

KKR Income Opportunities Fund  
Form N-CSRS  
June 26, 2018

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  
(Address of principal executive offices)

94104  
(Zip code)

Nicole J. Macarchuk, Esq.  
KKR Asset Management LLC  
555 California Street, 50th Floor  
San Francisco, CA 94104  
(Name and address of agent for service)

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

Date of fiscal year: October 31, 2018  
end:

Date of reporting period: April 30, 2018

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**Item 1. Reports to Stockholders.**

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**KKR Income Opportunities Fund**

Semi-Annual Report

April 30, 2018

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Income Opportunities Fund

April 30, 2018  
(Unaudited)

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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 855-862-6092; and (ii) on the Commission's website at <http://www.sec.gov>.

**INFORMATION ABOUT THE FUND'S TRUSTEES**

The proxy statements and annual reports include information about the Fund's Trustees and are available without charge, upon request, by calling 855-862-6092 and by visiting the Commission's website at [www.sec.gov](http://www.sec.gov) or the Fund's website at [www.kkrfunds.com](http://www.kkrfunds.com).

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### Management Discussion of Fund Performance

#### Looking Back on the Markets April 30, 2018

KKR Income Opportunities Fund ( KIO ) aims to dynamically allocate across credit instruments to capitalize on changes in relative value among corporate credit investments and manage against macroeconomic risks. Our portfolio seeks exposure to companies where the perception of risk may be high but our analysis leads us to believe that risk is lower. Like others, we understand that most asset classes are expensive today but we also have a view that does not mean all assets are expensive. We believe that despite high average valuations across equity and credit markets, there is enough dispersion in value to identify and select a portfolio of large corporates that offer a highly attractive credit spread in today's market. Our portfolio is focused on where risk or true value is misperceived by many market participants. Our predominant focus is on large companies in sectors where names are not typically over-valued.

We believe KIO is well suited to the current credit market conditions as we seek assets that we believe are dislocated or fundamentally mispriced. We believe we are well equipped to construct a robust portfolio in times of stress and provide value to institutional portfolios that have broad credit exposure.

#### *Leveraged Loan Commentary(1)*

New issuance activity gained momentum in Q1 2018 on the back of high volumes in March. Loan new-issue activity increased in March, with gross institutional loan volume totaling \$109 billion, contributing to \$242 billion total volume for the quarter. This was the third highest quarterly volume on record, according to J.P. Morgan research. Robust activity during the quarter was largely attributable to an increase in M&A issuances rather than refinancing activity. While the refinancing share of activity lessened, repricing remained constant. More specifically, repricing activity totaled to \$143 billion in the first three months of 2018 (compared to \$135 billion volume in Q4 2017).

In terms of performance, the S&P LSTA Leveraged Loan index returned 1.45% in Q1 2018 after returning 1.11% and 1.04% in Q4 2017 and Q3 2017, respectively. The default rate ended the quarter at a three-year high of 2.42% after four issuers filed for bankruptcy during the period. This compares to 2.05% and 1.49% at the end of Q4 2017 and Q1 2017, respectively. The current rate, although significantly higher than the 18-month low of 1.36%, remains well inside the historical average of 3.1%.

CLO issuances continued to support demand across the loan market. U.S. CLO issuances were roughly double compared to Q1 2017, with \$32.1 billion priced in the first quarter. Retail loan funds turned a corner in 2018, with a net \$3.0 billion inflow to mutual funds and ETFs through March. As it relates to M&A, loan volume in the first quarter was approximately \$78.5 billion, with private equity accounting for 59% of that amount. Corporate issuances accounted for the remainder. The European loan market registered the fourth-largest total quarterly volume on record of 28 billion. Combined, U.S. and European loan volume was \$211 billion, up quarter-over-quarter, but approximately \$35 billion less than Q1 2017 volumes.

#### *High Yield Bond Commentary(1)*

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New issuance activity in the bond space was low given the periodic bouts of equity and rate volatility. As such, U.S. high-yield issuances totaled \$65.5 billion for the quarter, down 20% compared to the start of Q1 2017 (\$82.2 billion). Deal volume was largely supported by refinancing activity while M&A issuance activity accounted for only approximately 17% of Q1 issuances. In March, high-yield bonds reported a sixth consecutive outflow, totaling a cumulative -\$19.2 billion outflow for the quarter, which continued to put pressure on the market. Additionally, the European high yield market also had a slower-than-expected start to 2018 given a bout of equity market volatility which muted issuances.

High yield bond funds reported a -\$4.6 billion outflow in January, followed by -\$12.4 billion and -\$2.3 billion of outflows in February and March, respectively. February's outflow was the second largest monthly outflow on

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(1) Source: S&P LCD Quarterly Review and J.P. Morgan as of March 31, 2018.

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record behind the -\$13.6 billion outflow in June 2013. Notably, outflows totaled \$29.0 billion over the last six-month period, which is the largest six-month outflow on record.

The ICE BAML High Yield Master index II returned -0.91% in Q1 2018, compared to positive returns in the prior four quarters. Specifically, while high yield bonds had a positive return of 0.64% in January, February and March had negative returns of -0.93% and -0.62%, respectively. Four US companies defaulted in March, totaling \$5.6 billion in bonds. Thus far in 2018, fourteen companies have defaulted with debt totaling \$28.3 billion (\$17.4 billion in bonds and \$10.9 billion in loans). For context, the total default volume of \$28.3 billion in Q1 2018 accounts for the sixth largest quarterly total on record. As such, the par-weighted U.S. high yield default rate increased to 2.21%, and is up 31bps from 1.90% a year ago.

### The Market in Numbers

*For the period of November 1, 2017 – April 30, 2018:*

- *Returns:* Over the six month period ending April 30, 2018, the high yield and leveraged loan markets returned -0.23%(2) and 2.39%(3) (as measured by the ICE Bank of America Merrill Lynch High Yield Index and the S&P LSTA Leveraged Loan Index), respectively.
- *Spreads:* The option adjusted spread on the ICE Bank of America Merrill Lynch High Yield Index averaged approximately 353bps(2) for the six month period ending April 30, 2018. The 3-year discounted spread on the S&P LSTA Leveraged Loan Index averaged approximately 387bps(3) for the six month period ending April 30, 2018.
- *Volatility:* As measured by the VIX index, over the last six months, the VIX decreased to as low as 9.1 in November 2017, before settling at 15.9(4) as of April 30, 2018.

### Fund Performance

KIO is a 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.

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As of April 30, 2018, the Fund held 70.0% of its net assets in first and second-lien leveraged loans, 60.6% of its net assets in high-yield corporate debt, 8.3% of its net assets in common stock, and 1.4% of its net assets in preferred stock. KIO's investments represented obligations and equity interests in 93 companies diversified across 36 distinct industries. The top ten issuers represented 42.9% of the Fund's net assets while the top five industry groups represented 60.8% of the Fund's net assets. The Fund's Securities and Exchange Commission 30-day yield was 2.97%.

For the period from July 25, 2013 (commencement of operations) to April 30, 2018, KIO outperformed the ICE Bank of America Merrill Lynch High Yield Master II Index on a gross net asset value (NAV) and net NAV basis and underperformed it on a market price basis. Over that period, the Fund had returns of 9.71% on a gross NAV basis, 6.96% on a net NAV basis and 4.70% on a market price basis. Over the same period, the ICE Bank of America Merrill Lynch High Yield Master II Index returned 5.27%. For the six month period ended April 30, 2018, the Fund had returns of 0.84% on a gross NAV basis, -0.63% on a net NAV basis, and -0.84% on a market price

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(2) Source: ICE Bank of America Merrill Markets Online as of April 30, 2018.

(3) Source: S&P LCD Discounted Spreads as of April 30, 2018.

(4) Source: Bloomberg as of April 30, 2018.



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basis, and the ICE Bank of America Merrill Lynch High Yield Master II Index returned -0.23% over the same time period. Since inception through April 30, 2018, the Fund traded at an average discount to NAV of 9.30%.<sup>(5)</sup> The Fund employed leverage during the period covered by this report.<sup>(6)</sup>

### 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](http://kkrfunds.com/kio).

### *Disclosures*

*The ICE 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 ICE 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 ICE 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 855-862-6092 or visit [www.kkrfunds.com/kio](http://www.kkrfunds.com/kio) for performance results current to the most recent calendar quarter-end.*

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*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*

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(5) Source: USBank Internal application as of April 30, 2018.

(6) 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.

*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.*

**Performance Information**

**KKR Income Opportunities Fund**

**Value of \$10,000 vs. ICE BofA Merrill Lynch High Yield Master II Index ®**

| <b>Average Annual Total Returns</b>                |                     |                 |                   |                        |    |                  |
|--|---------------------|-----------------|-------------------|------------------------|----|------------------|
| <b>Period Ended April 30, 2018</b>                 |                     | <b>One Year</b> | <b>Three Year</b> | <b>Since Inception</b> |    | <b>Value of</b>  |
|  |                     |                 |                   | <b>(7/25/2013)</b>     |    | <b>\$10,000</b>  |
|  |                     |                 |                   |                        |    | <b>4/30/2018</b> |
| KKR Income Opportunities Fund                      | Market Price Return | 0.44%           | 9.00%             | 4.70%                  | \$ | 12,447           |
| KKR Income Opportunities Fund                      | NAV Return          | 3.61%           | 8.15%             | 6.96%                  | \$ | 13,777           |
| ICE BofA Merrill Lynch High Yield Master II Index® |                     | 3.21%           | 4.99%             | 5.27%                  | \$ | 12,774           |

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Schedule of Investments

|  | Par        | Value        |
|--|------------|--------------|
| <b>LEVERAGED LOANS - 70.0%</b>   |            |              |
| Aerospace & Defense - 0.5%   |            |              |
| EaglePicher Technologies, LLC, TL 2L 02/18                                 |            |              |
| 9.151% (1 Month US LIBOR + 7.250%), 03/08/2026 (a)                         | 1,838,910  | \$ 1,849,254 |
| Auto Components - 0.6%   |            |              |
| American Tire Distributors, Inc., TL 1L 04/15                              |            |              |
| 6.244% (US LIBOR + 4.250%), 09/01/2021 (a)                                 | 2,428,850  | 2,129,664    |
| Building Products - 1.1%   |            |              |
| SRS Distribution, Inc., TL 2L 06/16  |            |              |
| 10.651% (1 Month US LIBOR + 8.750%), 02/24/2023 (a)                        | 3,943,740  | 4,066,982    |
| Chemicals - 1.5%   |            |              |
| Emerald Performance Materials, LLC, TL 2L 07/14                            |            |              |
| 9.651% (1 Month US LIBOR + 7.750%), 08/01/2022 (a)                         | 1,401,160  | 1,408,747    |
| Invictus, TL 2L 01/18  |            |              |
| 8.651% (1 Month US LIBOR + 6.750%), 03/28/2026 (a)                         | 1,082,100  | 1,094,273    |
| New Arclin US Holding Corp., TL 2L 02/17                                   |            |              |
| 11.052% (3 Month US LIBOR + 8.750%), 02/14/2025 (a)                        | 282,363    | 286,246      |
| Vantage Specialty Chemicals, Inc., TL 2L 10/17                             |            |              |
| 10.151% (1 Month US LIBOR + 8.250%), 10/26/2025 (a)                        | 2,397,730  | 2,415,713    |
|  |            | 5,204,979    |
| Commercial Services & Supplies - 7.5%                                      |            |              |
| Acosta Holdco., Inc., TL 1L B 04/15  |            |              |
| 5.151% (1 Month US LIBOR + 3.250%), 09/26/2021 (a)                         | 11,784,482 | 9,671,230    |
| Advantage Sales & Marketing, Inc., TL 1L B 06/14                           |            |              |
| 5.151% (1 Month US LIBOR + 3.250%), 07/23/2021 (a)                         | 7,747,194  | 7,435,718    |
| Koosharem LLC, TL 1L 03/18   |            |              |
| 7.503% (3 Month US LIBOR + 5.000%), 04/10/2025 (a)                         | 4,461,380  | 4,517,147    |
| Monitronics International, Inc., TL 1L 03/12                               |            |              |
| 7.802% (3 Month US LIBOR + 5.500%), 09/30/2022 (a)                         | 5,180,705  | 5,029,921    |
|  |            | 26,654,016   |
| Distributors - 2.5%  |            |              |
| Distribution International, Inc., TL 1L 12/14                              |            |              |
| 7.310% (3 Month US LIBOR + 5.000%), 12/15/2021 (a)                         | 9,690,329  | 8,902,990    |
| Diversified Telecommunication Services - 1.0%                              |            |              |
| Onvoy, LLC, TL 1L 01/17  |            |              |
| 6.802% (3 Month US LIBOR + 4.500%), 02/01/2024 (a)                         | 3,511,555  | 3,401,819    |
| Electronic Equipment, Instruments & Components - 2.9%                      |            |              |
| Excelitas Technologies Corp., TL 2L 10/17                                  |            |              |
| 9.161% (3 Month US LIBOR + 7.500%), 12/01/2025 (a)                         | 9,985,960  | 10,198,162   |
| Energy Equipment & Services - 0.3%   |            |              |
| Proserv Acquisition LLC, TL 1L B1 12/14 (US Tranche)                       |            |              |
| 9.125% (3 Month US Prime + 4.375%), 12/22/2021 (a) (b) (c) (d) (e) (f) (j) | 1,157,735  | 582,769      |
| Proserv Acquisition LLC, TL 1L B2 12/14 (UK Tranche)                       |            |              |
| 9.125% (3 Month US Prime + 4.375%), 12/22/2021 (a) (b) (c) (d) (e) (f) (j) | 679,540    | 342,060      |

See notes to financial statements



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|  | Par           | Value      |
|--|---------------|------------|
| <b>LEVERAGED LOANS - 70.0% (continued)</b>                         |               |            |
| Energy Equipment & Services - 0.3% (continued)                     |               |            |
| Proserv Acquisition LLC, Bridge Loan 1L 03/18                      |               |            |
| 10.895% (1 Month EURIBOR + 9.000%), 12/22/2021 (a) (b) (c) (e) (j) | 60,263        | \$ 58,455  |
|  |               | 983,284    |
| Food & Staples Retailing - 2.0%                                    |               |            |
| BJ's Wholesale Club, Inc., TL 2L 01/17                             |               |            |
| 9.391% (1 Month US LIBOR + 7.500%), 02/03/2025 (a)                 | 6,481,857     | 6,570,982  |
| Grocery Outlet, Inc., TL 2L 09/14                                  |               |            |
| 10.552% (3 Month US LIBOR + 8.250%), 10/21/2022 (a)                | 591,309       | 597,222    |
|  |               | 7,168,204  |
| Food Products - 1.1%   |               |            |
| CSM Bakery Products, TL 2L 07/13                                   |               |            |
| 10.060% (3 Month US LIBOR + 7.750%), 07/05/2021 (a)                | 991,568       | 951,910    |
| CTI Foods Holding Co. LLC, TL 2L 06/13                             |               |            |
| 9.160% (1 Month US LIBOR + 7.250%), 06/28/2021 (a)                 | 3,800,000     | 2,894,327  |
|  |               | 3,846,237  |
| Health Care Equipment & Supplies - 0.7%                            |               |            |
| DeVilbiss Healthcare LLC, TL 1L B 11/16                            |               |            |
| 7.802% (3 Month US LIBOR + 5.500%), 01/03/2023 (a)                 | 2,489,329     | 2,326,751  |
| Health Care Providers & Services - 7.1%                            |               |            |
| Amedes Holding AG, TL 1L B 8/15 EUR                                |               |            |
| 4.750% (6 Month EURIBOR + 4.750%), 08/19/2022 (a) (e)              | EUR 3,703,840 | 4,459,333  |
| Genoa (QoL), TL 2L 10/16   |               |            |
| 9.901% (1 Month US LIBOR + 8.000%), 10/28/2024 (a)                 | 5,063,890     | 5,146,178  |
| Press Ganey Holdings, Inc., TL 2L 10/17                            |               |            |
| 8.401% (1 Month US LIBOR + 6.500%), 10/23/2025 (a)                 | 3,044,038     | 3,082,088  |
| Quorum Health Corp., TL 1L 04/16                                   |               |            |
| 8.651% (1 Month US LIBOR + 6.750%), 04/29/2022 (a)                 | 8,357,624     | 8,554,780  |
| Team Health, Inc., TL 1L 01/17                                     |               |            |
| 4.651% (1 Month US LIBOR + 2.750%), 02/06/2024 (a)                 | 3,970,314     | 3,856,167  |
|  |               | 25,098,546 |
| Hotels, Restaurants & Leisure - 1.7%                               |               |            |
| Sky Betting & Gaming, TL 1L 07/17                                  |               |            |
| 5.052% (3 Month US LIBOR + 2.750%), 08/23/2024 (a) (e)             | 15,634        | 15,693     |
| SMG/PA, TL 2L 12/17  |               |            |
| 8.901% (1 Month US LIBOR + 7.000%), 01/23/2026 (a)                 | 480,720       | 492,438    |
| The Bay Club Co., TL 1L 08/16                                      |               |            |
| 8.490% (3 Month US LIBOR + 6.500%), 08/31/2022 (a)                 | 5,378,381     | 5,464,112  |
|  |               | 5,972,243  |
| Internet Software & Services - 0.2%                                |               |            |
| Access CIG, LLC, TL 2L 02/18                                       |               |            |
| 9.651% (1 Month US LIBOR + 7.750%), 02/27/2026 (a)                 | 723,835       | 730,624    |
| Access CIG, LLC, TL 2L DD 02/18                                    |               |            |
| 9.648% (1 Month US LIBOR + 7.750%), 02/27/2026 (a) (h)             | 134,667       | 135,930    |
|  |               | 866,554    |
| IT Services - 1.5%   |               |            |
| NeuStar, Inc., TL 2L 02/17   |               |            |
| 10.302% (3 Month US LIBOR + 8.000%), 08/08/2025 (a)                | 720,434       | 720,884    |

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|   | Par        | Value        |
|---|------------|--------------|
| <b>LEVERAGED LOANS - 70.0% (continued)</b>                    |            |              |
| IT Services - 1.5% (continued)                                |            |              |
| Sutherland Global Services, Inc., TL 1L 10/14_US Borrower     |            |              |
| 7.677% (3 Month US LIBOR + 5.375%), 04/23/2021 (a)            | 3,870,648  | \$ 3,720,660 |
| Sutherland Global Services, Inc., TL 1L 10/14_Cayman Borrower |            |              |
| 7.677% (3 Month US LIBOR + 5.375%), 04/23/2021 (a)            | 900,999    | 866,086      |
|   |            | 5,307,630    |
| Life Sciences Tools & Services - 0.5%                         |            |              |
| Albany Molecular Research, Inc., TL 2L 07/17                  |            |              |
| 8.901% (1 Month US LIBOR + 7.000%), 08/28/2025 (a)            | 1,670,930  | 1,695,994    |
| Machinery - 8.3%  |            |              |
| Accuride Corp., TL 1L B 10/17                                 |            |              |
| 7.552% (3 Month US LIBOR + 5.250%), 11/17/2023 (a)            | 4,590,378  | 4,642,019    |
| BakerCorp International, Inc., TL 1L B 06/11                  |            |              |
| 5.359% (3 Month US LIBOR + 3.000%), 02/07/2020 (a)            | 6,341,718  | 6,325,864    |
| Utility One Source LP, TL 1L 03/17                            |            |              |
| 7.401% (1 Month US LIBOR + 5.500%), 04/18/2023 (a)            | 6,434,090  | 6,611,028    |
| WireCo WorldGroup, Inc., TL 1L 07/16                          |            |              |
| 7.484% (3 Month US LIBOR + 5.500%), 09/29/2023 (a) (e)        | 7,293,619  | 7,364,294    |
| WireCo WorldGroup, Inc., TL 2L 07/16                          |            |              |
| 10.984% (3 Month US LIBOR + 9.000%), 09/30/2024 (a) (e)       | 4,543,961  | 4,612,120    |
|   |            | 29,555,325   |
| Media - 2.1%  |            |              |
| Intelsat Jackson Holdings SA, TL 1L B4 12/17                  |            |              |
| 6.456% (3 Month US LIBOR + 4.500%), 01/02/2024 (a) (e)        | 2,389,980  | 2,483,715    |
| Intelsat Jackson Holdings SA, TL 1L B5 12/17                  |            |              |
| 6.625%, 01/02/2024 (e)  | 4,376,850  | 4,470,405    |
| NEP Broadcasting, LLC, TL 2L 06/17                            |            |              |
| 9.339% (3 Month US LIBOR + 7.000%), 01/23/2023 (a)            | 591,910    | 597,459      |
|   |            | 7,551,579    |
| Metals & Mining - 7.0%  |            |              |
| Foresight Energy, LLC, TL 1L B 03/17                          |            |              |
| 8.109% (3 Month US LIBOR + 5.750%), 03/28/2022 (a)            | 4,574,524  | 4,488,043    |
| Sequa Corp., TL 1L B 11/17                                    |            |              |
| 7.071% (3 Month US LIBOR + 5.000%), 11/28/2021 (a)            | 5,767,931  | 5,852,056    |
| Sequa Corp., TL 2L 04/17                                      |            |              |
| 10.752% (3 Month US LIBOR + 9.000%), 04/28/2022 (a)           | 14,270,888 | 14,490,874   |
|   |            | 24,830,973   |
| Multiline Retail - 2.1%                                       |            |              |
| Belk, Inc., TL 1L B 08/15                                     |            |              |
| 7.087% (3 Month US LIBOR + 4.750%), 12/12/2022 (a)            | 8,832,068  | 7,549,210    |
| Professional Services - 1.4%                                  |            |              |
| SIRVA Worldwide, Inc., TL 1L 10/16                            |            |              |
| 8.534% (3 Month US LIBOR + 6.500%), 11/22/2022 (a)            | 5,058,302  | 5,108,885    |
| Road & Rail - 1.3%  |            |              |
| Transplace, TL 2L 09/17                                       |            |              |
| 10.645% (1 Month US LIBOR + 8.750%), 10/06/2025 (a)           | 4,532,039  | 4,608,517    |

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|   | Par        | Value              |
|---|------------|--------------------|
| <b>LEVERAGED LOANS - 70.0% (continued)</b>                  |            |                    |
| Software - 8.7%   |            |                    |
| Applied Systems, Inc., TL 2L 09/17                          |            |                    |
| 9.302% (3 Month US LIBOR + 7.000%), 09/19/2025 (a)          | 6,013,300  | \$ 6,226,772       |
| iParadigms Holdings, LLC, TL 2L 07/14                       |            |                    |
| 9.552% (3 Month US LIBOR + 7.250%), 07/29/2022 (a)          | 5,133,360  | 5,056,360          |
| Misys Ltd., TL 2L 04/17                                     |            |                    |
| 9.234% (3 Month US LIBOR + 7.250%), 06/13/2025 (a)          | 9,697,362  | 9,608,874          |
| P2 Energy Solutions, Inc., TL 1L 10/13                      |            |                    |
| 5.800% (3 Month US LIBOR + 4.000%), 10/30/2020 (a)          | 10,175,266 | 10,045,938         |
|   |            | 30,937,944         |
| Specialty Retail - 3.0%                                     |            |                    |
| Charlotte Russe, Inc., TL 1L 12/17                          |            |                    |
| 8.500%, 02/02/2023 (b) (c) (j)                              | 1,531,496  | 1,531,496          |
| David s Bridal, Inc., TL 1L B 10/12                         |            |                    |
| 6.310% (3 Month US LIBOR + 4.000%), 10/11/2019 (a)          | 1,587,070  | 1,370,832          |
| Jo-Ann Stores, Inc., TL 1L 09/16                            |            |                    |
| 7.509% (3 Month US LIBOR + 5.000%), 10/20/2023 (a)          | 1,338,255  | 1,333,658          |
| Savers, Inc., TL 1L C 07/12                                 |            |                    |
| 6.111% (3 Month US LIBOR + 3.750%), 07/09/2019 (a) (b) (c)  | 6,454,364  | 6,280,935          |
|   |            | 10,516,921         |
| Textiles, Apparel & Luxury Goods - 0.6%                     |            |                    |
| Nine West Holdings, TL 1L 04/18 DIP                         |            |                    |
| 10.000%, 12/31/2018 (c) (h) (j)                             | 173,477    | 160,033            |
| Nine West Holdings, TL 1L B 03/14                           |            |                    |
| 7.500% (3 Month US Prime + 4.750%), 10/08/2019 (a)          | 2,193,290  | 2,117,446          |
|   |            | 2,277,479          |
| Trading Companies & Distributors - 1.8%                     |            |                    |
| FleetPride Corporation, TL 1L B 03/18                       |            |                    |
| 6.378% (1 Month US LIBOR + 4.500%), 11/18/2022 (a)          | 4,008,660  | 4,013,671          |
| FleetPride Corporation, TL 2L 03/18                         |            |                    |
| 10.878% (1 Month US LIBOR + 9.000%), 05/19/2023 (a)         | 2,604,310  | 2,561,990          |
|   |            | 6,575,661          |
| Transportation Infrastructure - 1.0%                        |            |                    |
| Commercial Barge Lines Co., TL 1L B 11/15                   |            |                    |
| 10.651% (1 Month US LIBOR + 8.750%), 11/12/2020 (a)         | 1,762,938  | 1,034,298          |
| Direct ChassisLink, Inc., TL 2L 11/17                       |            |                    |
| 7.901% (1 Month US LIBOR + 6.000%), 06/15/2023 (a)          | 2,347,058  | 2,394,000          |
|   |            | 3,428,298          |
| <b>TOTAL LEVERAGED LOANS (amortized cost \$249,289,732)</b> |            | <b>248,614,101</b> |
| <b>HIGH YIELD SECURITIES - 60.6%</b>                        |            |                    |
| Aerospace & Defense - 1.8%                                  |            |                    |
| Pattonair Holdings Ltd.                                     |            |                    |
| 9.000%, 11/01/2022 (e) (g)                                  | 2,863,000  | 2,948,890          |
| Triumph Group, Inc.   |            |                    |
| 7.750%, 08/15/2025  | 3,377,000  | 3,461,425          |
|   |            | 6,410,315          |

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|  | Par        | Value        |
|--|------------|--------------|
| <b>HIGH YIELD SECURITIES - 60.6% (continued)</b>                         |            |              |
| Building Products - 1.0%   |            |              |
| Ply Gem Holdings, Inc.<br>8.000%, 04/15/2026 (g)                         | 3,358,000  | \$ 3,359,007 |
| Chemicals - 1.0%   |            |              |
| Cornerstone Chemical Co.<br>6.750%, 08/15/2024 (g)                       | 1,042,000  | 1,031,580    |
| OCI NV<br>6.625%, 04/15/2023 (e) (g)                                     | 2,603,000  | 2,639,442    |
|  |            | 3,671,022    |
| Commercial Services & Supplies - 1.3%                                    |            |              |
| Vivint, Inc.<br>8.750%, 12/01/2020                                       | 2,406,000  | 2,351,865    |
| 7.625%, 09/01/2023   | 2,506,000  | 2,349,375    |
|  |            | 4,701,240    |
| Communications Equipment - 2.8%  |            |              |
| Genesys Telecommunications Laboratories, Inc.<br>10.000%, 11/30/2024 (g) | 9,062,000  | 10,013,510   |
| Construction & Engineering - 1.5%  |            |              |
| Maxim Crane Works LP / Maxim Finance Corp.<br>10.125%, 08/01/2024 (g)    | 4,876,000  | 5,314,840    |
| Construction Materials - 4.4%  |            |              |
| Cemex Materials LLC<br>7.700%, 07/21/2025 (g)                            | 13,776,000 | 15,473,479   |
| Containers & Packaging - 0.6%  |            |              |
| Reynolds Group Holdings, Inc.<br>7.950%, 12/15/2025                      | 2,002,000  | 2,217,215    |
| Diversified Telecommunication Services - 0.4%                            |            |              |
| Frontier Communications Corp.<br>8.500%, 04/01/2026 (g)                  | 1,500,000  | 1,458,750    |
| Electronic Equipment, Instruments & Components - 7.3%                    |            |              |
| Artesyn Technologies, Inc.<br>9.750%, 10/15/2020 (g)                     | 9,594,000  | 9,258,210    |
| Vertiv Group Corp.<br>9.250%, 10/15/2024 (g)                             | 16,541,000 | 16,706,410   |
|  |            | 25,964,620   |
| Energy Equipment & Services - 0.3%                                       |            |              |
| USA Compression Partners LLC<br>6.875%, 04/01/2026 (g)                   | 1,017,000  | 1,037,340    |
| Health Care Equipment & Supplies - 4.5%                                  |            |              |
| DJO Finance LLC / DJO Finance Corp.<br>8.125%, 06/15/2021 (g)            | 15,837,000 | 15,856,796   |

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|  | Par           | Value        |
|--|---------------|--------------|
| <b>HIGH YIELD SECURITIES - 60.6% (continued)</b> |               |              |
| Health Care Providers & Services - 5.9%          |               |              |
| Envision Healthcare Holdings                     |               |              |
| 5.125%, 07/01/2022 (g)                           | 4,496,000     | \$ 4,439,800 |
| Quorum Health Corp.                              |               |              |
| 11.625%, 04/15/2023                              | 109,000       | 115,813      |
| Surgery Partners Holdings, LLC                   |               |              |
| 8.875%, 04/15/2021 (g)                           | 8,070,000     | 8,291,925    |
| 6.750%, 07/01/2025 (g)                           | 2,841,000     | 2,684,745    |
| Team Health, Inc.                                |               |              |
| 6.375%, 02/01/2025 (g)                           | 5,703,000     | 4,961,610    |
| Tenet Healthcare Corp.                           |               |              |
| 7.000%, 08/01/2025 (g)                           | 538,000       | 528,585      |
|  |               | 21,022,478   |
| Health Care Technology - 0.2%                    |               |              |
| Change Healthcare Holdings LLC                   |               |              |
| 5.750%, 03/01/2025 (g)                           | 649,000       | 634,398      |
| Hotels, Restaurants & Leisure - 3.9%             |               |              |
| Boyne USA, Inc.                                  |               |              |
| 7.250%, 05/01/2025 (g)                           | 1,681,000     | 1,736,137    |
| ClubCorp Club Operations, Inc.                   |               |              |
| 8.500%, 09/15/2025 (g)                           | 12,520,000    | 12,207,000   |
|  |               | 13,943,137   |
| Household Products - 1.0%                        |               |              |
| Steinhoff  |               |              |
| 4.000%, 01/30/2021 (e) (g)                       | EUR 900,000   | 956,418      |
| 1.250%, 08/11/2022 (e) (g)                       | EUR 2,500,000 | 2,626,381    |
|  |               | 3,582,799    |
| Insurance - 0.7%                                 |               |              |
| Hub International Ltd.                           |               |              |
| 7.000%, 05/01/2026 (g)                           | 2,519,000     | 2,525,298    |
| Life Sciences Tools & Services - 4.6%            |               |              |
| Avantor, Inc.                                    |               |              |
| 6.000%, 10/01/2024 (b) (c) (g)                   | 14,962,594    | 15,037,407   |
| PAREXEL International Corp.                      |               |              |
| 6.375%, 09/01/2025 (g)                           | 1,370,000     | 1,346,025    |
|  |               | 16,383,432   |
| Machinery - 1.8%                                 |               |              |
| Cleaver-Brooks, Inc.                             |               |              |
| 7.875%, 03/01/2023 (g)                           | 6,132,000     | 6,331,290    |
| Media - 2.4%                                     |               |              |
| Clear Channel International BV                   |               |              |
| 8.750%, 12/15/2020 (g)                           | 3,651,000     | 3,806,167    |
| Intelsat Jackson Holdings SA                     |               |              |
| 7.250%, 10/15/2020 (e)                           | 4,947,000     | 4,829,509    |
|  |               | 8,635,676    |

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|   | Par        | Value              |
|---|------------|--------------------|
| <b>HIGH YIELD SECURITIES - 60.6% (continued)</b>                  |            |                    |
| Metals & Mining - 2.3%  |            |                    |
| Allegheny Technologies, Inc.                                      |            |                    |
| 7.875%, 08/15/2023  | 5,289,000  | \$ 5,730,896       |
| Foresight Energy, LLC   |            |                    |
| 11.500%, 04/01/2023 (g)   | 3,064,000  | 2,589,080          |
|   |            | 8,319,976          |
| Multiline Retail - 0.1%   |            |                    |
| J.C. Penney Corp., Inc.   |            |                    |
| 8.125%, 10/01/2019  | 153,000    | 160,650            |
| 5.650%, 06/01/2020  | 60,000     | 60,150             |
|   |            | 220,800            |
| Road & Rail - 4.2%  |            |                    |
| The Kenan Advantage Group, Inc.                                   |            |                    |
| 7.875%, 07/31/2023 (g)  | 14,689,000 | 14,909,335         |
| Software - 4.4%   |            |                    |
| CDK Global, Inc.  |            |                    |
| 4.875%, 06/01/2027  | 4,320,000  | 4,147,200          |
| Datatel, Inc.   |            |                    |
| 9.000%, 09/30/2023 (g)  | 6,727,000  | 7,080,167          |
| TIBCO Software, Inc.  |            |                    |
| 11.375%, 12/01/2021 (g)   | 4,020,000  | 4,376,775          |
|   |            | 15,604,142         |
| Textiles, Apparel & Luxury Goods - 0.3%                           |            |                    |
| Lycra   |            |                    |
| 7.500%, 05/01/2025 (e) (g)  | 907,000    | 929,675            |
| Transportation Infrastructure - 1.0%                              |            |                    |
| Direct ChassisLink, Inc.  |            |                    |
| 10.000%, 06/15/2023 (g)   | 3,326,000  | 3,508,930          |
| Wireless Telecommunication Services - 0.9%                        |            |                    |
| Sprint Corp.  |            |                    |
| 7.875%, 09/15/2023  | 2,274,000  | 2,438,865          |
| 6.875%, 11/15/2028  | 732,000    | 746,640            |
|   |            | 3,185,505          |
| <b>TOTAL HIGH YIELD SECURITIES (amortized cost \$211,952,320)</b> |            | <b>215,215,005</b> |

|   | Shares  |            |
|---|---------|------------|
| <b>COMMON STOCKS - 8.3%</b>             |         |            |
| Health Care Providers & Services - 5.1% |         |            |
| Amedisys, Inc. (b) (c) (d)              | 271,040 | 17,913,034 |
| Hotels, Restaurants & Leisure - 3.0%    |         |            |
| VICI Properties, Inc.                   | 591,340 | 10,750,561 |

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|  | Shares        | Value                 |
|--|---------------|-----------------------|
| <b>COMMON STOCKS 8.3% (continued)</b>                                |               |                       |
| Insurance - 0.2%   |               |                       |
| Towergate SUN NewCo Common Shares A (b) (c) (d) (e) (j)              | GBP 8,597     | \$                    |
| Towergate TopCo Common (b) (c) (d) (e) (j)                           | GBP 540,649   | 829,913               |
|  |               | 829,913               |
| Specialty Retail - 0.0%  |               |                       |
| Charlotte Russe, Inc. (b) (c) (d) (j)                                | 3,649         | 60,774                |
| <b>TOTAL COMMON STOCKS (cost \$16,017,108)</b>                       |               | <b>29,554,282</b>     |
| <b>PREFERRED STOCK - 1.4%</b>  |               |                       |
| Insurance - 1.4%   |               |                       |
| Towergate SUN NewCo Preference B                                     |               |                       |
| N/A (b) (c) (d) (e) (j)  | GBP 3,194,971 | 4,904,377             |
| <b>TOTAL PREFERRED STOCK (cost \$4,736,869)</b>                      |               | <b>4,904,377</b>      |
| <b>TOTAL INVESTMENTS (amortized cost \$481,996,029) (i) - 140.3%</b> |               | <b>498,287,765</b>    |
| <b>LIABILITIES EXCEEDING OTHER ASSETS, NET - (40.3)%</b>             |               | <b>(143,224,347)</b>  |
| <b>NET ASSETS - 100.0%</b>   |               | <b>\$ 355,063,418</b> |

In U.S. Dollars unless otherwise indicated.

EUR Euro.

GBP Great British Pound.

- (a) Variable rate security, the coupon rate shown is the effective rate as of April 30, 2018.
- (b) Security considered restricted due to the Adviser's knowledge of material non-public information. The total value of these securities as of April 30, 2018 was \$47,541,220 and represented 13.4% of net assets.
- (c) Security considered illiquid, as defined by the Securities and Exchange Commission. The total value of these securities as of April 30, 2018 was \$47,701,253 and represented 13.4% of net assets.
- (d) Non-income producing security.
- (e) Non-U.S. security.
- (f) Defaulted Security.
- (g) 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 April 30, 2018 was \$186,605,402, which represent 52.6% of net assets.
- (h) Includes unfunded or partially unfunded loan commitments. At April 30, 2018, the value of these unfunded securities amounted to \$58,120 or 0.02% of net assets.
- (i) All investments are held as collateral for the Fund's credit facility.

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(j) Fair valued security. Value determined using significant unobservable inputs.

The following table represents the Fund's investments categorized by country of risk as of April 30, 2018.

| <b>Country Weightings:</b>              | <b>% of Net Assets</b> |
|---|------------------------|
| United States                           | 127.6%                 |
| Cayman Islands                          | 3.4%                   |
| Luxembourg                              | 3.3%                   |
| United Kingdom                          | 2.7%                   |
| Germany                                 | 1.3%                   |
| Austria                                 | 1.0%                   |
| Netherlands                             | 1.0%                   |
|   | 140.3%                 |
| Liabilities Exceeding Other Assets, Net | (40.3)%                |
|   | 100.0%                 |

See notes to financial statements

**Statement of Assets and Liabilities**

|  |           |                    |
|--|-----------|--------------------|
| <b>Assets</b>  |           |                    |
| Investments, at value (amortized cost \$481,996,029)   | \$        | 498,287,765        |
| Cash and cash equivalents  |           | 12,953,666         |
| Receivable for investments sold  |           | 4,447,447          |
| Dividends and interest receivable  |           | 5,231,045          |
| Prepaid expenses   |           | 75,625             |
| <b>Total assets</b>  |           | <b>520,995,548</b> |
| <b>Liabilities</b>   |           |                    |
| Credit facility  |           | 143,480,476        |
| Payable for investments purchased  |           | 21,498,816         |
| Investment advisory fees   |           | 453,558            |
| Trustees fees  |           | 6,932              |
| Administration fees  |           | 13,332             |
| Investor support services fees   |           | 41,232             |
| Other accrued expenses   |           | 437,784            |
| <b>Total liabilities</b>   |           | <b>165,932,130</b> |
| <b>Net assets</b>  | <b>\$</b> | <b>355,063,418</b> |
| <b>Net Assets</b>  |           |                    |
| Paid-in capital (unlimited shares authorized \$0.001 par value)                                      | \$        | 362,095,253        |
| Undistributed net investment loss  |           | (52,121)           |
| Accumulated net realized loss on investments and foreign currency transactions                       |           | (23,832,632)       |
| Net unrealized appreciation on investments, foreign currency transactions and deferred Trustees fees |           | 16,852,918         |
| <b>Net assets</b>  | <b>\$</b> | <b>355,063,418</b> |
| Net asset value, price per share<br>(\$355,063,418 ÷ 20,340,315 shares)                              | \$        | 17.46              |

See notes to financial statements.

## Statement of Operations

|   | Six Months Ended<br>April 30, 2018 |
|---|------------------------------------|
| <b>Investment income</b>  |                                    |
| Interest income   | \$ 19,217,089                      |
| Term loan income  | 604,697                            |
| Dividend income   | 94,615                             |
| <b>Total investment income</b>  | <b>19,916,401</b>                  |
| <b>Expenses</b>   |                                    |
| Investment advisory fees  | 2,620,506                          |
| Credit facility interest expense  | 1,560,763                          |
| Investor support services fees  | 238,228                            |
| Legal fees  | 159,595                            |
| Term loan fees  | 132,837                            |
| Administration fees   | 59,270                             |
| Trustees fees   | 57,246                             |
| Audit and tax fees  | 37,564                             |
| Custodian fees  | 30,616                             |
| Shareholder reporting expense   | 28,392                             |
| Transfer agency fees  | 8,232                              |
| Other expenses  | 153,460                            |
| <b>Total expenses</b>   | <b>5,086,709</b>                   |
| <b>Net investment income</b>  | <b>14,829,692</b>                  |
| <b>Net realized and unrealized gain (loss) on investments, foreign currency transactions and deferred Trustees fees</b> |                                    |
| <b>Net realized gain (loss) on</b>  |                                    |
| Investments   | (7,136,388)                        |
| Foreign currency transactions   | 58,544                             |
| <b>Net realized loss</b>  | <b>(7,077,844)</b>                 |
| <b>Net change in unrealized appreciation (depreciation) on</b>  |                                    |
| Investments   | 10,380,393                         |
| Foreign currency transactions   | (163,516)                          |
| Deferred Trustees fees  | 5,685                              |
| <b>Net change in unrealized appreciation</b>  | <b>10,222,562</b>                  |
| <b>Net realized and unrealized gain on investments, foreign currency transactions and deferred Trustees fees</b>        | <b>3,144,718</b>                   |
| <b>Net increase in net assets resulting from operations</b>   | <b>\$ 17,974,410</b>               |

See notes to financial statements.

## Statements of Changes in Net Assets

|  | Six Months Ended<br>April 30, 2018 | Year Ended<br>October 31, 2017 |
|--|------------------------------------|--------------------------------|
| <b>Increase (decrease) in net assets resulting from operations</b>   |                                    |                                |
| Net investment income  | \$ 14,829,692                      | \$ 24,226,008                  |
| Net realized gain (loss) on investments and foreign currency transactions                                      | (7,077,844)                        | 4,043,921                      |
| Net change in unrealized appreciation on investments, foreign currency transactions and deferred Trustees fees | 10,222,562                         | 6,880,561                      |
| <b>Net increase in net assets resulting from operations</b>  | <b>17,974,410</b>                  | <b>35,150,490</b>              |
| <b>Distributions to shareholders from</b>  |                                    |                                |
| Net investment income  | (15,257,197)                       | (24,269,652)                   |
| Return of capital  | (379,817)                          |                                |
| <b>Total distributions</b>   | <b>(15,637,014)</b>                | <b>(24,269,652)</b>            |
| <b>From capital share transactions</b>   |                                    |                                |
| Proceeds from rights offering  | 72,353,344                         |                                |
| <b>Total capital share transactions</b>  | <b>72,353,344</b>                  |                                |
| <b>Net increase in net assets</b>  | <b>74,690,740</b>                  | <b>10,880,838</b>              |
| <b>Net assets</b>  |                                    |                                |
| Beginning of period/year   | 280,372,678                        | 269,491,840                    |
| End of period/year   | \$ 355,063,418                     | \$ 280,372,678                 |
| Undistributed net investment income (loss)   | \$ (52,121)                        | \$ 375,384                     |

See notes to financial statements.

## Statement of Cash Flows

|   | Six Months Ended<br>April 30, 2018 |
|---|------------------------------------|
| <b>Cash Flows from Operating Activities</b>   |                                    |
| Net increase in net assets resulting from operations  | \$ 17,974,410                      |
| Adjustments to reconcile net increase in net assets resulting from operations to net cash provided in operating activities: |                                    |
| Purchases of investments  | (230,188,060)                      |
| Proceeds from sales of investments  | 128,625,586                        |
| Net amortization (accretion) of premiums/discounts  | (1,299,860)                        |
| Net change in unrealized appreciation on investments  | (10,380,393)                       |
| Net change in unrealized appreciation on foreign currency transactions  | (72,861)                           |
| Net realized loss on investments  | 7,136,388                          |
| Net realized gain on foreign currency transactions  | (74,037)                           |
| Changes in assets and liabilities:  |                                    |
| Increase in advisory fees payable   | 84,236                             |
| Decrease in Trustees' fees  | (32,309)                           |
| Decrease in receivable for investments sold   | 1,852,260                          |
| Increase in payable for investments purchased   | 13,651,554                         |
| Increase in dividends and interest receivable   | (228,179)                          |
| Increase in prepaid expenses  | (46,294)                           |
| Decrease in accrued expenses and other liabilities  | (123,191)                          |
| Net cash used in operating activities   | (73,120,750)                       |
| <b>Cash Flows from Financing Activities</b>   |                                    |
| Cash distributions paid to shareholders   | (15,637,014)                       |
| Proceeds from rights offering   | 72,353,344                         |
| Proceeds from credit facility   | 64,981,291                         |
| Payment on borrowing of credit facility   | (39,578,672)                       |
| Foreign currency translation on credit facility   | 335,734                            |
| Net cash provided by financing activities   | 82,454,683                         |
| <b>Net increase in cash and cash equivalents</b>  | <b>\$ 9,333,933</b>                |
| <b>Cash and Cash Equivalents</b>  |                                    |
| Beginning Balance   | 3,619,733                          |
| Ending Balance  | \$ 12,953,666                      |
| Supplement Disclosure   |                                    |
| Cash paid for interest expense  | \$ 1,560,763                       |

See notes to financial statements.

## Financial Highlights

|  | Six Months<br>Ended<br>April 30,<br>2018<br>(Unaudited) | Year<br>Ended<br>October 31,<br>2017 | Year<br>Ended<br>October 31,<br>2016 | Year<br>Ended<br>October 31,<br>2015 | Year<br>Ended<br>October 31,<br>2014 | Period<br>Ended<br>October 31,<br>2013* |
|--|---|--------------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|---|
| <b>Per share operating performance(1)</b>  |   |                                      |                                      |                                      |                                      |   |
| Net asset value, beginning of period/year  | \$ 18.38  | \$ 17.67                             | \$ 17.11                             | \$ 18.98                             | \$ 19.56                             | \$ 19.06                                |
| Income from operations   |   |                                      |                                      |                                      |                                      |   |
| Net investment income  | 0.76  | 1.59                                 | 1.61                                 | 1.47                                 | 1.48                                 | 0.27                                    |
| Net realized and unrealized gain (loss) on investments, foreign currency transactions and deferred Trustees fees | 0.15  | 0.71                                 | 0.45                                 | (1.69)                               | (0.40)                               | 0.36                                    |
| Total income from operations   | 0.91  | 2.30                                 | 2.06                                 | (0.22)                               | 1.08                                 | 0.63                                    |
| Distributions from   |   |                                      |                                      |                                      |                                      |   |
| Net investment income  | (0.78)  | (1.59)                               | (1.50)                               | (1.51)                               | (1.62)                               | (0.13)                                  |
| Net realized gains   |   |                                      |                                      | (0.10)                               | (0.04)                               |   |
| Return of capital  | (0.02)  |                                      |                                      | (0.04)                               |                                      |   |
| Total distributions  | (0.80)  | (1.59)                               | (1.50)                               | (1.65)                               | (1.66)                               | (0.13)                                  |
| Dilutive effect of rights offering   | (1.03)  |                                      |                                      |                                      |                                      |   |
| Net Asset Value, end of period/year  | \$ 17.46  | \$ 18.38                             | \$ 17.67                             | \$ 17.11                             | \$ 18.98                             | \$ 19.56                                |
| <b>Total return#</b>   | <b>(0.84)%</b>  | <b>18.08%</b>                        | <b>17.10%</b>                        | <b>(6.50)%</b>                       | <b>7.95%</b>                         | <b>(10.07)%</b>                         |
| <b>Ratios to average net assets</b>  |   |                                      |                                      |                                      |                                      |   |
| Expenses   | 2.98%**   | 2.74%                                | 2.68%                                | 2.46%                                | 2.29%                                | 2.32%**                                 |
| Net investment income  | 8.70%**   | 8.74%                                | 9.79%                                | 8.23%                                | 7.57%                                | 5.36%**                                 |
| <b>Supplemental data</b>   |   |                                      |                                      |                                      |                                      |   |
| Market value/price   | \$ 15.91  | \$ 16.87                             | \$ 15.68                             | \$ 14.82                             | \$ 17.58                             | \$ 17.86                                |
| Price premium/(discount)   | (8.83)%   | (8.22)%                              | (11.26)%                             | (13.38)%                             | (7.38)%                              | (8.69)%                                 |
| Net assets, end of period/year (000 s)   | \$ 355,063  | \$ 280,373                           | \$ 269,492                           | \$ 261,004                           | \$ 289,474                           | \$ 298,425                              |
| Portfolio turnover rate  | 27.20%  | 84.06%                               | 82.48%                               | 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 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.

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The types of assets generally included in this category are common stocks 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 and certain leveraged loans.

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

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

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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 six months ended April 30, 2018, 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. Cash equivalents consist solely of money market funds with financial institutions. As of April 30, 2018, the Fund was invested in the Morgan Stanley Institutional Liquidity Government Portfolio - Institutional Class.

*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.

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

*Term Loan Income* Term Loan Income consists of transaction fees including, but not limited to, delayed compensation, assignment, transfer, administration and amendment fees. Fee and other income is recorded when earned.

*Income Taxes* The Fund has elected to be treated and has qualified, and intends to continue to qualify in each taxable year, 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 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 a 4% 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.

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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 (2014-2016). 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 April 30, 2018, 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 six months ended April 30, 2018, the Fund did not incur any interest or penalties.

### 3. Risk Considerations

*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.

The Fund invests mainly in leveraged loans, high yield securities, common stocks not actively traded and preferred stocks. 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 and 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 of 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.

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 Investment Advisory 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 Investment Advisory Fee paid to the Adviser will be higher than if the Fund did not use leverage because the Investment Advisory Fee paid is calculated on the basis of the Fund's Managed Assets, which includes the assets purchased through leverage.

During the six months ended April 30, 2018, the Adviser earned an Investment Advisory Fee of \$2,620,506.

*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 shares of the Fund. The value of a participating Independent Trustee s deferral account is based on the 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 measured on a recurring basis as of April 30, 2018, 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                                | \$            | \$ 215,215,005 | \$           | \$ 215,215,005 |
| Leveraged loans                                      |               | 245,939,288    | 2,674,813    | 248,614,101    |
| Common stocks  | 28,663,595    |                | 890,687      | 29,554,282     |
| Preferred stocks                                     |               |                | 4,904,377    | 4,904,377      |
| Cash equivalents                                     | 9,861,230     |                |              | 9,861,230      |
| Total investments in securities and cash equivalents | \$ 38,524,825 | \$ 461,154,293 | \$ 8,469,877 | \$ 508,148,995 |

The following are the details of the restricted securities held by the Fund:

| Issuer(1)  | Par/Shares | date(s)               | Cost         | Value         | Assets |
|--|------------|-----------------------|--------------|---------------|--------|
| Amedisys, Inc., Common Stock                         | 271,040    | 08/05/2013-08/08/2013 | \$ 3,799,456 | \$ 17,913,034 | 5.1%   |
| Avantor, Inc.  | 14,962,594 | 09/22/2017-12/05/2017 | 15,009,943   | 15,037,407    | 4.2%   |
| Charlotte Russe, Inc., TL 1L 12/17                   | 1,531,496  | 02/02/2018            | 2,170,718    | 1,531,496     | 0.4%   |
| Charlotte Russe, Inc., Common Stock                  | 3,649      | 02/02/2018            |              | 60,774        | 0.0%   |
| Proserv Acquisition LLC, Bridge Loan 1L 03/18        | 60,263     | 03/07/2018            | 59,612       | 58,455        | 0.0%   |
| Proserv Acquisition LLC, TL 1L B2 12/14 (UK Tranche) | 679,540    | 02/24/2015-09/14/2015 | 586,182      | 342,060       | 0.1%   |
| Proserv Acquisition LLC, TL 1L B1 12/14 (US Tranche) | 1,157,735  | 02/24/2015-09/14/2015 | 998,653      | 582,769       | 0.2%   |
| Savers, Inc., TL 1L C 07/12                          | 6,454,364  | 12/02/2015-07/13/2017 | 6,138,364    | 6,280,935     | 1.8%   |
| Towergate SUN NewCo Common Shares A                  | 8,597      | 04/02/2015            | 15           |               | 0.0%   |
| Towergate SUN NewCo Preference B                     | 3,194,971  | 04/02/2015            | 4,736,870    | 4,904,377     | 1.4%   |
| Towergate TopCo Common                               | 540,649    | 04/02/2015            | 815,841      | 829,913       | 0.2%   |

(1) Refer to the Schedule of Investments for more details on securities listed.

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The following is a reconciliation of the investments in which significant unobservable inputs (level 3) were used in determining value.

|   | <b>Leveraged Loans</b> | <b>Common Stocks</b> | <b>Preferred Stocks</b> |
|---|------------------------|----------------------|-------------------------|
| Balance at October 31, 2017   | \$ 1,540,274           | \$ 875,730           | \$ 4,828,971            |
| Purchases   | 205,044                |                      |                         |
| Sales and Paydowns  | (653,678)              | (81,332)             |                         |
| Transfer in and/or out of Level 3(1)  |                        |                      |                         |
| Settlements   | 2,200,155              |                      |                         |
| Net change in appreciation/(depreciation)                                       | 4,543,932              | 44,814               | 75,406                  |
| Net realized gain/(loss)  | (5,160,914)            | 51,475               |                         |
| Balance as of April 30, 2018  | \$ 2,674,813           | \$ 890,687           | \$ 4,904,377            |
| Net change in appreciation/(depreciation) on investments held at April 30, 2018 | \$ (700,530)           | \$ 73,534            | \$ 75,406               |

(1) The Fund's policy is to recognize transfers into and out of Level 3 at the beginning of each 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 April 30, 2018:

| <b>Financial Asset</b> | <b>Fair Value</b> | <b>Valuation Technique(1)</b> | <b>Unobservable Inputs(2)</b> | <b>Range (Weighted Average)(3)</b> |
|------------------------|-------------------|-------------------------------|-------------------------------|------------------------------------|
| Leveraged Loans        | \$ 2,674,813      | Market Comparables            | LTM EBIDTA Multiple           | 4.8x (4.8x)                        |
|                        |                   |                               | Fwd EBIDTA Multiple           | 4.0x (4.0x)                        |
|                        |                   |                               | Illiquidity Discount          | 20% (20%)                          |
|                        |                   |                               | EBITDA Multiple               | 15.8x (15.8x)                      |
| Common Stocks          | \$ 890,687        | Market Comparables            | LTM EBITDA Multiple           | 3.1x - 4.8x (3.2x)                 |
|                        |                   |                               | Fwd EBITDA Multiple           | 4.0x (4.0x)                        |
|                        |                   |                               | Illiquidity Discount          | 10%-20% (11%)                      |
| Preferred Stocks       | \$ 4,904,377      | Market Comparables            | LTM EBITDA Multiple           | 3.1x (3.1x)                        |
|                        |                   |                               | Illiquidity Discount          | 10% (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.

## 6. Shares of Beneficial Interest

The Fund issued to its stockholders of record as of the close of business on October 19, 2017, transferable rights to subscribe for up to an aggregate of 5,085,079 common shares of the Fund at a rate of one common share for every three rights held. The subscription price pursuant to the offering was \$14.87 and the issue was fully subscribed. Total offering costs incurred was \$594,816. An additional \$2,842,137 of brokerage and dealer-management commissions were charged directly against the proceeds of the rights offering. The Fund increased its net capital by \$72,353,344.

## 7. Investment Transactions

The cost of investments purchased and the proceeds from the sale of investments, other than short-term investments, for the six months ended April 30, 2018 were as follows:

|           |    |             |
|-----------|----|-------------|
| Purchases | \$ | 229,983,017 |
| Sales     | \$ | 128,625,586 |

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

## 8. Commitments and Contingencies

The Fund may enter into certain credit agreements, of which all or a portion may be unfunded. These commitments are disclosed in the accompanying Schedule of Investments. The Fund will maintain sufficient liquidity to fund these commitments at the borrower's discretion.

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 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.

## 9. 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.

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As of October 31, 2017, the following permanent differences have been reclassified (to)/from the following accounts:

|    | <b>Undistributed Net<br/>Investment<br/>Income/(Loss)</b> |    | <b>Accumulated<br/>Net Realized<br/>Gain/(Loss)</b> |    | <b>Paid-in Capital</b> |
|----|---|----|---|----|------------------------|
| \$ | (576,836)   | \$ | 576,836   | \$ |                        |

These reclassifications have no effect on net assets or net assets per share and are related to foreign currency.

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The tax character of distributions declared for the six months ended April 30, 2018 and the fiscal year ended October 31, 2017, were as follows:

|                  | Ordinary<br>Income | Return of<br>Capital | Total         |
|------------------|--------------------|----------------------|---------------|
| April 30, 2018*  | \$ 15,257,197      | \$ 379,817           | \$ 15,637,014 |
| October 31, 2017 | \$ 24,269,652      | \$                   | \$ 24,269,652 |

\* The Fund estimates, for GAAP purposes, a portion of the distribution attributable to current fiscal year net investment income may be reclassified to return of capital at October 31, 2018. A portion of the distribution may be characterized as return of capital for federal income tax purposes as well. The final tax character of any distribution declared in 2018 will be determined in January 2019 and reported to shareholders on IRS Form 1099-Div in accordance with federal income tax regulations.

As of October 31, 2017, the components of accumulated losses on a tax basis for the Fund are as follows:

| Undistributed<br>Ordinary<br>Income | Net<br>Unrealized<br>Appreciation | Other<br>Temporary<br>Differences | Total<br>Accumulated<br>Losses |
|-------------------------------------|-----------------------------------|-----------------------------------|--------------------------------|
| \$ 375,384                          | \$ 6,618,272                      | \$ (16,742,704)                   | \$ (9,749,048)                 |

Net capital losses earned may be carried forward indefinitely and must retain the character of the original loss. At October 31, 2017, the Fund had non-expiring capital loss carry-forwards of \$16,742,704.

As of October 31, 2017, 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<br>Cost | Aggregate<br>Gross<br>Unrealized<br>Appreciation | Aggregate<br>Gross<br>Unrealized<br>Depreciation | Net Unrealized<br>Appreciation/<br>(Depreciation) |
|---------------------|--|--|---|
| \$ 386,208,130      | \$ 22,339,084                                    | \$ (15,720,812)                                  | \$ 6,618,272                                      |

### 10. Credit Facility

In July 2013, the Fund entered into a \$145.0 million credit agreement that was reduced on July 25, 2016 to \$120.0 million and subsequently increased to \$160.0 million on December 8, 2017 (the "Maximum Facility Amount") with The Bank of Nova Scotia and amended in July 2017 with a new termination date of July 23, 2018 (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 75% of the Maximum Facility Amount or (b) 0.25% on the total Unused Facility Amount if the Unused Facility Amount is in excess of 75% of the Maximum Facility Amount. The per annum rate of interest for borrowing under the Credit Facility is equal to (a) London Interbank Offered Rate (LIBOR) plus 0.80% per annum or (b) the greatest of (i) the Prime Rate, (ii) the Federal Funds rate plus 0.50% per annum, and (iii) the Eurodollar rate plus 1.00% per annum.



As of April 30, 2018, there were the USD equivalent of \$143,480,476 of borrowings outstanding under the Credit Facility and the Fund is in compliance with the terms of the Credit Facility. During the six months ended April 30, 2018, the Fund had an average amount of borrowing of \$136,473,033 at an average interest rate of 2.34%.

**11. 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 the below additional disclosures was necessary.

**VOTING RESULTS FROM THE MARCH 22, 2018 SHAREHOLDER MEETING**

At the Annual Meeting of Shareholders held on March 22, 2018, shareholders approved the election of Michael E. Cahill as a Class I Trustee to the Board of Trustees to serve a three year term expiring in 2021 based on the following results:

|                          |            |
|--------------------------|------------|
| Total Outstanding Shares | 20,340,315 |
| Total Shares Voted       | 17,266,228 |
| For                      | 16,689,662 |
| Withheld                 | 576,566    |

**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.

## Privacy Notice

### Protection and Security of Your Personal Information

Kohlberg Kravis Roberts & Co. L.P. ( KKR ) 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, its affiliates, and funds ( KKR , we , or us ). Please read this notice carefully to understand what we do, and call us at (212) 750-8300 if you have any questions.

### The Personal Information We Collect and How We Collect It

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.

### How and Why We Share Personal Information

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

- **For everyday business purposes:** KKR 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 for everyday business purposes.

- **For our marketing purposes:** KKR shares personal information for our marketing purposes so that we can offer products and services to you. You cannot limit sharing by KKR for this reason.
- **For joint marketing with other financial companies:** KKR does not share personal information for joint marketing with other financial companies.

- **For use by affiliates in providing products and services to you:** KKR 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 KKR for this reason.
- **For the everyday business purposes of affiliates:** KKR 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 does not share personal information with affiliates so that they can market to you.
- **For use by non-affiliates to market to you:** KKR 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 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 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 does not jointly market.

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**Item 2. Code of Ethics.**

Not applicable for semi-annual report.

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

Not applicable for semi-annual report.

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

Not applicable for semi-annual report.

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

Not applicable for semi-annual report.

**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.**

Not applicable for semi-annual report.

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

Not applicable for semi-annual report.

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

As of the fiscal year ended April 30, 2018, the portfolio manager beneficially owned the following shares of the Fund:

| <b>Portfolio Manager</b> | <b>Dollar Range of<br/>Equity Securities Owned**</b> |
|--------------------------|--|
| Christopher A. Sheldon   | None   |

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\*\* 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).

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

There have been no material changes to the procedures by which shareholders may recommend nominees to the registrant's board of trustees since the registrant last provided disclosure in response to this item.

**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 six months ended April 30, 2018 that materially affected, or are reasonably likely to materially affect, the registrant's internal control over financial reporting.

**Item 12. Disclosure of Securities Lending Activities for Closed-End Management Investment Companies**

The registrant did not engage in securities lending activities during the fiscal year reported on this Form N-CSR.

**Item 13. 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, are filed herewith.

(a)(3) Not applicable.

(a)(4) Not applicable.

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(b) Certifications pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 are filed herewith.

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**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 6/25/18

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 6/25/18

By */s/ Thomas Murphy*  
Thomas Murphy, Treasurer, Chief Accounting Officer & Chief Financial Officer

Date 6/25/18

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