

BABSON CAPITAL PARTICIPATION INVESTORS

Form N-30D

May 29, 2015

Babson Capital
Participation Investors

Report for the
Three Months Ended March 31, 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.

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 (as defined below), long-term debt obligations purchased directly from their issuers, which tend to be smaller companies. These investments may include equity features such as warrants, conversion rights, or other equity features that provide the Trust with the opportunity to realize capital gains. 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 principal. The Trust is prohibited from

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

Form N-Q

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

Proxy Voting Policies & Procedures; Proxy Voting Record

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

purchasing below-investment grade securities if, after giving effect to the purchase, more than 75% of the Trusts' total assets would be invested in below-investment grade securities, which are securities that are rated, at the time of purchase, BB or B by S&P or Ba or B by Moody's, or, if unrated, are believed by Babson Capital Management LLC ("Babson Capital") to be of an equivalent quality. In addition, the Trust will not invest in any debt security that is rated, at the time of acquisition, below B by S&P or Moody's, or if unrated, is believed by Babson Capital to be of an equivalent quality. In addition, the Trust may invest in high quality, readily marketable securities.

(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

April 30, 2015

We are pleased to present the March 31, 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 May 15, 2015 to shareholders of record on May 1, 2015. The Trust paid a \$0.27 per share dividend for the preceding quarter. The Trust earned \$0.24 per share of net investment income, including \$0.03 per share of non-recurring income, for the first quarter of 2015, compared to \$0.26 per share, including \$0.03 per share of non-recurring income, in the previous quarter.

During the first quarter, the net assets of the Trust increased to \$143,704,328 or \$13.93 per share compared to \$137,568,919 or \$13.35 per share on December 31, 2014. This translates into a 4.3% 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 15.2%, 14.3%, 14.4%, 12.1% 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 decreased 8.3% during the quarter, from \$13.23 per share as of December 31, 2014 to \$12.13 per share as of March 31, 2015. The Trust's market price of \$12.13 per share equates to a 12.9% discount to the March 31, 2015 net asset value per share of \$13.93. The Trust's average quarter-end premium for the 3, 5 and 10-year periods was 7.2%, 11.6% and 8.9%, respectively. U.S. equity markets, as approximated by the Russell 2000 Index, increased 4.3% for the quarter. U.S. fixed income markets, as approximated by the Barclays Capital U.S. Corporate High Yield Index, increased 2.5% for the quarter.

The Trust closed five new private placement investments during the first quarter. The five new investments were in AFC - Dell Holding Corporation, Animal Supply Company, Compass Chemical International LLC, Tristar Global Energy Solutions, Inc. and York Wall Holding Company. 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 \$7,746,000.

It was an active first quarter for the Trust in terms of new investments. Middle market merger and acquisition activity, a key driver of deal flow for the Trust, was steady during the quarter. We expect deal flow to remain steady for the rest of the year, assuming no significant external shocks to the market, so we are optimistic about the level of new investment activity for the Trust through year end. The dark cloud on the horizon though, 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 are also elevated and are near their highs of the past 15 years as well. Though we are actively making new investments on behalf of the Trust in this market, we do so cautiously and with discipline, consistent with our longstanding investment philosophy of seeking to take prudent levels of risk and getting paid appropriately for the risk taken. We are not willing to provide financial leverage at levels that we believe are imprudent. This approach has served us well over the long term and through all kinds of market cycles.

The condition of the Trust's existing portfolio remained solid through the first quarter. 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 successfully exited five investments and benefited from dividends associated with the recapitalization of one company during the quarter. We realized significant gains from these transactions. 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 first 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 has occurred in recent quarters. 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 \$0.21 per share for the first quarter. This quarter, the Trust earned an additional \$0.03 per share of non-recurring income, and utilized \$0.03 per share of earnings carry-forwards to maintain the \$0.27 per share quarterly dividend. The Trust continues to have available earnings carry-forwards which should be available to supplement recurring income for the next few quarters. Unless market conditions change dramatically though, it is still unlikely that we will be able to rebuild the portfolio back to its former size in the near term and grow net investment income. As a result, it is likely that in 2015 we will have to reduce the dividend from the current \$0.27 per share quarterly rate. As we move through 2015, 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

March 31, 2015

(Unaudited)

Assets:

Investments

(See Consolidated Schedule of Investments)

| | |
|--|---------------|
| Corporate restricted securities at fair value (Cost - \$87,663,033) | \$ 88,118,442 |
| Corporate restricted securities at market value (Cost - \$22,511,664) | 22,776,416 |
| Corporate public securities at market value (Cost - \$39,448,753) | 40,309,311 |
| Short-term securities at amortized cost | 1,999,839 |
| Total investments (Cost - \$151,623,289) | 153,204,008 |
| Cash | 5,850,169 |
| Interest receivable | 1,747,830 |
| Other assets | 25,840 |
| Total assets | 160,827,847 |

Liabilities:

| | |
|-----------------------------------|----------------|
| Note payable | 15,000,000 |
| Payable for investments purchased | 708,000 |
| Deferred tax liability | 584,505 |
| Investment advisory fee payable | 323,335 |
| Tax payable | 306,507 |
| Interest payable | 27,267 |
| Accrued expenses | 173,905 |
| Total liabilities | 17,123,519 |
| Total net assets | \$ 143,704,328 |

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 | 3,461,531 |
| Accumulated net realized gain on investments | 952,468 |
| Net unrealized appreciation of investments | 996,214 |
| Total net assets | \$ 143,704,328 |
| Common shares issued and outstanding (14,787,750 authorized) | 10,314,898 |
| Net asset value per share | \$ 13.93 |

See Notes to Consolidated Financial Statements

3

CONSOLIDATED STATEMENT OF OPERATIONS
For the three months ended March 31, 2015 (Unaudited)

| | |
|---|-------------|
| Investment Income: | |
| Interest | \$3,243,338 |
| Dividends | 61,779 |
| Other | 3,463 |
| Total investment income | 3,308,580 |
| Expenses: | |
| Investment advisory fees | 323,335 |
| Interest | 153,375 |
| Professional fees | 58,216 |
| Trustees' fees and expenses | 24,000 |
| Reports to shareholders | 18,000 |
| Custodian fees | 8,064 |
| Other | 18,838 |
| Total expenses | 603,828 |
| Investment income - net | 2,704,752 |
| Net realized and unrealized gain on investments: | |
| Net realized gain on investments before taxes | 1,623,253 |
| Income tax expense | (17,841) |
| Net realized gain on investments after taxes | 1,605,412 |
| Net change in unrealized appreciation of investments before taxes | 1,814,902 |
| Net change in deferred income tax expense | (174,886) |
| Net change in unrealized appreciation of investments after taxes | 1,640,016 |
| Net gain on investments | 3,245,428 |
| Net increase in net assets resulting from operations | \$5,950,180 |

See Notes to Consolidated Financial Statements

Babson Capital Participation Investors

CONSOLIDATED STATEMENT OF CASH FLOWS

For the three months ended March 31, 2015

(Unaudited)

Net decrease in cash:

Cash flows from operating activities:

| | |
|---|--------------|
| Purchases/Proceeds/Maturities from short-term portfolio securities, net | \$4,501,672 |
| Purchases of portfolio securities | (13,894,634) |
| Proceeds from disposition of portfolio securities | 10,426,819 |
| Interest, dividends and other income received | 2,764,108 |
| Interest expense paid | (153,375) |
| Operating expenses paid | (497,837) |
| Income taxes paid | (1,159,619) |
| Net cash provided by operating activities | 1,987,134 |

Cash flows from financing activities:

| | |
|---|--------------|
| Cash dividends paid from net investment income | (2,781,293) |
| Receipts for shares issued on reinvestment of dividends | 185,229 |
| Net cash used for financing activities | (2,596,064) |

| | |
|--------------------------|-------------|
| Net decrease in cash | (608,930) |
| Cash - beginning of year | 6,459,099 |
| Cash - end of period | \$5,850,169 |

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

| | |
|--|--------------|
| Net increase in net assets resulting from operations | \$5,950,180 |
| Increase in investments | (3,380,455) |
| Increase in interest receivable | (268,318) |
| Increase in other assets | (7,997) |
| Increase in payable for investments purchased | 708,000 |
| Increase in deferred tax liability | 174,886 |
| Increase in investment advisory fee payable | 13,805 |
| Decrease in tax payable | (1,141,778) |
| Decrease in accrued expenses | (61,189) |
| Total adjustments to net assets from operations | (3,963,046) |
| Net cash provided by operating activities | \$1,987,134 |

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

| | For the three months ended 03/31/2015 (Unaudited) | For the year ended 12/31/2014 |
|---|--|-------------------------------------|
| Increase in net assets: | | |
| Operations: | | |
| Investment income - net | \$2,704,752 | \$10,671,491 |
| Net realized gain on investments after taxes | 1,605,412 | 5,032,760 |
| Net change in unrealized appreciation of investments after taxes | 1,640,016 | 800,181 |
| Net increase in net assets resulting from operations | 5,950,180 | 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 - \$0.00 per share; 2014 - \$0.96 per share) | — | (9,866,694) |
| Net realized gains (2015 - \$0.00 per share; 2014 - \$0.12 per share) | — | (1,236,130) |
| Total increase in net assets | 6,135,409 | 6,153,511 |
| Net assets, beginning of year | 137,568,919 | 131,415,408 |
| Net assets, end of period/year (including undistributed net investment income of \$3,461,531 and \$756,779, respectively) | \$143,704,328 | \$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 | For the years ended December 31, | | | |
|---|---|----------------------------------|-----------|-----------|-----------|
| | three months ended 03/31/2015 (Unaudited) | 2014 | 2013 | 2012 | 2011 |
| Net asset value: | | | | | |
| Beginning of year | \$ 13.35 | \$ 12.83 | \$ 12.56 | \$ 11.90 | \$ 11.89 |
| Net investment income (a) | 0.26 | 1.04 | 1.00 | 1.08 | 1.14 |
| Net realized and unrealized gain (loss) on investments | 0.31 | 0.57 | 0.35 | 0.64 | 0.08 |
| Total from investment operations | 0.57 | 1.61 | 1.35 | 1.72 | 1.22 |
| Dividends from net investment income to common shareholders | — | (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 | 0.01 | (0.01) | (0.00)(b) | 0.02 | 0.02 |
| Total dividends | 0.01 | (1.09) | (1.08) | (1.06) | (1.21) |
| Net asset value: End of period/year | \$ 13.93 | \$ 13.35 | \$ 12.83 | \$ 12.56 | \$ 11.90 |
| Per share market value: | | | | | |
| End of period/year | \$ 12.13 | \$ 13.23 | \$ 12.88 | \$ 13.91 | \$ 15.85 |
| Total investment return | | | | | |
| Net asset value (c) | 4.34% | 13.61% | 10.97% | 15.89% | 10.56% |
| Market value (c) | (8.31)% | 12.54% | 0.47% | (4.54%) | 24.16% |
| Net assets (in millions): | | | | | |
| End of period/year | \$ 143.70 | \$ 137.57 | \$ 131.42 | \$ 127.87 | \$ 120.32 |
| Ratio of total expenses to average net assets | 1.79%(e) | 2.84%(e) | 2.15% | 2.83% | 2.18% |
| Ratio of operating expenses to average net assets | 1.30%(e) | 1.49%(e) | 1.51% | 1.51% | 1.42% |
| Ratio of interest expense to average net assets | 0.44%(e) | 0.45%(e) | 0.47% | 0.49% | 0.56% |
| Ratio of income tax expense to average net assets (d) | 0.05%(e) | 0.90%(e) | 0.17% | 0.83% | 0.20% |
| Ratio of net investment income to average net assets | 7.82%(e) | 7.82%(e) | 7.77% | 8.82% | 9.33% |
| Portfolio turnover | 7% | 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.

Edgar Filing: BABSON CAPITAL PARTICIPATION INVESTORS - Form N-30D

(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 | \$ 10,536 | \$ 10,347 | \$ 9,761 | \$ 9,525 | \$ 9,021 |

See Notes to Consolidated Financial Statements

7

CONSOLIDATED SCHEDULE OF INVESTMENTS

March 31, 2015

(Unaudited)

| Corporate Restricted Securities - 77.17%: (A) | Principal Amount, Shares, Units or Ownership Percentage | Acquisition Date | Cost | Fair Value |
|--|---|------------------|------------|------------|
| P r i v a t e P l a c e m e n t | | | | |
| Investments - 61.32% | | | | |
| 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 | \$ 680,877 | 10/17/12 | \$ 670,806 | \$ 671,900 |
| 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 | 83,636 |
| | | | 784,440 | 755,536 |
| 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 | \$ 1,049,256 | 12/20/13 | 1,031,204 | 1,059,749 |
| Limited Liability Company Unit Class A (B) | 3,094 uts. | * | 153,704 | 310,149 |
| Limited Liability Company Unit Class B (B) | 1,479 uts. | 10/09/09 | 52,999 | 148,258 |
| * 10/09/09 and 12/20/13. | | | 1,237,907 | 1,518,156 |
| 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 05/15/2015 (D) | \$ 420,000 | 05/15/08 | 413,944 | 210,000 |
| 13% Senior Subordinated Note due 05/15/2015 (D) | \$ 420,000 | 05/15/08 | 384,627 | — |
| Common Stock (B) | 60,000 shs. | 05/15/08 | 60,000 | — |
| Warrant, exercisable until 2015, 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. | | | | |
| | \$ 181,818 | 08/01/12 | 167,780 | 183,636 |

Edgar Filing: BABSON CAPITAL PARTICIPATION INVESTORS - Form N-30D

13% Senior Subordinated
Note due 07/31/2019

| | | | | |
|------------------------------|--------------|----------|---------|---------|
| Preferred Stock Series A (B) | 125,000 shs. | 08/01/12 | 125,000 | 267,789 |
|------------------------------|--------------|----------|---------|---------|

Warrant, exercisable until
2022, to purchase

common stock at \$.02 per
share (B)

| | | | |
|-------------|----------|---------|---------|
| 22,414 shs. | 08/01/12 | 42,446 | 45,820 |
| | | 335,226 | 497,245 |

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.

14% Senior Subordinated

| | | | | |
|---------------------|--------------|----------|-----------|-----------|
| Note due 12/07/2018 | \$ 1,134,615 | 12/07/12 | 1,122,532 | 1,145,961 |
|---------------------|--------------|----------|-----------|-----------|

Limited Liability Company

| | | | | |
|----------|------------|---|---------|---------|
| Unit (B) | 1,431 uts. | * | 143,077 | 200,983 |
|----------|------------|---|---------|---------|

* 12/07/12 and 07/11/13.

| | |
|-----------|-----------|
| 1,265,609 | 1,346,944 |
|-----------|-----------|

Babson Capital Participation Investors

CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

March 31, 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 | \$ 504,839 |
| Convertible Preferred Stock Series B (B) | 28 shs. | 01/04/11 | 21,600 | 42,327 |
| | | | 185,616 | 547,166 |
| 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 | \$ 1,181,250 | 03/27/15 | 1,157,666 | 1,180,785 |
| Preferred Stock (B) | 1,122 shs. | 03/27/15 | 112,154 | 106,546 |
| Common Stock (B) | 346 shs. | 03/27/15 | 346 | 329 |
| | | | 1,270,166 | 1,287,660 |
| 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 | \$ 1,444,973 | 11/18/14 | 1,417,444 | 1,467,174 |
| Limited Liability Company Unit | 288 uts. | 11/18/14 | 288,000 | 288,414 |
| | | | 1,705,444 | 1,755,588 |
| 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 | * | 1,237,364 | 1,237,502 |
| Preferred Class A Unit (B) | 1,706 uts. | ** | 170,600 | — |
| Preferred Class B Unit (B) | 808 uts. | 06/09/08 | 80,789 | 82,044 |
| Common Class B Unit (B) | 16,100 uts. | 01/22/04 | 1 | — |
| Common Class D Unit (B) | 3,690 uts. | 09/12/06 | — | — |
| | | | 1,488,754 | 1,319,546 |
| * 01/22/04 and 06/09/08. | | | | |
| ** 01/22/04 and 09/16/06. | | | | |

AMS Holding LLC

Edgar Filing: BABSON CAPITAL PARTICIPATION INVESTORS - Form N-30D

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 | 344,334 |
|----------------------------|----------|----------|---------|---------|

Animal Supply Company

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

9.5% Senior Subordinated

| | | | | |
|---------------------|--------------|----------|-----------|-----------|
| Note due 09/05/2019 | \$ 1,725,000 | 03/30/15 | 1,699,156 | 1,698,894 |
|---------------------|--------------|----------|-----------|-----------|

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 | 96,609 |
|------------------|---------|----------|--------|--------|

Limited Liability Company

| | | | | |
|------------------|----------|----------|---------|-----------|
| Unit Class C (B) | 230 uts. | 12/21/11 | 221,582 | 962,404 |
| | | | 250,000 | 1,059,013 |

CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

March 31, 2015

(Unaudited)

| Corporate Restricted Securities: (A) (Continued) | Principal Amount, Shares, Units or Ownership Percentage | Acquisition Date | Cost | Fair Value |
|--|---|------------------|--------------|--------------|
| ARI Holding Corporation | | | | |
| A leading national supplier of products used primarily by specialty contractors. | | | | |
| 11.5% Senior Subordinated Note due 02/01/2020 | | | | |
| | \$ 1,698,197 | * | \$ 1,673,777 | \$ 1,718,850 |
| Limited Partnership Interest | | | | |
| | 524 uts. | 08/01/14 | 523,950 | 505,751 |
| * 05/21/13 and 08/01/14. | | | | |
| | | | 2,197,727 | 2,224,601 |
| 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 | 105,183 |
| Common Stock (B) | | | | |
| | 213 shs. | 05/18/05 | 212,588 | 64,387 |
| Warrant, exercisable until 2016, to purchase common stock at \$.01 per share (B) | | | | |
| | 56 shs. | 05/18/05 | 47,929 | 16,880 |
| | | | 287,342 | 186,450 |
| 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 | | | | |
| | \$ 505,280 | 07/31/14 | 496,232 | 437,022 |
| Limited Liability Company Unit | | | | |
| | 36,964 uts. | 07/31/14 | 369,643 | 335,394 |
| | | | 865,875 | 772,416 |
| Blue Wave Products, Inc. | | | | |
| A distributor of pool supplies. | | | | |
| 10% Senior Secured Term Note due 09/30/2018 | | | | |
| | \$ 278,014 | 10/12/12 | 274,359 | 278,014 |
| 13% Senior Subordinated Note due 09/30/2019 | | | | |
| | \$ 325,673 | 10/12/12 | 307,992 | 332,187 |
| Common Stock (B) | | | | |
| | 51,064 shs. | 10/12/12 | 51,064 | 130,718 |
| Warrant, exercisable until 2022, to purchase common stock at \$.01 per share (B) | | | | |
| | 20,216 shs. | 10/12/12 | 20,216 | 51,751 |
| | | | 653,631 | 792,670 |

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 | 264,417 |
|------------------|----------|----------|--------|---------|

Limited Liability Company

| | | | | |
|------------------|----------|----------|---------|---------|
| Unit Class B (B) | 167 uts. | 10/17/12 | 166,666 | 217,112 |
| | | | 208,333 | 481,529 |

Bravo Sports Holding
Corporation

A designer and marketer of niche branded consumer products including canopies, trampolines, in-line skates, skateboards, and urethane wheels.

12.5% Senior Subordinated

| | | | | | |
|---------------------|----|-----------|----------|-----------|-----------|
| Note due 06/30/2015 | \$ | 1,207,902 | 06/30/06 | 1,205,503 | 1,207,902 |
|---------------------|----|-----------|----------|-----------|-----------|

| | | | | | |
|-----------------------------|--|----------|----------|---------|---|
| Preferred Stock Class A (B) | | 465 shs. | 06/30/06 | 141,946 | — |
|-----------------------------|--|----------|----------|---------|---|

| | | | | | |
|------------------|--|-------|----------|-----|---|
| Common Stock (B) | | 1 sh. | 06/30/06 | 152 | — |
|------------------|--|-------|----------|-----|---|

Warrant, exercisable until

2015, to purchase

common stock at \$.01 per

| | | | | | |
|-----------|--|----------|----------|--------|---|
| share (B) | | 164 shs. | 06/30/06 | 48,760 | — |
|-----------|--|----------|----------|--------|---|

| | | | | | |
|--|--|--|--|-----------|-----------|
| | | | | 1,396,361 | 1,207,902 |
|--|--|--|--|-----------|-----------|

Babson Capital Participation Investors

CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

March 31, 2015

(Unaudited)

| Corporate Restricted Securities: (A) (Continued) | Principal Amount, Shares, Units or Ownership Percentage | Acquisition Date | Cost | Fair Value |
|---|--|---------------------|--------------|--------------|
| 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 | * | \$ 1,344,932 | \$ 1,446,895 |
| Preferred Stock (B) | 1,350 shs. | * | 134,972 | 148,279 |
| Preferred Stock (B) | 489 shs. | * | 48,721 | 53,743 |
| Common Stock (B) | 140 shs. | * | 14,864 | 49,629 |
| Warrant, exercisable until 2023, to purchase common stock at \$.01 per share (B) | 58 shs. | * | 5,430 | 20,614 |
| * 05/09/13 and 11/01/13. | | | 1,548,919 | 1,719,160 |
| 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 | \$ 759,373 | 01/19/11 | 736,969 | 759,373 |
| 14% Senior Subordinated Note due 08/03/2019 | \$ 197,855 | 08/03/12 | 195,122 | 199,834 |
| Common Stock (B) | 375 shs. | 01/19/11 | 37,500 | 53,958 |
| Warrant, exercisable until 2021, to purchase common stock at \$.01 per share (B) | 295 shs. | 01/19/11 | 29,250 | 42,414 |
| | | | 998,841 | 1,055,579 |
| Church Services Holding Company | | | | |
| A provider of diversified residential services to homeowners in the Houston, Dallas, and Austin markets. | | | | |
| 14.5% Senior Subordinated Note due 03/26/2018 | \$ 424,765 | 03/26/12 | 416,456 | 424,765 |
| 10% Senior Subordinated Note due 09/12/2015 | \$ 6,330 | 09/15/14 | 6,330 | 6,341 |
| Common Stock (B) | 1,327 shs. | * | 132,700 | 114,137 |

Edgar Filing: BABSON CAPITAL PARTICIPATION INVESTORS - Form N-30D

Warrant, exercisable until 2022, to purchase

common stock at \$.01 per share

| | | | | |
|------------------------------------|---------|----------|---------|---------|
| (B) | 57 shs. | 03/26/12 | 5,740 | 4,903 |
| * 03/26/12, 05/25/12 and 06/19/12. | | | 561,226 | 550,146 |

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 \$ 1,579,965 10/01/14 1,550,043 1,597,245

Common Stock (B) 1,568 shs. 10/01/14 156,818 101,933

1,706,861 1,699,178

Clough, Harbour and Associates

An engineering service firm that is located in Albany, NY.

Preferred Stock (B) 147 shs. 12/02/08 146,594 386,035

CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

March 31, 2015

(Unaudited)

| Corporate Restricted Securities: (A) (Continued) | Principal Amount, Shares, Units or Ownership Percentage | Acquisition Date | Cost | Fair Value |
|---|--|---------------------|----------------------|----------------------|
| Compass Chemical International LLC A manufacturer and supplier of standard and specialty formulated chemicals, primarily phosphoric acid derivatives called phosphonates. | | | | |
| 13% Senior Subordinated Note due 10/04/2020 | \$ 1,497,159 | 03/04/15 | \$ 1,467,337 | \$ 1,505,930 |
| Limited Liability Company Unit (B) | 230 uts. | 03/04/15 | 230,000 1,697,337 | 218,500 1,724,430 |
| Connecticut Electric, Inc. A supplier and distributor of electrical products sold into the retail and wholesale markets. | | | | |
| Limited Liability Company Unit Class A (B) | 82,613 uts. | 01/12/07 | 82,613 | 75,779 |
| Limited Liability Company Unit Class C (B) | 59,756 uts. | 01/12/07 | 59,756 | 58,740 |
| Limited Liability Company Unit Class D (B) | 671,525 uts. | 05/03/10 | — | 764,819 |
| Limited Liability Company Unit Class E (B) | 1,102 uts. | 05/03/10 | — 142,369 | — 899,338 |
| Crane Rental Corporation A crane rental company since 1960, headquartered in Florida. | | | | |
| 13% Senior Subordinated Note due 11/30/2015 | \$ 695,250 | 08/21/08 | 685,923 | 695,250 |
| Common Stock (B) | 135,000 shs. | 08/21/08 | 135,000 | 131,042 |
| Warrant, exercisable until 2016, to purchase common stock at \$.01 per share (B) | 72,037 shs. | 08/21/08 | 103,143 924,066 | 69,925 896,217 |
| CTM Holding, Inc. A leading owner and operator of coin-operated children's rides, penny presses and candy kiosks in the U.S. | | | | |
| 15% Senior Subordinated Note due 11/22/2019 | \$ 1,230,793 | 11/22/13 | 1,210,799 | 1,255,409 |
| Common Stock (B) | 31,044 shs. | 11/22/13 | 443,182 1,653,981 | 351,092 1,606,501 |
| Custom Engineered Wheels, Inc. | | | | |

Edgar Filing: BABSON CAPITAL PARTICIPATION INVESTORS - Form N-30D

A manufacturer of custom engineered, non-pneumatic plastic wheels and plastic tread cap tires used primarily for lawn and garden products and wheelchairs.

| | | | | |
|--|----------|----------|---------|---------|
| Preferred Stock PIK (B) | 156 shs. | 10/26/09 | 156,468 | 180,421 |
| Preferred Stock Series A (B) | 114 shs. | 10/27/09 | 104,374 | 131,819 |
| Common Stock (B) | 38 shs. | 10/26/09 | 38,244 | — |
| Warrant, exercisable until 2016, to purchase common stock at \$.01 per share (B) | 28 shs. | 10/27/09 | 25,735 | — |
| | | | 324,821 | 312,240 |

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 | \$ 1,355,790 | 05/04/12 | 1,337,839 | 1,369,348 |
| Preferred Stock (B) | 25 shs. | 05/04/12 | 252,434 | 299,750 |
| Common Stock (B) | 25 shs. | 05/04/12 | 28,048 | 141,682 |
| | | | 1,618,321 | 1,810,780 |

Babson Capital Participation Investors

CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

March 31, 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 | \$ 1,435,350 | \$ 1,476,340 |
| Preferred Stock (B) | 261 shs. | 12/30/14 | 261,364 | 248,292 |
| | | | 1,696,714 | 1,724,632 |
| 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 | 348,365 |
| 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 | 92,355 |
| Warrant, exercisable until 2018, to purchase common stock at \$.01 per share (B) | 119 shs. | 02/01/10 | 107,100 | 220,211 |
| | | | 157,100 | 312,566 |
| 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 | \$ 1,297,229 | 11/19/14 | 1,268,999 | 1,315,413 |
| Limited Liability Company Unit (B) | 230 uts. | 11/19/14 | 71,875 | 63,514 |
| | | | 1,340,874 | 1,378,927 |
| 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 | \$ 441,985 | 07/26/13 | 434,941 | 450,824 |
| Common Stock (B) | 1,535 shs. | 07/26/13 | 153,474 | 237,819 |
| | | | 588,415 | 688,643 |
| ERG Holding Company LLC | | | | |

Edgar Filing: BABSON CAPITAL PARTICIPATION INVESTORS - Form N-30D

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 | \$ | 944,278 | 04/04/14 | 928,071 | 945,855 |
| Common Stock (B) | | 31 shs. | 04/04/14 | 77,533 | 77,525 |
| | | | | 1,005,604 | 1,023,380 |

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 | 68,601 |
|--------------------|--|----------|----------|--------|--------|

Limited Liability Company

| | | | | | |
|----------|--|----------|----------|--------|---------|
| Unit (B) | | 171 uts. | 09/27/10 | 17,073 | 146,331 |
| | | | | 75,418 | 214,932 |

CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

March 31, 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 (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 | 117,250 |
| Limited Liability Company Unit Class B-2 (B) | 8,248 uts. | 12/15/10 | 8,248 | 14,700 |
| Limited Liability Company Unit Class B-3 (B) | 6,522 uts. | 08/30/12 | 15,000 | 13,234 |
| Limited Liability Company Unit Class C (B) | 1,575 uts. | 12/20/10 | 16,009 | 24,288 |
| | | | 105,046 | 250,031 |
| 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 | 134,128 |
| 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 | 30,638 |
| Limited Liability Company Unit Preferred (B) | 76 uts. | 10/05/12 | 75,920 | 87,765 |
| | | | 76,687 | 118,403 |
| GenNx Novel Holding, Inc. | | | | |
| A manufacturer and distributor of nutraceutical ingredients. | | | | |
| 13% Senior Subordinated Note due 03/27/2020 | \$ 1,582,025 | 03/27/14 | 1,554,416 | 1,582,024 |
| Common Stock (B) | 15,500 shs. | 03/27/14 | 155,000 | 110,834 |
| | | | 1,709,416 | 1,692,858 |
| gloProfessional Holdings, Inc. | | | | |

Edgar Filing: BABSON CAPITAL PARTICIPATION INVESTORS - Form N-30D

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 | \$ 1,178,161 | 03/27/13 | 1,161,098 | 1,178,161 |
| Common Stock (B) | 1,181 shs. | 03/27/13 | 118,110 | 172,884 |
| | | | 1,279,208 | 1,351,045 |

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 | — |

Babson Capital Participation Investors

CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

March 31, 2015

(Unaudited)

| Corporate Restricted Securities: (A) (Continued) | Principal Amount, Shares, Units or Ownership Percentage | Acquisition Date | Cost | Fair Value |
|---|--|---------------------|--------------|--------------|
| 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 | \$ 1,520,514 | \$ 1,568,855 |
| Common Stock (B) | 175 shs. | 10/31/14 | 174,831 | 179,002 |
| | | | 1,695,345 | 1,747,857 |
| 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 | 683,399 | 733,985 |
| Common Stock (B) | 846 shs. | 02/05/14 | 84,636 | 83,538 |
| Warrant, exercisable until 2024, to purchase common stock at \$.01 per share (B) | 397 shs. | 02/05/14 | 36,816 | 39,202 |
| | | | 804,851 | 856,725 |
| 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 | 1,409,581 | 1,451,307 |
| Limited Liability Company (B) | 288 uts. | 12/19/14 | 287,500 | 288,256 |
| Limited Liability Company (B) | 2,875 uts. | 12/19/14 | — | 12,649 |
| | | | 1,697,081 | 1,752,212 |
| 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 | 1,071,330 | 1,111,747 |
| Common Stock (B) | 821 shs. | 02/14/14 | 822 | 159,342 |
| Preferred Stock Series A (B) | 2,547 shs. | 02/14/14 | 254,734 | 277,795 |
| | | | 1,326,886 | 1,548,884 |
| Healthcare Direct Holding Company | | | | |
| A direct-to-customer marketer of discount dental plans. | | | | |
| Common Stock (B) | 517 shs. | 03/09/12 | 51,724 | 75,360 |

HHI Group, LLC

A developer, marketer, and distributor of hobby-grade radio control products.

| | | | | |
|---|--------------|----------|-----------|-----------|
| 14% Senior Subordinated Note due 01/17/2020 | \$ 1,560,524 | 01/17/14 | 1,534,271 | 1,573,524 |
| Limited Liability Company Unit (B) | 102 uts. | 01/17/14 | 101,563 | 69,599 |
| | | | 1,635,834 | 1,643,123 |

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 | 671,312 | 709,912 |
| Limited Liability Company Unit (B) | 234 uts. | 04/15/13 | 234,375 | 179,237 |
| Warrant, exercisable until 2020, to purchase common stock at \$.01 per share (B) | 37,177 shs. | 04/15/13 | 32,344 | 27,008 |
| | | | 938,031 | 916,157 |

CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

March 31, 2015

(Unaudited)

| Corporate Restricted Securities: (A) (Continued) | Principal Amount, Shares, Units or Ownership Percentage | Acquisition Date | Cost | Fair Value |
|--|---|------------------|-----------|------------|
| 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. | | | | |
| 12% Senior Subordinated Note due 08/19/2016 | \$ 1,098,837 | 08/19/08 | 1,076,215 | 1,098,837 |
| Common Stock (B) | 251 shs. | 08/19/08 | 251,163 | 80,488 |
| Warrant, exercisable until 2016, to purchase common stock at \$.01 per share (B) | 65 shs. | 08/19/08 | 60,233 | 20,805 |
| | | | 1,387,611 | 1,200,130 |
| 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 | \$ 1,190,423 | 09/27/12 | 1,172,944 | 1,202,327 |
| Limited Liability Company Unit Class A Common (B) | 910 uts. | 09/27/12 | 910 | 30,553 |
| Limited Liability Company Unit Class A Preferred (B) | 1,127 uts. | 09/27/12 | 112,726 | 142,206 |
| | | | 1,286,580 | 1,375,086 |
| 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 | 187,527 |
| Impact Confections | | | | |

Edgar Filing: BABSON CAPITAL PARTICIPATION INVESTORS - Form N-30D

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 | \$ | 1,067,920 | 11/10/14 | 1,047,582 | 1,082,329 |
| Common Stock (B) | | 2,300 shs. | 11/10/14 | 230,000 | 157,913 |
| | | | | 1,277,582 | 1,240,242 |

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 | 244,680 |
|------------------|--|---------|----------|-------|---------|

Babson Capital Participation Investors

CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

March 31, 2015

(Unaudited)

| Corporate Restricted Securities: (A) (Continued) | Principal Amount, Shares, Units or Ownership Percentage | Acquisition Date | Cost | Fair Value |
|---|--|---------------------|------------|------------|
| 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 | \$ 202,522 |
| Preferred Stock B (B) | 0.06 shs. | 12/20/10 | — | 74 |
| 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 | 57,920 |
| | | | 272,310 | 260,516 |
| 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 06/10/2019 | \$ 1,342,391 | 12/11/13 | 1,320,212 | 1,369,239 |
| Limited Liability Company Unit Class A (B) | 283 uts. | 12/11/13 | 139,258 | 473,448 |
| | | | 1,459,470 | 1,842,687 |
| 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 | \$ 1,087,841 | 12/05/12 | 1,071,893 | 1,030,740 |
| Limited Liability Company Unit (B) | 311,710 uts. | 12/05/12 | 224,937 | 72,633 |
| | | | 1,296,830 | 1,103,373 |
| 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 | 159,147 |
| * 12/23/11 and 06/30/14. | | | 6,522 | 159,147 |
| 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 | 57,403 |

Edgar Filing: BABSON CAPITAL PARTICIPATION INVESTORS - Form N-30D

| | | | | |
|---|-------------|----------|-------------------|-------------------|
| Warrant, exercisable until 2016, to purchase common stock at \$.01 per share (B) | 43,600 shs. | 05/25/06 | 37,871 108,924 | 35,224 92,627 |
| K P I Holdings, Inc. | | | | |
| The largest player in the U.S. non-automotive, non-ferrous die casting segment. | | | | |
| Convertible Preferred Stock Series C (B) | 29 shs. | 06/30/09 | 29,348 | 98,987 |
| Convertible Preferred Stock Series D (B) | 13 shs. | 09/17/09 | 12,958 | 42,120 |
| Common Stock (B) | 235 shs. | 07/15/08 | 234,783 | 205,326 |
| Warrant, exercisable until 2018, to purchase common stock at \$.01 per share (B) | 51 shs. | 07/16/08 | 50,836 | 44,462 |
| Warrant, exercisable until 2018, to purchase common stock at \$.01 per share (B) | 67 shs. | 09/17/09 | — 327,925 | 58,945 449,840 |

CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

March 31, 2015

(Unaudited)

| Corporate Restricted Securities: (A) (Continued) | Principal Amount, Shares, Units or Ownership Percentage | Acquisition Date | Cost | Fair Value |
|---|---|---------------------|-------------------|--------------------|
| M V I Holding, Inc. | | | | |
| A manufacturer of large precision machined metal components used in equipment which services a variety of industries, including the oil and gas, mining, and defense markets. | | | | |
| Common Stock (B) | 32 shs. | 09/12/08 | \$ 32,143 | \$ — |
| Warrant, exercisable until 2018, to purchase common stock at \$.01 per share (B) | 35 shs. | 09/12/08 | 34,714 66,857 | — — |
| Mail Communications Group, Inc. | | | | |
| A provider of mail processing and handling services, lettershop services, and commercial printing services. | | | | |
| Limited Liability Company Unit Warrant, exercisable until 2017, to purchase common stock at \$.01 per share (B) | 12,764 uts. | * | 166,481 | 272,034 |
| * 05/04/07 and 01/02/08. | 1,787 shs. | 05/04/07 | 22,781 189,262 | 38,087 310,121 |
| Manhattan Beachwear Holding Company | | | | |
| A designer and distributor of women's swimwear. | | | | |
| 12.5% Senior Subordinated Note due 01/15/2018 | \$ 419,971 | 01/15/10 | 393,820 | 419,971 |
| 15% Senior Subordinated Note due 01/15/2018 | \$ 114,537 | 10/05/10 | 113,455 | 114,537 |
| Common Stock (B) | 35 shs. | 10/05/10 | 35,400 | 41,474 |
| Common Stock Class B (B) | 118 shs. | 01/15/10 | 117,647 | 137,836 |
| Warrant, exercisable until 2019, to purchase common stock at \$.01 per share (B) | 104 shs. | 10/05/10 | 94,579 754,901 | 121,985 835,803 |
| 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 | 87,236 |

Edgar Filing: BABSON CAPITAL PARTICIPATION INVESTORS - Form N-30D

| | | | | |
|-------------------------|----------|----------|---------|---------|
| Common Unit Class A (B) | 671 uts. | 08/29/08 | 671 | 102,806 |
| Common Unit Class B (B) | 263 uts. | 08/29/08 | 63,564 | 40,330 |
| | | | 110,387 | 230,372 |

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 | 448,780 | 444,420 |
| Limited Liability Company Unit Series A | 228 uts. | 05/07/14 | 14,760 | 12,073 |
| Limited Liability Company Unit Series B (B) | 155,945 uts. | 09/22/11 | 155,945 | 165,648 |
| | | | 619,485 | 622,141 |

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 | \$ 1,087,462 | 09/30/14 | 1,066,839 | 1,102,664 |
| Common Stock Class B (B) | 219,545 shs. | 09/30/14 | 219,545 | 208,568 |
| | | | 1,286,384 | 1,311,232 |

Babson Capital Participation Investors

CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

March 31, 2015

(Unaudited)

| Corporate Restricted Securities: (A) (Continued) | Principal Amount, Shares, Units or Ownership Percentage | Acquisition Date | Cost | Fair Value |
|---|---|------------------|------------|------------|
| MicroGroup, Inc. | | | | |
| A manufacturer of precision parts and assemblies, and a value-added supplier of metal tubing and bars. | | | | |
| 7% Senior Subordinated | | | | |
| Note due 06/30/2015 (D) | \$ 902,727 | * | \$ 865,676 | \$ 816 |
| Preferred Stock Series A (B) | 519 shs. | 10/10/12 | 498,734 | — |
| Common Stock (B) | 238 shs. | * | 238,000 | — |
| Common Stock Series B (B) | 597 shs. | 10/10/12 | 6 | — |
| Warrant, exercisable until 2015, to purchase common stock at \$.02 per share (B) | 87 shs. | * | 86,281 | — |
| * 08/12/05 and 09/11/06. | | | 1,688,697 | 816 |
| 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 | \$ 1,264,828 | 11/02/12 | 1,246,530 | 1,227,058 |
| Common Stock (B) | 45 shs. | 11/02/12 | 44,643 | 13,198 |
| | | | 1,291,173 | 1,240,256 |
| 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 | \$ 978,576 | 11/30/10 | 968,944 | 978,576 |
| Limited Liability Company Unit Class B-1 (B) | 75,000 uts. | 11/30/10 | — | 79,711 |
| Limited Liability Company Unit Class B-2 (B) | 6,801 uts. | 11/30/10 | — | 7,228 |
| | | | 968,944 | 1,065,515 |
| NABCO, Inc. | | | | |
| A producer of explosive containment vessels in the United States. | | | | |

Edgar Filing: BABSON CAPITAL PARTICIPATION INVESTORS - Form N-30D

| | | | | |
|------------------|----------|----------|---------|---------|
| Common Stock (B) | 429 shs. | 12/20/12 | 306,091 | 211,706 |
|------------------|----------|----------|---------|---------|

19

CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

March 31, 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 | \$ 809,080 | \$ 810,000 |
| 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 | 230,429 |
| Limited Liability Company Unit Class D-2 of | | | | |
| Saw Mill PCG Partners LLC (B) | 68 uts. | 04/29/11 | 34,547 | 155,551 |
| Limited Liability Company Unit Class D-3 of | | | | |
| Saw Mill PCG Partners LLC (B) | 104 uts. | 12/10/14 | 103,904 | 109,926 |
| * 12/18/08 and 09/30/09. | | | 1,665,641 | 1,305,906 |
| 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 | 127,471 |
| Warrant, exercisable until 2019, to purchase common stock at \$.01 per share (B) | | | | |
| | 2,605 shs. | * | 260,479 | 190,818 |
| * 07/09/09 and 08/09/10. | | | 434,485 | 318,289 |
| O E C Holding Corporation | | | | |

Edgar Filing: BABSON CAPITAL PARTICIPATION INVESTORS - Form N-30D

A provider of elevator maintenance, repair and modernization services.

13% Senior Subordinated

| | | | | |
|------------------------------|------------|----------|---------|---------|
| Note due 08/23/2018 | \$ 444,445 | 06/04/10 | 425,307 | 444,445 |
| Preferred Stock Series A (B) | 554 shs. | 06/04/10 | 55,354 | 68,453 |
| Preferred Stock Series B (B) | 311 shs. | 06/04/10 | 31,125 | — |
| Common Stock (B) | 344 shs. | 06/04/10 | 344 | — |
| | | | 512,130 | 512,898 |

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 | 1,547,014 |
| Preferred Stock Series B (B) | 7,059 shs. | 05/22/09 | 290,050 | 50,527 |
| Common Stock (B) | 21,462 shs. | 05/22/09 | 993,816 | — |
| | | | 1,342,900 | 1,597,541 |

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 | 187,390 |
|------|--------------|----------|---------|---------|

Babson Capital Participation Investors

CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

March 31, 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 | \$ 1,043,599 | 07/31/14 | \$ 1,024,662 | \$ 1,054,416 |
| Limited Liability Company Unit | 148,096 uts. | 07/31/14 | 148,096 | 197,530 |
| | | | 1,172,758 | 1,251,946 |
| PPC Event Services | | | | |
| A special event equipment rental business. | | | | |
| 14% Senior Subordinated Note due 05/20/2020 | \$ 1,126,856 | 11/20/14 | 1,105,323 | 1,143,332 |
| Limited Liability Company Unit (B) | 3,450 uts. | 11/20/14 | 172,500 | 169,565 |
| | | | 1,277,823 | 1,312,897 |
| 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 (D) | \$ 49,908 | 01/02/14 | 217,411 | 49,908 |
| 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 | — |
| 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 | 424,216 |
| 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 | 179,387 |

*10/21/11 and 08/03/12.

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 | 107,781 |
| Common Stock (B) | 983 shs. | 03/30/12 | 9,830 | 74,042 |
| | | | 93,750 | 181,823 |

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 | 200,510 |
| Warrant, exercisable until 2023, to purchase common stock A at \$.01 per share (B) | 31 shs. | 03/15/13 | 28,316 | 81,920 |
| | | | 103,825 | 282,430 |

21

CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

March 31, 2015

(Unaudited)

| Corporate Restricted Securities: (A) (Continued) | Principal Amount, Shares, Units or Ownership Percentage | Acquisition Date | Cost | Fair Value |
|---|---|------------------|------------|------------|
| Smart Source Holdings LLC A short-term computer rental company. | | | | |
| Limited Liability Company Unit (B) | 328 uts. | * | \$ 261,262 | \$ 345,865 |
| Warrant, exercisable until 2015, to purchase common stock at \$.01 per share (B) | 83 shs. | * | 67,467 | 87,608 |
| * 08/31/07 and 03/06/08. | | | 328,729 | 433,473 |
| 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 | \$ 749,830 | 10/18/13 | 737,746 | 705,688 |
| Common Stock (B) | 841 shs. | 10/18/13 | 84,100 | 27,572 |
| | | | 821,846 | 733,260 |
| 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 | 556,139 | 605,299 |
| Warrant, exercisable until 2020, to purchase common stock at \$.01 per share (B) | 136 shs. | 12/15/09 | 120,234 | 109,082 |
| | | | 676,373 | 714,381 |
| 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 | 1,041,110 | 1,059,119 |
| Preferred Stock Series A (B) | 158,967 shs. | 12/13/13 | 158,967 | 194,761 |
| | | | 1,200,077 | 1,253,880 |
| Sundance Investco LLC A provider of post-production services to producers of movies and television shows. | | | | |

Edgar Filing: BABSON CAPITAL PARTICIPATION INVESTORS - Form N-30D

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 \$ 1,049,142 12/14/10 1,020,077 1,057,110

14% Senior Subordinated

PIK Note due 12/14/2017 \$ 102,810 08/17/12 100,684 102,810

Common Stock (B)

38 shs. 12/14/10 38,168 36,095

Warrant, exercisable until
2020, to purchase

common stock at \$.01 per

share (B) 37 shs. 12/14/10 37,249 35,225
1,196,178 1,231,240

Babson Capital Participation Investors

CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

March 31, 2015

(Unaudited)

| Corporate Restricted Securities: (A) (Continued) | Principal Amount, Shares, Units or Ownership Percentage | Acquisition Date | Cost | Fair Value |
|--|--|---------------------|---------------------|----------------|
| Synteract Holdings Corporation | | | | |
| A provider of outsourced clinical trial management services to pharmaceutical and biotechnology companies. | | | | |
| 14% Senior Subordinated Note due 02/26/2019 | \$ 2,174,616 | 09/02/08 | \$ 2,122,784 | \$ 2,174,615 |
| 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 2,214,753 | — 2,174,615 |
| 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. | | | | |
| 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 | 14,039 |
| Warrant, exercisable until 2023, to purchase common stock at \$.01 per share (B) | 28,079 shs. | 12/05/13 | — 219,203 | — 1,023,184 |
| 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 | — — |
| 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. | | | | |

Edgar Filing: BABSON CAPITAL PARTICIPATION INVESTORS - Form N-30D

| | | | | |
|--|--------------|----------|-----------|-----------|
| 14% Senior Subordinated Note due 07/05/2019 Limited Liability Company Unit Class A (B) | \$ 1,529,337 | 07/05/13 | 1,505,948 | 1,544,630 |
| | 147,727 shs. | 07/05/13 | 147,727 | 178,241 |
| | | | 1,653,675 | 1,722,871 |
| Tristar Global Energy Solutions, Inc. A hydrocarbon and decontamination services provider serving refineries worldwide. | | | | |
| 12.5% Senior Subordinated Note due 07/31/2020 | \$ 1,113,822 | 01/23/15 | 1,091,583 | 1,111,678 |

CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

March 31, 2015

(Unaudited)

| Corporate Restricted Securities: (A) (Continued) | Principal Amount, Shares, Units or Ownership Percentage | Acquisition Date | Cost | Fair Value |
|---|---|------------------|------------|------------|
| 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 | \$ 504,735 |
| Common Stock (B) | 393 shs. | * | 423,985 | 121,176 |
| Warrant, exercisable until 2017, to purchase common stock at \$.02 per share (B) | 81 shs. | * | 84,650 | 25,025 |
| Warrant, exercisable until 2018, to purchase common stock at \$.01 per share (B) | 558 shs. | 10/20/08 | — | 172,099 |
| * 07/19/05 and 12/22/05. | | | 636,312 | 823,035 |
| TruStile Doors, Inc. | | | | |
| A manufacturer and distributor of interior doors. | | | | |
| Limited Liability Company Unit (B) | 5,888 uts. | 02/28/11 | 78,125 | 373,764 |
| 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 | 331,785 |
| 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 | — |
| * 07/19/04 and 10/29/09. | | | 923,711 | 331,785 |
| VP Holding Company | | | | |
| A provider of school transportation services for special-needs and homeless children in Massachusetts. | | | | |
| 13% Senior Subordinated Note due 03/31/2021 | \$ 504,354 | 03/31/14 | 495,534 | 519,485 |
| Common Stock (B) | 3,632 shs. | 03/31/14 | 363,158 | 410,884 |
| | | | 858,692 | 930,369 |

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 | — |
|--|--|--|--|-----------|---|

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 | 109,020 |
|------------------------------|--|----------|----------|--------|---------|

| | | | | | |
|------------------|--|----------|----------|-----|--------|
| Common Stock (B) | | 353 shs. | 06/08/10 | 353 | 83,647 |
|------------------|--|----------|----------|-----|--------|

| | | | | | |
|--|--|--|--|--------|---------|
| | | | | 70,661 | 192,667 |
|--|--|--|--|--------|---------|

Babson Capital Participation Investors

CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

March 31, 2015

(Unaudited)

| Corporate Restricted Securities: (A) (Continued) | Principal Amount, Shares, Units or Ownership Percentage | Acquisition Date | Cost | Fair Value |
|--|--|---------------------|----------------------|----------------------|
| Whitcraft Holdings, Inc. | | | | |
| A leading independent manufacturer of precision formed, machined, and fabricated flight-critical aerospace components. | | | | |
| 12% Senior Subordinated Note due 12/16/2018 | \$ 794,521 | 12/16/10 | \$ 755,974 | \$ 794,521 |
| Common Stock (B) | 205 shs. | 12/16/10 | 205,480 | 105,697 |
| Warrant, exercisable until 2018, to purchase common stock at \$.01 per share (B) | 55 shs. | 12/16/10 | 49,334 | 28,405 |
| | | | 1,010,788 | 928,623 |
| W P S u p p l y H o l d i n g 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 | \$ 925,425 | 11/03/11 | 914,563 | 930,115 |
| Common Stock | 1,500 shs. | 11/03/11 | 150,000 | 167,490 |
| | | | 1,064,563 | 1,097,605 |
| 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 | \$ 1,543,170 | 03/04/15 | 1,512,606 | 1,552,800 |
| Common Stock (B) | 1,835 shs. | 03/04/15 | 183,500 | 174,325 |
| | | | 1,696,106 | 1,727,125 |
| Total Private Placement Investments (E) | | | \$ 87,663,033 | \$ 88,118,442 |

25

CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

March 31, 2015

(Unaudited)

| Corporate Restricted Securities: (A) (Continued) | Interest Rate | Due Date | Principal Amount | Cost | Market Value |
|---|------------------|-------------|---------------------|------------|-----------------|
| Rule 144A Securities - 15.85%: | | | | | |
| Bonds - 15.85% | | | | | |
| Acadia Healthcare Company Inc. | 5.625 | % 02/15/23 | \$ 317,000 | \$ 317,000 | \$ 322,548 |
| Alliant Techsystems Inc. | 5.250 | 10/01/21 | 500,000 | 500,000 | 507,500 |
| Amsted Industries | 5.375 | 09/15/24 | 240,000 | 240,000 | 240,000 |
| ArcelorMittal | 6.125 | 06/01/18 | 500,000 | 508,867 | 537,250 |
| Audatex North America, Inc. | 6.125 | 11/01/23 | 210,000 | 219,142 | 222,075 |
| Belden Inc. | 5.250 | 07/15/24 | 210,000 | 210,000 | 211,575 |
| California Resources Corporation | 6.000 | 11/15/24 | 480,000 | 480,000 | 421,200 |
| CITGO Petroleum Corporation | 6.250 | 08/15/22 | 425,000 | 425,000 | 412,250 |
| Consolidated Energy Finance S.A. | 6.750 | 10/15/19 | 447,000 | 442,534 | 450,353 |
| Cornerstone Chemical Company | 9.375 | 03/15/18 | 375,000 | 381,637 | 388,125 |
| CTP Transportation Products, LLC | 8.250 | 12/15/19 | 310,000 | 310,000 | 319,300 |
| Dean Foods | 6.500 | 03/15/23 | 329,000 | 329,000 | 330,645 |
| Endo Finance LLC | 5.375 | 01/31/23 | 500,000 | 490,602 | 498,750 |
| Family Tree Escrow, LLC | 5.750 | 03/01/23 | 156,000 | 156,000 | 164,190 |
| First Data Corporation | 7.375 | 06/15/19 | 250,000 | 250,000 | 261,250 |
| Forest Laboratories, Inc. | 5.000 | 12/15/21 | 370,000 | 370,000 | 411,423 |
| Forest Laboratories, Inc. | 4.875 | 02/15/21 | 500,000 | 500,000 | 551,227 |
| Harron Communications, L.P. | 9.125 | 04/01/20 | 250,000 | 271,457 | 273,750 |
| HD Supply, Inc. | 5.250 | 12/15/21 | 127,000 | 127,000 | 130,810 |
| Hilcorp Energy Company | 5.000 | 12/01/24 | 335,000 | 335,000 | 314,900 |
| H.J. Heinz Company | 4.875 | 02/15/25 | 500,000 | 500,000 | 541,875 |
| Huntington Ingalls Industries | 5.000 | 12/15/21 | 500,000 | 500,000 | 521,250 |
| International Wire Group | 8.500 | 10/15/17 | 500,000 | 523,083 | 517,500 |
| J.B. Poindexter Co., Inc. | 9.000 | 04/01/22 | 500,000 | 500,000 | 542,500 |
| JBS USA Holdings, Inc. | 7.750 | 10/28/20 | 375,000 | 392,572 | 396,563 |
| Jupiter Resources Inc. | 8.500 | 10/01/22 | 500,000 | 475,531 | 410,000 |
| Kenan Advantage Group, Inc. | 8.375 | 12/15/18 | 500,000 | 515,303 | 520,000 |
| Kindred Escrow Corp. II | 8.750 | 01/15/23 | 500,000 | 500,000 | 547,500 |
| LBC Tank Terminals Holding | | | | | |
| Netherlands B.V. | 6.875 | 05/15/23 | 663,000 | 681,962 | 677,917 |
| Mallinckrodt PLC | 5.750 | 08/01/22 | 500,000 | 500,000 | 516,250 |
| MEG Energy Corporation | 6.375 | 01/30/23 | 500,000 | 500,000 | 460,000 |
| MEG Energy Corporation | 7.000 | 03/31/24 | 500,000 | 500,000 | 471,250 |
| Micron Technology, Inc. | 5.250 | 08/01/23 | 494,000 | 494,000 | 502,645 |
| Moog Inc. | 5.250 | 12/01/22 | 246,000 | 246,000 | 253,380 |
| Netflix, Inc. | 5.500 | 02/15/22 | 299,000 | 299,000 | 305,728 |
| Nielsen Finance LLC | 5.000 | 04/15/22 | 271,000 | 273,009 | 272,694 |

Babson Capital Participation Investors

CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

March 31, 2015

(Unaudited)

| Corporate Restricted Securities: (A) (Continued) | Interest Rate | Due Date | Shares or Principal Amount | Cost | Market Value |
|---|------------------|-------------|----------------------------------|----------------|-----------------|
| Numericable Group SA | 4.875 | % 05/15/19 | \$ 240,000 | \$ 240,000 | \$ 238,800 |
| NXP BV/NXP Funding LLC | 3.750 | 06/01/18 | 750,000 | 750,000 | 765,000 |
| OpenText Corporation | 5.625 | 01/15/23 | 382,000 | 382,000 | 396,325 |
| Paperworks Industries, Inc. | 9.500 | 08/15/19 | 500,000 | 510,642 | 512,500 |
| Paragon Offshore plc. | 6.750 | 07/15/22 | 500,000 | 161,455 | 165,000 |
| Penske Corporation | 4.875 | 07/11/22 | 500,000 | 498,309 | 540,927 |
| Prestige Brands Holdings, Inc. | 5.375 | 12/15/21 | 650,000 | 650,000 | 658,125 |
| Safeway Group Holding LLC/Finance Corporation | 7.000 | 05/15/18 | 250,000 | 250,000 | 247,500 |
| Sirius XM Radio Inc. | 5.875 | 10/01/20 | 445,000 | 445,000 | 463,913 |
| Sunoco LP | 6.375 | 04/01/23 | 500,000 | 500,000 | 515,000 |
| Topaz Marine S.A. | 8.625 | 11/01/18 | 500,000 | 500,000 | 440,020 |
| Townsquare Radio, LLC | 9.000 | 04/01/19 | 500,000 | 534,888 | 532,930 |
| Unitymedia KabelBW GmbH | 6.125 | 01/15/25 | 500,000 | 500,000 | 528,750 |
| Univision Communications | 5.125 | 05/15/23 | 160,000 | 160,000 | 162,400 |
| UPCB Finance IV Limited | 5.375 | 01/15/25 | 208,000 | 208,000 | 208,000 |
| Valeant Pharmaceuticals International | 7.000 | 10/01/20 | 250,000 | 250,609 | 260,938 |
| VRX Escrow Corp. | 6.125 | 04/15/25 | 382,000 | 382,000 | 395,370 |
| Welltec A/S | 8.000 | 02/01/19 | 375,000 | 370,180 | 352,500 |
| West Corporation | 5.375 | 07/15/22 | 500,000 | 490,682 | 488,750 |
| XPO Logistics, Inc. | 7.875 | 09/01/19 | 451,000 | 464,200 | 477,495 |
| Total Bonds | | | | 22,511,664 | 22,776,416 |
| Convertible Preferred Stock - 0.00% | | | | | |
| ETEX Corporation (B) | | | 194 | — | — |
| Total Convertible Preferred Stock | | | | — | — |
| Preferred Stock - 0.00% | | | | | |
| TherOX, Inc. (B) | | | 26 | — | — |
| Total Preferred Stock | | | | — | — |
| Common Stock - 0.00% | | | | | |
| Touchstone Health Partnership (B) | | | 292 | — | — |
| Total Common Stock | | | | — | — |
| Total Rule 144A Securities | | | | 22,511,664 | 22,776,416 |
| | | | | \$ 110,174,697 | \$ 110,894,858 |

Total Corporate Restricted
Securities

27

CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

March 31, 2015

(Unaudited)

| Corporate Public Securities -28.05%: (A) | Interest Rate | Due Date | Principal Amount | Cost | Market Value |
|---|------------------|-------------|---------------------|--------------|-----------------|
| Bank Loans - 0.12% | | | | | |
| Aquilex Holdings LLC | 5.000 | % 12/31/20 | 169,262 | 168,911 | 167,147 |
| Total Bank Loans | | | | \$ 168,911 | \$ 167,147 |
| Bonds - 27.93% | | | | | |
| AAAR Corporation | 7.250 | % 01/15/22 | \$ 1,000,000 | \$ 1,051,056 | \$ 1,135,000 |
| Access Midstream Partners, L.P. | 4.875 | 03/15/24 | 500,000 | 500,000 | 502,500 |
| Accuride Corp | 9.500 | 08/01/18 | 500,000 | 488,187 | 521,250 |
| ADT Corporation | 6.250 | 10/15/21 | 500,000 | 516,198 | 532,500 |
| Alcoa, Inc. | 6.150 | 08/15/20 | 600,000 | 622,165 | 676,986 |
| Ally Financial, Inc. | 5.500 | 02/15/17 | 750,000 | 757,286 | 780,000 |
| Alta Mesa Financial Services | 9.625 | 10/15/18 | 383,000 | 372,324 | 291,080 |
| American Axle & Manufacturing, Inc. | 5.125 | 02/15/19 | 120,000 | 120,000 | 123,600 |
| Anglogold Holdings PLC | 5.375 | 04/15/20 | 600,000 | 603,846 | 593,456 |
| Anixter, Inc. | 5.125 | 10/01/21 | 165,000 | 165,000 | 169,538 |
| Antero Resources Corporation | 5.375 | 11/01/21 | 395,000 | 395,000 | 383,150 |
| Avis Budget Car Rental | 9.750 | 03/15/20 | 375,000 | 375,000 | 408,525 |
| B&G Foods, Inc. | 4.625 | 06/01/21 | 440,000 | 440,000 | 439,450 |
| Bank of America Corporation | 4.000 | 04/01/24 | 500,000 | 498,281 | 531,858 |
| Bonanza Creek Energy, Inc. | 5.750 | 02/01/23 | 500,000 | 500,000 | 460,000 |
| Brunswick Corporation | 7.125 | 08/01/27 | 500,000 | 504,443 | 535,000 |
| Calpine Corporation | 5.750 | 01/15/25 | 340,000 | 340,000 | 342,550 |
| Calumet Specialty Products Partners L.P. | 7.625 | 01/15/22 | 500,000 | 501,345 | 505,000 |
| CCO Holdings Capital Corporation | 5.250 | 09/30/22 | 500,000 | 496,013 | 511,250 |
| CCO Holdings Capital Corporation | 5.750 | 01/15/24 | 500,000 | 484,067 | 519,375 |
| CHC Helicopter SA | 9.250 | 10/15/20 | 900,000 | 848,382 | 760,500 |
| Chrysler Group, LLC | 8.000 | 06/15/19 | 210,000 | 224,057 | 220,238 |
| Chrysler Group, LLC | 8.250 | 06/15/21 | 210,000 | 229,236 | 232,913 |
| Cimarex Energy Co. | 5.875 | 05/01/22 | 500,000 | 533,141 | 532,500 |
| CIT Group, Inc. | 5.000 | 08/15/22 | 500,000 | 500,000 | 513,125 |
| CIT Group, Inc. | 3.875 | 02/19/19 | 500,000 | 500,000 | 495,000 |
| Clearwater Paper Corporation | 4.500 | 02/01/23 | 500,000 | 495,837 | 492,500 |
| Commercial Metals Company | 4.875 | 05/15/23 | 750,000 | 751,337 | 708,750 |
| Continental Resources, Inc. | 5.000 | 09/15/22 | 500,000 | 509,282 | 493,125 |
| CVR Refining LLC | 6.500 | 11/01/22 | 350,000 | 339,343 | 350,000 |
| Dana Holding Corporation | 5.500 | 12/15/24 | 265,000 | 265,000 | 272,950 |
| DaVita, Inc. | 5.750 | 08/15/22 | 500,000 | 500,000 | 531,250 |
| D.R. Horton, Inc. | 4.000 | 02/15/20 | 500,000 | 500,000 | 507,000 |
| Duke Realty Limited Partnership | 3.875 | 10/15/22 | 500,000 | 504,724 | 522,449 |

Babson Capital Participation Investors

CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

March 31, 2015

(Unaudited)

| Corporate Public Securities: (A) (Continued) | Interest Rate | Due Date | Principal Amount | Cost | Market Value |
|---|------------------|-------------|---------------------|------------|-----------------|
| Forum Energy Technologies | 6.250 | % 10/01/21 | \$ 160,000 | \$ 160,000 | \$ 150,000 |
| Frontier Communications Corporation | 6.875 | 01/15/25 | 500,000 | 491,148 | 495,000 |
| General Electric Capital Corporation | 5.500 | 01/08/20 | 500,000 | 498,913 | 578,951 |
| HCA Holdings, Inc. | 3.750 | 03/15/19 | 500,000 | 500,000 | 506,720 |
| Headwaters, Inc. | 7.625 | 04/01/19 | 305,000 | 305,093 | 317,719 |
| HealthSouth Corporation | 7.750 | 09/15/22 | 365,000 | 365,678 | 385,531 |
| Hertz Corporation | 6.750 | 04/15/19 | 220,000 | 217,886 | 227,150 |
| Hilton Worldwide Holdings, Inc. | 5.625 | 10/15/21 | 750,000 | 750,000 | 789,375 |
| Hornbeck Offshore Services, Inc. | 5.000 | 03/01/21 | 500,000 | 500,000 | 397,500 |
| Icahn Enterprises L.P. | 4.875 | 03/15/19 | 475,000 | 475,000 | 483,906 |
| Icahn Enterprises L.P. | 6.000 | 08/01/20 | 600,000 | 610,104 | 623,280 |
| International Game Technology | 7.500 | 06/15/19 | 500,000 | 499,855 | 533,428 |
| Jabil Circuit, Inc. | 4.700 | 09/15/22 | 500,000 | 499,975 | 517,500 |
| Johnson Controls, Inc. | 5.500 | 01/15/16 | 500,000 | 484,963 | 518,250 |
| Kraft Foods, Inc. | 5.375 | 02/10/20 | 500,000 | 509,566 | 572,942 |
| Laboratory Corporation of America Holdings | 3.600 | 02/01/25 | 500,000 | 499,229 | 502,041 |
| Lamar Media Corp. | 5.375 | 01/15/24 | 160,000 | 160,000 | 166,800 |
| Lazard Group LLC | 4.250 | 11/14/20 | 500,000 | 498,641 | 534,364 |
| Lear Corporation | 4.750 | 01/15/23 | 375,000 | 368,732 | 376,875 |
| Lennar Corporation | 4.500 | 11/15/19 | 250,000 | 250,602 | 256,875 |
| Lennar Corporation | 4.750 | 11/15/22 | 375,000 | 370,137 | 381,563 |
| Lifepoint Hospitals, Inc. | 5.500 | 12/01/21 | 350,000 | 359,437 | 366,625 |
| MarkWest Energy Partners, L.P. | 4.875 | 12/01/24 | 500,000 | 500,000 | 511,200 |
| Masco Corporation | 7.125 | 03/15/20 | 350,000 | 349,999 | 410,375 |
| MasTec, Inc. | 4.875 | 03/15/23 | 500,000 | 490,960 | 467,500 |
| Meritor, Inc. | 6.750 | 06/15/21 | 1,000,000 | 1,000,000 | 1,035,000 |
| Morgan Stanley | 5.500 | 01/26/20 | 500,000 | 498,507 | 568,246 |
| NBC Universal Media LLC | 5.150 | 04/30/20 | 500,000 | 499,573 | 573,847 |
| NRG Energy, Inc. | 6.250 | 07/15/22 | 500,000 | 500,000 | 513,750 |
| Omnova Solutions, Inc. | 7.875 | 11/01/18 | 600,000 | 607,420 | 609,000 |
| Perry Ellis International, Inc. | 7.875 | 04/01/19 | 375,000 | 372,514 | 387,188 |
| Precision Drilling Corporation | 6.625 | 11/15/20 | 250,000 | 255,685 | 235,625 |
| Qwest Diagnostic, Inc. | 4.750 | 01/30/20 | 500,000 | 499,273 | 548,039 |
| Regency Energy Partners LP | 5.875 | 03/01/22 | 425,000 | 418,768 | 461,125 |
| Rosetta Resources Inc. | 5.875 | 06/01/22 | 500,000 | 500,000 | 471,250 |
| R.R. Donnelley & Sons Company | 6.000 | 04/01/24 | 500,000 | 500,000 | 516,250 |
| Sprint Corporation | 7.125 | 06/15/24 | 155,000 | 155,000 | 151,125 |
| Sprint Nextel Corporation | 6.000 | 12/01/16 | 500,000 | 505,205 | 522,000 |
| Steelcase, Inc. | 6.375 | 02/15/21 | 500,000 | 505,756 | 573,593 |

29

CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

March 31, 2015

(Unaudited)

| Corporate Public Securities (A) (Continued) | Interest Rate | Due Date | Principal Amount | Cost | Market Value |
|--|------------------|-------------|---------------------|---------------|-----------------|
| Stone Energy Corporation | 7.500 | % 11/15/22 | \$ 500,000 | \$ 513,296 | \$ 452,500 |
| Suburban Propane Partners, L.P. | 5.750 | 03/01/25 | 500,000 | 500,000 | 510,000 |
| Tech Data Corporation | 3.750 | 09/21/17 | 500,000 | 503,855 | 515,193 |
| Time Warner Cable, Inc. | 5.000 | 02/01/20 | 500,000 | 494,394 | 557,979 |
| T-Mobile USA Inc. | 6.464 | 04/28/19 | 340,000 | 343,457 | 350,625 |
| T-Mobile USA Inc. | 6.731 | 04/28/22 | 210,000 | 207,359 | 221,025 |
| Tronox Finance LLC | 6.375 | 08/15/20 | 375,000 | 367,724 | 366,563 |
| Tyson Foods, Inc. | 4.500 | 06/15/22 | 500,000 | 512,838 | 551,651 |
| Weatherford International | 4.500 | 04/15/22 | 500,000 | 516,701 | 456,994 |
| William Lyon Homes | 7.000 | 08/15/22 | 500,000 | 500,000 | 515,625 |
| WPX Energy, Inc. | 5.250 | 09/15/24 | 425,000 | 425,000 | 373,788 |
| Xerium Technologies, Inc. | 8.875 | 06/15/18 | 416,000 | 431,048 | 429,520 |
| Total Bonds | | | | \$ 39,279,841 | \$ 40,133,339 |

30

Babson Capital Participation Investors

CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

March 31, 2015

(Unaudited)

| | | | | Market |
|-----------------------------------|----------------------------------|----------|------------------|----------------|
| Corporate Public Securities (A) | | Shares | Cost | Value |
| (Continued) | | | | |
| Common Stock - 0.00% | | | | |
| Nortek, Inc. (B) | | 100 | \$ 1 | \$ 8,825 |
| Total Common Stock | | | 1 | 8,825 |
| Total Corporate Public Securities | | | \$ 39,448,753 | \$ 40,309,311 |
| | | | | |
| Short-Term Securities: | Interest Rate/Yield [^] | Due Date | Principal Amount | Market Value |
| Commercial Paper - 1.39% | | | | |
| Pentair Finance | 0.590 % | 4/6/15 | \$ 2,000,000 | \$ 1,999,839 |
| Total Short-Term Securities | | | | \$ 1,999,839 |
| Total Investments | | | \$ 151,623,289 | \$ 153,204,008 |
| | | | | |
| Other Assets | 5.31 | | | 7,623,839 |
| Liabilities | (11.92) | | | (17,123,519) |
| Total Net Assets | 100.00 % | | | \$ 143,704,328 |

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

(B) Non-income producing security.

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

(D) Defaulted security; interest not accrued.

(E)

Illiquid security. As of March 31, 2015, the values of these securities amounted to \$88,118,442 or 61.32% of net assets.

^ Effective yield at purchase

PIKPayment-in-kind

-

31

CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

March 31, 2015

(Unaudited)

| Industry Classification: | Fair Value/ Market Value | | Fair Value/ Market Value |
|--|-----------------------------|---|-----------------------------|
| | | Spartan Foods Holding Company | \$ 714,381 |
| AEROSPACE - 2.40% | | Tyson Foods, Inc. | 551,651 |
| AAR Corporation | \$ 1,135,000 | | 10,067,144 |
| Alliant Techsystems Inc. | 507,500 | BROADCASTING & ENTERTAINMENT - 2.74% | |
| Merex Holding Corporation | 622,141 | HOP Entertainment LLC | — |
| Moog Inc. | 253,380 | Lamar Media Corporation | 166,800 |
| Whitcraft Holdings, Inc. | 928,623 | Money Mailer | 1,332,865 |
| | 3,446,644 | NBC Universal Media LLC | 573,847 |
| AUTOMOBILE - 7.05% | | Numericable Group SA | 238,800 |
| Accuride Corp | 521,250 | Time Warner Cable, Inc. | 557,979 |
| American Axle & Manufacturing, Inc. | 123,600 | Sundance Investco LLC | — |
| Avis Budget Car Rental | 408,525 | Townsquare Radio, LLC | 532,930 |
| CG Holdings Manufacturing Company | 1,719,160 | Unitymedia KabelBW GmbH | 528,750 |
| Chrysler Group, LLC | 453,151 | | 3,931,971 |
| Dana Holding Corporation | 272,950 | BUILDINGS & REAL ESTATE - 3.42% | |
| | | ACP Cascade Holdings LLC | — |
| DPL Holding Corporation | 1,810,780 | D.R. Horton, Inc. | 507,000 |
| Grakon Parent | 1,747,857 | Duke Realty Limited Partnership | 522,449 |
| Ideal Tridon Holdings, Inc. | 187,527 | Lennar Corporation | 638,438 |
| | | Masco Corporation | 410,375 |
| J A C Holding Enterprises, Inc. | 260,516 | MasTec, Inc. | 467,500 |
| Johnson Controls, Inc. | 518,250 | Safway Group Holding LLC/Finance Corporation | 247,500 |
| K & N Parent, Inc. | 159,147 | Sunrise Windows Holding Company | 1,231,240 |
| Lear Corporation | 376,875 | TruStile Doors, Inc. | 373,764 |
| | | William Lyon Homes | 515,625 |
| Meritor, Inc. | 1,035,000 | | 4,913,891 |
| | | CHEMICAL, PLASTICS & RUBBER - 3.02% | |
| Penske Corporation | 540,927 | Compass Chemical International LLC | 1,724,430 |
| | 10,135,515 | Cornerstone Chemical Company | 388,125 |
| BEVERAGE, DRUG & FOOD - 7.00% | | Omnova Solutions, Inc. | 609,000 |
| 1492 Acquisition LLC | 755,536 | Polytex Holdings LLC | 1,251,946 |
| | | | |
| B&G Foods, Inc. | 439,450 | | |
| | | | |
| Dean Foods | 330,645 | | |
| | | | |
| Eatem Holding Company | 312,566 | | |
| H.J. Heinz Company | 541,875 | | |
| JBS USA Holdings, Inc. | 396,563 | | |

Edgar Filing: BABSON CAPITAL PARTICIPATION INVESTORS - Form N-30D

| | | | |
|-----------------------------------|-----------|----------------------------------|-----------|
| F F C Holding Corporation | 214,932 | Tronox Finance LLC | 366,563 |
| Gennx Novel Holding, Inc. | 1,692,858 | | 4,340,064 |
| Golden County Foods Holding, Inc. | — | CONSUMER PRODUCTS - 12.33% | |
| Hospitality Mints Holding Company | 1,200,130 | AMS Holding LLC | 344,334 |
| Impact Confections | 1,240,242 | Animal Supply Company | 1,698,894 |
| JMH Investors LLC | 1,103,373 | Bravo Sports Holding Corporation | 1,207,902 |
| Kraft Foods, Inc. | 572,942 | Clearwater Paper Corporation | 492,500 |
| | | Custom Engineered Wheels, Inc. | 312,240 |

See Notes to Consolidated Financial Statements

CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

March 31, 2015

(Unaudited)

| Industry Classification: (Continued) | Fair Value/ Market Value | | Fair Value/ Market Value |
|--|-----------------------------|--|-----------------------------|
| gloProfessional Holdings, Inc. | \$ 1,351,045 | Hi-Rel Group LLC | \$ 916,157 |
| GTI Holding Company | 856,725 | Janus Group Holdings LLC | 1,842,687 |
| Handi Quilter Holding Company | 1,752,212 | J.B. Poindexter Co., Inc. | 542,500 |
| HHI Group, LLC | 1,643,123 | K P I Holdings, Inc. | 449,840 |
| K N B Holdings Corporation | 92,627 | Nortek, Inc. | 8,825 |
| Manhattan Beachwear Holding Company | 835,803 | O E C Holding Corporation | 512,898 |
| Micron Technology, Inc. | 502,645 | Strahman Holdings Inc | 1,253,880 |
| NXP BV/NXP Funding LLC | 765,000 | Truck Bodies & Equipment International | 823,035 |
| Perry Ellis International, Inc. | 387,188 | | 12,100,191 |
| Prestige Brands Holdings, Inc. | — | DIVERSIFIED/CONGLOMERATE, SERVICE - 9.98% | |
| R A J Manufacturing Holdings LLC | 424,216 | ADT Corporation | 532,500 |
| R.R. Donnelley & Sons Company | 516,250 | AFC - Dell Holding Corporation | 1,287,660 |
| Tranzonic Holdings LLC | 1,722,871 | A S C Group, Inc. | 1,518,156 |
| Xerium Technologies, Inc. | 429,520 | A W X Holdings Corporation | 210,000 |
| York Wall Holding Company | 1,727,125 | Advanced Technologies Holdings | 547,166 |
| | 17,062,220 | | |
| CONTAINERS, PACKAGING & GLASS - 1.10% | | Anglogold Holdings PLC | 593,456 |
| Paperworks Industries, Inc. | 512,500 | Bank of America Corporation | 531,858 |
| SMB Machinery Holdings, Inc. | 733,260 | Church Services Holding Company | 550,146 |
| Vitex Packaging Group, Inc. | 331,785 | Clough, Harbour and Associates | 386,035 |
| | 1,577,545 | Crane Rental Corporation | 896,217 |
| DISTRIBUTION - 3.49% | | EPM Holding Company | 688,643 |
| ARI Holding Corporation | 2,224,601 | Hilton Worldwide Holdings, Inc. | 789,375 |
| Blue Wave Products, Inc. | 792,670 | HVAC Holdings, Inc. | 1,375,086 |
| BP SCI LLC | 481,529 | Insurance Claims Management, Inc. | 244,680 |
| HD Supply, Inc. | 130,810 | Mail Communications Group, Inc. | 310,121 |
| Signature Systems Holding Company | 282,430 | Northwest Mailing Services, Inc. | 318,289 |
| WP Supply Holding Corporation | 1,097,605 | Pearlman Enterprises, Inc. | 1,597,541 |
| | 5,009,645 | PPC Event Services | 1,312,897 |
| DIVERSIFIED/CONGLOMERATE, MANUFACTURING - 8.42% | | Safety Infrastructure Solutions | 181,823 |
| Advanced Manufacturing Enterprises LLC | 1,346,944 | Sirius XM Radio Inc. | 463,913 |
| Amsted Industries | 240,000 | | 14,335,562 |
| Arrow Tru-Line Holdings, Inc. | 186,450 | ELECTRONICS - 1.97% | |
| CTP Transportation Products, LLC | 319,300 | Anixter, Inc. | 169,538 |
| Dunn Paper | 1,724,632 | Belden Inc. | 211,575 |
| | | Connecticut Electric, Inc. | 899,338 |

Edgar Filing: BABSON CAPITAL PARTICIPATION INVESTORS - Form N-30D

| | | | |
|---------------------------------------|-----------|--------------------------|-----------|
| F G I Equity LLC | 250,031 | International Wire Group | 517,500 |
| G C Holdings | 134,128 | Jabil Circuit, Inc. | 517,500 |
| Hartland Controls Holding Corporation | 1,548,884 | Tech Data Corporation | 515,193 |
| | | | 2,830,644 |

See Notes to Consolidated Financial Statements

33

CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

March 31, 2015

(Unaudited)

| Industry Classification: (Continued) | Fair Value/ Market Value | | Fair Value/ Market Value |
|--|-----------------------------|---|-----------------------------|
| FINANCIAL SERVICES - 6.07% | | HOME & OFFICE FURNISHINGS, HOUSEWARES, AND DURABLE CONSUMER PRODUCTS - 1.62% | |
| Ally Financial, Inc. | \$ 780,000 | Airxcel Holdings | \$ 1,755,588 |
| Alta Mesa Financial Services | 291,080 | Steelcase, Inc. | 573,593 |
| CIT Group, Inc. | 1,008,125 | Transpac Holding Company | — |
| Consolidated Energy Finance S.A. | 450,353 | Wellborn Forest Holding Company | — |
| General Electric Capital Corporation | 578,951 | | 2,329,181 |
| Harron Communications, L.P. | 273,750 | LEISURE, AMUSEMENT, ENTERTAINMENT - 1.86% | |
| Icahn Enterprises L.P. | 1,107,186 | Brunswick Corporation | 535,000 |
| Lazard Group LLC | 534,364 | CTM Holding, Inc. | 1,606,501 |
| LBC Tank Terminals Holding Netherlands B.V. | 677,917 | International Game Technology | 533,428 |
| Morgan Stanley | 568,246 | | 2,674,929 |
| Nielsen Finance LLC | 272,694 | MACHINERY - 3.22% | |
| Pentair Finance | 1,999,839 | ABC Industries, Inc. | 497,245 |
| REVSpring, Inc. | 179,387 | | |
| | 8,721,892 | Arch Global Precision LLC | 1,059,013 |
| HEALTHCARE, EDUCATION & CHILDCARE - 7.69% | | E S P Holdco, Inc. | 348,365 |
| Acadia Healthcare Company Inc. | 322,548 | Motion Controls Holdings | 1,065,515 |
| American Hospice Management Holding LLC | 1,319,546 | M V I Holding, Inc. | — |
| CHG Alternative Education Holding Company | 1,055,579 | NetShape Technologies, Inc. | 1,305,906 |
| DaVita, Inc. | 531,250 | Welltec A/S | 352,500 |
| GD Dental Services LLC | 118,403 | | 4,628,544 |
| | | MEDICAL DEVICES/BIOTECH - 0.52% | |
| ECG Consulting Group | 1,378,927 | ETEX Corporation | — |
| ERG Holding Company LLC | 1,023,380 | Mallinckrodt PLC | 516,250 |
| HCA Holdings, Inc. | 506,720 | MedSystems Holdings LLC | 230,372 |
| Healthcare Direct Holding Company | 75,360 | MicroGroup, Inc. | 816 |
| HealthSouth Corporation | 385,531 | TherOX, Inc. | — |
| Kindred Escrow Corp. II | 547,500 | | |
| Laboratory Corporation of America Holdings | 502,041 | | 747,438 |
| Lifepoint Hospitals, Inc. | 366,625 | | |

Edgar Filing: BABSON CAPITAL PARTICIPATION INVESTORS - Form N-30D

| | | | |
|-------------------------------|------------|---|-----------|
| | | MINING, STEEL, IRON & NON-PRECIOUS METALS - 0.96% | |
| Qwest Diagnostic, Inc. | 548,039 | | |
| Syneract Holdings Corporation | 2,174,615 | Alcoa, Inc. | 676,986 |
| Touchstone Health Partnership | — | Commercial Metals Company | 708,750 |
| Wheaton Holding Corporation | 192,667 | | 1,385,736 |
| | 11,048,731 | NATURAL RESOURCES - 0.58% | |
| | | ArcelorMittal | 537,250 |
| | | Headwaters, Inc. | 317,719 |
| | | | 854,969 |

See Notes to Consolidated Financial Statements

34

CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

March 31, 2015

(Unaudited)

| Industry Classification: (Continued) | Fair Value/ Market Value | | Fair Value/ Market Value |
|---|-----------------------------|-------------------------------------|-----------------------------|
| OIL & GAS - 8.33% | | TECHNOLOGY - 1.13% | |
| Access Midstream Partners, L.P. | \$ 502,500 | Audatex North America, Inc. | \$ 222,075 |
| Antero Resources Corporation | 383,150 | First Data Corporation | 261,250 |
| Avantech Testing Services LLC | 772,416 | Netflix, Inc. | 305,728 |
| Bonanza Creek Energy, Inc. | 460,000 | OpenText Corporation | 396,325 |
| California Resources Corporation | 421,200 | Smart Source Holdings LLC | 433,473 |
| Calumet Specialty Products Partners L.P. | 505,000 | | 1,618,851 |
| Cimarex Energy Co. | 532,500 | TELECOMMUNICATIONS - 2.53% | |
| C I T G O P e t r o l e u m Corporation | 412,250 | CCO Holdings Capital Corporation | 1,030,625 |
| Continental Resources, Inc. | 493,125 | Frontier Communications Corporation | 495,000 |
| CVR Refining LLC | 350,000 | Sprint Corporation | 151,125 |
| Forum Energy Technologies | 150,000 | Sprint Nextel Corporation | 522,000 |
| Hilcorp Energy Company | 314,900 | T-Mobile USA Inc. | 571,650 |
| Hornbeck Offshore Services, Inc. | 397,500 | Univision Communications | 162,400 |
| Jupiter Resources Inc. | 410,000 | UPCB Finance IV Limited | 208,000 |
| MarkWest Energy Partners, L.P. | 511,200 | West Corporation | 488,750 |
| MEG Energy Corporation | 931,250 | | 3,629,550 |
| Paragon Offshore plc. | 165,000 | TRANSPORTATION - 3.71% | |
| Petroplex Inv Holdings LLC | 187,390 | CHC Helicopter SA | 760,500 |
| Precision Drilling Corporation | 235,625 | Hertz Corporation | 227,150 |
| Regency Energy Partners LP | 461,125 | Huntington Ingalls Industries | 521,250 |
| Rosetta Resources Inc. | 471,250 | Kenan Advantage Group, Inc. | 520,000 |
| Stone Energy Corporation | 452,500 | MNX Holding Company | 1,240,256 |
| Sunoco LP | 515,000 | NABCO, Inc. | 211,706 |
| Tristar Global Energy Solutions, Inc. | 1,111,678 | Topaz Marine S.A. | 440,020 |
| Weatherford International | 456,994 | VP Holding Company | 930,369 |
| WPX Energy, Inc. | 373,788 | XPO Logistics, Inc. | 477,495 |
| | 11,977,341 | | 5,328,746 |
| PHARMACEUTICALS - 2.66% | | UTILITIES - 0.60% | |
| Clarion Brands Holding Corp. | 1,699,178 | Calpine Corporation | 342,550 |

Edgar Filing: BABSON CAPITAL PARTICIPATION INVESTORS - Form N-30D

| | | | |
|--|-----------|--------------------------------------|----------------|
| Endo Finance LLC | 498,750 | NRG Energy, Inc. | 513,750 |
| Forest Laboratories, Inc. | 962,650 | | 856,300 |
| Valeant Pharmaceuticals International | 260,938 | WASTE MANAGEMENT / POLLUTION - 1.74% | |
| VRX Escrow Corp. | 395,370 | Aquilex Holdings LLC | 167,147 |
| | 3,816,886 | MES Partners, Inc. | 1,311,232 |
| RETAIL STORES - 0.47% | | Torrent Group Holdings, Inc. | 1,023,184 |
| Family Tree Escrow, LLC | 164,190 | | 2,501,563 |
| Suburban Propane Partners, L.P. | 510,000 | | |
| | 674,190 | Total Investments - 106.61% | \$ 153,204,008 |

See Notes to Consolidated Financial Statements

35

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2015

(Unaudited)

1. History

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

The Trust is a diversified closed-end management investment company. Babson Capital Management LLC (“Babson Capital”), a wholly-owned indirect subsidiary of Massachusetts Mutual Life Insurance Company (“MassMutual”), acts as its investment adviser. The Trust’s investment objective is to maximize total return by providing a high level of current income, the potential for growth of income, and capital appreciation. The Trust’s principal investments are privately placed, below-investment grade, long-term debt obligations purchased directly from their issuers, which tend to be smaller companies. The Trust will also invest in publicly traded debt securities (including high yield securities), and in convertible preferred stocks and, subject to certain limitations, readily marketable equity securities. Below-investment grade or high yield securities have predominantly speculative characteristics with respect to the capacity of the issuer to pay interest and repay capital. In addition, the Trust may invest in high quality, readily marketable securities.

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

2. Significant Accounting Policies

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

The Trustees have determined that the Trust is an investment company in accordance with Accounting Standards Codification (“ASC”) 946, Financial Services -

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 \$88,118,442 (61.32% of net assets) as of March 31, 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 Trust uses external independent third-party pricing services to determine the fair values of its Corporate Public Securities. At March 31, 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

Investment Companies, for the purpose of financial reporting.

A. Fair Value Measurements:

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

Determination of Fair Value

The determination of the fair value of the Trust's investments is the responsibility of the Trust's Board of Trustees (the "Trustees"). The Trustees have adopted procedures for the valuation of the Trust's securities and has delegated responsibility for applying

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. 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

March 31, 2015

(Unaudited)

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

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

Corporate Restricted Securities – Corporate Bonds

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

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

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

Short-Term Securities

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

Quantitative Information about Level 3 Fair Value Measurements

The following table represents quantitative information about Level 3 fair value measurements as of March 31, 2015.

Fair Values Hierarchy

| | Valuation Technique | Unobservable Inputs | Range | Weighted Average |
|-------------------|-----------------------|------------------------------------|----------------------------------|------------------|
| Corporate Bonds | Discounted Cash Flows | Discount Rate | 8.0% to 18.7% | 12.6% |
| Equity Securities | Market Approach | Valuation Multiple | 4.6x to 13.0x | 7.6x |
| | | Discount for lack of marketability | 0% to 24% | 3.0% |
| | | EBITDA | \$0.8 million to \$142.8 million | \$17.4 million |

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:

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.

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)

37

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

March 31, 2015

(Unaudited)

The following is a summary of the inputs used to value the Trust's net assets as of March 31, 2015:

| Assets | Total | Level 1 | Level 2 | Level 3 |
|-----------------------|----------------|----------|---------------|---------------|
| Restricted Securities | | | | |
| Corporate Bonds | 85,719,001 | — | 22,776,416 | 62,942,585 |
| Common Stock - U.S. | 7,563,098 | — | — | 7,563,098 |
| Preferred Stock | 7,011,678 | — | — | 7,011,678 |
| Partnerships and LLCs | 10,601,084 | — | — | 10,601,081 |
| Public Securities | | | | |
| Bank Loans | 167,147 | — | 167,147 | — |
| Corporate Bonds | 40,133,339 | — | 40,133,339 | — |
| Common Stock - U.S. | 8,825 | 8,825 | — | — |
| Short-term Securities | 1,999,839 | — | 1,999,839 | — |
| Total | \$ 153,204,008 | \$ 8,825 | \$ 65,076,741 | \$ 88,118,442 |

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 | | | | | Transfers in and / or out of Level 3 | Ending balance at 03/31/2015 |
|-----------------------|--------------------------|-------------------------|--------------|----------------|-----------------|--|------------------------------------|
| | balance at 12/31/2014 | Included in earnings | | | | | |
| Restricted Securities | | | | | | | |
| Corporate Bonds | \$ 59,265,205 | \$ 250,468 | \$ 7,135,017 | \$ (488,617) | \$ (3,219,488) | \$ — | 62,942,585 |
| Common Stock - U.S. | 8,548,845 | 534,262 | 182,936 | (1,702,945) | — | — | 7,563,098 |
| Preferred Stock | 6,123,833 | 955,615 | (573) | (67,197) | — | — | 7,011,678 |
| Partnerships and LLCs | 9,571,615 | 847,906 | 323,337 | (141,777) | — | — | 10,601,081 |
| Public Securities | | | | | | | |
| Common Stock | — | — | — | — | — | — | — |
| | \$ 83,509,498 | \$ 2,588,251 | \$ 7,640,717 | \$ (2,400,536) | \$ (73,219,488) | \$ — | 88,118,442 |

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

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 Operation:

| | Net Increase in Net Assets Resulting from Operations | Change in Unrealized Gains & (Losses) in Net Assets from assets still held |
|---|--|---|
| Interest (Amortization) | \$ 54,985 | \$ — |
| Net Realized Gain on Investments before Taxes | 1,712,840 | — |
| Net Change in Unrealized Depreciation of Investments Before Taxes | 820,426 | 2,593,829 |

Babson Capital Participation Investors

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

March 31, 2015

(Unaudited)

B. Accounting for Investments:

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

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

C. Use of Estimates:

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

D. Federal Income Taxes:

The Trust has elected to be taxed as a “regulated investment company” under the Internal Revenue Code, and intends to maintain this qualification and to distribute substantially all of its net taxable income to its shareholders. In any year when net long-term capital gains are realized by the Trust, management, after evaluating the prevailing economic conditions, will recommend that Trustees either designate the net realized long-term gains as undistributed and pay the federal capital gains taxes thereon, or distribute all or a portion of such net gains.

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

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of the existing assets and liabilities and their respective tax basis. As of March 31, 2015, the PI Subsidiary Trust has a deferred tax liability of \$584,505.

The Trust recognizes a tax benefit from an uncertain position only if it is more likely than not that the position is sustainable, based solely on its technical merits and consideration of the relevant taxing authority’s widely understood administrative practices and precedents. If this threshold is met, the Trust measures the tax benefit as the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. The Trust has evaluated and determined that the tax positions did not have a material effect on the Trust’s financial position and results of operations for the three months ended March 31, 2015.

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. 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,

limitation could result in the loss of its status as a regulated investment company, thereby subjecting all of its net income and capital gains to corporate taxes prior to distribution to its shareholders. The Trust, from time-to-time, identifies investment opportunities in the securities of entities that could cause such trade or business income to be allocable to the Trust. The PI Subsidiary Trust (described in Footnote 1, above) was formed in order to allow investment in such securities without adversely affecting the Trust's status as a regulated investment company.

The PI Subsidiary Trust is not taxed as a regulated investment company. Accordingly, prior to the Trust receiving any distributions from the PI Subsidiary Trust, all of the PI Subsidiary Trust's taxable income and realized gains, including non-qualified income and realized gains, is subject to taxation at prevailing corporate tax rates. As of March 31, 2015, the PI Subsidiary Trust has incurred income tax expense of \$17,841.

accounting and bookkeeping services, and necessary executive, clerical and secretarial personnel for the performance of the foregoing services.

B. Fee:

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

March 31, 2015

(Unaudited)

4. Senior Indebtedness

MassMutual holds the Trust's \$15,000,000 Senior Fixed Rate Convertible Note (the "Note") issued by the Trust on December 13, 2011. The Note is due December 13, 2023 and accrues interest at 4.09% per annum. MassMutual, at its option, can convert the principal amount of the Note into common shares. The dollar amount of principal would be converted into an equivalent dollar amount of common shares based upon the average price of the common shares for ten business days prior to the notice of conversion. For the three months ended March 31, 2015, the Trust incurred total interest expense on the Note of \$153,375.

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

5. Purchases and Sales of Investments

| | For the three months ended 03/31/2015 | Proceeds from Sales or Maturities |
|------------------------------------|---|--|
| Corporate restricted securities | \$ 12,852,759 | \$ 1,749,875 |

| | | |
|-----------------------------|-----------|-----------|
| Corporate public securities | 7,316,052 | 3,110,767 |
|-----------------------------|-----------|-----------|

The aggregate cost of investments is substantially the same for financial reporting and Federal income tax purposes as of March 31, 2015. The net unrealized appreciation of investments for financial reporting and Federal tax purposes as of March 31, 2015 is \$1,580,719 and consists of \$14,295,593 appreciation and \$12,714,874 depreciation.

Net unrealized depreciation of investments on the Statement of Assets and Liabilities reflects the balance net of a deferred tax liability of \$584,505 on net unrealized gains on the PI Subsidiary Trust.

This page intentionally left blank.

JOINT PRIVACY NOTICE OF BABSON CAPITAL MANAGEMENT LLC, BABSON CAPITAL SECURITIES LLC, BABSON CAPITAL CORPORATE INVESTORS AND BABSON CAPITAL PARTICIPATION INVESTORS

When you use Babson Capital Management LLC (“Babson Capital”) as your investment adviser, invest in Babson Capital Corporate Investors or Babson Capital Participation Investors (collectively, the “Funds”), or use Babson Capital Securities LLC, 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.

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

Edgar Filing: BABSON CAPITAL PARTICIPATION INVESTORS - Form N-30D

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 calling (800) 289-9999.

Babson Capital Participation Investors

Members of the Board of Trustees

DIVIDEND REINVESTMENT AND CASH PURCHASE PLAN

- 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*

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

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.

Daniel J. Florence
Treasurer

Melissa M. LaGrant
Chief Compliance Officer

Babson Capital
Participation Investors

PI6217

