KKR Income Opportunities Fund
Form N-CSRS
June 26, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM N-CSR

CERTIFIED SHAREHOLDER REPORT OF REGISTERED MANAGEMENT INVESTMENT COMPANIES

Investment Company Act file number (811-22543)

KKR Income Opportunities Fund
(Exact name of registrant as specified in charter)

555 California Street, 50th Floor

San Francisco, CA 94101
(Address of principal executive offices) (Zip code)

Nicole J. Macarchuk, Esq.

KKR Asset Management LLC

555 California Street, 50th Floor

San Francisco, CA 94101
(Name and address of agent for service)

Registrant s telephone number, including area code: (415) 315-3620

Date of fiscal year end: October 31, 2015

Date of reporting period: April 30, 2015

Item 1. Reports to Stockholders.

KKR

KKR Income Opportunities Fund

Semi-Annual Report

April 30, 2015

Income Opportunities Fund	April 30, 2015 (Unaudited)

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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 the Fund voted proxies relating to portfolio securities during the most recent period ended June 30 will be available (i) without charge, upon request, by calling 855-330-3927; and (ii) on the Commission s website at http://www.sec.gov.

Management Discussion of Fund Performance

Looking Back on the Markets - November 1, 2014 to April 30, 2015

The credit markets came under pressure in Q4 2014 as global growth concerns resurfaced. Many credit and event-driven hedge funds became forced sellers because of the sharp pullback in energy-related credits and equities. The sell-off intensified, particularly in mid-December, as crude oil prices plummeted further, resulting in yields and spreads in the leveraged loan and high yield markets hitting the highest levels since 2012.(1)

Coming off this more volatile Q4 2014, price movement in the credit markets was more benign in Q1 2015. Stronger technicals and a surge of retail inflows bolstered demand and supported spreads in the leveraged credit market. As the quarter progressed, the leveraged loan market continued to benefit from strong CLO issuance. During the period, yields compressed 20-30bps across the credit markets.(2)

Leveraged Loans

Leveraged loan new-issue volume slumped to a three-year low in Q4 2014 amid the challenging market conditions which drove the returns for the S&P LSTA Leveraged Loan Index into negative territory. Specifically, new-issue leveraged loan volume decreased to $68.6 billion (bn) in Q4 2014, down from $133.1bn in Q3 2014.(1) The weakness in the new-issue leveraged loan market was observed across all market segments, but perhaps most notably in the M&A and re-pricing space. M&A-related loan issuance activity decreased to $40.2bn in Q4 2014, nearly half the $80.7bn volume observed in Q3 2014.(1) Not surprisingly given the volatility, re-pricing volume fell to a mere $4.5bn in Q4 2014, decreasing approximately 66% quarter over quarter.(1)

Against this backdrop, the S&P LSTA Leveraged Loan Index returned -0.51% in Q4 2014, marking the worst quarterly performance since Q3 2011.(1) This negative return was further exacerbated by continued retail outflows in the loan space. Notably, in Q4 2014, retail investors pulled an estimated $14.4bn from leveraged loan mutual funds, bringing YTD 2014 outflows in the loan space to a record estimated $20.0bn.(3) The outflows were marginally offset by the CLO market. In Q4 2014, CLO issuance reached $30.2 billion, approximately $2.0bn less than Q3 levels, bringing YTD issuance to approximately $124.0 billion, up from $83.0 billion during FY2013.(3)

In Q1 2015, leveraged loan new-issue volume rose moderately to $86.1 billion, up from $66.6bn in Q4 2014.(4) Although up quarter over quarter, leveraged loan new-issue volume in Q1 2015 was still well below the $168.3 billion that priced in Q1 2014.(4) Similar to the trends observed in the broader loan new-issue market, M&A-related loan new issuance activity rose to $56.7 billion in Q1 2015, up from $38.1 billion in Q4 2014.(4) However, Q1 2015 M&A-related loan new issuance was down nearly 20% from the levels observed in Q1 2014, a notable decline in issuance year-over-year.(4) We believe the decline in new issue volume can be attributed to the impact of the leveraged lending guidelines and other regulatory pressures that have caused banks and companies to refrain from underwriting. As we look ahead to the second half of 2015, we believe the increased loan new issuance will be driven by repricings given the lack of net new product. Notably, in April 2015, leveraged loans issued for repricing purposes amounted to 20.1% of loan issuance, demonstrating the strong technical tailwind in the leveraged credit markets.(5)

In Q1 2015, the S&P LSTA Leveraged Loan Index returned 2.12%, recouping the -0.51% observed in Q4 2014.(6) This positive return was supported by moderating loan outflows. Specifically, retail investors pulled $5.0 billion from leveraged loan mutual funds over the three month period ending March 31, 2015 versus $14.4

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(1) Source: S&P LCD Quarterly Review as of December 31, 2014.

(2) Source: S&P LCD Discounted Spreads and Bank of America Merrill Lynch Markets Online as of March 31, 2015.

(3) Source: S&P LCD Leveraged Lending Review as of December 31, 2014.

(4) Source: S&P LCD Quarterly Review as of March 31, 2015.

(5) Source: JP Morgan Leveraged Loan Market Monitor as of May 1, 2015.

(6) Source: S&P LCD Leveraged Loan Index Returns as of March 31, 2015.

billion in Q4 2014.(7) These moderate outflows were fully offset by the CLO market. US CLO issuance hit a record high in March with 31 new CLOs pricing for $16.4bn, surpassing the previous record of $16.1bn in July 2014.(7) Year to date, US CLO issuance totals $31.2bn, marking the fourth largest quarterly total on record and coming in well above the $23.9bn that priced in Q1 2014.(7)

High Yield Bonds

The high yield market also came under pressure in Q4 2014, posting the first negative outcome since 2011.(8) Specifically, the Bank of America Merrill Lynch High Yield index returned -1.07% in Q4 2014.(9) Additionally, the spread on the Bank of America Merrill Lynch High Yield index increased nearly 65 bps in Q4 2014, while yields rose 48bp from 6.47% at the end of September to 6.95% at the end of December.(9) High yield issuance in Q4 2014 was relatively light at $69.8bn, bringing YTD 2014 new high yield issuance to $356.0bn (down from approximately $400.0bn in FY2013).(8) Furthermore, high-yield mutual funds experienced $6.9bn in withdrawals in December 2014, after experiencing $5.6bn of inflows in the first two months of Q4 2014. Outflows for high-yield mutual funds now total a record $20.6bn in 2014, up from $4.7bn of outflows in 2013 and $29.0bn of inflows in 2012.(8)

Volatility increased in December with significant pressure on prices before the FOMC meeting and a mild rally after the meeting. As a proxy, the VIX index started the fourth quarter at 16.3 on September 30, 2014 and subsequently declined down to 13.3 by the end of November amidst the sell-off.(10) The VIX then increased approximately 45% over the month of December, ending the year at 19.2 as of December 31, 2014.(10) Since the end of the year, the VIX has further increased, reaching in excess of 21.0, highlighting the volatility that has continued as oil prices have continued to fall.(10)

After posting its first negative return since 2011 in Q4 2014, the high yield market rebounded in Q1 2015 fueled by renewed demand from retail investors. Specifically, the Bank of America Merrill Lynch High Yield index returned 2.55% in Q1 2015 while spreads and yields decreased over 20bp and 30bp, respectively, benefitting the new issue primary market.(11) Notably, high yield issuance in Q1 2015 rose to $95.6 billion, up approximately 37% from the level of issuance observed in Q4 2014 ($68.9 billion).(12) On the fund flows front, following two consecutive monthly inflows to begin 2015, high-yield bond mutual funds experienced a modest outflow in March, bringing QTD inflows to $10.1 billion.(12) This compares to a $3.4 billion inflow in the first quarter of 2014 and a record $23.8 billion outflow in 2014.(12)

Looking Ahead to the Second Half of 2015

As we look ahead to the second half of 2015, we believe the lack of liquidity and continued outflows from loan and high yield mutual funds may enhance the volatility in the leveraged credit markets, creating opportunities for those managers with flexible pools of capital and the ability to be dynamic. Furthermore, any other forced selling due to macroeconomic events may put pressure on prices, further exacerbating the volatility in the equity and credit markets. Other themes informing our investment decisions include:

- Lack of Liquidity: Since the passage of the Dodd-Frank Wall Street Reform and Consumer Protection Act in 2010, traditional liquidity providers have been unwilling to warehouse risk on their balance sheets, leading to exaggerated price moves when a large position has to be moved in the market.

- Impact of Technicals: In our view, fund flows, rather than fundamental or pure credit concerns, continued to introduce volatility in the leveraged credit markets. These fund flows have had an impact on prices, specifically in the form of wider spreads in the leveraged loan and high yield markets. As a result of the recent record outflows, mutual funds have been forced sellers of liquid paper, many of which are large index names. The forced selling has been observed across a wide range of sectors, credit profiles and yields, highlighting how downward price movements have not been necessarily tied to issuer-specific fundamentals, but rather broader market technicals.

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(7) Source: JP Morgan Leveraged Loan Market Monitor as of April 1, 2015.

(8) Source: JP Morgan High Yield Market Monitor as of January 5, 2015.

(9) Source: Bank of America Merrill Markets Online as of December 31, 2014.

(10) Source: Bloomberg as of September 30, 2014, November 31, 2014 and December 31, 2014.

(11) Source: Bank of America Merrill Markets Online as of March 31, 2015.

(12) Source: JP Morgan High Yield Market Monitor as of April 1, 2015.

- Hedge Fund Deleveraging: We observed intense and, at times, forced selling across credit and event-driven hedge funds, which were hit hard in Q4 2014 by the unfavorable court ruling on Fannie Mae and Freddie Mac, Abbvie walking away from its bid for Shire and the sharp pull back in energy-related equities and credits. In some cases, this forced selling resulted in sharp price declines, exacerbating the volatility in the equity and credit markets.

Amidst these market technicals, we continue to observe a flight to quality as exhibited by high demand for attractive new issues in the credit markets. Furthermore, we would characterize the bank loan and high yield markets as have and have not s markets where having exposure to certain industries and issuers is key to differentiating performance from that of the benchmark and competitors. Finally, we continue to watch rates closely and believe that although conditions are starting to ripen for the Fed to begin hiking rates, the Fed will proceed at a moderate pace.(13)

A Closer Look at the Impact of Commodity Price Volatility Over the Last Six Months

Over the last six months, volatility in commodity prices has been an overhang on the credit markets given the number of issuers, especially in the high yield market, that may face pressure if prices fail to rebound from the current approximately $50 level.

Prior to the sell-off in the commodity market, the energy and oil and gas sectors represented ~25% and ~10% of the Bank of America Merrill Lynch High yield Master II Index and S&P LSTA Leveraged Loan Index, respectively, as of September 30, 2014. By December 31, 2014, exposure to the energy and oil and gas sectors had decreased in both indices, representing ~18% and ~5% of the Bank of America Merrill Lynch High Yield Master II Index and S&P LSTA Leveraged Loan Index, respectively.(14) Despite this decrease in exposure quarter over quarter, the exposure to the energy and oil and gas sectors negatively impacted performance in these markets, making energy the worst performing sector in both indices in the fourth quarter of 2014 and full year 2014.(14) Specifically, high yield issuers in the energy sector posted -11.36% and -7.64% returns in the fourth quarter of 2014 and full year 2014, respectively.(14) Similarly, loan issuers in the energy sector posted -10.29% and -8.25% returns in the fourth quarter of 2014 and full year 2014, respectively.(14)

The effect of the commodity price volatility was also observed in the issuance market, where issuance from companies in the energy sector all but disappeared in December.(14) Notably, 9.3% of Q4 2014 issuance in the high yield market was tied to energy companies.(14) Of this Q4 total, 0% was issued in December and the balance was fairly well split between November and October.(14) Similarly, Q4 2014 energy issuance in the leverage loan market reached 2.9%, with 1.9% pricing in November and 1.0% pricing in October.(14)

Since the end of 2014, commodity prices have rebounded moderately and we ve seen this effect play out in the high yield and loan markets in the form of positive returns and increased issuance. Notably, both loan and high yield issuers in the energy sector recovered in Q1 2015, returning 1.81% and 2.73% respectively.(15) Similarly, issuance in the leveraged loan and high yield market rose in Q1 2015, coming in well above the lows reached in Q4 2014.(15) Specifically, in Q1 2015, 11.7% and 13.9% of all loans and high yield bonds issued were for energy companies.(15)

Although the movement in oil prices over the last six months clearly reintroduced volatility into the broader credit markets, its effect was notably less severe across the KKR Credit platform which has been and continues to be underweight the energy sector.

(13) Source: KKR Global Macro Asset & Allocation Team, Global Macro Weekly Update as of May 22, 2015.

(14) Source: JP Morgan High Yield & Leveraged Loan Market Monitors as of January 5, 2015.

(15) Source: JP Morgan High Yield & Leveraged Loan Market Monitors as of April 2, 2015.

The Market in Numbers

For the period of November 1, 2014 - April 30, 2015

- *Returns:* Over the 6 month period ending April 30, 2015, the high yield and leveraged loan markets returned 1.51%(16) and 2.28%(17) (as measured by the Bank of America Merrill Lynch High Yield Index and the S&P LSTA Leveraged Loan Index), respectively, while the US 10-year treasury and the Bank of America Merrill Lynch US Corporate Index returned 3.59%(16) and 2.22%(16), respectively.

- *Spreads:* The spread on the Bank of America Merrill Lynch High Yield Index averaged approximately 480bp for the six month period ending April 30, 2015.(16) Similarly, the spread on the S&P LSTA Leveraged Loan Index averaged approximately 495bp for the six month period ending April 30, 2015.(17)

- *Volatility:* As measured by the VIX index, volatility was sitting at 14.0 as of November 1, 2014.(18) Over the last six months, the VIX increased to as high as 19.2 in December 2015 and 21.0 in January 2015, before settling at 14.5 as of April 30, 2015.(18)

Fund Performance

KKR Income Opportunities Fund (KIO or, the Fund) is a non-diversified closed-end fund that trades on the New York Stock Exchange under the symbol KIO . The Fund s primary investment objective is to seek a high level of current income with a secondary objective of capital appreciation. The Fund seeks to achieve its investment objectives by employing a dynamic strategy of investing in a targeted portfolio of loans and fixed-income instruments (including derivatives) of U.S. and non-U.S. issuers and implementing hedging strategies in order to seek to achieve attractive risk-adjusted returns. Under normal market conditions, KIO will invest at least 80% of its Managed Assets in loans and fixed-income instruments or other instruments, including derivative instruments, with similar economic characteristics. The Fund expects to invest primarily in first-and second lien secured loans, unsecured loans and high-yield corporate debt instruments of varying maturities.

As of April 30, 2015, the Fund held 67.9% of its net assets in high-yield corporate debt, 53.3% of its net assets in first and second-lien leveraged loans, 3.9% of its net assets in common stock and 1.9% of its net assets in preferred stock. KIO s investments represented obligations and equity interests in 91 companies diversified across 34 distinct industries. The top ten issuers represented 42.8% of the Fund s net assets while the top five industry groups represented 55.1% of the Fund s net assets. The Fund s Securities and Exchange Commission 30-day yield was 6.90%.

For the period from July 25, 2013 (commencement of operations) to April 30, 2015, KIO outperformed the Bank of America Merrill Lynch High Yield Master II Index on a gross net asset value (NAV) basis and underperformed it on a net NAV basis and a market price basis. Over that period, the Fund had returns of 7.44% on a gross NAV basis, 4.96% on a net NAV basis and -2.23% on a market price basis. Over the same period, the Bank of America Merrill Lynch High Yield Master II Index returned 5.75%. For the six month period ended April 30, 2015, the Fund had returns of -0.21% on a net NAV basis and -1.02% on a market price basis, and the Bank of America Merrill Lynch High Yield Master II

Index returned 1.51% over the same time period. Since commencement of operations through April 30, 2015, the Fund traded at an average discount to NAV of (7.40%).(19) The Fund employed leverage.(20)

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(16) Source: Bank of America Merrill Markets Online as of April 30, 2015.

(17) Source: S&P LCD Discounted Spreads as of April 30, 2015.

(18) Source: Bloomberg as of April 30, 2015.

(19) Bloomberg as of April 30, 2015.

(20) 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.

Business Updates

Craig Farr, the Head of KKR Credit and Capital Markets, decided to retire from KKR to pursue entrepreneurial endeavors. Craig will continue to be part of the KKR family as a Strategic Advisor to the firm. In the wake of Craig s departure, Alan Burke and Nat Zilkha will continue to co-lead the global KKR Credit business and will share responsibilities for the investment and operating results across all of KKR Credit globally.

We thank you for your partnership and continued investment in the Fund. 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 Periods Ended April 30, 2015		**One Year**	**Since Inception (7/25/2013)**	**Value of $10,000 4/30/15**
KKR Income Opportunities Fund	Market Price Return	0.56%	(2.23)%	$ 9,610
KKR Income Opportunities Fund	NAV Return	0.22%	4.96%	$ 10,892
BofA Merrill Lynch High Yield Master II Index®		2.57%	5.75%	$ 11,036

Schedule of Investments

		Par	Value
HIGH YIELD SECURITIES - 67.9%			
Aerospace & Defense - 1.5%			
Bombardier, Inc.			
6.125%, 01/15/2023 (a) (g)		4,327,000	$ 4,135,314
Banks - 5.3%			
Ally Financial, Inc.			
8.000%, 12/31/2018 (f)		1,399,000	1,580,870
Novo Banco SA			
N/A, 02/19/2049 (a) (g) (i)	EUR	8,602,000	1,786,871
N/A, 04/09/2052 (g) (i)	EUR	246,000	46,958
SquareTwo Financial Corp.			
11.625%, 04/01/2017 (e)		14,720,000	11,187,200
			14,601,899
Building Products - 0.2%			
Calcipar SA			
6.875%, 05/01/2018 (a) (g)		400,000	413,752
Chemicals - 1.7%			
Kleopatra Acquisition Corp.			
11.000%, 08/15/2017 (a) (c) (e)	EUR	2,061,470	2,448,978
Pinnacle Agriculture Holdings LLC			
9.000%, 11/15/2020 (a)		2,259,000	2,287,237
			4,736,215
Construction Materials - 7.5%			
Cemex Materials LLC			
7.700%, 07/21/2025 (a)		13,760,000	15,170,400
Summit Materials Holdings LP			
10.500%, 01/31/2020		4,869,000	5,319,383
			20,489,783
Containers & Packaging - 0.1%			
Multi-Color Corp.			
6.125%, 12/01/2022 (a)		366,000	380,640