1,132,491 | 11/20/14 | 1,111,285 | 1,140,849 |
| Limited Liability Company Unit (B) | 3,450 uts. | 11/20/14 | 172,500 | 164,957 |
| | | | 1,283,785 | 1,305,806 |
| R A J Manufacturing Holdings LLC | | | | |
| A designer and manufacturer of women's swimwear sold under a variety of licensed brand names. | | | | |
| 8% Senior Subordinated Note due 01/02/2017 | \$ 49,908 | 01/02/14 | 217,411 | 49,992 |
| Limited Liability Company Unit (B) | 1,497 uts. | 12/15/06 | 149,723 | — |
| Limited Liability Company Unit Class B Common (B) | 6 uts. | 01/02/14 | 219,593 | — |

Edgar Filing: BABSON CAPITAL PARTICIPATION INVESTORS - Form N-CSRS

| | | | | |
|--|-------------|----------|-----------|-----------|
| Limited Liability Company | | | | |
| Unit Series B-1 | | | | |
| Preferred (B) | 9 uts. | 01/02/14 | 374,307 | 374,308 |
| Warrant, exercisable until 2017, to purchase common stock at \$.01 per share (B) | | | | |
| | 2 shs. | 12/15/06 | 69,609 | — |
| | | | 1,030,643 | 424,300 |
| Randy's Worldwide Automotive | | | | |
| A designer and distributor of automotive aftermarket parts. | | | | |
| 11.5% Senior Subordinated Note due 05/12/2021 | | | | |
| \$ | 1,135,898 | 05/12/15 | 1,113,688 | 1,125,399 |
| Common Stock (B) | | | | |
| | 118 shs. | 05/12/15 | 118,476 | 112,556 |
| | | | 1,232,164 | 1,237,955 |
| REVSpring, Inc. | | | | |
| 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 | 216,725 |
| * 10/21/11 and 08/03/12. | | | | |

CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

June 30, 2015

(Unaudited)

| | Principal Amount, Shares, Units or Ownership Percentage | Acquisition Date | Cost | Fair Value |
|---|---|---------------------|-----------|------------|
| Corporate Restricted Securities: (A) (Continued) | | | | |
| Safety Infrastructure Solutions 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 | \$ 110,274 |
| Common Stock (B) | 983 shs. | 03/30/12 | 9,830 | 86,319 |
| | | | 93,750 | 196,593 |
| Signature Systems Holding Company 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 | 254,530 |
| Warrant, exercisable until 2023, to purchase common stock A at \$.01 per share (B) | 31 shs. | 03/15/13 | 28,316 | 103,990 |
| | | | 103,825 | 358,520 |
| Smart Source Holdings LLC A short-term computer rental company. Limited Liability Company Unit (B) | | | | |
| Warrant, exercisable until 2015, to purchase common stock at \$.01 per share (B) | 328 uts. | * | 261,262 | 296,792 |
| | 83 shs. | * | 67,467 | 75,178 |
| * 08/31/07 and 03/06/08. | | | 328,729 | 371,970 |
| SMB Machinery Holdings, Inc. 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 | | | | |
| | \$ 753,579 | 10/18/13 | 741,977 | 565,184 |
| Common Stock (B) | 841 shs. | 10/18/13 | 84,100 | — |
| | | | 826,077 | 565,184 |

Spartan Foods Holding
Company

A manufacturer of branded pizza
crusts and pancakes.

| | | | | |
|---|------------|----------|--------------------|--------------------|
| 12.25% Senior Subordinated Note due 03/01/2019 | \$ 605,299 | 12/15/09 | 558,609 | 605,299 |
| Warrant, exercisable until 2020, to purchase common stock at \$.01 per share (B) | 136 shs. | 12/15/09 | 120,234 678,843 | 128,512 733,811 |

Strahman Holdings Inc

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 | 1,041,645 | 1,069,038 |
| Preferred Stock Series A (B) | 158,967 shs. | 12/13/13 | 158,967 1,200,612 | 170,020 1,239,058 |

Edgar Filing: BABSON CAPITAL PARTICIPATION INVESTORS - Form N-CSRS

Babson Capital Participation Investors

CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

June 30, 2015

(Unaudited)

| Corporate Restricted Securities: (A) (Continued) | Principal Amount, Shares, Units or Ownership Percentage | Acquisition Date | Cost | Fair Value |
|--|---|------------------|-----------|------------|
| Sundance Investco LLC | | | | |
| A provider of post-production services to producers of movies and television shows. | | | | |
| Limited Liability Company Unit Class A (B) | 3,405 uts. | 03/31/10 | \$ — | \$ — |
| Sunrise Windows Holding Company | | | | |
| A manufacturer and marketer of premium vinyl windows exclusively selling to the residential remodeling and replacement market. | | | | |
| 14% Senior Subordinated Note due 12/14/2017 | \$ 1,054,446 | 12/14/10 | 1,027,610 | 1,054,446 |
| 14% Senior Subordinated PIK Note due 12/14/2017 | \$ 106,449 | 08/17/12 | 104,483 | 105,688 |
| Common Stock (B) | 38 shs. | 12/14/10 | 38,168 | 41,909 |
| Warrant, exercisable until 2020, to purchase common stock at \$.01 per share (B) | 37 shs. | 12/14/10 | 37,249 | 40,899 |
| | | | 1,207,510 | 1,242,942 |
| Synteract Holdings Corporation | | | | |
| A provider of outsourced clinical trial management services to pharmaceutical and biotechnology companies. | | | | |
| 16% Senior Subordinated Note due 02/26/2019 | \$ 2,312,870 | 09/02/08 | 2,263,613 | 2,312,870 |
| 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 | — |
| | | | 2,355,582 | 2,312,870 |
| Torrent Group Holdings, Inc. | | | | |
| A contractor specializing in the sales and installation of engineered drywells for the retention and filtration of stormwater and nuisance water flow. | | | | |

Edgar Filing: BABSON CAPITAL PARTICIPATION INVESTORS - Form N-CSRS

| | | | | | |
|--|----|-------------|----------|-----------|-----------|
| 3% Senior Subordinated Note due 12/31/2018 (D) | \$ | 1,062,258 | 12/05/13 | — | 1,009,145 |
| 15% Senior Subordinated Note due 12/05/2020 (D) | \$ | 46,798 | 12/05/13 | 219,203 | 18,719 |
| Warrant, exercisable until 2023, to purchase common stock at \$.01 per share (B) | | 28,079 shs. | 12/05/13 | — | — |
| | | | | 219,203 | 1,027,864 |
| Transpac Holding Company | | | | | |
| A designer, importer, and wholesaler of home décor and seasonal gift products. | | | | | |
| 8% Senior Subordinated Note due 10/31/2015 (D) | \$ | 938,651 | 10/31/07 | 909,276 | — |
| Common Stock (B) | | 110 shs. | 10/31/07 | 110,430 | — |
| Warrant, exercisable until 2015, to purchase common stock at \$.01 per share (B) | | 50 shs. | 10/31/07 | 46,380 | — |
| | | | | 1,066,086 | — |

CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

June 30, 2015

(Unaudited)

| Corporate Restricted Securities: (A) (Continued) | Principal Amount, Shares, Units or Ownership Percentage | Acquisition Date | Cost | Fair Value |
|---|---|---------------------|----------------------|----------------------|
| Tranzonic Holdings LLC | | | | |
| 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 | \$ 1,536,983 | 07/05/13 | \$ 1,514,612 | \$ 1,552,353 |
| Limited Liability Company Unit Class A (B) | 147,727 shs. | 07/05/13 | 147,727 1,662,339 | 172,267 1,724,620 |
| Tristar Global Energy Solutions, Inc. | | | | |
| A hydrocarbon and decontamination services provider serving refineries worldwide. | | | | |
| 12.5% Senior Subordinated Note due 07/31/2020 | \$ 1,117,999 | 01/23/15 | 1,096,376 | 1,067,830 |
| Truck Bodies & Equipment International | | | | |
| A designer and manufacturer of accessories for heavy and medium duty trucks, primarily dump bodies, hoists, various forms of flat-bed bodies, landscape bodies and other accessories. | | | | |
| Preferred Stock Series B (B) | 128 shs. | 10/20/08 | 127,677 | 483,291 |
| Common Stock (B) | 393 shs. | * | 423,985 | 113,982 |
| Warrant, exercisable until 2017, to purchase common stock at \$.02 per share (B) | 81 shs. | * | 84,650 | 23,539 |
| Warrant, exercisable until 2018, to purchase common stock at \$.01 per share (B) * 07/19/05 and 12/22/05. | 558 shs. | 10/20/08 | — 636,312 | 161,882 782,694 |
| Vitex Packaging Group, Inc. | | | | |
| A manufacturer of specialty packaging, primarily envelopes and tags used on tea bags. | | | | |
| Class B Unit (B) | 406,525 uts. | 10/29/09 | 184,266 | — |
| Class C Unit (B) | 450,000 uts. | 10/29/09 | 413,244 | 244,888 |
| Limited Liability Company Unit Class A (B) | 383,011 uts. | * | 229,353 | — |
| Limited Liability Company Unit Class B (B) | 96,848 uts. | 07/19/04 | 96,848 | — |

Edgar Filing: BABSON CAPITAL PARTICIPATION INVESTORS - Form N-CSRS

| | | | | |
|--|--------------|----------|-----------|---------|
| * 07/19/04 and 10/29/09. | | | 923,711 | 244,888 |
| 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 | 468,106 |
| 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 | — |
| 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 | — |

Babson Capital Participation Investors

CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

June 30, 2015

(Unaudited)

| Corporate Restricted Securities: (A) (Continued) | Principal Amount, Shares, Units or Ownership Percentage | Acquisition Date | Cost | Fair Value |
|--|---|---------------------|----------------------|----------------------|
| Wheaton Holding Corporation | | | | |
| A distributor and manufacturer of laboratory supply products and packaging. | | | | |
| Preferred Stock Series B (B) | 703 shs. | 06/08/10 | \$ 70,308 | \$ 111,679 |
| Common Stock (B) | 353 shs. | 06/08/10 | 353 | 75,773 |
| | | | 70,661 | 187,452 |
| Whitcraft Holdings, Inc. | | | | |
| A leading independent manufacturer of precision formed, machined, and fabricated flight-critical aerospace components. | | | | |
| Common Stock (B) | 205 shs. | 12/16/10 | 205,480 | 130,056 |
| Warrant, exercisable until 2018, to purchase common stock at \$.01 per share (B) | 55 shs. | 12/16/10 | 49,334 | 34,951 |
| | | | 254,814 | 165,007 |
| WP Supply Holding Corporation | | | | |
| 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 | \$ 931,209 | 11/03/11 | 920,933 | 940,521 |
| Common Stock | 1,500 shs. | 11/03/11 | 150,000 | 187,932 |
| | | | 1,070,933 | 1,128,453 |
| York Wall Holding Company | | | | |
| 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 | \$ 1,548,957 | 03/04/15 | 1,519,265 | 1,515,760 |
| Common Stock (B) | 1,835 shs. | 03/04/15 | 183,500 | 179,366 |
| | | | 1,702,765 | 1,695,126 |
| Total Private Placement Investments (E) | | | \$ 90,249,842 | \$ 92,361,107 |

25

CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

June 30, 2015

(Unaudited)

| Corporate Restricted Securities: (A) (Continued) | Interest Rate | Maturity Date | Principal Amount | Cost | Market Value |
|--|---------------|---------------|------------------|------------|--------------|
| Rule 144A Securities - 14.24%: | | | | | |
| Bonds - 14.24% | | | | | |
| Alliant Techsystems Inc. | 5.250 % | 10/01/21 | \$ 500,000 | \$ 500,000 | \$ 510,000 |
| Amsted Industries | 5.375 | 09/15/24 | 240,000 | 240,000 | 238,200 |
| ArcelorMittal | 6.125 | 06/01/18 | 500,000 | 508,220 | 532,500 |
| Belden Inc. | 5.250 | 07/15/24 | 210,000 | 210,000 | 203,700 |
| CITGO Petroleum Corporation | 6.250 | 08/15/22 | 425,000 | 425,000 | 417,563 |
| Consolidated Energy Finance S.A. | 6.750 | 10/15/19 | 447,000 | 442,729 | 453,705 |
| Cornerstone Chemical Company | 9.375 | 03/15/18 | 375,000 | 381,135 | 393,750 |
| CTP Transportation Products, LLC | 8.250 | 12/15/19 | 310,000 | 310,000 | 320,850 |
| Dean Foods | 6.500 | 03/15/23 | 329,000 | 329,000 | 335,580 |
| Endo Finance LLC | 5.375 | 01/31/23 | 500,000 | 490,843 | 493,750 |
| Family Tree Escrow, LLC | 5.750 | 03/01/23 | 156,000 | 156,000 | 163,020 |
| First Data Corporation | 7.375 | 06/15/19 | 250,000 | 250,000 | 259,875 |
| Forest Laboratories, Inc. | 5.000 | 12/15/21 | 370,000 | 370,000 | 401,499 |
| Forest Laboratories, Inc. | 4.875 | 02/15/21 | 500,000 | 500,000 | 542,107 |
| Harron Communications, L.P. | 9.125 | 04/01/20 | 250,000 | 270,545 | 270,313 |
| HD Supply, Inc. | 5.250 | 12/15/21 | 127,000 | 127,000 | 128,746 |
| Hilcorp Energy Company | 5.000 | 12/01/24 | 335,000 | 335,000 | 314,130 |
| H.J. Heinz Company | 4.875 | 02/15/25 | 500,000 | 500,000 | 544,375 |
| Huntington Ingalls Industries | 5.000 | 12/15/21 | 500,000 | 500,000 | 508,750 |
| International Wire Group | 8.500 | 10/15/17 | 500,000 | 520,956 | 517,500 |
| J.B. Poindexter Co., Inc. | 9.000 | 04/01/22 | 500,000 | 500,000 | 535,000 |
| Jupiter Resources Inc. | 8.500 | 10/01/22 | 500,000 | 475,181 | 418,750 |
| Kenan Advantage Group, Inc. | 8.375 | 12/15/18 | 500,000 | 514,400 | 520,625 |
| Kindred Escrow Corp. II | 8.750 | 01/15/23 | 500,000 | 500,000 | 543,125 |

Edgar Filing: BABSON CAPITAL PARTICIPATION INVESTORS - Form N-CSRS

| | | | | | |
|---|--------|----------|---------|---------|---------|
| LBC Tank Terminals Holding Netherlands B.V. | 6.875 | 05/15/23 | 663,000 | 681,511 | 684,547 |
| Mallinckrodt PLC | 5.750 | 08/01/22 | 500,000 | 500,000 | 511,250 |
| MEG Energy Corporation | 6.375 | 01/30/23 | 500,000 | 500,000 | 462,500 |
| Micron Technology, Inc. | 5.250 | 08/01/23 | 494,000 | 494,000 | 473,623 |
| Moog Inc. | 5.250 | 12/01/22 | 246,000 | 246,000 | 250,305 |
| Netflix, Inc. | 5.500 | 02/15/22 | 299,000 | 299,000 | 308,718 |
| Nielsen Finance LLC | 5.000 | 04/15/22 | 271,000 | 272,948 | 265,580 |
| Numericable Group SA | 4.875 | 05/15/19 | 240,000 | 240,000 | 237,600 |
| Murry Energy Corporation | 11.250 | 04/15/21 | 500,000 | 484,669 | 420,000 |
| NXP BV/NXP Funding LLC | 3.750 | 06/01/18 | 750,000 | 750,000 | 755,625 |
| Paragon Offshore plc. | 6.750 | 07/15/22 | 500,000 | 165,181 | 165,000 |
| Penske Corporation | 4.875 | 07/11/22 | 500,000 | 498,351 | 528,357 |
| Prestige Brands Holdings, Inc. | 5.375 | 12/15/21 | 650,000 | 650,000 | 650,000 |
| Sabre GBLB, Inc. | 5.375 | 04/15/23 | 170,000 | 170,000 | 167,450 |
| Safway Group Holding LLC/Finance Corporation | 7.000 | 05/15/18 | 250,000 | 250,000 | 255,573 |

Babson Capital Participation Investors

CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

June 30, 2015

(Unaudited)

| Corporate Restricted Securities: (A) (Continued) | Interest Rate | Maturity Date | Shares or Principal Amount | Cost | Market Value |
|---|---------------|---------------|----------------------------|------------|--------------|
| Sirius XM Radio Inc. | 5.875 % | 10/01/20 | \$ 445,000 | \$ 445,000 | \$ 456,125 |
| Topaz Marine S.A. | 8.625 | 11/01/18 | 500,000 | 500,000 | 488,750 |
| Unitymedia KabelBW GmbH | 6.125 | 01/15/25 | 500,000 | 500,000 | 522,500 |
| U n i v i s i o n Communications, Inc. | 5.125 | 05/15/23 | 160,000 | 160,000 | 155,200 |
| U n i v i s i o n Communications, Inc. | 5.125 | 02/15/25 | 419,000 | 424,761 | 404,419 |
| UPCB Finance IV Limited | 5.375 | 01/15/25 | 208,000 | 208,000 | 198,536 |
| Valeant Pharmaceuticals International | 7.000 | 10/01/20 | 250,000 | 250,586 | 260,000 |
| Virgin Media Secured Finance PLC | 5.250 | 01/15/26 | 500,000 | 504,828 | 483,125 |
| VRX Escrow Corp. | 6.125 | 04/15/25 | 382,000 | 382,000 | 392,983 |
| Welltec A/S | 8.000 | 02/01/19 | 375,000 | 370,444 | 358,125 |
| West Corporation | 5.375 | 07/15/22 | 500,000 | 490,942 | 467,500 |
| XPO Logistics, Inc. | 7.875 | 09/01/19 | 451,000 | 464,200 | 481,938 |
| Total Bonds | | | | 20,258,430 | 20,372,742 |
| Preferred Stock - 0.00% | | | | | |
| TherOX, Inc. (B) | | | 26 | — | — |
| Total Preferred Stock | | | | — | — |
| Common Stock - 0.00% | | | | | |
| Touchstone Health Partnership (B) | | | 292 | — | — |
| Total Common Stock | | | | — | — |
| | | | | 20,258,430 | 20,372,742 |

Total Rule 144 A
Securities

Total Corporate Restricted
Securities

\$ 110,508,272 \$ 112,733,849

CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

June 30, 2015

(Unaudited)

| Corporate Public Securities - 23.47%: (A) | Interest Rate | Maturity Date | Principal Amount | Cost | Market Value |
|--|------------------|------------------|---------------------|------------|-----------------|
| Bank Loans - 0.12% | | | | | |
| Aquilex Holdings LLC | 5.000 % | 12/31/20 | \$ 168,834 | \$ 168,499 | \$ 168,412 |
| Total Bank Loans | | | | 168,499 | 168,412 |
| Bonds - 23.34% | | | | | |
| Access Midstream Partners, L.P. | 4.875 % | 03/15/24 | \$ 500,000 | \$ 500,000 | \$ 491,250 |
| Accuride Corp | 9.500 | 08/01/18 | 500,000 | 488,930 | 511,250 |
| ADT Corporation | 6.250 | 10/15/21 | 500,000 | 515,680 | 525,000 |
| Alcoa, Inc. | 6.150 | 08/15/20 | 600,000 | 621,258 | 653,578 |
| Ally Financial, Inc. | 5.500 | 02/15/17 | 750,000 | 756,338 | 781,875 |
| Alta Mesa Financial Services | 9.625 | 10/15/18 | 383,000 | 372,949 | 302,570 |
| Anglogold Holdings PLC | 5.375 | 04/15/20 | 600,000 | 603,677 | 605,685 |
| Anixter, Inc. | 5.125 | 10/01/21 | 165,000 | 165,000 | 167,887 |
| Antero Resources Corporation | 5.375 | 11/01/21 | 395,000 | 395,000 | 379,200 |
| B&G Foods, Inc. | 4.625 | 06/01/21 | 440,000 | 440,000 | 433,400 |
| Bank of America Corporation | 4.000 | 04/01/24 | 500,000 | 498,321 | 508,787 |
| Bonanza Creek Energy, Inc. | 5.750 | 02/01/23 | 500,000 | 500,000 | 448,750 |
| Brunswick Corporation | 7.125 | 08/01/27 | 500,000 | 504,384 | 535,000 |
| Calumet Specialty Products Partners L.P. | 7.625 | 01/15/22 | 500,000 | 500,754 | 510,000 |
| CCO Holdings Capital Corporation | 5.750 | 01/15/24 | 500,000 | 484,411 | 502,500 |
| CHC Helicopter SA | 9.250 | 10/15/20 | 900,000 | 850,116 | 654,750 |
| Chrysler Group, LLC | 8.250 | 06/15/21 | 210,000 | 228,601 | 228,900 |
| Cimarex Energy Co. | 5.875 | 05/01/22 | 500,000 | 532,151 | 535,000 |
| California Resources Corporation | 6.000 | 11/15/24 | 480,000 | 480,000 | 412,800 |
| Clearwater Paper Corporation | 4.500 | 02/01/23 | 500,000 | 495,948 | 473,750 |
| Commercial Metals Company | 4.875 | 05/15/23 | 750,000 | 751,302 | 705,000 |

Edgar Filing: BABSON CAPITAL PARTICIPATION INVESTORS - Form N-CSRS

| | | | | | |
|--------------------------------------|-------|----------|---------|---------|---------|
| Continental Resources, Inc. | 5.000 | 09/15/22 | 500,000 | 509,021 | 490,315 |
| CVR Refining LLC | 6.500 | 11/01/22 | 350,000 | 339,611 | 350,000 |
| D.R. Horton, Inc. | 4.000 | 02/15/20 | 500,000 | 500,000 | 497,350 |
| Duke Realty Limited Partnership | 3.875 | 10/15/22 | 500,000 | 504,245 | 506,246 |
| Forum Energy Technologies | 6.250 | 10/01/21 | 160,000 | 160,000 | 158,400 |
| Frontier Communications Corporation | 6.875 | 01/15/25 | 500,000 | 491,091 | 418,125 |
| General Electric Capital Corporation | 5.500 | 01/08/20 | 500,000 | 498,961 | 566,810 |
| HCA Holdings, Inc. | 3.750 | 03/15/19 | 500,000 | 500,000 | 503,750 |
| HealthSouth Corporation | 7.750 | 09/15/22 | 365,000 | 365,658 | 381,425 |
| Hertz Corporation | 6.750 | 04/15/19 | 220,000 | 217,999 | 227,018 |
| Hilton Worldwide Holdings, Inc. | 5.625 | 10/15/21 | 750,000 | 750,000 | 779,025 |
| Hornbeck Offshore Services, Inc. | 5.000 | 03/01/21 | 500,000 | 500,000 | 430,000 |
| Icahn Enterprises L.P. | 4.875 | 03/15/19 | 475,000 | 475,000 | 478,563 |
| Icahn Enterprises L.P. | 6.000 | 08/01/20 | 600,000 | 609,689 | 619,500 |
| Jabil Circuit, Inc. | 4.700 | 09/15/22 | 500,000 | 499,977 | 505,000 |

Edgar Filing: BABSON CAPITAL PARTICIPATION INVESTORS - Form N-CSRS

Babson Capital Participation Investors

CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

June 30, 2015

(Unaudited)

| Corporate Public Securities: (A) (Continued) | Interest Rate | Maturity Date | Shares or Principal Amount | Cost | Market Value |
|---|---------------|---------------|----------------------------|------------|--------------|
| Johnson Controls, Inc. | 5.500 % | 01/15/16 | \$ 500,000 | \$ 489,590 | \$ 512,560 |
| Kraft Foods, Inc. | 5.375 | 02/10/20 | 500,000 | 509,122 | 557,035 |
| Laboratory Corporation of America Holdings | 3.600 | 02/01/25 | 500,000 | 499,245 | 478,205 |
| Lamar Media Corp. | 5.375 | 01/15/24 | 160,000 | 160,000 | 161,800 |
| Lazard Group LLC | 4.250 | 11/14/20 | 500,000 | 498,695 | 525,730 |
| Lennar Corporation | 4.500 | 11/15/19 | 250,000 | 250,553 | 253,125 |
| Lennar Corporation | 4.750 | 11/15/22 | 375,000 | 370,268 | 368,438 |
| Lifepoint Hospitals, Inc. | 5.500 | 12/01/21 | 350,000 | 359,136 | 361,375 |
| Mark West Energy Partners, L.P. | 4.875 | 12/01/24 | 500,000 | 500,000 | 488,750 |
| Masco Corporation | 7.125 | 03/15/20 | 350,000 | 349,999 | 406,000 |
| MasTec, Inc. | 4.875 | 03/15/23 | 500,000 | 491,191 | 456,250 |
| Meritor, Inc. | 6.750 | 06/15/21 | 1,000,000 | 1,000,000 | 1,022,500 |
| Morgan Stanley | 5.500 | 01/26/20 | 500,000 | 498,575 | 557,998 |
| NBC Universal Media LLC | 5.150 | 04/30/20 | 500,000 | 499,589 | 561,531 |
| NRG Energy, Inc. | 6.250 | 07/15/22 | 500,000 | 500,000 | 507,500 |
| Omnova Solutions, Inc. | 7.875 | 11/01/18 | 600,000 | 606,953 | 600,000 |
| Perry Ellis International, Inc. | 7.875 | 04/01/19 | 125,000 | 124,214 | 129,688 |
| Precision Drilling Corporation | 6.625 | 11/15/20 | 250,000 | 255,470 | 245,000 |
| Qwest Diagnostic, Inc. | 4.750 | 01/30/20 | 500,000 | 499,307 | 544,412 |
| Regency Energy Partners LP | 5.875 | 03/01/22 | 425,000 | 418,942 | 452,418 |
| Rosetta Resources Inc. | 5.875 | 06/01/22 | 500,000 | 500,000 | 533,750 |
| R.R. Donnelley & Sons Company | 6.000 | 04/01/24 | 500,000 | 500,000 | 502,500 |
| Sprint Corporation | 7.125 | 06/15/24 | 155,000 | 155,000 | 143,778 |
| Sprint Nextel Corporation | 6.000 | 12/01/16 | 500,000 | 504,446 | 513,750 |

Edgar Filing: BABSON CAPITAL PARTICIPATION INVESTORS - Form N-CSRS

| | | | | | |
|-----------------------------------|-------|----------|---------|---------------|---------------|
| Steelcase, Inc. | 6.375 | 02/15/21 | 500,000 | 505,547 | 560,593 |
| Stone Energy Corporation | 7.500 | 11/15/22 | 500,000 | 512,962 | 435,000 |
| Suburban Propane Partners, L.P. | 5.750 | 03/01/25 | 500,000 | 500,000 | 498,750 |
| Tech Data Corporation | 3.750 | 09/21/17 | 500,000 | 503,482 | 518,055 |
| Time Warner Cable, Inc. | 5.000 | 02/01/20 | 500,000 | 494,652 | 539,807 |
| T-Mobile USA Inc. | 6.464 | 04/28/19 | 340,000 | 342,858 | 350,200 |
| Tyson Foods, Inc. | 4.500 | 06/15/22 | 500,000 | 512,453 | 531,119 |
| Weatherford International | 4.500 | 04/15/22 | 500,000 | 516,184 | 469,533 |
| William Lyon Homes | 7.000 | 08/15/22 | 500,000 | 500,000 | 517,500 |
| WPX Energy, Inc. | 5.250 | 09/15/24 | 425,000 | 425,000 | 391,531 |
| Xerium Technologies, Inc. | 8.875 | 06/15/18 | 416,000 | 430,000 | 430,560 |
| Total Bonds | | | | 33,389,505 | 33,405,200 |
| Common Stock - 0.01% | | | | | |
| Nortek, Inc. (B) | | | 100 | \$ 1 | \$ 8,313 |
| Total Common Stock | | | | 1 | 8,313 |
| Total Corporate Public Securities | | | | \$ 33,558,005 | \$ 33,581,925 |

CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

June 30, 2015

(Unaudited)

| Short-Term Securities: | Interest Rate/Yield [^] | Maturity Date | Principal Amount | Cost | Market Value |
|--------------------------------|-------------------------------------|------------------|---------------------|----------------|-----------------|
| Commercial Paper - 4.19% | | | | | |
| Diamond Offshore Drilling | 0.450 % | 07/06/15 | \$ 2,000,000 | \$ 1,999,875 | \$ 1,999,875 |
| Marriott International, Inc. | 0.420 | 07/13/15 | 2,000,000 | 1,999,720 | 1,999,720 |
| Mohawk Industries, Inc. | 0.420 | 07/06/15 | 2,000,000 | 1,999,883 | 1,999,883 |
| Total Short-Term Securities | | | | \$ 5,999,478 | \$ 5,999,478 |
| Total Investments | | 106.44% | | \$ 150,065,755 | \$ 152,315,252 |
| Other Assets | | 5.08 | | | 7,270,129 |
| Liabilities | | (11.52) | | | (16,480,352) |
| Total Net Assets | | 100.00% | | | \$ 143,105,029 |

(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 June 30, 2015, the values of these securities amounted to \$92,361,107 or 64.54% of net assets.

[^] Effective yield at purchase
PIK- Payment-in-kind

30

Edgar Filing: BABSON CAPITAL PARTICIPATION INVESTORS - Form N-CSRS

Babson Capital Participation Investors

CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

June 30, 2015

(Unaudited)

| Industry Classification: | Fair Value/ Market Value | Fair Value/ Market Value | |
|--|-----------------------------|---|------------|
| AEROSPACE & DEFENSE - 3.42% | | CABLE & SATELLITE - 1.92% | |
| Alliant Techsystems Inc. | \$ 510,000 | CCO Holdings Capital Corporation | \$ 502,500 |
| A S C Group, Inc. | 1,640,667 | Harron Communications, L.P. | 270,313 |
| FMH Holdings Corporation | 1,590,922 | Numericable Group SA | 237,600 |
| Huntington Ingalls Industries | 508,750 | Time Warner Cable, Inc. | 539,807 |
| Merex Holding Corporation | 473,414 | Unitymedia KabelBW GmbH | 522,500 |
| Whitcraft Holdings, Inc. | 165,007 | UPCB Finance IV Limited | 198,536 |
| | 4,888,760 | Virgin Media Secured Finance PLC | 483,125 |
| AIRLINES - 0.34% | | | 2,754,381 |
| XPO Logistics, Inc. | 481,938 | CHEMICALS - 3.64% | |
| | | Compass Chemical International LLC | 1,691,034 |
| AUTOMOTIVE - 7.78% | | Consolidated Energy Finance S.A. | 453,705 |
| Accuride Corp | 511,250 | Cornerstone Chemical Company | 393,750 |
| CG Holdings Manufacturing Company | 1,734,170 | LBC Tank Terminals Holding Netherlands B.V. | 684,547 |
| Chrysler Group, LLC | 228,900 | NABCO, Inc. | 202,830 |
| DPL Holding Corporation | 1,796,097 | Omnova Solutions, Inc. | 600,000 |
| Grakon Parent | 1,751,526 | Polytex Holdings LLC | 1,182,811 |
| J A C Holding Enterprises, Inc. | 223,919 | | 5,208,677 |
| J.B. Poindexter Co., Inc. | 535,000 | CONSTRUCTION - 2.36% | |
| K & N Parent, Inc. | 98,296 | ARI Holding Corporation | 2,155,554 |
| Meritor, Inc. | 1,022,500 | Torrent Group Holdings, Inc. | 1,027,864 |
| Moog Inc. | 250,305 | Safety Infrastructure Solutions | 196,593 |
| Power Stop Holdings LLC | 1,738,312 | | 3,380,011 |
| Randy's Worldwide Automotive | 1,237,955 | CONSUMER CYCLICAL SERVICES - 2.96% | |
| | 11,128,230 | A W X Holdings Corporation | 210,000 |
| BANKING - 0.74% | | Church Services Holding Company | 511,211 |
| Bank of America Corporation | 508,787 | HVAC Holdings, Inc. | 1,363,093 |
| | | Mail Communications Group, Inc. | 382,256 |
| Morgan Stanley | 557,998 | PPC Event Services | 1,305,806 |
| | 1,066,785 | | |
| BROKERAGE, ASSET MANAGERS & EXCHANGES - 1.13% | | West Corporation | 467,500 |

Edgar Filing: BABSON CAPITAL PARTICIPATION INVESTORS - Form N-CSRS

| | | | |
|--------------------------|-----------|--------------------------------|-----------|
| Icahn Enterprises L.P. | 1,098,063 | | 4,239,866 |
| | | CONSUMER PRODUCTS - | |
| Lazard Group LLC | 525,730 | 9.97% | |
| | 1,623,793 | AMS Holding LLC | 325,362 |
| BUILDING MATERIALS - | | | |
| 3.86% | | Animal Supply Company | 1,696,310 |
| ACP Cascade Holdings LLC | | — Blue Wave Products, Inc. | 755,443 |
| Janus Group Holdings LLC | 1,861,444 | gloProfessional Holdings, Inc. | 1,347,064 |
| Masco Corporation | 406,000 | GTI Holding Company | 839,632 |
| | | Handi Quilter Holding | |
| Mohawk Industries, Inc. | 1,999,883 | Company | 1,686,444 |
| Nortek, Inc. | 8,313 | K N B Holdings Corporation | 119,667 |
| Sunrise Windows Holding | | Manhattan Beachwear Holding | |
| Company | 1,242,942 | Company | 846,190 |
| Wellborn Forest Holding | | | |
| Company | | — | |
| | 5,518,582 | | |

See Notes to Consolidated Financial Statements

Edgar Filing: BABSON CAPITAL PARTICIPATION INVESTORS - Form N-CSRS

CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

June 30, 2015

(Unaudited)

| Industry Classification: (Continued) | Fair Value/ Market Value | | Fair Value/ Market Value |
|---|--------------------------------|--|--------------------------------|
| MasTec, Inc. | \$456,250 | FINANCE COMPANIES - 0.40% | |
| Master Cutlery LLC | 1,565,642 | General Electric Capital Corporation | \$566,810 |
| Perry Ellis International, Inc. | 129,688 | | |
| Prestige Brands Holdings, Inc. | 650,000 | FINANCIAL OTHER - 1.70% | |
| R A J Manufacturing Holdings LLC | 424,300 | Ally Financial, Inc. | 781,875 |
| Transpac Holding Company | | Alta Mesa Financial Services | 302,570 |
| Tranzonic Holdings LLC | 1,724,620 | Family Tree Escrow, LLC | 163,020 |
| York Wall Holding Company | 1,695,126 | First Data Corporation | 259,875 |
| | 14,261,738 | Insurance Claims Management, Inc. | 188,047 |
| DIVERSIFIED MANUFACTURING - 7.88% | | Nielsen Finance LLC | 265,580 |
| ABC Industries, Inc. | 462,300 | Safway Group Holding LLC/Finance Corporation | 255,573 |
| Airxcel Holdings | 1,683,963 | REVSpring, Inc. | 216,725 |
| Amsted Industries | 238,200 | | 2,433,265 |
| Arch Global Precision LLC | 1,400,169 | | |
| Belden Inc. | 203,700 | FOOD & BEVERAGE - 6.25% | |
| BP SCI LLC | 483,979 | 1492 Acquisition LLC | 769,831 |
| CTP Transportation Products, LLC | 320,850 | B&G Foods, Inc. | 433,400 |
| Custom Engineered Wheels, Inc. | 399,315 | Dean Foods | 335,580 |
| F G I Equity LLC | 260,373 | Eatem Holding Company | 312,867 |
| Forum Energy Technologies | 158,400 | F F C Holding Corporation | 190,727 |
| Hi-Rel Group LLC | 927,949 | Golden County Foods Holding, Inc. | |
| Ideal Tridon Holdings, Inc. | 188,629 | H.J. Heinz Company | 544,375 |
| K P I Holdings, Inc. | 420,858 | Hospitality Mints Holding Company | 1,172,369 |
| Motion Controls Holdings | 1,069,778 | Impact Confections | 1,241,316 |
| NetShape Technologies, Inc. | 1,038,699 | JMH Investors LLC | 994,761 |
| Strahman Holdings Inc | 1,239,058 | Kraft Foods, Inc. | 557,035 |
| Truck Bodies & Equipment International | 782,694 | Spartan Foods Holding Company | 733,811 |
| | 11,278,914 | Tyson Foods, Inc. | 531,119 |
| | | WP Supply Holding Corporation | 1,128,453 |
| EDUCATION - 0.74% | | | 8,945,644 |
| CHG Alternative Education Holding Company | 1,059,502 | HEALTHCARE - 6.59% | |
| | | American Hospice Management Holding, LLC | 1,280,990 |
| ELECTRIC - 2.51% | | ECG Consulting Group | 1,379,068 |
| Connecticut Electric, Inc. | 915,170 | Endo Finance LLC | 493,750 |
| E S P Holdco, Inc. | 348,855 | GD Dental Services LLC | 135,460 |
| Hartland Controls Holding Corporation | 1,820,451 | HCA Holdings, Inc. | 503,750 |
| NRG Energy, Inc. | 507,500 | Healthcare Direct Holding Company | 76,977 |
| | 3,591,976 | HealthSouth Corporation | 381,425 |
| ENVIRONMENTAL - 0.98% | | Kindred Escrow Corp. II | 543,125 |
| MES Partners, Inc. | 1,401,517 | Laboratory Corporation of America Holdings | 478,205 |

See Notes to Consolidated Financial Statements

32

CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

June 30, 2015

(Unaudited)

| Industry Classification: (Continued) | Fair Value/ Market Value | Fair Value/ Market Value |
|--|-----------------------------|---|
| | | MEDIA & ENTERTAINMENT - |
| | | 4.76% |
| Lifepoint Hospitals, Inc. | \$ 361,375 | |
| MedSystems Holdings LLC | 279,578 | \$ 1,717,165 |
| Qwest Diagnostic, Inc. | 544,412 | GlynnDevins Acquisition Corporation 859,601 |
| Synteract Holdings Corporation | 2,312,870 | HOP Entertainment LLC — |
| TherOX, Inc. | — | Lamar Media Corp. 161,800 |
| Touchstone Health Partnership | — | Money Mailer 1,332,865 |
| Valeant Pharmaceuticals International | 260,000 | NBC Universal Media LLC 561,531 |
| VRX Escrow Corp. | 392,983 | Netflix, Inc. 308,718 |
| | 9,423,968 | Northwest Mailing Services, Inc. 346,327 |
| HOME CONSTRUCTION - 1.14% | | R.R. Donnelley & Sons Company 502,500 |
| D.R. Horton, Inc. | 497,350 | Sirius XM Radio Inc. 456,125 |
| Lennar Corporation | 621,563 | Sundance Investco LLC — |
| William Lyon Homes | 517,500 | Univision Communications, Inc. 559,619 |
| | 1,636,413 | 6,806,251 |
| INDUSTRIAL OTHER - 5.49% | | METALS & MINING - 2.04% |
| ADT Corporation | 525,000 | Alcoa, Inc. 653,578 |
| Advanced Manufacturing Enterprises LLC | 249,627 | Anglogold Holdings PLC 605,685 |
| Advanced Technologies Holdings | 591,945 | ArcelorMittal 532,500 |
| AFC - Dell Holding Corporation | 1,305,951 | Commercial Metals Company 705,000 |
| Aquilex Holdings LLC | 168,412 | Murry Energy Corporation 420,000 |
| Arrow Tru-Line Holdings, Inc. | 183,381 | 2,916,763 |
| Brunswick Corporation | 535,000 | MIDSTREAM - 3.03% |
| Clough, Harbour and Associates | 373,279 | Access Midstream Partners, L.P. 491,250 |
| EPM Holding Company | 690,546 | CVR Refining LLC 350,000 |
| International Wire Group | 517,500 | MarkWest Energy Partners, L.P. 488,750 |
| Johnson Controls, Inc. | 512,560 | Pearlman Enterprises, Inc. 2,052,556 |
| O E C Holding Corporation | 530,400 | Regency Energy Partners LP 452,418 |
| Signature Systems Holding Company | 358,520 | Suburban Propane Partners, L.P. 498,750 |
| SMB Machinery Holdings, Inc. | 565,184 | 4,333,724 |
| Steelcase, Inc. | 560,593 | OIL FIELD SERVICES - 7.86% |
| Wheaton Holding Corporation | 187,452 | Antero Resources Corporation 379,200 |
| | 7,855,350 | Avantech Testing Services LLC 519,570 |
| LEISURE - 2.33% | | Bonanza Creek Energy, Inc. 448,750 |
| CTM Holding, Inc. | 1,632,002 | California Resources Corporation 412,800 |
| HHI Group, LLC | 1,695,575 | CHC Helicopter SA 654,750 |
| | 3,327,577 | Cimarex Energy Co. 535,000 |
| LODGING - 1.94% | | Continental Resources, Inc. 490,315 |
| Hilton Worldwide Holdings, Inc. | 779,025 | Diamond Offshore Drilling 1,999,875 |

Edgar Filing: BABSON CAPITAL PARTICIPATION INVESTORS - Form N-CSRS

| | | | |
|------------------------------|-----------|----------------------------------|---------|
| Marriott International, Inc. | 1,999,720 | Hilcorp Energy Company | 314,130 |
| | 2,778,745 | Hornbeck Offshore Services, Inc. | 430,000 |

See Notes to Consolidated Financial Statements

33

CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

June 30, 2015

(Unaudited)

| Industry Classification: (Continued) | Fair Value/ Market Value | | Fair Value/ Market Value |
|---------------------------------------|-----------------------------|-----------------------------|-----------------------------|
| Jupiter Resources Inc. | \$ 418,750 | RETAILERS - 0.09% | |
| MEG Energy Corporation | 462,500 | HD Supply, Inc. | \$ 128,746 |
| Petroplex Inv Holdings LLC | 194,180 | | |
| Precision Drilling Corporation | 245,000 | TECHNOLOGY - 2.07% | |
| Rosetta Resources Inc. | 533,750 | Anixter, Inc. | 167,887 |
| Stone Energy Corporation | 435,000 | Jabil Circuit, Inc. | 505,000 |
| Topaz Marine S.A. | 488,750 | Micron Technology, Inc. | 473,623 |
| Tristar Global Energy Solutions, Inc. | 1,067,830 | NXP BV/NXP Funding LLC | 755,625 |
| Weatherford International | 469,533 | Sabre GLBL, Inc. | 167,450 |
| Welltec A/S | 358,125 | Smart Source Holdings LLC | 371,970 |
| WPX Energy, Inc. | 391,531 | Tech Data Corporation | 518,055 |
| | 11,249,339 | | 2,959,610 |
| | | TRANSPORTATION SERVICES - | |
| OTHER - REITS - 0.35% | | 2.35% | |
| Duke Realty Limited Partnership | 506,246 | Hertz Corporation | 227,018 |
| | | Kenan Advantage Group, Inc. | 520,625 |
| PACKAGING - 0.17% | | T-Mobile USA Inc. | 350,200 |
| Vitex Packaging Group, Inc. | 244,888 | MNX Holding Company | 1,271,095 |
| | | Penske Corporation | 528,357 |
| PAPER - 2.00% | | VP Holding Company | 468,106 |
| Clearwater Paper Corporation | 473,750 | | 3,365,401 |
| Dunn Paper | 1,833,302 | WIRELESS - 0.46% | |
| G C Holdings | 127,937 | Sprint Corporation | 143,778 |
| Xerium Technologies, Inc. | 430,560 | Sprint Nextel Corporation | 513,750 |
| | 2,865,549 | | 657,528 |
| PHARMACEUTICALS - 4.14% | | WIRELINES - 0.29% | |
| | | Frontier Communications | |
| Clarion Brands Holding Corp. | 1,715,228 | Corporation | 418,125 |
| ERG Holding Company LLC | 1,021,110 | | |
| Forest Laboratories, Inc. | 943,606 | Total Investments - 106.44% | \$ 152,315,252 |
| GenNx Novel Holding, Inc. | 1,726,883 | | |
| Mallinckrodt PLC | 511,250 | | |
| | 5,918,077 | | |
| REFINING - 0.76% | | | |
| Calumet Specialty Products Partners | | | |
| L.P. | 510,000 | | |
| CITGO Petroleum Corporation | 417,563 | | |
| Paragon Offshore plc. | 165,000 | | |
| | 1,092,563 | | |

See Notes to Consolidated Financial Statements

34

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”).

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 \$92,361,107 (64.54% of net assets) as of June 30, 2015 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 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.

The Trust uses external independent third-party pricing services to determine the fair values of its Corporate Public Securities. At June 30, 2015, 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.

Quantitative Information about Level 3 Fair Value Measurements

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. A discount for lack of marketability is applied to the end result.

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.

The following table represents quantitative information about Level 3 fair value measurements as of June 30, 2015.

| | Valuation Technique | Unobservable Inputs | Range | Weighted Average |
|-------------------|--------------------------|---------------------------------------|-------------------------------------|---------------------|
| Corporate Bonds | Discounted Cash Flows | Discount Rate | 7.9% to 17.6% | 12.8% |
| Equity Securities | Market Approach | Valuation Multiple | 4.9x to 12.3x | 7.6x |
| | | Discount for lack of marketability | 0% to 24% | 3.0% |
| | | EBITDA | \$0.8 million to \$154.7 million | \$18.2 million |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(Unaudited)

Fair Values 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 June 30, 2015:

| Assets: | Total | Level 1 | Level 2 | Level 3 |
|------------------------------|-----------------------|-----------------|----------------------|----------------------|
| Restricted Securities | | | | |
| Corporate Bonds | \$ 86,106,197 | \$ — | \$ 20,372,742 | \$ 65,733,455 |
| Common Stock - U.S. | 8,261,960 | — | — | 8,261,960 |
| Preferred Stock | 7,403,617 | — | — | 7,403,617 |
| Partnerships and LLCs | 10,962,075 | — | — | 10,962,075 |
| Public Securities | | | | |
| Bank Loans | 168,412 | — | 168,412 | — |
| Corporate Bonds | 33,405,200 | — | 33,405,200 | — |
| Common Stock - U.S. | 8,313 | 8,313 | — | — |
| Short-term Securities | 5,999,478 | — | 5,999,478 | — |
| Total | \$ 152,315,252 | \$ 8,313 | \$ 59,945,832 | \$ 92,361,107 |

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 | Included in earnings | Purchases | Sales | Prepayments | Transfers into | Transfers out | Ending balance at |
|---------|----------------------|----------------------|-----------|-------|-------------|----------------|---------------|-------------------|
|---------|----------------------|----------------------|-----------|-------|-------------|----------------|---------------|-------------------|

Edgar Filing: BABSON CAPITAL PARTICIPATION INVESTORS - Form N-CSRS

| | 12/31/2014 | | | | | Level out 3 of Level 3 | | 06/30/2015 |
|-----------------------|---------------|---------------|---------------|-----------------|-----------------|---------------------------------|------|---------------|
| Restricted Securities | | | | | | | | |
| Corporate Bonds | \$ 59,265,205 | \$ (353,414) | \$ 15,184,402 | \$ (2,521,052) | \$ (5,841,686) | \$ — | \$ — | \$ 65,733,455 |
| Common Stock - U.S. | 8,548,845 | 1,037,408 | 609,253 | (1,933,546) | | — | — | 8,261,960 |
| Preferred Stock | 6,123,833 | 1,453,055 | (63,768) | (109,503) | | — | — | 7,403,617 |
| Partnerships and LLCs | 9,571,615 | 659,029 | 1,188,670 | (457,239) | | — | — | 10,962,075 |
| | \$ 83,509,498 | \$ 2,796,078 | \$ 16,918,557 | \$ (5,021,340) | \$ (5,841,686) | \$ — | \$ — | \$ 92,361,107 |

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 Increase in Net Assets Resulting from Operations | Change in Unrealized Gains & (Losses) in Net Assets from assets still held |
|---|---|--|
| Interest (Amortization) | \$ 111,327 | |
| Net realized gain on investments before taxes | \$ 208,470 | |
| Net change in unrealized depreciation of investments before taxes | \$ 2,476,281 | 2,025,141 |

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.

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 June 30, 2015, the PI Subsidiary Trust has incurred income tax expense of \$3,632.

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 June 30, 2015, the PI Subsidiary Trust has a deferred tax liability of \$605,342.

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 June 30,

C. Use of Estimates:

2015.

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.

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.

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.

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, 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.

Babson Capital Participation Investors

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Unaudited)

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.

C. Basis for Board Renewal of Contract:

At a meeting of the Trustees held on April 17, 2015, the Trustees (including a majority of the Trustees who are not "interested persons" of the Trust or Babson Capital) unanimously approved a one-year continuance of the Contract.

Prior to the meeting, the Trustees requested and received from Ropes & Gray LLP, counsel to the Trust, a memorandum describing the Trustees' legal responsibilities in connection with their review and reapproval of the Contract. The Trustees also requested and received from Babson Capital extensive written and oral information regarding other matters including: the principal terms of the Contract; the reasons why Babson Capital was proposing the continuance of the Contract; Babson Capital and its personnel; the Trust's investment performance, including comparative performance information; the nature and quality of the services provided by Babson

Capital to the Trust; financial strength of Babson Capital; the fee arrangements between Babson Capital and the Trust; fee and expense information, including comparative fee and expense information; profitability of the advisory arrangement to Babson Capital; and "fallout" benefits to Babson Capital resulting from the Contract.

NATURE, EXTENT AND QUALITY OF SERVICES TO BE PROVIDED BY BABSON CAPITAL TO THE TRUST

In evaluating the scope and quality of the services provided by Babson Capital to the Trust, the Trustees considered, among other factors: (i) the scope of services required to be provided by Babson Capital under the Contract; (ii) Babson Capital's ability to find and negotiate private placement securities having equity features that are consistent with the stated investment objectives of the Trust; (iii) the experience and quality of Babson Capital's staff; (iv) the strength of Babson Capital's financial condition; (v) the nature of the private placement market compared to public markets (including the fact that finding, analyzing, negotiating and servicing private placement securities is more labor-intensive than buying and selling public securities and the administration of private placement securities is more extensive, expensive, and requires greater time and expertise than a portfolio of only public securities); (vi) the potential advantages afforded to the Trust by its ability to co-invest in negotiated private placements with MassMutual and its affiliates; and (vii) the expansion of the scope of services provided by Babson Capital as a result of recent regulatory and legislative initiatives that have required increased legal, compliance and business attention and diligence. Based on such considerations, the Trustees concluded that, overall, they are satisfied with the nature, extent and quality of services provided by Babson Capital, and expected to be provided in the future, under the renewed Contract.

INVESTMENT PERFORMANCE

The Trustees also examined the Trust's short-term, intermediate-term, and long-term performance as compared against various benchmark indices presented at the meeting, which showed that the Trust had outperformed such indices for the 1-, 3-, 5- and 10-year periods. In addition, the Trustees considered

Among other things, the Trustees discussed and considered with management (i) the aforementioned guidance provided by Ropes & Gray LLP and the information provided by Babson Capital prior to the meeting and (ii) the reasons Babson Capital put forth in support of its recommendation that the Trustees approve the continuance of the Contract. These considerations are summarized below.

comparisons of the Trust's performance with the performance of (i) selected closed-end investment companies and funds that may invest in private placement securities and/or bank loans; (ii) selected business development companies with comparable types of investments; and (iii) investment companies included in the Lipper closed-end bond universe. It was acknowledged that, while such comparisons are helpful in judging performance, they are not directly comparable in terms of types of investments due to the fact that business development companies often report returns based on market value, which is affected by factors other than the performance of the underlying portfolio investments. Based on these considerations and the detailed performance information provided to the Trustees at the regular Board meetings each quarter, the Trustees concluded that the Trust's absolute and relative performance over time have been sufficient to warrant renewal of the Contract.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Unaudited)

ADVISORY FEE/COST OF SERVICES PROVIDED AND PROFITABILITY/MANAGER'S "FALL-OUT" BENEFITS

In connection with the Trustees' consideration of the advisory fee paid by the Trust to Babson Capital under the Contract, Babson Capital noted that it was unaware of any registered closed-end investment companies that are directly comparable to the Trust in terms of the types of investments and percentages invested in private placement securities (which require more extensive advisory and administrative services than a portfolio of publicly traded securities, as previously discussed) other than Babson Capital Corporate Investors, which also is advised by Babson Capital. Under the terms of its Investment Services Contract, Babson Capital Corporate Investors is charged a quarterly investment advisory fee of 0.3125% of net asset value as of the end of each quarter, which is approximately equal to 1.25% annually. In considering the fee rate provided in the Contract, the Trustees noted the advisory fee charged by Babson Capital to Tower Square Capital Partners, L.P. and Tower Square Capital Partners II and III, L.P., each a private mezzanine fund also managed by Babson Capital, and that the fee Babson Capital Corporate Investors charged compares favorably.

At the request of the Trustees, Babson Capital provided information concerning the profitability of Babson Capital's advisory relationship with the Trust. The Trustees also considered the non-economic benefits Babson Capital and its affiliates derived from its relationship with the Trust,

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 six months ended 06/30/15 | |
|---------------------------------|--------------------------------------|--|
| | Cost of Investments Acquired | Proceeds from Sales or Maturities |
| Corporate restricted securities | \$ 23,711,351 | \$ 16,370,686 |
| Corporate public securities | 1,749,875 | 9,751,496 |

The aggregate cost of investments is substantially the same for financial reporting and Federal income tax purposes as of June 30, 2015. The net unrealized appreciation of investments for financial reporting and Federal tax purposes as of June 30, 2015 is \$2,249,497 and consists of \$14,057,854 appreciation and \$11,808,357 depreciation.

Net unrealized depreciation of investments on the Statement of Assets and Liabilities reflects the balance net of a deferred tax liability of \$605,342 on net unrealized gains on the PI Subsidiary Trust.

6. Quarterly Results of Investment Operations (Unaudited)

| March 31, 2015 | |
|----------------|-----------|
| Amount | Per Share |

Edgar Filing: BABSON CAPITAL PARTICIPATION INVESTORS - Form N-CSRS

| | | | | | |
|---|--|----|-----------|---------------|-----------|
| including the reputational benefits derived from having the Trust listed on the New York Stock Exchange, and the de minimis amount of commissions resulting from the Trust's portfolio transactions used by Babson Capital for third-party soft dollar arrangements. The Trustees recognized that Babson Capital should be entitled to earn a reasonable level of profit for services provided to the Trust and, based on their review, concluded that they were satisfied that Babson Capital's historical level of profitability from its relationship with the Trust was not excessive and that the advisory fee structure under the Contract is reasonable. | Investment income | \$ | 3,308,580 | \$ | — |
| | Net investment income | | 2,704,752 | | 0.26 |
| | Net realized and unrealized gain on investments (net of taxes) | | 3,245,428 | | 0.31 |
| | | | | June 30, 2015 | |
| | | | Amount | | Per Share |

ECONOMIES OF SCALE

The Trustees considered the concept of economies of scale and possible advisory fee reductions if the Trust were to grow in assets. Given that the Trust is not continuously offering shares, such growth comes principally from retained net realized gain on investments and dividend reinvestment. The Trustees also examined the breakpoint features of selected competitive funds and noted that the minimum starting point for fee reductions in those funds was at least \$200 million whereas the Trust's current net assets are near \$143 million. The Trustees concluded that the absence of breakpoints in the fee schedule under the Contract was currently acceptable given the Trust's current size and closed-end fund structure.

| | | | | | |
|---|--|----|-----------|----|--------|
| 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 | Investment income | \$ | 3,277,358 | \$ | — |
| | Net investment income | | 2,625,104 | | 0.25 |
| | Net realized and unrealized loss on investments (net of taxes) | | (439,381) | | (0.04) |

shares for ten business days prior to the notice of conversion. For the six months ended June 30, 2015, the Trust incurred total interest expense on the Note of \$306,750.

Babson Capital Participation Investors

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Unaudited)

7. Results of Shareholder Meeting

The Annual Meeting of Shareholders was held on Friday, April 17, 2015. The shareholders were asked to vote to re-elect as Trustees William J. Barrett and Clifford M. Noreen for three year terms. The shareholders approved the proposal. The Trust's other Trustees, Michael H. Brown, Barbara M. Ginader, Edward P. Grace, Robert E. Joyal, Susan B. Sweeney and Maleyne M. Syracuse continued to serve their respective terms following the April 17, 2015 Annual Shareholder Meeting. The results of the voting are set forth below.

| Shares for | Withheld | Total | % of Shares Voted for |
|---------------------------------|----------|-----------|-----------------------------|
| William J. Barrett 8,670,608 | 260,678 | 8,931,286 | 97.08 % |
| Clifford M. Noreen 8,668,289 | 262,997 | 8,931,286 | 98.06 % |

THIS PRIVACY NOTICE IS BEING PROVIDED BY THE FOLLOWING ENTITIES: BABSON CAPITAL MANAGEMENT LLC; BABSON CAPITAL SECURITIES LLC; BABSON CAPITAL MANAGEMENT (JAPAN) KK; BABSON CAPITAL CORNERSTONE ASIA LTD.; 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.

This notice describes the privacy policies of Babson Capital, and applies to all accounts you presently have, or may open in the future, with Babson Capital using your social security number or federal taxpayer identification number. As mandated by various regulators, including rules issued by the Securities and Exchange Commission, we will be sending you this notice annually, as long as you remain a customer of Babson Capital.

Edgar Filing: BABSON CAPITAL PARTICIPATION INVESTORS - Form N-CSRS

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 or calling (202) 371-8300. Investors may obtain information about FINRA including the FINRA Investor Brochure by contacting FINRA online at www.finra.org or by calling (800) 289-9999.

June 2015

Babson Capital Participation Investors

This page left intentionally blank.

This page left intentionally blank.



Members of the Board of Trustees

William J. Barrett
Michael H. Brown*
Barbara M. Ginader
Edward P. Grace III
Robert E. Joyal
Clifford M. Noreen
Susan B. Sweeney*
Maleyne M. Syracuse*

DIVIDEND REINVESTMENT AND CASH PURCHASE PLAN

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.

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.

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.

*Member of the Audit Committee

Officers

Clifford M. Noreen
Chairman

Michael L. Klofas
President

James M. Roy
Vice President & Chief
Financial Officer

Christopher A. DeFrancis
Vice President, Secretary &
Chief Legal Officer

Sean Feeley
Vice President

Richard E. Spencer, II
Vice President

Daniel J. Florence
Treasurer

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.

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.)

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.

Melissa M. LaGrant
Chief Compliance Officer

Babson Capital
Participation Investors



PI6217

ITEM 2. CODE OF ETHICS.

Not applicable for this filing.

ITEM 3. AUDIT COMMITTEE FINANCIAL EXPERT.

Not applicable for this filing.

ITEM 4. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

Not applicable for this filing.

ITEM 5. AUDIT COMMITTEE OF LISTED REGISTRANTS.

Not applicable for this filing.

ITEM 6. SCHEDULE OF INVESTMENTS

(a) A schedule of investments for the Registrant is included as part of this report to shareholders under Item 1 of this Form N-CSR.

(b) Not applicable for this filing.

ITEM 7. DISCLOSURE OF PROXY VOTING POLICIES AND PROCEDURES FOR CLOSED-END MANAGEMENT INVESTMENT COMPANIES.

Not applicable for this filing.

ITEM 8. PORTFOLIO MANAGERS OF CLOSED-END MANAGEMENT INVESTMENT COMPANIES.

Not applicable for this filing. There have been no changes in any of the Portfolio Managers identified in the Registrant's most recent annual report on Form N-CSR.

ITEM 9. PURCHASES OF EQUITY SECURITIES BY CLOSED-END MANAGEMENT INVESTMENT COMPANY AND AFFILIATED PURCHASERS.

Not applicable for this filing.

ITEM 10. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

Not applicable for this filing. There have been no material changes to procedures by which the shareholders may recommend nominees to the Registrant's Board of Trustees.

ITEM 11. CONTROLS AND PROCEDURES.

- (a) The principal executive officer and principal financial officer of the Registrant, or persons performing similar functions, have evaluated the effectiveness of the Registrant's disclosure controls and procedures (as defined in Rule 30a-3(c) under the Investment Company Act of 1940 (the "1940 Act")) as of a date within 90 days of the filing date of this report and based on that evaluation have concluded that such disclosure controls and procedures are effective to provide reasonable assurance that material information required to be disclosed by the Registrant on Form N-CSR is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms.
- (b) There were no changes in the Registrant's internal control over financial reporting (as defined in Rule 30a-3(d) under the 1940 Act) that occurred during the Registrant's second fiscal quarter of the period covered by this report that have materially affected, or are reasonably likely to materially affect, the Registrant's internal control over financial reporting.

ITEM 12. EXHIBITS.

- (a)(1) ANY CODE OF ETHICS, OR AMENDMENTS THERETO, THAT IS THE SUBJECT OF DISCLOSURE REQUIRED BY ITEM 2, TO THE EXTENT THAT THE REGISTRANT INTENDS TO SATISFY THE ITEM 2 REQUIREMENTS THROUGH THE FILING OF AN EXHIBIT.

None.

- (a)(2) A SEPARATE CERTIFICATION FOR EACH PRINCIPAL EXECUTIVE OFFICER AND PRINCIPAL FINANCIAL OFFICER OF THE REGISTRANT AS REQUIRED BY RULE 30a-2 UNDER THE 1940 ACT.

Attached hereto as EX-99.31.1

Attached hereto as EX-99.31.2

- (a)(3) ANY WRITTEN SOLICITATION TO PURCHASE SECURITIES UNDER RULE 23c-1 UNDER THE 1940 ACT (17 CFR 270.23c-1) SENT OR GIVEN DURING THE PERIOD COVERED BY THE REPORT BY OR ON BEHALF OF THE REGISTRANT TO 10 OR MORE PERSONS.

Not applicable for this filing.

- (b) CERTIFICATIONS PURSUANT TO RULE 302-2(b) UNDER THE 1940 ACT.

Attached hereto as EX-99.32

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

(Registrant): Babson Capital Participation Investors

By: /s/ Michael L. Klofas
Michael L. Klofas, President

Date: September 4, 2015

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

By: /s/ Michael L. Klofas
Michael L. Klofas, President

Date: September 4, 2015

By: /s/ James M. Roy
James M. Roy, Vice President and
Chief Financial Officer

Date: September 4, 2015