

BABSON CAPITAL GLOBAL SHORT DURATION HIGH YIELD FUND

Form N-CSR

March 11, 2013

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

FORM N-CSR

CERTIFIED SHAREHOLDER REPORT OF REGISTERED MANAGEMENT INVESTMENT COMPANIES

Investment Company Act file number 811-22562

Babson Capital Global Short Duration High Yield Fund
(Exact name of registrant as specified in charter)

550 South Tryon Street, Charlotte, NC 28202
(Address of principal executive offices) (Zip code)

Janice M. Bishop
Secretary and Chief Legal Officer
c/o Babson Capital Management LLC
Independence Wharf
470 Atlantic Avenue
Boston, MA 02210
(Name and address of agent for service)

704-805-7200
Registrant's telephone number, including area code

Date of fiscal year end: December 31

Date of reporting period: December 31, 2012

Item 1. Reports to Stockholders.

Babson Capital Global Short Duration High Yield Fund
c / o Babson Capital Management LLC
550 South Tryon St.
Charlotte, NC 28202
704.805.7200
<http://www.BabsonCapital.com/bgh>

ADVISER

Babson Capital Management LLC
550 South Tryon St.
Suite 3300
Charlotte, NC 28202

SUB-ADVISOR

Babson Capital Global Advisors Limited
61 Aldwych
London, UK
WC2B 4AE

COUNSEL TO THE FUND

Ropes & Gray LLP
Prudential Tower
800 Boylston Street
Boston, Massachusetts 02110

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

KPMG LLP
Two Financial Center
60 South Street
Boston, Massachusetts 02111

CUSTODIAN

US Bank
MK-WI-S302
1555 N. River Center Drive
Milwaukee, WI 53212

TRANSFER AGENT & REGISTRAR

U.S. Bancorp Fund Services, LLC
615 E. Michigan St.
Milwaukee, WI 53202

FUND ADMINISTRATION/ACCOUNTING

U.S. Bancorp Fund Services, LLC
615 E. Michigan St.
Milwaukee, WI 53202

PROXY VOTING POLICIES & PROCEDURES

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

FORM N-Q

The Fund will file its complete schedule of portfolio holdings with the SEC for the first and third quarters of each fiscal year on Form N-Q. 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 on the Trust’s website at <http://www.BabsonCapital.com/bgh> or upon request by calling, toll-free, 1-866-399-1516.

OFFICERS OF THE FUND

Russell Morrison
President and Principal Executive Officer

Patrick Hoefling
Chief Financial Officer and Principal Financial
and Accounting Officer

Andrew Lennon
Treasurer

Michael Freno
Vice President

Sean Feeley
Vice President

Scott Roth
Vice President

Melissa LaGrant
Chief Compliance Officer

Janice Bishop
Secretary/Chief Legal Officer

Michele Manha
Assistant Secretary

BABSON CAPITAL GLOBAL SHORT DURATION HIGH YIELD FUND

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

INVESTMENT OBJECTIVE & POLICY

Babson Capital Global Short Duration High Yield Fund (the “Fund”) was organized as a business trust under the laws of the Commonwealth of Massachusetts on May 20, 2011, and commenced operations on October 26, 2012. The Fund is registered under the Investment Company Act of 1940, as amended, as a non-diversified, closed-end management investment company with its own investment objective. The Fund’s common shares are listed on the New York Stock Exchange under the symbol “BGH”.

The Fund’s primary investment objective is to seek as high a level of current income as the Adviser (as defined herein) determines is consistent with capital preservation. The Fund seeks capital appreciation as a secondary investment objective when consistent with its primary investment objective. There can be no assurance that the Fund will achieve its investment objectives.

The Fund will seek to take advantage of inefficiencies between geographies, primarily the North American and Western European high yield bond and loan markets and within capital structures between bonds and loans. For example, the Fund will seek to take advantage of differences in pricing between bonds and loans of an issuer denominated in U.S. dollars and substantially similar bonds and loans of the same issuer denominated in Euros, potentially allowing the Fund to achieve a higher relative return for the same credit risk exposure.

Babson Capital Global Short Duration High Yield Fund 2012 Annual Report

DEAR FELLOW SHAREHOLDERS,

We are excited to provide you with the Annual Report for the Fund, Babson Capital Management LLC's most recent closed-end fund offering. It has been over two decades since our last offering in the closed-end fund market and this most recent Fund provides retail investors direct access to the Global High Yield Investments Group within Babson Capital. We believe we have one of the largest global high yield investment teams in the market with the capability to offer investors unique and timely investment products. As our investment experience in the global high yield markets spans multiple credit cycles, we believed that 2012 was an opportune time to offer an attractive portfolio of global high yield assets to fulfill investors' search for yield in the current low interest rate environment. We believe the global high yield asset class provides investors an adequate risk-reward premium, especially when focusing on the short duration spectrum of the market. This strategy allows investors to take advantage of expected low default rates while reducing interest rate risk.

The global nature of the portfolio, primarily focusing on North American and Western European credits, provides investors with additional benefits compared to a U.S. only portfolio such as higher quality, increased yield, and lower duration credits. We emphasize higher-rated, high yield assets coupled with a limit of 10% on CCC-rated credits. By leveraging over 70 investment professionals in the U.S. and U.K., we are able to primarily focus on North American and Western European credits with a fundamental bottom-up research approach and provide investors with what we believe to be our best relative value opportunities across jurisdictions, industries, credit quality and within corporate capital structures. We believe this approach and our seasoned team of investment professionals can potentially provide investors with attractive dividend yields for years to come.

Market Review

2012 proved to be a challenging market environment for investors. With investors searching for yield in the current low interest rate environment, appetite for the global high yield market increased, which ultimately had a positive effect on performance. Actions by central banks in the U.S. and Europe played a large role in the second half of 2012 and led to risk assets rallying. Specifically, the Federal Reserve made aggressive commitments to open-ended and unlimited asset purchase programs until the labor market strengthens, and pledged to maintain near zero rates for a considerable period of time. In Europe, tail risks were reduced significantly following the European Central Bank's stance on 'doing whatever it takes to preserve the Euro'. Both of these actions contributed to the significant rally in the global high yield market.

Yields in the global high yield bond market have reached record lows in recent months. However, spreads remain close to their historical average despite the positive fundamental backdrop. We believe credit fundamentals have remained relatively stable, following significant balance sheet improvements over the last three years, and we expect default rates to remain below their historical averages in the near-term.

Momentum in both supply and demand for global high yield assets has lent to a favorable technical environment. The 2012 new issuance total surpassed the levels experienced in 2011. Retail investors continue to invest in high yield, with recent fund flows remaining positive and holding strong.

Additionally, the European market offers investors more yield and spread, higher ratings, lower leverage profile and shorter durations. The Fund's non-U.S. dollar dominated securities are hedged back to U.S. dollars, reducing the currency exposure to investors.

Babson Capital Global Short Duration High Yield Fund Overview and Performance

After the initial public offering of the Fund in October, the portfolio management team prudently invested the capital in both the U.S. and Western European credit markets primarily by taking advantage of attractive relative value opportunities in the secondary market. The Fund ended the year with a well-diversified portfolio of 121 issuers. A majority of the issuers are domiciled in the U.S. (64.5%) followed by the U.K. (8.8%) and Germany (5.5%) - see Country Composition chart on page 4. A focus of this Fund is to find attractive relative value opportunities in the global high yield market and the Fund invested in a number of issuers in the European region with attractive yield potential. From a fundamental bottom-up credit analysis standpoint, many of these issuers are stable credits that exhibit strong free cash flow generation along with global revenue streams, which can potentially help the issuers withstand additional European economic headwinds.

Babson Capital Global Short Duration High Yield Fund 2012 Annual Report

The Fund ended 2012 well positioned from a quality standpoint: 68.3% B-rated, 20.2% BB-rated, and 9.9% CCC-rated, with almost 60% of the portfolio consisting of secured obligations. Within the CCC-rated and below category, the majority of these assets are senior secured 2nd lien loans. Based on our experience within the current market environment, we believe these senior secured 2nd lien loan assets offer a tremendous amount of value and being senior secured by nature offers additional protection to investors. Note that 90% of the Fund's European exposure consists of secured obligations.

In December, the Fund recorded its first dividend payment of \$0.1677 per share, comprised of net investment income. Based on the Fund's initial public offering price of \$25.00 per share, the distribution represents an annualized yield of 8.05% per share. Assets acquired through leverage, which represented 17% at year-end, were accretive to net investment income and benefitted shareholders. From an NAV performance standpoint, the Fund increased +2.69% since inception.

In Conclusion

In general, we believe global high yield credit fundamentals are likely to remain relatively stable. It is our opinion that the central banks' recent commitments to maintain low interest rates for the foreseeable future will also help sustain solid performance in the high yield market. We also expect global default rates to generally remain below their historical averages and as a result, we believe that the global high yield market will continue to offer attractive opportunities, despite the recent decline in yields.

We continue to believe that our bottom-up fundamental approach to investing will allow us to capture attractive investment opportunities for the Fund. So far, the Fund has gotten off to a strong start since the initial offering and we believe the Fund's dividend will continue to be attractive for the foreseeable future.

Thank you again for supporting Babson Capital, the Global High Yield Investments Group, and the Fund this year. We look forward to a successful 2013 for our shareholders.

Sincerely,

Russell Morrison

President and Principal Executive Officer

Babson Capital Global Short Duration High Yield Fund

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 in 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 Fund'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.

Babson Capital Global Short Duration High Yield Fund 2012 Annual Report

PORTFOLIO COMPOSITION (% OF ASSETS*)

COUNTRY COMPOSITION (% OF ASSETS*)

* Percentage of assets are expressed by market value excluding cash and may vary over time. The percentages shown above represent a percentage of the Fund's invested assets as of December 31, 2012.

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BABSON CAPITAL GLOBAL SHORT
DURATION HIGH YIELD FUND

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STATEMENT OF ASSETS AND LIABILITIES

	December 31, 2012
Assets	
Investments, at fair value (cost \$573,257,886)	\$ 584,620,319
Cash	34,199,451
Foreign currency, at fair value (cost \$6,047,699)	6,039,161
Receivable for investments sold	2,032,936
Interest receivable	8,679,103
Prepaid expenses and other assets	19,660
Total assets	635,590,630
Liabilities	
Unrealized depreciation on forward foreign exchange contracts	2,711,229
Payable for investments purchased	41,213,009
Payable to adviser	842,094
Dividend payable	3,361,505
Accrued expenses and other liabilities	458,186
Note payable	100,000,000
Total liabilities	148,586,023
Total net assets	\$ 487,004,607
Net Assets	
Common stock, \$0.00001 par value; 20,044,750 shares issued and outstanding (unlimited shares authorized)	\$ 200
Additional paid-in capital	477,565,969
Undistributed net investment income	462,699
Accumulated net realized gain	302,820
Net unrealized appreciation	8,672,919
Total net assets	\$ 487,004,607
Net asset value per share	