

BARINGS PARTICIPATION INVESTORS

Form N-30D

November 29, 2018

Barings
Participation Investors

Report for the
Nine Months Ended September 30, 2018

Adviser

Barings LLC
300 S Tryon St., Suite 2500
Charlotte, NC 28202

Independent Registered Public Accounting Firm

KPMG LLP
Boston, Massachusetts 02110

Counsel to the Trust

Ropes & Gray LLP
Boston, Massachusetts 02111

Custodian

State Street Bank and Trust Company
Boston, Massachusetts 02110
Transfer Agent & Registrar
DST Systems, Inc.
P.O. Box 219086
Kansas City, Missouri 64121-9086
1-800-647-7374

Internet Website

www.barings.com/mpv

Barings Participation Investors

c/o Barings LLC
1500 Main Street, Suite 2200
Springfield, Massachusetts 01115
(413) 226-1516

Investment Objective and Policy

Barings Participation Investors (the "Trust") is a closed-end management investment company, first offered to the public in 1988, whose shares are traded on the New York Stock Exchange under the trading symbol "MPV". The Trust's share price can be found in the financial section of most newspapers under either the New York Stock Exchange listings or Closed-End Fund Listings.

The Trust's investment objective is to maintain a portfolio of securities providing a current yield and, when available, an opportunity for capital gains. The Trust's principal investments are privately placed, below investment grade, long-term debt obligations including bank loans and mezzanine debt instruments. Such direct placement securities may, in some cases, be accompanied by equity features such as common stock, preferred stock, warrants, conversion rights, or other equity features. The Trust typically purchases these investments, which are not publicly tradable, directly from their issuers in private placement transactions. These investments are typically made to small or middle market companies. In addition, the Trust may invest, subject to certain limitations, in marketable debt securities (including high yield and/or investment grade securities) and marketable common stock. Below investment grade or high yield securities have predominantly speculative characteristics with respect to the capacity of the issuer to pay interest and repay capital.

Barings manages the Trust on a total return basis. The Trust distributes substantially all of its net income to shareholders each year. Accordingly, the Trust pays dividends to shareholders in January, May, August, and November. All registered shareholders are automatically enrolled in the Dividend Reinvestment and Cash Purchase Plan unless cash distributions are requested.

Form N-Q

The Trust files its complete schedule of portfolio holdings with the U.S. Securities and Exchange Commission ("SEC") for the first and third quarters of each fiscal year on Form N-Q. This information is available (i) on the SEC's website at <http://www.sec.gov>; and (ii) at the SEC's Public Reference Room in Washington, DC (which information on their operation may be obtained by calling 1-800-SEC-0330). A complete schedule of portfolio holdings as of each quarter-end is available upon request by calling, toll-free, 866-399-1516.

Proxy Voting Policies & Procedures; Proxy Voting Record

The Trustees of the Trust have delegated proxy voting responsibilities relating to the voting of securities held by the Trust to Barings. A description of Barings' proxy voting policies and procedures is available (1) without charge, upon request, by calling, toll-free 866-399-1516; (2) on the Trust's website at www.barings.com/mpv; and (3) on the SEC's website at <http://www.sec.gov>. Information regarding how the Trust voted proxies relating to portfolio securities during the most recent 12-month period ended June 30 is available (1) on the Trust's website at www.barings.com/mpv; and (2) on the SEC's website at <http://www.sec.gov>.

Legal Matters

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

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

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

Barings Participation Investors

TO OUR SHAREHOLDERS

October 31, 2018

We are pleased to present the September 30, 2018 Quarterly Report of Barings Participation Investors (the "Trust"). The Board of Trustees declared a quarterly dividend of \$0.27 per share, payable on November 9, 2018 to shareholders of record on October 29, 2018. The Trust paid a \$0.27 per share dividend for the preceding quarter. The Trust earned \$0.27 per share of net investment income for the third quarter of 2018, compared to \$0.26 per share, including \$0.01 per share of non-recurring income, in the previous quarter.

During the third quarter, the net assets of the Trust increased to \$145,888,297 or \$13.88 per share compared to \$143,947,536 or \$13.72 per share on June 30, 2018. This translates into a 3.2% total return for the quarter, based on the change in the Trust's net assets assuming the reinvestment of all dividends. Longer term, the Trust returned 5.3%, 8.8%, 9.8%, 10.3% and 12.2% for the 1, 3, 5, 10, and 25-year periods, respectively, based on the change in the Trust's net assets assuming the reinvestment of all dividends.

The Trust's share price increased during the quarter, from \$14.70 per share as of June 30, 2018 to \$14.90 per share as of September 30, 2018, which resulted in a total return for the quarter of 3.3%. The Trust's market price of \$14.90 per share equates to a 7.4% premium over the September 30, 2018 net asset value per share of \$13.88. The Trust's average quarter-end premium for the 3, 5 and 10-year periods was 5.2%, 1.8% and 6.6%, respectively. U.S. equity markets, as approximated by the Russell 2000 Index, increased 3.6% for the quarter. U.S. fixed income markets, as approximated by the Bloomberg Barclays U.S. Corporate High Yield Index, increased 2.4% for the quarter.

The Trust closed seven new private placement investments and six add-on investments to existing portfolio companies during the third quarter. The seven new platform investments were in BBB Industries LLC, Cadent LLC, DuBois Chemicals Inc., Rock-It Cargo, ROI Solutions, Sara Lee Frozen Foods and Trystar, Inc. The six add-on investments were in Aurora Parts & Accessories LLC, Del Real LLC, New Mountain Learning, LLC, SR Smith LLC, U.S. Retirement and Benefit Partners, Inc. and VP Holding Company. A brief description of these investments can be found in the Consolidated Schedule of Investments. The total amount invested by the Trust in these transactions was \$12.4 million. Of note, all of the new platform investments were floating rate term loans. Over the past couple of years, the Trust has increasingly invested in term loans with floating interest rates. If interest rates continue to rise, we would expect interest income to increase due to the base interest rates on the floating rate loans resetting quarterly. Please note that the Trust's \$15 million senior note has a fixed rate of 4.09% and therefore, increases in base interest rates will not impact the Trust's cost of borrowing.

It was another strong quarter for the Trust in terms of new investment activity. The expansion of the Trust's target investment criteria in late 2017 into a broader set of the middle market private debt market, along with the expansion of Barings' (the Trust's investment adviser) private debt platform have been key contributors to new investment volume. Overall, market conditions remain extremely competitive with purchase price and leverage multiples remaining at or near historical highs, and there continues to be a large supply of debt capital seeking middle-market investment opportunities. It continues to be difficult to source traditional mezzanine opportunities as both the all-senior and second lien structures remain more attractive to borrowers than traditional mezzanine opportunities in the middle market. As always, we seek to be selective in our investment choices and maintain our underwriting discipline.

The Trust's current portfolio continues to exhibit sound credit quality. Realization activity continued through the third quarter with four private debt investment exits during the quarter, three of which resulted in realized gains and one which returned 100% of principal. In addition, three companies fully prepaid their debt held by the Trust. The Trust also benefited from small dividends paid by several of its equity investments during the quarter. We remain cautiously optimistic about realization activity over the next few quarters as there are several companies in which the Trust has outstanding investments that are in the process of being sold.

The Trust was able to maintain its \$0.27 per share quarterly dividend in the third quarter with recurring investment income being sufficient to fully cover this quarter's dividend. As discussed in prior reports, since 2013, recurring

investment income alone had generally not been sufficient to fully fund the current dividend rate principally due to the considerable reduction in the number of private debt securities in the portfolio resulting from the high level of exits and prepayment activity that occurred from 2013 through 2015, combined with fewer investment opportunities and lower returns associated with those opportunities due to market and competitive dynamics over the past several years. As referenced above, the Trust's expansion of its target investment criteria in 2017, combined with the amendments

(Continued)

to the Trust's fundamental investment guidelines that were approved by shareholder vote in May 2018, has allowed for increased private debt investment opportunities which, in turn, have resulted in higher recurring investment income than the Trust has experienced in recent years. While there can be no guarantee that recurring investment income will continue to be sufficient to cover the current dividend rate, the level of recurring investment income expected to be generated by the Trust in 2018, combined with the availability of earnings carry forwards and other non-recurring income, is expected to be sufficient to maintain the current dividend rate over the next several quarters.

Thank you for your continued interest in and support of Barings Participation Investors.

Sincerely,

Robert M. Shettle

President

Portfolio Composition as of 9/30/18*

* Based on market value of total investments

Cautionary Notice: Certain statements contained in this report may be "forward looking" statements. Investors are cautioned not to place undue reliance on forward-looking statements, which speak only as of the date on which they are made and which reflect management's current estimates, projections, expectations or beliefs, and which are subject to risks and uncertainties that may cause actual results to differ materially. These statements are subject to change at any time based upon economic, market or other conditions and may not be relied upon as investment advice or an indication of the Trust's trading intent. References to specific securities are not recommendations of such securities, and may not be representative of the Trust's current or future investments. We undertake no obligation to publicly update forward looking statements, whether as a result of new information, future events, or otherwise.

Barings Participation Investors
CONSOLIDATED STATEMENT OF ASSETS AND LIABILITIES
September 30, 2018
(Unaudited)

Assets:

Investments

(See Consolidated Schedule of Investments)

Corporate restricted securities at fair value (Cost - \$109,983,886)	\$105,987,170
Corporate restricted securities at market value (Cost - \$18,338,379)	18,107,713
Corporate public securities at market value (Cost - \$23,205,623)	23,136,206
Short-term securities at amortized cost	1,998,443
 Total investments (Cost - \$153,526,331)	 149,229,532
Cash	12,441,528
Interest receivable	1,694,624
Other assets	30,773
 Total assets	 163,396,457

Liabilities:

Note payable	15,000,000
Payable for investments purchased	1,567,513
Deferred tax liability	448,095
Investment advisory fee payable	328,249
Interest payable	27,267
Accrued expenses	137,036
 Total liabilities	 17,508,160

Commitments and Contingencies (See Note 8)

Total net assets	\$145,888,297
------------------	---------------

Net Assets:

Common shares, par value \$.01 per share	\$105,107
Additional paid-in capital	95,225,528
Retained net realized gain on investments, prior years	44,296,000
Undistributed net investment income	3,407,594
Accumulated net realized gain on investments	7,598,962
Net unrealized depreciation of investments	(4,744,894)
 Total net assets	 \$145,888,297

Common shares issued and outstanding (14,787,750 authorized)	10,510,689
--	------------

Net asset value per share

\$13.88

See Notes to Consolidated Financial Statements

3

CONSOLIDATED STATEMENT OF OPERATIONS

For the nine months ended September 30, 2018

(Unaudited)

Investment Income:	
Interest	\$9,947,721
Dividends	270,122
Other	89,966
Total investment income	10,307,809
Expenses:	
Investment advisory fees	980,452
Interest	460,125
Trustees' fees and expenses	180,000
Professional fees	179,194
Reports to shareholders	76,000
Custodian fees	18,000
Other	74,871
Total expenses	1,968,642
Investment income - net	8,339,167
Net realized and unrealized loss on investments:	
Net realized gain on investments before taxes	5,569,705
Income tax expense	(288,677)
Net realized gain on investments after taxes	5,281,028
Net increase (decrease) in unrealized appreciation (depreciation) of investments before taxes	(8,609,944)
Net (increase) decrease in deferred income tax expense	321,618
Net increase (decrease) in unrealized appreciation (depreciation) of investments after taxes	(8,288,326)
Net loss on investments	(3,007,298)
Net increase in net assets resulting from operations	\$5,331,869

See Notes to Consolidated Financial Statements

Barings Participation Investors
CONSOLIDATED STATEMENT OF CASH FLOWS
For the nine months ended September 30, 2018
(Unaudited)

Net increase in cash:	
Cash flows from operating activities:	
Purchases/Proceeds/Maturities from short-term portfolio securities, net	\$4,100,942
Purchases of portfolio securities	(42,565,890)
Proceeds from disposition of portfolio securities	48,788,144
Interest, dividends and other income received	8,178,544
Interest expense paid	(460,125)
Operating expenses paid	(1,523,897)
Income taxes paid	(2,102,026)
Net cash provided by operating activities	14,415,692
Cash flows from financing activities:	
Cash dividends paid from net investment income	(8,485,590)
Receipts for shares issued on reinvestment of dividends	738,249
Net cash used for financing activities	(7,747,341)
Net increase in cash	6,668,351
Cash - beginning of period	5,773,177
Cash - end of period	\$12,441,528
Reconciliation of net increase in net assets to net cash provided by operating activities:	
Net increase in net assets resulting from operations	\$5,331,869
Decrease in investments	10,071,089
Increase in interest receivable	(399,673)
Increase in other assets	(4,759)
Increase in payable for investments purchased	1,567,513
Decrease in deferred tax liability	(321,618)
Increase in investment advisory fee payable	919
Decrease in accrued expenses	(16,299)
Decrease in tax payable	(1,813,349)
Total adjustments to net assets from operations	9,083,823
Net cash provided by operating activities	\$14,415,692

See Notes to Consolidated Financial Statements

5

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

	For the nine months ended 9/30/2018 (Unaudited)	For the year ended 12/31/2017
Increase in net assets:		
Operations:		
Investment income - net	\$8,339,167	\$11,340,081
Net realized gain on investments after taxes	5,281,028	2,280,108
Net change in unrealized (depreciation) appreciation of investments after taxes	(8,288,326)	5,517,329
Net increase in net assets resulting from operations	5,331,869	19,137,518
Increase from common shares issued on reinvestment of dividends		
Common shares issued (2018 - 52,527; 2017 - 71,989)	738,249	1,001,726
Dividends to shareholders from:		
Net investment income (2018 - \$0.54 per share; 2017 - \$1.08 per share)	(5,661,886)	(11,265,910)
Total increase in net assets	408,232	8,873,334
Net assets, beginning of period/year	145,480,065	136,606,731
Net assets, end of period/year (including undistributed net investment income of \$3,407,594 and \$730,313, respectively)	\$145,888,297	\$145,480,065

See Notes to Consolidated Financial Statements

Edgar Filing: BARINGS PARTICIPATION INVESTORS - Form N-30D

Barings Participation Investors

CONSOLIDATED SELECTED FINANCIAL HIGHLIGHTS

Selected data for each share of beneficial interest outstanding:

	For the nine months ended 9/30/2018 (Unaudited)	For the years ended December 31,			2014
		2017	2016	2015	
Net asset value:					
Beginning of period/year	\$ 13.91	\$ 13.15	\$ 13.10	\$ 13.35	\$ 12.83
Net investment income (a)	0.80	1.09	1.00	0.95	1.04
Net realized and unrealized gain (loss) on investments	(0.29)	0.75	0.13	(0.12)	0.57
Total from investment operations	0.51	1.84	1.13	0.83	1.61
Dividends from net investment income to common shareholders	(0.54)	(1.08)	(1.08)	(1.08)	(0.96)
Dividends from realized gain on investments to common shareholders	—	—	—	—	(0.12)
Increase from dividends reinvested	(0.00)(b)	(0.00)(b)	(0.00)(b)	(0.00)(b)	(0.01)
Total dividends	(0.54)	(1.08)	(1.08)	(1.08)	(1.09)
Net asset value:					
End of period/year	\$ 13.88	\$ 13.91	\$ 13.15	\$ 13.10	\$ 13.35
Per share market value:					
End of period/year	\$ 14.90	\$ 14.10	\$ 14.20	\$ 13.75	\$ 13.23
Total investment return					
Net asset value (c)	3.76%	14.29%	8.75%	6.23%	13.61%
Market value (c)	9.75%	7.21%	11.45%	12.66%	12.54%
Net assets (in millions):					
End of period/year	\$ 145.89	\$ 145.48	\$ 136.61	\$ 135.35	\$ 137.57
Ratio of total expenses to average net assets	2.08% (d)	3.23%	2.26%	2.17%	2.84%
Ratio of operating expenses to average net assets	1.39% (d)	1.49%	1.35%	1.49%	1.49%
Ratio of interest expense to average net assets	0.42% (d)	0.43%	0.44%	0.44%	0.45%
Ratio of income tax expense to average net assets	0.27% (d)	1.31%	0.47%	0.24%	0.90%
Ratio of net investment income to average net assets	7.66% (d)	7.92%	7.45%	6.95%	7.82%
Portfolio turnover	30%	24%	31%	30%	32%

(a) Calculated using average shares.

(b) Rounds to less than \$0.01 per share.

Edgar Filing: BARINGS PARTICIPATION INVESTORS - Form N-30D

Net asset value return represents portfolio returns based on change in the Trust's net asset value assuming the reinvestment of all dividends and distributions which differs from the total investment return based on the Trust's market value due to the difference between the Trust's net asset value and the market value of its shares outstanding; past performance is no guarantee of future results.
(c)
(d) Annualized.

Senior borrowings:

Total principal amount (in millions)	\$15	\$15	\$15	\$15	\$15
Asset coverage per \$1,000 of indebtedness	\$10,726	\$10,699	\$10,107	\$10,023	\$10,171

See Notes to Consolidated Financial Statements

CONSOLIDATED SCHEDULE OF INVESTMENTS

September 30, 2018

(Unaudited)

	Principal Amount, Shares, Units or Ownership Percentage	Acquisition Date	Cost	Fair Value
Corporate Restricted Securities - 85.06%: (A)				
Private Placement Investments - 72.65%: (C)				
1A Smart Start, Inc. A designer, distributor and lessor of ignition interlock devices ("IIDs"). IIDs are sophisticated breathalyzers wired to a vehicles ignition system. 10.49% Second Lien Term Loan due 12/22/2022 (LIBOR + 8.250%)	\$1,725,000	12/21/17	\$1,696,233	\$1,691,315
ABC Industries, Inc. A manufacturer of mine and tunneling ventilation products in the U.S.				
13% Senior Subordinated Note due 07/31/2019	\$109,335	08/01/12	107,265	109,140
Preferred Stock Series A (B)	125,000 shs.	08/01/12	125,000	243,046
Warrant, exercisable until 2022, to purchase common stock at \$.02 per share (B)	22,414 shs.	08/01/12	42,446	42,137
			274,711	394,323
Advanced Manufacturing Enterprises LLC A designer and manufacturer of large, custom gearing products for a number of critical customer applications.				
Limited Liability Company Unit (B) * 12/07/12, 07/11/13 and 06/30/15.	1,945 uts.	*	207,911	26,868
AFC - Dell Holding Corporation A distributor and provider of inventory management services for "C-Parts" used by OEMs in their manufacturing and production facilities.				
12.5% (1% PIK) Senior Subordinated Note due 09/27/2020	\$1,224,547	02/28/22	1,214,049	1,198,036
Preferred Stock (B)	1,122 shs.	02/28/22	112,154	112,789
Common Stock (B)	346 shs.	02/28/22	346	—
			1,326,549	1,310,825
AM Conservation Holding Corp. A supplier of energy efficiency ("EE") products, including lighting, shower heads and aerators, and weatherization products such as door seals and weather stripping.				
11.5% (1.5% PIK) Senior Subordinated Note due 04/30/2023	\$1,568,182	10/31/16	1,546,468	1,581,507
11.5% (1.25% PIK) Senior Subordinated Note due 04/30/2023	\$206,039	10/06/17	202,471	207,350
Common Stock (B)		10/31/16	156,818	180,036

Edgar Filing: BARINGS PARTICIPATION INVESTORS - Form N-30D

156,818
shs.

1,905,757 1,968,893

AMS Holding LLC

A leading multi-channel direct marketer of high-value collectible coins and proprietary-branded jewelry and watches.

Limited Liability Company Unit Class A
Preferred (B)(F)

114 uts. 10/04/12 113,636 218,719

Barings Participation Investors
CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)
September 30, 2018
(Unaudited)

Corporate Restricted Securities: (A) (Continued)	Principal Amount, Shares, Units or Ownership Percentage	Acquisition Date	Cost	Fair Value
API Technologies Corp.				
A designer, developer and manufacturer of electronic systems, subsystems, modules and secure communications for technically demanding defense, aerospace and commercial applications in the U.S. and internationally.				
Limited Liability Company Unit (B)	0.40% int.	04/20/16	\$240,741	\$451,950
ASC Holdings, Inc.				
A manufacturer of capital equipment used by corrugated box manufacturers.				
13% (1% PIK) Senior Subordinated Note due 05/18/2021	\$761,884	11/19/15	753,468	699,224
Limited Liability Company Unit (B)	111,100 uts.	11/18/15	111,100 864,568	— 699,224
Aurora Parts & Accessories LLC				
A distributor of aftermarket over-the-road semi-trailer parts and accessories sold to customers across North America.				
11% Senior Subordinated Note due 02/17/2022	\$1,515,400	08/17/15	1,497,401	1,466,455
14% Senior Subordinated Note due 08/17/2022	\$10,486	08/30/18	10,486	10,394
Preferred Stock (B)	210 shs.	08/17/15	209,390	109,573
Common Stock (B)	210 shs.	08/17/15	210	—
			1,717,487	1,586,422
Avantech Testing Services LLC				
A manufacturer of custom Non-Destructive Testing ("NDT") systems and provider of NDT and inspections services primarily to the oil country tubular goods market.				
15% (3.75% PIK) Senior Subordinated Note due 03/31/2021 (D)	\$6,777	07/31/14	6,650	—
Limited Liability Company Unit (B)(F)	45,504 uts.	*	—	—
Limited Liability Company Unit Class C Preferred (B)(F)	78,358 uts.	09/29/17	484,578	—
* 07/31/14 and 10/14/15.			491,228	—
BBB Industries LLC				
A supplier of re-manufactured parts to the North American automotive aftermarket.				
10.60% Second Lien Term Loan due 06/26/2026 (LIBOR + 8.500%)	\$1,725,000	08/02/18	1,674,221	1,707,750

BCC Software, Inc.

A provider of software and data solutions which enhance mail processing to help direct mail marketers realize discounts from the U.S. Postal Service, avoid penalties associated with mailing errors, and improve the accuracy and efficiency of marketing campaigns.

12% (1% PIK) Senior Subordinated Note due

04/11/2023	\$1,506,408	10/11/17	1,480,542	1,473,033
Preferred Stock Series A (B)	23 shs.	10/11/17	232,373	232,400
Common Stock Class A (B)	735 shs.	10/11/17	735	30,793
			1,713,650	1,736,226

CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

September 30, 2018

(Unaudited)

Corporate Restricted Securities: (A) (Continued)	Principal Amount, Shares, Units or Ownership Percentage	Acquisition Date	Cost	Fair Value
BEI Precision Systems & Space Company, Inc.				
A provider of advanced design, manufacturing, and testing for custom optical encoder-based positioning systems, precision accelerometers, and micro scanners.				
12% (1% PIK) Senior Subordinated Note due 04/28/2024	\$1,469,724	04/28/17	\$1,444,823	\$1,447,458
Limited Liability Company Unit (B)(F)	2,760 uts.	04/28/17	276,000	147,864
			1,720,823	1,595,322