

Edgar Filing: Avenue Income Credit Strategies Fund - Form N-CSR

Avenue Income Credit Strategies Fund  
Form N-CSR  
January 08, 2014

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 811-22485

Avenue Income Credit Strategies Fund  
(Exact name of registrant as specified in charter)

399 Park Avenue, 6th Floor

New York, NY  
(Address of principal executive offices)

10022  
(Zip code)

Copy to:

Randolph Takian

Avenue Capital Group

399 Park Avenue, 6th Floor

New York, NY 10022

(212) 878-3500

(Name and address of agent for service)

Stuart Strauss

Dechert LLP

1095 Avenue of the Americas

New York, NY 10036

Registrant's telephone number, including area code: (212) 878-3500

Date of fiscal year end: October 31, 2013

Date of reporting period: October 31, 2013

**Item 1. Shareholder Report**

## Avenue Income Credit Strategies Fund

### Manager Commentary

October 31, 2013 (unaudited)

Dear Shareholder,

We are pleased to present the 2013 Annual Report for Avenue Income Credit Strategies Fund (the "Fund"). The following Manager Commentary covers the one year ended October 31, 2013.

### Fund Objective and Principal Investment Strategy

The Fund's primary investment objective is to seek a high level of current income with a secondary objective of capital appreciation. Depending on market conditions and the Fund's outlook over time, the Fund seeks to achieve its investment objectives by opportunistically investing primarily in loan and debt instruments (and loan-related or debt-related instruments, including repurchase and reverse repurchase agreements and derivative instruments) of issuers that operate in a variety of industries and geographic regions.

### Performance<sup>1,2</sup>

For the year ended October 31, 2013, the Fund had a total return of 9.29% based on net asset value ("NAV"), and 2.23% based on the market value of the Fund's shares. On October 31, 2013, the closing price of the Fund's shares on the New York Stock Exchange was \$17.20 representing a 7.68% discount to the Fund's NAV per share of \$18.63.

### High Yield Bond and Bank Loan Market Returns for the Fiscal Year November 1, 2012 to October 31, 2013<sup>1,2,3</sup>

The Fund invests across a range of assets. While the Fund does not have a benchmark, the below indices cover asset classes that Avenue Capital Management II, L.P. (the "Investment Adviser") believes are the same as, or similar to, the asset classes to which the Fund's assets are exposed (in whole or in part).

Fund/Index	One Year Ended October 31, 2013
Avenue Income Credit Strategies Fund (ACP) based on NAV	9.29%
Avenue Income Credit Strategies Fund (ACP) based on market value	2.23%
The BofA Merrill Lynch US High Yield Master II Index	8.83%
The BofA Merrill Lynch Single-B US High Yield Index	9.05%
CS Leveraged Loan Index	6.28%
The BofA Merrill Lynch Euro High Yield Index	12.78%
The BofA Merrill Lynch Single-B Euro High Yield Index	13.80%
S&P European Leveraged Loan Index (ELLI)	8.31%

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### Factors Affecting Performance

The Fund posted strong performance based on NAV over the year as it benefited from solid security selection across a number of positions within the portfolio. Additionally, the Fund benefitted from the market conditions of rising risk asset prices and sector-specific dislocations creating attractive investment opportunities. We believe that the Fund's approach of analyzing each investment on the merits of issuer, industry and rating has benefitted performance and should, in our opinion, continue to allow us to select the credits that are likely to be drivers of alpha.

The following factors contributed positively to performance:

The Fund was overweight CCC rated credits relative to the Barclays Index. The CCC portion of the Barclays Index had a total return of 14.44% during the fiscal year<sup>4</sup>

The Fund's exposure to European and Asian credits positively impacted performance. The Barclays Global High Yield Index had a total return of 10.27%, versus 8.87% for the Barclays Index (U.S. only)<sup>3,5</sup>

**Avenue Income Credit Strategies Fund**

**Manager Commentary (continued)**

October 31, 2013 (unaudited)

The top five contributors to performance were:

1. Tyrol Acquisitions 2 SAS
2. Hercules Offshore, Inc.
3. Springleaf Finance Corp.
4. Kerling PLC
5. US Airways, Inc.

The following factors detracted from performance:

The impact of the rights offering, discussed below, negatively impacted performance as new shares were sold at a discount to the Fund's NAV at the time of the offering

The hedges detracted from performance during the period, but we believe would have helped reduce capital losses during a potential market sell-off

The top five detractors from performance were:

1. Cengage Learning Acquisitions Inc.
2. JC Penney Corp. Inc
3. NII International Telecom Sarl
4. Short position in the iShares iBoxx \$ High Yield Corporate Bond ETF
5. Short position in the iShares iBoxx Investment Grade Corporate Bond Fund

We were pleased with our credit selection leading to alpha generation for our investors over the year.

### **Rights Offering Completed May 2013**

Based in part on the attractive investment opportunities we believed continued to be available in the high yield market, the Fund completed a rights offering in May 2013 to raise additional capital during the year. The Fund elected to give shareholders the option generally to purchase an additional share in the Fund at a discount to the market price for every three shares owned. The offer was over-subscribed and the Fund raised an additional \$51.8 million in capital net of fees through the issuance of an additional 3.27 million shares. Returns presented above include the dilution due to this rights offering.

### **Market Outlook**

The credit markets, as measured by the Barclays Index, experienced solid returns during the fiscal year; gaining capital appreciation in addition to coupon income. The Fund's outlook for the near to medium term is balanced, leaning towards positive for the global credit markets despite the following headwinds and macro risks:

The Federal Reserve (the Fed) will likely be tapering bond purchases at some point in the near to medium term. While the Fund does not expect the same spike in yields on a percentage basis as occurred in the May-July time frame, this could serve as a headwind to risk assets.<sup>6</sup>

The U.S. government lacks resolution to the debt ceiling and budget deficit on a longer-term basis, causing uncertainty in the markets.

China's growth rate will be closely monitored as concerns over GDP growth slowing are addressed.<sup>7</sup>

Europe's ability to sustain recovery as it exits recession remains conditional. Though European economic data has improved, concerns over interest rate risk and unsustainably high unemployment will continue to be evaluated.

**Avenue Income Credit Strategies Fund**

**Manager Commentary (continued)**

October 31, 2013 (unaudited)

Despite these macro risks, which we monitor closely, we believe there are several reasons the outlook for the credit markets remains positive:

Default rates in the U.S., excluding any large company filing, are expected to remain below 2% in 2014<sup>8</sup>, but should continue to provide ample distressed investment opportunities. Defaults and distressed loan sales from commercial banks in Europe may remain elevated and we believe have potential to increase in 2014.

The Fed forecasts that inflation is likely to remain below its target of 2.0% for a period of time.

Despite the Fed's plans to eventually taper their bond purchases, the Fed has committed to maintaining short term rates near zero for an extended period of time.<sup>9</sup> This should continue to drive demand for higher yielding asset classes that have traditionally experienced less interest rate sensitivity.

Spreads in the high yield and bank loan markets remain attractive near 500 bps in relation to low short term interest rates and continued low inflation and default rates.<sup>10</sup> This could provide for spread tightening over the next 1-4 quarters.

Gross new issuance should remain elevated with the majority being used for refinancings, especially in the high yield market. More aggressive financings, including dividend deals, should continue and may increase as a percentage of issuance. In addition, we predict the high percentage of covenant-lite loan deals will continue.

U.S. covenant-lite bank loan issuance for 2013 is at a record \$188.7 billion, surpassing 2007's record by 74%. Covenant-lite deals issued YTD are more than five times the \$35 billion issued in the first nine months of 2012. Covenant-lite loans represent more than half of total loan issuance this year, compared to 25% in 2007.<sup>11</sup>

We continue to work to identify attractive investment opportunities across the performing, stressed and distressed universe on a global basis. We appreciate your continued interest and support.

Avenue Capital Management II, L.P.

December, 2013

*Alternative investments are speculative and involve substantial risks. It is possible that investors may lose some or all of their investment. An investment in the Fund is not appropriate for all investors, and the Fund is not intended to be a complete investment program.*

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*The views and opinions in the preceding discussion are subject to change. There is no guarantee that any market forecast set forth in the discussion will be realized. This material represents an assessment of the market environment at a specific point in time, should not be relied upon as investment advice and is not intended to predict or depict performance of any investment.*

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1 Performance data shown represents past performance and does not guarantee future results. Current performance may be lower or higher than the performance data shown. Investment returns and principal value will fluctuate, and when sold, your investment may be worth more or less than its original cost. All returns assume reinvestment of all dividends. The Fund is subject to various fees and expenses which include advisory fees, operating expenses, investment related expenses (including but not limited to interest on borrowings) and extraordinary expenses, and the performance shown above reflects the deduction of such fees and expenses. The performance above reflects fee waivers and/or expense reimbursements made by Avenue Capital Management II, L.P. (the Investment Adviser). Absent such waivers and/or reimbursements, the Fund's returns would be lower. Performance information is not annualized, unless otherwise noted. The Fund commenced operations on January 27, 2011. The performance shown thus represents the Fund's results for a short period of time and may not be indicative of the performance the Fund



**Avenue Income Credit Strategies Fund**

**Manager Commentary (concluded)**

October 31, 2013 (unaudited)

will be able to generate over longer periods. Shares of closed-end investment companies frequently trade at a discount to their net asset value, which may increase an investor's risk of loss. This characteristic of shares of a closed-end fund is a risk separate and distinct from the risk that a fund's net asset value will decrease. Current performance for the most recent month end can be obtained by calling (888) 301-3838. An independent accountant has not audited, reviewed or compiled the performance results. The Fund's shares are not insured by the FDIC and are not deposits or other obligations of, or guaranteed by, any depository institution.

2 Includes dilution of approximately \$0.97 to NAV per share resulting from the Fund's transferable rights offering, which expired on May 17, 2013. In connection with such offering, the Fund issued 3,268,518 additional common shares at a subscription price per share below the then-current NAV per share of the Fund.

3 Index information was compiled from sources that Avenue Capital Management II, L.P. believes to be reliable. No representation or guarantee is made hereby with respect to the accuracy or completeness of such data. The BofA Merrill Lynch US High Yield Master II Index tracks the performance of short-term US dollar denominated below investment grade corporate debt publicly issued in the US domestic market. The BofA Merrill Lynch Single-B US High Yield Index is a subset of The BofA Merrill Lynch US High Yield Master II Index including all securities rated B1 through B3, inclusive. The CS Leveraged Loan Index is designed to mirror the investible universe of the US dollar denominated leveraged loan market. The BofA Merrill Lynch Euro High Yield Index tracks the performance of EUR denominated below investment grade corporate debt publicly issued in the euro domestic or Eurobond markets. The BofA Merrill Lynch Single-B Euro High Yield Index is a subset of The BofA Merrill Lynch Euro High Yield Index including all securities rated B1 through B3, inclusive. The S&P European Leveraged Loan Index (ELLI) is a market-value-weighted index designed to measure the performance of the European institutional leveraged loan market. On a real-time basis, the ELLI tracks the current outstanding balance and spread over EURIBOR for fully funded term loans. The facilities included in the ELLI represent a broad cross section of leveraged loans syndicated in Europe. Investors cannot invest directly in an index, and index performance does not reflect the deduction of any fees or expenses. There are material differences between such indices and the Fund, including without limitation that such indices are unmanaged, broadly-based indices, do not reflect payment of management or brokerage fees and differ in numerous other respects from the portfolio composition of the Fund; as a result, the Fund's investment portfolio is materially different from any given index. Indices include reinvestment of dividends and other income.

4 Barclays Credit Group, November 21, 2013.

5 Barclays Live Database, November 21, 2013. The Barclays Global High Yield Index represents the union of the U.S. High Yield, Pan-European High Yield, U.S. Emerging Markets High Yield, and Pan European Emerging Markets High Yield Indices.

6 Bloomberg, November 15, 2013.

7 The World Bank, Bloomberg as of September 24, 2013.

8 J.P. Morgan, High Yield Default Monitor, October 1, 2013.

9 J.P. Morgan, Credit Strategy Weekly Update, October 25, 2013.

10 J.P. Morgan, Credit Strategy Weekly Update, October 25, 2013.

11 Goldman Sachs, Leveraged Finance Update, October 10, 2013.



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## Avenue Income Credit Strategies Fund

### Financial Data(a)

October 31, 2013 (unaudited)

### Security Type(b)

### Ratings(c)

### Geographic Allocation(d)

### Top Five Industries(f)

### Top 10 Largest Holdings(g)

1	Hercules Offshore LLC	3.3%
2	Caesars Entertainment Corp.	3.1%
3	Halcon Resources LLC	3.0%
4	CHC Helicopter SA	2.7%
5	Avaya Inc.	2.7%
6	Faenza GMBH	2.6%
7	Clear Channel Communications Inc.	2.6%
8	American International Group, Inc.	2.5%
9	K Hovnanian Enterprises Inc.	2.3%
10	US Airways, Inc.	2.0%
<b>Total Top 10:</b>		<b>26.8%</b>

(a) Holdings are subject to change without notice. Calculated as a percent of net assets as of the date of this document. Where applicable, percentages may not add to 100% due to rounding.

(b) Security Type, as defined by Avenue Capital Management II, L.P. (the "Investment Adviser"), is sourced from Bloomberg as well as developed via internal classifications.

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(c) Ratings information represent Standard & Poor's ratings on instruments in the portfolio. Ratings are provided for informational purposes only and may change over time. Standard & Poor's rates securities from AAA (highest quality) to C (lowest quality), and D to indicate securities in default. BB and below are considered below investment grade securities. Greater risk, such as increased volatility, limited liquidity, prepayment, non-payment and increased default risk, is inherent in portfolios that invest in high yield (junk) bonds. The Fund may invest all or a substantial portion of its assets in below investment grade securities which are often referred to as high yield or junk securities.

(d) The geographic allocation is based on where the Investment Adviser believes the country of risk to be. Country of risk is the country where the majority of the company's operations are based or where it is headquartered. Investment in non-U.S. securities is subject to the risk of currency fluctuations and to economic and political risks associated with such foreign countries.

(e) Cash and Cash Equivalents includes cash as well as other non-investment asset and liabilities (net), excluding borrowings under credit facilities.

(f) Industries are represented using GICS classifications.

(g) The holdings of the Fund are calculated based on Issuer as opposed to Issue. The number of Issues the Fund owns will be significantly higher than the number of Issuers set forth herein.

## Avenue Income Credit Strategies Fund

## Schedule of Investments

October 31, 2013

<u>Security Description</u>	<u>Coupon</u>	<u>Maturity</u>	<u>Principal Amount (000)</u>	<u>Value</u>
<b>CORPORATE BONDS &amp; NOTES 112.4%</b>				
<b>Aerospace &amp; Defense 1.6%</b>				
Accudyne Industries Borrower / Accudyne Industries LLC (a)	7.75%	12/15/2020	\$ 3,800	\$ 3,980,500
<b>Airlines 2.7%</b>				
US Airways 2000-3C Pass Through Trust	8.39%	3/1/2022	5,370	5,530,927
US Airways 2011-1C Pass Through Trust	10.88%	10/22/2014	1,043	1,086,808
				6,617,735
<b>Auto Components 2.9%</b>				
Chassix, Inc. (a)	9.25%	8/1/2018	5,600	6,006,000
Stackpole International Intermediate Co. SA (a)	7.75%	10/15/2021	925	962,000
				6,968,000
<b>Chemicals 3.0%</b>				
Kerling PLC (a)	10.63%	2/1/2017	EUR 1,600	2,313,605
Perstorp Holding AB (a)	8.75%	5/15/2017	\$ 4,825	5,042,125
				7,355,730
<b>Commercial Banks 3.8%</b>				
Lloyds Banking Group Capital No.1 PLC (a)	7.88%	11/1/2020	4,750	5,094,375
Royal Bank of Scotland Group PLC (b)	7.65%	8/29/2049	4,000	4,160,000
				9,254,375
<b>Communications Equipment 6.4%</b>				
Alcatel-Lucent USA, Inc. (a)	8.88%	1/1/2020	3,195	3,454,594
Aspect Software, Inc.	10.63%	5/15/2017	2,925	2,990,812
Avaya, Inc.:				
	9.00%	4/1/2019(a)	3,700	3,718,500
	10.50%	3/1/2021(a)	6,214	5,406,180
				15,570,086
<b>Computers &amp; Peripherals 0.8%</b>				
Oberthur Technologies Holding SAS (a)	9.25%	4/30/2020	EUR 1,357	1,916,164
<b>Construction Materials 3.6%</b>				
Faenza GmbH (a)	8.25%	8/15/2021	6,100	8,799,913
<b>Consumer Finance 1.8%</b>				
Springleaf Finance Corp.	6.90%	12/15/2017	\$ 4,000	4,330,000
<b>Containers &amp; Packaging 2.0%</b>				
Ardagh Packaging Finance PLC (a)	9.25%	10/15/2020	EUR 3,000	4,390,595
Exopack Holdings SA (a)	7.88%	11/1/2019	\$ 480	480,000
				4,870,595
<b>Diversified Consumer Services 1.1%</b>				
Monitronics International Inc. (a)	9.13%	4/1/2020	2,600	2,756,000
<b>Diversified Telecommunication Services 3.6%</b>				
Avanti Communications Group PLC (a)	10.00%	10/1/2019	1,632	1,705,440
Level 3 Financing, Inc.	10.00%	2/1/2018	2,000	2,137,500
Numericable Finance & Co. SCA (a)	12.38%	2/15/2019	EUR 3,000	4,867,776
				8,710,716
<b>Electric Utilities 2.4%</b>				
Energy Future Holdings Corp.:				
	11.00%	10/1/2021	\$ 1,544	1,694,540
	12.25%	3/1/2022(a)	3,655	4,203,250
				5,897,790

See Accompanying Notes to Financial Statements.



## Avenue Income Credit Strategies Fund

## Schedule of Investments (continued)

October 31, 2013

<u>Security Description</u>	<u>Coupon</u>	<u>Maturity</u>	<u>Principal Amount (000)</u>	<u>Value</u>
<b>Energy Equipment &amp; Services 14.0%</b>				
CHC Helicopter SA	9.38%	6/1/2021	\$ 9,050	\$ 9,163,125
Globe Luxembourg SCA (a)	9.63%	5/1/2018	4,350	4,437,000
Hercules Offshore, Inc.:				
	8.75%	7/15/2021(a)	5,015	5,516,500
	10.25%	4/1/2019(a)	4,990	5,638,700
Ocean Rig UDW, Inc. (a)	9.50%	4/27/2016	4,800	5,100,000
Tervita Corp.:				
	8.00%	11/15/2018(a)	2,725	2,834,000
	9.00%	11/15/2018(a)	CAD 1,500	1,474,608
				34,163,933
<b>Health Care Equipment &amp; Supplies 2.1%</b>				
ConvaTec Finance International SA PIK (a)	8.25%	1/15/2019	\$ 5,000	5,156,250
<b>Health Care Providers &amp; Services 6.1%</b>				
HCA, Inc.:				
	7.05%	12/1/2027	745	728,237
	7.50%	11/6/2033	120	120,600
	7.58%	9/15/2025	555	577,200
	7.69%	6/15/2025	900	947,250
	7.75%	7/15/2036	525	528,938
Priory Group Ltd. (a)	7.00%	2/15/2018	GBP 3,500	5,864,433
Tenet Healthcare Corp.:				
	6.88%	11/15/2031	\$ 2,475	2,178,000
	8.00%	8/1/2020	3,000	3,266,250
	8.13%	4/1/2022(a)	525	574,875
				14,785,783
<b>Hotels, Restaurants &amp; Leisure 8.1%</b>				
Boyd Gaming Corp.	9.00%	7/1/2020	1,946	2,096,815
Caesars Entertainment Operating Co, Inc.:				
	9.00%	2/15/2020	6,215	5,826,563
	11.25%	6/1/2017	4,750	4,738,125
Gala Electric Casinos PLC (a)	11.50%	6/1/2019	GBP 1,800	3,188,670
The Unique Pub Finance Co. PLC	5.66%	6/30/2027	2,444	3,810,393
				19,660,566
<b>Household Durables 3.1%</b>				
K Hovnanian Enterprises, Inc. (a)	9.13%	11/15/2020	\$ 7,000	7,630,000
<b>Independent Power Producers &amp; Energy Traders 0.8%</b>				
Ameren Energy Generating Co.:				
	6.30%	4/1/2020	260	202,800
	7.00%	4/15/2018	1,350	1,147,500
	7.95%	6/1/2032	650	507,000
				1,857,300
<b>Industrial Conglomerates 0.8%</b>				
Edgen Murray Corp. (a)	8.75%	11/1/2020	1,660	1,917,300
<b>Insurance 3.4%</b>				
American International Group, Inc.:				
	8.00%	5/22/2038(a)	EUR 3,000	4,720,894
	8.18%	5/15/2058	\$ 3,000	3,697,500
				8,418,394
<b>Internet Software &amp; Services 0.8%</b>				
BMC Software Finance, Inc. (a)	8.13%	7/15/2021	1,000	1,057,500
EarthLink, Inc.	7.38%	6/1/2020	800	794,000
				1,851,500

*See Accompanying Notes to Financial Statements.*



## Avenue Income Credit Strategies Fund

## Schedule of Investments (continued)

October 31, 2013

<u>Security Description</u>	<u>Coupon</u>	<u>Maturity</u>	<u>Principal Amount (000)</u>	<u>Value</u>
<b>IT Services 0.3%</b>				
First Data Corp. (a)	11.75%	8/15/2021	\$ 625	\$ 635,937
<b>Machinery 0.2%</b>				
Milacron LLC / Mcron Finance Corp. (a)	7.75%	2/15/2021	460	480,700
<b>Marine 2.2%</b>				
Navios Maritime Acquisition Corp. / Navios Acquisition Finance US, Inc. (a)	8.13%	11/15/2021	450	454,500
Navios Maritime Holdings, Inc. / Navios Maritime Finance II US, Inc.	8.13%	2/15/2019	4,807	4,879,105 5,333,605
<b>Media 8.9%</b>				
Clear Channel Communications, Inc.	11.25%	3/1/2021	8,150	8,751,062
Clear Channel Worldwide Holdings, Inc.	7.63%	3/15/2020	3,500	3,736,250
Gibson Brands, Inc. (a)	8.88%	8/1/2018	2,875	3,004,375
Univision Communications, Inc.:				
	7.88%	11/1/2020(a)	3,000	3,330,000
	8.50%	5/15/2021(a)	2,500	2,768,750 21,590,437
<b>Metals &amp; Mining 2.1%</b>				
Schmolz + Bickenbach Luxembourg SA (a)	9.88%	5/15/2019	EUR 3,475	5,190,025
<b>Multiline Retail 2.4%</b>				
JC Penney Corp, Inc.	5.65%	6/1/2020	\$ 7,650	5,708,812
The Neiman Marcus Group, Inc. (a)	8.00%	10/15/2021	150	153,563 5,862,375
<b>Oil, Gas &amp; Consumable Fuels 8.1%</b>				
Connacher Oil and Gas Ltd. (a)	8.50%	8/1/2019	4,000	2,760,000
Halcon Resources Corp.:				
	8.88%	5/15/2021	6,300	6,559,875
	9.25%	2/15/2022(a)	3,458	3,665,480
Midstates Petroleum Co, Inc. / Midstates Petroleum Co. LLC	10.75%	10/1/2020	3,380	3,650,400
Murray Energy Corp. (a)	8.63%	6/15/2021	800	856,000
Penn Virginia Resource Partners LP / Penn Virginia Resource Finance Corp. II	8.38%	6/1/2020	2,000	2,220,000 19,711,755
<b>Personal Products 2.7%</b>				
Ontex IV (a)	7.50%	4/15/2018	EUR 4,560	6,544,119
<b>Pharmaceuticals 0.2%</b>				
Pinnacle Merger Sub, Inc. (a)	9.50%	10/1/2023	\$ 400	422,000
<b>Road &amp; Rail 2.2%</b>				
Jack Cooper Finance Co. (a)	9.25%	6/1/2020	320	342,400
Jack Cooper Holdings Corp. (a)	9.25%	6/1/2020	4,675	5,002,250 5,344,650
<b>Software 1.5%</b>				
Infor US, Inc.	9.38%	4/1/2019	3,250	3,672,500
<b>Specialty Retail 1.1%</b>				
CDW LLC / CDW Finance Corp.	8.50%	4/1/2019	2,500	2,768,750
<b>Textiles, Apparel &amp; Luxury Goods 1.9%</b>				
Quiksilver, Inc. / QS Wholesale, Inc.:				
	7.88%	8/1/2018(a)	520	556,400
	10.00%	8/1/2020(a)	1,040	1,136,200
Takko Luxembourg 2 SCA (a)	9.88%	4/15/2019	EUR 2,160	2,940,070

*See Accompanying Notes to Financial Statements.*

## Avenue Income Credit Strategies Fund

## Schedule of Investments (continued)

October 31, 2013

<u>Security Description</u>	<u>Coupon</u>	<u>Maturity</u>	<u>Principal Amount (000)</u>		<u>Value</u>
<b>Wireless Telecommunication Services 3.7%</b>					
Arqiva Broadcast Finance PLC (a)	9.50%	3/31/2020	GBP	3,375	\$ 5,912,033
NII International Telecom Sarl (a)	11.38%	8/15/2019	\$	3,350	3,182,500
					9,094,533
<b>TOTAL CORPORATE BONDS &amp; NOTES</b> (Cost \$261,536,799)					273,752,686
<b>SENIOR LOANS 15.3% (c)</b>					
<b>Containers &amp; Packaging 2.6%</b>					
Clondalkin Aquisition B.V. 2nd Lien Term Loan (d)	10.00%	11/30/2020		6,600	6,402,000
<b>Diversified Telecommunication Services 2.5%</b>					
Tyrol Acquisitions 2 SAS 2nd Lien Term Loan (d)	5.88%	7/28/2016	EUR	4,803	6,183,359
<b>Electric Utilities 0.8%</b>					
Astoria Generating Company Acquisitions Term Loan (d)	8.50%	10/26/2017	\$	1,975	2,024,375
<b>Energy Equipment &amp; Services 2.2%</b>					
Stallion Oilfield Services, Ltd. Term Loan B (d)	8.00%	6/19/2018		5,219	5,316,775
<b>Food Products 1.6%</b>					
Cucina Acquisition Limited 2nd Lien Term Loan D PIK (d)	3.74%	3/12/2017	GBP	2,475	3,769,992
<b>Household Products 2.3%</b>					
KIK Custom Products, Inc. 2nd Lien Term Loan (d)	9.50%	10/29/2019	\$	5,600	5,468,008
<b>Media 2.0%</b>					
Tech Finance & Co. SCA Term Loan B (d)	7.25%	7/10/2020		4,938	4,956,016
<b>Multiline Retail 0.6%</b>					
Hudson's Bay Company 2nd Lien Term Loan (d)	7.25%	10/7/2021		1,500	1,539,375
<b>Oil, Gas &amp; Consumable Fuels 0.7%</b>					
Panda Temple II Power, LLC Term Loan B (d)	7.25%	3/28/2019		1,620	1,660,500
<b>TOTAL SENIOR LOANS</b> (Cost \$36,763,070)					37,320,400
<b>CONVERTIBLE BONDS 2.2%</b>					
<b>Machinery 0.5%</b>					
Meritor, Inc. (a)	7.88%	3/1/2026		1,045,000	1,263,144
<b>Thriffs &amp; Mortgage Finance 1.7%</b>					
MGIC Investment Corp. (a)	9.00%	4/1/2063		3,625,000	4,089,453
<b>TOTAL CONVERTIBLE BONDS</b> (Cost \$5,090,525)					5,352,597
<b>TOTAL LONG-TERM INVESTMENTS 129.9%</b> (Cost \$303,390,394)					316,425,683
<b>SHORT-TERM INVESTMENTS 6.7%</b>					
<b>REPURCHASE AGREEMENT 6.7%</b>					
State Street Repurchase Agreement, dated 10/31/13, due 11/1/13 at 0.01%, collateralized by Government National Mortgage Association obligation maturing 3/20/28, market value \$16,770,456 (repurchase proceeds \$16,441,086)				16,441	16,441,081
<b>TOTAL SHORT-TERM INVESTMENTS 6.7%</b> (Cost \$16,441,081)					16,441,081
<b>TOTAL INVESTMENTS 136.6%</b> (Cost \$319,831,475)					332,866,764
<b>EQUITY SOLD SHORT (4.1)%</b>					
<b>Index (4.1)%</b>					

Shares

# Edgar Filing: Avenue Income Credit Strategies Fund - Form N-CSR

iShares iBoxx Investment Grade Corporate Bond ETF	(85,969)	(9,903,629)
<b>TOTAL EQUITY SOLD SHORT</b> (4.1)% (Proceeds \$9,784,804)		(9,903,629)
<b>OTHER ASSETS &amp; LIABILITIES</b> (32.5)%		(79,362,259)
<b>NET ASSETS</b> 100.0%		\$ 243,600,876

*See Accompanying Notes to Financial Statements.*

**Avenue Income Credit Strategies Fund**

**Schedule of Investments (continued)**

October 31, 2013

Percentages are calculated as a percentage of net assets as of October 31, 2013.

(a) Securities exempt from registration under Rule 144a of the Securities Act of 1933. These securities may be resold in transactions exempt from registration, to Qualified Institutional Investors as defined in Rule 144a promulgated under the Securities Act of 1933, as amended.

(b) Perpetual maturity.

(c) Interest rates on Senior Loans may be fixed or may float periodically. On floating rate Senior Loans, the interest rates typically are adjusted based on a base rate plus a premium or spread over the base rate. The base rate usually is a standard inter-bank offered rate, such as a LIBOR, the prime rate offered by one or more major U.S. banks, or the certificate of deposit rate or other base lending rates used by commercial lenders. Floating rate Senior Loans adjust over different time periods, including daily, monthly, quarterly, semi-annually or annually.

(d) Variable Rate Security. Rate shown is rate in effect at October 31, 2013.

PIK Payment in Kind

PLC Public Limited Company

SCA Societe en Commandite par Actions

**Geographic Allocation of Investments:**

Country	Percentage of Net Assets	Value
United States (Includes Short-Term Investments)	75.9%	\$ 184,970,096
United Kingdom	16.5	40,255,941
France	8.8	21,377,909
Luxembourg	6.3	15,259,320
Canada	6.2	15,037,991
Greece	4.3	10,433,605
Norway	3.7	9,163,125
Germany	3.6	8,799,913
Belgium	2.7	6,544,119
Netherlands	2.6	6,402,000
Switzerland	2.1	5,190,025
Sweden	2.1	5,042,125
Ireland	1.8	4,390,595
Total Investments	136.6%	\$ 332,866,764
United States (securities sold short)	(4.1)	(9,903,629)
Total Securities Sold Short	(4.1)%	\$ (9,903,629)

## Edgar Filing: Avenue Income Credit Strategies Fund - Form N-CSR

The geographic allocation is based on where Avenue Capital Management II L.P., the ( Investment Adviser ), believes the country of risk to be. Country of risk is traditionally the country where the majority of the company s operations are based or where it is headquartered.

*See Accompanying Notes to Financial Statements.*

**Avenue Income Credit Strategies Fund**

**Schedule of Investments (continued)**

October 31, 2013

**Forward Foreign Currency Contracts:**

Settlement Date	Amount	Value	In Exchange for U.S. \$	Net Unrealized Appreciation (Depreciation)	Counterparty
<b>Forward Foreign Currency Contracts to Buy:</b>					
11/07/2013	CAD 1,578,375	\$ 1,513,584	\$ 1,515,395	\$ (1,811)	State Street Bank and Trust Co.
11/07/2013	EUR 37,707,087	51,197,110	51,239,428	(42,318)	State Street Bank and Trust Co.
11/07/2013	GBP 12,441,126	19,947,643	19,934,659	12,984	State Street Bank and Trust Co.
				<b>(31,145)</b>	
<b>Forward Foreign Currency Contracts to Sell:</b>					
02/07/2014	CAD 1,578,375	1,510,095	1,511,484	1,389	State Street Bank and Trust Co.
11/07/2013	CAD 1,578,375	1,513,583	1,529,284	15,701	State Street Bank and Trust Co.
02/07/2014	EUR 35,047,797	47,593,061	47,649,723	56,662	State Street Bank and Trust Co.
11/07/2013	EUR 37,707,087	51,197,109	49,925,632	(1,271,477)	State Street Bank and Trust Co.
02/07/2014	GBP 11,860,642	19,003,495	19,030,281	26,786	State Street Bank and Trust Co.
11/07/2013	GBP 12,441,126	19,947,644	19,047,409	(900,235)	State Street Bank and Trust Co.
				<b>(2,071,174)</b>	
<b>Total</b>				<b>\$ (2,102,319)</b>	

CAD Canadian Dollar

EUR Euro Currency

GBP Great British Pound

*See Accompanying Notes to Financial Statements.*

**Avenue Income Credit Strategies Fund**

**Statement of Assets and Liabilities**

October 31, 2013

**Assets**

Investments in securities of unaffiliated issuers, at value (cost \$319,831,475)	\$	332,866,764
Cash collateral held at broker		14,305,484
Receivable for investments sold		11,427,220
Interest receivable unaffiliated issuers		6,610,570
Prepaid expenses		28,621
Foreign currency, at value (cost \$24,623)		24,596
<b>Total Assets</b>		<b>365,263,255</b>

**Liabilities**

Payable for line of credit		95,000,000
Payable for investments purchased		13,969,488
Securities sold short, at value (proceeds of \$9,784,804)		9,903,629
Net unrealized depreciation on open forward foreign currency contracts		2,102,319
Accrued investment advisory fee		426,754
Interest payable		79,825
Accrued Trustee's fees and expenses		3,217
Accrued expenses		177,147
<b>Total Liabilities</b>		<b>121,662,379</b>
<b>Net Assets</b>	\$	<b>243,600,876</b>

**Net Assets Consist of:**

Common shares, \$0.001 par value, unlimited number of shares authorized, 13,074,072 shares issued and outstanding	\$	13,074
Paid in capital		227,747,776
Undistributed net investment income		2,264,678
Accumulated net realized gain on investments, forward foreign currency contracts, foreign currency transactions and swap contracts		2,982,800
Net unrealized appreciation (depreciation) on investments, forward foreign currency contracts and foreign currency translations		10,592,548
<b>Net Assets</b>	\$	<b>243,600,876</b>
<b>Net Asset Value Per Common Share</b>		
\$243,600,876 divided by 13,074,072 common shares outstanding	\$	18.63

*See Accompanying Notes to Financial Statements.*



**Avenue Income Credit Strategies Fund**

**Statement of Operations**

For the year ended October 31, 2013

**Investment Income**

Interest income – unaffiliated issuers	\$	23,226,853
Interest income on securities of affiliated issuers (Note 5)		19,118
Total Investment Income		23,245,971

**Expenses**

Investment Advisory fee	3,591,292
Interest expense and commitment fee	882,470
Professional fees	285,726
Fund Accounting and Custody fees	165,808
Administration fees	149,004
Dividend expense on securities sold short	102,754
Insurance expense	97,282
Shareholder reporting expenses	71,546
Trustee's fees and expenses	71,326
Loan servicing fees	9,975
Transfer agent fees	9,121
Other expenses	94,737
<b>Total expenses</b>	<b>5,531,041</b>
Expenses recouped by Investment Adviser	125,210
<b>Net Expenses</b>	<b>5,656,251</b>
<b>Net Investment Income</b>	<b>17,589,720</b>

**Realized and Unrealized Gain (Loss) on Investments, Forward Foreign Currency Contracts, Securities Sold Short, Foreign Currency Transactions and Swap Contracts:**

Net realized gain (loss) on:	
Investments in securities of unaffiliated issuers	3,929,339
Investments in securities of unaffiliated issuers sold short	(201,067)
Investments in securities of affiliated issuers	(764,545)
Forward foreign currency contracts	(2,356,142)
Foreign currency transactions	(70,133)
Swap contracts	10,394
	547,846
Net change in unrealized appreciation (depreciation) on:	
Investments in securities of unaffiliated issuers	7,566,602
Investments in securities of unaffiliated issuers sold short	(118,825)
Investments in securities of affiliated issuers	851,788
Forward foreign currency contracts	407,651
Foreign currency translations	(226,532)
Swap contracts	242,454
	8,723,138
<b>Net realized and unrealized gain on investments, forward foreign currency contracts, securities sold short, foreign currency transactions and swap contracts</b>	<b>9,270,984</b>
<b>Net increase in net assets resulting from operations</b>	<b>\$ 26,860,704</b>

See Accompanying Notes to Financial Statements.



## Avenue Income Credit Strategies Fund

## Statement of Changes In Net Assets

	Year Ended October 31, 2013	Year Ended October 31, 2012
<b><i>Increase in Net Assets from Operations:</i></b>		
Net investment income	\$ 17,589,720	\$ 13,289,391
Net realized gain (loss) on investments, forward foreign currency contracts, foreign currency transactions and swap contracts	547,846	3,237,532
Net change in unrealized appreciation (depreciation) on investments, forward foreign currency contracts, securities sold short, foreign currency translations and swaps	8,723,138	14,880,001
<b><i>Net increase in net assets resulting from operations</i></b>	<b>26,860,704</b>	<b>31,406,924</b>
<b><i>Distributions to Shareholders from:</i></b>		
Net investment income	(15,549,479)	(12,791,435)
Net realized gains	(564,183)	
<b><i>Total distributions to shareholders</i></b>	<b>(16,113,662)</b>	<b>(12,791,435)</b>
<b><i>From Beneficial Interest Transactions:</i></b>		
Proceeds from sale of Common Shares (net of offering costs of \$384,499 and \$406,747, respectively)	51,792,372	35,788,588
Reinvestment of distributions	70,707	
<b><i>Net increase in net assets from beneficial interest transactions</i></b>	<b>51,863,079</b>	<b>35,788,588</b>
Net increase in net assets during the year	62,610,121	54,404,077
Net assets at beginning of year	180,990,755	126,586,678
<b><i>Net assets, end of year (including undistributed net investment income of \$2,264,678 and \$377,913, respectively)</i></b>	<b>\$ 243,600,876</b>	<b>\$ 180,990,755</b>

See Accompanying Notes to Financial Statements.

**Avenue Income Credit Strategies Fund**

**Statement of Cash Flows**

For the year ended October 31, 2013

***Cash Flows used in Operating Activities***

Net increase in net assets from operations	\$	26,860,704
Adjustments to reconcile net increase in net assets from operations to net cash provided by operating activities:		
Investments purchased		(301,518,428)
Investments sold and principal repayments		233,390,797
Increase in short-term investments, excluding foreign government securities		(12,069,259)
Net amortization/accretion of premium (discount)		(155,283)
Increase in Cash held at broker		(13,555,484)
Increase in interest receivable		(2,239,668)
Net change in unrealized (appreciation) depreciation on forward foreign currency transactions		(407,651)
Increase in prepaid expenses and other assets		(1,591)
Increase in accrued interest expense		64,617
Increase in payable to affiliate for investment adviser fee		169,964
Decrease in payable to affiliate for Trustees' fees		(6,093)
Decrease in accrued expenses		(120,093)
Proceeds from investments sold short		26,317,587
Payments for repurchase of investments sold short		(17,383,850)
Net change in unrealized (appreciation) depreciation from swaps		(242,454)
Net change in unrealized (appreciation) depreciation from investments		(8,299,565)
Net realized gain from investments		(2,963,727)
Net cash used in operating activities		(72,159,477)

***Cash Flows from Financing Activities***

Net Proceeds from sale of shares during rights offering		51,792,372
Proceeds from shares issued through dividend reinvestment		70,707
Distributions paid to shareholders		(16,113,662)
Proceeds from secured borrowings		36,000,000
Net cash flows from financing activities		71,749,417
Net decrease in cash*		(410,060)
Cash at beginning of year <sup>1</sup>		434,656
Cash at end of year <sup>1</sup>	\$	24,596

<sup>1</sup> Balance includes foreign currency, at value.

\* Includes net change in unrealized appreciation (depreciation) on foreign currency of \$ 226,532.

***Supplemental disclosure of cash flow information:***

Cash paid for interest and fees on borrowings:	\$	817,953
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*See Accompanying Notes to Financial Statements.*

# Avenue Income Credit Strategies Fund

## Financial Highlights

Selected data for a share outstanding throughout each period

	Year Ended October 31, 2013		Year Ended October 31, 2012		For the period January 27, 2011*- October 31, 2011
<b>Net asset value, beginning of period</b>	\$	18.46	\$	17.22	\$ 19.101
<b>Income (loss) from investment operations:</b>					
Net investment income <sup>2</sup>		1.56		1.51	1.01
Net realized and unrealized gain (loss)		1.02		2.13	(1.94)
Total from investment operations		2.58		3.64	(0.93)
<b>Distributions to shareholders from:</b>					
Net investment income		(1.39)		(1.46)	(0.91)
Net realized gains		(0.05)			
Total distributions		(1.44)		(1.46)	(0.91)
<b>Capital Share Transactions</b>					
Dilutive effect on net asset value as a result of rights offering		(0.93)		(0.90)	
Offering costs charged to paid-in-capital		(0.04)		(0.04)	(0.04)
<b>Net asset value, end of period</b>	\$	18.63	\$	18.46	\$ 17.22
<b>Market value, end of period</b>	\$	17.20	\$	18.22	\$ 16.40
<b>Total return on net asset value<sup>3</sup></b>		9.29% <sup>6</sup>		16.94% <sup>5</sup>	(5.12)% <sup>4</sup>
<b>Total return on market value<sup>3</sup></b>		2.23% <sup>6</sup>		21.19% <sup>5</sup>	(13.71)% <sup>4</sup>
Net assets, end of period (in 000 s)	\$	243,601	\$	180,991	\$ 126,587
Ratio of expenses to average net assets		2.70%		2.50%	2.50% <sup>7</sup>
Ratio of expenses to average net assets excluding interest expense, commitment fee and loan servicing fees		2.27%		2.12%	2.09% <sup>7</sup>
Ratio of net investment income to average net assets		8.40%		8.61%	7.28% <sup>7</sup>
<b>Ratios before expense limitation:</b>					
Ratio of expenses to average net assets		2.64%		2.77%	3.00% <sup>7</sup>
Ratio of net investment income to average net assets		8.46%		8.34%	6.78% <sup>7</sup>
Portfolio turnover rate		89%		60%	56% <sup>4</sup>
Loans Outstanding, End of Year (000s)	\$	95,000	\$	59,000	\$ 43,000
Asset Coverage per \$1,000 unit of senior indebtedness <sup>8</sup>	\$	3,564	\$	4,068	\$ 3,944

\* Commencement of operations.

1 Net asset value, ( N.A.V. ), at beginning of period reflects the deduction of the underwriters discount of \$0.90 per share from the \$20.00 offering price.

2 Per share amounts have been calculated using average shares outstanding.

3 Total market value return is computed based upon the New York Stock Exchange market price of the Fund's shares and excludes the effects of brokerage commissions. Total net asset value return measures the changes in value over the period indicated, taking into account dividends as reinvested. Dividends and distributions are assumed for purposes of these calculations to be reinvested at prices obtained under the Fund's dividend reinvestment plan.

4 Not annualized.

5 Includes dilution (net of offering costs) of approximately \$0.94 to N.A.V. per share resulting from the Fund's transferrable rights offering, which expired on March 23, 2012. In connection with such offering, the Fund issued 2,450,466 additional common shares at a subscription price per share below the then-current N.A.V. per share of the Fund.

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6 Includes dilution (net of offering costs) of approximately \$0.97 to N.A.V. per share resulting from the Fund's transferrable rights offering, which expired on May 17, 2013. In connection with such offering, the Fund issued 3,268,518 additional common shares at a subscription price per share below the then-current N.A.V. per share of the Fund.

7 Annualized.

8 Calculated by subtracting the Fund's total liabilities (not including borrowings) from the Fund's total assets and dividing by the total number of senior indebtedness units, where one unit equals \$1,000 of senior indebtedness.

*See Accompanying Notes to Financial Statements.*

**Avenue Income Credit Strategies Fund**

**Notes to Financial Statements**

October 31, 2013

**1. Organization**

Avenue Income Credit Strategies Fund (the "Fund") is a Delaware statutory trust registered under the Investment Company Act of 1940, as amended (the "1940 Act"), as a non-diversified, closed-end management investment company. The Fund's primary investment objective is to seek a high level of current income, with a secondary objective of capital appreciation. The Fund commenced operations on January 27, 2011.

**2. Significant Accounting Policies**

The following is a summary of significant accounting policies of the Fund in preparation of the financial statements.

**SECURITY VALUATION** The net asset value ("NAV") per Common Share is generally determined daily by State Street Bank and Trust Company ("State Street") as of the close of the regular trading session on the New York Stock Exchange ("NYSE") on the days the NYSE is open for business. The NAV per share of the Common Shares is determined by calculating the total value of the Fund's assets (the value of the securities, plus cash and/or other assets, including interest accrued but not yet received), deducting its total liabilities (including accrued expenses and liabilities), and dividing the result by the number of Common Shares outstanding of the Fund.

Corporate Bonds and Notes (including convertible bonds) and unlisted equities are valued using an evaluated quote provided by an independent pricing service. Evaluated quotes provided by the pricing service may be determined without exclusive reliance on quoted prices, and may reflect appropriate factors such as institutional-size trading in similar groups of securities, developments related to specific securities, dividend rate, yield, quality, type of issue, coupon rate, maturity, individual trading characteristics and other market data. Short-term debt securities purchased with a remaining maturity of sixty days or less are generally valued at amortized cost, which approximates market value.

Senior Loans are valued using an evaluated quote provided by an independent pricing service. Evaluated quotes provided by the pricing service may be determined without exclusive reliance on quoted prices, and may reflect appropriate factors such as ratings, tranche type, industry, company performance, spread, individual trading characteristics, institutional-size trading in similar groups of securities and other market data.

Credit default swaps are valued using a pricing service, or, if the pricing service does not provide a value, by quotes provided by the selling dealer or financial institution.

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Equity securities listed on a U.S. Stock Exchange are valued at the latest quoted sales price on valuation date. Securities listed on a foreign exchange are valued at their closing price.

Where reliable market quotes are not readily available, loans and debt obligations are valued, where possible, using independent market indicators provided by independent pricing sources approved by the Board of Trustees of the Fund (the Board). Any investment and other assets or liabilities for which current market quotations are not readily available are valued at fair value as determined in good faith in accordance with procedures established by the Board.

Forward foreign currency contracts are valued using quoted foreign exchange rates. Foreign securities and currencies are valued in U.S. dollars, based on foreign currency exchange rate quotations supplied by a third party pricing service. If events materially affecting the price of foreign portfolio securities occur between the time when their price was last determined on such foreign securities exchange or market and the time when the Fund's net asset value was last calculated, such securities may be valued at their fair value as determined in good faith in accordance with procedures established by the Board.



**Avenue Income Credit Strategies Fund**

**Notes to Financial Statements (continued)**

October 31, 2013

**SECURITY TRANSACTIONS AND INVESTMENT INCOME** Investment transactions for financial statement purposes are accounted for on a trade date basis. Realized gains and losses on investments sold are determined on the basis of identified cost. Interest income is determined on the basis of coupon interest accrued using the effective interest method which adjusts for amortization of premiums and accretion of discounts. For those issuers who are not paying in full, interest is only recognized if amounts are reasonably estimable and collectable. Discounts or premiums on debt securities purchased are accreted or amortized, respectively, to interest income over the lives of the respective securities, subject to collectability.

**FEDERAL INCOME TAXES** The Fund has elected to be treated as, and intends to continue to qualify as a regulated investment company by qualifying with the requirements of Subchapter M of the Internal Revenue Code applicable to regulated investment companies and distributing substantially all of its ordinary income and long-term capital gains, if any, each year. Accordingly, no provision for U.S. federal income or excise taxes is required in the financial statements.

**SENIOR LOANS** The Fund purchases assignments of, and participations in, senior secured floating rate and fixed rate loans ( Senior Loans ) originated, negotiated and structured by a U.S. or foreign commercial bank, insurance company, finance company or other financial institution (the Agent ) for a lending syndicate of financial institutions (the Lender ). When purchasing an assignment, the Fund typically succeeds to all the rights and obligations under the loan of the assigning Lender and becomes a lender under the credit agreement with respect to the debt obligation purchased. Assignments may, however, be arranged through private negotiations between potential assignees and potential assignors, and the rights and obligations acquired by the purchaser of an assignment may differ from, and be more restricted than, those held by the assigning Lender. A participation typically results in a contractual relationship only with the institution participating out the interest, not with the borrower. In purchasing participations, the Fund generally will have no right to enforce compliance by the borrower with the terms of the loan agreement or any rights of setoff against the borrower, and the Fund may not directly benefit from the collateral supporting the debt obligation in which it has purchased the participation. As a result, the Fund will be exposed to the credit risk of both the borrower and the institution selling the participation.

**FOREIGN CURRENCY TRANSLATION** Investment valuations, other assets, and liabilities initially expressed in foreign currencies are translated each business day into U.S. dollars based upon current exchange rates. Purchases and sales of foreign investment securities and income and expenses denominated in foreign currencies are translated into U.S. dollars based upon currency exchange rates in effect on the respective dates of such transactions. Recognized gains or losses on investment transactions attributable to changes in foreign currency exchange rates are recorded for financial statement purposes as net realized gains and losses on investments. That portion of unrealized gains and losses on investments that results from fluctuations in foreign currency exchange rates is not separately disclosed.

**FORWARD FOREIGN CURRENCY CONTRACTS** The Fund may enter into forward foreign currency contracts for the purchase or sale of a specific foreign currency at a fixed price on a future date. The Fund may enter into such forward contracts for hedging purposes. The forward foreign currency contracts are adjusted by the daily exchange rate of the underlying currency and any gains or losses are recorded as unrealized until such time as the contracts have been closed. Risks may arise upon entering these contracts from the potential inability of counterparties to meet the terms of their contracts and from unanticipated movements in the value of a foreign currency relative to the U.S. dollar. In addition, these contracts may involve market risk in excess of the unrealized appreciation (depreciation) reflected in the Fund's Statement of Assets and Liabilities. It is the Fund's policy to net the unrealized appreciation and depreciation amounts for the same counterparty.



**Avenue Income Credit Strategies Fund**

**Notes to Financial Statements (continued)**

October 31, 2013

**CREDIT DEFAULT SWAPS** A credit default swap is an agreement between two parties to exchange the credit risk of a particular issuer or reference entity. In a credit default swap transaction, a buyer pays periodic fees in return for payment by the seller which is contingent upon an adverse credit event occurring in the underlying issuer or reference entity. The seller collects periodic fees from the buyer and profits if the credit of the underlying issuer or reference entity remains stable or improves while the swap is outstanding, but the seller in a credit default swap contract would be required to pay an agreed upon amount to the buyer (which may be the entire notional amount of the swap) in the event of an adverse credit event in the reference entity. A buyer of a credit default swap is said to buy protection whereas a seller of a credit default swap is said to sell protection.

Swaps generally do not involve the delivery of securities, other underlying assets or principal. Accordingly, the risk of loss with respect to swaps is limited to the net amount of payments that the Fund is contractually obligated to make. However, because some swap agreements have a leverage component, adverse changes in the value or level of the underlying asset, reference rate, or index can result in a loss substantially greater than the amount invested in the swap itself. If the other party to a swap defaults, the Fund's risk of loss consists of the net amount of payments that the Fund is contractually entitled to receive and could be in excess of the amounts recognized on the Fund's Statement of Assets and Liabilities.

Credit default swap agreements on corporate issuers involve one party making a stream of payments to another party in exchange for the right to receive a specified return in the event of a default or other credit event. If a credit event occurs and cash settlement is not elected, a variety of other deliverable obligations may be delivered in lieu of the specific referenced obligation. The ability to deliver other obligations may result in a cheapest to deliver option (the buyer of protection's right to choose the deliverable obligation with the lowest value following a credit event). The Fund uses credit default swaps on corporate issuers to provide a measure of protection against defaults of the issuers (i.e., to reduce risk where the Fund owns or has exposure to the referenced obligation) or to take an active long or short position with respect to the likelihood of a particular issuer's default.

Implied credit spreads, represented in absolute terms, utilized in determining the market value of credit default swap agreements on corporate or sovereign issues as of period end are disclosed in the Schedule of Investments and serve as an indicator of the current status of the payment/performance risk and represent the likelihood or risk of default for the credit derivative. The implied credit spread of a particular referenced entity reflects the cost of buying/selling protection and may include upfront payments required to be made to enter into the agreement. Therefore, higher spreads would indicate a greater likelihood that a seller will be obligated to perform (i.e., make payment) under the swap contract. Wider credit spreads and increasing market values, in absolute terms when compared to the notional amount of the swap, represent a deterioration of the referenced entity's credit soundness and a greater likelihood or risk of default or other credit event occurring as defined under the terms of the agreement.

The maximum potential amount of future payments (undiscounted) that the Fund as a seller of protection could be required to make under a credit default swap agreement would be an amount equal to the notional amount of the agreement. These potential amounts would be partially offset by any recovery values of the respective referenced obligations, upfront payments received upon entering into the agreement, or net amounts received from the settlement of buy protection credit default swap agreements entered into by the Fund for the same referenced entity or entities.

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OTC ( Over the Counter ) swap payments received or made at the beginning of the measurement period are reflected as such and represent payments made or received upon entering into the swap agreement to compensate for differences between the stated terms of the swap agreement and prevailing market conditions

**Avenue Income Credit Strategies Fund**

**Notes to Financial Statements (continued)**

October 31, 2013

(credit spreads, interest rates, and other relevant factors). These upfront payments are amortized to realized gains or losses over the life of the swap or recorded as realized gains or losses on the Fund's Statement of Operations upon termination or maturity of the swap. A liquidation payment received or made at the termination of the swap is recorded as realized gain or loss on the Fund's Statement of Operations. Net periodic payments received or paid by the Fund are included as part of realized gains or losses on the Fund's Statement of Operations. Changes in market value, if any, are reflected as a component of net changes in unrealized appreciation/depreciation on the Fund's Statement of Operations. The Fund segregates assets in the form of cash or liquid securities in an amount equal to the notional amount of the credit default swaps of which it is the seller. The Fund segregates assets in the form of cash or liquid securities in an amount equal to any unrealized depreciation of the credit default swaps of which it is the buyer, marked to market on a daily basis.

Certain swap contracts may be centrally cleared (centrally cleared swaps), whereby all payments made or received by the Fund pursuant to the contract are with a central clearing party (CCP) rather than the original counterparty. The CCP guarantees the performance of the original parties to the contract. For centrally cleared swaps, the daily change in valuation is recorded as a receivable or payable for variation margin and settled in cash with the CCP daily. Upfront payments or receipts, if any, are recorded as other assets or other liabilities, respectively, and amortized over the life of the swap contract as realized gains or losses. For financial reporting purposes, unamortized upfront payments, if any, are netted with unrealized appreciation or depreciation on swap contracts to determine the market value of swaps. Upon entering into centrally cleared swaps, the Fund is required to deposit with the CCP, either in cash or securities, an amount equal to a certain percentage of the notional amount (initial margin), which is subject to adjustment. Credit default swap transactions involve certain risks, including the risk that the seller may be unable to fulfill the transaction. In the case of centrally cleared swaps, counterparty risk is minimal due to protections provided by the CCP. At October 31, 2013 the Fund had no swap contracts outstanding.

**SHORT SALES** The Fund may engage in short sales. A short sale is a transaction in which the Fund sells an instrument that it does not own in anticipation that the market price will decline. To deliver the securities to the buyer, the Fund arranges through a broker to borrow the securities and, in so doing, the Fund becomes obligated to replace the securities borrowed at their market price at the time of replacement. When selling short, the Fund intends to replace the securities at a lower price and therefore, profit from the difference between the cost to replace the securities and the proceeds received from the sale of the securities. When the Fund makes a short sale, the proceeds it receives from the sale will be held on behalf of a broker until the Fund replaces the borrowed securities. The Fund may have to pay a premium to borrow the securities and must pay any dividends or interest payable on the securities until they are replaced. The Fund's obligation to replace the securities borrowed in connection with a short sale will be secured by collateral deposited with the broker that consists of cash and/or liquid securities. In addition, the Fund will place in a segregated account an amount of cash and/or liquid securities equal to the difference, if any, between (i) the market value of the securities sold at the time they were sold short, and (ii) any cash and/or liquid securities deposited as collateral with the broker in connection with the short sale. Short sales involve certain risks and special considerations. If the Fund incorrectly predicts that the price of the borrowed security will decline, the Fund will have to replace the securities with securities with a greater value than the amount received from the sale. As a result, losses from short sales differ from losses that could be incurred from a purchase of a security, because losses from short sales may be unlimited, whereas losses from purchases can equal only the total amount invested.

**REPURCHASE AGREEMENTS** The Fund may engage in repurchase agreements with broker-dealers, banks and other financial institutions to earn incremental income on temporarily available cash which would otherwise



**Avenue Income Credit Strategies Fund**  
**Notes to Financial Statements (continued)**

October 31, 2013

be uninvested. A repurchase agreement is a short-term investment in which the purchaser (i.e., the Fund) acquires ownership of a security and the seller agrees to repurchase the obligation at a future time and set price, thereby determining the yield during the holding period. Such agreements are carried at the contract amount, which is considered to represent fair value. It is the Fund's policy that the value of collateral pledged (the securities received), which consists primarily of U.S. government securities and those of its agencies or instrumentalities, is not less than the repurchase price and is held by the custodian bank for the benefit of the Fund until maturity of the repurchase agreement. Repurchase agreements involve certain risks, including bankruptcy or other default of a seller of a repurchase agreement.

**UNFUNDED LOAN COMMITMENTS** The Fund may enter into certain credit agreements all or a portion of which may be unfunded. The Fund is obligated to fund these commitments at the borrower's discretion. These commitments are disclosed in the accompanying Schedule of Investments. At October 31, 2013, the Fund had no outstanding unfunded loan commitments.

**INDEMNIFICATIONS** In the normal course of business, the Fund enters into general business contracts that contain a variety of representations and warranties and which provide general indemnifications. The Fund's maximum exposure under these arrangements is unknown. However, the Fund expects the risk of material loss to be remote and no amounts have been recorded for such arrangements.

**BASIS OF PREPARATION AND USE OF ESTIMATES** These financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP), which require the use of estimates and assumptions by the Investment Adviser that affect the reported amounts and disclosures in these financial statements. Actual amounts and results could differ from these estimates, and such differences could be material.

**STATEMENT OF CASH FLOWS** The cash amount shown in the Statement of Cash Flows of the Fund is the amount included in the Fund's Statement of Assets and Liabilities and represents the cash (including foreign currency) on hand at State Street, the Fund's custodian.

**INTEREST EXPENSE** Interest expense primarily relates to the Fund's participation in a revolving credit facility. Interest expense is recorded as incurred.

### **3. Distributions**

The Fund intends to make regular monthly distributions of net investment income to holders of Common Shares (Common Shareholders). The Fund expects to pay its Common Shareholders annually all or substantially all of its investment company taxable income. In addition, at least annually, the Fund intends to distribute all or substantially all of its net capital gains, if any. Distributions from net realized gains for book purposes may include short-term capital gains which are ordinary income for tax purposes. Distributions to Common Shareholders are recorded on the ex-dividend date. The amount of distributions from net investment income and net realized capital gains are determined in accordance with federal income tax regulations, which may differ from GAAP. These book-tax differences are considered either temporary or permanent in nature. To the extent these differences are permanent in nature, such amounts are reclassified within the capital accounts based on their federal income tax treatment. Temporary differences do not require reclassification. To the extent distributions exceed current and accumulated earnings

and profits for federal income tax purposes they are reported to shareholders as return of capital.



**Avenue Income Credit Strategies Fund****Notes to Financial Statements (continued)**

October 31, 2013

**4. Investment Advisory and Administration Agreements**

Under an advisory agreement, Avenue Capital Management II, L.P., the Fund's Investment Adviser, an affiliate of Avenue Capital Group, will receive an annual fee, payable monthly, in an amount equal to 1.25% of the Fund's average daily Managed Assets. Managed Assets means the total assets of the Fund (including any assets attributable to money borrowed for investment purposes, including proceeds from (and assets subject to) reverse repurchase agreements, any credit facility and any issuance of preferred shares or notes) minus the sum of the Fund's accrued liabilities (other than Fund liabilities incurred for the purpose of leverage). Other entities advised by the Investment Adviser and its affiliates may have investments in the issuers held by the Fund.

At an in person meeting held on December 13, 2012 the Board unanimously approved the amendment and restatement of the currently effective Letter Agreement (an Expense Limitation Agreement) between the Fund and the Investment Adviser, dated as of December 8, 2011, to extend the term of such Expense Limitation Agreement through and including February 28, 2014. At a special telephonic meeting held on April 12, 2013, the Board unanimously voted to further extend the term of the Expense Limitation Agreement through and including April 30, 2014. Under the Expense Limitation Agreement, the Investment Adviser has contractually agreed to reimburse the Fund so that the Fund's Other Expenses (as such term is used in the Fund's registration statement on Form N-2) are limited to 0.50% (per year of the Fund's average daily net assets attributable to Common Shares, through and including April 13, 2014, (excluding (i) interest, taxes, brokerage commissions and expenditures capitalized in accordance with generally accepted accounting principles, (ii) portfolio transactions and investment related expenses and (iii) extraordinary expenses not incurred in the ordinary course of the Fund's business). The Fund may repay any such reimbursement from the Investment Adviser if, within three years of the reimbursement, the Fund could repay the Investment Adviser without causing the Fund's total Other Expenses to exceed 0.50% (per year of the Fund's average daily net assets attributable to Common Shares of the Fund) for the fiscal year in which such repayment would occur when such amount repaid to the Investment Adviser is included in the Fund's total Other Expenses. Thus, until those amounts are repaid, the Fund and the Common Shareholders will not enjoy any benefit of any reduced expenses. For the year ended October 31, 2013, the year ended October 31, 2012 and the period ended October 31, 2011, the expense reductions that remain as of October 31, 2013 subject to reimbursement, including any fee waivers were as follows:

**Subject to repayment dates**

<b>October 31, 2016</b>	<b>October 31, 2015</b>	<b>October 31, 2014</b>
\$	\$414,490	\$376,966*

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\* After repayment of \$125,210 to the Investment Adviser during the year ended October 31, 2013

Under the terms of the Expense Limitation Agreement, if the Fund's expense ratio declines sufficiently, the Fund may be liable to the Investment Adviser to repay such reimbursed amounts until (i) no later than October 31, 2014, in the case of amounts reimbursed during the first fiscal year, (ii) no later than October 31, 2015, in the case of amounts reimbursed during the second fiscal year, and (iii) no later than October 31, 2016, in the case of amounts reimbursed during the current fiscal year, as of October 31, 2013.

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State Street provides, or arranges for the provision of certain administrative services for the Fund, including preparing certain reports and other documents required by federal and/or state laws and regulations. State Street also provides legal administration services, including corporate secretarial services and preparing regulatory filings. For administration related services, State Street receives an annual fee, plus certain out-of-pocket expenses.

The Fund has also contracted with State Street to provide custody, fund accounting and transfer agent services to the Fund. Custody, fund accounting and transfer agent fees are payable monthly based on assets held in

# Avenue Income Credit Strategies Fund

## Notes to Financial Statements (continued)

October 31, 2013

custody, investment purchases and sales activity and other factors, plus reimbursement for certain out-of-pocket expenses. In addition, the Fund has entered into repurchase agreements and foreign currency transactions with State Street during the period.

## 5. Related Party Transactions

No shareholder, to the knowledge of the Fund, other than (i) Morgan Stanley and Morgan Stanley Smith Barney LLC (together, "MS") and (ii) First Trust Portfolios L.P., First Trust Advisors L.P. and The Charger Corporation (together, "First Trust"), beneficially owned more than five percent of the Fund's Common Shares. On June 10, 2013, MS filed an amended beneficial ownership report on Schedule 13G with the SEC stating that as of May 31, 2013 it beneficially owned 1,484,601 Common Shares. On February 12, 2013, First Trust filed a beneficial ownership report on Schedule 13G with the SEC stating that as of December 31, 2012 it beneficially owned 2,192,385 Common Shares. Based on the share amounts shown in this filing, the holdings held by First Trust (assuming the percentage remained constant post rights offering) represented approximately 22.4%, of the Fund's October 31, 2013 net assets.

Affiliates of the Fund may have lending, brokerage, underwriting, or other business relationships with issuers of securities in which the Fund invests. Morgan Stanley, the global financial services firm, owns an indirect, non-controlling minority interest in Avenue Capital Group. During the period, the Fund acquired securities through unaffiliated broker-dealers which were part of underwriting groups in which Morgan Stanley participated.

A summary of the Fund's transactions in securities of affiliated issuers (as defined in the 1940 Act) of the Fund for the year ended October 31, 2013 is as follows:

Name of Issuer		Principal Amount (000) Held at October 31, 2012	Gross Purchases and Additions Principal Amount (000)	Gross Sales and Reductions Principal Amount (000)	Principal Amount (000) Held at October 31, 2013	Value at October 31, 2013	Investment Income November 1, 2012- October 31, 2013	Realized Gain (Loss)	Change in Unrealized Appreciation (Depreciation)
Travelodge Hotels (Full Moon Holding Co. 6 Ltd.) Term Loan	GBP	3,385		GBP (3,385)			\$19,118	\$(764,545)	\$(851,788)

## 6. Purchases and Sales of Investments

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Purchases and sales of investments, other than short-term obligations and including maturities and principal repayments on Senior Loans, aggregated \$310,167,531 and \$242,914,612 respectively, for the year ended October 31, 2013.

### 7. Share Transactions

The Fund is authorized to issue an unlimited number of common shares of beneficial interest at par value \$0.001 per common share.

On February 10, 2012 the Fund's Board of Trustees approved a transferable rights offering (the "2012 Offer") which entitled the Fund's common shareholders of record as of February 24, 2012 ("2012 Record Date Shareholders") to one transferable right for each common share held, entitling 2012 Record Date Shareholders to purchase one newly issued share of common stock for every three rights held. The 2012 Offer commenced on February 24, 2012 and expired on March 23, 2012. The 2012 Offer was over-subscribed. The actual subscription price pursuant to the 2012 Offer was \$15.31 per common share for the Fund, and was calculated based on a

# Avenue Income Credit Strategies Fund

## Notes to Financial Statements (continued)

October 31, 2013

formula equal to 90% of the average of the last reported sales price of a common share of the Fund on the New York Stock Exchange on the expiration date of the 2012 Offer and on each of the four preceding trading days. Shareholders exercised rights to purchase 2,450,466 shares with an aggregate net asset value of \$44,672,035. The net asset value for each of the Fund's common shares was reduced by \$0.94 for the Fund as a result of the 2012 Offer, which includes the effect of dealer manager commissions and offering costs. The details of the 2012 Offer are as follows:

Settlement Date	Price	Shares	Amount
March 13, 2012*	\$15.74	100,000	\$ 1,574,100
March 20, 2012*	15.27	50,000	763,650
March 22, 2012*	15.17	119,312	1,810,440
March 23, 2012**	15.31	2,181,154	33,393,468
Gross Proceeds		2,450,466	37,541,658
Commissions			(1,407,812)
Trading Profits			61,489
Net Proceeds			36,195,335
Offering Costs (charged against Paid in Capital)			(406,747)
			\$ 35,788,588

\* Rights converted to newly issued shares prior to the expiration of the Offer. Trading profits realized by UBS Securities LLC, the deal manager, were reimbursed to the Fund and treated as additional proceeds.

\*\* Expiration date.

On April 12, 2013 the Fund's Board of Trustees approved a transferable rights offering (the 2013 Offer) which entitled the Fund's common shareholders of record as of April 22, 2013 (2013 Record Date Shareholders) to one transferable right for each common share held, entitling 2013 Record Date Shareholders to purchase one newly issued share of common stock for every three rights held. The 2013 Offer commenced on April 22, 2013 and expired on May 17, 2013. The 2013 Offer was over-subscribed. The actual subscription price on expiration date pursuant to the 2013 Offer was \$16.55 per common share for the Fund, and was calculated based on a formula equal to 90% of the average of the last reported sales price of a common share of the Fund on the New York Stock Exchange on the expiration date of the 2013 Offer and on each of the four preceding trading days. Shareholders exercised rights to purchase 3,268,518 shares with an aggregate net asset value of \$63,681,544. The net asset value for each of the Fund's common shares was reduced by \$0.97 for the Fund as a result of the 2013 Offer, which includes the effect of dealer manager commissions and offering costs. The details of the 2013 Offer are as follows:

Settlement Date	Price	Shares	Amount
May 6, 2013*	\$17.06	117,366	\$ 2,002,733
May 9, 2013*	16.78	168,134	2,820,616
May 13, 2013*	16.54	114,796	1,898,955
May 15, 2013*	16.60	160,204	2,658,746
May 16, 2013*	16.46	75,000	1,234,575

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May 17, 2013**	16.55	2,633,018	43,576,448
Gross Proceeds		3,268,518	54,192,073
Commissions			(2,032,202)
Trading Profits			17,000
Net Proceeds			52,176,871
Offering Costs (charged against Paid in Capital)			(384,499)
			\$ 51,792,372

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\* Rights converted to newly issued shares prior to the expiration of the Offer. Trading profits realized by UBS Securities LLC, the deal manager, were reimbursed to the Fund and treated as additional proceeds.

\*\* Expiration date.

**Avenue Income Credit Strategies Fund**

**Notes to Financial Statements (continued)**

October 31, 2013

Transactions in Common Shares were as follows:

	<b>Year Ended October 31, 2013</b>	<b>Year Ended October 31, 2012</b>
Sale of Shares	3,268,518	2,450,466
Shares issued through dividend reinvestment	3,688	
<b>Net increase</b>	<b>3,272,206</b>	<b>2,450,466</b>

**8. Federal Tax Information**

As of October 31, 2013, the Fund had no uncertain tax positions that would require financial statement recognition, de-recognition, or disclosure. The Fund's federal tax return filings for the years ended October 31, 2013, and October 31, 2012, and the period ended October 31, 2011 remain subject to examination by the Internal Revenue Service for a period of three years.

For the year ended October 31, 2013, permanent book tax differences related to foreign currency gains and losses, and reclassification of credit default swap income were identified and reclassified among the components of the Fund's net assets as follows:

<b>Paid-in Capital</b>	<b>Undistributed Net Investment Income</b>	<b>Accumulated Net Realized Gain</b>
\$	\$(153,476)	\$153,476

The tax character of distributions declared for the years ended October 31, 2013 and October 31, 2012 were as follows:

	<b>October 31, 2013</b>	<b>October 31, 2012</b>
<b>Distributions declared from:</b>		
Ordinary income*	\$16,113,662	\$12,791,435

\* For tax purposes short-term capital gains distributions, if any, are considered ordinary income distributions.

As of October 31, 2013, the components of distributable earnings (accumulated losses) and unrealized appreciation (depreciation) on a tax basis were as follows:

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<b>Undistributed Ordinary Income</b>	<b>Undistributed Long-Term Capital Gains</b>	<b>Net Unrealized Appreciation*</b>
\$3,192,082	\$0	\$12,668,157

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\* The differences between book-basis and tax-basis net unrealized appreciation are primarily due to wash sales and forward contracts being marked to market.

The cost and unrealized appreciation (depreciation) of investments of the Fund at October 31, 2013, as determined on a federal income tax basis, were as follows:

<b>Aggregate cost of investments</b>	<b>\$</b>	<b>319,977,011</b>
Gross unrealized appreciation	\$	17,360,230
Gross unrealized (depreciation)		(4,351,652)
<b>Net unrealized appreciation on investments</b>	<b>\$</b>	<b>13,008,578</b>
<b>Net unrealized (depreciation) on securities sold short</b>		<b>(118,825)</b>
<b>Net unrealized appreciation</b>	<b>\$</b>	<b>12,889,753</b>



**Avenue Income Credit Strategies Fund**

**Notes to Financial Statements (continued)**

October 31, 2013

**9. Derivative Instruments & Hedging Activities**

The Fund is subject to foreign exchange risk in the normal course of pursuing its investment objectives. Because the Fund holds foreign currency denominated investments, the value of these investments and related receivables and payables may change due to future changes in foreign currency exchange rates. To hedge against this risk, the Fund used forward foreign currency contracts.

At October 31, 2013, the fair value of derivative instruments whose primary underlying risk exposure is foreign exchange risk at October 31, 2013 was follows:

<b>Derivative</b>	<b>Fair Value</b>	
	<b>Asset Derivative<sup>1</sup></b>	<b>Liability Derivative<sup>1</sup></b>
Forward foreign currency contracts	\$113,522	\$(2,215,841)

1 Statement of Assets and Liabilities location: Net unrealized depreciation on open forward foreign currency contracts

The effect of derivative instruments on the Statement of Operations whose primary underlying risk exposure is foreign exchange risk for the year ended October 31, 2013 was as follows:

	<b>Realized Gain (Loss) on Derivatives Recognized in Income<sup>1</sup></b>	<b>Change in Unrealized Appreciation (Depreciation) on Derivatives Recognized in Income<sup>2</sup></b>
Forward foreign currency contracts	\$(2,356,142)	\$407,651

1 Statement of Operations location: Net realized loss Forward foreign currency contracts

2 Statement of Operations location: Net change in unrealized appreciation (depreciation) Forward foreign currency contracts

The average volume of forward foreign currency contracts bought and sold measured at each month end during the year ended October 31, 2013 was approximately \$33,726,000 and \$98,108,000, respectively.

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The Fund is subject to credit risk in the normal course of pursuing its investment objectives. The Fund enters into credit default swap contracts to manage its credit risk, to gain a particular exposure to a credit risk, or to enhance return.

The effect of derivative instruments on the Statement of Operations whose primary underlying risk exposure is issuer default risk for the year ended October 31, 2013 was as follows:

	<b>Realized Gain (Loss) on Derivatives Recognized in Income<sup>1</sup></b>	<b>Change in Unrealized Appreciation (Depreciation) on Derivatives Recognized in Income<sup>2</sup></b>
Credit default swaps	\$10,394	\$242,454

1 Statement of Operations location: Net realized gain on Swap contracts.

2 Statement of Operations location: Net change in unrealized (depreciation) on swap contracts.

The average notional amount of swap contracts outstanding during the year ended October 31, 2013 was approximately \$0 and \$769,000 for Buy and Sell Protection, respectively.

**Avenue Income Credit Strategies Fund**

**Notes to Financial Statements (continued)**

October 31, 2013

**10. Revolving Credit Facility**

On March 8, 2013, the Fund renewed a senior secured revolving credit facility agreement (the "Credit Agreement") with the Bank of Nova Scotia that allows it to borrow up to \$65,000,000, and to use the borrowings to make additional investments in the ordinary course of the Fund's business and for general business purposes of the Fund. On April 22, 2013, the amount allowed to be borrowed under the Credit Agreement was increased to \$122,000,000 after receiving approval from the Board. The loan is secured by a fully perfected first priority lien on all assets of the Fund capable of being pledged. Interest is charged at a rate equal to LIBOR for the applicable interest period plus a spread. There is a commitment fee for the unused portion on the facility. Commitment fees for the year ended October 31, 2013 totaled \$17,019 and are included in the interest expense and commitment fee line item in the Statement of Operations. At October 31, 2013, the Fund had borrowings outstanding under the Credit Agreement of \$95,000,000 at an interest rate of 1.076%. For the year ended October 31, 2013, the average borrowings under the Credit Agreement and the average interest rate were \$77,994,521 and 1.098%, respectively.

**11. Principal Risks**

**CONFLICTS OF INTEREST RISK** Because the Investment Adviser manages assets for other investment companies, pooled investment vehicles and/or other accounts (including institutional clients, pension plans and certain high net worth individuals), certain conflicts of interest are present. For instance, the Investment Adviser receives fees from certain accounts that are higher than the fees received from the Fund, or receives a performance-based fee on certain accounts. In those instances, the Investment Adviser has an incentive to favor the higher and/or performance-based fee accounts over the Fund. In addition, a conflict of interest exists to the extent the Investment Adviser has proprietary investments in certain accounts or where the portfolio manager or other employees of the Investment Adviser have personal investments in certain accounts. The Investment Adviser has an incentive to favor these accounts over the Fund. Because the Investment Adviser manages accounts that engage in short sales of (or otherwise take short positions in) securities or other instruments of the type in which the Fund invests, the Investment Adviser could be seen as harming the performance of the Fund for the benefit of the accounts taking short positions, if such short positions cause the market value of the securities to fall. The Investment Adviser has adopted trade allocation and other policies and procedures that it believes are reasonably designed to address these and other conflicts of interest. These policies and procedures will have the effect of foreclosing certain investment opportunities for the Fund from time to time.

Conflicts of interest may arise where the Fund and other funds advised by the Investment Adviser or its affiliates ("Avenue funds") simultaneously hold securities representing different parts of the capital structure of a stressed or distressed issuer. In such circumstances, decisions made with respect to the securities held by one Avenue fund may cause (or have the potential to cause) harm to the different class of securities of the issuer held by other Avenue funds (including the Fund). For example, if such an issuer goes into bankruptcy or reorganization, becomes insolvent or otherwise experiences financial distress or is unable to meet its payment obligations or comply with covenants relating to credit obligations held by the Fund or by the other Avenue funds, such other Avenue funds may have an interest that conflicts with the interests of the Fund. If additional financing for such an issuer is necessary as a result of financial or other difficulties, it may not be in the best interests of the Fund to provide such additional financing, but if the other Avenue funds were to lose their respective investments as a result of such difficulties, the Investment Adviser may have a conflict in recommending actions in the best interests of the Fund. In such situations, the Investment Adviser will seek to act in the best interests of each of the Avenue funds (including the Fund) and will seek to resolve such conflicts in accordance with its compliance procedures.



**Avenue Income Credit Strategies Fund**

**Notes to Financial Statements (continued)**

October 31, 2013

In addition, the 1940 Act limits the Fund's ability to enter into certain transactions with certain affiliates of the Investment Adviser. As a result of these restrictions, the Fund may be prohibited from buying or selling any security directly from or to any portfolio company of a fund managed by the Investment Adviser or one of its affiliates. Nonetheless, the Fund may under certain circumstances purchase any such portfolio company's loans or securities in the secondary market, which could create a conflict for the Investment Adviser between the interests of the Fund and the portfolio company, in that the ability of the Investment Adviser to recommend actions in the best interest of the Fund might be impaired. The 1940 Act also prohibits certain joint transactions with certain of the Fund's affiliates (which could include other Avenue funds), which could be deemed to include certain types of investments, or restructuring of investments, in the same portfolio company (whether at the same or different times). These limitations may limit the scope of investment opportunities that would otherwise be available to the Fund. The Board has approved various policies and procedures reasonably designed to monitor potential conflicts of interest. The Board will review these policies and procedures and any conflicts that may arise.

In the course of managing the Avenue funds or otherwise, the Investment Adviser or its respective members, officers, directors, employees, principals or affiliates may come into possession of material, non-public information. The possession of such information may limit the ability of the Fund to buy or sell a security or otherwise to participate in an investment opportunity. Situations may occur where the Fund could be disadvantaged because of the investment activities conducted by the Investment Adviser for other clients, and the Investment Adviser will not employ information barriers with regard to its operations on behalf of its registered and private funds, or other accounts. In certain circumstances, employees of the Investment Adviser may serve as board members or in other capacities for portfolio or potential portfolio companies, which could restrict the Fund's ability to trade in the securities of such companies.

**MARKET AND INTEREST RATE RISK** Market risk is the possibility that the market values of securities owned by the Fund will decline. The values of fixed income securities tend to fall as interest rates rise, and such declines tend to be greater among fixed income securities with longer remaining maturities. Market risk is often greater among certain types of fixed income securities, such as zero coupon bonds which do not make regular interest payments but are instead bought at a discount to their face values and paid in full upon maturity. As interest rates change, these securities often fluctuate more in price than securities that make regular interest payments and therefore subject the Fund to greater market risk than a fund that does not own these types of securities. The values of adjustable, variable or floating rate income securities tend to have less fluctuation in response to changes in interest rates, but will have some fluctuation particularly when the next interest rate adjustment on such security is further away in time or adjustments are limited in number or degree over time. The Fund has no policy limiting the maturity of credit obligations it purchases. Such obligations often have mandatory and optional prepayment provisions and because of prepayments, the actual remaining maturity of loans and debts may be considerably less than their stated maturity. Obligations with longer remaining maturities or durations generally expose the Fund to more market risk. When-issued and delayed delivery transactions are subject to changes in market conditions from the time of the commitment until settlement. This may adversely affect the prices or yields of the securities being purchased. The greater the Fund's outstanding commitments for these securities, the greater the Fund's exposure to market price fluctuations. Interest rate risk can be considered a type of market risk.

**LEVERAGE RISK** The Fund may utilize leverage to seek to enhance the yield of the Fund by borrowing. There are risks associated with borrowing in an effort to increase yield and distributions to Common Shareholders, including that the costs of the financial leverage may exceed the income from investments made

**Avenue Income Credit Strategies Fund**

**Notes to Financial Statements (continued)**

October 31, 2013

with such leverage, the likelihood of greater volatility of the net asset value and market price of, and distributions on, the Common Shares, and that the fluctuations in the interest rates on the borrowings may affect the yield and distributions to Common Shareholders. There can be no assurance that the Fund's leverage strategy will be utilized or that, if utilized, it will be successful.

**RISKS ASSOCIATED WITH FOREIGN INVESTMENTS** Investing in securities issued by companies whose principal business activities are outside the United States may involve significant risks not present in domestic investments. For example, there is generally less publicly available financial and other information about foreign companies, particularly those not subject to the disclosure and reporting requirements of the U.S. securities laws. Certain foreign issuers are generally not bound by uniform accounting, auditing, and financial reporting requirements and standards of practice comparable to those applicable to domestic issuers. Investments in foreign securities also involve the risk of possible adverse changes in investment or exchange control regulations, expropriation or confiscatory taxation, limitation on the removal of funds or other assets of the Fund, political or financial instability or diplomatic and other developments which could affect such investments. Foreign securities markets, while growing in volume and sophistication, are generally not as developed as those in the United States, and securities of some foreign issuers (particularly those located in developing countries) may be less liquid and more volatile than securities of comparable U.S. companies. In general, there is less overall governmental supervision and regulation of foreign securities markets, broker-dealers and issuers than in the United States. In recent years, the risks of investing in certain foreign securities have increased dramatically as a result of the ongoing European debt crisis which began in Greece and has begun to spread throughout various other European countries. These debt crises and the ongoing efforts of governments around the world to address these debt crises have also resulted in increased volatility and uncertainty in the United States and the global economy and securities markets, and it is impossible to predict the effects of these or similar events in the future on the United States and the global economy and securities markets or on the Fund's investments, though it is possible that these or similar events could have a significant adverse impact on the value and risk profile of the Fund.

**CREDIT RISK** Credit risk refers to the possibility that the issuer of a security will be unable to make timely interest payments and/or repay the principal on its debt. Because the Fund may invest, without limitation, in securities that are below investment grade, the Fund is subject to a greater degree of credit risk than a fund investing primarily in investment grade securities. Lower-grade securities are more susceptible to non-payment of interest and principal and default than higher-grade securities and are more sensitive to specific issuer developments or real or perceived general adverse economic changes than higher-grade securities. Loans and debt obligations of stressed issuers (including those that are in covenant or payment default) are subject to a multitude of legal, industry, market, economic and governmental forces that make analysis of these companies inherently difficult. Obligations of stressed issuers generally trade significantly below par and are considered speculative. The repayment of defaulted obligations is subject to significant uncertainties. Defaulted obligations might be repaid only after lengthy workout or bankruptcy proceedings or result in only partial recovery of cash payments or an exchange of the defaulted obligation for other debt or equity securities of the issuer or its affiliates, which may in turn be illiquid or speculative. In any investment involving stressed obligations, there exists the risk that the transaction involving such debt obligations will be unsuccessful, take considerable time or will result in a distribution of cash or a new security or obligation in exchange for the stressed obligations, the value of which may be less than the Fund's purchase price of such debt obligations. Furthermore, if an anticipated transaction does not occur, the Fund may be required to sell its investment at a loss. However, investments in equity securities obtained through debt restructurings or bankruptcy proceedings may be illiquid and thus difficult or impossible to sell.

**Avenue Income Credit Strategies Fund**

**Notes to Financial Statements (continued)**

October 31, 2013

**RISKS OF SENIOR LOANS** There is less readily available and reliable information about most Senior Loans than is the case for many other types of instruments, including listed securities. Senior Loans are not listed on any national securities exchange or automated quotation system and as such, many Senior Loans are illiquid, meaning that the Fund may not be able to sell them quickly at a fair price. To the extent that a secondary market does exist for certain Senior Loans, the market is more volatile than for liquid, listed securities and may be subject to irregular trading activity, wide bid/ask spreads and extended trade settlement periods. The market for Senior Loans could be disrupted in the event of an economic downturn or a substantial increase or decrease in interest rates, resulting in fluctuations in the Fund's net asset value and difficulty in valuing the Fund's portfolio of Senior Loans. Senior Loans, like most other debt obligations, are subject to the risk of default. Default in the payment of interest or principal on a Senior Loan will result in a reduction of income to the Fund, a reduction in the value of the Senior Loan and a potential decrease in the Fund's net asset value.

**RISKS OF SHORT SALES** The Fund may engage in short sales. A short sale is a transaction in which the Fund sells an instrument that it does not own in anticipation that the market price will decline. To deliver the securities to the buyer, the Fund arranges through a broker to borrow the securities and, in so doing, the Fund becomes obligated to replace the securities borrowed at their market price at the time of replacement. When selling short, the Fund intends to replace the securities at a lower price and therefore, profit from the difference between the cost to replace the securities and the proceeds received from the sale of the securities. When the Fund makes a short sale, the proceeds it received from the sale will be held on behalf of a broker until the Fund replaces the borrowed securities. The Fund may have to pay a premium to borrow the securities and must pay any dividends or interest payable on the securities until they are replaced. The Fund's obligation to replace the securities borrowed in connection with a short sale will be secured by collateral deposited with the broker that consists of cash and/or liquid securities. In addition, the fund will place in a segregated account an amount of cash and/or liquid securities equal to the difference, if any, between (i) the market value of the securities sold at the time they were sold short, and (ii) any cash and/or liquid securities deposited as collateral with the broker in connection with the short sale. Short sales involve certain risks and special considerations. If the Fund incorrectly predicts that the price of the borrowed security will decline, the Fund will have to replace the securities with securities with a greater value than the amount received from the sale. As a result, losses from short sales differ from losses that could be incurred from a purchase of a security, because losses from short sales may be unlimited, whereas losses from purchases can equal only the total amount invested.

**RISKS OF SWAPS** The Fund may enter into swap transactions, including credit default, total return, index and interest rate swap agreements, as well as options thereon, and may purchase or sell interest rate caps, floors and collars. Such transactions are subject to market risk, risk of default by the other party to the transaction (i.e., counterparty risk), risk of imperfect correlation and manager risk and may involve commissions or other costs. Swaps generally do not involve delivery of securities, other underlying assets or principal. Accordingly, the risk of loss with respect to swaps generally is limited to the net amount of payments that the Fund is contractually obligated to make, or in the case of the other party to a swap defaulting, the net amount of payments that the Fund is contractually entitled to receive. The swap market has grown substantially in recent years with a large number of banks and investment banking firms acting both as principals and as agents utilizing standardized swap documentation. Caps, floors and collars are more recent innovations for which standardized documentation has not yet been fully developed and, accordingly, they are less liquid than swaps. If the Investment Adviser is incorrect in its forecast of market values, interest rates, currency exchange rates or counterparty risk, the investment performance of the Fund would be less favorable than it would have been if these investment techniques were not used.

**Avenue Income Credit Strategies Fund**

**Notes to Financial Statements (continued)**

October 31, 2013

The Fund is party to International Swaps and Derivatives Association, Inc. Master Agreements ( ISDA Master Agreements ) with select counterparties that govern transactions, over-the-counter derivatives and foreign exchange contracts entered into by the Fund and those counterparties. The ISDA Master Agreements contain provisions for general obligations, representations, agreements, collateral and events of default or termination. Events of termination include conditions that may entitle counterparties to elect to terminate early and cause settlement of all outstanding transactions under the applicable ISDA Master Agreement. Any election to terminate early could be material to the financial statements of the Fund.

**12. Fair Value Measurements**

GAAP defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, under current market conditions. GAAP establishes a hierarchy that prioritizes the inputs to valuation methods giving the highest priority to readily available unadjusted quoted prices in an active market for identical assets (Level 1) and the lowest priority to significant unobservable inputs (Level 3) generally when market prices are not readily available or are unreliable. Based on the valuation inputs, the securities or other investments are tiered into one of three levels. Changes in valuation methods may result in transfers in or out of an investment's assigned level:

- Level 1 Prices are determined using quoted prices in an active market for identical assets.
- Level 2 Prices are determined using other significant observable inputs. Observable inputs are inputs that other market participants may use in pricing a security. These may include quoted prices for similar securities, interest rates, prepayment speeds, credit risk, yield curves, loss severities, default rates, discount rates, volatilities and others.
- Level 3 Prices are determined using significant unobservable inputs. In situations where quoted prices or observable inputs are unavailable (for example, when there is little or no market activity for an investment at the end of the period), unobservable inputs may be used. Unobservable inputs reflect the Fund's own assumptions about the factors market participants would use in determining fair value of the securities or instruments and would be based on the best available information.

The valuation techniques used by the Fund to measure fair value during the year ended October 31, 2013 maximized the use of observable inputs and minimized the use of unobservable inputs.

The following are certain inputs and techniques that the Fund generally uses to evaluate how to classify each major category of assets and liabilities for Level 2 and Level 3, in accordance with GAAP.

**Corporate Bonds & Notes** Corporate bonds and notes are generally comprised of two main categories: investment grade bonds and high yield bonds. Investment grade bonds are valued by independent pricing services using various inputs and techniques, which include broker-dealer quotations, active market trading levels, recently executed transactions in securities of the issuer or comparable issuers, and option adjusted spread models that include base curve and spread curve inputs. Adjustments to individual bonds can be applied to recognize trading differences compared to other bonds issued by the same issuer. High yield bonds are valued by independent pricing services based primarily on



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broker-dealer quotations from relevant market makers and recently executed transactions in securities of the issuer or comparable issuers. To the extent that these inputs are observable, the values of corporate bonds and notes are categorized as Level 2. To the extent that these inputs are unobservable, the values are categorized as Level 3.

**Avenue Income Credit Strategies Fund****Notes to Financial Statements (continued)**

October 31, 2013

**Senior Loans** Senior loans are valued using inputs which include broker-dealer quotes or quotes received from independent pricing services that take into account quotes received from broker-dealers or other market sources pertaining to the issuer or security. The Fund may also engage a third party appraiser or other valuation techniques, as described in the private equity section above, to value these securities. Inputs may include quoted prices for similar investments in active markets, interest rates, coupon rates, yield curves, option adjusted spreads, default rates, credit spreads and other unique security features in order to estimate the relevant cash flows which is then discounted to calculate fair values. To the extent that these inputs are observable, the values of senior loans are categorized as Level 2. To the extent that these inputs are unobservable, the values are categorized as Level 3.

**Forward Foreign Currency Contracts** Forward foreign currency contracts are valued by independent pricing services using various inputs and techniques, which include broker-dealer quotations, actual trading information and foreign currency exchange rates gathered from leading market makers and foreign currency exchange trading centers throughout the world. To the extent that these inputs are observable, the values of forward foreign currency contracts are categorized as Level 2. To the extent that these inputs are unobservable, the values are categorized as Level 3.

The following is a summary of the tiered valuation input levels, as of October 31, 2013. The Schedule of Investments includes disclosure of each security type by category and/or industry. The level assigned to the securities valuations may not be an indication of the risk or liquidity associated with investing in those securities. Because of the inherent uncertainties of valuation, the values reflected in the financial statements may materially differ from the value received upon actual sale of those investments.

	<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Other Significant Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>	<b>Total</b>
<b>Investment Securities in an Asset Position</b>				
Corporate Bonds and Notes	\$	\$ 273,752,686	\$	\$ 273,752,686
Senior Loans		21,831,633	15,488,767	37,320,400
Convertible Bonds		5,352,597		5,352,597
Repurchase Agreements		16,441,081		16,441,081
<b>Total Asset Position</b>	<b>\$</b>	<b>\$ 317,377,997</b>	<b>\$ 15,488,767</b>	<b>\$ 332,866,764</b>
<b>Investments in a Liability Position</b>				
Securities Sold Short	(9,903,629)			(9,903,629)
Forward Foreign Currency Contracts*		(2,102,319)		(2,102,319)
<b>Total Liability Position</b>	<b>\$ (9,903,629)</b>	<b>\$ (2,102,319)</b>	<b>\$</b>	<b>\$ (12,005,948)</b>

\* Other financial instruments such as forward foreign currency contracts are valued at the unrealized appreciation/(depreciation) of the instrument.

**Quantitative Information about Level 3 Fair Value Inputs**

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	<b>Fair Value At</b>	<b>Valuation</b>	<b>Unobservable Input</b>	<b>Range</b>
	<b>10/31/13</b>	<b>Technique</b>		
Senior Loans	\$15,488,767	Third Party Vendor	Vendor Quotes	\$97 - \$152

The Investment Adviser has established a Valuation Committee (the Committee ) which is responsible for overseeing the pricing and valuation of all securities held in the Fund. The Committee operates under pricing and valuation policies and procedures established by the Fund and approved by the Board, including pricing policies which set forth the mechanisms and processes to be employed on a daily basis to implement these policies and

# Avenue Income Credit Strategies Fund

## Notes to Financial Statements (continued)

October 31, 2013

procedures. In particular, the pricing policies describe how to determine market quotations for securities and other instruments. The Committee's responsibilities include: 1) fair value and liquidity determinations (and oversight of any third parties to whom any responsibility for fair value and liquidity determinations is delegated), and 2) regular monitoring of the Fund's pricing and valuation policies and procedures and modification or enhancement of these policies and procedures (or recommendation of the modification of these policies and procedures) as the Committee believes appropriate. The Committee is also responsible for monitoring the implementation of the pricing policies by the Fund and third parties which perform certain pricing functions in accordance with the pricing policies. The Investment Adviser is responsible for the oversight of the third party on a day-to-day basis. The Committee and the Investment Adviser perform a series of activities to provide reasonable assurance of the accuracy of prices including: 1) periodic vendor due diligence meetings, review of methodologies, new developments and processes at vendors, 2) daily comparison of security valuation versus prior day for all securities that exceeded established thresholds, and 3) daily review of unpriced, stale, and variance reports with exceptions reviewed by and the Committee.

The following is a reconciliation of Level 3 assets for which significant unobservable inputs were used to determine fair value:

	Investments in Senior Loans	Total
	\$	\$
<b>Balance as of October 31, 2012</b>		
Cost of purchases	16,666,476	16,666,476
Proceeds from sales	(1,644,258)	(1,644,258)
Transfers to Level 3		
Transfers from Level 3		
Accrued discount (premium)	2,377	2,377
Realized gains (losses)	6,718	6,718
Change in net unrealized appreciation (depreciation)*	457,454	457,454
<b>Balance as of October 31, 2013</b>	<b>15,488,767</b>	<b>\$ 15,488,767</b>
<b>Change in net unrealized appreciation (depreciation) on Investments still held as of October 31, 2013*</b>	<b>\$ 457,454</b>	<b>\$ 457,454</b>

\* Amount is included in the related amount on investments in the Statement of Operations.

During the year ended October 31, 2013, there were no transfers between investment levels.

For information related to geographical and industry categorization of investments and types of derivative contracts held, please refer to the Schedule of Investments.

## 13. Other

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On March 17, 2011, the Board approved a share repurchase program for the Fund. Under the repurchase program, the Fund is authorized to make open market purchases of its Common Shares as a measure to reduce any discount from net asset value in the market price of the Common Shares. The program authorizes the Fund to repurchase up to 10% of its outstanding Common Shares in any calendar year. The Fund is not required to make any such repurchases and there can be no assurances that it will. There also can be no assurances that any such repurchases would have the effect of reducing any discount from net asset value in the market price of the Common Shares. The Fund's ability to make repurchases will also be subject to regulatory requirements and to

**Avenue Income Credit Strategies Fund**

**Notes to Financial Statements (continued)**

October 31, 2013

the Fund's ability to liquidate portfolio investments to raise cash for such repurchases. For the years ended October 31, 2013 and October 31, 2012, the Fund did not make any share repurchases.

**14. Recently Issued Accounting Pronouncements**

In December 2011, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update No. 2011-11, "Disclosures About Offsetting Assets and Liabilities", which requires enhanced disclosures that will enable users to evaluate the effect or potential effect of netting arrangements on an entity's financial position, including the effect or potential effect of rights of setoff associated with certain financial instruments and derivative instruments. The amendments are effective for fiscal years beginning on or after January 1, 2013. The Fund's management is currently evaluating the effect that the guidance may have on its financial statements.

In June 2013, the FASB issued ASU 2013-08 Financials Services—Investment Companies (Topic 946): Amendments to the Scope, Measurement, and Disclosure Requirements, which sets forth a new approach for determining whether a public or private company is an Investment Company and sets certain measurement and disclosure requirements for an Investment Company. The amendments are effective for fiscal years beginning on or after December 15, 2013. An entity regulated under the 1940 Act would automatically qualify as an Investment Company for accounting purposes under Topic 946 and thus the Fund's management believes the release will have no impact to the Fund.

**15. Subsequent Events**

Management has evaluated events occurring subsequent to the date of the Statement of Assets and Liabilities through the date the financial statements were issued. No matters requiring adjustment to, or disclosure, in the financial statements were noted.

The Fund declared the following dividends subsequent to October 31, 2013:

<b>Declaration Date</b>	<b>Amount Per Share</b>	<b>Record Date</b>	<b>Payable Date</b>	<b>Type</b>
November 8, 2013	\$0.12	November 18, 2013	November 29, 2013	Income
December 2, 2013	\$0.12	December 12, 2013	December 16, 2013	Income
December 20, 2013	\$0.22	December 31, 2013	January 14, 2014	Income
December 20, 2013	\$0.069	December 31, 2013	January 14, 2014	S.T. Capital Gain

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On December 12, 2013, the Fund and the Investment Adviser amended and restated the current Expense Limitation Agreement to extend the term through February 28, 2015.

**Avenue Income Credit Strategies Fund**

**Report of Independent Registered Public Accounting Firm**

**To the Board of Trustees and Shareholders of the Avenue Income Credit Strategies Fund:**

In our opinion, the accompanying statement of assets and liabilities, including the schedule of investments, and the related statements of operations, of changes in net assets and of cash flows and the financial highlights present fairly, in all material respects, the financial position of Avenue Income Credit Strategies Fund (the "Fund") at October 31, 2013, the results of its operations and its cash flows for the year then ended, the changes in its net assets for each of the two years in the period then ended and the financial highlights for each of the periods presented, in conformity with accounting principles generally accepted in the United States of America. These financial statements and financial highlights (hereafter referred to as "financial statements") are the responsibility of the Fund's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits, which included confirmation of securities at October 31, 2013 by correspondence with the custodian, agent banks and brokers, and the application of alternative auditing procedures where securities purchased confirmations had not been received, provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP  
New York, New York  
December 27, 2013



**Avenue Income Credit Strategies Fund**

October 31, 2013 (unaudited)

**Proxy Information.** The policies and procedures used to determine how to vote proxies relating to securities held by the Fund are available without charge, upon request, by calling (877) 525-7330, and on the website of the Securities and Exchange Commission (the "SEC") at <http://www.sec.gov>. Information regarding how the Fund voted proxies relating to portfolio securities during the most recent twelve-month period ended June 30 is available by August 31 of each year without charge, upon request, by calling (877) 525-7330, or on the Fund's website at <http://www.avenuecapital.com> and on the SEC's website at <http://www.sec.gov>.

**Quarterly Portfolio Holdings.** The Fund files its complete schedule of portfolio holdings with the SEC for the first and third quarters of each fiscal year on Form N-Q. The Fund's Forms N-Q are available on the SEC's website at <http://www.sec.gov> and may be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. Information on the operation of the SEC's Public Reference Room may be obtained by calling 1-800-SEC-0330. The Fund's Forms N-Q are also available on the Fund's website at <http://www.avenuecapital.com>.

Notice is hereby given in accordance with Section 23(c) of the Investment Company Act of 1940, as amended, that the Fund may purchase at market prices from time to time its Common Shares in the open market.

**Avenue Income Credit Strategies Fund**

October 31, 2013 (unaudited)

**Annual Meeting of Shareholders.** On May 16, 2013, the Fund held its Annual Meeting of Shareholders (the Meeting ) to consider and vote on the proposal set forth below. The following votes were recorded:

**Proposal:** The election of a Class II Trustee to the Board of Trustees for a term of three years to expire at the 2016 annual meeting of Shareholders, or special meeting in lieu thereof, and until her successor has been duly elected and qualified.

Election of Julie Dien Ledoux as a Class II Trustee of the Fund

	<b>Shares Voted</b>	<b>Percentage of Shares Voted</b>
For	9,182,937	97%
Withheld	286,017	3%

The terms of office of Joel Citron, Darren Thompson and Randolph Takian, the remaining members of the Board of Trustees, continued after the Meeting.

## Avenue Income Credit Strategies Fund

### Summary of Dividend Reinvestment Plan (unaudited)

The Fund offers a Dividend Reinvestment Plan (the Plan ) pursuant to which distributions of dividends and all capital gains on Common Shares are automatically reinvested in additional Common Shares, unless a Common Shareholder specifically elects to receive cash by providing the required notice to the Plan Agent. Common Shareholders whose shares are held in the name of a broker or other nominee may have distributions reinvested only if such a service is provided by the broker or the nominee or if the broker or the nominee permits participation in the Plan.

State Street Bank and Trust Company, as plan agent (the Plan Agent ), serves as agent for the Common Shareholders of the Fund in administering the Plan. All Common Shareholders are deemed to be participants in the Plan unless they specifically elect not to participate.

If the Fund declares an income dividend or a realized capital gains distribution payable either in the Fund's shares or in cash, as shareholders may have elected, non-participants in the Plan will receive cash and participants in the Plan will receive shares. If the market price per share (plus expected commissions) on the valuation date equals or exceeds net asset value per share on that date, the Fund will issue new shares to participants at net asset value unless the net asset value is less than 95% of the market price on the valuation date, in which case, shares will be issued at 95% of the market price. With respect to Common Shares credited to a participant's account at a price below the current market price, all or a portion of the amount of the discount from such market price may be taxable to the participant as ordinary income. The valuation date will be the dividend or distribution payment date or, if that date is not a trading day on the exchange on which the Fund's shares are then listed, the next preceding trading day. If the net asset value per share exceeds the market price per share (plus expected commissions) at such time, the Plan Agent's broker will buy the Fund's shares in the open market, or elsewhere, with the cash in respect of the dividend or distribution, for the participant's account on, or shortly after, the payment date. For purposes of such purchases, the Plan Agent may use an affiliated or unaffiliated broker.

In the event of a market discount on the dividend or distribution payment date, the Plan Agent's broker will have up to 30 days after such payment date to invest the dividend or distribution amount in Common Shares acquired in open-market purchases. If, before the Plan Agent's broker has completed its open-market purchases, the market price of a Common Share (plus expected commissions) exceeds the net asset value per Common Share, the average per Common Share purchase price paid by the Plan Agent's broker may exceed the net asset value of the Fund's Common Shares, resulting in the acquisition of fewer Common Shares than if the distribution had been paid in newly issued Common Shares on the payment date. Therefore, the Plan provides that if the Plan Agent's broker is unable to invest the full dividend or distribution amount in open-market purchases during the purchase period or if the market discount shifts to a market premium during the purchase period, the Plan Agent's broker will cease making open-market purchases and will invest the uninvested portion of the dividend or distribution amount in newly issued Common Shares.

The Plan Agent maintains all Common Shareholders' accounts in the Plan and furnishes written confirmation of all transactions in the accounts, including information needed by Common Shareholders for tax records. Common Shares in the account of each Plan participant will be held by the Plan Agent on behalf of the Plan participant, and each Common Shareholder proxy will include those Common Shares purchased or received pursuant to the Plan.

The Plan Agent will forward all proxy solicitation materials to participants and vote proxies for Common Shares held pursuant to the Plan in accordance with the instructions of the participants.



**Avenue Income Credit Strategies Fund**

**Summary of Dividend Reinvestment Plan (unaudited) (continued)**

In the case of Common Shareholders such as banks, brokers or nominees that hold Common Shares for others who are the beneficial owners, the Plan Agent will administer the Plan on the basis of the number of Common Shares certified from time to time by the record Common Shareholder's name and held for the account of beneficial owners who participate in the Plan. A shareholder who holds his shares through a broker or other nominee will only be eligible to participate in the Plan if it is permitted by such broker or nominee. Such shareholders will not necessarily participate automatically in the Plan, and must contact their broker or nominee for more information.

There will be no brokerage charges to Common Shareholders with respect to Common Shares issued directly by the Fund as a result of dividends or distributions payable either in Common Shares or in cash. However, each participant will pay a pro rata share of brokerage commissions incurred with respect to the Plan Agent's open-market purchases in connection with the reinvestment of dividends or distributions.

Common Shareholders participating in the Plan may receive benefits not available to Common Shareholders not participating in the Plan. If the market price (plus commissions) of the Fund's Common Shares is above their net asset value, participants in the Plan will receive Common Shares of the Fund at less than they could otherwise purchase them and will have Common Shares with a cash value greater than the value of any cash distribution they would have received on their Common Shares. If the market price plus commissions is below the net asset value, participants will receive distributions in Common Shares with a net asset value greater than the per Common Share value of any cash distribution they would have received on their Common Shares. However, there may be insufficient Common Shares available in the market to make distributions in Common Shares at prices below the net asset value. Also, since the Fund does not redeem its Common Shares, the price on resale may be more or less than the net asset value.

The automatic reinvestment of dividends and distributions does not relieve participants of any income tax that may be payable on such dividends and distributions.

You may obtain additional information about the Plan by calling (877) 525-7330 or by writing to the Plan Agent at State Street Bank and Trust Company, 200 Clarendon Street, 16th Floor, Boston, MA 02116.

Common Shareholders may terminate their participation in the Plan at any time by calling (877) 525-7330 or by writing to the Plan Agent at the address listed above. Such termination will be effective immediately if the participant's notice is received and processed by the Plan Agent not less than three business days prior to any dividend or distribution payment date; otherwise such termination will be effective the first trading day after the payment for such dividend or distribution with respect to any subsequent dividend or distribution. Common Shareholders of the Fund may again elect to participate in the Plan at any time by calling (877) 525-7330 or by writing to the Plan Agent at the address listed above.

The Plan may be terminated by the Plan Agent or the Fund upon notice in writing mailed to participants at least 30 days prior to any record date for the payment of any dividend or distribution by the Fund. Upon any termination described in the paragraph, shares will be held by the Plan Agent in non-certificated form in the name of the participant. If a participant elects by notice to the Plan Agent in writing or by telephone (as described above) in advance of such termination to have the Plan Agent sell part or all of the participant's Common Shares and to remit the proceeds to the participant, the Plan Agent is authorized to deduct brokerage commissions for such transaction from the proceeds. To sell such shares, the Plan Agent may use an affiliated or unaffiliated broker.

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Upon 90 days' notice to Plan participants, the Fund and the Plan Agent reserve the right to amend or supplement the terms and conditions of the Plan.

# Avenue Income Credit Strategies Fund

## Trustees and Officers

The business and affairs of the Fund are managed under the direction of the Board and the Fund's officers appointed by the Board. The tables below list the Trustees and officers of the Fund and their present positions and principal occupations during the past five years. The business address of the Fund, its Board members and officers and the Investment Adviser is 399 Park Avenue, 6th Floor, New York, NY 10022, unless specified otherwise below. The term "Fund Complex" includes each of the registered investment companies advised by the Investment Adviser or its affiliates as of the date of this Annual Report. Trustees serve three year terms or until their successors are duly elected and qualified. Officers are annually elected by the Trustees.

The Fund's Statement of Additional Information includes additional information about the Trustees and is available, without charge, upon request by calling 1-877-525-7330.

## Interested Trustee(1)(2)

Name, Age and Address	Position(s) with the Fund	Term of Office and Length of Service	Principal Occupation(s) During Past Five Years and Other Relevant Experience	Number of Portfolios in Fund Complex Overseen by Trustee	Other Directorships Held by Trustee During the Last Five Years
Randolph Takian (39) 399 Park Avenue, 6th Floor New York, NY 10022	President, Chief Executive Officer and Trustee	Since October 2010	President, Chief Executive Officer and Trustee of Avenue Mutual Funds Trust (since March 2012); Senior Managing Director and Head of Traditional Asset Management of Avenue Capital Group (since 2010); President and Principal Executive Officer of certain open-end and closed-end funds advised by Morgan Stanley Investment Management, Inc. ( "MSIM" ) or an affiliated person of MSIM (2008-2010); President and Chief Executive Officer of Morgan Stanley Services Company Inc. (2008-2010); Managing Director and Head of Americas distribution, product and marketing for MSIM (2009-2010); Head of Liquidity and Bank Trust business (2008-2010) and the Latin American Franchise (July 2008-2010) at MSIM, Managing Director, Director and/or Officer of MSIM and various entities affiliated with MSIM. Formerly, Head of Retail and Intermediary business, Head of Strategy and Product Development for the Alternatives Group and Senior Loan Investment Management.	2	Board Member and member of Executive Committee of Lenox Hill Neighborhood House, a non-profit.





## Avenue Income Credit Strategies Fund

## Trustees and Officers (continued)

## Independent Trustees(1)

Name, Age and Address	Position(s) with the Fund	Term of Office and Length of Service	Principal Occupation(s) During Past Five Years and Other Relevant Experience	Number of Portfolios in Fund Complex Overseen by Trustee	Other Directorships Held During the Last Five Years
Joel Citron (51) 399 Park Avenue, 6th Floor New York, NY 10022	Trustee	Since December 2010	Chairman of the Board of Trustees of Avenue Mutual Funds Trust (since May 2012); Chief Investment Officer/Managing Member of TAH Management/TAH Capital Partners, a private investment management firm (since 2009), and CEO of Tenth Avenue Holdings, a related holding company (since 2008); Managing Partner of Jove Partners, a hedge fund and private equity firm (2006-2008); CEO of Jovian Holdings, a privately held investment and operating company (2002-2008).	2	Chairman of Tenth Avenue Commerce, an e-commerce company (since 2010); Director of Communications Capital Group, LLC (since 2009); Director of Attivio, Inc., a software company (since 2009), Director of Symbius Medical, LLC, a medical service provider (since 2007); Chairman of Oxigene Inc., a biotech company (2001-2009); Chairman of Oasmia AB, a Swedish publicly traded biotech company since 2011; President of the Board of The Heschel School; Chairman of the Board of Trustees of Kivunim, a program in international Jewish education; Board of Councilors Member of Shoah Foundation at the University of Southern California.
Darren Thompson (50) 399 Park Avenue, 6th Floor New York, NY 10022	Trustee	Since December 2010	Trustee of Avenue Mutual Funds Trust (since May 2012); Managing Member, RailField Partners, LLC (private investment and advisory firm) (since 2012); Self Employed Consultant (since 2010); Executive of American Express Company (2010); Chief Financial Officer of Revolution Money, Inc., a payment network (now a subsidiary of American Express Company) (2006-2010).	2	
Julie Dien Ledoux (44) 399 Park Avenue, 6th Floor New York, NY 10022	Trustee	Since December 2010	Trustee of Avenue Mutual Funds Trust (since May 2012); Analyst and Portfolio Manager of Avenue Capital Group (1998-2007)	2	Board Member and on the Executive Committee of Treadwell Farms Historic District Association, f/k/a East Sixties Property Owners Association, a non-profit neighborhood

group.

**Avenue Income Credit Strategies Fund**

**Trustees and Officers (continued)**

**Principal Officers who are not Trustees**

<b>Name, Age and Address</b>	<b>Position(s) with the Fund</b>	<b>Term of Office and Length of Service</b>	<b>Principal Occupation(s) During Past Five Years</b>
Stephen M. Atkins (48) 399 Park Avenue, 6th Floor New York, NY 10022	Treasurer and Chief Financial Officer	Since September 2012	Treasurer and Chief Financial Officer of Avenue Mutual Funds Trust (since September 2012); Controller of Avenue Capital Group, an investment management firm (since December 2010); Formerly with Morgan Stanley Investment Management Co., Inc., (1996-2010), most recently as an Executive Director (2003-2010).
Jeffery J. Gary (51) 399 Park Avenue, 6th Floor New York, NY 10022	Vice President	Since September 2012	Vice President & Portfolio Manager of Avenue Mutual Funds Trust (since May 2012); Senior Portfolio Manager of Avenue Capital Group (since 2012); Portfolio Manager of Third Avenue Management LLC (2009-2010); Portfolio Manager of Blackrock Financial (2003-2008).
Ty Oyer (42) 399 Park Avenue, 6th Floor New York, NY 10022	Secretary	Since December 2010	Secretary of Avenue Mutual Funds Trust (since May 2012); Deputy Chief Compliance Officer (since January 2011) and Compliance Manager (since 2008) of Avenue Capital Group, an investment management firm; Compliance Officer of D.B. Zwirn & Co., an investment management firm (2007-2008).
Eric Ross (44) 399 Park Avenue, 6th Floor New York, NY 10022	Chief Compliance Officer	Since December 2010	Chief Compliance Officer of Avenue Mutual Funds Trust (since May 2012); Chief Compliance Officer of Avenue Capital Group, an investment management firm (since 2006).

(1) Independent Trustees are those Trustees who are not interested persons (as defined in Section 2(a)(19) of the 1940 Act) of the Fund, and Interested Trustees are those Trustees who are interested persons of the Fund.

(2) Mr. Takian is an Interested Trustee due to his employment with the Investment Adviser.

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## FACTS

### WHAT DOES Avenue Income Credit Strategies Fund (the Fund ) DO WITH YOUR PERSONAL INFORMATION?

#### Why?

Financial companies choose how they share your personal information. Federal law gives consumers the right to limit some but not all sharing. Federal law also requires us to tell you how we collect, share, and protect your personal information. Please read this notice carefully to understand what we do.

#### What?

The types of personal information we collect and share depend on the product or service you have with us. This information can include:

Social Security Number and transaction history  
Risk tolerance and investment experience  
Income and assets

When you are *no longer* our customer, we continue to share your information as described in this notice.

#### How?

All financial companies need to share customers' personal information to run their everyday business. In the section below, we list the reasons financial companies can share their customers' personal information; the reasons the Fund chooses to share; and whether you can limit this sharing.

Reasons we can share your personal information	Does the Fund share?	Can you limit this sharing?
<b>For our everyday business purposes</b> such as to process your transactions, maintain your account(s), respond to court orders and legal investigations, or report to credit bureaus	Yes	No
<b>For our marketing purposes</b> to offer our products and services to you	Yes	No
<b>For joint marketing with other financial companies</b>	No	We don't share
<b>For our affiliates' everyday business purposes</b> information about your transactions and experiences	No	We don't share
	No	We don't share

**For our affiliates everyday business purposes**  
information about your creditworthiness

**For nonaffiliates to market to you** No We don t share

Questions?	Call 212-878-3500 or go to <a href="http://www.avenuecapital.com">www.avenuecapital.com</a>



Who we are	
<b>Who is providing this notice?</b>	Avenue Income Credit Strategies Fund (the Fund)
What we do	
<b>How does the Fund protect my personal information?</b>	<p>To protect your personal information from unauthorized access and use, we use security measures that comply with federal law. These measures include computer safeguards and secured files and buildings.</p> <p>We restrict access to your non-public personal information to those employees who need to know that information.</p>
<b>How does the Fund collect my personal information?</b>	<p>We collect your personal information, for example, when you</p> <p>Provide contact information or provide account information Open an account or Purchase or sell shares Make a wire transfer</p>
<b>Why can't I limit all sharing?</b>	<p>Federal law gives you the right to limit only</p> <p>sharing for affiliates everyday business purposes information about your creditworthiness</p> <p>affiliates from using your information not market to you</p> <p>sharing for nonaffiliates to market to you</p> <p>State laws and individual companies may give you additional rights to limit sharing.</p>

Definitions	
<b>Affiliates</b>	<p>Companies related by common ownership or control. They can be financial and nonfinancial companies.</p> <p><i>The term affiliates include the Fund's investment adviser, Avenue Capital Management II, L.P.</i></p>
<b>Nonaffiliates</b>	<p>Companies not related by common ownership or control. They can be financial and nonfinancial companies.</p>

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<b>Joint marketing</b>	<p><i>The Fund does not share with nonaffiliates so they can market to you.</i></p> <p>A formal agreement between nonaffiliated financial companies that together market financial products or services to you.</p> <p><i>The Fund does not jointly market.</i></p>
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**Other Important Information**

In the event that you hold shares of the Fund through a financial intermediary, including, but not limited to, a broker-dealer, bank or trust company, the privacy policy of your financial intermediary will govern how your nonpublic personal information will be shared with non-affiliated third parties by that entity.

**Avenue Income Credit Strategies Fund**  
**399 Park Avenue - 6th Floor**  
**New York, NY 10022**

**Trustees**

Joel Citron,

*Chairman of the Board*

Julie Dien Ledoux

Randolph Takian

Darren Thompson

**Officers**

Randolph Takian

*Principal Executive Officer and President*

Stephen M. Atkins

*Treasurer and Principal Financial Officer*

Jeffrey J. Gary

*Vice President*

Eric Ross

*Chief Compliance Officer*

Ty Oyer

*Secretary*

**Avenue Income Credit  
Strategies Fund**

**ANNUAL REPORT**  
**October 31, 2013**

**Investment Adviser**

Avenue Capital Management II, L.P.

399 Park Avenue, 6th Floor

New York, New York 10022

**Administrator and Custodian**

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State Street Bank and Trust Company

200 Clarendon Street

Boston, Massachusetts 02116

### **Dividend Paying Agent, Transfer Agent and Registrar**

State Street Bank and Trust Company

200 Clarendon Street

Boston, Massachusetts 02116

### **Legal Counsel**

Dechert LLP

1095 Avenue of the Americas

New York, New York 10036

### **Independent Registered Public Accounting Firm**

PricewaterhouseCoopers LLP

300 Madison Avenue

New York, New York 10017

**Item 2. Code of Ethics**

(a) As of the end of the period covered by this report, the Avenue Income Credit Strategies Fund (hereinafter referred to as the Fund or Registrant ) has adopted a code of ethics that applies to the Registrant's principal executive and senior financial officers pursuant to the Sarbanes-Oxley Act of 2002 ( Code of Ethics ).

(b) Not applicable.

(c) During the period covered by this report, no substantive amendments were made to the Code of Ethics.

(d) During the period covered by this report, the Registrant did not grant any waivers, including any implicit waivers, from any provision of the Code of Ethics.

(e) Not applicable.

(f) The Code of Ethics is attached hereto as Exhibit 12(a)(1).

**Item 3. Audit Committee Financial Expert**

(a)(1) The Board of Trustees of the Registrant (the Board ) has determined that the Registrant has at least one Board member serving on the Audit Committee that possesses the attributes identified in Instructions 2(b) of Item 3 to Form N-CSR to qualify as an audit committee financial expert.

(2) Mr. Darren Thompson is the Registrant's audit committee financial expert. The Board also determined that Mr. Thompson is not an interested person of the Registrant as that term is defined in Section 2(a)(19) of the Investment Company Act of 1940, as amended (the 1940 Act ).

**Item 4. Principal Accountant Fees and Services**

(a) Audit Fees - For the fiscal year ended October 31, 2013, PricewaterhouseCoopers LLP, the Fund's independent registered public accounting firm ( PwC or the Auditor ), billed the Fund aggregate fees of US\$97,800 for professional services rendered for the audit of the Fund's annual financial statements and review of financial statements included in the Fund's annual report to shareholders.

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For the fiscal year ended October 31, 2012, PwC, billed the Fund aggregate fees of US\$85,000 for professional services rendered for the audit of the Fund's annual financial statements and review of financial statements included in the Fund's annual report to shareholders.

(b) Audit-Related Fees - For the fiscal year ended October 31, 2013, PwC billed the Fund US\$30,000 for assurances and related services that are reasonably related to the performance of the audit or review of the Fund's financial statements and are not reported under Item 4(a) above.

For the fiscal year ended October 31, 2012, PwC billed the Fund US \$30,000 for assurances and related services that are reasonably related to the performance of the audit or review of the Fund's financial statements and are not reported under Item 4(a) above.

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(c) Tax Fees - For the fiscal year ended October 31, 2013, PwC billed the Fund aggregate fees of US\$10,100 for professional services rendered for tax compliance, tax advice, and tax planning. The nature of the services comprising the Tax Fees was the review of the Fund's income tax returns and excise tax calculations.

For the fiscal year ended October 31, 2012, PwC billed the Fund aggregate fees of US\$9,500 for professional services rendered for tax compliance, tax advice, and tax planning. The nature of the services comprising the Tax Fees was the review of the Fund's income tax returns and excise tax calculations.

(d) All Other Fees - For the fiscal year ended October 31, 2013, PwC did not bill the Fund for fees other than for the services reported in paragraphs (a) through (c) of this Item.

For the fiscal year ended October 31, 2012, PwC did not bill the Fund for fees other than for the services reported in paragraphs (a) through (c) of this Item.

(e)(1) Audit Committee Pre-Approval Policies and Procedures - The Fund's Audit Committee has adopted, and the Fund's Board has approved an Audit and Non-Audit Services Preapproval Policy (the "Policy"), which is intended to comply with Regulation S-X Rule 2-01, and sets forth guidelines and procedures to be followed by the Fund when retaining the Auditor to perform audit-related services, tax services and other non-audit services. This Policy permits such services to be pre-approved in one of two ways: (1) pursuant to a general pre-approval ("General Pre-Approval"), or (2) pursuant to specific pre-approval ("Specific Pre-Approval"). Unless a type of service provided by the Auditor and the maximum estimated fees therefor has received General Pre-Approval, it will require Specific Pre-Approval by the Audit Committee.

(e)(2) All of the audit and tax services included in Items 4(b) through (d) above for the fiscal years ended October 31, 2012 and October 31, 2013 were pre-approved by the Audit Committee pursuant to the Policy.

There were no services included in Items 4(b) through (d) above that were approved by the Audit Committee pursuant to paragraph (c)(7)(i)(C) of Rule 2-01 of Regulation S-X.

(f) Not applicable.

(g) For the fiscal year ended October 31, 2013, PwC billed aggregate non-audit fees of US\$3,969,723 to Avenue Capital Management II, L.P. (the "Adviser") and to other entities controlling, controlled by or under common control with the Adviser.

For the fiscal year ended October 31, 2012, PwC billed aggregate non-audit fees of US\$3,276,119 to the Adviser and to other entities controlling, controlled by or under common control with the Adviser.

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(h) The Audit Committee considered the non-audit services rendered to the Adviser as disclosed in paragraph (g) of this Item 4 in light of the Policy and determined that they were compatible with maintaining PwC's independence.

### **Item 5. Audit Committee of Listed Registrants**

The Registrant has a separately designated standing audit committee established in accordance with Section 3(a)(58)(A) of the Securities Exchange Act of 1934 (the Exchange Act) and is comprised of the following members:



Darren Thompson

Joel Citron

Julie Dien Ledoux

**Item 6. Schedule of Investments**

(a) Schedule of Investments in securities of unaffiliated issuers as of the close of the reporting period is included as part of Item 1 of this Form N-CSR.

(b) Not applicable.

**Item 7. Disclosure of Proxy Voting Policies and Procedures for Closed-End Management Investment Companies.**

Proxy Voting Policies and Procedures of the Registrant and the Adviser are attached hereto as Exhibit 12(a)(4).

**Item 8. Portfolio Managers of Closed-End Management Investment Companies.**

(a)(1) Information pertaining to the portfolio manager of the Registrant, as of October 31, 2013 is set forth below.

The individual noted below is primarily responsible for the day-to-day management of the Fund's assets.

*Portfolio Manager of the Adviser*

Jeffrey Gary is the Portfolio Manager for the Avenue Income Credit Strategies Fund and Avenue Strategies Fund, a series of Avenue Mutual Funds Trust. Mr. Gary is responsible for directing the investment activities of the Avenue Enhanced Credit Strategy. Prior to joining Avenue Capital Group in 2011, Mr. Gary was a Portfolio Manager at Third Avenue Management, LLC, where he launched the Focused Credit mutual fund in 2009, a differentiated credit fund which invested in performing, stressed and distressed high yield bonds and bank loans. Prior to that, Mr. Gary was a Portfolio Manager at BlackRock financial, which he joined in 2003, and was head of the high yield and distressed investment team which managed approximately \$17 billion in assets in various mutual funds and institutional accounts.

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Mr. Gary received a B.S. in Accounting from Penn State University (1984) and an M.B.A. from Northwestern University's Kellogg School of Management (1991).

(a)(2) Other Accounts Managed as of October 31, 2013:

Type of Accounts	Number of Accounts	Total Assets (\$ in millions)	Advisory Fee Based on Performance	
			Number of Accounts	Total Assets
Jeffrey Gary				
Registered Investment Companies	1	\$ 640.0	0	0
Other Pooled Accounts	3	\$ 470.3	3	\$ 470.30
Other Accounts	0	0	0	0

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### *Potential Conflicts of Interest of the Adviser*

When investing in credit obligations, the Fund may invest in the same securities or other credit obligations in which other accounts managed by the Adviser, including private funds, also invest. In order, among other things, to attempt to mitigate potential conflicts and seek to maintain a portfolio with the risk/return characteristics that the Fund believes to be appropriate for closed-end investment company investors, the Fund will adhere to a policy pursuant to which, at the time an investment is made by the Fund, the Fund's portfolio will have no more than 20% overlap, on a market value basis, at the security specific level with the portfolio securities held by the private funds (in the aggregate) advised by the Adviser or its affiliates (the "Avenue private funds") (i.e., no more than 20% of the Fund's portfolio securities will be identical to the securities held by the Avenue private funds in the aggregate) (the "20% overlap limit"). The 20% overlap limit will be measured as the percentage of:

(a) the aggregate market value of the specific securities in the Fund that are owned by, and overlap at the security specific level with, the Avenue private funds (in the aggregate), divided by

(b) the market value of the Fund's Managed Assets.

Investment opportunities appropriate for both the Fund and the Avenue private funds generally will be allocated between the Fund and the Avenue private funds in a manner that the Adviser believes to be fair and equitable under the circumstances, in accordance with the Adviser's trade allocation policies. The application of the 20% overlap limit may result in the Fund being unable to make investments that it otherwise would have made, which could negatively affect the performance of the Fund.

However, to the extent that the Fund exceeds the foregoing limit other than due to a transaction by the Fund (e.g., appreciation or depreciation of certain assets in the Fund or an acquisition by one or more Avenue private funds), the Fund will not be required to sell any of its holdings but will be precluded from acquiring any additional securities that the Avenue private funds currently hold. Notwithstanding the foregoing, the Fund will be permitted to convert, exchange or exercise any security it currently holds and participate in any rights offerings or other offerings available to holders of securities currently held in its portfolio regardless of whether such transaction would be in excess of the foregoing 20% overlap limit. The 20% overlap limit does not limit the amount the Fund may invest in credit obligations of an entity or group of affiliated entities in which the Avenue private funds invest through credit obligations different from those held by the Fund.

The Fund will be subject to certain additional risk factors.

Because the Adviser manages assets for other investment companies, pooled investment vehicles and/or other accounts (including institutional clients, pension plans and certain high net worth individuals), certain conflicts of interest are present. For instance, the Adviser receives fees from certain accounts that are higher than the fees received from the Fund, or receives a performance-based fee on certain accounts. In those instances, the Adviser has an incentive to favor the higher and/or performance-based fee accounts over the Fund. In addition, a conflict of interest exists to the extent the Adviser has proprietary investments in certain accounts or where the portfolio manager or other employees of the Adviser have personal investments in certain accounts. The Adviser has an incentive to favor these accounts over the Fund. Because the Adviser manages accounts that engage in short sales of (or otherwise take short positions in) securities or other instruments of the type in which the Fund invests, the Adviser could be seen as harming the performance of the Fund for the benefit of the accounts taking short positions, if such short positions cause the market value of the securities to fall. The Adviser has adopted trade allocation and other policies and procedures that it believes are reasonably designed to address these and other conflicts of interest. These policies and procedures will have the effect of foreclosing certain



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investment opportunities for the Fund from time to time. The 20% overlap limit, discussed above, may have the same effect.

The Adviser manages assets for accounts other than the Fund, including private funds. The Adviser also currently serves as investment adviser to a registered, open-end management investment company, the Avenue Mutual Funds Trust, including its series, Avenue Credit Strategies Fund. The expected risk and return profile for the Fund is generally lower than for most of the other Avenue funds. The Fund may invest in the same credit obligations as the Avenue funds, although their investments may include different obligations of the same issuer. For example, the Fund might invest in Senior Loans issued by a borrower and one or more Avenue Funds might invest in the borrower's junior debt. In addition, the Adviser also manages certain accounts (including CLOs) that invest in certain types of credit obligations in which the Fund may also invest. Investment opportunities appropriate for both the Fund and another Avenue fund generally will be allocated between the Fund and the other Avenue Fund in a manner that the Adviser believes to be fair and equitable under the circumstances, in accordance with the Adviser's trade allocation policies.

Conflicts of interest may arise where the Fund and other Avenue funds simultaneously hold securities representing different parts of the capital structure of a stressed or distressed issuer. In such circumstances, decisions made with respect to the securities held by one Avenue fund may cause (or have the potential to cause) harm to the different class of securities of the issuer held by other Avenue funds (including the Fund). For example, if such an issuer goes into bankruptcy or reorganization, becomes insolvent or otherwise experiences financial distress or is unable to meet its payment obligations or comply with covenants relating to credit obligations held by the Fund or by the other Avenue funds, such other Avenue funds may have an interest that conflicts with the interests of the Fund. If additional financing for such an issuer is necessary as a result of financial or other difficulties, it may not be in the best interests of the Fund to provide such additional financing, but if the other Avenue funds were to lose their respective investments as a result of such difficulties, the Adviser may have a conflict in recommending actions in the best interests of the Fund. In such situations, the Adviser will seek to act in the best interests of each of the Avenue funds (including the Fund) and will seek to resolve such conflicts in accordance with its compliance policies and procedures.

In addition, the 1940 Act limits the Fund's ability to enter into certain transactions with certain affiliates of the Adviser. As a result of these restrictions, the Fund may be prohibited from buying or selling any security directly from or to any portfolio company of a fund managed by the Adviser or one of its affiliates. Nonetheless, the Fund may under certain circumstances purchase any such portfolio company's loans or securities in the secondary market, which could create a conflict for the Adviser between the interests of the Fund and the portfolio company, in that the ability of the Adviser to recommend actions in the best interest of the Fund might be impaired. The 1940 Act also prohibits certain joint transactions with certain of the Fund's affiliates (which could include other Avenue funds), which could be deemed to include certain types of investments, or restructuring of investments, in the same portfolio company (whether at the same or different times). These limitations may limit the scope of investment opportunities that would otherwise be available to the Fund. The Board has approved policies and procedures reasonably designed to monitor potential conflicts of interest. The Board will review these procedures and any conflicts that may arise.

Although the professional staff of the Adviser will devote as much time to the management of the Fund as the Adviser deems appropriate to perform their duties in accordance with the investment advisory agreement and in accordance with reasonable commercial standards, the professional staff of the Adviser may have conflicts in allocating their time and services among the Fund and other Avenue funds. The Adviser and its affiliates are not restricted from forming additional investment funds, from entering into other investment advisory relationships or from engaging in other business activities, even though such activities may be in competition with the Fund and/or may involve substantial time and resources of the

## Edgar Filing: Avenue Income Credit Strategies Fund - Form N-CSR

Adviser and its professional staff. These activities could be viewed as creating a conflict of interest in that the time and effort of the members of the Adviser and its officers and employees will not be devoted exclusively to the business of the Fund but will be allocated between the business of the Fund and the management of the assets of other clients of the Adviser.

The Adviser or its respective members, officers, directors, employees, principals or affiliates may come into possession of material, non-public information. The possession of such information may limit the ability of the Fund to buy or sell a security or otherwise to participate in an investment opportunity. Situations may occur where the Fund could be disadvantaged because of the investment activities conducted by the Adviser for other clients, and the Adviser will not employ information barriers with regard to its operations on behalf of its registered and private funds, or other accounts. In certain circumstances, employees of the Adviser may serve as board members or in other capacities for portfolio or potential portfolio companies, which could restrict the Fund's ability to trade in the securities of such companies.

### (a)(3) Portfolio Manager Compensation as of October 31, 2013:

The Adviser's financial arrangements with its portfolio managers, its competitive compensation and its career path emphasis at all levels reflect the value senior management places on key resources. Compensation may include a variety of components and may vary from year to year based on a number of factors. The principal components of compensation include a base salary and a bonus.

*Base Compensation.* Generally, portfolio managers receive base compensation based on their individual seniority and/or their position with the firm.

*Bonus.* Mr. Gary also receives additional compensation based on a percentage of the Adviser's net profits derived from the Fund, to begin accruing after the Adviser has recouped its start-up cost associated with the Fund.

### (a)(4) Dollar Range of Securities Owned as of October 31, 2013:

Portfolio Manager	Dollar Range of Equity Securities Held in Registrant (1)	
Jeffrey Gary	\$	0

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(1) Beneficial Ownership is determined in accordance with Section 16a-1(a)(2) of the Securities Exchange Act of 1934, as amended

(b) Not applicable.

### **Item 9. Purchases of Equity Securities by Closed-End Management Investment Company and Affiliated Purchasers.**

No such purchases were made by or on behalf of the Registrant during the period covered by this report.

**Item 10. Submission of Matters to a Vote of Security Holders.**

There were no material changes to the procedures by which shareholders may recommend nominees to the Registrant's Board of Trustees during the period covered by this report.

**Item 11. Controls and Procedures.**

(a) The Registrant's principal executive officer and principal financial officer have concluded that the Registrant's disclosure controls and procedures (as defined in Rule 30a-3(c) under the 1940 Act) are effective as of a date within 90 days of the filing date of this report, based on the evaluation of these controls and procedures required by Rule 30a-3(b) under the 1940 Act and Rules 13a-15(b) or 15d-15(b) under the Securities Exchange Act of 1934, as amended.

(b) There was no change in the Registrant's internal control over financial reporting (as defined in Rule 30a-3(d) under the 1940 Act) that occurred during the second fiscal quarter of the period covered by this report that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting.

**Item 12. Exhibits**

(a)(1) The Code of Ethics is attached hereto in response to Item 2(f).

(a)(2) The certifications required by Rule 30a-2(a) of the 1940 Act are attached hereto.

(a)(3) No written solicitations to purchase securities under Rule 23c-1 under the 1940 Act were sent or given during the period covered by this report by or on behalf of the Registrant to ten or more persons.

(a)(4) Proxy Voting Policies and Procedures of the Registrant and its Adviser are attached hereto in response to Item 7.

(b) The certifications required by Rule 30a-2(b) of the 1940 Act and Section 906 of the Sarbanes-Oxley Act of 2002 are attached hereto.



**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Avenue Income Credit Strategies Fund

By: /s/ Randolph Takian  
Randolph Takian  
Trustee, Chief Executive Officer and President (Principal Executive Officer)

Date: January 8, 2014

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

By: /s/ Randolph Takian  
Randolph Takian  
Trustee, Chief Executive Officer and President (Principal Executive Officer)

By: /s/ Stephen M. Atkins  
Stephen M. Atkins  
Treasurer and Chief Financial Officer (Principal Financial Officer)

Date: January 8, 2014