

COOPER TIRE & RUBBER CO  
Form 8-K  
December 04, 2008

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of Earliest Event Reported):

December 3, 2008

Cooper Tire & Rubber Company

(Exact name of registrant as specified in its charter)

Delaware

001-04329

344297750

(State or other jurisdiction  
of incorporation)

(Commission  
File Number)

(I.R.S. Employer  
Identification No.)

701 Lima Avenue, Findlay, Ohio

45840

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code:

419-423-1321

Not Applicable

Former name or former address, if changed since last report

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

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**Item 8.01 Other Events.**

On December 3, 2008, Cooper Tire & Rubber Company, a Delaware Corporation (the "Company"), announced it has reached a tentative contract agreement with the United Steelworkers of America Local 207L. A copy of the news release issued by the Company is attached as Exhibit 99.1 hereto and is incorporated herein by reference.

**Item 9.01 Financial Statements and Exhibits.**

(d) Exhibits

99.1 News release dated December 3, 2008

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**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 hereunto duly authorized.

Cooper Tire & Rubber Company

*December 4, 2008*

By: */s/Jack Jay McCracken*

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*Name: Jack Jay McCracken*

*Title: Assistant Secretary*

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## Exhibit Index

<b>Exhibit No.</b>	<b>Description</b>
99.1	Press release dated December 3, 2008

eral investment account of Massachusetts Mutual Life Insurance Company and C.M. Life Insurance Company; however, these assets are not represented in the table above.

*Material Conflicts of Interest.* The potential for material conflicts of interest may exist when a portfolio manager has responsibilities for the day-to-day management of multiple accounts. These conflicts may be heightened to the extent a portfolio manager, the Manager, the Sub-Adviser and/or their respective affiliates has an investment in one or much of such accounts or an interest in the performance of such accounts. The Manager and the Sub-Adviser have identified (and summarized below) areas where material conflicts of interest are most likely to arise and have adopted policies and procedures that it believes are reasonably designed to address such conflicts.

It is possible that an investment opportunity may be suitable for both the Fund and other accounts managed by the portfolio managers, but may not be available in sufficient quantities for both the Fund and the other accounts to participate fully. Similarly, there may be limited opportunity to sell an investment held by the Fund and another account. A conflict may arise where the portfolio managers may have an incentive to treat an account preferentially as compared to the Fund because the account pays the Manager or the Sub-Adviser a performance-based fee or the portfolio manager, the Manager, the Sub-Adviser or an affiliate has an interest in the account. The Manager and the Sub-Adviser have adopted investment allocation policies and

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trade allocation procedures to address allocation of portfolio transactions and investment opportunities across multiple clients. These policies are designed to achieve fair and equitable treatment of all clients over time, and specifically prohibit allocations based on performance of an account, the amount or structure of the management fee, performance fee or profit sharing allocations, participation or investment by an employee, the Manager, the Sub-Adviser or an affiliate, whether the account is public, private, proprietary or third party.

Potential material conflicts of interest may also arise related to the knowledge and timing of the Fund's trades, investment opportunities and broker selection. The portfolio managers will have information about the size, timing and possible market impact of the Fund's trades. It is theoretically possible that the portfolio managers could use this information for their personal advantage or the advantage of other accounts they manage or the possible detriment of the Fund. For example, a portfolio manager could front run a fund's trade or short sell a security for an account immediately prior to the Fund's sale of that security. To address these conflicts, the Manager and the Sub-Adviser have adopted policies and procedures governing employees' personal securities transactions, the use of short sales, and trading between the Fund and other accounts managed by the portfolio managers or accounts owned by the Manager, the Sub-Adviser or their respective affiliates.

With respect to securities transactions for the Fund, Babson Capital determines which broker to use to execute each order, consistent with its duty to seek best execution of the transaction. Babson Capital manages certain other accounts, however, where Babson Capital may be limited by the client with respect to the selection of brokers or directed to trade such client's transactions through a particular broker. In these cases, trades for a fund in a particular security may be placed separately from, rather than aggregated with, such other accounts. Placing separate transaction orders for a security may temporarily affect the market price of the security or otherwise affect the execution of the transaction to the possible detriment of a fund or the other account(s) involved. The Manager and the Sub-Adviser have policies and procedures that address best execution and directed brokerage.

The portfolio managers may also face other potential conflicts of interest in managing the Fund, and the above is not a complete description of every conflict of interest that could be deemed to exist in managing both the Fund and the other accounts listed above.

*Compensation.* The compensation package for portfolio managers is comprised of base salary, a performance-driven annual bonus, and discretionary long-term incentives. The performance-driven bonus is based on the performance of the accounts managed by the portfolio manager relative to appropriate benchmarks, including, with respect to the Fund, to the Index, and external comparable high yield fund peer groups. Performance of the Fund, like other accounts the portfolio managers manage, is evaluated on a pre-tax basis, and is reviewed over one and three-year periods, with greater emphasis given to the latter. There are other factors that affect bonus awards to a lesser extent, such as client satisfaction, teamwork, the growth of assets under management, and the overall success of Babson Capital. Such factors are considered as a part of the overall annual bonus evaluation process by the management of Babson Capital. Long-term incentives may take the form of deferred cash awards, phantom equity awards in the Manager or the Sub-Adviser (e.g., deferred cash awards that provide a portfolio manager with the economic equivalent of a shareholder interest in the firm by linking the value of the award to a formula which ties to the value of the business), and/or, in the case of a portfolio manager

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who manages a private investment fund with a performance fee, a deferred cash award that results in the manager receiving amounts based on the amount of the performance fee paid by such fund (a performance fee award). These long-term incentives vest over time and are granted annually, based upon the same criteria used to determine the performance-driven annual bonus detailed above. Because the portfolio managers are generally responsible for multiple accounts (including the Fund), they are compensated on the overall performance of the accounts that they manage, rather than a specific account, except for the portion of compensation relating to any performance fee award.

*Ownership of Securities.* At the present time, Russell D. Morrison, Zak Summerscale, Michael Freno, Sean Feeley, Kam Tugnait and Scott Roth do not directly or indirectly own any shares of the Fund.

### **Certain Terms of the Investment Management Agreement and Sub-Advisory Agreement**

Under the terms of the Investment Management Agreement, subject to such policies as the Trustees of the Fund may determine, the Manager, at its expense, will furnish continuously an investment program for the Fund and will make investment decisions on behalf of the Fund and place all orders for the purchase and sale of portfolio securities subject always to the Fund's investment objectives, policies and restrictions.

The Manager, subject to the supervision of the Board of Trustees, is responsible for managing the investments of the Fund. The Manager also furnishes to the Board of Trustees periodic reports on the investment performance of the Fund.

Subject to the control of the Trustees, the Manager also manages, supervises and conducts the other affairs and business of the Fund, furnishes office space and equipment, provides bookkeeping and certain clerical services (excluding determination of the net asset value of the Fund, shareholder accounting services and the accounting services for the Fund) and pays all salaries, fees and expenses of officers and Trustees of the Fund affiliated with the Manager or MassMutual, subject to the Chief Compliance Officer exception discussed above. As indicated under Portfolio Transactions and Brokerage Brokerage and Research Services, the Fund's portfolio transactions may be placed with broker-dealers which furnish the Manager, without cost, certain research, statistical and quotation services of value to them or their respective affiliates in advising the Fund or their other clients. In so doing, the Fund may incur greater brokerage commissions and other transactions costs than it might otherwise pay.

Pursuant to the Investment Management Agreement, the Fund has agreed to pay the Manager an annual management fee, payable on a monthly basis, at the annual rate of 1.00% of the Fund's average daily total managed assets for the services and facilities it provides. Total managed assets means 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). All fees and expenses are accrued daily and deducted before payment of dividends to investors.

Except as otherwise described in the Prospectus, the Fund pays, in addition to the investment management fee described above, the Fund pays all of its expenses, including, among others, legal fees, and expenses of counsel to the Fund and to the Fund's independent trustees; insurance, including trustees and officers insurance and errors and omissions insurance; auditing

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

The Investment Management Agreement was approved by the Trustees of the Fund (including all of the Trustees who are not interested persons of the Manager or the Fund). The Investment Management Agreement will continue in force with respect to the Fund for two years from its date, and from year to year thereafter, but only so long as their continuance is approved at least annually by (i) vote, cast in person at a meeting called for that purpose, of a majority of those Trustees who are not interested persons of the Manager or the Fund, and (ii) the majority vote of either the full Board of Trustees or the vote of a majority of the outstanding shares of all classes of the Fund. The Investment Management Agreement automatically terminates on assignment. The Investment Management Agreement may be terminated on not less than 60 days' notice by the Manager to the Fund or by the Fund to the Manager.

The Investment Management Agreement provides that the Manager will not be subject to any liability in connection with the performance of its services thereunder in the absence of willful misfeasance, bad faith, gross negligence in the performance of its obligations and duties. The Investment Management Agreement also provides that the Trust's right to use the Babson Capital name is subject to the Manager's ongoing permission to use the name.

Under the terms of the terms of the Sub-Advisory Agreement, the Sub-Adviser manages, subject to the supervision of the Manager and the Board of Trustees, the investment and reinvestment of a portion of the assets of the Fund, as will be allocated from time to time to the Sub-Adviser by a global allocation investment committee composed of representatives of the Manager and Sub-Adviser.

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

The Sub-Advisory Agreement was approved by the Trustees of the Fund (including all of the Trustees who are not interested persons of the Manager or the Sub-Adviser). The Sub-Advisory Agreement will continue in force with respect to the Fund for two years from its date, and from year to year thereafter, but only so long as their continuance is approved at least annually by (i) vote, cast in person at a meeting called for that purpose, of a majority of those Trustees who are not interested persons of the Manager, the Sub-Adviser or the Fund, and (ii) the majority vote of either the full Board of Trustees or the vote of a majority of the outstanding

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shares of all classes of the Fund. The Sub-Advisory Agreement automatically terminates on assignment. The Subadvisory Agreement may be terminated on not less than 60 days' notice by the Sub-Adviser to the Manager or by the Fund or the Manager to the Sub-Adviser.

The Subadvisory Agreement provides that the Sub-Adviser will not be subject to any liability in connection with the performance of its services thereunder in the absence of willful misfeasance, bad faith, gross negligence in the performance of its obligations and duties.

## **Proxy Voting Policies**

The Fund and its Board of Trustees have delegated to Babson Capital responsibility for voting any proxies relating to portfolio securities held by the Fund in accordance with the Manager's and the Sub-Adviser's respective proxy voting policies and procedures. Copies of the proxy voting policies and procedures to be followed by the Manager and the Sub-Adviser on behalf of the Fund, including procedures to be used when a vote presents a conflict of interest, are attached hereto as Appendix A ( Proxy Voting Policies ). Information regarding how the Fund votes proxies related to portfolio securities during the most recent 12-month period will be made available without charge at the Fund's website at [www.babsoncapital.com](http://www.babsoncapital.com) or on the website of the Securities and Exchange Commission at <http://www.sec.gov>.

## **PORTFOLIO TRANSACTIONS AND BROKERAGE**

### **Brokerage and Research Services**

Purchases and sales of securities on a securities exchange are effected by brokers, and when the Fund purchases or sells securities on a securities exchange it will pay a brokerage commission for this service. In transactions on stock exchanges in the United States, these commissions are negotiated, whereas on many foreign stock exchanges these commissions are fixed. In the over-the-counter markets, securities are generally traded on a "net" basis with dealers acting as principal for their own accounts without a stated commission, although the price of the security usually includes a profit to the dealer. In underwritten offerings, securities are purchased at a fixed price which includes an amount of compensation to the underwriter, generally referred to as the underwriter's concession or discount. On occasion, certain money market instruments may be purchased directly from an issuer, in which case no commissions or discounts are paid.

The primary consideration in placing portfolio security transactions with broker-dealers for execution is to obtain and maintain the availability of execution at the most favorable prices and in the most effective manner possible. Babson Capital attempts to achieve this result by selecting broker-dealers to execute portfolio transactions on the basis of their professional capability, the value and quality of their brokerage services, including anonymity and trade confidentiality, and the level of their brokerage commissions.

As permitted by Section 28(e) of the Securities Exchange Act of 1934, Babson Capital may cause the Fund to pay a broker-dealer that provides brokerage and research services to Babson Capital an amount of commission for effecting a securities transaction for a Fund in excess of the amount other broker-dealers would have charged for the transaction if Babson Capital determines in good faith that the greater commission is reasonable in relation to the value



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of the brokerage and research services provided by the executing broker-dealer viewed in terms of either a particular transaction or the Manager's or the Sub-Adviser's overall responsibilities to the Fund and to their other clients. The term "brokerage and research services" includes: providing advice as to the value of securities, the advisability of investing in, purchasing, or selling securities, and the availability of securities or of purchasers or sellers of securities; furnishing analyses and reports concerning issuers, industries, securities, economic factors and trends, portfolio strategy and the performance of accounts; and effecting securities transactions and performing functions incidental thereto such as clearance and settlement.

Research provided by brokers is used for the benefit of all of Babson Capital's clients and not solely or necessarily for the benefit of the Fund. Babson Capital attempts to evaluate the quality of research provided by brokers. Results of this effort are sometimes used by Babson Capital as a consideration in the selection of brokers to execute portfolio transactions.

The investment advisory fee that the Fund pays to the Manager will not be reduced as a consequence of Babson Capital's receipt of brokerage and research services. To the extent the Fund's portfolio transactions are used to obtain such services, the brokerage commissions paid by the Fund will exceed those that might otherwise be paid, by an amount which cannot now be determined. Such services would be useful and of value to Babson Capital in serving both the Fund and other clients and, conversely, such services obtained by the placement of brokerage business of other clients would be useful to Babson Capital in carrying out its obligations to the Fund.

Subject to the overriding objective of obtaining the best execution of orders, the Fund may use broker-dealer affiliates of Babson Capital to effect portfolio brokerage transactions under procedures adopted by the Trustees. Pursuant to these procedures, the commission rates and other remuneration paid to the affiliated broker-dealer must be fair and reasonable in comparison to those of other broker-dealers for comparable transactions involving similar securities being purchased or sold during a comparable time period. This standard would allow the affiliated broker or dealer to receive no more than the remuneration which would be expected to be received by an unaffiliated broker.

## **Investment Decisions and Portfolio Transactions**

Investment decisions for the Fund and for the other investment advisory clients of Babson Capital are made with a view to achieving their respective investment objectives. Investment decisions are the product of many factors in addition to basic suitability for the particular client involved (including the Fund). Some securities considered for investments by the Fund may also be appropriate for other clients served by Babson Capital. Thus, a particular security may be bought or sold for certain clients even though it could have been bought or sold for other clients at the same time. If a purchase or sale of securities consistent with the investment policies of the Fund and one or more of these clients served by Babson Capital is considered at or about the same time, transactions in such securities will be allocated among the Fund and clients in a manner deemed fair and reasonable by Babson Capital. Babson Capital may aggregate orders for the Fund with simultaneous transactions entered into on behalf of its other clients so long as price and transaction expenses are averaged either for that transaction or for the day. Likewise, a particular security may be bought for one or more clients when one or more clients are selling the security. In some instances, one client may sell a particular security

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to another client. It also sometimes happens that two or more clients simultaneously purchase or sell the same security, in which event each day's transactions in such security are, insofar as possible, averaged as to price and allocated between such clients in a manner which Babson Capital believes is equitable to each and in accordance with the amount being purchased or sold by each. There may be circumstances when purchases or sales of portfolio securities for one or more clients will have an adverse effect on other clients.

### **DISTRIBUTIONS**

As described in the Prospectus, initial distributions to Common Shareholders are expected to be declared approximately 45 days, and paid approximately 60 to 90 days, from the completion of the offering of the Common Shares, depending on market conditions. To permit the Fund to maintain a more stable monthly distribution, the Fund may distribute less than the entire amount of net investment income earned in a particular period. Such undistributed net investment income would be available to supplement future distributions, including distributions that might otherwise have been reduced by a decrease in the Fund's monthly net income due to fluctuations in investment income or expenses. As a result, the distributions paid by the Fund for any particular period may be more or less than the amount of net investment income actually earned by the Fund during such period. Undistributed net investment income will be added to the Fund's net asset value and, correspondingly, distributions from undistributed net investment income will be deducted from the Fund's net asset value.

### **DESCRIPTION OF SHARES**

#### **Common Shares**

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

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

Shares of closed-end investment companies may 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 and during other periods traded at prices lower than net asset value. There can be no assurance that Common Shares or shares of other similar funds will trade at a price higher than net asset value in the future. Net asset value will be reduced immediately following the offering of Common Shares by the 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

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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 will dilute the net asset value of the Common Shares. Whether investors will realize gains or losses upon the sale of Common Shares will not depend upon the Fund's net asset value but will depend entirely upon whether the market price of the Common Shares at the time of sale is above or below the original purchase price for the shares. Since the market price of the Fund's Common Shares will be determined by factors beyond the control of the Fund, the Fund cannot predict whether the Common Shares will trade at, below, or above net asset value or at, below or above the initial public offering price. Accordingly, the Common Shares are designed primarily for long-term investors, and investors in the Common Shares should not view the Fund as a vehicle for trading purposes. See Repurchase of Common Shares; Conversion to Open-End Fund and the Prospectus under Leverage and Description of Capital Structure Common Shares.

## **ANTI-TAKEOVER AND OTHER PROVISIONS IN THE DECLARATION OF TRUST**

### **Shareholder Liability**

Under Massachusetts law, shareholders could, under certain circumstances, be held personally liable for the obligations of the Fund. However, the Declaration contains an express disclaimer of shareholder liability for acts or obligations of the Fund and requires that notice of such disclaimer be given in each agreement, obligation or instrument entered into or executed by the Fund or the Trustees. The Declaration also provides for indemnification out of the Fund's property for all loss and expense of any shareholder held personally liable on account of being or having been a shareholder. Thus, the risk of a shareholder incurring financial loss on account of shareholder liability is limited to circumstances in which such disclaimer is inoperative or the Fund is unable to meet its obligations, and thus should be considered remote.

### **Anti-Takeover Provisions**

As described below, the Declaration includes provisions that could have the effect of limiting the ability of other entities or persons to acquire control of the Fund or to change the composition of its Board of Trustees, and could have the effect of depriving shareholders of opportunities to sell their shares at a premium over prevailing market prices by discouraging a third party from seeking to obtain control of the Fund, and may, in certain circumstances, give rise to a conflict of interest between the Manager and/or the Sub-Adviser, on the one hand, and the Common Shareholders, on the other hand.

The Fund's Trustees are divided into three classes (Class I, Class II and Class III), having initial terms of one, two and three years, respectively. At each annual meeting of shareholders, the term of one class will expire and each Trustee elected to that class will hold office for a term of three years. The classification of the Board of Trustees in this manner could delay for an additional year the replacement of a majority of the Board of Trustees. In addition, the Declaration provides that a Trustee may be removed only for cause and only (i) by action of at least seventy-five percent (75%) of the outstanding shares of the classes or series of shares entitled to vote for the election of such Trustee, or (ii) by at least seventy-five percent (75%) of the remaining Trustees.

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Except as provided in the next paragraph, the affirmative vote or consent of at least seventy-five percent (75%) of the Board of Trustees and at least seventy-five percent (75%) of the shares of the Fund outstanding and entitled to vote thereon are required to authorize any of the following transactions (each a **Material Transaction**): (1) a merger, consolidation or share exchange of the Fund or any series or class of shares of the Fund with or into any other person or company, or of any such person or company with or into the Fund or any such series or class of shares; (2) the issuance or transfer by the Fund or any series or class of shares (in one or a series of transactions in any twelve-month period) of any securities of the Fund or such series or class to any other person or entity for cash, securities or other property (or combination thereof) having an aggregate fair market value of \$1,000,000 or more, excluding sales of securities of the Fund or such series or class in connection with a public offering, issuances of securities of the Fund or such series or class pursuant to a dividend reinvestment plan adopted by the Fund and issuances of securities of the Fund or such series or class upon the exercise of any stock subscription rights distributed by the Fund; or (3) a sale, lease, exchange, mortgage, pledge, transfer or other disposition by the Fund or any series or class of shares (in one or a series of transactions in any twelve-month period) to or with any person of any assets of the Fund or such series or class having an aggregate fair market value of \$1,000,000 or more, except for transactions in securities effected by the Fund or such series or class in the ordinary course of its business. The same affirmative votes are required with respect to any shareholder proposal as to specific investment decisions made or to be made with respect to the Fund's assets or the assets of any series or class of shares of the Fund.

Notwithstanding the approval requirements specified in the preceding paragraph, the Declaration requires no vote or consent of the Fund's shareholders to authorize a Material Transaction if the transaction is approved by a vote of both a majority of the Board of Trustees and seventy-five percent (75%) of the Continuing Trustees (as defined below), so long as all other conditions and requirements, if any, provided for in the Fund's Bylaws and applicable law (including any shareholder voting rights under the 1940 Act) have been satisfied.

In addition, the Declaration provides that the Fund may be terminated at any time by vote or consent of at least seventy-five percent (75%) of the Fund's shares or, alternatively, by vote or consent of both a majority of the Board of Trustees and seventy-five percent (75%) of the Continuing Trustees (as defined below).

In certain circumstances, the Declaration also imposes shareholder voting requirements that are more demanding than those required under the 1940 Act in order to authorize a conversion of the Fund from a closed-end to an open-end investment company. See **Repurchase of Common Shares; Conversion to Open-End Fund** below.

As noted, the voting provisions described above could have the effect of depriving Common Shareholders of an opportunity to sell their Common Shares at a premium over prevailing market prices by discouraging a third party from seeking to obtain control of the Fund in a tender offer or similar transaction. In the view of the Fund's Board of Trustees, however, these provisions offer several possible advantages, including: (1) requiring persons seeking control of the Fund to negotiate with its management regarding the price to be paid for the amount of Common Shares required to obtain control; (2) promoting continuity and stability; and (3) enhancing the Fund's ability to pursue long-term strategies that are consistent with its investment objectives and management policies. The Board of Trustees has determined that the

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voting requirements described above, which are generally greater than the minimum requirements under the 1940 Act, are in the best interests of the Fund's Common Shareholders generally.

A Continuing Trustee, as used in the discussion above, is any member of the Fund's Board of Trustees who either (i) has been a member of the Board for a period of at least thirty-six months (or since the commencement of the Fund's operations, if less than thirty-six months) or (ii) was nominated to serve as a member of the Board of Trustees by a majority of the Continuing Trustees then members of the Board.

The foregoing is intended only as a summary and is qualified in its entirety by reference to the full text of the Declaration and the Fund's Bylaws, both of which have been filed as exhibits to the Fund's registration statement on file with the SEC.

## **Liability of Trustees**

The Declaration provides that the obligations of the Fund are not binding upon the Trustees of the Fund individually, but only upon the assets and property of the Fund, and that the Trustees will not be liable for errors of judgment or mistakes of fact or law. Nothing in the Declaration, however, protects a Trustee against any liability to which he would otherwise be subject by reason of willful misfeasance, bad faith, gross negligence or reckless disregard of the duties involved in the conduct of his office.

## **REPURCHASE OF COMMON SHARES; CONVERSION TO OPEN-END FUND**

The Fund is a closed-end investment company and as such its shareholders will not have the right to cause the Fund to redeem their shares. Instead, the Fund's Common Shares will trade in the open market at a price that will be a function of several factors, including dividend levels (which are in turn affected by expenses), net asset value, call protection, price, dividend stability, relative demand for and supply of such shares in the market, general market and economic conditions and other factors. Shares of a closed-end investment company may frequently trade at prices lower than net asset value. The Fund's Board of Trustees regularly monitors the relationship between the market price and net asset value of the Common Shares. If the Common Shares were to trade at a substantial discount to net asset value for an extended period of time, the Board may consider the repurchase of its Common Shares on the open market or in private transactions, or the making of a tender offer for such shares. The repurchase by the Fund of its shares at prices below net asset value will result in an increase in the net asset value of those shares that remain outstanding. There can be no assurance, however, that the Board of Trustees will decide to take or propose any of these actions, or that share repurchases or tender offers, if undertaken, will reduce market discount. The Fund has no present intention to repurchase its Common Shares and would do so only in the circumstances described in this section.

Subject to its investment limitations, the Fund may borrow to finance the repurchase of shares or to make a tender offer. Interest on any borrowings to finance share repurchase transactions or the accumulation of cash by the Fund in anticipation of share repurchases or tenders will reduce the Fund's net income. Any share repurchase, tender offer or borrowing that

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might be approved by the Board of Trustees would have to comply with the Securities Exchange Act of 1934, as amended, and the 1940 Act and the rules and regulations thereunder.

The Fund's Board of Trustees may also from time to time consider submitting to the holders of the shares of beneficial interest of the Fund a proposal to convert the Fund to an open-end investment company. In determining whether to exercise its sole discretion to submit this issue to shareholders, the Board of Trustees would consider all factors then relevant, including the relationship of the market price of the Common Shares to net asset value, the extent to which the Fund's capital structure is leveraged and the possibility of re-leveraging or de-leveraging, and general market and economic conditions. Based on these considerations, even if the Fund's shares should trade at a discount, the Board of Trustees may determine that, in the interest of the Fund and its shareholders, no action should be taken.

The Declaration requires the affirmative vote or consent of holders of at least seventy-five percent (75%) of each class of the Fund's shares entitled to vote on the matter to authorize a conversion of the Fund from a closed-end to an open-end investment company, unless the conversion is authorized by both a majority of the Board of Trustees and seventy-five percent (75%) of the Continuing Trustees (as defined above under "Anti-Takeover and Other Provisions in the Declaration of Trust" "Anti-Takeover Provisions"). This seventy-five percent (75%) shareholder approval requirement is higher than is required under the 1940 Act. In the event that a conversion is approved by the Trustees and the Continuing Trustees as described above, the minimum shareholder vote required under the 1940 Act would be necessary to authorize the conversion. Currently, the 1940 Act would require approval of the holders of a majority of the outstanding voting together as a single class.

If the Fund converted to an open-end company, the Fund's Common Shares likely would no longer be listed on the New York Stock Exchange. Shareholders of an open-end investment company may require the company to redeem their shares on any business day (except in certain circumstances as authorized by or under the 1940 Act) at their net asset value, less such redemption charge, if any, as might be in effect at the time of redemption. In order to avoid maintaining large cash positions or liquidating favorable investments to meet redemptions, open-end companies typically engage in a continuous offering of their shares. Open-end companies are thus subject to periodic asset in-flows and out-flows that can complicate portfolio management.

The repurchase by the Fund of its shares at prices below net asset value will result in an increase in the net asset value of those shares that remain outstanding.

Before deciding whether to take any action if the Fund's Common Shares trade below net asset value, the Board of Trustees would consider all relevant factors, including the extent and duration of the discount, the liquidity of the Fund's portfolio, the impact of any action that might be taken on the Fund or its shareholders and market considerations. Based on these considerations, even if the Fund's shares should trade at a discount, the Board of Trustees may determine that, in the interest of the Fund and its shareholders, no action should be taken.

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**Table of Contents****TAX MATTERS****Taxation of the Fund**

The following is a summary discussion of certain U.S. federal income tax consequences that may be relevant to a Common Shareholder that acquires, holds and/or disposes of Common Shares of the Fund, and reflects provisions of the Code, existing Treasury regulations, rulings published by the Internal Revenue Service ( IRS ), and other applicable authority, as of the date of this Statement of Additional Information. These authorities are subject to change by legislative or administrative action, possibly with retroactive effect. The following discussion is only a summary of some of the important tax considerations generally applicable to investments in the Fund and the discussion set forth herein does not constitute tax advice. There may be other tax considerations applicable to particular investors, such as insurance companies, financial institutions, tax-deferred retirement plans, broker-dealers and foreign shareholders (defined below). In addition, income earned through an investment in the Fund may be subject to state, local and foreign taxes. Common Shareholders should consult their own tax advisers regarding their particular situation and the possible application of U.S. federal, state, local, foreign or other tax laws.

The Fund intends to elect to be treated as a regulated investment company ( RIC ) under Subchapter M of the Code and intends each year to qualify and be eligible to be treated as such. In order to qualify for the special tax treatment accorded RICs and their shareholders, the Fund must, among other things: (i) derive at least 90% of its gross income in each taxable year from dividends, interest, payments with respect to certain securities loans, gains from the sale or other disposition of stock, securities or foreign currencies, or other income (including, but not limited to, gains from options, futures or forward contracts) derived with respect to its business of investing in such stock, securities or currencies and net income derived from interests in qualified publicly traded partnerships (as described below); (ii) diversify its holdings so that at the end of each fiscal quarter, (a) at least 50% of the value of its total assets consists of cash and cash items (including receivables), U.S. government securities, securities of other RICs, and other securities limited, with respect to any one issuer, to no more than 5% of the value of the Fund's total assets and 10% of the outstanding voting securities of such issuer, and (b) not more than 25% of the value of the Fund's total assets is invested in the securities (other than those of the U.S. government or other RICs) of any one issuer or of two or more issuers which the Fund controls and which are engaged in the same, similar or related trades or businesses, or in the securities of one or more qualified publicly traded partnerships; and (iii) distribute with respect to each taxable year at least 90% of the sum of its investment company taxable income (as that term is defined in the Code without regard to the deduction for dividends paid generally, taxable ordinary income and the excess, if any, of net short-term capital gains over net long-term capital losses) and net tax-exempt income for such year.

In general, for purposes of the 90% gross income requirement described in (i) above, income derived from a partnership will be treated as qualifying income only to the extent such income is attributable to items of income of the partnership which would be qualifying income if realized directly by the RIC. However, 100% of the net income derived from an interest in a qualified publicly traded partnership (generally, a partnership (a) the interests in which are traded on an established securities market or are readily tradable on a secondary market or the substantial equivalent thereof and (b) that derives less than 90% of its income from the qualifying income described in (i) above) will be treated as qualifying income. In general, such entities will be treated as partnerships for U.S. federal income tax purposes because they meet the passive income requirement under Code Section 7704(c)(2). For purposes of (ii) above, the term outstanding voting securities of such issuer will include the equity securities of a

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qualified publicly traded partnership. Also, for purposes of the diversification test in (ii) above, the identification of the issuer (or issuers) of a particular investment can depend on the terms and conditions of that investment. In some cases, identification of the issuer (or issuers) is uncertain under current law, and an adverse determination or future guidance by the IRS with respect to issuer identification for a particular type of investment may adversely affect the Fund's ability to meet the diversification test in (ii) above.

To the extent that it qualifies for treatment as a RIC, the Fund will not be subject to federal income tax on income distributed to Common Shareholders in a timely manner in the form of dividends (including Capital Gain Dividends, as defined below). The Fund's intention to qualify for treatment as a RIC may negatively affect the Fund's return to Common Shareholders by limiting its ability to acquire or continue to hold positions that would otherwise be consistent with its investment strategy or by requiring it to engage in transactions it would otherwise not engage in, resulting in additional transaction costs. If the Fund were to fail to meet the income, diversification or distribution test described above, the Fund could in some cases cure such failure, including by paying a Fund-level tax, paying interest, making additional distributions or disposing of certain assets. If the Fund were ineligible to or otherwise did not cure such failure for any year, or if the Fund were otherwise to fail to qualify as a RIC accorded special tax treatment for such year, the Fund would be subject to tax on its taxable income at corporate rates, and all distributions from earnings and profits, including any distributions of net tax-exempt income and net long-term capital gains, would be taxable to Common Shareholders as dividend income. In addition, the Fund could be required to recognize unrealized gains, pay substantial taxes and interest and make substantial distributions before re-qualifying as a RIC that is accorded special tax treatment. Some portions of such distributions may be eligible for the dividends received deduction in the case of corporate shareholders and to be treated as qualified dividend income in the case of individuals (at least for taxable years beginning before January 1, 2013, see discussion below), provided, in both cases, that the shareholder meets certain holding period and other requirements in respect of the Fund's Common Shares. In addition, the Fund could be required to recognize unrealized gains, pay substantial taxes and interest and make substantial distributions before re-qualifying as a RIC that is accorded special tax treatment. Failure to qualify as a RIC would likely materially reduce the investment return to the Common Shareholders.

The Fund intends to distribute substantially all of its investment company taxable income and all net realized long-term capital gain in a taxable year. If the Fund does retain any investment company taxable income, it will be subject to tax at regular corporate rates on the amount retained. If the Fund retains any net capital gain, it will also be subject to tax at regular corporate rates on the amount retained, but may designate the retained amount as undistributed capital gain in a notice to its shareholders who would then (i) be required to include in income for U.S. federal income tax purposes, as long-term capital gain, their shares of such undistributed amount, and (ii) be entitled to credit their proportionate shares of the tax paid by the Fund on such undistributed amount against their U.S. federal income tax liabilities, if any, and to claim such refunds on a properly filed U.S. federal tax return to the extent the credit exceeds such liabilities. If the Fund makes this designation, for U.S. federal income tax purposes, the tax basis of Common Shares owned by a shareholder will be increased by an amount equal to the difference between the amount of undistributed capital gains included in the shareholder's gross income under clause (i) of the preceding sentence and the tax deemed paid by the shareholder under clause (ii) of the preceding sentence. The Fund is not required to, and there can be no



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assurance that the Fund will, make this designation if it retains all or a portion of its net capital gain in a taxable year.

A nondeductible excise tax at the rate of 4% will be imposed on the excess, if any, of the Fund's required distribution over its actual distributions in any calendar year. Generally, the required distribution is 98% of the Fund's ordinary income for the calendar year plus 98.2% of its capital gain net income recognized during the one-year period ending on October 31st (or December 31st, if the Fund elects to use its taxable year instead), plus undistributed amounts from prior years. For these purposes, ordinary gains and losses from the sale, exchange, or other taxable disposition of property taken into account after October 31st (unless the Fund elects to use its taxable year as described above) are treated as arising on January 1st of the following calendar year. For purposes of the excise tax, the Fund will be treated as having distributed any amount for which it is subject to corporate income tax for the taxable year ending within the calendar year. The Fund intends to make distributions sufficient to avoid imposition of the excise tax, although there can be no assurance that it will be able to do so. The Fund may determine to pay the excise tax in a year to the extent it is deemed to be in the best interest of the Fund (e.g., if the excise tax is de minimis).

Capital losses in excess of capital gains ( net capital losses ) are not permitted to be deducted against the Fund's net investment income. Instead, potentially subject to certain limitations, the Fund may carry net capital losses from any taxable year forward to subsequent taxable years to offset capital gains, if any, realized during such subsequent taxable years. Capital loss carryforwards are reduced to the extent they offset current-year net realized capital gains, whether the Fund retains or distributes such gains. The Fund may carry net capital losses forward to one or more subsequent taxable years without expiration. The Fund must apply such carryforwards first against gains of the same character. The Fund's available capital loss carryforwards, if any, will be set forth in its annual shareholder report for each fiscal year.

**Taxation of Fund Distributions**

For U.S. federal income tax purposes, distributions of investment income are generally taxable as ordinary income. Taxes on distributions of capital gains are determined by how long the Fund owned the investments that generated them, rather than how long a shareholder has owned his or her Common Shares. In general, the Fund will recognize long-term capital gain or loss on investments it has owned (or is deemed to have owned) for more than one year, and short-term capital gain or loss on investments it has owned (or is deemed to have owned) for one year or less. Distributions of net capital gain (that is, the excess of net long-term capital gain over net short-term capital loss, in each case determined with reference to any capital loss carryforwards) that are properly designated by the Fund as capital gain dividends ( Capital Gain Dividends ) will be taxable to shareholders as long-term capital gains. Distributions from capital gains are generally made after applying any available capital loss carryovers. Long-term capital gain rates applicable to individuals have been temporarily reduced for taxable years beginning before January 1, 2013. Distributions of net short-term capital gain (as reduced by any net long-term capital loss for the taxable year) will be taxable to shareholders as ordinary income. For taxable years beginning before January 1, 2013, the Fund may designate certain dividends as derived from qualified dividend income, which, when received by an individual, will be taxed at the rates applicable to long-term capital gain, provided holding period and other requirements are met at both the shareholder and Fund levels. It is currently unclear whether Congress will

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extend the special tax treatment of qualified dividend income for tax years beginning on or after January 1, 2013. The Fund does not expect a significant portion of distributions to be derived from qualified dividend income. Capital gain rates will increase and the special tax treatment of qualified dividend income will expire for taxable years beginning on or after January 1, 2013, unless Congress enacts legislation providing otherwise. Ordinary income tax rates applicable to individuals are scheduled to increase beginning January 1, 2013, unless Congress enacts legislation providing otherwise.

Dividends received by corporate shareholders may qualify for the 70% dividends-received deduction to the extent of the amount of qualifying dividends received by the Fund from domestic corporations and to the extent, if any, that a portion of interest paid or accrued on certain high yield discount obligations owned by the Fund is treated as a dividend. The Fund does not expect a significant portion of its distributions to be eligible for the corporate dividends received deduction.

Any distribution of income that is attributable to (i) income received by the Fund in lieu of dividends with respect to securities on loan pursuant to a securities lending transaction or (ii) dividend income received by the Fund on securities it temporarily purchased from a counterparty pursuant to a repurchase agreement that is treated for U.S. federal income tax purposes as a loan by the Fund, will not constitute qualified dividend income to individual shareholders and will not be eligible for the dividends received deduction for corporate shareholders.

For taxable years beginning on or after January 1, 2013, Section 1411 of the Code generally imposes a 3.8% Medicare contribution tax on the net investment income of certain individuals whose income exceeds certain threshold amounts, and of certain trusts and estates under similar rules. The details of the implementation of this tax and of the calculation of net investment income, among other issues, are currently unclear and remain subject to future guidance. For these purposes, net investment income generally includes, among other things, (i) distributions paid by the Fund of net investment income and capital gains as described above, and (ii) any net gain from the sale or exchange of Common Shares. Shareholders are advised to consult their tax advisors regarding the possible implications of this additional tax on their investment in the Fund.

If the Fund makes a distribution in excess of its current and accumulated earnings and profits in any taxable year, the excess distribution will be treated as a return of capital to the extent of a shareholder's tax basis in his or her Common Shares, and thereafter as capital gain. A return of capital is not taxable, but it reduces a shareholder's basis in his or her shares, thus reducing any loss or increasing any gain on a subsequent taxable disposition by the shareholder of such shares.

A distribution by the Fund will be treated as paid on December 31 of any calendar year if it is declared by the Fund in October, November or December with a record date in such a month and paid by the Fund during January of the following calendar year. Such distributions will be taxable to shareholders in the calendar year in which the distributions are declared, rather than the calendar year in which the distributions are received.

For U.S. federal income tax purposes, all distributions are generally taxable in the manner described herein, whether a shareholder takes them in cash or they are reinvested pursuant to the

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dividend reinvestment plan in additional shares of the Fund. A shareholder whose distributions are reinvested in Common Shares under the dividend reinvestment plan generally will be treated for U.S. federal income tax purposes as having received an amount in distribution equal to either (i) if newly issued common shares are issued under the plan, the fair market value of the newly issued common shares issued to the shareholder or (ii) if reinvestment is made through open-market purchases under the plan, the amount of cash allocated to the shareholder for the purchase of Common Shares on its behalf in the open market.

The determination of the character for U.S. federal income tax purposes of any distribution from the Fund (namely, ordinary income dividends, capital gains dividends, qualified dividends, or return of capital distributions) will be made as of the end of the Fund's taxable year. For each calendar year, the Fund will provide shareholders with a written notice reporting the amount of any capital gain distributions or other distributions, early in the following calendar year.

Dividends and distributions on the Common Shares are generally subject to federal income tax as described herein to the extent they do not exceed the Fund's realized income and gains, even though such dividends and distributions may economically represent a return of a particular shareholder's investment. Such distributions are likely to occur in respect of Common Shares purchased at a time when the Fund's net asset value reflects unrealized gains or income or gains that are realized but not yet distributed. Such realized income and gains may be required to be distributed even when the Fund's net asset value also reflects unrealized losses.

## **Sale or Exchange of Common Shares**

Common Shareholders who sell or exchange their Common Shares will generally recognize gain or loss in an amount equal to the difference between the amount received and the Common Shareholder's adjusted tax basis in the Common Shares sold or exchanged. If the Common Shares are held as a capital asset, any gain or loss realized upon a taxable disposition of the Common Shares will be treated as long-term capital gain or loss if the shares have been held for more than 12 months. Otherwise, the gain or loss on the taxable disposition of Common Shares will be treated as short-term capital gain or loss. However, any loss realized upon a taxable disposition of Common Shares held by a shareholder for six months or less will be treated as long-term, rather than short-term, to the extent of Capital Gain Dividends received (or deemed received) by the shareholder with respect to the shares. For purposes of determining whether Common Shares have been held for six months or less, the holding period is suspended for any periods during which the Common Shareholder's risk of loss is diminished as a result of holding one or more other positions in substantially similar or related property, or through certain options or short sales. Any loss realized on a sale or exchange of Common Shares will be disallowed to the extent those Common Shares are replaced by other substantially identical shares within a period of 61 days beginning 30 days before and ending 30 days after the date of disposition of the Common Shares (whether through the reinvestment of distributions, which could occur, for example, if the Common Shareholder is a participant in the dividend reinvestment plan or otherwise). In that event, the basis of the replacement shares will be adjusted to reflect the disallowed loss.

From time to time the Fund may make a tender offer for its Common Shares. Shareholders who tender all Common Shares held, or considered to be held, by them will be

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treated as having sold their shares and generally will realize a capital gain or loss. If a shareholder tenders fewer than all of its Common Shares, such shareholder may be treated as having received a taxable dividend upon the tender of its Common Shares. In such a case, there is a risk that non-tendering shareholders will be treated as having received taxable distributions from the Fund. To the extent that the Fund recognizes net gains on the liquidation of portfolio securities to meet such tenders of Common Shares, the Fund will be required to make additional distributions to its Common Shareholders.

### **Foreign Taxes**

The Fund may be liable to foreign governments for taxes relating primarily to investment income or capital gains on foreign securities in the Fund's portfolio. If at the close of its taxable year, more than 50% of the value of the Fund's total assets were to consist of securities of foreign corporations (including foreign governments), the Fund would be permitted to make an election under the Code that would allow Common Shareholders who are U.S. citizens or U.S. corporations to claim a foreign tax credit or deduction (but not both) on their income tax returns for their pro rata portion of qualified taxes paid by the Fund to foreign countries in respect of foreign securities that the Fund held for at least the minimum period specified in the Code. In such a case, Common Shareholders would include in gross income from foreign sources their pro rata shares of such taxes paid by the Fund. A Common Shareholder's ability to claim an offsetting foreign tax credit or deduction in respect of foreign taxes paid by the Fund would be subject to certain limitations imposed by the Code, which could result in the shareholder's not receiving a full credit or deduction (if any) for the amount of such taxes. Shareholders who do not itemize deductions on their U.S. federal income tax returns may claim a credit (but not a deduction) for such foreign taxes. The Fund does not expect to be eligible to make this election.

### **Foreign Currency Transactions**

Any transaction by the Fund in foreign currencies, foreign-currency denominated debt obligations or certain foreign currency options, futures contracts, or forward contracts (or similar instruments) may give rise to ordinary income or loss to the extent such income or loss results from fluctuations in the value of the foreign currency concerned. Such ordinary income treatment may accelerate Fund distributions to Common Shareholders and increase the distributions taxed to Common Shareholders as ordinary income. Any net losses so created cannot be carried forward by the Fund to offset income or gains earned in subsequent taxable years.

### **Options, Futures and Other Derivative Instruments**

In general, any option premiums received by the Fund are not immediately included in the income of the Fund. Instead, the premiums are recognized when the option contract expires, the option is exercised by the holder, or the Fund transfers or otherwise terminates the option (e.g., through a closing transaction). If an option written by the Fund is exercised and the Fund sells or delivers the underlying securities or other assets, the Fund generally will recognize capital gain or loss equal to (i) the sum of the strike price and the option premium received by the Fund minus (ii) the Fund's basis in the underlying securities or other assets. Such gain or loss generally will be short-term or long-term depending upon the holding period of the underlying securities or other assets. If securities or other assets are purchased by the Fund pursuant to the exercise of a put option written by it, the Fund generally will subtract the premium received from its cost basis in the securities or other assets purchased. The gain or loss with respect to any

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termination of the Fund's obligation under an option other than through the exercise of the option and related sale or delivery of the underlying securities or other assets generally will be short-term gain or loss depending on whether the premium income received by the Fund is greater or less than the amount paid by the Fund (if any) in terminating the transaction. Thus, for example, if an option written by the Fund expires unexercised, the Fund generally will recognize short-term gain equal to the premium received.

Certain covered call writing activities of the Fund may trigger the U.S. federal income tax straddle rules of Section 1092 of the Code, requiring that losses be deferred and holding periods be tolled on offsetting positions in options and stocks deemed to constitute substantially similar or related property. Options on single stocks that are not deep in the money may give rise to qualified covered calls, which generally are not subject to the straddle rules; the holding period on stock underlying qualified covered calls that are in the money although not deep in the money will be suspended during the period that such calls are outstanding. Thus, the straddle rules and the rules governing qualified covered calls could cause gains that would otherwise constitute long-term capital gains to be treated as short-term capital gains, and distributions that would otherwise constitute qualified dividend income or qualify for the dividends-received deduction to fail to satisfy the holding period requirements and therefore to be taxed as ordinary income or to fail to qualify for the 70% dividends received deduction, as the case may be.

The tax treatment of certain futures contracts entered into by the Fund as well as listed non-equity options written or purchased by the Fund on U.S. exchanges (including options on futures contracts, equity indices, and debt securities) will be governed by Section 1256 of the Code (Section 1256 contracts). Gains or losses on Section 1256 contracts generally are considered 60% long-term and 40% short-term capital gains or losses (60/40), although certain foreign currency gains and losses from such contracts may be treated as ordinary in character. Also, Section 1256 contracts held by the Fund at the end of each taxable year (and, for purposes of the 4% excise tax, on certain other dates as prescribed under the Code) are marked to market, with the result that unrealized gains or losses are treated as though they were realized and the resulting gain or loss is treated as ordinary or 60/40 gain or loss, as applicable.

In addition to the special rules described above in respect of futures and options transactions, the Fund's transactions in other derivative instruments (e.g., forward contracts and swap agreements), as well as any of its other hedging, short sale or similar transactions, may be subject to uncertainty with respect to their tax treatment, and to one or more special tax rules (e.g., notional principal contract, straddle, constructive sale, wash sale, and short sale rules). The aforementioned rules may affect whether gains and losses recognized by the Fund are treated as ordinary or capital or as short-term or long-term, accelerate the recognition of income or gains to the Fund, defer losses to the Fund, and cause adjustments in the holding periods of the Fund's securities. These rules could therefore affect the amount, timing and/or character of distributions to Common Shareholders.

Because the tax treatment and the tax rules applicable to these types of transactions are in some cases uncertain under current law, an adverse determination or future guidance by the IRS with respect to these rules or treatment (which determination or guidance could be retroactive) may affect whether the Fund has made sufficient distributions, and otherwise satisfied the relevant requirements, to maintain its qualification as a RIC and avoid a Fund-level tax.

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Certain of the Fund's investments in derivatives and foreign currency-denominated instruments, and any of the Fund's transactions in foreign currencies and hedging activities, are likely to produce a difference between its book income and its taxable income. If such a difference arises, and the Fund's book income is less than its taxable income, the Fund could be required to make distributions exceeding book income to qualify as a RIC that is accorded special tax treatment and to avoid an entity-level tax. In the alternative, if the Fund's book income exceeds its taxable income (including realized capital gains), the distribution (if any) of such excess generally will be treated as (i) a dividend to the extent of the Fund's remaining earnings and profits, (ii) thereafter, as a return of capital to the extent of the recipient's basis in its Common Shares, and (iii) thereafter as gain from the sale or exchange of a capital asset.

### **Securities Issued or Purchased at a Discount**

Some debt obligations with a fixed maturity date of more than one year from the date of issuance (and zero-coupon debt obligations with a fixed maturity date of more than one year from the date of issuance) that are acquired by the Fund will be treated as debt obligations that are issued originally at a discount. Generally, the amount of the original issue discount (OID) is treated as interest income and is included in the Fund's taxable income (and required to be distributed by the Fund) over the term of the debt security, even though payment of that amount is not received until a later time, upon partial or full repayment or disposition of the debt security. In addition, payment-in-kind securities will give rise to income which is required to be distributed and is taxable even though the Fund holding the security receives no interest payment in cash on the security during the year.

Some debt obligations that are acquired by the Fund in the secondary market may be treated as having market discount. Generally, any gain recognized on the disposition of a debt security having market discount is treated as ordinary income to the extent the gain does not exceed the accrued market discount on such debt security. Market discount generally accrues in equal daily installments. The Fund may make certain elections applicable to debt obligations having market discount, which could affect the character and timing of recognition of income.

Some debt obligations with a fixed maturity date of one year or less from the date of issuance that are acquired by the Fund may be treated as having OID or, in certain cases, acquisition discount (very generally, the excess of the stated redemption price over the purchase price). The Fund will be required to include the OID or acquisition discount in income (as ordinary income) and thus distribute it over the term of the debt security, even though payment of that amount is not received until a later time, upon partial or full repayment or disposition of the debt security. The rate at which OID or acquisition discount accrues, and thus is included in the Fund's income, will depend upon which of the permitted accrual methods the Fund elects.

Increases in the principal amount of an inflation indexed bond will be treated as OID. Decreases in the principal amount of an inflation indexed bond will reduce the amount of interest from the debt instrument that would otherwise be includible in income by the Fund.

If the Fund holds the foregoing kinds of debt instruments, it may be required to pay out as an income distribution each year an amount which is greater than the total amount of cash interest the Fund actually received. Such distributions may be made from the cash assets of the Fund or, if necessary, by liquidation of portfolio securities including at a time when it may not be

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advantageous to do so. The Fund may realize gains or losses from such liquidations. In the event the Fund realizes net short-term capital gains or net capital gains from such transactions, its Common Shareholders may receive a dividend taxed at ordinary income tax rates, or a larger Capital Gain Dividend than they would in the absence of such transactions.

### **At-Risk or Defaulted Securities**

Investments in debt obligations that are at risk of or in default present special tax issues for the Fund. Tax rules are not entirely clear about issues such as whether or to what extent the Fund should recognize market discount on a debt obligation; when the Fund may cease to accrue interest, OID or market discount; when and to what extent the Fund may take deductions for bad debts or worthless securities; and how the Fund should allocate payments received on obligations in default between principal and income. These and other related issues will be addressed by the Fund when, as, and if it invests in such securities in order to seek to ensure that it distributes sufficient income to preserve its status as a RIC and avoid becoming subject to U.S. federal income or excise tax.

### **Passive Foreign Investment Companies**

The Fund may own shares in certain foreign investment entities, referred to as passive foreign investment companies ( PFICs ). In order to avoid U.S. federal income tax on distributions received from a PFIC, and an additional charge on a portion of any excess distribution from such PFICs or gain from the disposition of such shares, the Fund may elect to mark the gains (and to a limited extent the losses) in such holdings to the market as though it had sold (and, solely for purposes of this mark-to-market election, repurchased) its holdings in those PFICs on the last day of the Fund's taxable year. Such gains and losses are treated as ordinary income and loss. If the PFIC provides the Fund with certain information, the Fund may alternatively elect to treat the PFIC as a qualified electing fund (*i.e.*, make a QEF election ), in which case the Fund will be required to include its share of the PFIC's income and net capital gains annually, regardless of whether it receives any distribution from the PFIC. The mark-to-market and QEF elections may accelerate the recognition of income (without the receipt of cash) and require the Fund to sell securities it would have otherwise continued to hold (including when it is not advantageous to do so) in order to make distributions to Common Shareholders to avoid any Fund-level tax. Dividends paid by PFICs generally will not qualify for treatment as qualified dividend income. Because it is not always possible to identify a foreign corporation as a PFIC, the Fund may incur the tax and interest charges described above in some instances.

### **Real Estate Investment Trusts**

Any investment by the Fund in equity securities of real estate investment trusts qualifying as such under Subchapter M of the Code ( REITs ) may result in the Fund's receipt of cash in excess of the REIT's earnings; if the Fund distributes such amounts, such distributions could constitute a return of capital to Common Shareholders for U.S. federal income tax purposes. Income from REIT securities generally will not be eligible for treatment as qualified dividend income.

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### **REMICs**

The Fund may invest directly or indirectly in residual interests in real estate mortgage investment conduits ( REMICs ) or equity interests in taxable mortgage pools ( TMPs ). It is likely that a portion of the Fund's income (including income allocated to the Fund from a REIT or other pass-through entity) that is attributable to a residual interest in a REMIC or an equity interest in a TMP (referred to in the Code as an excess inclusion ) will be subject to U.S. federal income tax in all events, and that such income will be allocated to shareholders of the RIC in proportion to the dividends received by such shareholders, with the same consequences as if the shareholders held the related interest directly.

In general, excess inclusion income allocated to Common Shareholders (i) cannot be offset by net operating losses (subject to a limited exception for certain thrift institutions), (ii) will constitute unrelated business taxable income ( UBTI ) to entities subject to tax on UBTI and (iii) in the case of a non-U.S. shareholder, will not qualify for any reduction in U.S. federal withholding tax.

Charitable remainder trusts and other tax-exempt shareholders are urged to consult their tax advisers concerning the consequences of investing in the Fund.

### **Backup Withholding**

Backup withholding is generally required with respect to taxable distributions paid to any individual shareholder who fails to properly furnish a correct taxpayer identification number, who has under-reported dividend or interest income, or who fails to certify that he or she is not subject to such withholding. The backup withholding rate is currently scheduled to increase for amounts paid after December 31, 2012, unless Congress enacts legislation providing otherwise. Amounts withheld as a result of backup withholding are remitted to the U.S. Treasury but do not constitute an additional tax imposed on the shareholder; such amounts may be claimed as a credit on the shareholder's U.S. federal income tax return, provided the appropriate information is furnished to the IRS.

### **Foreign Shareholders**

Dividends properly designated as Capital Gain Dividends are generally not subject to withholding of federal income tax. In general, dividends (other than Capital Gain Dividends) paid by the Fund to a shareholder that is not a U.S. person within the meaning of the Code (a foreign shareholder ) are subject to withholding of U.S. federal income tax at a rate of 30% (or lower applicable treaty rate) even if they are funded by income or gains (such as portfolio interest, short-term capital gains, or foreign-source dividend and interest income) that, if paid to a foreign shareholder directly, would not be subject to withholding. However, for taxable years beginning before January 1, 2012, a RIC was not required to withhold any amounts (i) with respect to distributions of U.S.-source interest income that would not have been subject to U.S. federal income tax if earned directly by an individual foreign shareholder, and (ii) with respect to distributions of net short-term capital gains in excess of net long-term capital losses, in each case to the extent the RIC properly reported such distributions to its shareholders. This exemption from withholding for interest-related and short-term capital gain dividends has expired for distributions with respect to taxable years of a RIC beginning on or after January 1, 2012. It is currently unclear whether Congress will extend these exemptions for distributions with respect to taxable years of a RIC beginning on or after January 1, 2012, or what the terms of such an extension would be, including whether such extension would have retroactive effect.



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In the case of RIC shares held through an intermediary, the intermediary may have withheld even if the RIC made a designation with respect to a payment. This exemption from withholding for interest-related and short-term capital gain dividends has expired for distributions with respect to taxable years of a RIC beginning on or after January 1, 2012. Therefore, as of the date of this SAI, the Fund (or intermediary, as applicable) is currently required to withhold on distributions to foreign shareholders attributable to net interest or short-term capital gains that were formerly eligible for this withholding exemption. It is currently unclear whether Congress will extend these exemptions for distributions with respect to taxable years of a RIC beginning on or after January 1, 2012, or what the terms of such an extension would be, including whether such extension would have retroactive effect. Foreign shareholders should contact their intermediaries with respect to the application of these rules.

Under U.S. federal tax law, a foreign shareholder is not, in general, subject to U.S. federal income tax on gains (and is not allowed a deduction for losses) realized on the sale of shares of the Fund or on Capital Gain Dividends unless (i) such gain or Capital Gain Dividend is effectively connected with the conduct by the foreign shareholder of a trade or business within the United States, (ii) in the case of a foreign shareholder that is an individual, the shareholder is present in the United States for a period or periods aggregating 183 days or more during the year of the sale or the receipt of the Capital Gain Dividend and certain other conditions are met, or (iii) the special rules relating to gain attributable to the sale or exchange of U.S. real property interests ( USRPIS ) apply to the foreign shareholder's sale of shares of the Fund or to the Capital Gain Dividend the foreign shareholder received (see below).

Foreign shareholders with respect to whom income from the Fund is effectively connected with a trade or business conducted by the foreign shareholder within the United States will in general be subject to U.S. federal income tax on the income derived from the Fund at the graduated rates applicable to U.S. citizens, residents or domestic corporations, whether such income is received in cash or reinvested in shares of the Fund and, in the case of a foreign corporation, may also be subject to a branch profits tax. Any effectively-connected dividends received by a foreign shareholder will generally be exempt from the 30% U.S. federal withholding tax, provided the shareholder satisfies applicable certification requirements. If a foreign shareholder is eligible for the benefits of a tax treaty, any effectively connected income or gain will generally be subject to U.S. federal income tax on a net basis only if it is also attributable to a permanent establishment maintained by the shareholder in the United States. More generally, foreign shareholders who are residents in a country with an income tax treaty with the United States may obtain different tax results than those described herein, and are urged to consult their tax advisers.

Very generally, special tax rules apply if the Fund holds or, but for the operation of certain exceptions would be treated as holding, USRPIS the fair market value of which equals or exceeds 50% of the sum of the fair market values of the Fund's USRPIS, interests in real property located outside the United States, and other assets used or held for use in a trade or business. Such rules could result in U.S. tax withholding from certain distributions to a foreign shareholder. Furthermore, the foreign shareholder may be required to file a U.S. tax return and pay tax on such distributions and, in certain cases, gain realized on sale of Fund shares at regular U.S. federal income tax rates. The Fund does not expect to invest in, or to be treated as

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holding but for the exceptions noted above, a significant percentage of USRPIs, so these special tax rules are not likely to apply.

In order to qualify for any exemptions from withholding described above, a foreign shareholder must comply with applicable certification requirements relating to its non-U.S. status (including, in general, furnishing an IRS Form W-8BEN or substitute form). Foreign shareholders should contact their tax advisers in this regard. Special rules (including withholding and reporting requirements) apply to foreign partnerships and those holding Common Shares through foreign partnerships. Additional considerations may apply to foreign trusts and estates. Investors holding Fund shares through foreign entities should consult their tax advisers about their particular situation.

### **Other Reporting and Withholding Requirements**

The Foreign Account Tax Compliance Act ( FATCA ) requires the reporting to the IRS of direct and indirect ownership of foreign financial accounts and foreign entities by U.S. persons. Failure to provide this required information can result in a 30% withholding tax on certain payments of U.S. source income ( withholdable payments ); this withholding tax will be phased in beginning with certain withholdable payments made on January 1, 2014. Specifically, withholdable payments subject to this 30% withholding tax include payments of U.S.-source dividends or interest and payments of gross proceeds from the sale or other disposal of property that can produce U.S.-source dividends or interest.

The IRS has issued preliminary guidance with respect to these rules; this guidance is potentially subject to material change. Pursuant to this guidance, distributions made by the Fund to a Common Shareholder subject to the phase in noted above, including a distribution of income or gains otherwise exempt from withholding under the rules applicable to non-U.S. shareholders described above (e.g., Capital Gain Dividends and short-term capital gain and interest-related dividends (if such treatment is extended), as described above), will be withholdable payments subject to withholding. Payments to Common Shareholders will generally not be subject to withholding, so long as such shareholders provide the Fund with such certifications or other documentation as the Fund requires to comply with these rules, including, to the extent required, with regard to their direct and indirect owners. In general, it is expected that a shareholder that is a U.S. person or foreign individual will be able to avoid being withheld upon by timely providing the Fund with a valid IRS Form W-9 or W-8, respectively. Payments to a foreign shareholder that is a foreign financial institution (as defined under these rules) will generally be subject to withholding unless such shareholder (i)(a) enters into a valid agreement with the IRS to, among other requirements, report required information about certain direct and indirect U.S. investors or accounts, or (b) qualifies for an exception from entering into such an agreement and (ii) provides the Fund with appropriate certifications or other documentation concerning its status.

The Fund may disclose the information that it receives from its Common Shareholders to the IRS or other parties as necessary to comply with FATCA. Each prospective investor is urged to consult its tax adviser regarding the applicability of FATCA and any other reporting requirements with respect to the prospective investor's own situation. Persons investing in the Fund through an intermediary should contact their intermediary regarding the application of this reporting and withholding regime to their investments in the Fund.

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### **Other Tax Matters**

Under Treasury regulations, if a Common Shareholder recognizes a loss with respect to Common Shares of \$2 million or more for an individual shareholder or \$10 million or more for a corporate shareholder, the Common Shareholder must file with the IRS a disclosure statement on Form 8886. Direct shareholders of portfolio securities are in many cases excepted from this reporting requirement, but under current guidance, shareholders of a RIC are not excepted. Future guidance may extend the current exception from this reporting requirement to shareholders of most or all RICs. The fact that a loss is reportable under these regulations does not affect the legal determination of whether the taxpayer's treatment of the loss is proper. Common Shareholders should consult their tax advisers to determine the applicability of these regulations in light of their individual circumstances.

Special tax rules apply to investments through defined contribution plans and other tax-qualified plans. Common Shareholders should consult their tax advisers to determine the suitability of Common Shares as an investment through such plans and the precise effect of an investment on their particular tax situation.

The foregoing discussion relates solely to U.S. federal income tax laws. Dividends and distributions also may be subject to state and local taxes. Common Shareholders are urged to consult their tax advisers regarding specific questions as to federal, state, local, and, where applicable, foreign taxes. Foreign investors should consult their tax advisers concerning the tax consequences of ownership of Common Shares.

The foregoing is a general and abbreviated summary of the applicable provisions of the Code and related regulations currently in effect. For the complete provisions, reference should be made to the pertinent Code sections and regulations. The Code and regulations are subject to change by legislative or administrative actions, possibly with retroactive effect.

### **PERFORMANCE RELATED AND COMPARATIVE INFORMATION**

The Fund may quote certain performance-related information and may compare certain aspects of its portfolio and structure to other substantially similar closed-end funds as categorized by Lipper, Inc. ( [Lipper](#) ), Morningstar Inc. or other independent services. Comparison of the Fund to an alternative investment should be made with consideration of differences in features and expected performance. The Fund may obtain data from sources or reporting services, such as Bloomberg Financial ( [Bloomberg](#) ) and Lipper, that the Fund believes to be generally accurate.

The Fund, in its advertisements, may refer to pending legislation from time to time and the possible impact of such legislation on investors, investment strategy and related matters. At any time in the future, yields and total return may be higher or lower than past yields and there can be no assurance that any historical results will continue.

Past performance is not indicative of future results. At the time Common Shareholders sell their shares, they may be worth more or less than their original investment.

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**CUSTODIAN, ADMINISTRATOR, TRANSFER AGENT AND DIVIDEND**

**DISBURSEMENT AGENT**

U.S. Bank National Association serves as custodian for assets of the Fund. The custodian performs custodial, administrative and fund accounting services.

USBFS serves as the Fund's accounting, administrative, transfer, shareholder servicing, and dividend disbursement agent for the Common Shares, as well as agent for the Dividend Reinvestment Plan relating to the Common Shares.

**INDEPENDENT ACCOUNTANTS**

KPMG LLP serves as independent accountants for the Fund. KPMG LLP provides audit services, tax return preparation and assistance and consultation in connection with review of SEC filings to the Fund.

**COUNSEL**

Ropes & Gray LLP, Prudential Tower, 800 Boylston Street, Boston, Massachusetts 02199, passes upon certain legal matters in connection with shares offered by the Fund, and also acts as counsel to the Fund.

**REGISTRATION STATEMENT**

A Registration Statement on Form N-2, including any amendments thereto (the "Registration Statement"), relating to the shares of the Fund offered hereby, has been filed by the Fund with the SEC, Washington, D.C. The Prospectus and this Statement of Additional Information do not contain all of the information set forth in the Registration Statement, including any exhibits and schedules thereto. For further information with respect to the Fund and the shares offered or to be offered hereby, reference is made to the Fund's Registration Statement. Statements contained in the Prospectus and this Statement of Additional Information as to the contents of any contract or other document referred to are not necessarily complete and in each instance reference is made to the copy of such contract or other document filed as an exhibit to the Registration Statement, each such statement being qualified in all respects by such reference. Copies of the Registration Statement may be inspected without charge at the SEC's principal office in Washington, D.C., and copies of all or any part thereof may be obtained from the SEC upon the payment of certain fees prescribed by the SEC.

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**REPORT OF INDEPENDENT ACCOUNTANTS**

**Report of Independent Registered Public Accounting Firm**

The Board of Trustees and Shareholder

Babson Capital Global Short Duration High Yield Fund:

We have audited the accompanying statement of assets and liabilities of Babson Capital Global Short Duration High Yield Fund (the Company) as of September 14, 2012. This financial statement is the responsibility of the Company's management. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statement of assets and liabilities is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the statement of assets and liabilities. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall statement of assets and liabilities presentation. We believe that our audit of the statement of assets and liabilities provides a reasonable basis for our opinion.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the financial position of Babson Capital Global Short Duration High Yield Fund as of September 14, 2012, in conformity with U.S. generally accepted accounting principles.

/s/ KPMG LLP

Boston, Massachusetts

September 20, 2012

**Table of Contents****FINANCIAL STATEMENTS****Babson Capital Global Short Duration High Yield Fund****STATEMENT OF ASSETS & LIABILITIES**

September 14, 2012

<b>Assets</b>	
Cash	\$ 100,065
Deferred offering costs (Note 2B)	600,000
Total assets	700,065
<b>Liabilities</b>	
Accrued offering costs (Note 2B)	\$ 600,000
Total liabilities	600,000
<b>Net assets applicable to common stockholders</b>	<b>\$ 100,065</b>
<b>Net Assets Applicable to Common Stockholders Consist of:</b>	
Capital stock, \$0.00001 par value; 4,200 shares issued and outstanding (unlimited shares authorized)	\$ 1
Additional paid-in capital	100,064
<b>Net assets applicable to common stockholders</b>	<b>\$ 100,065</b>
Net Asset Value per common share outstanding	\$ 23.82

*The accompanying Notes to Financial Statement are an integral part of this statement.*

*See Accompanying Notes to the Financial Statements.*

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**Babson Capital Global Short Duration High Yield Fund**

**Notes to Statement of Assets and Liabilities**

September 14, 2012

**1. Organization**

Babson Capital Global Short Duration High Yield Fund (the Fund) is a recently organized, non-diversified, closed-end management investment Fund registered under the Investment Company Act of 1940, as amended. The Fund was organized as a Massachusetts business trust on May 20, 2011 pursuant to its Agreement and Declaration of Trust, which is governed by the laws of the Commonwealth of Massachusetts. The Fund has had no operations other than the sale of 4,200 shares to the seed subscriber, Babson Capital Management, LLC (the Adviser), on September 13, 2012. The Fund's primary investment objective is to seek as high a level of current income as the Adviser determines is consistent with capital preservation. The Fund is planning a public offering of its common stock as soon as practicable after the effective date of its registration statement.

**2. Significant Accounting Policies**

The following is a listing of the significant accounting policies of the Fund:

*A. Use of Estimates* The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

*B. Organizational and Offering Costs* The Adviser agreed to pay the costs related to the Fund's formation. Offering costs paid by the Fund will be charged as a reduction of paid-in capital at the completion of the Fund's initial public offering. The Adviser has also agreed to pay certain offering costs to the extent they exceed an amount per share to be determined based on the number of shares sold in the initial public offering. The Fund will not pay offering costs in excess of \$0.05 per share sold in the initial public offering, estimated to be \$600,000 of capped offering costs paid by the Fund.

*C. Federal Income Taxation* The Fund intends to elect to be treated and to qualify each year as a Regulated Investment Company (RIC) under the U.S. Internal Revenue Code of 1986, as amended. As a result, the Fund generally will not be subject to U.S. federal income tax on income and gains that it distributes each taxable year to stockholders if it meets certain minimum distribution requirements. To qualify as a RIC, the Fund will be required to distribute substantially all of its income, in addition to satisfying other qualification requirements. The Fund will be subject to a 4 percent non-deductible U.S. federal excise tax on certain undistributed income unless the Fund makes sufficient distributions to satisfy the excise distribution requirement.

**3. Management, Administration, Transfer Agent and Custodian Fees**

The Fund has entered into an Investment Management Agreement (the Agreement) with the Adviser. Pursuant to the Agreement, the Fund has agreed to pay the Adviser a fee payable at the end of each calendar month, at an annual rate of 1.00% of the Fund's average daily Managed Assets during such month. Managed Assets are the total assets of the Fund, which include any assets attributable to leverage such as assets attributable to reverse repurchase agreements, the notional value of total return swap contracts (for this purpose, total return swaps on a single issuer shall be calculated on a net basis), bank loans and preferred shares that may be outstanding, minus the sum of the Fund's accrued liabilities (other than liabilities incurred for the purpose of leverage or liabilities related to the liquidation preference of any preferred shares issued). No management fees will be charged until the Fund commences operations.

Babson Capital U.K. (the Sub-Adviser) will serve as the Fund's sub-adviser responsible for managing the Fund's European investments. Subject to the supervision of the Adviser and the Board of Trustees, the Sub-Adviser manages the investment and reinvestment of a portion of the assets of the Fund, as allocated from time to time to the Sub-Adviser by a global allocation investment committee composed of representatives of the Adviser and Sub-Adviser. The Adviser (not the Fund) will pay a portion of the fees it receives to the Sub-Adviser in return for its services.

The Fund has engaged U.S. Bancorp Fund Services, LLC to serve as the Fund's administrator, fund accountant, and transfer agent. The Fund has engaged U.S. Bank, N.A. to serve as the Fund's custodian. No administration, accounting, transfer agent or custody fees will be charged until the Fund commences operations.

**4. Subsequent Events**

The Fund has performed an evaluation of subsequent events through September 20, 2012, the date the statement of assets and liabilities was issued, and has determined that no additional items require recognition or disclosure.



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**APPENDIX A**

**PROXY VOTING POLICIES**

**Proxy Voting Policy**

**I. Introduction**

As registered or licensed Investment Advisors, Babson Capital has a duty to vote proxies on behalf of their advisory accounts. Furthermore, Rule 206(4)-6 of the Investment Advisers Act of 1940 requires among other matters, that Babson Capital adopt and implement written policies and procedures that are reasonably designed to ensure that Babson Capital votes client securities in the best interests of such clients and describe how Babson Capital addresses material conflicts that may arise between Babson Capital's interests and those of its clients. The purpose of this Proxy Voting Policy (the "Policy") is to establish the manner in which Babson Capital will fulfill its proxy-voting responsibilities and comply with applicable regulatory requirements.

**II. Policy Statement**

Babson Capital understands that the voting of proxies is part of its investment management responsibilities and believes that as a general principle proxies should be acted upon (voted or abstained) solely in the best interests of its clients (i.e., in a manner it believes is most likely to enhance the economic value of the underlying securities held in client accounts). To implement this general principle, Babson Capital engages a proxy voting service provider ("Service Provider"). The Service Provider is responsible for processing and maintaining records of proxy votes. In addition, the Service Provider has retained the services of an independent third party research provider ("the Research Provider") to provide research and recommendations on proxy voting. It is Babson Capital's policy to generally vote proxies in accordance with the recommendations of the Research Provider, or, in cases where the Research Provider has not made any recommendations with respect to a proxy, in accordance with the Research Provider's proxy voting guidelines ("Guidelines"), a summary of which, as it may be amended from time-to-time, is accessible directly from the Compliance home page of the Babson Capital Intranet site. If a proxy involves an issue on which the Research Provider has not made a recommendation or has not addressed in the Guidelines, it should be analyzed on a case-by-case

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### **Proxy Voting Policy**

basis.

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

### **Other Considerations**

There may be situations in which Babson Capital may be unable to, or determine not to, vote a proxy on behalf of one or more clients. For example, if the cost of voting a proxy for a foreign security outweighs the expected benefit to the client of voting, Babson Capital may, so long as it does not materially harm Babson Capital's client, refrain from processing that vote. Likewise, Babson Capital may determine to not vote a proxy if Babson Capital is not given enough time to process the vote. For example, Babson Capital, through no fault of its own, may receive a meeting notice and proxy from the issuer too late to permit voting. In addition, if Babson Capital has outstanding sell orders on a particular security, the proxies for those meetings may not be voted in order to facilitate the sale of those securities. Although Babson Capital may hold shares on a company's record date, should it sell them prior to the company's meeting date, Babson Capital ultimately may decide not to vote those shares. Babson Capital may also be unable to vote proxies when the underlying securities have been lent out pursuant to a security lending program. This list of examples is not all-inclusive.

### **Administration of Proxy Voting Policy:**

#### **Trading Practices Committee**

Babson Capital has established a Trading Practices Committee that will (1) review the Policy and Babson Capital's implementation of the Policy, including Guidelines and how proxies have been voted, at least annually to ensure that it serves its intended purpose, (2) recommend, based on such review, such amendments to the Policy, if any, as it deems necessary or appropriate to ensure that proxies are voted in clients' best interests, (3) approve proxy voting form(s), and (4) provide for the disclosures required by the Books and Records Maintained section below. The Trading Practices Committee may also designate one or more Best Execution and Proxy Committee members who will each be individually authorized to vote proxies to the extent provided in the Voting Proxies section of this Policy.

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### **Proxy Voting Policy**

#### **Proxy Administrator**

Babson Capital will from time to time designate one or more Proxy Administrators (each, a Proxy Administrator ). The Proxy Administrator will have such responsibilities as are set forth in the Policy and such additional responsibilities as may be provided for by the Best Execution and Proxy Committee.

#### **New Account Procedures:**

Babson Capital's investment management agreements for separate account management generally convey the authority to vote proxies to Babson Capital. When the agreement states that the client has delegated proxy-voting authority to Babson Capital, Babson Capital will vote such proxies in accordance with the Policy. In the event a client makes a written request that Babson Capital vote in accordance with such client's proxy voting instruction, Babson Capital will vote that client's securities as instructed by the client. In the event an investment management agreement is silent on the matter, Babson Capital should get written confirmation from such client as to its preference, where possible. Because proxy voting is integral to the investment process, Babson Capital takes the position that it will assume proxy voting responsibilities in those situations where the agreement is silent and the client has provided no written instructions as to its preferences.

#### **Handling of Proxies:**

Proxy statements and proxy cards are typically routed directly to Babson Capital's proxy voting Service Provider. In the event a Babson Capital Associate receives a proxy statement or proxy card, the Associate should immediately forward said statement or card to the designated Proxy Administrator who will create a record of receipt, route the materials for review, maintain a record of all action taken and post votes as instructed within the Policy.

#### **Voting Proxies:**

Typically, Babson Capital will vote all Client proxies for which it has proxy voting discretion, where no material conflict exists, in accordance with the Research Provider's recommendation or Guidelines, unless (i) Babson Capital is unable or determines not to vote a proxy in accordance with the Policy, or (ii) a Proxy Analyst determines that it is in the Clients' best interests to vote against the Research Provider's recommendation or Guidelines. In such events a Proxy Analyst believes a proxy should be voted against the Research Provider's recommendations or Guidelines, the Proxy Administrator will vote the proxy in accordance with the Proxy Analyst's recommendation so long as (i) no other Proxy Analyst disagrees with such recommendation, and (ii) no known Material Conflict is identified by the Proxy Analyst(s) or a Proxy Administrator. If a Material Conflict is identified by a Proxy Analyst or Proxy Administrator, the proxy will be submitted to the Trading Practices Committee to determine how the proxy is to be voted in order to achieve the Clients' best interests.

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**Proxy Voting Policy**

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

No associate, officer, director or board of managers member of Babson Capital or its affiliates (other than those assigned such responsibilities under the Policy) may influence how Babson Capital votes client proxies, unless such person has been requested to provide such assistance by a Proxy Analyst or Trading Practices Committee member and has disclosed any known Material Conflict. Any pre-vote communications prohibited by the Policy will be reported to the Trading Practices Committee member prior to voting and to Babson Capital's CCO or General Counsel. Additionally, any questions or concerns regarding proxy-solicitor arrangements should be addressed to Babson Capital's CCO and/or legal counsel or their respective designees.

**Required Disclosures / Client Request for Information:**

Babson Capital will include a summary of this Policy in its Form ADV Part II, as well as instructions as to how an advisory client may request a copy of this Policy and/or a record of how Babson Capital voted the client's proxies. Any client requests for copies of this Policy or a record of how Babson Capital voted the client's proxies will be directed to the designated Proxy Administrator, who will provide the information to the appropriate client service representative in order to respond to any such client in a timely manner.

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**PART C**

**OTHER INFORMATION**

**Item 25. Financial Statements and Exhibits**

(1) Financial Statements

The Registrant has not conducted any business as of the date of this filing, other than in connection with its organization. Financial Statements indicating that the Registrant has met the net worth requirements of Section 14(a) of the 1940 Act will be filed as part of the Statement of Additional Information.

(2) Exhibits

- (a) Amended and Restated Agreement and Declaration of Trust dated September 14, 2012.\*\*
- (b) Amended and Restated Bylaws of Registrant dated September 14, 2012.\*\*
- (c) Not applicable.
- (d)(1) Article III (Shares) and Article V (Shareholders Voting Powers and Meetings) of the Agreement and Declaration of Trust.\*
- (d)(2) Article 10 (Shareholders Voting Powers and Meetings) of the Bylaws of Registrant.\*
- (d)(3) Form of Certificate for Common Shares of Beneficial Interest.\*\*\*
- (e) Form of Dividend Reinvestment Plan.\*\*
- (f) Not applicable.
- (g)(1) Form of Investment Management Agreement.\*\*
- (g)(2) Form of Sub-Advisory Contract.\*\*
- (h)(1) Form of Underwriting Agreement.\*\*
- (h)(2) Form of Master Selected Dealer Agreement\*\*
- (h)(3) Form of Master Agreement Among Underwriters\*\*
- (i) Not applicable.
- (j) Form of Custody Agreement. \*\*\*
- (k)(1) Form of Master Services Agreement.\*\*\*
- (k)(2) Distribution Agreement dated July 11, 2012.\*\*
- (k)(3) Form of Amendment to the Distribution Agreement.\*\*
- (k)(4) Form of Organizational and Offering Expenses Reimbursement Agreement.\*\*
- (k)(5) Form of Structuring Agreement with Merrill Lynch, Pierce, Fenner & Smith Incorporated.\*\*\*
- (k)(6) Form of Structuring Fee Agreement with Wells Fargo Securities, LLC\*\*\*
- (k)(7) Form of Structuring Fee Agreement\*\*\*
- (l) Opinion and Consent of Ropes & Gray LLP.\*\*\*
- (m) Not applicable.
- (n) Consent of Registrant's independent public accounting firm.\*\*
- (o) Not applicable.
- (p) Form of Subscription Agreement.\*\*

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- (q) Not applicable.
- (r)(1) Code of Ethics of the Fund.\*\*\*
- (r)(2) Code of Ethics of the Manager.\*\*\*
- (r)(3) Code of Ethics of the Sub-Adviser.\*\*\*
- (r)(4) Code of Ethics Pursuant to Section 406 of the Sarbanes-Oxley Act of 2002 for Principal Executive and Senior Financial Officers.  
\*\*\*
- (s)(1) Power of attorney of Dr. Bernard A. Harris, Jr.\*\*
- (s)(2) Power of attorney of Martin A. Sumichrast.\*\*

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- (s)(3) Power of attorney of Rodney A. Dillman.\*\*
- (s)(4) Power of attorney of Thomas W. Okel.\*\*

- \* Filed as an exhibit to the Registrant's Registration Statement on Form N-2, Registration Nos. 333-174430; 811-22562 (filed May 23, 2011).
- \*\* Filed herewith.
- \*\*\* To be filed by amendment.

**Item 26. Marketing Arrangements**

To be filed by amendment.

**Item 27. Other Expenses of Issuance and Distribution**

The approximate expenses in connection with the offering are as follows:

Registration and Filing Fees	\$*
Financial Industry Regulatory Authority Fees	*
Printing (Other than Certificates)	*
Engraving and Printing Certificates	*
Accounting Fees and Expenses	*
Legal Fees and Expenses	*
Miscellaneous	*
 Total	 \$*

- \* To be completed by amendment.

**Item 28. Persons Controlled by or Under Common Control With Registrant**

Immediately prior to this offering Babson Capital Management, LLC (the "Manager") will own shares of the Registrant representing 100% of the Common Shares of beneficial interest outstanding. Following the completion of this offering, the Manager's share ownership is expected to represent less than 1% of the common shares of beneficial interest outstanding.

**Item 29. Number of Holders of Securities**

Set forth below is the number of record holders as of September 21, 2011 of each class of securities of the Registrant:

Title of Class	Number of Record Holders
Common Shares of Beneficial Interest (\$.00001 par value)	1

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### **Item 30. Indemnification**

Reference is made to Article VIII, Sections 1 through 4, of the Registrant's Amended and Restated Agreement and Declaration of Trust (which is filed herewith).

Insofar as indemnification for liabilities arising under the Securities Act of 1933, as amended (the "Act"), may be permitted to trustees, officers and controlling persons of the Registrant by the Registrant pursuant to the Trust's Agreement and Declaration of Trust, its Bylaws or otherwise, the Registrant is aware that in the opinion of the Securities and Exchange Commission, such indemnification is against public policy as expressed in the Act and, therefore, is unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Registrant of expenses incurred or paid by trustees, officers or controlling persons of the Registrant in the successful defense of any action, suit or proceeding) is asserted by such trustees, officers or controlling persons in connection with the securities being registered, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

### **Item 31. Business and Other Connections of Investment Manager**

Babson Capital Management LLC serves as investment manager (the "Manager") to the Registrant and also serves as manager to unregistered funds, registered funds, institutions and high net worth individuals, and subadviser of registered funds. A description of any other business, profession, vocation or employment of a substantial nature in which the Manager, and each partner or executive officer of the Manager, is or has been during the past two fiscal years, engaged in for his or her own account or in the capacity of director, officer, employee, partner or trustee, is set forth in the prospectus contained in this Registration Statement in the section entitled "Management of the Fund Manager".

The information as to the directors and executive officers of Babson Capital Management LLC is set forth in Form ADV filed with the Securities and Exchange Commission (IARD/CRD No. 106006), as amended through the date hereof, which is incorporated herein by reference.

Babson Capital Global Advisors Limited serves as the subadviser (the "Sub-Adviser"), to the Registrant and also serves as manager to private accounts of institutional and family office clients. A description of any other business, profession, vocation or employment of a substantial nature in which the Sub-Adviser, and each partner or executive officer of the Sub-Adviser, is or has been during the past two fiscal years, engaged in for his or her own account or in the capacity of director, officer, employee, partner or trustee, is set forth in the prospectus contained in this Registration Statement in the section entitled "Management of the Fund Sub-Adviser".

The information as to the directors and executive officers of Babson Capital Global Advisors Limited is set forth in Form ADV filed with the Securities and Exchange Commission (IARD/CRD No. 158278), as amended through the date hereof, which is incorporated herein by reference.



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### **Item 32. Location of Accounts and Records**

All applicable accounts, books and documents required to be maintained by the Registrant by Section 31(a) of the 1940 Act and the Rules promulgated thereunder are in the possession and custody of the Registrant, c/o U.S. Bancorp Fund Services, LLC, 615 E. Michigan Street, 3rd Floor, Milwaukee, Wisconsin 53202.

### **Item 33. Management Services**

Not applicable.

### **Item 34. Undertakings**

1. The Registrant undertakes to suspend the offering of its Common Shares of Beneficial Interest until the prospectus is amended if (1) subsequent to the effective date of this registration statement, the net asset value declines more than 10 percent from its net asset value as of the effective date of this registration statement or (2) the net asset value increases to an amount greater than its net proceeds as stated in the prospectus.
2. Not applicable.
3. Not applicable.
4. Not applicable.
5. The Registrant undertakes that:
  - (a) for the purpose of determining any liability under the Securities Act of 1933 ( Securities Act ), the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in the form of prospectus filed by the Registrant pursuant to 497(h) under the Securities Act shall be deemed to be part of the registration statement as of the time it was declared effective; and
  - (b) for the purpose of determining any liability under the Securities Act, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.
6. The Registrant undertakes to send by first class mail or other means designed to ensure equally prompt delivery, within two business days of receipt of an oral or written request, its Statement of Additional Information.

#### NOTICE

A copy of the Amended and Restated Agreement and Declaration of Trust of Babson Capital Global Short Duration High Yield Fund (the Fund ), together with all amendments thereto, is on file with the Secretary of The Commonwealth of Massachusetts, and notice is hereby given

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that this instrument is executed on behalf of the Fund by any officer of the Fund as an officer and not individually and that the obligations of or arising out of this instrument are not binding upon any of the Trustees of the Fund or shareholders of the Fund individually, but are binding only upon the assets and property of the Fund.

**Table of Contents****SIGNATURES**

Pursuant to the requirements of the Securities Act of 1933 and/or the Investment Company Act of 1940, the Registrant has duly caused this pre-effective amendment no. 3 to its Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Charlotte, and the State of North Carolina on the 24th day of September, 2012.

Babson Capital Global Short Duration High Yield Fund

By: /S/ RUSSELL D. MORRISON

Name: **Russell D. Morrison**

Title: **President and Principal Executive Officer**

Pursuant to the requirements of the Securities Act of 1933, this pre-effective amendment no. 3 to the Registrant's Registration Statement has been signed below by the following persons in the capacities and on the date indicated.

<b>Signature</b>	<b>Capacity</b>	<b>Date</b>
/S/ RUSSELL D. MORRISON <b>Russell D. Morrison</b>	President and Principal Executive Officer	September 24, 2012
/S/ PATRICK HOEFLING <b>Patrick Hoefling</b>	Treasurer, Chief Financial Officer and Principal Financial and Accounting Officer	September 24, 2012
*S/ RODNEY A. DILLMAN <b>Rodney A. Dillman</b>	Trustee	September 24, 2012
*S/ DR. BERNARD A. HARRIS, JR. <b>Dr. Bernard A. Harris, Jr.</b>	Trustee	September 24, 2012
*S/ THOMAS W. OKEL <b>Thomas W. Okel</b>	Trustee	September 24, 2012
*S/ MARTIN A. SUMICHRAST <b>Martin A. Sumichrast</b>	Trustee	September 24, 2012

\*By: /S/ RUSSELL D. MORRISON

**Russell D. Morrison**

Attorney-In-Fact, pursuant to powers of attorney filed herewith.

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**Babson Capital Global Short Duration High Yield Fund**

**Index to Exhibits**

Exhibits for Item 25 of Form N-2

<b>Exhibit</b>	<b>Exhibit Name</b>
(a)	Amended and Restated Agreement and Declaration of Trust dated September 14, 2012.
(b)	Amended and Restated Bylaws of Registrant dated September 14, 2012.
(e)	Form of Dividend Reinvestment Plan.
(g)(1)	Form of Investment Management Agreement.
(g)(2)	Form of Sub-Advisory Contract.
(h)(1)	Form of Underwriting Agreement
(h)(2)	Form of Master Selected Dealer Agreement
(h)(3)	Form of Master Agreement Among Underwriters
(k)(2)	Distribution Agreement dated July 11, 2012
(k)(3)	Form of Amendment to the Distribution Agreement
(k)(4)	Form of Organizational and Offering Expenses Reimbursement Agreement
(n)	Consent of Registrant's independent public accounting firm.
(p)	Form of Subscription Agreement
(s)(1)	Power of attorney of Dr. Bernard A. Harris.
(s)(2)	Power of attorney of Martin A. Sumichrast.
(s)(3)	Power of attorney of Rodney A. Dillman.
(s)(4)	Power of attorney of Thomas W. Okel.