KKR

KKR Income Opportunities Fund

Annual Report

October 31, 2017

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The KKR Income Opportunities Fund (the "Fund") files its complete schedule of portfolio holdings with the Securities and Exchange Commission (the "Commission") for the first and third quarters of each fiscal year on Form N-Q within sixty days after the end of the period. The Fund's Form N-Q is available on the Commission's website at http://www.sec.gov, and may be reviewed and copied at the Commission's Public Reference Room in Washington, D.C. Information on the operation of the Public Reference Room may be obtained by calling 1-800-SEC-0330.

A description of the policies and procedures that the Fund uses to determine how to vote proxies relating to portfolio securities, as well as information relating to how a Fund voted proxies relating to portfolio securities during the most recent period ended June 30 will be available (i) without charge, upon request, by calling 855-862-6092; and (ii) on the Commission's website at http://www.sec.gov.

INFORMATION ABOUT THE FUND'S TRUSTEES

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

Management Discussion of Fund Performance

Looking Back on the Markets – November 1, 2016 to October 31, 2017

Our portfolio seeks exposure to companies where the perception of risk may be high but our analysis leads us to believe that that risk is lower. Like others, we understand that most asset classes are expensive today but we also have a view that does not mean all assets are expensive. We believe that despite high average valuations across equity and credit markets, there is enough dispersion in value to identify and select a portfolio of large corporates that offer a highly attractive credit spread in today's market. We believe higher valuations are leading to slower than expected credit creation as private equity buyers are carefully selecting LBO target. This slower credit creation is occurring despite high demand for yield resulting in lower overall credit spreads. To that end, our portfolio is focused on where risk or true value is misperceived by many market participants. Our predominant focus is on large companies in sectors where names are not typically over-valued.

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

Traded Credit Market Commentary [1]

New issuance activity was muted in Q3 2017, dropping off from Q1 and Q2 as a result of a decline in refinancing activity. Although third quarter leveraged loan new issuance tapered from prior quarters, total year-to-date activity reached a record high, totaling $723.0 billion of gross issuance. As noted last quarter, the surge in volume in 2017 has been largely attributable to heavy repricing activity. On a net basis, leveraged loan new issuance totaled $195.9 billion year-to-date.

In terms of performance, the S&P LSTA Leveraged Loan Index returned 1.04% in Q3 2017 after returning 0.76% and 1.15% in Q2 2017 and Q1 2017, respectively. After two consecutive months without a default, the default rate rose slightly from 1.36% in August to 1.53% in September. The default rate remains close to the last-12-month low of 1.41% in February 2017 and below the market's long-term default rate of 3.02%.[2]

Retail funds reported two consecutive months of outflows in Q3 2017. Overall, net flows were -$251 million, the first quarterly outflow since Q2 2016. Investor sentiment remains uncertain as investors wait for further clarity on the economic backdrop, inflation and rate hikes. Despite the retreat from retail funds, we are seeing an increase in private equity, sponsor-driven activity. Notably, leveraged buyouts are leading the way reaching their seventh straight quarterly increase to date. Furthermore, private equity firms remained active in Q3 2017 by refinancing portfolio company debt and extracting dividends. Overall, supply surplus reached its lowest level in Q3 for 2017.

CLO issuance continues to support demand across the loan market. Although US CLO issuance edged lower to $29.7 billion compared to the prior quarter's high, year-to-date issuance remains strong at $81.8 billion, outpacing the record of $72.3 billion set in 2016. Overall in 2017, CLOs were the largest investors in the US institutional market, accounting for 63.4% of non-pro-rata issuance.

High Yield Bonds Commentary [3]

The three months' activity netted $79.8 billion of volume in Q3 2017, the 18th largest quarter on record and up from Q2 2017's $77 billion of issuance and down from Q1 2017's $99 billion of new volume and Q4 2016's $51.9 billion. For context, the month with the highest volume of issuance thus far this year was March 2017, when $48.1 billion priced (fourth highest total on record). Notably, monthly new-issue volume has averaged $28.4 billion over the year's first nine months, compared with $23.9 billion per month in full-year 2016 and $24.4 billion in full-year 2015.[4]

[1] Source: Source: S&P LCD Quarterly Review and J.P. Morgan as of September 30, 2017.
[2] Source: S&P LCD Default Rates as of September 30, 2017. Represents average monthly default rate since January 1999.
[3] Source: JP Morgan High Yield Market Monitor as of October 1, 2017.
[4] Source: JP Morgan High Yield Market Monitor as of December 31, 2016.

In Q3 2017, high-yield bonds returned +2.03%, which followed returns of +2.14% in Q2 2017 and +2.71% in Q1 2017. Additionally, in Q4 2016, high-yield bonds returned 1.89%.[5] The LTM high-yield default rate remains low at 1.07% vs. the long-term average of 3.63%.

In Q3 2017, HY net flows totaled -$585 million out, compared with outflows of -$2.3 billion and -$8.2 billion in Q2 2017 and Q1 2017, respectively. Thus far in 2017, high-yield mutual funds have reported an -$11.1 billion outflow, compared with a +$10.2 billion inflow during the first nine months in 2016. As for Q4 2016, high-yield funds reported a +$6.4 billion inflow for December 2016, which was the second largest inflow in 2016 and the seventh largest monthly inflow on record. This followed an outflow of -$5.4 billion in November 2016 and -$3.0 billion in October 2016, and resulted in a quarterly net outflow of -$2.0 billion.[4]

For the period of November 1, 2016 – October 31, 2017

- *Returns:* Over the 12 month period ending October 31, 2017, the high yield and leveraged loan markets returned 9.14%[6] and 5.06%[7] (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 387bps for the twelve month period ending October 31, 2017.[6] The spread on the S&P LSTA Leveraged Loan Index averaged approximately 409bps for the twelve month period ending October 31, 2017.[7]
- *Volatility:* As measured by the VIX index, volatility was sitting at 17.1 as of November 1, 2016.[8] Over the last twelve months, the VIX decreased to as low as 9.5 in September 2017, before settling at 10.2 as of October 31, 2017.[8]

<u>Fund Performance</u>

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 invests primarily in first- and second lien secured loans, unsecured loans and high-yield corporate debt instruments of varying maturities.

As of October 31, 2017, the Fund held 70.7% of its net assets in first and second-lien leveraged loans, 62.4% of its net assets in high-yield corporate debt, 5.0% of its net assets in common stock and 1.7% of its net assets in preferred stock. KIO's investments represented obligations and equity interests in 82 companies diversified across 48 distinct industries. The top ten issuers represented 42.3% of the Fund's net assets while the top five industry groups represented 51.1% of the Fund's net assets. The Fund's Securities and Exchange Commission 30-day yield was 6.41%.

For the period from July 25, 2013 (commencement of operations) to October 31, 2017, KIO outperformed the Bank of America Merrill Lynch High Yield Master II Index on a gross net asset value ("NAV") and net NAV basis and underperformed it on a market price basis. Over that period, the Fund had returns of 10.68% on a gross NAV basis, 7.96% on a net NAV basis and 5.47% on a market price basis. Over the same period, the Bank of America Merrill Lynch High Yield Master II Index returned 5.96%. For the year ended October 31, 2017, the Fund had returns of 16.57% on a gross NAV basis, 13.55% on a net NAV basis, and 18.08% on a market price basis, and the Bank of America Merrill Lynch High Yield Master II Index returned 9.14% over the same time period. Since inception through October 31, 2017, the Fund traded at an average discount to NAV of 8.78%.[9] The Fund employed leverage during the period covered by this report.[10]

[5] Source: Bank of America Merrill Markets Online as of September 30, 2017.
[6] Source: Bank of America Merrill Markets Online as of October 31, 2017.
[7] Source: S&P LCD Discounted Spreads as of October 31, 2017.
[8] Source: Bloomberg.
[9] Source: USBank Internal application as of October 31, 2017.
[10] 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.

<u>Business Updates</u>

As of the close of business on October 19, 2017 (the "Record Date"), the Fund issued transferable rights ("Rights") to its common shareholders of record ("Record Date Shareholders"), entitling the holders of those Rights to subscribe (the "Offer") for up to an aggregate of 5,085,079 common shares of beneficial interest of the Fund (the "Common Shares"). Record Date Shareholders received one Right for each outstanding Common Share owned on the Record Date. The Rights entitled their holders to purchase one new Common Share for every three Rights held (1-for-3). The Common Shares offered for subscription in the Offer are listed and trade on the New York Stock Exchange ("NYSE") under the symbol "KIO."

The Offer expired at 5:00 p.m., Eastern Time, on November 17, 2017 (the "Expiration Date"), and was over-subscribed. The subscription price pursuant to the Offer was $14.87 per Common Share, which was equal to 82% of the Fund's net asset value per Common Share at the close of trading on the NYSE on the Expiration Date which was greater than the subscription price formula that was described in the offering materials. The gross proceeds of the Offer were approximately $76 million.

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.

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.

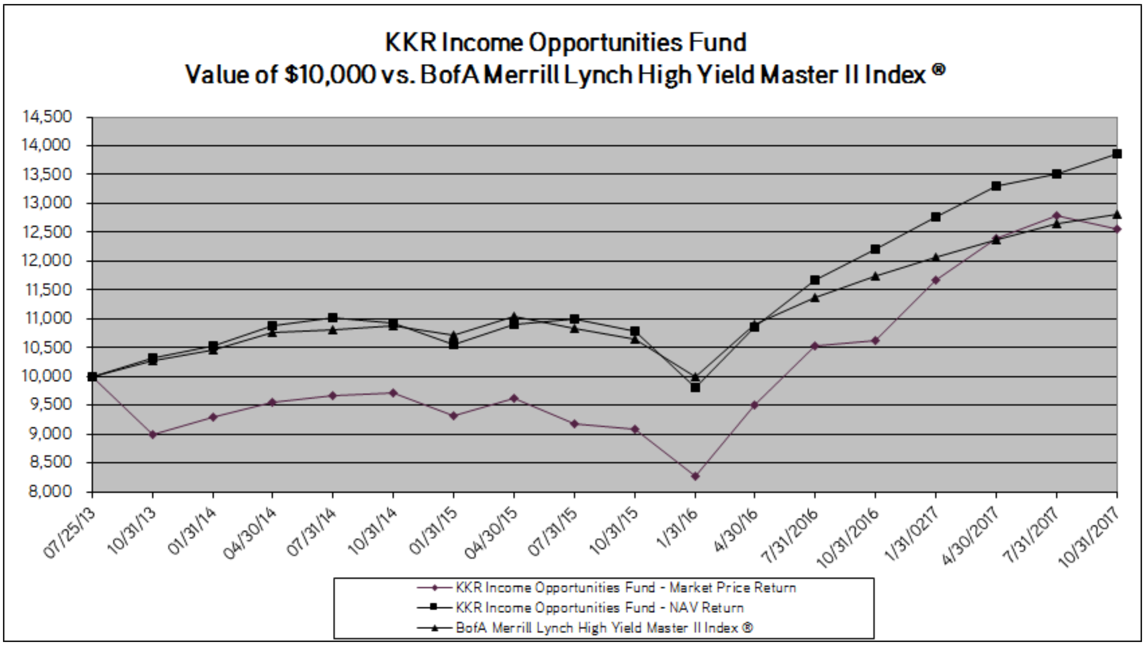
It is not possible to invest directly in an index.

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 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 Year Ended October 31, 2017	One Year	Three Year	Since Inception (7/25/2013)	Value of $10,000 10/31/2017
KKR Income Opportunities Fund - Market Price Return	18.08%	8.94%	5.47%	$12,552
KKR Income Opportunities Fund - NAV Return	13.55%	8.30%	7.96%	$13,865
BofA Merrill Lynch High Yield Master II Index®	9.14%	5.60%	5.96%	$12,803

Schedule of Investments

	Par†	Value
LEVERAGED LOANS - 70.7%		
Building Products - 1.4%		
SRS Distribution, Inc., TL 2L 06/16		
10.083% (3 Month US LIBOR + 8.750%), 02/24/2023 (a)	3,943,740	$ 4,057,123
Chemicals - 1.1%		
Emerald Performance Materials LLC, TL 2L 07/14		
8.992% (1 Month US LIBOR + 6.750%), 08/01/2022 (a)	268,490	268,910
New Arclin US Holding Corp., TL 2L 02/17		
10.083% (3 Month US LIBOR + 8.750%), 02/14/2025 (a)	415,240	420,950
Vantage Specialty Chemicals, Inc., TL 2L 10/17		
9.000% (3 Month US LIBOR + 8.250%), 10/20/2025 (a) (b) (c)	2,397,730	2,403,724
		3,093,584
Commercial Services & Supplies - 6.8%		
Acosta Holdco., Inc., TL 1L B 04/15		
4.492% (1 Month US LIBOR + 3.250%), 09/26/2021 (a)	7,223,729	6,391,194
Advantage Sales & Marketing, Inc., TL 1L B 06/14		
4.628% (3 Month US LIBOR + 3.250%), 07/23/2021 (a)	2,684,022	2,548,976
Koosharem LLC, TL 1L 05/14		
7.833% (3 Month US LIBOR + 6.500%), 05/15/2020 (a)	8,661,003	8,310,232
Monitronics International, Inc., TL 1L 03/12		
6.833% (3 Month US LIBOR + 5.500%), 09/30/2022 (a)	1,751,504	1,738,368
		18,988,770
Distributors - 2.6%		
Distribution International, Inc., TL 1L 12/14		
6.340% (3 Month US LIBOR + 5.000%), 12/15/2021 (a)	8,310,198	7,153,710
Diversified Financial Services - 0.2%		
SquareTwo Financial Corp., TL 1.5L 05/16		
PIK Rate: 13.052%; Cash Rate: 0.000%		
05/24/2019 (b) (c) (d) (e) (f)	6,133,156	566,090
Energy Equipment & Services - 0.3%		
Proserv Acquisition LLC, TL 1L B1 12/14 (US Tranche)		
6.708% (3 Month US LIBOR + 5.375%), 12/22/2021 (a) (b) (c) (g)	1,160,719	613,869
Proserv Acquisition LLC, TL 1L B2 12/14 (UK Tranche)		
6.708% (3 Month US LIBOR + 5.375%), 12/22/2021 (a) (b) (c) (g)	681,292	360,315
		974,184
Food & Staples Retailing - 2.4%		
BJ's Wholesale Club, Inc., TL 2L 01/17		
8.738% (1 Month US LIBOR + 7.500%), 02/03/2025 (a)	5,186,530	5,034,176
Grocery Outlet, Inc., TL 2L 09/14		
9.583% (3 Month US LIBOR + 8.250%), 10/21/2022 (a)	1,647,651	1,662,076
		6,696,252
Food Products - 1.5%		
CSM Bakery Products, TL 2L 07/13		
9.080% (3 Month US LIBOR + 7.750%), 07/05/2021 (a)	991,568	935,049
CTI Foods Holding Co. LLC, TL 2L 06/13		
8.500% (1 Month US LIBOR + 7.250%), 06/28/2021 (a)	3,800,000	3,344,000
		4,279,049

	Par†	Value
LEVERAGED LOANS - 70.7% (continued)		
Health Care Equipment & Supplies - 0.8%		
DeVilbiss Healthcare LLC, TL 1L B 11/16		
6.833% (3 Month US LIBOR + 5.500%), 01/03/2023 (a)	2,521,449	$ 2,364,615
Health Care Providers & Services - 6.5%		
Genoa (QoL), TL 2L 10/16		
9.242% (1 Month US LIBOR + 8.000%), 10/28/2024 (a)	5,063,890	5,114,529
Press Ganey Holdings, Inc., TL 2L 09/16		
7.742% (1 Month US LIBOR + 6.500%), 10/21/2024 (a)	4,560,370	4,634,477
Quorum Health Corp., TL 1L 04/16		
8.067% (3 Month US LIBOR + 6.750%), 04/29/2022 (a)	8,438,647	8,544,130
		18,293,136
Hotels, Restaurants & Leisure - 2.0%		
The Bay Club Co., TL 1L 08/16		
7.750% (1 Month US LIBOR + 6.500%), 08/31/2022 (a)	5,405,752	5,486,838
Internet Software & Services - 0.7%		
DigiCert, Inc., TL 1L 08/17		
5.750% (3 Month US LIBOR + 4.750%), 09/20/2024 (a)	1,980,170	2,006,981
IT Services - 2.1%		
NeuStar, Inc., TL 2L 02/17		
9.312% (3 Month US LIBOR + 8.000%), 08/08/2025 (a)	2,380,090	2,415,791
Sutherland Global Services, Inc., TL 1L 10/14 _US Borrower		
6.708% (3 month US LIBOR + 5.000%), 04/23/2021 (a)	3,009,099	2,896,258
Sutherland Global Services, Inc., TL 1L 10/14_Cayman Borrower		
6.708% (3 Month US LIBOR + 5.000%), 04/23/2021 (a)	700,450	674,183
		5,986,232
Life Sciences Tools & Services - 0.3%		
Albany Molecular Research, Inc., TL 2L 07/17		
8.333% (3 Month US LIBOR + 7.000%), 08/28/2025 (a)	910,270	929,044
Machinery - 9.5%		
Accuride Corp., TL 1L B 10/16		
8.333% (3 Month US LIBOR + 7.000%), 11/17/2023 (a)	3,164,298	3,180,119
BakerCorp International, Inc., TL 1L B 06/11		
4.378% (3 Month US LIBOR + 3.000%), 02/07/2020 (a)	7,562,230	7,456,661
Utility One Source LP, TL 1L 03/17		
6.742% (1 Month US LIBOR + 5.500%), 04/18/2023 (a)	6,457,087	6,666,942
WireCo WorldGroup, Inc., TL 1L 07/16		
6.817% (3 Month US LIBOR + 5.500%), 09/29/2023 (a) (g)	5,342,681	5,376,073
WireCo WorldGroup, Inc., TL 2L 07/16		
10.317% (3 Month US LIBOR + 9.000%), 09/30/2024 (a) (g)	3,803,220	3,822,236
		26,502,031
Media - 2.9%		
Intelsat Jackson Holdings SA, TL 1L B2 11/13		
4.071% (3 Month US LIBOR + 2.750%), 06/30/2019 (a) (g)	7,558,446	7,547,902
NEP Broadcasting LLC, TL 2L 06/17		
8.238% (1 Month US LIBOR + 7.000%), 01/23/2023 (a)	591,910	598,569
		8,146,471

Schedule of Investments (continued)

	Par†	Value
LEVERAGED LOANS - 70.7% (continued)		
Metals & Mining - 5.8%		
Foresight Energy LLC, TL 1L B 03/17		
7.083% (3 Month US LIBOR + 5.750%), 03/28/2022 (a)	3,903,950	$ 3,693,136
Sequa Corp., TL 1L 04/17		
6.874% (3 Month US LIBOR + 5.500%), 11/28/2021 (a)	5,796,988	5,855,886
Sequa Corp., TL 2L 04/17		
10.374% (3 Month US LIBOR + 9.000%), 04/28/2022 (a)	6,412,400	6,598,776
		16,147,798
Multiline Retail - 1.7%		
Belk, Inc., TL 1L B 08/15		
6.099% (3 Month US LIBOR + 4.750%), 12/12/2022 (a)	4,412,050	3,665,664
J.C. Penney Corp., Inc., TL 1L B 06/16		
5.568% (3 Month US LIBOR + 4.250%), 06/23/2023 (a)	1,170,269	1,077,139
		4,742,803
Professional Services - 2.0%		
SIRVA Worldwide, Inc., TL 1L 10/16		
7.827% (3 Month US LIBOR + 6.500%), 11/22/2022 (a)	5,463,673	5,545,628
Road & Rail - 1.8%		
Transplace, TL 2L 09/17		
9.750% (1 Month US LIBOR + 8.750%), 09/29/2025 (a)	4,998,990	4,973,995
Software - 10.1%		
Applied Systems, Inc., TL 2L 09/17		
8.324% (3 Month US LIBOR + 7.000%), 09/19/2025 (a)	6,013,300	6,218,143
iParadigms Holdings LLC, TL 2L 07/14		
8.583% (3 Month US LIBOR + 7.250%), 07/29/2022 (a)	5,133,360	5,024,277
Misys Ltd., TL 2L 04/17		
8.567% (3 Month US LIBOR + 7.250%), 06/13/2025 (a)	9,697,362	9,660,997
P2 Energy Solutions, Inc., TL 1L 10/13		
5.320% (3 Month US LIBOR + 4.000%), 10/30/2020 (a)	7,597,244	7,435,802
		28,339,219
Specialty Retail - 4.7%		
Charlotte Russe Inc., TL 1L B 04/13		
6.890% (3 Month US LIBOR + 5.500%), 05/22/2019 (a) (b) (c)	3,257,882	1,459,955
Charlotte Russe, Inc., TL 1L Add On 02/14		
6.890% (3 Month US LIBOR + 5.500%), 05/22/2019 (a) (b) (c)	390,875	175,163
David's Bridal, Inc., TL 1L B 10/12		
5.340% (3 Month US LIBOR + 3.750%), 10/11/2019 (a)	1,879,926	1,564,099
Jo-Ann Stores, Inc., TL 1L 09/16		
6.551% (6 Month US LIBOR + 5.000%), 10/20/2023 (a)	1,371,324	1,319,042
Savers, Inc., TL 1L C 07/12		
5.112% (3 Month US LIBOR + 3.750%), 07/09/2019 (a)	6,488,514	5,988,898
Talbots, Inc., TL 1L B 03/14		
5.742% (1 Month US LIBOR + 4.500%), 03/19/2020 (a)	2,792,117	2,716,730
		13,223,887
Textiles, Apparel & Luxury Goods - 0.2%		
Nine West Holdings, TL 1L B 03/14		
5.099% (3 Month US LIBOR + 3.750%), 10/08/2019 (a) (b) (c)	705,580	603,271

See notes to financial statements.

Schedule of Investments (continued)

	Par†	Value
LEVERAGED LOANS - 70.7% (continued)		
Trading Companies & Distributors - 2.1%		
FleetPride Corporation, TL 1L 11/12		
5.333% (3 Month US LIBOR + 4.000%), 11/19/2019 (a)	1,770,069	$ 1,758,121
FleetPride Corporation, TL 2L 11/12		
9.333% (3 Month US LIBOR + 8.000%), 05/19/2020 (a)	4,130,137	4,050,982
		5,809,103
Transportation Infrastructure - 1.2%		
Commercial Barge Lines Co., TL 1L B 11/15		
9.992% (1 Month US LIBOR + 8.750%), 11/12/2020 (a)	4,287,352	3,328,057
TOTAL LEVERAGED LOANS (amortized cost $204,356,150)		198,237,871
HIGH YIELD SECURITIES - 62.4%		
Aerospace & Defense - 2.1%		
Pattonair Holdings Ltd.		
9.000%, 11/01/2022 (g) (h)	2,377,000	2,400,770
Triumph Group, Inc.		
7.750%, 08/15/2025 (h)	3,377,000	3,609,169
		6,009,939
Chemicals - 0.3%		
Cornerstone Chemical Co.		
6.750%, 08/15/2024 (h)	725,000	734,062
Commercial Services & Supplies - 1.3%		
Acosta Holdco, Inc.		
7.750%, 10/01/2022 (h)	2,356,000	1,640,365
Vivint, Inc.		
7.625%, 09/01/2023	1,795,000	1,889,237
		3,529,602
Communications Equipment - 3.5%		
Genesys Telecommunications Laboratories, Inc.		
10.000%, 11/30/2024 (h)	8,774,000	9,903,653
Construction & Engineering - 3.6%		
Maxim Crane Works LP / Maxim Finance Corp.		
10.125%, 08/01/2024 (h)	8,824,000	9,971,120
Construction Materials - 5.6%		
Cemex Materials LLC		
7.700%, 07/21/2025 (h)	13,776,000	15,635,760
Containers & Packaging - 1.0%		
Plastipak Holdings, Inc.		
6.250%, 10/15/2025 (h)	513,000	522,619
Reynolds Group Holdings, Inc.		
7.950%, 12/15/2025	2,002,000	2,266,864
		2,789,483
Diversified Telecommunicaiton Services - 0.2%		
Cincinnati Bell, Inc.		
8.000%, 10/15/2025 (h)	575,000	593,687

See notes to financial statements.

Schedule of Investments (continued)

	Par†	Value
HIGH YIELD SECURITIES - 62.4% (continued)		
Electronic Equipment, Instruments & Components - 7.8%		
Artesyn Technologies, Inc.		
9.750%, 10/15/2020 (h)	9,594,000	$ 9,665,955
Vertiv Group Corp.		
9.250%, 10/15/2024 (h)	11,168,000	12,228,960
		21,894,915
Food & Staples Retailing - 0.3%		
The Fresh Market, Inc.		
9.750%, 05/01/2023 (h)	1,432,000	809,080
Health Care Equipment & Supplies - 2.9%		
DJO Finance LLC / DJO Finance Corp.		
8.125%, 06/15/2021 (h)	8,599,000	8,212,045
Health Care Providers & Services - 5.9%		
Quorum Health Corp.		
11.625%, 04/15/2023	1,565,000	1,431,975
Surgery Partners Holdings LLC		
8.875%, 04/15/2021 (h)	8,210,000	8,394,725
6.750%, 07/01/2025 (h)	2,841,000	2,592,412
Tenet Healthcare Corp.		
8.125%, 04/01/2022	1,832,000	1,834,290
5.125%, 05/01/2025 (h)	1,699,000	1,654,401
7.000%, 08/01/2025 (h)	538,000	492,943
		16,400,746
Hotels, Restaurants & Leisure - 4.4%		
ClubCorp Club Operations, Inc.		
8.500%, 09/15/2025 (h)	12,520,000	12,457,400
IT Services - 2.5%		
Solera Holdings, Inc.		
10.500%, 03/01/2024 (b) (c) (h)	6,114,000	6,969,960
Life Sciences Tools & Services - 0.9%		
Avantor, Inc.		
6.000%, 10/01/2024 (h)	1,083,000	1,104,660
PAREXEL International Corp.		
6.375%, 09/01/2025 (h)	1,370,000	1,388,837
		2,493,497
Machinery - 0.7%		
Nesco		
6.875%, 02/15/2021 (b) (c) (h)	2,240,000	2,004,800
Media - 2.5%		
Clear Channel International BV		
8.750%, 12/15/2020 (h)	3,651,000	3,833,550
Intelsat Jackson Holdings SA		
7.250%, 10/15/2020 (g)	3,243,000	3,120,415
		6,953,965

Schedule of Investments (continued)

		Par†	Value
HIGH YIELD SECURITIES - 62.4% (continued)			
Metals & Mining - 2.1%			
Allegheny Technologies, Inc.			
7.875%, 08/15/2023		5,283,000	$ 5,791,489
Pharmaceuticals - 1.4%			
Nidda Healthcare Holding AG			
5.000%, 09/30/2025 (g) (h)	EUR	3,214,000	3,838,571
Road & Rail - 3.9%			
The Kenan Advantage Group, Inc.			
7.875%, 07/31/2023 (h)		10,647,000	11,046,263
Software - 5.2%			
Datatel, Inc.			
9.000%, 09/30/2023 (h)		5,564,000	5,772,650
TIBCO Software, Inc.			
11.375%, 12/01/2021 (h)		8,172,000	8,927,910
			14,700,560
Specialty Retail - 0.7%			
Guitar Center, Inc.			
6.500%, 04/15/2019 (h)		2,208,000	2,053,440
Thrifts & Mortgage Finance - 0.9%			
MGIC Investment Corp.			
9.000%, 04/01/2063 (h)		1,907,000	2,635,236
Transportation Infrastructure - 1.5%			
Direct ChassisLink, Inc.			
10.000%, 06/15/2023 (h)		3,840,000	4,300,800
Wireless Telecommunication Services - 1.2%			
Sprint Corp.			
7.875%, 09/15/2023		2,274,000	2,541,195
6.875%, 11/15/2028		732,000	780,953
			3,322,148
TOTAL HIGH YIELD SECURITIES (amortized cost $166,774,446)			175,052,221
		Shares	
COMMON STOCKS - 5.0%			
Health Care Providers & Services - 4.7%			
Amedisys, Inc. (b) (c) (e)		271,040	13,039,735
Household Durables - 0.0%			
Algeco Scotsman Global Sarl, Common Stock B (b) (c) (e) (f) (g)		3	58,578
Insurance - 0.3%			
Towergate, SUN NewCo Common Shares A (b) (c) (e) (g)	GBP	8,597	-
Towergate, TopCo Common (b) (c) (e) (g)	GBP	540,649	817,152
			817,152
TOTAL COMMON STOCKS (cost $4,645,169)			13,915,465

Schedule of Investments (concluded)

		Shares	Value
PREFERRED STOCKS - 1.7%			
Diversified Financial Services - 0.0%			
SquareTwo Financial Corp.			
N/A (b) (c) (e)		14,720	$ -
Insurance - 1.7%			
Towergate, SUN NewCo Preference B			
N/A (b) (c) (e) (g)	GBP	3,194,971	4,828,971
TOTAL PREFERRED STOCKS (cost $10,420,281)			4,828,971
TOTAL INVESTMENTS (amortized cost $386,196,046) (i) - 139.8%			392,034,528
LIABILITIES EXCEEDING OTHER ASSETS, NET - (39.8)%			(111,661,850)
NET ASSETS - 100.0%			$ 280,372,678

† In U.S. Dollars unless otherwise indicated.
EUR Euro.
GBP Great British Pound.
TL Term Loan.
(a) Variable rate security, the coupon rate shown is the effective rate as of October 31, 2017.
(b) Security considered restricted due to the Adviser's knowledge of material non-public information. The total value of these securities as of October 31, 2017 was $33,901,583 and represented 12.1% of net assets.
(c) Security considered illiquid, as defined by the Securities and Exchange Commission. The total value of these securities as of October 31, 2017 was $33,901,583 and represented 12.1% of net assets.
(d) Represents a payment-in-kind ("PIK") security which may pay interest/dividend in additional par/shares.
(e) Non-income producing security.
(f) Defaulted security.
(g) Non-U.S. security.
(h) 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, 2017 was $155,395,803, which represented 55.4% of net assets.
(i) All investments are held as collateral for the Fund’s credit facility.

The following table represents the Fund’s investments categorized by country of risk as of October 31, 2017:

Country:	% of Net Assets
United States	128.1%
Luxembourg	3.8%
Cayman Islands	3.3%
United Kingdom	3.2%
Germany	1.4%
	139.8%
Liabilities Exceeding Other Assets, Net	(39.8)%
	100.0%

Statement of Assets and Liabilities

Assets		
Investments, at value (amortized cost $386,196,046)	$	392,034,528
Cash and cash equivalents		3,619,733
Receivable for investments sold		6,299,707
Dividends and interest receivable		5,002,866
Prepaid expenses		29,331
Total assets		406,986,165
Liabilities		
Credit facility		117,742,123
Payable for investments purchased		7,847,262
Accrued investment advisory fees		369,322
Accrued Trustees' fees		39,241
Accrued administration fees		19,652
Accrued investor support services fees		33,575
Other accrued expenses		562,312
Total liabilities		126,613,487
Net assets	$	280,372,678
Net Assets		
Paid-in capital — (unlimited shares authorized — $0.001 par value)	$	290,121,726
Undistributed net investment income		375,384
Accumulated net realized loss on investments and foreign currency transactions		(16,754,788)
Net unrealized appreciation on investments, foreign currency transactions and deferred Trustees' fees		6,630,356
Net assets	$	280,372,678
Net asset value, price per share ($280,372,678 ÷ 15,255,236 shares)	$	18.38

See notes to financial statements.

Statement of Operations

	Year Ended October 31, 2017
Investment income	
Interest income	$ 30,842,755
Term loan income	937,752
Dividend income	39,272
Total investment income	31,819,779
Expenses	
Investment advisory fees	4,192,952
Credit facility interest expense	1,755,779
Term loan fees	407,458
Investor support services fees	381,177
Trustees' fees	181,792
Administration fees	113,086
Legal fees	112,427
Custodian fees	77,856
Audit and tax fees	68,418
Shareholder reporting expense	44,955
Transfer agency fees	16,671
Other expenses	241,200
Total expenses	7,593,771
Net investment income	24,226,008
Net realized and unrealized gain (loss) on investments, foreign currency transactions and deferred Trustees' fees	
Net realized gain (loss) on	
Investments	4,620,757
Foreign currency transactions	(576,836)
Net realized gain	4,043,921
Net change in unrealized appreciation (depreciation) on	
Investments	6,305,789
Foreign currency transactions	611,597
Deferred Trustees' fees	(36,825)
Net change in unrealized appreciation	6,880,561
Net realized and unrealized gain on investments, foreign currency transactions and deferred Trustees' fees	10,924,482
Net increase in net assets resulting from operations	$ 35,150,490

See notes to financial statements.

Statements of Changes in Net Assets

	Year Ended October 31, 2017	Year Ended October 31, 2016
Increase (decrease) in net assets resulting from operations		
Net investment income	$ 24,226,008	$ 24,607,317
Net realized gain (loss) on investments, foreign currency transactions	4,043,921	(3,772,967)
Net change in unrealized appreciation on investments, foreign currency transactions and deferred Trustees' fees	6,880,561	10,536,545
Net increase in net assets resulting from operations	35,150,490	31,370,895
Dividends to shareholders from		
Net investment income	(24,269,652)	(22,882,853)
Total dividends	(24,269,652)	(22,882,853)
Net increase in net assets	10,880,838	8,488,042
Net assets		
Beginning of year	269,491,840	261,003,798
End of year	$ 280,372,678	$ 269,491,840
Undistributed net investment income	$ 375,384	$ 995,864

See notes to financial statements.

Statement of Cash Flows

		Year Ended October 31, 2017
Cash Flows from Operating Activities		
Net increase in net assets resulting from operations	$	35,150,490
Adjustments to reconcile net increase in net assets resulting from operations to net cash provided by operating activities:		
Purchases of investments		(328,831,926)
Proceeds from sales of investments		304,643,600
Net amortization (accretion) of premiums/discounts		(3,225,772)
Net change in unrealized appreciation on investments		(6,305,789)
Net change in unrealized appreciation on foreign currency transactions		(1,620,653)
Net realized gain on investments		(4,620,757)
Net realized loss on foreign currency transactions		1,110,028
Changes in assets and liabilities:		
Increase in investment advisory fees payable		23,788
Increase in Trustees' fees payable		38,268
Decrease in receivable for investments sold		20,990,159
Decrease in payable for investments purchased		(12,127,665)
Increase in dividends and interest receivable		(121,746)
Increase in prepaid expenses		(22,794)
Decrease in credit facility interest payable		(30,061)
Increase in accrued expenses and other liabilities		109,648
Net cash provided by operating activities		5,158,818
Cash Flows from Financing Activities		
Cash dividends paid to shareholders		(24,269,652)
Proceeds from credit facility		72,170,578
Payment on borrowing of credit facility		(58,444,378)
Foreign currency translation on credit facility		1,000,479
Net cash used in financing activities		(9,542,973)
Net decrease in cash and cash equivalents	$	(4,384,155)
Cash and Cash Equivalents		
Beginning Balance		8,003,888
Ending Balance	$	3,619,733
Supplemental Disclosure		
Cash paid for interest expense	$	1,785,840
Non-cash operating activities:		
Interest payments in kind	$	279,534

See notes to financial statements.

Financial Highlights

	Year Ended October 31, 2017	Year Ended October 31, 2016	Year Ended October 31, 2015	Year Ended October 31, 2014	Period Ended October 31, 2013*
Per share operating performance[(1)]					
Net asset value, beginning of period/year	$ 17.67	$ 17.11	$ 18.98	$ 19.56	$ 19.06
Income from operations					
Net investment income	1.59	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	0.71	0.45	(1.69)	(0.40)	0.36
Total income from operations	2.30	2.06	(0.22)	1.08	0.63
Dividends from					
Net investment income	(1.59)	(1.50)	(1.51)	(1.62)	(0.13)
Net realized gains	–	–	(0.10)	(0.04)	–
Return of capital	–	–	(0.04)	–	–
Total dividends	(1.59)	(1.50)	(1.65)	(1.66)	(0.13)
Market price, end of period/year	$ 18.38	$ 17.67	$ 17.11	$ 18.98	$ 19.56
Total return#	18.08%	17.10%	(6.50)%	7.95%	(10.07)%†
Ratios to average net assets					
Expenses	2.74%	2.68%	2.46%	2.29%	2.32%**
Net investment income	8.74%	9.79%	8.23%	7.57%	5.36%**
Supplemental data					
Market value/price	$ 16.87	$ 15.68	$ 14.82	$ 17.58	$ 17.86
Price premium/(discount)	(8.22)%	(11.26)%	(13.38)%	(7.38)%	(8.69)%
Net assets, end of period/year (000's)	$ 280,373	$ 269,492	$ 261,004	$ 289,474	$ 298,425
Portfolio turnover rate	84.06%	82.48%	73.33%	65.35%	11.75%†

(1) Per share calculations were performed using average shares.
* Commenced operations on July 25, 2013.
** Annualized.
† Total return and portfolio turnover rate are for the period indicated and have not been annualized.
\# Total return is computed based on New York Stock Exchange market price of the Fund's shares and excludes the effect of brokerage commissions. Dividends and distributions are assumed to be reinvested at the prices obtained under the Fund's dividend reinvestment plan.

See notes to financial statements.

Notes to Financial Statements

1. Organization

KKR Income Opportunities Fund (the "Fund") was organized on March 17, 2011 as a statutory trust under the laws of the state of Delaware. The Fund is a closed-end registered management investment company. The Fund commenced operations on July 25, 2013. The Fund seeks to generate a high level of current income, with a secondary objective of capital appreciation. The Fund is diversified for purposes of the Investment Company Act of 1940, as amended (the "1940 Act"). KKR Credit Advisors (US) LLC serves as the Fund's investment adviser (the "Adviser").

2. Summary of Significant Accounting Policies

Basis of Presentation — The accompanying financial statements are presented in accordance with accounting principles generally accepted in the United States of America ("GAAP") and are stated in United States ("U.S.") dollars. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts and disclosures in these financial statements. Actual results could differ from those estimates.

Valuation of Investments — The Board of Trustees (the "Board") of the Fund has adopted valuation policies and procedures to ensure investments are valued in a manner consistent with GAAP as required by the 1940 Act. The Board has delegated primary responsibility in ensuring these valuation policies and procedures are followed, including those relating to fair valuation, to the Adviser.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Where available, fair value is based on observable market prices or parameters, or derived from such prices or parameters. Where observable prices or inputs are not available, valuation models are applied. These valuation techniques involve some level of management estimation and judgment, the degree of which is dependent on the price transparency for the instruments or market and the instruments' complexity for disclosure purposes.

Assets and liabilities recorded at fair value on the Statement of Assets and Liabilities are categorized based upon the level of judgment associated with the inputs used to measure their value. Hierarchical levels, as defined under GAAP, are directly related to the amount of subjectivity associated with the inputs to fair valuations of these assets and liabilities, and are as follows:

Level 1 — Inputs are unadjusted, quoted prices in active markets for identical assets or liabilities at the measurement date.

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, and certain leveraged loans.

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, common stock not actively traded 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 fiscal year ended October 31, 2017, 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, 2017, the Fund invested in the Morgan Stanley Institutional Liquidity Government Portfolio - Institutional Class.

Foreign Currency Transactions — The books and records of the Fund are maintained in U.S. dollars. All investments denominated in foreign currency are converted to the U.S. dollar using prevailing exchange rates at the end of the reporting period. Income, expenses, gains and losses on investments denominated in foreign currency are converted to the U.S. dollar using the prevailing exchange rates on the dates when the transactions occurred.

The Fund bifurcates that portion of the results of operations resulting from changes in foreign exchange rates on investments and interest from the fluctuations arising from changes in market prices of securities held.

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.

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

Income Taxes — The Fund has elected to be treated and has qualified, and intends to continue to qualify in each taxable year, as a "regulated investment company" under Subchapter M of the Internal Revenue Code of 1986, as amended, and in conformity with the Regulated Investment Company Modernization Act of 2010. The Fund will not be subject to federal income tax to the extent the Fund satisfies the requirements under Section 851 of the Internal Revenue Code, including distributing 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.

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, 2017 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 fiscal year ended October 31, 2017, the Fund did not incur any interest or penalties.

3. Risk Considerations

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

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 fiscal year ended October 31, 2017, the Adviser earned a Management Fee of $4,192,952.

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, 2017, 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	$ –	$ 175,052,221	$ –	$ 175,052,221
Leveraged loans	–	196,697,597	1,540,274	198,237,871
Common stocks	13,039,735	–	875,730	13,915,465
Preferred stocks	–	–	4,828,971	4,828,971
Cash equivalents	1,308,212	–	–	1,308,212
Total investments in securities and cash equivalents	$ 14,347,947	$ 371,749,818	$ 7,244,975	$ 393,342,740

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

Issuer (1)	Par/Shares	Acquisition date(s)	Amortized Cost	Value	% of Net Assets
Algeco Scotsman Global Sarl, Common Stock B	3	06/23/2017	$ 29,857	$ 58,578	0.0%
Amedisys, Inc., Common Stock	271,040	08/05/2013-08/08/2013	3,799,456	13,039,735	4.7%
Charlotte Russe Inc., TL 1L B 04/13	3,257,882	06/14/2016	1,800,648	1,459,955	0.5%
Charlotte Russe, Inc., TL 1L Add On 02/14	390,875	06/14/2016	216,039	175,163	0.1%
Nesco	2,240,000	08/04/2015-11/17/2015	1,675,032	2,004,800	0.7%
Nine West Holdings, TL 1L B 03/14	705,580	07/25/2017	615,698	603,271	0.2%
Proserv Acquisition LLC, TL 1L B1 12/14 (US Tranche)	1,160,719	02/24/2015-09/14/2015	984,548	613,869	0.2%
Proserv Acquisition LLC, TL 1L B2 12/14 (UK Tranche)	681,292	02/24/2015-09/14/2015	577,943	360,315	0.1%
Solera Holdings, Inc.	6,114,000	02/29/2016-08/16/2017	6,057,872	6,969,960	2.5%
SquareTwo Financial Corp., Preferred Stock	14,720	05/24/2016	5,683,411	-	- %
SquareTwo Financial Corp., TL 1.5L 05/16	6,133,156	05/24/2016-02/27/2017	5,810,552	566,090	0.2%
Towergate, SUN NewCo Preference B	3,194,971	04/02/2015	4,736,870	4,828,971	1.7%
Towergate, TopCo Common	540,649	04/02/2015	815,841	817,152	0.3%
Towergate, SUN NewCo Common Shares A	8,597	04/02/2015	15	-	- %
Vantage Specialty Chemicals, Inc., TL 2L 10/17	2,397,730	10/20/2017	2,361,764	2,403,724	0.9%

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

The following is a reconciliation of the investments in which significant unobservable inputs (Level 3) were used in determing value:

	High Yield Securities	Leverage Loans	Collateralized Debt Obligation	Common Stocks	Preferred Stocks
Balance at October 31, 2016	$ 999,132	$ 6,012,278	$ 1,740,146	$ 957,102	$ 3,660,379
Purchases	–	–	–	29,857	–
Sales and paydowns	(1,162,879)	(4,409,037)	(1,805,957)	(248,660)	–
Transfer in and/or out of Level 3[1]	–	–	–	–	–
Settlements	–	330,892	3,201	–	–
Net change in appreciation/(depreciation)	111,015	(125,237)	(37,145)	551,491	1,168,592
Net realized gain/(loss)	52,732	(268,622)	99,755	(414,060)	–
Balance as of October 31, 2017	$ –	$ 1,540,274	$ –	$ 875,730	$ 4,828,971
Net change in appreciation/(depreciation) on investments held at October 31, 2017	$ –	$ (424,127)	$ –	$ 226,468	$ 1,168,592

(1) 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, 2017:

Financial Asset	Fair Value As of October 31, 2017	Valuation Technique(1)	Unobservable Inputs(2)	Range (Weighted Average)(3)
Leveraged Loans(4)	$ 1,540,274	Yield Analysis	Yield	31% (31%)
			EBITDA Multiple	6.5x (6.5x)
			Net Leverage	18.1x (18.1x)
		Liquididation Analysis	EBITDA Multiple	6.5x (6.5x)
Common Stocks	$ 875,730	Market Comparables	LTM EBITDA Multiple	3.1x-9.5x (3.5x)
			Fwd EBITDA Multiple	8.7x (8.7x)
			Illiquidity Discount	10%-15% (10%)
Preferred Stocks	$ 4,828,971	Market Comparables	LTM EBITDA Multiple	3.1x (3.1x)
			Illiquidity Discount	5%-10% (10%)

(1) For the assets that have more than one valuation technique, the Fund may rely on the techniques individually or in aggregate based on a weight ascribed to each one ranging from 0-100%. When determining the weighting ascribed to each valuation methodology, the Fund considers, among other factors, the availability of direct market comparables, the applicability of a discounted cash flow analysis and the expected hold period and manner of realization for the investment. These factors can result in different weightings among the investments and in certain instances, may result in up to a 100% weighting to a single methodology.

(2) The significant unobservable inputs used in the fair value measurement of the Fund's assets and liabilities may include the last twelve months ("LTM") EBITDA multiple, weighted average cost of capital, discount margin, probability of default, loss severity and constant prepayment rate. In determining certain of these inputs, management evaluates a variety of factors including economic, industry and market trends and developments; market valuations of comparable companies; and company specific developments including potential exit strategies and realization opportunities. Significant increases or decreases in any of these inputs in isolation could result in significantly lower or higher fair value measurement.

(3) Weighted average amounts are based on the estimated fair values.

(4) Of the total, $566,090 was valued based on the present value of the escrow account used to repay the term loan.

6. Shares of Beneficial Interest

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

7. Investment Transactions

The cost of investments purchased and the proceeds from the sale of investments, other than short-term investments, for the fiscal year ended October 31, 2017 were as follows:

Purchases	$ 328,831,926
Sales	$ 304,643,600

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

8. Commitments and Contingencies

As of October 31, 2017, 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.

9. Federal Income Taxes

The timing and characterization of certain income, capital gains, and return of capital distributions are determined annually in accordance with federal tax regulations, which may differ from GAAP. As a result, the net investment income (loss) and net realized gain (loss) on investment transactions for a reporting period may differ significantly from distributions during such period. These book/tax differences may be temporary or permanent in nature. To the extent these differences are permanent, they are charged or credited to paid-in capital, accumulated net investment income/loss or accumulated net realized gain/loss, as appropriate, in the period in which the differences arise.

As of October 31, 2017, 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
$ (576,836)	$ 576,836	$ -

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

The tax character of dividends declared for the fiscal years ended October 31, 2017 and October 31, 2016, were as follows:

	Ordinary Income	Total
October 31, 2017	$ 24,269,652	$ 24,269,652
October 31, 2016	$ 22,882,853	$ 22,882,853

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

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

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

As of October 31, 2017, the total cost of securities for federal income tax purposes and the aggregate gross unrealized appreciation and depreciation for securities held by the Fund are as follows:

Federal Tax Cost	Aggregate Gross Unrealized Appreciation	Aggregate Gross Unrealized Depreciation	Net Unrealized Appreciation/ (Depreciation)
$ 386,208,130	$ 22,339,084	$ (15,720,812)	$ 6,618,272

10. Credit Facility

In July 2013, the Fund entered into a $145.0 million credit agreement that was reduced on July 25, 2016 to $120.0 million (the "Maximum Facility Amount") with The Bank of Nova Scotia and amended in July 2017 with a new termination date of July 23, 2018 (the "Credit Facility"). The Credit Facility bears an unused commitment fee on the unused portion of the credit facility (the "Unused Facility Amount") equal to (a) 0.15% on the total Unused Facility Amount if the Unused Facility Amount is lower or equal to 75% of the Maximum Facility Amount or (b) 0.25% on the total Unused Facility Amount if the Unused Facility Amount is in excess of 75% of the Maximum Facility Amount. The per annum rate of interest for borrowing under the Credit Facility is equal to (a) London Interbank Offered Rate ("LIBOR") plus 0.80% per annum or (b) the greatest of (i) the Prime Rate, (ii) the Federal Funds rate plus 0.50% per annum, and (iii) the Eurodollar rate plus 1.00% per annum.

As of October 31, 2017, there were the USD equivalent of $117,742,123 of borrowings outstanding under the Credit Facility and the Fund is in compliance with the terms of the Credit Facility. During the fiscal year ended October 31, 2017, the Fund had an average amount of borrowing of $102,665,885 at an average interest rate of 1.77%.

11. Subsequent Events

In preparing these financial statements, the Fund has evaluated events and transactions for potential recognition or disclosure through the date the financial statements were issued. The Fund evaluated subsequent events through the date the financial statements were issued and determined the below additional disclosures was necessary.

As of the close of business on October 19, 2017 (the "Record Date"), the Fund issued transferable rights ("Rights") to its common shareholders of record ("Record Date Shareholders"), entitling the holders of those Rights to subscribe (the "Offer") for up to an aggregate of 5,085,079 common shares of beneficial interest of the Fund (the

"Common Shares"). Record Date Shareholders received one Right for each outstanding Common Share owned on the Record Date. The Rights entitled their holders to purchase one new Common Share for every three Rights held (1-for-3). The Common Shares offered for subscription in the Offer are listed and trade on the New York Stock Exchange ("NYSE") under the symbol "KIO."

The Offer expired at 5:00 p.m., Eastern Time, on November 17, 2017 (the "Expiration Date"), and was over-subscribed. The subscription price pursuant to the Offer was $14.87 per Common Share, which was equal to 82% of the Fund's net asset value per Common Share at the close of trading on the NYSE on the Expiration Date which was greater than the subscription price formula that was described in the offering materials. The gross proceeds of the Offer were approximately $76 million.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

Opinion on the Financial Statements and Financial Highlights

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, 2017, 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, the financial highlights for each of the five years in the period then ended, and the related notes. In our opinion, the financial statements and financial highlights present fairly, in all material respects, the financial position of the Fund as of October 31, 2017, and the results of its operations and its cash flows for the year then ended, the changes in its net assets for each of the two years in the period then ended, and the financial highlights for each of the five years in the period then ended, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements and financial highlights are the responsibility of the Fund's management. Our responsibility is to express an opinion on the Fund's financial statements and financial highlights based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Fund in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. 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, whether due to error or fraud. The Fund is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audit, we are required to obtain an understanding of internal control over financial reporting 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.

Our audit included performing procedures to assess the risks of material misstatement of the financial statements and financial highlights, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements and financial highlights. Out audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements and financial highlights. Our procedures included confirmation of securities owned as of October 31, 2017, by correspondence with the custodians and brokers; when replies were not received from brokers, we performed other auditing procedures. We believe that our audit provides a reasonable basis for our opinion.

/s/ Deloitte & Touche LLP

San Francisco, CA

December 21, 2017

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
Interested Trustees[(1)]					
Suzanne Donohoe (46) 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.
Independent Trustees[(1)]					
Tobin V. Levy (73) 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	None.
Jeffrey L. Zlot (46) 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 (66) 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
Principal Officers who are not Trustees			
Thomas Murphy (50)	Treasurer, Chief Financial Officer and Chief Accounting Officer	Since June 2017	Chief Accounting Officer, KKR Financial Holdings LLC (2009 - present); Chief Financial Officer and Treasurer, KKR Financial Holdings LLC (2015 - present)
Shannon Horton (41)	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 (47)	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).

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, 2017, 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, 2017 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, 2017 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, 2017 was 99.71%.

Pursuant to Section 853 of the Internal Revenue Code, the Fund did not designate any amounts as foreign taxes paid for the fiscal year ended October 31, 2017. 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 15, 2017 (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 investment team 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 four 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

Kohlberg Kravis Roberts & Co. L.P. ("KKR") respects our investors' right to privacy. All financial companies choose how they share personal information. Consumers have the right under U.S. federal law to limit some, but not all, sharing of personal information. U.S. federal law also requires us to inform you how we collect, share and protect your personal information. Investors may also have additional limiting rights under their respective State's law. This notice is provided by KKR, its affiliates, and funds ("KKR", "we", or "us"). Please read this notice carefully to understand what we do, and call us at (212) 750-8300 if you have any questions.

The Personal Information We Collect and How We Collect It

We collect the following types of personal information about individuals who are our investors:

- Information we receive from investors in subscription agreements, questionnaires and in other forms, such as name, address, account information, social security number, the types and amounts of investments, statements of net worth, telephone number, and other contact information;
- Information we receive from investors, affiliates and other companies about investors' transactions with us, our affiliates, or other financial institutions with which we have relationships; and
- Information we receive from third parties such as demographic information and information collected to comply with law and regulation.

When you are no longer an investor with us, we continue to share your information as described in this notice.

How and Why We Share Personal Information

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

- **For everyday business purposes:** KKR shares personal information for everyday business purposes, such as to
  - process your transactions;
  - provide financial products or services to you;
  - maintain your investment(s);
  - secure business services, including printing, mailing, and processing or analyzing data;
  - secure professional services, including accounting and legal services; or
  - respond to court orders and legal investigations.

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

- **For use by affiliates in providing products and services to you:** KKR shares personal information for our affiliates' use in providing you with products and services that meet your financial services needs. You cannot limit sharing by KKR for this reason.

- **For the everyday business purposes of affiliates:** KKR does not share personal information, including information about your credit worthiness, with our affiliates for their everyday business purposes.

- **For use by affiliates to market to you:** KKR does not share personal information with affiliates so that they can market to you.

- **For use by non-affiliates to market to you:** KKR does not share personal information with non-affiliates so that they can market to you.

U.S. Federal law gives you the right to limit sharing of your personal information only for use (i) by affiliates everyday business purposes (information about your creditworthiness), (ii) by affiliates to market to you, and (iii) by non-affiliates to market to you. U.S. State laws and individual companies may give you additional rights to limit sharing.

How We Protect Your Personal Information

To protect your personal information from unauthorized access and use, we use security measures that comply with federal law. These measures include computer safeguards and secured files and buildings.

Definitions

Affiliates: Companies related by common ownership or control. They can be financial and nonfinancial companies. KKR does not share with our affiliates, except to provide you products and services that meet your financial needs.

Non-affiliates: Companies not related by common ownership or control. They can be financial and nonfinancial companies. KKR does not share with non-affiliates so they can market to you.

Joint Marketing: A formal agreement between nonaffiliated financial companies that together market financial products and services to you. KKR does not jointly market.

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