

BABSON CAPITAL CORPORATE INVESTORS

Form N-30D

May 29, 2015

Babson Capital
Corporate Investors

Report for the
Three Months Ended March 31, 2015

Adviser

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

Transfer Agent & Registrar

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P.O. Box 219086
Kansas City, Missouri 64121-9086
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Independent Registered Public Accounting Firm

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Boston, Massachusetts 02110

Internet Website

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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

April 30, 2015

We are pleased to present the March 31, 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 May 15, 2015 to shareholders of record on May 1, 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 first quarter of 2015, compared to \$0.29 per share, including \$0.04 per share of non-recurring income, in the previous quarter.

During the first quarter, the net assets of the Trust increased to \$293,255,436 or \$14.99 per share compared to \$280,130,264 or \$14.34 per share on December 31, 2014. This translates into a 4.5% total return for the quarter, based on the change in the Trust's net assets assuming the reinvestment of all dividends. Longer term, the Trust returned 15.4%, 15.4%, 15.5%, 12.3%, and 13.8% for the 1, 3, 5, 10, and 25-year periods, respectively, based on the change in the Trust's net assets assuming the reinvestment of all dividends.

The Trust's share price decreased 2.2% during the quarter, from \$15.89 per share as of December 31, 2014 to \$15.54 per share as of March 31, 2015. The Trust's market price of \$15.54 per share equates to a 3.7% premium over the March 31, 2015 net asset value per share of \$14.99. The Trust's average quarter-end premium for the 3, 5 and 10-year periods was 12.3%, 16.2% and 12.6%, respectively. U.S. equity markets, as approximated by the Russell 2000 Index, increased 4.3% for the quarter. U.S. fixed income markets, as approximated by the Barclays Capital U.S. Corporate High Yield Index, increased 2.5% for the quarter.

The Trust closed five new private placement investments during the first quarter. The five new investments were in AFC - Dell Holding Corporation, Animal Supply Company, Compass Chemical International LLC, Tristar Global Energy Solutions, Inc. and York Wall Holding Company. A brief description of these investments can be found in the Consolidated Schedule of Investments. The total amount invested by the Trust in these transactions was \$15,717,000.

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

The condition of the Trust's existing portfolio remained solid through the first quarter. We had significantly more credit upgrades than downgrades during the quarter. The number of companies on our watch list and in default continues to be at or near the lowest level we have seen over the last five years. We successfully exited five investments and benefited from dividends associated with the recapitalization of one company during the quarter. We realized significant gains from these transactions. We continue to have a backlog of portfolio companies that are in the

process of being sold, with a number of these expected to close this year. We had five portfolio companies fully or partially prepay their debt instruments held by the Trust during the quarter. This lower level of prepayment activity is welcome after the unprecedented levels of prepayments we experienced in 2013 and early 2014.

(Continued)

The Trust was able to maintain its \$0.30 per share quarterly dividend for the first quarter even though net investment income per share, excluding non-recurring income, was once again below the dividend rate. Net investment income per share from recurring sources has been below the dividend rate for every quarter since the 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 has occurred in recent quarters. 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 first 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. The Trust continues to have available earnings carry-forwards which should be available to supplement recurring income for the next few quarters. Unless market conditions change dramatically though, it is still unlikely that we will be able to rebuild the portfolio back to its former size in the near term and grow net investment income. As a result, it is likely that in 2015 we will have to reduce the dividend from the current \$0.30 per share quarterly rate. As we move through 2015, we and the Board of Trustees will continue to evaluate the current and future earnings capacity of the Trust and formulate a dividend strategy that is consistent with that earnings level.

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

March 31, 2015

(Unaudited)

Assets:

Investments

(See Consolidated Schedule of Investments) Corporate restricted securities at fair value (Cost - \$187,819,961)	\$ 192,356,537
Corporate restricted securities at market value (Cost - \$60,704,303)	60,998,206
Corporate public securities at market value (Cost - \$54,142,844)	54,914,085
Short-term securities at amortized cost	3,499,733
Total investments (Cost - \$306,166,841)	311,768,561
Cash	13,655,639
Interest receivable	3,561,969
Other assets	31,227
Total assets	329,017,396

Liabilities:

Note payable	30,000,000
Payable for investments purchased	2,169,000
Deferred tax liability	1,519,864
Investment advisory fee payable	916,423
Tax payable	682,978
Interest payable	202,400
Accrued expenses	271,295
Total liabilities	35,761,960
Total net assets	\$293,255,436

Net Assets:

Common shares, par value \$1.00 per share	\$ 19,567,332
Additional paid-in capital	115,066,008
Retained net realized gain on investments, prior years	142,769,539
Undistributed net investment income	8,233,022
Accumulated net realized gain on investments	3,537,679
Net unrealized depreciation of investments	4,081,856
Total net assets	\$293,255,436
Common shares issued and outstanding (28,054,782 authorized)	19,567,332
Net asset value per share	\$ 14.99

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENT OF OPERATIONS

For the three months ended March 31, 2015

(Unaudited)

Investment Income:	
Interest	\$6,816,484
Dividends	128,082
Other	15,628
Total investment income	6,960,194
Expenses:	
Investment advisory fees	916,423
Interest	396,000
Trustees' fees and expenses	75,000
Professional fees	62,004
Reports to shareholders	22,500
Custodian fees	10,076
Other	28,702
Total expenses	1,510,705
Investment income - net	5,449,489
Net realized and unrealized gain on investments:	
Net realized gain on investments before taxes	3,124,992
Income tax expense	(24,873)
Net realized gain on investments after taxes	3,100,119
Net change in unrealized appreciation of investments before taxes	4,423,375
Net change in deferred income tax expense	(365,034)
Net change in unrealized appreciation of investments after taxes	4,058,341
Net gain on investments	7,158,460
Net increase in net assets resulting from operations	\$12,607,949

See Notes to Consolidated Financial Statements

Babson Capital Corporate Investors

CONSOLIDATED STATEMENT OF CASH FLOWS

For the three months ended March 31, 2015

(Unaudited)

Net increase in cash:

Cash flows from operating activities:

Purchases/Proceeds/Maturities from short-term portfolio securities, net	\$13,103,876
Purchases of portfolio securities	(27,726,034)
Proceeds from disposition of portfolio securities	20,478,887
Interest, dividends and other income received	5,860,631
Interest expense paid	(396,000)
Operating expenses paid	(1,096,914)
Income taxes paid	(3,685,013)
Net cash provided by operating activities	6,539,433

Cash flows from financing activities:

Cash dividends paid from net investment income	(5,860,025)
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