

FORM ADV Part 2A Firm Brochure as of March 30, 2012

Babson Capital Management LLC

Independence Wharf
470 Atlantic Avenue
Boston, MA 02210

Christopher A. DeFrancis
Co-General Counsel, Chief Compliance Officer, Secretary and Managing Director
(413) 226-1058

www.BabsonCapital.com

This brochure provides information about the qualifications and business practices of Babson Capital Management LLC. If you have any questions about the contents of this brochure, please contact us at (413) 226-1058 or at BabsonCapitalADV@babsoncapital.com. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (“SEC”) or by any state securities authority.

Additional information about Babson Capital Management LLC also is available on the SEC’s website at www.adviserinfo.sec.gov.

Babson Capital Management LLC’s registration with the SEC as an investment adviser is required based on the amount of assets under Babson Capital Management LLC’s management. Such registration does not imply that Babson Capital Management LLC possesses any certain level of skill or training.

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Applicant: Babson Capital Management LLC

SEC File Number: 801-241

Date: March 30, 2012



Item 2 – Material Changes

This March 30, 2012 Form ADV Part 2A Firm Brochure amendment contains material changes from Babson Capital Management LLC's last annual amendment, which was filed March 30, 2011, and other than annual amendment, which was filed on September 28, 2011. Material changes include:

- Item 4: Updated investment group names; updated regulatory assets under management
- Item 5: Updated minimum account size for senior secured loan accounts
- Item 6: Updated a potential conflict of interest (Workouts)
- Item 8: Updated Sources of Information; updated Global Private Finance investment strategy
- Item 10: Added Babson Capital Cornerstone Asia Limited and Babson Capital Global Advisors Limited
- Item 17: Updated Chief Compliance Officer's address

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Item 4 – Advisory Business

Babson Capital Management LLC (“Babson Capital”) is a wholly-owned indirect subsidiary of Massachusetts Mutual Life Insurance Company (“MassMutual”) and a member of the MassMutual Financial Group. The MassMutual Financial Group is a family of financial services companies providing investment management services and individual protection insurance to clients worldwide.

Established in 1940, Babson Capital is one of the oldest investment counsel firms in the United States. Babson Capital was acquired by MassMutual in 1995 and on January 1, 2000, the Investment Management Division of MassMutual was consolidated into Babson Capital. References to Babson Capital throughout this Firm Brochure also refer to the activities of its predecessor, David L. Babson & Company, and those of MassMutual’s former Investment Management Division.

Babson Capital provides a broad range of investment advisory and management services to sophisticated investors, including among others, pension plans, endowments, foundations, government entities and agencies, insurance companies, banks, private investment funds such as hedge funds, private equity funds and structured funds, registered investment companies, large family offices and other capital markets participants. Babson Capital also provides investment advisory and management services to its ultimate parent company, MassMutual, and certain of its subsidiaries and affiliates. To provide these services, Babson Capital’s investment activities are divided into the following groups:

- A. The FIXED INCOME GROUP primarily manages highly diverse fixed income portfolios comprised mainly of investment grade publicly-traded assets with a focus on relative and absolute return objectives. The Fixed Income Group invests in a variety of instruments, industries, types of portfolios, credit qualities and maturities along the investment grade quality spectrum. Investment capabilities include the management and trading of domestic and international government and agency obligations, mortgage and asset-backed securities, collateralized mortgage obligations, corporate debt securities, structured credit securities, municipal bonds, money market instruments, U.S. dollar and non-U.S. dollar denominated bonds and derivative instruments. The Fixed Income Group also has a quantitative analytics platform focused on securitized assets and derivatives, and additionally manages equity funds focused on quantitative, absolute return and relative return strategies, a multi-strategy fund and other structured fund vehicles. The Fixed Income Group’s investment activities and portfolio managers are supported by a dedicated trading platform and a team of credit analysts that employ a rigorous research process centered on bottom-up analysis across industries, sectors and individual securities.
- B. The GLOBAL HIGH YIELD INVESTMENTS GROUP manages senior secured loans and high yield bonds in a variety of structures, including structured vehicles, commingled funds, separate accounts and other vehicles. The Global High Yield Investments Group seeks to achieve superior, risk adjusted returns from senior secured loan and high yield bond portfolios built through disciplined credit selection and prudent diversification.
- C. The GLOBAL PRIVATE FINANCE GROUP manages highly diverse corporate fixed income and private equity portfolios and invests in a variety of instruments, industries,

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types of properties, credit qualities, maturities and financing arrangements. Its capabilities include investment grade and non-investment grade private placements, mezzanine and private equity securities, limited partnerships and lease finance. The Global Private Finance Group makes these investments in Europe, North America and in the Asia Pacific region.

Babson Capital provides investment advice regarding the purchase and sale of interests in partnerships, limited liability companies and other private funds (including hedge funds, private equity funds and other structured funds) with various investment strategies, the underlying assets of which include a broad range of debt and equity securities, as well as derivatives and other instruments.

In addition to the investments mentioned elsewhere in this Part 2A, Babson Capital may invest in any security or financial instrument consistent with client investment policies and restrictions. Examples of the other types of securities or instruments in which Babson Capital may invest include, without limitation, the following: senior secured loans, asset-backed securities (“ABS”), mortgage-backed securities (“MBS”), collateralized debt obligations (“CDOs”), equity in CDO funds, emerging market debt instruments, fixed income instruments, international (non-U.S.) government, agency or corporate securities, money market instruments, derivatives such as options, caps/floors, interest rate swaps, other swap types (e.g., credit default and total return swaps), and futures, private placements, commercial mortgage-backed securities (“CMBS”), private equity, preferred stocks, mezzanine and convertible securities.

Babson Capital provides investment management and advisory services in standard and customized specific account formats. These services are provided pursuant to a written investment advisory agreement between Babson Capital and the client under which Babson Capital agrees to manage the client’s funds in accordance with client-mandated investment objectives. Babson Capital tailors services based on the client’s or prospective client’s individual needs. For example, depending on the client’s individual needs, Babson Capital may create a separately managed account for the client’s investment and will allow the client to provide specific investment objectives and guidelines for that account. Babson Capital may also allow the client to impose specific restrictions on investments, including types of investments within a separately managed account.

Assets Under Management:

Babson Capital’s regulatory assets under management as of December 31, 2011 (rounded to the nearest dollar):

Discretionary:	\$ 97,693,342,891
Non-Discretionary:	\$ <u>2,929,818,863</u>
Total:	\$100,623,161,754

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Item 5 – Fees and Compensation

Advisory Fees:

I. Institutional Separate Accounts

Generally, fee schedules for standard institutional separate accounts are as follows:

A. Equity

Enhanced Core (minimum account size: \$25 million):

Dollar Amount Managed	Annual Fee Amount
First \$25 million	\$3.00 per \$1,000 (0.30%)
Next \$25 million	\$3.00 per \$1,000 (0.30%)
Next \$50 million	\$2.50 per \$1,000 (0.25%)
Thereafter	\$2.00 per \$1,000 (0.20%)

B. Fixed Income

Active Short Duration (minimum account size: \$25 million):

Dollar Amount Managed	Annual Fee Amount
First \$25 million	\$2.50 per \$1,000 (0.25%)
Next \$25 million	\$2.50 per \$1,000 (0.25%)
Next \$50 million	\$2.00 per \$1,000 (0.20%)
Thereafter	\$1.50 per \$1,000 (0.15%)

Core Fixed Income (minimum account size: \$25 million):

Dollar Amount Managed	Annual Fee Amount
First \$25 million	\$3.50 per \$1,000 (0.35%)
Next \$25 million	\$2.50 per \$1,000 (0.25%)
Next \$50 million	\$2.00 per \$1,000 (0.20%)
Thereafter	\$1.50 per \$1,000 (0.15%)

Core-Plus Fixed (minimum account size: \$25 million):

Dollar Amount Managed	Annual Fee Amount
First \$25 million	\$4.00 per \$1,000 (0.40%)
Next \$25 million	\$3.00 per \$1,000 (0.30%)
Next \$50 million	\$2.50 per \$1,000 (0.25%)
Thereafter	\$2.00 per \$1,000 (0.20%)

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C. High Yield

High Yield (minimum account size: \$50 million):

Dollar Amount Managed	Annual Fee Amount
First \$25 million	\$5.50 per \$1,000 (0.55%)
Next \$25 million	\$5.00 per \$1,000 (0.50%)
Next \$50 million	\$4.50 per \$1,000 (0.45%)
Thereafter	\$4.00 per \$1,000 (0.40%)

D. Senior Secured Loans

Senior Secured Loan (minimum account size: \$75 million)*:

Dollar Amount Managed	Annual Fee Amount
First \$50 million	\$5.50 per \$1,000 (0.55%)
Next \$50 million	\$5.00 per \$1,000 (0.50%)
Next \$50 million	\$4.50 per \$1,000 (0.45%)
Next \$50 million	\$4.00 per \$1,000 (0.40%)
Thereafter	\$3.50 per \$1,000 (0.35%)

*Subject to minimum average fee of \$3.75 per \$1000 (0.375%). Additional, administrative fees may apply depending on reporting requirements.

Fee rates for standard institutional separate accounts may be negotiated from time to time on a case-by-case basis. Fees for institutional separate accounts are generally billed by invoice directly to the client by Babson Capital and payable quarterly in arrears based on the quarter end market value or average value for the quarter. If a client terminates the relationship prior to the end of the quarter, the fee is generally prorated for the number of days of the quarter prior to termination. A client may terminate its relationship with Babson Capital pursuant to the termination provisions in the investment advisory agreement between Babson Capital and the client.

In addition to standard institutional separate accounts, Babson Capital offers investment advice to institutional clients in customized mandates, as described above. Fees for these accounts are negotiated on a case-by-case basis, but generally are based on the assets being managed by Babson Capital, payable on a quarterly basis in arrears. Fees for these accounts are billed by invoice directly to the client by Babson Capital. Like fees, other terms of the investment advisory agreement, such as termination and notice requirements, are negotiated on a case-by-case basis.

Babson Capital also offers investment advice to private investment fund clients. These services are provided pursuant to written investment advisory agreements between Babson Capital and the client. Fees for these accounts are described below under section IV. Private Investment Funds.

Clients of Babson Capital may enter into agreements with other service providers such as custodians or administrators, and such service providers may charge the clients additional fees. Investors in private funds or registered funds managed or sub-advised by Babson Capital will pay additional fund related fees. Clients may also pay certain brokerage and transaction fees in connection with

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investment activity in their portfolios. For a discussion of these brokerage and transaction fees, please refer to Item 12 – Brokerage Practices.

Babson Capital does not have any arrangements whereby it or its supervised persons are paid for the sale of securities or other products.

II. Affiliate Accounts

Babson Capital manages certain investment portfolios of its ultimate parent company, MassMutual, and certain of its subsidiaries and other affiliated companies. Babson Capital is typically reimbursed by MassMutual on a cost basis for its expenses incurred in providing services to these MassMutual affiliate accounts, although certain of these affiliates are charged asset based fees as may be negotiated between the parties. Additionally, as is more fully described in sections III and IV of this Item 5 below, Babson Capital acts as investment adviser or sub-adviser to certain investment funds sponsored by MassMutual, in which MassMutual or an affiliate has invested in and/or for which MassMutual serves as investment manager.

III. Investment Funds

Babson Capital serves as investment adviser or sub-adviser to open-end and closed-end investment companies registered with the SEC, as well as funds exempted from the definition of an investment company under the Investment Company Act of 1940, as amended (“private investment funds”). Complete information concerning each SEC-registered open-end investment company, including advisory and sub-advisory fees, minimum account requirements (if any) and termination provisions, is disclosed in the prospectus and/or statement of additional information of that SEC-registered open-end fund.

- A. For each SEC-registered open-end investment company sponsored by MassMutual for which Babson Capital serves as sub-adviser, MassMutual pays Babson Capital a sub-advisory fee calculated as a percentage of average daily net assets (ranging from 0.05% annually to 0.30% annually).
- B. For each SEC-registered closed-end investment company for which Babson Capital serves as investment adviser, Babson Capital receives advisory and/or administrative fees calculated quarterly as a percentage of net assets (ranging from 0.225% quarterly to 0.3125% quarterly).
- C. For each SEC-registered closed-end investment company for which Babson Capital serves as co-manager, Babson Capital receives 10% of the advisory fee paid to the investment adviser (ranging from 1% to 5% annually of total available capital) and either 10% or 10.67% of the carried interest payable by the fund (in each case, 20% of amounts distributed to common shareholders in excess of an 8% hurdle).

IV. Private Investment Funds

Babson Capital provides investment advisory and management services to a variety of private investment funds or other investment or finance entities, including hedge funds, private equity funds and structured funds. Management services for these accounts may include Babson Capital serving as

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adviser, sub-adviser, collateral manager, portfolio manager or co-manager. Fees and other terms are negotiated on a fund-by-fund basis and for certain funds and entities include fees based on the performance of the private investment fund. Fees for these accounts are calculated and deducted by the third party administrator in accordance with the investment advisory agreement and are generally payable in arrears. Fees can be calculated monthly, quarterly or semi-annually pursuant to the investment advisory agreement. Performance fees are generally billed and payable annually. Fees (including performance fees) for each private investment fund managed by Babson Capital are disclosed in the offering materials for each private investment fund.

Item 6 – Performance-Based Fees and Side-By-Side Management

Babson Capital may receive an incentive fee relating to the performance of certain private investment funds that it manages, such as collateralized debt obligations, hedge funds or private equity funds. In addition, Babson Capital and its affiliates may have an ownership or economic interest in certain private investment funds managed by Babson Capital. In order to attract and retain investment professionals and meet the expectations of investors in private investment funds, Babson Capital has determined that it is appropriate, in certain circumstances, to permit its investment professionals to have an ownership or economic interest in certain private investment funds it manages.

Babson Capital recognizes that such arrangements may create potential conflicts of interest. To address these conflicts, Babson Capital has adopted a Side by Side Management of Private Investment Funds and Other Advisory Accounts Policy to identify and describe the manner in which Babson Capital addresses the conflicts of interest that can arise when Babson Capital, its affiliates and/or investment professionals have an ownership or economic interest in a private investment fund managed by Babson Capital, including through a performance fee, and may potentially have an incentive to favor the private investment fund over Babson Capital's other advisory clients.

Potential Conflicts Among Advisory Clients:

Investment Allocations: Allocation of aggregate trades, particularly trades that are only partially filled as a result of the limited availability of desired securities, could be viewed as raising a potential conflict of interest, as Babson Capital may have an incentive to allocate securities that are expected to increase in value to certain advisory clients, such as private investment funds that provide Babson Capital with performance-based fees, or in which Babson Capital, its affiliates and/or investment professionals have an ownership or economic interest. To address the potential conflict of interest, all allocations of investment opportunities and allocations of aggregated trades for client accounts are required to be made in accordance with Babson Capital's Investment Allocation Policy, which is summarized below in Item 12 – Brokerage Practices, Trade Aggregation.

Cross Trades: Despite their potential benefits to clients, cross trades among advisory clients of Babson Capital can be effected in a manner perceived to favor one advisory client over another. Babson Capital could be viewed, for example, as crossing trades that are expected to increase in value from an advisory account to a private investment fund in order to benefit itself as a result of the ownership or economic interest, including the existence of a performance-based fee, of Babson Capital, its affiliates and/or investment professionals in the private investment fund. To address the potential conflict of interest, cross trades involving a private investment fund and other advisory clients are required to comply with Babson Capital's Transactions with Affiliates Policy, which

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ensures any such cross transaction is consistent with Babson Capital's fiduciary obligations to act in the best interests of its clients, including its ability to obtain best execution in connection with the cross-trade transaction, and is in compliance with applicable legal and regulatory requirements.

Short Sales: Babson Capital could be viewed as having a potential conflict of interest if it sells short certain securities in a private investment fund or advisory account while holding the same securities long in other private investment fund or advisory accounts, despite having a legitimate investment reason for engaging in these transactions. In such a case, Babson Capital could be seen as harming the performance of its other private investment fund or advisory clients for the benefit of the private investment fund or advisory account if the short-selling transactions cause the market value of the security to move lower. To address the potential conflict of interest, all short sales engaged in client accounts by Babson Capital are required to comply with Babson Capital's Short Sales Policy, which ensures that the use of short sales by Babson Capital is consistent with Babson Capital's fiduciary obligations to its clients.

Allocation of Time and Resources; Patterns of Trading: The head of each investment group is responsible for periodically monitoring the performance, portfolio composition and trading activity, as appropriate, of all accounts managed by each investment professional in his or her respective investment group who manages private investment funds in which Babson Capital, its affiliates and/or the investment professional has an ownership or economic interest to ensure that there is no pattern suggesting that the investment professional (i) inappropriately favored such private investment fund(s) with respect to the time or resources expended in managing the fund(s) or the allocation of investment opportunities or (ii) purchased or sold securities in other advisory accounts for the purpose of benefiting positions held by the private investment fund.

Potential Conflicts with Private Investment Fund Investors:

Certain potential conflicts of interest may exist between an investment professional and other private investment fund investors as a result of such investment professional's ownership or economic interest in the private investment fund. Babson Capital has designed the following policies to address these potential conflicts of interest.

Personal Securities Transactions: All investment professionals are required to comply with Babson Capital's Code of Ethics and Personal Securities Transactions Policy, which is summarized below in Item 11 – Code of Ethics.

Trading in Private Investment Fund Securities: An investment professional's personal investment in a private investment fund is required to be made in accordance with Babson Capital's Employee Co-Investment Policy, which ensures that any co-investment by a Babson Capital employee is consistent with Babson Capital's Code of Ethics and Personal Securities Transactions Policy, which is summarized below in Item 11 – Code of Ethics.

Workouts: In situations where attempts are made by Babson Capital to "workout" a troubled investment (either in an out-of-court restructuring or a formal bankruptcy court proceeding) held in a private investment fund, the investment professional involved in the workout must be either (i) disinterested (i.e., such investment professional has no ownership or economic interest in any of the private investment funds holding such troubled investment) or (ii) disclose such ownership or economic interest to the head of the investment group prior to engaging in the workout. In cases

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where the investment professional discloses an ownership or economic interest in a private investment fund holding a troubled investment, the head of the investment group will determine whether such interest is likely to create a conflict of interest (i.e., such investment professional's interest is not aligned with those of the private investment fund's third party investors). If the investment professional's interest conflicts with those of the private investment fund's third party investors, the head of the investment group will appoint another investment professional to lead the work-out effort.

Due to the diverse nature of the investment strategies that may be employed by a private investment fund and the diverse nature of the responsibilities of Babson Capital's investment professionals assigned to manage such funds, this Item 6 is not exhaustive in identifying all the potential conflicts of interests that may arise when Babson Capital, its affiliates and/or investment professionals have an ownership or economic interest in a private investment fund for which they are responsible. No ownership or economic interest in a private investment fund may be awarded, nor will an investment professional be permitted to invest in a private investment fund (or the entity receiving the performance fee or profit allocation from such fund) unless and until the head of the investment group has determined that the potential conflicts of interest have been identified and addressed.

Item 7 – Types of Clients

Babson Capital provides a broad range of investment advisory and management services to sophisticated investors, including among others, pension plans, endowments, foundations, government entities and agencies, insurance companies, banks, private investment funds such as hedge funds, private equity funds and structured funds, registered investment companies, large family offices and other capital markets participants. Babson Capital's institutional investment strategies typically have minimum investment requirements. In general, for separate or individually-managed institutional accounts, the minimum investment requirement is \$25-75 million. Babson Capital also offers commingled investment vehicles for some of its strategies; the minimum investment requirement for these vehicles is generally \$1-5 million. Babson Capital may waive the minimum investment requirement in its sole discretion. To the extent a minimum investment requirement is waived, there may not be a waiver of the minimum fee detailed in that investment strategy's fee schedule. For smaller accounts, this could result in a substantially higher percentage fee than is indicated on the respective fee schedule.

Customer Identification Program Notice:

To help fight the funding of terrorism and money laundering activities, U.S. federal law requires financial institutions, including Babson Capital, to obtain, verify and record information that identifies each person who opens an account on behalf of an investor. This means that Babson Capital may request from you your name, address, date of birth, social security or other government issued identification number and other information that will allow Babson Capital to identify you. Babson Capital may also ask for identifying documents so that it can verify your identity and may also verify your identity through non-documentary means, such as through the comparison of the information provided by you with information provided by public databases or other sources. If you refuse to provide the information requested, Babson Capital may not be able to open an account for you.

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Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss

Methods of Analysis:

Babson Capital uses economic, fundamental, technical and quantitative analyses. Economic analysis emphasizes daily and historical review of economic and financial data that impact short, intermediate and long-term interest rates. Fundamental analysis examines qualitative and quantitative factors to determine an issuer's current financial strength and expected future performance. Factors examined often include: historic and projected company financial results, credit metrics, capital structure, management assessment, financial discipline, competitive forces, economic analysis and life cycle analysis. Technical analysis involves a daily analysis of yields relative to other asset classes and other indicators as deemed appropriate in the marketplace. Quantitative analysis involves a daily analysis of the risk and return characteristics of securities and portfolios. Babson Capital may use proprietary models as well as models developed by third parties to enhance its analysis of securitized instruments (e.g., interest rate and prepayment characteristics) and to augment its risk analytic and performance attribution systems. For its enhanced equity index investment strategies, Babson Capital utilizes a proprietary, quantitative multi-factor model.

Sources of Information:

Babson Capital, particularly with respect to private placement investments and senior secured loans, often relies on information supplied directly by the issuers or agents. Babson Capital may also use media sources including, but not limited to, Bloomberg, ILX (real-time market data), FactSet, Thomson One / Street Events, Assay Research, Accounting Technique Analysis, Lipper, LexisNexis, Factiva, Morningstar, Credit Sights, Value Line, sell-side research, DBRS, SEDAR, CNN Money, Google Finance, Yahoo Finance, Private Placement Monitor, Private Placement Newsletter, Wall Street Journal, A.M. Best, TradeWeb, BondEdge, Intex, KMV, Capital IQ, Compustat and Debtwire. Babson Capital may also use services such as Moody's Global Credit Research (including Global Corporate, Global Banking, Sovereign and CDO Research), Moody's Municipal Credit Research, S&P's Ratings Direct Global Issuers, S&P's Ratings Direct Public Finance and Structured Finance, S&P's Commercial Paper Ratings Guide, S&P's Leveraged Commentary and Data, Fitch Global Corporates and CMBS, Fitch Ratings, Thomson Financial's Municipal Market Data, Barclay's Live, Markit Hub and Loan Pricing Corporation.

Investment Strategies:

Investment Grade (including Core/Core Plus Fixed Income)

Babson Capital's core investment grade strategies are operated in a risk-controlled, actively managed framework to construct and maintain a diversified portfolio of investment grade fixed income securities. The primary investments include U.S. government and agency securities, domestic and foreign corporate bonds (no non-U.S. dollar currency exposure), MBS, ABS and money market securities, including commercial paper. These strategies may invest a small amount of assets in securities rated BB, but are primarily focused on instruments rated BBB- or higher. Derivative use within these strategies incorporates certain options, futures contracts, options on futures contracts, forward contracts, swaps, caps, floors, collars, structured notes, indexed securities, options on indexed securities and other derivative instruments to mitigate or modify risk and exposures, such as duration,

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sector and issuer exposures, term structure and volatility. Performance attribution has consistently highlighted Babson Capital's ability to add value through security selection and sector allocation. Duration and yield curve management are also key components of Babson Capital's investment process.

Global High Yield

Babson Capital's global high yield efforts are managed by teams in the United States and Europe. Babson Capital's strategy is to invest in senior secured loans and high yield bonds in North America and Western Europe. Babson Capital's portfolio management strategy is based upon building diversified portfolios of issuers and industries. Babson Capital manages portfolios to a total return, typically looking to generate high current income and, where appropriate, capital appreciation. Babson Capital bases its credit decisions on fundamental bottom-up analysis incorporating industry trends and broad economic themes as appropriate.

Global Private Finance

Babson Capital's global private finance efforts are undertaken with its teams in the United States, Europe and the Asia Pacific region. Babson Capital's global private finance strategies include investing in private placement bonds, senior leveraged loans, mezzanine, equity and commitments to private equity funds. Babson Capital's strategy is to target these asset classes which generally have constrained supply, are difficult for investors to access directly and have a favorable supply/demand imbalance. Babson Capital's investment and portfolio management approach is built on sound fundamental credit analyses where each investment is unique and separately negotiated. Babson Capital seeks to create well diversified portfolios, thus limiting exposure to any particular company, industry or geography.

Structured Credit

Babson Capital's structured credit investment strategy revolves around investments in collateralized loan obligations (backed by corporate high yield bonds), collateralized debt obligations (backed by non-agency residential mortgage-backed securities (RMBS) and commercial mortgage-backed securities (CMBS)) and collateralized bond obligations (backed by high yield and investment grade bonds). These investments are also managed in synthetic form. In analyzing structured credit products, Babson Capital focuses on three main investment principles: (1) underlying corporate credits must be well diversified from both an issuer and industry perspective; (2) ultimate performance is directly tied to the portfolio of assets being securitized; and (3) limit investments to those with underlying assets classes where Babson Capital has independent knowledge and experience. In selecting an investment, Babson Capital performs three key levels of analysis: (1) assessing the current and future fundamental/credit health of the underlying collateral; (2) understanding the impact of the structural mechanics; and (3) assessing the impact of the manager. Babson Capital uses third party and proprietary models to perform cash flow and yield projections, such as Intex, Bloomberg and CDO World.

Alternatives

Babson Capital's alternative investments business consists of strategies managed within hedge fund structures and looks to provide absolute returns in all market cycles. Babson Capital provides non-

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traditional, long/short investment funds to complement equity and fixed income portfolios for qualified clients. Babson Capital utilizes two distinct approaches including Event Driven and Multi-Strategy. The Event Driven approach strives to identify investment opportunities in middle market firms that are not widely followed, creating an opportunity to uncover misunderstood situations. This strategy employs a catalyst-driven investment approach and invests across the capital structure of companies with leveraged balance sheets. The Multi-Strategy approach utilizes all the capabilities across Babson Capital and Baring Asset Management Limited (a wholly-owned subsidiary of MassMutual and affiliate of Babson Capital). Underlying strategies range in investment exposures and asset type with a focus on delivering an uncorrelated return profile with limited market beta. Babson Capital's alternative investment strategies are managed by experienced investment professionals who leverage the greater Babson Capital organization for its deep infrastructure, research and trading capabilities.

Material Risks:

Complexity Risk (a material risk for the following investment strategy: Structured Credit): Investment in structured credit products is complex. A small change can have a significant impact on performance. Some factors that could have an impact on performance are interest rates, currency exchange rates, market, financial or legal uncertainties, general availability of liquidity, prices at which underlying assets are purchased, defaults of the underlying assets, timing of defaults and subsequent recoveries, timing of acquisitions of underlying assets and the effectiveness of hedges, among others.

Concentration of Holdings (a material risk for the following investment strategy: Investment Grade): It is possible that investments selected may be concentrated in a particular market or industry, or in a limited number or type of security. The limited diversity could expose a portfolio to losses disproportionate to market movements in general if there are disproportionately greater adverse price movements in those investments.

Conflicts of Interest Involving Babson Capital (a material risk for the following investment strategy: Structured Credit): Babson Capital and its affiliates may invest for their own account or the accounts of others in an issuer's securities or loans that are senior to or junior to, or have an interest different from or adverse to, the securities or loans that are owned by the issuer. Babson Capital and its affiliates may have an incentive to make investment decisions for its own account or the accounts of others that may be different from or adverse to the interests of the issuer.

Credit Risk (a material risk for the following investment strategies: Investment Grade, Global High Yield and Alternatives): Investments in fixed income securities may involve risk exposure tied to the credit risk of the obligor on the purchased loans and securities, which is determined by the obligor's ability to make required interest and principal payments.

Default Risk (a material risk for the following investment strategies: Investment Grade, Global High Yield and Structured Credit): The market value of debt securities will generally fluctuate with, among other things, general economic conditions, world political events, developments or trends in any particular industry, the conditions of financial markets and the financial condition of the obligors. Therefore, if an event of default occurs with respect to the debt securities, there can be no assurance that the proceeds of any sale of the debt securities will be sufficient to pay in full amounts payable, expenses and the amount of principal and interest owed with respect to such debt securities.

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Default Risk/Subordination of MBS and ABS (a material risk for the following investment strategies: Investment Grade and Structured Credit): Investments in subordinated MBS and ABS involve greater credit risk of default than other securities. Default risks may be further pronounced in the case of MBS secured by, or evidencing an interest in, a relatively small or less diverse pool of underlying mortgage loans. Certain subordinated securities ("first loss securities") absorb all losses from default before any other class of securities is at risk. First loss securities generally are exposed to greater risk of loss if such securities have been issued with little to no credit enhancement or equity.

Derivative/Counterparty Risk (a material risk for the following investment strategy: Investment Grade): Swap contracts, contracts for differences and other over-the-counter derivatives are not traded on exchanges, rather banks and dealers act as principals in these markets. As a result, derivatives are subject to the risk of the inability or refusal of a participant to perform with respect to such contracts. Participants in the over-the-counter derivatives market are generally not regulated by any regulatory authority or credit evaluation. In addition, adverse market movements may occur while replacement transactions are executed. Over-the-counter derivatives may also expose participants to additional liquidity risks.

Equity Market Risk (a material risk for the following investment strategy: Alternatives): Public and private equity securities may involve substantial risk and may be subject to wide and sudden fluctuations in market value, with a resulting fluctuation in the amount of profits and losses.

Illiquidity of Investments (a material risk for the following strategy: Global Private Finance): Private securities investments consist of private, illiquid securities. There is no readily available after-market to sell private securities investments and Babson Capital must rely on private equity sponsors to refinance or to sell a company for realizations.

Interest Rate Risk (a material risk for the following investment strategies: Investment Grade, Global High Yield and Alternatives): Interest rate changes may affect the value of a debt security indirectly (especially in the case of fixed rate obligations) or directly (especially in the case of securities whose rates are adjustable). In general, rising interest rates will negatively impact the price of a fixed rate debt security and falling interest rates will have a positive effect on price. Adjustable rate securities also react to interest rate changes in a similar manner although generally to a lesser degree (depending on the characteristics of the reset terms, including the index chosen, frequency of reset and reset cap and floors, among other factors). Interest rate sensitivity is generally more pronounced and less predictable in securities with uncertain payment or prepayment schedules.

Investments are Subordinate (a material risk for the following investment strategy: Global Private Finance): Private securities are generally unsecured and subordinate to certain other obligations of a company. A private security lender's rights and remedies are generally limited and can be delayed pursuant to contractual agreements with a senior lender.

Leverage Risk (a material risk for the following investment strategy: Alternatives): Depending on market conditions, investments may be significantly leveraged to enhance returns. Additionally, investments may be pledged in order to borrow additional funds for investment purposes. Leverage may also be utilized through repurchase agreements, reverse repurchase agreements and forward purchase agreements, as well as through swaps, structured notes and other derivatives. The amount of borrowings outstanding at any time may be substantial in relationship to its capital. While leverage

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presents opportunities for increasing the total return of investments, it has the effect of potentially increasing losses as well. Accordingly, any event which adversely affects the value of an investment would be magnified to the extent it's leveraged.

Nature of Private Securities (a material risk for the following investment strategy: Global Private Finance): Investing in private securities includes a possibility that adverse changes in the general economic conditions of a company may adversely affect a company's ability to pay principal and interest on its debt obligations. Also, companies are leveraged and specific developments, such as reduced cash flow from operations or the inability to refinance debt at maturity, may adversely affect a company's ability to meet its debt service obligations.

Prepayment Risk (a material risk for the following investment strategies: Investment Grade, Global High Yield and Structured Credit): The frequency at which prepayments occur are affected by a variety of factors including interest rates and spreads as well as economic, demographic, tax, social, legal and other factors. Generally, prepayments occur on fixed rate obligations when prevailing interest rates fall below coupon rates and on floating rate obligations when spreads narrow. There are two adverse effects of prepayments: (1) investments may experience outright losses and (2) investments may underperform relative to hedges that may have been constructed for these markets, industries or securities.

Prepayment Risk of MBS and ABS (a material risk for the following investment strategies: Investment Grade and Structured Credit): Prepayments on MBS and ABS result from, among other things, voluntary prepayments by obligors and liquidations due to defaults and foreclosures. The frequency at which prepayment occurs on loans underlying MBS and ABS are affected by a variety of factors, including the prevailing interest rates as well as economic, demographic, tax, social, legal and other factors. Generally, mortgage obligors tend to prepay their mortgages when prevailing mortgage loan rates fall below the interest rates on their mortgage loans. Although ABS are generally less likely to experience substantial prepayments, certain factors that affect the rate of prepayments on MBS also affect the rate of prepayments on ABS.

Restricted Investments; Liquidity of Investments (a material risk for the following investment strategy: Global High Yield): Senior secured loan and high yield bond investments are subject to legal or other restrictions on transfer or for which no liquid market exists. The market price, if any, for such assets tend to be volatile and Babson Capital may not be able to sell them when it desires to do so or to realize what it perceives to be their fair value in the event of a sale. The sale of restricted and/or illiquid securities often requires more time and results in higher broker charges or dealer discounts and other selling expenses than does the sale of securities eligible for trading on national securities exchanges or in the over-the-counter markets. Restricted securities may sell at a price lower than similar securities that are not subject to restrictions on resale.

Servicer Risk of MBS (a material risk for the following investment strategies: Investment Grade and Structured Credit): Recently, mortgage loan originators and servicers have experienced serious financial difficulties and, in some cases, bankruptcy. Such financial difficulties may have a negative effect on the ability of the servicer to pursue collection on mortgage loans that are experiencing increased delinquencies and defaults and to maximize recoveries on the sale of underlying mortgage loans. The inability of the originator to repurchase mortgage loans in the event of early payment defaults and loan representation breaches may also affect the performance of MBS. These difficulties may adversely affect the performance and market value of MBS.

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Risk of Loss:

The risks described above are not a complete list of all risks associated with the described investment strategies. Investing in securities of any type is speculative and can involve a high degree of risk. Investing in securities involves the risk of loss, sometimes of an entire investment, that clients should be prepared to bear.

Item 9 – Disciplinary Information

Item 9 is not applicable – Babson Capital does not have any legal or disciplinary events on behalf of itself or its employees which would be material to a client's or prospective client's evaluation of Babson Capital's advisory business or the integrity of Babson Capital's management.

Item 10 – Other Financial Industry Activities and Affiliations

Babson Capital is an indirect, wholly-owned subsidiary of MassMutual and an SEC-registered investment adviser and member of the Financial Industry Regulatory Authority. Babson Capital is an exempt commodity pool operator and an exempt commodity trading advisor. Babson Capital relies on the International Adviser exemption with the Ontario Securities Commission, the Quebec Financial Markets Authority and the British Columbia Securities Commission. Babson Capital also holds a California Finance Broker's License from the California Department of Corporations.

Babson Capital Securities LLC (f/k/a Babson Capital Securities Inc) is a wholly-owned subsidiary of Babson Capital and an SEC-registered broker-dealer and member of the Financial Industry Regulatory Authority. Babson Capital Securities LLC also relies on the International Dealer exemption with the Ontario Securities Commission, the Quebec Financial Markets Authority and the British Columbia Securities Commission. Babson Capital Securities LLC acts as a placement agent for private investment funds, including funds sponsored and/or advised by Babson Capital and its affiliates, as well as from time to time, unaffiliated third parties. As such, Babson Capital Securities LLC sometimes receives compensation for its placement services, including, but not limited to, placement services related to the offering and sale to Babson Capital clients of private investment funds sponsored and/or advised by Babson Capital, its affiliates or unaffiliated third parties. Certain Babson Capital employees are registered representatives with Babson Capital Securities LLC.

Babson Capital has a wholly-owned subsidiary in Hong Kong, Babson Capital Asia Limited ("Babson Capital Asia"), a company incorporated with limited liability in Hong Kong and regulated as an investment adviser by the Hong Kong Securities and Futures Commission. Babson Capital Asia conducts market research for investment opportunities for Babson Capital and MassMutual.

Babson Capital has an indirect, wholly-owned subsidiary in Australia, Babson Capital Australia Pty Ltd. ("Babson Capital Australia"), a company incorporated in Australia and regulated as a broker-dealer and investment adviser by the Australian Securities and Investments Commission. Babson Capital Australia manages the assets of Australian institutional investors in Australia.

Babson Capital has a wholly-owned subsidiary in Hong Kong, Babson Capital Cornerstone Asia Limited (f/k/a Cornerstone Real Estate Advisers Asia Limited), a private company incorporated in

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Hong Kong and licensed as an investment firm regulated by the Hong Kong Securities and Futures Commission. Babson Capital Cornerstone Asia Limited provides investment advice and research to Babson Capital.

Babson Capital has an indirect, wholly-owned investment management subsidiary in Europe, Babson Capital Europe Limited (“Babson Capital Europe”), a private limited company incorporated in England and Wales and authorized and regulated in the conduct of investment business by the U.K. Financial Services Authority. Babson Capital and Babson Capital Europe have entered into an administrative services agreement whereby Babson Capital provides certain administrative services to Babson Capital Europe, including but not limited to financial accounting, compliance and technology services and advice and recommendations with respect to certain aspects of the business and affairs of Babson Capital Europe (except matters relating to compliance with English laws and regulations).

Babson Capital has an indirect, wholly-owned investment management subsidiary, Babson Capital Global Advisors Limited (“BCGA”), a private limited company incorporated in England and Wales. BCGA is an SEC-registered investment adviser and is also authorized and regulated in the conduct of investment business by the U.K. Financial Services Authority.

Babson Capital has entered into a services agreement with Babson Capital Japan KK, a wholly-owned subsidiary of Babson Capital that has a limited investment advisory license with the Japanese Financial Services Agency.

Cornerstone Real Estate Advisers LLC (“CREA”) is a wholly-owned subsidiary of Babson Capital and an SEC-registered investment adviser and member of the Financial Industry Regulatory Authority. CREA is a global real estate investment organization providing investment and advisory services to institutional and other qualified investors in public and private debt and equity investments.

CREA has a wholly-owned subsidiary in the Netherlands, Cornerstone Real Estate Advisers Europe Securities B.V. (“Cornerstone Netherlands”), a private limited liability company in the Netherlands. Cornerstone Netherlands is licensed as an investment firm regulated by the Dutch Authority for Financial Markets. Cornerstone Netherlands provides investment advice and research relating to global real estate securities products.

CREA has an indirect, wholly-owned subsidiary in the United Kingdom, Cornerstone Real Estate Advisers Europe Finance LLP (“Cornerstone Europe”). Cornerstone Europe is a London-based real estate investment management company licensed by the U.K. Financial Services Authority. Cornerstone Europe provides investment advice and distributes securities to CREA’s global clientele.

Cornerstone Real Estate Advisers Inc. is a wholly-owned subsidiary of CREA that holds a corporation real estate license from the California Department of Real Estate and a California Finance Lender’s License from the California Department of Corporations. Timothy P. Kenny, a Managing Director of CREA, holds a real estate broker license from the New York Department of State, Division of Licensing Services.

Wood Creek Capital Management, LLC (“Wood Creek”) is a wholly-owned subsidiary of Babson Capital and an SEC-registered investment adviser and a member of the Financial Industry Regulatory Authority. Wood Creek is an exempt commodity pool operator. Wood Creek was originally formed

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by MassMutual, Babson Capital and Norfolk Management Group, LLC, an investment holding company specializing in alternative investments, and is an asset management firm intended to incubate emerging hedge funds in non-traditional asset classes. These asset classes are in emerging categories such as intellectual property rights, environmental credits and trade finance obligations, among others. MassMutual has an ownership interest in certain of Wood Creek's affiliated investment funds.

Babson Capital and certain of its affiliates, including MassMutual, have a relationship with the venture capital firm Braemar Energy Ventures ("Braemar") and its affiliates, including funds managed by Braemar Capital Management LLC, an investment advisory firm owned by MassMutual and Braemar. In addition to MassMutual making an investment in Braemar's two venture capital funds, Braemar Energy Venture LP and Braemar Energy Venture II, L.P., Babson Capital has an interest in the economics of the funds and has taken part in the expansion and development of the Braemar business, as well as supplied various services, office space, communications and computer equipment to Braemar, in some cases at no cost to the fund or to the Braemar principals. Additionally, Babson Capital's affiliate broker-dealer, Babson Capital Securities LLC, entered into arrangements to introduce prospective investors, including Babson Capital clients, to Braemar Energy Venture II, L.P. and may in the future act as placement agent for other Braemar affiliated funds.

Babson Capital provides The MassMutual Trust Company, FSB, a federally chartered stock savings bank that is wholly-owned by MassMutual, with investment advisory services pursuant to an investment advisory contract.

Babson Capital's ultimate parent company, MassMutual, is a mutual life insurance company, an SEC-registered investment adviser and member of the Financial Industry Regulatory Authority. Babson Capital has entered into an Administrative Services Agreement with MassMutual, pursuant to which MassMutual is obligated to provide Babson Capital with agreed-upon administrative and support services. MassMutual is the sponsor and investment adviser of MML Series Investment Fund II and MassMutual Premier Funds, registered open-end management investment companies and certain portfolios for which Babson Capital serves as investment sub-adviser. Babson Capital has also entered into investment advisory agreements with MassMutual, and serves as investment adviser to the MassMutual general investment account, certain separate accounts, and to certain of MassMutual's life insurance company subsidiaries and affiliates. As a result, these affiliate accounts co-invest jointly and concurrently with Babson Capital's other advisory clients and therefore share in the allocation of investment opportunities. Babson Capital also acts as investment adviser or sub-adviser to certain investment funds in which MassMutual or an affiliate has invested and/or for which MassMutual or an affiliate serves as investment manager.

Jefferies Finance LLC ("Jefferies Finance") is a finance company formed by Jefferies Group, Inc., a global investment bank and securities firm, MassMutual and Babson Capital, to offer senior loans to middle market and growth companies. Jefferies Finance is co-owned by Jefferies Group, Inc. and MassMutual and is an SEC-registered investment adviser and member of the Financial Industry Regulatory Authority. Babson Capital provides certain portfolio management and administrative services to Jefferies Finance pursuant to a services agreement. Babson Capital also acts as investment sub-adviser to JFIN CLO 2007 Ltd., a collateralized loan obligation for which Jefferies Finance acts as the collateral manager.

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Invicta Advisors LLC (“Invicta”) is a wholly-owned subsidiary of MassMutual and an affiliate of Babson Capital. Babson Capital provides certain investment management, administrative and support services to Invicta pursuant to advisory and administrative services agreements.

Please see response under Item 5 above for a description of the registered, open-end and closed-end investment companies and the private investment funds and other investment or finance entities for which Babson Capital serves as investment adviser, sub-adviser, co-manager, portfolio manager or collateral manager. Babson Capital, its affiliates and employees may have investments in the investment funds that Babson Capital advises. Employees of Babson Capital and its affiliates serve as officers, directors and/or trustees of certain investment funds and other investment or finance entities that it advises. Babson Capital or its affiliates may recommend that a client invest in investment funds or other advisory accounts and investment products managed by Babson Capital or its affiliates.

Certain of Babson Capital's investment advisory clients may be solicited to invest in one or more of the private investment funds described under section IV of Item 5 above or established in the future by Babson Capital or an affiliate, or in which Babson Capital or an affiliate has invested. Certain of these private investment funds may be structured as limited partnerships or limited liability companies with respect to which Babson Capital, or an affiliate, serves as general partner, managing member or manager. Additionally, Babson Capital's affiliated broker-dealer, Babson Capital Securities LLC, may solicit clients to invest in funds that are not managed by Babson Capital, but in which Babson Capital or its affiliates has an economic interest and/or holds an ownership interest in the fund's manager.

Item 11 – Code of Ethics, Participation or Interest in Client Transactions and Personal Trading

Code of Ethics:

The following is a summary of Babson Capital's Code of Ethics and Personal Securities Transactions Policy ("Code of Ethics" or the "Code"), which has been adopted by Babson Capital in compliance with Section 204A of the Investment Advisers Act of 1940, as amended (the “Advisers Act”), Rule 204A-1 under the Advisers Act and Rule 17j-1 under the Investment Company Act of 1940, as amended. A copy of the Code of Ethics is available to any client or prospective client without charge, upon request.

Personal Trading:

The Code relating to Personal Securities Transactions applies to all employees and officers of Babson Capital ("Access Persons") along with any other individual the Chief Compliance Officer deems appropriate. Access Persons include, as a sub-set, investment persons.

While Access Persons may trade in securities that are purchased, held and sold by or on behalf of Babson Capital's advisory clients, such personal transactions are subject to a number of limitations. Generally, Access Persons must receive approval before trading in a security absent an exemption in the Code and are generally subject to a ban on trading in a security on the same day as the purchase or sale of that security by any client account (except for securities exempt as described below) and short-

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term trading. Access Persons are also prohibited from engaging in short sales of securities issued by any entities advised or sub-advised by Babson Capital or joining investment clubs. Access Persons must also generally obtain approval and disclose any possible conflicts of interest prior to serving on the Board of Directors of any business entity or other outside business activity and must obtain prior approval before participating in certain private placements or initial public offerings.

Investment persons, including portfolio managers, traders and research analysts, are subject to additional restrictions. For example, investment persons generally cannot personally trade in a security within seven (7) calendar days before or after the purchase or sale of a security by any client account, except for securities exempted from the Code, as defined below.

Access Persons are obligated to make periodic reports to Babson Capital, including an initial holdings report to be provided within ten (10) days of becoming an Access Person and annually thereafter a holdings report containing information that must be current as of a date no more than forty-five (45) days prior to submission. Furthermore, all Access Persons are required to submit detailed quarterly reports covering personal transactions in substantially all securities. Information regarding brokerage accounts held by an Access Person is disclosed in these reports. In general, Babson Capital requires Access Persons to hold their accounts with a list of approved brokers, subject to certain limited exceptions. Furthermore, Babson Capital requires all Access Persons to have their brokers promptly submit duplicate confirmations, either via electronic feed or paper, of all personal securities transactions to Babson Capital's Compliance Department.

Certain types of securities and transactions are exempted, in whole or in part, from the coverage of the Code of Ethics. For example, preclearance and most reporting requirements would not apply to transactions in direct obligations of the United States government, bankers' acceptances, bankers' certificates of deposit, commercial paper, shares of registered open-end investment companies including exchange-traded funds (although reporting is required for mutual funds advised by Babson Capital or an affiliate unless held through a Babson Capital benefit plan), high quality short-term debt instruments, including repurchase agreements, and securities transactions for an account over which an Access Person has no direct or indirect control. In addition, preclearance requirements would not apply to certain gifts of securities, automatic investment plans, involuntary transactions, pro rata distributions, and other limited defined securities or transactions. Although preclearance for these trades is required, Babson Capital's Code of Ethics permits de minimis purchases or sales (as specified in the Code) of securities issued by companies with a market capitalization of at least \$3 billion (the "De Minimis Large Cap Exception").

Participation or Interest in Client Transactions:

Transactions with Affiliates: Babson Capital or its affiliates, including MassMutual and its affiliates, may from time to time, acting as principal, buy securities or other investments for itself from or sell securities or other investments it owns to its advisory clients. Likewise, Babson Capital may either directly or on behalf of MassMutual, purchase and/or hold securities or other investments that are subsequently sold or transferred to advisory clients. Babson Capital has a conflict of interest in connection with a transaction where it or an affiliate is acting as principal since it may have an incentive to favor itself or its affiliates over its advisory clients in connection with the transaction. To address these conflicts of interest, Babson Capital has adopted a Transactions with Affiliates Policy, which ensures any such transaction is consistent with Babson Capital's fiduciary obligations to act in

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the best interests of its clients, including its ability to obtain best execution in connection with the transaction, and is in compliance with applicable legal and regulatory requirements.

Cross Trades: Babson Capital may effect cross-trades on behalf of its advisory clients whereby one advisory client buys securities or other investments from or sells securities or other investments to another advisory client. Babson Capital may also effect cross-transactions involving advisory accounts or funds in which it or its affiliates, including MassMutual, and their respective employees, have an ownership interest or for which Babson Capital is entitled to earn a performance or incentive fee. As a result, Babson Capital has a conflict of interest in connection with the cross-transaction since it may have an incentive to favor the advisory client or fund in which it or its affiliate has an ownership interest and/or is entitled to a performance or incentive fee. To address these conflicts of interest, Babson Capital has adopted a Transactions with Affiliates Policy, which ensures any such cross-transaction is consistent with Babson Capital's fiduciary obligations to act in the best interests of each of its advisory clients, including its ability to obtain best execution for each advisory client in connection with the cross-trade transaction, and is in compliance with applicable legal and regulatory requirements. Babson Capital will not receive a commission or any other remuneration (other than its advisory fee) for effecting cross-transactions between advisory clients.

Loan Origination Transactions: While Babson Capital or its affiliates generally do not act as an underwriter or member of a syndicate in connection with a securities offering, Babson Capital or its affiliates (or an unaffiliated entity in which Babson Capital or its affiliates has an ownership interest) may act as an underwriter, originator, agent, or member of a syndicate in connection with the origination of senior secured loans or other lending arrangements with borrowers, where such loans may be purchased by Babson Capital advisory clients during or after the original syndication. Babson Capital advisory clients may purchase such loans directly from Babson Capital or its affiliates (or an unaffiliated entity in which Babson Capital or its affiliates has an ownership interest) or from other members of the lending syndicate. Babson Capital or its affiliates may directly or indirectly receive underwriting, origination, or agent fees in connection with such loan originations. As a result, Babson Capital has a conflict of interest in connection with such loan origination transactions since it has an incentive to base its investment recommendation to its advisory clients on the amount of compensation, underwriting, origination or agent fees it would receive rather than on its advisory clients' best interests. To address this conflict of interest, Babson Capital has adopted a Transactions with Affiliates Policy, which ensures any such transaction is consistent with Babson Capital's fiduciary obligations to act in the best interests of its clients, including its ability to obtain best execution in connection with the transaction, and is in compliance with applicable legal and regulatory requirements.

MML Investors Services, LLC ("MMLISI"), an indirect wholly-owned subsidiary of MassMutual, is an SEC-registered investment adviser and broker-dealer that may act as an introducing broker for the purpose of effecting securities transactions for brokerage customers. While a Babson Capital advisory client could request that MMLISI effect securities transactions for it that would result in commissions to MMLISI, currently no Babson Capital advisory client directs Babson Capital to effect securities transactions for its account through MMLISI.

Investments by Advisory Clients: Babson Capital may invest client assets in securities or other investments that are also held by (i) Babson Capital or its affiliates, including MassMutual, (ii) other Babson Capital advisory accounts, (iii) funds or accounts in which Babson Capital or its affiliates or their respective employees have an ownership or economic interest or (iv) employees of Babson

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Capital or its affiliates. Babson Capital may also, on behalf of its advisory clients, invest in the same or different securities or instruments of issuers in which (i) Babson Capital or its affiliates, including MassMutual, (ii) other Babson Capital advisory accounts, (iii) funds or accounts in which Babson Capital, its affiliates, or their respective employees have an ownership or economic interest or (iv) employees of Babson Capital or its affiliates, have an ownership interest as a holder of the debt, equity or other instruments of the issuer. Babson Capital has a conflict of interest in connection with any such transaction since investments by its advisory clients may directly or indirectly benefit Babson Capital and/or its affiliates and employees by potentially increasing the value of the securities or instruments it holds in the issuer. Any investment by Babson Capital on behalf of its advisory clients will be consistent with its fiduciary obligations to act in the best interests of its advisory clients, and otherwise be consistent with such clients' investment objectives and restrictions.

Babson Capital or its affiliates may also recommend that clients invest in registered or unregistered investment companies, including private investment funds such as hedge funds, private equity funds or structured funds (i) advised by Babson Capital or an affiliate, (ii) in which Babson Capital, an affiliate or their respective employees has an ownership or economic interest or (iii) with respect to which Babson Capital or an affiliate has an interest in the entity entitled to receive the fees paid by such funds. Babson Capital has a conflict of interest in connection with any such recommendation since it may have an incentive to base its recommendation to invest in such investment companies or private funds on the fees that Babson Capital or its affiliates would earn as a result of the investment by its advisory clients in the investment companies or private funds. Any recommendation to invest in a Babson Capital advised fund or other investment company will be consistent with Babson Capital's fiduciary obligations to act in the best interests of its advisory clients, consistent with such clients' investment objectives and restrictions. Babson Capital may, in certain limited circumstances, offer to clients that invest in private investment funds that it advises an equity interest in entities that receive advisory fees and carried profits interest from such funds.

Employee Co-Investment: Babson Capital may permit certain of its portfolio managers and other employees to invest in private investment funds advised by Babson Capital or its affiliates and/or share in the performance or incentive fees received by Babson Capital from such funds. If the portfolio manager or other employee was responsible for both the portfolio management of the private fund and other Babson Capital advisory accounts, such person would have a conflict of interest in connection with investment decisions since the person may have an incentive to direct the best investment ideas, or to allocate trades, in favor of the fund in which he or she is invested or otherwise entitled to share in the performance or incentive fees received from such fund. To address these conflicts of interest, Babson Capital has adopted a Side by Side Management of Private Investment Funds and Other Advisory Accounts Policy which requires, among others things, that Babson Capital treat each of its advisory clients in a manner consistent with its fiduciary obligations and prohibits Babson Capital from favoring any particular advisory account as a result of the ownership or economic interests of Babson Capital, its affiliates or employees, in such advisory account. Any investment by a Babson Capital employee in one of its private funds is also governed by Babson Capital's Employee Co-Investment Policy, which ensures that any co-investment by a Babson Capital employee is consistent with Babson Capital's Code of Ethics, as summarized above.

Management of Multiple Accounts: As noted above, Babson Capital's portfolio managers are often responsible for the day-to-day management of multiple accounts, including, among others, separate accounts for institutional clients, closed-end and open-end registered investment companies, and/or private investment funds (such as hedge funds, private equity funds and structured funds), as well as

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for proprietary accounts of Babson Capital and its affiliates, including MassMutual and its affiliates. The potential for material conflicts of interest exist whenever a portfolio manager has responsibility for the day-to-day management of multiple advisory accounts. These conflicts may be heightened to the extent a portfolio manager is responsible for managing a proprietary account for Babson Capital or its affiliates or where the portfolio manager, Babson Capital and/or an affiliate has an investment in one or more of such accounts or an interest in the performance of one or more of such accounts (e.g., through the receipt of a performance or incentive fee).

Investment Allocation: Such potential conflicts include those relating to allocation of investment opportunities. For example, it is possible that an investment opportunity may be suitable for more than one account managed by Babson Capital, but may not be available in sufficient quantities for all accounts to participate fully. Similarly, there may be limited opportunity to sell an investment held by multiple accounts. A conflict arises where the portfolio manager has an incentive to treat an account preferentially because the account pays Babson Capital or its affiliates a performance-based fee or the portfolio manager, Babson Capital or an affiliate has an ownership or other economic interest in the account. As noted above, Babson Capital also acts as an investment manager for certain of its affiliates, including MassMutual. These affiliate accounts co-invest jointly and concurrently with Babson Capital's other advisory clients and therefore share in the allocation of such investment opportunities. To address these conflicts of interest associated with the allocation of trading and investment opportunities, Babson Capital has adopted an Investment Allocation Policy and trade allocation procedures that govern the allocation of portfolio transactions and investment opportunities across multiple advisory accounts, including affiliated accounts, which are summarized below under Item 12 – Brokerage Practices, Investment Allocation Policy. In addition, as noted above, to address these conflicts of interest, Babson Capital has adopted a Side by Side Management of Private Investment Funds and Other Advisory Accounts Policy which requires, among others things, that Babson Capital treat each of its advisory clients in a manner consistent with its fiduciary obligations and prohibits Babson Capital from favoring any particular advisory account as a result of the ownership or economic interests of Babson Capital, its affiliates or employees, in such advisory accounts. Any investment by a Babson Capital employee in one of its private funds is also governed by Babson Capital's Employee Co-Investment Policy, which ensures that any co-investment by a Babson Capital employee is consistent with Babson Capital's Code of Ethics, as summarized above.

Personal Securities Transactions; Short Sales: Potential material conflicts of interest may also arise related to the knowledge and timing of an account's trades, investment opportunities and broker selection. Babson Capital and its portfolio managers have information about the size, timing and possible market impact of the trades of each account they manage. It is possible that portfolio managers could use this information for their personal advantage and/or the advantage or disadvantage of various accounts which they manage. For example, a portfolio manager could, or cause a favored account to, "front run" an account's trade or sell short a security for an account immediately prior to another accounts sale of that security. To address these conflicts, Babson Capital has adopted policies and procedures, including a Short Sales Policy, which ensures that the use of short sales by Babson Capital is consistent with Babson Capital's fiduciary obligations to its clients, a Side by Side Management of Private Investment Funds and Other Advisory Accounts Policy, which requires, among other things, that Babson Capital treat each of its advisory clients in a manner consistent with its fiduciary obligations and prohibits Babson Capital from favoring any particular account as a result of the ownership or economic interest of Babson Capital, its affiliates or employees and a Code of Ethics, as summarized above.

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Trade Errors: Potential material conflicts of interest may also arise if a trade error occurs in a client account. A trade error is deemed to occur if there is a deviation by Babson Capital from the applicable standard of care in connection with the placement, execution or settlement of a trade for an advisory account that results in (1) Babson Capital purchasing securities not permitted or authorized by a client's investment advisory agreement or otherwise failing to follow a client's specific investment directives; (2) Babson Capital purchasing or selling the wrong security or the wrong amount of securities on behalf of a client's account; or (3) Babson Capital purchasing or selling securities for, or allocating securities to, the wrong client account. When correcting these errors, conflicts of interest between Babson Capital and its advisory accounts may arise as decisions are made on whether to cancel, reverse or reallocate the erroneous trades. In order to address these conflicts, Babson Capital has adopted an Errors Policy governing the resolution of trading errors, and will follow the Errors Policy in order to ensure that trade errors are handled promptly and appropriately and that any action taken to remedy an error places the interest of a client ahead of Babson Capital's interest.

Best Execution; Directed Brokerage: With respect to securities transactions for most of the accounts it manages, Babson Capital determines which broker to use to execute each order, consistent with its fiduciary duty to seek best execution of the transaction. Babson Capital manages certain accounts, however, for clients who limit its discretion with respect to the selection of brokers or direct it to execute such client's transaction through a particular broker. In these cases, trades for such an account in a particular security may be placed separately from, rather than aggregated with, those in the same security for other accounts. Placing separate transaction orders for a security may temporarily affect the market price of the security or otherwise affect the execution of the transaction to the possible detriment of one or more of the other account(s) involved. Babson Capital has adopted a Best Execution Policy and a Directed Brokerage Policy which are summarized below under Item 12 – Brokerage Practices, Broker Selection/Recommendations and Directed Brokerage.

As discussed above, Babson Capital employees may trade in securities that are purchased, held and sold by or on behalf of Babson Capital's advisory clients, subject to a number of limitations. See above for a discussion of restrictions on employee personal securities transactions contained in Babson Capital's Code of Ethics.

Babson Capital and its portfolio managers or employees may have other actual or potential conflicts of interest in managing an advisory account, and the list above is not a complete description of every conflict of interest that could be deemed to exist.

Insider Trading/Firewalls:

Babson Capital has adopted an Insider Trading and Firewall Policy designed to detect and prevent insider trading and to establish effective information barriers between certain groups of Babson Capital's investment professionals to prevent the unauthorized access to or flow of inside information between and among such groups. Currently, Babson Capital has established firewalls between Babson Capital's public and private investment groups.

Those companies about which Babson Capital (or in certain situations, an affiliate of Babson Capital), has inside information will be placed on the applicable investment group's restricted list and/or on a restricted list applicable to all Babson Capital investment groups. Babson Capital's ability to trade public securities on the restricted list is extremely limited. This may result in Babson Capital being

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unable to buy and sell securities for a client's account while the issuer of such security remains on the restricted list, notwithstanding the fact that Babson Capital may have otherwise determined that such purchase or sale would be in a client's best interest.

Item 12 – Brokerage Practices

Broker Selection/Recommendations:

Babson Capital seeks to place securities transactions for advisory clients with brokerage firms in such a manner that the advisory client's total costs or proceeds in each transaction are the most favorable under the circumstances ("best execution").

Individuals who are responsible for selecting broker-dealers to execute specific transactions on behalf of Babson Capital's clients are expected to use their best judgment in selecting the broker-dealer best able to provide overall best execution. The determinative factor in this analysis and selection is not the lowest possible execution cost but whether a trade represents the best qualitative execution for the client's advisory account.

Babson Capital will consider the full range and quality of a broker-dealer's services, and may consider, among others, the following factors (each of which may carry more or less weight in the context of a particular trade): competitiveness of price (includes spread or commission rates); availability of accurate information regarding the market of the security in question; character of the market for the security (e.g., price, volatility, relative liquidity); difficulty of the trade and the unique security trading characteristics; size of the order; product trading style and strategy; competitiveness of the broker-dealer bid/ask levels or commission rates (as applicable); confidentiality provided by the broker-dealer; promptness of execution; past execution history; clearance and settlement capabilities; quality of the broker-dealer's confirmations and account statements; financial strength of broker-dealer; overall credit exposure to broker-dealer; reputation and integrity; access to markets; block trading and arbitrage capabilities; sophistication of trading facilities; specialized expertise; support of secondary trading for new issues; access to new issues and IPOs of securities for client accounts; fairness in resolving disputes; ability and willingness to commit capital; quality of research; ability to accommodate third-party research arrangements; and overall responsiveness to Babson Capital.

Babson Capital's investment and trading departments seek to achieve best execution of client trades by, among other things, encouraging open communication between relevant trading departments and related investment staff, having qualified traders who have suitable experience/training and access to appropriate resources to place all client trades through the relevant trading desk, providing portfolio managers with direct access to the traders (and trading blotter where applicable) so that they can monitor whether their portfolio trades are being executed in ways that capture the maximum value of their investment decisions, and soliciting multiple bids when and where appropriate.

Research and Other Soft Dollar Benefits:

It has for many years been a common practice in the investment advisory business for investment advisers to receive brokerage and research services (as defined in the Securities Exchange Act of 1934, as amended, and the rules promulgated thereunder (the "1934 Act")) from broker-dealers that

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effect portfolio transactions for the clients of such advisers and from third parties with whom such broker-dealers have arrangements. Consistent with this practice, Babson Capital's Soft Dollar Policy provides that when several brokers can satisfy Babson Capital's obligation to obtain best execution, Babson Capital may place an order with a broker that provides Babson Capital with brokerage and research services and products, either directly or through third parties with whom these broker-dealers have arrangements, subject to applicable legal requirements, guidelines of the SEC related to the safe harbor of Section 28(e) of the 1934 Act and the requirements of Babson Capital's Soft Dollar Policy.

In receiving proprietary and third-party research services, Babson Capital may pay a commission to a broker-dealer that is higher than the commission another broker-dealer may have charged for that transaction if Babson Capital determines (i) that the product or service constitutes eligible brokerage or research under the 1934 Act; (ii) that the product or service provides lawful and appropriate assistance in the performance of Babson Capital's investment decision-making responsibilities; and (iii) in good faith that the commission paid is reasonable in light of the value of the products or services received.

Babson Capital's soft dollar arrangements are for services and products that are intended to qualify as brokerage or research services and products under the 1934 Act. Qualifying research services and products constitute advice, analyses or reports related to, for example, the value or availability of securities, historical issuer data, industry trends, economic factors and market data, or portfolio strategies. Examples of qualifying brokerage services or products include order routing and trade software, algorithmic trading services and direct market access systems. Where such products and services are not used exclusively by Babson Capital for brokerage or research purposes eligible to be paid with soft dollars under the 1934 Act, Babson Capital bears that portion of the cost of such products and services allocable to Babson Capital's non-brokerage or non-research use.

Some research and brokerage services may benefit Babson Capital's clients as a whole, while others may benefit a specific segment of clients. Not all research and brokerage products and services will be used to service the client accounts that generate the soft dollar commissions that pay for such services. The management fee paid by clients is not reduced because Babson Capital receives these research and brokerage products and services through soft dollar commissions, even though without such commissions Babson Capital might pay for such products and services itself.

While Babson Capital does not incur legal obligations to pay for such research and brokerage services or obligate itself to generate a specific amount of commissions, there is typically a targeted level of commissions associated with certain research and brokerage services, and Babson Capital tracks commissions generated through client trades and may allocate brokerage to a broker who provides this research consistent with the principles stated above.

Babson Capital's use of soft dollars arrangements represents a conflict of interest since it is able to use client commissions to pay for research and brokerage services rather than pay for such services itself. Babson Capital may also have an incentive to select or recommend a broker-dealer based on its interest in receiving research and other products or services rather than on the advisory client's interest in receiving best execution.

Babson Capital's Best Execution Committee oversees Babson Capital's soft dollar arrangements. Additionally, Babson Capital has entered into an arrangement with a third party introducing broker

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that provides certain administrative services relating to Babson Capital's soft dollar relationships, in addition to providing qualifying third party research and brokerage services.

In fiscal year 2011, Babson Capital acquired the following types of products and services with client brokerage commissions: (1) financial market and economic news and research; (2) brokerage and research services; (3) investment and portfolio-level analytic software; and (4) research products and services for best execution statistics and comparisons.

Brokerage for Client Referrals:

Babson Capital will not enter into directed brokerage arrangements with broker-dealers as compensation for client referrals or as compensation for the efforts of such broker-dealer in connection with the sale of interests in Babson Capital private funds or other investment products. Babson Capital may, however, use such broker-dealers to effect transactions for such referred clients or private funds consistent with Babson Capital's best execution obligations.

Directed Brokerage:

In certain circumstances, Babson Capital may allow an advisory client to limit or restrict Babson Capital's discretion to execute trades for the client's account through a particular broker or dealer. In return for the brokerage commissions from the client's transactions, the broker may provide services directly to the client, pay certain expenses of the client, or provide a cash rebate to the client through a commission recapture program.

Babson Capital will make an effort to obtain prices for a directed brokerage order comparable to those obtained for non-directed brokerage orders, however, directed brokerage trades generally will be executed after non-directed brokerage trades.

A client who limits Babson Capital's discretion with respect to the selection of brokers or directs Babson Capital to execute its securities transactions through a specific broker may forego certain benefits and may result in Babson Capital being unable to achieve best execution of a client's transactions. Particularly, a client who directs Babson Capital to use a specific broker may pay higher commissions on some transactions than might be otherwise attainable by Babson Capital, or may receive less favorable execution of some transactions than might be attainable by Babson Capital, or both. In addition, the client may forego any benefits or savings in execution costs that Babson Capital could obtain for its clients through negotiating volume discounts on aggregated transactions (as directed brokerage trades will generally be executed, at Babson Capital's discretion, after non-directed trades). Accordingly, non-aggregated directed brokerage transactions may be subject to price movements, particularly in volatile markets, that may result in a client receiving a price that is less favorable than the price obtained in the aggregated order. A client directing brokerage may not be able to participate in an allocation of shares of a new issue (including initial public offerings) if those new issue shares are provided by another broker. Babson Capital will not permit directed brokerage arrangements of one client to interfere with Babson Capital's efforts to obtain best execution on behalf of its other clients.

The client may direct Babson Capital to use a particular broker from whom Babson Capital receives or may receive referrals, and Babson Capital may derive a benefit from this activity. Additionally, a

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client who directs brokerage may prevent Babson Capital from receiving research-related products and services available from other brokers, as described above. A client's request that Babson Capital execute trades for the client's account through a particular broker must be in writing. In addition, Babson Capital may require a client directing brokerage to represent in writing to Babson Capital that: (a) the client has the power and authority to enter into the directed brokerage arrangement; (b) the directed brokerage arrangement will not violate any obligations by which the client or the account is bound by reason of contract, operation of law, the Financial Industry Regulatory Authority rule, or otherwise; (c) the client understands that the directed brokerage arrangement may impair Babson Capital's ability to achieve best execution; and (d) the account may forego the possibility of receiving lower transaction costs that could be achieved by Babson Capital's "aggregation" of orders.

Trade Aggregation:

Investment Allocation Policy

Many of the investment transactions by Babson Capital on behalf of its clients are effected as aggregated transactions made for a number of accounts, including for its own account or the account of its affiliates, including MassMutual and its subsidiaries and affiliates, for other accounts or funds in which Babson Capital, its affiliates, or their respective employees, may have a beneficial or proprietary interest, or for accounts which Babson Capital or its affiliates receive a performance-based advisory fee. To address the conflicts of interest associated with the allocation of trading and investment opportunities, Babson Capital has adopted an Investment Allocation Policy (the "Policy") setting forth general principles of allocation for aggregated investment transactions, and establishing an Allocation Committee to assist in the implementation of policies and procedures designed to result in the fair and equitable distribution of aggregated investment opportunities across all Babson Capital investment advisory accounts ("Allocation Procedures"). Babson Capital's Compliance Department may grant exceptions to any provision of these Allocation Procedures so long as such exceptions are consistent with the purpose of the Allocation Procedures and applicable law, documented and retained for the period required. These Allocation Procedures are summarized below.

Allocation Procedures - Fixed Income

The following general principles of allocation apply to aggregated transactions involving privately placed securities and non-investment grade publicly traded fixed-income securities: (1) each investment advisory account has an optimum investment amount (or "appetite") for each asset class, which will change from time to time; (2) if an investment opportunity is exceeded by the appetite therefore, it is fair and equitable and in the long-term best interests of each investment advisory account to allocate among participating accounts on a pro rata basis relative to each account's optimum investment amount; (3) since each investment opportunity and investment advisory account is unique, exceptions to the general pro rata allocation rule will be required (exceptions should be properly approved and the rationale for the exception recorded); and (4) with respect to follow-on investments with the same issuer, the allocation of such investments shall generally be on the same pro rata basis as the allocation of the original investment in such issuer, provided that if there exist legal or contractual constraints that do not permit an investment advisory account to participate in such follow-on investment, then a fair and equitable allocation of such follow-on investment shall first be made available to all remaining investment advisory accounts that originally invested in said issuer and any remaining allocation shall be made in accordance with these Allocation Procedures.

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Procedurally, the Allocation Committee is responsible for developing and maintaining a list of optimum investment amounts by asset class for each investment advisory account. The appetite of any given account for a particular investment opportunity will generally be a function of the account's unique investment objectives, needs, size, legal constraints and traditional portfolio management concerns.

In establishing an account's optimum investment amount for an asset class, the following factors (which are not intended to be exhaustive or presented in order of importance) may be considered: investment objectives of the respective portfolios; diversification; relative size of the respective portfolios; cash flow; liquidity requirements; asset class restrictions; preferred asset classes; duration targets and/or constraints; industry diversification requirements; individual credit diversification requirements; existing asset allocation targets; minimum or maximum investment size; tax implications; and legal, contractual or regulatory constraints (e.g., state insurance law, annuity contract language, prospectus disclosure, indenture requirements, ERISA, Federal or state securities laws and conditional exemptive relief). The Allocation Committee may make changes in the list of optimum investment amounts as often as it deems necessary.

Prior to or at the time Babson Capital indicates to an issuer or prospective seller or buyer of its interest in engaging in an aggregated investment transaction, an allocation statement (each an "Allocation Statement") will be created. The Allocation Statement describes how the proposed investment will be allocated among participating accounts based on each account's pre-determined optimum investment amount after taking into consideration the factors described above and any other factors relevant to the account at the time of the proposed transaction. If the order is filled in its entirety, it will be allocated among accounts in accordance with the Allocation Statement. If the order is partially filled, it will be allocated pro rata based on the allocation each account would have received if the order had been filled in full and allocated according to the Allocation Statement.

Notwithstanding the above, an aggregated transaction may be allocated on a basis different from that specified in the Allocation Statement if such deviation is determined to be fair and equitable to all participants and the reason for the deviation is recorded in writing and approved in writing by a member of the Allocation Committee.

If the transaction involves an asset class that is the subject of a duty on the part of Babson Capital to make an offer to an advisory account (e.g., negotiated private placement investments appropriate for Babson Capital Corporate Investors and/or Babson Capital Participation Investors) of an amount in excess of the normal pro rata allocation by optimum investment amount, the additional amount that must be offered to such account shall be calculated and contingently deducted from the allocations to other accounts in proportion to their normal pro rata allocation by optimum investment amount. If the Board (or other governing body) of such account accepts the additional offered securities, the contingent reallocations shall become effective. (See response below under "Section 17(d) Order.")

Aggregated transactions in U.S. government securities and investment grade publicly-traded fixed-income securities will be allocated in accordance with general principles of fair and equitable treatment.

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Allocation Procedures - Publicly-Traded Equity Securities

In determining which equity securities to purchase or sell for a client's account and in what amount, as well as the timing of any such purchase or sale, a portfolio manager will consider many factors. Examples of such factors (which are not intended to be exhaustive or presented in order of importance) include: investment objectives and strategies; issuer diversification requirements; industry/sector diversification requirements; equity size of the portfolio; liquidity requirements; cash flows; tax implications; and legal, contractual or regulatory constraints. Based on these and/or other relevant factors, a portfolio manager may place an order with the equity trading desk on behalf of one or more clients.

If a portfolio manager places an order and the trader executes and confirms the trade before any additional orders are placed, the original order will not be aggregated with any other subsequent orders. If a portfolio manager's order is still open and additional orders for the same security are received by the trading department, the orders will be aggregated where possible if such aggregation is consistent with achieving best execution for the various client accounts. Special rules for short sales are described below.

Prior to entering an aggregated order, a written trading ticket specifying participating accounts and the allocation of the order among such accounts will be prepared (the "Allocation Statement"). If an aggregated order is filled in its entirety, it will be allocated among participating accounts in accordance with the Allocation Statement. If an aggregated order is partially unexecuted at the end of a trading day, the executed trades will generally be allocated among participating accounts pro rata based upon the Allocation Statement, subject to the special rules for IPOs described below.

When orders are aggregated, each participating account will receive the weighted average share price for all transactions in a particular security effected to fill such aggregated orders on a given business day and transaction costs will be shared pro rata based upon each account's participation in the transaction.

An initial (pre-execution) allocation may be changed after execution if the change is determined to be fair and equitable to all participants and the reason for the change is recorded in writing and approved in writing by a member of the Allocation Committee or its delegate at or prior to settlement.

An effort will be made to obtain prices for directed brokerage orders comparable to those obtained for non-directed brokerage orders; however, directed brokerage trades generally will be executed after non-directed brokerage trades. A summary of Babson Capital's directed brokerage practices are summarized above under "Directed Brokerage".

Special rules apply to the allocation of initial public offerings ("IPOs"). In the event that there are insufficient securities to satisfy all orders for an IPO, Babson Capital's allocation will generally be allocated among participating accounts pro rata on the basis of the equity portion of each account (and not pro rata based on the Allocation Statement), subject to the rules for "De Minimus Allocations" and "Odd Lot Allocations." These rules provide that in the event that (a) a partial fill of an IPO occurs and an account's allocation of shares does not equal or exceed the minimum number (if any) of shares indicated for that account by the portfolio manager in the portfolio manager's indication of interest, or (b) a partial fill occurs and an account's allocation of shares does not exceed

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one hundred (100) shares (an "odd lot"), such account's allocation shall be reallocated to the other participating accounts pro rata on the basis of the equity portion of each account.

Applicant's IPO allocation policy will likely have the effect of excluding smaller accounts from participating in IPOs if larger equity accounts are also participating in the same IPO.

Generally, an order to short sell a security will not be aggregated with any other sell orders for such security and will only be executed after all other orders for such security are filled. If a sell order for a security is received by the trading department after it has received an order to short sell such security but before the short sale order is completed, the trading department shall cease working the short sale until such time as the other order is filled. Purchase orders to cover a short position shall be treated as any other purchase order for purposes of the Allocation Procedures described above.

Allocation Procedures – Senior Secured Loans

Babson Capital's Global High Yield Investments Group actively buys and sells senior secured loans for a variety of investment advisory accounts (each, an "account"), which vary substantially in type (e.g., separate accounts, CLOs, absolute return funds), size, investment objectives and guidelines, acceptable risk levels, return targets, and permissible investments. These procedures apply to all senior secured loan transactions made at the direction of the Global High Yield Investments Group for two or more accounts that are eligible for such transactions and are designed to allocate such senior secured loans among the participating accounts in a manner that is fair and equitable to all such accounts, taking into account the facts and circumstances of each transaction (including any legal or contractual duties or restrictions).

Each account has a portfolio manager who determines which senior secured loan issues will be bought or sold, in what amounts and on what terms for each account. In making this determination, the portfolio manager may take into consideration the following factors: investment advisory judgment as to value; investment objectives; diversification; size of the portfolio; cash flow; liquidity requirements; asset class restrictions; preferred asset classes; duration targets and/or constraints; industry diversification requirements; individual credit diversification requirements; existing asset allocation targets; minimum investment size; maximum investment size; tax implications; and legal, contractual or regulatory constraints (e.g., state insurance laws, annuity contract language, prospectus disclosure, indenture requirements, ERISA, Federal or state securities laws and conditional exemptive relief).

Upon a determination by a portfolio manager to purchase or sell a senior secured loan issue for one or more accounts based on these and/or other relevant factors, the portfolio manager will place an order with the senior secured loan trading desk via the trading system (preferred method), in person, by email or by telephone. If after receiving an order, the trader executes and confirms the trade before any additional orders are placed, the original order will not be aggregated with any other subsequent orders. If a portfolio manager's order is still open (i.e., has not been executed) and additional orders for the same senior secured loan issue are received by the trader, the orders will be aggregated where possible, if such aggregation is, in the trader's judgment, consistent with achieving best execution for the various advisory accounts and funds. If the trading desk has begun execution of an aggregated trade, but the trade has not yet been confirmed and an additional order for the same security is submitted to the trading desk, traders may use their best judgment in deciding whether the new order should be allowed to join the aggregated trade already in process (including at the same average

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price) or splitting off the portion of the initial order that has been executed as a separate allocation, with the remaining balance of the first order combined with the additional order. In making this determination, the traders will consider, among other things, the extent to which earlier orders have been completed, the lapse in time, the movement of the market price of the security and the size of the orders involved. If necessary, the trader will consult with the portfolio managers whose trades would be affected.

If a trader receives an opportunity from a dealer for the Global High Yield Investments Group to buy or sell a senior secured loan, the trading desk will seek out orders by notifying all other portfolio managers electronically, and where time permits, in person or by phone. When the trader receives an order and has been advised or is otherwise aware that multiple orders for the purchase or sale of the same senior secured loan can be expected, the earliest orders received may be held unexecuted by the trader for this time period, to be aggregated for block execution with later received orders, when in the judgment of the trader, such aggregation would be consistent with achieving best execution.

Prior to entering an aggregated order, a written (on paper or electronic) trading ticket specifying participating accounts and funds and the allocation of the order among such accounts will be prepared based on the order(s) submitted by the portfolio manager(s) (the "Allocation Statement"), subject to the special rules noted below for allocating new issues and refinancings.

Allocation of Aggregated Senior Secured Loan Trades

If an aggregated order is filled in its entirety, it will be allocated among participating accounts in accordance with the Allocation Statement. When the aggregated order is executed in a series of transactions at various prices on a given day, each participating account will receive the weighted average price for all transactions in a particular senior secured loan effected to fill such order on a given business day and transaction costs will be shared pro rata based on each account's participation in the trade.

If an aggregated order is partially unexecuted at the end of a trading day, the executed trades will be allocated among participating accounts pro rata based upon the Allocation Statement, subject to rounding off of "odd lot" amounts and the special rules noted below for new issues and refinancings. When the aggregated order is executed in a series of transactions at various prices on a given day, each participating account will receive the weighted average price for all transactions in a particular senior secured loan effected to fill such order on a given business day and transaction costs will be shared pro rata based on each account's participation in the trade.

Notwithstanding the above, an aggregated transaction may be allocated on a basis different from that specified in the Allocation Statement if such deviation is determined to be fair and equitable to all participants and the reason for the deviation is recorded in writing (on paper or electronically) promptly and approved in writing (on paper or electronically) by a member of the Bank Loan Allocation Committee at or prior to settlement. Appropriate reasons for a transaction specific deviation would include, but not be limited to, de minimis allocations; cash needs due to withdrawals; and account objectives and guidelines.

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Special Rules for Allocating New Issues and Refinancings

Because the demand for new senior secured loan issues typically results in the offering being oversubscribed, Babson Capital believes that it is fair and equitable that new issues be allocated using specific methodology based on the accounts' cash availability. The actual cash available for each account managed by the Global High Yield Investments Group shall be determined on a weekly basis. The Bank Loan Allocation Committee shall also categorize each account managed by the Global High Yield Investments Group to determine cash available for purposes of allocating new issues: accounts that (i) have a contractual date by which the cash in the account must be invested or otherwise have a mutually agreed upon funding date ("Category 1 accounts"), (ii) are attempting to invest new cash in-flows or subscriptions ("Category 2 accounts"), (iii) are used to warehouse senior secured loans for new accounts or funds ("Category 3 accounts") and (iv) do not otherwise fall within one of the aforementioned categories ("Category 4 accounts"). The cash availability for each account is calculated as the greater of (i) the account's actual cash availability and (ii) a set percentage of the account's asset size based on the account's Category classification. As a result, the account size percentage established for each account Category effectively acts as a floor in the calculation of each account's cash availability. In addition, the account size percentage for each account Category is set by the Bank Loan Allocation Committee in order to give allocation priority to certain Category accounts, in descending order of priority from Category 1 down to Category 4. The Categories of accounts and the adjustments related to such categories may be changed from time to time by the Bank Loan Allocation Committee, provided that any such changes shall be reported to the Allocation Committee.

The Bank Loan Allocation Committee may also provide for priority allocation to certain accounts based on the particular type of senior secured loan investment. For example, accounts that invest primarily in smaller "middle market" loans (as compared to larger broadly syndicated loans) are given priority allocation on new issues of middle market loans before these investment opportunities are shared with accounts that invest primarily in large syndicated loans.

Portfolio managers desiring to participate in a new issue shall submit an order for his or her accounts prior to the trading desk placing an aggregated order for the issue. An allocation statement will be prepared that sets forth (i) all submitted orders and (ii) the cash available for each such account (as determined in accordance with the categorization described above.) The trading desk will then aggregate all such orders for the new issue. If such aggregated order is filled in its entirety, it will be allocated among participating accounts in accordance with the orders submitted. If the aggregated order is only partially filled, the order shall be allocated pro rata using the cash available as the allocation base (as opposed to size of the portfolio manager's order or the size of the account), subject to any minimum allocation size established from time to time by senior management. Transaction costs will be shared pro rata based on each account's participation in the trade.

With respect to the refinancing of a senior secured loan issue currently held by one or more accounts, the allocation of such senior secured loan shall generally be made first to all submitted orders on the same pro rata basis as the allocation of the original investment, provided that if a portfolio manager determines that an account originally holding such senior secured loan should not participate in such refinancing or participate to a lesser extent than the original holding, then any excess allocation received by the Global High Yield Investments Group shall be allocated in accordance with the procedures for new issues described above.

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Allocation Procedures- Special Circumstances

Situations or circumstances not specifically addressed in or contemplated by the Allocation Procedures are to be resolved by (i) Babson Capital's Chief Executive Officer, Chief Operating Officer or the head of the Fixed Income, Global High Yield Investments and Global Private Finance Groups in conjunction with the Chief Compliance Officer, as needed, and (ii) the affected portfolio manager, with a view toward the fair and equitable treatment of all advisory clients.

Section 17(d) Order

Babson Capital, MassMutual, Babson Capital Corporate Investors (f/k/a MassMutual Corporate Investors; "CI"), Babson Capital Participation Investors (f/k/a MassMutual Participation Investors; "PI," and together with CI, each a "Fund" and collectively the "Funds"), and private investment companies advised or sub-advised by Babson Capital ("private investment funds") have obtained a blanket order (the "Section 17(d) Order") from the SEC pursuant to Section 17(d), and Rule 17d-1 thereunder, of the Investment Company Act of 1940, as amended. Subject to certain conditions set forth therein, the Section 17(d) Order generally permits joint investments (or "co-investments") in private placement securities by certain affiliated persons of Babson Capital, including future private investment funds.

Under the Section 17(d) Order, Babson Capital must first offer the Funds, in an amount equal to that to be acquired by MassMutual, any proposed acquisition by MassMutual of private placement securities that would be consistent with the investment objectives and policies of CI and/or PI. For purposes of this condition, the amount of any private placement security to be acquired by MassMutual shall be deemed to include the amount acquired by a private investment fund that is attributable to MassMutual's direct or indirect percentage ownership interest in the private investment fund. Each Fund may choose to acquire any amount of such securities up to the amount offered to it. A Fund may co-invest in a private placement security only if a majority of its Joint Transactions Committee members, which is made up of the Fund's independent trustees who have no interest in the transaction, determine that: (1) the terms of the transaction are reasonable and fair to the Fund and its shareholders; (2) the transaction is consistent with the Fund's investment objectives and policies; and (3) the co-investment by other affiliated parties would not disadvantage the Fund and participation by the Fund would not be on a basis different from or less advantageous than that of other participants.

MassMutual, CI, PI and any private investment fund that acquire private placement securities under the Section 17(d) Order must acquire such securities upon the same terms and conditions, at the same price, and with the same rights. The expenses, if any, associated with acquiring, holding or disposing of any private placement securities shall be shared by MassMutual, the Funds and the private investment funds in proportion to the relative amounts of such securities held, being acquired or disposed of, as the case may be. Any transaction fee received by participants in a co-investment under the Section 17(d) Order will be distributed to all participants on a pro rata basis.

Neither CI nor PI may make a follow-on investment, exercise warrants, conversion privileges, or other rights, sell, exchange or otherwise dispose of a co-investment in a non-proportionate transaction unless approved by the Fund's Joint Transactions Committee. No co-investment in private placement securities may be made by CI or PI under the Section 17(d) Order if MassMutual, Babson Capital or a private investment fund then currently holds a security issued by that entity.

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The conditions of the Section 17(d) Order are applicable only to those joint or aggregated transactions in private placement securities where Babson Capital negotiates the terms of the transaction other than price.

Item 13 – Review of Accounts

Advisory accounts managed by Babson Capital are reviewed regularly and generally daily for many accounts such as institutional separate accounts and registered investment companies. Account level reviews are generally performed by the account portfolio manager or team responsible for account management, who review portfolio holdings and monitor compliance with, to the extent applicable, any client-mandated investment guidelines. Reviews are supplemented by other Babson Capital support professionals that monitor valuation, credit quality, duration, spread and market activity and other factors, as applicable, as well as compliance professionals who monitor security holdings on an account basis to ensure compliance with account investment guidelines. In addition to account level review, securities held on behalf of client advisory accounts are subject to economic, fundamental, technical and/or quantitative analyses that Babson Capital utilizes in its investment-decision making.

Client reports are tailored to meet the needs of the respective client, and vary in scope, format, approach and timing in accordance with each client's requirements. Most clients receive written reports.

Item 14 – Client Referrals and Other Compensation

Babson Capital's affiliated broker-dealer, Babson Capital Securities LLC, may act as placement agent for certain private investment funds where Babson Capital is not a sponsor or adviser to the fund, but where Babson Capital or an affiliate may be a lead investor and/or share in the economics as a general partner or pay a reduced fee. Babson Capital or its affiliates may solicit clients to invest in such funds and receive compensation from the adviser to the fund or its affiliates in connection with such placement agent services.

In certain circumstances, and in accordance with the applicable law, Babson Capital may (1) pay a fee to employees of Babson Capital or its affiliates or other selected individuals, or entities who introduce business to Babson Capital or (2) receive a fee for introducing clients and their business to related persons or third parties. The amount of fees paid to or received from third parties is negotiated between Babson Capital and such persons.

Item 15 – Custody

In certain instances, Babson Capital is deemed to have custody of client assets under Rule 206(4)-2 of the Investment Advisers Act of 1940, as amended (the "Custody Rule"). In order to comply with the Custody Rule, in certain cases qualified custodians will send quarterly or more frequent account statements directly to Babson Capital clients. Clients should carefully review such statements and compare them to any account statements they receive from Babson Capital. If any discrepancies are found, clients should contact Babson Capital and their custodian as soon as possible.

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Item 16 – Investment Discretion

Babson Capital's investment management agreements generally provide Babson Capital with discretionary authority to determine which securities, and in what amounts and on what terms, to buy or sell on behalf of a client's account, which broker-dealers to use in executing client trades, and the brokerage commissions to be paid in connection with the transaction. Investment decisions for a client are made with a view to achieving the client's investment objectives. Clients may establish specific investment guidelines for their accounts, which may limit Babson Capital's investment discretion for those accounts by requiring Babson Capital to abide by certain investment limitations and restrictions in such guidelines. In determining when to purchase or sell securities for an advisory account, Babson Capital considers many factors, including those summarized above in Item 12 – Brokerage Practices, Trade Aggregation. In making these determinations for clients in light of each account's investment objectives, it may result that a particular security is bought or sold only on behalf of certain clients of Babson Capital, even though it could have been bought or sold for other clients of Babson Capital. Likewise, a particular security may be bought or held by one or more client portfolios when one or more other client portfolios are selling the security, or selling the security short. Under certain circumstances, short selling a security may adversely affect the price of that security.

Transactions on U.S. stock exchanges, commodities markets and futures markets and other agency transactions involve the payment by a client of brokerage commissions. Such commissions vary among different broker-dealers. A particular broker-dealer may charge different commissions according to such factors as the difficulty and size of the transaction. In the case of securities traded in the over-the-counter markets, the price paid by a client may include an undisclosed dealer commission or mark-up. In under-written offerings, the price paid by a client includes a disclosed, fixed commission or discount retained by the underwriter or dealer which, in certain circumstances and to the extent not prohibited by applicable law, may be an affiliated broker-dealer of Babson Capital's. To the extent there is a client mandated or other prohibition against the use of an affiliated broker-dealer, such trades may not be aggregated in accordance with the Investment Allocation Policy described above in Item 12 – Brokerage Practices.

Item 17 – Voting Client Securities

Babson Capital views the voting of proxies as an integral part of its investment management responsibility and believes, as a general principle, that proxies should be acted upon (voted or abstained) solely in the best interest of its clients (i.e. in a manner it believes is most likely to enhance the economic value of the underlying securities held in client accounts). To implement this general principle, Babson Capital has engaged a proxy service provider (the "Service Provider"). The Service Provider is responsible for processing and maintaining records of proxy votes. In addition, the Service Provider has retained the services of an independent third party research provider (the "Research Provider") to provide research and recommendations on proxy voting. It is Babson Capital's Proxy Voting Policy to generally vote proxies in accordance with the recommendations of the Research Provider, or, in cases where the Research Provider has not made any recommendations with respect to a proxy, in accordance with the Research Provider's proxy voting guidelines (the "Guidelines"). If a proxy involves an issue on which the Research Provider has not made a recommendation or has not addressed in the Guidelines, it will be analyzed on a case-by-case basis.

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Babson Capital recognizes, however, that there may be times when Babson Capital determines that it may be in the best interest of clients holding the securities to (1) vote against the Research Provider's recommendations or (2) in cases where the Research Provider has not provided Babson Capital with any recommendations with respect to a proxy, vote against the Research Provider's Guidelines. Babson Capital may vote, in whole or in part, against the Research Provider's recommendations or the Research Provider's Guidelines, as applicable. The procedures set forth in the Proxy Voting Policy are designed to ensure that votes against the Research Provider's recommendations or Guidelines have been made in the best interest of clients and are not the result of any material conflict of interest (a "Material Conflict"). For purposes of the Proxy Voting Policy, a Material Conflict shall mean any position, relationship or interest, financial or otherwise, of Babson Capital (or any person authorized under the Proxy Voting Policy to vote proxies on behalf of Babson Capital) that would or could reasonably be expected to affect Babson Capital's (or such person's) independence or judgment concerning how to vote proxies.

Babson Capital will vote all client proxies for which it has proxy voting discretion in accordance with the Research Provider's recommendations or Guidelines, unless (i) a person authorized by the Best Execution and Proxy Committee (each a "Proxy Analyst"), the Best Execution and Proxy Committee or a designated member of the Best Execution and Proxy Committee, as applicable, determines that it is in the client's best interest to vote against the Research Provider's recommendation or Guidelines or (ii) Babson Capital is unable or determines not to vote a proxy in accordance with the Proxy Voting Policy. In these cases: if (i) a Proxy Analyst recommends that a proxy should be voted against the Research Provider's recommendation or Guidelines, (ii) no other Proxy Analyst reviewing such proxy disagrees with such recommendation, and (iii) no known Material Conflict is identified by the Proxy Analyst(s) or by a person designated by Babson Capital's Executive Committee chair (the "Proxy Administrator"), the Proxy Administrator will vote the proxy or post the proxy for voting in accordance with the Proxy Analyst's recommendation. Otherwise, the proxy is to be submitted to a member of the Best Execution and Proxy Committee, who shall determine how to vote the proxy unless (i) the Proxy Analyst or Proxy Administrator has identified a Babson Capital Material Conflict or (ii) said Best Execution and Proxy Committee member has identified a Material Conflict personal to him or herself or a Babson Capital Material Conflict. In such cases, the proxy shall be submitted to the Best Execution and Proxy Committee, which may authorize a vote against the Research Provider's recommendation or Guidelines only if the Best Execution and Proxy Committee determines that such vote is in the client's best interests.

Nothing herein shall preclude Babson Capital from splitting a vote among different advisory clients in those cases where Babson Capital deems it appropriate.

No associate, officer, director or board of managers member of Babson Capital or its affiliates (other than those assigned such responsibilities under the Proxy Voting Policy) may influence how Babson Capital votes client proxies, unless such person has been requested to provide such assistance by a Proxy Analyst or Best Execution and Proxy Committee member and has disclosed any known Material Conflict. Any pre-vote communications prohibited by the Proxy Voting Policy shall be reported to a Best Execution and Proxy Committee member prior to voting and to Babson Capital's Chief Compliance Officer or General Counsel.

Babson Capital's investment management agreements for separate account management generally convey the authority to vote proxies to Babson Capital. When the investment management agreement states that the client has delegated proxy voting authority to Babson Capital, Babson Capital will vote

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such proxies in accordance with the Proxy Voting Policy. In the event a client makes a written request that Babson Capital vote in accordance with such client's proxy voting instruction, Babson Capital will vote that client's securities as instructed by the client. In the event an investment management agreement is silent on the matter, Babson Capital should get written confirmation from such client as to the client's preference, where possible. Because Babson Capital views proxy voting as integral to the investment process, Babson Capital takes the position that it will assume proxy voting responsibilities in situations where the investment management agreement is silent and the client has not provided written instructions as to its preference.

Clients may obtain a copy of Babson Capital's Proxy Voting Policy and information about how Babson Capital voted proxies related to their securities, free of charge, by contacting the Chief Compliance Officer, Babson Capital Management LLC, 1500 Main Street, Suite 2800, P.O. Box 15189, Springfield, MA 01115-5189, or calling toll-free, 1-877-766-0014.

Item 18 – Financial Information

Item 18 is not applicable.