

Avenue Income Credit Strategies Fund
Form N-CSR
January 07, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM N-CSR

**CERTIFIED SHAREHOLDER REPORT OF REGISTERED
MANAGEMENT INVESTMENT COMPANIES**

Investment Company Act file number 811-22485

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

399 Park Avenue, 6th Floor New York, NY
(Address of principal executive offices)

10022
(Zip code)

Copy to:

Randolph Takian

Avenue Capital Group

399 Park Avenue, 6th Floor

New York, NY 10022

(212) 878-3500

(Name and address of agent for service)

Nora M. Jordan

Davis Polk & Wardwell LLP

450 Lexington Avenue

New York, NY 10017

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

Date of fiscal year end: October 31, 2012

Date of reporting period: October 31, 2012

Item 1. Shareholder Report

Avenue Income Credit Strategies Fund

Manager Commentary^{1,2,3}

October 31, 2012 (unaudited)

Dear Shareholder,

We are pleased to present our second annual report for Avenue Income Credit Strategies Fund (the "Fund").

Performance^{1,2,3}

For the year ended October 31, 2012, the Fund had a total return of 16.94% based on net asset value, and 21.19% based on the market value of the Fund's shares. On October 31, 2012, the closing price of the Fund's shares on the New York Stock Exchange was \$18.22 representing a 1.30% discount to the Fund's net asset value per share of \$18.46.

The Fund's performance was strong compared to the performance of the high yield and bank loan markets during the year as outlined below:

High Yield and Bank Loan Market Returns for the Fiscal Year November 1, 2011 to October 31, 2012⁴

The Fund's investments are across a range of assets. The below indices cover asset classes that Avenue Capital Management II, L.P. (the "Investment Adviser") believes are the same as, or similar to, the asset classes to which the Fund's assets are exposed (in whole or in part). The performance of the indices (which includes reinvestment of dividends and other income) does not represent generally the performance of the Fund or of any Fund investment. There are material differences between such indices and the Fund, including without limitation that such indices are unmanaged, broadly-based indices, do not reflect payment of management or brokerage fees, are not leveraged and differ in numerous other respects from the portfolio composition of the Fund; as a result, the Fund's investment portfolio is materially different from any given index.

Indices	Return (%)
[Redacted]	

Factors Affecting Performance

The twelve month period ending October 31, 2012 represented a strong year for corporate credit and for the Fund as an improving U.S. economy, stabilization in Europe and expectations for continued low interest rates over the next several years highlighted the attractiveness of corporate credit as an asset class.

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As you can see from the above table, the Fund generally outperformed these benchmarks as it benefited from our selection across a number of positions in the U.S. and Europe, with particular outperformance from U.S. and European investments in the financial and housing related sectors. In addition, the Fund's significant weighting to high yield bonds as compared to secured bank loans helped overall performance as secured bank loan returns for the fiscal year were meaningfully lower than those for high yield bonds.

While the Fund's portfolio benefited from the strength of the credit markets overall (see further discussion below), several specific assets drove outsized contributions to the Fund's performance. For example, in the U.S., the Fund's positions in American International Group hybrid debt securities and K. Hovnanian Enterprises first lien secured bonds saw sharp gains due to continued healing of the financial system and a rebounding housing market. Similarly, in Europe, the decline in financial systemic risk concerns also resulted in gains for the Fund's positions in Royal Bank of Scotland Group and Lloyds Banking Group junior capital securities as well as hotels, restaurant and

Avenue Income Credit Strategies Fund

Manager Commentary (continued)

October 31, 2012 (unaudited)

leisure oriented investments in Unique Pub Finance and Punch Taverns Finance, whose businesses showed good resilience despite the difficult economic environment they operated in.

In terms of underperformers, the primary one was Nobina AB, the largest public bus operator in Sweden. The Fund had purchased this security at a discount to par, but it had to be restructured at the end of the year. Shortly after year end the Fund sold the position at a moderate loss.

2012 credit market conditions

While the U.S. economic recovery over 2012 remained choppy, a strong rebound in the housing market, as well as gradual improvement in unemployment have been reason for optimism. Meanwhile, continued support from the Federal Reserve through quantitative easing has calmed fears of lasting damage due to economic slow patches .

The high yield credit markets showed steady gains over the period as nine of the twelve months showed positive returns in the leading market benchmarks with only occasional pull-backs. Market performance continued to be driven by heavy inflows of capital to the space as well as an active new issue market. Year-to-date inflows of capital from mutual funds stands at \$34B into high yield bonds vs. \$15.9B for 2011. Through the end of October 2012, year-to-date high yield issuances totaled \$308.8B, which compared favorably to \$246B in 2011 and has already surpassed the previous record from 2010 of \$302B. Additionally, in terms of new issuances the period ended strongly in September (\$47.5B) and a hurricane-shortened October (\$43.1B) representing the 1st and 3rd highest issuance months, respectively, on record. The majority of the new issuance in the period was used to refinance outstanding bonds and loans such that new issuance amounts net of refinancings were manageable for the market to absorb. Lastly, the par-weighted high yield default rate during the period remained low at 1.77% vs. its long term average of 4.2%. (Source: JP Morgan Credit Strategy Weekly Update November 2, 2012).

Similarly, European markets recovered their footing during the Fund's fiscal year despite continued macro volatility. Even with this rebound, economic expectations in Europe have progressively worsened on the back of continued sovereign uncertainty, additional austerity measures implemented across the region and an apparent slowdown in Chinese and U.S. demand. Large countries in Europe saw significant downgrades in its economic expectations except for Germany which, although it was able to outperform, still shows signs of a slowing economy.

However, despite ongoing concerns about sovereign and bank funding stresses and the bailouts needed for Greece and Spain (and filtering into other European countries), relief and optimism emerged in the market in response to key actions announced by the ECB (European Central Bank). Two programs from the ECB, the LTRO (Long-Term-Refinancing-Operation) and OMT (Outright-Monetary-Transactions) provided a significant boost to the markets, as they signaled that the ECB was ready to do whatever-it-takes to reduce systemic risk. The 3-year LTRO program announced in December 2011 allowed banks to borrow from the ECB for up to three years, effectively eliminating the liquidity crunch that many European banks were dealing with at the time. The OMT program, announced in August 2012, would allow the ECB to purchase sovereign bonds to reduce the borrowing cost of countries that were unfairly punished by the markets despite adhering to strict fiscal and austerity measures.

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Rights offering completed March 12

Based in part on the attractive investment opportunities we believed continued to be available in the high yield market, the Fund also completed a rights offering in March 2012 to raise additional capital during the year. The Fund elected to give shareholders the option generally to purchase an additional share in the Fund at a discount to the market price for every 3 shares owned. The offer was fully subscribed and the Fund raised an additional \$35.8mm in capital net of fees through the issuance of an additional 2.45mm shares. Returns presented above include the dilution due to this rights offering.

Avenue Income Credit Strategies Fund

Manager Commentary (concluded)

October 31, 2012 (unaudited)

Management Strategies

The Fund's strategy remains focused on exploiting undervalued credit opportunities to generate income with a secondary objective of capital appreciation. The Fund continues to diversify its holdings as the number of issuers in which the Fund is invested grew from 32 at the beginning of the year to 52 at the year end. Correspondingly, the concentration of positions declined with the top five holdings making up 16.0% of the managed assets of the Fund at year end vs. 21.2% at the beginning of the year. As of the year ended, credit quality continues to be centered on

Single B (B+, B and B- on a S&P rating scale) issues which accounted for approximately 42% of the managed assets of the Fund and middle market issuers which accounted for approximately 64% of the managed assets of the Fund.

With respect to positioning in Europe, the Fund maintained a defensive stance with its positions focused in Northern European countries, with the U.K. having the largest concentration. In terms of industries, hotels, restaurants and leisure made up the largest component, primarily as a result of our pub positions. We also have positions in health care providers and services, diversified telecom services, media, oil, gas and consumable fuels.

On September 13, 2012, the Board of Trustees (the Board) approved the appointment of Mr. Jeffrey J. Gary as the new Portfolio Manager of the Fund, effective on November 23, 2012. Mr. Gary, a Senior Portfolio Manager of the Investment Adviser, is primarily responsible for the day-to-day management of the Fund's assets. Mr. Gary joined the Investment Adviser in 2011 and has more than 20 years of investment experience in high yield, bank loan and distressed investment strategies, including the last fifteen years as a portfolio manager. He is also the Portfolio Manager of Avenue Credit Strategies Fund, an open-end mutual fund managed by the Investment Adviser and a series of Avenue Mutual Funds Trust. Effective with the appointment of Mr. Gary, Avenue Europe International Management, L.P. no longer serves as the Fund's investment sub-adviser given that no portfolio manager of the Fund will be employed by the sub-adviser. Under Mr. Gary's portfolio management, it is expected that under normal market conditions the Fund will continue to invest in both U.S. and non-U.S. issuers.

Avenue Capital Management II, L.P.
Avenue Europe International Management, L.P.

November 2012

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

1 Performance information is not annualized. The Fund commenced operations on January 27, 2011.

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2 Performance data shown represent past performance and do not guarantee future results. Current performance may be lower or higher than the performance data shown. Investment returns and principal value will fluctuate, and when sold, your investment may be worth more or less than its original cost. Accordingly, it is possible to lose money investing in the Fund. All returns assume reinvestment of all dividends. Shares of closed-end investment companies frequently trade at discount to their net asset value, which may increase an investor's risk of loss. This characteristic of shares of a closed-end fund is a risk separate and distinct from the risk that a fund's net asset value will decrease.

3 The Fund's shares are not insured by the FDIC and are not deposits or other obligations of, or guaranteed by, any depository institution.

4 Index returns do not include the effects of any sales charges or management fees. It is not possible to invest directly in an index. Index information was compiled from sources that the Investment Adviser believes to be reliable. No representation or guarantee is made hereby with respect to the accuracy or completeness of such data.

Avenue Income Credit Strategies Fund

Financial Data*

October 31, 2012 (unaudited)

Top Five Industries(a)

Top 10 Largest Holdings(a)

1	Priory Group Ltd.	7.00%	2/15/2018 (144a)	3.6%
2	Swift Services Holdings, Inc.	10.00%	11/15/2018	3.4%
3	K Hovnanian Enterprises, Inc.	9.13%	11/15/2020 (144a)	3.0%
4	Infor US, Inc.	9.38%	4/1/2019	3.0%
5	Avaya, Inc.	10.13%	11/1/2015	3.0%
6	Intelsat Luxembourg SA	11.50%	2/4/2017	2.6%
7	Ontex IV	7.50%	4/15/2018 (144a)	2.6%
8	Realogy Corp.	9.00%	1/15/2020 (144a)	2.3%
9	Punch Taverns Ltd.	5.94%	12/30/2024	2.3%
10	Rivers Pittsburgh Borrower LP/Rivers Pittsburgh Finance Corp.	9.50%	6/15/2019 (144a)	2.3%
Total Top 10:				28.1%

Investing in the Fund involves risks, including the risk that you may receive little or no return on your investment or that you may lose part or even all of your investment. Investing in the Fund is also subject to the specific risks described in the accompanying Notes to Financial Statements. Please read the Notes to Financial Statements for additional information.

* Fund information is subject to change due to active management. Data is based on total market value of the Fund investments unless otherwise indicated.

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- (a) As a percent of Managed Assets. Managed Assets means the total assets of the Fund (including any assets attributable to money borrowed for investment purposes, including proceeds from (and assets subject to) any credit facility, reverse repurchase agreements and any issuance of preferred shares or notes) minus the sum of the Fund's accrued liabilities (other than Fund liabilities incurred for the purpose of leverage).
- (b) Cash includes cash and cash equivalents as well as other non investment asset and liabilities (net), excluding borrowings under credit facilities.
- (c) Ratings information represent Standard & Poor's ratings on the instruments in the portfolio or equivalent. Ratings are provided for informational purposes only and may change over time. Standard & Poor's rates securities from AAA (highest quality) to C (lowest quality), and D to indicate securities in default. BB and below are considered below investment grade securities. Greater risk, such as increased volatility, limited liquidity, prepayment, non-payment and increased default risk, is inherent in portfolios that invest in high yield (junk) bonds.
- (d) The Fund may invest all or a substantial portion of its assets in below investment grade securities which are often referred to as high yield or junk securities.
- (e) The geographic allocation is based on where the Investment Adviser believes the Country of Risk to be. Country of Risk is traditionally the country where the majority of the company's operations are based or where it is headquartered.

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Avenue Income Credit Strategies Fund

Schedule of Investments

October 31, 2012

Security Description	Coupon	Maturity	Principal Amount (000)	Value
CORPORATE BONDS & NOTES 116.8%				
Airlines 3.9%				
US Airways 2000-3C Pass Through Trust	8.39%	3/1/2022	\$ 5,577	\$ 5,353,846
US Airways 2011-1C Pass Through Trust	10.88%	10/22/2014	1,641	1,682,151
				7,035,997
Building Products 1.8%				
Nortek, Inc.	10.00%	12/1/2018	3,000	3,326,250
Commercial Banks 4.6%				
Lloyds Banking Group Capital No.1 PLC (a)	7.88%	11/1/2020	4,200	4,315,500
Royal Bank of Scotland Group PLC (b)	7.65%	8/29/2049	4,000	3,940,000
				8,255,500
Communications Equipment 3.9%				
Avaya, Inc.	10.13%	11/1/2015	8,000	7,100,000
Containers & Packaging 3.9%				
Albea Beauty Holdings SA (a)	8.38%	11/1/2019	950	964,250
Ardagh Packaging Finance PLC (a)	9.25%	10/15/2020	EUR 3,000	4,082,871
Reynolds Group Issuer, Inc.	9.00%	4/15/2019	\$ 2,000	2,025,000
				7,072,121
Diversified Financial Services 1.9%				
Springleaf Finance Corp.	6.90%	12/15/2017	4,000	3,520,000
Diversified Telecommunication Services 6.5%				
Intelsat Luxembourg SA	11.50%	2/4/2017	6,000	6,315,000
Level 3 Financing, Inc.:				
	8.13%	7/1/2019	3,000	3,202,500
	10.00%	2/1/2018	2,000	2,230,000
				11,747,500
Energy Equipment & Services 4.8%				
Hercules Offshore LLC (a)	10.50%	10/15/2017	3,500	3,692,500
Ocean Rig UDW, Inc.	9.50%	4/27/2016	4,800	4,920,000
				8,612,500
Food & Staples Retailing 2.8%				
Rite Aid Corp.	9.50%	6/15/2017	5,000	5,137,500
Health Care Providers & Services 11.3%				
HCA, Inc.:				
	7.05%	12/1/2027	745	704,025
	7.50%	11/6/2033	120	118,800
	7.50%	11/15/2095	3,000	2,565,000
	7.58%	9/15/2025	555	555,000
	7.69%	6/15/2025	900	909,000
	7.75%	7/15/2036	525	525,000
Priory Group Ltd. (a)	7.00%	2/15/2018	GBP 5,000	8,552,870
Tenet Healthcare Corp.:				
	6.88%	11/15/2031	\$ 4,000	3,440,000
	8.00%	8/1/2020	3,000	3,157,500
				20,527,195

See Accompanying Notes to Financial Statements.

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Schedule of Investments (continued)

October 31, 2012

Security Description	Coupon	Maturity	Principal Amount (000)	Value
Hotels, Restaurants & Leisure 12.5%				
Caesars Operating Escrow LLC / Caesars Escrow Corp. (a)	9.00%	2/15/2020	\$ 4,925	\$ 4,900,375
Punch Taverns Finance Ltd.:	5.94%	12/30/2024	GBP 4,000	5,438,335
	7.37%	6/30/2022(a)	976	1,448,572
Rivers Pittsburgh Borrower LP/Rivers Pittsburgh Finance Corp. (a)	9.50%	6/15/2019	\$ 5,000	5,400,000
Unique Pub Finance Co. PLC:	5.66%	6/30/2027	GBP 2,500	3,509,904
	6.54%	3/30/2021	1,300	1,930,044
				22,627,230
Household Durables 4.0%				
K Hovnanian Enterprises, Inc. (a)	9.13%	11/15/2020	\$ 7,000	7,280,000
Industrial Conglomerates 2.7%				
Edgen Murray Corp. (a)	8.75%	11/1/2020	4,835	4,798,738
Insurance 4.5%				
American International Group, Inc.:	8.00%	5/22/2038(a)	EUR 3,000	4,471,715
	8.18%	5/15/2068	\$ 3,000	3,742,500
				8,214,215
Marine 2.8%				
Navios Maritime Holdings, Inc. / Navios Maritime Finance II US, Inc.	8.13%	2/15/2019	5,700	5,044,500
Media 6.0%				
Cengage Learning Acquisitions, Inc. (a)	11.50%	4/15/2020	4,000	4,290,000
Clear Channel Worldwide Holdings, Inc.	7.63%	3/15/2020	3,500	3,333,750
Univision Communications, Inc. (a)	7.88%	11/1/2020	3,000	3,180,000
				10,803,750
Oil, Gas & Consumable Fuels 9.6%				
Calumet Specialty Products Partners LP/Calumet Finance Corp.	9.38%	5/1/2019	2,500	2,687,500
CHC Helicopter SA	9.25%	10/15/2020	4,780	4,851,700
Connacher Oil and Gas Ltd. (a)	8.50%	8/1/2019	4,000	3,290,000
Halcon Resources Corp. (a)	8.88%	5/15/2021	2,400	2,433,000
Midstates Petroleum Co, Inc. / Midstates Petroleum Co. LLC (a)	10.75%	10/1/2020	1,880	1,992,800
Penn Virginia Resource Partners LP / Penn Virginia Resource Finance Corp. II (a)	8.38%	6/1/2020	2,000	2,100,000
				17,355,000
Paper & Forest Products 2.2%				
Lecta SA (a)	8.88%	5/15/2019	EUR 3,000	3,966,217
Personal Products 3.4%				
Ontex IV (a)	7.50%	4/15/2018	4,560	6,191,187
Real Estate Investment Trusts (REITS) 1.1%				
iStar Financial, Inc.	6.50%	12/15/2013	\$ 2,000	1,985,000
Real Estate Management & Development 3.1%				
Realogy Corp. (a)	9.00%	1/15/2020	5,000	5,625,000
Road & Rail 6.6%				
Nobina Europe AB (d)	11.00%	10/31/2017	SEK 31,824	3,838,325
Swift Services Holdings, Inc.	10.00%	11/15/2018	\$ 7,500	8,043,750
				11,882,075
Software 4.0%				

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Infor US, Inc.	9.38%	4/1/2019	6,500	7,182,500
Specialty Retail 5.0%				
CDW LLC / CDW Finance Corp.	8.50%	4/1/2019	5,000	5,337,500
Gymboree Corp.	9.13%	12/1/2018	4,000	3,765,000
				9,102,500

See Accompanying Notes to Financial Statements.

Avenue Income Credit Strategies Fund

Schedule of Investments (continued)

October 31, 2012

Security Description	Coupon	Maturity	Principal Amount (000)	Value
Trading Companies & Distributors 2.8%				
UR Merger Sub Corp.	8.25%	2/1/2021	\$ 4,500	\$ 4,972,500
Wireless Telecommunication Services 1.1%				
Digicel Group Ltd. (a)	8.25%	9/30/2020	1,920	2,068,800
TOTAL CORPORATE BONDS & NOTES (Cost \$204,591,665)				211,433,775
SENIOR LOANS (d) 14.1%				
Diversified Telecommunication Services 3.9%				
Tyrol Acquisitions 2 SAS Term Loan 2nd Lien, PIK (b)	4.36%	7/29/2016	EUR 4,731	5,222,797
Tyrol Acquisitions 2 SAS Term Loan B2, PIK (b)	3.11%	1/29/2016	258	301,250
Tyrol Acquisitions 2 SAS Term Loan C2, PIK (b)	3.11%	1/29/2016	1,288	1,506,250
				7,030,297
Electric Utilities 1.1%				
Astoria Generating Company Acquisitions, LLC Term Loan (b)	8.50%	10/26/2017	\$ 2,000	1,983,340
Hotels, Restaurants & Leisure 2.4%				
Travelodge Hotels (Full Moon Holding Co. 6 Ltd.) Term Loan, PIK (b) (c) (e)	1.11%	6/19/2017	GBP 3,385	4,357,916
Industrial Conglomerates 2.7%				
Veyance Technologies, Inc. Term Loan 2nd Lien (b)	5.96%	7/31/2015	\$ 5,000	4,825,000
Media 4.0%				
Lavena Holdings Term Loan B1 (b)	2.95%	3/6/2015	EUR 3,000	3,620,728
Lavena Holdings Term Loan C1 (b)	3.32%	3/4/2016	3,000	3,640,171
				7,260,899
TOTAL SENIOR LOANS (Cost \$27,478,589)				25,457,452
			Shares	
COMMON STOCK 0.3%				
Road & Rail 0.3%				
Nobina SAB (d)			34,673	527,769
TOTAL COMMON STOCK (Cost \$731,843)				527,769
TOTAL LONG-TERM INVESTMENTS 131.2% (Cost \$232,802,097)				237,418,996
			Principal Amount (000)	
SHORT-TERM INVESTMENTS 2.4%				
REPURCHASE AGREEMENT 2.4%				
State Street Repurchase Agreement, dated 10/31/12, due 11/01/12 at 0.01%, collateralized by Federal Home Loan Mortgage Corporation obligations maturing 12/15/17, market value \$4,460,339 (repurchase proceeds \$4,371,823) (Cost \$4,371,822)			\$ 4,372	4,371,822
TOTAL SHORT-TERM INVESTMENTS 2.4% (Cost \$4,371,822)				4,371,822
TOTAL INVESTMENTS 133.6% (Cost \$237,173,919)				241,790,818
OTHER ASSETS & LIABILITIES (33.6)%				(60,800,063)
NET ASSETS 100.0%				\$ 180,990,755

See Accompanying Notes to Financial Statements.

Avenue Income Credit Strategies Fund

Schedule of Investments (continued)

October 31, 2012

Percentages are calculated as a percentage of net assets as of October 31, 2012.

(a) Securities exempt from registration under Rule 144A of the Securities Act of 1933. These securities may be resold in transactions exempt from registration, normally to qualified institutional investors.

(b) Variable rate security. Rate shown is rate in effect at October 31, 2012.

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

(d) Valued at fair value using procedures approved by the Board. Fair value securities held by the Fund represent 2.41% of net assets as of October 31, 2012.

(e) Issuer treated as an affiliated person, as defined in the Investment Company Act of 1940.

PIK Payment in Kind

PLC Public Limited Company

Forward Foreign Currency Contracts:

Settlement Date	Amount	Value	In Exchange for U.S. \$	Net Unrealized Appreciation (Depreciation)	Counterparty
Forward Foreign Currency Contracts to Buy:					
11/08/2012	EUR 30,108,435	\$39,027,069	\$39,030,387	\$ (3,318)	State Street Bank and Trust Co.
11/08/2012	GBP 17,709,526	28,578,150	28,540,075	38,075	State Street Bank and Trust Co.
				34,757	
Forward Foreign Currency Contracts to Sell:					
02/08/2013	EUR 29,260,696	37,963,357	37,949,193	(14,164)	State Street Bank and Trust Co.
02/08/2013	GBP 16,271,711	26,250,127	26,220,447	(29,680)	State Street Bank and Trust Co.

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11/08/2012	EUR	30,108,435	39,027,069	37,342,154	(1,684,915)	State Street Bank and Trust Co.
11/08/2012	GBP	17,709,526	28,578,150	27,762,182	(815,968)	State Street Bank and Trust Co.
					(2,544,727)	

Total **\$(2,509,970)**

EUR Euro Currency

GBP Great British Pound

Swap Contracts:

At October 31, 2012, outstanding credit default swap contracts sell protection were as follows:

Counterparty	Reference Obligation	Credit Spread	Notional Amount*	Receive Fixed Rate**	Expiration Date	Market Value***	Upfront Premiums (Received)	Unrealized Appreciation/ (Depreciation)
Citigroup	Meritor, Inc.	1015	\$5,000,000	5.00	6/20/2017	\$(877,154)	\$(634,700)	\$(242,454)

* If the Fund is the seller of credit protection, the notional amount is the maximum potential amount of future payments the Fund could be required to make if a credit event, as defined in the credit default swap agreement, were to occur. At October 31, 2012, such maximum potential amount for all open credit default swaps in which the Fund is the seller was \$5,000,000.

** The received fixed rate represents the fixed annual rate of interest received by the Fund (as a seller of protection) annually on the notional amount of the credit default swap contract.

*** The quoted market prices and resulting values for credit default swap agreements on corporate bonds serve as an indicator of the current status of the payment/performance risk and represent the expected amount paid or received for the credit derivative if the amount of the swap agreement was closed/sold as of the period end. Increasing market values, in absolute terms when compared to the notional amount of the swap, represent a deterioration of the referenced entity's credit soundness and a greater likelihood or risk of default or other credit event occurring as defined under the terms of the agreements.

See Accompanying Notes to Financial Statements.

Avenue Income Credit Strategies Fund

Schedule of Investments (concluded)

October 31, 2012

Unfunded Loan Commitment:

As of October 31, 2012, the Fund had the following unfunded loan commitments

Borrower	Unfunded Commitment	Funded	Unrealized Appreciation (Depreciation)
Hamilton Sundstrand Industrial, 9/25/20	\$4,750,000	\$	\$

Geographic Allocation of Investments:

Country	Percentage of Net Assets	Value
United States	84.6%	\$152,990,362
United Kingdom	20.7	37,459,358
Canada	4.5	8,141,700
France	4.4	7,994,547
Germany	4.0	7,260,899
Luxembourg	3.5	6,315,000
Belgium	3.4	6,191,187
Ireland	3.4	6,151,671
Greece	2.7	4,920,000
Sweden	2.4	4,366,094
Total Investments	133.6%	\$241,790,818

The geographic allocation is based on where the Investment Adviser believes the country of risk to be. Country of risk is traditionally the country where the majority of the company's operations are based or where it is headquartered.

See Accompanying Notes to Financial Statements.

Avenue Income Credit Strategies Fund**Statement of Assets and Liabilities**

October 31, 2012

Assets

Investments in securities of unaffiliated issuers, at value (cost \$231,964,215)	\$	237,432,902
Investments in securities of affiliated issuers, at value (cost \$5,209,704)		4,357,916
Interest receivable		4,370,902
Receivable for investments sold		1,901,197
Cash collateral held at broker		750,000
Foreign currency, at value (cost \$434,656)		434,656
Prepaid expenses		27,030
Total Assets		249,274,603

Liabilities

Payable for line of credit		59,000,000
Payable for investments purchased		5,320,386
Net unrealized depreciation on open forward foreign currency contracts		2,509,970
Premiums received for swap contracts		634,700
Accrued investment advisory fee		256,790
Unrealized depreciation on swaps		242,454
Interest payable		15,308
Accrued Trustee's fees and expenses		9,310
Accrued expenses		294,930
Total Liabilities		68,283,848

Net Assets	\$	180,990,755
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Net Asset Value Per Common Share

\$180,990,755 divided by 9,801,866 common shares outstanding	\$	18.46
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Net Assets Consist of:

Common shares, \$0.001 par value, unlimited number of shares authorized, 9,801,866 shares issued and outstanding	\$	9,802
Paid-in capital		175,887,969
Undistributed net investment income		377,913
Accumulated net realized gain on investments, forward foreign currency contracts, foreign currency transactions and swap contracts		2,845,661
Net unrealized appreciation (depreciation) on investments, forward foreign currency contracts, foreign currency translations and swap contracts		1,869,410
Net Assets	\$	180,990,755

See Accompanying Notes to Financial Statements.

Avenue Income Credit Strategies Fund**Statement of Operations**

For the year ended October 31, 2012

Investment Income

Interest income unaffiliated issuers	\$	16,878,276
Interest income affiliated issuers		269,933
Total Investment Income		17,148,209

Expenses

Investment Advisory fee	2,499,460
Interest expense and commitment fee	581,003
Professional fees	502,974
Accounting and Administration fees	161,352
Custody fees	161,129
Insurance expense	132,333
Trustee s fees and expenses	78,078
Shareholder reporting expenses	59,446
Transfer agent fees	9,371
Loan servicing fees	6,701
Other expenses	81,461
Total expenses	4,273,308
Expenses reimbursed by Investment Adviser	(414,490)
Net Expenses	3,858,818
Net Investment Income	13,289,391

Realized And Unrealized Gain (Loss) on Investments, Forward Foreign Currency Contracts, Foreign Currency Transactions and Swap Contracts

Net realized gain (loss) on:	
Investments	(2,453,582)
Forward foreign currency contracts	5,547,968
Foreign currency transactions	(9,654)
Swap contracts	152,800
	3,237,532
Net change in unrealized appreciation (depreciation) on:	
Investments in securities of unaffiliated issuers	19,124,424
Investments in securities of affiliated issuers	(213,724)
Forward foreign currency contracts	(3,802,696)
Foreign currency translations	14,451
Swap contracts	(242,454)
	14,880,001
Net realized and unrealized gain on investments, forward foreign currency contracts, foreign currency transactions and swap contracts	18,117,533
Net increase in net assets resulting from operations	\$ 31,406,924

See Accompanying Notes to Financial Statements.

Avenue Income Credit Strategies Fund

Statement of Changes In Net Assets

	Year Ended October 31, 2012	For the period January 27, 2011*- October 31, 2011
<i>Increase In Net Assets from Operations:</i>		
Net investment income	\$ 13,289,391	\$ 7,344,092
Net realized gain (loss) on investments, forward foreign currency contracts, foreign currency transactions and swap contracts	3,237,532	(1,173,816)
Net change in unrealized appreciation (depreciation) on investments, forward foreign currency contracts, foreign currency translations and swaps	14,880,001	(13,010,591)
<i>Net increase (decrease) in net assets resulting from operations</i>	31,406,924	(6,840,315)
<i>Distributions to Shareholders from:</i>		
Net investment income	(12,791,435)	(6,682,190)
<i>Total distributions to shareholders</i>	(12,791,435)	(6,682,190)
<i>From Beneficial Interest Transactions:</i>		
Proceeds from sale of Common Shares (net of offering costs of \$293,289)		139,652,277
Reinvestment of distributions		356,822
Net proceeds from the sale of shares during rights offering (net of offering costs of \$406,747)	35,788,588	
<i>Net increase in net assets from beneficial interest transactions</i>	35,788,588	140,009,099
Net increase in net assets during the year	54,404,077	126,486,594
Net assets at beginning of period	126,586,678	100,084
<i>Net assets, end of period (including undistributed net investments income of \$377,913 and \$868,231, respectively)</i>	\$ 180,990,755	\$ 126,586,678

* Commencement of operations.

See Accompanying Notes to Financial Statements.

Avenue Income Credit Strategies Fund

Statement of Cash Flows

For the year ended October 31, 2012

Cash Flows from Operating Activities

Net increase in net assets resulting from operations	\$	31,406,924
Adjustments to reconcile net increase in net assets from operations to net cash used in operating activities:		
Investments purchased		(168,015,460)
Investments sold		112,968,214
Increase in short term investments, net		(1,120,800)
Net amortization/accretion of premium/(discount)		(362,684)
Increase in interest receivable		(1,212,392)
Premiums received for open swap contracts		634,700
Change in unrealized depreciation on forward foreign currency transactions		3,802,696
Decrease in prepaid expenses		27,411
Increase in cash collateral held at broker		(750,000)
Increase in accrued investment advisory fee		111,215
Decrease in accrued interest expense for credit facility		(6,948)
Decrease in accrued trustees' fees and expenses		(451)
Increase in accrued expenses and other liabilities		83,477
Net change in unrealized appreciation from investments		(18,910,700)
Change in unrealized depreciation on swap contracts		242,454
Net realized loss on investments		2,453,582
Net cash used in operating activities		(38,648,762)

Cash Flows from Financing Activities

Net Proceeds from the sale of shares during rights offering		35,788,588
Distributions paid to shareholders		(12,791,435)
Proceeds from secured borrowings		22,000,000
Repayment of secured borrowings		(6,000,000)
Net cash provided by financing activities		38,997,153
Net change in cash*		348,391
Cash at beginning of year ¹		86,265
Cash at end of year ¹	\$	434,656

* Includes net change in unrealized appreciation (depreciation) on foreign currency of \$2,007.

¹ Balance includes foreign currency, at value.

Supplemental disclosure of cash flow information:

Cash paid for interest during period	\$	587,951
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See Accompanying Notes to Financial Statements.

Avenue Income Credit Strategies Fund

Financial Highlights

Selected data for a share outstanding throughout each period

	Year Ended October 31, 2012		For the period January 27, 2011* October 31, 2011
Net asset value, beginning of period	\$ 17.22	\$	19.101
Income (loss) from investment operations:			
Net investment income ²	1.51		1.01
Net realized and unrealized gain (loss)	2.13		(1.94)
Total from investment operations	3.64		(0.93)
Distributions to shareholders from:			
Net investment income	(1.46)		(0.91)
Total distributions	(1.46)		(0.91)
Capital Share Transactions			
Dilutive effect on net asset value as a result of rights offering	(0.90)		
Offering costs charged to paid-in-capital	(0.04)		(0.04)
Net asset value, end of period	\$ 18.46	\$	17.22
Market value, end of period	\$ 18.22	\$	16.40
Total return on net asset value³	16.94% ⁴		(5.12)% ⁵
Total return on market value³	21.19% ⁴		(13.71)% ⁵
Net assets, end of period (in 000 s)	\$ 180,991	\$	126,587
Ratio of expenses to average net assets	2.50%		2.50% ⁶
Ratio of expenses to average net assets excluding interest expense, commitment fee and loan servicing fees	2.12%		2.09% ⁶
Ratio of net investment income to average net assets	8.61%		7.28% ⁶
Ratios before expense limitation:			
Ratio of expenses to average net assets	2.77%		3.00% ⁶
Ratio of net investment income to average net assets	8.34%		6.78% ⁶
Portfolio turnover rate	60%		56%
Loans Outstanding, End of Year (000s)	\$ 59,000	\$	43,000
Asset Coverage per \$1,000 unit of senior indebtedness ⁷	\$ 4,068	\$	3,944

* Commencement of operations.

1 Net asset value at beginning of period reflects the deduction of the underwriters discount of \$0.90 per share from the \$20.00 offering price.

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

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

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

5 Not annualized.

6 Annualized.

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

See Accompanying Notes to Financial Statements.

Avenue Income Credit Strategies Fund

Notes to Financial Statements

October 31, 2012

1. Organization

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

2. Significant Accounting Policies

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

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

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

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

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

Where reliable market quotes are not readily available, loans and debt obligations are valued, where possible, using independent market indicators provided by independent pricing sources approved by the Board of Trustees of the Fund (the Board). Any investment and other assets

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or liabilities for which current market quotations are not readily available are valued at fair value as determined in good faith in accordance with procedures established by the Board.

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

Avenue Income Credit Strategies Fund

Notes to Financial Statements (continued)

October 31, 2012

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

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

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

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

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

Avenue Income Credit Strategies Fund

Notes to Financial Statements (continued)

October 31, 2012

unrealized appreciation (depreciation) reflected in the Fund's Statement of Assets and Liabilities. It is the Fund's policy to net the unrealized appreciation and depreciation amounts for the same counterparty.

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

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

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

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

The maximum potential amount of future payments (undiscounted) that the Fund as a seller of protection could be required to make under a credit default swap agreement would be an amount equal to the notional amount of the agreement. Notional amounts of all credit default swap agreements outstanding as of October 31, 2012 for which the Fund is a seller of protection are disclosed later in the Notes to Financial Statements (see Note 10). These potential amounts would be partially offset by any recovery values of the respective referenced obligations,

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upfront payments received upon entering into the agreement, or net amounts received from the settlement of buy protection credit default swap agreements entered into by the Fund for the same referenced entity or entities.

Avenue Income Credit Strategies Fund

Notes to Financial Statements (continued)

October 31, 2012

OTC (Over the Counter) swap payments received or made at the beginning of the measurement period are reflected as such on the Fund's Statements of Assets and Liabilities and represent payments made or received upon entering into the swap agreement to compensate for differences between the stated terms of the swap agreement and prevailing market conditions (credit spreads, interest rates, and other relevant factors). These upfront payments are recorded as realized gains or losses on the Fund's Statement of Operations upon termination or maturity of the swap. A liquidation payment received or made at the termination of the swap is recorded as realized gain or loss on the Fund's Statement of Operations. Net periodic payments received or paid by the Fund are included as part of realized gains or losses on the Fund's Statement of Operations. Changes in market value, if any, are reflected as a component of net changes in unrealized appreciation/depreciation on the Fund's Statements of Operations.

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

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

UNFUNDED LOAN COMMITMENTS The Fund may enter into certain credit agreements all or a portion of which may be unfunded. The Fund is obligated to fund these commitments at the borrower's discretion. These commitments are disclosed in the accompanying Schedule of Investments. At October 31, 2012, the Fund had one outstanding unfunded loan commitment of \$4,750,000.

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

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

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

Avenue Income Credit Strategies Fund

Notes to Financial Statements (continued)

October 31, 2012

3. Distributions

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

4. Investment Advisory and Administration Agreements

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

Under an investment subadvisory agreement with the Investment Adviser, the Investment Adviser will pay Avenue Europe International Management, L.P. (the Subadviser), also an affiliate of Avenue Capital Group, an annual fee, payable monthly, in an amount equal to 1.25% of the average daily value of the assets managed by the Subadviser.

Effective on November 23, 2012, Avenue Europe International Management, L.P. no longer serves as the Fund's investment sub-adviser.

The Investment Adviser has contractually agreed to reimburse the Fund so that total other expenses (as a percentage of net assets attributable to Common Shares of the Fund) are limited to 0.50% until March 1, 2013 (excluding (i) interest, taxes, brokerage commissions and expenditures capitalized in accordance with generally accepted accounting principles, (ii) portfolio transactions and investment related expenses and (iii) extraordinary expenses not incurred in the ordinary course of the Fund's business). The Fund may repay any such reimbursement from the Investment Adviser if, within three years of the reimbursement, the Fund could repay the Investment Adviser without causing the Fund's total other expenses (as a percentage of net assets attributable to Common Shares of the Fund) to exceed 0.50% for the fiscal year in which such repayment would occur when such amount repaid to the Investment Adviser is included in the Fund's total other expenses. Thus, until those amounts are repaid, the Fund and the Common Shareholders will not enjoy any benefit of any further reduced

Avenue Income Credit Strategies Fund

Notes to Financial Statements (continued)

October 31, 2012

expenses. For the year ended October 31, 2012 and the period ended October 31, 2011, these expense reductions, including any fee waivers were as follows:

Subject to repayment dates	
October 31, 2014	October 31, 2015
\$502,176	\$414,490