Avenue Income Credit Strategies Fund
Form N-2/A
December 27, 2010

As filed with the Securities and Exchange Commission on December 27, 2010

Securities Act File No. 333-170030

Investment Company Act File No. 811-22485

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM N-2

REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933 x

Pre-Effective Amendment No. 1

Post Effective Amendment No. o

and/or

REGISTRATION STATEMENT UNDER
THE INVESTMENT COMPANY ACT OF 1940 x

Amendment No. 1

Avenue Income Credit Strategies Fund

(Exact Name of Registrant as Specified in Charter)

399 Park Avenue, 6th Floor

New York, NY 10022

(Address of Principal Executive Offices)

(212) 878-3500

(Registrant s Telephone Number, Including Area Code)

Sonia E. Gardner
Avenue Capital Group
399 Park Avenue, 6th Floor
New York, NY 10022
(212) 878-3500
(Name and Address of Agent for Service)

Copies to:

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New York, NY 10017

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Weil, Gotshal & Manges LLP
767 Fifth Avenue
New York, NY 10153

Approximate Date of Proposed Public Offering: **As soon as practicable after the effective date of this Registration Statement.**

If any of the securities being registered on this form will be offered on a delayed or continuous basis in reliance on Rule 415 under the Securities Act of 1933, other than securities offered in connection with a dividend reinvestment plan, check the following box. o

It is proposed that this filing will become effective when declared effective (check appropriate box):

o when declared effective pursuant to Section 8(c).

CALCULATION OF REGISTRATION FEE UNDER THE SECURITIES ACT OF 1933

Title of Securities Being Registered	Amount Being Registered	Proposed Maximum Offering Price per Unit	Proposed Maximum Aggregate Offering Price(1)	Amount of Registration Fee (2)(3)
Common Shares, $0.001 par value	50,000 Shares	$ 20.00	$ 1,000,000	$ 71.30

(1) Estimated solely for the purpose of calculating the registration fee.

(2) A registration fee of $71.30 was previously paid on October 19, 2010.

(3) Includes Shares that may be offered to Underwriters pursuant to an option to cover over-allotments.

The registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until this Registration Statement shall become effective on such dates as the Securities and Exchange Commission, acting pursuant to Section 8(a), may determine.

PROSPECTUS **Subject to Completion**

Preliminary Prospectus dated December 27, 2010

The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and is not soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

Shares

Avenue Income Credit Strategies Fund

Common Shares
$20.00 per Share

Investment Objectives and Principal Investment Strategy. Avenue Income Credit Strategies Fund (the "Fund") is a newly organized, non-diversified, closed-end management investment company. The Fund's primary investment objective is to seek a high level of current income with a secondary objective of capital appreciation.

Depending on current market conditions and the Fund's outlook over time, the Fund seeks to achieve its investment objectives by opportunistically investing primarily in loan and debt instruments (and loan-related or debt-related instruments, including repurchase and reverse repurchase agreements and derivative instruments) (collectively, "credit obligations") of issuers that operate in a variety of industries and geographic regions.

The Fund expects to emphasize high current income, with a secondary emphasis on capital appreciation, by investing generally in senior secured floating rate and fixed rate loans ("Senior Loans") and in second lien or other subordinated loans or debt instruments, including non-stressed and stressed credit obligations, and related derivatives. The Fund will seek to capitalize on market inefficiencies and reallocate the portfolio of the Fund to opportunistically emphasize those investments, categories of investments and geographic exposures believed to be best suited to the current investment and interest rate environment and market outlook. An investment committee of the Fund's investment adviser and subadviser expects to manage the allocation of the portfolio of the Fund between the adviser and the subadviser based on the availability of opportunities at the time. There is no minimum or maximum limit on the amount of the Fund's assets that may be invested in non-U.S. credit obligations, generally, or in emerging market credit obligations, specifically. In pursuing the Fund's investment objectives or for hedging purposes, the Fund may invest in instruments that give it short exposure to credit obligations.

(continued on the following page)

No prior history. **Because the Fund is newly organized, its common shares of beneficial interest, par value $0.001 per common share (the "Common Shares") have no history of public trading. Shares of closed-end investment companies frequently trade at a discount to their net asset value, which may increase investors' risk of loss. This risk may be greater for investors expecting to sell their shares in a relatively short period after completion of this public offering.**

It is anticipated that the Fund's Common Shares will be approved for listing on the New York Stock Exchange, subject to notice of issuance. The trading or "ticker" symbol of the Common Shares is expected to be "ACP."

Before buying any Common Shares, you should read the discussion of the principal risks of investing in the Fund, including that the Fund may invest all or a substantial portion of its assets in below investment grade securities which are often referred to as high yield or "junk" securities. The principal risks of investing in the Fund are summarized in "Prospectus Summary Risk Factors" beginning on page 14 of this prospectus and further described in "Risk Factors" beginning on page 54 of this prospectus.

	Per Share	Total(1)
Public offering price	$ 20.00	$
Sales load(2)	$ 0.90	$
Proceeds, after expenses, to the Fund(3)	$ 19.06	$

(notes on following page)

Neither the Securities and Exchange Commission (the "SEC") nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The underwriters expect to deliver the Common Shares to purchasers on or about , 2011.

Morgan Stanley **Citi**

Deutsche Bank Securities

J.J.B. Hilliard, W.L. Lyons, LLC **Ladenburg Thalmann & Co. Inc.** **Maxim Group LLC**

The date of this prospectus is , 2011.

(notes from cover page)

(1) The Fund has granted the underwriters an option to purchase up to additional Common Shares at the public offering price, less the sales load, within 45 days of the date of this prospectus solely to cover over-allotments, if any. If such option is exercised in full, the public offering price, the sales load and proceeds, after expenses, to the Fund will be $, $ and $, respectively. See "Underwriters."

(2) The Fund's investment adviser, Avenue Capital Management II, L.P. (the "Adviser"), has agreed to pay, from its own assets, an upfront marketing and structuring fee to Morgan Stanley & Co. Incorporated and an upfront structuring fee to Citigroup Global Markets Inc., and may pay certain other qualifying underwriters a marketing and structuring fee, a sales incentive fee or additional compensation in connection with this offering. The Adviser has agreed to pay TS Capital, LLC ("TSC") and ABAX Brokerage Services, Inc. ("ABAX") for distribution assistance in connection with the offering and for on-going structuring and shareholder services. The fees referenced in this footnote are not reflected under the sales load in the table above. The aggregate amount of such fees is approximately $. Certain expenses incurred by TSC or ABAX in connection with the offering may be reimbursed by the Fund and, to the extent reimbursed, are treated as expenses of the Fund in the table above. See "Underwriters Additional Compensation to the Underwriters and their Affiliates and Other Relationships."

(3) The per share and total proceeds, after expenses, to the Fund shown in the table reflect the deduction of the sales load and the aggregate offering expenses paid by the Fund. In addition to the sales load, the Fund will pay offering expenses up to an aggregate of $0.04 per Common Share, estimated to total $400,000 (assuming the Fund issues approximately 10,000,000 Common Shares). Both the sales load, which is directly borne by investors in this offering, and the aggregate offering expenses paid by the Fund, which are indirectly borne by investors in this offering, will immediately reduce the net asset value of the Common Shares of each investor in this offering. The Adviser has agreed to pay all organizational expenses of the Fund and the amount by which the aggregate of all of the Fund's offering expenses (other than the sales load) exceed $0.04 per Common Share (to the extent such excess offering expenses are not borne by another person other than the Fund). It is estimated that the Adviser will pay $600,000 ($0.06 per Common Share (assuming the Fund issues approximately 10,000,000 Common Shares)) of the Fund's offering expenses. If the Fund issues preferred shares and/or notes, the Fund's holders of Common Shares will also bear the expenses of such an offering.

(continued from cover page)

Portfolio Construction Guidelines. Under normal market conditions, the Fund will invest at least 80% of its "Managed Assets" in any combination of the following credit obligations and related instruments: (i) Senior Loans (including those that, at the time of investment, are rated below investment grade by a nationally recognized statistical rating organization or are unrated but deemed by the Fund's investment adviser or subadviser to be of comparable quality; these types of below investment grade instruments are commonly known as "junk" securities and are regarded as predominantly speculative with respect to the issuer's capacity to pay interest and repay principal); (ii) second lien or other subordinated or unsecured floating rate and fixed rate loans or debt (including those that, at the time of investment, could be considered "junk" securities as described above); (iii) other debt obligations, including high-yield, high-risk obligations (*i.e.*, instruments that are commonly known as "junk" securities as described above); (iv) structured products, including collateralized debt and loan obligations (collectively, "structured products") that provide long or short exposure to other credit obligations; (v) swaps and other derivative instruments (including credit default, total return, index and interest rate swaps, options, forward contracts, futures contracts and options on futures contracts) that provide long or short exposure to other credit obligations; (vi) foreign currencies and foreign currency derivatives (including foreign currency related swaps, futures contracts and forward contracts) acquired for the purpose of hedging the currency risk arising from the credit obligations in the Fund's portfolio; and (vii) short-term debt securities such as U.S. government securities, commercial paper and other money market instruments and cash equivalents (including shares of money market funds). Certain types of structured products, swaps and other derivative instruments provide short exposure to other credit obligations because the value of such instruments is inversely related to the value of one or more other credit obligations. "Managed Assets" are the total assets of the Fund (including any assets attributable to money borrowed for investment purposes, including proceeds from (and assets subject to) reverse repurchase agreements, any credit facility and any issuance of preferred shares or notes) minus the sum of the Fund's accrued liabilities (other than Fund liabilities incurred for the purpose of leverage).

Under normal market conditions, the Fund may also invest up to 20% of its Managed Assets in any combination of the following: (i) structured products that do not provide long or short exposure to other credit obligations; (ii) swaps and other derivative instruments (including total return, index and interest rate swaps, options, warrants, forward contracts, futures contracts and options on futures contracts) that do not provide long or short exposure to other credit obligations; and (iii) equity securities obtained through the conversion or exchange of convertible or exchangeable instruments, debt restructurings or bankruptcy proceedings and hedges on such positions. If the Fund receives equity securities in a debt restructuring or bankruptcy proceeding in an amount that would cause it to exceed the foregoing 20% limitation, the Fund will not be required to reduce its positions in such securities, or in any related hedges or any other investment, if the Fund's investment adviser or subadviser believes it would not be in the best interest of the Fund to do so.

The types of derivative instruments that the Fund currently anticipates investing in (or considering for investment) are: structured products, swaps, futures contracts, forward contracts and options (including options on swaps, futures contracts and foreign currencies).

Credit Quality and Geographic Origin of Portfolio Investments. In making investments in accordance with the foregoing portfolio construction guidelines, the Fund may invest in credit obligations of any credit quality, and may invest without limitation in credit obligations below investment grade, provided that the Fund will not invest in credit obligations that at the time of investment have a total yield above credit thresholds established by an investment committee of the Fund's investment adviser and subadviser. See "Investment Objectives and Principal Investment Strategy Investment Philosophy." The Fund does not intend to invest in credit obligations issued by issuers that, at the time of investment, the Fund's investment adviser and subadviser believe to be distressed (*i.e.*, unable to service their debts). See "Investment Objectives and Principal Investment Strategy Portfolio Credit Quality, Liquidity and Geographic Origin of Portfolio Investments."

In making investments in accordance with the foregoing portfolio construction guidelines, the Fund may invest globally in U.S. and non-U.S. issuers' obligations and such obligations may be U.S. dollar denominated as well as non-U.S. dollar denominated. The Fund will typically seek to limit its exposure to foreign currency risks by entering into forward transactions and other hedging transactions to the extent practical. There can be no assurance that the Fund's currency hedging strategies will succeed. Under normal market conditions, the Fund expects to invest in both U.S. and non-U.S. issuers. The Fund anticipates that its initial areas of geographic focus will be the United States and, secondarily, Europe. The Fund is also, among other areas, considering investments in Canada and South Africa. The geographic areas of focus are subject to change from time to time and may be changed without notice to the Fund's shareholders.

Leverage. The Fund is permitted to obtain leverage using any form or combination of financial leverage instruments, including reverse repurchase agreements, credit facilities such as bank loans or commercial paper, and the issuance of preferred shares or notes. Following the completion of the Fund's initial public offering of Common Shares, and subject to prevailing market conditions, the Fund intends to use leveraging instruments to add financial leverage to its portfolio representing up to approximately $33^1/_3$% of the Fund's total assets (including the assets subject to, and obtained with the proceeds of, such instruments). The Fund intends to use leverage opportunistically and may choose to increase or decrease its leverage, or use different types or combinations of leveraging instruments, at any time based on the Fund's assessment of market conditions and the investment environment.

Use of leverage creates an opportunity for increased income and return for holders of Common Shares ("Common Shareholders") but, at the same time, creates risks, including the likelihood of greater volatility in the net asset value and market price of, and distributions on, the Common Shares. There can be no assurance that the Fund will use leverage or that its leveraging strategy will be successful. The investment advisory fees paid by the Fund will be calculated on the basis of the Fund's Managed Assets, which includes proceeds from (and assets subject to) reverse repurchase agreements, any credit facility and any issuance of preferred shares or notes, so that the investment advisory fees payable to the Fund's investment adviser and subadviser will be higher when leverage is utilized. This will create a conflict of interest between the Fund's investment adviser and subadviser, on the one hand, and Common Shareholders, on the other hand. To monitor this potential conflict, the Board of Trustees intends periodically to review the Fund's use of leverage, including its impact on Fund performance and on the fees of the Fund's investment adviser and subadviser. See "Management of the Fund Potential Conflicts of Interest of the Avenue Managers" in the Statement of Additional Information ("SAI"). Fees and expenses in respect of financial leverage, as well as the investment advisory fee and all other expenses of the Fund, will be borne entirely by the Common Shareholders, and not by preferred shareholders, noteholders or any other leverage providers. See "Investment Objectives and Principal Investment Strategy Use of Leverage and Related Risks."

Other Information. This prospectus sets forth concisely information about the Fund you should know before investing. Please read this prospectus carefully before deciding whether to invest and retain it for future reference. A Statement of Additional Information dated has been filed with the SEC. A table of contents to the SAI is located on page 89 of this prospectus. This prospectus incorporates by reference the entire SAI. The SAI is available along with other Fund-related materials at the SEC's public reference room in Washington, DC (call 1-202-551-8090 for information on the operation of the reference room), on the EDGAR database on the SEC's internet site (http://www.sec.gov), upon payment of copying fees by writing to the SEC's Public Reference Section, 100 F Street, N.E. Washington, DC 20549-0102, or by electronic mail at publicinfo@sec.gov.

You may also request a free copy of the SAI, annual and semi-annual reports to shareholders when available, and additional information about the Fund, and may make other shareholder inquiries, by calling 1-888-301-3838, by writing to the Fund or visiting the Fund's website (http:/www.avenuecapital.com).

The Fund's Common Shares do not represent a deposit or obligation of, and are not guaranteed by or endorsed by, any bank or other insured depositary institution, and are not federally insured by the Federal Deposit Insurance Corporation, the Federal Reserve Board or any other government agency.

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You should rely only on the information contained or incorporated by reference in this prospectus. The Fund has not, and the underwriters have not, authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. The Fund and the underwriters are not making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted.

PROSPECTUS SUMMARY

This is only a summary. This summary may not contain all of the information that you should consider before investing in the Fund's common shares of beneficial interest, par value $0.001 per common share (the "Common Shares"). You should review the more detailed information contained in this prospectus and in the Statement of Additional Information (the "SAI").

The Fund	Avenue Income Credit Strategies Fund (the "Fund") is a newly organized, non-diversified, closed-end management investment company. The Fund's investment adviser is Avenue Capital Management II, L.P. (the "Adviser"), and the Fund's investment subadviser is Avenue Europe International Management, L.P. (the "Subadviser"). The Adviser and the Subadviser, which are referred to herein collectively as the "Avenue Managers," are both part of Avenue Capital Group, which comprises four registered investment advisers that have extensive expertise investing in stressed and distressed obligations throughout the world. Avenue Capital Group was founded in 1995 by Marc Lasry and Sonia E. Gardner. As of October 31, 2010, Avenue Capital Group had approximately $20 billion in assets under management. Avenue Capital Group, the Adviser and the Subadviser are located at 399 Park Avenue, 6th Floor, New York, New York 10022. The Adviser has not previously managed a registered investment company. The Subadviser currently serves as the subadviser to another registered investment company. An investment committee (the "Investment Committee") comprising representatives of the Avenue Managers will be responsible for allocating the portions of the Fund's assets to be invested by the Adviser and Subadviser, respectively.
The Offering	The Fund is offering Common Shares through a group of underwriters (the "Underwriters") led by Morgan Stanley & Co. Incorporated and Citigroup Global Markets Inc. The Fund has given the Underwriters an option to purchase up to additional Common Shares to cover over-allotments, if any. The initial public offering price is $20.00 per Common Share. The minimum purchase in this offering is 100 Common Shares ($2,000). The Adviser has agreed to pay all organizational expenses of the Fund and the amount by which the aggregate of all of the Fund's offering expenses (other than the sales load) exceed $0.04 per Common Share (to the extent such excess offering expenses are not borne by a person other than the Fund).
Who May Want to Invest	Investors should consider their investment goals, time horizons and risk tolerance before investing in the Fund. An investment in the Fund is not appropriate for all investors, and the Fund is not intended to be a complete investment program. The Fund is designed as a long-term investment and not as a trading vehicle. The Fund may be an appropriate investment for investors who are seeking: • a closed-end fund that seeks attractive risk adjusted returns with a high level of current income by investing generally in senior secured floating rate and fixed rate loans ("Senior Loans") and in second lien or other subordinated loans or debt instruments, including non-stressed and stressed credit obligations, and related derivatives; • a fund that seeks a balance between credit risk and interest rate risk and investment returns;

- exposure to Senior Loans for an overall portfolio that lacks such exposure; and
- a portfolio that may be invested globally with professional selection and active management by the Avenue Managers.

Investment Objectives and Principal Investment Strategy

The Fund's primary investment objective is to seek a high level of current income with a secondary objective of capital appreciation. There can be no assurance that the Fund will achieve its investment objectives.

Depending on current market conditions and the Fund's outlook over time, the Fund seeks to achieve its investment objectives by opportunistically investing primarily in loan and debt instruments (and loan-related or debt-related instruments, including repurchase and reverse repurchase agreements and derivative instruments) (collectively, "credit obligations") of issuers that operate in a variety of industries and geographic regions.

The Fund's investment objectives and principal investment strategy are not considered to be fundamental by the Fund and can be changed without the vote of the Fund's shareholders by the board of trustees of the Fund (the "Board") with at least 60 days written notice provided to shareholders.

Rationale

The Avenue Managers believe that changing investment and interest rate environments over time offer attractive investment opportunities in the markets for credit obligations, as well as varying degrees of investment risk. To both capitalize on attractive investments and effectively manage potential risk, the Avenue Managers believe that the combination of a thorough and continuous credit analysis (including an analysis of an issuer's ability to make loan or debt payments when due) and the ability to reallocate the portfolio of the Fund among different categories of investments at different points in the credit cycle (*i.e.*, the cycle between overall positive economic environments and less positive economic environments for credit obligations) is critical to achieving higher risk-adjusted returns, including higher current income and/or capital appreciation, relative to other high-yielding investments. The Avenue Managers expect to emphasize high current income, with a secondary emphasis on capital appreciation, by investing generally in Senior Loans, and in second lien or other subordinated loans or debt instruments, including non-stressed and stressed credit obligations, and related derivatives. The Fund will seek to capitalize on market inefficiencies and reallocate the portfolio of the Fund to opportunistically emphasize those investments, geographies and categories of investments best suited to the current investment and interest rate environment and market outlook. The Investment Committee expects to manage the allocation of the portfolio of the Fund between the Adviser and the Subadviser based on the availability of opportunities at the time.

The Fund's portfolio turnover rate may vary from year to year. The Fund generally expects, under normal market conditions, its portfolio turnover to be up to 100%. Because it is difficult to predict accurately portfolio turnover rates, actual turnover may be higher or lower. A high portfolio turnover rate increases a fund's transaction costs (including brokerage commissions and dealer costs), which would adversely impact a fund's performance. Higher portfolio turnover may result in the realization of more short-term capital gains than if a fund had lower portfolio turnover.

Portfolio

Portfolio Construction Guidelines. Under normal market conditions, the Fund will invest at least 80% of its "Managed Assets" in any combination of the following credit obligations and related instruments: (i) Senior Loans (including those that, at the time of investment, are rated below investment grade by a nationally recognized statistical rating organization (a "NRSRO") or are unrated but deemed by an Avenue Manager to be of comparable quality; these types of below investment grade instruments are commonly known as "junk" securities and are regarded as predominantly speculative with respect to the issuer's capacity to pay interest and repay principal); (ii) second lien or other subordinated or unsecured floating rate and fixed rate loans or debt (including those that, at the time of investment, could be considered "junk" securities as described above); (iii) other debt obligations, including high-yield, high-risk obligations (*i.e.*, instruments that are commonly known as "junk" securities as described above); (iv) structured products, including collateralized debt and loan obligations (collectively, "structured products") that provide long or short exposure to other credit obligations; (v) swaps and other derivative instruments (including credit default, total return, index and interest rate swaps, options, forward contracts, futures contracts and options on futures contracts) that provide long or short exposure to other credit obligations; (vi) foreign currencies and foreign currency derivatives (including foreign currency related swaps, futures contracts and forward contracts) acquired for the purpose of hedging the currency risk arising from the credit obligations in the Fund's portfolio; and (vii) short-term debt securities such as U.S. government securities, commercial paper and other money market instruments and cash equivalents (including shares of money market funds). Certain types of structured products, swaps and other derivative instruments provide short exposure to other credit obligations because the value of such instruments is inversely related to the value of one or more other credit obligations. "Managed Assets" are the total assets of the Fund (including any assets attributable to money borrowed for investment purposes, including proceeds from (and assets subject to) reverse repurchase agreements, any credit facility and any issuance of preferred shares or notes) minus the sum of the Fund's accrued liabilities (other than Fund liabilities incurred for the purpose of leverage).

The Fund will not invest in credit obligations or related instruments that, at the time of investment, are in default. The Fund may invest in credit obligations or related instruments that, at the time of investment, are likely to default. The credit obligations and related instruments in which the Fund may invest include mortgage-backed and asset-backed securities and securities whose value depends on the value of mortgage-backed or asset-backed securities. These types of investments present special risks. See "Risk Factors Asset-Backed and Mortgage-Backed (or Mortgage-Related) Instruments Risk." The Fund may act as a lender originating a Senior Loan.

Under normal market conditions, the Fund may also invest up to 20% of its Managed Assets in any combination of the following: (i) structured products that do not provide long or short exposure to other credit obligations; (ii) swaps and other derivative instruments (including total return, index and interest rate swaps, options, warrants, forward contracts, futures contracts and options on futures contracts) that do not provide long or short exposure to other credit obligations; and (iii) equity securities obtained through the conversion or exchange of convertible or exchangeable instruments, debt restructurings or bankruptcy proceedings and hedges on such positions. Structured products, swaps and other derivative instruments that do not provide long or short exposure to other credit obligations are those instruments whose reference or underlying assets or indices are not credit obligations or indices of credit obligations. Examples of such instruments include equity- and commodity-linked notes, total return swaps based on the value of an equity security and commodity futures contracts. The Fund may invest in such instruments in order, for example, (i) to seek current income or capital appreciation or (ii) to reduce the Fund's exposure solely to credit obligations. The Avenue Managers believe that the flexibility afforded by being able to invest in such instruments may benefit the Fund by (i) allowing the Fund to invest in potentially attractive investment opportunities that are not credit obligations and (ii) increasing the mix of instruments in the Fund's portfolio which could reduce the overall risk of the Fund's portfolio (although the Fund intends to remain a non-diversified investment company). There can be no assurance that these benefits will be realized and such instruments may expose the Fund to risks not presented by credit obligations.

If the Fund receives equity securities in a debt restructuring or bankruptcy proceeding in an amount that would cause it to exceed the foregoing 20% limitation, the Fund will not be required to reduce its positions in such securities, or in any related hedges or any other investment, if the Adviser or Subadviser believes it would not be in the best interest of the Fund to do so.

Percentage limitations described in this prospectus are as of the time of investment by the Fund and may be exceeded after such time because of changes in the market value of the Fund's assets.

The Fund will not invest in a derivative (other than a credit default swap or a currency hedging instrument) if, immediately after the investment, derivatives (other than credit default swaps and currency hedging instruments) would represent more than 30% of the Fund's Managed Assets on a marked-to-market basis. The Fund may use derivative instruments for hedging, as well as speculative, purposes.

The Fund's policy of investing, under normal market conditions, in accordance with the foregoing portfolio construction guidelines, is not considered to be fundamental by the Fund and can be changed without the vote of the Fund's shareholders by the Board with at least 60 days written notice provided to shareholders.

The types of derivative instruments that the Fund currently anticipates investing in (or considering for investment) are: structured products, swaps, futures contracts, forward contracts and options (including options on swaps, futures contracts and foreign currencies). In the future, the Fund may invest in other types of derivative instruments if deemed advisable by the Adviser or Subadviser. The Fund may commence investing in such other types of derivative instruments without notice to Common Shareholders.

Credit Quality, Liquidity and Geographic Origin of Portfolio Investments. The Fund may invest, without limitation, in credit obligations that are rated below investment grade by a NRSRO such as Standard & Poor's Ratings Services ("S&P") or Moody's Investors Service, Inc. ("Moody's"), or unrated credit obligations that are deemed by the Adviser or the Subadviser to be of comparable quality, commonly known in either case as "junk" securities. Such securities are regarded as predominantly speculative with respect to the issuer's capacity to pay interest and repay principal in accordance with the terms of the obligations and involve significant risk exposure to adverse conditions. Any of the Fund's investments may be issued, at the time of investment by the Fund, by "non-stressed" or "stressed" issuers. The Fund may invest in credit obligations of any maturity or duration. See " Investment Philosophy" below and "Management of the Fund Potential Conflicts of Interest of the Avenue Managers" in the SAI. "Non-stressed issuers" generally refers to those issuers that are in compliance with respect to their financial obligations and are not stressed or distressed issuers. "Non-stressed obligations" generally refers to credit obligations issued by non-stressed issuers. "Stressed issuers" generally refers to those issuers that the market expects to become distressed issuers in the near future. "Stressed obligations" generally refers to credit obligations issued by stressed issuers. "Distressed issuers" generally refers to those issuers that are unable to service their debt. "Distressed obligations" generally refers to credit obligations issued by distressed issuers. The Fund does not intend to invest in credit obligations issued by issuers that, at the time of investment, the Adviser and Subadviser believe to be distressed issuers.

In making investments in accordance with the foregoing portfolio construction guidelines, the Fund may invest globally in U.S. and non-U.S. issuers' obligations and such obligations may be U.S. dollar denominated as well as non-U.S. dollar denominated. The Fund will typically seek to limit its exposure to foreign currency risks by entering into forward transactions and other hedging transactions to the extent practical. There can be no assurance that the Fund's currency hedging strategies will succeed. Under normal market conditions, the Fund expects to invest in both U.S. and non-U.S. issuers. The Fund anticipates that its initial areas of geographic focus will be the United States and, secondarily, Europe. The Fund is also, among other areas, considering investments in Canada and South Africa. The geographic areas of focus are subject to change from time to time and may be changed without notice to the Fund's shareholders. There is no minimum or maximum limit on the amount of the Fund's assets that may be invested in non-U.S. credit obligations, generally, or in emerging market credit obligations, specifically.

The Fund may invest in loans and bonds issued by issuers of any size. The Fund currently intends to focus on middle market issuers. Middle market issuers are issuers with between approximately $100 million and $5 billion in balance sheet debt. The Fund's focus with respect to borrower size is subject to change from time to time and may be changed without notice to the Fund's shareholders. The Fund may invest in credit obligations at all levels of the capital structure. In investing in credit obligations, the Fund currently intends to focus on senior secured debt and other senior debt (including senior unsecured debt issued by an issuer that has also issued senior secured debt). The Fund's focus in this regard is subject to change from time to time and may be changed without notice to the Fund's shareholders.

Investment Philosophy

The Avenue Managers have expertise in Senior Loans and subordinated debt instruments, including those of stressed and distressed issuers, and are responsible for the overall management of the Fund.

The Avenue Managers seek to maximize risk adjusted returns, including by seeking to manage risk through shorting and other hedging strategies when deemed advisable by the Avenue Managers. There can be no assurance that the Fund's hedging strategies will succeed. The Avenue Managers seek to achieve the Fund's investment objectives while carefully evaluating risk/return within the capital structure of a company, as well as the industry and asset class. The Avenue Managers look to maintain trading flexibility and to preserve capital. They conduct thorough in-depth research and employ a disciplined investment philosophy and a consistent investment approach in their focus on credit opportunities. The Avenue Managers' investment teams use a robust credit process that includes research and analysis using a top-down/bottom-up approach to find mispriced or undervalued opportunities: from the top down, they consider macroeconomic themes of the overall credit market and industries, and from the bottom up, they conduct detailed fundamental analysis related to credit obligations of specific issuers, including examining issuers' financials and operations, including sales, earnings, growth potential, assets, debt, management and competition. The Avenue Managers also seek to understand historic and prospective industry trends affecting an investment opportunity. The Avenue Managers expect that the Fund's portfolio will not consist of a large number of issuers to permit a more thorough analysis of each issuer and to focus on the investments the Avenue Managers believe to be most attractive. The potential concentration of the Fund's portfolio creates risk. See "Risk Factors Non-Diversification Risk" and " Concentration Risk." The Fund will typically seek to balance interest rate risk with investment performance by investing, when deemed advisable by the Avenue Managers, in both floating rate credit obligations, which are more likely to maintain their value in changing interest rate environments, and fixed rate credit obligations, which are more likely to lose value in rising interest rate environments but may pay higher rates of interest than floating rate credit obligations. See "Risk Factors Market Risk." The Fund will typically seek to balance credit risk with investment performance by investing, when deemed advisable by the Avenue Managers, in both Senior Loans, which may pose less credit risk, and other credit obligations, which may offer the prospect of higher returns with more credit risk. See "Risk Factors Credit Risk." The Avenue Managers' investment process is subject to change in their discretion.

When investing in credit obligations, the Avenue Managers will invest the Fund's assets in credit obligations with total yields that at the time of purchase are equal to or below an applicable benchmark plus a credit spread set from time to time by the Investment Committee (the "Avenue Credit Thresholds"). See "Investment

Objectives and Principal Investment Strategy", "Risk Factors Potential Conflicts of Interest Risk" and "Management of the Fund Potential Conflicts of Interest of the Avenue Managers" in the SAI. The Avenue Credit Thresholds are determined by the Investment Committee in its sole discretion, and may be revised as markets change. Along the credit spectrum of non-stressed and stressed obligations, obligations with total yields at or below the Avenue Credit Thresholds generally will be less stressed obligations. Because the Adviser invests primarily in U.S. and Canadian investments, and the Subadviser invests primarily in non-North American investments, the Avenue Credit Thresholds applicable to the Adviser and the Subadviser may differ. There is no guarantee that the yield on the Fund's portfolio will equal or exceed the applicable Avenue Credit Thresholds.

As an example, as of the date of this prospectus, the following types of U.S. and Canadian credit obligations would be at or below the applicable "Avenue Credit Thresholds" if, at the time of investment, they have yields at or below the following benchmarks plus the indicated credit spreads:

- for floating rate obligations, LIBOR plus 650 basis points; and
- for fixed rate obligations, current U.S. Treasury plus 650 basis points.

As an additional example, as of the date of this prospectus, the following types of non-North American credit obligations would be at or below the applicable "Avenue Credit Thresholds" if, at the time of investment, they have yields at or below the following benchmarks plus the indicated credit spreads:

- for floating rate obligations, LIBOR plus 650 basis points, EURIBOR plus 650 basis points, and Sterling LIBOR plus 650 basis points, as applicable, depending upon the currency and term of the investment; and
- for fixed rate obligations, current U.S. Treasury plus 650 basis points, Bundesobligationen (of the Federal Republic of Germany) plus 650 basis points, Bundesschatzanweisungen (of the Federal Republic of Germany) plus 650 basis points and UK Gilt rates plus 650 basis points, as applicable, depending upon the currency and term of the investment.

The Adviser and Subadviser manage assets for accounts other than the Fund, including private funds. The Subadviser also currently serves as an investment subadviser to another registered closed-end management investment company (the "Subadvised Credit Fund") and, pursuant to its subadvisory agreement with the Subadvised Credit Fund, is responsible for investing a portion of that fund's assets. The expected risk and return profile for the Fund is generally lower than for most of the Avenue Managers' other accounts. Thus, except for the Subadvised Credit Fund, the Fund and most of the Avenue Managers' other accounts generally will not invest in the same credit obligations (although their investments may include different obligations of the same issuer). (For example, the Fund might invest in a Senior Loan issued by a borrower and one or more of the Avenue Managers' other accounts might invest in the borrower's junior debt.) In particular, except in the limited cases described below, the Avenue Managers will allocate credit obligations with a total yield at the time of investment at or below the applicable Avenue Credit Thresholds to the Fund and the Subadvised Credit Fund, and credit obligations with a total yield above the Avenue Credit Thresholds to the Avenue Managers' other accounts.

In the following cases, credit obligations with a total yield at the time of investment at or below the applicable Avenue Credit Thresholds may also be allocated to the Avenue Managers' other accounts. Each of the Avenue Managers, on behalf of its other accounts, will be able to sell short or otherwise take short positions in obligations (including purchasing a credit default swap) at or below the applicable Avenue Credit Thresholds for hedging purposes (and thus at times an Avenue Manager may purchase the same obligations for both its other clients and the Fund). Investments, such as equities and currencies, that do not have credit-based yields, are not subject to the Avenue Credit Thresholds. In addition, a portfolio management team (the "CLO Team") in the Adviser manages certain accounts (including private funds) that invest in certain types of credit obligations in which the Fund may also invest. The CLO Team operates on a different trading system than the Avenue Managers' other investment professionals and the Avenue Managers employ various policies and procedures intended to separate the CLO Team from such other professionals, including policies and procedures regarding physical separation and regarding limitations on the sharing of information. The CLO Team will not be involved in the management of the Fund and the Fund's portfolio managers will not be involved in the management of the CLO Team's accounts. The Avenue Credit Thresholds will not apply to investments made by the CLO Team and the CLO Team, on behalf of its accounts, may invest in credit obligations that have a total yield at the time of investment at or below (or above) the applicable Avenue Credit Thresholds. Investment opportunities in credit obligations sourced by the CLO Team will solely be allocated to the CLO Team's accounts and not to the Fund.

Investment opportunities appropriate for both the Fund and the portion of the Subadvised Credit Fund managed by the Subadviser generally will, to the extent practicable, be allocated on a pro rata basis between the Fund and the Subadvised Credit Fund. This means that such opportunities will be allocated pro rata among the Fund and the Subadvised Credit Fund based on the available cash of the respective funds. Nevertheless, investments and/or opportunities may be allocated other than on a pro rata basis, if an Avenue Manager deems in good faith that a different allocation among the Fund and the Subadvised Credit Fund is appropriate, taking into account, among other considerations: (a) applicable investment objectives, restrictions and guidelines; (b) the need to invest or re-balance a fund's portfolio following its launch or receipt of a significant cash contribution; (c) the potential for the proposed investment to create an imbalance in one of the fund's portfolios; (d) liquidity requirements of the funds; (e) tax consequences; (f) regulatory restrictions; and (g) the need to re-size risk in the funds' portfolios. To the extent that the Adviser or Subadviser serves as an investment manager to other accounts in the future that have the same investment strategy as the Fund, investment opportunities within such strategy will also, to the extent practicable, be allocated among the Fund and such other accounts on a pro rata basis.

Investors should note that the investment advisory fee structure for the Avenue Capital Group's accounts that are not registered investment companies or managed by the CLO Team is different and generally higher than the investment advisory fee structure for the Fund. See "Management of the Fund Potential Conflicts of Interest of the Avenue Managers" in the SAI for more information on the Avenue Credit Thresholds, advisory fees and the Adviser's and Subadviser's policies and procedures to address conflicts of interest. The Fund offers an opportunity for its investors to have some indirect access to the Avenue Managers, which normally is not directly available to retail investors, albeit only at the lower risk and return segment of the market.

Temporary Investments During temporary defensive periods or in order to keep the Fund's cash fully invested, including during the period when the net proceeds of the offering of Common Shares are being invested, the Fund may deviate from its investment objectives and principal investment strategy. During such periods, the Fund may invest all or a portion of its Managed Assets in certain short-term (less than one year to maturity) and medium-term (not greater than five years to maturity) debt securities or hold cash. The short-term and medium-term debt securities in which the Fund may invest consist of: (i) obligations of the U.S. government, its agencies or instrumentalities; (ii) bank deposits and bank obligations (including certificates of deposit, time deposits and bankers' acceptances) of U.S. or foreign banks denominated in any currency; (iii) floating rate securities and other instruments denominated in any currency issued by various governments or international development agencies; (iv) finance company and corporate commercial paper and other short-term corporate debt obligations of U.S. or foreign corporations; (v) repurchase agreements with banks and broker-dealers with respect to such securities; and (vi) shares of money market funds. See "Investment Objectives and Principal Investment Strategy Other Investments Temporary Investments" and "Use of Proceeds" below.

Leverage The Fund is permitted to obtain leverage using any form or combination of financial leverage instruments, including reverse repurchase agreements, credit facilities such as bank loans or commercial paper and the issuance of preferred shares or notes. Following the completion of the Fund's initial public offering of Common Shares, and subject to prevailing market conditions, the Fund intends to use leveraging instruments to add financial leverage to its portfolio representing up to approximately $33^1/_3$% of the Fund's total assets (including the assets subject to, and obtained with the proceeds of, such instruments). The Fund's intention to limit its use of financial leverage to $33^1/_3$% of the Fund's total assets is not a fundamental policy of the Fund and may be changed without notice to the holders of Common Shares (the "Common Shareholders"). The Fund intends to use leverage opportunistically and may choose to increase or decrease its leverage, or use different types or combinations of leveraging instruments, at any time based on the Fund's assessment of market conditions and the investment environment.

The Investment Company Act of 1940, as amended, and the rules and regulations promulgated thereunder (the "1940 Act") generally limit the extent to which the Fund may utilize "uncovered" reverse repurchase agreements and borrowings, together with any other senior securities representing indebtedness, to $33^{1}/_{3}\%$ of the Fund's total assets at the time utilized. In addition, the 1940 Act limits the extent to which the Fund may issue preferred shares to 50% of the Fund's total assets (less the Fund's obligations under uncovered reverse repurchase agreements and other senior securities representing indebtedness). "Covered" reverse repurchase agreements will not be counted against the foregoing limits under the 1940 Act. A reverse repurchase agreement will be considered "covered" if the Fund segregates an amount of cash and/or liquid securities equal to the Fund's obligations under such reverse repurchase agreement (or segregates such other amounts as may be permitted by the 1940 Act or SEC guidance from time to time); otherwise, a reverse repurchase agreement will be considered "uncovered." The Fund may not cover a reverse repurchase agreement if it does not need to do so to comply with the foregoing 1940 Act requirements and, in the view of an Avenue Manager, the assets that would have been used to cover could be better used for a different purpose.

Use of leverage creates an opportunity for increased income and return for Common Shareholders but, at the same time, creates risks, including the likelihood of greater volatility in the net asset value and market price of, and distributions on, the Common Shares. There can be no assurance that the Fund will use leverage or that its le