BABSON CAPITAL GLOBAL FLOATING RATE & INCOME FUND
Form N-2/A
August 18, 2011
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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. 1	x
Post-Effective Amendment No.	¨

REGISTRATION STATEMENT

UNDER

THE INVESTMENT COMPANY ACT OF 1940	x
Amendment No. 1	x

BABSON CAPITAL

GLOBAL FLOATING RATE & INCOME FUND

(Exact Name of Registrant as Specified in Charter)

201 South College Street, Ste. 2400

Charlotte, NC 28244

(Address of Principal Executive Offices)

[ ]

(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

Ropes & Gray LLP

Prudential Tower

800 Boylston Street

Boston, MA 02199-3600

(617) 951-7621

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):

x 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 [ ], 2011

PROSPECTUS

LOGO

[ ] Shares

Babson Capital Global Floating Rate & Income Fund

Common Shares

$[ ] per share

The Fund. Babson Capital Global Floating Rate & Income Fund (the Fund) is a newly organized, non-diversified, closed-end management investment company. Babson Capital Management LLC (Babson Capital or the Manager) will serve as the Fund s investment adviser. Babson Capital Global Advisers Limited (Babson Capital U.K. or the Subadviser), an indirect, wholly-owned subsidiary of Babson Capital, will serve as a subadviser with respect to the Fund s European investments.

No Prior History. Because the Fund is newly 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.** The common shares are expected to be listed on the New York Stock Exchange, subject to notice of issuance, under the symbol [ ].

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 investment objective.

Principal Investments. Under normal market conditions, the Fund will invest at least 80% of its managed assets in floating rate instruments and other income-producing instruments, including secured and unsecured loans and bonds. The Fund expects to invest primarily in first and second lien secured loans and secured bonds of North American and Western European corporate issuers that are of below investment grade quality. The Fund expects that, under current market conditions, it will seek to hedge substantially all of its exposure to foreign currencies.

Loans and other debt securities of below investment grade quality 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 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. Due to the risks involved in investing in high yield securities and derivatives instruments, an investment in the Fund should be considered speculative.

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Investing in the Fund s common shares involves certain risks. See Risks beginning on page [26] of this prospectus. There can be no assurance that the Fund will achieve its investment objectives.

	Per Share	Total
Public Offering Price	$ [ ]	$ [ ]
Sales Load (1)	$ [ ]	$ [ ]
Estimated Offering Expenses (2)	$ [ ]	$ [ ]
Proceeds to the Fund (3)	$ [ ]	$ [ ]

(notes continued on following page)

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.

The underwriters expect to deliver the Fund s common shares to purchasers on or about [ ], 2011.

[[Underwriters]]

The date of this prospectus is [ ], 2011.

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(notes continued from previous page)

(1) The underwriters have the option to purchase up to [ ] additional common shares at the public offering price, less the sales load, within 45 days after the date of this prospectus, solely to cover over-allotments, if any. If that option is exercised in full, the total Public Offering Price, Sales Load, Estimated Offering Expenses and Proceeds to the Fund, will be $[ ], $[ ], $[ ] and $[ ], respectively. See Underwriting.

(2) [[The Manager (and not the Fund) has agreed to pay from its own assets a [ ] fee to [ ]. See Underwriting. That fee is not reflected in the table above.]]

(3) [[The Fund will pay or reimburse organization and offering expenses estimated at $[ ] from the proceeds of the offering. The Manager has agreed to pay (i) the amount by which the Fund s offering costs (other than the sales load) exceed $[ ] per share and (ii) all of the Fund s organizational expenses, except that the Fund has agreed to reimburse the Manager for such organizational expenses to the extent that the aggregate of all such organizational expenses and all offering costs (other than the sales load) does not exceed $[ ] per share.**]]**

(continued from previous page)

Portfolio Management Strategies. The Fund will seek to take advantage of inefficiencies between geographies, primarily the North American and Western European high yield loan and bond markets and within capital structures between secured loans and secured bonds. For example, the Fund will seek to take advantage of differences in pricing between loans of an issuer denominated in U.S. dollars and substantially similar loans 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 68 professionals worldwide dedicated to high yield investing, including 43 professionals in the United States and 25 professionals in Europe. Babson Capital takes a credit-intensive approach when selecting assets for the Fund. It 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 credit market conditions change.

The Fund will seek to buy issues 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.

Portfolio Contents. As noted above, the Fund will invest primarily in secured loans, secured bonds or other income-producing instruments. The Fund may invest in both floating rate and fixed rate instruments; listed and unlisted corporate debt obligations; convertible securities; collateralized debt, bond and loan obligations; bank obligations; U.S. government securities, and debt issued by or on behalf of states, territories, and possessions of the United States (including the District of Columbia); 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 loans and bonds. 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 credit default swaps and foreign currency forward contracts and futures.

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Leverage. As soon as reasonably practicable following the completion of the initial public offering of the Fund s common shares, the Fund intends, subject to favorable market conditions, to add leverage to its portfolio, such that the leverage obtained represents approximately [ ]% of the Fund s total assets (including the assets obtained through leverage). The Fund may obtain leverage through borrowings, such as through bank loans 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 will limit its use of leverage such that the proceeds therefrom to the Fund will not exceed [[38%]] of the Fund s total assets (including the assets obtained through the use of such instruments) at the time used. The Investment Company Act of 1940, as amended (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. 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 [ ], 2011 (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 [47] of this prospectus, by calling [ ] (toll-free) or by writing to [ ], 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.[ ].com), which also provides a link to the SEC s website where the Fund s Statement of Additional Information can be obtained, or call [ ] (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 will amend this prospectus if, during the period this prospectus is required to be delivered, there are any material changes to the Fund subsequent to the date of this prospectus.

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PROSPECTUS SUMMARY

This is only a summary. You should review the more detailed information contained in this prospectus and in the Statement of Additional Information.

The Fund	Babson Capital Global Floating Rate & Income Fund is a newly organized, non-diversified, closed-end management investment company. See The Fund.
The Offering	The Fund is offering [ ] common shares at an initial public offering price of $[ ] per share through a group of underwriters (the Underwriters) led by [ ] ([ ]). 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 to cover orders in excess of [ ] Common Shares, which are referred to as over-allotments. See Underwriting. [[Babson Capital has agreed to pay (i) the amount by which the Fund s offering costs (other than the sales load) exceed $[ ] per share and (ii) all of the Fund s organizational expenses, except that the Fund has agreed to reimburse Babson Capital for such organizational expenses to the extent that the aggregate of all such organizational expenses and all offering costs (other than the sales load) does not exceed $[ ] per share.]]
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 of the Fund. *Portfolio Management Strategies*. The Fund intends to achieve its investment objectives by investing opportunistically in a diverse portfolio of North American and non-North American (primarily Western European) secured loans and secured bonds, principally of below investment grade quality. The Fund will seek to take advantage of inefficiencies between geographies, primarily the North American and Western European high yield loan and bond markets and within capital structures between secured loans and secured bonds. For example, the Fund will seek to take advantage of differences in pricing between loans of an issuer denominated in U.S. dollars and substantially similar loans 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 68 professionals worldwide dedicated to high yield investing, including 43 professionals in the United States and 25 professionals in Europe. Under normal market conditions, the Fund will invest at least 80% of its Managed Assets (as defined below) in floating rate instruments and other income-producing instruments, including secured and unsecured loans and bonds. The Fund expects to invest primarily in first and second lien secured loans and secured bonds of North American and Western European corporate issuers that are, at the time of purchase, rated below investment grade by at least one rating agency (below Baa by Moody s Investors Service, Inc. (Moody s), or below BBB by either Standard & Poor s (S&P) or Fitch, Inc. (Fitch)) or unrated but judged by the Manager or the Subadviser to be of comparable quality. Managed Assets are the total assets of the Fund (including any assets attributable to leverage) minus the sum of the Fund s accrued liabilities (other than liabilities incurred for the purpose of leverage). The Fund also may use credit default swaps to hedge credit exposure to particular issuers. 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) will 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.

Babson Capital takes a credit-intensive approach when selecting assets for the Fund. It 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 credit market conditions change.

The Fund will seek to buy issues 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.

Credit Quality. The Fund may invest without limit in debt securities that are, at the time of purchase, rated below investment grade by at least one rating agency (below Baa by Moody s, or below BBB by either S&P or Fitch) or unrated but judged by the Manager or the Subadviser to be of comparable quality, and is not subject to any investment limitation based on credit ratings. Debt securities of below investment grade quality 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. Debt securities in the lowest investment grade category also may be considered to posses some speculative characteristics.

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 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 loans and bonds.

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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 Issuer 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.

Currency Hedging. 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.

Portfolio Contents. The Fund will invest primarily in secured loans (including assignments and participations), secured bonds and other income-producing instruments of North American and Western European issuers. The Fund may invest in both floating rate and fixed rate instruments; listed and unlisted corporate debt obligations; convertible securities; collateralized debt, bond and loan obligations; bank obligations; U.S. government securities, and debt issued by or on behalf of states, territories, and possessions of the United States (including the District of Columbia); 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, and may include distressed and defaulted loans and bonds. The Fund also may invest in equity securities incidental to the purchase or ownership of debt 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 credit default swaps and foreign currency forward contracts and futures.

Leverage

As soon as reasonably practicable following the completion of the initial public offering of the Common Shares, the Fund intends, subject to favorable market conditions, to add leverage to its portfolio, such that the leverage obtained represents approximately [ ]% of the Fund s total assets (including the assets obtained through leverage). 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 will limit its use of leverage such that the proceeds therefrom to the Fund will not exceed [[38%]] of the Fund s total assets (including the assets obtained through the use of such instruments) at the time used. The Investment Company Act of 1940, as amended (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. 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.

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There can be no assurance that the Fund will use leverage. If used, there can be no assurance that the Fund s leveraging strategies will be successful. 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 objective 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 so, 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.

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 Subadviser are based on the total managed assets of the Fund (including assets attributable to leverage), the Manager and the Subadviser have a financial incentive for the Fund to use leverage, which may create a conflict of interest between the Manager and the Subadviser, on the one hand, and the Common Shareholders, on the other hand.

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 of the Fund, 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 quarterly, in an amount equal to [ ]% of the Fund s average daily Managed Assets. Babson Capital s principal office is located at 201 South College Street, Suite 2400, Charlotte, NC 28244. Founded in 1940, Babson Capital is a global firm with investment operations in the United States, the United Kingdom, and Australia and approximately 800 associates, including 300 investment professionals as of March 31, 2011. Babson Capital has provided investment advice to individual and institutional investors for more than 70 years and had assets under management as of March 31, 2011 of more than $[[133]] billion.

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

Subadviser

Babson Capital U.K. will serve as the Fund s subadviser responsible for managing the Fund s European investments. Subject to the supervision of the Manager, the Subadviser has full investment discretion and makes all determinations with respect to the Fund s European investments. From time to time, the Manager may delegate to Babson Capital U.K. responsibility for managing the Fund s investments in other non-North American countries.

Babson Capital U.K. is a newly formed investment adviser [registered with the SEC in the United States and the Financial Services Authority in the United Kingdom] whose principal offices are located at 61 Aldwych, London, United Kingdom WC2B 4AE. Babson Capital U.K. is an indirect, wholly-owned subsidiary of Babson Capital Europe

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	Limited, 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 Limited provides investment advisory services to private accounts of institutional and family office clients. As of March 31, 2011, Babson Capital Europe Limited. had approximately [[6.6]] billion in assets under management. The Manager (and not the Fund) will pay a portion of the fees it receives to Babson Capital U.K. in return for Babson Capital U.K. s services.
Distributions	Commencing with the Fund s first dividend, the Fund intends to make regular monthly cash distributions to Common Shareholders at a level 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. 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. Distributions of investment income generally will be taxed at ordinary income rates. The Fund does not expect a significant portion of Fund distributions to be derived from qualified dividend income, which could be taxed for individuals at rates applicable to long-term capital gain. See Tax Matters. 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 [ ]. See Description of Shares Common Shares.
Custodian, Administrator and Transfer Agent	[ ] will serve as custodian of the Fund s assets. [ ] will serve as the Fund s administrator, transfer and dividend disbursement agent. See Custodian, Administrator and Transfer Agent.
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 organization and offering expenses paid by the Fund and will not include 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 levels (which are 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 Shares 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 newly organized, non-diversified, closed-end management investment company with no history of operations.

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, will not include 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.

Credit Risk/High Yield 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 interest or principal when due, because the issuer of the obligation experiences an actual or perceived decline in its financial status. The Fund expects to invest primarily in first and second lien secured loans and secured bonds of corporate issuers that are, at the time of purchase, rated below investment grade by at least one rating agency (below Baa by Moody s, or below BBB by either S&P or Fitch) or unrated but judged by the Manager or the Subadviser 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. Below investment grade debt instruments are considered predominantly speculative by traditional investment standards. 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

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and interest 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 Subadviser 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 Subadviser 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 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.

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 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 Subadviser s credit analysis than would be the case with investments in investment-grade instruments. The Manager and the Subadviser 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.

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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 substantially 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 fund 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 may be subject to the credit risk of the selling institution as well as that of the borrower. The Manager s and the Subadviser 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 is 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.

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. 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 substantially lower for floating-rate instruments than for fixed-rate debt obligations.

Leverage Risk. The Fund s use of leverage (as described under Leverage in the body of this prospectus) creates the opportunity for increased Common Share net income, but also 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 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. So long as the Fund s portfolio investments provide a higher rate of return (net of applicable Fund expenses) than the interest rates and other costs to the Fund of such leverage, the investment of the proceeds thereof will generate more income than will be needed to pay the costs of the leverage. If so, the excess will be used to pay higher dividends to Common Shareholders than if the Fund were not so leveraged. 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 (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, there can be no assurance that the Fund s use of leverage will result in a higher yield on the Common Shares. 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; and

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.

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. The Fund may invest in securities issued by companies in a bankruptcy reorganization proceeding, subject to some other form of a public or private debt restructuring or otherwise 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 seeks capital appreciation through investment 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. 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

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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. Foreign settlement procedures also may involve additional risks.

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 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 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.

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.

Liquidity Risk. The Fund may invest without limit 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.

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.