KKR Income Opportunities Fund
Form N-CSR
December 23, 2015

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 (811-22543)

KKR Income Opportunities Fund
(Exact name of registrant as specified in charter)

555 California Street, 50th Floor

San Francisco, CA 94101
(Address of principal executive offices) (Zip code)

Nicole J. Macarchuk, Esq.

KKR Asset Management LLC

555 California Street, 50th Floor

San Francisco, CA 94101
(Name and address of agent for service)

Registrant s telephone number, including area code: (415) 315-3620

Date of fiscal year end: October 31, 2015

Date of reporting period: October 31, 2015

**Item 1. Reports to Stockholders.**

**KKR**

**KKR Income Opportunities Fund**

Annual Report

October 31, 2015

Income Opportunities Fund October 31, 2015

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The KKR Income Opportunities Fund (the Fund ) files its complete schedule of portfolio holdings with the Securities and Exchange Commission (the Commission ) for the first and third quarters of each fiscal year on Form N-Q within sixty days after the end of the period. The Fund s Form N-Q is available on the Commission s website at http://www.sec.gov, and may be reviewed and copied at the Commission s Public Reference Room in Washington, D.C. Information on the operation of the Public Reference Room may be obtained by calling 1-800-SEC-0330.

A description of the policies and procedures that the Fund uses to determine how to vote proxies relating to portfolio securities, as well as information relating to how a Fund voted proxies relating to portfolio securities during the most recent period ended June 30 will be available (i) without charge, upon request, by calling 855-330-3927; and (ii) on the Commission s website at http://www.sec.gov.

INFORMATION ABOUT THE FUND S TRUSTEES

The Statement of Additional Information ( SAI ) includes additional information about the Fund s Trustees and is available without charge, upon request, by calling 855-330-3927 Furthermore, you can obtain the SAI on the SEC s web site at www.sec.gov or the Fund s website at www.kkrfunds.com.

**Management Discussion of Fund Performance**

Looking Back on the Markets  November 1, 2014 to October 31, 2015

*Key Investing Themes*

2015-to-date, there were three themes central to positioning the KIO portfolio:

1) Fundamentals: It is a constructive environment for credit investing with positive and stable cash generation in most sectors, low interest rates and a benign default outlook (outside of certain sectors such as Energy and Basic Industries which we are significantly underweight).

2) Credit Tailwind: Demand for credit remains strong and coupon generation is broadly in line with net issuance, creating a potential supply and demand imbalance with any inflows into spread assets.

3) Exacerbated Volatility: With growth of credit mutual fund and ETFs, but an 80% drop in broker-dealer inventories since 2008, we believe the propensity for volatility is and will be high.

As we have progressed into the second half of 2015, we believe concerns over Greece, China, Emerging Markets, the price of Oil and Fed action cause investors to discount numbers 1 and 2 above, bringing number 3 to the fore.

We continue to believe that the current macroeconomic environment is constructive for credit as demonstrated by strong cash flow generation in our portfolio companies and significant deleveraging from borrowers. From a security selection perspective, KKR Credit only seeks to invest where we believe to have a differentiated view. In January 2015, energy yields touched 900bps, prompting many funds to increase exposure at that time. However, KKR Credit felt it had no distinct view on the oil price its correlated impact on energy spreads, so we sought to underweight our energy position. We will continue to monitor this sector and intend to invest in energy companies only where we have a strong view on the credit quality of the company. We believe it is this fundamental, bottom-up due diligence that truly differentiates our team s approach to managing KIO.

To summarize, we are witnessing volatile fund flows and believe some names are being oversold as a result. KIO, as a closed-end fund with permanent capital, is designed to take advantage of this volatility as well as the key trends we have outlined above, notably the increased propensity for asset price dislocation due to reduced dealer inventories and increased corporate activity and debt issuance. We remain focused on providing an attractive risk-adjusted return through investment in a diversified portfolio of fixed income securities.

*Credit Market Commentary*

The credit markets came under pressure in Q4 2014 as global growth concerns resurfaced. Many credit and event-driven hedge funds became forced sellers because of the sharp pullback in energy-related credits and equities. The sell-off intensified, particularly in mid-December, as crude oil prices plummeted further. Coming off this more volatile Q4 2014, price movement in the credit markets was more benign in Q1 2015. Stronger technicals and a surge of retail inflows bolstered demand and supported spreads in the leveraged credit market.

In Q2 2015, the window for opportunistic executions reopened amid a more buoyant market tone. With repricings again in play and dividend financing more accessible, leveraged loan volume increased and clearing yields tightened. (1) More recently, in Q3 2015, reducing oil prices, China and U.S. Federal Reserve Bank action have combined to weigh on investor sentiment. Prices have trended lower in the face of an eroding technical environment and choppy conditions across the capital markets.

*Leveraged Loans*

Leveraged loan new-issue volume slumped to a three-year low in Q4 2014 amid a challenging market. Specifically, new-issue leveraged loan volume decreased to $68.6bn in Q4 2014, down from $133.1bn in Q3 2014.(2) Against this backdrop, the S&P LSTA Leveraged Loan Index returned -0.51% in Q4 2014 which was further exacerbated by continued retail outflows in the loan space.(2) Specifically, retail investors pulled an estimated $14.4bn from leveraged loan mutual funds in Q4 2014, bringing YTD 2014 outflows in the loan space to a record estimated $20.0bn.(2) The outflows were marginally offset by the CLO market. In Q4 2014, CLO issuance reached $30.2bn, bringing YTD issuance to approximately $124.0bn, up from $83.0bn during FY2013.(2)

In Q1 2015, leveraged loan new-issue volume rose moderately to $86.1bn while the S&P LSTA Leveraged Loan Index returned 2.12%, recouping the -0.51% observed in Q4 2014.(3) This positive return was supported by moderating loan outflows. Specifically, retail investors pulled $5.0bn from leveraged loan mutual funds over the three month period ending March 31, 2015 versus $14.4bn in Q4 2014.(4) These moderate outflows were offset by the CLO market which hit a record high in March 2015 with 31 new CLOs pricing for $16.4bn, surpassing the previous record of $16.1bn in July 2014.(4)

In Q2 2015, leveraged loan new-issue volume increased to $135.1bn, driven primarily by leveraged loans issued for purposes of refinancing and dividend recapitalizations as corporates and sponsors alike took advantage of the open new issue market.(5) Against this backdrop, the S&P LSTA Leveraged Loan Index returned 0.69% in Q2 2015 after reaching a 2.5-year high in Q1 2015.(8) The performance of the S&P LSTA Leveraged Loan Index benefitted from improving technical conditions, most notably moderate loan outflows and continued strong CLO issuance. Retail investors pulled a mere $0.1bn from leveraged loan mutual funds and US CLO issuance remained elevated in Q2 2015 with 76 new CLOs pricing for $37.6bn.(6)

Amidst an environment of eroding technicals, leveraged loan new-issuance decreased to $112.3bn in Q3 2015.(7) This decrease was attributable to not only the volatility in the broader market, but also a significant decline in the level of opportunistic issuance, specifically repricings. The S&P LSTA Leveraged Loan Index returned -1.35% in Q3 2015, marking the index s worst quarterly performance in four years.(7) On the fund flows front, retail investors withdrew $5.6bn from leveraged loan mutual funds over the three month period ending September 30, 2015.(7) Furthermore, US CLO issuance fell in Q3 2015 down to $17.0bn from $28.5bn as risk-retention continues to loom on the horizon.(7)

*High Yield Bonds*

The high yield market came under pressure in Q4 2014, posting the first negative outcome since 2011.(8) Specifically, the Bank of America Merrill Lynch High Yield index returned -1.07% in Q4 2014.(9) Additionally, the spread on the Bank of America Merrill Lynch High Yield index increased nearly 65 bps in Q4 2014, while yields rose approximately 50bp.(9) High yield issuance in Q4 2014 was relatively light at $69.8bn.(8) Furthermore, high-yield mutual funds experienced $6.9bn in withdrawals in December 2014, after experiencing $5.6bn of inflows in the first two months of Q4 2014. (8)

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(1) Source: S&P LCD Leveraged Lending Review as of June 30, 2015.

(2) Source: S&P LCD Leveraged Lending Review as of December 31, 2014.

(3) Source: S&P LCD Quarterly Review as of March 31, 2015. S&P LCD Leveraged Loan Index Returns as of March 31, 2015.

(4) Source: JP Morgan Leveraged Loan Market Monitor as of April 1, 2015.

(5) Source: S&P LCD Quarterly Review as of June 30, 2015.

(6) Source: JP Morgan Leveraged Loan Market Monitor as of July 1, 2015.

(7) Source: S&P LCD Quarterly Review as of September 30, 2015.

(8) Source: JP Morgan High Yield Market Monitor as of January 5, 2015.

(9) Source: Bank of America Merrill Markets Online as of December 31, 2014.

After posting its first negative return since 2011 in Q4 2014, the high yield market rebounded in Q1 2015 fueled by renewed demand from retail investors. Specifically, the Bank of America Merrill Lynch High Yield index returned 2.55% in Q1 2015 while spreads and yields decreased over 20bp and 30bp, respectively, benefitting the new issue primary market.(10) Notably, high yield issuance in Q1 2015 rose to $95.6bn, up approximately 37% from the level of issuance observed in Q4 2014.(11) On the fund flows front, following two consecutive monthly inflows to begin 2015, high-yield bond mutual funds experienced a modest outflow in March, bringing QTD inflows to $10.1bn.(11)

After rebounding in Q1 2015, the high yield market came under pressure in the second half of Q2 2015, posting a slightly negative quarterly return. Specifically, the Bank of America Merrill Lynch High Yield Index returned -0.05% in Q2 2015 while spreads and yields increased approximately 20 and 30bp, respectively.(12) High yield issuance in Q2 2015 was flat quarter over quarter at $95.6bn.(13) Furthermore, high-yield bond mutual funds experienced outflows in each month of Q2 2015, bringing total quarterly outflows to $5.0bn.(13)

The pressure on the high yield market continued in Q3 2015 amidst broader market volatility. Specifically, the Bank of America Merrill Lynch High Yield Index returned -4.90% in Q3 2015 while spreads and yields increased approximately 160 and 130bp, respectively.(14) This underperformance was felt across all sectors, but most notably across energy, commodities and metals and mining. High yield issuance in Q3 2015 was $39.8bn, marking a 4-year low.(15) Furthermore, high-yield bond mutual funds experienced a $6.8bn outflow in Q3 2015, bringing YTD outflows to $6.7bn through September 30, 2015. (16)

<u>The Market in Numbers</u>

*For the period of November 1, 2014 October 31, 2015*

- *Returns:* Over the 12 month period ending October 31, 2015, the high yield and leveraged loan markets returned -2.05%(17) and 0.48%(18) (as measured by the Bank of America Merrill Lynch High Yield Index and the S&P LSTA Leveraged Loan Index), respectively, while the US 10-year treasury and the Bank of America Merrill Lynch US Corporate Index returned 3.57%(17) and 0.96%(17), respectively.

- *Spreads:* The option adjusted spread on the Bank of America Merrill Lynch High Yield Index averaged approximately 517bp for the twelve month period ending October 31, 2015.(17) Similarly, the spread on the S&P LSTA Leveraged Loan Index averaged approximately 506bp for the twelve month period ending October 31, 2015.(18)

- *Volatility:* As measured by the VIX index, volatility was sitting at 14.0 as of November 1, 2014.(19) Over the last twelve months, the VIX increased to as high as 28.4 in August 2015, before settling at 15.1 as of October 31, 2015.(19)

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(10) Source: Bank of America Merrill Markets Online as of March 31, 2015.

(11) Source: JP Morgan High Yield Market Monitor as of April 1, 2015.

(12) Source: Bank of America Merrill Markets Online as of June 30, 2015.

(13) Source: JP Morgan High Yield Market Monitor as of July 1, 2015.

(14) Source: Bank of America Merrill Markets Online as of September 30, 2015.

(15) Source: S&P LCD Quarterly Review as of September 30, 2015.

(16) Source: JP Morgan High Yield Market Monitor as of October 1, 2015.

(17) Source: Bank of America Merrill Markets Online as of October 31, 2015.

(18) Source: S&P LCD Discounted Spreads as of October 31, 2015.

(19) Source: Bloomberg as of October 31, 2015.

Fund Performance

KKR Income Opportunities Fund ( KIO or, the Fund ) is a non-diversified closed-end fund that trades on the New York Stock Exchange under the symbol KIO . The Fund s primary investment objective is to seek a high level of current income with a secondary objective of capital appreciation. The Fund seeks to achieve its investment objectives by employing a dynamic strategy of investing in a targeted portfolio of loans and fixed-income instruments (including derivatives) of U.S. and non-U.S. issuers and implementing hedging strategies in order to seek to achieve attractive risk-adjusted returns. Under normal market conditions, KIO will invest at least 80% of its Managed Assets in loans and fixed-income instruments or other instruments, including derivative instruments, with similar economic characteristics. The Fund expects to invest primarily in first-and second lien secured loans, unsecured loans and high-yield corporate debt instruments of varying maturities.

As of October 31, 2015, the Fund held 69.1% of its net assets in high-yield corporate debt, 61.5% of its net assets in first and second-lien leveraged loans, 4.9% of its net assets in common stock and 2.0% of its net assets in preferred stock. KIO s investments represented obligations and equity interests in 68 companies diversified across 32 distinct industries. The top ten issuers represented 46.28% of the Fund s net assets while the top five industry groups represented 61.43% of the Fund s net assets. The Fund s Securities and Exchange Commission 30-day yield was 9.88%.

For the period from July 25, 2013 (commencement of operations) to October 31, 2015, KIO outperformed the Bank of America Merrill Lynch High Yield Master II Index on a net and gross net asset value ( NAV ) basis and underperformed it on a market price basis. Over that period, the Fund had returns of 5.89% on a gross NAV basis, 3.42% on a net NAV basis and -4.18% on a market price basis. Over the same period, the Bank of America Merrill Lynch High Yield Master II Index returned 2.81%. For the year ended October 31, 2015, the Fund had returns of 1.33% on a gross NAV basis, -1.13% on a net NAV basis, and -6.50% on a market price basis, and the Bank of America Merrill Lynch High Yield Master II Index returned -2.05%. Since inception through October 31, 2015, the Fund traded at an average discount to NAV of -8.64%.(20) The Fund employed leverage during the period covered by this report.(21)

Business Updates

We thank you for your partnership and continued investment in KIO. We look forward to continued communications and will keep you apprised of the progress of KIO specifically and the leveraged finance market place generally. Fund information is available on our website at kkrfunds.com/kio.

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(20) Source: Underlying data from IDC as of October 31, 2015.

(21) For a discussion of the risks associated with the use of leverage and other risks, please see Risk Considerations, Note 3 to the financial statements.

***Disclosures***

*The Bank of America Merrill Lynch US Corporate Index is an unmanaged index comprised of U.S. dollar denomination investment grade corporate debt securities publicly issued in the U.S. domestic market with at least one year remaining term to final maturity.*

*The Bank of America Merrill Lynch High Yield Master II Index is a market-value weighted index of below investment grade U.S. dollar-denominated corporate bonds publicly issued in the U.S. domestic market. Yankee bonds (debt of foreign issuers issued in the U.S. domestic market) are included in the Bank of America Merrill Lynch High Yield Master II Index provided that the issuer is domiciled in a country having investment grade foreign currency long-term debt rating. Qualifying bonds must have maturities of one year or more, a fixed coupon schedule and minimum outstanding of US$100 million. In addition, issues having a credit rating lower than BBB3, but not in default, are also included.*

*The Chicago Board Options Exchange (CBOE) Volatility Index (VIX) reflects the market s expectation of 30-day volatility. It is constructed using the implied volatilities of a wide range of S&P 500 index options. The VIX reflects the market s estimate of future volatility, based on the weighted average of the implied volatilities for a wide range of strikes. The first and second month expirations are used until 8 days from expiration, then the second and third are used.*

*It is not possible to invest directly in an index.*

*Past performance is not an indication of future results. Returns represent past performance and reflect changes in share prices, the reinvestment of all dividends and capital gains, expense limitations and the effects of compounding.* ***The prospectus contains more complete information on the investment objectives, risks, charges and expenses of the investment company, which investors should read and consider carefully before investing.*** *The returns shown do not reflect taxes a shareholder would pay on distributions or redemptions. Total investment return and principal value of your investment will fluctuate, and your shares, when sold, may be worth more or less than their original cost. Current performance may be higher or lower than the performance data quoted.* ***An investment in the Fund involves risk, including the risk of loss of principal. For a discussion of the Fund s risks, see Risk Considerations, Note 3 to the financial statements.*** *Call 855-330-3927 or visit www.kkrfunds.com/kio for performance results current to the most recent calendar quarter-end.*

*Must be preceded or accompanied by a prospectus.*

***An imbalance in supply and demand in the income market may result in valuation uncertainties and greater volatility, less liquidity, widening credit spreads and a lack of price transparency in the market. Investments in income securities may be affected by changes in the creditworthiness of the issuer and are subject to the risk of non payment of principal and interest. The value of income securities also may decline because of real or perceived concerns about the issuer s ability to make principal and interest payments. Borrowing to increase investments (leverage) will exaggerate the effect of any increase or decrease in the value of Fund investments. Investments rated below investment grade (typically referred to as junk ) are generally subject to greater price volatility and illiquidity than higher rated investments. As interest rates rise, the value of certain income investments is likely to decline. Senior loans are subject to prepayment risk. Investments in foreign instruments or currencies can involve greater risk and volatility than U.S. investments because of adverse market economic, political, regulatory, geopolitical or other conditions. Changes in the value of investments entered for hedging purposes may not match those of the position being hedged. The Fund may engage in other investment practices that may involve additional risks.***

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**Performance Information**

| Average Annual Total Returns<br>Period Ended October 31, 2015 | One Year | Since Inception<br>(7/25/2013) | | Value of<br>$10,000<br>10/31/2015 |
|---|---|---|---|---|
| KKR Income Opportunities Fund - Market Price Return | (6.50)% | (4.18)% | $ | 9,078 |
| KKR Income Opportunities Fund - NAV Return | (1.13)% | 3.42% | $ | 10,792 |
| BofA Merrill Lynch High Yield Master II Index® | (2.05)% | 2.81% | $ | 10,649 |

Schedule of Investments

| | | Par | | Value |
|---|---|---|---|---|
| **HIGH YIELD SECURITIES - 69.1%** | | | | |
| | | | | |
| Air Freight & Logistics - 3.8% | | | | |
| XPO Logistics, Inc. | | | | |
| 7.875%, 09/01/2019 (a) | | 5,317,000 | $ | 5,350,231 |
| 6.500%, 06/15/2022 (a) | | 4,986,000 | | 4,450,005 |
| | | | | 9,800,236 |
| Banks - 4.3% | | | | |
| Novo Banco SA | | | | |
| N/A, 02/19/2049 (a) (g) (i) | EUR | 8,602,000 | | 1,168,683 |
| N/A, 02/27/2051 (a) (g) (i) | EUR | 3,601,000 | | 470,231 |
| N/A, 04/09/2052 (g) (i) | EUR | 246,000 | | 31,158 |
| SquareTwo Financial Corp. | | | | |
| 11.625%, 04/01/2017 (d) (e) | | 14,720,000 | | 9,420,800 |
| | | | | 11,090,872 |
| Building Products - 4.6% | | | | |
| Builders FirstSource, Inc. | | | | |
| 10.750%, 08/15/2023 (a) | | 2,678,000 | | 2,765,035 |
| New Enterprise Stone & Lime Co., Inc. | | | | |
| 13.000%, 03/15/2018 (c) | | 8,843,516 | | 9,197,257 |
| | | | | 11,962,292 |
| Chemicals - 1.3% | | | | |
| Univar, Inc. | | | | |
| 6.750%, 07/15/2023 (a) | | 3,500,000 | | 3,465,000 |
| | | | | |
| Communications Equipment - 1.0% | | | | |
| Riverbed Technology, Inc. | | | | |
| 8.875%, 03/01/2023 (a) | | 2,675,000 | | 2,514,500 |
| | | | | |
| Construction Materials - 6.3% | | | | |
| Cemex Materials LLC | | | | |
| 7.700%, 07/21/2025 (a) | | 13,760,000 | | 14,207,200 |
| Summit Materials Holdings LP | | | | |
| 10.500%, 01/31/2020 | | 2,223,000 | | 2,356,380 |
| | | | | 16,563,580 |
| Diversified Telecommunication Services - 1.1% | | | | |
| Zayo Group LLC | | | | |
| 6.375%, 05/15/2025 (a) | | 2,917,000 | | 2,953,463 |
| | | | | |
| Electric Utilities - 2.5% | | | | |
| Dynegy, Inc. | | | | |
| 7.375%, 11/01/2022 | | 3,077,000 | | 3,095,708 |
| 7.625%, 11/01/2024 | | 3,507,000 | | 3,515,768 |
| | | | | 6,611,476 |
| Electronic Equipment, Instruments & Components - 3.6% | | | | |
| Artesyn Technologies, Inc. | | | | |
| 9.750%, 10/15/2020 (a) | | 9,594,000 | | 9,426,105 |

| | | Par | | Value |
|---|---|---|---|---|
| **HIGH YIELD SECURITIES - 69.1% (continued)** | | | | |
| Food & Staples Retailing - 1.3% | | | | |
| Brake Bros Ltd. | | | | |
| 7.125%, 12/15/2018 (a) (g) | GBP | 2,166,000 | $ | 3,459,363 |
| | | | | |
| Hotels, Restaurants & Leisure - 0.9% | | | | |
| Eldorado Resorts, Inc. | | | | |
| 7.000%, 08/01/2023 (a) | | 2,239,000 | | 2,266,987 |
| | | | | |
| Household Durables - 0.1% | | | | |
| The Hillman Group, Inc. | | | | |
| 6.375%, 07/15/2022 (a) | | 354,000 | | 330,105 |
| | | | | |
| Insurance - 1.8% | | | | |
| Towergate | | | | |
| 8.750%, 04/02/2020 (a) (d) (e) (g) | GBP | 3,310,813 | | 4,716,536 |
| | | | | |
| IT Services - 0.8% | | | | |
| iPayment Investors LP | | | | |
| 9.500%, 12/15/2019 (a) (d) (e) | | 2,068,148 | | 2,135,363 |
| | | | | |
| Life Sciences Tools & Services - 0.4% | | | | |
| Labcosynlab | | | | |
| 8.250%, 07/01/2023 (a) (g) | EUR | 851,000 | | 953,180 |
| | | | | |
| Machinery - 0.4% | | | | |
| Nesco | | | | |
| 6.875%, 02/15/2021 (a) | | 1,594,000 | | 1,147,680 |
| | | | | |
| Media - 10.9% | | | | |
| Block Communications, Inc. | | | | |
| 7.250%, 02/01/2020 (a) | | 418,000 | | 420,090 |
| Cequel Communications Holdings LLC | | | | |
| 7.750%, 07/15/2025 (a) | | 7,151,000 | | 6,882,837 |
| Clear Channel Outdoor, Inc., Series B | | | | |
| 7.625%, 03/15/2020 | | 5,597,000 | | 5,806,888 |
| Intelsat Jackson Holdings SA | | | | |
| 7.250%, 04/01/2019 (g) | | 3,872,000 | | 3,639,680 |
| 5.500%, 08/01/2023 (g) | | 4,150,000 | | 3,444,500 |
| Virgin Media, Inc. | | | | |
| 5.250%, 01/15/2026 (a) (g) | | 8,202,000 | | 8,202,000 |
| | | | | 28,395,995 |
| Metals & Mining - 1.9% | | | | |
| Ryerson, Inc. | | | | |
| 9.000%, 10/15/2017 | | 5,820,000 | | 5,077,950 |
| | | | | |
| Oil, Gas & Consumable Fuels - 3.1% | | | | |
| Bill Barrett Corp. | | | | |
| 7.000%, 10/15/2022 | | 7,699,000 | | 5,139,082 |
| Hilcorp Energy I LP (Hilcorp Finance Co.) | | | | |
| 7.625%, 04/15/2021 (a) | | 2,864,000 | | 2,914,120 |
| | | | | 8,053,202 |

| | Par | | Value |
|---|---|---|---|
| **HIGH YIELD SECURITIES - 69.1% (continued)** | | | |
| Road & Rail - 2.1% | | | |
| The Kenan Advantage Group, Inc. | | | |
| 7.875%, 07/31/2023 (a) | 5,160,000 | $ | 5,366,400 |
| | | | |
| Semiconductors & Semiconductor Equipment - 1.5% | | | |
| Micron Technology, Inc. | | | |
| 5.250%, 01/15/2024 (a) | 3,979,000 | | 3,809,892 |
| | | | |
| Software - 1.5% | | | |
| Datatel, Inc. | | | |
| 9.000%, 09/30/2023 (a) (d) (e) | 516,000 | | 520,515 |
| TIBCO Software, Inc. | | | |
| 11.375%, 12/01/2021 (a) | 3,594,000 | | 3,468,210 |
| | | | 3,988,725 |
| Specialty Retail - 6.8% | | | |
| Guitar Center, Inc. | | | |
| 6.500%, 04/15/2019 (a) | 4,408,000 | | 4,126,990 |
| J.C. Penney Corp., Inc. | | | |
| 7.950%, 04/01/2017 | 298,000 | | 308,430 |
| 5.750%, 02/15/2018 | 1,617,000 | | 1,572,533 |
| 8.125%, 10/01/2019 | 7,272,000 | | 7,235,640 |
| 5.650%, 06/01/2020 | 2,516,000 | | 2,302,140 |
| The Mens Wearhouse, Inc. | | | |
| 7.000%, 07/01/2022 | 1,979,000 | | 2,065,581 |
| | | | 17,611,314 |
| Textiles, Apparel & Luxury Goods - 2.5% | | | |
| Hot Topic, Inc. | | | |
| 12.000%, 05/15/2019 (a) (c) | 1,286,000 | | 1,212,055 |
| 9.250%, 06/15/2021 (a) | 5,488,000 | | 5,295,920 |
| | | | 6,507,975 |
| Wireless Telecommunication Services - 4.6% | | | |
| GCI, Inc. | | | |
| 6.750%, 06/01/2021 | 6,100,000 | | 6,313,500 |
| 6.875%, 04/15/2025 | 4,076,000 | | 4,198,280 |
| Sprint Corp. | | | |
| 7.875%, 09/15/2023 | 1,642,000 | | 1,514,745 |
| | | | 12,026,525 |
| **TOTAL HIGH YIELD SECURITIES (amortized cost $191,176,348)** | | | 180,234,716 |
| | | | |
| **LEVERAGED LOANS - 61.5%** | | | |
| Aerospace & Defense - 1.3% | | | |
| Sequa Corp., TL 1L 12/12 | | | |
| 5.250%, 06/19/2017 (b) | 4,003,129 | | 3,302,582 |
| | | | |
| Building Products - 6.3% | | | |
| Gypsum Management & Supply, Inc., TL 2L 03/14 | | | |
| 7.750%, 04/01/2022 (b) | 8,621,960 | | 8,465,730 |

| | | Par | | Value |
|---|---|---|---|---|
| **LEVERAGED LOANS - 61.5% (continued)** | | | | |
| Building Products - 6.3% (continued) | | | | |
| Hanson Building Products North America, TL 1L B 02/15 | | | | |
| 6.500%, 03/14/2022 (b) | | 8,102,955 | $ | 8,011,796 |
| | | | | 16,477,526 |
| Chemicals - 0.1% | | | | |
| Emerald Performance Materials LLC, TL 2L 07/14 | | | | |
| 7.750%, 08/01/2022 (b) | | 268,490 | | 265,134 |
| | | | | |
| Diversified Telecommunication Services - 4.3% | | | | |
| Lightower Fiber LLC, TL 2L 04/13 | | | | |
| 8.000%, 04/12/2021 (b) | | 11,523,828 | | 11,293,351 |
| | | | | |
| Electronic Equipment, Instruments & Components - 2.4% | | | | |
| TTM Technologies, Inc., TL 1L B 02/15 | | | | |
| 6.000%, 05/31/2021 (b) | | 6,608,471 | | 6,203,702 |
| | | | | |
| Energy Equipment & Services - 0.6% | | | | |
| Proserv Acquisition LLC, TL 1L B1 12/14 (US Tranche) | | | | |
| 6.375%, 12/22/2021 (b) (g) | | 1,184,590 | | 914,107 |
| Proserv Acquisition LLC, TL 1L B2 12/14 (UK Tranche) | | | | |
| 6.375%, 12/22/2021 (b) (g) | | 695,303 | | 536,541 |
| | | | | 1,450,648 |
| Food & Staples Retailing - 7.5% | | | | |
| Brake Bros Ltd., TL 2L D2 10/07 | | | | |
| 6.761%, 03/13/2017 (b) (c) (g) | GBP | 8,057,333 | | 12,377,647 |
| California Pizza Kitchen, Inc., TL 1L B 07/11 | | | | |
| 5.252%, 03/29/2018 (b) | | 5,731,767 | | 5,516,826 |
| Grocery Outlet, Inc., TL 2L 09/14 | | | | |
| 9.250%, 10/21/2022 (b) | | 1,805,430 | | 1,796,403 |
| | | | | 19,690,876 |
| Food Products - 3.3% | | | | |
| CSM Bakery Products, TL 2L 07/13 | | | | |
| 8.750%, 07/03/2021 (b) (e) | | 5,300,000 | | 5,061,500 |
| CTI Foods Holding Co. LLC, TL 2L 05/13 | | | | |
| 8.250%, 06/28/2021 (b) | | 3,800,000 | | 3,572,000 |
| | | | | 8,633,500 |
| Health Care Providers & Services - 0.4% | | | | |
| Genoa (QoL), TL 2L 03/15 | | | | |
| 8.750%, 04/28/2023 (b) | | 1,044,260 | | 1,044,260 |
| | | | | |
| Health Care Technology - 0.2% | | | | |
| Greenway Medical Technologies, TL 2L 10/13 | | | | |
| 9.250%, 11/04/2021 (b) | | 476,428 | | 464,517 |
| | | | | |
| Hotels, Restaurants & Leisure - 5.1% | | | | |
| Caesars Entertainment Operating Co., Inc., TL 1L B6 01/08 | | | | |
| 9.000%, 03/01/2017 (b) (j) | | 10,469,808 | | 9,649,655 |

| | Par | | Value |
|---|---|---|---|
| **LEVERAGED LOANS - 61.5% (continued)** | | | |
| Hotels, Restaurants & Leisure - 5.1% (continued) | | | |
| Caesars Entertainment Operating Co., Inc., TL 1L B7 05/14 | | | |
| 11.000%, 03/01/2017 (b) (j) | 4,028,914 | $ | 3,614,279 |
| | | | 13,263,934 |
| Household Durables - 0.0% | | | |
| Algeco Scotsman Global Sarl, TL PIK 04/13 | | | |
| 15.750%, 05/01/2018 (c) (e) (g) | 363,252 | | 80,638 |
| | | | |
| IT Services - 3.6% | | | |
| iPayment Investors LP, TL 1L B 05/11 | | | |
| 6.750%, 05/08/2017 (b) (d) (e) | 9,522,742 | | 9,337,049 |
| | | | |
| Leisure Products - 1.0% | | | |
| BRG Sports, TL 2L 04/14 | | | |
| 101.250%, 04/15/2022 (b) | 2,809,440 | | 2,697,062 |
| | | | |
| Media - 2.2% | | | |
| Catalina Marketing Corp., TL 1L 04/14 | | | |
| 4.500%, 04/09/2021 (b) | 1,247,358 | | 1,086,237 |
| Learfield Communications, Inc., TL 2L 10/13 | | | |
| 8.750%, 10/08/2021 (b) | 4,027,580 | | 4,004,944 |
| NEP Broadcasting LLC, TL 2L 01/13 | | | |
| 10.000%, 07/22/2020 (b) | 711,260 | | 698,223 |
| | | | 5,789,404 |
| Oil, Gas & Consumable Fuels - 1.2% | | | |
| MEG Energy Corp., TL 1L B 03/11 | | | |
| 3.750%, 03/31/2020 (b) (g) | 3,421,913 | | 3,227,600 |
| | | | |
| Software - 15.9% | | | |
| Applied Systems, Inc., TL 2L 01/14 | | | |
| 7.500%, 01/24/2022 (b) | 9,213,135 | | 8,930,983 |
| Deltek, Inc., TL 2L 06/15 | | | |
| 9.500%, 06/26/2023 (b) | 7,346,780 | | 7,346,780 |
| iParadigms Holdings LLC, TL 2L 07/14 | | | |
| 8.250%, 07/29/2022 (b) | 5,719,710 | | 5,691,112 |
| Misys Ltd., TL 2L 06/12 | | | |
| 12.000%, 06/12/2019 | 1,000,000 | | 1,081,880 |
| RedPrairie Corp., TL 1L 12/13 | | | |
| 6.000%, 12/21/2018 (b) | 2,405,113 | | 2,208,207 |
| RedPrairie Corp., TL 2L 12/12 | | | |
| 11.250%, 12/21/2019 (b) | 9,231,528 | | 7,644,859 |
| TIBCO Software, Inc., TL 1L 10/14 | | | |
| 6.500%, 12/04/2020 (b) | 6,946,080 | | 6,601,659 |
| Triple Point Technology, Inc., TL 1L 07/13 | | | |
| 5.250%, 07/10/2020 (b) | 2,521,286 | | 1,947,693 |
| | | | 41,453,173 |

| | | Par | | Value |
|---|---|---|---|---|
| **LEVERAGED LOANS - 61.5% (continued)** | | | | |
| Specialty Retail - 4.4% | | | | |
| David s Bridal, Inc., TL 1L B 10/12 | | | | |
| 5.250%, 10/11/2019 (b) | | 5,639,838 | $ | 4,824,402 |
| Gymboree Corp., TL 1L 02/11 | | | | |
| 5.000%, 02/23/2018 (b) | | 7,767,509 | | 5,016,995 |
| Savers, Inc., TL 1L C 07/12 | | | | |
| 5.000%, 07/09/2019 (b) | | 1,970,431 | | 1,676,502 |
| | | | | 11,517,899 |
| Trading Companies & Distributors - 1.7% | | | | |
| Maxim Crane Works LP (Maxim Finance Corp.), TL 2L B 11/13 | | | | |
| 10.250%, 11/26/2018 (b) | | 4,493,151 | | 4,481,918 |
| **TOTAL LEVERAGED LOANS (amortized cost $168,298,336)** | | | | 160,674,773 |

| | | Shares | | |
|---|---|---|---|---|
| **COMMON STOCKS - 4.9%** | | | | |
| Health Care Providers & Services - 4.1% | | | | |
| Amedisys, Inc. (d) (e) (f) | | 271,040 | | 10,727,763 |
| | | | | |
| Insurance - 0.4% | | | | |
| Towergate Sun NewCo Common Shares A (d) (e) (f) (g) | GBP | 8,597 | | 96,575 |
| Towergate TopCo Common (d) (e) (f) (g) | GBP | 540,649 | | 912,639 |
| | | | | 1,009,214 |
| IT Services - 0.4% | | | | |
| iPayment Investors LP (d) (e) (f) | | 160,426 | | 919,722 |
| | | | | 12,656,699 |
| **TOTAL COMMON STOCKS (cost $5,278,032)** | | | | |
| | | | | |
| **PREFERRED STOCK - 2.0%** | | | | |
| Insurance - 2.0% | | | | |
| Towergate Sun NewCo Preference B | GBP | 3,194,971 | | 5,339,071 |
| N/A, (d) (e) (f) (g) | | | | 5,339,071 |
| **TOTAL PREFERRED STOCK (cost $4,736,869)** | | | | |
| | | | | |
| **TOTAL INVESTMENTS (amortized cost $369,489,585) (h) - 137.5%** | | | | 358,905,259 |
| **LIABILITIES EXCEEDING OTHER ASSETS, NET - (37.5)%** | | | | (97,901,461) |
| **NET ASSETS - 100.0%** | | | $ | 261,003,798 |

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In U.S. Dollars unless otherwise indicated.

EUR Euro

GBP Great British Pound

TL Term Loan

(a) Securities exempt from registration pursuant to Rule 144A under the Securities Act of 1933, as amended. These securities may only be resold to qualified institutional buyers in transactions exempt from registration. The total value of these securities as of October 31, 2015 was $103,998,696 which represent 39.8% of net assets.

(b) Variable rate security, the coupon rate shown is the effective rate as of October 31, 2015.

(c) Represents a payment-in-kind ( PIK ) security which may pay interest/dividend in additional par/shares.

(d) Security considered restricted due to the Adviser s knowledge of material non-public information. The total value of these securities as of October 31, 2015 was $44,126,033 and represented 16.9% of net assets.

(e) Security considered illiquid, as defined by the Securities and Exchange Commission. The total value of these securities as of October 31, 2015 was $49,268,171 and represented 18.9% of net assets.
(f) Non-income producing security.
(g) Non-U.S. security.
(h) All investments are held as collateral for the Fund s credit facility.
(i) Zero coupon security.
(j) Security in default.

The following table represents the Fund s investments categorized by country of risk as of October 31, 2015:

| | **% of Net Assets** |
|---|---|
| United States | 118.6% |
| United Kingdom | 14.4% |
| Luxembourg | 2.7% |
| Canada | 1.2% |
| Portugal | 0.6% |
| | 137.5% |
| Liabilities Exceeding Other Assets, Net | (37.5)% |
| | 100.0% |

**Statement of Assets and Liabilities**

| | | |
|---|---|---|
| **Assets** | | |
| Investments, at value (amortized cost $369,489,585) | $ | 358,905,259 |
| Cash and cash equivalents | | 10,150,717 |
| Restricted cash | | 2,300,000 |
| Receivable for investments sold | | 3,746,399 |
| Interest receivable | | 4,603,020 |
| Unrealized appreciation on forward foreign currency contracts | | 43,212 |
| Prepaid expenses | | 101,227 |
| **Total assets** | | 379,849,834 |
| | | |
| **Liabilities** | | |
| Credit facility | | 115,500,000 |
| Payable for investments purchased | | 2,450,514 |
| Unrealized depreciation on forward foreign currency contracts | | 242,564 |
| Credit facility interest payable | | 12,051 |
| Investment advisory fees | | 351,057 |
| Trustees fees | | 9,585 |
| Administration fees | | 14,592 |
| Investor support services fees | | 33,508 |
| Other accrued expenses | | 232,165 |
| **Total liabilities** | | 118,846,036 |
| Commitments and Contingencies (Note 9) | | |
| **Net assets** | $ | 261,003,798 |
| | | |
| **Net Assets** | | |
| Paid-in capital (unlimited shares authorized $0.001 par value) | $ | 290,129,802 |
| Undistributed net investment income | | |
| Accumulated net realized loss on investments and foreign currency transactions | | (18,339,254) |
| Net unrealized depreciation on investments, forward foreign currency contracts, foreign currency transactions and deferred Trustees fees | | (10,786,750) |
| **Net assets** | $ | 261,003,798 |
| Net asset value, price per share ($261,003,798 ÷ 15,255,236 shares) | $ | 17.11 |

See notes to financial statements.

**Statement of Operations**

| | | Year Ended October 31, 2015 |
|---|---|---|
| **Investment income** | | |
| Interest income | $ | 26,844,052 |
| Term loan income | | 1,724,538 |
| Dividend income | | 525,794 |
| **Total investment income** | | 29,094,384 |
| | | |
| **Expenses** | | |
| Investment advisory fees | | 4,274,513 |
| Credit facility interest expense | | 1,158,819 |
| Investor support services fees | | 388,593 |
| Legal fees | | 201,591 |
| Trustees fees | | 168,564 |
| Administration fees | | 110,506 |
| Audit and tax fees | | 60,230 |
| Shareholder reporting expense | | 46,601 |
| Custodian fees | | 46,106 |
| Transfer agency fees | | 15,103 |
| Other expenses | | 216,707 |
| **Total expenses** | | 6,687,333 |
| | | |
| **Net investment income** | | 22,407,051 |
| | | |
| **Net realized and unrealized gain (loss) on investments, forward foreign currency contracts, foreign currency transactions and deferred Trustee s fees** | | |
| **Net realized gain (loss) on** | | |
| Investments | | (18,339,254) |
| Forward foreign currency contracts and foreign currency transactions | | 404,371 |
| **Net realized loss** | | (17,934,883) |
| | | |
| **Net change in unrealized appreciation (depreciation) on** | | |
| Investments | | (6,788,176) |
| Forward foreign currency contracts and foreign currency transactions | | (1,000,499) |
| Deferred Trustees fees | | 1,401 |
| **Net change in unrealized depreciation** | | (7,787,274) |
| **Net realized and unrealized loss on investments, forward foreign currency contracts, foreign currency transactions and deferred Trustees fees** | | (25,722,157) |
| **Net decrease in net assets resulting from operations** | $ | (3,315,106) |

See notes to financial statements.

**Statements of Changes in Net Assets**

| | Year Ended October 31, 2015 | Year Ended October 31, 2014 |
|---|---|---|
| **Increase (decrease) in net assets resulting from operations** | | |
| Net investment income | $ 22,407,051 | $ 22,521,295 |
| Net realized gain (loss) on investments, foreign currency contracts and foreign currency transactions | (17,934,883) | 1,830,279 |
| Net change in unrealized depreciation on investments, forward foreign currency contracts, foreign currency transactions and deferred Trustees fees | (7,787,274) | (7,932,749) |
| **Net increase (decrease) in net assets resulting from operations** | (3,315,106) | 16,418,825 |
| | | |
| **Dividends to shareholders from** | | |
| Net investment income | (23,025,672) | (24,774,503) |
| Net realized gains | (1,495,013) | (594,954) |
| Return of capital | (635,198) | |
| **Total dividends** | (25,155,883) | (25,369,457) |
| | | |
| **Net decrease in net assets** | (28,470,989) | (8,950,632) |
| | | |
| **Net assets** | | |
| Beginning of year | 289,474,787 | 298,425,419 |
| End of year | $ 261,003,798 | $ 289,474,787 |
| Undistributed (accumulated) net investment income | $ | $ 224,846 |

See notes to financial statements.

**Statement of Cash Flows**

| | | Year Ended October 31, 2015 |
|---|---|---|
| **Cash Flows from Operating Activities** | | |
| Net decrease in net assets resulting from operations | $ | (3,315,106) |
| Adjustments to reconcile net decrease in net assets resulting from operations to net cash provided in operating activities: | | |
| Purchases of investments | | (272,983,763) |
| Proceeds from sales of investments | | 275,515,576 |
| Interest payments in kind | | (935,897) |
| Net amortization (accretion) of premiums/discounts | | (589,167) |
| Net change in unrealized depreciation on investments | | 6,788,176 |
| Net change in unrealized depreciation on forward foreign currency contracts and foreign currency transactions | | 1,028,323 |
| Net realized loss on investments | | 18,339,254 |
| Net realized loss on foreign currency transactions | | 1,327,916 |
| Changes in assets and liabilities: | | |
| Decrease in investment advisory fees | | (28,929) |
| Increase in Trustees fees payable | | 6,084 |
| Decrease in receivable for investments sold | | 7,930,689 |
| Decrease in payable for investments purchased | | (23,123,886) |
| Increase in other assets and liabilities | | 250,481 |
| Net cash provided in operating activities | | 10,209,751 |
| | | |
| **Cash Flows from Financing Activities** | | |
| Cash dividends paid to shareholders | | (25,155,883) |
| Payments on borrowing of credit facility | | (37,500,000) |
| Proceeds from credit facility | | 35,000,000 |
| Net cash used in financing activities | | (27,655,883) |
| | | |
| **Net decrease in cash and cash equivalents** | | (17,446,132) |
| | | |
| **Cash and Cash Equivalents** | | |
| Beginning balance | | 27,596,849 |
| Ending balance | $ | 10,150,717 |
| | | |
| *Supplemental Disclosure* | | |
| Cash paid for interest expense | $ | 1,174,716 |

See notes to financial statements.

**Financial Highlights**

| | Year Ended October 31, 2015 | Year Ended October 31, 2014 | Period Ended October 31, 2013* |
|---|---|---|---|
| **Per share operating performance(1)** | | | |
| Net asset value, beginning of year/period | $ 18.98 | $ 19.56 | $ 19.06 |
| Income from operations | | | |
| Net investment income | 1.47 | 1.48 | 0.27 |
| Net realized and unrealized gain (loss) on investments, forward foreign currency contracts, foreign currency transactions and deferred Trustees fees | (1.69) | (0.40) | 0.36 |
| Total income (loss) from operations | (0.22) | 1.08 | 0.63 |
| Dividends from | | | |
| Net investment income | (1.51) | (1.62) | (0.13) |
| Net realized gains | (0.10) | (0.04) | |
| Return of capital | (0.04) | | |
| Total dividends | (1.65) | (1.66) | (0.13) |
| Net asset value, end of year/period | $ 17.11 | $ 18.98 | $ 19.56 |
| **Total return#** | (6.50)% | 7.95% | (10.07)% |
| | | | |
| **Ratios to average net assets** | | | |
| Expenses | 2.46% | 2.29% | 2.32%** |
| Net investment income | 8.23% | 7.57% | 5.36%** |
| | | | |
| **Supplemental data** | | | |
| Market value/price | $ 14.82 | $ 17.58 | $ 17.86 |
| Price premium/(discount) | (13.38)% | (7.38)% | (8.69)% |
| Net assets, end of year/period (000 s) | $ 261,004 | $ 289,474 | $ 298,425 |
| Portfolio turnover rate | 73.33% | 65.35% | 11.75% |

(1) Per share calculations were performed using average shares.
* Commenced operations on July 25, 2013.
** Annualized.
Total return and Portfolio turnover rate are for the period indicated and have not been annualized.
\# Total return is computed based on New York Stock Exchange market price of the Fund s shares and excludes the effect of brokerage commissions. Dividends and distributions are assumed to be reinvested at the prices obtained under the Fund s dividend reinvestment plan.

See notes to financial statements.

**Notes to Financial Statements**

## 1. Organization

KKR Income Opportunities Fund (the Fund ) was organized on March 17, 2011 as a statutory trust under the laws of the state of Delaware. The Fund is a closed-end registered management investment company. The Fund commenced operations on July 25, 2013. The Fund seeks to generate a high level of current income, with a secondary objective of capital appreciation. The Fund is non-diversified for purposes of the Investment Company Act of 1940, as amended (the 1940 Act ). KKR Credit Advisors (US) LLC serves as the Fund s investment adviser (the Adviser ).

## 2. Summary of Significant Accounting Policies

*Basis of Presentation* The accompanying financial statements are presented in accordance with accounting principles generally accepted in the United States of America ( GAAP ) and are stated in United States ( U.S. ) dollars. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts and disclosures in these financial statements. Actual results could differ from those estimates.

*Valuation of Investments* The Board of Trustees (the Board ) of the Fund has adopted valuation policies and procedures to ensure investments are valued in a manner consistent with GAAP as required by the 1940 Act. The Board has delegated primary responsibility in ensuring these valuation policies and procedures are followed, including those relating to fair valuation, to the Adviser.

Fair value is 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. Where available, fair value is based on observable market prices or parameters, or derived from such prices or parameters. Where observable prices or inputs are not available, valuation models are applied. These valuation techniques involve some level of management estimation and judgment, the degree of which is dependent on the price transparency for the instruments or market and the instruments complexity for disclosure purposes.

Assets and liabilities recorded at fair value on the Statement of Assets and Liabilities are categorized based upon the level of judgment associated with the inputs used to measure their value. Hierarchical levels, as defined under GAAP, are directly related to the amount of subjectivity associated with the inputs to fair valuations of these assets and liabilities, and are as follows:

Level 1 Inputs are unadjusted, quoted prices in active markets for identical assets or liabilities at the measurement date.

The types of assets generally included in this category are common stock listed in active markets.

Level 2 Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar instruments in active markets, and inputs other than quoted prices that are observable for the asset or liability.

The types of assets and liabilities generally included in this category are high yield securities, leveraged loans, and financial instruments classified as derivatives.

Level 3 Inputs are unobservable inputs for the asset or liability, and include situations where there is little, if any, market activity for the asset or liability.

The types of assets generally included in this category are leveraged loans, common stock and preferred stock not actively traded.

A significant decrease in the volume and level of activity for the asset or liability is an indication that transactions or quoted prices may not be representative of fair value because in such market conditions there may be increased instances of transactions that are not orderly. In those circumstances, further analysis of transactions or quoted prices is needed, and a significant adjustment to the transactions or quoted prices may be necessary to estimate fair value.

The availability of observable inputs can vary depending on the financial asset or liability and is affected by a wide variety of factors, including, for example, the type of product, whether the product is new, whether the product is traded on an active exchange or in the secondary market, and the current market condition. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Accordingly, the degree of judgment exercised by the Fund in determining fair value is greatest for instruments categorized in Level 3. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes, the level in the fair value hierarchy within which the fair value measurement in its entirety falls is determined based on the lowest level input that is significant to the fair value measurement in its entirety. The Fund s assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and consideration of factors specific to the asset. The variability of the observable inputs affected by the factors described above may cause transfers between Levels 1, 2 and/or 3, which the Fund recognizes at the beginning of the period the inputs change.

Many financial assets and liabilities have bid and ask prices that can be observed in the marketplace. Bid prices reflect the highest price that the Fund and others are willing to pay for an asset. Ask prices represent the lowest price that the Fund and others are willing to accept for an asset. For financial assets and liabilities whose inputs are based on bid-ask prices, the Fund does not require that fair value always be a predetermined point in the bid-ask range. The Fund s policy is to allow for mid-market pricing and adjust to the point within the bid-ask range that meets the Fund s best estimate of fair value.

Depending on the relative liquidity in the markets for certain assets, the Fund may transfer assets to Level 3 if it determines that observable quoted prices, obtained directly or indirectly, are not available.

Valuation Process

The Adviser utilizes a valuation committee ( Valuation Committee ), whose members consist of the Head of Credit-US, Head of Credit-Europe, General Counsel, Chief Financial Officer and certain other employees of the Adviser. The Valuation Committee is responsible for approving pricing sources and procedures and for oversight of the Adviser s pricing practices, including determining the valuation of investments in circumstances where no external pricing data for an investment is available.

Investments are generally valued based on quotations from third party pricing services, unless such a quotation is unavailable or is determined to be unreliable or inadequately representing the fair value of the particular assets. In that case, valuations are based on either valuation data obtained from one or more other third party pricing sources, including broker dealers selected by the Adviser, or will reflect the Valuation Committee s good faith determination of fair value based on other factors considered relevant. The valuation process involved in Level 3 measurements for assets and liabilities is completed daily based on the methodology and assumptions that are used in estimating the value of the investment that are approved by the Valuation Committee on at least a monthly basis and is designed to subject the valuation of Level 3 investments to an appropriate level of consistency, oversight, and review. For assets classified as Level 3, the investment professionals of the Adviser are responsible for preliminary valuations based on various factors including their evaluation of financial and operating data, company specific developments, market valuations of comparable companies and model projections discussed above. All valuations are approved by the Valuation Committee.

For the year ended October 31, 2015, there have been no significant changes to the Fund s fair value methodologies.

*Investment Transactions* Investment transactions are accounted for on the trade date, the date the order to buy or sell is executed. Amortization and accretion is calculated using the effective interest method over the holding period of the investment. Realized gains and losses are calculated on the specific identified cost basis.

*Cash and Cash Equivalents* Cash and cash equivalents includes cash on hand, cash held in banks and highly liquid investments with original maturities of three or fewer months.

*Restricted Cash* Restricted cash represents amounts that are held by third parties under certain of the Fund s derivative transactions. Such cash is excluded from cash and cash equivalents in the Statement of Assets and Liabilities and Statement of Cash Flows. Interest income earned on restricted cash is recorded in other income on the Statement of Operations. On the Statement of Cash Flows, net additions or reductions to restricted cash are classified as an operating activity.

*Foreign Currency Transactions* The books and records of the Fund are maintained in U.S. dollars. All investments denominated in foreign currency are converted to the U.S. dollar using prevailing exchange rates at the end of the reporting period. Income, expenses, gains and losses on investments denominated in foreign currency are converted to the U.S. dollar using the prevailing exchange rates on the dates when the transactions occurred.

The Fund bifurcates that portion of the results of operations resulting from changes in foreign exchange rates on investments and interest from the fluctuations arising from changes in market prices of securities held.

*Forward Foreign Currency Exchange Contracts* The Fund enters into forward foreign currency exchange contracts for the purchase or sale of a specific foreign currency at a fixed price on a future date. The forward foreign currency exchange contracts are adjusted by the daily exchange rate of the underlying currency and any gains or losses are recorded as unrealized gains/losses until such time as the contracts have been closed or offset by another contract with the same broker for the same settlement date and currency.

*Dividends to Shareholders* Dividends from net investment income are declared and paid monthly and distributable net realized capital gains, if any, are declared and distributed at least annually. Dividends to shareholders are recorded on the ex-dividend date.

*Income Taxes* The Fund intends to qualify as a regulated investment company under Subchapter M of the Internal Revenue Code of 1986, as amended, and in conformity with the Regulated Investment Company Modernization Act of 2010. The Fund will not be subject to federal income tax to the extent the Fund satisfies the requirements under Section 851 of the Internal Revenue Code, including distributing substantially all of its gross investment company taxable income and capital gains to its shareholders based on the Fund s fiscal year end of October 31.

In order to avoid imposition of the excise tax on undistributed income applicable to regulated investment companies, the Fund intends to declare each year as dividends in each calendar year at least 98.0% of its net investment income (earned during the calendar year) and 98.2% of its net realized capital gains (earned during the twelve months ended October 31) plus undistributed amounts, if any, from prior years.

The Fund evaluates tax positions taken or expected to be taken in the course of preparing the Fund s tax returns to determine whether it is more-likely than-not (i.e., greater than 50-percent) that each tax position will be sustained upon examination by a taxing authority based on the technical merits of the position. Tax positions not deemed to meet the more-likely-than-not threshold are recorded as a tax benefit or expense in the current year. Management has analyzed the Fund s tax positions and has concluded that no liability for unrecognized tax benefits should be recorded related to uncertain tax positions for the open tax years (2013-2015). However, management s conclusions regarding tax positions taken may be subject to review and adjustment at a later date based on factors including, but not limited to, examination by tax authorities, on-going analysis of and changes to tax laws, regulations and interpretations thereof.

As of October 31, 2015 the Fund did not have a liability for any unrecognized tax benefits. The Fund recognizes interest and penalties, if any, related to unrecognized tax benefits as income tax expense in the Statement of Operations. During the year ended October 31, 2015, the Fund did not incur any interest or penalties.

## 3. Risk Considerations

The Fund invests mainly in high yield securities, leveraged loans, preferred and common stock and forward foreign currency contracts. These investments may involve certain risks, as discussed in the Fund s prospectus, including, but not limited to, those described below:

*Market Risk* Bond markets rise and fall daily. As with any investment with performance tied to these markets, the value of an investment in the Fund will fluctuate, which means that the shareholder could lose money.

*Interest Rate Risk* Interest rates will rise and fall over time. During periods when interest rates are low, the Fund s yield and total return also may be low. Changes in interest rates also may affect the Fund s share price: a sharp rise in interest rates could cause the Fund s share price to fall. The longer the Fund s duration, the more sensitive to interest rate movements its share price is likely to be.

*Credit Risk* The Fund is subject to the risk that a decline in the credit quality of an investment could cause the Fund to lose money or underperform. The Fund could lose money if the issuer or guarantor of an investment fails to make timely principal or interest payments or otherwise honor its obligations. The Fund will be subject to credit risk with respect to the counterparties to the derivative contracts (whether a clearing corporation in the case of exchange-traded instruments or another third party in the case of over-the-counter instruments) and other instruments entered into directly by the Fund.

*Liquidity Risk* A particular investment may be difficult to purchase or sell. The Fund may be unable to sell illiquid securities at an advantageous time or price.

*Prepayment and Extension Risk* The Fund s investments are subject to the risk that the investments may be paid off earlier or later than expected. Either situation could cause the Fund to hold investments paying lower than-market rates of interest, which could hurt the Fund s yield or share price.

*High Yield Risk* High yield securities and unrated securities of similar credit quality (sometimes called junk bonds) that the Fund may invest in are subject to greater levels of credit and liquidity risks. High yield securities are considered primarily speculative with respect to the issuer s continuing ability to make principal and interest payments.

*Foreign Investment Risk* The Fund s investments in securities of foreign issuers may involve certain risks that are greater than those associated with investments in securities of U.S. issuers. These include risks of adverse changes in foreign economic, political, regulatory and other conditions; changes in currency exchange rates (the currencies will decline in value relative to the U.S. dollar or, in the case of hedging positions, the U.S. dollar will decline in value relative to the currency being hedged) or exchange control regulations (including limitations on currency movements and exchanges); differing accounting, auditing, financial reporting and legal standards and practices; differing securities market structures; and higher transaction costs. These risks may be heightened in connection with investments in emerging markets.

*Issuer Risk* The value of securities may decline for a number of reasons that directly relate to the issuer, such as its financial strength, management performance, financial leverage and reduced demand for the issuer s goods and services, as well as the historical and prospective earnings of the issuer and the value of its assets.

*Non-diversification Risk* The Fund is a non-diversified investment company and therefore may invest a greater percentage of its assets in the securities of a single issuer or a limited number of issuers than funds that are diversified. Accordingly, the Fund is more susceptible to risks associated with a single economic, political or regulatory occurrence than a diversified fund might be.

*Market Discount Risk* The price of the Fund s common shares of beneficial interest will fluctuate with market conditions and other factors. Shares of closed-end management investment companies frequently trade at a discount from their net asset value, which may increase the risk of loss.

*Leverage Risk* Leverage is a speculative technique that may expose the Fund to greater risk and increased costs. When leverage is used, the net asset value and market price of the Fund s shares and the Fund s investment return will likely be more volatile.

Please refer to the Fund s prospectus for a more complete description of the principal risks of investing in the Fund.

**4. Agreements**

*Investment Advisory Agreement* The Adviser provides day-to-day portfolio management services to the Fund and has discretion to purchase and sell investments in accordance with the Fund s objectives, policies, and restrictions. For the services it provides to the Fund, the Adviser receives an annual fee, payable monthly by the Fund, in an amount equal to 1.10% of the Fund s average daily Managed Assets (the Management Fee ). Managed Assets is defined as the total assets of the Fund (including any assets attributable to any borrowings (except borrowings solely for short-term cash management purposes), reverse repurchase agreements, dollar rolls, any issuance of preferred shares or notes, and including any assets in respect of shares that will be repurchased as of the end of the month) minus the sum of the Fund s accrued liabilities (other than any borrowings).

During periods when the Fund is using leverage, the Management Fee paid to the Adviser will be higher than if the Fund did not use leverage because the Management Fee paid is calculated on the basis of the Fund s Managed Assets, which includes the assets purchased through leverage.

During the year ended October 31, 2015, the Adviser earned a Management Fee of $4,274,513.

*Administrator, Custodian and Transfer Agent* U.S. Bancorp Fund Services, LLC ( USBFS ) (the Administrator ) serves as the Fund s Administrator pursuant to an administration agreement under which the Administrator provides administrative and accounting services.

U.S. Bank, N.A. ( Custodian ) serves as the Fund s custodian pursuant to a custody agreement. The Custodian is an affiliate of USBFS.

USBFS serves as the Fund s transfer agent pursuant to a transfer agency agreement.

*Investor Support Services Agreement* The Fund has retained Four Wood Capital Partners LLC to provide investor support services in connection with the on-going operation of the Fund. Such services include providing ongoing contact with respect to the Fund and its performance with financial advisors that are representatives of broker-dealers and other financial intermediaries and communicating with the New York Stock Exchange ( NYSE ) specialist for the Fund s common shares, and with the closed-end fund analyst community regarding the Fund on a regular basis.

*Deferred Trustees Compensation* The Fund has a Deferred Trustees Compensation plan (the Plan ) that allows the Independent Trustees to defer compensation to a future payment period. The compensation is invested in notional shares of the Fund. The value of a participating Independent Trustee s deferral account is based on the notional shares of deferred amounts as designated by the participating Independent Trustees. Changes in the value of the Independent Trustees deferral account are included in the Statement of Operations. The accrued obligations under the Plan, including unrealized appreciation/(depreciation), are included on the Statement of Assets and Liabilities.

*Other* Certain officers of the Fund are also officers of the Adviser. Such officers are paid no fees by the Fund for serving as officers of the Fund.

## 5. Fair Valuation

The following table presents information about the Fund s assets and liabilities measured on a recurring basis as of October 31, 2015, and indicates the fair value hierarchy of the inputs utilized by the Fund to determine such fair value:

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Investments in securities | | | | |
| High yield securities | $ | $ 180,234,716 | $ | $ 180,234,716 |
| Leveraged loans | | 160,594,135 | 80,638 | 160,674,773 |
| Common stock | 10,727,763 | | 1,928,936 | 12,656,699 |
| Preferred stock | | | 5,339,071 | 5,339,071 |
| Cash equivalents | 10,088,762 | | | 10,088,762 |
| Total Investments in securities and cash equivalents | $ 20,816,525 | $ 340,828,851 | $ 7,348,645 | $ 368,994,021 |

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Financial Derivative Instruments | | | | |
| Assets - Forward foreign currency contracts | $ | $ 43,212 | $ | $ 43,212 |
| Liabilities - Forward foreign currency contracts | $ | $ (242,564) | $ | $ (242,564) |
| Total financial derivative instruments | $ | $ (199,352) | $ | $ (199,352) |

The following table details the restricted securities held by the Fund as of October 31, 2015:

| | Par/Shares | Acquisition date(s) | Amortized Cost | Value | % of Net Assets |
|---|---|---|---|---|---|
| Amedisys, Inc., Common Stock | 271,040 | 08/05/2013-08/08/2013 | $ 3,799,455 | $ 10,727,763 | 4.1% |
| Datatel, Inc., 9.000%, 09/30/2023 | 516,000 | 09/21/2015 | 498,424 | 520,515 | 0.2% |
| iPayment Investors LP, TL 1L B 05/11 , 6.750%, 05/08/2017 | 9,522,742 | 08/14/2013-06/11/2014 | 9,428,914 | 9,337,049 | 3.6% |
| iPayment Investors LP, Common Stock | 160,426 | 12/29/2014-06/29/2015 | 662,720 | 919,722 | 0.4% |
| iPayment Investors LP 9.500%, 12/15/2019 | 2,068,148 | 12/29/2014 | 2,068,148 | 2,135,363 | 0.8% |
| SquareTwo Financial Corp., 11.625%, 04/01/2017 | 14,720,000 | 07/30/2013-07/01/2014 | 14,957,104 | 9,420,800 | 3.6% |
| Towergate, 8.750%, 04/02/2020 | 3,310,813 | 04/02/2015 | 5,025,905 | 4,716,536 | 1.8% |
| Towergate Sun NewCo Common Shares A | 8,597 | 04/02/2015 | 15 | 96,575 | 0.0% |
| Towergate Sun NewCo Preference B | 3,194,971 | 04/02/2015 | 4,736,869 | 5,339,071 | 2.0% |
| Towergate TopCo Common | 540,649 | 04/02/2015 | 815,841 | 912,639 | 0.4% |

The following table presents additional information about investments that are measured at fair value on a recurring basis for which the Fund has utilized Level 3 inputs to determine fair value as of October 31, 2015:

| | Leveraged Loans | Common Stock | Preferred Stock |
|---|---|---|---|
| Beginning Balance at October 31, 2014 | $ | $ | $ |
| Purchases | | 1,478,576 | 4,736,869 |
| Transfer in and/or out of Level 3(1) | 308,405 | | |
| Settlements | 53,704 | | |
| Net Change in Appreciation/(Depreciation) | (281,471) | 450,360 | 602,202 |
| Balance as of October 31, 2015 | $ 80,638 | $ 1,928,936 | $ 5,339,071 |
| Net Change in Appreciation/(Depreciation) on Investments held at October 31, 2015 | $ (281,471) | $ 450,360 | $ 602,202 |

(1) During the year ended October 31, 2015, there were transfers into Level 3 because of a lack of observable market data due to a decrease in market activity for these securities. The Fund s policy is to recognize transfers into and out of Level 3 at the beginning of each reporting period.

The following table presents additional information about valuation techniques and inputs used for investments that are measured at fair value and categorized within Level 3 as of October 31, 2015:

| Financial Asset | Fair Value as of October 31, 2015 | Valuation Technique (1) | Unobservable Inputs (2) | Ranges (Weighted Average) (3) |
|---|---|---|---|---|
| Leveraged Loan | $ 80,638 | Yield Analysis | Yield | 113% |
| | | | EBIDTA Multiple | 7.9x |
| | | | Net Leverage | 9.2x |
| | | Liquidation Analysis | N/A | $0 |
| | | Broker Quotes | Offered Quotes | 12.50 -22.50 |
| Common Stock (4) | $ 1,928,936 | Market Comparables | LTM EBIDTA Multiple | 2.0x 8.5x(5.1x) |
| | | | Fwd EBIDTA Multiple | 8.6x-10.8x(9.8.x) |
| | | | Illiquidity Discount | 10%-10%(10%) |
| | | Discounted Cash Flow | WACC | 12% |
| | | | Exit Multiple LTM EBIDTA | 6.5x |
| | | | Illiquidity Discount | 10% |
| Preferred Stock | $ 5,339,071 | Market Comparables | LTM EBIDTA Multiple | 2.0x |
| | | | Fwd EBIDTA Multiple | 10.8x |
| | | | Illiquity Discount | 10% |

(1) For the assets that have more than one valuation technique, the Fund may rely on the techniques individually or in aggregate based on a weight ascribed to each one ranging from 0-100%. When determining the weighting ascribed to each valuation methodology, the Fund considers, among other factors, the availability of direct market comparables, the applicability of a discounted cash flow analysis and the expected hold period and manner of realization for the investment. These factors can result in different weightings among the investments and in certain instances, may result in up to a 100% weighting to a single methodology.

(2) The significant unobservable inputs used in the fair value measurement of the Fund s assets and liabilities may include the last twelve months ( LTM ) EBITDA multiple, weighted average cost of capital, discount margin, probability of default, loss severity and constant prepayment rate. In determining certain of these inputs, management evaluates a variety of factors including economic, industry and market trends and developments; market valuations of comparable companies; and company specific developments including potential exit strategies and realization opportunities. Significant increases or decreases in any of these inputs in isolation could result in significantly lower or higher fair value measurement.

(3) Weighted average amounts are based on the estimated fair values.

(4) Of the $1,928,936, $1,009,214 was valued solely using a market comparables technique.

## 6. Derivatives

As of and for the year ended October 31, 2015, the Fund had the following derivatives and transactions in derivatives, grouped in the following risk categories:

| Statement of Assets and Liabilities Location | Derivative Assets | Derivative Liabilities |
|---|---|---|
| Unrealized appreciation/(depreciation) on forward foreign currency contracts | $ 43,212 | $ (242,564) |
| | $ 43,212 | $ (242,564) |

| Statement of Operations Location | Net Realized Gain | Net Change in Unrealized Appreciation |
|---|---|---|
| Forward foreign currency contracts | $ 1,721,905 | $ (331,169) |
| | $ 1,721,905 | $ (331,169) |

For the year ended October 31, 2015, the total amount of forward foreign currency contracts, as presented in the table below, is representative of the volume of activity for the period.

The list of the open forward foreign currency contracts held by the Fund as of October 31, 2015 is as follows:

| Settlement Date | Currency to Deliver | | Currency to Receive | | Unrealized Appreciation (Depreciation) |
|---|---|---|---|---|---|
| 01/11/2016 | EUR | 1,922,072 | USD | 2,159,806 | $ 43,212 |
| 01/11/2016 | USD | 2,189,313 | EUR | 1,922,072 | (72,719) |
| 01/11/2016 | GBP | 17,475,000 | USD | 26,762,703 | (169,845) |
| | | | | | $ (199,352) |

A summary of the counterparties for the open forward foreign currency contracts held by the Fund at October 31, 2015 is as follows:

| Counterparty | Settlement Date | Currency to Deliver | Currency to Receive | Unrealized Appreciation (Depreciation) |
|---|---|---|---|---|
| JPMorgan Chase & Co. | 01/11/2016 | $ 31,238,456 | $ 31,039,104 | $ (199,352) |

## 7. Shares of Beneficial Interest

Since July 25, 2013 (commencement of operations), there has been no subscriptions, redemptions, or newly issued common shares due to dividends reinvestment.

## 8. Investment Transactions

The cost of investments purchased and the proceeds from the sale of investments, other than short-term investments, for year ended October 31, 2015 were as follows:

| | | |
|---|---|---|
| Purchases | $ | 272,983,763 |
| Sales | | 275,515,576 |

There were no purchases or sales of U.S. Government securities.

## 9. Commitments and Contingencies

As of October 31, 2015, the Fund did not have unfunded financing commitments, including financial guarantees, related to other assets, including investments. In instances when the Fund enters into unfunded financing commitments, the Fund will maintain sufficient liquidity to fund such commitments.

Under the Fund s organizational documents, its officers and Trustees are indemnified against certain liabilities arising out of the performance of their duties to the Fund. In the normal course of business, the Fund enters into contracts that contain a variety of representations and that provide general indemnifications. The Fund s maximum liability exposure under these arrangements is unknown, as future claims that have not yet occurred may be made against the Fund. However, based on experience, management expects the risk of loss to be remote.

## 10. Federal Income Taxes

The timing and characterization of certain income, capital gains, and return of capital distributions are determined annually in accordance with federal tax regulations, which may differ from GAAP. As a result, the net investment income (loss) and net realized gain (loss) on investment transactions for a reporting period may differ significantly from distributions during such period. These book/tax differences may be temporary or permanent in nature. To the extent these differences are permanent, they are charged or credited to paid-in capital, accumulated net investment income/loss or accumulated net realized gain/loss, as appropriate, in the period in which the differences arise.

The following permanent differences have been reclassified (to)/from the following accounts:

| Undistributed Net Investment Income/(Loss) | | Accumulated Net Realized Gain/(Loss) | | Paid-in Capital | |
|---|---|---|---|---|---|
| $ | 1,028,973 | $ | (393,775) | $ | (635,198) |

These reclassifications have no effect on net assets or net assets per share and are related to foreign currency, dividends, and income and return of capital distributions.

The tax character of dividends declared for the years ended October 31, 2015 and 2014, respectively, is as follows:

| | Ordinary Income | Return of Capital | Total |
|---|---|---|---|
| October 31, 2015 | $ 24,520,685 | $ 635,198 | $ 25,155,883 |
| October 31, 2014 | $ 25,369,457 | $ | $ 25,369,457 |

As of October 31, 2015, the components of accumulated gains on a tax basis for the Fund are as follows:

| Undistributed Ordinary Income | Net Unrealized Depreciation | Other Temporary Differences | Total Accumulated Losses |
|---|---|---|---|
| $ | $ (10,905,835) | $ (18,220,169) | $ (29,126,004) |

Net capital losses earned may be carried forward indefinitely and must retain the character of the original loss.

As of October 31, 2015, the total cost of securities for federal income tax purposes and the aggregate gross unrealized appreciation and depreciation for securities held by the Fund are as follows:

| Federal Tax Cost | Aggregate Gross Unrealized Appreciation | Aggregate Gross Unrealized Depreciation | Net Unrealized Appreciation/ (Depreciation) |
|---|---|---|---|
| $ 369,608,670 | $ 10,761,100 | $ (21,666,935) | $ (10,905,835) |

At October 31, 2015, the Fund had non-expiring capital loss carry-forwards of $18,212,093.

## 11. Credit Facility

In July 2014, the Fund entered into a $145.0 million credit agreement that was reduced on July 27, 2015 to $130.0 million (the Maximum Facility Amount ) with The Bank of Nova Scotia expiring on July 25, 2016 (the Credit Facility ). The Credit Facility bears an unused commitment fee on the unused portion of the credit facility (the Unused Facility Amount ) equal to (a) 0.15% on the total Unused Facility Amount if the Unused Facility Amount is lower or equal to 50% of the Maximum Facility Amount or (b) 0.25% on the total Unused Facility Amount if the Unused Facility Amount is in excess of 50% of the Maximum Facility Amount. The per annum rate of interest for borrowing under the Credit Facility is equal to (a) the one-month London Interbank Offered Rate ( LIBOR ) plus 0.750% per annum or (b) the greatest of (i) the Prime Rate, (ii) the Fed Funds rate plus 0.50% per annum, and (iii) the Eurodollar rate plus 1.00% per annum. On October 26, 2015, the ability to draw in certain foreign currencies was added to the credit facility.

As of October 31, 2015, there were $115,500,000 million of borrowings outstanding under the Credit Facility and the Fund is in compliance with the terms of the Credit Facility.

## 12. Offsetting Agreements

Certain derivative contracts are executed under standardized netting agreements. A derivative netting arrangement creates an enforceable right of set-off that becomes effective, and affects the realization of settlement on individual assets, liabilities and collateral amounts, only following a specified event of default or early termination. Default events may include the failure to make payments or deliver securities timely, material adverse changes in financial condition or insolvency, the breach of minimum regulatory capital requirements, or loss of license, charter or other legal authorization necessary to perform under the contract. The Fund may manage counterparty risk by entering into enforceable collateral arrangements with counterparties to securities lending agreements. These agreements mitigate counterparty credit risk by providing for a single net settlement with a counterparty of all financial transactions covered by the agreement in an event of default as defined under such agreement.

The following table presents derivative financial instruments that are subject to enforceable netting arrangements, collateral arrangements or other similar agreements as of October 31, 2015.

| Description | Gross Amounts of Recognized Assets | Gross Amounts Offset In The Statements of Assets And Liabilities | Net Amounts Presented In The Statements of Assets And Liabilities | Financial Instruments | Cash Collateral Received | Net Amount Receivable/ (Payable) * |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Forward foreign currency contracts | $ 43,212 | $ | $ 43,212 | $ | $ | $ 43,212 |
| **Liabilities** | | | | | | |
| Forward foreign currency contracts | $ (242,564) | $ | $ (242,564) | $ | $ | $ (242,564) |
| Total | $ (199,352) | $ | $ (199,352) | $ | $ | $ (199,352) |

* As of October 31, 2015, $2,300,000 of collateral posted by the Fund for forward foreign currency contracts was recorded as restricted cash in the statement of assets and liabilities. In the event of default, the net amount of derivative assets due from JPMorgan Chase & Co. would be $2,100,648.

## 13. Subsequent Events

In preparing these financial statements, the Fund has evaluated events and transactions for potential recognition or disclosure through the date the financial statements were issued. The Fund evaluated subsequent events through the date the financial statements were issued and determined no additional disclosures were necessary.

**Report of Independent Registered Public Accounting Firm**

To the Board of Trustees and Shareholders of

KKR Income Opportunities Fund

We have audited the accompanying statement of assets and liabilities of KKR Income Opportunities Fund (the Fund ), including the schedule of investments, as of October 31, 2015, and the related statements of operations and cash flows for the year then ended, the statements of changes in net assets for each of the two years in the period then ended, and the financial highlights for each of the periods presented. These financial statements and financial highlights are the responsibility of the Fund s management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. The Fund is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund s internal control over financial reporting. Accordingly, we express no such opinion. An audit also 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, as well as evaluating the overall financial statement presentation. Our procedures included confirmation of securities owned as of October 31, 2015, by correspondence with the custodian and brokers; where replies were not received from brokers, we performed other auditing procedures. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of KKR Income Opportunities Fund as of October 31, 2015, and the related statements of operations and cash flows for the year then ended, the statements of changes in 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.

/s/ Deloitte & Touche LLP
San Francisco, CA

December 22, 2015

**Trustees and Officers of KKR Income Opportunities Fund**

| Name, Age and Address | Position(s) Held 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 |
|---|---|---|---|---|---|
| ***Interested Trustees(1)*** | | | | | |
| Suzanne Donohoe (44) KKR Credit Advisors (US) LLC 555 California Street 50th Floor San Francisco, CA 94104 | President | Since July 2013 | Global head of KKR s Client and Partner Group and Member of KKR (Since 2009); Head of Goldman Sachs Asset Management International (2008-2009); Head of Goldman Sachs Asset Management client business in North America (2006-2008). | 1 | None. |
| ***Independent Trustees(1)*** | | | | | |
| Tobin V. Levy (71)<br><br>KKR Credit Advisors (US) LLC 555 California Street 50th Floor San Francisco, CA 94104 | Trustee | Since July 2013 | Executive Vice President & Chief Financial Officer, Local Initiatives Support Corporation (non-profit support and resources) (2011-2014); Managing Director and Chief Financial Officer of Hedge Fund Strategies Group, Goldman Sachs (financial services firm) (1995 - 2008). | 1 | AloStar Bank of Commerce. |
| Jeffrey L. Zlot (44) KKR Credit Advisors (US) LLC 555 California Street 50th Floor San Francisco, CA 94104 | Trustee | Since July 2013 | Managing Director, The Presidio Group LLC (investment consultant and investment banking) (since Dec. 1997). | 1 | None. |
| Michael E. Cahill (64) KKR Credit Advisors (US) LLC 555 California Street 50th Floor San Francisco, CA 94104 | Trustee | Since July 2013 | Executive Vice President (2008-2013) and Managing Director and General Counsel (1991-2013), The TCW Group, Inc. and Trust Company of the West (financial services firm). | 1 | None. |

(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. Ms. Donohoe is an Interested Trustee because she is a Member of KKR, the parent company.

| Name and Age | Position(s) Held with Fund | Term of Office and Length of Service | Principal Occupation(s) During Past Five Years and Other Relevant Experience |
|---|---|---|---|
| ***Principal Officers who are not Trustees*** | | | |
| Roshan Chagan (40) | Treasurer and Chief Financial Officer | Since December 2013 | Treasurer, KKR Credit Advisors (US) LLC (2006 - present) |
| Shannon Horton (39) | Chief Compliance Officer | Since December 2014 | Deputy Chief Compliance Officer, KKR Credit Advisors (US) LLC (2011-present); Chief Compliance Officer, Nelson Capital Management (2010-2011) |
| Nicole J. Macarchuk (45) | Secretary and Vice President | Since July 2013 | General Counsel, KKR Credit Advisors (US) LLC (2010-present); General Counsel and Secretary, KKR Financial Holdings LLC (2010-present); Co-General Counsel, Och-Ziff Capital Management Group LLC (2005 - 2010). |
| Susan R. Eisenberg (33) | Assistant Secretary | Since September 2015 | Counsel, KKR Credit Advisors (US) LLC (April 2015-present); Associate, Ropes & Gray LLP (2007-2015) |

**Dividend Reinvestment Plan (Unaudited)**

Pursuant to the Dividend Reinvestment Plan (the DRIP ), income dividends and/or capital gain distributions to Common Shareholders will automatically be reinvested in additional Common Shares of the Fund by the Plan Administrator. A Common Shareholder may terminate participation in the DRIP at any time by notifying the DRIP Administrator before the record date of the next distribution through the Internet, by telephone or in writing.

1. The Plan Administrator will open an account for each holder of Common Shares under the Plan in the same name in which such holder of Common Shares is registered. Whenever the Fund declares a dividend or other distribution (together, a Dividend ) payable in cash, non-participants in the Plan will receive cash and Participants will receive the equivalent in Common Shares. The Common Shares will be acquired by the Plan Administrator for the Participants accounts, depending upon the circumstances described below, either through (i) receipt of additional unissued but authorized Common Shares from the Fund ( Newly Issued Common Shares ) or (ii) by purchase of outstanding Common Shares on the open market ( Open-Market Purchases ) on the New York Stock Exchange or elsewhere.

2. If, on the payment date for any Dividend, the closing market price plus estimated per share fees (which include any brokerage commissions the Plan Administrator is required to pay) is equal to or greater than the net asset value ( NAV ) per Common Share, the Plan Administrator will invest the Dividend amount in Newly Issued Common Shares on behalf of the Participants. The number of Newly Issued Common Shares to be credited to each Participant s account will be determined by dividing the dollar amount of the Dividend by the NAV per Common Share on the payment date; provided that, if the NAV is less than or equal to 95% of the closing market value on the payment date, the dollar amount of the Dividend will be divided by 95% of the closing market price per Common Share on the payment date. If, on the payment date for any Dividend, the NAV per Common Share is greater than the closing market value plus per share fees, the Plan Administrator will invest the Dividend amount in Common Shares acquired on behalf of the Participants in Open-Market Purchases. In the event of a market discount on the payment date for any Dividend, the Plan Administrator will have until the last business day before the next date on which the Common Shares trade on an ex-dividend basis or 30 days after the payment date for such Dividend, whichever is sooner (the Last Purchase Date ), to invest the Dividend amount in Common Shares acquired in Open-Market Purchases. It is contemplated that the Fund will pay monthly income Dividends. Therefore, the period during which Open-Market Purchases can be made will exist only from the payment date of each Dividend through the date before the next ex-dividend date which typically will be approximately ten days. If, before the Plan Administrator has completed its Open-Market Purchases, the market price per Common Share exceeds the NAV per Common Share, the average per Common Share purchase price paid by the Plan Administrator may exceed the NAV of the Common Shares, resulting in the acquisition of fewer Common Shares than if the Dividend had been paid in Newly Issued Common Shares on the Dividend payment date. Because of the foregoing difficulty with respect to Open-Market Purchases, the Plan provides that if the Plan Administrator is unable to invest the full Dividend 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 Administrator may cease making Open-Market Purchases and may invest the uninvested portion of the Dividend amount in Newly Issued Common Shares at the NAV per Common Share at the close of business on the Last Purchase Date provided that, if the NAV is less than or equal to 95% of the then current market price per Common Share; the dollar amount of the Dividend will be divided by 95% of the market price on the payment date.

3. The Plan Administrator maintains all Participants accounts in the Plan and furnishes written confirmation of all transactions in the accounts, including information needed by Participants for tax records. Common Shares in the account of each Participant will be held by the Plan Administrator on behalf of the Participant, and each shareholder proxy will include those shares purchased or received pursuant to the Plan. The Plan Administrator will forward all proxy solicitation materials to Participants and vote proxies for Common Shares held under the Plan in accordance with the instructions of the Participants.

4. In the case of shareholders such as banks, brokers or nominees which hold shares for others who are the beneficial owners, the Plan Administrator will administer the Plan on the basis of the number of Common Shares certified from time to time by the record shareholder s name and held for the account of beneficial owners who participate in the Plan.

5. There will be no charges with respect to Common Shares issued directly by the Fund. However, each Participant will pay a per Common Share fee incurred in connection with Open Market Purchases. The automatic reinvestment of Dividends will not relieve Participants of any Federal, state or local income tax that may be payable (or required to be withheld) on such dividend. Participants that request a sale of Common Shares through the Plan Administrator will be subject to a sales fee for Common Share sold. All per Common Share fees include any applicable brokerage commissions the Plan Administrator is required to pay.

6. The Fund reserves the right to amend or terminate the Plan. There is no direct service charge to Participants with regard to purchases in the Plan; however, the Fund reserves the right to amend the Plan to include a service charge payable by the Participants.

7. All correspondence or questions concerning the Plan should be directed to the Plan Administrator, U.S. Bancorp Fund Services, LLC, in writing to 615 East Michigan Street, Milwaukee, Wisconsin 53202.

**Additional Information**

FEDERAL TAX INFORMATION (Unaudited)

For the fiscal year ended October 31, 2015, certain dividends paid by the Fund may be subject to a maximum rate of 20%, as provided for by the Jobs and Growth Tax Relief Reconciliation Act of 2003. The percentage of dividends declared from ordinary income designated as qualified dividend income was 2.40%.

For corporate shareholders, the percent of ordinary income distributions qualifying for corporate dividends received deduction for the fiscal year ended October 31, 2015 was 2.40%.

The percentage of taxable ordinary income distributions that are designated as short-term capital gain distributions under Internal Revenue Section 871 (k)(2)(C) for fiscal year ended October 31, 2015 was 5.94%.

The percentage of taxable ordinary income distributions that are designated as interest related dividends under Internal Revenue Section 871 (k)(1)(C) for fiscal year ended October 31, 2015 was 89.38%.

Pursuant to Section 853 of the Internal Revenue Code, the Fund did not designate any amounts as foreign taxes paid for the period ended October 31, 2015. Foreign taxes paid for purposes of Section 853 may be less than actual foreign taxes paid for financial statement purposes.

**Approval of Investment Advisory Agreement**

**Background**

At a meeting of the Board of KKR Income Opportunities Fund (the Fund ) held on June 25, 2015 (the Meeting ), the members of the Board, including the Trustees who are not interested persons of the Fund (the Independent Trustees ), as defined in the Investment Company Act of 1940, as amended, considered and unanimously approved the continuance of the investment advisory agreement (the Investment Advisory Agreement ) between KKR Credit Advisors (US) LLC (the Adviser ) and the Fund.

Prior to the Meeting, the Independent Trustees received a memorandum from their independent legal counsel concerning the duties and responsibilities of board members in considering approval of the Investment Advisory Agreement. The Board had also received and considered materials it deemed reasonably necessary for its review of the Investment Advisory Agreement, including materials prepared by the Adviser and reports prepared by the Adviser and a third party service provider comparing fee, expense and performance information to a collection of registered closed-end funds believed by the Adviser to have comparable investment objectives and strategies as well as to registered closed-end funds in the same or similar Morningstar peer group as the Fund (the Peer Funds ).

The Independent Trustees discussed with management and separately with their independent legal counsel the materials provided by management prior to the scheduled board meeting.

In its consideration of the approval of the Investment Advisory Agreement, the Board considered various factors, including the following:

**Nature, Extent and Quality of Services**

In considering the nature, extent and quality of services provided by the Adviser, the Board relied on their ongoing experience as Trustees of the Fund as well as on the materials provided at and prior to the Meeting. The Board reviewed and considered the nature and extent of the investment advisory services provided by the Adviser under the Investment Advisory Agreement, including portfolio management, investment research and overseeing portfolio transactions. The Board noted that the Adviser provides the Fund with necessary offices, facilities and equipment. It was further noted that the Adviser coordinates and oversees the provision of services provided to the Fund by other service providers.

The Board reviewed and considered the qualifications, background and experience of the portfolio managers and other key personnel of the Adviser who provide advisory and non-advisory services to the Fund. They also considered the resources, operations and practices of the Adviser both generally and in managing the Fund s portfolio. The Board noted the Adviser s extensive experience in managing portfolios of loans and fixed income securities, knowledge of loan and fixed income markets, and analytical and risk management capabilities. The Board determined that the nature and extent of services provided by the Adviser to the Fund were appropriate and that the Fund should continue to benefit from the nature, extent and quality of these services as a result of the Adviser s experience, personnel, operations and resources.

**Performance, Fees and Expenses of the Fund**

The Board noted that the Fund had been in operation for approximately two years and considered the performance of the Fund under the management of the Adviser on an absolute basis and in comparison to the Peer Funds. The Board noted that the Fund, on a market and net asset value basis, outperformed the performance of a group of Peer Funds that the Adviser believed had similar investment characteristics to those of the Fund. The Board also considered the Adviser s rationale for including certain funds among the Peer Funds for purposes of comparison, as well as the reasons why the Adviser believes its Morningstar peer group is an imprecise comparison. The Adviser also discussed with the Board the key contributors and detractors to the Fund s performance during the period. The Board then discussed with the Adviser the Fund s fees and expenses relative to comparable Peer Funds and other accounts advised by the Adviser. The Board noted that the Fund s advisory fee is generally less than the fees charged by the Adviser or its affiliates to other clients for which it provides comparable services or uses overlapping portfolio management team members. The Board further noted that the Fund s advisory fee was higher than the average of its peer groups, but was generally in line with the advisory fees charged by funds with similar investment characteristics that commenced operations around the same time as the Fund. The Board also took into account the impact of leverage on the advisory fee paid by the Fund. In addition to the advisory fee, the Board also reviewed the Fund s total expense ratio. Following its review, in light of the extent and high quality of services that the Fund receives, the Board determined that the Fund s performance under the management of the Adviser was satisfactory and that the Fund s fees and expenses were reasonable.

**Economies of Scale**

The Board considered the size and growth prospects of the Fund and how it relates to the structure of the Fund s advisory fee schedule, which does not include breakpoints. The Board considered that the Fund is a closed-end fund and thus not expected to have regular inflows of capital and that growth would only be achieved through market appreciation or new issuances (*e.g.*, rights offerings). The Board concluded that economies of scale for the Fund were not a factor that needed to be considered at this time.

**Profitability of the Adviser and Affiliates**

The Board considered the profitability to the Adviser of its relationship with the Fund. The Board had been provided information concerning costs incurred and profits realized by the Adviser under the Investment Advisory Agreement. The Adviser discussed its cost allocation methodology and the reasons why the Adviser believed it to be reasonable. The Board also examined the level of profits that could be expected to accrue to the Adviser from the fees payable under the Investment Advisory Agreement. After discussion and analysis, the Board concluded that the profitability was in no case such as to render the advisory fee excessive.

**Other Benefits of the Relationship**

The Board considered other benefits to the Adviser and its affiliates derived from their relationship with the Fund. Based on information provided by and discussions with the Adviser, the Board concluded that these benefits did not appear to be material at the present time.

**Resources of the Adviser and Relationship with the Fund**

The Board considered the financial circumstances of the Adviser and whether the Adviser has the resources necessary to perform its obligations under the Investment Advisory Agreement. The Board also reviewed and considered the relationship between the Fund and the Adviser, including the policies and procedures formulated and adopted by the Adviser for managing the Fund s operations and the Board s confidence in the competence and integrity of senior managers and key personnel of the Adviser. The Board concluded that the Adviser has the financial resources necessary to fulfill its obligations under the Investment Advisory Agreement and that it is beneficial for the Fund to continue its relationship with the Adviser.

**Other Factors**

The Board considered the controls and procedures adopted and implemented by the Adviser and monitored by the Fund s Chief Compliance Officer and concluded that the conduct of business by the Adviser indicates a good faith effort on its part to adhere to high ethical standards in the conduct of the Fund s business.

**General Conclusion**

After considering and weighing all of the above factors, the Board concluded that the advisory fee was reasonable in light of the services provided by the Adviser and it would be in the best interests of the Fund and its shareholders to approve renewal of the Investment Advisory Agreement for another year. In reaching this conclusion the Board did not give particular weight to any single factor referenced above. The Board considered these factors over the course of numerous meetings, some of which were in executive session with only the Independent Trustees and their counsel present. It is possible that individual Board members may have weighed these factors differently in reaching their individual decisions to approve the Investment Advisory Agreement.

**PRIVACY NOTICE**

**PROTECTION AND SECURITY OF YOUR PERSONAL INFORMATION**

KKR Credit Advisors US LLC ( KKR Credit Advisors (US) ) respects our investors right to privacy. All financial companies choose how they share personal information. Consumers have the right under U.S. federal law to limit some, but not all, sharing of personal information. U.S. federal law also requires us to inform you how we collect, share and protect your personal information. Investors may also have additional limiting rights under their respective State s law. This notice is provided by KKR Credit Advisors (US), and it affiliates. Please read this notice carefully to understand what we do, and call us at (415) 315-3620 if you have any questions.

**<u>The Personal Information We Collect and How We Collect It</u>**

We collect the following types of personal information about individuals who are our investors:

- Information we receive from investors in subscription agreements, questionnaires and in other forms, such as name, address, account information, social security number, the types and amounts of investments, statements of net worth, telephone number, and other contact information;

- Information we receive from investors, affiliates and other companies about investors transactions with us, our affiliates, or other financial institutions with which we have relationships; and

- Information we receive from third parties such as demographic information and information collected to comply with law and regulation.

When you are no longer an investor with us, we continue to share your information as described in this notice.

**<u>How and Why We Share Personal Information</u>**

This section lists reasons why financial companies can share their customers personal information. With respect to each reason, we explain whether KKR Credit Advisors (US) chooses to share for this reason and, if we do share, whether you can limit this sharing.

- **For everyday business purposes:** KKR Credit Advisors (US) shares personal information for everyday business purposes, such as to

- process your transactions;
- provide financial products or services to you;
- maintain your investment(s);
- secure business services, including printing, mailing, and processing or analyzing data;
- secure professional services, including accounting and legal services; or
- respond to court orders and legal investigations.
- You cannot limit sharing by KKR Credit Advisors (US) for everyday business purposes.

- **For our marketing purposes:** KKR Credit Advisors (US) shares personal information for our marketing purposes so that we can offer products and services to you. You cannot limit sharing by KKR Credit Advisors (US) for this reason.

- **For joint marketing with other financial companies:** KKR Credit Advisors (US) does not share personal information for joint marketing with other financial companies.

- **For use by affiliates in providing products and services to you:** KKR Credit Advisors (US) shares personal information for our affiliates use in providing you with products and services that meet your financial services needs. You cannot limit sharing by KAM for this reason.

- **For the everyday business purposes of affiliates:** KKR Credit Advisors (US) does not share personal information, including information about your credit worthiness, with our affiliates for their everyday business purposes.

- **For use by affiliates to market to you:** KKR Credit Advisors (US) does not share personal information with affiliates so that they can market to you..

- **For use by non-affiliates to market to you:** KKR Credit Advisors (US) does not share personal information with non-affiliates so that they can market to you.

U.S. Federal law gives you the right to limit sharing of your personal information only for use (i) by affiliates everyday business purposes (information about your creditworthiness), (ii) by affiliates to market to you, and (iii) by non-affiliates to market to you. U.S. State laws and individual companies may give you additional rights to limit sharing.

**How We Protect Your Personal Information**

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.

**Definitions**

**Affiliates:** Companies related by common ownership or control. They can be financial and nonfinancial companies. KKR Credit Advisors (US) does not share with our affiliates, except to provide you products and services that meet your financial needs.

**Non-affiliates:** Companies not related by common ownership or control. They can be financial and nonfinancial companies. KKR Credit Advisors (US) does not share with non-affiliates so they can market to you.

**Joint Marketing:** A formal agreement between nonaffiliated financial companies that together market financial products and services to you. KKR Credit Advisors (US) does not jointly market.

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**Item 2. Code of Ethics.**

(a) The registrant has adopted a code of ethics that applies to the registrant s principal executive officer, principal financial officer and principal accounting officer.

**Item 3. Audit Committee Financial Expert.**

(a)(1) The registrant s board of trustees has determined that there is at least one audit committee financial expert serving on its audit committee.

(a)(2) Tobin V. Levy is the audit committee financial expert and is considered to be independent as each term is defined in Item 3 of Form N-CSR.

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

Deloitte & Touche LLP billed the Fund aggregate fees for services rendered to the Fund for the fiscal years as follows:

| | FYE 10/31/2015 | FYE 10/31/2014 |
|---|---|---|
| (a)Audit Fees | $ 45,000 | $ 45,000 |
| (b)Audit-Related Fees | N/A | N/A |
| (c)Tax Fees | $ 9,920 | $ 9,920 |
| (d)All Other Fees | N/A | N/A |

(e)(1) The Audit Committee pre-approves, to the extent required by applicable regulations (including paragraph (c)(7) of Rule 2-01 of Regulation S-X), (i) all audit and permitted non-audit services rendered by the independent accountants to the registrant and (ii) all non-audit services rendered by the independent accountants to the registrant s investment adviser and to certain affiliates of the investment adviser.

(e)(2) The percentage of fees billed by Deloitte & Touche LLP applicable to non-audit services pursuant to waiver of pre-approval requirement were as follows:

| | FYE 10/31/2015 | FYE 10/31/2014 |
|---|---|---|
| Audit-Related Fees | N/A | N/A |
| Tax Fees | 0% | 0% |
| All Other Fees | N/A | N/A |

(f) Not applicable.

(g) The aggregate non-audit fees and services billed by Deloitte & Touche LLP for the fiscal periods were $9,920 and $9,920, respectively.

(h) Not applicable.

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

(a) 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. This standing audit committee is comprised of Mr. Tobin V. Levy, Mr. Jeffrey L. Zlot and Mr. Michael E. Cahill.

**Item 6. Investments.**

(a) Schedule of Investments is included as part of the report to shareholders filed under Item 1 of this Form.

(b) Not applicable.

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

The registrant s proxy voting and corporate actions policy and procedures are as follows:

**PROXY VOTING AND CORPORATE ACTIONS POLICY AND PROCEDURES**

## A. General

This policy is designed to ensure that the fund registered under the Investment Company Act of 1940, as amended (the **1940 Act** ), (the **Fund** ) advised by KKR Credit Advisors (US) LLC (the **Adviser** ) fulfills the Fund s obligations and complies with the requirements under the 1940 Act, the Securities Act of 1933, as amended (the **Securities Act** ), and the Securities Exchange Act of 1934, as amended (the **Exchange Act** ), with respect to proxy voting, disclosure, and recordkeeping. This policy is also designed to ensure that all corporate actions are voted in the best interest of the Fund, to provide disclosure of the Fund s corporate action voting record and to ensure that certain documentation is retained.

Pursuant to delegation by each, the Adviser has authority to make proxy and corporate action decisions on behalf of the Fund. The Adviser s objective is to ensure that its proxy voting and corporate action activities on behalf of the Fund are conducted in a manner consistent, under all circumstances, with the best interest of the Fund.

**B. Proxy Voting Policies**

The Adviser s Proxy Voting Policies are contained in the Adviser s Proxy Voting Policies and Procedures as of August 2012 (the **Proxy Voting Policies** )

**C. Proxy and Corporate Action Voting Procedures**

The Adviser will have the responsibility of voting proxies and corporate actions that it receives on behalf of the Funds. Proxy proposals received by the Adviser and designated in the Proxy Voting Policies as For or Against will be voted by the Adviser in accordance with the Proxy Voting Policies. Proxy proposals received by the Adviser and designated in the Proxy Voting Policies as Case by Case (or not addressed in the Proxy Voting Policies) and all corporate actions will be reviewed by the Adviser, and voted in the best interests of the Fund. In accordance with Rule 204-2 of the Investment Advisers Act of 1940, as amended, with respect to Case by Case issues, the Adviser will document the basis for the Adviser s voting decisions with the assistance of the analyst who is in charge of the issuer.

Notwithstanding the foregoing, the Adviser may vote a proxy contrary to the Proxy Voting Policies if the Adviser with the assistance of the analyst who is in charge of the issuer determines that such action is in the best interest of the Fund. In the event that the Adviser votes contrary to the Proxy Voting Policies, the Adviser with the assistance of the analyst who is in charge of the issuer will document the basis for the Adviser s contrary voting decision.

In addition, the Adviser may choose not to vote proxies or corporate actions in certain situations, such as (i) where the Fund have informed the Adviser that it wishes to retain the right to vote the proxy or corporate action, (ii) where the Adviser deems the cost of voting would exceed any anticipated benefit to the Fund or (iii) where a proxy or corporate action is received by the Adviser for a security it no longer manages on behalf of the Fund. The Adviser with the assistance of the analyst who is in charge of the issuer will document the basis for the Adviser s decision not to vote.

The Adviser has developed procedures for handling the receipt and voting of the Fund s proxies and corporate actions.

## D. Conflicts of Interest

The Adviser may occasionally be subject to conflicts of interest in the voting of proxies due to business or personal relationships it maintains with persons having an interest in the outcome of certain votes. The Adviser, its affiliates and/or its employees may also occasionally have business or personal relationships with the proponents of proxy proposals, participants in proxy contests, corporate directors and officers or candidates for directorships.

If at any time, the Adviser becomes aware of an existing or potential conflict of interest relating to a particular proxy proposal, the Adviser s Conflicts Committee ( Conflicts Committee ), or its designee, must be notified. Provided the Conflicts Committee has determined that a conflict or potential for a conflict exists, the proxy must be voted in alignment with the recommendation set forth by ISS. Appropriate documentation will be maintained by the Conflicts Committee.

## E. Proxy and Corporate Action Voting Records

In accordance with Rule 204-2, the Adviser will maintain the following records in connection with the Adviser s proxy voting policies and procedures:

- a copy of the proxy voting policies and procedures;

- a copy of all proxy statements received regarding securities of the Fund;

- a record of each vote the Adviser casts on behalf of the Fund;

- records of shareholders of the Fund requests for proxy voting information, including a copy of each written request for information on how the Adviser voted proxies on behalf of the Fund, and a copy of any written response by the

Adviser to any Fund shareholder request for information on how the Adviser voted proxies on behalf of the Fund; and

- any documentation prepared by the Adviser that was material to making a decision on how to vote, or that memorialized the basis for the voting decision.

The Adviser will also maintain similar records in connection with corporate actions.

The foregoing records will be maintained and preserved for a total of seven (7) years, the first two (2) years in the Adviser s office.

**F. Changes to the Proxy Voting Rules**

Changes may be made by the Adviser to the proxy rules as long as such changes are not expected to materially adversely affect the Fund. Upon a material change, the Fund will be made aware of such material change to the proxy rules and the reasons for the change.

**G. Disclosure**

The Adviser will provide all the information necessary for the Fund to make the required disclosures regarding proxy voting in its Statement of Additional Information, as well as on SEC Forms N-CSR and N-PX. In addition, information regarding how the Fund s proxies and corporate actions were voted by the Adviser will be provided to shareholders of the Fund upon their written request.

The proxy voting and corporate actions policy and procedures used by the registrant s investment adviser, which are incorporated by reference into the registrant s proxy voting and corporate actions policy and procedures, are as follows:

**PROXY VOTING AND CORPORATE ACTIONS POLICY AND PROCEDURES**

**A. General**

KKR Credit Advisors (US) LLC ( KKR Credit Advisors (US) or the Firm ) provides investment advisory services to its Client, and invests the assets of these Clients in securities issued by public and private issuers. The Firm has authority to vote proxies relating to such securities on behalf of its Clients. The Securities and Exchange Commission (the SEC ) has adopted Rule 206(4)-6 under the Investment Advisers Act of 1940, as amended (the Advisers Act ). Under this rule, registered investment advisers that exercise voting authority over securities held in client portfolios are required to implement proxy voting policies and describe those policies to their clients.

This policy is designed to ensure that all proxies are voted in the best interest of KKR Credit Advisors (US) Clients, to provide disclosure of the Firm s proxy voting records and to ensure that certain documentation is retained.

## B. Proxy Voting Procedures

To assist it in its proxy-voting responsibilities, the Firm currently subscribes to proxy-related services offered by Institutional Shareholder Services, Inc. ( ISS ). ISS provides the Firm with its independent analysis and recommendation with respect to generally all proxy proposals that the Firm votes on behalf of its clients, with respect to both U.S. and non-U.S. securities of publicly traded companies.

KKR Credit Advisors (US) will have the responsibility of voting proxies that it receives on behalf of its Clients. The Firm has engaged ISS to assist with its proxy voting, however, the Firm retains ultimate voting discretion with respect to its Clients. KKR Credit Advisors (US) may depart from an ISS recommendation in order to avoid voting decisions believed to be contrary to the best interests of its Clients. In each instance where the Firm votes contrary to the ISS recommendation, KKR Credit Advisors (US) Legal/Compliance, in conjunction with the Firm s investment analyst who provides coverage for the relevant issuer, will document the basis for its contrary voting decision.

In addition, KKR Credit Advisors (US) may choose not to vote proxies in certain situations, such as where the Firm has deemed the cost of voting would exceed any anticipated benefit to KKR Credit Advisors (US) Clients or where a proxy is received by the Firm for a security it no longer manages on behalf of its Clients. KKR Credit Advisors (US) Legal/Compliance, in conjunction with the Firm s investment analyst who provides coverage for the relevant issuer, will document the basis for the Firm s decision not to vote.

### C. Conflicts of Interest

KKR Credit Advisors (US) may occasionally be subject to conflicts of interest in the voting of proxies due to business or personal relationships it maintains with persons having an interest in the outcome of certain votes. KKR Credit Advisors (US), its affiliates and/or its employees may also occasionally have business or personal relationships with the proponents of proxy proposals, participants in proxy contests, corporate directors and officers or candidates for directorships.

If at any time, the Firm becomes aware of an existing or potential conflict of interest relating to a particular proxy proposal, the KKR Credit Advisors (US) Conflicts Committee ( Conflicts Committee ), or its designee, must be notified. Provided the Conflicts Committee has determined that a conflict or potential for a conflict exists, the proxy must be voted in alignment with the recommendation set forth by ISS. Appropriate documentation will be maintained by the Conflicts Committee.

### D. Proxy Voting Records

In accordance with Rule 204-2 of the Advisers Act, the Firm will maintain the following records in connection with KKR Credit Advisors (US) s proxy voting policies and procedures:

- a copy of the proxy voting policies and procedures;
- a copy of all proxy statements received regarding securities of its Clients;
- a record of each vote KKR Credit Advisors (US) casts on behalf of Firm Clients;

- records of KKR Credit Advisors (US) Client requests for proxy voting information, including a copy of each written request for information on how the Firm voted proxies on behalf of the Client, and a copy of any written response by KKR Credit Advisors (US) to any Client request for information on how the Firm voted proxies on its behalf; and

- any documentation prepared by KKR Credit Advisors (US) that was material to making a decision on how to vote, or that memorialized the basis for the voting decision.

The foregoing records will be maintained and preserved in accordance with KKR Credit Advisors (US) s Maintenance of Books and Records Policy.

**E. Disclosure**

KKR Credit Advisors (US) discloses in its Form ADV Part 2A that Clients and Investors may contact the Firm in order to obtain information on how the Firm voted Client proxies and to request a copy of the Proxy Voting Policies and Procedures. Any such request will be forwarded to KKR Credit Advisors (US) Legal/Compliance. Questions relating to proxy voting should be directed to KKR Credit Advisors (US) s CCO, or designee.

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

**Information presented is as of October 31, 2015**

**(a)(1) Investment Team**

The Fund is positioned, under the management of the Adviser, to take advantage of the full resources of KKR s global network. With approximately 220 employees in its business, including approximately 90 dedicated investment professionals located in San Francisco, New York, London, Dublin, Singapore and Sydney, the Adviser s investment teams seek to leverage KKR s private equity experience and extensive industry relationships in making strong investment choices on behalf of its clients. The investment professionals of the Adviser who have primary responsibility for day-to-day management and oversight of the Fund are:

**Erik A. Falk** (New York) joined KKR in 2008 and is the Global Head of Private Credit. Mr. Falk is a member of KKR Credit Advisors (US) s Leveraged Credit and Global Private Credit Investment Committees as well as the Portfolio Management Group. Mr. Falk is currently on the boards of director of the LSTA, Corporate Capital Trust and Home Partners of America. Prior to joining KKR, Mr. Falk was a Managing Director at Deutsche Bank Securities Inc. where he was most recently the Global Co-Head of the Securitized Products Group. In addition to leadership positions in recruiting and sitting on the boards of several of the bank s companies, Mr. Falk was a member of the global markets North American management committee and a member of the complex transactions underwriting committee for the bank. Mr. Falk also co-ran a global group focused on principal investing, bond underwriting, direct lending and advisory business in credit and structured credit products. He was also the global head of the special situations group where he launched a global principal finance business focused on value trading and investing based on financial and asset valuation in both distressed and performing situations. Prior to that, Mr. Falk worked for Credit Suisse First

Boston where he was a Director in the Asset Backed Securities department. Mr. Falk holds a B.S. and an M.S. from Stanford University.

**Christopher A. Sheldon** (San Francisco) joined KKR in 2004 and is the Head of U.S. Leveraged Credit. Mr. Sheldon is a member of the U.S. Leveraged Credit and Global Private Credit Investment Committees as well as the Portfolio Management Committee. Prior to his current role at KKR Credit, Mr. Sheldon was responsible for opening KKR Credit s London office in 2007 and investing across a number of sectors within its credit businesses. Prior to joining KKR, Mr. Sheldon was a Vice President and Senior Investment Analyst with Wells Fargo s High Yield Securities Group, and previously worked at Young &

Rubicam Advertising and at SFM Media Corporation in their media-planning department. Mr. Sheldon received a B.A. from Denison University. Mr. Sheldon currently serves as a member of the board of directors of SquashDrive, a member of the National Urban Squash and Education Association.

**Jamie M. Weinstein** (San Francisco) joined KKR in 2005 and is the Global Co-Head of Special Situations. Mr. Weinstein is a member of KKR Credit Advisors (US) s Special Situations Investment Committees as well as the Portfolio Management Group. Previously, he was a portfolio manager with responsibility across KKR Credit strategies. He also has extensive experience as a research analyst managing the Financial Services, Healthcare and Commercial Real Estate Sectors. Prior to joining KKR, Mr. Weinstein was with Tishman Speyer Properties as Director of Acquisitions for Northern California and The Boston Consulting Group as a strategy consultant. Mr. Weinstein received a B.S.E. degree cum laude in Civil Engineering and Operations Research from Princeton University and an M.B.A. from the Stanford University Graduate School of Business, where he was an Arjay Miller Scholar. Mr. Weinstein serves as a Trustee of the Contemporary Jewish Museum in San Francisco and is actively involved in the Jewish Community Federation of San Francisco on its Endowment Investment Committee and Capital Planning Committee.

**Nathaniel M. Zilkha** (London) joined KKR in 2007 and serves as the Co-Head of KKR Credit and the Global Co-Head of Special Situations. As the Co-Head of KKR Credit, Mr. Zilkha works closely with the credit portfolio teams to help drive investment performance, strategy, business development and coordination across the platform. He is also a member of KKR Credit Advisors (US) s Global Private Credit and Special Situations Investment Committees as well as the Portfolio Management Group. Mr. Zilkha also spent time as a member of the Healthcare private equity team in KKR s Menlo Park office. Prior to joining KKR, Mr. Zilkha was a member of the Principal Investment Area of Goldman, Sachs & Co., where he invested in private equity and principal debt transactions. He is currently on the board of directors of Harden Healthcare and QMH Limited. He was formerly on the boards of Oriental Brewery and Jazz Pharmaceuticals. Mr. Zilkha graduated cum laude from Princeton University.

**(a)(2) Other Accounts Managed by the Portfolio Managers**

The portfolio managers primarily responsible for the day-to-day management of the Fund also manage other registered investment companies, other pooled investment vehicles and other accounts, as indicated below. The following table identifies, as of October 31, 2015: (i) the number of registered investment companies, pooled investment vehicles and other accounts managed by each portfolio manager; and (ii) the total assets of such companies, vehicles and accounts, and the number and total assets of such companies, vehicles and accounts with respect to which the advisory fee is based on performance.

**Erik A. Falk**

| | Number of Accounts | | Assets of Accounts | Number of Accounts Subject to a Performance Fee | | Assets Subject to a Performance Fee |
|---|---|---|---|---|---|---|
| Registered Investment Companies | 1 | $ | 376,503,798 | 0 | $ | 0 |
| Pooled Investment Vehicles Other Than Registered Investment Companies * | 0 | $ | 0 | 1 | $ | 1,539,800,000 |
| Other Accounts * | 17 | $ | 9,146,400,000 | 1 | $ | 103,000,000 |

**Christopher A. Sheldon**

| | Number of Accounts | | Assets of Accounts | Number of Accounts Subject to a Performance Fee | | Assets Subject to a Performance Fee |
|---|---|---|---|---|---|---|
| Registered Investment Companies | 1 | $ | 376,503,798 | 0 | $ | 0 |
| Pooled Investment Vehicles Other Than Registered Investment Companies * | 0 | $ | 0 | 1 | $ | 1,539,800,000 |
| Other Accounts * | 17 | $ | 9,146,400,000 | 1 | $ | 103,000,000 |

**Jamie M. Weinstein**

| | Number of Accounts | | Assets of Accounts | Number of Accounts Subject to a Performance Fee | | Assets Subject to a Performance Fee |
|---|---|---|---|---|---|---|
| Registered Investment Companies | 0 | $ | 0 | 0 | $ | 0 |
| Pooled Investment Vehicles Other Than Registered Investment Companies * | 4 | $ | 2,410,100,000 | 2 | $ | 130,500,000 |
| Other Accounts * | 9 | $ | 1,739,500,000 | 0 | $ | 0 |

**Nathaniel M. Zilkha**

| | Number of Accounts | | Assets of Accounts | Number of Accounts Subject to a Performance Fee | | Assets Subject to a Performance Fee |
|---|---|---|---|---|---|---|
| Registered Investment Companies | 0 | $ | 0 | 0 | $ | 0 |
| Pooled Investment Vehicles Other Than Registered Investment Companies * | 4 | $ | 2,410,100,000 | 2 | $ | 130,500,000 |
| Other Accounts * | 9 | $ | 1,739,500,000 | 0 | $ | 0 |

*Information is as of October 31, 2015.

**(a)(2)(iv) Conflicts Of Interest**

The Adviser will experience conflicts of interest in connection with the management of the Fund, including, but not limited to, the following:

- The members, officers and other personnel of the Adviser allocate their time, resources and other services between the Fund and other investment and business activities in which they may be involved. The Adviser intends to devote such time as shall be necessary to conduct the Fund s business affairs in an appropriate manner. However, the Adviser will continue to devote the time, resources and other services necessary to managing its other investment and business activities and the Adviser is not precluded from conducting activities unrelated to the Fund.

- The Adviser may compete with certain of its affiliates, including other entities it manages, for investments for the Fund, subjecting the Adviser to certain conflicts of interest in evaluating the suitability of investment opportunities and making or recommending acquisitions on the Fund s behalf. The Adviser will receive advisory and other fees from the other entities it manages, and due to fee-offset provisions contained in the management agreements for such entities, the fees may not be proportionate to such entities investment accounts for any given transaction and the Adviser may have an incentive to favor entities from which it receives higher fees. The Adviser intends to allocate such investment opportunities in a manner that it deems appropriate taking into account factors such as investment objectives, available capital, applicable concentration limits, minimum investment rights and other investment restrictions, portfolio diversification, the potential dilutive effect of a new investment on an existing investment, the overall risk profile of a portfolio and other considerations deemed relevant by the Adviser. The outcome of this determination may result in the allocation of all, some or none of an investment opportunity to the Fund. In addition, subject to applicable law, affiliates of the Adviser may invest in one of the Fund s portfolio companies and hold a different class of securities than the Fund. To the extent that an affiliate of the Adviser holds a different class of securities than the Fund, its interests may not be aligned with the Fund s. Notwithstanding the foregoing, the Adviser will act in the best interest of the Fund in accordance with its fiduciary duty to the Fund.

- The compensation payable by the Fund to the Adviser will be approved by the Board consistent with the exercise of the requisite standard of care applicable to trustees under state law. Such compensation is payable, in most cases, regardless of the quality of the assets acquired, the services provided to the Fund or whether the Fund makes distributions to Shareholders.

- The Adviser and its affiliates may provide a broad range of financial services to companies in which the Fund invests, in compliance with applicable law, and will generally be paid fees for such services. In addition, affiliates of the Adviser may act as an underwriter, arranger or placement agent or in another manner in connection with an offering of securities by one of the companies in the Fund s portfolio. Any compensation received by the Adviser and its affiliates for providing these services will not be shared with the Fund and may be received before the Fund realizes a return on its investment. The Adviser may face conflicts of interest with respect to services performed for these companies, on the one hand, and investments recommended to the Fund, on the other hand.

- From time to time, to the extent consistent with the 1940 Act and the rules and regulations promulgated thereunder, or with exemptive relief the Fund may receive from the SEC, if any, the Fund and other clients for which the Adviser provides investment management services or carries on investment activities (including, among others, clients that are employee benefit plans subject to ERISA and related regulations) may make investments at different levels of an investment entity s capital structure or otherwise in different classes of an issuer s securities. These investments may inherently give rise to conflicts of interest or perceived conflicts of interest between or among the various classes of securities that may be held by the Fund and such other clients, including in the case of financial distress of the investment entity.

- KKR and the Adviser sponsor and advise, and may in the future sponsor and advise, a broad range of investment funds, vehicles, and other accounts, including proprietary vehicles, that make investments worldwide. KKR may also make investments for its own account, including, for example, through investment and co-investment vehicles established for KKR personnel and associates. The Adviser and its affiliates are not restricted from forming additional investment funds, from entering into other investment advisory relationships (including, among others, relationships with clients that are employee benefit plans subject to ERISA and related regulations), 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 Adviser. For example, the Adviser may invest, on behalf of an affiliated fund, in a company that is a competitor of one of the Fund s portfolio companies or that is a service provider, supplier, customer or other counterparty with respect to one of the Fund s portfolio companies. The Adviser will provide advice and recommendations to any such companies without regard to the Fund s interests. In addition, the Adviser s ability to effectively implement the Fund s investment strategies may be limited to the extent that contractual obligations relating to these permitted activities restrict the Adviser s ability to engage in transactions that they may otherwise be interested in pursuing. Affiliates of the Adviser, whose primary business includes the origination of investments, engage in investment advisory business with accounts that compete with the Fund.

- The Adviser and its affiliates may give advice and recommend securities to other clients which may differ from, or be contrary to, advice given to, or securities recommended or bought for, the Fund even though their investment objectives may be similar to the Fund s.

- To the extent not restricted by confidentiality requirements or applicable law, the Adviser may apply experience and information gained in providing services to the Fund s portfolio companies in providing services to competing companies invested in by affiliates other clients.

- As a registered investment company, the Fund may be limited in its ability to invest in any investment in which the Adviser or its affiliates other clients have an investment. The Fund may also be limited in its ability to co-invest with the Adviser or one or more of its affiliates. Some of these co-investments would only be permitted pursuant to an exemptive order from the SEC.

- The nature of the Adviser s businesses and the participation by its employees in creditors committees, steering committees, or boards of directors of portfolio companies, may result in the Adviser receiving material non-public information from time to time with respect to publicly held companies or otherwise becoming an insider with respect to such companies. The possession of inside information or insider status with respect to an investment or potential investment by the Adviser or its personnel may restrict the Adviser s ability to enter into or exit from potentially profitable investments for the Fund which could have an adverse effect on the Fund s results of operations.

- The Fund depends to a significant extent on the Adviser s access to the investment professionals and senior management of KKR and the information and deal flow generated by the KKR investment professionals and senior management during the normal course of their investment and portfolio management activities. The senior management and the investment professionals of the Adviser source, evaluate, analyze and monitor the Fund s investments. The Fund s future success will depend on the continued service of the senior management team and investment professionals of the Adviser.

- The Adviser s relationship with other advisory clients and with KKR could create a conflict of interest to the extent the Adviser becomes aware of inside information concerning investments or potential investment targets. The Fund and the Adviser have implemented compliance procedures and practices, including information-sharing policies and procedures, that are designed to ensure that inside information is not used for making investment decisions on the Fund s behalf. The Fund cannot assure its investors, however, that these procedures and practices will be effective. Although the Fund plans to leverage KKR s firm-wide resources to help source, conduct due diligence on, structure, syndicate and create value for the Fund s investments, KKR s information-sharing policies and procedures, as well as certain legal and contractual constraints, could significantly limit the Fund s ability to do so. For example, from time to time KKR s personnel may be in possession of material non-public information with respect to the Fund s investments, and as a result, such personnel will be restricted by KKR s information-sharing policies and procedures or by law or contract from sharing such information with the management team of the Fund, even where the disclosure of such information would be in the best interests of the Fund or would otherwise influence decisions taken by the members of the management team with respect to that investment. In addition, this conflict and these procedures and practices may limit the freedom of the Adviser to enter into or exit from potentially profitable investments for the Fund which could have an adverse effect on the Fund s results of operations. Conversely, the Adviser may pursue investments for the Fund without obtaining access to confidential information otherwise in its or KKR s possession, which information, if reviewed, might otherwise impact the Adviser s judgment with respect to such investments. Accordingly, the investment activities of KKR s other businesses may differ from, or be inconsistent with, the activities that are undertaken for the Fund, and there can be no assurance that the Fund will be able to fully leverage the resources and industry expertise of KKR s other businesses. Additionally, there may be circumstances in which one or more individuals associated with KKR will be precluded from providing services to the Fund because of certain confidential information available to those individuals or to other parts of KKR.

- The Adviser may in the future develop new businesses such as providing investment banking, advisory and other services to corporations, financial sponsors, management or other persons. Such services may relate to transactions that could give rise to investment opportunities that are suitable for the Fund. In such case, the Adviser s client would typically require the Adviser to act exclusively on its behalf, thereby precluding the Fund from participating in such investment opportunities. The Adviser would not be obligated to decline any such engagements in order to make an investment opportunity available to the Fund. In addition, the Adviser may come into the possession of information through these new businesses that limits the Fund s ability to engage in potential transactions.

- The 1940 Act limits the Fund s ability to invest in, or hold securities of, companies that are controlled by funds managed by KKR. Any such investments could create conflicts of interest between the Fund, the Adviser and KKR. The Adviser may also have, or enter into, advisory relationships with other advisory clients (including, among others, employee benefit plans subject to ERISA and related regulations) that could lead to circumstances in which a conflict of interest between the Adviser s advisory clients could exist or develop. In addition, to the extent that another client of the Adviser or KKR holds a different class of securities than the Fund, the interest of such client and the Fund may not be aligned. As a result of these conflicts and restrictions, the Adviser may be unable to implement the Fund s investment strategies as effectively as it could have in the absence of such conflicts or restrictions. In order to avoid these conflicts and restrictions, the Adviser may choose to exit these investments prematurely and, as a result, the Fund would forgo any future positive returns associated with such investments.

- Certain other KKR client accounts or proprietary accounts may have investment objectives, programs, strategies and positions that are similar to, or may conflict with, those of the Fund, or may compete with, or have interests adverse to, the Fund. This type of conflict could affect the prices and availability of the securities or interests in which the Fund invests. KKR may give advice or take action with respect to the investments held by, and transactions of, other KKR client accounts or proprietary accounts that may be different from or otherwise inconsistent with the advice given or timing or nature of any action taken with respect to the investments held by, and timing or nature of any action taken with respect to the investments held by, and transactions of, the Fund. Such different advice and/or inconsistent actions may be due to a variety of reasons, including, without limitation, the differences between the investment objective, program, strategy and tax treatment of the other KKR client accounts or proprietary accounts and the Fund or the regulatory status of other KKR client accounts and any related restrictions or obligations imposed on KKR as a fiduciary thereof. Such advice and actions may adversely impact the Fund.

- KKR, for its own account, may enter into real-estate related transactions with Fund portfolio companies. Such transactions may include, for example, buying or selling real estate assets, acquiring or entering into leasing arrangements or amending such arrangements, or transferring options or rights of first refusal to acquire real estate assets. Such transactions, which do not involve securities, are not governed by restrictions on principal transactions and cross transactions but are subject to specific policies and procedures established by KKR to manage related conflicts.

- The 1940 Act prohibits the Fund from participating in certain transactions with certain of its affiliates including an Adviser-affiliated broker-dealer. The Fund generally will be prohibited, for example, from buying or selling any securities from or to another client of the Adviser or of KKR. The 1940 Act also prohibits certain joint transactions with certain of the Fund s affiliates, which in certain circumstances could include investments in the same portfolio company (whether at the same or different times to the extent the transaction involves jointness) or transactions in which a broker-dealer affiliated with the Adviser participates as principal with the Fund. If a person acquires more than 25% of the Fund s voting securities, the Fund will be prohibited from buying or selling any security from or to such person or certain of that person s affiliates, or entering into prohibited joint transactions with such persons without the Fund s prior consent. Similar restrictions limit the Fund s ability to transact business with its officers or trustees or their affiliates. The SEC has interpreted the 1940 Act rules governing transactions with affiliates to prohibit certain joint transactions involving entities that share a common investment adviser. As a result of these restrictions, the scope of investment opportunities that would otherwise be available to the Fund may be limited.

- The 1940 Act imposes significant limits on co-investment with affiliates of the Fund, and the Fund generally will not be permitted to co-invest alongside its affiliates in privately negotiated transactions unless the Fund obtains an exemptive order from the SEC or the transaction is otherwise permitted under existing regulatory guidance, such as transactions where price is the only negotiated term, and will not participate in transactions where other terms are negotiable. This reduces the amount of transactions in which the Fund can participate and makes it more difficult for the Fund to implement its investment objectives.

- The Fund will rely on the Adviser and its affiliates for valuation of its assets and liabilities. The Fund may hold securities and other assets that will not have readily assessable market values. In such instances, the Adviser will determine the fair value of such securities and assets in its reasonable judgment based on various factors and may rely on internal pricing models, all in accordance with the Adviser s valuation policies and procedures. Such valuations may vary from similar valuations performed by independent third parties for similar types of securities or assets. The valuation of illiquid securities and other assets is inherently subjective and subject to increased risk that the information utilized to value such assets or to create the price models may be inaccurate or subject to other error. The value of the Fund s portfolio may also be affected by changes in accounting standards, policies or practices as well as general economic, political, regulatory and market conditions and the actual operations of the issuers of portfolio investments, which are not predictable and can have a material impact on the reliability and accuracy of such valuations. Due to a wide variety of factors and the nature of certain securities and assets to be held by the Fund, there is no guarantee that the value determined by the Adviser will represent the value that will be realized by the Fund on the eventual realization of the investment or that would, in fact, be realized upon an immediate disposition of the investments. The amount of management fees received by the Adviser with respect to the Fund may depend in part on the value of the Fund s assets and liabilities. If the valuations made by the Adviser are incorrect, the amount of management fees received by the Adviser could also be incorrect. In addition, the Adviser regularly reports to investors and prospective investors certain metrics of the Fund s performance, whose calculation depends on the value of the Fund s investments, including unrealized investments, and involves uncertainties and judgmental determinations.

The Adviser and the portfolio managers may also face other potential conflicts of interest in managing the Fund, and the descriptions above are not a complete description of every conflict of interest that could be deemed to exist in managing the Fund and other funds and accounts advised or controlled by KKR.

**(a)(3) Portfolio Manager Compensation**

Consistent with KKR s global, integrated culture, KKR has one firm-wide compensation and incentive structure based on a global profit and loss statement, which covers each of the portfolio managers. KKR s compensation structure is designed to align the interests of the investment personnel serving the Fund with those of the Fund s shareholders and to give everyone a direct financial incentive to ensure that all of KKR s resources, knowledge and relationships around the world are utilized to maximize risk-adjusted returns for each strategy.

Each of KKR s senior executives, including each of the portfolio managers responsible for the day-to-day management of the Fund, receives a base salary and is eligible for a cash bonus and equity compensation, as well as additional incentives including dollars at work in KKR fund investments (other than the Fund) and equity compensation. The cash bonus, equity compensation and dollars at work are discretionary, and dollars at work and equity awards are typically subject to a vesting period of several years.

All final compensation and other longer-term incentive award decisions are made by the KKR Management Committee based on input from managers. Compensation and other incentives are not formulaic, but rather are judgment and merit driven, and are determined based on a combination of overall firm performance, individual contribution and performance, business unit performance, and relevant market and competitive compensation practices for other businesses and the individual roles/responsibilities within each of the businesses.

**(a)(4) Securities Ownership of Portfolio Managers**

As of the fiscal year ended October 31, 2015, the portfolio managers beneficially owned the following shares of the Fund:

| **Portfolio Manager** | **Dollar Range of Equity Securities Owned**** |
|---|---|
| Erik A. Falk | $100,001-$500,000 |
| Christopher A. Sheldon | $50,001-$100,000 |
| Jamie M. Weinstein | $50,001-$100,000 |
| Nathaniel M. Zilkha | None |

** Ranges (None, $1-$10,000, $10,001-$50,000, $50,001-$100,000, $100,001-$500,000, $500,001-$1,000,000 or over $1,000,000). Actual shares amounts owned were as follows: 7,000 shares for Mr. Falk; 5,000 shares for Mr. Sheldon; and 4,000 shares for Mr. Weinstein.

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

None.

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

None.

**Item 11. Controls and Procedures.**

(a) The registrant s principal executive officer and principal financial officer have concluded, based on their evaluation of the registrant s disclosure controls and procedures as of a date within 90 days of the filing date of this report on Form N-CSR, that the design and operation of such procedures are effective to provide reasonable assurance that information required to be disclosed by the investment company on Form N-CSR is recorded, processed, summarized and reported within the time periods specified in the Commission s rules and forms.

(b) There have been no changes in the registrant s internal control over financial reporting during the year ended October 31, 2015 that have materially affected, or are reasonably likely to materially affect, the registrant s internal control over financial reporting.

**Item 12. Exhibits.**

(a)(1) Code of Ethics attached hereto.

(a)(2) A separate certification for the principal executive officer and the principal financial officer of the registrant as required by Rule 30a-2(a) under the Investment Company Act of 1940, as amended (17 CFR 270.30a-2(a)), are filed herewith.

(b) Officer certifications as required by Rule 30a-2(b) under the Investment Company Act of 1940, as amended (17 CFR 270.30a-2(b)) also accompany this filing as an Exhibit.

**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.

KKR Income Opportunities Fund

By /s/ Suzanne Donohoe
Suzanne Donohoe, President

Date 12/22/2015

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/ Suzanne Donohoe
Suzanne Donohoe, President

Date 12/22/2015

By /s/ Roshan Chagan
Roshan Chagan, Treasurer & Chief Financial Officer

Date 12/22/2015