BABSON CAPITAL GLOBAL SHORT DURATION HIGH YIELD FUND
Form N-2/A
September 24, 2012
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As filed with the Securities and Exchange Commission on September 24, 2012

1933 Act File No. 333-174430

1940 Act File No. 811-22562

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM N-2

REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933	x
Pre-Effective Amendment No. 4	x
Post-Effective Amendment No.	¨

REGISTRATION STATEMENT

UNDER

THE INVESTMENT COMPANY ACT OF 1940	x
Amendment No. 4	x

BABSON CAPITAL

GLOBAL SHORT DURATION HIGH YIELD FUND

(Exact Name of Registrant as Specified in Charter)

550 South Tryon Street, Suite 3300

Charlotte, NC 28202

(Address of Principal Executive Offices)

413-226-1058

(Registrant s Telephone Number)

Christopher A. DeFrancis

c/o Babson Capital Management LLC

1500 Main Street, Ste. 2800

Springfield, MA 01115

(Name and Address of Agent for Service)

Copy to:

Gregory D. Sheehan

Brian D. McCabe

Ropes & Gray LLP

Prudential Tower

800 Boylston Street

Boston, MA 02199-3600

(617) 951-7000

Leonard B. Mackey, Jr.

Clifford R. Cone

Clifford Chance US LLP

31 West 52nd Street

New York, NY 10019

(212) 878-8000

Approximate Date of Proposed Public Offering: As soon as practicable after the effective date of this Registration Statement.

If any of the securities being registered on this form will be offered on a delayed or continuous basis in reliance on Rule 415 under the Securities Act of 1933, other than securities offered in connection with a dividend reinvestment plan, check the following box: ¨

It is proposed that this filing will become effective (check appropriate box):

¨ when declared effective pursuant to Section 8(c).

If appropriate, check the following box:

¨ This post-effective amendment designates a new effective date for a previously filed registration statement.

¨ This form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act and the Securities Act registration statement number of the earlier effective registration statement for the same offering is .

Title of Securities Being Registered	Amount Being Registered(1)	Proposed Maximum Offering Price Per Unit(1)	Proposed Maximum Aggregate Offering Price(1)	Amount of Registration Fee (2)
Common Shares, par value $.00001	40,000 shares	$25.00	$1,000,000	$116.10

(1) Estimated solely for purposes of calculating the registration fee, pursuant to Rule 457(o) under the Securities Act of 1933.

(2) A registration fee of $116.10 was previously paid in connection with the initial filing on May 23, 2011.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with section 8(a) of the Securities Act of 1933 or until this Registration Statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to section 8(a), may determine.

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The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

Subject to Completion

Preliminary Prospectus dated September 24, 2012

PROSPECTUS

Shares

Babson Capital Global Short Duration High Yield Fund

Common Shares

$25.00 per share

The Fund. Babson Capital Global Short Duration High Yield Fund (the Fund) is a recently organized, non-diversified, closed-end management investment company.

No Prior Trading History. **Because the Fund is recently organized, its common shares have no history of public trading. Shares of closed-end investment companies frequently trade at a discount from their net asset value, which creates a risk of loss for the investors purchasing shares in the initial public offering. This risk may be greater for investors expecting to sell their shares in a relatively short period of time after completion of the initial public offering.**

The Fund s common shares are expected to be listed on the New York Stock Exchange, subject to notice of issuance, under the symbol BGH.

Investment Objectives. The Fund s primary investment objective is to seek as high a level of current income as the Manager (as defined herein) determines is consistent with capital preservation. The Fund seeks capital appreciation as a secondary investment objective when consistent with its primary investment objective. There can be no assurance that the Fund will achieve its investment objectives.

Investment Strategies. Under normal market conditions, the Fund will invest at least 80% of its Managed Assets (as defined herein) in bonds, loans and other income-producing instruments that are, at the time of purchase, rated below investment grade (below Baa3 by Moody s Investors Service, Inc. (Moody s) or below BBB- by either Standard & Poor s Rating Services, a division of the McGraw-Hill Company, Inc. (S&P) or Fitch, Inc. (Fitch)) or unrated but judged by the Manager or Sub-Adviser (as defined herein) to be of comparable quality. As used herein, high yield instruments or junk bonds are instruments that are rated below investment grade or unrated but judged by the Manager or Sub-Adviser to be of comparable quality.

(continued on next page)

Investment in the Fund s common shares involves substantial risks arising from, among other strategies, the Fund s ability to invest in securities that are rated below investment grade by Moody s, S&P or Fitch or unrated but judged by the Manager or Sub-Adviser to be of comparable quality, the Fund s exposure to foreign securities denominated in U.S. or foreign currencies, and the Fund s anticipated use of leverage. Below investment grade securities are regarded as having predominantly speculative characteristics with respect to capacity to pay interest and to repay principal and are commonly referred

to as high yield securities or junk bonds. The Fund s potential exposure to foreign securities involves special risks including currency risk. Similarly, the use of derivative instruments involves risks different from, and possibly greater than, the risks associated with investing directly in securities and other traditional investments, and an investment in a derivative instrument could lose more than the principal amount invested. The use of derivative instruments also may, in certain circumstances, give rise to a form of leverage and related risks. Because of the risks associated with investing in high yield securities, foreign securities, derivative instruments and using leverage, an investment in the Fund may be considered speculative. Before buying any of the Fund s common shares, you should read the discussion of the risks of investing in the Fund in Risks beginning on page 38 of this prospectus.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

	Per Share	**Total(3)**
Public offering price	$25.000	$
Sales load(1)	$1.125	$
Estimated offering expenses	$.050	$
Proceeds to the Fund(2)	$23.825	$

(notes on following page)

The underwriters expect to deliver the Fund s common shares to purchasers on or about , 2012.

BofA Merrill Lynch **Wells Fargo Securities**

Janney Montgomery Scott **Oppenheimer & Co.** **Stifel Nicolaus Weisel**

J.J.B. Hilliard, W.L. Lyons, LLC **Ladenburg Thalmann & Co. Inc.** **Maxim Group LLC**

Newbridge Securities Corporation **Wunderlich Securities**

The date of this prospectus is , 2012.

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(notes from previous page)

(1) Babson Capital Management LLC (Babson Capital or the Manager) (and not the Fund) has agreed to pay from its own assets structuring fees to Merrill Lynch, Pierce, Fenner & Smith Incorporated, Wells Fargo Securities, LLC, Janney Montgomery Scott LLC, Oppenheimer & Co. Inc. and Stifel Nicolaus & Company, Incorporated in connection with this offering. The Manager (and not the Fund) may also pay certain qualifying underwriters a structuring fee, sales incentive fee or additional compensation in connection with this offering. The Manager (and not the Fund) has also agreed to pay TSC Distributors, LLC, an affiliate of TSC Capital, LLC, certain fees in connection with the sale and distribution of the Fund s common shares. See Underwriting Other Relationships.

(2) The Fund has agreed to pay the underwriters $, or $ (if the underwriters exercise their option to purchase additional common shares in full) representing $.00834 per common share as a partial reimbursement of expenses incurred in connection with this offering. Total offering expenses to be paid by the Fund (other than the sales load but inclusive of such $.00834 per common share partial reimbursement of underwriters expenses) are estimated to be approximately $, which represents $.05 per common share. The Manager has agreed to pay the Fund s organizational and offering costs (other than the sales load but inclusive of such $.00834 per common share partial reimbursement of underwriters expenses), which are estimated to be approximately $1.63 million, to the extent such costs are in excess of $.05 per common share. See Summary of Fund Expenses.

(3) The Fund has granted the underwriters an option to purchase up to additional common shares at the public offering price less the sales load within 45 days of the date of this prospectus. If such option is exercised in full, the total offering price, sales load, estimated offering expenses and proceeds, after expenses, to the Fund will be $, $, $ and $, respectively. See Underwriting.

Although the Fund may invest in investments of any duration or maturity, under normal market conditions, the Fund will seek to maintain a weighted average portfolio duration, including the effects of leverage, of three years or less and a weighted average maturity of five years or less. The Fund expects to invest primarily in high yield bonds and loans of North American and Western European corporate issuers that are of below investment grade quality. Under normal market conditions, the Fund intends to invest in at least three different countries and to invest at least 40% of its net assets in securities of foreign companies (or, if less, at least the percentage of net assets that is 10 percentage points less than the percentage of the Fund s benchmark, the Bank of America/Merrill Lynch Global Non-Financial High Yield Constrained Index, represented by foreign companies, as determined by the provider of the benchmark). For purposes of determining whether securities held by the Fund are securities of a foreign company, a company is considered to be a foreign company if the Manager or Sub-Adviser determines that the company s securities trade on a market outside of the United States, the company is headquartered or organized outside of the United States, the company derives a majority of its revenues or profits outside of the United States, or the company is significantly exposed to the economic fortunes and risks of regions outside the United States. The Fund expects that, under current market conditions, it will seek to hedge substantially all of its exposure to foreign currencies.

The Manager and the Sub-Adviser. Babson Capital will serve as the Fund s investment adviser. Babson Capital Global Advisors Limited (Babson Capital U.K. or the Sub-Adviser), a wholly-owned subsidiary of Babson Capital, will serve as a sub-adviser with respect to the Fund s European investments.

Portfolio Management Strategies. The Fund will seek to take advantage of inefficiencies between geographies, primarily the North American and Western European high yield bond and loan markets and within capital structures between bonds and loans. For example, the Fund will seek to take advantage of differences in pricing between bonds and loans of an issuer denominated in U.S. dollars and substantially similar bonds and loans of the same issuer denominated in Euros, potentially allowing the Fund to achieve a higher relative return for the same credit risk exposure.

Portfolio Contents. As noted above, the Fund will invest primarily in high yield bonds, loans and other income-producing instruments. The Fund may invest in both fixed and floating rate instruments; listed and unlisted corporate debt obligations; convertible securities; collateralized debt, bond and loan obligations; bank obligations; U.S. government securities; preferred securities and trust preferred securities; structured securities; and when-issued securities and forward commitments. The instruments in which the Fund will invest will primarily be of below investment grade quality. The Fund may invest in distressed bonds and loans. The Fund also may invest in equity securities incidental to the purchase or ownership of fixed-income securities. The Fund may use derivatives to a significant extent for hedging, investment or leverage purposes. Although the Fund is not limited in the types of derivatives it can use, the Fund currently expects that its derivatives use will consist primarily of total return swaps, credit default swaps and foreign currency forward contracts and futures.

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Although the Fund may invest in investments of any duration or maturity, under normal market conditions, the Fund will seek to maintain a weighted average portfolio duration, including the effects of leverage, of three years or less and a weighted average maturity of five years or less.

Leverage. Initially, the Fund intends, subject to favorable market conditions, to add leverage to its portfolio, such that the leverage obtained represents approximately 20% of the Fund s total assets (which includes the assets obtained through leverage). For this purpose, the Fund s leverage through derivatives will be calculated using the net notional amount of the Fund s derivatives positions (and will exclude derivatives used for hedging purposes, including in connection with foreign currency hedging transactions). Babson Capital and Babson Capital U.K. will monitor market conditions and may, from time to time, with the approval of the Fund s Board of Trustees, increase the Fund s use of leverage when they believe market conditions make doing so in the best interests of the Fund but, in any case, will limit the Fund s use of leverage such that the proceeds therefrom to the Fund will not exceed 33 $^{1}/_{3}$% of the Fund s total assets (which includes the assets obtained through the use of such instruments) at the time used, consistent with the limitations of the Investment Company Act of 1940, as amended (the 1940 Act). The Fund may obtain leverage through borrowings, such as through bank loans, margin borrowings or commercial paper or other credit facilities, through the issuance of preferred shares, through reverse repurchase agreements, through derivatives, including total return swap contracts, or through other means. The Fund has no current intention to issue preferred shares. The 1940 Act and the rules promulgated thereunder generally limit the extent to which the Fund may use uncovered reverse repurchase agreements and borrowings, together with any other senior securities representing indebtedness, to 33 $^{1}/_{3}$% of the Fund s total assets at the time used. See Leverage. Leveraging is a speculative technique and there are special risks and costs involved. The use of leverage will cause the Fund s net asset value to be more volatile than if leverage were not used. For example, a rise in short-term interest rates, which are near or at historically low levels, will cause the Fund s net asset value to decline more than if the Fund had not used leverage. The use of leverage may also cause more volatility in the level of the Fund s distributions. There can be no assurance that a leveraging strategy will be used or that it will be successful during any period in which it is employed. See Risks Leverage Risk.

This prospectus sets forth concisely the information about the Fund that a prospective investor ought to know before investing. You should read this prospectus, which contains important information about the Fund, before deciding whether to invest in the Fund s common shares, and you should retain this prospectus for future reference. A Statement of Additional Information, dated , 2012 (the Statement of Additional Information), containing additional information about the Fund, has been filed with the Securities and Exchange Commission (the SEC) and is incorporated by reference in its entirety into this prospectus, which means that it is part of this prospectus for legal purposes. You may request a free copy of the Statement of Additional Information, the table of contents of which is on page 66 of this prospectus, by calling (800) 443-2862 (toll-free) or by writing to c/o Babson Capital Global Short Term High Yield Fund, 550 South Tryon Street, Suite 3300, Charlotte, NC 28202, or obtain a copy (and other information regarding the Fund) from the SEC s website (http://www.sec.gov) or from the SEC s Public Reference Room in Washington, D.C. Information on the operation of the Public Reference Room may be obtained by calling the SEC at (202) 551-8090. To obtain annual and semi-annual shareholder reports electronically (when available), please visit the Fund s website (www.babsoncapital.com), which also provides a link to the Fund s Statement of Additional Information, or call (800) 443-2862 (toll-free). You may also call this number to request additional information or to make other inquiries pertaining to the Fund.

The Fund s common shares do not represent a deposit or obligation of, and are not guaranteed or endorsed by, any bank or other insured depository institution, and are not federally insured by the Federal Deposit Insurance Corporation, the Federal Reserve Board or any other government agency.

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You should rely only on the information contained or incorporated by reference in this prospectus. The Fund has not, and the underwriters have not, authorized any person to provide you with different information. If anyone provides you with information that differs from or is inconsistent with the information in this prospectus, you should not rely on it. The Fund is not, and the underwriters are not, making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted. You should assume that the information contained or the representations made herein are accurate only as of the date on the cover page of this prospectus. The Fund s business, financial condition, results of operations and prospects may have changed since that date.

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PROSPECTUS SUMMARY

This is only a summary. This summary does not contain all of the information that you should consider before investing in the Fund s common shares. You should review the more detailed information contained elsewhere in this prospectus and in the Statement of Additional Information, especially the information in this prospectus under the heading Risks.

The Fund

Babson Capital Global Short Duration High Yield Fund (the Fund) is a recently organized, non-diversified, closed-end management investment company. See The Fund.

The Offering

The Fund is offering common shares of beneficial interest at an initial public offering price of $25.00 per share through a group of underwriters led by Merrill Lynch, Pierce, Fenner & Smith Incorporated and Wells Fargo Securities, LLC. The common shares of beneficial interest are called Common Shares in the rest of this prospectus. You must purchase at least 100 Common Shares in order to participate in this offering. The Fund has given the underwriters an option to purchase up to additional Common Shares. See Underwriting. Babson Capital Management LLC (Babson Capital or the Manager) has agreed to pay the Fund s organizational and offering costs (other than the sales load but inclusive of such $.00834 per Common share partial reimbursement of underwriters expenses), to the extent such costs are in excess of $.05 per Common share.

Who May Want to Invest

The Fund may be an appropriate investment for investors who are seeking:

- a portfolio consisting primarily of short duration, high yield fixed and floating rate income securities;
- the potential for attractive monthly income and capital appreciation;
- professional selection and active management by the Manager and Babson Capital Global Advisors Limited (Babson Capital U.K. or the Sub-Adviser).

The Fund is designed as a long-term investment and not as a trading vehicle. No assurance can be given that the returns on the Fund s investments will be commensurate with the risk of investment in the Fund nor can the Fund provide any assurances that enough appropriate investments that meet the Fund s investment criteria will be available. Fund investments may be highly speculative; therefore, an investment in Common Shares may not be suitable for someone with a low risk tolerance.

Investment Objectives and Strategies

Investment Objectives. The Fund s primary investment objective is to seek as high a level of current income as Babson Capital determines

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is consistent with capital preservation. The Fund seeks capital appreciation as a secondary investment objective when consistent with its primary objective. There can be no assurance that the Fund will achieve its investment objectives. The Fund s investment objectives are non-fundamental, which means that they may be changed without shareholder approval by the Fund s Board of Trustees (the Board of Trustees).

Portfolio Management Strategies. Under normal market conditions, the Fund will invest at least 80% of its Managed Assets (as defined below) in bonds, loans and other income-producing instruments that are, at the time of purchase, rated below investment grade by at least one credit rating agency (below Baa3 by Moody s or below either BBB- by either S&P or Fitch) or unrated but judged by the Manager or Sub-Adviser to be of comparable quality. (This policy is non-fundamental and may be changed by the Trustees, without a vote of the shareholders of the Fund, upon at least 60 days prior written notice to shareholders.) The Fund intends to achieve its investment objectives by investing opportunistically in a diverse portfolio of short duration North American and non-North American (primarily Western European) bonds and loans, principally of below investment grade quality (below Baa3 by Moody s or below BBB- by either S&P or Fitch) or unrated but judged by the Manager or the Sub-Adviser to be of comparable quality. The Fund expects that initially at least 50% of its net assets will be invested in securities that are at the time of purchase rated at least B1 by Moody s, or B+ by S&P or Fitch or, if unrated, are considered by the Manager or the Sub-Adviser to be of comparable quality. Under normal market conditions, the Fund intends to invest in at least three different countries and to invest at least 40% of its net assets in securities of foreign companies (or, if less, at least the percentage of net assets that is ten percentage points less than the percentage of the Fund s benchmark, the Bank of America/Merrill Lynch Global Non-Financial High Yield Constrained Index, represented by foreign companies, as determined by the provider of the benchmark). For purposes of determining whether securities held by the Fund are securities of a foreign company, a company is considered to be a foreign company if the Manager or Sub-Adviser determines that the company s securities trade on a market outside of the United States, the company is headquartered or organized outside of the United States, the company derives a majority of its revenues or profits outside of the United States, or the company is significantly exposed to the economic fortunes and risks of regions outside the United States. The Fund will seek to take advantage of inefficiencies between geographies, primarily the North American and Western European high yield bond and loan markets and within capital structures between bonds and loans. For example, the Fund will seek to take advantage of differences in pricing between bonds of an issuer denominated in U.S. dollars and substantially similar bonds of the same issuer denominated in Euros, potentially allowing the Fund to achieve a higher relative return for the same credit risk exposure.

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Babson Capital has 70 professionals worldwide dedicated to high yield investing, including 43 professionals in the United States and 27 professionals in Europe.

High Yield Instruments. As used herein, high yield instruments or junk bonds are instruments that are rated below investment grade or unrated but judged by the Manager or Sub-Adviser to be of comparable quality. The Fund expects to invest primarily in high yield bonds and loans of North American and Western European corporate issuers. Managed Assets are the total assets of the Fund (including any assets attributable to leverage such as assets attributable to reverse repurchase agreements, the notional value of total return swap contracts (for this purpose, total return swaps on a single issuer shall be calculated on a net basis), bank loans and preferred shares that may be outstanding minus the sum of the Fund s accrued liabilities (other than liabilities incurred for the purpose of leverage or liabilities related to the liquidation preference of any preferred shares issued). High yield debt securities (also commonly referred to as junk bonds) are regarded as having predominantly speculative characteristics with respect to capacity to pay interest and to repay principal.

Babson Capital takes a credit-intensive approach when selecting assets for the Fund. Credit analysis is conducted locally by large teams in the United States and Europe. Babson Capital seeks to determine where value exists within companies based on fundamental bottom-up analysis and to assess this value relative to other investment alternatives. Babson Capital focuses on in-depth company and industry analysis, with particular attention paid to free cash flow generation capability, quality of management and capital structure. Babson Capital also looks at enterprise value relative to debt and collateral value for the bonds and loans that it purchases. Babson Capital s credit strategy stresses (i) fundamentally driven credit selection and portfolio construction, (ii) building broadly diverse portfolios across industry and issuer, (iii) emphasizing total return, relative value and market liquidity, (iv) determining appropriate reward for risk, (v) communicating and reacting to company and market information on a real time basis and (vi) actively managing accounts to achieve portfolio objectives as market conditions change.

The Fund will seek to buy securities of companies with strong management teams and solid business positions in stable industries. Research analysts focus on profitability, generation and sustainability of cash flow, enterprise value, interest coverage and leverage. Babson Capital looks for companies that have appropriate capital structures that do not overly subordinate their debt and have adequate liquidity with access to capital. Using fundamental bottom-up analysis combined with credit analysis techniques, research analysts consider the potential downside risks of an investment first, but do not ignore the upside potential. They monitor the current investment environment to identify which asset classes are offering the best value given the risks. Analysts then perform rigorous analysis of issuers

under consideration by examining (i) the quality of the management team, (ii) free cash flow to determine an issuer s ability to repay debt, (iii) the company s strengths and weaknesses within its sectors, including the views of competitors, suppliers and customers, (iv) capital structure analysis, (v) pro forma leverage and debt coverage and (vi) a comparison of traditional measures of total financial leverage to both debt market standards and enterprise values.

Duration. Duration is the weighted average term-to-maturity of a security s cash flows. It is a measure of the price sensitivity of a debt security or portfolio to interest rate changes. While there is no limit on the remaining maturity or duration of any individual security in which the Fund may invest, the Fund normally will seek to maintain a weighted average portfolio duration, including the effects of leverage (weighted average portfolio duration) of three years or less and a weighted average portfolio maturity of five years or less. The Fund s weighted average portfolio duration and weighted average portfolio maturity, however, may be longer at any time or from time to time depending on market conditions.

Duration is a mathematical calculation of the average life of a debt security (or portfolio of debt securities) that serves as a measure of its price risk. By comparison, a debt security s maturity is the date on which the security ceases and the issuer is obligated to repay principal. Duration differs from maturity in that it considers a security s next interest re-set date and call features, whereas maturity does not. In general, if prevailing interest rates change by 1%, a fixed income security or portfolio s value will change by 1% multiplied by each year of duration. For example, if a portfolio of fixed income securities has an average duration of three years, its value can be expected to fall about 3% if interest rates rise by 1%. Conversely, the portfolio s value can be expected to rise about 3% if interest rates fall by 1%. As a result, prices of securities with longer durations tend to be more sensitive to interest rate (or yield) changes than securities with shorter duration.

Foreign Instruments. Under normal market conditions, the Fund may invest up to 50% of its Managed Assets in bonds and loans issued by foreign companies or governments. Such foreign securities may be U.S. currency denominated or foreign currency denominated. See Investment Objectives and Strategies Portfolio Management Strategies above for a description of what constitutes a foreign company.

Derivatives. The Fund may use derivatives for hedging, investment or leverage purposes. Under normal market conditions, the aggregate value (the net in the money amount) of the Fund s derivatives positions (other than derivatives used in connection with foreign currency hedging transactions) will not exceed 20% of the Fund s Managed Assets. The Fund currently expects that its derivatives use will consist primarily of total return swaps, credit default swaps and

foreign currency forward contracts and futures. The Fund s investment in derivatives will be included under the 80% asset policy noted above so long as the underlying assets of such derivatives are one or more high yield fixed income instruments that are rated below investment grade. The use of derivatives for hedging, investment or leverage purposes involves significant risks and there can be no assurance that the Fund s derivative strategy will be successful. See Risks Derivatives Risk and Risks Leverage Risk.

In a total return swap, the Fund pays a counterparty a floating short-term interest rate and receives in exchange the total return of an agreed upon pool of underlying assets. The Fund bears the risk of default on the underlying assets based on the notional amount of the swap. The Fund would typically have to post collateral to cover this potential obligation.

An investment by the Fund in credit default swaps will allow the Fund to hedge credit exposure to particular issuers. Credit default swaps are contracts whereby one party makes periodic payments to a counterparty in exchange for the right to receive from the counterparty a payment equal to the par (or other agreed-upon) value of a referenced debt obligation in the event of a default or other credit event by the issuer of the debt obligation. If the Fund purchases protection under a credit default swap and no credit event occurs on the reference obligation, the Fund will have made a series of periodic payments and will recover nothing of monetary value. However, if a credit event occurs on the reference obligation, the Fund (as the buyer of protection) is entitled to receive the full notional value of the reference obligation through a cash payment in exchange for the reference obligation or, alternatively, a cash payment representing the difference between the expected recovery rate and the full notional value.

The Fund currently intends, but is not required, to hedge substantially all of its exposure to foreign currencies through the use of currency strategies. For example, the Fund may transact in foreign currencies, may enter into forward foreign currency exchange contracts, and may buy and sell foreign currency futures contracts and options on foreign currencies and foreign currency futures. Suitable hedging transactions may not be available, and there can be no assurance that the Fund will engage in such transactions at any given time or from time to time when they would be beneficial. Additionally, such hedging transactions may not be successful and may eliminate any chance for the Fund to benefit from favorable fluctuations in relevant foreign currencies. See Risks Foreign (Non-U.S.) Investment Risk.

Investment Grade Securities. Under normal market conditions, the Fund may invest up to 20% of its Managed Assets in fixed income instruments that are rated investment grade (Baa3 or higher by Moody s or BBB- or higher by S&P or Fitch) or, if unrated, are considered by the Manager or Sub-Adviser to be of comparable quality.

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Lower Rated Securities. The Fund may not invest in issuers which are in default at the time of purchase, except for investments in debtor-in-possession or super senior financings (commonly called DIP financing). As part of its investments in high yield instruments, the Fund may invest up to 10% of its Managed Assets in high yield instruments rated in the lower rated categories (Caa1 or lower by Moody s, and CCC+ or lower by S&P and Fitch) or, if unrated, are considered by the Manager to be of comparable quality. Such securities are subject to a very high credit risk.

Illiquid Securities. The Fund may invest up to 20% of its total assets in illiquid securities. Securities are considered illiquid, if at the time of investment, the securities cannot be disposed of within seven days in the ordinary course of business at approximately the value at which the Fund has valued the securities. See Risks Liquidity Risk.

Independent Credit Analysis. Each of Babson Capital and Babson Capital U.K. will rely heavily on its own analysis of the credit quality and risks associated with individual bonds, loans and other debt securities considered for the Fund, rather than relying exclusively on rating agencies or third-party research. The individuals managing the Fund will use this information in an attempt to minimize credit risk and to identify issuers, industries or sectors that are undervalued or that offer attractive yields relative to their assessment of their credit characteristics. This aspect of the capabilities of Babson Capital and Babson Capital U.K. will be particularly important because of the Fund s emphasis on below investment grade bonds and loans.

Diversification. The Fund is a non-diversified investment company in that it may invest a greater percentage of its assets in the securities of a single issuer than may investment companies that are diversified. See Risks Non-Diversification Risk. Subject to the availability of suitable investment opportunities, Babson Capital and Babson Capital U.K. will attempt to have the Fund invested broadly in order to minimize the Fund s sensitivity to credit, currency and other risks associated with a particular geographic region, industry or sector, or to the effect of a single economic, political or regulatory occurrence. To avoid concentrating its investments in a particular industry or group of industries, the Fund will not invest more than 25% of its total assets in any single industry or group of industries as those terms are used in the 1940 Act.

Leverage

Initially, the Fund intends, subject to favorable market conditions, to add leverage to its portfolio, such that the leverage obtained represents approximately 20% of the Fund s total assets (which includes the assets obtained through leverage). For this purpose, the Fund s leverage through derivatives will be calculated using the net notional amount of the Fund s derivatives positions (and will exclude derivatives used for hedging purposes, including in connection with foreign currency hedging transactions).

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Babson Capital and Babson Capital U.K. will monitor market conditions and may, from time to time, with the approval of the Board of Trustees, increase the Fund s use of leverage when they believe market conditions make doing so in the best interests of the Fund but, in any case, will limit the Fund s use of leverage such that the proceeds therefrom to the Fund will not exceed 33 $^{1}/_{3}$% of the Fund s total assets (which includes the assets obtained through the use of such instruments) at the time used, consistent with the limitations of the 1940 Act. The Fund may obtain leverage through borrowings, such as through bank loans or commercial paper or other credit facilities, the issuance of preferred shares, through reverse repurchase agreements, through derivatives, including total return swap contracts, or other means. The Fund has no current intention to issue preferred shares. The 1940 Act and the rules promulgated thereunder generally limit the extent to which the Fund may use uncovered reverse repurchase agreements, other derivatives and borrowings, together with any other senior securities representing indebtedness, to 33 $^{1}/_{3}$% of the Fund s total assets at the time used. See Leverage. Leveraging is a speculative technique and there are special risks and costs involved. The use of leverage will cause the Fund s net asset value to be more volatile than if leverage were not used. For example, a rise in short-term interest rates, which are near or at historically low levels, will cause the Fund s net asset value to decline more than if the Fund had not used leverage. The use of leverage may also cause more volatility in the level of the Fund s distributions. There can be no assurance that a leveraging strategy will be used or that it will be successful during any period in which it is employed. See Risks Leverage Risk.

The net proceeds the Fund obtains from its use of leverage will be invested in accordance with the Fund s investment objectives and policies as described in this prospectus. So long as the rate of return, net of applicable Fund expenses, on the loans, debt securities and other investments purchased by the Fund exceeds the costs of such leverage to the Fund, the investment of the proceeds thereof will generate more income than will be needed to pay the costs of the leverage. If this occurs, the excess will be used to pay higher dividends to the holders of the Common Shares (collectively, the Common Shareholders) than if the Fund were not so leveraged. If the costs of leverage to the Fund exceed the rate of return, lower dividends will be paid to Common Shareholders than if the Fund were not so leveraged.

Leveraging is a speculative technique and there are special risks and costs involved. There can be no assurance that any use of leverage will result in a higher yield on the Common Shares. Once leverage is used, the net asset value and market price of the Common Shares and the yield to Common Shareholders will be more volatile. See Risks Leverage Risk. In addition, fees and expenses of leverage borne by the Fund are borne entirely by the Common Shareholders (and not by preferred shareholders, if any) and will result in a reduction of the net asset value of the Common Shares.

Because the fees received by the Manager and the Sub-Adviser are based on the Managed Assets of the Fund (which include assets attributable to leverage), the Manager and the Sub-Adviser have a financial incentive for the Fund to use leverage, which may create a conflict of interest between the Manager and the Sub-Adviser, on the one hand, and the Common Shareholders, on the other hand. The Board of Trustees will generally oversee the use by the Manager or Sub-Adviser of leverage for the Fund.

Please see Leverage and Risks Leverage Risk in the body of this prospectus for additional information regarding the Fund s use of leverage and related risks.

Manager

Babson Capital serves as the investment adviser for the Fund. Subject to the supervision of the Board of Trustees, Babson Capital is responsible for managing the investment activities of the Fund and the Fund s business affairs and other administrative matters. Babson Capital will receive an annual fee, payable monthly, in an amount equal to 1.00% of the Fund s average daily Managed Assets. Babson Capital has a principal office located at 550 South Tryon Street, Suite 3300, Charlotte, NC 28202. Founded in 1940, Babson Capital is a global investment management organization with investment operations in the United States, the United Kingdom, Australia, and Asia and approximately 900 associates, including over 300 investment professionals as of June 30, 2012. Babson Capital has provided investment advice to individual and institutional investors for more than 70 years and had assets under management as of June 30, 2012 of more than $149 billion.

The Manager has retained its subsidiary, Babson Capital U.K., as a sub-adviser to manage the Fund s European investments. See Sub-Adviser below. Babson Capital and Babson Capital U.K. are referred to collectively in the remainder of this prospectus as Babson Capital.

Sub-Adviser

Babson Capital U.K. will serve as the Fund s sub-adviser responsible for managing the Fund s European investments. Subject to the supervision of the Manager and the Board of Trustees, the Sub-Adviser manages the investment and reinvestment of a portion of the assets of the Fund, as will be allocated from time to time to the Sub-Adviser by a global allocation investment committee composed of representatives of the Manager and Sub-Adviser.

Babson Capital U.K. is a recently formed investment adviser registered with the SEC in the United States and the Financial Services Authority in the United Kingdom whose principal office is located at 61 Aldwych, London, United Kingdom WC2B 4AE. Babson Capital U.K. is a wholly-owned subsidiary of Babson Capital Europe Limited (Babson Capital Europe), which in turn is an indirect, wholly-owned subsidiary of the Manager.

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Originally organized in 2000 as Duke Street Capital Debt Management, Limited, Babson Capital Europe provides investment advisory services to private accounts of institutional and family office clients. As of June 30, 2012, Babson Capital Europe had approximately 5.8 billion in assets under management.

The Manager (and not the Fund) will pay a portion of the management fees it receives from the Fund, in an amount equal to 35% of such management fee, payable monthly to Babson Capital U.K. in return for Babson Capital U.K. s services.

Distributions

Commencing with the Fund s initial distribution, the Fund intends to make regular monthly cash distributions to Common Shareholders, to the extent permitted under the 1940 Act, at a rate based on the projected performance of the Fund. The dividend rate that the Fund pays on its Common Shares will depend on a number of factors, including interest payable on leverage. As portfolio and market conditions change, the rate of dividends on the Common Shares and the Fund s dividend policy could change. Over time, the Fund will distribute substantially all of its net investment income. In addition, at least annually, the Fund may distribute to Common Shareholders their pro rata share of any available net capital gain, although the Fund may determine to retain some or all of the capital gains produced by the Fund. The initial distribution is expected to be declared approximately 45 days, and paid approximately 60 to 90 days, from the completion of this offering, depending on market conditions.

Distributions of investment income and of net realized short-term capital gains generally will be taxed to Common Shareholders at ordinary income rates. Distributions of net capital gain (the excess of net long-term capital gains over net short-term capital losses) generally will be taxed to Common Shareholders as long-term capital gain. Fund distributions are generally not expected to constitute qualified dividend income. See Tax Matters.

Because the ultimate character of the Fund s distributions made in a calendar or fiscal year cannot finally be determined until the end of the year, the Fund may make total distributions during the year in an amount that exceeds the Fund s net investment income and net realized capital gains for the year, which would result in a return of capital to Common Shareholders. For example, the Fund may distribute net short-term capital gains early in the year, but incur net capital losses (whether short- or long-term) later in the year, thereby offsetting the short-term net capital gains for which distributions have already been made by the Fund. In such a situation, the amount by which the Fund s total distributions exceed net investment income and net realized capital gains would generally be treated as a tax-free return of capital up to the amount of the Common Shareholder s basis in his or her shares, with any amounts exceeding such basis treated as capital gain, assuming the Common Shareholder holds the shares as capital assets. See Tax Matters.

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Unless a Common Shareholder elects to receive distributions in cash, all of such shareholder s distributions will be automatically reinvested in additional Common Shares under the Fund s Dividend Reinvestment Plan. Reinvestment has no effect on the tax treatment of a shareholder s distributions. See Distributions and Dividend Reinvestment Plan.

Listing	The Common Shares are expected to be listed on the New York Stock Exchange, subject to notice of issuance, under the symbol BGH. See Description of Capital Structure Common Shares.
Administrator	U.S. Bancorp Fund Services, LLC (USBFS or the Administrator) is the Fund s administrator. Pursuant to a Master Services Agreement (the Master Services Agreement) among the Fund, USBFS, and TS Capital, LLC (TSC), USBFS, with principal offices at 615 E. Michigan Street, 3rd Floor, Milwaukee, Wisconsin 53202, serves as administrator. As administrator, USBFS provides certain services, including, among other things, furnishing the Fund with clerical and various other services required by the Fund s operations; compiling data for and preparing notices to the SEC; calculating the Fund s daily net asset value (NAV) and certain other financial data; preparing reports that are required by the securities, investment, tax or other laws and regulations of the United States; coordinating federal and state tax returns; monitoring the Fund s expense accruals; and generally assisting in the Fund s operations. Pursuant to the Master Services Agreement, the Fund has retained TSC to provide, upon request, certain other services to the Fund, including, among other things, preparing a variety of shareholder communications and press releases; communicating with the New York Stock Exchange (NYSE) and the closed-end fund analyst community; generally assisting with the Fund s communications with the investment community; and providing reports to the Board of Trustees regarding certain strategic issues relating to closed-end funds. For these services the Fund will pay USBFS an aggregate fee, payable monthly, at the annual rate of .30% of the Fund s average daily total Managed Assets. For these purposes, the Fund s average daily total Managed Assets will be calculated in the same manner as they are for purposes of calculating the fee payable under the Investment Management Agreement. See Management of the Fund Investment Management Agreement. In addition, the fee is subject to a minimum annual fee of $350,000. USBFS (and not the Fund) will be responsible for compensating TSC from the fee paid to USBFS by the Fund. USBFS and TSC will also be reimbursed by the Fund for out-of-pocket expenses that are reasonably incurred by them in performing their duties under the Master Services Agreement.
Custodian and Transfer Agent	U.S. Bank National Association will serve as custodian of the Fund s assets. In addition to serving as the Fund s administrator, USBFS will serve as the Fund s accounting, transfer, shareholder servicing, and dividend disbursement agent, as well as agent for the Fund s Dividend Reinvestment Plan. See Custodian and Transfer Agent.

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Market Price of Shares

Shares of closed-end investment companies frequently trade at prices lower than net asset value. Shares of closed-end investment companies like the Fund that invest predominantly in below investment grade debt obligations have during some periods traded at prices higher than net asset value, but frequently trade at prices lower than net asset value. The Fund cannot assure you that the Common Shares will trade at a price higher than net asset value in the future. Net asset value will be reduced immediately following the offering by the amount of offering expenses paid by the Fund and the sales load paid by Common Shareholders. To the extent that the Fund engages in borrowings or related leverage, the Common Shareholders will bear the costs associated with such borrowings or leverage. The costs associated with such leverage or borrowings may dilute the net asset value of the Common Shares. See Use of Proceeds. In addition to net asset value, market price may be affected by such factors relating to the Fund or its portfolio holdings as dividend level (which is in turn affected by expenses, including the costs of leverage), dividend stability, portfolio credit quality and liquidity and market supply and demand. See Leverage, Risks, Description of Capital Structure and Repurchase of Common Shares; Conversion to Open-End Fund in this prospectus, and Repurchase of Common Shares; Conversion to Open-End Fund in the Statement of Additional Information. The Common Shares are designed primarily for long-term investors, and you should not view the Fund as a vehicle for trading purposes.

Special Risk Considerations

No Prior History. The Fund is a recently organized, non-diversified, closed-end management investment company with no history of operations.

Below Investment Grade (High Yield/Junk Bond) Instruments Risk. The Fund expects to invest primarily in bonds, loans and other income-producing instruments of corporate issuers that are, at the time of purchase, rated below investment grade by at least one credit rating agency (below Baa3 by Moody s, or below BBB- by either S&P or Fitch) or unrated but judged by the Manager or the Sub-Adviser to be of comparable quality. The Fund also invests in other below investment grade debt obligations. Below investment grade debt instruments carry greater credit and liquidity risk than investment grade instruments. These instruments are often also referred to as high yield instruments or junk bonds . Below investment grade debt instruments are considered to be predominantly speculative investments. In some cases, these obligations may be highly speculative and have poor prospects for reaching investment grade standing. Below investment grade debt instruments are subject to the increased risk of an issuer s inability to meet principal and interest payment obligations. These instruments may be subject to greater price volatility due to such factors as specific corporate developments, interest rate sensitivity, negative perceptions of the financial markets generally and less secondary market liquidity. The Manager and the Sub-Adviser will consider both credit risk and market risk in making investment decisions for the Fund.

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Below investment grade debt instruments are often issued in connection with a corporate reorganization or restructuring or as part of a merger, acquisition, takeover or similar event. They are also issued by less established companies seeking to expand. Such issuers are often highly leveraged and generally less able than more established or less leveraged entities to make scheduled payments of principal and interest in the event of adverse developments or business conditions.

The market value of below investment grade debt instruments tends to reflect individual corporate developments to a greater extent than that of higher-rated instruments, which generally react primarily to fluctuations in the general level of interest rates. As a result, when the Fund invests in such high yield instruments, its ability to achieve its investment objective may depend to a greater extent on the judgment of the Manager and the Sub-Adviser concerning the creditworthiness of issuers than funds that invest in higher-rated instruments. Issuers of below investment grade debt instruments may not be able to make use of more traditional methods of financing and their ability to service debt obligations may be more adversely affected than issuers of higher-rated instruments by economic downturns, specific corporate developments or the issuer s inability to meet specific projected business forecasts. Negative publicity about the high yield markets and investor perceptions regarding lower-rated or unrated instruments, whether or not based on fundamental analysis, may depress the prices for such instruments.

If a default occurs with respect to any below investment grade debt instruments and the Fund sells or otherwise disposes of its exposure to such instruments, it is likely that the proceeds would be less than the unpaid principal and interest. Even if such instruments are held to maturity, recovery by the Fund of its initial investment and any anticipated income or appreciation would be uncertain and may not occur.

The secondary market for below investment grade debt instruments may be concentrated in relatively few market makers and is dominated by institutional investors, including mutual funds, insurance companies and other financial institutions. Accordingly, the secondary market for such instruments is not as liquid as, and is more volatile than, the secondary market for higher-rated instruments. In addition, market trading volume for high yield instruments is generally lower and the secondary market for such instruments could contract under adverse market or economic conditions, independent of any specific adverse changes in the condition of a particular issuer.

Credit Risk: Credit risk is the risk that one or more debt obligations in the Fund s portfolio will decline in price, or fail to pay dividends, interest or principal when due because the issuer of the obligation experiences an actual or perceived decline in its

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financial status. Credit ratings issued by credit rating agencies are designed to evaluate the safety of principal and interest payments of rated instruments. They do not, however, evaluate the market value risk of below investment grade debt instruments and, therefore, may not fully reflect the true risks of an investment. In addition, credit rating agencies may or may not make timely changes in a rating to reflect changes in the economy or in the conditions of the issuer that affect the market value of the instruments. Consequently, credit ratings are used only as a preliminary indicator of investment quality. Investments in below investment grade and comparable unrated obligations will be more dependent on the Manager s and the Sub-Adviser s credit analysis than would be the case with investments in investment-grade instruments. The Manager and the Sub-Adviser employ their own credit research and analysis, which includes a study of existing debt, capital structure, ability to service debt and to pay dividends, sensitivity to economic conditions, operating history and current earnings trends.

Risks of Investing in Loans. The loans in which the Fund will invest are largely floating rate instruments; therefore, the interest rate risk generally is lower than for fixed-rate debt obligations. However, from the perspective of the borrower, an increase in interest rates may adversely affect the borrower s financial condition. Due to the unique and customized nature of loan agreements evidencing loans and the private syndication thereof, loans are not as easily purchased or sold as publicly traded securities. Although the range of investors in loans has broadened in recent years, there can be no assurance that future levels of supply and demand in loan trading will provide the degree of liquidity which currently exists in the market. In addition, the terms of the loans may restrict their transferability without borrower consent. These factors may have an adverse effect on the market price and the Fund s ability to dispose of particular portfolio investments. A less liquid secondary market also may make it more difficult for the Fund to obtain precise valuations of the high yield loans in its portfolio.

Loans to companies operating in workout modes or under statutory bankruptcy protection are, in certain circumstances, subject to certain potential liabilities which may exceed the amount of the loan. For example, under certain circumstances, lenders who have inappropriately exercised control of the management and policies of a debtor may have their claims subordinated or disallowed or may be found liable for damages suffered by parties as a result of such actions.

Loans may be deemed to have substantial vulnerability to default in payment of interest and/or principal. Certain of the loans that the Fund may invest in have large uncertainties or major risk exposures to adverse conditions, and may be considered to be predominantly speculative. Generally, such loans offer a higher return potential than better quality loans, but involve greater volatility of price and greater

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risk of loss of income and principal. The market values of certain of these loans also tend to be more sensitive to changes in economic conditions than better quality loans.

As a result of the Fund s investment in below investment grade investments and as a consequence of credit problems with such investment and the possibility that the Fund may participate in restructuring activities, it is possible that the Fund may become involved in litigation. Litigation entails expense and the possibility of counterclaim against the Fund and ultimately judgments may be rendered against the Fund for which the Fund may not carry insurance.

The Fund may invest directly or indirectly in loans by purchasing participations or sub-participations from certain financial institutions which will represent the right to receive a portion of the principal of, and all of the interest relating to such portion of, the applicable loan. In purchasing participations, the Fund will usually have a contractual relationship only with the selling institution, and not the borrower. When investing in participations, the Fund generally will have no right directly to enforce compliance by the borrower with the terms of the loan agreement, no rights of set-off against the borrower and no right to object to certain changes to the loan agreement agreed to by the selling institution. In addition, the Fund may not directly benefit from the collateral supporting the related loan, may be subject to any rights of set-off the borrower has against the selling institution and will generally be subject to the credit risk of the selling institution.

In the event of the insolvency of the selling institution, under the laws of the relevant jurisdictions, the Fund may be treated as a general creditor of such selling institution and may not have any exclusive or senior claim with respect to the selling institution s interest in, or the collateral with respect to, the loan. Consequently, the Fund will be subject to the credit risk of the selling institution as well as that of the borrower. The Manager s and the Sub-Adviser s credit analyses will focus on the underlying obligor of a loan. Accordingly, the independent credit analysis performed on a selling institution generally will not be as extensive as the independent credit analysis performed on the underlying obligor.
If the Fund invests in loans in which it has a direct contractual relationship with the borrower, there are additional risks involved. For example, if a loan is foreclosed, the Fund could become part owner of any collateral, and would bear the costs and liabilities associated with owning and disposing of the collateral. As a result, the Fund may be exposed to losses resulting from default and foreclosure. Any costs or delays involved in the effectuation of a foreclosure of the loan or a liquidation of the underlying assets will further reduce the proceeds and thus increase the loss. There is no assurance that the Fund will correctly evaluate the value of the assets collateralizing the loan. In

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the event of a reorganization or liquidation proceeding relating to the borrower, the Fund may lose all or part of the amounts advanced to the borrower. There is no guarantee that the protection of the Fund s interests will be adequate, including the validity or enforceability of the loan and the maintenance of the anticipated priority and perfection of the applicable security interests. Furthermore, there is no assurance that claims may not be asserted that might interfere with enforcement of the Fund s rights.

Loan obligations are subject to unique risks, including the possible invalidation of an investment as a fraudulent conveyance under relevant creditors rights laws. Further, when exposure to loans is gained by purchase of participations there is the additional credit and bankruptcy risk of the direct participant and its failure for whatever reason to account to the Fund for monies received in respect of loans directly held by it. In analyzing each loan, assignment or participation, the Manager will compare the relative significance of the risks against the expected benefits of the investment.

Floating rate loans provide for a periodic adjustment in the interest rate paid on the obligations. The interest rate on a floating rate loan resets periodically, typically every 30, 60 or 90 days. While, because of the interest rate reset feature, floating rate loans provide the Fund with a certain degree of protection against rising interest rates, the value of the Fund s floating rate loans may decline as interest rates rise because the Fund will continue to earn interest at the previously-established rate until the interest rate for each loan resets. The risks associated with floating rate loans may also be present with respect to fixed-to-floating-rate securities in which the Fund may invest. A secondary risk associated with declining interest rates is the risk that income earned by the Fund on floating-rate and fixed-to-floating-rate securities will decline due to lower coupon payments on floating-rate securities.

Interest Rate Risk. Generally, when market interest rates fall, the prices of fixed-rate debt obligations rise, and vice versa. Interest rate risk is the risk that the debt obligations in the Fund s portfolio will decline in value because of increases in market interest rates. As interest rates increase, slower than expected principal payments may extend the average life of securities, potentially locking in a below-market interest rate and reducing the Fund s value. In typical market interest rate environments, the prices of long-term debt obligations generally fluctuate more than prices of short-term debt obligations as interest rates change. The Fund s use of leverage, as described below, will tend to increase Common Share interest rate risk. Interest rate risk generally is lower for floating-rate instruments than for fixed-rate debt obligations.

Duration Risk. Duration measures the time-weighted expected cash flows of a security, which can determine the security s sensitivity to

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changes in the general level of interest rates (or yields). Securities with longer durations tend to be more sensitive to interest rate (or yield) changes than securities with shorter durations. Duration differs from maturity in that it considers potential changes to interest rates, and a security s coupon payments, yield, price and par value and call features, in addition to the amount of time until the security matures. Various techniques may be used to shorten or lengthen the Fund s duration. The duration of a security will be expected to change over time with changes in market factors and time to maturity.

Leverage Risk. The Fund s use of leverage (as described under Leverage in the body of this prospectus) creates special risks for Common Shareholders. There can be no assurance that the Fund s leveraging strategies will be successful. Leverage is a speculative technique that exposes the Fund to greater risk and increased costs. The use of leverage will cause the Fund s net asset value to be more volatile than if leverage were not used. For example, a rise in short-term interest rates, which are near or at historically low levels, will cause the Fund s net asset value to decline more than if the Fund had not used leverage. The use of leverage may also cause more volatility in the level of the Fund s distributions. The net proceeds the Fund obtains from its use of leverage will be invested in accordance with the Fund s investment objectives and strategies as described in this prospectus. It is anticipated that interest expense payable by the Fund with respect to its leverage will be based on shorter-term interest rates that would be periodically reset. If shorter-term interest rates rise relative to the rate of return on the Fund s portfolio, the interest and other costs to the Fund of leverage (including interest expenses on leverage) could exceed the rate of return on the loans and other investments held by the Fund, thereby reducing return to Common Shareholders. Therefore, the Fund s use of leverage may result in a lower yield on the Common Shares than would have occurred had leverage not been used. In addition, any preferred shares issued by the Fund are expected to pay cumulative dividends, which may tend to increase leverage risk.

Leverage creates several major types of risks for Common Shareholders, including:

- the likelihood of greater volatility of net asset value and market price of Common Shares than a comparable portfolio without leverage;

- the possibility either that Common Share dividends will fall if the interest and other costs of leverage rise, or that dividends paid on Common Share will fluctuate because such costs vary over time;

- the effects of leverage in a declining market or a rising interest rate environment, as leverage is likely to cause a greater decline in the net asset value of the Common Shares than if the Fund were not leveraged and may result in a greater decline the market value of the Common Shares;

leverage may increase operating returns, which may reduce total return; and

when the Fund uses leverage, the management fees payable to the Managers (and indirectly to the Sub-Adviser) will be higher than if the Fund did not use leverage.

In addition, the counterparties to the Fund s leveraging transactions and any preferred shareholders of the Fund will have priority of payment over the Fund s Common Shareholders. See Risks Leverage Risk.

Distressed Securities Risk. While the Fund may not invest in issuers that are in default at the time of purchase except for investments in DIP financings, issuers in which the Fund may invest may become subject to a bankruptcy reorganization proceeding, subject to some other form of a public or private debt restructuring or otherwise become in default or in significant risk of default in the payment of interest or repayment of principal or trading at prices substantially below other below-investment grade debt securities of companies in similar industries. Distressed securities frequently do not produce income while they are outstanding. The Fund may be required to incur certain extraordinary expenses in order to protect and recover its investment. Therefore, to the extent the Fund is invested in distressed securities, its ability to achieve current income for its Common Shareholders may be diminished. The Fund also will be subject to significant uncertainty as to when, in what manner and for what value the obligations evidenced by the distressed securities will eventually be satisfied (*e.g.*, through a liquidation of the obligor s assets, an exchange offer or plan of reorganization involving the distressed securities or a payment of some amount in satisfaction of the obligation). In addition, even if an exchange offer is made or a plan of reorganization is adopted with respect to distressed securities held by the Fund, there can be no assurance that the securities or other assets the Fund receives in connection with such exchange offer or plan of reorganization will not have a lower value or income potential than may have been anticipated when the investment was made. Moreover, any securities the Fund receives upon completion of an exchange offer or plan of reorganization may be restricted as to resale. As a result of the Fund s participation in negotiations with respect to any exchange offer or plan of reorganization with respect to an issuer of distressed securities, the Fund may be restricted from disposing of such securities.

Foreign (Non-U.S.) Investment Risk. The Fund s investments in foreign issuers involve special risks. For example, the value of these investments may decline in response to unfavorable political and legal developments, unreliable or untimely information, or economic and financial instability. Foreign settlement procedures also may involve additional risks.

Foreign Currency Risk. Although the Fund will report its net asset value and pay dividends in U.S. dollars, foreign securities often are purchased with, and make dividend or interest payments in, foreign currencies. Therefore, when the Fund invests in foreign securities, it will be subject to foreign currency risk, which means that the value of securities denominated in foreign currencies may fluctuate based on changes in the value of those currencies relative to the U.S. dollar (although Babson Capital intends generally to hedge investments denominated in foreign currencies back to the U.S. dollar), and a decline in applicable foreign exchange rates could reduce the value of such securities held by the Fund.

Derivatives Risk. The Fund may use a variety of derivative instruments for hedging or risk management purposes or as part of its investment strategies to increase the return of the Fund, such as options contracts (including options on futures contracts), futures contracts and swap agreements (including total return swaps, credit default swaps and index swaps), as well as through investments in structured notes or credit-linked notes and other securities issued by special purpose or structured vehicles. Derivatives are subject to a number of risks described elsewhere in this prospectus, such as liquidity risk, counterparty risk, interest rate risk, credit risk, leverage risk and management risk. They also involve the risk of mispricing or improper valuation and the risk that changes in the value of a derivative may not correlate perfectly with an underlying asset, interest rate or index. Suitable derivative transactions may not be available in all circumstances, and there can be no assurance that the Fund will engage in these transactions to reduce exposure to other risks when that would be beneficial. See Risks Derivatives Risk.

Counterparty Risk. The Fund will be subject to credit risk with respect to the counterparties to the derivative contracts purchased by the Fund. If a counterparty becomes bankrupt or otherwise fails to perform its obligations under a derivative contract due to financial difficulties, the Fund may experience significant delays in obtaining any recovery under the derivative contract in a bankruptcy or other reorganization proceeding. The Fund may obtain only a limited recovery or may obtain no recovery in such circumstances. The counterparty risk for cleared derivatives is generally lower than for uncleared over-the-counter derivative transactions since generally a clearing organization becomes substituted for each counterparty to a cleared derivative contract and, in effect, guarantees the parties performance under the contract as each party to a trade looks only to the clearing house for performance of financial obligations. However, there can be no assurance that the clearing house, or its members, will satisfy its obligations to the Fund.

Reinvestment Risk. Income from the Fund s portfolio will decline if and when the Fund invests the proceeds from matured, traded or called debt obligations at market interest rates that are below the

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portfolio s current earnings rate. A decline in income could affect the Common Shares market price or their overall return.

Inflation Risk. Inflation risk is the risk that the value of assets or income from the Fund s investments will be worth less in the future as inflation decreases the value of money.

Potential Conflicts of Interest Risk. The Manager, the Sub-Adviser and their affiliates are involved worldwide with a broad spectrum of financial services and asset management activities and may engage in the ordinary course of business in activities in which their interests or the interests of their clients may conflict with those of the Fund. The Manager, the Sub-Adviser and their affiliates may provide investment management services to other funds and discretionary managed accounts that follow an investment program similar to that of the Fund. Subject to the requirements of the 1940 Act, the Manager, the Sub-Adviser and their affiliates intend to engage in such activities and may receive compensation from third parties for their services. Neither the Manager, the Sub-Adviser or their affiliates are under any obligation to share any investment opportunity, idea or strategy with the Fund. As a result, the Manager, the Sub-Adviser and their affiliates may compete with the Fund for appropriate investment opportunities. The results of the Fund s investment activities, therefore, may differ from those of other accounts managed by the Manager, the Sub-Adviser and their affiliates, and it is possible that the Fund could sustain losses during periods in which one or more of the proprietary or other accounts managed by the Investment Manager or its affiliates achieve profits. The Manager and the Sub-Adviser have informed the Fund s Board of Trustees that the investment professionals associated with the Manager and the Sub-Adviser are actively involved in other investment activities not concerning the Fund and will not be able to devote all of their time to the Fund s business and affairs. The Manager, the Sub-Adviser and their affiliates have adopted policies and procedures designed to address potential conflicts of interests and to allocate investments among the accounts managed by the Manager, the Sub-Adviser and their affiliates in a fair and equitable manner.

Liquidity Risk. The Fund may invest up to 20% of its total assets in illiquid securities (*i.e.*, securities that cannot be disposed of within seven days in the ordinary course of business at approximately the value at which the Fund has valued the securities). Illiquid securities may trade at a discount from comparable, more liquid investments, and may be subject to wide fluctuations in market value. Also, the Fund may not be able to dispose of illiquid securities at a favorable time or price when desired. Below investment grade loans and other debt securities tend to be less liquid than higher-rated securities.

In addition, the Fund s derivatives investments may be subject to liquidity risk. Although both over-the-counter and exchange-traded

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derivatives markets may experience the lack of liquidity, over-the-counter non-standardized derivative transactions are generally less liquid than exchange-traded instruments. The absence of liquidity may also make it more difficult for the Fund to ascertain a market value for such instruments. The inability to close open derivatives positions also could have an adverse impact on the Fund s ability to effectively hedge its portfolio.

Issuer Risk. The value of securities may decline for a number of reasons that relate directly to the issuer, such as management performance, financial leverage and reduced demand for the issuer s goods and services.

Management Risk. The Fund is subject to management risk because it is an actively managed portfolio. The Manager and the Sub-Adviser will apply investment techniques and risk analyses in making investment decisions for the Fund, but there can be no guarantee that such techniques and analyses will produce the desired results.

Non-Diversification Risk. The Fund is a non-diversified investment company and therefore may invest a greater percentage of its assets in the securities of a single issuer than funds that are diversified. Accordingly, the Fund is more susceptible to risks associated with a single economic, political or regulatory occurrence than a diversified fund might be. Some of the issuers in which the Fund invests may also present substantial credit or other risks. The Fund will be subject to similar risks to the extent that it enters into derivative transactions with a limited number of counterparties.

Market Discount Risk. As with any stock, the price of the Fund s shares will fluctuate with market conditions and other factors. If shares are sold, the price received may be more or less than the original investment. Net asset value will be reduced immediately following the initial offering by offering expenses paid by the Fund, the sales load paid by Common Shareholders and, immediately following the establishment of a leverage strategy, will be reduced by the costs of arranging the strategy. The Common Shares are designed for long-term investors and should not be treated as trading vehicles. Shares of closed-end management investment companies frequently trade at a discount from their net asset value. The Fund s shares may trade at a price that is less than the initial offering price. This risk may be greater for investors who sell their shares relatively shortly after completion of the initial offering.

Market Disruption Risk. Global financial markets have recently experienced periods of unprecedented turmoil. The debt and equity capital markets in the United States and around the world were negatively impacted by significant write-offs in the financial services sector relating to subprime mortgages and the re-pricing of credit risk in the broader market, among other things. These events, along with

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the deterioration of the housing market, the failure of major financial institutions and the concerns that other financial institutions as well as the global financial system were also experiencing severe economic distress, materially and adversely impacted the broader financial and credit markets and reduced the availability of debt and equity capital for the market as a whole and financial firms in particular.

The instability in the financial markets has led governments to take a number of unprecedented actions designed to support certain financial institutions and segments of the financial markets that have experienced extreme volatility, and in some cases a lack of liquidity. Federal, state, and other governments, their regulatory agencies, or self-regulatory organizations may take actions that affect the regulation of the instruments in which the Fund invests, or the issuers of such instruments, in ways that are unforeseeable.

The current financial market situation, as well as various social, political, and psychological tensions in the United States and around the world, may continue to contribute to increased market volatility, may have long-term effects on the U.S. and worldwide financial markets, and may cause further economic uncertainties or deterioration in the United States and worldwide. The continuation or further deterioration of the current U.S. and global economic downturn could adversely impact the Fund s portfolio.

Portfolio Turnover Risk. The techniques and strategies contemplated by the Fund might result in a high degree of portfolio turnover. Higher portfolio turnover rates result in corresponding increases in trading costs and generate short-term capital gains taxable as ordinary income.

Anti-Takeover Provisions. The Fund s Amended and Restated Agreement and Declaration of Trust (the Declaration) includes provisions that could limit the ability of other entities or persons to acquire control of the Fund or convert the Fund to open-end status. See Anti-Takeover and Other Provisions in the Declaration of Trust. These provisions in the Declaration could have the effect of depriving the Common Shareholders of opportunities to sell their Common Shares at a premium over the then-current market price of the Common Shares, and may, in certain circumstances, give rise to a conflict of interest between the Manager and/or the Sub-Adviser, on the one hand, and the Common Shareholders, on the other hand.

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SUMMARY OF FUND EXPENSES

The purpose of the following table and example below is to help you understand the fees and expenses that you, as a Common Shareholder, would bear directly or indirectly. The expenses shown in the table under Other Expenses and Total Annual Expenses are based on estimated amounts for the Fund s first year of operations and assumes that the Fund issues 10,000,000 Common Shares. The table also assumes the use of leverage in the form of borrowings in an amount equal to 20% of the Fund s Managed Assets (after the leverage is incurred), and shows Fund expenses as a percentage of net assets attributable to Common Shares. If the Fund issues fewer Common Shares, all other things being equal, these expenses would increase as a percentage of net assets attributable to Common Shares. The Fund s actual expenses may vary from the estimated expenses shown in the table.

	Percentage of Offering Price
Shareholder Transaction Expenses	
Sales Load (as a percentage of offering price)	4.5%
Offering Expenses Borne by the Fund (as a percentage of offering price)(1)(2)	.20%
Dividend Reinvestment Plan Fees(3)	None

	Percentage of Net Assets Attributable to Common Shares (Assuming Leverage is Used)
Annual Expenses	
Management Fees(4)	1.25%
Administration Fees(5)	.38%
Interest Expense on Borrowings(6)	.31%
Other Expenses(7)	.07%
Total Annual Expenses	2.01%

(1) The Fund will bear expenses in connection with the offering in an amount up to $.05 per Common Share. The Manager has agreed to pay the Fund s organizational and offering costs (other than the sales load but inclusive of such $.00834 per Common Share partial reimbursement of underwriters expenses), which are estimated to be approximately $1.63 million, to the extent such costs are in excess of $.05 per Common Share.

(2) For a description of the sales load, structuring fees and other compensation paid to the underwriters, see Underwriting.

(3) Common Shareholders will pay brokerage charges if they direct the plan agent to sell Common Shares held in a dividend reinvestment account. Common Shareholders may also pay a pro rata share of brokerage commissions incurred in connection with open-market purchases pursuant to the Fund s Dividend Reinvestment Plan.

(4) Common Shareholders pay management fees on all Fund assets, including those obtained through leverage. Accordingly, while management fees are charged to the Fund on the basis of total Managed Assets, they have been converted to a percentage of net assets attributable to Common Shares for purposes of the presentation in the table above. The table assumes that total Managed Assets are 125% of the net assets attributable to Common Shares.

(5) The Master Services Agreement between the Fund and the Administrator obligates the Fund to pay USBFS a fee of .30% of the Fund s average daily total Managed Assets, subject to a minimum annual fee of $350,000, for providing administration, bookkeeping, pricing, and other services to the Fund. USBFS (and not the Fund) will be responsible for compensating TSC from the fee paid to USBFS by the Fund. USBFS and TSC will also be reimbursed by the Fund for out-of-pocket expenses that are reasonably incurred by them in performing their duties under the Master Services Agreement.

(6) Assumes borrowings of 20% of the Fund s total assets (including such proceeds) at an interest rate of 1.25%, which is based upon the Fund s assessment of current market conditions.

(7) Other Expenses are estimates based on the Fund s expected first year fiscal operations assuming the Fund issues 10,000,000 Common Shares.

Example

As required by relevant Securities and Exchange Commission regulations, the following example illustrates the expenses (including the sales load of $45 and the estimated offering expenses of $2) that you would pay on a $1,000 investment in Common Shares, assuming the sales load and the offering expenses listed in the parenthetical above, and (a) total annual expenses of 2.01% of net assets attributable to Common Shares in years 1 through 10, and (b) a 5% annual return(1):

1 Year	3 Years	5 Years	10 Years
$ 66	$ 107	$ 150	$ 270

(1) **The example above should not be considered a representation of future expenses. Actual expenses may be higher or lower than those shown**. The example assumes that the estimated Other Expenses set forth in the Annual Expenses table are accurate and that all dividends and distributions are reinvested at net asset value. **Actual expenses may be greater or less than those assumed.** Moreover, the Fund s actual rate of return may be greater or less than the hypothetical 5% annual return shown in the example.

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THE FUND

The Fund is a recently organized, non-diversified, closed-end management investment company registered under the 1940 Act. The Fund was organized as a Massachusetts business trust on May 20, 2011 pursuant to its Agreement and Declaration of Trust, which is governed by the laws of the Commonwealth of Massachusetts. As a recently organized entity, the Fund has no operating history. The Fund s principal office is located at 550 S. Tryon Street, Suite 3300, Charlotte, NC 28202, and its telephone number is 704-805-7200.

USE OF PROCEEDS

The net proceeds of the offering of Common Shares will be approximately $ (or $ if the underwriters exercise their option to purchase additional Common Shares in full) after deducting the sales load and payment of the organizational and offering costs that do not exceed $.05 per Common Share. The Fund will invest the net proceeds of the offering in accordance with the Fund s investment objectives and policies as stated below. The Fund expects to invest substantially all of the net proceeds in debt instruments that meet its investment objectives and policies within three months after the completion of the offering. Pending such investment, it is anticipated that the proceeds will be invested in cash, cash equivalents, U.S. government securities and short-term fixed income instruments.

THE FUND S INVESTMENT OBJECTIVES AND STRATEGIES

Investment Objectives

The Fund s primary investment objective is to seek as high a level of current income as Babson Capital determines is consistent with capital preservation. The Fund seeks capital appreciation as a secondary investment objective when consistent with its primary objective. There can be no assurance that the Fund will achieve its investment objectives. The Fund s investment objectives are non-fundamental, which means that they may be changed without shareholder approval by the Board of Trustees.

Portfolio Management Strategies

The Fund intends to achieve its investment objectives by investing opportunistically in a diverse portfolio of short-duration North American and non-North American (primarily Western European) bonds, loans and other income-producing instruments, principally of below investment grade quality (below Baa3 by Moody s, or below BBB- by either S&P or Fitch) or unrated but judged by the Manager or the Sub-Adviser to be of comparable quality.

Under normal market conditions, the Fund will invest at least 80% of its Managed Assets in high yield bonds, loans and other income-producing instruments that are, at the time of purchase, rated below investment grade by at least one credit rating agency (below Baa3 by Moody s or below either BBB- by either S&P or Fitch) or unrated but judged by the Manager or Sub-Adviser to be of comparable quality. (This policy is non-fundamental and may be changed by the Trustees, without a vote of the shareholders of the Fund, upon at least 60 days prior written notice to shareholders.) As used herein, high yield instruments or junk bonds are instruments that are rated below investment grade or unrated but judged by the Manager or Sub-Adviser to be of comparable quality.

Under normal market conditions, the Fund intends to invest in at least three different countries and to invest at least 40% of its net assets in securities of foreign companies (or, if less, at least the percentage of net assets that is ten percentage points less than the percentage of the Fund s benchmark, the Bank of America/Merrill Lynch Global Non-Financial High Yield Constrained Index, represented by foreign companies, as determined by the provider of the benchmark). For purposes of determining whether securities held by the Fund are securities of a foreign company, a company is considered to be a foreign company if the Manager or Sub-Adviser determines

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that the company s securities trade on a market outside of the United States, the company is headquartered or organized outside of the United States, the company derives a majority of its revenues or profits outside of the United States, or the company is significantly exposed to the economic fortunes and risks of regions outside the United States. The Bank of America/Merrill Lynch Global Non-Financial High Yield Constrained Index tracks the performance of U.S. dollar, Canadian dollar, British pound and Euro denominated below investment grade corporate debt publicly issued in the major domestic or eurobond markets, except those of financial issuers. As of June 30, 2012, 34.05% of the Bank of America/Merrill Lynch Global Non-Financial High Yield Constrained Index consisted of non-U.S. securities.

The Fund will seek to take advantage of inefficiencies between geographies, primarily the North American and Western European high yield bond and loan markets and within capital structures between bonds and loans. For example, the Fund will seek to take advantage of differences in pricing between bonds of an issuer denominated in U.S. dollars and substantially similar bonds of the same issuer denominated in Euros, potentially allowing the Fund to achieve a higher relative return for the same credit risk exposure. Babson Capital has 70 professionals worldwide dedicated to high yield investing, including 43 professionals in the United States and 27 professionals in Europe.

The Fund expects to invest primarily in high yield bonds and loans of North American and Western European corporate issuers. The Fund expects that initially at least 50% of its net assets will be invested in securities that are at the time of purchase rated at least B1 by Moody s, or B+ by S&P or Fitch or, if unrated, are considered by the Manager or the Sub-Adviser to be of comparable quality. The Fund may not invest in issuers that are in default at the time of purchase, except for investments in DIP financings. High yield debt securities (also commonly referred to as junk bonds) are regarded as having predominantly speculative characteristics with respect to capacity to pay interest and to repay principal. Although the Fund may invest in instruments of any duration or maturity, under normal conditions and after the initial investment period, the Fund will seek to maintain a weighted average portfolio duration (including the effects of leverage) of three years or less and a weighted average maturity of five years or less.

Babson Capital takes a credit-intensive approach when selecting assets for the Fund. Credit analysis is conducted locally by large teams in each of the United States and Europe. Babson Capital seeks to determine where value exists within companies based on fundamental bottom-up analysis and to assess this value relative to other investment alternatives. Babson Capital focuses on in-depth company and industry analysis, with particular attention paid to free cash flow generation capability, quality of management and capital structure. Babson Capital also looks at enterprise value relative to debt and collateral value for the bonds and loans that it purchases. Babson Capital s credit strategy stresses (i) fundamentally driven credit selection and portfolio construction, (ii) building broadly diverse portfolios across industry and issuer, (iii) emphasizing total return, relative value and market liquidity, (iv) determining appropriate reward for risk, (v) communicating and reacting to company and market information on a real time basis and (vi) actively managing accounts to achieve portfolio objectives as market conditions change.

The Fund will seek to buy securities of companies with strong management teams and solid business positions in stable industries. Research analysts focus on profitability, generation and sustainability of cash flow, enterprise value, interest coverage and leverage. Babson Capital looks for companies that have appropriate capital structures that do not overly subordinate their debt and have adequate liquidity with access to capital. Using fundamental bottom-up analysis combined with credit analysis techniques, research analysts consider the potential downside risks of an investment first, but do not ignore the upside potential. They monitor the current investment environment to identify which asset classes are offering the best value given the risks. Analysts then perform rigorous analysis of issuers under consideration by examining (i) the quality of the management team, (ii) free cash flow to determine an issuer s ability to repay debt, (iii) the company s strengths and weaknesses within its sectors, including the views of competitors, suppliers and customers, (iv) capital structure, (v) pro forma leverage and debt coverage and (vi) a comparison of traditional measures of total financial leverage to both debt market standards and enterprise values.

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Duration. Duration is the weighted average term-to-maturity of a security s cash flows. It is a measure of the price sensitivity of a debt security or portfolio to interest rate changes. While there is no limit on the remaining maturity or duration of any individual security in which the Fund may invest, the Fund normally will seek to maintain a weighted average portfolio duration, including the effects of leverage (weighted average portfolio duration), of three years or less and a weighted average portfolio maturity of five years or less. The Fund s weighted average portfolio duration and weighted average portfolio maturity, however, may be longer at any time or from time to time depending on market conditions.

Duration is a mathematical calculation of the average life of a debt security (or portfolio of debt securities) that serves as a measure of its price risk. By comparison, a debt security s maturity is the date on which the security ceases and the issuer is obligated to repay principal. Duration differs from maturity in that it considers a security s next interest re-set date and call features, whereas maturity does not. In general, if prevailing interest rates change by 1%, a fixed income security or portfolio s value will change by 1% multiplied by each year of duration. For example, if a portfolio of fixed income securities has an average duration of three years, its value can be expected to fall about 3% if interest rates rise by 1%. Conversely, the portfolio s value can be expected to rise about 3% if interest rates fall by 1%. As a result, prices of securities with longer durations tend to be more sensitive to interest rate (or yield) changes than securities with shorter duration.

Independent Credit Analysis. Babson Capital will rely heavily on its own analysis of the credit quality and risks associated with individual loans and other debt securities considered for the Fund, rather than relying exclusively on rating agencies or third-party research. The individuals managing the Fund will use this information in an attempt to minimize credit risk and to identify issuers, industries or sectors that are undervalued or that offer attractive yields relative to their assessment of their credit characteristics. This aspect of the capabilities of Babson Capital will be particularly important because of the Fund s emphasis on below investment grade loans and bonds.

Foreign Instruments. Under normal market conditions, the Fund may invest up to 50% of its Managed Assets in bonds and loans issued by foreign companies or governments. Such foreign securities may be U.S. currency denominated or foreign currency denominated. See Portfolio Management Strategies above for a description of what constitutes a foreign company.

Derivatives. The Fund may use derivatives for hedging, investment or leverage purposes. Under normal market conditions, the aggregate value (the net in the money amount) of the Fund s derivatives positions (other than derivatives used in connection with foreign currency hedging transactions) will not exceed 20% of the its Managed Assets. The Fund currently expects that its derivatives use will consist of total return swaps, credit default swaps and foreign currency forward contracts and futures. The Fund s investment in derivatives will be included under the 80% asset policy noted above so long as the underlying assets of such derivatives are one or more high yield fixed income instruments that are rated below investment grade. The use of derivatives for hedging, investment or leverage purposes involves significant risks and there can be no assurance that the Fund s derivative strategy will be successful. See Risks Derivatives Risk and Risks Leverage Risk.

In a total return swap, the Fund pays a counterparty a floating short-term interest rate and receives in exchange the total return of an agreed upon pool of underlying assets. The Fund bears the risk of default on the underlying assets based on the notional amount of the swap. The Fund would typically have to post collateral to cover this potential obligation.

An investment by the Fund in credit default swaps will allow the Fund to hedge credit exposure to particular issuers. Credit default swaps are contracts whereby one party makes periodic payments to a counterparty in exchange for the right to receive from the counterparty a payment equal to the par (or other agreed-upon) value of a referenced debt obligation in the event of a default or other credit event by the issuer of the debt obligation. If the Fund purchases protection under a credit default swap and no credit event occurs on the reference obligation, the Fund will have made a series of periodic payments and will recover nothing of monetary value.

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However, if a credit event occurs on the reference obligation, the Fund (as the buyer of protection) is entitled to receive the full notional value of the reference obligation through a cash payment in exchange for the reference obligation or, alternatively, a cash payment representing the difference between the expected recovery rate and the full notional value.

The Fund currently intends, but is not required, to hedge substantially all of its exposure to foreign currencies through the use of currency strategies. For example, the Fund may transact in foreign currencies, may enter into forward foreign currency exchange contracts, and may buy and sell foreign currency futures contracts and options on foreign currencies and foreign currency futures. Suitable hedging transactions may not be available, and there can be no assurance that the Fund will engage in such transactions at any given time or from time to time when they would be beneficial. Additionally, such hedging transactions may not be successful and may eliminate any chance for the Fund to benefit from favorable fluctuations in relevant foreign currencies. See Risks Foreign (Non-U.S.) Investment Risk.

Investment Grade Securities. Under normal market conditions, the Fund may invest up to 20% of its Managed Assets in fixed income instruments that are rated investment grade (Baa3 or higher by Moody s, BBB- or higher by S&P or Fitch) or, if unrated, are considered by the Manager or Sub-Adviser to be of comparable quality.

Lower Rated Securities. The Fund may not invest in issuers which are in default at the time of purchase except for investments in DIP financings. As part of its investments in high yield instruments, the Fund may invest up to 10% of its Managed Assets in high yield instruments rated in the lower rated categories (Caa1 or lower by Moody s, and CCC+ or lower by S&P and Fitch) or, if unrated, are considered by the Manager to be of comparable quality. Such securities are subject to a very high credit risk.

Illiquid Securities. The Fund may invest up to 20% of its total assets in illiquid securities. Securities are considered illiquid, if at the time of investment, the securities cannot be disposed of within seven days in the ordinary course of business at approximately the value at which the Fund has valued the securities. See Risks Liquidity Risk.

Diversification. The Fund is a non-diversified investment company in that it may invest a greater percentage of its assets in the securities of a single issuer than may investment companies that are diversified. See Risks Non-Diversification Risk. Subject to the availability of suitable investment opportunities, Babson Capital will attempt to have the Fund invested broadly in order to minimize the Fund s sensitivity to credit, currency and other risks associated with a particular geographic region, industry or sector, or to the effect of a single economic, political or regulatory occurrence. To avoid concentrating its investments in a particular industry or group of industries, the Fund will not invest more than 25% of its total assets in any single industry or group of industries as those terms are used in the 1940 Act.

Portfolio Composition and Other Information

The Fund s portfolio will be composed principally of the following types of securities and other instruments. A more detailed discussion of these and other instruments and investment techniques that may be used by the Fund is provided under Investment Objectives and Policies in the Statement of Additional Information.

High Yield Securities. As noted above, the Fund expects to invest primarily in high yield bonds of North American and Western European corporate issuers. Investing in high yield securities or instruments involves greater risks (in particular, greater risk of default) and special risks in addition to the risks associated with investments in investment grade debt obligations. While offering a greater potential opportunity for capital appreciation and higher yields, high yield securities typically entail greater potential price volatility and may be less liquid than higher-rated securities or instruments. High yield securities or instruments may be regarded as

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predominantly speculative with respect to the issuer s continuing ability to meet principal and interest payments. They also may be more susceptible to real or perceived adverse economic and competitive industry conditions than higher-rated securities or instruments. Debt securities or instruments in the lowest investment grade category also may be considered to possess some speculative characteristics.

The market values of high yield securities or instruments tend to reflect individual developments of the issuer to a greater extent than do higher-quality securities or instruments, which tend to react mainly to fluctuations in the general level of interest rates. In addition, lower-quality debt securities or instruments tend to be more sensitive to economic conditions. Certain emerging market governments that issue high yield securities or instruments are among the largest debtors to commercial banks, foreign governments and supra-national organizations such as the World Bank, and may not be able or willing to make principal and/or interest payments as they come due.

Credit Ratings and Unrated Securities. Rating agencies are private services that provide ratings of the credit quality of debt obligations, including convertible securities. Appendix A to this prospectus describes the various ratings assigned to debt obligations by Moody s, S&P and Fitch. Ratings assigned by a credit rating agency are not absolute standards of credit quality and do not evaluate market risks. Rating agencies may fail to make timely changes in credit ratings and an issuer s current financial condition may be better or worse than a rating indicates. The Fund will not necessarily sell a security when its rating is reduced below its rating at the time of purchase. As described above under Portfolio Management Strategies Independent Credit Analysis, Babson Capital does not rely solely on credit ratings, and develops its own analysis of issuer credit quality. The ratings of a debt security or instruments may change over time. Moody s, S&P and Fitch monitor and evaluate the ratings assigned to securities on an ongoing basis. As a result, debt securities or instruments held by the Fund could receive a higher rating (which would tend to increase their value) or a lower rating (which would tend to decrease their value) during the period in which they are held.

The Fund may purchase unrated securities or instruments (which are not rated by a credit rating agency). Unrated securities or instruments may be less liquid than comparable rated securities or instruments and involve the risk that Babson Capital may not accurately evaluate the security s comparative credit rating. Analysis of the creditworthiness of issuers of high yield securities or instruments may be more complex than for issuers of higher-quality debt obligations. The Fund s success in achieving its investment objectives may depend more heavily on Babson Capital s credit analysis than if the Fund invested primarily in higher-quality and rated securities or instruments.

Bank Loans, Loan Participations and Assignments. The Fund invests in fixed- and floating-rate loans issued by banks and other unaffiliated entities, which investments generally will be issued directly by the borrower or be in the form of loan participation or assignment purchased from banks and other financial institutions and institutional investments. The loans in which the Fund intends to invest may include, but are not limited to, secured loans that are senior (first lien) or subordinated (second lien) loans, and unsecured loans. Loans and other floating-rate debt instruments are subject to the risk of non-payment of scheduled interest or principal. See Risks Risks of Investing in Loans. Participations and assignments involve credit risk, interest rate risk, liquidity risk, and the risks of being a lender. If the Fund purchases a participation, it is likely that it will only be able to enforce its rights through the lender, and, therefore, it will assume the credit risk of both the lender and the borrower.

First Lien Loans. First lien loans hold a senior position in the capital structure of a borrower. For first lien loans, borrowers are typically corporations, partnerships and other business entities that operate in various industries and geographical regions, including foreign borrowers. First lien loans are typically secured with specific collateral and have a claim on the assets and/or stock of the borrower that is senior to that held by subordinated debt holders and stockholders of the borrower. The capital structure of a borrower may include first lien loans, senior and junior subordinated debt, preferred stock and common stock issued by the borrower, typically in descending order of seniority with respect to claims on the borrower s asset. The proceeds of first

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lien loans primarily are used to finance highly leveraged transactions including leveraged buyouts, recapitalizations, mergers, acquisitions, stock repurchases, refinancings and internal growth and for other corporate purposes.

First lien loans in which the Fund will invest generally pay interest at rates that are redetermined periodically by reference to a base lending rate, plus a premium. First lien loans typically have rates of interest which are redetermined either daily, monthly, quarterly or semi-annually by reference to a base lending rate, plus a premium or credit spread. These base lending rates are primarily London-Interbank Offered Rate (LIBOR), and secondarily the prime rate offered by one or more major U.S. banks (the Prime Rate) and the certificate of deposit (CD) rate or other base lending rates used by commercial lenders. As floating rate loans, the frequency of how often a loan resets its interest rate will impact how closely such loans track current short term market interest rates. The first lien loans that the Fund intends to hold will typically have a dollar-weighted average period until the next interest rate adjustment of approximately 90 days or less. As a result, as short-term interest rates increase, interest payable to the Fund from its investments in first lien loans should increase, and as short-term interest rates decrease, interest payable to the Fund from its investments in first lien loans should decrease. The Fund may utilize derivative instruments to shorten the effective interest rate redetermination period of first lien loans in its portfolio. First lien loans typically have a stated term of between one and ten years. In the experience of the Manager over the last decade, however, the average life of first lien loans has been two to four years because of prepayments.

Second Lien Loans and Other Debt Securities. The Fund may invest in loans and other debt securities that have the same characteristics as first lien loans except that such loans are second in lien priority rather than first. Such second lien loans and securities typically have adjustable floating rate interest payments. Accordingly, the risks associated with such securities are higher than the risks of loans with first priority over the collateral. In the event of default on a second lien loan, the first priority lien holder has first claim to the underlying collateral of the loan. It is possible that no collateral value would remain for the second priority lien holder and therefore result in a loss of investment to the Fund.

Unsecured Loans. The Fund may invest in unsecured loans, both floating and fixed rate. Unsecured loans are subject to substantially similar risks attributable to secured loans. Issuer risk is more pronounced in unsecured loans since the Fund will not have recourse to recoup its investment against collateral securing the loan.

First and second lien loans and unsecured loans are subject to prepayments which shorten the loans weighted average maturities and may lower their returns. If the credit support or enhancement is exhausted, losses or delays in payment may result if the required payments of principal and interest are not made. The value of these securities also may change because of changes in market value, that is changes in the market s perception of the creditworthiness of the servicing agent for the pool, the originator of the pool, or the financial institution or fund providing the credit support or enhancement.

Delayed Funding Loans and Revolving Credit Facilities. The Fund may enter into, or acquire participations in, delayed funding loans and revolving credit facilities, in which a lender agrees to make loans up to a maximum amount upon demand by the borrower during a specified term. These commitments may have the effect of requiring the Fund to increase its investment in a company at a time when it might not be desirable to do so (including at a time when the company s financial condition makes it unlikely that such amounts will be repaid). Delayed funding loans and revolving credit facilities are subject to credit, interest rate and liquidity risk and the risks of being a lender.

Corporate Bonds. The Fund may invest in a wide variety of bonds of varying maturities issued by U.S. and foreign corporations and other business entities. Bonds are fixed or variable rate debt obligations, including bills, notes, debentures, money market instruments and similar instruments and securities. Bonds generally are used by corporations as well as governments and other issuers to borrow money from investors. The issuer pays the investor a fixed or variable rate of interest and normally must repay the amount borrowed on or before

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maturity. Certain bonds are perpetual in nature in that they have no maturity date; to the extent that these perpetual bonds have fixed interest rates, they may have heightened sensitivity to changes in interest rates.

U.S. Government Securities. The Fund may invest in U.S. Government securities, which are obligations of, or guaranteed by, the U.S. Government, its agencies or government-sponsored enterprises. U.S. Government securities include a variety of securities that differ in their interest rates, maturities and dates of issue. Securities issued or guaranteed by agencies or instrumentalities of the U.S. Government may or may not be supported by the full faith and credit of the United States or by the right of the issuer to borrow from the U.S. Treasury.

When Issued, Delayed Delivery and Forward Commitment Transactions. The Fund may purchase securities which it is eligible to purchase on a when-issued basis, may purchase and sell such securities for delayed delivery and may make contracts to purchase such securities for a fixed price at a future date beyond normal settlement time (forward commitments). When-issued transactions, delayed delivery purchases and forward commitments involve a risk of loss if the value of the securities declines prior to the settlement date. This risk is in addition to the risk that the Fund s other assets will decline in value. Therefore, these transactions may result in a form of leverage and increase the Fund s overall investment exposure. Typically, no income accrues on securities the Fund has committed to purchase prior to the time delivery of the securities is made, although the Fund may earn income on securities it has segregated to cover these positions.

Variable and Floating Rate Securities. Variable and floating rate securities provide for a periodic adjustment in the interest rate paid on the obligations. The Fund may invest in floating rate debt instruments (floaters) and engage in credit spread trades. While floaters provide a certain degree of protection against rising interest rates, the Fund will participate in any decline in interest rates as well. A credit spread trade is an investment position relating to a difference in the prices or interest rates of two bonds or other securities, where the value of the investment position is determined by changes in the difference between such prices or interest rates, as the case may be, of the respective securities.

Foreign (Non-U.S.) Investments and Currencies. The Fund invests in debt obligations of foreign issuers and of supra-national government entities. Supra-national entities include international organizations that are organized or supported by one or more government entities to promote economic reconstruction or development and by international banking institutions and related governmental agencies. The Fund may also invest in debt instruments denominated in foreign currencies (of both developed and emerging market countries), including obligations of non-U.S. governments and their respective sub-divisions, agencies and government-sponsored enterprises. The Fund likewise may invest without limit in securities of issuers located in developed countries (regardless of the currency in which such securities are denominated) and of issuers located in emerging market countries. Investing in foreign securities involves special risks and considerations not typically associated with investing in U.S. securities. See Risks Foreign (Non-U.S.) Investment Risk and Risks Foreign Currency Risk.

The U.S. dollar-denominated foreign securities in which the Fund may invest include Eurodollar obligations and Yankee Dollar obligations. Eurodollar obligations are U.S. dollar-denominated certificates of deposit and time deposits issued outside the U.S. capital markets by foreign branches of U.S. banks and by foreign banks. Yankee Dollar obligations are U.S. dollar-denominated obligations issued in the U.S. capital markets by foreign banks. Eurodollar and Yankee Dollar obligations are generally subject to the same risks that apply to domestic debt issues, notably credit risk, market risk and liquidity risk. Additionally, Eurodollar (and to a limited extent, Yankee Dollar) obligations are subject to certain sovereign risks. One such risk is the possibility that a sovereign country might prevent capital, in the form of U.S. dollars, from flowing across its borders. Other risks include adverse political and economic developments; the extent and quality of government regulation of financial markets and institutions; the imposition of foreign withholding taxes; and the expropriation or nationalization of foreign issuers.

The Fund also may invest in sovereign debt issued by foreign governments, their agencies or instrumentalities, or other government-related entities, including debt of developing or emerging market issuers. As a holder of sovereign debt, the Fund may be requested to participate in the rescheduling of such debt and to extend further loans to governmental entities. In addition, there are generally no bankruptcy proceedings similar to those in the United States by which defaulted sovereign debt may be collected. The Fund also may invest in Brady Bonds, which are securities created through the exchange of existing commercial bank loans to sovereign entities for new obligations in connection with a debt restructuring. Investments in Brady Bonds may be viewed as speculative. Brady Bonds acquired by the Fund may be subject to restructuring arrangements or to requests for new credit, which may cause the Fund to realize a loss of interest or principal on any of its portfolio holdings.

The Fund s investments in securities that trade in, or receive revenues in, foreign currencies will be subject to currency risk, which is the risk that fluctuations in the exchange rates between the U.S. dollar and foreign currencies may negatively affect any investment. The Fund expects to engage in transactions involving foreign currencies in order to hedge against foreign currency risk. For instance, the Fund may purchase foreign currencies on a spot (cash) basis and enter into forward foreign currency exchange contracts, foreign currency futures contracts and options on foreign currencies and futures. Suitable hedging transactions may not be available in all circumstances and there can be no assurance that the Fund will engage in such transactions at any given time or from time to time. Also, these transactions may not be successful and may eliminate any chance for the Fund to benefit from favorable fluctuations in relevant foreign currencies.

Please see Investment Objectives and Policies Foreign (Non-U.S.) Securities, Investment Objectives and Policies Foreign Currency Transactions and Investment Objectives and Policies Foreign Currency Exchange-Related Securities in the Statement of Additional Information for a more detailed description of the types of foreign investments and foreign currency transactions in which the Fund may invest and their related risks.

Preferred Stocks. Preferred stock represents an equity interest in a company that generally entitles the holder to receive, in preference to the holders of other stocks such as common stocks, dividends and a fixed share of the proceeds resulting from liquidation of the company. Some preferred stocks also entitle their holders to receive additional liquidation proceeds on the same basis as holders of a company s common stock, and thus also represent an ownership interest in the company. Some preferred stocks offer a fixed rate of return with no maturity date. Because they never mature, these preferred stocks act like long-term bonds, can be more volatile than other types of preferred stocks and may have heightened sensitivity to changes in interest rates. Other preferred stocks have a variable dividend, generally determined on a quarterly or other periodic basis, either according to a formula based upon a specified premium or discount to the yield on particular U.S. Treasury securities or based on an auction process, involving bids submitted by holders and prospective purchasers of such stocks. Because preferred stocks represent an equity ownership interest in a company, their value usually will react more strongly than bonds and other debt instruments to actual or perceived changes in a company s financial condition or prospects, or to fluctuations in the equity markets.

Zero-Coupon Bonds, Step-Ups and Payment-In-Kind Securities. Zero-coupon bonds pay interest only at maturity rather than at intervals during the life of the security. Like zero-coupon bonds, step up bonds pay no interest initially but eventually begin to pay a coupon rate prior to maturity, which rate may increase at stated intervals during the life of the security. Payment-in-kind securities (PIKs) are debt obligations that pay interest (PIK interest) in the form of other debt obligations, instead of in cash. Zero-coupon bonds, step-ups and PIKs allow an issuer to avoid or delay the need to generate cash to meet current interest payments and, as a result, may involve greater credit risk than bonds that pay interest currently or in cash. To the extent those instruments do not amortize principal, at maturity repayment may also be dependent on the ability of the borrower to refinance the face amount of the debt. Each of these instruments is typically issued and traded at a deep discount from its face amount. The amount of the discount varies depending on such factors as the time remaining until maturity of the securities, prevailing interest rates, the liquidity of the security and the perceived

credit quality of the issuer. The market prices of zero-coupon bonds, step-ups and PIKs generally are more volatile than the market prices of debt instruments that pay interest currently and in cash and are likely to respond to changes in interest rates to a greater degree than do other types of securities having similar maturities and credit quality. In order to maintain its qualification as a regulated investment company for U.S. federal income tax purposes, the Fund would be required to distribute the income on these instruments as it accrues, even though the Fund will not receive the income on a current basis or in cash. Thus, the Fund may have to sell other investments, including when it may not be advisable to do so, to make income distributions to its shareholders. Under certain market conditions, investments in zero-coupon bonds, step-ups and PIKs may be illiquid, making it difficult for the Fund to dispose of them or determine their current value.

Generally, when payments on a loan become past due, or the Fund otherwise does not expect the borrower to be able to meet its obligations to the Fund, the Fund will place the loan on non-accrual status and will cease recognizing PIK interest income on that loan for financial reporting purposes until all principal and interest has been brought current through payment or through a restructuring as a result of which the Fund determines that the interest income should be collectible. The Fund will write off any previously accrued and uncollected PIK interest when it determines that the PIK interest is no longer collectible.

Derivatives. The Fund may, but is not required to, use a variety of derivative instruments for hedging or risk management purposes or as part of its investment strategies to increase return. Generally, derivatives are financial contracts whose value depends upon, or is derived from, the value of an underlying asset, reference rate or index, and may relate to individual debt instruments, interest rates, currencies or currency exchange rates, commodities, and related indexes. Although the Fund reserves the flexibility to use various derivative instruments as Babson Capital deems advisable, it anticipates that its derivative instrument investments in its first year of operations will consist primarily of total return swaps, credit default swaps and foreign currency forward contracts and futures. The Fund s use of derivative instruments involves risks different from, or possibly greater than, the risks associated with investment directly in securities and other more traditional investments. See Risks Derivatives Risk. Certain types of derivative instruments are described elsewhere in this section, including those described under Certain Interest Rate Transactions, Structured Notes and Related Instruments and Credit Default Swaps. Please see Investment Objective and Policies Derivative Instruments in the Statement of Additional Information for additional information about these and other derivative instruments that the Fund may use and the risks associated with such instruments. There is no assurance that these derivative strategies will be available at any time or that Babson Capital will determine to use them for the Fund or, if used, that the strategies will be successful. In addition, the Fund may be subject to certain restrictions on its use of derivative strategies imposed by the terms of the Fund s expected credit facility.

Credit Default Swaps. The Fund may enter into credit default swap contracts to hedge exposure to particular issuers. For hedging purposes, the Fund would be the buyer of a credit default swap contract. In that case, the Fund would be entitled to receive the par (or other agreed-upon) value of a referenced debt obligation from the counterparty to the contract in the event of a default by a third party, such as a U.S. or foreign issuer, on the debt obligation. In return, the Fund would pay to the counterparty a periodic stream of payments over the term of the contract provided that no event of default has occurred. If no default occurs, the Fund would have spent the stream of payments and received no benefit from the contract. The Fund will segregate liquid assets against or otherwise cover its future obligations under any credit default swaps purchased by the Fund to the extent required by applicable law.

Total Return Swaps. The Fund may enter into total return swaps in order to add leverage to the portfolio. Total return swaps are contracts in which one party agrees to make payments of the total return from the underlying assets, which may include securities, baskets of securities, or securities indices during the specified period, in return for payments equal to a fixed or floating rate of interest or the total return from other underlying assets.

Certain Interest Rate Transactions. In order to reduce the interest rate risk inherent in the Fund s underlying investments and capital structure, the Fund may enter into interest rate swap or cap transactions.

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Interest rate swaps involve the Fund s agreement with the swap counterparty to pay a fixed rate payment in exchange for the counterparty paying the Fund a variable rate payment. The payment obligation would be based on the notional amount of the swap. The Fund may use an interest rate cap, which would require the Fund to pay a premium to the cap counterparty and would entitle the Fund, to the extent that a specified variable rate index exceeds a predetermined fixed rate, to receive from the counterparty payment of the difference based on the notional amount. The Fund may use interest rate swaps or caps with the intent to reduce or eliminate the risk that an increase in short-term interest rates could pose for the performance of the Common Shares as a result of leverage, and also may use these instruments for other hedging or investment purposes.

Structured Notes and Related Instruments. The Fund may invest in structured notes and other related instruments, which are privately negotiated debt obligations where the principal and/or interest is determined by reference to the performance of a benchmark asset, market or interest rate (an embedded index), such as selected securities, an index of securities or specified interest rates, or the differential performance of two assets or markets, such as indexes reflecting bonds. Structured instruments may be issued by corporations, including banks, as well as by governmental agencies. Structured instruments frequently are assembled in the form of medium-term notes, but a variety of forms are available and may be used in particular circumstances. The terms of such structured instruments normally provide that their principal and/or interest payments are to be adjusted upwards or downwards (but ordinarily not below zero) to reflect changes in the embedded index while the structured instruments are outstanding. As a result, the interest and/or principal payments that may be made on a structured product may vary widely, depending on a variety of factors, including the volatility of the embedded index and the effect of changes in the embedded index on principal and/or interest payments. The rate of return on structured notes may be determined by applying a multiplier to the performance or differential performance of the referenced indexes or other assets. Application of a multiplier involves leverage that will serve to magnify the potential for gain and the risk of loss.

Babson Capital may utilize structured instruments for investment purposes and also for risk management purposes, such as to reduce the duration and interest rate sensitivity of the Fund s portfolio. While structured instruments may offer the potential for a favorable rate of return from time to time, they also entail certain risks. Structured instruments may be less liquid than other debt securities, and the price of structured instruments may be more volatile. In some cases, depending on the terms of the embedded index, a structured instrument may provide that the principal and/or interest payments may be adjusted below zero. Structured instruments also may involve significant credit risk and risk of default by the counterparty. Like other sophisticated strategies, the Fund s use of structured instruments may not work as intended. If the value of the embedded index changes in a manner other than that expected by Babson Capital, principal and/or interest payments received on the structured instrument may be substantially less than expected.

Bank Obligations. The Fund may invest in certain bank obligations, including certificates of deposit, bankers acceptances, and fixed time deposits. Certificates of deposit are negotiable certificates issued against funds deposited in a commercial bank for a definite period of time and earning a specified return. Bankers acceptances are negotiable drafts or bills of exchange, normally drawn by an importer or exporter to pay for specific merchandise, which are accepted by a bank, meaning, in effect, that the bank unconditionally agrees to pay the face value of the instrument on maturity. Fixed time deposits are bank obligations payable at a stated maturity date and bearing interest at a fixed rate. Fixed time deposits may be withdrawn on demand by the investor, but may be subject to early withdrawal penalties which vary depending upon market conditions and the remaining maturity of the obligation.

Commercial Paper. Commercial paper represents short-term unsecured promissory notes issued by corporations such as banks or bank holding companies and finance companies. The rate of return on commercial paper may be linked or indexed to the level of exchange rates between the U.S. dollar and a foreign currency or currencies.

Reverse Repurchase Agreements. As described under Borrowings and Related Leverage, the Fund may utilize reverse repurchase agreements in order to add leverage to the portfolio. In a reverse repurchase agreement,

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the Fund sells securities to a bank or broker-dealer and agrees to repurchase the securities at a mutually agreed date and price. Generally, the effect of such a transaction is that the Fund can recover and reinvest all or most of the cash invested in the portfolio securities involved during the term of the reverse repurchase agreement and still be entitled to the returns associated with those portfolio securities. Such transactions are advantageous if the interest cost to the Fund of the reverse repurchase transaction is less than the returns it obtains on investments purchased with the cash.

Unless the Fund covers its positions in reverse repurchase agreements (by segregating liquid assets at least equal in amount to the forward purchase commitment), its obligations under the agreements will be subject to the Fund s limitations on borrowings under the 1940 Act. Reverse repurchase agreements involve leverage risk and also the risk that the market value of the securities that the Fund is obligated to repurchase under the agreement may decline below the repurchase price. In the event the buyer of securities under a reverse repurchase agreement files for bankruptcy or becomes insolvent, the Fund s use of the proceeds of the agreement may be restricted pending a determination by the other party, or its trustee or receiver, whether to enforce the Fund s obligation to repurchase the securities.

Repurchase Agreements. The Fund may enter into repurchase agreements, in which the Fund purchases a security from a bank or broker-dealer and the bank or broker-dealer agrees to repurchase the security at the Fund s cost plus interest within a specified time. In essence, such transactions function as a loan between the Fund and the counterparty, with the transferred security acting as collateral for the loan. If the party agreeing to repurchase should default, the Fund will seek to sell the securities which it holds. This could involve transaction costs or delays in addition to a loss on the securities if their value should fall below their repurchase price.

Common Stocks. The Fund may invest in equity securities incident to the purchase or ownership of a loan or debt instrument (including equity securities obtained as a result of a workout or reorganization of an issuer of which the Fund held debt securities). The Fund may hold or have exposure to common stocks of issuers of any size (in terms of market capitalization or otherwise) and in any industry or sector. Because the Fund may have exposure to common stocks, historical trends would indicate that the Fund s portfolio and investment returns will be subject at times, and over time, to higher levels of volatility and market and issuer-specific risk than if it invested exclusively in debt securities.

Other Investment Companies. The Fund may invest in securities of other open- or closed-end investment companies to the extent that such investments are consistent with the Fund s investment objectives and policies and permissible under the 1940 Act. The Fund may invest in other investment companies either during periods when it has large amounts of uninvested cash, such as the period shortly after the Fund receives the proceeds of the offering of its Common Shares, during periods when there is a shortage of attractive income-producing securities available in the market, or when Babson Capital believes share prices of other investment companies offer attractive values. The Fund may invest in investment companies that are advised by Babson Capital or its affiliates to the extent permitted by applicable law and/or pursuant to exemptive relief from the Securities and Exchange Commission. As a stockholder in an investment company, the Fund will bear its ratable share of that investment company s expenses, and would remain subject to payment of the Fund s management fees and other expenses with respect to assets so invested. Common Shareholders would therefore be subject to duplicative expenses to the extent the Fund invests in other investment companies. Babson Capital will take expenses into account when evaluating the investment merits of an investment in an investment company relative to available investments in convertible securities and non-convertible income-producing securities. In addition, the securities of other investment companies may also be leveraged and will therefore be subject to the same leverage risks described herein. As described in the section entitled Risks Leverage Risk, the net asset value and market value of leveraged shares will be more volatile and the yield to shareholders will tend to fluctuate more than the yield generated by unleveraged shares.

Securities Lending. The Fund may seek additional income by making loans of portfolio securities to the extent permitted by the 1940 Act (currently up to 33% of its total assets taken at current market value). The risks

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in lending portfolio securities, as with other extensions of credit, consist of possible delay in recovery of the securities or possible loss of rights in the collateral should the borrower fail financially. Under applicable regulatory requirements and securities lending agreements (which are subject to change), the loan collateral must, on each business day, be at least equal to the value of the loaned securities and must consist of cash, bank letters of credit or securities of the U.S. Government (or its agencies or instrumentalities), or other cash equivalents in which the Fund is permitted to invest. The borrower pays to the Fund an amount equal to any dividends or interest received on the securities lent. The Fund may invest the cash collateral received or may receive a fee from the borrower. All investments of cash collateral by the Fund are for the account and risk of the Fund. Although voting rights or rights to consent with respect to the loaned securities pass to the borrower, the Fund retains the right to call the loans at any time on reasonable notice. The Fund may also call such loans in order to sell the securities involved. The Fund pays various fees in connection with such loans, including shipping fees and reasonable custodian, securities lending agent and placement fees. The terms of the Fund s loans must also meet certain tests under the Internal Revenue Code of 1986, as amended, (the Code) and must permit the Fund to reacquire loaned securities on five business days notice or in time to vote on any important matter.

See Investment Objectives and Policies in the Statement of Additional Information for additional information regarding the investments of the Fund and their related risks.

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LEVERAGE

Initially, the Fund intends, subject to favorable market conditions, to add leverage to its portfolio, such that the leverage obtained represents approximately 20% of the Fund s total assets (which includes the assets obtained through leverage). For this purpose, the Fund s leverage through derivatives will be calculated using the net notional amount of the Fund s derivatives positions (and will exclude derivatives used for hedging purposes, including in connection with foreign currency hedging transactions). Babson Capital and Babson Capital U.K. will monitor market conditions and may, from time to time, with the approval of the Board of Trustees, increase the Fund s use of leverage when they believe market conditions make doing so in the best interests of the Fund but, in any case, will limit the Fund s use of leverage such that the proceeds therefrom to the Fund will not exceed 33 $^{1}/_{3}$% of the Fund s total assets (which includes the assets obtained through the use of such instruments) at the time used, consistent with the limitations of the 1940 Act. The Fund may obtain leverage through borrowings, such as through bank loans or commercial paper or other credit facilities, the issuance of preferred shares, through reverse repurchase agreements, through derivatives, including total return swap contracts, or other means. The Fund has no current intention to issue preferred shares. The 1940 Act, and the rules promulgated thereunder generally limit the extent to which the Fund may use uncovered reverse repurchase agreements, other derivatives and borrowings, together with any other senior securities representing indebtedness, to 33 $^{1}/_{3}$% of the Fund s total assets at the time used. See Leverage. Leveraging is a speculative technique and there are special risks and costs involved. The use of leverage will cause the Fund s net asset value to be more volatile than if leverage were not used. For example, a rise in short-term interest rates, which are near or at historically low levels, will cause the Fund s net asset value to decline more than if the Fund had not used leverage. The use of leverage may also cause more volatility in the level of the Fund s distributions. There can be no assurance that a leveraging strategy will be used or that it will be successful during any period in which it is employed. See Risks Leverage Risk.

The net proceeds the Fund obtains from its use leverage will be invested in accordance with the Fund s investment objectives and policies as described in this prospectus. So long as the rate of return, net of applicable Fund expenses, on the loans, debt securities and other investments purchased by the Fund exceeds the costs of such leverage to the Fund, the investment of the proceeds thereof will generate more income than will be needed to pay the costs of the leverage. If this occurs, the excess will be used to pay higher dividends to the Common Shareholders than if the Fund were not so leveraged. If the costs of leverage to the Fund exceed the rate of return, lower dividends will be paid to Common Shareholders than if the Fund were not so leveraged.

Under the 1940 Act, the Fund generally is not permitted to have outstanding senior securities representing indebtedness (including through the use of reverse repurchase agreements, dollar rolls, futures contracts, loans of portfolio securities, swap contracts and other derivatives, as well as when-issued, delayed delivery or forward commitment transactions, to the extent that those instruments constitute senior securities) unless immediately after the financing giving rise to the borrowing, the value of the Fund s total assets less liabilities (other than liabilities representing such borrowing) is at least 300% of the principal amount of such borrowing (*i.e.*, the principal amount may not exceed 33 $^{1}/_{3}$% of the Fund s total assets). In addition, the Fund is not permitted to declare any cash dividend or other distribution on Common Shares unless, at the time of such declaration, the value of the Fund s total assets, less liabilities other than borrowings, is at least 300% of such principal amount. If the Fund enters into these transactions, it intends, to the extent possible, to prepay all or a portion of the principal amount due to the extent necessary in order to maintain the required asset coverage. Derivative instruments and financial contracts used by the Fund will not constitute senior securities (and will not be subject to the Fund s limitations on borrowings) to the extent that the Fund segregates liquid assets at least equal in amount to its obligations under the instruments, or enters into offsetting transactions or owns positions covering its obligations.

The premise underlying the use of leverage is that the costs of leveraging generally will be based on short-term rates, which normally will be lower than the return (including the potential for capital appreciation) that the Fund can earn on the relatively longer-term portfolio investments that it makes with the proceeds obtained through the leverage. Thus, the Common Shareholders would benefit from an incremental return. However, if the differential between the return on the Fund s investments and the cost of leverage were to narrow, the incremental benefit would be reduced and could be eliminated or become negative. Furthermore, if long-term

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rates rise, the net asset value of the Fund s Common Shares will reflect the resulting decline in the value of a larger aggregate amount of portfolio assets than the Fund would hold if it had not leveraged. Thus, leveraging exaggerates changes in the value and in the yield on the Fund s portfolio. This, in turn, may result in greater volatility of both the net asset value and the market price of the Common Shares.

Leveraging is a speculative technique and there are special risks and costs involved. There can be no assurance that any use of repurchase agreements, borrowings or other forms of leverage (such as an issuance of preferred shares or the use of derivatives strategies) will result in a higher yield on the Common Shares. Once leverage is used, the net asset value and market price of the Common Shares and the yield to Common Shareholders will be more volatile. See Risks Leverage Risk. In addition, fees and expenses of repurchase agreements and borrowings, a future issuance of preferred shares and other forms of leverage incurred by the Fund are borne entirely by the Common Shareholders (and not by preferred shareholders, if any) and will result in a reduction of the net asset value of the Common Shares.

Because the fees received by the Manager and the Sub-Adviser are based on the Managed Assets of the Fund (which include assets attributable to leverage), the Manager and the Sub-Adviser have a financial incentive for the Fund to use leverage, which may create a conflict of interest between the Manager and the Sub-Adviser, on the one hand, and the Common Shareholders, on the other hand. The Board of Trustees will generally oversee the use by the Manager or Sub-Adviser of leverage for the Fund.

Effects of Leverage

Assuming the Fund engages in borrowings representing 20% of the Fund s total assets (which includes the amounts of leverage obtained through such borrowings), at an annual interest rate of 1.25% (based on market interest rates as of the date of this prospectus), the annual return that the Fund s portfolio must experience (net of estimated expenses) in order to cover the costs of the borrowings would be .31%. These figures are merely estimates, and are used only for illustration purposes. Actual interest expenses associated with borrowings used by the Fund may vary frequently and may be significantly higher or lower that the rate used for the example above.

The following table is furnished in response to requirements of the Securities and Exchange Commission. It is designed to illustrate the effects of leverage on Common Share total return, assuming investment portfolio total returns (consisting of income and changes in the value of investments held in the Fund s portfolio) of -10%, -5%, 0%, 5% and 10%. These assumed investment portfolio returns are hypothetical figures and are not necessarily indicative of the investment portfolio returns expected to be experienced by the Fund. The table further assumes that the Fund uses borrowings representing 20% of the Fund s total assets (which includes the amounts of leverage obtained through such borrowings) and a projected annual rate of interest on the borrowings of 1.25%.

Assumed Portfolio Total Return (Net of Expenses)	10.00%	5.00%	.00%	5.00%	10.00%
Common Share Total Return	12.81%	6.56%	.31%	5.94%	12.19%

Common Share total return is composed of two elements investment income net of the Fund s expenses, including any interest/dividends on leverage, and gains or losses on the value of the securities the Fund owns. As required by Securities and Exchange Commission rules, the table assumes that the Fund is more likely to suffer capital losses than to enjoy capital appreciation. For example, to assume a total return of 0%, the Fund must assume that the income it receives on its investments is entirely offset by losses in the value of those investments. This table reflects hypothetical performance of the Fund s portfolio and not the performance of the Fund s Common Shares, the value of which will be determined by market forces and other factors.

Any benefits of leverage used by the Fund cannot be fully achieved until the proceeds resulting from the use of leverage have been received by the Fund and invested in accordance with the Fund s investment objectives

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and policies. The Fund s willingness to use leverage, and the extent to which leverage is used at any time, will depend on many factors, including Babson Capital s assessment of the yield curve environment, interest rate trends, market conditions and other factors.

To the extent consistent with applicable law, the Fund also may borrow money in order to repurchase its shares or as a temporary measure for extraordinary or emergency purposes, including for the payment of dividends or the settlement of securities transactions which otherwise might require untimely dispositions of Fund securities. The Fund may borrow from affiliates of Babson Capital, provided that the terms of such borrowings are no less favorable than those available from comparable sources of funds in the marketplace.

RISKS

The net asset value of the Common Shares will fluctuate with and be affected by, among other things, the following principal risks of the Fund: credit risk/high yield risk, risks of investing in loans, interest rate risk, duration risk, leverage risk, distressed securities risk, foreign (non-U.S.) investment risk, foreign currency risk, derivatives risk, counterparty risk, reinvestment risk, inflation risk, potential conflicts of interest risk, liquidity risk, issuer risk, management risk, non-diversification risk, market discount risk, market disruption risk, portfolio turnover risk, regulatory risk, risks associated with position limits applicable to derivatives, structured products risk, and volatility risk. An investment in the Fund will also be subject to the principal risk associated with the fact that the Fund is recently organized and the principal risk associated with certain affiliations of the Fund and Babson Capital.

No Prior History. The Fund is a recently organized, non-diversified, closed-end management investment company with no history of operations.

Credit Risk/High Yield Risk. The Fund expects to invest primarily in bonds and loans of corporate issuers that are, at the time of purchase, rated below investment grade by at least one credit rating agency (below Baa3 by Moody s, or below BBB- by either S&P or Fitch) or unrated but judged by the Manager or the Sub-Adviser to be of comparable quality. The Fund also invests in other below investment grade debt obligations. Below investment grade debt instruments carry greater credit and liquidity risk than investment grade instruments. These instruments are often also referred to as high yield instruments or junk bonds . Below investment grade debt instruments are considered to be predominantly speculative investments. In some cases, these obligations may be highly speculative and have poor prospects for reaching investment grade standing. Below investment grade debt instruments are subject to the increased risk of an issuer s inability to meet principal and interest payment obligations. These instruments may be subject to greater price volatility due to such factors as specific corporate developments, interest rate sensitivity, negative perceptions of the financial markets generally and less secondary market liquidity. The Manager and the Sub-Adviser will consider both credit risk and market risk in making investment decisions for the Fund.

Below investment grade debt instruments are often issued in connection with a corporate reorganization or restructuring or as part of a merger, acquisition, takeover or similar event. They are also issued by less established companies seeking to expand. Such issuers are often highly leveraged and generally less able than more established or less leveraged entities to make scheduled payments of principal and interest in the event of adverse developments or business conditions.

The market value of below investment grade debt instruments tends to reflect individual corporate developments to a greater extent than that of higher-rated instruments, which generally react primarily to fluctuations in the general level of interest rates. As a result, when the Fund invests in such high yield instruments, its ability to achieve its investment objective may depend to a greater extent on the judgment of the Manager and the Sub-Adviser concerning the creditworthiness of issuers than funds that invest in higher-rated instruments. Issuers of below investment grade debt instruments may not be able to make use of more traditional

methods of financing and their ability to service debt obligations may be more adversely affected than issuers of higher-rated instruments by economic downturns, specific corporate developments or the issuer s inability to meet specific projected business forecasts. Negative publicity about the high yield markets and investor perceptions regarding lower-rated or unrated instruments, whether or not based on fundamental analysis, may depress the prices for such instruments.

If a default occurs with respect to any below investment grade debt instruments and the Fund sells or otherwise disposes of its exposure to such instruments, it is likely that the proceeds would be less than the unpaid principal and interest. Even if such instruments are held to maturity, recovery by the Fund of its initial investment and any anticipated income or appreciation would be uncertain and may not occur.

The secondary market for below investment grade debt instruments may be concentrated in relatively few market makers and is dominated by institutional investors, including mutual funds, insurance companies and other financial institutions. Accordingly, the secondary market for such instruments is not as liquid as, and is more volatile than, the secondary market for higher-rated instruments. In addition, market trading volume for high yield instruments is generally lower and the secondary market for such instruments could contract under adverse market or economic conditions, independent of any specific adverse changes in the condition of a particular issuer.

Credit risk is the risk that one or more debt obligations in the Fund s portfolio will decline in price, or fail to pay dividends, interest or principal when due because the issuer of the obligation experiences an actual or perceived decline in its financial status. Credit ratings issued by credit rating agencies are designed to evaluate the safety of principal and interest payments of rated instruments. They do not, however, evaluate the market value risk of below investment grade debt instruments and, therefore, may not fully reflect the true risks of an investment. In addition, credit rating agencies may or may not make timely changes in a rating to reflect changes in the economy or in the conditions of the issuer that affect the market value of the instruments. Consequently, credit ratings are used only as a preliminary indicator of investment quality. Investments in below investment grade and comparable unrated obligations will be more dependent on the Manager s and the Sub-Adviser s credit analysis than would be the case with investments in investment-grade instruments. The Manager and the Sub-Adviser employ their own credit research and analysis, which includes a study of existing debt, capital structure, ability to service debt and to pay dividends, sensitivity to economic conditions, operating history and current earnings trends.

Risks of Investing in Loans. The loans in which the Fund will invest are largely floating rate instruments; therefore, the interest rate risk generally is lower than for fixed-rate debt obligations. However, from the perspective of the borrower, an increase in interest rates may adversely affect the borrower s financial condition. Due to the unique and customized nature of loan agreements evidencing loans and the private syndication thereof, loans are not as easily purchased or sold as publicly traded securities. Although the range of investors in loans has broadened in recent years, there can be no assurance that future levels of supply and demand in loan trading will provide the degree of liquidity which currently exists in the market. In addition, the terms of the loans may restrict their transferability without borrower consent. These factors may have an adverse effect on the market price and the Fund s ability to dispose of particular portfolio investments. A less liquid secondary market also may make it more difficult for the Fund to obtain precise valuations of the high yield loans in its portfolio.

Loans to companies operating in workout modes or under statutory bankruptcy protection are, in certain circumstances, subject to certain potential liabilities which may exceed the amount of the loan. For example, under certain circumstances, lenders who have inappropriately exercised control of the management and policies of a debtor may have their claims subordinated or disallowed or may be found liable for damages suffered by parties as a result of such actions.

Loans may be deemed to have substantial vulnerability to default in payment of interest and/or principal. Certain of the loans that the Fund may invest in have large uncertainties or major risk exposures to adverse

conditions, and may be considered to be predominantly speculative. Generally, such loans offer a higher return potential than better quality loans, but involve greater volatility of price and greater risk of loss of income and principal. The market values of certain of these loans also tend to be more sensitive to changes in economic conditions than better quality loans.

As a result of the Fund s investment in below investment grade investments and as a consequence of credit problems with such investment and the possibility that the Fund may participate in restructuring activities, it is possible that the Fund may become involved in litigation. Litigation entails expense and the possibility of counterclaim against the Fund and ultimately judgments may be rendered against the Fund for which the Fund may not carry insurance.

The Fund may invest directly or indirectly in loans by purchasing participations or sub-participations from certain financial institutions which will represent the right to receive a portion of the principal of, and all of the interest relating to such portion of, the applicable loan. In purchasing participations, the Fund will usually have a contractual relationship only with the selling institution, and not the borrower. When investing in participations, the Fund generally will have no right directly to enforce compliance by the borrower with the terms of the loan agreement, no rights of set-off against the borrower and no right to object to certain changes to the loan agreement agreed to by the selling institution. In addition, the Fund may not directly benefit from the collateral supporting the related loan, may be subject to any rights of set-off the borrower has against the selling institution and will generally be subject to the credit risk of the selling institution.

In the event of the insolvency of the selling institution, under the laws of the relevant jurisdictions, the Fund may be treated as a general creditor of such selling institution and may not have any exclusive or senior claim with respect to the selling institution s interest in, or the collateral with respect to, the loan. Consequently, the Fund will be subject to the credit risk of the selling institution as well as that of the borrower. The Manager s and the Sub-Adviser s credit analyses will focus on the underlying obligor of a loan. Accordingly, the independent credit analysis performed on a selling institution generally will not be as extensive as the independent credit analysis performed on the underlying obligor.

If the Fund invests in loans in which it has a direct contractual relationship with the borrower, there are additional risks involved. For example, if a loan is foreclosed, the Fund could become part owner of any collateral, and would bear the costs and liabilities associated with owning and disposing of the collateral. As a result, the Fund may be exposed to losses resulting from default and foreclosure. Any costs or delays involved in the effectuation of a foreclosure of the loan or a liquidation of the underlying assets will further reduce the proceeds and thus increase the loss. There is no assurance that the Fund will correctly evaluate the value of the assets collateralizing the loan. In the event of a reorganization or liquidation proceeding relating to the borrower, the Fund may lose all or part of the amounts advanced to the borrower. There is no guarantee that the protection of the Fund s interests will be adequate, including the validity or enforceability of the loan and the maintenance of the anticipated priority and perfection of the applicable security interests. Furthermore, there is no assurance that claims may not be asserted that might interfere with enforcement of the Fund s rights.

Loan obligations are subject to unique risks, including the possible invalidation of an investment as a fraudulent conveyance under relevant creditors rights laws. Further, when exposure to loans is gained by purchase of participations there is the additional credit and bankruptcy risk of the direct participant and its failure for whatever reason to account to the Fund for monies received in respect of loans directly held by it. In analyzing each loan, assignment or participation, the Manager will compare the relative significance of the risks against the expected benefits of the investment.

Floating rate loans provide for a periodic adjustment in the interest rate paid on the obligations. The interest rate on a floating rate loan resets periodically, typically every 30, 60 or 90 days. While, because of the interest rate reset feature, floating rate loans provide the Fund with a certain degree of protection against rising interest rates, the value of the Fund s floating rate loans may decline as interest rates rise because the Fund will continue

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to earn interest at the previously-established rate until the interest rate for each loan resets. The risks associated with floating rate loans may also be present with respect to fixed-to-floating-rate securities in which the Fund may invest. A secondary risk associated with declining interest rates is the risk that income earned by the Fund on floating-rate and fixed-to-floating-rate securities will decline due to lower coupon payments on floating-rate securities.

Interest Rate Risk. Generally, when market interest rates fall, the prices of fixed-rate debt obligations rise, and vice versa. Interest rate risk is the risk that the debt obligations in the Fund s portfolio will decline in value because of increases in market interest rates. As interest rates increase, slower than expected principal payments may extend the average life of securities, potentially locking in a below-market interest rate and reducing the Fund s value. In typical market interest rate environments, the prices of long-term debt obligations generally fluctuate more than prices of short-term debt obligations as interest rates change. The Fund s use of leverage, as described below, will tend to increase Common Share interest rate risk. Interest rate risk generally is lower for floating-rate instruments than for fixed-rate debt obligations.

Duration Risk. Duration measures the time-weighted expected cash flows of a security, which can determine the security s sensitivity to changes in the general level of interest rates (or yields). Securities with longer durations tend to be more sensitive to interest rate (or yield) changes than securities with shorter durations. Duration differs from maturity in that it considers potential changes to interest rates, and a security s coupon payments, yield, price and par value and call features, in addition to the amount of time until the security matures. Various techniques may be used to shorten or lengthen the Fund s duration. The duration of a security will be expected to change over time with changes in market factors and time to maturity.

Leverage Risk. The Fund s use of leverage (as described under Leverage in the body of this prospectus) special risks for Common Shareholders. There can be no assurance that the Fund s leveraging strategies will be successful. Leverage is a speculative technique that exposes the Fund to greater risk and increased costs. The use of leverage will cause the Fund s net asset value to be more volatile than if leverage were not used. For example, a rise in short-term interest rates, which are near or at historically low levels, will cause the Fund s net asset value to decline more than if the Fund had not used leverage. The use of leverage may also cause more volatility in the level of the Fund s distributions. The net proceeds the Fund obtains from its use of leverage will be invested in accordance with the Fund s investment objectives and strategies as described in this prospectus. It is anticipated that interest expense payable by the Fund with respect to its leverage will be based on shorter-term interest rates that would be periodically reset. If, however, shorter-term interest rates rise relative to the rate of return on the Fund s portfolio, the interest and other costs to the Fund of leverage could exceed the rate of return on the loans and other investments held by the Fund, thereby reducing return to Common Shareholders. Therefore, the Fund s use of leverage may result in a lower yield on the Common Shares than would have occurred had leverage not been used. In addition, any preferred shares issued by the Fund are expected to pay cumulative dividends, which may tend to increase leverage risk.

Leverage creates several major types of risks for Common Shareholders, including:

- the likelihood of greater volatility of net asset value and market price of Common Shares than a comparable portfolio without leverage;
- the possibility either that Common Share dividends will fall if the interest and other costs of leverage rise, or that dividends paid on Common Share will fluctuate because such costs vary over time;
- the effects of leverage in a declining market or a rising interest rate environment, as leverage is likely to cause a greater decline in the net asset value of the Common Shares than if the Fund were not leveraged and may result in a greater decline the market value of the Common Shares;
- leverage may increase operating returns, which may reduce total return; and

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when the Fund uses leverage, the management fees payable to the Managers (and indirectly to the Sub-Adviser) will be higher than if the Fund did not use leverage.

In addition, the counterparties to the Fund s leveraging transactions and any preferred shareholders of the Fund will have priority of payment over the Fund s Common Shareholders.

Distressed Securities Risk. While the Fund may not invest in issuers that are in default at the time of purchase (except for investments in DIP financings), issuers in which the Fund may invest may become subject to a bankruptcy reorganization proceeding, subject to some other form of a public or private debt restructuring or otherwise become in default or in significant risk of default in the payment of interest or repayment of principal or trading at prices substantially below other below-investment grade debt securities of companies in similar industries. Distressed securities frequently do not produce income while they are outstanding. The Fund may be required to incur certain extraordinary expenses in order to protect and recover its investment. Therefore, to the extent the Fund is invested in distressed securities, its ability to achieve current income for its Common Shareholders may be diminished. The Fund also will be subject to significant uncertainty as to when, in what manner and for what value the obligations evidenced by the distressed securities will eventually be satisfied (*e.g.,* through a liquidation of the obligor s assets, an exchange offer or plan of reorganization involving the distressed securities or a payment of some amount in satisfaction of the obligation). In addition, even if an exchange offer is made or a plan of reorganization is adopted with respect to distressed securities held by the Fund, there can be no assurance that the securities or other assets the Fund receives in connection with such exchange offer or plan of reorganization will not have a lower value or income potential than may have been anticipated when the investment was made. Moreover, any securities the Fund receives upon completion of an exchange offer or plan of reorganization may be restricted as to resale. As a result of the Fund s participation in negotiations with respect to any exchange offer or plan of reorganization with respect to an issuer of distressed securities, the Fund may be restricted from disposing of such securities.

Foreign (Non-U.S.) Investment Risk. The Fund s investments in foreign issuers and in securities denominated in foreign currencies involve special risks. For example, the value of these investments may decline in response to unfavorable political and legal developments, unreliable or untimely information, or economic and financial instability. Foreign settlement procedures also may involve additional risks.

Foreign Currency Risk. Although the Fund will report its net asset value and pay dividends in U.S. dollars, foreign securities often are purchased with, and make dividend or interest payments in, foreign currencies. Therefore, when the Fund invests in foreign securities, it will be subject to foreign currency risk, which means that the value of securities denominated in foreign currencies may fluctuate based on changes in the value of those currencies relative to the U.S. dollar (although Babson Capital intends generally to hedge investments denominated in foreign currencies back to the U.S. dollar), and a decline in applicable foreign exchange rates could reduce the value of such securities held by the Fund.

Derivatives Risk. The Fund may use a variety of derivative instruments for hedging or risk management purposes or as part of its investment strategies to increase the return of the Fund, such as options contracts (including options on futures contracts), interest rate or other futures contracts and swap agreements (including total return swaps, credit default swaps and index swaps), as well as through investments in structured notes or credit-linked notes and other securities issued by special purpose or structured vehicles. Derivatives are subject to a number of risks described elsewhere in this prospectus, such as liquidity risk, interest rate risk, credit risk, leverage risk and management risk. They also involve the risk of mispricing or improper valuation and the risk that changes in the value of a derivative may not correlate perfectly with an underlying asset, interest rate or index. Suitable derivative transactions may not be available in all circumstances, and there can be no assurance that the Fund will engage in these transactions to reduce exposure to other risks when that would be beneficial.

Counterparty Risk. The Fund will be subject to credit risk with respect to the counterparties to the derivative contracts which are not cleared through a central counterparty but instead are traded over-the-counter

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between two counterparties. If a counterparty to an over-the-counter derivative becomes bankrupt or otherwise fails to perform its obligations under a derivative contract due to financial difficulties, the Fund may experience significant delays in obtaining any recovery under the derivative contract in a bankruptcy or other reorganization proceeding. The Fund may obtain only a limited recovery or may obtain no recovery in such circumstances. The counterparty risk for cleared derivatives is generally lower than for uncleared over-the-counter derivative transactions since generally a clearing organization becomes substituted for each counterparty to a cleared derivative contract and, in effect, guarantees the parties performance under the contract as each party to a trade looks only to the clearing house for performance of financial obligations. However, there can be no assurance that the clearing house, or its members, will satisfy its obligations to the Fund. In addition, in the event of a bankruptcy of a clearing house, the Fund could experience a loss of the funds deposited with such clearing house as margin and of any profits on its open positions.

Reinvestment Risk. Income from the Fund s portfolio will decline if and when the Fund invests the proceeds from matured, traded or called debt obligations at market interest rates that are below the portfolio s current earnings rate. A decline in income could affect the Common Shares market price or their overall return.

Inflation Risk. Inflation risk is the risk that the value of assets or income from the Fund s investments will be worth less in the future as inflation decreases the value of money.

Potential Conflicts of Interest Risk. The Manager, the Sub-Adviser and their affiliates are involved worldwide with a broad spectrum of financial services and asset management activities and may engage in the ordinary course of business in activities in which their interests or the interests of their clients may conflict with those of the Fund. The Manager, the Sub-Adviser and their affiliates may provide investment management services to other funds and discretionary managed accounts that follow an investment program similar to that of the Fund. Subject to the requirements of the 1940 Act, he Manager, the Sub-Adviser and its affiliates intend to engage in such activities and may receive compensation from third parties for their services. Neither the Manager, the Sub-Adviser or their affiliates are under any obligation to share any investment opportunity, idea or strategy with the Fund. As a result, the Manager, the Sub-Adviser and their affiliates may compete with the Fund for appropriate investment opportunities. The results of the Fund s investment activities, therefore, may differ from those of other accounts managed by the Manager, the Sub-Adviser and their affiliates, and it is possible that the Fund could sustain losses during periods in which one or more of the proprietary or other accounts managed by the Investment Manager or its affiliates achieve profits. The Manager and the Sub-Adviser have informed the Fund s Board of Trustees that the investment professionals associated with the Manager and the Sub-Adviser are actively involved in other investment activities not concerning the Fund and will not be able to devote all of their time to the Fund s business and affairs. The Manager, the Sub-Adviser and their affiliates have adopted policies and procedures designed to address potential conflicts of interests and to allocate investments among the accounts managed by the Manager, the Sub-Adviser and their affiliates in a fair and equitable manner.

Liquidity Risk. The Fund may invest up to 20% of its total assets in illiquid securities *(i.e.*, securities that cannot be disposed of within seven days in the ordinary course of business at approximately the value at which the Fund has valued the securities). Illiquid securities may trade at a discount from comparable, more liquid investments, and may be subject to wide fluctuations in market value. Also, the Fund may not be able to dispose of illiquid securities at a favorable time or price when desired. Below investment grade loans and other debt securities tend to be less liquid than higher-rated securities.

In addition, derivatives instruments may not be liquid in all circumstances, so that in volatile markets the Fund may not be able to close out a position without incurring a loss. Although both over-the-counter and exchange-traded derivatives markets may experience the lack of liquidity, over-the-counter non-standardized derivative transactions are generally less liquid than exchange-traded instruments. The illiquidity of the derivatives markets may be due to various factors, including congestion, disorderly markets, speculative position limits, limitations on deliverable supplies, the participation of speculators, government regulation and intervention, and technical and operational or system failures. The absence of liquidity may also make it more

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difficult for the Fund to ascertain a market value for such instruments. The inability to close options and futures positions also could have an adverse impact on the Fund s ability to effectively hedge its portfolio.

Issuer Risk. The value of securities may decline for a number of reasons that relate directly to the issuer, such as management performance, financial leverage and reduced demand for the issuer s goods and services.

Management Risk. The Fund is subject to management risk because it is an actively managed portfolio. The Manager and the Sub-Adviser will apply investment techniques and risk analyses in making investment decisions for the Fund, but there can be no guarantee that such techniques and analyses will produce the desired results.

Non-Diversification Risk. The Fund is a non-diversified investment company and therefore may invest a greater percentage of its assets in the securities of a single issuer than funds that are diversified. Accordingly, the Fund is more susceptible to risks associated with a single economic, political or regulatory occurrence than a diversified fund might be. Some of the issuers in which the Fund invests may also present substantial credit or other risks. The Fund will be subject to similar risks to the extent that it enters into derivative transactions with a limited number of counterparties.

Market Discount Risk. As with any stock, the price of the Fund s shares will fluctuate with market conditions and other factors. If shares are sold, the price received may be more or less than the original investment. Net asset value will be reduced immediately following the initial offering by organizational and offering expenses paid by the Fund, the sales load paid by Common Shareholders and, immediately following the establishment of a leverage strategy, will be reduced by the costs of arranging the strategy. The Common Shares are designed for long-term investors and should not be treated as trading vehicles. Shares of closed-end management investment companies frequently trade at a discount from their net asset value. The Fund s shares may trade at a price that is less than the initial offering price. This risk may be greater for investors who sell their shares relatively shortly after completion of the initial offering.

Market Disruption Risk. Global financial markets have recently experienced periods of unprecedented turmoil. The debt and equity capital markets in the United States and around the world were negatively impacted by significant write-offs in the financial services sector relating to subprime mortgages and the re-pricing of credit risk in the broader market, among other things. These events, along with the deterioration of the housing market, the failure of major financial institutions and the concerns that other financial institutions as well as the global financial system were also experiencing severe economic distress, materially and adversely impacted the broader financial and credit markets and reduced the availability of debt and equity capital for the market as a whole and financial firms in particular.

The instability in the financial markets has led governments to take a number of unprecedented actions designed to support certain financial institutions and segments of the financial markets that have experienced extreme volatility, and in some cases a lack of liquidity. Federal, state, and other governments, their regulatory agencies, or self-regulatory organizations may take actions that affect the regulation of the instruments in which the Fund invests, or the issuers of such instruments, in ways that are unforeseeable.

The current financial market situation, as well as various social, political, and psychological tensions in the United States and around the world, may continue to contribute to increased market volatility, may have long-term effects on the U.S. and worldwide financial markets, and may cause further economic uncertainties or deterioration in the United States and worldwide. The continuation or further deterioration of the current U.S. and global economic downturn could adversely impact the Fund s portfolio.

Portfolio Turnover Risk. The techniques and strategies contemplated by the Fund might result in a high degree of portfolio turnover. Higher portfolio turnover rates result in corresponding increases in trading costs and generate short-term capital gains taxable as ordinary income.

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Certain Affiliations. Certain broker-dealers may be considered to be affiliated persons of the Fund or of Babson Capital due to their possible affiliations with Massachusetts Mutual Life Insurance Company, the ultimate parent company of Babson Capital. Absent an exemption from the Securities and Exchange Commission or other regulatory relief, the Fund is generally precluded from effecting certain principal transactions with affiliated brokers, and its ability to purchase securities being underwritten by an affiliated broker or a syndicate including an affiliated broker, or to utilize affiliated brokers for agency transactions, is subject to restrictions. This could limit the Fund s ability to engage in securities transactions and to take advantage of market opportunities. In addition, unless and until the underwriting syndicate is broken in connection with the initial public offering of the Common Shares, the Fund will be precluded from effecting principal transactions with brokers who are members of the syndicate.

Regulatory Risk. The derivatives markets have recently become subject to comprehensive statutes, regulations and margin requirements. In particular, in the United States the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act) was signed into law in July 2010. The Dodd-Frank Act requires most transactions in over-the-counter derivatives to be executed on a regulated market and cleared through a central counterparty, which may result in increased margin requirements and costs for the Fund. Further, the CFTC has recently rescinded certain exemptions from registration requirements under the U.S. Commodity Exchange Act (the CEA) that have been previously available under CFTC Rule 4.5 to investment advisers registered with the SEC under the Investment Advisers Act of 1940. The Fund has claimed an exclusion from the definition of the term commodity pool operator under the CEA pursuant to Rule 4.5 under the CEA promulgated by the CFTC. The Fund currently is not, therefore, subject to registration or regulation as a commodity pool operator under the CEA and the Fund intends to be operated so as not to be deemed to be a commodity pool under the regulations of the CFTC under current law. In the event that the Fund s investments in derivative instruments regulated under the CEA, including futures, swaps and options, exceed the thresholds set forth in Rule 4.5, the Investment Manager may be required to register as a commodity pool operator and/or commodity trading advisor with the CFTC. In the event the Manager is required to register with the CFTC, it will become subject to additional recordkeeping, disclosure and reporting requirements with respect to the Fund, which may increase the Fund s expenses.

Risks Associated with Position Limits Applicable to Derivatives. The Fund s investments in regulated derivatives instruments, such as certain swaps, futures and options on futures, may be subject to maximum speculative position limits. Under U.S. Commodity Futures Commission rules and U.S. exchange rules, all accounts owned or managed by advisers, such as the Manager or the Sub-Adviser, and their respective principals and affiliates would be combined for position limit purposes. A violation of position limits by the Manager could lead to regulatory action resulting in mandatory liquidation of certain positions held by the Manager on behalf of the Fund. Under such circumstances, there can be no assurance that the Manager will be able to liquidate positions held on behalf of all of the Manager s accounts in a proportionate manner or at favorable prices, which may result in substantial losses to the Fund.

Structured Products Risk. The Fund may invest in structured products, including credit-linked notes. Holders of structured products bear risks of the underlying investments, index or reference obligation and are subject to counterparty risk. The Fund may have the right to receive payments only from the structured product, and generally does not have direct rights against the issuer or the entity that sold the assets to be securitized. While certain structured products enable the investor to acquire interests in a pool of securities without the brokerage and other expenses associated with directly holding the same securities, investors in structured products generally pay their share of the structured product s administrative and other expenses. Although it is difficult to predict whether the prices of indices and securities underlying structured products will rise or fall, these prices (and, therefore, the prices of structured products) will be influenced by the same types of political and economic events that affect issuers of securities and capital markets generally. If the issuer of a structured product uses shorter term financing to purchase longer term securities, the issuer may be forced to sell its securities at below market prices if it experiences difficulty in obtaining short-term financing, which may adversely affect the value of the structured products owned by the Fund.

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Certain structured products may be thinly traded or have a limited trading market. Credit-linked notes are typically privately offered and sold. As a result, investments in collateralized loan obligations and credit-linked notes may be characterized by the Fund as illiquid securities.

Investments in structured notes involve risks, including credit risk and market risk. Where the Fund s investments in structured notes are based upon the movement of one or more factors, including currency exchange rates, interest rates, referenced bonds and stock indices, depending on the factor used and the use of multipliers or deflators, changes in interest rates and movement of the factor may cause significant price fluctuations. Additionally, changes in the reference instrument or security may cause the interest rate on the structured note to be reduced to zero, and any further changes in the reference instrument may then reduce the principal amount payable on maturity. Structured notes may be less liquid than other types of securities and more volatile than the reference instrument or security underlying the note.

Volatility Risk. The Fund could suffer losses related to its derivative positions as a result of unanticipated market movements, which losses are potentially unlimited.

HOW THE FUND MANAGES RISK

Investment Limitations

The Fund has adopted the investment limitations set forth below, which are fundamental and may not be changed without the approval of the holders of a majority of the outstanding Common Shares (and any outstanding preferred shares) voting together as a single class.

The Fund may not:

Concentrate its investments in a particular industry or group of industries as those terms are used in the 1940 Act, as amended, and as interpreted, modified, or otherwise permitted by regulatory authority having jurisdiction, from time to time. The Fund would be deemed to concentrate in a particular industry or group of industries if it invested 25% or more of its total assets in that industry or group of industries. The Fund s industry concentration policy does not preclude it from focusing investments in issuers in a group of related industrial sectors (such as different types of utilities).

Purchase or sell real estate, although it may purchase securities secured by real estate or interests therein, or securities issued by companies which invest in real estate, or interests therein.

Purchase or sell commodities or commodities contracts or oil, gas or mineral programs. This restriction will not prohibit the Fund, subject to restrictions described in this prospectus and the Statement of Additional Information, from purchasing, selling or entering into futures contracts, options on futures contracts, forward contracts, or any interest rate, securities-related or other hedging instrument, including swap agreements and other derivative instruments, subject to compliance with any applicable provisions of the federal securities or commodities laws.

Borrow money or issue any senior security, except to the extent permitted under the 1940 Act, as amended, and as interpreted, modified, or otherwise permitted by regulatory authority having jurisdiction, from time to time.

Make loans, except to the extent permitted under the 1940 Act, as amended, and as interpreted, modified, or otherwise permitted by regulatory authority having jurisdiction, from time to time.

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Act as an underwriter of securities of other issuers, except to the extent that in connection with the disposition of portfolio securities, it may be deemed to be an underwriter under the federal securities laws.

Please see the Statement of Additional Information for more information regarding these limitations. Except as otherwise noted, all other limitations described in this prospectus or the Statement of Additional Information are not fundamental, and may be changed without the approval of the holders of a majority of the outstanding Common Shares.

Management of Investment Portfolio and Capital Structure to Limit Leverage Risk

The Fund may take certain actions if short-term interest rates increase or market conditions otherwise change (or the Fund anticipates such an increase or change) and the Fund s leverage begins (or is expected) to adversely affect Common Shareholders. In order to attempt to offset such a negative effect of leverage on Common Shareholders, the Fund may shorten the average maturity or duration of its investment portfolio (by investing in short-term, high quality securities or implementing certain hedging strategies). The Fund also may attempt to reduce leverage by reducing its borrowings, redeeming outstanding preferred stock or by reducing any holdings in other instruments that create leverage. As explained above under Risks Leverage Risk, the success of any such attempt to limit leverage risk depends on the Manager s ability to accurately predict interest rate or other market changes. Because of the difficulty of making such predictions, the Fund may not be successful in managing its interest rate exposure in the manner described above. If market conditions suggest that additional leverage would be beneficial, the Fund may increase its rate of borrowing, issue additional shares of preferred stock or utilize other forms of leverage, such as derivative instruments.

Hedging and Related Strategies

The Fund generally intends, but is not required, to hedge substantially all of its exposure to foreign currencies through the use of currency strategies. For example, the Fund may transact in foreign currencies, may enter into forward foreign currency exchange contracts, and may buy and sell foreign currency futures contracts and options on foreign currencies and foreign currency futures. Such hedging transactions may not be successful and may eliminate any chance for the Fund to benefit from favorable fluctuations in relevant foreign currencies.

The Fund also may use various investment strategies designed to limit the risk of price fluctuations of its portfolio securities and to preserve capital. For example, the Fund may purchase credit default swap contracts for the purpose of hedging the Fund s exposure to certain issuers and thereby decreasing its exposure to credit risk, and it may invest in structured notes or interest rate swap or cap transactions for the purpose of reducing the interest rate sensitivity of the Fund s portfolio and thereby decreasing the Fund s exposure to interest rate risk. Other hedging strategies that the Fund may use include: financial futures contracts; other types of swap agreements or options thereon; options on financial futures; and options based on either an index or individual debt securities whose prices, Babson Capital believes, correlate with the prices of the Fund s investments. Income earned by the Fund from many hedging activities will be treated as capital gain and, if not offset by net realized capital loss, will be distributed to shareholders in taxable distributions.

Suitable hedging transactions may not be available, and there can be no assurance that the Fund will engage in such transactions at any given time or from time to time when they would be beneficial, or that, if used, such strategies will be successful.

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MANAGEMENT OF THE FUND

Trustees and Officers

The Board of Trustees is responsible for the management of the Fund, including supervision of the duties performed by the Manager. There are currently four trustees of the Fund, two of whom are currently treated by the Fund as interested persons (as defined in the 1940 Act). The names and business addresses of the trustees and officers of the Fund and their principal occupations and other affiliations during the past five years are set forth under Management of the Fund in the Statement of Additional Information.

Manager

Babson Capital serves as the investment adviser for the Fund. Subject to the supervision of the Board of Trustees, Babson Capital is responsible for managing the investment activities of the Fund and the Fund s business affairs and other administrative matters.

Babson Capital is an indirect, majority-owned subsidiary of Massachusetts Mutual Life Insurance Company, with a principal office located at 550 South Tryon Street, Suite 3300, Charlotte, NC 28202. Founded in 1940, Babson Capital is a global investment management organization with investment operations in the United States, the United Kingdom, Australia, and Asia and approximately 900 associates, including over 300 investment professionals as of June 30, 2012. Babson Capital has provided investment advice to individual and institutional investors for more than 70 years and had assets under management as of June 30, 2012 of more than $149 billion. Babson Capital has 70 professionals worldwide dedicated to high yield investing, including 43 professionals in the United States and 27 professionals in Europe. Babson Capital believes underwriting and monitoring credits locally is critical due to the significant differences in the regulatory, legal, bankruptcy and geopolitical frameworks of the various North American and Western European countries in which the Fund expects to invest primarily.

Babson Capital has retained its subsidiary, Babson Capital U.K., as a sub-adviser to manage the Fund s European investments. See Sub-Adviser below.

Sub-Adviser

Babson Capital U.K. will serve as the Fund s sub-adviser responsible for managing the Fund s European investments. Subject to the supervision of the Board of Trustees and the Manager, the Sub-Adviser manages the investment and reinvestment of a portion of the assets of the Fund, as will be allocated from time to time to the Sub-Adviser by a global allocation investment committee composed of representatives of the Manager and Sub-Adviser.

Babson Capital U.K. is a recently formed investment adviser registered with the SEC in the United States and the Financial Services Authority in the United Kingdom whose principal office is located at 61 Aldwych, London, United Kingdom WC2B 4AE. Babson Capital U.K. is a wholly-owned subsidiary of Babson Capital Europe, which in turn is an indirect, wholly-owned subsidiary of the Manager. Originally organized in 2000 as Duke Street Capital Debt Management, Limited, Babson Capital Europe provides investment advisory services to private accounts of institutional and family office clients. As of June 30, 2012, Babson Capital Europe had approximately 5.8 billion in assets under management.

Investment Management Agreement and Sub-Advisory Agreement

Pursuant to an investment management agreement between the Manager and the Fund (the Investment Management Agreement), the Fund has agreed to pay the Manager an annual management fee payable on a

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monthly basis at the annual rate of 1.00% of the Fund s average daily Managed Assets for the services and facilities it provides.

Pursuant to a sub-advisory agreement (the Sub-Advisory Agreement) between the Manager and the Sub-Adviser, the Sub-Adviser manages the investment and reinvestment of a portion of the assets of the Fund, as will be allocated from time to time to the Sub-Adviser by a global allocation investment committee composed of representatives of the Manager and Sub-Adviser. The Manager (and not the Fund) will pay a portion of the management fees it receives from the Fund, in an amount equal to 35% of such management fee, payable monthly to the Sub-Adviser in return for the Sub-Adviser s services.

In addition to the fee of the Manager, the Fund pays all of its expenses, including, among others, legal fees and expenses of counsel to the Fund and to the Fund s independent trustees; insurance, including trustees and officers insurance and errors and omissions insurance; auditing and accounting expenses; taxes and governmental fees; listing fees; dues and expenses incurred in connection with membership in investment company organizations; fees and expenses of the Fund s custodians, administrators, transfer agents, registrars and other service providers; expenses for portfolio pricing services by a pricing agent, if any; other expenses in connection with the issuance, offering and underwriting of shares or debt instruments issued by the Fund or with the securing of any credit facility or other loans for the Fund; expenses relating to investor and public relations and secondary market services; expenses of registering or qualifying securities of the Fund for public sale; brokerage commissions and other costs of acquiring or disposing of any portfolio holding of the Fund; expenses of preparation and distribution of reports, notices and dividends to shareholders; expenses of the dividend reinvestment plan (except for brokerage expenses paid by participants in such plan); compensation and expenses of trustees; costs of stationery; any litigation expenses; and costs of shareholder, Board and other meetings.

Because the fees received by the Manager and the Sub-Adviser are based on the Managed Assets of the Fund (which include any assets attributable to leverage such as assets attributable to reverse repurchase agreements, the notional value of total return swap contracts (for this purpose, total return swaps on a single issuer shall be calculated on a net basis), bank loans and preferred shares that may be outstanding), the Manager and the Sub-Adviser have a financial incentive for the Fund to use leverage, which may create a conflict of interest between the Manager and the Sub-Adviser, on the one hand, and the holders of the Fund s Common Shares, on the other hand.

For a discussion regarding the considerations of the Fund s Board of Trustees for approving the Investment Management Agreement and the Sub-Advisory Agreement, please see the Fund s annual report for the period ended December 31, 2012, which will be available in April 2013.

Administrator

Pursuant to the Master Services Agreement among the Fund, USBFS, and TSC, USBFS serves as administrator. As administrator, USBFS provides certain services, including, among other things, furnishing the Fund with clerical and various other services required by the Fund s operations; compiling data for and preparing notices to the SEC; calculating the Fund s daily NAV and certain other financial data; preparing reports that are required by the securities, investment, tax or other laws and regulations of the United States; coordinating federal and state tax returns; monitoring the Fund s expense accruals; and generally assisting in the Fund s operations. Pursuant to the Master Services Agreement, the Fund has retained TSC to provide, upon request, certain other services to the Fund, including, among other things, preparing a variety of shareholder communications and press releases; communicating with the NYSE and the closed-end fund analyst community; generally assisting with the Fund s communications with the investment community; and providing reports to the Board of Trustees regarding certain strategic issues relating to closed-end funds.

For these services the Fund will pay USBFS an aggregate fee, payable monthly (the Administration Fee), at the annual rate of ..30% of the Fund s average daily total Managed Assets. For these purposes, the Fund s

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average daily total Managed Assets will be calculated in the same manner as they are for purposes of calculating the fee payable under the Investment Management Agreement. See Investment Management Agreement. In addition, the Administration Fee is subject to a minimum annual fee of $350,000. USBFS (and not the Fund) will be responsible for compensating TSC from the fee paid to USBFS by the Fund. The Administrator and TSC will also be reimbursed by the Fund for out-of-pocket expenses that are reasonably incurred by them in performing their duties under the Master Services Agreement.

The USBFS and TSC are each obligated to pay expenses associated with providing the services contemplated by the Master Services Agreement, including compensation of and office space for their respective officers and employees connected with administration of the Fund.

Portfolio Management

The portfolio managers are primarily responsible for making day-to-day investment decisions for the Fund. Each of the persons listed below will serve as a portfolio manager beginning with the Fund s inception. More information about each manager s compensation, other accounts managed by each manager, and each manager s ownership of securities in the Fund is included in the Statement of Additional Information.

Portfolio Manager, Title	Length of Service	Past 5 Years Business Experience
Russell D. Morrison Portfolio Manager	Since inception	Mr. Morrison is Head of the Global High Yield Investments Group of Babson Capital which includes research, portfolio management and trading for U.S. and European bonds, loans and structured credit. Previously, he served as Co-Head of Babson Capital s U.S. Bank Loan Team. Mr. Morrison joined Babson Capital in June of 2002 as part of Babson Capital s acquisition of IDM s Portfolio Management Group. Prior to joining IDM, he was a Vice President of First Union Securities, Inc., a Manager in Ernst & Young s Management Consulting Group and an accountant at North Carolina National Bank. He holds a B.S. from Wake Forest University and an M.B.A from Carnegie Mellon s Graduate School of Industrial Administration. Mr. Morrison has over 22 years of experience.
Zak Summerscale Portfolio Manager	Since inception	Mr. Summerscale is the Chief Investment Officer of European High Yield at Babson Capital Europe and chairs the Babson Capital Europe High Yield Investment Committee as well as having direct portfolio management responsibility for several of Babson Capital Europe s strategies. Prior to joining Babson Capital Europe in March of 2001, he was a Portfolio Manager at New Flag Asset Management for a European high yield fund. Prior to New Flag Asset Management, he worked for the United Bank of Kuwait. He joined the United Bank of Kuwait as a Distressed Debt Analyst, rising to Senior Portfolio Manager in charge of both the U.S. and European high yield funds. He qualified as an ACA with Ernst & Young in 1996. He has served on the board of the Loan Markets Association. He holds a B.A. (Hons) from Durham University.

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Portfolio Manager, Title	Length of Service	Past 5 Years Business Experience
Michael Freno Portfolio Manager	Since inception	Mr. Freno is a Managing Director in Babson Capital s Global High Yield Investments Group and a co-portfolio manager for the Global Loan Fund and Global Senior Secured Bond Fund. He is also a member of Babson Capital s High Yield Investment Committee. Prior to joining Babson Capital in 2005, Mr. Freno was a research analyst for Mangan & McColl Partners, LLC, where he focused on equity and credit analysis for the firm s special situations and distressed investments. Prior to that, he was a Manager at PricewaterhouseCoopers. He holds a B.A. from Furman University and an M.B.A. from the Wake Forest Babcock School of Business. Mr. Freno has over 13 years of experience.
Sean Feeley Portfolio Manager	Since inception	Mr. Feeley is a Managing Director in Babson Capital s Global High Yield Investments Group and is a lead portfolio manager for various high yield bond total return strategies. He is also a Vice President and a portfolio manager of Babson Capital Corporate Investors and Babson Capital Participation Investors, two closed-end registered investment companies managed by Babson Capital. Prior to joining Babson Capital in 2003, he was a Managing Director at Cigna Investment Management in project finance and a Vice President at Credit Suisse in the leveraged finance group. He holds a B.S. from Canisius College and an M.B.A from Cornell University. He is also a Certified Public Account (inactive) and a member of the Chartered Financial Analyst Institute. Mr. Feeley has over 23 years of experience.
Kam Tugnait Portfolio Manager	Since Inception	Mr. Tugnait is a Managing Director of Babson Capital Europe, where he manages the European high yield funds and serves as a member of the Babson Capital Europe High Yield Investment Committee. Prior to joining Babson Capital Europe in May of 2011, he worked at Gartmore, managing the Gartmore Corporate High Yield Bond Fund. Prior to Gartmore, he served as Head of High Yield at Standard Bank and the United Bank of Kuwait. He holds an M.A. from Cambridge University and is a member of the Institute of Chartered Accountants, England & Wales. Mr. Tugnait has over 20 years experience in the industry and was one of the pioneers of high yield in Europe.
Scott Roth Portfolio Manager	Since Inception	Mr. Roth is a Managing Director in Babson Capital s Global High Yield Investments Group and a lead portfolio manager for various high yield bond total return strategies. Prior to joining Babson Capital in 2002, he worked at Webster Bank, was a high yield analyst at Times Square Capital Management and an underwriter at Chubb Insurance Company. He holds a B.B.A. from Western Michigan University and an M.B.A. from the University of Michigan. He is also a member of the Chartered Financial Analyst Institute. Mr. Roth has over 19 years of experience.

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NET ASSET VALUE

The NAV of the Fund equals the total value of the Fund s portfolio investments and other assets, less any liabilities. For purposes of calculating NAV, portfolio securities and other assets for which market quotes are available are stated at market value. Market value is generally determined based on quotes obtained from a quotation reporting system, established market makers, or pricing services. Certain securities or investments for which market quotations are not readily available may be fair valued, pursuant to written policies adopted by the Board of Trustees, with reference to other securities or indexes, or otherwise valued at valued at fair value as determined in good faith by the Board of Trustees or persons acting at their direction. For example, a pricing service may recommend a fair value based on prices of comparable securities. Babson Capital generally uses pricing services to value most loans and other debt securities. Babson Capital may fair value loans or other securities pursuant to written policies adopted by the Board of Trustees if approved pricing services do not recommend a fair value for such loans or other securities or the fair value recommended is deemed unreliable.

Short-term investments having a maturity of 60 days or less are generally valued at amortized cost. Exchange traded options, futures and options on futures are valued at the settlement price determined by the exchange.

The NAV of the Fund will be determined daily on any day that the New York Stock Exchange is open for trading, as of the close of regular trading on the New York Stock Exchange that day (normally 4:00 p.m., Eastern time) (the NYSE Close). Domestic debt securities or instruments and foreign securities or instruments are normally priced using data reflecting the earlier closing of the principal markets for those securities. Information that becomes known to the Fund or its agent after the Fund s NAV has been calculated on a particular day will not be used to retroactively adjust the price of a security or the Fund s NAV determined earlier that day.

Investments initially valued in currencies other than the U.S. dollar are converted to U.S. dollars using the WM16 Rate provided by the WM Company. As a result, the NAV of the Fund s shares may be affected by changes in the value of currencies in relation to the U.S. dollar. The value of securities traded in markets outside the United States or denominated in currencies other than the U.S. dollar may be affected significantly on a day that the New York Stock Exchange is closed.

In unusual circumstances, instead of valuing securities in the usual manner, the Fund may value securities at fair value as determined in good faith by the Board of Trustees, generally based upon recommendations provided by the Manager and the Sub-Adviser. Fair valuation also may be required due to material events that occur after the close of the relevant market but prior to the NYSE Close.

DISTRIBUTIONS

Commencing with the Fund s initial distribution, the Fund intends to make regular monthly cash distributions to Common Shareholders, to the extent permitted under the 1940 Act, at a rate based on the projected performance of the Fund. The dividend rate that the Fund pays on its Common Shares will depend on a number of factors, including interest payable on reverse repurchase agreements and any outstanding borrowings and the expenses of any other leveraging transactions. As portfolio and market conditions change, the rate of dividends on the Common Shares and the Fund s dividend policy could change. Over time, the Fund will distribute substantially all of its net investment income. In addition, at least annually, the Fund may distribute to Common Shareholders their pro rata share of any available net capital gain, although the Fund may determine to retain some or all of the capital gains produced by the Fund. The initial distribution is expected to be declared approximately 45 days, and paid approximately 60 to 90 days, from the completion of this offering, depending on market conditions. Although it does not now intend to do so, the Board of Trustees may change the Fund s dividend policy and the amount or timing of the distributions, based on a number of factors, including the amount of the Fund s undistributed net investment income and historical and projected investment income.

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Distributions of investment income and of net realized short-term capital gains generally will be taxed to Common Shareholders at ordinary income rates. Distributions of net capital gain (the excess of net long-term capital gains over net short-term capital losses) generally will be taxed to Common Shareholders as long-term capital gain. Fund distributions are generally not expected to constitute qualified dividend income. See Tax Matters.

Because the ultimate character of the Fund s distributions made in a calendar or fiscal year cannot finally be determined until the end of the year, the Fund may make total distributions during the year in an amount that exceeds the Fund s net investment income and net realized capital gains for the year, which would result in a return of capital to Common Shareholders. For example, the Fund may distribute net short-term capital gains early in the year, but incur net capital losses (whether short- or long-term) later in the year, thereby offsetting the short-term net capital gains for which distributions have already been made by the Fund. In such a situation, the amount by which the Fund s total distributions exceed net investment income and net realized capital gains would generally be treated as a tax-free return of capital up to the amount of the Common Shareholder s basis in his or her shares, with any amounts exceeding such basis treated as capital gain, assuming the shares are held as capital assets. See Tax Matters.

To permit the Fund to maintain a more stable monthly distribution, the Fund may distribute less than the entire amount of net investment income earned in a particular period. The undistributed net investment income would be available to supplement future distributions. As a result, the distributions paid by the Fund for any particular monthly period may be more or less than the amount of net investment income actually earned by the Fund during the period. Undistributed net investment income will be added to the Fund s net asset value and, correspondingly, distributions from undistributed net investment income will be deducted from the Fund s net asset value. Unless a Common Shareholder elects to receive distributions in cash, all of such shareholder s distributions will be automatically reinvested in additional Common Shares under the Fund s Dividend Reinvestment Plan. Reinvestment has no effect on the tax treatment of a shareholder s distributions. See Dividend Reinvestment Plan.

DIVIDEND REINVESTMENT PLAN

Pursuant to the Fund s Dividend Reinvestment Plan (the Plan), all Common Shareholders whose shares are registered in their own names will have all dividends, including any capital gain dividends, reinvested automatically in additional Common Shares by USBFS, as agent for the Common Shareholders (the Plan Agent), unless the shareholder elects to receive cash. An election to receive cash may be revoked or reinstated at the option of the shareholder. In the case of record shareholders such as banks, brokers or other nominees that hold Common Shares for others who are the beneficial owners, the Plan Agent will administer the Plan on the basis of the number of Common Shares certified from time to time by the record shareholder as representing the total amount registered in such shareholder s name and held for the account of beneficial owners who are to participate in the Plan. Shareholders whose shares are held in the name of a bank, broker or nominee should contact the bank, broker or nominee for details. Such shareholders may not be able to transfer their shares to another bank or broker and continue to participate in the Plan. All distributions to investors who elect not to participate in the Plan (or whose broker or nominee elects not to participate on the investor s behalf) will be paid in cash by check mailed, in the case of direct shareholders, to the record holder by USBFS, as the Fund s dividend disbursement agent.

Unless you elect (or your broker or nominee elects) not to participate in the Plan, the number of Common Shares you will receive will be determined as follows:

(1) If Common Shares are trading at or above net asset value on the payment date, the Fund will issue new shares at the greater of (i) the net asset value per Common Share on the payment date or (ii) 95% of the market price per Common Share on the payment date; or

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(2) If Common Shares are trading below net asset value (minus estimated brokerage commissions that would be incurred upon the purchase of Common Shares on the open market) on the payment date, the Plan Agent will receive the dividend or distribution in cash and will purchase Common Shares in the open market, on the New York Stock Exchange or elsewhere, for the participants accounts. It is possible that the market price for the Common Shares may increase before the Plan Agent has completed its purchases. Therefore, the average purchase price per share paid by the Plan Agent may exceed the market price on the payment date, resulting in the purchase of fewer shares than if the dividend or distribution had been paid in Common Shares issued by the Fund. The Plan Agent will use all dividends and distributions received in cash to purchase Common Shares in the open market on or shortly after the payment date, but in no event later than the ex-dividend date for the next distribution. Interest will not be paid on any uninvested cash payments.

You may withdraw from the Plan at any time by giving written notice to the Plan Agent. If you withdraw or the Plan is terminated, you will receive a certificate for each whole share in your account under the Plan and you will receive a cash payment for any fraction of a share in your account. If you wish, the Plan Agent will sell your shares and send you the proceeds, minus brokerage commissions.

The Plan Agent maintains all shareholders accounts in the Plan and gives written confirmation of all transactions in the accounts, including information you may need for tax records. The Plan Agent will also furnish each person who buys Common Shares with written instructions detailing the procedures for electing not to participate in the Plan and to instead receive distributions in cash. Common Shares in your account will be held by the Plan Agent in non-certificated form. Any proxy you receive will include all Common Shares you have received under the Plan.

There is no brokerage charge for reinvestment of your dividends or distributions in Common Shares. However, all participants will pay a pro rata share of brokerage commissions incurred by the Plan Agent when it makes open market purchases.

Automatically reinvested dividends and distributions are taxed in the same manner as cash dividends and distributions.

The Fund and the Plan Agent reserve the right to amend or terminate the Plan. There is no direct service charge to participants in the Plan; however, the Fund reserves the right to amend the Plan to include a service charge payable by the participants. Additional information about the Plan may be obtained from the Plan Agent by writing to U.S Bancorp Fund Services, P.O Box 701, Milwaukee, Wisconsin 52301.

DESCRIPTION OF CAPITAL STRUCTURE

Common Shares

The Declaration authorizes the issuance of an unlimited number of Common Shares. The Common Shares will be issued with a par value of $.00001 per share. All Common Shares have equal rights to the payment of dividends and the distribution of assets upon liquidation. Common Shares will, when issued, be fully paid and, subject to matters discussed in Anti-Takeover and Other Provisions in the Declaration of Trust, non-assessable, and will have no pre-emptive or conversion rights or rights to cumulative voting.

The Common Shares are expected to be authorized for listing on the New York Stock Exchange, subject to notice of issuance. The Fund intends to hold annual meetings of shareholders so long as the Common Shares are listed on a national securities exchange and such meetings are required as a condition to such listing.

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The Fund s net asset value will be reduced immediately following the offering by the amount of organizational and offering expenses paid by the Fund and the sales load paid by Common Shareholders. The Manager has agreed to pay the Fund s organizational and offering costs (other than the sales load but inclusive of such $.00834 per common share partial reimbursement of underwriters expenses), to the extent such costs are in excess of $.05 per Common Share.

Unlike open-end funds, closed-end funds like the Fund do not continuously offer shares and do not provide daily redemptions. Rather, if a shareholder determines to buy additional Common Shares or sell shares already held, the shareholder may do so by trading on the exchange through a broker or otherwise. Shares of closed-end investment companies may frequently trade on an exchange at prices lower than net asset value. Shares of closed-end investment companies like the Fund that invest predominantly in debt obligations have during some periods traded at prices higher than net asset value and during other periods have traded at prices lower than net asset value. The Declaration limits the ability of the Fund to convert to open-end status. See Anti-Takeover and Other Provisions in the Declaration of Trust.

Because the market value of the Common Shares may be influenced by such factors as dividend levels (which are in turn affected by expenses), call protection, dividend stability, portfolio credit quality, net asset value, relative demand for and supply of such shares in the market, general market and economic conditions, and other factors beyond the control of the Fund, the Fund cannot assure you that the Common Shares will trade at a price equal to or higher than net asset value in the future. The Common Shares are designed primarily for long-term investors, and investors in the Common Shares should not view the Fund as a vehicle for trading purposes. See Leverage and the Statement of Additional Information under Repurchase of Common Shares; Conversion to Open-End Fund.

ANTI-TAKEOVER AND OTHER PROVISIONS IN THE DECLARATION OF TRUST

The Declaration includes provisions that could limit the ability of other entities or persons to acquire control of the Fund or to convert the Fund to open-end status. The Fund s trustees are divided into three classes. At each annual meeting of shareholders, the term of one class will expire and each trustee elected to that class will hold office for a term of three years. The classification of the Board of Trustees in this manner could delay for an additional year the replacement of a majority of the Board of Trustees. In addition, the Declaration provides that a trustee may be removed only for cause and only (i) by action of at least seventy-five percent (75%) of the outstanding shares of the classes or series of shares entitled to vote for the election of such trustee, or (ii) by at least seventy-five percent (75%) of the remaining trustees.

As described below, the Declaration grants special approval rights with respect to certain matters to members of the Board of Trustees who qualify as Continuing Trustees, which term means a trustee who either (i) has been a member of the Board of Trustees for a period of at least thirty-six months (or since the commencement of the Fund s operations, if less than thirty-six months) or (ii) was nominated to serve as a member of the Board of Trustees by a majority of the Continuing Trustees then members of the Board of Trustees.

The Declaration requires the affirmative vote or consent of at least seventy-five percent (75%) of the Board of Trustees and holders of at least seventy-five percent (75%) of the Fund s shares to authorize certain Fund transactions not in the ordinary course of business, including a merger or consolidation, issuance or transfer by the Fund of the Fund s shares (except as may be pursuant to a public offering, the Fund s dividend reinvestment plan or upon exercise of any stock subscription rights), a sale, transfer or other disposition of all or substantially all of the Fund s assets, or any shareholder proposal regarding specific investment decisions, unless the transaction is authorized by both a majority of the trustees and seventy-five percent (75%) of the Continuing Trustees (in which case no shareholder authorization would be required by the Declaration, but may be required in certain cases under the 1940 Act). The Declaration also requires the affirmative vote or consent of holders of