

TAX INFORMATION DIVIDENDS FOR 2011

Dear Shareholders:

We are pleased to inform shareholders of Babson Capital Participation Investors (the “Trust”) that a quarterly dividend of \$.27 per-share was paid on January 13, 2012 to shareholders of record on December 30, 2011. The \$.27 per-share is from net investment income. In addition to the \$.27 per-share quarterly dividend, the Trust declared a special year-end dividend of \$.15 per-share also paid on January 13, 2012 to shareholders of record on December 30, 2011. Of the \$.15 per-share year-end dividend \$.1475 is from net investment income and \$.0025 is from accumulated undistributed net short-term capital gains.

The January 13th distributions represent 2011 calendar year dividends for federal income tax purposes and are included on IRS Form 1099-Div. The entire \$.42 per-share distribution represents ordinary income for Federal income tax purposes.

The dividends declared and paid during 2011 and the January 13, 2012 dividends resulted in the Trust’s distribution of substantially all of its net investment income for the calendar year 2011. These dividends are included on your IRS Form 1099-Div for 2011. No portion of the Trust’s distributions are being made out of capital gains. The Trustees elected to retain the Trust’s 2011 net long-term capital gains and to pay the required federal capital gains tax. Tax information relating to the retained gains is reported on IRS Form 2439.

The following table summarizes, for federal income tax purposes, the cash dividends paid by the Trust for the calendar year 2011:

<u>Record Date</u>	<u>Payment Date</u>	<u>Cash Dividend Per Share</u>	<u>Ordinary Income</u>
4/25/11	5/6/11	\$.27	\$.27
8/1/11	8/12/11	.27	.27
10/31/11	11/10/11	.27	.27
12/30/11	1/13/12	.27	.27
12/30/11	1/13/12	<u>.15</u>	<u>.15</u>
		\$ 1.23	\$ 1.23

The entire \$1.23 per-share cash dividend declared in 2011 is included as ordinary income on your IRS Form 1099-Div for 2011. Of this amount, approximately \$0.0542 per share represents qualified dividends. For shareholders who are individuals, qualified dividends are taxed as long-term capital gains, generally at a tax rate of 15%. Qualified dividends are reported in Box 1b on IRS Form 1099-DIV for 2011. The \$1.23 per-share dividend consists of the following components: \$1.0646 per-share is from net investment income from 2011 and \$0.1654 per share is from undistributed net investment income from 2010. The undistributed net investment income from 2010 was distributed in the May 2011 dividend.

Michael L. Klofas
President

January 2012

