

Avenue Income Credit Strategies Fund
Form N-CSR
January 07, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM N-CSR

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

Investment Company Act file number 811-22485

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

399 Park Avenue, 6th Floor

New York, NY
(Address of principal executive offices)

10022
(Zip code)

Copy to:

Randolph Takian

Avenue Capital Group

399 Park Avenue, 6th Floor

New York, NY 10022

(212) 878-3500

(Name and address of agent for service)

Stuart Strauss

Dechert LLP

1095 Avenue of the Americas

New York, NY 10036

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

Date of fiscal year end: October 31, 2015

Date of reporting period: October 31, 2015

Item 1. Shareholder Report

Avenue Income Credit Strategies Fund

Manager Commentary

October 31, 2015

Dear Shareholder,

We are pleased to present the 2015 Annual Report for Avenue Income Credit Strategies Fund (the Fund). The following Manager Commentary covers the one year period ended October 31, 2015.

Fund Objective and Principal Investment Strategy

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

Performance¹

For the one year period ended October 31, 2015, the Fund had a total return of -6.36% based on net asset value, and -9.29% based on market value. The average annual total return from January 27, 2011 (inception) through October 31, 2015, was 4.01% based on net asset value, and 0.23% based on market value. ^{2,3} The closing price of the Fund's shares as of October 31, 2015 on the New York Stock Exchange was \$13.09 representing a -12.21% discount to the Fund's net asset value per share of \$14.91.

Returns

The Fund invests across a range of assets. The below indices cover asset classes that Avenue Capital Management II, L.P. (the Adviser) believes are the same as, or similar to, the asset classes to which the Fund's assets are exposed (in whole or in part).

Fund/Index	Return Over the Period	
	11/1/2014	10/31/2015
Avenue Income Credit Strategies Fund (ACP) based on net asset value		-6.36%
Avenue Income Credit Strategies Fund (ACP) based on market value		-9.29%
Barclays U.S. Corporate High Yield Index ⁴		-1.94%
CS Leveraged Loan Index ⁴		0.81%

Performance data shown represents past performance and does not guarantee future results. Current performance may be lower or higher than the performance data shown. Investment returns and principal value will fluctuate, and when sold, your investment may be worth more or less than its original cost. All returns assume reinvestment of all dividends. The Fund is subject to various fees and expenses which include advisory fees, operating expenses, investment related expenses (including but not limited to interest on borrowings) and extraordinary expenses, and the

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performance shown above reflects the deduction of such fees and expenses. The performance above reflects fee waivers and/or expense reimbursements made by the Fund's Investment Adviser. Absent such waivers and/or reimbursements, the Fund's returns would be lower. Performance information is not annualized, unless otherwise noted. The Fund commenced operations on January 27, 2011. Current performance for the most recent month end can be obtained by calling (877) 525-7330. An independent accountant has not audited, reviewed or compiled the performance results.

Factors Affecting Performance

The Fund underperformed the Barclays Index and CS Index over the period. The Fund continues to utilize fundamental analysis to drive our investment approach and individual security selection.

Avenue Income Credit Strategies Fund

Manager Commentary (continued)

October 31, 2015

We believe that our approach of analyzing each investment on the merits of issuer, industry and rating has benefitted performance and should, in our opinion, continue to allow us to select credits that are likely to be drivers of alpha.

The top issuer contributors were:

Ø Accellent Inc., JC Penney Corporation Inc., Stackpole International Intermediate Co SA / Stackpole International Powder Metal, Surgery Center Holdings, Inc. and KIK Custom Products Inc.⁵

The top issuer detractors were:

Ø Connacher Oil and Gas Limited, Bennu Holdings LLC, Chassix Inc., iHeart Communications, Inc. and KCA Deutag UK Finance PLC⁶

During the year, the Fund's use of leverage increased from 29.8% to 31.6% as a percentage of Managed Assets and the leverage amount decreased from \$100,000,000 to \$90,000,000.

Market Outlook

While the Adviser focuses the majority of its research on fundamental company and industry analysis, it is also cognizant of the macro risks that could positively or negatively impact the asset classes we invest in and risk assets in general. The following is a summary of the key macro risks we are currently monitoring:

Ø Monetary policy divergence is underway as the Federal Reserve is widely expected to move away from zero rates on December 16, when it moves to raise the Fed Funds rate upward by an estimated 25 basis points; while on December 3, the European Central Bank expanded its Quantitative Easing program via a reduction of deposit rates from -0.2% to -0.3% as it extended its asset purchase program by adding EUR 10bn per month to its planned purchases, and extended the program by six additional months.⁷ This could result in a further deterioration of the Euro into 2016.

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Ø We believe overcapacity and reduced demand continue to put more downward pressure on commodity prices, which will likely result in an increase in distressed exchanges and defaults, especially in the energy sector.

Ø The Chinese economy is expected to slow further to a sub 7% growth rates, which could lead to lower demand for commodities and a possible further devaluation of emerging market currencies.

Ø Strengthening of the US Dollar continues to be a major concern for corporate earnings, especially for multinational firms that rely on non-US revenues.

While there is likely to be continued volatility in the near term for credit and risk assets⁹, we believe that the current yield to worst for the high yield market is attractive for the medium-to-long term.

The Adviser's investment team will continue working diligently to identify attractive investment opportunities across the performing, stressed and distressed universe on a global basis. We appreciate your continued interest and support.

Avenue Capital Management II, L.P.

December, 2015

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

Avenue Income Credit Strategies Fund

Manager Commentary (concluded)

October 31, 2015

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 data shown represents past performance and does not guarantee future results. Current performance may be lower or higher than the performance data shown. Investment returns and principal value will fluctuate, and when sold, your investment may be worth more or less than its original cost. All returns assume reinvestment of all dividends. The Fund is subject to various fees and expenses which include advisory fees, operating expenses, investment related expenses (including but not limited to interest on borrowings) and extraordinary expenses, and the performance shown above reflects the deduction of such fees and expenses. The performance above reflects fee waivers and/or expense reimbursements made by the Fund's Investment Adviser. Absent such waivers and/or reimbursements, the Fund's returns would be lower. Performance information is not annualized, unless otherwise noted. The Fund commenced operations on January 27, 2011. Current performance for the most recent month end can be obtained by calling (877) 525-7330. An independent accountant has not audited, reviewed or compiled the performance results.

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

3 Includes dilution of approximately \$0.94 to NAV per share resulting from the Fund's transferable 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 NAV per share of the Fund.

4 Index information was compiled from sources that Avenue Capital Management II, L.P. believes to be reliable. No representation or guarantee is made hereby with respect to the accuracy or completeness of such data. The Barclays U.S. Corporate High Yield Index comprises issues that have at least \$150 million par value outstanding, a maximum credit rating of Ba1 or BB+ (excluding defaulted issues) and at least one year to maturity. The CS Leveraged Loan Index is designed to mirror the investible universe of the \$US-denominated leveraged loan market. Investors cannot invest directly in an index, and index performance does not reflect the deduction of any fees or expenses. There are material differences between such indices and the Fund, including without limitation that such indices are unmanaged, broadly-based indices, do not reflect payment of management or brokerage fees and differ in numerous other respects from the portfolio composition of the Fund; as a result, the Fund's investment portfolio is materially different from any given index. Indices include reinvestment of dividends and other income.

5 The top contributors are evaluated on a total profit and loss basis, which includes realized and unrealized market value gains and losses, impact from foreign exchange transactions, and accrued interest. The list of top contributors does not represent all investments held, purchased or sold during the reporting period and is based on the Adviser's books and records. As of the reporting date of October 31, 2015, the positions listed represented the following percentages of the Fund on a market value basis: Accellent Inc. 0.0%, JC Penney Corporation Inc. 2.2%, Stackpole International Intermediate Co SA / Stackpole International Powder Metal 1.7%, Surgery Center Holdings, Inc. 1.7%

and KIK Custom Products Inc. 0.0%.

6 The top detractors are evaluated on a total profit and loss basis, which includes realized and unrealized market value gains and losses, impact from foreign exchange transactions, and accrued interest. The list of top detractors does not represent all investments held, purchased or sold during the reporting period and is based on the Adviser's books and records. As of the reporting date of October 31, 2015, the positions listed represented the following percentages of the Fund on a market value basis: Connacher Oil and Gas Limited 0.2%, Bennu Holdings LLC 1.1%, Chassix Inc. 4.5%, iHeart Communications, Inc. 4.4%, and KCA Deutag UK Finance PLC 0.4%.

7 *European Central Bank, Introductory Statement to the Press Conference (with Q&A)*, December 3, 2015.

8 Bloomberg, December 16, 2015.

9 Risk assets generally refer to assets that have a significant degree of price volatility, such as equities, commodities, high-yield bonds and loans, and currencies.

Avenue Income Credit Strategies Fund

Financial Data(a)

October 31, 2015 (unaudited)

Security Type(b)

Ratings(c)

Geographic Allocation(d)

Top Five Industries(f)

Top 10 Largest Holdings(g)

1	Inventiv Health Inc.	3.3%
2	Endemol NV	3.2%
3	Chassix Inc.	3.1%
4	iHeart Communications, Inc.	3.0%
5	IMG Worldwide Inc.	2.6%
6	ConvaTec Finance International	2.6%
7	K Hovanian Enterprises Inc.	2.6%
8	Faenza GMBH	2.6%
9	Ardagh Glass	2.2%
10	BWAY Holding Company	2.0%
Total Top 10:		27.2%

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

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- (b) Security Type, as defined by Avenue Capital Management II, L.P. (the Investment Adviser), is sourced from Bloomberg as well as developed via internal classifications.
- (c) Ratings information represent Standard & Poor's ratings on instruments in the portfolio. Ratings are provided for informational purposes only and may change over time. Standard & Poor's rates securities from AAA (highest quality) to C (lowest quality), and D to indicate securities in default. BB and below are considered below investment grade securities. Greater risk, such as increased volatility, limited liquidity, prepayment, non-payment and increased default risk, is inherent in portfolios that invest in high yield (junk) bonds. The Fund may invest all or a substantial portion of its assets in below investment grade securities which are often referred to as high yield or junk securities.
- (d) The geographic allocation is based on where the Investment Adviser believes the country of risk to be. Country of risk is the country where the majority of the company's operations are based or where it is headquartered. Investment in non-U.S. securities is subject to the risk of currency fluctuations and to economic and political risks associated with such foreign countries.
- (e) Cash and Cash Equivalents includes cash as well as other non-investment asset and liabilities (net), excluding borrowings under credit facilities.
- (f) Industries are represented using GICS classifications.
- (g) The holdings of the Fund are calculated based on Issuer as opposed to Issue. The number of Issues the Fund owns will be significantly higher than the number of Issuers set forth herein.
- (h) Loans may include senior secured, senior unsecured and subordinated loan obligations.

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Avenue Income Credit Strategies Fund

Schedule of Investments

October 31, 2015

Security Description	Coupon	Maturity	Principal Amount (000)	Value
CORPORATE BONDS & NOTES 94.3%				
Aerospace & Defense 3.6%				
Accudyne Industries Borrower / Accudyne Industries LLC (a)	7.75%	12/15/2020	\$ 1,914	\$ 1,660,395
US Airways 2000-3C Pass Through Trust (b)	8.39%	3/1/2022	4,956	5,401,750
				7,062,145
Auto Components 1.7%				
Stackpole International Intermediate Co. SA (a)	7.75%	10/15/2021	2,902	3,250,240
Banks 0.9%				
Royal Bank of Scotland Group PLC	7.65%	(c)	1,400	1,743,000
Chemicals 3.2%				
Hexion, Inc.:	6.63%	4/15/2020	3,177	2,692,507
	10.00%	4/15/2020	1,000	950,000
Perstorp Holding AB (a)	8.75%	5/15/2017	2,425	2,503,813
				6,146,320
Commercial Services & Supplies 1.8%				
Light Tower Rentals, Inc. (a)	8.13%	8/1/2019	5,017	3,461,730
Communications Equipment 2.0%				
Avaya, Inc.:	9.00%	4/1/2019(a)	3,700	3,015,500
	10.50%	3/1/2021(a)	2,199	