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Avenue Income Credit Strategies Fund
Form N-CSR
January 09, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM N-CSR

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

Investment Company Act file number 811-22485

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

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

10022
(Zip code)

Copy to:

Randolph Takian

Avenue Capital Group

399 Park Avenue, 6th Floor

New York, NY 10022

(212) 878-3500

(Name and address of agent for service)

Stuart Strauss

Dechert LLP

1095 Avenue of the Americas

New York, NY 10036

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

Date of fiscal year end: October 31, 2014

Date of reporting period: October 31, 2014

Item 1. Shareholder Report

Avenue Income Credit Strategies Fund

Manager Commentary

October 31, 2014

Dear Shareholder,

We are pleased to present the 2014 Annual Report for Avenue Income Credit Strategies Fund (the Fund). The following Manager Commentary covers the one year ended October 31, 2014.

Fund Objective

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

Performance¹

For the one year ended October 31, 2014, the Fund had a total return of 6.19% based on net asset value, and 4.24% based on market value. The average annual total return from January 27, 2011 (inception) through October 31, 2014, was 6.95% based on net asset value, and 2.92% based on market value.^{2,3} The closing price of the Fund's shares as of October 31, 2014 on the New York Stock Exchange was \$16.35 representing a 9.37% discount to the Fund's net asset value per share of \$18.04.

High Yield Bond and Bank Loan Market Returns for the Period November 1, 2013 to October 31, 2014⁴

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

Fund/Index	Return Over the One Year Ended October 31, 2014
Avenue Income Credit Strategies Fund (ACP) based on net asset value	6.19%
Avenue Income Credit Strategies Fund (ACP) based on market value	4.24%
Barclays U.S. Corporate High Yield Index	5.82%
CS Leveraged Loan Index	3.77%

Factors Affecting Performance

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The Fund posted strong performance over the period as it benefited from solid security selection across a number of positions within the portfolio.

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

The top issuer contributors were:

Ø CHC Helicopter SA, JC Penney Corporation, Inc., American Airlines, Avaya, Inc. and Clondalkin Acquisition BVs

The top issuer detractors were:

Ø Hercules Offshore LLC, Caesars Entertainment Corp., Halcon Resources LLC, iShares iBoxx Investment Grade Corporate Bond and NII International Telecom S.C.A.6

During the year, the Fund's use of leverage increased from 28.1% to 29.8% as a percentage of Managed Assets or from \$95,000,000 to \$100,000,000.

Avenue Income Credit Strategies Fund

Manager Commentary (continued)

October 31, 2014

Market Outlook

The credit markets, as measured by the Barclays U.S. Corporate High Yield Index, experienced moderate returns during the twelve month period, returning 5.82% compared to equity assets, as measured by the S&P 500 which returned 14.89% over the same period.⁷ European high yield markets fared slightly better than U.S., returning 6.68% for the period as measured by the BoA European High Yield Index.⁸ Energy was hit hard at the end of the period affected by poor European growth prospects and a slow-down in China resulting in 2.95% return as measured by the BoA US High Yield Energy Index.⁹

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

Ø **Global GDP growth forecasts are being revised down** amid a lumpy recovery. In October the IMF cut its 2014 growth forecast for 18 countries that use the euro to 0.8% from their 1.1% forecast in July.¹⁰

Ø **We believe slower growth, combined with supply concerns**, has caused sharp declines in commodity prices including oil and metals.

Ø **It is our view that recent geo-political turmoil has created more uncertainty** related to macro GDP growth forecasts and has been a contributing factor in the recent selloff in the broader market.

Ø **The impact of the Federal Reserve ending quantitative easing and raising rates.** The Fed has reiterated its intent to move slowly with respect to increasing rates, stating that it needs to see more improvement in the job market.

Ø **Europe and China undertaking stimulus** actions and the probable positive consequences of these actions

Ø **The potential impact** from increased equity market volatility

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While there is likely to be continued volatility in the near term for credit and risk assets¹¹, we believe that the current yield to worst for the high yield market is attractive for the medium-to-long term. There has been a substantial amount of bonds and loans that have sold off since the beginning of the quarter which should provide the Fund with an increased investment opportunity set.

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

Avenue Capital Management II, L.P.

December, 2014

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

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

¹ Performance data shown represents past performance and does not guarantee future results. Current performance may be lower or higher than the performance data shown. Investment returns and principal value will fluctuate, and when sold, your investment may be worth more or less than its original cost. All

Avenue Income Credit Strategies Fund

Manager Commentary (concluded)

October 31, 2014

returns assume reinvestment of all dividends. The Fund is subject to various fees and expenses which include advisory fees, operating expenses, investment related expenses (including but not limited to interest on borrowings) and extraordinary expenses, and the performance shown above reflects the deduction of such fees and expenses. The performance above reflects fee waivers and/or expense reimbursements made by the Adviser. Absent such waivers and/or reimbursements, the Fund's returns would be lower. Performance information is not annualized, unless otherwise noted. The Fund commenced operations on January 27, 2011. The performance shown thus represents the Fund's results for a short period of time and may not be indicative of the performance the Fund will be able to generate over longer periods. Current performance for the most recent month end can be obtained by calling (877) 525-7330. An independent accountant has not audited, reviewed or compiled the performance results.

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

3 Includes dilution of approximately \$0.94 to NAV per share resulting from the Fund's transferable rights offering, which expired on March 23, 2012. In connection with such offering, the Fund issued 2,450,466 additional common shares at a subscription price per share below the then-current NAV per share of the Fund.

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

5 The top contributors are evaluated on a total profit and loss basis, which includes realized and unrealized market value gains and losses, impact from foreign exchange transactions, and accrued interest. The list of top contributors does not represent all investments held, purchased or sold during the reporting period and is based on the investment adviser's books and records. As of the reporting date of October 31, 2014, the positions listed represented the following percentages of the Fund on a market value basis: CHC Helicopter SA 1.4%, JC Penney Corporation, Inc. 1.8%, American Airlines, Inc. 2.5%, Avaya, Inc. 2.4% and Clondalkin Acquisition BV 1.5%.

6 The top detractors are evaluated on a total profit and loss basis, which includes realized and unrealized market value gains and losses, impact from foreign exchange transactions, and accrued interest. The list of top detractors does not represent all investments held, purchased or sold during the reporting period and is based on the investment adviser's books and records. As of the reporting date of October 31, 2014, the positions listed represented the following percentages of the Fund on a market value basis: Hercules Offshore LLC 0.0%, Caesars Entertainment Corp. 3.9%, Halcon Resources LLC 0.7%, iShares iBoxx Investment Grade Corporate Bond ETF -0.5% and NII International Telecom S.C.A. 0.0%.

- 7 Bloomberg, November 25, 2014.
- 8 Bank of America Merrill Lynch Mercury Research website, November 25, 2014.
- 9 Bank of America Merrill Lynch Mercury Research website, November 25, 2014.
- 10 International Monetary Fund, *World Economic and Financial Surveys*, October 2014.
- 11 Risk assets generally refers to assets that have a significant degree of price volatility, such as equities, commodities, high-yield bonds, real estate and currencies.

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Avenue Income Credit Strategies Fund

Financial Data(a)

October 31, 2014 (unaudited)

Security Type(b)

Ratings(c)

Geographic Allocation(d)

Top Five Industries(f)

Top 10 Largest Holdings(g)

1	Clear Channel Communications, Inc.	3.2%
2	Caesars Entertainment Corp.	2.7%
3	Navios Maritime Holdings	2.6%
4	American International Group, Inc.	2.5%
5	Faenza GMBH	2.4%
6	K Hovnanian Enterprises, Inc.	2.4%
7	KCA Deutag UK Finance PLC	2.4%
8	Chassix	2.3%
9	Jack Cooper Holdings Corp.	1.8%
10	BMC Software, Inc.	1.8%
Total Top 10:		24.1%

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- (a) Holdings are subject to change without notice. Calculated as a percent of managed assets as of the date of this document. Where applicable, percentages may not add to 100% due to rounding.
- (b) Security Type, as defined by Avenue Capital Management II, L.P. (the Investment Adviser), is sourced from Bloomberg as well as developed via internal classifications.
- (c) Ratings information represent Standard & Poor's ratings on instruments in the portfolio. Ratings are provided for informational purposes only and may change over time. Standard & Poor's rates securities from AAA (highest quality) to C (lowest quality), and D to indicate securities in default. BB and below are considered below investment grade securities. Greater risk, such as increased volatility, limited liquidity, prepayment, non-payment and increased default risk, is inherent in portfolios that invest in high yield (junk) bonds. The Fund may invest all or a substantial portion of its assets in below investment grade securities which are often referred to as high yield or junk securities.
- (d) The geographic allocation is based on where the Investment Adviser believes the country of risk to be. Country of risk is the country where the majority of the company's operations are based or where it is headquartered. Investment in non-U.S. securities is subject to the risk of currency fluctuations and to economic and political risks associated with such foreign countries.
- (e) Cash and Cash Equivalents includes cash as well as other non-investment asset and liabilities (net), excluding borrowings under credit facilities.
- (f) Industries are represented using GICS classifications.
- (g) The holdings of the Fund are calculated based on Issuer as opposed to Issue. The number of Issues the Fund owns will be significantly higher than the number of Issuers set forth herein.
- (h) Loans may include senior secured, senior unsecured and subordinated loan obligations.

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Avenue Income Credit Strategies Fund

Schedule of Investments

October 31, 2014

<u>Security Description</u>	<u>Coupon</u>	<u>Maturity</u>	<u>Principal Amount (000)</u>	<u>Value</u>
CORPORATE BONDS & NOTES 86.6%				
Aerospace & Defense 2.1%				
Accudyne Industries Borrower / Accudyne Industries LLC (a)	7.75%	12/15/2020	\$ 4,728	\$ 4,917,120
Air Freight & Logistics 0.3%				
XPO Logistics, Inc. (a)	7.88%	9/1/2019	589	616,978
Airlines 2.5%				
US Airways 2000-3C Pass Through Trust	8.39%	3/1/2022	5,163	5,821,021
Auto Components 4.7%				
Chassis Holdings, Inc. PIK (a)	10.00%	12/15/2018	2,490	2,141,400
Chassis, Inc. (a)	9.25%	8/1/2018	5,600	5,432,000
MPG Holdco I, Inc. (a)	7.38%	10/15/2022	1,084	1,138,200
Stackpole International Intermediate Co. SA (a)	7.75%	10/15/2021	2,376	2,414,610
				11,126,210
Chemicals 1.0%				
Perstorp Holding AB (a)	8.75%	5/15/2017	2,425	2,467,438
Commercial Banks 0.7%				
Royal Bank of Scotland Group PLC	7.65%	(b)	1,400	1,646,750
Commercial Services & Supplies 2.1%				
Light Tower Rentals, Inc. (a)	8.13%	8/1/2019	5,017	4,941,745
Communications Equipment 5.1%				
Alcatel-Lucent USA, Inc. (a)	8.88%	1/1/2020	3,195	3,506,512
Aspect Software, Inc.	10.63%	5/15/2017	2,925	2,888,438
Avaya, Inc.:	9.00%	4/1/2019(a)	3,700	3,792,500
	10.50%	3/1/2021(a)	2,199	1,926,874
				12,114,324
Computers & Peripherals 0.7%				
Oberthur Technologies Holding SAS (a)	9.25%	4/30/2020	EUR 1,357	1,721,781
Construction Materials 3.5%				
CeramTec Group GmbH (a)	8.25%	8/15/2021	6,100	8,202,243
Consumer Finance 1.8%				
Springleaf Finance Corp.	6.90%	12/15/2017	\$ 4,000	4,360,000
Containers & Packaging 1.8%				
Ardagh Finance Holdings SA PIK (a)	8.63%	6/15/2019	3,261	3,334,405
BWAY Holding Co. (a)	9.13%	8/15/2021	841	872,538
				4,206,943
Diversified Telecommunication Services 0.4%				
Wind Acquisition Finance SA (a)	7.38%	4/23/2021	950	928,625
Energy Equipment & Services 6.1%				
CHC Helicopter SA	9.38%	6/1/2021	3,087	3,279,938
Globe Luxembourg SCA (a)	9.63%	5/1/2018	5,715	5,886,450
Tervita Corp.:	8.00%	11/15/2018(a)	2,725	2,616,000
	9.00%	11/15/2018(a)	CAD 1,500	1,284,326
	10.88%	2/15/2018(a)	\$ 1,422	1,294,020
				14,360,734
Health Care Equipment & Supplies 2.6%				
ConvaTec Finance International SA PIK (a)	8.25%	1/15/2019	5,000	5,106,875

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Jaguar Holding Co. I PIK (a)

9.38%

10/15/2017

956

978,705
6,085,580

See Accompanying Notes to Financial Statements.

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Schedule of Investments (continued)

October 31, 2014

<u>Security Description</u>	<u>Coupon</u>	<u>Maturity</u>	<u>Principal Amount (000)</u>	<u>Value</u>
Health Care Providers & Services 2.9%				
Amsurg Corp. (a)	5.63%	7/15/2022	\$ 1,246	\$ 1,291,012
HCA, Inc.:				
	7.05%	12/1/2027	745	771,075
	7.50%	11/6/2033	120	127,200
	7.58%	9/15/2025	555	621,600
	7.69%	6/15/2025	900	1,017,000
Tenet Healthcare Corp.:				
	6.88%	11/15/2031	2,475	2,425,500
	8.13%	4/1/2022	525	601,781
				6,855,168
Hotels, Restaurants & Leisure 5.4%				
Caesars Entertainment Operating Co, Inc.:				
	9.00%	2/15/2020	6,215	4,692,325
	11.25%	6/1/2017	5,850	4,387,500
The Unique Pub Finance Co. PLC	5.66%	6/30/2027	GBP 2,323	3,738,313
				12,818,138
Household Durables 4.4%				
Beazer Homes USA, Inc.:				
	7.25%	2/1/2023	\$ 1,016	1,010,920
	7.50%	9/15/2021	1,329	1,342,290
K Hovnanian Enterprises, Inc.:				
	7.00%	1/15/2019(a)	240	234,000
	8.00%	11/1/2019(a)	213	213,799
	9.13%	11/15/2020(a)	7,000	7,595,000
				10,396,009
Independent Power and Renewable Electricity Producers 1.2%				
Dynegy Finance I, Inc. (a)	6.75%	11/1/2019	1,770	1,831,950
Illinois Power Generating Co.	6.30%	4/1/2020	981	895,162