

Babson Capital Participation Investors

Report for the
Three Months Ended March 31, 2016



Adviser

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

Independent Registered Public Accounting Firm

KPMG LLP
Boston, Massachusetts 02110

Counsel to the Trust

Ropes & Gray LLP
Boston, Massachusetts 02110

Custodian

State Street Bank and Trust Company
Boston, Massachusetts 02116

Transfer Agent & Registrar

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

Internet Website

www.babsoncapital.com/funds/closed-end-funds/babson-capital-participation-investors



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

Investment Objective and Policy

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

The Trust's investment objective is to maximize total return by providing a high level of current income, the potential for growth of income, and capital appreciation. The Trust's principal investments are privately placed, below-investment grade, long-term debt obligations purchased directly from their issuers, which tend to be smaller companies. The Trust will also invest in publicly traded debt securities (including high yield securities) again with an emphasis on those with equity features, and in convertible preferred stocks and, subject to certain limitations, readily marketable equity securities. Below-investment grade or high yield securities have predominantly speculative characteristics with respect to the capacity of the issuer to pay interest and repay principal. The Trust is prohibited from purchasing below-investment grade securities if, after giving effect to the purchase, more than 75% of the Trust's total assets would be invested in below-investment grade securities, which are securities that are rated, at the time of purchase, BB or B by S&P or Ba or B by Moody's, or, if unrated, are believed by Babson Capital Management LLC ("Babson Capital") to be of an equivalent quality. In addition, the Trust will not invest in any debt security that is rated, at the time of acquisition, below B by S&P or Moody's, or if unrated, is believed by Babson Capital to be of an equivalent quality. In addition, the Trust may invest in high quality, readily marketable securities.

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

Form N-Q

The Trust files its complete schedule of portfolio holdings with the U.S. Securities and Exchange Commission ("SEC") for the first and third quarters of each fiscal year on Form N-Q. This information is available (i) on the SEC's website at <http://www.sec.gov>; and (ii) at the SEC's Public Reference Room in Washington, DC (which

information on their operation may be obtained by calling 1-800-SEC-0330). A complete schedule of portfolio holdings as of each quarter-end is available upon request by calling, toll-free, 866-399-1516.

Proxy Voting Policies & Procedures; Proxy Voting Record

The Trustees of the Trust have delegated proxy voting responsibilities relating to the voting of securities held by the Trust to Babson Capital. A description of Babson Capital's proxy voting policies and procedures is available (1) without charge, upon request, by calling, toll-free 866-399-1516; (2) on the Trust's website: <http://www.babsoncapital.com/funds/closed-end-funds/babson-capital-participation-investors>; and (3) on the SEC's website at <http://www.sec.gov>. Information regarding how the Trust voted proxies relating to portfolio securities during the most recent 12-month period ended June 30 is available (1) on the Trust's website: <http://www.babsoncapital.com/funds/closed-end-funds/babson-capital-participation-investors>; and (2) on the SEC's website at <http://www.sec.gov>.

Legal Matters

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

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

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



TO OUR SHAREHOLDERS

April 30, 2016

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

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

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

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

The Trust closed four new private placement investments, as well as one add-on investment in an existing portfolio company, during the first quarter. The four new investments were in Glynlyon Holding Companies, Inc., PANOS Brands LLC, Veritext Corporation and Wolf-Gordon, Inc., while the add-on investment was in PPC Event Services. A brief description of these investments can be found in the Consolidated Schedule of Investments. The total amount invested by the Trust in these transactions was \$6,942,000.

It was an active first quarter for the Trust in terms of new investments. Middle market merger and acquisition activity, a key driver of deal flow for the Trust, was steady during the quarter. We expect deal flow to remain steady for the rest of the year, assuming no significant external shocks to the market, so we are optimistic about the level of new investment activity for the Trust in 2016. The dark cloud on the horizon though, continues to be the high purchase prices and leverage levels that have been common in buyout transactions for the last couple of years. Average purchase price multiples for small companies continue to be at their highest levels in the past 15 years. Leverage multiples have also been worryingly high for several years and are near their highs of the past 15 years as well. Though we are actively making new investments on behalf of the Trust in this market, we do so cautiously and with discipline, consistent with our longstanding investment philosophy of seeking to take prudent levels of risk and getting paid appropriately for the risk taken. We are not willing to provide financial leverage at levels that we believe are imprudent. This approach has served us well over the long term and through all kinds of market cycles.

The condition of the Trust's existing portfolio remained solid through the first quarter. The number of companies on our watch list and in default continues to be at or near the lowest level we have seen over the last five years. We successfully exited one investment during the quarter. We have a solid backlog of portfolio companies that are in the process of being sold, with three companies already having been sold so far in the second quarter. We had no companies prepay their debt instruments held by the Trust during the quarter.

While the Trust was able to maintain its \$0.27 per share quarterly dividend for the first quarter, we must make note again, as we have for over two years now, that this dividend level may not be sustainable through 2016. The Trust's net investment income per share from recurring sources of \$0.24 for the first quarter was once again below the dividend rate. Net investment income per share from recurring sources has been below the dividend rate for every quarter since the second quarter of 2012. As we have discussed in prior reports, net investment income is down due principally to the considerable reduction in the number of private debt securities in the portfolio resulting from the high level of exit and prepayment activity that occurred in 2013 and 2014. With several strong recent quarters of new investment activity, we have made some progress in rebuilding the private portfolio, but it is still well below its former size. We have been able to maintain the \$0.27 per share quarterly dividend with current income, non-recurring income and earnings carried forward from prior quarters. Over time, however, the Trust's dividend-paying ability tends to be correlated with its recurring earnings capacity. This quarter, the Trust utilized \$0.05 per share of earnings carry-forwards to maintain the \$0.27 per share quarterly dividend. The Trust continues to have earnings carry-forwards which should be available to supplement recurring income for the next few quarters. But unless market conditions change dramatically, it is still

(Continued)

unlikely that we will be able to completely rebuild the portfolio back to its former size in the near term and grow net investment income. As a result, it is likely that in 2016 we will have to reduce the dividend from the current \$0.27 per share quarterly rate. As we move through 2016, we and the Board of Trustees will continue to evaluate the current and future earnings capacity of the Trust and formulate a dividend strategy that is consistent with that earnings level.

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

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

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

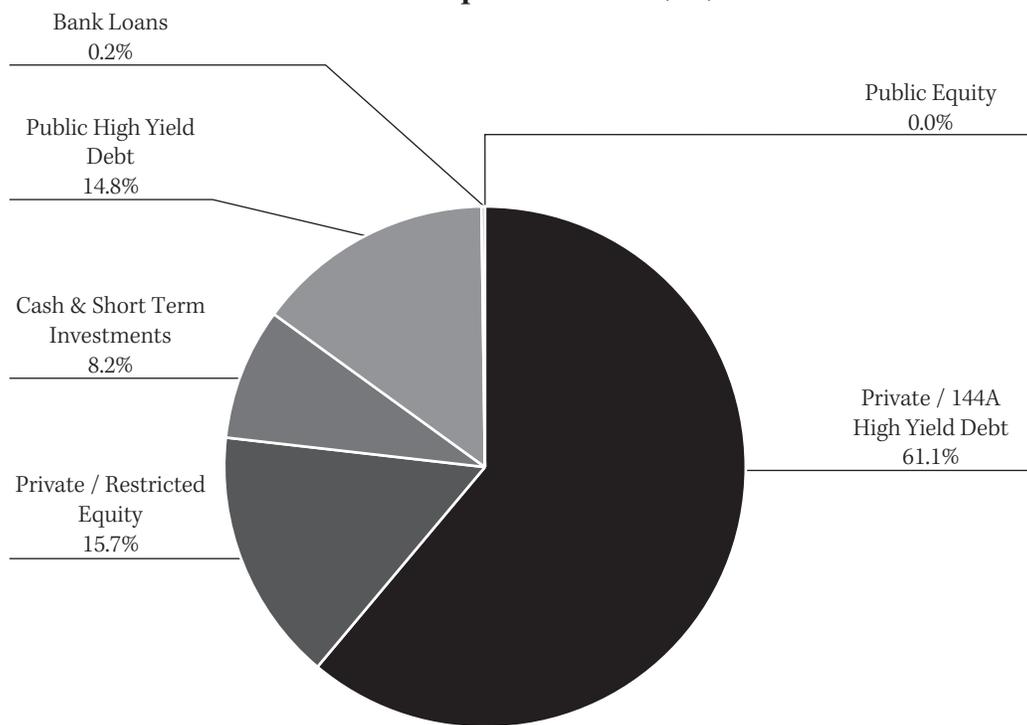
Sincerely,



Michael L. Klofas

President

Portfolio Composition as of 03/31/16*



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

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

CONSOLIDATED STATEMENT OF ASSETS AND LIABILITIES**March 31, 2016****(Unaudited)**

Assets:	
Investments	
(See Consolidated Schedule of Investments)	
Corporate restricted securities at fair value	
(Cost - \$96,708,386)	\$ 98,538,386
Corporate restricted securities at market value	
(Cost - \$19,908,885)	18,999,004
Corporate public securities at market value	
(Cost - \$24,233,254)	23,024,262
Short-term securities at amortized cost	1,999,867
	<hr/>
Total investments (Cost - \$142,850,392)	142,561,519
Cash	10,607,379
Interest receivable	1,363,925
Receivable for investments sold	313,362
Other assets	28,355
	<hr/>
Total assets	154,874,540
	<hr/>
Liabilities:	
Note payable	15,000,000
Deferred tax liability	538,272
Investment advisory fee payable	311,497
Payable for investments purchased	305,304
Interest payable	27,267
Accrued expenses	248,980
	<hr/>
Total liabilities	16,431,320
	<hr/>
Total net assets	\$ 138,443,220
	<hr/>
Net Assets:	
Common shares, par value \$.01 per share	\$ 103,424
Additional paid-in capital	95,439,990
Retained net realized gain on investments, prior years	40,511,310
Undistributed net investment gain	3,657,424
Accumulated net realized loss on investments	(441,783)
Net unrealized depreciation of investments	(827,145)
	<hr/>
Total net assets	\$ 138,443,220
	<hr/>
Common shares issued and outstanding (14,787,750 authorized)	10,342,412
	<hr/>
Net asset value per share	\$ 13.39
	<hr/>

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENT OF OPERATIONS

For the three months ended March 31, 2016

(Unaudited)

Investment Income:

Interest	\$ 2,855,135
Dividends	41,909
Other	17,174
Total investment income	<u>2,914,218</u>

Expenses:

Investment advisory fees	311,497
Interest	153,375
Trustees' fees and expenses	75,000
Professional fees	61,104
Reports to shareholders	24,000
Custodian fees	6,000
Other	30,206
Total expenses	<u>661,182</u>

Investment income - net **2,253,036**

Net realized and unrealized gain on investments:

Net realized loss on investments before taxes	(369,989)
Income tax expense	(160,104)
Net realized loss on investments after taxes	<u>(530,093)</u>
Net change in unrealized appreciation of investments before taxes	1,214,335
Net change in deferred income tax expense	(29,184)
Net change in unrealized appreciation of investments after taxes	<u>1,185,151</u>
Net gain on investments	<u>655,058</u>
Net increase in net assets resulting from operations	<u>\$ 2,908,094</u>

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENT OF CASH FLOWS

For the three months ended March 31, 2016

(Unaudited)

Net increase in cash:

Cash flows from operating activities:

Purchases/Proceeds/Maturities from short-term portfolio securities, net	\$ 2,008,704
Purchases of portfolio securities	(8,684,370)
Proceeds from disposition of portfolio securities	11,976,171
Interest, dividends and other income received	2,527,928
Interest expense paid	(153,375)
Operating expenses paid	(512,216)
Income taxes paid	(634,551)
Net cash provided by operating activities	<u>6,528,291</u>

Cash flows from financing activities:

Cash dividends paid from net investment income	(2,788,666)
Receipts for shares issued on reinvestment of dividends	185,492
Net cash used for financing activities	<u>(2,603,174)</u>

Net increase in cash	3,925,117
Cash - beginning of year	6,682,262
Cash - end of period	<u>\$ 10,607,379</u>

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

Net increase in net assets resulting from operations	<u>\$ 2,908,094</u>
Decrease in investments	3,830,162
Decrease in interest receivable	249,337
Increase in receivable for investments sold	(313,362)
Increase in other assets	(1,572)
Increase in deferred tax liability	29,184
Increase in investment advisory fee payable	6,960
Increase in payable for investments purchased	305,304
Decrease in accrued expenses	(11,369)
Decrease in tax payable	(474,447)
Total adjustments to net assets from operations	<u>3,620,197</u>
Net cash provided by operating activities	<u>\$ 6,528,291</u>

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

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

See Notes to Consolidated Financial Statements

CONSOLIDATED SELECTED FINANCIAL HIGHLIGHTS**Selected data for each share of beneficial interest outstanding:**

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

(a) Calculated using average shares.

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

(c) Net asset value return represents portfolio returns based on change in the Trust's net asset value assuming the reinvestment of all dividends and distributions which differs from the total investment return based on the Trust's market value due to the difference between the Trust's net asset value and the market value of its shares outstanding; past performance is no guarantee of future results.

(d) As additional information, this ratio is included to reflect the taxes paid on retained long-term gains. These taxes paid are netted against realized capital gains in the Statement of Operations. The taxes paid are treated as deemed distributions and a credit for the taxes paid is passed on to shareholders.

(e) Annualized.

Senior borrowings:

Total principal amount (in millions)	\$ 15	\$ 15	\$ 15	\$ 15	\$ 15
Asset coverage per \$1,000 of indebtedness	\$ 10,230	\$ 10,023	\$ 10,171	\$ 9,761	\$ 9,525

See Notes to Consolidated Financial Statements

CONSOLIDATED SCHEDULE OF INVESTMENTS

March 31, 2016

(Unaudited)

Corporate Restricted Securities - 84.90%: (A)	Principal Amount, Shares, Units or Ownership Percentage	Acquisition Date	Cost	Fair Value
Private Placement Investments - 71.18%: (C)				
1492 Acquisition LLC				
A leading producer of premium Italian cured meats and deli meats in the U.S.				
14% Senior Subordinated Note due 10/17/2019	\$ 694,597	10/17/12	\$ 686,223	\$ 694,597
Limited Liability Company Unit Class A Preferred (B)	102 uts.	10/17/12	102,270	131,676
Limited Liability Company Unit Class A Common (B)	11,364 uts.	10/17/12	11,364	111,268
			<u>799,857</u>	<u>937,541</u>
A W X Holdings Corporation				
A provider of aerial equipment rental, sales and repair services to non-residential construction and maintenance contractors operating in the State of Indiana.				
10.5% Senior Secured Term Note due 12/20/2016 (D)	\$ 420,000	05/15/08	413,944	405,300
13% Senior Subordinated Note due 12/20/2016 (D)	\$ 420,000	05/15/08	384,627	-
Common Stock (B)	60,000 shs.	05/15/08	60,000	-
Warrant, exercisable until 2016, to purchase common stock at \$.01 per share (B)	21,099 shs.	05/15/08	35,654	-
			<u>894,225</u>	<u>405,300</u>
ABC Industries, Inc.				
A manufacturer of mine and tunneling ventilation products in the U.S.				
13% Senior Subordinated Note due 07/31/2019	\$ 181,818	08/01/12	170,259	181,818
Preferred Stock Series A (B)	125,000 shs.	08/01/12	125,000	232,289
Warrant, exercisable until 2022, to purchase common stock at \$.02 per share (B)	22,414 shs.	08/01/12	42,446	39,301
			<u>337,705</u>	<u>453,408</u>
Advanced Manufacturing Enterprises LLC				
A designer and manufacturer of large, custom gearing products for a number of critical customer applications.				
Limited Liability Company Unit (B)	1,945 uts.	*	207,910	7,777
* 12/07/12, 07/11/13 and 06/30/15.				
Advanced Technologies Holdings				
A provider of factory maintenance services to industrial companies.				
Preferred Stock Series A (B)	152 shs.	12/27/07	75,131	294,699
Convertible Preferred Stock Series B (B)	28 shs.	01/04/11	21,600	53,940
			<u>96,731</u>	<u>348,639</u>

CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)**March 31, 2016****(Unaudited)**

Corporate Restricted Securities: (A) (Continued)	Principal Amount, Shares, Units or Ownership Percentage	Acquisition Date	Cost	Fair Value
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	\$ 1,194,350	03/27/15	\$ 1,173,934	\$ 1,217,337
Preferred Stock (B)	1,122 shs.	03/27/15	112,154	112,722
Common Stock (B)	346 shs.	03/27/15	346	-
			<u>1,286,434</u>	<u>1,330,059</u>
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	\$ 1,466,770	11/18/14	1,442,810	1,477,025
Limited Liability Company Unit	288 uts.	11/18/14	288,000	306,663
			<u>1,730,810</u>	<u>1,783,688</u>
AMS Holding LLC				
A leading multi-channel direct marketer of high-value collectible coins and proprietary-branded jewelry and watches.				
Limited Liability Company Unit Class A Preferred (B)	114 uts.	10/04/12	113,636	331,345
Animal Supply Company				
A distributor of pet products to independent pet stores, veterinary clients and other pet specialty retailers.				
10.5% Second Lien Term Loan due 09/17/2019	\$ 1,759,500	03/30/15	1,739,474	1,670,894
ARI Holding Corporation				
A leading national supplier of products used primarily by specialty contractors.				
11.5% Senior Subordinated Note due 02/01/2020	\$ 1,706,704	*	1,686,272	1,710,392
Limited Partnership Interest	524 uts.	08/01/14	523,950	612,763
* 05/21/13 and 08/01/14.			<u>2,210,222</u>	<u>2,323,155</u>
ASC Holdings, Inc.				
A manufacturer of capital equipment used by corrugated box manufacturers.				
13% Senior Subordinated Note due 05/18/2021	\$ 743,096	11/19/15	728,982	740,900
Limited Liability Company Unit (B)	111,100 uts.	11/18/15	111,100	49,662
			<u>840,082</u>	<u>790,562</u>
Aurora Parts & Accessories LLC				
A distributor of aftermarket over-the-road semi-trailer parts and accessories sold to customers across North America.				
11% Senior Subordinated Note due 02/17/2022	\$ 1,515,400	08/17/15	1,487,566	1,527,153
Preferred Stock (B)	210 shs.	08/17/15	209,390	207,642
Common Stock (B)	210 shs.	08/17/15	210	-
			<u>1,697,166</u>	<u>1,734,795</u>

CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)**March 31, 2016****(Unaudited)**

Corporate Restricted Securities: (A) (Continued)	Principal Amount, Shares, Units or Ownership Percentage	Acquisition Date	Cost	Fair Value
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 01/31/2020 (D)	\$ 500,587	07/31/14	\$ 491,228	\$ -
Limited Liability Company Unit	45,504 uts.	*	-	-
* 07/31/14 and 10/14/15.			<u>491,228</u>	<u>-</u>
Blue Wave Products, Inc.				
A distributor of pool supplies.				
10% Senior Secured Term Note due 09/30/2018	\$ 198,582	10/12/12	196,627	198,582
13% Senior Subordinated Note due 09/30/2019	\$ 328,942	10/12/12	314,275	328,942
Common Stock (B)	51,064 shs.	10/12/12	51,064	184,835
Warrant, exercisable until 2022, to purchase common stock at \$.01 per share (B)	20,216 shs.	10/12/12	20,216	73,175
			<u>582,182</u>	<u>785,534</u>
BlueSpire Holding, Inc.				
A marketing services firm that integrates strategy, technology, and content to deliver customized marketing solutions for clients in the senior living, financial services and healthcare end markets.				
12.5% Senior Subordinated Note due 06/30/2021	\$ 1,585,909	06/30/15	1,557,300	1,542,004
Common Stock (B)	1,417 shs.	06/30/15	156,800	114,637
			<u>1,714,100</u>	<u>1,656,641</u>
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	134,171
Limited Liability Company Unit Class B (B)	167 uts.	10/17/12	166,666	244,757
			<u>208,333</u>	<u>378,928</u>
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	*	1,354,208	1,426,731
Preferred Stock (B)	1,350 shs.	*	134,972	159,761
Preferred Stock (B)	489 shs.	*	48,721	57,904
Common Stock (B)	140 shs.	*	14,864	67,834
Warrant, exercisable until 2023, to purchase common stock at \$.01 per share (B)	58 shs.	*	5,430	28,176
* 05/09/13 and 11/01/13.			<u>1,558,195</u>	<u>1,740,406</u>

CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)**March 31, 2016****(Unaudited)**

Corporate Restricted Securities: (A) (Continued)	Principal Amount, Shares, Units or Ownership Percentage	Acquisition Date	Cost	Fair Value
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	\$ 771,020	01/19/11	\$ 755,678	\$ 771,020
14% Senior Subordinated Note due 08/03/2019	\$ 201,909	08/03/12	199,668	201,909
Common Stock (B)	375 shs.	01/19/11	37,500	46,355
Warrant, exercisable until 2021, to purchase common stock at \$.01 per share (B)	295 shs.	01/19/11	29,250	36,437
			<u>1,022,096</u>	<u>1,055,721</u>
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	\$ 190,933	03/26/12	188,125	175,046
10% Senior Subordinated Note due 09/15/2099	\$ 6,492	09/15/14	6,492	-
Common Stock (B)	1,327 shs.	*	132,700	-
Warrant, exercisable until 2022, to purchase common stock at \$.01 per share (B)	57 shs.	03/26/12	5,740	-
			<u>333,057</u>	<u>175,046</u>
* 03/26/12, 05/25/12 and 06/19/12.				
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 04/01/2021	\$ 1,603,799	10/01/14	1,577,036	1,619,837
Common Stock (B)	1,568 shs.	10/01/14	156,818	85,436
			<u>1,733,854</u>	<u>1,705,273</u>
Clough, Harbour and Associates				
An engineering service firm that is located in Albany, NY.				
Preferred Stock (B)	147 shs.	12/02/08	146,594	672,523
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	\$ 1,527,328	03/04/15	1,501,975	1,525,784
Limited Liability Company Unit (B)	230 uts.	03/04/15	230,000	237,599
			<u>1,731,975</u>	<u>1,763,383</u>

CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

March 31, 2016

(Unaudited)

Corporate Restricted Securities: (A) (Continued)	Principal Amount, Shares, Units or Ownership Percentage	Acquisition Date	Cost	Fair Value
Connecticut Electric, Inc.				
A supplier and distributor of electrical products sold into the retail and wholesale markets.				
Limited Liability Company Unit Class A (B)	82,613 uts.	01/12/07	\$ 82,613	\$ 104,200
Limited Liability Company Unit Class C (B)	59,756 uts.	01/12/07	59,756	80,209
Limited Liability Company Unit Class D (B)	671,525 uts.	05/03/10	-	829,401
Limited Liability Company Unit Class E (B)	1,102 uts.	05/03/10	-	121,420
			<u>142,369</u>	<u>1,135,230</u>
CTM Holding, Inc.				
A leading owner and operator of coin-operated children's rides, penny presses and candy kiosks in the U.S.				
15% Senior Subordinated Note due 11/22/2019	\$ 1,268,134	11/22/13	1,251,348	1,254,891
Common Stock (B)	78 shs.	11/22/13	443,182	484,218
			<u>1,694,530</u>	<u>1,739,109</u>
Custom Engineered Wheels, Inc.				
A manufacturer of custom engineered, non-pneumatic plastic wheels and plastic tread cap tires used primarily for lawn and garden products and wheelchairs.				
Preferred Stock PIK (B)	156 shs.	10/26/09	156,468	265,493
Preferred Stock Series A (B)	114 shs.	10/27/09	104,374	193,974
Common Stock (B)	38 shs.	10/26/09	38,244	119,834
Warrant, exercisable until 2016, to purchase common stock at \$.01 per share (B)	28 shs.	10/27/09	25,735	87,556
			<u>324,821</u>	<u>666,857</u>
DPL Holding Corporation				
A distributor and manufacturer of aftermarket undercarriage parts for medium and heavy duty trucks and trailers.				
14% Senior Subordinated Note due 05/04/2019	\$ 1,383,110	05/04/12	1,368,640	1,383,110
Preferred Stock (B)	25 shs.	05/04/12	252,434	329,419
Common Stock (B)	25 shs.	05/04/12	28,048	7,292
			<u>1,649,122</u>	<u>1,719,821</u>
Dunn Paper				
A provider of specialty paper for niche product applications.				
Preferred Stock (B)	261 shs.	12/30/14	261,364	885,158
Eagle Family Foods, Inc.				
A producer of low-cost branded and private label canned milk.				
10.05% Last Out Term Loan due 06/30/2016	\$ 1,725,000	12/22/15	1,700,211	1,702,730

CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)**March 31, 2016****(Unaudited)**

Corporate Restricted Securities: (A) (Continued)	Principal Amount, Shares, Units or Ownership Percentage	Acquisition Date	Cost	Fair Value
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	\$ 1,306,986	11/21/14	\$ 1,282,473	\$ 1,333,125
Limited Liability Company Unit (B)	230 uts.	11/19/14	71,875	84,644
			<u>1,354,348</u>	<u>1,417,769</u>
ERG Holding Company LLC				
A provider of inpatient and outpatient clinical trial services to pharmaceutical companies and contract research organizations.				
13.5% Senior Subordinated Note due 10/04/2019	\$ 958,522	04/04/14	945,095	961,702
Common Stock (B)	31 shs.	04/04/14	77,533	83,727
			<u>1,022,628</u>	<u>1,045,429</u>
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	74,274
Limited Liability Company Unit Common (B)	171 uts.	09/27/10	17,073	103,298
			<u>75,418</u>	<u>177,572</u>
F G I Equity LLC				
A manufacturer of a broad range of filters and related products that are used in commercial, light industrial, healthcare, gas turbine, nuclear, laboratory, clean room, hotel, educational system, and food processing settings.				
Limited Liability Company Unit Preferred (B)	80,559 uts.	04/15/14	-	80,559
Limited Liability Company Unit Class B-1 (B)	65,789 uts.	12/15/10	65,789	148,450
Limited Liability Company Unit Class B-2 (B)	8,248 uts.	12/15/10	8,248	18,611
Limited Liability Company Unit Class B-3 (B)	6,522 uts.	08/30/12	15,000	16,412
Limited Liability Company Unit Class C (B)	1,575 uts.	12/20/10	16,009	29,928
			<u>105,046</u>	<u>293,960</u>
FMH Holdings Corporation				
A designer and manufacturer of highly engineered components for the aerospace, defense and space industries.				
11.5% Senior Subordinated Note due 11/01/2020	\$ 1,443,937	05/01/15	1,418,988	1,472,816
Common Stock (B)	148 shs.	05/01/15	148,096	237,069
			<u>1,567,084</u>	<u>1,709,885</u>
G C Holdings				
A leading manufacturer of gaming tickets, industrial recording charts, security-enabled point-of sale receipts, and medical charts and supplies.				
Warrant, exercisable until 2018, to purchase common stock at \$.01 per share (B)	198 shs.	10/19/10	46,958	118,252

CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

March 31, 2016

(Unaudited)

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

CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)**March 31, 2016****(Unaudited)**

Corporate Restricted Securities: (A) (Continued)	Principal Amount, Shares, Units or Ownership Percentage	Acquisition Date	Cost	Fair Value
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	\$ 690,354	\$ 691,317
Common Stock (B)	846 shs.	02/05/14	84,636	64,752
Warrant, exercisable until 2024, to purchase common stock at \$.01 per share (B)	397 shs.	02/05/14	36,816	30,386
			<u>811,806</u>	<u>786,455</u>
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	1,412,766	1,425,973
Limited Liability Company Unit Preferred (B)	288 uts.	12/19/14	287,500	213,849
Limited Liability Company Unit Common Class A (B)	2,875 uts.	12/19/14	-	-
			<u>1,700,266</u>	<u>1,639,822</u>
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	1,074,628	1,100,847
12% Senior Subordinated Note due 08/14/2019	\$ 431,250	06/22/15	427,602	434,453
Preferred Stock Series A (B)	1,208 shs.	02/14/14	114,011	127,293
Common Stock (B)	821 shs.	02/14/14	822	97,021
			<u>1,617,063</u>	<u>1,759,614</u>
Healthcare Direct Holding Company				
A direct-to-customer marketer of discount dental plans.				
Common Stock (B)	517 shs.	03/09/12	51,724	100,711
HHI Group, LLC				
A developer, marketer, and distributor of hobby-grade radio control products.				
14% Senior Subordinated Note due 01/17/2020	\$ 1,615,730	01/17/14	1,593,578	1,402,912
Limited Liability Company Unit (B)	102 uts.	01/17/14	101,563	5,945
			<u>1,695,141</u>	<u>1,408,857</u>
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	680,380	702,643
Limited Liability Company Unit (B)	234 uts.	04/15/13	234,375	331,590
Warrant, exercisable until 2020, to purchase common stock at \$.01 per share (B)	37,177 shs.	04/15/13	32,344	65,743
			<u>947,099</u>	<u>1,099,976</u>

CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)**March 31, 2016****(Unaudited)**

Corporate Restricted Securities: (A) (Continued)	Principal Amount, Shares, Units or Ownership Percentage	Acquisition Date	Cost	Fair Value
Hollandia Produce LLC				
A hydroponic greenhouse producer of branded root vegetables.				
13.75% Senior Subordinated Note due 03/31/2021	\$ 1,302,743	12/30/15	\$ 1,277,820	\$ 1,329,624
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	1,091,124	1,080,965
Common Stock (B)	251 shs.	08/19/08	251,163	35,203
Warrant, exercisable until 2016, to purchase common stock at \$.01 per share (B)	65 shs.	08/19/08	60,233	9,099
			1,402,520	1,125,267
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	\$ 1,202,372	09/27/12	1,188,211	1,202,372
Limited Liability Company Unit Class A Preferred (B)	1,127 uts.	09/27/12	112,726	157,222
Limited Liability Company Unit Class A Common (B)	910 uts.	09/27/12	910	54,474
			1,301,847	1,414,068
Ideal Tridon Holdings, Inc.				
A designer and manufacturer of clamps and couplings used in automotive and industrial end markets.				
Common Stock	93 shs.	10/27/11	77,462	158,300
Impact Confections				
An independent manufacturer and marketer of confectionery products including Warheads® brand sour candies, Melster® brand classic candies, and co-manufactured/private label classic candies.				
13% Senior Subordinated Note due 11/10/2020	\$ 1,078,639	11/10/14	1,060,918	1,084,575
Common Stock (B)	2,300 shs.	11/10/14	230,000	187,964
			1,290,918	1,272,539
Insurance Claims Management, Inc.				
A third party administrator providing auto and property claim administration services for insurance companies.				
Common Stock (B)	47 shs.	02/27/07	1,424	148,162

CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)**March 31, 2016****(Unaudited)**

Corporate Restricted Securities: (A) (Continued)	Principal Amount, Shares, Units or Ownership Percentage	Acquisition Date	Cost	Fair Value
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	\$ 307,744
Preferred Stock B (B)	0.06 shs.	12/20/10	-	112
Common Stock	33 shs.	12/20/10	1,667	63,459
Warrant, exercisable until 2020, to purchase common stock at \$.01 per share (B)	12 shs.	12/20/10	105,643	115,665
			<u>272,310</u>	<u>486,980</u>
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	\$ 1,107,473	12/11/13	1,092,634	1,118,547
Limited Liability Company Unit Class A (B)	283 uts.	12/11/13	611,794	981,887
			<u>1,704,428</u>	<u>2,100,434</u>
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	\$ 1,112,525	12/05/12	1,099,143	967,167
Limited Liability Company Unit (B)	1,038,805 uts.	12/05/12	232,207	13,575
			<u>1,331,350</u>	<u>980,742</u>
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	163,612
			<u>6,522</u>	<u>163,612</u>
* 12/23/11 and 06/30/14.				
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	79,379
Warrant, exercisable until 2016, to purchase common stock at \$.01 per share (B)	43,600 shs.	05/25/06	37,871	48,709
			<u>108,924</u>	<u>128,088</u>
K P I Holdings, Inc.				
The largest player in the U.S. non-automotive, non-ferrous die casting segment.				
Limited Liability Company Unit Class C Preferred (B)	40 uts.	06/30/15	-	73,350
Common Stock (B)	353 shs.	07/15/08	285,619	413,634
			<u>285,619</u>	<u>486,984</u>

CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)**March 31, 2016****(Unaudited)**

Corporate Restricted Securities: (A) (Continued)	Principal Amount, Shares, Units or Ownership Percentage	Acquisition Date	Cost	Fair Value
Kyjen Company				
A designer and distributor of branded and private label dog toys and accessories primarily in the US.				
13% Senior Subordinated Note due 10/14/2021	\$ 1,299,722	10/14/15	\$ 1,275,206	\$ 1,312,493
Mail Communications Group, Inc.				
A provider of mail processing and handling services, lettershop services, and commercial printing services.				
Limited Liability Company Unit	12,764 uts.	*	166,481	163,412
Warrant, exercisable until 2017, to purchase common stock at \$.01 per share (B)	1,787 shs.	05/04/07	22,781	22,879
			<u>189,262</u>	<u>186,291</u>
* 05/04/07 and 01/02/08.				
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	401,962	401,984
15% Senior Subordinated Note due 01/15/2018	\$ 117,427	10/05/10	116,688	108,343
Common Stock (B)	35 shs.	10/05/10	35,400	3,941
Common Stock Class B (B)	118 shs.	01/15/10	117,647	13,098
Warrant, exercisable until 2019, to purchase common stock at \$.01 per share (B)	104 shs.	10/05/10	94,579	11,591
			<u>766,276</u>	<u>538,957</u>
Master Cutlery LLC				
A designer and marketer of a wide assortment of knives and swords.				
13% Senior Subordinated Note due 04/17/2020	\$ 879,203	04/17/15	870,143	852,635
Limited Liability Company Unit	5 uts.	04/17/15	678,329	346,292
			<u>1,548,472</u>	<u>1,198,927</u>
MC Sign Holdings LLC				
A provider of sign and lighting services nationwide.				
11.75% Senior Subordinated Note due 09/15/2021	\$ 763,999	09/22/15	749,728	772,018
Limited Liability Company Unit Class B (B)	101,500 uts.	09/22/15	101,500	99,683
			<u>851,228</u>	<u>871,701</u>
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	101,852
Common Unit Class A (B)	671 uts.	08/29/08	671	287,766
Common Unit Class B (B)	263 uts.	08/29/08	63,564	112,889
			<u>110,387</u>	<u>502,507</u>

CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)**March 31, 2016****(Unaudited)**

Corporate Restricted Securities: (A) (Continued)	Principal Amount, Shares, Units or Ownership Percentage	Acquisition Date	Cost	Fair Value
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.				
16% Senior Subordinated Note due 10/30/2019	\$ 454,295	09/22/11	\$ 449,013	\$ 441,236
15% Senior Subordinated Note due 04/30/2022	\$ 23,839	08/18/15	23,839	21,455
Limited Liability Company Unit Series A (B)	228 uts.	05/07/14	14,760	2,476
Limited Liability Company Unit Series B (B)	155,945 uts.	09/22/11	155,945	34,185
Common Stock Class A (B)	1,859 shs.	08/18/15	-	20,183
			<u>643,557</u>	<u>519,535</u>
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	\$ 1,098,377	09/30/14	1,079,965	1,115,166
Common Stock Class B (B)	219,545 shs.	09/30/14	219,545	174,959
			<u>1,299,510</u>	<u>1,290,125</u>
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	\$ 1,290,315	11/02/12	1,275,065	1,290,315
Common Stock (B)	45 shs.	11/02/12	44,643	48,434
			<u>1,319,708</u>	<u>1,338,749</u>
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	\$ 996,103	11/30/10	987,800	996,103
Limited Liability Company Unit Class B-1 (B)	75,000 uts.	11/30/10	-	86,344
Limited Liability Company Unit Class B-2 (B)	6,801 uts.	11/30/10	-	7,830
			<u>987,800</u>	<u>1,090,277</u>
NABCO, Inc.				
A producer of explosive containment vessels in the United States.				
Common Stock (B)	429 shs.	12/20/12	306,091	58,845

CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

March 31, 2016

(Unaudited)

Corporate Restricted Securities: (A) (Continued)	Principal Amount, Shares, Units or Ownership Percentage	Acquisition Date	Cost	Fair Value
NetShape Technologies, Inc.				
A manufacturer of powder metal and metal injection molded precision components used in industrial, consumer, and other applications.				
12% Senior Subordinated Note due 06/10/2020	\$ 810,000	02/02/07	\$ 809,408	\$ 377,530
Limited Partnership Interest of Saw Mill PCG Partners LLC (B)	1.38% int.	02/01/07	588,077	-
Limited Liability Company Unit Class D of Saw Mill PCG Partners LLC (B)	9 uts.	*	8,873	-
Limited Liability Company Unit Class D-1 of Saw Mill PCG Partners LLC (B)	121 uts.	09/30/09	121,160	-
Limited Liability Company Unit Class D-2 of Saw Mill PCG Partners LLC (B)	68 uts.	04/29/11	34,547	43,528
Limited Liability Company Unit Class D-3 of Saw Mill PCG Partners LLC (B)	104 uts.	12/10/14	103,904	105,251
* 12/18/08 and 09/30/09.			<u>1,665,969</u>	<u>526,309</u>

Northwest Mailing Services, Inc.

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

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

O E C Holding Corporation

A provider of elevator maintenance, repair and modernization services.

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

PANOS Brands LLC

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

12% Senior Subordinated Note due 07/29/2021	\$ 1,451,496	01/29/16	1,423,161	1,481,858
Common Stock Class A (B)	276,000 shs.	01/29/16	276,000	276,000
			<u>1,699,161</u>	<u>1,757,858</u>

CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)**March 31, 2016****(Unaudited)**

Corporate Restricted Securities: (A) (Continued)	Principal Amount, Shares, Units or Ownership Percentage	Acquisition Date	Cost	Fair Value
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	\$ 1,235,800
Preferred Stock Series B (B)	7,059 shs.	05/22/09	290,050	92,224
Common Stock (B)	21,462 shs.	05/22/09	993,816	-
			<u>1,342,900</u>	<u>1,328,024</u>
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	-
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	\$ 1,054,074	07/31/14	1,038,131	1,018,934
Limited Liability Company Unit	148,096 uts.	07/31/14	148,096	113,086
			<u>1,186,227</u>	<u>1,132,020</u>
Power Stop Holdings LLC				
A supplier of performance upgrade aftermarket brake products.				
11% Senior Subordinated Note due 05/29/2022	\$ 1,610,100	05/29/15	1,581,495	1,641,154
Limited Liability Company Unit Preferred (B)	1,149 uts.	05/29/15	114,900	121,824
Limited Liability Company Unit Common (B)	1,149 uts.	05/29/15	-	47,015
			<u>1,696,395</u>	<u>1,809,993</u>
PPC Event Services				
A special event equipment rental business.				
14% Senior Subordinated Note due 05/20/2020	\$ 1,149,563	11/20/14	1,131,319	1,172,554
Limited Liability Company Unit (B)	3,450 uts.	11/20/14	172,500	388,125
Limited Liability Company Unit Series A-1 (B)	339 uts.	03/16/16	42,419	42,419
			<u>1,346,238</u>	<u>1,603,098</u>
Randy's Worldwide Automotive				
A designer and distributor of automotive aftermarket parts.				
11.5% Senior Subordinated Note due 05/12/2021	\$ 1,135,898	05/12/15	1,116,226	1,137,637
Common Stock (B)	118 shs.	05/12/15	118,476	134,480
			<u>1,234,702</u>	<u>1,272,117</u>

CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)**March 31, 2016****(Unaudited)**

Corporate Restricted Securities: (A) (Continued)	Principal Amount, Shares, Units or Ownership Percentage	Acquisition Date	Cost	Fair Value
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	\$ 223,708
* 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	118,102
Common Stock (B)	983 shs.	03/30/12	9,830	154,113
			<u>93,750</u>	<u>272,215</u>
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	121,134
Warrant, exercisable until 2023, to purchase common stock A at \$.01 per share (B)	31 shs.	03/15/13	28,316	49,490
			<u>103,825</u>	<u>170,624</u>
Smart Source Holdings LLC				
A short-term computer rental company.				
Limited Liability Company Unit (B)	328 uts.	*	261,262	354,597
Warrant, exercisable until 2016, to purchase common stock at \$.01 per share (B)	83 shs.	*	67,467	89,820
			<u>328,729</u>	<u>444,417</u>
* 08/31/07 and 03/06/08.				
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 (D)	\$ 738,694	10/18/13	726,147	-
Common Stock (B)	841 shs.	10/18/13	84,100	-
			<u>810,247</u>	<u>-</u>
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	1,043,394	1,070,381
Preferred Stock Series A (B)	158,967 shs.	12/13/13	158,967	284,551
Preferred Stock Series A-2 (B)	26,543 shs.	09/10/15	29,994	47,512
			<u>1,232,355</u>	<u>1,402,444</u>

CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)**March 31, 2016****(Unaudited)**

Corporate Restricted Securities: (A) (Continued)	Principal Amount, Shares, Units or Ownership Percentage	Acquisition Date	Cost	Fair Value
Sunrise Windows Holding Company				
A manufacturer and marketer of premium vinyl windows exclusively selling to the residential remodeling and replacement market.				
16% Senior Subordinated Note due 12/14/2017	\$ 1,217,936	*	\$ 1,243,795	\$ 1,140,476
Common Stock (B)	38 shs.	12/14/10	38,168	24,684
Warrant, exercisable until 2020, to purchase common stock at \$.01 per share (B)	37 shs.	12/14/10	37,249	24,089
* 12/14/10, 08/17/12 and 03/31/16.			<u>1,319,212</u>	<u>1,189,249</u>
Sunvair Aerospace Group Inc.				
An aerospace maintenance, repair, and overhaul provider servicing landing gears on narrow body aircraft.				
12% Senior Subordinated Note due 07/31/2021	\$ 1,215,600	07/31/15	1,193,491	1,225,118
Common Stock (B)	68 shs.	07/31/15	78,150	73,811
			<u>1,271,641</u>	<u>1,298,929</u>
Synteract Holdings Corporation				
A provider of outsourced clinical trial management services to pharmaceutical and biotechnology companies.				
14% Senior Subordinated Note due 02/26/2019	\$ 2,330,583	09/02/08	2,290,332	2,330,583
Preferred Stock Series D (B)	257 shs.	02/27/13	25,678	-
Redeemable Preferred Stock Series A (B)	678 shs.	10/03/08	6,630	-
Warrant, exercisable until 2018, to purchase common stock at \$.01 per share (B)	6,778 shs.	09/02/08	59,661	-
			<u>2,382,301</u>	<u>2,330,583</u>
Team Drive-Away Holdings LLC				
An asset-light provider of over the road driveaway services for class 8 trucks and specialized equipment.				
12.5% Senior Subordinated Note due 04/15/2021	\$ 766,700	10/15/15	752,284	774,978
Limited Liability Company Unit (B)	95,800 uts.	10/15/15	95,800	94,363
			<u>848,084</u>	<u>869,341</u>
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)	\$ 770,572	12/05/13	-	732,043
15% Senior Subordinated Note due 12/05/2020 (D)	\$ 46,798	12/05/13	219,203	44,458
Warrant, exercisable until 2023, to purchase common stock at \$.01 per share (B)	28,079 shs.	12/05/13	-	562
			<u>219,203</u>	<u>777,063</u>

CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

March 31, 2016

(Unaudited)

Corporate Restricted Securities: (A) (Continued)	Principal Amount, Shares, Units or Ownership Percentage	Acquisition Date	Cost	Fair Value
Transpac Holding Company				
A designer, importer, and wholesaler of home décor and seasonal gift products.				
8% Senior Subordinated Note due 10/31/2016 (D)	\$ 938,651	10/31/07	\$ 909,276	\$ -
Common Stock (B)	110 shs.	10/31/07	110,430	-
Warrant, exercisable until 2016, to purchase common stock at \$.01 per share (B)	50 shs.	10/31/07	46,380	-
			<u>1,066,086</u>	<u>-</u>
Tranzonic Holdings LLC				
A producer of commercial and industrial supplies, such as safety products, janitorial supplies, work apparel, washroom and restroom supplies and sanitary care products.				
14% Senior Subordinated Note due 07/05/2019	\$ 1,560,154	07/05/13	1,541,057	1,560,154
Limited Liability Company Unit Preferred Class A (B)	147,727 shs.	07/05/13	147,727	201,927
			<u>1,688,784</u>	<u>1,762,081</u>
Tristar Global Energy Solutions, Inc.				
A hydrocarbon and decontamination services provider serving refineries worldwide.				
12.5% Senior Subordinated Note due 07/31/2020	\$ 1,130,623	01/23/15	1,111,627	1,042,460
Veritext Corporation				
A provider of stenographic staffing and other services used during the legal deposition process.				
10.75% Second Lien Term Loan due 01/29/2023	\$ 1,725,000	01/21/16	1,691,350	1,694,244
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	129,358
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	-
			<u>923,711</u>	<u>129,358</u>
* 07/19/04 and 10/29/09.				
VP Holding Company				
A provider of school transportation services for special-needs and homeless children in Massachusetts.				
Common Stock (B)	3,632 shs.	03/31/14	363,158	566,538
Wellborn Forest Holding Company				
A manufacturer of semi-custom kitchen and bath cabinetry.				
8% Senior Subordinated Note due 09/30/2017 (D)	\$ 1,680,931	11/30/06	867,531	1,260,698
Common Stock (B)	101 shs.	11/30/06	101,250	-
Warrant, exercisable until 2016, to purchase common stock at \$.01 per share (B)	51 shs.	11/30/06	45,790	-
			<u>1,014,571</u>	<u>1,260,698</u>

CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)**March 31, 2016****(Unaudited)**

Corporate Restricted Securities: (A) (Continued)	Principal Amount, Shares, Units or Ownership Percentage	Acquisition Date	Cost	Fair Value
Westminster Acquisition LLC				
A manufacturer of premium, all-natural oyster cracker products sold under the Westminster and Olde Cape Cod brands.				
12% Senior Subordinated Note due 02/03/2021	\$ 372,684	08/03/15	\$ 366,021	\$ 374,451
Limited Liability Company Unit (B)	370,241 uts.	08/03/15	<u>370,241</u>	<u>512,561</u>
			<u>736,262</u>	<u>887,012</u>
Whitcraft Holdings, Inc.				
A leading independent manufacturer of precision formed, machined, and fabricated flight-critical aerospace components.				
Common Stock (B)	205 shs.	12/16/10	205,480	202,395
Warrant, exercisable until 2018, to purchase common stock at \$.01 per share (B)	55 shs.	12/16/10	<u>49,334</u>	<u>54,391</u>
			<u>254,814</u>	<u>256,786</u>
Wolf-Gordon, Inc.				
A designer and specialty distributor of wallcoverings and related building products, including textiles, paint, and writeable surfaces.				
12.5% Senior Subordinated Note due 07/22/2021	\$ 1,572,691	01/22/16	1,542,092	1,591,546
Common Stock (B)	157 shs.	01/22/16	<u>156,818</u>	<u>140,521</u>
			<u>1,698,910</u>	<u>1,732,067</u>
WP Supply Holding Corporation				
A distributor of fresh fruits and vegetables to grocery wholesalers and foodservice distributors in the upper Midwest.				
14.5% Senior Subordinated Note due 06/12/2020	\$ 948,779	11/03/11	940,394	948,778
Common Stock	1,500 shs.	11/03/11	<u>150,000</u>	<u>218,360</u>
			<u>1,090,394</u>	<u>1,167,138</u>
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	\$ 1,566,448	03/04/15	1,539,572	1,468,958
Common Stock (B)	1,835 shs.	03/04/15	<u>183,500</u>	<u>106,429</u>
			<u>1,723,072</u>	<u>1,575,387</u>
Total Private Placement Investments (E)			<u>\$ 96,708,386</u>	<u>\$ 98,538,386</u>

CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)**March 31, 2016****(Unaudited)**

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

CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)**March 31, 2016****(Unaudited)**

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

CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

March 31, 2016

(Unaudited)

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

CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)**March 31, 2016****(Unaudited)**

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

CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

March 31, 2016

(Unaudited)

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

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

(B) Non-income producing security.

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

(D) Defaulted security; interest not accrued.

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

PIK - Payment-in-kind

CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

March 31, 2016

(Unaudited)

Industry Classification:	Fair Value/ Market Value	Fair Value/ Market Value
AEROSPACE & DEFENSE - 3.11%		
FMH Holdings Corporation	\$ 1,709,885	
Merex Holding Corporation	519,535	
Orbital ATK, Inc.	518,750	
Sunvair Aerospace Group Inc.	1,298,929	
Whitcraft Holdings, Inc.	256,786	
	<u>4,303,885</u>	
AIRLINES - 0.34%		
XPO Logistics, Inc.	466,785	
AUTOMOTIVE - 8.36%		
Accuride Corp	460,000	
Aurora Parts & Accessories LLC	1,734,795	
CG Holdings Manufacturing Company	1,740,406	
DPL Holding Corporation	1,719,821	
Grakon Parent	237,488	
J A C Holding Enterprises, Inc.	486,980	
J.B. Poindexter Co., Inc.	523,750	
K & N Parent, Inc.	163,612	
Meritor, Inc.	927,500	
Moog Inc.	500,625	
Power Stop Holdings LLC	1,809,993	
Randy's Worldwide Automotive	1,272,117	
	<u>11,577,087</u>	
BANKING - 0.38%		
Bank of America Corporation	524,480	
BROKERAGE, ASSET MANAGERS & EXCHANGES - 0.80%		
Icahn Enterprises L.P.	583,500	
Lazard Group LLC	522,143	
	<u>1,105,643</u>	
BUILDING MATERIALS - 8.15%		
ARI Holding Corporation	2,323,155	
Janus Group Holdings LLC	2,100,434	
Masco Corporation	402,937	
Nortek, Inc.	4,829	
Pearlman Enterprises, Inc.	1,328,024	
Signature Systems Holding Company	170,624	
Sunrise Windows Holding Company	1,189,249	
Torrent Group Holdings, Inc.	777,063	
Wellborn Forest Holding Company	1,260,698	
		\$ 1,732,067
		<u>11,289,080</u>
		CABLE & SATELLITE - 2.39%
		CCO Holdings Capital Corporation
		520,625
		CCOH Safari, LLC
		517,500
		Harron Communications, L.P.
		261,407
		Numericable Group SA
		238,800
		Time Warner Cable, Inc.
		542,735
		Unitymedia KabelBW GmbH
		519,690
		UPCB Finance IV Limited
		210,600
		Virgin Media Secured Finance PLC
		<u>500,000</u>
		<u>3,311,357</u>
		CHEMICALS - 3.45%
		Compass Chemical International LLC
		1,763,383
		Consolidated Energy Finance S.A.
		476,250
		Cornerstone Chemical Company
		349,687
		LBC Tank Terminals Holding
		Netherlands B.V.
		616,590
		Omnova Solutions, Inc.
		445,500
		Polytex Holdings LLC
		<u>1,132,020</u>
		<u>4,783,430</u>
		CONSTRUCTION MACHINERY - 0.49%
		A W X Holdings Corporation
		405,300
		Safety Infrastructure Solutions
		<u>272,215</u>
		<u>677,515</u>
		CONSUMER CYCLICAL SERVICES - 2.74%
		CHG Alternative Education
		Holding Company
		1,055,721
		Church Services Holding Company
		175,046
		Cimpres N.V.
		495,000
		PPC Event Services
		1,603,098
		West Corporation
		<u>458,650</u>
		<u>3,787,515</u>
		CONSUMER PRODUCTS - 10.40%
		AMS Holding LLC
		331,345
		Animal Supply Company
		1,670,894
		Blue Wave Products, Inc.
		785,534
		gloProfessional Holdings, Inc.
		1,288,746
		GTI Holding Company
		786,455

See Notes to Consolidated Financial Statements

CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

March 31, 2016

(Unaudited)

Industry Classification: (Continued)	Fair Value/ Market Value		Fair Value/ Market Value
Handi Quilter Holding Company	\$ 1,639,822	F F C Holding Corporation	\$ 177,572
HHI Group, LLC	1,408,857	GenNx Novel Holding, Inc.	1,632,618
HP Enterprise Company	514,583	H.J. Heinz Company	230,247
K N B Holdings Corporation	128,088	Hollandia Produce LLC	1,329,624
Kyjen Company	1,312,493	Hospitality Mints Holding Company	1,125,267
Manhattan Beachwear Holding Company	538,957	Impact Confections	1,272,539
MasTec, Inc.	428,750	JMH Investors LLC	980,742
Master Cutlery LLC	1,198,927	PANOS Brands LLC	1,757,858
Perry Ellis International, Inc.	125,625	Tyson Foods, Inc.	547,819
Prestige Brands Holdings, Inc.	658,125	Westminster Acquisition LLC	887,012
Transpac Holding Company	-	WP Supply Holding Corporation	1,167,138
York Wall Holding Company	1,575,387		<u>14,087,166</u>
	<u>14,392,588</u>	GAMING - 1.26%	
DIVERSIFIED MANUFACTURING - 6.00%		CTM Holding, Inc.	<u>1,739,109</u>
ABC Industries, Inc.	453,408	HEALTHCARE - 5.39%	
Advanced Manufacturing Enterprises LLC	7,777	DaVita Healthcare Partners, Inc.	495,000
Airxcel Holdings	1,783,688	ECG Consulting Group	1,417,769
Amsted Industries	230,700	GD Dental Services LLC	145,627
Belden Inc.	200,550	Healthcare Direct Holding Company	100,711
BP SCI LLC	378,928	HealthSouth Corporation	211,569
CTP Transportation Products, LLC	305,350	Hospital Corporation of America	279,444
Custom Engineered Wheels, Inc.	666,857	Kindred Healthcare, Inc.	478,750
F G I Equity LLC	293,960	Laboratory Corporation of America Holdings	506,161
Forum Energy Technologies	137,600	Lifepoint Hospitals, Inc.	365,750
G C Holdings	118,252	MedSystems Holdings LLC	502,507
Ideal Tridon Holdings, Inc.	158,300	Synteract Holdings Corporation	2,330,583
K P I Holdings, Inc.	486,984	TeamHealth Holdings Inc	123,050
Motion Controls Holdings	1,090,277	TherOX, Inc.	-
NABCO, Inc.	58,845	Touchstone Health Partnership	-
NetShape Technologies, Inc.	526,309	Valeant Pharmaceuticals International	210,000
Strahman Holdings Inc	1,402,444	VRX Escrow Corp.	294,140
	<u>8,300,229</u>		<u>7,461,061</u>
ELECTRIC - 0.34%		HOME CONSTRUCTION - 1.54%	
NRG Energy, Inc.	<u>465,000</u>	D.R. Horton, Inc.	515,000
FINANCIAL OTHER - 0.11%		Lennar Corporation	1,142,187
Insurance Claims Management, Inc.	<u>148,162</u>	William Lyon Homes	480,000
FOOD & BEVERAGE - 10.18%			<u>2,137,187</u>
1492 Acquisition LLC	937,541	INDEPENDENT - 1.16%	
Dean Foods	338,459	Antero Resources Corporation	365,375
Eagle Family Foods, Inc.	1,702,730		

See Notes to Consolidated Financial Statements

CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)**March 31, 2016****(Unaudited)**

Industry Classification: (Continued)	Fair Value/ Market Value		Fair Value/ Market Value
EP Energy Corporation	\$ 204,776	METALS & MINING - 1.99%	
Jupiter Resources Inc.	265,000	Alcoa, Inc.	\$ 624,000
MEG Energy Corporation	295,000	Anglogold Holdings PLC	591,750
Precision Drilling Corporation	200,000	ArcelorMittal	505,000
Sanchez Energy Corporation	270,000	Commercial Metals Company	663,750
	<u>1,600,151</u>	Constellium N.V.	<u>372,675</u>
			<u>2,757,175</u>
INDUSTRIAL OTHER - 10.07%		MIDSTREAM - 1.00%	
Advanced Technologies Holdings	348,639	CVR Refining LLC	309,750
AFC-Dell Holding Corporation	1,330,059	Ferrellgas Partners, L.P.	601,250
Aquilex Holdings LLC	155,378	Suburban Propane Partners, L.P.	<u>477,500</u>
Brunswick Corporation	527,500		<u>1,388,500</u>
Clough, Harbour and Associates	672,523	OIL FIELD SERVICES - 3.19%	
Connecticut Electric, Inc.	1,135,230	Avantech Testing Services LLC	-
Hartland Controls Holding Corporation	1,759,614	Bonanza Creek Energy, Inc.	132,500
Hi-Rel Group LLC	1,099,976	Enterprise Products Operating, LLC	1,999,867
HVAC Holdings, Inc.	1,414,068	Hilcorp Energy Company	282,237
International Wire Group	498,125	Hornbeck Offshore Services, Inc.	296,563
Mail Communications Group, Inc.	186,291	Petroplex Inv Holdings LLC	-
MC Sign Holdings LLC	871,701	Sadrill Partners Finco, LLC	219,439
Nielsen Finance LLC	277,775	Topaz Marine S.A.	452,500
Northwest Mailing Services, Inc.	491,208	Weatherford International	401,250
O E C Holding Corporation	156,599	Welltec A/S	340,313
Safway Group Holding LLC/ Finance Corporation	250,625	WPX Energy, Inc.	<u>295,375</u>
Smart Source Holdings LLC	444,417		<u>4,420,044</u>
SMB Machinery Holdings, Inc.	-	OTHER-REITS - 0.37%	
Steelcase, Inc.	564,758	Duke Realty Limited Partnership	<u>509,824</u>
Tranzonic Holdings LLC	<u>1,762,081</u>	PACKAGING - 0.66%	
	<u>13,946,567</u>	ASC Holdings, Inc.	790,562
MEDIA & ENTERTAINMENT - 4.33%		Vitex Packaging Group, Inc.	<u>129,358</u>
BlueSpire Holding, Inc.	1,656,641		<u>919,920</u>
GlynnDevins Acquisition Corporation	872,238	PAPER - 1.23%	
HOP Entertainment LLC	-	Clearwater Paper Corporation	476,875
Lamar Media Corp.	166,848	Dunn Paper	885,158
Money Mailer	1,332,865	Xerium Technologies, Inc.	<u>343,200</u>
Netflix, Inc.	313,035		<u>1,705,233</u>
R.R. Donnelley & Sons Company	410,000	PHARMACEUTICALS - 2.66%	
Sinclair Broadcast Group, Inc.	208,845	Clarion Brands Holding Corp.	1,705,273
Sirius XM Radio Inc.	464,958	Endo Finance LLC	476,250
Univision Communications, Inc.	572,963		
	<u>5,998,393</u>		

See Notes to Consolidated Financial Statements

CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

March 31, 2016

(Unaudited)

Industry Classification: (Continued)	Fair Value/ Market Value		Fair Value/ Market Value
ERG Holding Company LLC	\$ 1,045,429	TRANSPORTATION SERVICES - 2.91%	
Mallinckrodt PLC	460,625	Hertz Corporation	\$ 223,188
	<u>3,687,577</u>	MNX Holding Company	1,338,749
REFINING - 2.66%		OPE KAG Finance Sub	498,750
Calumet Specialty Products Partners L.P.	353,750	Penske Corporation	533,888
CITGO Petroleum Corporation	410,125	Team Drive-Away Holdings LLC	869,341
MES Partners, Inc.	1,290,125	VP Holding Company	<u>566,538</u>
MPLX LP	461,618		<u>4,030,454</u>
Paragon Offshore plc.	131,250	WIRELESS - 0.44%	
Tristar Global Energy Solutions, Inc.	<u>1,042,460</u>	Sprint Corporation	115,087
	<u>3,689,328</u>	Sprint Nextel Corporation	<u>496,875</u>
RETAILERS - 0.22%			<u>611,962</u>
Family Tree Escrow, LLC	165,360	WIRELINES - 0.30%	
HD Supply, Inc.	<u>133,350</u>	Frontier Communications Corporation	<u>422,187</u>
	<u>298,710</u>	Total Investments - 102.97%	<u><u>\$ 142,561,519</u></u>
TECHNOLOGY - 4.35%			
Anixter, Inc.	165,825		
First Data Corporation	406,508		
Glynlyon Holding Companies, Inc.	1,738,204		
Jabil Circuit, Inc.	495,000		
Micron Technology, Inc.	403,845		
REVSpring, Inc.	223,708		
Sabre GLOBL, Inc.	637,248		
Veritext Corporation	1,694,244		
Western Digital Corporation	<u>253,633</u>		
	<u>6,018,215</u>		

See Notes to Consolidated Financial Statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. History

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

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

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

2. Significant Accounting Policies

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

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

A. Fair Value Measurements:

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

Determination of Fair Value

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

which is responsible for setting the guidelines used in following the procedures adopted by the Trustees ensuring that those guidelines are being followed. Babson Capital considers all relevant factors that are reasonably available, through either public information or information available to Babson Capital, when determining the fair value of a security. The Trustees meet at least once each quarter to approve the value of the Trust's portfolio securities as of the close of business on the last business day of the preceding quarter. This valuation requires the approval of a majority of the Trustees of the Trust, including a majority of the Trustees who are not interested persons of the Trust or of Babson Capital. In approving valuations, the Trustees will consider reports by Babson Capital analyzing each portfolio security in accordance with the procedures and guidelines referred to above, which include the relevant factors referred to below. Babson Capital has agreed to provide such reports to the Trust at least quarterly. The consolidated financial statements include private placement restricted securities valued at \$98,538,386 (71.18% of net assets) as of March 31, 2016 whose values have been estimated by the Trustees based on the process described above in the absence of readily ascertainable market values. Due to the inherent uncertainty of valuation, those estimated values may differ significantly from the values that would have been used had a ready market for the securities existed, and the differences could be material.

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

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Unaudited)

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

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

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

Corporate Restricted Securities – Corporate Bonds

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

discount rate would result in a significant (decrease)/increase to the notes' fair value.

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

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

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

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

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

Short-Term Securities

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

Quantitative Information about Level 3 Fair Value Measurements

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**(Unaudited)****Fair Value Hierarchy**

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

Level 1 – quoted prices in active markets for identical securities

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

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

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

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

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

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

Assets:	Beginning balance at 12/31/2015	Included in earnings	Purchases	Sales	Prepayments	Transfers into Level 3	Transfers out of Level 3	Ending balance at 3/31/2016
Restricted Securities								
Corporate Bonds	\$ 67,658,072	\$ 492,690	\$ 6,440,729	\$ -	\$ (22,078)	\$ -	\$ -	\$ 74,569,413
Common Stock - U.S.	7,806,723	(751,915)	580,254	(540,898)	-	-	-	7,094,164
Preferred Stock	6,609,176	621,761	-	(9,948)	-	-	-	7,220,989
Partnerships and LLCs	9,670,199	124,087	42,418	(182,884)	-	-	-	9,653,820
	\$ 91,744,170	\$ 486,623	\$ 7,063,401	\$ (733,730)	\$ (22,078)	\$ -	\$ -	\$ 98,538,386

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Unaudited)

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

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

B. Accounting for Investments:

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

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

C. Use of Estimates:

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

D. Federal Income Taxes:

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

The Trust is taxed as a regulated investment company and is therefore limited as to the amount of non-qualified income

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

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

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

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

E. Distributions to Shareholders:

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

3. Investment Advisory and Administrative Services Contract A. Services:

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**(Unaudited)**

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

B. Fee:

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

4. Senior Indebtedness

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

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

5. Purchases and Sales of Investments

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

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

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

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

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

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

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

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

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

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

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

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

May 2016

Members of the Board of Trustees

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

*Member of the Audit Committee

Officers

Clifford M. Noreen
Chairman

Michael L. Klofas
President

James M. Roy
Vice President & Chief Financial Officer

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

Sean Feeley
Vice President

Robert M. Shettle
Vice President

Daniel J. Florence
Treasurer

Melissa M. LaGrant
Chief Compliance Officer

DIVIDEND REINVESTMENT AND CASH PURCHASE PLAN

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

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

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

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.



**Babson Capital
Participation Investors**