

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

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

FORM N-CSR

CERTIFIED SHAREHOLDER REPORT OF REGISTERED MANAGEMENT
INVESTMENT COMPANIES

Investment Company Act file number 811-2183

Babson Capital Corporate Investors

(Exact name of registrant as specified in charter)

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

(Address of principal executive offices) (Zip code)

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

(Name and address of agent for service)

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

Date of fiscal year end: 12/31

Date of reporting period: 06/30/15

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

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

ITEM 1. REPORT TO STOCKHOLDERS.

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

Babson Capital
Corporate Investors

Report for the
Six Months Ended June 30, 2015

Adviser

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

Transfer Agent & Registrar

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

Independent Registered Public Accounting Firm

KPMG LLP
Boston, Massachusetts 02110

Internet Website

www.babsoncapital.com/mci

Counsel to the Trust

Ropes & Gray LLP
Boston, Massachusetts 02110

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

Custodian

State Street Bank and Trust Company
Boston, Massachusetts 02116

Investment Objective and Policy

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

The Trust’s investment objective is to maintain a portfolio of securities providing a current yield and at the same time offering an opportunity for capital gains. The Trust’s principal investments are privately placed, below-investment grade, long-term debt obligations with equity features such as common stock, warrants, conversion rights, or other equity features and, occasionally, preferred stocks. The Trust typically purchases these investments, which are not publicly tradable, directly from their issuers in private placement transactions. These investments are typically mezzanine debt instruments with accompanying private equity securities made to small or middle market companies. In addition, the Trust may invest, subject to certain limitations, in marketable investment grade debt securities, other marketable debt securities (including high yield securities) and marketable common stocks. Below-investment grade or high yield securities have predominantly speculative characteristics with respect to the capacity of the issuer to pay interest and repay principal.

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/mci>; 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/mci>; and (2) on the SEC’s website at <http://www.sec.gov>.

Babson Capital Management LLC (“Babson Capital”) manages the Trust on a total return basis. The Trust distributes substantially all of its net income to shareholders each year. Accordingly, the Trust pays dividends to shareholders in January, May, August, and November. The Trust pays dividends to its shareholders in cash, unless the shareholder elects to participate in the Dividend Reinvestment and Share Purchase Plan.

Babson Capital Corporate Investors

TO OUR SHAREHOLDERS

July 31, 2015

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

The Board of Trustees declared a quarterly dividend of \$0.30 per share, payable on August 14, 2015 to shareholders of record on August 3, 2015. The Trust paid a \$0.30 per share dividend for the preceding quarter. The Trust earned \$0.28 per share of net investment income, including \$0.03 per share of non-recurring income, for the second quarter of 2015, compared to \$0.28 per share, including \$0.03 per share of non-recurring income, in the previous quarter.

During the second quarter, the net assets of the Trust increased to \$293,410,574 or \$14.97 per share compared to \$293,255,436 or \$14.99 per share on March 31, 2015. This translates into a 1.9% total return for the quarter, based on the change in the Trust’s net assets assuming the reinvestment of all dividends. Longer term, the Trust returned 11.3%, 14.9%, 14.9%, 12.0%, and 13.9% for the 1, 3, 5, 10, and 25-year periods, respectively, based on the change in the Trust’s net assets assuming the reinvestment of all dividends.

The Trust’s share price increased 3.4% during the quarter, from \$15.54 per share as of March 31, 2015 to \$16.07 per share as of June 30, 2015. The Trust’s market price of \$16.07 per share equates to a 7.3% premium over the June 30, 2015 net asset value per share of \$14.97. The Trust’s average quarter-end premium for the 3, 5 and 10-year periods was 10.7%, 15.8% and 12.6%, respectively. U.S. equity markets, as approximated by the Russell 2000 Index, increased 0.4% for the quarter. U.S. fixed income markets, as approximated by the Barclays Capital U.S. Corporate High Yield Index, was flat for the quarter.

The Trust closed six new private placement investments, as well as one add-on investment in an existing portfolio company, during the second quarter. The six new investments were in BlueSpire Holding, Inc., FMH Holdings Corporation, GlynnDevins Acquisition Corporation, Master Cutlery LLC, Power Stop Holdings LLC and Randy’s Worldwide Automotive, while the add-on investment was in Hartland Controls Holding Corporation. A brief description of these investments can be found in the Consolidated Schedule of Investments. The total amount invested by the Trust in these transactions was \$18,533,000.

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

The condition of the Trust’s existing portfolio remained solid through the second quarter. We had significantly more credit upgrades than downgrades during the quarter. The number of companies on our watch list and in default

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

The Trust was able to maintain its \$0.30 per share quarterly dividend for the second quarter even though net investment income per share, excluding non-recurring income, was once again below the dividend rate. Net investment income per share from recurring sources has been below the dividend rate for every quarter since the third quarter of 2013. As we have discussed in prior reports, net investment income is down due principally to the considerable reduction in the number of private debt securities in the portfolio resulting from the high level of exit and prepayment activity that occurred in 2013 and 2014. We have been able to maintain the \$0.30 per share quarterly dividend with current income, non-recurring income and earnings carried forward from prior quarters. Over time, however, the Trust's dividend-paying ability tends to be correlated with its recurring earnings capacity. Absent non-recurring income, earnings available for the quarterly dividend would have been \$0.25 per share for the second quarter. This quarter, the Trust earned an additional \$0.03 per share of non-recurring income, and utilized \$0.02 per share of earnings carry-forwards to maintain the \$0.30 per share quarterly dividend. Despite several strong quarters of new investment activity, we have not been able to grow the portfolio. It is unlikely that we will be able to rebuild the portfolio back to its former size and net income-producing capability in the near term. We cannot rely on non-recurring income due to its unpredictable nature. The Trust does continue to have available earnings carry-forwards which should be available to supplement recurring income for at least the third quarter. As a result, it is likely that later in 2015 we will have to reduce the dividend from the current \$0.30 per share quarterly rate. As we move through the year, we and the Board of Trustees will continue to evaluate the current and future earnings capacity of the Trust and formulate a dividend strategy that is consistent with that earnings level.

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

Sincerely,

Michael L. Klofas

President

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

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

Babson Capital Corporate Investors

CONSOLIDATED STATEMENT OF ASSETS AND LIABILITIES

June 30, 2015

(Unaudited)

Assets:

Investments

(See Consolidated Schedule of Investments)

Corporate restricted securities at fair value (Cost - \$192,502,808)	\$ 200,189,002
Corporate restricted securities at market value (Cost - \$55,127,872)	55,048,604
Corporate public securities at market value (Cost - \$48,752,119)	48,952,972
Total investments (Cost - \$296,382,799)	304,190,578
Cash	19,314,754
Interest receivable	3,408,403
Receivable for investments sold	282,812
Other assets	3,627
Total assets	327,200,174

Liabilities:

Note payable	30,000,000
Deferred tax liability	1,682,824
Investment advisory fee payable	916,908
Tax payable	682,978
Interest payable	202,400
Accrued expenses	304,490
Total liabilities	33,789,600
Total net assets	\$ 293,410,574

Net Assets:

Common shares, par value \$1.00 per share	\$ 19,600,460
Additional paid-in capital	115,537,751
Retained net realized gain on investments, prior years	142,769,539
Undistributed net investment income	7,808,545
Accumulated net realized gain on investments	1,569,324
Net unrealized appreciation of investments	6,124,955
Total net assets	\$ 293,410,574
Common shares issued and outstanding (28,054,782 authorized)	19,600,460
Net asset value per share	\$ 14.97

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENT OF OPERATIONS

For the six months ended June 30, 2015

(Unaudited)

Investment Income:	
Interest	\$13,345,670
Dividends	436,022
Other	153,382
Total investment income	13,935,074
Expenses:	
Investment advisory fees	1,833,331
Interest	792,000
Trustees' fees and expenses	165,000
Professional fees	126,003
Reports to shareholders	45,000
Custodian fees	18,476
Other	60,052
Total expenses	3,039,862
Investment income - net	10,895,212
Net realized and unrealized gain on investments:	
Net realized gain on investments before taxes	1,138,537
Income tax expense	(6,773)
Net realized gain on investments after taxes	1,131,764
Net change in unrealized appreciation of investments before taxes	6,629,434
Net change in deferred income tax expense	(527,994)
Net change in unrealized appreciation of investments after taxes	6,101,440
Net gain on investments	7,233,204
Net increase in net assets resulting from operations	\$18,128,416

See Notes to Consolidated Financial Statements

Babson Capital Corporate Investors

CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended June 30, 2015

(Unaudited)

Net increase in cash:

Cash flows from operating activities:

Purchases/Proceeds/Maturities from short-term portfolio securities, net	\$ 16,606,143
Purchases of portfolio securities	(53,671,581)
Proceeds from disposition of portfolio securities	49,247,757
Interest, dividends and other income received	12,036,862
Interest expense paid	(792,000)
Operating expenses paid	(2,196,391)
Income taxes paid	(3,666,913)
Net cash provided by operating activities	17,563,877

Cash flows from financing activities:

Cash dividends paid from net investment income	(11,730,225)
Receipts for shares issued on reinvestment of dividends	1,022,094
Net cash used for financing activities	(10,708,131)
Net increase in cash	6,855,746
Cash - beginning of year	12,459,008
Cash - end of period	\$ 19,314,754

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

Net increase in net assets resulting from operations	\$ 18,128,416
Decrease in investments	3,152,857
Increase in interest receivable	(567,621)
Increase in receivable for investments sold	(103,100)
Decrease in other assets	34,000
Increase in deferred tax liability	527,994
Increase in investment advisory fee payable	41,501
Decrease in tax payable	(3,660,140)
Increase in accrued expenses	9,970
Total adjustments to net assets from operations	(564,539)
Net cash provided by operating activities	\$ 17,563,877

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

	For the six months ended 06/30/2015 (Unaudited)	For the year ended 12/31/2014
Increase in net assets:		
Operations:		
Investment income - net	\$10,895,212	\$23,984,946
Net realized gain on investments after taxes	1,131,764	8,854,438
Net change in unrealized appreciation of investments after taxes	6,101,440	(84,222)
Net increase in net assets resulting from operations	18,128,416	32,755,162
Increase from common shares issued on reinvestment of dividends		
Common shares issued (2015 - 67,044; 2014 - 139,761)	1,022,094	2,065,868
Dividends to shareholders from:		
Net investment income (2015 - \$0.30 per share; 2014 - \$1.20 per share)	(5,870,200)	(23,378,280)
Total increase in net assets	13,280,310	11,442,750
Net assets, beginning of year	280,130,264	268,687,514
Net assets, end of period/year (including undistributed net investment income of \$7,808,545 and \$2,783,533, respectively)	\$293,410,574	\$280,130,264

See Notes to Consolidated Financial Statements

Babson Capital Corporate Investors

CONSOLIDATED SELECTED FINANCIAL HIGHLIGHTS

Selected data for each share of beneficial interest outstanding:

	For the six months ended 06/30/2015 (Unaudited)	2014	2013	For the years ended December 31,	
				2012	2011 (a)
Net asset value:					
Beginning of year	\$ 14.34	\$ 13.85	\$ 13.38	\$ 12.69	\$ 12.56
Net investment income (b)	0.56	1.23	1.18	1.28	1.29
Net realized and unrealized gain (loss) on investments	0.37	0.45	0.48	0.69	0.17
Total from investment operations	0.93	1.68	1.66	1.97	1.46
Dividends from net investment income to common shareholders	(0.30)	(1.20)	(1.20)	(1.25)	(1.34)
Dividends from realized gain on investments to common shareholders	—	—	—	(0.05)	(0.01)
Increase from dividends reinvested	0.00(c)	0.01	0.01	0.02	0.02
Total dividends	(0.30)	(1.19)	(1.19)		