

BABSON CAPITAL CORPORATE INVESTORS  
Form N-CSR  
March 09, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

## FORM N-CSR

CERTIFIED SHAREHOLDER REPORT OF REGISTERED MANAGEMENT

INVESTMENT COMPANIES

Investment Company Act file number 811-2183

### **Babson Capital Corporate Investors**

(Exact name of registrant as specified in charter)

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

(Address of principal executive offices) (Zip code)

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

Independence Wharf, 470 Atlantic Ave., Boston, MA 02210

(Name and address of agent for service)

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

Date of fiscal year end: 12/31

Date of reporting period: 12/31/15

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

A registrant is required to disclose the information specified by Form N-CSR, and the Commission will make this information public. A registrant is not required to respond to the collection of information contained in Form N-CSR unless the Form displays a currently valid Office of Management and Budget ("OMB") control number. Please direct comments concerning the accuracy of the information collection burden estimate and any suggestions for reducing the burden to Secretary, Securities and Exchange Commission, 100 F Street NE, Washington, DC 20549. The OMB has reviewed this collection of information under the clearance requirements of 44 U.S.C. ss. 3507.

**ITEM 1. REPORT TO STOCKHOLDERS.**

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

**2015**

**Babson Capital**  
**CORPORATE INVESTORS**  
2015 Annual Report

## **BABSON CAPITAL CORPORATE INVESTORS**

Babson Capital Corporate Investors is a closed-end investment company, first offered to the public in 1971, whose shares are traded on the New York Stock Exchange.

## **INVESTMENT OBJECTIVE & POLICY**

Babson Capital Corporate Investors (the "Trust") is a closed-end management investment company, first offered to the public in 1971, whose shares are traded on the New York Stock Exchange under the trading symbol "MCI". The Trust's share price can be found in the financial section of newspapers under either the New York Stock Exchange listings or Closed-End Fund Listings.

The Trust's investment objective is to maintain a portfolio of securities providing a fixed yield and at the same time offering an opportunity for capital gains. The Trust's principal investments are privately placed, below-investment grade, long-term debt obligations. Such direct placement securities may, in some cases, be accompanied by equity features such as warrants, conversion rights, or other equity features and, occasionally, preferred stocks. The Trust typically purchases these investments, which are not publicly tradable, directly from their issuers in private placement transactions. These investments are typically mezzanine debt instruments with accompanying private equity securities made to small or middle market companies. In addition, the Trust may invest, subject to certain limitations, in marketable investment grade debt securities, other marketable debt securities (including high yield securities) and marketable common stocks. 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.

Accordingly, the Trust pays dividends to shareholders four times a year in January, May, August, and November. The Trust pays dividends to its shareholders in cash, unless the shareholder elects to participate in the Dividend Reinvestment and Share Purchase Plan.

In this report, you will find a complete listing of the Trust's holdings. We encourage you to read this section carefully for a better understanding of the Trust. We cordially invite all shareholders to attend the Trust's Annual Meeting of Shareholders, which will be held on April 22, 2016 at 1:00 P.M. in Springfield, Massachusetts.

## **PROXY VOTING POLICIES & PROCEDURES; PROXY VOTING RECORD**

The Trustees of the Trust have delegated proxy voting responsibilities relating to the voting of securities held by the Trust to Babson Capital. A description of Babson Capital's proxy voting policies and procedures is available (1) without charge, upon request, by calling, toll-free 1-866-399-1516; (2) on the Trust's website at <http://www.BabsonCapital.com/mci>; and (3) on the U.S. Securities and Exchange Commission's ("SEC") 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, 2015 is available (1) on the Trust's website at <http://www.BabsonCapital.com/mci>; and (2) on the SEC's website at <http://www.sec.gov>.

## **FORM N-Q**

The Trust files its complete schedule of portfolio holdings with the 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

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Babson Capital Management LLC ("Babson Capital") manages the Trust on a total return basis. The Trust distributes substantially all of its net income to shareholders each year.

quarter-end is available on the Trust's website at <http://www.BabsonCapital.com/mci> or upon request by calling, toll-free, 1-866-399-1516.

**BABSON CAPITAL CORPORATE INVESTORS**

c / o Babson Capital Management LLC

1500 Main Street

P.O. Box 15189

Springfield, Massachusetts 01115-5189

(413) 226-1516

<http://www.BabsonCapital.com/mci>

**COUNSEL TO THE TRUST**

Ropes & Gray LLP

Boston, Massachusetts 02111

**CUSTODIAN**

State Street Bank and Trust Company

Boston, MA 02110

**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, MO 64121-9086

1-800-647-7374

**INDEPENDENT REGISTERED PUBLIC  
ACCOUNTING FIRM**

KPMG LLP

Boston, Massachusetts 02111

**PORTFOLIO COMPOSITION AS OF 12/31/15\***

**TOTAL ANNUAL PORTFOLIO RETURN (AS OF 12/31 EACH YEAR)\***

\* Data for Babson Capital Corporate Investors (the "Trust") represents returns based on the change in the Trust's net asset value (net of all fees and expenses) assuming the reinvestment of all dividends and distributions. These returns differ from the total investment return based on market value of the Trust's shares due to the difference between the Trust's net asset value of its shares outstanding (See page 11 for total investment return based on market value). Past performance is no guarantee of future results.



Babson Capital Corporate Investors

**TO OUR SHAREHOLDERS**

I am pleased to share with you the Trust's Annual Report for the year ended December 31, 2015.

**PORTFOLIO PERFORMANCE**

The Trust's net total portfolio rate of return for 2015 was 6.2%, as measured by the change in net asset value assuming the reinvestment of all dividends and distributions. The Trust's total net assets were \$275,915,289 or \$14.03 per share, as of December 31, 2015. This compares to \$280,130,264 or \$14.34 per share, as of December 31, 2014. The Trust paid a quarterly dividend of \$0.30 per share for each of the four quarters of 2015, for a total annual dividend of \$1.20 per share. In 2014, the Trust also paid four quarterly dividends of \$0.30 per share, for a total annual dividend of \$1.20 per share. Net investment income for 2015 was \$1.06 per share, including approximately \$0.12 per share of non-recurring income, compared to 2014 net investment income of \$1.23 per share, which included approximately \$0.21 per share of non-recurring income.

The Trust's stock price increased 8.6% during 2015, from \$15.89 as of December 31, 2014 to \$17.25 as of December 31, 2015. The Trust's stock price of \$17.25 as of December 31, 2015 equates to a 23.0% premium over the December 31, 2015 net asset value per share of \$14.03. The Trust's average quarter-end premium for the 3-, 5-, 10- and 25-year periods ended December 31, 2015 was 10.1%, 16.2%, 12.9%, and 5.2%, respectively.

The table below lists the average annual net returns of the Trust's portfolio, based on the change in net assets and assuming the reinvestment of all dividends and distributions. Average annual returns of the Barclays Capital U.S. Corporate High Yield Index and the Russell 2000 Index for the 1-, 3-, 5-, 10- and 25-year periods ended December 31, 2015 are provided for comparison purposes only.

	The Trust	Barclays Capital U.S. Corporate High Yield Index	Russell 2000 Index
1 Year	6.20%	-4.47%	-4.41%

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3 Years	10.86%	1.69%	11.65%
5 Years	12.30%	5.04%	9.19%
10 Years	10.74%	6.69%	6.80%
25 Years	13.89%	9.00%	10.50%

Past performance is no guarantee of future results.

## **PRIVATE PORTFOLIO ACTIVITY**

In 2015, the Trust closed 20 new private placement investments, as well as four "add-on" investments in existing portfolio companies. The 20 new investments were in AFC - Dell Holding Corporation; Animal Supply Company; ASC Holdings, Inc.; Aurora Parts & Accessories LLC; BlueSpire Holding, Inc.; Compass Chemical International LLC; Eagle Family Foods, Inc.; FMH Holdings Corporation; GlynnDevins Acquisition Corporation; Hollandia Produce LLC; Kygen Company; Master Cutlery LLC; MC Sign Holdings LLC; Power Stop Holdings LLC; Randy's Worldwide Automotive; Sunvair Aerospace Group Inc.; Team Drive-Away Holdings LLC; Tristar Global Energy Solutions, Inc.; Westminster Acquisition LLC and York Wall Holding Company. In addition, the Trust added to existing private placement investments in Advanced Manufacturing Enterprises LLC; Hartland Controls Holding Corporation; Merex Holding Corporation and Strahman Holdings Inc.

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 \$55,820,480, which was up 7.7% from the \$51,852,942 of new private placement investments made by the Trust in 2014. We are pleased to have generated strong new investment volume for the Trust two years in a row.

The Trust's new investment activity in 2015 benefited from high levels of middle market merger and acquisition activity in the first half of the year, and a stable level of activity in the second half of the year. For the full year, middle market buyout volume was flat with 2014, but still at its highest level since 2007. The dark clouds on the horizon, though, continue to be the high purchase prices and leverage levels that have been common in buyout transactions for the last couple of years. Competition for new investment opportunities remains intense, as there continues to be an overabundance of private debt and equity capital looking to be invested. As a result, attractive companies are being aggressively pursued by both buyers and lenders alike. In 2014, average purchase price multiples for small companies were at their highest levels over the past 15 years. In 2015, to our amazement, average purchase price multiples actually increased another approximately 11% over the prior year and reached new record levels. Leverage multiples have also been worrisomely high for several years. Though 2015 leverage levels were flat with the prior year, they are still at their second highest level over the past 15 years.

Though we were very active investors on behalf of the Trust in both 2015 and 2014, we did so, and will continue to 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. In 2015, in the face of these aggressive market conditions, we continued our history of investing in companies at lower than market leverage levels. The average leverage of the Trust's new private placement investments in 2015 was 4.3 times EBITDA, compared to the average market multiple of 5.3 times EBITDA. This approach has served us well over the long term and through all kinds of market cycles.

In addition to strong new investment activity, the condition of the Trust's existing portfolio remained solid throughout the year. Sales and earnings for the Trust's portfolio companies as a whole continued their upward momentum, though at a more moderate level than in 2014. We had more credit upgrades in the portfolio this year than downgrades (based on our internal credit rating system), while the number of companies on our watch list or in default remained at or near the lowest level we have seen over the last eight years.

We had 21 companies exit from the Trust's portfolio during 2015. This is a high level of exit activity for the Trust's portfolio, especially coming on top of the unprecedented 32 exits we experienced in 2014, and is another indicator of

how active and aggressive the markets continued to be in 2015. In 18 of these exits, the Trust realized a positive return on its investment. These investments were: ASC Group, Inc.; All Current Holding Company; Arch Global Precision LLC; Arrow Tru-Line Holdings, Inc.; Bravo Sports Holding Corporation; Capital Specialty Plastics, Inc.; CorePharma LLC; Crane Rental Corporation; Eatem Holding Company; EPM Holding Company; MVI Holdings, Inc.; Nicoat Acquisitions LLC; RAJ Manufacturing Holdings LLC; Rose City Holding Company; Spartan Foods Holding Company; Truck Bodies & Equipment International; TruStile Doors, Inc.; and Wheaton Holding Corporation. Three long-standing troubled investments, American Hospice Management Holding LLC; Golden County Foods Holdings, Inc.; and MicroGroup, Inc., were realized in 2015 at a loss. The Trust also benefited from dividends associated with the recapitalizations of five companies during the year.

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Babson Capital Corporate Investors

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The level of refinancing activity in the portfolio in 2015 was thankfully down from the high level of refinancings we saw in 2014 and 2013. These transactions, in which the debt instruments held by the Trust were fully or partially prepaid, are being driven by companies seeking to take advantage of low interest rates and the abundant availability of capital. Unless replaced by new investments, these prepayments reduce net investment income. During 2015, we had 15 portfolio companies fully or partially prepay their debt obligations to the Trust, compared to 20 such prepayments in 2014 and 32 in 2013.

The high level of exit activity in the portfolio this year, along with another year of above-average prepayment activity, was the principal reason that the Trust's net investment income, excluding non-recurring items, declined from \$1.02 per share in 2014 to \$0.92 per share in 2015.

## **OUTLOOK FOR 2016**

We had a strong fourth quarter of 2015 in terms of new investment closings, and that has carried over into 2016. We have a healthy backlog of deal flow. Surveys of middle market financiers indicate that most expect 2016 to be another active year in terms of deal flow. We did see the pressure on leverage levels and investment returns stabilize as we progressed through 2015, and that also is expected to continue into 2016. As a result, assuming economic conditions remain reasonably stable, we are optimistic about the outlook for new investment activity for the Trust in 2016. We also have a number of portfolio companies that are in the process of being sold and we are hopeful that those exits will once again generate capital gains for the Trust. Rest assured that despite constantly changing market conditions, we will continue to employ on behalf of the Trust the same investment philosophy that has served it well since its inception: investing in companies which we believe have a strong business proposition, solid cash flow and experienced, ethical management. We believe this philosophy, along with Babson Capital's seasoned investment management team, positions the Trust well to meet its long-term investment objectives.

While the Trust was able to maintain its \$0.30 per share quarterly dividend in 2015 for a total annual dividend of \$1.20 per share, we must make note again, as we did in last year's and the 2013 Annual Report, that this dividend level may not be sustainable throughout 2016. The Trust's net investment income per share, excluding non-recurring income, of \$0.92 per share in 2015 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 third quarter of 2013. 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 exits and prepayment activity that has occurred over the last three years. Despite two years of robust new investment activity, we have not been able to grow the portfolio enough to offset this ongoing effect. We have been able to maintain the \$0.30 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. In 2015, the Trust earned \$0.12 per share of non-recurring income, mostly due to dividend distributions from the recapitalization of a few portfolio companies. In addition, the Trust received \$0.15 per share of income from CI Subsidiary Trust, a wholly-owned subsidiary of the Trust. This dividend represents income from investments held by CI Subsidiary Trust. This income has replenished the Trust's earnings carry-forwards and 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 2016 we will have to reduce the dividend from the current \$0.30 per share quarterly rate. As we move through 2016, we and the Board of Trustees will continue to evaluate the current and future earnings capacity of the Trust and formulate a dividend strategy that is consistent with that earnings level.

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As always, I would like to thank you for your continued interest in and support of Babson Capital Corporate Investors. I look forward to seeing you at the Trust's annual shareholder meeting in Springfield on April 22, 2016.

Sincerely,

Michael L. Klofas

President

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 in 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 Corporate Investors

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2015 Dividends	Record Date	Total Paid	Ordinary Income	Short-Term Gains	Long-Term Gains
Regular	5/1/2015	0.3000	0.3000	-	-
Regular	8/3/2015	0.3000	0.3000	-	-
Regular	11/4/2015	0.3000	0.3000	-	-
Regular	12/31/2015	0.3000	0.3000	-	-
		1.2000	\$ 1.2000	\$ 0.0000	\$ 0.0000

Annual Dividend	Qualified for Dividend Received Deduction***	Qualified Dividends****	Interest Earned on U.S. Gov't. Obligations
Amount per Share	Percent	Amount per Share	Percent
\$ 1.20	17.4323%	0.2087	0%

\*\*\* Not available to individual shareholders

\*\*\*\* Qualified dividends are reported in Box 1b on IRS Form 1099-Div for 2015



## **BABSON CAPITAL CORPORATE INVESTORS**

### **Financial Report**

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Babson Capital Corporate Investors

**CONSOLIDATED STATEMENT OF ASSETS AND LIABILITIES****December 31, 2015****Assets:**

Investments (See Consolidated Schedule of Investments)	
Corporate restricted securities at fair value (Cost - \$191,533,740)	\$ 197,472,663
Corporate restricted securities at market value (Cost - \$62,298,718)	57,921,887
Corporate public securities at market value (Cost - \$46,363,532)	40,927,921
Short-term securities at amortized cost	6,897,822
Total investments (Cost - \$307,093,812)	303,220,293
Cash	8,927,472
Interest receivable	3,509,878
Other assets	66,194
<b>Total assets</b>	<b>315,723,837</b>

**Liabilities:**

Note payable	30,000,000
Dividend payable	5,899,411
Tax payable	1,390,232
Deferred tax liability	1,128,177
Investment advisory fee payable	862,235
Interest payable	202,400
Accrued expenses	326,093
<b>Total liabilities</b>	<b>39,808,548</b>
<b>Total net assets</b>	<b>\$ 275,915,289</b>

**Net Assets:**

Common shares, par value \$1.00 per share	\$ 19,664,704
Additional paid-in capital	111,417,865
Retained net realized gain on investments, prior years	143,724,071
Undistributed net investment gain	4,260,165
Accumulated net realized gain on investments	1,850,180
Net unrealized depreciation of investments	(5,001,696)
<b>Total net assets</b>	<b>\$ 275,915,289</b>
<b>Common shares issued and outstanding (28,054,782 authorized)</b>	<b>19,664,704</b>
<b>Net asset value per share</b>	<b>\$ 14.03</b>

See Notes to Consolidated Financial Statements

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## CONSOLIDATED STATEMENT OF OPERATIONS

For the year ended December 31, 2015

Investment Income:	
Interest	\$ 25,338,871
Dividends	1,225,179
Other	233,800
<b>Total investment income</b>	<b>26,797,850</b>
Expenses:	
Investment advisory fees	3,597,521
Interest	1,584,000
Trustees' fees and expenses	355,000
Professional fees	238,002
Reports to shareholders	98,000
Custodian fees	35,276
Other	466,088
<b>Total expenses</b>	<b>6,373,887</b>
<b>Investment income - net</b>	<b>20,423,963</b>
Net realized and unrealized loss on investments:	
Net realized gain on investments before taxes	2,863,085
Income tax expense	(978,715)
Net realized gain on investments after taxes	1,884,370
Net change in unrealized depreciation of investments before taxes	(5,051,864)
Net change in deferred income tax expense	26,653
Net change in unrealized depreciation of investments after taxes	(5,025,211)
<b>Net loss on investments</b>	<b>(3,140,841)</b>
<b>Net increase in net assets resulting from operations</b>	<b>\$ 17,283,122</b>

See Notes to Consolidated Financial Statements

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Babson Capital Corporate Investors

**CONSOLIDATED STATEMENT OF CASH FLOWS****For the year ended December 31, 2015**

Net decrease in cash:	
Cash flows from operating activities:	
Purchases/Proceeds/Maturities from short-term portfolio securities, net	\$ 9,719,366
Purchases of portfolio securities	(93,342,202)
Proceeds from disposition of portfolio securities	87,877,538
Interest, dividends and other income received	23,959,560
Interest expense paid	(1,584,000)
Operating expenses paid	(4,771,486)
Income taxes paid	(3,931,601)
<b>Net cash provided by operating activities</b>	<b>17,927,175</b>
Cash flows from financing activities:	
Cash dividends paid from net investment income	(23,500,440)
Receipts for shares issued on reinvestment of dividends	2,041,729
<b>Net cash used for financing activities</b>	<b>(21,458,711)</b>
<b>Net decrease in cash</b>	<b>(3,531,536)</b>
Cash - beginning of year	12,459,008
<b>Cash - end of year</b>	<b>\$ 8,927,472</b>
<b>Reconciliation of net increase in net assets to net</b>	
<b>cash provided by operating activities:</b>	
<b>Net increase in net assets resulting from operations</b>	<b>\$ 17,283,122</b>
Decrease in investments	4,123,142
Increase in interest receivable	(669,096)
Increase in other assets	(28,567)
Decrease in receivable for investments sold	179,712
Decrease in tax payable	(2,952,886)
Decrease in deferred tax liability	(26,653)
Decrease in investment advisory fee payable	(13,172)
Increase in accrued expenses	31,573
<b>Total adjustments to net assets from operations</b>	<b>644,053</b>
<b>Net cash provided by operating activities</b>	<b>\$ 17,927,175</b>

See Notes to Consolidated Financial Statements

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**CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS**

**For the years ended December 31, 2015 and 2014**