BARINGS GLOBAL SHORT DURATION HIGH YIELD FUND
Form N-CSR
March 08, 2019

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM N-CSR

CERTIFIED SHAREHOLDER REPORT OF REGISTERED

MANAGEMENT INVESTMENT COMPANIES

811-22562

Investment Company Act file number

Barings Global Short Duration High Yield Fund

(Exact name of registrant as specified in charter)

300 South Tryon Street, Suite 2500, Charlotte, NC 28202

(Address of principal executive offices) (Zip code)

Janice M. Bishop

Secretary and Chief Legal Officer

c/o Barings LLC

Independence Wharf

470 Atlantic Avenue

Boston, MA 02210

(Name and address of agent for service)

704-805-7200

Registrant s telephone number, including area code

Date of fiscal year end: December 31, 2018

Date of reporting period: December 31, 2018

Item 1. Reports to Stockholders.

Barings Global Short Duration High Yield Fund

c/o Barings LLC

300 S Tryon St.

Suite 2500

Charlotte, NC 28202

704.805.7200

http://www.Barings.com/bgh

ADVISER

Barings LLC

300 S Tryon St.

Suite 2500

Charlotte, NC 28202

SUB-ADVISOR

Baring International Investment Limited

20 Old Bailey

London EC4M 78F UK

COUNSEL TO THE FUND

Ropes & Gray LLP

Prudential Tower

800 Boylston Street

Boston, Massachusetts 02110

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Deloitte & Touche LLP

30 Rockefeller Plaza

New York, NY 10112

CUSTODIAN

US Bank

MK-WI-S302

1555 N. River Center Drive

Milwaukee, WI 53212

TRANSFER AGENT & REGISTRAR

U.S. Bancorp Fund Services, LLC

615 E. Michigan St.

Milwaukee, WI 53202

FUND ADMINISTRATION/ACCOUNTING

U.S. Bancorp Fund Services, LLC

615 E. Michigan St.

Milwaukee, WI 53202

PROXY VOTING POLICIES & PROCEDURES

The Trustees of Barings Global Short Duration High Yield Fund (the Fund) have delegated proxy voting responsibilities relating to the voting of securities held by the Fund to Barings LLC (Barings). A description of Barings proxy voting policies and procedures is available (1) without charge, upon request, by calling, toll-free 1-866-399-1516; (2) on the Fund s website at http://www.barings.com/bgh; and (3) on the U.S. Securities and Exchange Commission s (SEC) website at http://www.sec.gov.

FORM N-Q

The Fund will file its complete schedule of portfolio holdings with the SEC for the first and third quarters of each fiscal year on Form N-Q or Part F of Form N-PORT (beginning with filings after March 31, 2019). This information is available (1) on the SEC s website at http://www.sec.gov; and (2) at the SEC s Public Reference Room in Washington, DC (which information on their operation may be obtained by calling 1-800-SEC-0330). A complete schedule of portfolio holdings as of each quarter-end is available on the Fund s website at http://www.barings.com/bgh or upon request by calling, toll-free, 1-866-399-1516.

CERTIFICATIONS

The Fund s President has submitted to the NYSE the annual CEO Certification as required by Section 303A.12(a) of the NYSE Listed Company Manual.

LEGAL MATTERS

The Fund has entered into contractual arrangements with an investment adviser, transfer agent and custodian (collectively service providers) who each provide services to the Fund. Shareholders are not parties to, or intended beneficiaries of, these contractual arrangements, and these contractual arrangements are not intended to create any shareholder right to enforce them against the service providers or to seek any remedy under them against the service providers, either directly or on behalf of the Fund.

Under the Fund s Bylaws, any claims asserted against or on behalf of the Fund, including claims against Trustees and officers must be brought in courts located within the Commonwealth of Massachusetts.

The Fund s registration statement and this shareholder report are not contracts between the Fund and its shareholders and do not give rise to any contractual rights or obligations or any shareholder rights other than any rights conferred explicitly by federal or state securities laws that may not be waived.

OFFICERS OF THE FUND

Sean Feeley

President

Carlene Pollock

Chief Financial Officer

Lesley Mastandrea

Treasurer

Michael Freno

Vice President

Scott Roth

Vice President

Melissa LaGrant

Chief Compliance Officer

Janice Bishop

Secretary/Chief Legal Officer

Michele Manha

Assistant Secretary

Barings Global Short Duration High Yield Fund is a closed-end investment company, first offered to the public in 2012, whose shares are traded on the New York Stock Exchange.

INVESTMENT OBJECTIVE & POLICY

Barings Global Short Duration High Yield Fund (the Fund) was organized as a business trust under the laws of the Commonwealth of Massachusetts. The Fund is registered under the Investment Company Act of 1940, as amended, as a diversified, closed-end management investment company with its own investment objective. The Fund s common shares are listed on the New York Stock Exchange under the symbol BGH .

The Fund s primary investment objective is to seek as high a level of current income as the Adviser (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.

The Fund seeks 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 seeks 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.

Dear Fellow Shareholders,

We are pleased to provide you with the 2018 Annual Report for the Barings Global Short Duration High Yield Fund (the Fund) to recap portfolio performance and positioning. We would like to remind shareholders that we continue to believe our Global High Yield Investments Group (the Group) is one of the largest teams in the market primarily focused on North American and Western European credits. Utilizing the Group s expertise, deep resources and time-tested process, we continue to believe we can provide investors an attractive level of current income by uncovering compelling opportunities across the global high yield market.

The Fund s strategy, primarily focusing on North American and Western European high yield credits, may provide investors with additional benefits compared to a U.S.-only portfolio such as additional diversification, higher credit quality, increased yield and lower duration. More importantly, the global strategy provides flexibility to dynamically shift the geographical weighting in order to capture, in our opinion, the best risk-adjusted investment opportunities. This strategy also focuses closely on limiting the duration of the Fund while maintaining what we consider a reasonable amount of leverage.

Market Review

For much of the year, the global high yield bond market generated a positive return on the back of stable economic growth, low inflation, and solid corporate fundamentals. During the fourth quarter, a bout of volatility across asset classes drove markets lower, with the high yield market ending the year negative. While declines in crude oil prices contributed to negative performance in the energy sector, the late period sell-off was more technical in nature as negative investor sentiment was exacerbated by global trade tensions, Federal Reserve policy and ongoing Brexit negotiations. Notwithstanding this negative sentiment, corporate balance sheets remained stable and the underlying fundamental picture remained sound.

In the U.S. high yield bond market, the automotive sector was the most significant underperformer during the year, followed by the energy sector, which was driven by the above-mentioned crude oil price volatility. Sectors with positive returns at year-end were led by health care, followed by telecommunications and utilities. As volatility spiked later in the year, the market became notably more risk averse, which led the CCC-rated portion of the market to underperform relative to B-rated and BB-rated. The option-adjusted spread and the yield-to-worst widened to end at 540 basis points (bps) and 8.01%, respectively, the highest since mid-2016. Yearly gross high yield new issuance was down 43% year-over-year with $168.3 billion pricing, while new issuance net of refinancing totaled $64.1 billion. U.S. high yield mutual funds saw outflows of $45.1 billion in 2018, and fund flows continue to be a significant driver of market moves. The par-weighted U.S. high yield default rate was up slightly to end the year; however, it was still below historical averages at 1.81%.

The European high yield bond market generated a negative return during the year, driven by a particularly volatile fourth quarter which declined in tandem with equity markets. Similarly to the U.S. high yield market, CCC-rated were a key driver of the underperformance, as a general risk-averse sentiment resulted in the category materially underperforming the higher rated portions of the market. Across sectors, basic industry was the worst performing sector, followed by the retail sector. The technology, health care and media sectors each generated modest positive returns during the year. European high yield bond new issuance was down from the 2017 record high, but still managed to finish with the fifth highest annual total on record. Gross new issuance finished the period with 63.5 billion pricing, while issuance net of refinancing finished at 29.8 billion. The option-adjusted spread widened year-over-year to end at 524 bps while the yield-to-worst widened to 5.07%. The European high yield default rate remains at historic lows and corporate fundamentals displayed stability during the year.

Barings Global Short Duration High Yield Fund Overview and Performance

The Fund ended December with a portfolio of 157 issuers, which is an increase from 144 issuers at the beginning of the year. A majority of the issuers continue to be domiciled in the U.S. (74.2%), with the U.K. (9.9%) and the Netherlands (2.6%) representing the next largest country exposures see Country Composition chart on page 4. From a geographic standpoint, exposure to U.S.-domiciled companies increased marginally over the course of the year, and exposure to foreign issuers decreased. While the Fund maintained a meaningful presence in the Western European market, finding attractive relative value opportunities in the U.S. market has generally been more favorable, mainly due to the larger opportunity set for idea sourcing. While Western Europe has a smaller market size, this region continues to be a core part of the portfolio and offers global diversification, reduced duration and higher quality relative to the U.S., and potentially attractive yield opportunities.

As of December 31, 2018, the Fund remained, in our view, well positioned across the credit quality spectrum: 17.0% BB-rated and above, 60.4% B-rated, and 15.9% CCC-rated and below, with over 48% of the portfolio consisting of senior secured corporate obligations. The credit quality of the Fund s underlying holdings changed since the beginning of the year, with a decrease in BB-rated and above credits, an over 10% increase in B-rated credits, and a minor decrease in CCC-rated and below credits. Non-publicly rated securities represented 6.8% of the Fund s market value[1].

The Fund paid 12 consecutive monthly dividend payments of $0.1482 per share during the year. In total for 2018, the Fund paid investors $1.78 per share, which we believe is an attractive level of yield for a global short duration high yield bond fund, given today s low interest rate environment. The Fund s share price and net asset value (NAV) ended the reporting period at $15.95 and $18.28, respectively, representing a 12.75% discount to NAV. Based on the Fund s share price and NAV on December 31, 2018, the Fund s market price and NAV distribution rates using the most recent monthly dividend were 11.15% and 9.73%, respectively, on an annualized basis. Assets acquired through leverage, which represented 29.75% of the Fund s total assets at the end of December, were accretive to net investment income and benefited shareholders.

On a full year 2018 basis, the NAV total return was -3.42%, underperforming the global high yield bond market, as measured by the Bank of America/Merrill Lynch Non-Financial Developed Markets High Yield Constrained Index (HNDC), which returned -1.98%. From a market value perspective, the total return for 2018 was -9.38%.[2]

In Conclusion

We believe that the volatility and sentiment in the high yield market was driven by several factors, including trade wars, Brexit and monetary policy. However, on a fundamental basis, we believe corporate high yield issuers continue to generate modest top and bottom-line growth, with leverage remaining at healthy and sustainable levels. Default rates are below historical averages and we expect this to continue into 2019. While crude oil prices and geopolitical events may continue to cause further market price volatility, we believe this represents an attractive opportunity for investors in high yield.

At Barings, we seek to remain steadfast in our approach to fundamental bottom-up research. By focusing on corporate fundamentals, we primarily seek to preserve investor capital with a value-oriented mindset to opportunistically invest in companies that may be experiencing unnecessary technical pressures through market or economic cycles. We take a long-term view on investing and adhere to a disciplined, repeatable investment process that is deeply rooted across a large research team to help identify unique investment opportunities across the global high yield market.

On behalf of the Barings team, we appreciate your continued trust in our ability to help you achieve your long-term investment goals.

Sincerely,

Sean Feeley

President

1. Ratings are based on Moody s, S&P and Fitch. If securities are rated differently by the rating agencies, the higher rating is applied and all ratings are converted to the equivalent Moody s major rating category for purposes of the category shown. Credit ratings are based largely on the rating agency s investment analysis at the time of rating, and the rating assigned to any particular security is not necessarily a reflection of the issuer s current financial condition. The rating assigned to a security by a rating agency does not necessarily reflect its assessment of the volatility of a security s market value or the liquidity of an investment in the security. Ratings of Baa3 or higher by Moody s, and BBB- or higher by S&P and Fitch are considered to be investment grade quality.

2. **Past performance is not necessarily indicative of future results. Current performance may be lower or higher.** All performance is net of fees, which is inclusive of advisory fees, administrator fees and interest expense.

The statements and opinions expressed are those of the author as of the date of this report. All information is historical and not indicative of future results and subject to change. This information is not a recommendation to buy or sell any security.

PORTFOLIO COMPOSITION (% OF ASSETS*)

*The percentages shown above represent a percentage of the assets as of December 31, 2018.

COUNTRY COMPOSITION (% OF ASSETS*)

*The percentages shown above represent a percentage of the assets as of December 31, 2018.

FINANCIAL REPORT

Statement of Assets and Liabilities	6
Statement of Operations	7
Statement of Cash Flows	8
Statement of Changes in Net Assets	9
Financial Highlights	10
Schedule of Investments	11-21
Notes to the Financial Statements	22-31
Report of Independent Registered Public Accounting Firm	32
Results of Shareholder Meeting	33
Interested Trustee	34
Independent Trustees	35-36
Officers of the Trust	37-38
Approval of Investment Management Agreement and Sub-Advisory Agreement	39-40
Fund Dividend Reinvestment Plan	41
Joint Privacy Notice	42

STATEMENT OF ASSETS AND LIABILITIES

		DECEMBER 31, 2018
Assets		
Investments, at fair value (cost $553,033,464)	$	511,828,483
Cash		7,064,903
Foreign currency, at fair value (cost $60,473)		60,941
Interest receivable		9,383,825
Prepaid expenses and other assets		50,470
Total assets		**528,388,622**
Liabilities		
Note payable		157,200,000
Dividend payable		2,972,573
Payable to Adviser		461,200
Unrealized depreciation on forward foreign exchange contracts		730,196
Accrued expenses and other liabilities		333,276
Total liabilities		**161,697,245**
Total net assets	**$**	**366,691,377**
Net Assets:		
Common shares, $0.00001 par value	$	201
Additional paid-in capital		468,758,610
Accumulated losses		(102,067,434)
Total net assets	**$**	**366,691,377**
Common shares issued and outstanding (unlimited shares authorized)		**20,057,849**
Net asset value per share	**$**	**18.28**

See accompanying Notes to the Financial Statements.

6

STATEMENT OF OPERATIONS

		YEAR ENDED DECEMBER 31, 2018
Investment Income		
Interest income	$	49,976,523
Other income		200,186
Total investment income		**50,176,709**
Operating Expenses		
Advisory fees		5,745,725
Interest expense		5,238,936
Administrator fees		507,349
Professional fees		163,536
Directors fees		112,116
Printing and mailing expense		60,794
Pricing expense		12,000
Other operating expenses		141,494
Total operating expenses		**11,981,950**
Net investment income		**38,194,759**
Realized and Unrealized Gains (Losses) on Investments		
Net realized loss on investments		(33,473,389)
Net realized gain on forward foreign exchange contracts		4,842,399
Net realized gain on foreign currency and translation		3,625
Net realized loss on investments		(28,627,365)
Net change in unrealized depreciation of investments		(25,278,301)
Net change in unrealized appreciation of forward foreign exchange contracts		180,218
Net change in unrealized depreciation of foreign currency and translation		(30,643)
Net change in unrealized depreciation on investments		(25,128,726)
Net realized and unrealized losses on investments		**(53,756,091)**
Net decrease in net assets resulting from operations	**$**	**(15,561,332)**

See accompanying Notes to the Financial Statements.

STATEMENT OF CASH FLOWS

		YEAR ENDED DECEMBER 31, 2018
Reconciliation of net decrease in net assets resulting from operations to net cash provided by operating activities		
Net decrease in net assets applicable to common shareholders resulting from operations	$	(15,561,332)
Adjustments to reconcile net decrease in net assets applicable to common shareholders resulting from operations to net cash provided by operating activities:		
Purchases of long-term investments		(282,717,083)
Proceeds from sales of long-term investments		273,277,378
Proceeds from sales of foreign currency, net		378,319
Forward currency exchange contracts, net		(180,218)
Net unrealized depreciation		25,285,280
Net realized loss		33,473,389
Amortization and accretion		(1,208,359)
Changes in operating assets and liabilities:		
Decrease in interest receivable		52,452
Increase in prepaid expenses and other assets		(23,623)
Decrease in payable for investments purchased		(4,598,314)
Decrease in payable to Adviser		(23,335)
Decrease in accrued expenses and other liabilities		(17,427)
Net cash provided by operating activities		**28,137,127**
Cash flows from financing activities		
Advances from credit facility		45,000,000
Repayments on credit facility		(38,000,000)
Distributions paid to common shareholders		(35,775,179)
Net cash used in financing activities		**(28,775,179)**
Net change in cash		(638,052)
Cash beginning of year		7,702,955
Cash end of year	**$**	**7,064,903**
Supplemental disclosure of cash flow information		
Income taxes paid	$	

Interest paid	5,017,187

See accompanying Notes to the Financial Statements.

STATEMENTS OF CHANGES IN NET ASSETS

	YEAR ENDED DECEMBER 31, 2018	YEAR ENDED DECEMBER 31, 2017
Operations		
Net investment income	$ 38,194,759	$ 39,297,257
Net realized loss on investments	(28,627,365)	(5,180,818)
Net unrealized appreciation (depreciation) on investments	(25,128,726)	2,116,320
Net increase (decrease) in net assets resulting from operations	**(15,561,332)**	**36,232,759**
Dividends to Common Shareholders		
From distributable earnings	(35,670,878)	(32,762,778)(1)
Return of capital		(4,159,710)
Total dividends to common shareholders	**(35,670,878)**	**(36,922,488)**
Total decrease in net assets	**(51,232,210)**	**(689,729)**
Net Assets		
Beginning of year	417,923,587	418,613,316
End of year	**$ 366,691,377**	**$ 417,923,587**(2)

(1) For the year ended December 31, 2017, the source of distributions was from net investment income. The current year presentation of distributions conforms with the Disclosure Update and Simplification issued by the Securities and Exchange Commission. See Note 2M.

(2) Includes dividends in excess of net investment income of $(19,983). The requirement to disclose the corresponding amount as of December 31, 2018 was eliminated.

See accompanying Notes to the Financial Statements.

FINANCIAL HIGHLIGHTS

	YEAR ENDED DECEMBER 31, 2018	YEAR ENDED DECEMBER 31, 2017	YEAR ENDED DECEMBER 31, 2016	YEAR ENDED DECEMBER 31, 2015	YEAR ENDED DECEMBER 31, 2014
Per Common Share Data					
Net asset value, beginning of year	$ 20.84	$ 20.87	$ 18.47	$ 22.00	$ 25.24
Income from investment operations:					
Net investment income	1.89	1.77	1.57	1.90	2.12
Net realized and unrealized gains (losses) on investments	(2.67)	0.04	2.68	(3.23)	(2.76)
Total increase (decrease) from investment operations	**(0.78)**	**1.81**	**4.25**	**(1.33)**	**(0.64)**
Less dividends to common shareholders:					
Net investment income	(1.78)	(1.63)	(1.60)	(2.20)	(2.56)
Net realized gain					(0.04)
Return of capital		(0.21)	(0.25)		
Total dividends to common shareholders	**(1.78)**	**(1.84)**	**(1.85)**	**(2.20)**	**(2.60)**
Net asset value, end of year	$ 18.28	$ 20.84	$ 20.87	$ 18.47	$ 22.00
Per common share market value, end of year	$ 15.95	$ 19.38	$ 19.23	$ 16.49	$ 20.19
Total investment return based on net asset value (1)	**(3.42)%**	**9.40%**	**25.42%**	**(5.57)%**	**(2.25)%**
	(9.38)%	**10.41%**	**29.44%**	**(8.13)%**	**(2.06)%**

Total investment return based on market value [(1)]					
Supplemental Data and Ratios					
Net assets, end of year (000 s)	$ 366,691	$ 417,924	$ 418,613	$ 370,418	$ 441,234
Ratio of expenses (before reductions and reimbursements) to average net assets	2.93%	2.33%	2.05%[(2)]	2.27%	2.20%
Ratio of expenses (after reductions and reimbursements) to average net assets	2.93%	2.33%	1.78%	2.27%	2.20%
Ratio of net investment income (before reductions and reimbursements) to average net assets	9.34%	9.20%	10.68%[(2)]	9.18%	8.47%
Ratio of net investment income (after reductions and reimbursements) to average net assets	9.34%	9.20%	10.41%	9.18%	8.47%
Portfolio turnover rate	48.92%	36.59%	44.81%	38.13%	63.66%

(1) Total investment return calculation assumes reinvestment of dividends at actual prices pursuant to the Fund s dividend reinvestment plan. Total investment return does not reflect brokerage commissions.

(2) The Adviser contractually waived a portion of its management and other fees equal to an annual rate of 0.275% of the Fund s managed assets for a period of one year ended December 31, 2016.

See accompanying Notes to the Financial Statements.

SCHEDULE OF INVESTMENTS

December 31, 2018

	SHARES	COST	FAIR VALUE
Equities 4.18%*:			
Common Stocks 4.09%*:			
Boomerang Tube Holdings, Inc.¤	36,149,532	$3,510,832	$3,514,819
Fieldwood Energy LLC	167,574	4,057,567	6,032,664
Jupiter Resources Inc.	1,171,624	5,662,541	4,979,674
Sabine Oil & Gas LLC¤	4,262	248,858	187,528
Templar Energy LLC¤	86,570	865,704	216,426
Templar Energy LLC¤	135,392	734,072	81,235
Total Common Stocks	37,714,954	15,079,574	15,012,346
Preferred Stocks 0.04%*:			
Pinnacle Operating Corp.¤	1,368,352	643,125	136,835
Total Preferred Stocks	1,368,352	643,125	136,835
Warrants 0.05%*:			
Appvion Holdings Corp.¤	12,892	137,281	137,279
Appvion Inc.¤	12,892		
Sabine Oil & Gas LLC¤	13,512	60,669	20,268
Sabine Oil & Gas LLC	2,407	6,547	12,035
Total Warrants	41,703	204,497	169,582
Total Equities	39,125,009	15,927,196	15,318,763

	EFFECTIVE INTEREST RATE	DUE DATE	PRINCIPAL	COST	FAIR VALUE
Fixed Income 135.40%*:					
Asset-Backed Securities 7.30%*:					
CDO/CLO 7.30%*:					
Anchorage Capital CLO LTD 2015-6A, 3M LIBOR + 6.350%^~	8.79%	7/15/2030	600,000	$613,617	$559,681

Anchorage Capital CLO LTD 2016-9A, 3M LIBOR + 7.250%^~	9.69	1/15/2029	1,500,000	1,543,538	1,499,874
BlueMountain CLO LTD 2018-23A, 3M LIBOR + 5.650%^~	8.11	10/20/2031	1,000,000	1,000,000	897,469
Carbone CLO, LTD 2017-1A, 3M LIBOR + 5.900%^~	8.37	1/20/2031	750,000	750,000	679,088
Carlyle Global Market Strategies 2013-3A, 3M LIBOR + 7.750%^~	10.19	10/15/2030	1,000,000	1,000,000	908,214
Carlyle Global Market Strategies 2017-5A, 3M LIBOR + 5.300%^~	7.77	1/20/2030	700,000	700,000	615,777
Cedar Funding LTD 2016-6A, 3M LIBOR + 5.900%^~	8.37	10/20/2028	2,500,000	2,500,000	2,487,500
Galaxy CLO Ltd 2017-24A, 3M LIBOR + 5.500%^~	7.94	1/15/2031	1,000,000	1,000,000	880,977
GoldenTree Loan Management 2018-3A, 3M LIBOR + 6.500%^~	8.97	4/22/2030	1,500,000	1,413,479	1,262,769

See accompanying Notes to the Financial Statements.

Barings Global Short Duration High Yield Fund 2018 Annual Report

SCHEDULE OF INVESTMENTS (CONTINUED)

December 31, 2018

	EFFECTIVE INTEREST RATE	DUE DATE	PRINCIPAL	COST	FAIR VALUE
Fixed Income (Continued)					
Asset-Backed Securities (Continued)					
CDO/CLO (Continued)					
GoldenTree Loan Opportunities XI Ltd 2015-11A, 3M LIBOR + 5.400%^~	7.84%	1/18/2031	500,000	$500,000	$442,453
KKR Financial CLO Ltd 2017-20, 3M LIBOR + 5.500%^~	7.94	10/16/2030	1,500,000	1,500,000	1,304,296
Madison Park Funding Ltd 2015-19A, 3M LIBOR + 4.350%^~	6.82	1/22/2028	1,000,000	1,000,000	887,336
Madison Park Funding Ltd 2016-22, 3M LIBOR + 6.650%^~	9.14	10/25/2029	1,000,000	1,026,743	966,358
Madison Park Funding Ltd 2016-24, 3M LIBOR + 7.150%^~	9.62	1/20/2028	1,000,000	1,036,558	999,828
Madison Park Funding Ltd 2018-29A, 3M LIBOR + 7.570%^~#	9.82	10/18/2030	2,000,000	1,960,000	1,759,958
Magnetite CLO LTD 2016-18A, 3M LIBOR + 7.600%^~	10.22	11/15/2028	1,400,000	1,386,000	1,280,005
OHA Credit Partners LTD 2015-11A, 3M LIBOR + 7.900%^~	10.40	1/20/2032	2,000,000	1,970,323	1,751,090
OHA Loan Funding LTD 2013-1A, 3M LIBOR + 7.900%^~	10.38	7/23/2031	1,500,000	1,477,500	1,349,275
Sound Point CLO LTD 2017-4A, 3M LIBOR + 5.500%^~	7.97	1/21/2031	2,000,000	2,000,000	1,760,828
Steele Creek CLO Ltd 2017-1A, 3M LIBOR + 6.200%^~	8.64	10/15/2030	800,000	800,000	715,041
Voya CLO Ltd 2015-1A, 3M LIBOR + 5.650%^~	8.09	1/18/2029	1,700,000	1,688,778	1,550,130
Wellfleet CLO Ltd 2017-3A, 3M LIBOR + 5.550%^~	8.00	1/17/2031	1,500,000	1,500,000	1,310,071
Wind River CLO Ltd 2017-4A, 3M LIBOR + 5.800%^~	8.44	11/20/2030	1,000,000	1,000,000	900,713
Total CDO/CLO			29,450,000	29,366,536	26,768,731

Total Asset-Backed Securities			29,450,000	29,366,536	26,768,731
Bank Loans§ 26.03%*:					
Broadcasting and Entertainment 1.18%*:					
Endemol, 3M LIBOR + 5.750%~+	8.55	8/13/2021	4,502,848	4,351,939	4,306,975
Total Broadcasting and Entertainment			4,502,848	4,351,939	4,306,975
Cargo Transport 0.79%*:					
PS Logistics, 3M LIBOR + 4.750%~	7.28	3/13/2025	2,992,500	3,018,829	2,902,725
Total Cargo Transport			2,992,500	3,018,829	2,902,725

See accompanying Notes to the Financial Statements.

SCHEDULE OF INVESTMENTS (CONTINUED)

December 31, 2018

	EFFECTIVE INTEREST RATE	DUE DATE	PRINCIPAL	COST	FAIR VALUE
Fixed Income (Continued)					
Bank Loans (Continued)					
Chemicals, Plastics and Rubber 0.54%*:					
Colouroz Investment 2 LLC, 3M LIBOR + 7.250%~+	9.74%	9/7/2022	2,033,201	$2,025,452	$1,683,755
SI Group, 3M LIBOR + 4.750%~	7.19	10/15/2025	311,704	299,423	299,235
Total Chemicals, Plastics and Rubber			2,344,905	2,324,875	1,982,990
Diversified/Conglomerate Manufacturing 0.96%*:					
Averys, 3M LIBOR + 8.250%~+	8.25	9/25/2026	500,000	571,943	574,669
Commercial Vehicle Group Inc., 1M LIBOR + 6.000%~	8.52	4/12/2023	614,448	604,361	608,304
SunSource, Inc., 1M LIBOR + 8.000%~	10.52	4/30/2026	2,500,000	2,522,667	2,343,750
Total Diversified/Conglomerate Manufacturing			3,614,448	3,698,971	3,526,723
Diversified/Conglomerate Service 3.17%*:					
Cologix, 1M LIBOR + 7.000%~	9.52	3/21/2025	1,000,000	990,000	963,330
Misys (Finastra), 3M LIBOR + 7.250%~+	10.05	6/16/2025	11,630,136	11,683,208	10,674,837
Total Diversified/Conglomerate Service			12,630,136	12,673,208	11,638,167
Electronics 2.42%*:					
Allflex Holdings, Inc., 3M LIBOR + 7.000%~	9.48	7/19/2021	5,526,776	5,512,033	5,436,966
PowerSchool, 1M LIBOR + 6.750%~	9.13	7/31/2026	3,500,000	3,465,000	3,430,000
Total Electronics			9,026,776	8,977,033	8,866,966
Healthcare, Education and Childcare 4.10%*:					
	10.52	1/23/2026	8,179,057	8,261,632	8,076,819

Argon Medical Devices, 1M LIBOR + 8.000%~					
ADVANZ PHARMA Corp., 1M LIBOR + 5.500%~+	7.89	9/6/2024	3,980,000	3,902,067	3,786,532
Prospect Medical Holdings, 1M LIBOR + 5.500%~	7.94	2/22/2024	3,225,697	3,191,031	3,177,311
Total Healthcare, Education and Childcare			15,384,754	15,354,730	15,040,662
Home and Office Furnishings, Housewares, and Durable Consumer Products 0.95%*:					
Serta Simmons Beddings LLC, 1M LIBOR + 8.000%~	10.43	11/8/2024	4,933,333	4,906,721	3,486,239
Total Home and Office Furnishings, Housewares, and Durable Consumer Products			4,933,333	4,906,721	3,486,239
Information Technology 0.19%*:					
BMC Software Finance, 3M LIBOR + 4.250%~	7.05	10/2/2025	713,124	705,993	686,161
Total Information Technology			713,124	705,993	686,161

See accompanying Notes to the Financial Statements.

Barings Global Short Duration High Yield Fund 2018 Annual Report

SCHEDULE OF INVESTMENTS (CONTINUED)

December 31, 2018

	EFFECTIVE INTEREST RATE	DUE DATE	PRINCIPAL	COST	FAIR VALUE
Fixed Income (Continued)					
Bank Loans (Continued)					
Insurance 0.81%*:					
Asurion, 1M LIBOR + 6.500%~	9.02%	8/4/2025	3,000,000	$3,074,460	$2,960,640
Total Insurance			3,000,000	3,074,460	2,960,640
Mining, Steel, Iron and Non-Precious Metals 0.69%*:					
Boomerang Tube, LLC, 3M LIBOR + 6.500%¤~	7.52	10/31/2021	2,540,684	2,540,684	2,540,684
Total Mining, Steel, Iron and Non-Precious Metals			2,540,684	2,540,684	2,540,684
Oil and Gas 8.65%*:					
Caelus Energy Alaska, 3M LIBOR + 7.500%~	10.30	4/15/2020	18,166,240	17,707,940	16,107,460
Fieldwood Energy LLC, 1M LIBOR + 5.250%~	7.77	4/11/2022	6,751,171	6,198,715	6,291,281
Fieldwood Energy LLC, 1M LIBOR + 7.250%~	9.77	4/11/2023	7,481,592	2,216,005	6,501,503
Gulf Finance, LLC, 1M LIBOR + 5.250%~	7.89	8/25/2023	3,726,094	3,610,394	2,827,174
Total Oil and Gas			36,125,097	29,733,054	31,727,418
Printing and Publishing 1.58%*:					
Getty Images, Inc., 1M LIBOR + 3.500%~	6.02	10/18/2019	5,954,837	5,827,390	5,776,192
Total Printing and Publishing			5,954,837	5,827,390	5,776,192
Total Bank Loans			103,763,442	97,187,887	95,442,542

Corporate Bonds 102.07%*:					
Aerospace and Defense 1.53%*:					
Swissport Investments^+	6.75	12/15/2021	950,000	1,040,150	1,112,956
Triumph Group, Inc.#	7.75	8/15/2025	1,289,000	1,289,000	1,137,542
VistaJet Malta Finance PLC^#	7.75	6/1/2020	3,510,000	3,344,228	3,360,825
Total Aerospace and Defense			5,749,000	5,673,378	5,611,323
Beverage, Food and Tobacco 3.31%*:					
Boparan Finance plc^+	5.50	7/15/2021	800,000	1,018,715	732,130
Carrols Corp.#	8.00	5/1/2022	709,000	723,063	710,773
JBS S.A.#^	6.75	2/15/2028	2,886,000	2,886,000	2,813,850
JBS USA LLC#^	7.25	6/1/2021	3,000,000	3,033,476	3,015,000
Manitowoc Foodservice#	9.50	2/15/2024	1,074,000	1,074,000	1,149,180
Refresco Group N.V.^+	6.50	5/15/2026	1,600,000	1,931,994	1,686,545
Simmons Foods, Inc.^	5.75	11/1/2024	2,885,000	2,047,647	2,048,350
Total Beverage, Food and Tobacco			12,954,000	12,714,895	12,155,828
Broadcasting and Entertainment 6.43%*:					
Arqiva Broadcast^+	6.75	9/30/2023	4,950,000	6,340,734	6,309,269
Clear Channel Worldwide Holdings Inc.#	7.63	3/15/2020	5,165,000	5,096,096	5,048,788
Dish DBS Corp.#	7.75	7/1/2026	7,094,000	6,856,459	5,870,285
Intelsat Jackson Holdings Ltd.#^	9.75	7/15/2025	4,609,000	4,843,541	4,621,905

See accompanying Notes to the Financial Statements.

14

SCHEDULE OF INVESTMENTS (CONTINUED)

December 31, 2018

	EFFECTIVE INTEREST RATE	DUE DATE	PRINCIPAL	COST	FAIR VALUE
Fixed Income (Continued)					
Corporate Bonds (Continued)					
Broadcasting and Entertainment (Continued)					
Intelsat Jackson Holdings Ltd.#^	8.50%	10/15/2024	1,801,000	$1,801,000	$1,746,970
Total Broadcasting and Entertainment			23,619,000	24,937,830	23,597,217
Buildings and Real Estate 0.50%*:					
New Enterprise Stone & Lime Co., Inc.#^	6.25	3/15/2026	2,000,000	2,032,939	1,820,000
Total Buildings and Real Estate			2,000,000	2,032,939	1,820,000
Cargo Transport 4.91%*:					
CMA CGM^+	7.75	1/15/2021	280,000	352,816	315,879
Direct ChassisLink, Inc.#^	10.00	6/15/2023	8,444,000	8,607,333	8,106,240
Kenan Advantage#^	7.88	7/31/2023	10,000,000	10,054,995	9,575,000
Total Cargo Transport			18,724,000	19,015,144	17,997,119
Chemicals, Plastics and Rubber 8.75%*:					
Carlyle Group#^	8.75	6/1/2023	3,000,000	2,970,300	2,872,500
Chemours Co.#	7.00	5/15/2025	5,962,000	5,606,414	6,006,715
Consolidated Energy Finance S.A.#^	6.88	6/15/2025	1,779,000	1,770,105	1,694,498
CVR Partners LP#^	9.25	6/15/2023	6,213,000	6,144,761	6,461,520
Nouryon#^+	8.00	10/1/2026	4,214,000	4,228,788	3,897,950
Nouryon^+	6.50	10/1/2026	1,765,000	1,973,913	1,866,032
Pinnacle Operating Corp.#^	9.00	5/15/2023	1,993,613	1,993,613	1,295,848
TPC Group, Inc.#^	8.75	12/15/2020	8,398,000	8,404,339	7,978,100
Total Chemicals, Plastics and Rubber			33,324,613	33,092,233	32,073,163
Diversified/Conglomerate Manufacturing 0.98%*:					
FXI Holdings Inc.#^	7.88	11/1/2024	1,000,000	990,000	857,500

StoneMor Partners L.P.#	7.88	6/1/2021	3,000,000	2,944,274	2,737,500
Total Diversified/Conglomerate Manufacturing			4,000,000	3,934,274	3,595,000
Diversified/Conglomerate Service 6.52%*:					
Algeco Scotsman^+	6.50	2/15/2023	1,750,000	2,126,414	1,958,045
ATALIAN S.A.^+	6.63	12/31/2025	550,000	765,516	574,242
Carlson Travel Holdings Inc.#^	9.50	12/15/2024	1,305,000	1,305,000	1,184,287
ADT Corp/Protection One#^	9.25	5/15/2023	13,983,000	14,748,634	14,419,969
Zachry Holdings Inc.#^	7.50	2/1/2020	5,875,000	5,863,099	5,757,500
Total Diversified/Conglomerate Service			23,463,000	24,808,663	23,894,043
Diversified Natural Resources, Precious Metals and Minerals 0.51%*:					
IAMGOLD Corporation#^+	7.00	4/15/2025	2,000,000	2,000,000	1,880,000
Total Diversified Natural Resources, Precious Metals and Minerals			2,000,000	2,000,000	1,880,000

See accompanying Notes to the Financial Statements.

SCHEDULE OF INVESTMENTS (CONTINUED)

December 31, 2018

	EFFECTIVE INTEREST RATE	DUE DATE	PRINCIPAL	COST	FAIR VALUE
Fixed Income (Continued)					
Corporate Bonds (Continued)					
Electronics 3.10%*:					
International Wire Group Inc.#^	10.75%	8/1/2021	4,000,000	$3,797,821	$3,560,000
TIBCO Software, Inc.#^	11.38	12/1/2021	2,915,000	3,095,140	3,053,462
Veritas Bermuda Ltd.#^	10.50	2/1/2024	7,284,000	6,007,117	4,771,020
Total Electronics			14,199,000	12,900,078	11,384,482
Finance 3.73%*:					
Galaxy Finco Ltd.#^+	7.88	11/15/2021	3,900,000	6,351,213	4,853,635
GFKL Financial Services#^+	8.50	11/1/2022	3,975,000	5,714,172	4,252,545
GFKL Financial Services#^+	11.00	11/1/2023	1,600,000	2,206,558	1,529,193
Virtu Financial LLC#^	6.75	6/15/2022	3,132,000	3,132,000	3,044,210
Total Finance			12,607,000	17,403,943	13,679,583
Healthcare, Education and Childcare 14.15%*:					
Auris Luxembourg^	8.00	1/15/2023	1,750,000	2,037,029	2,041,356
Avantor Performance Materials Holdings, Inc.#^	9.00	10/1/2025	5,180,000	5,279,990	5,180,000
Bausch Health Companies Inc.#^	9.00	12/15/2025	12,922,000	13,192,773	12,857,390
Bausch Health Companies Inc.#^	9.25	4/1/2026	3,397,000	3,397,000	3,397,000
Bausch Health Companies Inc.#^	8.50	1/31/2027	317,000	317,000	307,490
Endo International^	6.00	2/1/2025	1,500,000	1,374,142	1,076,250
Envision Healthcare Corp.#^	8.75	10/15/2026	7,559,000	7,439,567	6,538,535
Horizon Pharma plc#^	8.75	11/1/2024	1,595,000	1,597,072	1,618,925
IDH Finance PLC^+	6.25	8/15/2022	1,150,000	1,506,794	1,202,680
Regionalcare Hospital Partners, Inc.#^	8.25	5/1/2023	9,996,000	10,079,091	10,095,960
Surgery Center Holdings, Inc.#^	8.88	4/15/2021	2,950,000	2,997,561	2,942,625
Synlab^+	8.25	7/1/2023	2,000,000	2,540,400	2,351,768
Tenet Healthcare Corporation#	8.13	4/1/2022	1,700,000	1,682,209	1,704,250
Teva Pharmaceutical#+	6.75	3/1/2028	578,000	578,000	560,048

Total Healthcare, Education and Childcare			52,594,000	54,018,628	51,874,277
Home and Office Furnishings, Housewares, and Durable Consumer Products 1.49%*:					
Balta#^+	7.75	9/15/2022	4,171,500	4,851,526	4,417,711
Mattel, Inc.#^	6.75	12/31/2025	1,169,000	1,169,000	1,042,970
Total Home and Office Furnishings, Housewares, and Durable Consumer Products			5,340,500	6,020,526	5,460,681
Hotels, Motels, Inns and Gaming 1.18%*:					
Boyne USA, Inc.#^	7.25	5/1/2025	950,000	950,000	980,875
TVL Finance Plc^+	8.50	5/15/2023	2,560,000	3,629,384	3,343,440
Total Hotels, Motels, Inns and Gaming			3,510,000	4,579,384	4,324,315

See accompanying Notes to the Financial Statements.

SCHEDULE OF INVESTMENTS (CONTINUED)

December 31, 2018

	EFFECTIVE INTEREST RATE	DUE DATE	PRINCIPAL	COST	FAIR VALUE
Fixed Income (Continued)					
Corporate Bonds (Continued)					
Insurance 0.97%*:					
Onex York Acquisition Corp.#^	8.50%	10/1/2022	5,102,000	$5,028,852	$3,545,890
Total Insurance			5,102,000	5,028,852	3,545,890
Leisure, Amusement, Motion Pictures and Entertainment 0.90%*:					
Perform Group^+	8.50	11/15/2020	2,600,000	3,435,112	3,315,285
Total Leisure, Amusement, Motion Pictures and Entertainment			2,600,000	3,435,112	3,315,285
Machinery (Non-Agriculture, Non-Construct, Non-Electronic) 2.29%*:					
Apex Tool Group LLC#^	9.00	2/15/2023	9,913,000	9,707,704	8,376,485
Total Machinery (Non-Agriculture, Non-Construct, Non-Electronic)			9,913,000	9,707,704	8,376,485
Mining, Steel, Iron and Non-Precious Metals 10.47%*:					
Alliance Resources Partners, L.P.#^	7.50	5/1/2025	823,000	823,000	825,057
Big River Steel LLC#^	7.25	9/1/2025	1,547,000	1,547,000	1,535,397
Consol Energy Inc.#^	11.00	11/15/2025	9,316,000	9,698,332	10,201,020
First Quantum Minerals#^+	7.25	4/1/2023	2,000,000	1,904,627	1,760,000
First Quantum Minerals#^+	7.50	4/1/2025	4,775,000	4,745,156	3,939,375
Hecla Mining Company#	6.88	5/1/2021	5,888,000	5,764,254	5,770,240
Kissner Milling Company Limited#^	8.38	12/1/2022	6,475,000	6,467,593	6,442,625
Northwest Acquisitions ULC#^+	7.13	11/1/2022	411,000	406,738	405,986
SunCoke Energy Inc.#^	7.50	6/15/2025	2,743,000	2,702,212	2,598,993
TMS International Corp.#^	7.25	8/15/2025	2,250,000	2,250,000	2,103,750
United States Steel Corp.#	6.88	8/15/2025	2,093,000	2,093,000	1,915,095
Warrior Met Coal Inc.#^	8.00	11/1/2024	914,000	914,000	907,145
			39,235,000	39,315,912	38,404,683

Total Mining, Steel, Iron and Non-Precious Metals					
Oil and Gas 19.79%*:					
CGG Holdings^+	7.88	5/1/2023	200,000	246,740	230,296
Chaparral Energy Inc.#^	8.75	7/15/2023	2,589,000	2,589,000	1,851,135
CITGO Holding Inc.#^	10.75	2/15/2020	11,331,000	11,389,556	11,557,620
Covey Park Energy LLC#^	7.50	5/15/2025	1,597,000	1,602,575	1,373,420
Ensco PLC#	7.75	2/1/2026	603,000	603,000	446,220
Enven Energy Ventures#^	11.00	2/15/2023	3,572,000	3,572,000	3,822,040
EP Energy#^	9.38	5/1/2024	5,215,000	3,544,831	2,320,675
EP Energy#^	8.00	2/15/2025	10,183,000	8,666,036	4,200,488
Ferrellgas Partners LP#	8.63	6/15/2020	7,560,000	7,529,575	5,405,400
Ferrellgas Partners LP#	8.63	6/15/2020	1,254,000	1,230,949	896,610
Globe Luxembourg SA#^+	9.88	4/1/2022	3,121,000	3,201,265	2,559,220
Globe Luxembourg SA#^+	9.63	4/1/2023	4,238,000	4,297,137	3,411,590
Jonah Energy LLC#^	7.25	10/15/2025	3,714,000	3,431,551	2,376,960

See accompanying Notes to the Financial Statements.

SCHEDULE OF INVESTMENTS (CONTINUED)

December 31, 2018

	EFFECTIVE INTEREST RATE	DUE DATE	PRINCIPAL	COST	FAIR VALUE
Fixed Income (Continued)					
Corporate Bonds (Continued)					
Oil and Gas (Continued)					
Kosmos Energy Ltd.#^+	7.88%	8/1/2021	6,414,000	$6,236,315	$6,381,930
Kosmos Energy Ltd.#^+	7.88	8/1/2021	3,984,000	3,903,061	4,053,720
Neptune Energy#^	6.63	5/15/2025	1,600,000	1,600,000	1,484,000
Pbf Holding Company LLC#	7.00	11/15/2023	1,000,000	997,500	955,000
Pbf Logistics LP#	6.88	5/15/2023	1,117,000	1,117,000	1,097,453
Topaz Marine SA#^+	9.13	7/26/2022	8,500,000	8,500,000	8,509,860
Vine Oil & Gas#^	9.75	4/15/2023	5,000,000	5,000,000	4,000,000
Welltec#^+	9.50	12/1/2022	5,713,000	5,692,986	5,641,588
Total Oil and Gas			88,505,000	84,951,077	72,575,225
Personal and Non Durable Consumer Products 0.52%*:					
Herbalife Ltd.#^	7.25	8/15/2026	585,000	585,000	576,225
High Ridge Brands Co.^	8.88	3/15/2025	2,982,000	2,982,000	1,312,080
Total Personal and Non Durable Consumer Products			3,567,000	3,567,000	1,888,305
Personal Transportation 1.10%*:					
Hertz Corporation#^	7.63	6/1/2022	3,678,000	3,673,356	3,466,515
Naviera Armas, 3M EURIBOR + 6.500%^~+	6.50	7/31/2023	525,000	609,931	582,059
Total Personal Transportation			4,203,000	4,283,287	4,048,574
Printing and Publishing 0.54%*:					
Cimpress N.V.#^	7.00	6/15/2026	2,069,000	2,069,000	1,986,240
Total Printing and Publishing			2,069,000	2,069,000	1,986,240
Retail Store 1.94%*:					

Aurum^+	8.50	4/15/2023	600,000	854,701	708,550
Douglas GMBH^+	6.25	7/15/2022	775,000	750,924	649,097
Ken Garff Automotive#^	7.50	8/15/2023	1,092,000	1,092,000	1,075,620
Maxeda DIY^+	6.13	7/15/2022	750,000	855,530	788,542
Travelex#^+	8.00	5/15/2022	4,000,000	4,421,260	3,895,370
Total Retail Store			7,217,000	7,974,415	7,117,179
Telecommunications 4.47%*:					
Altice S.A.#^+	7.50	5/15/2026	1,322,000	1,366,041	1,206,325
Altice S.A.#^+	7.63	2/15/2025	4,476,000	4,412,371	3,345,810

Our operating activities provided net cash of $512.1 million during the nine months ended May 31, 2008. Net income of $657.6 million and net non-cash expenses and cash distributions from equity investments of $130.8 million were partially offset by an increase in net operating assets and liabilities of $276.3 million. The primary components of net non-cash expenses and cash distributions from equity investments included depreciation and amortization, including major repair costs, of $151.7 million, deferred tax expense of $89.9 million and minority interests of $52.5 million, partially offset by gains on investments of $100.5 million and income from equity investments, net of redemptions from those investments, of $55.6 million. Gains on investments were previously discussed in Results of Operations, and primarily includes the gain on the sale of all of our shares of CF common stock. The increase in net operating assets and liabilities was caused primarily by increased commodity prices reflected in increased receivables, inventories and derivative assets, partially offset by an increase in accounts payable and accrued expenses, derivative liabilities and customer advance payments on May 31, 2008, when compared to August 31, 2007. On May 31, 2008, the market prices of our three primary grain commodities, corn, soybeans and spring wheat, increased by $2.75 (85%) per bushel, $4.96 (57%) per bushel and $3.63 (52%) per bushel, respectively, when compared to the prices on August 31, 2007. Crude oil market prices increased $53.31 (72%) per barrel on May 31, 2008 when compared to August 31, 2007. In addition, on May 31, 2008, fertilizer commodity prices affecting our wholesale crop nutrients and country operations retail businesses generally had increases between 43% and 139%, depending on the product, compared to prices on August 31, 2007.

Our operating activities provided net cash of $270.9 million during the nine months ended May 31, 2007. Net income of $459.6 million and net non-cash expenses and cash distributions from equity investments of $185.6 million were partially offset by an increase in net operating assets and liabilities of $374.3 million. The primary components of net non-cash expenses and cash distributions from equity investments included depreciation and amortization, including major repair costs, of $121.0 million, minority interests of $94.7 million and deferred taxes of $15.8 million, which were partially offset by income from equity investments, net of redemptions from those investments, of $24.2 million, a pretax gain of $5.3 million from the sale of 540,000 shares of our CF stock included in our Ag Business segment, and an $11.2 million non-cash gain in our Processing segment from our ownership changes in US BioEnergy and their IPO transaction as previously discussed in Results of Operations. The increase in net operating assets and liabilities was primarily caused by an increase in trade receivables as well as derivative assets and hedging deposits (included in other current assets) of $337.9 million and $246.8 million, respectively, partially offset by an increase in accounts payable and derivative liabilities of $125.2 million and $68.5 million, respectively, due to increases in grain prices on May 31, 2007 when compared to August 31, 2006. Increases in inventories also caused an increase in net operating assets and liabilities. On May 31, 2007, the market prices of our three primary grain commodities, corn, soybeans and spring wheat, increased by $1.58 per bushel (68%), $2.64 per bushel (49%) and $0.82 per bushel (18%), respectively, when compared to August 31, 2006. In addition to grain prices affecting grain inventories, our feed and farm supplies inventories in our Ag Business segment increased as well during the period (31%), primarily at our country operations retail locations mainly due to the spring planting season and also acquisitions.

Crude oil prices are expected to be volatile in the foreseeable future, but related inventories and receivables turn over in a relatively short period, thus somewhat mitigating the effects on operating assets and liabilities. Grain prices are influenced significantly by global projections of grain stocks available until the next harvest. Demand for corn by the ethanol industry created an incentive to divert acres from soybeans and wheat to corn this past planting year. The effect has been to stabilize corn prices at a relatively high level, with soybeans and wheat also showing price appreciation. Grain prices were volatile during fiscal 2007 and have continued to be volatile during fiscal 2008. We anticipate that high demand for all grains and oilseeds, in addition to recent flooding in the midwest, will likely continue to create higher prices and price volatility for those commodities.

Cash usage in our operating activities has generally been the lowest during our fourth fiscal quarter. Historically by this time we have sold a large portion of our seasonal agronomy related inventories in our Ag Business segment operations and continue to collect cash from the related receivables. Although this trend is likely to continue, we expect that the current high commodity prices will cause our cash usage to be higher during the fourth quarter of fiscal 2008 compared to prior years. We believe that we have adequate capacity through our committed credit facilities to meet any likely increase in net operating assets and liabilities.

Cash Flows from Investing Activities

For the nine months ended May 31, 2008 and 2007, the net cash flows used in our investing activities totaled $568.6 million and $382.0 million, respectively.

Excluding investments in Agriliance, further discussed below, the acquisition of property, plant and equipment comprised the primary use of cash totaling $255.8 million and $249.6 million for the nine months ended May 31, 2008 and 2007, respectively. For the year ending August 31, 2008, we expect to spend approximately $355.0 million for the acquisition of property, plant and equipment. Included in our projected capital spending through fiscal 2008 is completion of the installation of a coker unit at our Laurel, Montana refinery, along with other refinery improvements, which will allow us to extract a greater volume of higher value gasoline and diesel fuel from a barrel of crude oil and less relatively lower value asphalt, that is expected to increase yields by about 14 percent. The coker unit is currently operational with total expenditures of $411.0 million as of May 31, 2008, of which $126.7 million and $151.8 million were incurred during the nine months ended May 31, 2008 and 2007, respectively.

During the first fiscal quarter of 2008, we retrospectively changed our accounting method for the costs of turnarounds from the accrual method to the deferral method, as previously discussed. Turnarounds are the scheduled and required shutdowns of refinery processing units for significant overhaul and refurbishment. Expenditures for these major repairs during the nine months ended May 31, 2008 and 2007 were $21.7 million and $8.2 million, respectively.

In October 2003, we and NCRA reached agreements with the EPA and the State of Montana s Department of Environmental Quality and the State of Kansas Department of Health and Environment regarding the terms of settlements with respect to reducing air emissions at our Laurel, Montana and NCRA s McPherson, Kansas refineries. These settlements are part of a series of similar settlements that the EPA has negotiated with major refiners under the EPA s Petroleum Refinery Initiative. The settlements take the form of consent decrees filed with the U.S. District Court for the District of Montana (Billings Division) and the U.S. District Court for the District of Kansas. Each consent decree details potential capital improvements, supplemental environmental projects and operational changes, that we and NCRA have agreed to implement at the relevant refinery, over several years. The consent decrees also required us and NCRA to pay approximately $0.5 million in aggregate civil cash penalties. As of May 31, 2008, the aggregate capital expenditures for us and NCRA related to these settlements was approximately $24 million, and we anticipate spending an additional $8 million before December 2011. We do not believe that the settlements will have a material adverse effect on us or NCRA.

The Montana Department of Environmental Quality (MDEQ) issued a Notice of Violation to us dated September 4, 2007 alleging that our refinery in Laurel, Montana exceeded nitrogen oxides (NOx) limits under a refinery operating permit. Following receipt of the letter, we provided certain facts and explanations regarding the matter to the MDEQ. By letter dated June 27, 2008, the MDEQ has proposed a civil penalty of approximately $0.2 million with respect to the incident. We intend to enter into settlement discussions with the MDEQ in an attempt to alleviate the civil penalty. We believe we are currently in compliance with the NOx limits under the permit, and do not believe that the civil penalty will have a material adverse affect on us.

Investments made during the nine months ended May 31, 2008 and 2007, totaled $336.1 million and $84.2 million, respectively. As previously discussed, in September 2007, Agriliance distributed primarily its wholesale crop nutrients and crop protection assets to us and Land O Lakes, respectively, and continues to operate primarily its retail distribution business until further repositioning of that business occurs. During the nine months ended May 31, 2008, we made a $13.0 million net cash payment to Land O Lakes in order to maintain equal capital accounts in Agriliance, as previously discussed, and during the third quarter of fiscal 2008, Land O Lakes paid us $8.3 million for additional assets distributed by Agriliance related to joint venture ownership interests. During the same nine-month period, our net contribution to Agriliance was $255.0 million

34

which supported their working capital requirements, with Land O Lakes making equal contributions to Agriliance, primarily for crop nutrient and crop protection product trade payables that were not assumed by us or Land O Lakes upon the distribution of the crop nutrients and crop protection assets, as well as for Agriliance s ongoing retail operations. Also during the nine months ended May 31, 2008, we invested $30.3 million in a joint venture (37.5% ownership) included in our Ag Business segment, that acquired production farmland and related operations in Brazil, intended to strengthen our ability to serve customers around the world. These operations include production of soybeans, corn, cotton and sugarcane, as well as cotton processing at four locations. Another investment was the $6.5 million purchase of additional shares of common stock in US BioEnergy, included in our Processing segment, during the nine months ended May 31, 2008, compared to $35.3 million during the nine months ended May 31, 2007. An additional investment during the nine months ended May 31, 2007, included $22.2 million for an equity position in a Brazil-based grain handling and merchandising company, Multigrain S.A., an agricultural commodities business headquartered in Sao Paulo, Brazil, in which we have a current ownership interest of 37.5% and is included in our Ag Business segment. This venture, which includes grain storage and export facilities, builds on our South American soybean origination, and helps meet customer needs year-round. We also invested $15.6 million in Horizon Milling G.P. (24% CHS ownership) during the nine months ended May 31, 2007, a joint venture included in our Processing segment, that acquired the Canadian grain-based foodservice and industrial businesses of Smucker Foods of Canada, which includes three flour milling operations and two dry baking mixing facilities in Canada.

During the nine months ended May 31, 2008 and 2007, changes in notes receivable resulted in decreases in cash flows of $62.5 million and $54.2 million, respectively. The notes were primarily from related party notes receivable at NCRA from its minority owners, Growmark, Inc. and MFA Oil Company. During the nine months ended May 31, 2008, $29.8 million of the decrease in cash flows resulted from a note receivable from our finance company joint venture, Cofina Financial. During the nine months ended May 31, 2007, $8.0 million of the decrease in cash flows resulted from a note receivable related to our investment in Multigrain S.A.

Various cash acquisitions of intangibles were $2.5 million and $8.1 million for the nine months ended May 31, 2008 and 2007, respectively.

Business acquisitions of $45.9 million during the nine months ended May 31, 2008, include $24.1 million from the purchase of an energy and convenience store business included in our Energy segment, $15.6 million from a soy-based food products business included in our Processing segment and $6.2 million from a distillers dried grain business included in our Ag Business segment.

Partially offsetting our cash outlays for investing activities for the nine months ended May 31, 2008 and 2007, were proceeds from the sale of investments of $120.8 million and $10.9 million, respectively, which were previously discussed in Results of Operations , and primarily include proceeds from the sale of all of our shares of CF common stock. Also partially offsetting cash usages for the nine months ended May 31, 2008 and 2007, were proceeds from the disposition of property, plant and equipment of $8.1 million and $9.3 million, respectively, and investments redeemed totaling $35.5 million and $4.4 million, respectively.

Cash Flows from Financing Activities

We finance our working capital needs through short-term lines of credit with a syndication of domestic and international banks. In May 2006, we renewed and expanded our committed lines of revolving credit to include a five-year revolver in the amount of $1.1 billion, with the ability to expand the facility an additional $200.0 million. In October 2007, we expanded that facility, receiving additional commitments in the amount of $200.0 million from certain lenders under the agreement. The additional commitments increased the total borrowing capacity to $1.3 billion on the facility. On May 31, 2008, interest rates for amounts outstanding on this credit facility ranged from 3.04% to 3.15%. In February 2008, we increased our short-term borrowing capacity by establishing a $500.0 million committed line of credit with a syndication of banks consisting of a 364-day revolver, with no amount outstanding on May 31, 2008. In addition to these lines of credit, we have a revolving credit facility dedicated to NCRA, with a syndication of banks in the amount of $15.0 million committed. In November 2007, the line of credit dedicated to NCRA was renewed for an additional year. We

Table of Contents

also have a committed revolving line of credit dedicated to Provista Renewable Fuels Marketing, LLC (Provista), which expires in November 2009, in the amount of $25.0 million. During the third quarter of fiscal 2008, our wholly-owned subsidiary, CHS Europe S.A., entered into an uncommitted $75.0 million line of credit facility to finance its normal trade grain transactions, which are collateralized by $0.1 million of inventories and receivables as of May 31, 2008. In June 2008, CHS Europe S.A. entered into an additional uncommitted $60.0 million line of credit facility. On May 31, 2008, August 31, 2007 and May 31, 2007, we had total short-term indebtedness outstanding on these various facilities and other miscellaneous short-term notes payable totaling $405.9 million, $620.7 million and $484.5 million, respectively. Proceeds from our long-term borrowings totaling $600.0 million during the nine months ended May 31, 2008, were used to pay down our five-year revolver and are explained in further detail below.

During the first quarter of fiscal 2007, we instituted two commercial paper programs, totaling up to $125.0 million, with two banks participating in our five-year revolving credit facility. Terms of our five-year revolving credit facility allow a maximum usage of commercial paper of $200.0 million at any point in time. These commercial paper programs do not increase our committed borrowing capacity in that we are required to have at least an equal amount of undrawn capacity available on our five-year revolving facility as to the amount of commercial paper issued. On May 31, 2008, we had no commercial paper outstanding, compared to $51.9 million and $44.1 million outstanding on August 31, 2007 and May 31, 2007, respectively.

We typically finance our long-term capital needs, primarily for the acquisition of property, plant and equipment, with long-term agreements with various insurance companies and banks. In June 1998, we established a long-term credit agreement through cooperative banks. This facility committed $200.0 million of long-term borrowing capacity to us, with repayments through fiscal 2009. The amount outstanding on this credit facility was $55.8 million, $75.4 million and $81.2 million on May 31, 2008, August 31, 2007 and May 31, 2007, respectively. Interest rates on May 31, 2008 ranged from 3.52% to 7.13%. Repayments of $19.7 million and $17.2 million were made on this facility during the nine months ended May 31, 2008 and 2007, respectively.

Also in June 1998, we completed a private placement offering with several insurance companies for long-term debt in the amount of $225.0 million with an interest rate of 6.81%. Repayments are due in equal annual installments of $37.5 million each, in the years 2008 through 2013.

In January 2001, we entered into a note purchase and private shelf agreement with Prudential Insurance Company. The long-term note in the amount of $25.0 million has an interest rate of 7.9% and is due in equal annual installments of approximately $3.6 million in the years 2005 through 2011. A subsequent note for $55.0 million was issued in March 2001, related to the private shelf facility. The $55.0 million note has an interest rate 7.43% and is due in equal annual installments of approximately $7.9 million in the years 2005 through 2011. Repayments of $11.4 million were made during each of the nine months ended May 31, 2008 and 2007.

In October 2002, we completed a private placement with several insurance companies for long-term debt in the amount of $175.0 million, which was layered into two series. The first series of $115.0 million has an interest rate of 4.96% and is due in equal semi-annual installments of approximately $8.8 million during the years 2007 through 2013. The second series of $60.0 million has an interest rate of 5.60% and is due in equal semi-annual installments of approximately $4.6 million during years 2012 through 2018. Repayments of $17.7 million were made on the first series notes during each of the nine months ended May 31, 2008 and 2007.

In March 2004, we entered into a note purchase and private shelf agreement with Prudential Capital Group, and in April 2004, we borrowed $30.0 million under this arrangement. One long-term note in the amount of $15.0 million has an interest rate of 4.08% and is due in full at the end of the nine-year term in 2010. Another long-term note in the amount of $15.0 million has an interest rate of 4.39% and is due in full at the end of the seven-year term in 2011. In April 2007, we amended our Note Purchase and Private Shelf Agreement with Prudential Investment Management, Inc. and several other participating insurance companies to expand the uncommitted facility from $70.0 million to $150.0 million. We borrowed $50.0 million under the shelf arrangement in February 2008, for which the aggregate long-term notes have an interest rate of 5.78% and are due in equal annual installments of $10.0 million during the years 2014 through 2018.

In September 2004, we entered into a private placement with several insurance companies for long-term debt in the amount of $125.0 million with an interest rate of 5.25%. Repayments are due in equal annual installments of $25.0 million during years 2011 through 2015.

In October 2007, we entered into a private placement with several insurance companies and banks for long-term debt in the amount of $400.0 million with an interest rate of 6.18%. Repayments are due in equal annual installments of $80.0 million during years 2013 through 2017.

In December 2007, we established a ten-year long-term credit agreement through a syndication of cooperative banks in the amount of $150.0 million, with an interest rate of 5.59%. Repayments are due in equal semi-annual installments of $15.0 million each, starting in June 2013 through December 2018.

Through NCRA, we had revolving term loans outstanding of $0.8 million, $3.0 million and $3.8 million on May 31, 2008, August 31, 2007 and May 31, 2007, respectively. The interest rate on May 31, 2008 was 6.48%. Repayments of $2.3 million were made during each of the nine months ended May 31, 2008 and 2007.

On May 31, 2008, we had total long-term debt outstanding of $1,235.6 million, of which $206.5 million was bank financing, $1,003.9 million was private placement debt and $25.2 million was industrial development revenue bonds, and other notes and contracts payable. The aggregate amount of long-term debt payable presented in the Management s Discussion and Analysis in our Annual Report on Form 10-K for the year ended August 31, 2007 has not changed materially during the nine months ended May 31, 2008, other than for the $600.0 million of additional long-term borrowings discussed previously, of which repayments will start in fiscal 2013. On May 31, 2007, we had long-term debt outstanding of $690.9 million. Our long-term debt is unsecured except for other notes and contracts in the amount of $7.8 million; however, restrictive covenants under various agreements have requirements for maintenance of minimum working capital levels and other financial ratios. In addition, NCRA term loans of $0.8 million are collateralized by NCRA s investment in CoBank, ACB. We were in compliance with all debt covenants and restrictions as of May 31, 2008.

In December 2006, NCRA entered into an agreement with the City of McPherson, Kansas related to certain of its ultra-low sulfur fuel assets, with a cost of approximately $325.0 million. The City of McPherson issued $325.0 million of Industrial Revenue Bonds (IRBs) which were transferred to NCRA, as consideration in a financing agreement between the City of McPherson and NCRA, related to the ultra-low sulfur fuel assets. The term of the financing obligation is ten years, at which time NCRA has the option of extending the financing obligation or purchasing the assets for a nominal amount. NCRA has the right at anytime to offset the financing obligation to the City of McPherson against the IRBs. No cash was exchanged in the transaction and none is anticipated to be exchanged in the future. Due to the structure of the agreement, the financing obligation and the IRBs are shown net in our consolidated financial statements. In March 2007, notification was sent to the bond trustees to pay the IRBs down by $324.0 million, at which time the financing obligation to the City of McPherson was offset against the IRBs. The balance of $1.0 million will remain outstanding until the final ten-year maturity.

During the nine months ended May 31, 2008, we borrowed on a long-term basis, $600.0 million, and did not have any new long-term borrowings during the nine months ended May 31, 2007. During the nine months ended May 31, 2008 and 2007, we repaid long-term debt of $54.6 million and $54.2 million, respectively.

Distributions to minority owners for the nine months ended May 31, 2008 and 2007, were $55.4 million and $32.7 million, respectively, and were primarily related to NCRA.

During the nine months ended May 31, 2008 and 2007, changes in checks and drafts outstanding resulted in an increase in cash flows of $10.1 million and $32.3 million, respectively.

In accordance with the bylaws and by action of the Board of Directors, annual net earnings from patronage sources are distributed to consenting patrons following the close of each fiscal year. Patronage refunds are calculated based on amounts using financial statement earnings. The cash portion of the patronage distribution is determined annually by the Board of Directors, with the balance issued in the form of capital equity certificates. The patronage earnings from the fiscal year ended August 31, 2007, were distributed during the nine months ended May 31, 2008. The cash portion of this distribution deemed by the Board of Directors to be 35%, was $195.0 million. During the nine months ended May 31, 2007, we distributed cash patronage of $133.1 million.

Redemptions of capital equity certificates, approved by the Board of Directors, are divided into two pools, one for non-individuals (primarily member cooperatives) who may participate in an annual pro-rata program for equities held by them, and another for individuals who are eligible for equity redemptions at age 70 or upon death. The amount that each non-individual receives under the pro-rata program in any year is determined by multiplying the dollars available for pro-rata redemptions, if any that year, as determined by the Board of Directors, by a fraction, the numerator of which is the amount of patronage certificates eligible for redemption held by them, and the denominator of which is the sum of the patronage certificates eligible for redemption held by all eligible holders of patronage certificates that are not individuals. In addition to the annual pro-rata program, the Board of Directors approved additional equity redemptions targeting older capital equity certificates which were redeemed in cash in fiscal 2008 and 2007. In accordance with authorization from the Board of Directors, we expect total redemptions related to the year ended August 31, 2007, that will be distributed in fiscal 2008, to be approximately $136.2 million, of which $75.9 million was redeemed in cash during the nine months ended May 31, 2008 compared to $64.9 million during the nine months ended May 31, 2007. We also redeemed $46.4 million of capital equity certificates during the nine months ended May 31, 2008, by issuing shares of our 8% Cumulative Redeemable Preferred Stock (Preferred Stock) pursuant to a registration statement filed with the Securities and Exchange Commission. During the nine months ended May 31, 2007, we redeemed $35.9 million of capital equity certificates by issuing shares of our Preferred Stock.

Our Preferred Stock is listed on the NASDAQ Global Select Market under the symbol CHSCP. On May 31, 2008, we had 9,047,780 shares of Preferred Stock outstanding with a total redemption value of approximately $226.2 million, excluding accumulated dividends. Our Preferred Stock accumulates dividends at a rate of 8% per year, which are payable quarterly, and is redeemable at our option after February 1, 2008. At this time, we have no current plan or intent to redeem any Preferred Stock. Dividends paid on our preferred stock during the nine months ended May 31, 2008 and 2007, were $11.8 million and $9.5 million, respectively.

Off Balance Sheet Financing Arrangements

Lease Commitments:

Our lease commitments presented in Management s Discussion and Analysis in our Annual Report on Form 10-K for the year ended August 31, 2007, have not materially changed during the nine months ended May 31, 2008.

Guarantees:

We are a guarantor for lines of credit for related companies. As of May 31, 2008, our bank covenants allowed maximum guarantees of $500.0 million, of which $43.0 million was outstanding. All outstanding loans with respective creditors are current as of May 31, 2008.

Debt:

There is no material off balance sheet debt.

Contractual Obligations

Our contractual obligations are presented in Management s Discussion and Analysis in our Annual Report on Form 10-K for the year ended August 31, 2007. The total obligations have not materially changed during the nine months ended May 31, 2008, except for the balance sheet changes in payables and long-term debt,

38

Table of Contents

and an approximate 85% increase in grain purchase contracts primarily related to recent appreciation in grain prices.

On September 1, 2007, Agriliance distributed the net assets of their crop nutrients business to us, as previously discussed. We now have additional purchase obligations as of that date related to the crop nutrients business that were previously obligations of Agriliance. On May 31, 2008, we had obligations to purchase approximately 3.4 million tons of fertilizer through 2010. The average price per ton estimated for these purchase obligations was approximately $595.

Critical Accounting Policies

Our Critical Accounting Policies are presented in our Annual Report on Form 10-K for the year ended August 31, 2007. There have been no changes to these policies during the nine months ended May 31, 2008.

Effect of Inflation and Foreign Currency Transactions

Inflation and foreign currency fluctuations have not had a significant effect on our operations. We have some grain marketing, wheat milling and energy operations that impact our exposure to foreign currency fluctuations, but to date, there have been no material effects.

Recent Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 157, Fair Value Measurements (SFAS No. 157) which defines fair value, establishes a framework for measuring fair value in accordance with accounting principles generally accepted in the United States of America, and expands disclosures about fair value measurements. SFAS No. 157 is effective for financial assets and liabilities for fiscal years beginning after November 15, 2007. In February 2008, the FASB issued FASB Staff Position (FSP) 157-2, Effective Date of FASB Statement No. 157. FSP 157-2 delays the effective date of SFAS No. 157 for all non-financial assets and non-financial liabilities that are not remeasured at fair value on a recurring basis until fiscal years beginning after November 15, 2008. Any amounts recognized upon adoption of this rule as a cumulative effect adjustment will be recorded to the opening balance of retained earnings in the year of adoption. We are in the process of evaluating the effect that the adoption of SFAS No. 157 will have on our consolidated results of operations and financial condition.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities. SFAS No. 159 provides entities with an option to report certain financial assets and liabilities at fair value, with changes in fair value reported in earnings, and requires additional disclosures related to an entity s election to use fair value reporting. It also requires entities to display the fair value of those assets and liabilities for which the entity has elected to use fair value on the face of the balance sheet. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. We are in the process of evaluating the effect that the adoption of SFAS No. 159 will have on our consolidated results of operations and financial condition.

In December 2007, the FASB issued SFAS No. 141R, Business Combinations. SFAS No. 141R provides companies with principles and requirements on how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, liabilities assumed, and any noncontrolling interest in the acquiree, as well as the recognition and measurement of goodwill acquired in a business combination. SFAS No. 141R also requires certain disclosures to enable users of the financial statements to evaluate the nature and financial effects of the business combination. Acquisition costs associated with the business combination will generally be expensed as incurred. SFAS No. 141R is effective for business combinations occurring in fiscal years beginning after December 15, 2008. Early adoption of SFAS No. 141R is not permitted. The impact on our consolidated financial statements of adopting SFAS No. 141R will depend on the nature, terms and size of business combinations completed after the effective date.

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements, an Amendment of Accounting Research Bulletin (ARB) No. 51. This statement amends ARB

Table of Contents

No. 51 to establish accounting and reporting standards for the noncontrolling interest (minority interest) in a subsidiary and for the deconsolidation of a subsidiary. Upon its adoption, noncontrolling interests will be classified as equity in our Consolidated Balance Sheets. Income and comprehensive income attributed to the noncontrolling interest will be included in our Consolidated Statements of Operations and our Consolidated Statements of Equities and Comprehensive Income. SFAS No. 160 is effective for fiscal years beginning after December 15, 2008. The provisions of this standard must be applied retrospectively upon adoption. We are in the process of evaluating the impact the adoption of SFAS No. 160 will have on our consolidated financial statements.

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities, an Amendment of SFAS No. 133. SFAS No. 161 requires disclosures of how and why an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for and how derivative instruments and related hedged items affect an entity s financial position, financial performance, and cash flows. SFAS No. 161 is effective for fiscal years beginning after November 15, 2008, with early adoption permitted. We are currently evaluating the impact of the adoption of SFAS No. 161 on our consolidated financial statements.

CAUTIONARY STATEMENTS FOR PURPOSES OF THE SAFE HARBOR PROVISIONS OF THE SECURITIES LITIGATION REFORM ACT

Any statements contained in this report regarding the outlook for our businesses and their respective markets, such as projections of future performance, statements of our plans and objectives, forecasts of market trends and other matters, are forward-looking statements based on our assumptions and beliefs. Such statements may be identified by such words or phrases as will likely result, are expected to, will continue, outlook, will benefit, is anticipated, est project, management believes or similar expressions. These forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from those discussed in such statements and no assurance can be given that the results in any forward-looking statement will be achieved. For these statements, we claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995. Any forward-looking statement speaks only as of the date on which it is made, and we disclaim any obligation to subsequently revise any forward-looking statement to reflect events or circumstances after such date or to reflect the occurrence of anticipated or unanticipated events.

Certain factors could cause our future results to differ materially from those expressed or implied in any forward-looking statements contained in this report. These factors include the factors discussed in Item 1A of our Annual Report on Form 10-K for the fiscal year ended August 31, 2007 under the caption Risk Factors, the factors discussed below and any other cautionary statements, written or oral, which may be made or referred to in connection with any such forward-looking statements. Since it is not possible to foresee all such factors, these factors should not be considered as complete or exhaustive.

Our revenues and operating results could be adversely affected by changes in commodity prices.

Our operating results could be adversely affected if our members were to do business with others rather than with us.

We participate in highly competitive business markets in which we may not be able to continue to compete successfully.

Changes in federal income tax laws or in our tax status could increase our tax liability and reduce our net income.

We incur significant costs in complying with applicable laws and regulations. Any failure to make the capital investments necessary to comply with these laws and regulations could expose us to financial liability.

Environmental liabilities could adversely affect our results and financial condition.

Table of Contents

Actual or perceived quality, safety or health risks associated with our products could subject us to liability and damage our business and reputation.

Our operations are subject to business interruptions and casualty losses; we do not insure against all potential losses and could be seriously harmed by unexpected liabilities.

Our cooperative structure limits our ability to access equity capital.

Consolidation among the producers of products we purchase and customers for products we sell could adversely affect our revenues and operating results.

If our customers choose alternatives to our refined petroleum products our revenues and profits may decline.

Operating results from our agronomy business could be volatile and are dependent upon certain factors outside of our control.

Technological improvements in agriculture could decrease the demand for our agronomy and energy products.

We operate some of our business through joint ventures in which our rights to control business decisions are limited.

Item 3. ***Quantitative and Qualitative Disclosures About Market Risk***

We did not experience any material changes in market risk exposures for the period ended May 31, 2008, that affect the quantitative and qualitative disclosures presented in our Annual Report on Form 10-K for the year ended August 31, 2007.

Item 4T. ***Controls and Procedures***

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 (the Exchange Act)) as of May 31, 2008. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of that date, our disclosure controls and procedures were effective.

During the third fiscal quarter ended May 31, 2008, there was no change in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. ***Legal Proceedings***

The Montana Department of Environmental Quality (MDEQ) issued a Notice of Violation to us dated September 4, 2007 alleging that our refinery in Laurel, Montana exceeded nitrogen oxides (NOx) limits under a refinery operating permit. Following receipt of the letter, we provided certain facts and explanations regarding the matter to the MDEQ. By letter dated June 27, 2008, the MDEQ has proposed a civil penalty of approximately $0.2 million with respect to the incident. We intend to enter into settlement discussions with the MDEQ in an attempt to alleviate the civil penalty. We believe we are currently in compliance with the NOx limits under the permit, and do not believe that the civil penalty will have a material adverse affect on us.

Item 1A. ***Risk Factors***

There were no material changes to our risk factors during the period covered by this report. See the discussion of risk factors in Item 1A of our Annual Report on Form 10-K for the fiscal year ended August 31, 2007.

Item 2. ***Not applicable***

Item 3. ***Not applicable***

Item 4. ***Not applicable.***

Item 5. ***Not applicable***

Item 6. ***Exhibits***

Exhibit	Description
10.1	Fourth Amendment to 2006 Amended and Restated Credit Agreement by and among CHS Inc., CoBank, ACB and the Syndication Parties dated May 1, 2008
10.2	First Amendment to Credit Agreement (364-day Revolving Loan) by and between CHS Inc., CoBank, ACB and the Syndication Parties dated as of May 1, 2008
10.3	First Amendment to $150 Million Term Loan Credit Agreement by and between CHS Inc., CoBank, ACB and the Syndication Parties dated as of December 12, 2007
10.4	$75 Million Uncommitted Demand Facility by and between CHS Europe S.A. and Fortis Bank (Nederland) N.V. dated April 18, 2008
10.5	Third Amendment to the CHS Inc. Deferred Compensation Plan
10.6	$60 Million Uncommitted Trade Finance Facility by and between CHS Europe S.A. and Societe Generale dated June 6, 2008
31.1	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CHS Inc.
(Registrant)

/s/ John Schmitz

John Schmitz
Executive Vice President and
Chief Financial Officer

July 10, 2008

43