

**KKR**

**KKR Income Opportunities Fund**

Annual Report

October 31, 2016

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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 855-330-3927; and (ii) on the Commission’s website at <http://www.sec.gov>.

### INFORMATION ABOUT THE FUND’S TRUSTEES

The Statement of Additional Information (“SAI”) includes additional information about the Fund’s Trustees and is available without charge, upon request, by calling 855-330-3927. Furthermore, you can obtain the SAI on the SEC’s web site at [www.sec.gov](http://www.sec.gov) or the Fund’s website at [www.kkrfunds.com](http://www.kkrfunds.com).

## Management Discussion of Fund Performance

Looking Back on the Markets – November 1, 2015 to October 31, 2016

### *Key Investing Themes*

Through 2016, we have witnessed various themes such as the following:

- a. **Contrarian View on Retail:** Year-to-date (YTD), market return for retail in the Bank of America Merrill Lynch High Yield Master II Index has fallen behind the index average (11.5% YTD vs. 15% average)<sup>1</sup> due to the fact that retail significantly underperformed earlier this year and the market was concerned about the “Amazon Effect”. However, we believed that not all retail names would be impacted by this transformation and have picked a number of retail names that have been driving performance this year.
- b. **Thematic Residential Building Investment:** The market was slow to embrace credits exposed to residential development post-financial crisis. We have leveraged some of the work done by our Global Macro Asset & Allocation team who has commented on good household formation and supportive credit easing.
- c. **A Short Word on Energy:** We continue to be underweight on energy. We don’t believe significant research can provide us with the comfort needed to take a conviction position. So despite the fact that the Energy sector alone has provided ~400bps of the ~1,500bps index performance this year we have not chased this return (and do not expect to in the near term).

In 2016, we believe the reasons for our outperformance relative to the index average were the following:<sup>1</sup>

- a. *Quality of Focus:* We focus on where we believe there is a clear differential between price and value;
- b. *Focus on Quality:* We focused on lending to companies with strong market positions, strong management teams, or good risk reward;
- c. *This focus is well suited to our skill set:* Our team of ~30 leveraged credit analysts are sector specialists. They are cashflow volatility assessors and we believe KKR has the resources necessary to form differentiated views on valuations of companies; and
- d. *Our differentiation is executable:* Key to enjoyment is the ability to execute. We believe the sub-investment grade credit market is highly inefficient and creates fertile ground for our investment ideas.

We believe KIO is well positioned for the current credit market conditions (characterized by volatility price movements and significant spreads dispersion). Given this volatility and loss aversion, it’s not surprising to us that many credit investors now focus on the credits where the expectation of loss from default is lowest.

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<sup>1</sup> Source: BAML HY Master II as of September 30, 2016.

*Leveraged Loans Commentary<sup>2</sup>*

Leveraged loan new-issue volume decreased to \$73.5 billion in Q4 2015, down from \$112.3 billion in Q3 2015. Similar to Q3 2015, the decrease was attributable to not only volatility in the broader market, but also to an eroding technical environment. For FY 2015, leveraged loan new-issue volume totaled \$420.7 billion, marking a four-year low and down over 20% from the \$528.1 billion that was issued in 2014. Notably, the year-over-year decrease in leveraged loan new-issue volume was observed across all types of financings, including LBOs, refinancings, dividend financings and other opportunistic issuance.

Leveraged loan new-issue volume increased to \$85.9 billion in Q1 2016, up from \$74.2 billion in Q4 2015. Although up quarter over quarter, leveraged loan new-issue activity was still relatively light as market conditions kept opportunistic deal flow to a minimum. Notably, leveraged loan new-issue volume was heavily weighted towards acquisition financing, which accounted for an eight-year high of 75% of new issuance in the first quarter of 2016.

Leveraged loan new-issue volume increased to \$118.7 billion in Q2 2016, up from \$90.0 billion in Q1 2016. From a use of proceeds perspective, opportunistic new-issue activity (i.e. refinancings, dividend recapitalizations) increased significantly, driven primarily by the M&A heavy first quarter. Notably, leveraged loan new-issue volume rose to \$209.6 million in the first half of 2016, down 10% from the \$233.7 million that was issued in the first half of 2015 and down 36% from the first half of 2014.

Leveraged loan new issuance was muted at the beginning of Q3 2016 on the heels of the Brexit vote in late June. However, the pace of issuance increased in August and September amidst a technical shift in the favor of corporates. Specifically, leveraged loan new-issue volume increased to \$135.3 billion in Q3 2016, up slightly from \$127.8 billion in Q2 2016. From a use of proceeds perspective, refinancings and M&A accounted for approximately 70.0% of leveraged loan new issuance in Q3 2016. Year to date, leverage loan new-issue volume is \$354.0 billion, which is in line with the \$346.9 billion of leveraged loan new-issue volume in the first nine months of 2015.

*High Yield Bonds Commentary<sup>3</sup>*

High yield issuance in Q4 2015 was \$42.3 billion, down from \$59.7 billion in Q3 2015. For FY 2015, high yield issuance totaled \$293.0 billion, down approximately 18% from the \$356.0 billion that was issued in 2014. We believe this decline in year over year issuance can be attributed to global growth concerns, muddled Fed messaging and volatile oil prices which ultimately led to substantial outflows from high yield mutual funds and a significant decline in issuance. Furthermore, high-yield bond mutual funds experienced a \$3.5 billion outflow in Q4 2015, bringing YTD 2015 outflows to \$13.4 billion.<sup>4</sup>

Despite the rally in March, new issuance in the high yield market remained muted. High yield issuance was \$35.1 billion in Q1 2016, down from \$36.3 billion in Q4 2015 and a 3.5 year low. From a use of proceeds perspective, the majority of high yield bonds issued in Q1 2016 were for either refinancings or acquisition financings. Furthermore, high-yield bond mutual funds experienced an \$8.0 billion inflow in Q1 2016 versus an outflow of \$13.4 billion Q4 2015.<sup>5</sup>

<sup>2</sup> Source: S&P LCD Quarterly Review as of December 2015, March 2016, June 2016 and September 2016.

<sup>3</sup> Source: S&P LCD Quarterly Review as of December 2015, March 2016, June 2016 and September 2016.

<sup>4</sup> Source: JP Morgan High Yield Market Monitor as of January 4, 2016.

<sup>5</sup> Source: JP Morgan High Yield Market Monitor as of April 1, 2016.

High yield issuance was \$82.8 billion in Q2 2016, up from \$36.1 billion in Q1 2016 and marking the highest quarterly total since Q2 2015. From a use of proceeds perspective, the majority of high yield bonds issued in the first half of 2016 were for either refinancings or acquisition financings. Furthermore, high-yield bond mutual funds experienced a \$6.3 billion outflow in Q2 2016 versus an inflow of \$10.0 billion Q1 2016.<sup>6</sup>

High yield issuance was \$62.0 billion in Q3 2016, down from \$82.8 billion in Q2 2016 and up from \$36.1 billion in Q1 2016. From a use of proceeds perspective, the majority of high yield bonds issued in Q3 2016 were for refinancings as corporates and sponsors looked to address maturity concerns. Year to date, high yield issuance totals \$180.9 billion, down approximately 20.0% from the \$225.4 billion that was issued in the first nine months of 2015.<sup>7</sup>

### The Market in Numbers

*For the period of November 1, 2015 – October 31, 2016*

- *Returns:* Over the 12 month period ending October 31, 2016, the high yield and leveraged loan markets returned 10.17%<sup>8</sup> and 6.53%<sup>9</sup> (as measured by the Bank of America Merrill Lynch High Yield Index and the S&P LSTA Leveraged Loan Index), respectively.
- *Spreads:* The option adjusted spread on the Bank of America Merrill Lynch High Yield Index averaged approximately 625bp for the twelve month period ending October 31, 2016.<sup>8</sup> The spread on the S&P LSTA Leveraged Loan Index averaged approximately 552bp for the twelve month period ending October 31, 2016.<sup>9</sup>
- *Volatility:* As measured by the VIX index, volatility was sitting at 15.1 as of November 1, 2015.<sup>10</sup> Over the last twelve months, the VIX increased to as high as 20.2 in January 2016, before settling at 17.1 as of October 31, 2016.<sup>10</sup>

### Fund Performance

KKR Income Opportunities Fund (“KIO” or, the “Fund”) 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.

As of October 31, 2016, the Fund held 67.6% of its net assets in high-yield corporate debt, 55.6% of its net assets in first and second-lien leveraged loans, 0.6% of its net assets in collateralized debt obligations, 5.8% 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 78 companies diversified across 35 distinct industries. The top ten issuers represented 42.6% of the Fund’s net assets while the top five industry groups represented 49.4% of the Fund’s net assets. The Fund’s Securities and Exchange Commission 30-day yield was 9.32%.

<sup>6</sup> Source: JP Morgan High Yield Market Monitor as of July 1, 2016.

<sup>7</sup> Source: JP Morgan High Yield Market Monitor as of October 1, 2016.

<sup>8</sup> Source: Bank of America Merrill Markets Online as of October 31, 2016.

<sup>9</sup> Source: S&P LCD Discounted Spreads as of October 31, 2016.

<sup>10</sup> Source: Bloomberg as of October 31, 2016.

For the period from July 25, 2013 (commencement of operations) to October 31, 2016, KIO outperformed the Bank of America Merrill Lynch High Yield Master II Index on a gross net asset value (“NAV”) and a net NAV basis and underperformed it on a market price basis. Over that period, the Fund had returns of 8.94% on a gross NAV basis, 6.30% on a net NAV basis and 1.89% on a market price basis. Over the same period, the Bank of America Merrill Lynch High Yield Master II Index returned 5.01%. For the year ended October 31, 2016, the Fund had returns of 16.19% on a gross NAV basis, 13.15% on a net NAV basis, and 17.10% on a market price basis, and the Bank of America Merrill Lynch High Yield Master II Index returned 10.16% over the same time period. Since inception through October 31, 2016, the Fund traded at an average discount to NAV of (9.41%).<sup>11</sup> The Fund employed leverage during the period covered by this report.<sup>12</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).

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<sup>11</sup> Source: Bloomberg as of October 31, 2016.

<sup>12</sup> 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.

**Disclosures**

*The 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 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 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.*

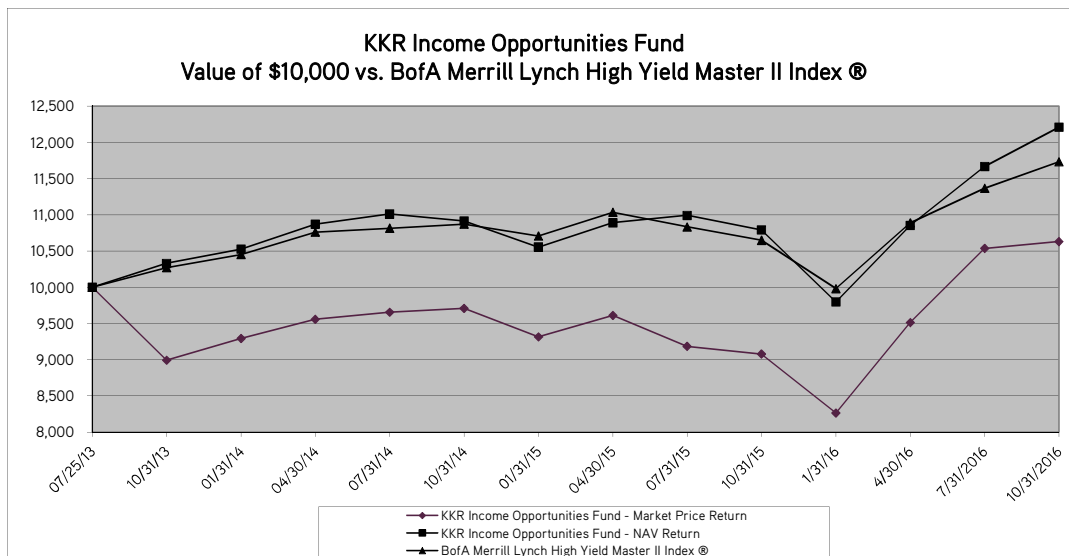
*It is not possible to invest directly in an index.*

*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 855-330-3927 or visit [www.kkrfunds.com/kio](http://www.kkrfunds.com/kio) for performance results current to the most recent calendar quarter-end.*

*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 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



Average Annual Total Returns Period Ended October 31, 2016	One Year	Three Year	Since Inception (7/25/2013)	Value of \$10,000 10/31/2016
KKR Income Opportunities Fund - Market Price Return	17.10%	5.73%	1.89%	\$10,630
KKR Income Opportunities Fund - NAV Return	13.15%	5.73%	6.30%	\$12,210
BofA Merrill Lynch High Yield Master II Index®	10.16%	4.53%	5.01%	\$11,731



### Schedule of Investments

		<u>Part</u>	<u>Value</u>
<b>HIGH YIELD SECURITIES - 67.7%</b>			
<b>Banks - 0.4%</b>			
Novo Banco SA			
N/A, 02/19/2049 (a) (f) (g) (i)	EUR	8,520,000	\$ 865,141
N/A, 02/27/2051 (a) (f) (g) (i) (j)	EUR	3,601,000	316,241
N/A, 04/09/2052 (f) (g) (i)	EUR	246,000	21,604
			<u>1,202,986</u>
<b>Building Products - 4.8%</b>			
Builders FirstSource, Inc.			
10.750%, 08/15/2023 (a)		8,289,000	9,532,350
Foundation Building Materials LLC			
8.250%, 08/15/2021 (a) (f)		3,146,000	3,287,570
			<u>12,819,920</u>
<b>Chemicals - 3.1%</b>			
Platform Specialty Products Corp.			
10.375%, 05/01/2021 (a)		7,611,000	8,219,880
<b>Commercial Services &amp; Supplies - 0.1%</b>			
Atento Luxco 1 SA			
7.375%, 01/29/2020 (a) (g)		350,000	357,000
<b>Communications Equipment - 1.4%</b>			
Riverbed Technology, Inc.			
8.875%, 03/01/2023 (a)		3,616,000	3,851,040
<b>Computers &amp; Peripherals - 0.4%</b>			
Dell, Inc.			
8.350%, 07/15/2046 (a) (f)		865,000	1,048,930
<b>Construction &amp; Engineering - 2.5%</b>			
Maxim Crane Works LP / Maxim Finance Corp.			
10.125%, 08/01/2024 (a) (f)		6,520,000	6,797,100
<b>Construction Materials - 5.4%</b>			
Cemex Materials LLC			
7.700%, 07/21/2025 (a)		13,760,000	14,585,600
<b>Diversified Financial Services - 0.4%</b>			
iPayment Investors LP			
9.500%, 12/15/2019 (a) (e)		1,110,147	999,132
<b>Electronic Equipment, Instruments &amp; Components - 5.4%</b>			
Artesyn Technologies, Inc.			
9.750%, 10/15/2020 (a)		9,594,000	8,490,690
Vertiv Co.			
9.250%, 10/15/2024 (a) (f)		5,816,000	6,092,260
			<u>14,582,950</u>
<b>Energy Equipment &amp; Services - 2.9%</b>			
Brand Energy & Infrastructure Services, Inc.			
8.500%, 12/01/2021 (a) (f)		7,686,000	7,705,215

See notes to financial statements.

### Schedule of Investments (continued)

	<u>Part</u>	<u>Value</u>
<b>HIGH YIELD SECURITIES - 67.7% (continued)</b>		
Health Care Providers & Services - 3.2%		
Surgery Partners Holdings LLC. 8.875%, 04/15/2021 (a)	8,210,000	\$ 8,743,650
Hotels, Restaurants & Leisure - 1.6%		
ClubCorp Club Operations, Inc. 8.250%, 12/15/2023 (a)	3,984,000	4,242,960
Household Durables - 0.1%		
The Hillman Group, Inc. 6.375%, 07/15/2022 (a)	251,000	232,802
Insurance - 4.0%		
Hub International Ltd. 7.875%, 10/01/2021 (a)	6,943,000	7,116,575
Towergate 8.750%, 04/02/2020 (a) (d) (e) (g)	GBP 3,310,813	3,677,600
		10,794,175
Internet & Catalog Retail - 1.4%		
Netflix, Inc. 4.375%, 11/15/2026 (a) (f)	3,879,000	3,811,118
Internet Software & Services - 1.3%		
RedPrairie Corp. 7.375%, 10/15/2024 (a) (f)	3,385,000	3,495,013
Machinery - 1.4%		
Manitowoc Foodservice, Inc. 9.500%, 02/15/2024 (f)	1,420,000	1,629,450
Nesco 6.875%, 02/15/2021 (a)	2,797,000	2,223,615
		3,853,065
Media - 2.3%		
Clear Channel International BV 8.750%, 12/15/2020 (a)	1,704,000	1,789,200
Clear Channel Outdoor, Inc. 6.500%, 11/15/2022	73,000	74,387
Intelsat Jackson Holdings SA 7.250%, 04/01/2019 (g)	2,746,000	2,189,935
5.500%, 08/01/2023 (g)	3,034,000	2,010,025
		6,063,547
Metals & Mining - 0.7%		
Allegheny Technologies, Inc. 7.875%, 08/15/2023	1,936,000	1,848,880
Multiline Retail - 4.5%		
J.C. Penney Corp., Inc. 5.750%, 02/15/2018	28,000	28,805
8.125%, 10/01/2019	8,927,000	9,719,271
5.650%, 06/01/2020	2,490,000	2,465,100
		12,213,176

See notes to financial statements.

### Schedule of Investments (continued)

	Part	Value
<b>HIGH YIELD SECURITIES - 67.7% (continued)</b>		
Oil, Gas & Consumable Fuels - 2.3%		
Calumet Specialty Products 11.500%, 01/15/2021 (a)	4,210,000	\$ 4,746,775
Genesis Energy LP/ Genesis Energy Financial Corp. 5.625%, 06/15/2024	1,336,000	1,322,640
		<u>6,069,415</u>
Road & Rail - 3.7%		
The Kenan Advantage Group, Inc. 7.875%, 07/31/2023 (a)	10,647,000	10,061,415
Software - 4.8%		
Solera Holdings, Inc. 10.500%, 03/01/2024 (a)	4,900,000	5,477,318
TIBCO Software, Inc. 11.375%, 12/01/2021 (a)	7,858,000	7,582,970
		<u>13,060,288</u>
Specialty Retail - 4.9%		
Guitar Center, Inc. 6.500%, 04/15/2019 (a)	6,490,000	5,824,775
Jo-Ann Stores, Inc. 8.125%, 03/15/2019 (a)	1,635,000	1,630,913
PIK Rate: 10.500%; Cash Rate: 9.750%, 10/15/2019 (a) (c) (f)	2,941,000	2,860,122
The Mens Wearhouse, Inc. 7.000%, 07/01/2022	3,010,000	2,769,200
		<u>13,085,010</u>
Thriffs & Mortgage Finance - 0.6%		
MGIC Investment Corp. 9.000%, 04/01/2063 (a)	1,386,000	1,720,373
Transportation Infrastructure - 1.5%		
Direct ChassisLink, Inc. 10.000%, 06/15/2023 (a) (f)	3,758,000	3,908,320
Wireless Telecommunication Services - 2.6%		
GCI, Inc. 6.750%, 06/01/2021	5,100,000	5,265,750
Sprint Corp. 7.875%, 09/15/2023	1,642,000	1,621,475
		<u>6,887,225</u>
		<u>182,260,185</u>
<b>TOTAL HIGH YIELD SECURITIES (amortized cost \$180,614,333)</b>		
<b>LEVERAGED LOANS - 55.6%</b>		
Aerospace & Defense - 5.8%		
PAE Holding Corp., TL 1L 09/16 6.500%, 10/20/2022 (b) (f)	3,764,810	3,764,810
Sequa Corp., TL 1L 12/12 5.250%, 06/19/2017 (b)	12,933,778	11,950,294
		<u>15,715,104</u>

See notes to financial statements.

### Schedule of Investments (continued)

	<u>Part</u>	<u>Value</u>
<b>LEVERAGED LOANS - 55.6% (continued)</b>		
Building Products - 1.5%		
SRS Distribution, Inc., TL 2L 06/16 9.750%, 02/25/2023 (b)	3,943,740	\$ 4,002,896
Chemicals - 0.1%		
Emerald Performance Materials LLC, TL 2L 07/14 7.750%, 08/01/2022 (b)	268,490	268,043
Commercial Services & Supplies - 2.1%		
Koosharem LLC, TL 1L 05/14 7.500%, 05/16/2020 (b)	6,315,444	5,636,534
Construction & Engineering - 0.0%		
Safway Group Holding LLC, TL 1L 10/16 0.000%, 08/19/2023 (b) (f)	5,635	5,607
Distributors - 2.6%		
Distribution International, Inc., TL 1L 12/14 6.000%, 12/12/2021 (b)	7,959,886	7,044,500
Diversified Financial Services - 3.9%		
iPayment Investors LP, TL 1L B 05/11 6.750%, 05/08/2017 (b)	5,973,239	5,640,977
Square Two Financial Corp., TL 1.5L 05/16 PIK Rate: 11.000%; Cash Rate: 10.000%, 05/24/2019 (b) (c) (d) (e) (f)	9,836,967	4,790,800
		10,431,777
Diversified Telecommunication Services - 4.3%		
Lighttower Fiber LLC, TL 2L 04/13 8.000%, 04/12/2021 (b)	11,523,828	11,581,505
Electronic Equipment, Instruments & Components - 0.6%		
Vertiv Co., TL 1L 09/16 6.000%, 09/30/2023 (b) (f)	1,697,000	1,689,576
Energy Equipment & Services - 0.4%		
Proserv Acquisition LLC, TL 1L B1 12/14 (US Tranche) 6.375%, 12/22/2021 (b) (e) (g)	GBP 1,172,655	736,052
Proserv Acquisition LLC, TL 1L B2 12/14 (UK Tranche) 6.375%, 12/22/2021 (b) (e) (g)	GBP 688,297	432,030
		1,168,082
Food & Staples Retailing - 3.5%		
BJ's Wholesale Club, Inc., TL 2L 09/11 8.500%, 03/31/2020 (b)	7,605,590	7,657,878
Grocery Outlet, Inc., TL 2L 09/14 9.250%, 10/21/2022 (b)	1,647,651	1,648,343
		9,306,221
Food Products - 3.0%		
CSM Bakery Products, TL 2L 07/13 8.750%, 05/23/2021 (b) (e)	5,300,000	4,783,250

See notes to financial statements.

### Schedule of Investments (continued)

	Part	Value
<b>LEVERAGED LOANS - 55.6% (continued)</b>		
Food Products - 3.0% (continued)		
CTI Foods Holding Co. LLC, TL 2L 06/13 8.250%, 06/28/2021 (b)	3,800,000	\$ 3,420,000
		<u>8,203,250</u>
Health Care Providers & Services - 2.0%		
Genoa (QoL), TL 2L 10/16 9.000%, 10/28/2024 (b) (f)	3,581,170	3,581,170
Press Ganey Holdings, Inc., TL 2L 09/16 8.250%, 10/21/2024 (b) (f)	1,659,280	1,688,317
		<u>5,269,487</u>
Health Care Technology - 0.1%		
Greenway Medical Technologies, TL 2L 10/13 9.250%, 11/04/2021 (b)	279,822	260,234
Hotels, Restaurants & Leisure - 1.9%		
The Bay Club Co., TL 1L 08/16 7.500%, 08/31/2022 (b) (f)	5,179,968	5,205,867
Household Durables - 0.0%		
Algeco Scotsman Global Sarl, TL PIK 04/13 PIK Rate: 15.750%; Cash Rate: 15.000%, 05/01/2018 (c) (d) (e) (f) (g) (j)	423,747	53,396
Machinery - 2.4%		
WireCo WorldGroup, Inc., TL 1L 07/16 6.500%, 09/30/2023 (b) (f) (g)	2,662,800	2,682,771
WireCo WorldGroup, Inc., TL 2L 07/16 10.000%, 09/30/2024 (b) (f) (g)	3,803,220	3,822,236
		<u>6,505,007</u>
Media - 0.3%		
NEP Broadcasting LLC, TL 2L 01/13 10.000%, 07/22/2020 (b)	711,260	715,705
Multiline Retail - 0.9%		
Belk, Inc., TL 1L 08/15 5.750%, 12/12/2022 (b) (d) (e)	2,755,832	2,487,138
Software - 12.5%		
Applied Systems, Inc., TL 2L 01/14 7.500%, 01/24/2022 (b)	11,377,473	11,494,832
Deltek, Inc., TL 2L 06/15 9.500%, 06/25/2023 (b)	7,346,780	7,463,080
iParadigms Holdings LLC, TL 2L 07/14 8.250%, 07/29/2022 (b)	5,719,710	5,548,119
Misys Ltd., TL 2L 06/12 12.000%, 06/12/2019	1,640,020	1,719,561
TIBCO Software, Inc., TL 1L 10/14 6.500%, 12/04/2020 (b)	5,267,312	5,279,164
Triple Point Technology, Inc., TL 1L 07/13 5.250%, 07/10/2020 (b)	2,488,139	2,235,444
		<u>33,740,200</u>

See notes to financial statements.

### Schedule of Investments (continued)

	<u>Part</u>	<u>Value</u>
<b>LEVERAGED LOANS - 55.6% (continued)</b>		
Specialty Retail - 5.3%		
Charlotte Russe, Inc., TL 1L 04/13 6.750%, 05/22/2019 (b)	3,285,813	\$ 1,670,294
Charlotte Russe, Inc., TL 1L Add On 02/14 6.750%, 05/22/2019 (b)	394,226	200,399
David's Bridal, Inc., TL 1L B 10/12 5.000%, 10/11/2019 (b)	4,032,128	3,764,999
Gymboree Corp., TL 1L 02/11 5.000%, 02/23/2018 (b)	2,800,004	1,792,885
Savers, Inc., TL 1L C 07/12 5.000%, 07/09/2019 (b)	7,362,776	6,838,215
		<u>14,266,792</u>
Trading Companies & Distributors - 0.0%		
FleetPride Corp., TL 1L 11/12 5.250%, 11/19/2019 (b) (f)	9,126	8,259
Transportation Infrastructure - 2.4%		
Commercial Barge Line Co., TL 1L 11/15 9.750%, 11/12/2020 (b)	6,522,786	6,359,716
		<u>149,924,896</u>
<b>TOTAL LEVERAGED LOANS (amortized cost \$154,567,139)</b>		
<b>COLLATERALIZED DEBT OBLIGATION - 0.6%</b>		
Diversified Financial Services - 0.6%		
OHA Credit Partners XII, OHA E Notes 7.732%, 01/23/2027 (a) (b) (e)	1,799,210	1,740,146
		<u>1,740,146</u>
<b>TOTAL COLLATERALIZED DEBT OBLIGATION (amortized cost \$1,703,002)</b>		
	<u>Shares</u>	
<b>COMMON STOCKS - 5.8%</b>		
Diversified Financial Services - 1.2%		
Invesco Dynamic Credit Opportunities Fund	63,600	742,848
iPayment Investors LP (e) (f)	160,426	337,697
Nuveen Credit Strategies Income Fund	84,784	713,881
Prudential Global Short Duration High Yield Fund, Inc.	63,468	934,249
Wells Fargo Advantage Income Opportunities Fund	64,184	524,383
		<u>3,253,058</u>
Health Care Providers & Services - 4.4%		
Amedisys, Inc. (d) (e) (f)	271,040	11,725,190
Insurance - 0.2%		
Towergate, Sun NewCo Common Shares A (d) (f) (g)	GBP 8,597	-
Towergate, TopCo Common (d) (e) (f) (g)	GBP 540,649	619,405
		<u>619,405</u>
<b>TOTAL COMMON STOCKS (cost \$7,966,464)</b>		
		<u>15,597,653</u>

See notes to financial statements.

### Schedule of Investments (concluded)

	<u>Shares</u>	<u>Value</u>
<b>PREFERRED STOCKS - 1.4%</b>		
Diversified Financial Services - 0.0%		
Square Two Financial Corp. (d) (e) (f) (k)	14,720	\$ -
Insurance - 1.4%		
Towergate, Sun NewCo Preference B, (d) (e) (f) (g) (k)	GBP 3,194,971	3,660,379
<b>TOTAL PREFERRED STOCKS (cost \$10,420,281)</b>		<u>3,660,379</u>
<b>TOTAL INVESTMENTS (amortized cost \$355,271,219) (h) - 131.1%</b>		<u>353,183,259</u>
<b>LIABILITIES EXCEEDING OTHER ASSETS, NET - (31.1)%</b>		<u>(83,691,419)</u>
<b>NET ASSETS - 100.0%</b>		<u>\$ 269,491,840</u>

† In U.S. Dollars unless otherwise indicated.

EUR Euro

GBP Great British Pound

TL Term Loan

(a) 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 October 31, 2016 was \$153,033,809, which represent 56.8% of net assets.

(b) Variable rate security, the coupon rate shown is the effective rate as of October 31, 2016.

(c) Represents a payment-in-kind ("PIK") security which may pay interest/dividend in additional par/shares.

(d) Security considered restricted due to the Adviser's knowledge of material non-public information. The total value of these securities as of October 31, 2016 was \$27,013,908 and represented 10.0% of net assets.

(e) Security considered illiquid, as defined by the Securities and Exchange Commission. The total value of these securities as of October 31, 2016 was \$36,042,215 and represented 13.4% of net assets.

(f) Non-income producing security.

(g) Non-U.S. security.

(h) All investments are held as collateral for the Fund's credit facility.

(i) Zero coupon security

(j) Security in default

(k) No applicable coupon rate

The following table represents the Fund's investments categorized by country of risk as of October 31, 2016:

<u>Country</u>	<u>% of Net Assets</u>
United States	123.1%
United Kingdom	3.4%
Cayman Islands	2.4%
Luxembourg	1.7%
Portugal	0.5%
	<u>131.1%</u>
Liabilities Exceeding Other Assets, Net	<u>(31.1)%</u>
	<u>100.0%</u>

See notes to financial statements.

### Statement of Assets and Liabilities

#### Assets

Investments, at value (amortized cost \$355,271,219)	\$ 353,183,259
Cash equivalents	8,003,888
Receivable for investments sold	27,289,866
Dividends and interest receivable	4,881,120
Prepaid expenses	6,537
<b>Total assets</b>	<u>393,364,670</u>

#### Liabilities

Credit facility	103,015,444
Payable for investments purchased	19,974,927
Credit facility interest payable	30,061
Investment advisory fees	345,534
Trustees' fees	973
Administration fees	21,385
Investor support services fees	31,412
Other accrued expenses	453,094
<b>Total liabilities</b>	<u>123,872,830</u>
<b>Net assets</b>	<u>\$ 269,491,840</u>

#### Net Assets

Paid-in capital — (unlimited shares authorized — \$0.001 par value)	\$ 290,121,726
Accumulated net investment income	995,864
Accumulated net realized loss on investments, foreign currency contracts, and foreign currency transactions	(21,375,545)
Net unrealized depreciation on investments, foreign currency transactions and deferred Trustees' fees	(250,205)
<b>Net assets</b>	<u>\$ 269,491,840</u>
Net asset value, price per share	
(\$269,491,840 ÷ 15,255,236 shares)	<u>\$ 17.67</u>

See notes to financial statements.



**Statement of Operations**

	Year Ended October 31, 2016
<b>Investment income</b>	
Interest income	\$ 30,347,211
Term loan income	773,440
Dividend income	220,973
<b>Total investment income</b>	<u>31,341,624</u>
<b>Expenses</b>	
Investment advisory fees	3,971,089
Credit facility interest expense	1,316,047
Investor support services fees	361,061
Legal fees	351,046
Trustees' fees	143,574
Administration fees	111,552
Shareholder reporting expense	66,833
Audit and tax fees	51,753
Custodian fees	45,626
Transfer agency fees	19,876
Other expenses	295,850
<b>Total expenses</b>	<u>6,734,307</u>
<b>Net investment income</b>	<u>24,607,317</u>
<b>Net realized and unrealized gain (loss) on investments, forward foreign currency contracts, foreign currency transactions and deferred Trustees' fees</b>	
<b>Net realized loss on</b>	
Investments	(3,046,615)
Forward foreign currency contracts and foreign currency transactions	(726,352)
<b>Net realized loss</b>	<u>(3,772,967)</u>
<b>Net change in unrealized appreciation on</b>	
Investments	9,638,411
Forward foreign currency contracts and foreign currency transactions	921,539
Deferred Trustee's fees	(23,405)
<b>Net change in unrealized appreciation</b>	<u>10,536,545</u>
<b>Net realized and unrealized gain on investments, forward foreign currency contracts, foreign currency transactions and deferred Trustees' fees</b>	<u>6,763,578</u>
<b>Net increase in net assets resulting from operations</b>	<u>\$ 31,370,895</u>

See notes to financial statements.

**Statements of Changes in Net Assets**

	Year Ended October 31, 2016	Year Ended October 31, 2015
<b>Increase (decrease) in net assets resulting from operations</b>		
Net investment income	\$ 24,607,317	\$ 22,407,051
Net realized loss on investments, forward foreign currency contracts and foreign currency transactions	(3,772,967)	(17,934,883)
Net change in unrealized appreciation (depreciation) on investments, forward foreign currency contracts, foreign currency transactions and deferred Trustees' fees	10,536,545	(7,787,274)
<b>Net increase (decrease) in net assets resulting from operations</b>	<u>31,370,895</u>	<u>(3,315,106)</u>
<b>Dividends to shareholders from</b>		
Net investment income	(22,882,853)	(23,025,672)
Net realized gains	–	(1,495,013)
Return of capital	–	(635,198)
<b>Total dividends</b>	<u>(22,882,853)</u>	<u>(25,155,883)</u>
<b>Net increase (decrease) in net assets</b>	8,488,042	(28,470,989)
<b>Net assets</b>		
Beginning of year	261,003,798	289,474,787
End of year	<u>\$ 269,491,840</u>	<u>\$ 261,003,798</u>
Undistributed (accumulated) net investment income	<u>\$ 995,864</u>	<u>\$ –</u>

See notes to financial statements.

**Statement of Cash Flows**

	Year Ended October 31, 2016
<b>Cash Flows from Operating Activities</b>	
Net increase in net assets resulting from operations	
Adjustments to reconcile net decrease in net assets resulting from operations to net cash provided in operating activities:	\$ 31,370,895
Purchases of investments	(282,868,399)
Proceeds from sales of investments	294,994,819
Net amortization (accretion) of premiums/discounts	(2,946,105)
Net change in unrealized appreciation on investments	(9,638,411)
Net change in unrealized depreciation on forward foreign currency contracts and foreign currency transactions	942,700
Net realized loss on investments	3,046,615
Net realized loss on foreign currency transactions	1,991,428
Changes in assets and liabilities:	
Decrease in investment advisory fee payable	(5,523)
Decrease in Trustees' fees payable	(8,612)
Decrease in receivable for investments sold	(23,543,467)
Increase in payable for investments purchased	17,524,413
Increase in other assets and liabilities	2,360,227
Net cash used in operating activities	<u>33,220,580</u>
<b>Cash Flows from Financing Activities</b>	
Cash dividends paid to shareholders	(22,882,853)
Proceeds from credit facility	36,755,200
Payments on borrowing of credit facility	(47,347,588)
Foreign currency translation on credit facility	(1,892,168)
Net cash used in financing activities	<u>(35,367,409)</u>
<b>Net decrease in cash and cash equivalents</b>	<u>(2,146,829)</u>
<b>Cash and Cash Equivalents</b>	
Beginning Balance	<u>10,150,717</u>
Ending Balance	<u>\$ 8,003,888</u>
<i>Supplemental Disclosure</i>	
Cash paid for interest expense	<u>\$ 1,298,037</u>
Non-cash operating activities:	
Interest payments in kind	<u>\$ 648,452</u>

See notes to financial statements.

### Financial Highlights

	Year Ended October 31, 2016	Year Ended October 31, 2015	Year Ended October 31, 2014	Period Ended October 31, 2013 <sup>*</sup>
<b>Per share operating performance<sup>(1)</sup></b>				
Net asset value, beginning of year/period	\$ 17.11	\$ 18.98	\$ 19.56	\$ 19.06
Income from operations				
Net investment income	1.61	1.47	1.48	0.27
Net realized and unrealized gain (loss) on investments, forward foreign currency contracts, foreign currency transactions, and deferred Trustees' fees	0.45	(1.69)	(0.40)	0.36
Total income (loss) from operations	2.06	(0.22)	1.08	0.63
Dividends from				
Net investment income	(1.50)	(1.51)	(1.62)	(0.13)
Net realized gains	-	(0.10)	(0.04)	-
Return of capital	-	(0.04)	-	-
Total dividends	(1.50)	(1.65)	(1.66)	(0.13)
Net asset value, end of year/period	\$ 17.67	\$ 17.11	\$ 18.98	\$ 19.56
<b>Total return<sup>#</sup></b>	<b>17.10%</b>	<b>(6.50)%</b>	<b>7.95%</b>	<b>(10.07)%<sup>†</sup></b>
<b>Ratios to average net assets</b>				
Expenses	2.68%	2.46%	2.29%	2.32%**
Net investment income	9.79%	8.23%	7.57%	5.36%**
<b>Supplemental data</b>				
Market value/price	\$ 15.68	\$ 14.82	\$ 17.58	\$ 17.86
Price discount	(11.26)%	(13.38)%	(7.38)%	(8.69)%
Net assets, end of year/period (000's)	\$ 269,492	\$ 261,004	\$ 289,474	\$ 298,425
Portfolio turnover rate	82.48%	73.33%	65.35%	11.75% <sup>†</sup>

(1) Per share calculations were performed using average shares.

\* Commenced operations on July 25, 2013.

\*\* Annualized.

<sup>†</sup> Total return and Portfolio turnover rate are for the period indicated and have not been annualized.

<sup>#</sup> 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.

## 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”). Pursuant to guidance from the Securities and Exchange Commission, the Fund’s classification changed from a non-diversified fund to a diversified fund. As a result of this classification change, the Fund is limited in the proportion of its assets that may be invested in the securities of a single issuer. Further, the classification change to a diversified fund may cause the Fund to benefit less from appreciation in a single issuer than if it had greater exposure to that issuer. 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.

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

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

The types of assets generally included in this category are certain leveraged loans, collateralized debt obligations, and certain common stock and preferred stock 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 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 year ended October 31, 2016, 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 October 31, 2016, the Fund invested in the Morgan Stanley Institutional Liquidity Government Portfolio - Institutional Class.

*Restricted Cash* — Restricted cash represents amounts that are held by third parties under certain of the Fund's derivative transactions. Such cash is excluded from cash and cash equivalents in the Statement of Assets and Liabilities and Statement of Cash Flows. Interest income earned on restricted cash is recorded in other income on the Statement of Operations. On the Statement of Cash Flows, net additions or reductions to restricted cash are classified as an operating activity.

*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.

*Forward Foreign Currency Exchange Contracts* — The Fund enters into forward foreign currency exchange contracts for the purchase or sale of a specific foreign currency at a fixed price on a future date. The forward foreign currency exchange contracts are adjusted by the daily exchange rate of the underlying currency and any gains or losses are recorded as unrealized gains/losses until such time as the contracts have been closed or offset by another contract with the same broker for the same settlement date and currency.

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

*Income Taxes* — The Fund intends to qualify 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 substantially 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.

*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

In order to avoid imposition of the 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.

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 October 31, 2016 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 year ended October 31, 2016, the Fund did not incur any interest or penalties.

### 3. Risk Considerations

The Fund invests mainly in high yield securities, leveraged loans, preferred and common stock and forward foreign currency contracts. 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: 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 to the 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.

*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.

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

During the year ended October 31, 2016, the Adviser earned a Management Fee of \$3,971,089.

*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 notional shares of the Fund. The value of a participating Independent Trustee's deferral account is based on the notional 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 and liabilities measured on a recurring basis as of October 31, 2016, and indicates the fair value hierarchy of the inputs utilized by the Fund to determine such fair value:

Investments in securities	Level 1	Level 2	Level 3	Total
High yield securities	\$ —	\$ 181,261,053	\$ 999,132	\$ 182,260,185
Leveraged loans	—	143,912,618	6,012,278	149,924,896
Collateralized debt obligation	—	—	1,740,146	1,740,146
Common stocks	14,640,551	—	957,102	15,597,653
Preferred stock	—	—	3,660,379	3,660,379
Cash equivalents	8,003,888	—	—	8,003,888
Total investments in securities and cash equivalents	\$ 22,644,439	\$ 325,173,671	\$ 13,369,037	\$ 361,187,147

The following table details the restricted securities held by the Fund as of October 31, 2016:

	Par/Shares	Acquisition date(s)	Amortized Cost	Value	% of Net Assets
Algeco Scotsman Global Sarl, TL PIK 04/13 , PIK Rate: 15.750%; Cash Rate: 15.000%, 05/01/2018	423,747	09/17/2013	\$ 352,286	\$ 53,396	0.0%
Amedisys, Inc., Common Stock	271,040	08/05/2013-08/08/2013	3,799,455	11,725,190	4.4%
Belk, Inc., TL 1L 08/15, 5.750%, 12/12/2022	2,755,832	04/12/2016-04/25/2016	2,468,204	2,487,138	0.9%
Square Two Financial Corp., TL 1.5L 05/16 , 11.000%, 05/24/2019	9,836,967	05/24/2016	9,836,967	4,790,800	1.8%
Square Two Financial Corp., Preferred Stock	14,720	05/24/2016	5,683,411	—	0.0%
Towergate, 8.750%, 04/02/2020	3,310,813	04/02/2015	5,038,670	3,677,600	1.4%
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	4,736,869	3,660,379	1.4%
Towergate, TopCo Common	540,649	04/02/2015	815,841	619,405	0.2%

The following table presents additional information about investments that are measured at fair value on a recurring basis for which the Fund has utilized Level 3 inputs to determine fair value as of October 31, 2016:

	High Yield Security	Leveraged Loans	Collateralized Debt Obligation	Common Stocks	Preferred Stocks
Balance at October 31, 2015	\$ -	\$ 80,638	\$ -	\$ 1,928,936	\$ 5,339,071
Purchases	-	9,836,967	1,695,755	-	5,683,411
Sales and paydowns	(955,184)	(14,206)	-	-	-
Transfers in and/or out of Level 3 <sup>(1)</sup>	2,135,362	1,450,648	-	-	-
Settlements	-	17,905	7,525	-	-
Net Change in appreciation/(depreciation)	(178,229)	(5,362,660)	36,866	(971,834)	(7,362,103)
Net realized gain/(loss)	(2,817)	2,986	-	-	-
Balance at October 31, 2016	\$ 999,132	\$ 6,012,278	\$ 1,740,146	\$ 957,102	\$ 3,660,379

Net Change in appreciation/(depreciation) on investments held at October 31, 2016	\$ (178,229)	\$ (5,362,660)	\$ 36,866	\$ (971,834)	\$ (7,362,103)
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<sup>(1)</sup> During the year ended October 31, 2016, there were transfers into Level 3. The Fund's policy is to recognize transfers into and out of Level 3 at the beginning of each reporting 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 October 31, 2016:

Financial Asset	Fair Value as of October 31, 2016	Valuation Technique <sup>(1)</sup>	Unobservable Inputs <sup>(2)</sup>	Range (Weighted Average) <sup>(3)</sup>		
Leveraged Loan <sup>(5)</sup>	\$ 6,012,278	Yield Analysis	Yield	21%-21% (21%)		
			EBITDA Multiple	8.7x-15.5x (15.2x)		
			Net Leverage	9.1x-34.1x (33.0x)		
		Liquidation Analysis		Broker Quotes	EBITDA Multiple	0.5x-15.5x (3.4x)
					Offered Quotes	5.0-7.3
					Risk Free Rate	1%
					Implied Volatility	24%
		Option Pricing Model	Term	1.6 years		
Collateralized Debt Obligation	1,740,146	Yield Analysis	Discount Margin	7%		
			Discounted Cash Flow	Probability of Default	2%	
					Loss Severity	30%
High Yield Security	999,132	Yield Analysis	Yield	14%		
			EBITDA Multiple	8.4x		
			Net Leverage	7.7x		
Common Stocks <sup>(4)</sup>	957,102	Market Comparables	LTM EBIDTA Multiple	2.5x-8.4x (4.6x)		
			Fwd EBIDTA Multiple	2.4x-8.0x (4.4x)		
			Illiquidity Discount	10%-10% (10%)		
		Discounted Cash Flow		Weight average cost of capital	11%	
				Fwd EBIDTA exit multiple	7.5x	
				Illiquidity Discount	10%	
Preferred Stocks	3,660,379	Market Comparables	LTM EBIDTA Multiple	0.5x-2.5x (2.5x)		
			Fwd EBIDTA Multiple	2.4x		
			Illiquidity Discount	5%-10% (10%)		

- (1) For the assets that have more than one valuation technique, the Partnership 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 Partnership 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 Partnership'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.
- (4) Of the \$957,102, \$619,405 was valued solely using a market comparables technique.
- (5) Of the \$6,012,278, \$4,790,800 was valued solely using a liquidation analysis technique.

### 6. Derivatives

In pursuing its investment objectives or for hedging purposes, the Fund may invest in various types of derivatives, including structured products, swaps, forward contracts, futures contracts and options. As of and for the year ended October 31, 2016, the Fund had the following transactions in derivatives, grouped in the following risk categories:

Statement of Operations Location	Net Realized Gain	Net Change in Unrealized Appreciation
Forward foreign currency contracts	\$ 483,693	\$ 199,353
	<u>\$ 483,693</u>	<u>\$ 199,353</u>

The Fund held forward foreign currency contracts from November 1, 2015 to November 6, 2015. During this time, the average notional value of forward foreign currency contracts was \$26,760,449

### 7. Shares of Beneficial Interest

Since July 25, 2013 (commencement of operations), there has been no subscriptions, redemptions, or newly issued common shares due to dividends reinvestment.

### 8. Investment Transactions

The cost of investments purchased and the proceeds from the sale of investments, other than short-term investments, for the year ended October 31, 2016 were as follows:

Purchases	\$ 282,868,399
Sales	294,994,819

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

### 9. Commitments and Contingencies

As of October 31, 2016, the Fund did not have unfunded financing commitments, including financial guarantees, related to other assets, including investments. In instances when the Fund enters into unfunded financing commitments, the Fund will maintain sufficient liquidity to fund such commitments.

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 and 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.

### 10. 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.

The following permanent differences have been reclassified (to)/from the following accounts:

Undistributed Net Investment Income/(Loss)	Accumulated Net Realized Gain/(Loss)	Paid-in Capital
\$ (728,600)	\$ 736,676	\$ (8,076)

These reclassifications have no effect on net assets or net assets per share and are related to foreign currency, dividends, and income and return of capital distributions.

The tax character of dividends declared for the years ended October 31, 2016 and 2015, respectively, is as follows:

	Ordinary Income	Return of Capital	Total
October 31, 2016	\$ 22,882,853	\$ -	\$ 22,882,853
October 31, 2015	\$ 24,520,685	\$ 635,198	\$ 25,155,883

As of October 31, 2016, the components of accumulated gains on a tax basis for the Fund are as follows:

Undistributed Ordinary Income	Net Unrealized Depreciation	Other Temporary Differences	Total Accumulated Losses
\$ 995,864	\$ (250,306)	\$ (21,375,444)	\$ (20,629,886)

Net capital losses earned may be carried forward indefinitely and must retain the character of the original loss.

As of October 31, 2016, 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 Cost	Aggregate Gross Unrealized Appreciation	Aggregate Gross Unrealized Depreciation	Net Unrealized Appreciation/ (Depreciation)
\$ 355,271,320	\$ 19,896,370	\$ (20,146,676)	\$ (250,306)

At October 31, 2016, the Fund had non-expiring capital loss carry-forwards of \$21,375,444.

## 11. 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 (the "Maximum Facility Amount") with The Bank of Nova Scotia expiring on July 24, 2017 (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 Fed Funds rate plus 0.50% per annum, and (iii) the Eurodollar rate plus 1.00% per annum.

As of October 31, 2016, there were the USD equivalent of \$103,015,444 of borrowings outstanding under the Credit Facility and the Fund is in compliance with the terms of the Credit Facility. During the year ended October 31, 2016, the Fund had an average amount of borrowing of \$109,827,338 at an average interest rate of 1.19%.

## 12. Offsetting Agreements

Certain derivative contracts are executed under standardized netting agreements. A derivative netting arrangement creates an enforceable right of set-off that becomes effective, and affects the realization of settlement on individual assets, liabilities and collateral amounts, only following a specified event of default or early termination. Default events may include the failure to make payments or deliver securities timely, material adverse changes in financial condition or insolvency, the breach of minimum regulatory capital requirements, or loss of license, charter or other legal authorization necessary to perform under the contract. The Fund may manage counterparty risk by entering into enforceable collateral arrangements with counterparties to securities lending agreements. These agreements mitigate counterparty credit risk by providing for a single net settlement with a counterparty of all financial transactions covered by the agreement in an event of default as defined under such agreement.

## 13. 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 no additional disclosures were necessary.

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Trustees and Shareholders of  
KKR Income Opportunities Fund

We have audited the accompanying statement of assets and liabilities of KKR Income Opportunities Fund (the "Fund"), including the schedule of investments, as of October 31, 2016, and the related statements of operations and cash flows for the year then ended, the statements of changes in net assets for each of the two years in the period then ended, and the financial highlights for each of the periods presented. These financial statements and financial highlights are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. The Fund is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. Our procedures included confirmation of securities owned as of October 31, 2016, by correspondence with the custodian and brokers; where replies were not received from brokers, we performed other auditing procedures. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of KKR Income Opportunities Fund as of October 31, 2016, and the related statements of operations and cash flows for the year then ended, the statements of changes in net assets for each of the two years in the period then ended, and the financial highlights for each of the periods presented, in conformity with accounting principles generally accepted in the United States of America.

San Francisco, CA  
December 22, 2016



### Trustees and Officers of KKR Income Opportunities Fund

Name, Age and Address	Position(s) Held with the Fund	Term of Office and Length of Service	Principal Occupation(s) During Past Five Years and Other Relevant Experience	Number of Portfolios in Fund Complex Overseen by Trustee	Other Directorships Held by Trustee During the Last Five Years
<b><i>Interested Trustees<sup>(1)</sup></i></b>					
Suzanne Donohoe (45) KKR Credit Advisors (US) LLC 555 California Street 50th Floor San Francisco, CA 94104	President	Since July 2013	Global head of KKR's Client and Partner Group and Member of KKR (Since 2009); Head of Goldman Sachs Asset Management International (2008-2009); Head of Goldman Sachs Asset Management client business in North America (2006-2008).	1	None.
<b><i>Independent Trustees<sup>(1)</sup></i></b>					
Tobin V. Levy (72) KKR Credit Advisors (US) LLC 555 California Street 50th Floor San Francisco, CA 94104	Trustee	Since July 2013	Executive Vice President & Chief Financial Officer, Local Initiatives Support Corporation (non-profit support and resources) (2011-2014); Managing Director and Chief Financial Officer of Hedge Fund Strategies Group, Goldman Sachs (financial services firm) (1995 - 2008).	1	AloStar Bank of Commerce.
Jeffrey L. Zlot (45) KKR Credit Advisors (US) LLC 555 California Street 50th Floor San Francisco, CA 94104	Trustee	Since July 2013	Managing Director, Tiedemann Wealth Management (formerly, The Presidio Group LLC) (investment consultant and investment banking) (since 1997).	1	None.
Michael E. Cahill (65) KKR Credit Advisors (US) LLC 555 California Street 50th Floor San Francisco, CA 94104	Trustee	Since July 2013	Executive Vice President (2008-2013) and Managing Director and General Counsel (1991-2013), The TCW Group, Inc. and Trust Company of the West (financial services firm).	1	None.

(1) "Independent Trustees" are those trustees who are not "interested persons" (as defined in Section 2(a)(19) of the 1940 Act) of the Fund, and "Interested Trustees" are those trustees who are interested persons of the Fund. Ms. Donohoe is an Interested Trustee because she is a Member of KKR, the parent company.

Name and Age	Position(s) Held with Fund	Term of Office and Length of Service	Principal Occupation(s) During Past Five Years and Other Relevant Experience
<b><i>Principal Officers who are not Trustees</i></b>			
Roshan Chagan (41)	Treasurer and Chief Financial Officer	Since December 2013	Treasurer, KKR Credit Advisors (US) LLC (2006 - present)
Shannon Horton (40)	Chief Compliance Officer	Since December 2014	Deputy Chief Compliance Officer, KKR Credit Advisors (US) LLC (2011-present); Chief Compliance Officer, Senior Compliance Officer, Wells Fargo Wealth Management Group (2006-2010), Nelson Capital Management (2010-2011)
Nicole J. Macarchuk (46)	Secretary and Vice President	Since July 2013	General Counsel, KKR Credit Advisors (US) LLC (2010-present); General Counsel and Secretary, KKR Financial Holdings LLC (2010-present); Co-General Counsel, Och-Ziff Capital Management Group LLC (2005 - 2010).
Susan R. Eisenberg (34)	Assistant Secretary	Since September 2015	Counsel, KKR Credit Advisors (US) LLC (2015-present); Associate, Ropes & Gray LLP (2007-2015)

## 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.

**Additional Information****FEDERAL TAX INFORMATION (Unaudited)**

For the fiscal year ended October 31, 2016, certain dividends paid by the Fund may be subject to a maximum rate of 20%, as provided for by the Jobs and Growth Tax Relief Reconciliation Act of 2003. The percentage of dividends declared from ordinary income designated as qualified dividend income was 0.00%.

For corporate shareholders, the percent of ordinary income distributions qualifying for corporate dividends received deduction for the fiscal year ended October 31, 2016 was 0.00%.

The percentage of taxable ordinary income distributions that are designated as short-term capital gain distributions under Internal Revenue Section 871 (k)(2)(C) for fiscal year ended October 31, 2016 was 0.00%.

The percentage of taxable ordinary income distributions that are designated as interest related dividends under Internal Revenue Section 871 (k)(1)(C) for fiscal year ended October 31, 2016 was 97.22%.

Pursuant to Section 853 of the Internal Revenue Code, the Fund did not designate any amounts as foreign taxes paid for the period ended October 31, 2016. Foreign taxes paid for purposes of Section 853 may be less than actual foreign taxes paid for financial statement purposes.

## Approval of Investment Advisory Agreement

### Background

At a meeting of the Board of KKR Income Opportunities Fund (the “Fund”) held on June 16, 2016 (the “Meeting”), the members of the Board, including the Trustees who are not “interested persons” of the Fund (the “Independent Trustees”), as defined in the Investment Company Act of 1940, as amended, considered and unanimously approved the continuance of the investment advisory agreement (the “Investment Advisory Agreement”) between KKR Credit Advisors (US) LLC (the “Adviser”) and the Fund.

Prior to the Meeting, the Independent Trustees received a memorandum from their independent legal counsel concerning the duties and responsibilities of board members in considering approval of the Investment Advisory Agreement. The Board had also received and considered materials it deemed reasonably necessary for its review of the Investment Advisory Agreement, including materials prepared by the Adviser and reports prepared by the Adviser and a third party service provider comparing fee, expense and performance information to a collection of registered closed-end funds believed by the Adviser to have comparable investment objectives and strategies as well as to registered closed-end funds in the same or similar Morningstar peer group as the Fund (the “Peer Funds”).

The Independent Trustees discussed with management and separately with their independent legal counsel the materials provided by management prior to the scheduled board meeting.

In its consideration of the approval of the Investment Advisory Agreement, the Board considered various factors, including the following:

### Nature, Extent and Quality of Services

In considering the nature, extent and quality of services provided by the Adviser, the Board relied on their ongoing experience as Trustees of the Fund as well as on the materials provided at and prior to the Meeting. The Board reviewed and considered the nature and extent of the investment advisory services provided by the Adviser under the Investment Advisory Agreement, including portfolio management, investment research and overseeing portfolio transactions. The Board noted that the Adviser provides the Fund with necessary offices, facilities and equipment. It was further noted that the Adviser coordinates and oversees the provision of services provided to the Fund by other service providers.

The Board reviewed and considered the qualifications, background and experience of the portfolio managers and other key personnel of the Adviser who provide advisory and non-advisory services to the Fund. They also considered the resources, operations and practices of the Adviser both generally and in managing the Fund’s portfolio. The Board noted the Adviser’s extensive experience in managing portfolios of loans and fixed income securities, knowledge of loan and fixed income markets, and analytical and risk management capabilities. The Board determined that the nature and extent of services provided by the Adviser to the Fund were appropriate and that the Fund should continue to benefit from the nature, extent and quality of these services as a result of the Adviser’s experience, personnel, operations and resources.

### Performance, Fees and Expenses of the Fund

The Board noted that the Fund had been in operation for approximately three years and considered the performance of the Fund under the management of the Adviser on an absolute basis and in comparison to the Peer Funds. The Board also considered the Adviser’s rationale for including certain funds among the Peer Funds for purposes of comparison, as well as the reasons why the Adviser believes its Morningstar peer group is an imprecise comparison. The Adviser also discussed with the Board the key contributors and detractors to the Fund’s performance during the period. The Board then discussed with the Adviser the Fund’s fees and expenses relative to comparable Peer Funds and other accounts advised by the Adviser. The Board noted that the Fund’s advisory fee is generally comparable to the fees charged by the Adviser or its affiliates to other clients for which it provides comparable services or uses overlapping portfolio management team members. The Board further noted that the Fund’s advisory fee was higher than the average of its peer

groups, but was generally in line with the advisory fees charged by funds with similar investment characteristics that commenced operations around the same time as the Fund. The Board also took into account the impact of leverage on the advisory fee paid by the Fund. In addition to the advisory fee, the Board also reviewed the Fund's total expense ratio. Following its review, in light of the extent and high quality of services that the Fund receives, the Board determined that the Fund's performance under the management of the Adviser was satisfactory and that the Fund's fees and expenses were reasonable.

#### **Economies of Scale**

The Board considered the size and growth prospects of the Fund and how it relates to the structure of the Fund's advisory fee schedule, which does not include breakpoints. The Board considered that the Fund is a closed-end fund and thus not expected to have regular inflows of capital and that growth would only be achieved through market appreciation or new issuances (*e.g.*, rights offerings). The Board concluded that economies of scale for the Fund were not a factor that needed to be considered at this time.

#### **Profitability of the Adviser and Affiliates**

The Board considered the profitability to the Adviser of its relationship with the Fund. The Board had been provided information concerning costs incurred and profits realized by the Adviser under the Investment Advisory Agreement. The Adviser discussed its cost allocation methodology and the reasons why the Adviser believed it to be reasonable. The Board also examined the level of profits that could be expected to accrue to the Adviser from the fees payable under the Investment Advisory Agreement. After discussion and analysis, the Board concluded that the profitability was in no case such as to render the advisory fee excessive.

#### **Other Benefits of the Relationship**

The Board considered other benefits to the Adviser and its affiliates derived from their relationship with the Fund. Based on information provided by and discussions with the Adviser, the Board concluded that these benefits did not appear to be material at the present time.

#### **Resources of the Adviser and Relationship with the Fund**

The Board considered the financial circumstances of the Adviser and whether the Adviser has the resources necessary to perform its obligations under the Investment Advisory Agreement. The Board also reviewed and considered the relationship between the Fund and the Adviser, including the policies and procedures formulated and adopted by the Adviser for managing the Fund's operations and the Board's confidence in the competence and integrity of senior managers and key personnel of the Adviser. The Board concluded that the Adviser has the financial resources necessary to fulfill its obligations under the Investment Advisory Agreement and that it is beneficial for the Fund to continue its relationship with the Adviser.

#### **Other Factors**

The Board considered the controls and procedures adopted and implemented by the Adviser and monitored by the Fund's Chief Compliance Officer and concluded that the conduct of business by the Adviser indicates a good faith effort on its part to adhere to high ethical standards in the conduct of the Fund's business.

#### **General Conclusion**

After considering and weighing all of the above factors, the Board concluded that the advisory fee was reasonable in light of the services provided by the Adviser and it would be in the best interests of the Fund and its shareholders to approve renewal of the Investment Advisory Agreement for another year. In reaching this conclusion the Board did not give particular weight to any single factor referenced above. The Board considered these factors over the course of numerous meetings, some of which were in executive session with only the Independent Trustees and their counsel present. It is possible that individual Board members may have weighed these factors differently in reaching their individual decisions to approve the Investment Advisory Agreement.

## Privacy Notice

### Protection and Security of Your Personal Information

KKR Credit Advisors US LLC (“KKR Credit Advisors (US)”) 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 Credit Advisors (US), and its affiliates. Please read this notice carefully to understand what we do, and call us at (415) 315-3620 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 Credit Advisors (US) chooses to share for this reason and, if we do share, whether you can limit this sharing.

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



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

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