

Avenue Income Credit Strategies Fund
Form DEF 14A
April 12, 2012

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant X

Filed by a Party other than the Registrant O

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to §240.14a-12

Avenue Income Credit Strategies Fund
(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.
 - (1) Title of each class of securities to which transaction applies:
 - (2) Aggregate number of securities to which transaction applies:
 - (3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):
 - (4) Proposed maximum aggregate value of transaction:
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- Fee paid previously with preliminary materials.
- Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.
 - (1) Amount Previously Paid:
 - (2) Form, Schedule or Registration Statement No.:
 - (3) Filing Party:
 - (4) Date Filed:

Avenue Income Credit Strategies Fund

**399 Park Avenue, 6th Floor
New York, NY 10022**

April 12, 2012

Dear Shareholder:

We are writing to inform you of the upcoming annual meeting of shareholders (the "**Shareholders**") of the Avenue Income Credit Strategies Fund, a Delaware statutory trust (the "**Fund**"), scheduled to be held on May 17, 2012 (the "**Annual Meeting**") to elect one Trustee to the Board of Trustees (the "**Board**") to serve for a three-year term to expire at the 2015 annual meeting of Shareholders and until his successor has been duly elected and qualified. This proposal is discussed in more detail in the Fund's proxy statement, which you should read carefully. The Board believes that this proposal is in the best interests of the Fund and its Shareholders, and unanimously recommends that you vote "**FOR**" the election of Darren Thompson as a Class I Trustee.

If you are a Shareholder of record as of the close of business on April 5, 2012, you are entitled to vote at the Annual Meeting and at any adjournment thereof. While you are, of course, welcome to join us at the Annual Meeting, we expect that most Shareholders will cast their votes by filling out and signing the proxy card. The Board has recommended the election of Mr. Thompson as a Class I Trustee and encourages you to vote "**FOR**" his election. If you have any questions regarding the issue to be voted on, please do not hesitate to call the Fund at 1-888-867-6963. Whether or not you are planning to attend the Annual Meeting, we need your vote. Please mark, sign, and date the proxy card and promptly return it, so that the maximum number of shares may be voted.

Thank you for taking the time to consider this important proposal and for your continuing investment in the Fund.

Sincerely,

AVENUE INCOME CREDIT STRATEGIES FUND

Randy Takian
President and Principal Executive Officer

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**Avenue Income Credit Strategies Fund
399 Park Avenue, 6th Floor
New York, NY 10022**

**NOTICE OF ANNUAL MEETING
TO BE HELD May 17, 2012**

Important Notice Regarding the Availability of Proxy Materials for the annual meeting of Shareholders to be Held on May 17, 2012: The proxy statement (the "Proxy Statement") of the Fund is available at www.avenuecapital.com/mutualstrategy.aspx. On this site, you will be able to access the Proxy Statement for the annual meeting and any amendments or supplements to the foregoing material required to be furnished to shareholders.

To the shareholders (the "**Shareholders**") of the Avenue Income Credit Strategies Fund, a Delaware statutory trust (the "**Fund**"):

Notice is hereby given that the annual meeting (the "**Annual Meeting**") of Shareholders of the Fund will be held on May 17, 2012, at 8:00 a.m., Eastern Time, at the offices of Davis Polk & Wardwell LLP located at 450 Lexington Ave., New York, New York 10017. At the Annual Meeting, you and the other Shareholders of the Fund will be asked to consider and vote on:

1. The election of a Class I Trustee to the Board of Trustees for a term of three years to expire at the 2015 annual meeting of Shareholders, or special meeting in lieu thereof, and until his successor has been duly elected and qualified.
2. The transaction of such other business as may properly come before the Annual Meeting or any adjournments or postponements thereof.

The proposal is discussed in greater detail in the Fund's Proxy Statement. Shareholders of record at the close of business on April 5, 2012 are entitled to notice of, and to vote at, the Annual Meeting. Please read the accompanying Proxy Statement. Regardless of whether you plan to attend the Annual Meeting, **please complete, sign and return promptly the proxy card**, so that a quorum will be present and a maximum number of shares may be voted. You may change your vote at any time by notifying the undersigned or by voting at the Annual Meeting.

By Order of the Board of Trustees

Randy Takian
President and Principal Executive Officer

April 12, 2012

YOUR VOTE IS IMPORTANT. WHETHER OR NOT YOU PLAN TO ATTEND THE ANNUAL MEETING, PLEASE COMPLETE, DATE, SIGN AND MAIL THE PROXY CARD. YOUR PROMPT RESPONSE WILL ASSURE A QUORUM AT THE ANNUAL MEETING.

INSTRUCTIONS FOR SIGNING PROXY CARDS

The following general rules for signing proxy cards may be of assistance to you and avoid the time and expense to the Fund involved in validating your vote if you fail to sign your proxy card properly.

1. Individual Accounts: Sign your name exactly as it appears in the registration on the proxy card.
2. Joint Accounts: Either party may sign, but the name of the party signing should conform exactly to a name shown in the registration.
3. Other Accounts: The capacity of the individual signing the proxy card should be indicated unless it is reflected in the form of registration. For example:

REGISTRATIONS

VALID SIGNATURES

Corporate Accounts

- | | |
|--|------------------------------------|
| (1) ABC Corp. | ABC Corp. (by John Doe, Treasurer) |
| (2) ABC Corp. | John Doe, Treasurer |
| (3) ABC Corp.
c/o John Doe, Treasurer | John Doe |
| (4) ABC Corp. Profit Sharing Plan | John Doe, Trustee |

Trust Accounts

- | | |
|---|----------------------|
| (1) ABC Trust | Jane B. Doe, Trustee |
| (2) Jane B. Doe, Trustee
u/t/d/ 12/28/78 | Jane B. Doe |

Custodial or Estate Accounts

- | | |
|---|------------------------------|
| (1) John B. Smith, Cust.
f/b/o John B. Smith, Jr. UGMA | John B. Smith |
| (2) John B. Smith | John B. Smith, Jr., Executor |
-

Avenue Income Credit Strategies Fund
399 Park Avenue, 6th Floor
New York, NY 10022

PROXY STATEMENT
April 12, 2012

This proxy statement ("**Proxy Statement**") is being furnished by the Board of Trustees (the "**Board**") of the Avenue Income Credit Strategies Fund (the "**Fund**"), to the shareholders (the "**Shareholders**") of the Fund, in connection with the Fund's solicitation of Shareholders' proxies for use at its annual meeting (the "**Annual Meeting**") scheduled to be held on May 17, 2012, at 8:00 a.m., Eastern Time, at the offices of Davis Polk & Wardwell LLP located at 450 Lexington Ave., New York, New York 10017 for the purposes set forth below and in the accompanying Notice of Annual Meeting. This Proxy Statement and form of proxy card was mailed to registered Shareholders only on or about April 12, 2012 and is available on the internet at www.avenuecapital.com/mutualstrategy.aspx. At the Annual Meeting, the Shareholders will be asked to vote on:

1. The election of a Class I Trustee to the Board for a term of three years to expire at the 2015 annual meeting of Shareholders, or special meeting in lieu thereof, and until his successor has been duly elected and qualified.
2. The transaction of such other business as may properly come before the Annual Meeting or any adjournments or postponements thereof.

Record Date/ Shareholders Entitled to Vote. The Fund is a recently organized closed-end management investment company registered under the Investment Company Act of 1940, as amended (the "**Investment Company Act**"). The record holders of outstanding common shares of beneficial interest, par value \$0.001 per common share (the "**Shares**") of the Fund are entitled to vote one vote per Share (and a fractional vote per fractional Share) on all matters presented at the Annual Meeting. Shareholders of the Fund at the close of business on April 5, 2012 will be entitled to be present and vote at the Annual Meeting. As of that date, there were 9,801,866 Shares of the Fund outstanding and entitled to vote, representing total net assets of approximately \$170,687,864.

Voting Proxies. Whether you expect to be personally present at the Annual Meeting or not, we encourage you to vote by proxy. You can do this by completing, dating, signing and returning the proxy card. In addition, Shareholders who received the Notice of Internet Availability of Proxy Materials (the "**Notice**") by mail, rather than the Proxy Statement, may vote over the internet using the control number found on the Notice. Properly executed proxies will be voted as you instruct by the persons named in the accompanying proxy card. In the absence of such direction, however, the persons named in the accompanying proxy card intend to vote "**FOR**" the election of Mr. Thompson and may vote in their discretion with respect to other matters not now known to the Board that may be presented at the Annual Meeting. Shareholders who execute proxies may revoke them at any time before they are voted, either by writing to the Secretary of the Fund, Ty Oyer, c/o Avenue Income Credit Strategies Fund, 399 Park Ave. 6th Floor, New York, NY 10022, or in person at the time of the Annual Meeting. If not so revoked, the Shares represented by the proxy will be voted at the Annual Meeting, and any adjournments or postponements thereof, as instructed. Attendance by a Shareholder at the Annual Meeting does not, in itself, revoke a proxy.

The Fund expects that broker-dealer firms holding Shares of the Fund in "street name" for the benefit of their customers and clients will request the instructions of such customers and clients on how to cast their votes on the proposal before the Annual Meeting. The Fund understands that under the rules of the New York Stock Exchange, broker-dealers may, without instructions from such customers, clients and beneficial Shareholders, grant authority to the proxies designated by the Fund to vote on the election of a Trustee if no instructions have been received prior to the date specified in the broker-dealer firm's request for voting instructions. Certain broker-dealer firms may exercise

discretion over Shares held in their name for which no instructions are received by voting such Shares in the same proportion as they have voted Shares for which they have received instructions.

The election of a Trustee to the Board requires the affirmative vote of a plurality of the Shares entitled to vote for the election of such Trustee present in person or represented by proxy at a meeting with a quorum present. For purposes of the election of Trustees, abstentions and broker non-votes will be counted as Shares present for quorum purposes, but will not be treated as votes cast. Abstentions and broker non-votes, therefore, will have no effect on the election of Mr. Thompson as a Class I Trustee (except to the extent they cause a quorum to be present). All properly executed proxies received prior to the Annual Meeting will be voted at the Annual Meeting in accordance with the instructions marked thereon. Proxies received prior to the Annual Meeting on which no vote is indicated will be voted "FOR" the election of Mr. Thompson as a Class I Trustee.

Quorum Required to Hold Annual Meeting. In order to transact business at the Annual Meeting, a "quorum" must be present. Under the Fund's Amended and Restated Agreement and Declaration of Trust (the "Charter"), a quorum is constituted by the presence in person or by proxy of one-third (1/3) of the Shares entitled to vote which, for the avoidance of doubt, will include Shares held by brokers who provide votes and/or non-votes as to all matters.

Abstentions and broker non-votes (*i.e.*, proxies from brokers or nominees indicating that they have not received instructions from the beneficial owners on an item for which the brokers or nominees do not have discretionary power to vote) will be treated as present for determining whether a quorum is present with respect to a particular matter. Abstentions and broker non-votes will not, however, be treated as votes cast at the Annual Meeting. Abstentions and broker non-votes, therefore, will have no effect on proposals which require a plurality or majority of votes cast for approval (except to the extent they cause a quorum to be present), but will have the same effect as a vote "against" on proposals requiring any percentage of the outstanding voting Shares of the Fund for approval.

If a quorum of Shareholders is not present at the Annual Meeting, or if a quorum is present but sufficient votes to elect Mr. Thompson as a Class I Trustee are not received, the Shareholders present at the Annual Meeting or the persons named as proxies shall have the power, but are under no obligation, to propose an adjournment of the Annual Meeting without further notice other than announcement at the Annual Meeting until such quorum shall be present or in order to solicit additional votes. The Shareholders entitled to cast not less than a majority of all the votes entitled to be cast at such meeting on a matter shall also have the power to adjourn the Annual Meeting. Written notice of such an adjournment stating the place, date and hour thereof, and in the case of a special meeting, specifying the purpose or purposes thereof, shall be given to each Shareholder entitled to vote thereat, at least seven (7) days prior to the Annual Meeting, if the Annual Meeting is adjourned to a date more than one hundred twenty (120) days after the original record date set for the Annual Meeting. With respect to the election of Mr. Thompson as a Class I Trustee, the persons named as proxies will vote all proxies in favor of adjournment that voted in favor of the election, and vote against adjournment all proxies that voted against such election. Abstentions and broker non-votes will have the same effect at any adjourned meeting as noted above. Any business that might have been transacted at the Annual Meeting may be transacted at any such adjourned session(s) at which a quorum is present.

Method and Cost of Proxy Solicitation. Proxies will be solicited by the Fund primarily via the internet or in some cases by mail. In addition, the Fund has retained Georgeson Inc. to assist in the solicitation of proxies for a fee of \$1,500 plus reimbursement of expenses. The Fund will pay the costs of the proxy solicitation and the expenses incurred in connection with preparing, printing and mailing the Proxy Statement and its enclosures. Although it is not anticipated, the solicitation may also include telephone, facsimile, electronic or oral communications by certain officers or employees of the Fund, Avenue Capital Management II, L.P., the Fund's investment adviser (the "**Adviser**"), Avenue Europe International Management, L.P., the Fund's investment sub-adviser (the "**Sub-Adviser**," and together with the Adviser, the "**Avenue Managers**"), or State Street Bank and Trust Company, the Fund's administrator ("**State Street**"), who will not be paid for these services. The Fund, Avenue Managers or State Street may also request broker-dealer firms, custodians, nominees and fiduciaries to forward proxy materials to the beneficial owners of the Shares of the Fund held of record by such persons. If requested, the Fund shall reimburse such broker-dealer firms, custodians, nominees and fiduciaries for their reasonable expenses incurred in connection

with such proxy solicitation, including reasonable expenses in communicating with persons for whom they hold Shares of the Fund.

Delivery of Proxy to Shareholders Sharing an Address. Only one Notice or Proxy Statement is being delivered to multiple Shareholders sharing the same address. If requested, the Fund shall promptly provide a Proxy Statement to each Shareholder sharing an address. Such Shareholders requesting individual Proxy Statements may call 1-888-867-6963 or write to Georgeson Inc. at 199 Water Street, 26th Floor, New York, NY 10038 to place their request.

PROPOSAL

ELECTION OF TRUSTEES

Background. The Fund's By-Laws provide that the Board shall be divided into three classes: Class I, Class II and Class III. The terms of office of the present Trustees of the Fund (each, a "**Trustee**") in each class expire at the Annual Meeting in the year indicated or thereafter in each case when their respective successors are elected and qualified: Class I, 2012, Class II, 2013, and Class III, 2014. At each subsequent annual election, Trustees chosen to succeed those whose terms are expiring will be identified as being in the same class and will be elected for a three-year term. The effect of these staggered terms is to limit the ability of other entities or persons to acquire control of the Fund because staggered terms delay the replacement of a majority of the Board.

At the Annual Meeting, Shareholders will be asked to vote for the election of Mr. Thompson, to serve as a Class I Trustee for a term of three years to expire at the 2015 annual meeting and until his successor is duly elected and qualified.

All Shares represented by properly executed proxies received prior to the Annual Meeting will be voted at the Annual Meeting in accordance with the instructions marked thereon. Proxies received prior to the Annual Meeting on which no vote is indicated will be voted "**FOR**" each proposal as to which they are entitled to be voted.

Mr. Thompson has consented to be named in this Proxy Statement and has agreed to serve if elected. If Mr. Thompson should be unable to serve due to an event not now anticipated, the persons named as proxies will vote for such other nominee as may be proposed by the nominating committee of the Fund (the "**Nominating Committee**").

Information Concerning the Nominee/ Trustees. The following table sets forth information about Mr. Thompson and each currently-elected member of the Board, including his/her name, address, age, position with the Fund, term of office and length of service with the Fund, principal occupation or employment and other directorships held during the past five years. Mr. Thompson and each other independent Trustee is not considered to be an "interested person" of the Fund within the meaning of the Investment Company Act (each, an "**Independent Trustee**," and collectively, the "**Independent Trustees**"). Mr. Takian is considered to be an "interested person" of the Fund within the meaning of the Investment Company Act and of the Avenue Managers. The terms of the Class II and Class III Trustees do not expire this year.

Nominee/Independent Trustee

Name Age and Address of Independent Trustee	Position(s) Held with Fund of Time Served	Term of Office and Length of Time Served	Principal Occupation(s) During Past 5 Years	Number of Registered Investment Companies in Fund Complex	Other Directorships Held by Trustee
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**Overseen
by
Trustee**

Darrell Thompson (48) 399 Park Avenue, 6 th Floor New York, NY 10022	Trustee Class I Trustee serving until 2012, Since December 2010	Self-Employed Consultant (since 2010); Executive of American Express Company (2010); Chief Financial Officer of Revolution Money, Inc., a payment network (now a subsidiary of American Express Company) (2006-2010); Chief Executive Officer of Avenue Mortgage, Inc., a private investment management company (2005-2006).	1
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Independent Trustees

Name, Age and Address of Independent Trustee	Position Held with Fund	Term of Office and Length of Time Served	Principal Occupation(s) During Past 5 Years	Number of Registered Investment Companies in Fund Complex Overseen by Trustee	Other Directorships Held by Trustee
Joel Citron (49) 399 Park Avenue, 6 th Floor New York, NY 10022	Trustee	Class III Trustee serving until 2014, Since December 2010	Chief Investment Officer/Managing Member of TAH Management/TAH Capital Partners, a private investment management firm (since 2009), and CEO of Tenth Avenue Holdings, a related holding company (since 2008); Managing Partner of Jove Partners, a hedge fund and private equity firm (2006-2008); CEO of Jovian Holdings, a privately held investment and operating company (2002-2008).	1	Chairman of Tenth Avenue Commerce, an e-commerce company (since 2010); Director of Communications Capital Group, LLC (since 2009); Director of Attivio, Inc., a software company (since 2009), Director of Symbius Medical, LLC, a medical service provider (since 2007); Chairman of Oxigene Inc., a biotech company (2001-2009), Chairman of Provide Commerce Inc., an e-commerce company (2001-2006); Chairman of Oasmia AB, a Swedish publicly traded biotech company since 2011; President of the Board of The Heschel School; Chairman of the Board of Trustees of Kivunim, a program in international Jewish education; Board of Councilors Member of Shoah Foundation at the University of Southern California.
Julie Dien Ledoux (42) 399 Park Avenue, 6 th Floor New York, NY 10022	Trustee	Class II Trustee serving until 2013, Since December 2010	Analyst and Portfolio Manager of Avenue Capital Group (1998-2007)	1	Board Member and on the Executive Committee of Treadwell Farms Historic District Association (f/k/a East Sixties Property Owners Association), a non-profit neighborhood group

Interested Trustee

Name, Age and Address of Interested Trustee	Term of Office and Length of Time Served	Position(s) Held	Principal Occupation(s) During Past 5 Years	Number of Registered Investment Companies in Fund Complex Overseen by Trustee	Other Directorships Held by Trustee
Randolph Takian (37) 399 Park Avenue 6 th Floor New York, NY 10022	President, Class III Trustee serving until 2014, Since October 2010	Chief Executive Officer and Trustee	Senior Managing Director and Head of Traditional Asset Management of Avenue Capital Group (since 2010); President and Principal Executive Officer of certain open-end and closed-end funds advised by Morgan Stanley Investment Management Inc. ("MSIM") or an affiliated person of MSIM (2008-2010); President and Chief Executive Officer of Morgan Stanley Services Company Inc. (2008-2010); Managing Director and Head of Americas distribution, product and marketing for MSIM (2009-2010); Head of Liquidity and Bank Trust business (2008-2010) and the Latin American Franchise (July 2008-2010) at MSIM, Managing Director, Director and/or Officer of MSIM and various entities affiliated with MSIM. Formerly, Head of Retail and Intermediary business, Head of Strategy and Product Development for the Alternatives Group and Senior Loan Investment Management. Formerly with Bank of America (1996-2006), most recently as Head of the Strategy, Mergers and Acquisitions team for Global Wealth and Investment Management.	1	Board Member and member of Executive Committee of Lenox Hill Neighborhood House, a non-profit organization

* Mr. Takian is an "interested Trustee" due to his employment with the Adviser and the Sub-Adviser.

EXECUTIVE OFFICERS

The current executive officers of the Fund, in addition to Mr. Takian, include the following:

Principal Officers who are not Trustees

Name, Age and Address of Officer	Position(s) Held with Fund	Term of Office and Length of Time Served	Principal Occupations(s) During Past 5 Years
Robert Ollwerther (55) 399 Park Avenue, 6 th Floor New York, NY 10022	Treasurer and Chief Financial Officer	Since December 2010	Chief Operating Officer of Avenue Capital Group, an investment management firm (since 2008). Formerly with Merrill Lynch & Co., Inc., a financial management and advisory company (1981-2008), most recently as a Managing Director (2005-2008).
Ty Oyer (40) 399 Park Avenue, 6 th Floor New York, NY 10022	Secretary	Since December 2010	Deputy Chief Compliance Officer (since January 2011) and Compliance Manager (since 2008) of Avenue Capital Group, an investment management firm; Compliance Officer of D.B. Zwirn & Co., an investment management firm (2007-2008); Vice President of Vastardis Capital Services, a financial services firm (2004-2007).
Eric Ross (42) 399 Park Avenue, 6 th Floor New York, NY 10022	Chief Compliance Officer	Since December 2010	Chief Compliance Officer of Avenue Capital Group, an investment management firm (since 2006).

Qualifications of Board of Trustees. The Trustees were selected to join the Board based upon the following as to each Trustee: his/her character and integrity; such person's business and/or financial experience; such person's

willingness to serve and willingness and ability to commit the time necessary to perform the duties of a Trustee. No factor, by itself, was controlling.

The Board believes that each Trustee's experience, qualifications, attributes or skills on an individual basis and in combination with those of the other Trustees lead to the conclusion that the Board possesses the requisite attributes and skills. The Board also believes that the Trustees' ability to review critically, evaluate, question and discuss information provided to them; to interact effectively with the Avenue Managers, other service providers, counsel and the independent registered public accounting firm, and to exercise effective business judgment in the performance of their duties support this conclusion.

References to the experience, qualifications, attributes and skills of Trustees are pursuant to requirements of the Securities and Exchange Commission (the "SEC"), do not constitute holding out of the Board or any Trustee as having any special expertise, and shall not impose any greater responsibility or liability on any such person or on the Board as a whole.

Board Structure and Oversight Function. The Board is responsible for oversight of the Fund. The Fund has engaged the Avenue Managers to manage the Fund on a day-to-day basis. The Board is responsible for overseeing the Avenue Managers and the Fund's other service providers in the operations of the Fund in accordance with the Fund's investment objective and policies and otherwise in accordance with the requirements of the Investment Company Act and other applicable federal, state and securities and other laws, and the Fund's Charter and By-Laws. The Board meets in person at regularly scheduled meetings four times throughout the year. In addition, the Trustees may meet in person or by telephone at special meetings or on an informal basis at other times. The Trustees also regularly meet outside the presence of any representatives of the Avenue Managers. As described below, the Board has established two standing committees, an audit committee and a nominating committee. Each of the Board's committees are composed solely of "independent trustees," which is defined for purposes hereof as trustees who: (1) are not "interested persons" of the Fund as defined by the Investment Company Act and (2) are "independent" of the Fund as defined by the New York Stock Exchange listing standards. The responsibilities of each committee, including its oversight responsibilities, are described further below.

The Board's audit committee (the "**Audit Committee**") consists of Mr. Citron, Ms. Dien Ledoux and Mr. Thompson, the chairman. Among other things, the Audit Committee makes recommendations to the Board concerning the selection of the Fund's independent registered public accounting firm, reviews with such independent registered public accounting firm the scope and results of the Fund's annual audit and considers any comments which the independent registered public accounting firm may have regarding the Fund's financial statements, accounting records or internal controls. The Board has adopted a formal written charter for the Audit Committee which sets forth the Audit Committee's responsibilities.

The Board's nominating committee (the "**Nominating Committee**") consists of Mr. Citron, Ms. Dien Ledoux, the chairwoman, and Mr. Thompson. The Nominating Committee identifies individuals qualified to serve as Trustees on the Board and on committees of the Board and advises the Board with respect to Board composition, procedures, committees and compensation. The Independent Trustees of the Fund select and nominate any other nominee for Independent Trustee for the Fund. While the Nominating Committee is solely responsible for the selection and nomination of the Board, the Nominating Committee shall review and consider nominations for the office of Trustee made by management and by Shareholders who have sent nominations (which include the biographical information and the qualifications of the proposed nominee) to the Chief Executive Officer of the Fund, as the Trustees deem appropriate.

The Board may establish additional committees as it deems necessary or convenient.

Currently, 75% of the Board, including the Chairman of the Board, are Independent Trustees. Mr. Citron serves as Chairman of the Board. The Chairman serves as a key point person for interaction between management and the Independent Trustees. The Board has determined that its leadership structure is appropriate. The Board also believes that its leadership structure facilitates the orderly and efficient flow of information between the Independent Trustees

and management. The Independent Trustees have also engaged independent legal counsel, and may from time to time engage consultants and other advisors, to assist them in performing their oversight responsibilities.

Risk Oversight. As an integral part of its responsibility for oversight of the Fund in the interests of Shareholders, the Board oversees risk management of the Fund's investment program and business affairs. The Board views risk management as an important responsibility of management. Service providers to the Fund, primarily the Avenue Managers, have responsibility for the day-to-day management of the Fund, which includes responsibility for risk management. As an integral part of its responsibility for oversight of the Fund, the Board oversees risk management of the Fund's investment program and business affairs. Oversight of the risk management process is part of the Board's general oversight of the Fund and its service providers.

The Board exercises oversight of the risk management processes through oversight by the full Board. The Fund faces a number of risks, such as investment risk, counterparty risk, valuation risk, reputational risk, risk of operational failure or lack of business continuity and legal, compliance, conflicts of interest and regulatory risk. Risk management seeks to identify and address risks, *i.e.*, events or circumstances that could have material adverse effects on the business, operations, Shareholder services, investment performance or reputation of the Fund. Under the overall supervision of the Board, the Avenue Managers and other service providers to the Fund employ a variety of processes, procedures and controls to seek to identify various of those possible events or circumstances, to seek to lessen the probability of their occurrence and/or to seek to mitigate the effects of such events or circumstances if they do occur. Different processes, procedures and controls are employed with respect to different types of risks. Various personnel, including the Fund's chief compliance officer, as well as various personnel of the Avenue Managers and other service providers such as the Fund's independent accountant, make reports to the Board with respect to various aspects of risk management, as well as events and circumstances that have arisen and responses thereto.

The Board recognizes that not all risks that may affect the Fund can be identified, that it may not be practical or cost effective to eliminate or mitigate certain risks, that it may be necessary to bear certain risks (such as investment related risks) to achieve the Fund's goals, and that the processes, procedures and controls employed to address certain risks may be limited in their effectiveness. Moreover, reports received by the Trustees as to risk management matters are typically summaries of the relevant information. Furthermore, it is in the very nature of certain risks that they can be evaluated only as probabilities, and not as certainties. As a result of the foregoing and other factors, the Board's risk management oversight is subject to substantial limitations, and no risk management program can predict the likelihood or seriousness of, or mitigate the effects of, all potential risks.

Communication to the Trustees. Shareholders may contact the Trustees directly by writing to them at the principal executive offices of the Fund. Such correspondence should be sent to the Trustees, c/o Avenue Capital Management II, L.P., 399 Park Avenue, 6th Floor, New York, New York 10022.

Board and Committee Meetings. The Board held seven meetings during the fiscal year ended October 31, 2011, including its organization meeting, three quarterly meetings and three special meetings. The Audit Committee held three meetings and the Nominating Committee did not meet during the fiscal year ended October 31, 2011. Each Committee consists of all three of the Independent Trustees. Where deemed appropriate, the Board may constitute ad hoc committees. For the fiscal year ended October 31, 2011, each incumbent Trustee attended at least 75% of the meetings of the Board and of the Committees (of which he/she was a member) held during the period for which he was a Trustee.

Compensation of Trustees. Under the federal securities laws, the Fund is required to provide to its Shareholders, in connection with the Annual Meeting, information regarding compensation paid to the Trustees by the Fund as well as by the various other U.S. registered investment companies advised by the Avenue Managers during the Fund's prior fiscal year.

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Each Trustee currently receives an annual retainer of \$20,000. The Chairmen of the Board, Audit Committee and Nominating Committee each receive an additional annual retainer of \$1,000 for the Chairman position. In addition, the Trustees receive a fee of \$1,000 for each regular Board meeting and \$500 for each special Board

meeting they attend, and \$500 for each Committee meeting they attend if held separately from a regular Board meeting. Further, the Fund reimburses each Independent Trustee for his or her reasonable out-of-pocket expenses related to service as a Trustee. The table below sets forth the amount of compensation the Trustees received from the Fund during the fiscal year ended October 31, 2011. Currently, the Fund does not have a bonus, profit sharing, pension or retirement plan.

Name of Trustee*	Aggregate Compensation From the Fund	Total Compensation from Fund and Fund Complex Paid to Trustee**
Independent Trustees		
Joel Citron	\$ 21,250	\$ 21,250
Julie Dien Ledoux	\$ 21,250	\$ 21,250
Darren Thompson	\$ 20,750****	\$ 20,750****
Interested Trustee***		
Randolph Takian	\$ 0	\$ 0

* All are current Trustees

** The term "Fund Complex" means two or more registered investment companies that share the same investment adviser or principal underwriter or hold themselves out to investors as related companies for the purposes of investment and investor services. The Fund is the only fund in the Fund Complex overseen by the Trustees.

*** No compensation is paid by the Fund to Trustees who are interested persons of the Fund or of any entity of the Avenue Managers or to officers.

**** Plus \$1,118 reimbursed for reasonable out-of-pocket expenses related to service as a Trustee.

Section 16(a) Beneficial Ownership Reporting Compliance. Section 16(a) of the Securities Exchange Act of 1934 (the "Exchange Act") and Section 30(h) of the Investment Company Act in combination generally require the Fund's Trustees and officers, persons who own more than ten percent (10%) of any class of the Fund's securities, and the Avenue Managers and their affiliated persons, to file reports of ownership and changes in ownership of the Fund's securities with the SEC. Based solely on a review of the reports filed with the SEC, the Fund believes that during the fiscal year ended October 31, 2011, all Section 16(a) filing requirements applicable to Fund officers, Trustees and greater than 10% beneficial owners were complied with.

Management Ownership. To the knowledge of the Fund's management, as of the close of business on April 5, 2012, the officers and Trustees of the Fund owned, as a group, less than 1% of the outstanding Shares of the Fund. The following table sets forth the aggregate dollar range of equity securities of the Fund and of all Funds overseen by each Trustee in the Fund Complex beneficially owned by the Trustees as of December 31, 2011:

Amount Invested Key

- A. None
- B. \$1-\$10,000
- C. \$10,001-\$50,000
- D. \$50,001-\$100,000
- E. over \$100,000

Name of Trustee	Dollar Range of Fund Shares Owned	Aggregate Dollar Range of Equity Securities in all Funds Overseen by Trustees in Fund Complex
Independent Trustees		
Joel Citron	A	A
Julie Dien Ledoux	A	A
Darren Thompson	A	A
Interested Trustee		
Randolph Takian	A	A

Trustee Transactions with Fund Affiliates. For Independent Trustees and their family members, the following table provides information regarding each class of securities owned beneficially in an investment adviser or principal underwriter of the Fund, or a person (other than a registered investment company) directly or indirectly controlling, controlled by, or under common control with an Avenue Manager or principal underwriter of the Fund as of February 29, 2012.

Name of Owners and Relationships to Trustee	Company	Title of Class	Value of Securities	Percent of Class
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