Guggenheim Credit Allocation Fund
Form N-CSR
August 07, 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 811-22715

Guggenheim Credit Allocation Fund
(Exact name of registrant as specified in charter)

227 West Monroe Street, Chicago, IL 60606
(Address of principal executive offices) (Zip code)

Amy J. Lee
227 West Monroe Street, Chicago, IL 60606
(Name and address of agent for service)

Registrant's telephone number, including area code: (312) 827-0100

Date of fiscal year end: May 31

Date of reporting period: June 1, 2014 – May 31, 2015

Item 1. Reports to Stockholders.

The registrant's annual report transmitted to shareholders pursuant to Rule 30e-1 under the Investment Company Act of 1940, as amended (the “Investment Company Act”), is as follows:

GUGGENHEIMINVESTMENTS.COM/GGM

... YOUR LINK TO THE LATEST, MOST UP-TO-DATE
INFORMATION ABOUT GUGGENHEIM CREDIT
ALLOCATION FUND

The shareholder report you are reading right now is just the beginning of the story.

Online at guggenheiminvestments.com/ggm, you will find:

- Daily, weekly and monthly data on share prices, distributions and more
- Portfolio overviews and performance analyses
- Announcements, press releases and special notices
- Fund and adviser contact information

Guggenheim Partners Investment Management, LLC and Guggenheim Funds Investment Advisors, LLC are constantly updating and expanding shareholder information services on the Fund's website in an ongoing effort to provide you with the most current information about how your Fund's assets are managed and the results of our efforts. It is just one more small way we are working to keep you better informed about your investment in the Fund.

DEAR SHAREHOLDER

We thank you for your investment in the Guggenheim Credit Allocation Fund (the "Fund"). This report covers the Fund's performance for the 12-month period ended May 31, 2015.

The Fund's investment objective is to seek total return through a combination of current income and capital appreciation.

Under normal market conditions, the Fund invests at least 80% of its net assets, plus the amount of any borrowings for investment purposes, in fixed income securities, debt securities, loans and investments with economic characteristics similar to fixed-income securities, debt securities and loans (collectively, "credit securities"). The Fund seeks to achieve its investment objective by investing in a portfolio of credit securities selected from a variety of sectors and credit qualities. The Fund may invest in credit securities of any duration or maturity. Credit securities in which the Fund may invest may pay fixed or variable rates of interest. The Fund may invest without limitation in securities of non-U.S. issuers, including issuers in emerging markets.

All Fund returns cited—whether based on net asset value ("NAV") or market price—assume the reinvestment of all distributions. For the 12-month period ended May 31, 2015, the Fund provided a total return based on market price of 2.54% and a total return based on NAV of 3.45%. NAV performance data reflects fees and expenses of the Fund.

As of May 31, 2015, the Fund's market price of $23.07 represented a discount of 1.16% to its NAV of $23.34. The market value of the Fund's shares fluctuates from time to time and may be higher or lower than the Fund's NAV. Past performance is not a guarantee of future results.

From June 2014 through May 2015, the Fund paid a monthly distribution. The distribution in the first two months was $0.1713 per month and increased to $0.1813 per month for the final 10 months of the period. The May distribution represents an annualized distribution rate of 9.43% based on the Fund's closing market price of $23.07 on May 31, 2015. The Fund's distribution rate is not constant, and the amount of distributions, when declared by the Fund's Board of Trustees, is subject to change based on the performance of the Fund. Please see Note 2(e) on page 34 for more information on distributions for the period.

Guggenheim Funds Investment Advisors, LLC (the "Adviser") serves as the investment adviser to the Fund. Guggenheim Partners Investment Management, LLC ("GPIM" or the "Sub-Adviser") serves as the Fund's investment sub-adviser and is responsible for the management of the Fund's portfolio of investments. Each of the Adviser and the Sub-Adviser is an affiliate of Guggenheim Partners, LLC ("Guggenheim"), a global diversified financial services firm.

We encourage shareholders to consider the opportunity to reinvest their distributions from the Fund through the Dividend Reinvestment Plan ("DRIP"), which is described in detail on page 53 of this report. When shares trade at a discount to NAV, the DRIP takes advantage of the discount by reinvesting the monthly distribution in common shares of the Fund purchased in the market at a price less than NAV. Conversely, when the market price of the Fund's common shares is at a premium above NAV, the DRIP

reinvests participants' distributions in newly-issued common shares at the greater of NAV per share or 95% of the market price per share. The DRIP provides a cost-effective means to accumulate additional shares and enjoy the benefits of compounding returns over time. Since the Fund endeavors to maintain a stable monthly distribution, the DRIP effectively provides an income averaging technique, which causes shareholders to accumulate a larger number of Fund shares when the market price is depressed than when the price is higher.

To learn more about the Fund's performance and investment strategy, we encourage you to read the Questions & Answers section of this report, which begins on page 5. You'll find information on GPIM's investment philosophy, views on the economy and market environment, and detailed information about the factors that impacted the Fund's performance.

We appreciate your investment and look forward to serving your investment needs in the future. For the most up-to-date information on your investment, please visit the Fund's website at guggenheiminvestments.com/ggm.

Sincerely,

Donald C. Cacciapaglia
President and Chief Executive Officer
Guggenheim Credit Allocation Fund
June 30, 2015

QUESTIONS & ANSWERS (Unaudited) May 31, 2015

Guggenheim Credit Allocation Fund (the "Fund") is managed by a team of seasoned professionals at Guggenheim Partners Investment Management, LLC ("GPIM"). This team includes B. Scott Minerd, Chairman of Investments and Global Chief Investment Officer; Anne B. Walsh, CFA, JD, Senior Managing Director and Assistant Chief Investment Officer; Jeffrey B. Abrams, Senior Managing Director and Portfolio Manager; Kevin H. Gundersen, Senior Managing Director and Portfolio Manager; and James W. Michal, Managing Director and Portfolio Manager. In the following interview, the investment team discusses the market environment and the Fund's performance for the 12 months ended May 31, 2015.

What is the Fund's investment objective and how is it pursued?

The Fund's investment objective is to seek total return through a combination of current income and capital appreciation.

Under normal market conditions, the Fund invests at least 80% of its net assets, plus the amount of any borrowings for investment purposes, in fixed income securities, debt securities, loans and investments with economic characteristics similar to fixed-income securities (collectively, "credit securities"). Credit securities in which the Fund may invest consist of corporate bonds, loans and loan participations, asset-backed securities (all or a portion of which may consist of collateralized loan obligations), mortgage-backed securities (both residential mortgage-backed securities and commercial mortgage-backed securities), U.S. Government and agency securities, mezzanine and preferred securities, convertible securities, commercial paper, municipal securities and sovereign government and supranational debt securities. The Fund will seek to achieve its investment objective by investing in a portfolio of credit securities selected from a variety of sectors and credit qualities. The Fund may invest in credit securities that are rated below investment grade, or, if unrated, determined to be of comparable quality (also known as "high yield securities" or "junk bonds"). The Fund may invest in credit securities of any duration or maturity. Credit securities in which the Fund may invest may pay fixed or variable rates of interest. The Fund may invest without limitation in securities of non-U.S. issuers, including issuers in emerging markets.

The Fund may, but is not required to, use various derivatives transactions for hedging and risk management purposes, to facilitate portfolio management and to earn income or enhance total return. The Fund may use such transactions as a means to synthetically implement the Fund's investment strategies. In addition, as an alternative to holding investments directly, the Fund may also obtain investment exposure by investing in other investment companies. To the extent that the Fund invests in synthetic investments with economic characteristics similar to credit securities, the value of such investments will be counted as credit securities for purposes of the Fund's policy of investing at least 80% of its net assets, plus the amount of any borrowings for investment purposes, in credit securities (the "80% Policy").

The Fund may invest in open-end funds, closed-end funds and exchange traded funds. For purposes of the Fund's 80% Policy, the Fund will include its investments in other investment companies that have a policy of investing at least 80% of their net assets, plus the amount of any borrowings for investment purposes, in one or more types of credit securities.

The Fund uses financial leverage (borrowing) to finance the purchase of additional securities. Although financial leverage may create an opportunity for increased return for shareholders, it also results in additional risks and can magnify the effect of any losses. There is no assurance that the strategy will be successful. If income and gains on securities purchased with the financial leverage proceeds are greater than the cost of the financial leverage, common shareholders' return will be greater than if financial leverage had not been used. Conversely, if the income or gains from the securities purchased with the proceeds of financial leverage are less than the cost of financial leverage, common shareholders' return will be less than if financial leverage had not been used.

What were the significant events affecting the economy and market environment over the past 12 months?

As of May 31, 2015, the U.S. economic expansion is maturing, but remains strong. Harsh winter weather caused U.S. growth to slow dramatically in the first quarter of 2015. However, the underlying fundamentals of the economy are strong and there's likely to be a bounce-back in the second quarter, similar to what happened in 2014.

An improving labor market, rising family formation, and tight housing inventory all point to a rebound in the domestic housing market, which is key to the ongoing recovery. Lower energy prices are acting as a tax cut for the U.S. consumer. Ideally this would free up discretionary spending in other areas, of which we have seen some evidence.

Liquidity from foreign central banks and comparatively attractive U.S. yields are encouraging foreign investors to buy risk assets in the U.S., but the flip side to these global flows is more volatility both in the U.S. and overseas. The U.S. Federal Reserve (Fed) continues to be concerned about creating asset price bubbles, and appears eager to raise rates, although it will likely wait for further signs of a rebound in growth, and rising inflation. The Fed is focused on wage growth, an indicator of inflationary pressure. With recent minimum wage increases and a falling unemployment rate, wages could begin to accelerate this year. The likely timeframe for a rate hike appears to be drawing nearer, perhaps as early as September 2015. However, we expect the Fed to be cautious and to raise rates slowly, with ample time to assess the market reaction.

Oil remains a key factor in the global outlook. Despite the recent rally in prices, U.S. production continues to increase and inventory levels are extremely high. The global market is likely to remain oversupplied through the end of 2015, limiting how far prices can rise.

The economy in Europe has been strengthening on the back of European Central Bank quantitative easing and depreciation of the euro. In Japan, the impact of ongoing monetary accommodation on the economy is more muted, but "Abenomics" is likely to continue to be supportive of the equities markets.

The Chinese economy is slowing down and policymakers appear likely to continue to ease monetary policy and do whatever is necessary to maintain growth at an acceptable level in the near term.

Liquidity coming out of Europe and other parts of the world continues to support the positive environment for U.S. risk assets. Given the subdued performance in the first quarter due to concerns over strength of the dollar and the impact on earnings, investors may be reconsidering the adage of "selling in May and going away." The period leading up to Fed tightening historically has been good for equities and room still exists for multiples to expand, even though valuations overseas are more attractive than for U.S. stocks. Historically, spreads don't widen significantly until defaults rise, and that usually does not take place until one to two years after the Fed tightens monetary policy.

For the 12 months ended May 31, 2015, the Standard & Poor's 500 Index returned 11.81%; the Barclays U.S. Aggregate Bond Index returned 3.03%; the Barclays U.S. Corporate High Yield Index returned 1.95%; and the Barclays 1–3 Month U.S. Treasury Bill Index returned 0.02%. All returns are total return.

How did the Fund perform for the 12 months ended May 31, 2015?

All Fund returns cited—whether based on net asset value ("NAV") or market price—assume the reinvestment of all distributions. For the 12-month period ended May 31, 2015, the Fund provided a total return based on market price of 2.54% and a total return based on NAV of 3.45%. NAV performance data reflects fees and expenses of the Fund.

As of May 31, 2015, the Fund's market price of $23.07 represented a discount of 1.16% to its NAV of $23.34. As of May 31, 2014, the Fund's market price of $24.68 per share represented a discount of 0.12% to its NAV of $24.71 per share. The market value of the Fund's shares fluctuates from time to time and may be higher or lower than the Fund's NAV. Past performance is not a guarantee of future results.

From June 2014 through May 2015, the Fund paid a monthly distribution. The distribution in the first two months was $0.1713 per month and increased to $0.1813 per month for the final 10 months of the period. The May distribution represents an annualized distribution rate of 9.43% based on the Fund's closing market price of $23.07 on May 31, 2015. The Fund's distribution rate is not constant, and the amount of distributions, when declared by the Fund's Board of Trustees, is subject to change based on the performance of the Fund. Please see Note 2(e) on page 34 for more information on distributions for the 12-month period ended May 31, 2015.

Why did the Fund accrue excise tax during the period?

As a registered investment company, the Fund is subject to a 4% excise tax that is imposed if the Fund does not distribute by the end of any calendar year at least the sum of (i) 98% of its ordinary income (not taking into account any capital gain or loss) for the calendar year and (ii) 98.2% of its capital gain in excess of its capital loss (adjusted for certain ordinary losses) for a one-year period generally ending on October 31 of the calendar year (unless an election is made to use the fund's fiscal year). The Fund generally intends to distribute income and capital gains in the manner necessary to minimize (but not necessarily eliminate) the imposition of such excise tax. While the Fund's income and capital gains can

vary significantly from year to year, the Fund seeks to maintain more stable monthly distributions over time. The Fund may retain income or capital gains and pay excise tax when it is determined that doing so is in the best interest of shareholders. Management, in consultation with the Board of Trustees, evaluates the costs of the excise tax relative to the benefits of retaining income and capital gains, including that such undistributed amounts (net of the excise tax paid) remain available for investment by the Fund and are available to supplement future distributions, which may facilitate the payment of more stable monthly distributions year over year. During the Fund's last fiscal year, the Fund paid excise tax of $117,550 or $0.018 per share.

What factors influenced the Fund's performance?

Significant volatility for high yield and bank loans in the second half of 2014 ultimately culminated in the weakest annual performance since 2008 for high yield bonds and since 2011 for leveraged loans. Volatility and performance during that period was driven by a sharp decline in oil prices and the proceeding slide in bond prices of energy issuers, which make up greater than 15% of the high yield bond market. Concerns over economic growth also played a role in some weakness. There was a rebound in the first quarter of 2015, as oil prices stabilized and foreign central banks from Europe, China and elsewhere began their own versions of quantitative easing, driving investors into many corners of the relatively higher-yielding U.S. fixed-income markets.

The Fund is composed primarily of high yield corporate bonds and bank loans. The allocation mix varies according to the relative attractiveness of the two asset classes and availability of attractively priced assets. As proxies for the two markets, the Barclays U.S. Corporate High Yield Index returned 1.95% for the 12-month period, and the Credit Suisse Leveraged Loan Index returned 3.09%.

For the 12-month period, Fund performance was helped by good credit selection and risk management that helped the Fund avoid defaults. Among contributors to performance was an underweight to the metals and mining sector, as commodity prices remain under pressure and continue to weigh on the sector's performance. Detracting from performance, particularly early in the period, was exposure to energy credits, which came under pressure due to the steep decline in oil prices during the second half of 2014. However, the Fund moved quickly to reduce exposure to energy credits and rebalance among sub-sectors favoring exposure to issuers more involved with movement/transportation of oil rather than its production. An underweight to higher quality credits also detracted from performance, particularly during the first half of the period.

The average credit quality of the portfolio remains B rated (S&P). The re-emergence of a search for yield has resulted in lower-rated issues in the quality spectrum outperforming year to date through May 31, 2015. This marks a definite trend reversal of the outperformance of high-quality rated credit that existed for most of 2014, where returns for BB bonds (the highest-rated category within high yield markets) returned roughly double the return of the broader high yield market. From a relative value perspective, B-rated bonds look attractive, as their spread difference relative to BB-rated bonds was still above the ex-recession average at the end of the period. Given the variation of fundamental metrics within high yield, we currently favor investments in companies with recurring revenue streams

and high-quality margins, including technology, consumer retail (which should also benefit from declining gas prices), and healthcare.

Exposure to floating rate assets (primarily bank loans) and shorter-maturity bonds acted as a buffer to market volatility early in the period, but were a slight drag on performance later in the period, as the loan sector underperformed high yield bonds even though it generated a positive return.

The Fund remains conservatively positioned in terms of its exposure to interest rates. It maintains a higher exposure to shorter-dated bonds and is overweight floating rate securities (bank loans). We believe bank loans continue to present greater long-term value than high-yield bonds, but higher yields in the high-yield corporate bond market and greater opportunity for price appreciation suggest high-yield corporate bonds (excluding energy) may outperform in the near term.

Any comments on the fixed income market generally or sectors the Fund invests in?

We have a positive view on the fixed income asset class. The liquidity generated by global central banks, combined with the relative attractiveness of U.S. Treasuries to German and Japanese government bonds, should help keep U.S. rates capped at least in the near term. The relatively low interest rate environment and healthy economic backdrop should continue to support credit markets and the high yield market in particular. Market volatility has continued to rise in part as a result of geo-political and macroeconomic uncertainty, and the Fed’s indicated intention to begin raising interest rates in 2015. Our view is that it is prudent to protect against volatility and rising interest rates in advance of these factors becoming more pronounced.

We do not expect widespread defaults over the near term, but with the potential for more volatility ahead, we continue to focus on upgrading credit quality. Our research shows that five of six Fed tightening cycles since 1980 have ultimately ended with lower default rates compared to default rates when the Fed first hiked interest rates. With history serving as a guide, we believe the low default rate environment will likely continue through the upcoming Fed tightening cycle.

High yield bond new issuance at the end of the period was strong, well above the 2014 monthly average, as borrowers continue to take advantage of low interest rates to refinance existing debt. In contrast, bank loan supply has been weak through mid-2015, with loan volume at the end of the period below the monthly average of 2014. Healthy volume of newly formed collateralized loan obligations (CLO) continues to support the loan market, with CLO demand representing 64% of primary loan volume. Light supply against heavy CLO activity has served to mitigate price volatility.

Fund flows through the end of the period have been strongly positive for high yield and slightly negative for loans.

What is the Fund’s duration?

The effective duration for GGM as of May 31, 2015, was approximately two years. Our view is that we are unlikely to see rates move in a sudden and aggressive upward trajectory, as the Fed is providing ample guidance about the future path of interest rates. The Fund may invest in credit securities of any duration

GGM l GUGGENHEIM CREDIT ALLOCATION FUND ANNUAL REPORT l 9 or maturity and is not required to maintain any particular maturity or duration for its portfolio as a whole. It typically maintains a leverage-adjusted average portfolio duration of one to four years. However, average portfolio duration is adjusted based on market conditions.

Discuss the impact of leverage for the period.

The Fund utilizes leverage as part of its investment strategy, to finance the purchase of additional securities that provide increased income and potentially greater appreciation potential to common shareholders than could be achieved from a portfolio that is not leveraged.

The Fund currently employs leverage through reverse repurchase agreements, under which the Fund temporarily transfers possession of portfolio securities and receives cash that can be used for additional investments.

As of May 31, 2015, the amount of leverage was approximately 30% of total managed assets. While leverage increases the income of the Fund in yield terms, it also amplifies the effects of changing market prices in the portfolio and can cause the Fund's NAV to change to a greater degree than the market as a whole. This can create volatility in Fund pricing but should not affect the Fund's ability to pay dividends under normal circumstances.

Index Definitions

Indices are unmanaged and reflect no expenses. It is not possible to invest directly in an index.

The Barclays U.S. Aggregate Bond Index represents securities that are U.S. domestic, taxable, and dollar denominated. The index covers the U.S. investment grade fixed rate bond market, with index components for government and corporate securities, mortgage pass-through securities, and asset-backed securities.

The Barclays U.S. Corporate High Yield Index is an unmanaged index of below investment grade bonds issued by U.S. corporations.

The Barclays 1-3 Month U.S. Treasury Bill Index tracks the performance of U.S. Treasury bills with a remaining maturity of one to three months. U.S. Treasury bills, which are short-term loans to the U.S. government, are full faith-and-credit obligations of the U.S. Treasury and are generally regarded as being free of any risk of default.

The Credit Suisse Leveraged Loan Index is an index designed to mirror the investable universe of the $US-denominated leveraged loan market.

The Standard & Poor's 500 Index is a capitalization-weighted index of 500 stocks. The index is designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

Risks and Other Considerations

The views expressed in this report reflect those of the portfolio managers only through the report period as stated on the cover. These views are subject to change at any time, based on market and other conditions and should not be construed as a recommendation of any kind. The material may also include forward looking statements that involve risk and uncertainty, and there is no guarantee that any predictions will come to pass. There can be no assurance that the Fund will achieve its investment objectives. The value of the Fund will fluctuate with the value of the underlying securities. Historically, closed-end funds often trade at a discount to their net asset value.

Please see guggenheiminvestments.com/ggm for a detailed discussion of the Fund's risks and considerations.

FUND SUMMARY (Unaudited) May 31, 2015

Fund Statistics	
Share Price	$23.07
Net Asset Value	$23.34
Discount to NAV	-1.16%
Net Assets ($000)	$154,753

AVERAGE ANNUAL TOTAL RETURNS
FOR THE YEAR ENDED MAY 31, 2015

	One Year	Since Inception (06/26/13)
Guggenheim Credit Allocation Fund		
NAV	3.45%	6.98%
Market	2.54%	3.95%

Performance data quoted represents past performance, which is no guarantee of future results, and current performance may be lower or higher than the figures shown. NAV performance data reflects fees and expenses of the Fund. The deduction of taxes that a shareholder would pay on Fund distributions or the sale of Fund shares is not reflected in the total returns. For the most recent month-end performance figures, please visit guggenheiminvestments.com/ggm. The investment return and principal value of an investment will fluctuate with changes in market conditions and other factors so that an investor's shares, when sold, may be worth more or less than their original cost.

Holdings Diversification (Market Exposure as % of Net Assets)	% of Net Assets
Investments:	
Common Stocks	1.6%
Preferred Stocks	6.1%
Money Market Fund	1.3%
Corporate Bonds	69.7%
Senior Floating Rate Interests	52.3%
Asset Backed Securities	12.4%
Mortgage Backed Securities	1.9%
Total Investments	145.3%
Other Assets & Liabilities, net	-45.3%
Net Assets	100.0%

FUND SUMMARY (Unaudited) continued May 31, 2015

Ten Largest Holdings	% of Total Net Assets
LANDesk Group, Inc., 5.00%, 2/25/20	2.5%
CTI Foods Holding Co. LLC, 8.25%, 6/28/21	2.5%
Central Garden and Pet Co., 8.25%, 3/1/18	2.4%
SITEL LLC / Sitel Finance Corp., 11.00%, 8/1/17	2.4%
GRD Holdings III Corp., 10.75%, 6/1/19	2.2%
Cengage Learning Acquisitions, Inc., 7.62%, 3/31/20	2.2%
HRG Group, Inc., 7.88%, 7/15/19	2.1%
ContourGlobal Power Holdings SA, 7.13%, 6/1/19	2.0%
Eagle Midco Inc. 9.00%, 6/15/18	2.0%
Reddy Ice Holdings Inc., 10.75%, 10/1/19	2.0%
Top Ten Total	22.3%

"Ten Largest Holdings" exclude any temporary cash or derivative investments.

Holdings diversification and holdings are subject to change daily. For more information, please visit guggenheiminvestments.com/ggm. The above summaries are provided for informational purposes only and should not be viewed as recommendations. Past performance does not guarantee future results.

Portfolio Composition by Quality Rating*

Rating	% of Total Investments
Fixed Income Instruments	
AA	0.4%
A	1.2%
BBB	6.8%
BB	17.4%
B	47.0%
CCC	21.3%
CC	0.2%
NR**	3.7%
Other Instruments	
Common Stocks	1.1%
Money Market Fund	0.9%
Total Investments	100.0%

* Source: BlackRock Solutions. Credit quality ratings are measured on a scale that generally ranges from AAA (highest) to D (lowest). All securities except for those labeled "NR" have been rated by Moody's, Standard & Poor's ("S&P"), or Fitch, which are all a Nationally Recognized Statistical Rating Organization ("NRSRO"). For purposes of this presentation, when ratings are available from more than one agency, the highest rating is used. Guggenheim Investments has converted Moody's and Fitch ratings to the equivalent S&P rating. Security ratings are determined at the time of purchase and may change thereafter.

** NR securities do not necessarily indicate low credit quality.

PORTFOLIO OF INVESTMENTS May 31, 2015

	Shares		Value
COMMON STOCKS† – 1.6%			
Consumer Discretionary – 1.2%			
Travelport Holdings, LLC*	91,725	$	1,402,475
Travelport, LLC*	28,646		437,998
Total Consumer Discretionary			1,840,473
Basic Materials – 0.3%			
Mirabela Nickel Ltd.*	4,839,202		462,480
Industrial – 0.1%			
Project Silverback Holdings, Class A*,1,†††	228		227,700
Project Silverback Holdings, Class B*,1,†††	94,522		1,890
Total Industrial			229,590
Total Common Stocks			
(Cost $4,093,759)			2,532,543
PREFERRED STOCKS† – 6.1%			
Financial – 4.7%			
Morgan Stanley, Series I, 6.38%2,3	80,000		2,088,800
Kemper Corp., 7.38%	72,000		1,907,280
Goldman Sachs Group, Inc., Series M, 5.38%2,3,††	1,200,000		1,197,000
Citigroup, Inc., Series M, 6.30%2,3,††	1,100,000		1,104,125
Citigroup, Inc., Series P, 5.95%2,3,††	500,000		493,125
Bank of America Corp., Series AA, 6.10%2,3,††	450,000		453,937
Total Financial			7,244,267
Industrial – 1.4%			
Seaspan Corp., 6.38%	88,000		2,207,920
Total Preferred Stocks			
(Cost $9,259,518)			9,452,187
MONEY MARKET FUND† – 1.3%			
Dreyfus Treasury Prime Cash Management Institutional Shares			
(Cost $2,042,872)	2,042,872		2,042,872
	Face		
	Amount~		Value
CORPORATE BONDS†† – 69.7%			
Energy – 13.2%			
ContourGlobal Power Holdings S.A.			
7.13% due 06/01/194	3,000,000		3,127,500
Atlas Energy Holdings Operating Company LLC / Atlas Resource Finance Corp.			

9.25% due 08/15/21	1,975,000	1,570,125
7.75% due 01/15/21	2,051,000	1,538,250

See notes to financial statements.

PORTFOLIO OF INVESTMENTS continued May 31, 2015

	Face Amount~	Value
CORPORATE BONDS†† – 69.7% (continued)		
Energy – 13.2% (continued)		
CONSOL Energy, Inc.		
8.00% due 04/01/234	$2,400,000	$ 2,478,000
SandRidge Energy, Inc.		
8.75% due 06/01/204	2,300,000	2,281,312
BreitBurn Energy Partners Limited Partnership / BreitBurn Finance Corp.		
7.88% due 04/15/22	2,200,000	1,935,999
Comstock Resources, Inc.		
10.00% due 03/15/204	1,925,000	1,857,625
Keane Group Holdings LLC		
8.50% due 08/08/191,†††	1,580,000	1,508,900
FTS International, Inc.		
6.25% due 05/01/22	1,175,000	937,062
7.81% due 06/15/202,4	500,000	499,783
EP Energy LLC / Everest Acquisition Finance, Inc.		
6.38% due 06/15/234	1,250,000	1,251,563
Legacy Reserves Limited Partnership / Legacy Reserves Finance Corp.		
6.63% due 12/01/21	1,000,000	835,000
Schahin II Finance Company SPV Ltd.		
5.88% due 09/25/224	825,233	394,049
IronGate Energy Services LLC		
11.00% due 07/01/185,9	240,000	187,800
Total Energy		20,402,968
Consumer, Non-cyclical – 11.2%		
Central Garden & Pet Co.		
8.25% due 03/01/185	3,666,000	3,755,817
Vector Group Ltd.		
7.75% due 02/15/21	2,731,000	2,935,825
American Seafoods Group LLC / American Seafoods Finance, Inc.		
10.75% due 05/15/169	2,200,000	2,172,500
Physio-Control International, Inc.		
9.88% due 01/15/194	1,800,000	1,935,180
ADT Corp.		
6.25% due 10/15/21	1,700,000	1,823,250
Midas Intermediate Holdco II LLC / Midas Intermediate Holdco II Finance, Inc.		

7.88% due 10/01/224	1,550,000	1,557,750
KeHE Distributors LLC / KeHE Finance Corp.		
7.63% due 08/15/214	1,400,000	1,494,500
Bumble Bee Holdings, Inc.		
9.00% due 12/15/174	600,000	630,000
Concordia Healthcare Corp.		
7.00% due 04/15/234	500,000	503,125
Mallinckrodt International Finance S.A. / Mallinckrodt CB LLC		
5.50% due 04/15/254	400,000	402,300

See notes to financial statements.

PORTFOLIO OF INVESTMENTS continued May 31, 2015

	Face Amount~		Value
CORPORATE BONDS†† – 69.7% (continued)			
Consumer, Non-cyclical – 11.2% (continued)			
R&R Ice Cream plc			
8.25% due 05/15/209	200,000 AUD	$	154,408
Total Consumer, Non-cyclical			17,364,655
Consumer, Cyclical – 9.2%			
GRD Holdings III Corp.			
10.75% due 06/01/194,5	3,200,000		3,461,760
WMG Acquisition Corp.			
6.75% due 04/15/224	3,050,000		2,962,313
Checkers Drive-In Restaurants, Inc.			
11.00% due 12/01/174,5	2,400,000		2,601,000
Petco Animal Supplies, Inc.			
9.25% due 12/01/184	1,375,000		1,442,031
Ferrellgas Limited Partnership / Ferrellgas Finance Corp.			
6.50% due 05/01/21	750,000		759,375
6.75% due 01/15/22	200,000		204,500
Nathan's Famous, Inc.			
10.00% due 03/15/209	700,000		755,125
Argos Merger Sub, Inc.			
7.13% due 03/15/234	650,000		689,000
Moto Finance plc			
6.38% due 09/01/20	350,000 GBP		553,730
Carrols Restaurant Group, Inc.			
8.00% due 05/01/224	400,000		419,000
Men's Wearhouse, Inc.			
7.00% due 07/01/224	200,000		212,000
NPC International Incorporated / NPC Operating Company A Inc / NPC Operating Co B Inc			
10.50% due 01/15/20	200,000		211,000
Total Consumer, Cyclical			14,270,834
Communications – 8.6%			
SITEL LLC / Sitel Finance Corp.			
11.00% due 08/01/174	3,550,000		3,656,500
Avaya, Inc.			
7.00% due 04/01/194	2,200,000		2,200,000
Alcatel-Lucent USA, Inc.			

8.88% due 01/01/204	2,000,000	2,195,000
Virgin Media Secured Finance plc		
5.25% due 01/15/264	1,500,000	1,501,875
CommScope Technologies Finance LLC		
6.00% due 06/15/254	1,000,000	1,012,500
Sprint Corp.		
7.63% due 02/15/25	1,000,000	980,940

See notes to financial statements.

PORTFOLIO OF INVESTMENTS continued May 31, 2015

	Face Amount~		Value
CORPORATE BONDS†† – 69.7% (continued)			
Communications – 8.6% (continued)			
Zayo Group LLC / Zayo Capital, Inc.			
6.38% due 05/15/254	$ 950,000	$	952,375
Level 3 Financing, Inc.			
5.38% due 05/01/254	800,000		796,000
Total Communications			13,295,190
Technology – 8.0%			
Eagle Midco, Inc.			
9.00% due 06/15/184	3,000,000		3,060,000
Epicor Software			
9.25% due 05/21/23	3,000,000		2,910,000
First Data Corp.			
8.75% due 01/15/224,6	2,500,000		2,675,000
Infor US, Inc.			
6.50% due 05/15/224	2,150,000		2,233,635
Aspect Software, Inc.			
10.63% due 05/15/175	1,600,000		1,440,000
Total Technology			12,318,635
Financial – 7.0%			
Jefferies Finance LLC / JFIN Company-Issuer Corp.			
7.50% due 04/15/214	2,150,000		2,144,625
7.38% due 04/01/204	1,200,000		1,203,000
Majid AL Futtaim Holding			
7.13% due 12/31/49	1,500,000		1,620,240
HSBC Holdings plc			
6.37%2,3	1,150,000		1,181,625
NewStar Financial, Inc.			
7.25% due 05/01/204,5	825,000		843,563
National Financial Partners Corp.			
9.00% due 07/15/214	800,000		809,000
Lock AS			
7.00% due 08/15/21	600,000 EUR		710,088
Prosight Global Inc.			
7.50% due 11/26/20†††	650,000		671,775
Ultra Resources, Inc.			
4.66% due 10/12/22†††	700,000		574,700
Greystar Real Estate Partners LLC			
8.25% due 12/01/224	400,000		424,000
Cabot Financial Luxembourg S.A.			
6.50% due 04/01/214	250,000 GBP		366,860

Quicken Loans, Inc.		
5.75% due 05/01/254	300,000	300,375
Total Financial		10,849,851

See notes to financial statements.

PORTFOLIO OF INVESTMENTS continued May 31, 2015

	Face Amount~	Value
CORPORATE BONDS†† – 69.7% (continued)		
Industrial – 4.6%		
CEVA Group plc		
7.00% due 03/01/214	$ 1,600,000	$ 1,584,000
Deutsche Raststatten		
6.75% due 12/30/20	1,300,000 EUR	1,549,234
Unifrax I LLC / Unifrax Holding Co.		
7.50% due 02/15/194	1,401,000	1,424,705
Reliance Intermediate Holdings, LP		
6.50% due 04/01/234	1,000,000	1,040,000
LMI Aerospace, Inc.		
7.38% due 07/15/194	1,000,000	995,000
Princess Juliana International Airport Operating Company N.V.		
5.50% due 12/20/274,5	448,475	455,202
Total Industrial		7,048,141
Diversified – 4.3%		
HRG Group, Inc.		
7.88% due 07/15/19	3,000,000	3,177,000
7.75% due 01/15/22	800,000	780,000
Opal Acquisition, Inc.		
8.88% due 12/15/214	2,800,000	2,758,000
Total Diversified		6,715,000
Basic Materials – 3.6%		
TPC Group, Inc.		
8.75% due 12/15/204	2,525,000	2,442,938
Mirabela Nickel Ltd.		
9.50% due 06/24/191,†††	1,113,492	1,113,492
KGHM International Ltd.		
7.75% due 06/15/194	1,000,000	1,041,000
Eldorado Gold Corp.		
6.13% due 12/15/204	1,000,000	985,000
Total Basic Materials		5,582,430
Total Corporate Bonds		
(Cost $108,727,479)		107,847,704
SENIOR FLOATING RATE INTERESTS†† – 52.3%		
Industrial – 14.1%		
Ursa Insulation B.V.		
5.33% due 04/26/211,5,†††	1,547,935 EUR	1,633,879

7.75% due 04/27/201,5,†††	1,250,000 EUR	1,372,947
Flakt Woods		
4.75% due 03/20/171,5,†††	2,488,767 EUR	2,682,987
Mitchell International, Inc.		
8.50% due 10/11/215	2,350,000	2,345,606

See notes to financial statements.

PORTFOLIO OF INVESTMENTS continued May 31, 2015

	Face Amount~	Value
SENIOR FLOATING RATE INTERESTS†† – 52.3% (continued)		
Industrial – 14.2% (continued)		
Total Safety U.S., Inc.		
9.25% due 09/11/205	$2,520,000	$ 2,205,000
Doncasters Group Ltd.		
9.50% due 10/09/205	2,206,897	2,201,379
NVA Holdings, Inc.		
8.00% due 08/12/225	1,650,000	1,654,125
AlliedBarton Security Services LLC		
8.00% due 08/13/215	1,452,055	1,456,890
NaNa Development Corp.		
8.00% due 03/15/185	1,388,235	1,353,529
Camp Systems International		
8.25% due 11/29/195	1,000,000	1,000,000
HBC Hardware Holdings		
6.75% due 03/30/205	995,000	968,931
Ranpak		
8.25% due 10/03/225	900,000	899,253
Wencor Group (Jazz Aq)		
7.75% due 06/17/225	900,000	864,000
API Technologies Corp.		
9.00% due 02/06/181,5,†††	575,023	570,997
Hillman Group, Inc.		
1.98% due 06/28/195	450,000	409,612
Wencor (Jazz Acq)		
1.18% due 06/19/195	176,923	160,106
Omnitracs, Inc.		
8.75% due 05/25/215	150,000	147,188
Total Industrial		21,926,429
Technology – 11.1%		
Greenway Medical Technologies		
9.25% due 11/04/215	2,200,000	2,145,000
6.00% due 11/04/205	1,975,000	1,975,000
LANDesk Group, Inc.		
5.00% due 02/25/205	3,925,547	3,918,992
TIBCO Software, Inc.		
6.50% due 12/04/205	2,693,250	2,692,577
Advanced Computer Software		
10.50% due 01/31/235	1,600,000	1,552,000
6.50% due 03/18/225	897,750	906,728
Aspect Software, Inc.		

7.25% due 05/09/16	1,843,750	1,829,922
Sparta Holding Corp.		
6.83% due 07/28/201,5.†††	1,791,000	1,775,597

See notes to financial statements.

PORTFOLIO OF INVESTMENTS continued May 31, 2015

	Face Amount~	Value
SENIOR FLOATING RATE INTERESTS†† – 52.3% (continued)		
Technology – 11.1% (continued)		
GOGO LLC		
7.50% due 03/21/185	$ 356,853	$ 349,716
Total Technology		17,145,532
Consumer, Non-cyclical – 9.9%		
CTI Foods Holding Co. LLC		
8.25% due 06/28/215	4,000,000	3,879,999
Reddy Ice Holdings, Inc.		
10.75% due 10/01/195	4,000,000	3,060,000
Performance Food Group		
6.25% due 11/14/195	1,695,685	1,702,044
Taxware Holdings		
7.50% due 04/01/221,5,†††	1,700,000	1,683,300
Arctic Glacier Holdings, Inc.		
6.00% due 05/10/195	1,438,137	1,432,744
AdvancePierre Foods, Inc.		
9.50% due 10/10/175	1,332,000	1,343,655
Implus		
7.00% due 04/30/215	1,250,000	1,231,500
Pelican Products, Inc.		
9.25% due 04/09/215	550,000	544,500
Targus Group International, Inc.		
14.75% due 05/24/165	562,593	458,514
Total Consumer, Non-cyclical		15,336,256
Communications – 4.3%		
Cengage Learning Acquisitions, Inc.		
7.62% due 03/31/205	3,382,817	3,390,665
Anaren, Inc.		
9.25% due 08/18/215	2,200,000	2,200,000
GOGO LLC		
11.25% due 03/21/185	1,102,742	1,130,310
Max Broadcast Group LLC		
6.25% due 03/31/161,5,†††	14,868	14,868
Total Communications		6,735,843
Consumer, Cyclical – 4.3%		
Sky Bet Cyan Blue HoldCo		
6.50% due 02/25/225	1,500,000 GBP	2,303,263

Sears Holdings Corp.		
5.50% due 06/29/185	1,989,899	1,971,870
ABRA Auto Body		
8.25% due 09/19/225	1,600,000	1,608,000

See notes to financial statements.

PORTFOLIO OF INVESTMENTS continued May 31, 2015

	Face Amount~		Value
SENIOR FLOATING RATE INTERESTS†† – 52.3% (continued)			
Consumer, Cyclical – 4.3% (continued)			
DLK Acquisitions BV			
8.50% due 08/28/195	400,000 EUR	$	432,424
4.34% due 02/28/195	183,333 EUR		200,158
4.34% due 02/28/195	66,667 EUR		72,785
BBB Industries, LLC			
1.40% due 11/04/195	70,714		61,976
Total Consumer, Cyclical			6,650,476
Basic Materials – 2.6%			
Royal Adhesives and Sealants			
5.50% due 07/31/185	2,759,442		2,766,340
Ennis Flint Road Infrastructure			
7.75% due 09/30/215	960,000		902,400
Noranda Aluminum Acquisition Corp.			
5.75% due 02/28/195	397,949		363,379
Total Basic Materials			4,032,119
Energy – 2.6%			
Panda Temple II Power			
7.25% due 04/03/195	3,000,000		2,865,000
Cactus Wellhead			
7.00% due 07/31/205	1,393,000		1,156,190
Total Energy			4,021,190
Financial – 2.1%			
Intertrust Group			
8.00% due 04/11/225	2,200,000		2,204,136
Expert Global Solutions			
8.50% due 04/03/185	1,020,404		1,020,404
Total Financial			3,224,540
Transportation – 1.2%			
OneSky			
15.00% due 06/03/195.†††	503,708		518,820
Ceva Logistics US Holdings			
6.50% due 03/19/215	507,192		481,832
Ceva Group plc (United Kingdom)			
6.50% due 03/19/215	352,217		334,606

1.69% due 03/19/195	140,000	118,269
Ceva Logistics Holdings BV (Dutch)		
6.50% due 03/19/215	367,714	349,329

See notes to financial statements.

PORTFOLIO OF INVESTMENTS continued May 31, 2015

	Face Amount~	Value
SENIOR FLOATING RATE INTERESTS†† – 52.3% (continued)		
Transportation – 1.2% (continued)		
Ceva Logistics Canada, ULC		
6.50% due 03/19/215	$ 63,399	$ 60,229
Total Transportation		1,863,085
Total Senior Floating Rate Interests		
(Cost $83,957,533)		80,935,470
ASSET BACKED SECURITIES†† – 12.4%		
SRERS-2011 Funding Ltd.		
2011-RS,0.43% due 05/09/462,4,5	1,847,376	1,770,894
NewStar Commercial Loan Funding 2013-1 LLC		
2013-1A, 5.57% due 09/20/232,4,5	1,500,000	1,492,950
Emerald Aviation Finance Ltd.		
2013-1, 6.35% due 10/15/384,5,7	1,351,563	1,380,283
Castlelake Aircraft Securitization Trust 2014-1		
2014-1, 5.25% due 02/15/29	685,460	682,376
2014-1, 7.50% due 02/15/29	524,175	530,675
Anchorage Credit Funding 1 Ltd.		
2015-1A, 6.30% due 07/28/304	1,000,000	1,009,200
COA Summit CLO Limited 2014-1		
2014-1A, 4.12% due 04/20/232,4,5	1,000,000	997,600
Monroe Capital CLO 2014-1 Ltd.		
2014-1A, 5.01% due 10/22/262,4,5	1,000,000	984,900
AASET		
2014-1, 7.37% due 12/15/292	967,949	967,949
RAIT CRE CDO I Ltd.		
2006-1X, 0.51% due 11/20/46	930,782	847,570
KKR Financial CLO Ltd.		
2007-1X, 5.27% due 05/15/215	750,000	749,400
Babson CLO Limited 2012-II		
2012-2A, due 05/15/234,8	1,000,000	739,100
NewStar Arlington Senior Loan Program LLC		
2014-1A, 4.53% due 07/25/252,4	750,000	726,000
NXT Capital CLO 2013-1 LLC		
2013-1A, 4.43% due 04/25/242,4,5	500,000	502,050
Highbridge Loan Management 2012-1 Ltd.		
2014-1AR, 4.50% due 09/20/222,4,5	500,000	501,100
Cent CLO 16, LP		
2014-16AR, 4.75% due 08/01/242,4,5	500,000	500,050
KKR Financial CLO 2007-1 Ltd.		
2007-1A, 5.27% due 05/15/212,4,5	500,000	499,600

Salus CLO Ltd.		
2013-1AN, 6.98% due 03/05/212,4,5	500,000	497,950
NCBJ 2015-1 A		
2015-1A, 5.88% due 07/08/22	500,000	493,800

See notes to financial statements.

PORTFOLIO OF INVESTMENTS continued May 31, 2015

	Face Amount~		Value
ASSET BACKED SECURITIES†† – 12.4% (continued)			
Fortress Credit Opportunities V CLO Ltd.			
2014-5A, 5.18% due 10/15/262,4,5	$ 500,000	$	486,800
Fortress Credit Opportunities VI CLO Ltd.			
2015-6A, 5.27% due 10/10/264	500,000		486,100
Cerberus Onshore II CLO-2 LLC			
2014-1A, 4.43% due 10/15/232,4,5	500,000		481,350
Cerberus Onshore II CLO LLC			
2014-1A, 4.28% due 10/15/232,4,5	500,000		476,950
Treman Park CLO LLC			
2015-1A, due 04/20/274,8	500,000		474,000
Rise Ltd.			
2014-1AB, 6.50% due 02/12/395	468,750		473,438
Turbine Engines Securitization Ltd.			
2013-1A, 6.38% due 12/13/484,5	351,258		361,409
Total Asset Backed Securities			
(Cost $18,891,694)			19,113,494
MORTGAGE BACKED SECURITIES†† – 1.9%			
Structured Asset Securities Corporation Mortgage Loan Trust 2006-BC6			
2006-BC6, 0.35% due 01/25/372,5	2,000,000		1,671,310
GSAA Home Equity Trust 2006-18			
2006-18, 6.00% due 11/25/365,7	1,292,254		855,064
Washington Mutual Mortgage Pass-Through Certificates WMALT			
Series 2006-8 Trust			
2006-8, 4.81% due 10/25/365,7	509,140		360,631
Total Mortgage Backed Securities			
(Cost $2,871,134)			2,887,005
Total Investments – 145.3%			
(Cost $229,843,989)			224,811,275
Other Assets & Liabilities, net – (45.3)%			(70,058,335)
Total Net Assets – 100.0%			$ 154,752,940

See notes to financial statements.

~ The face amount is denominated in U.S. Dollars, unless otherwise noted.

* Non-income producing security.

† Value determined based on Level 1 inputs, unless otherwise noted — See Note 4.

†† Value determined based on Level 2 inputs, unless otherwise noted — See Note 4.

††† Value determined based on Level 3 inputs — See Note 4.

1 Security was fair valued by the Valuation Committee at May 31, 2015. The total market value of fair valued securities amounts to $12,586,557 (cost $13,818,260) or 8.1% of total net assets.

2 Variable rate security. Rate indicated is rate effective at May 31, 2015.

3 Perpetual maturity.

4 Security is a 144A or Section 4(a)(2) security. The total market value of 144A or Section 4(a)(2) securities is $83,668,230 (cost $83,118,411), or 54.1% of total net assets. These securities have been determined to be liquid under guidelines established by the Board of Trustees.

5 All or a portion of these securities have been physically segregated or earmarked on the Fund's records in connection with reverse repurchase agreements and unfunded loan commitments. As of May 31, 2015, the total market value of the segregated or earmarked securities was $98,373,027.

6 Paid-in-kind toggle note. This issuer in each interest period has the option to pay interest in cash or to issue payment-in-kind shares of the note.

7 Security is a step up/step down bond. The coupon increases or decreases at regular intervals until the bond reaches full maturity.

8 Security has no stated coupon. However, it is expected to receive residual cash flow payments on defined deal dates.

9 Security is a 144A or section 4(a)(2) security. These securities are considered illiquid and restricted under guidelines established by the Board of Trustees. The total market value of 144A or section 4(a)(2) securities is $3,269,833 (cost $3,273,074), or 2.1% of total net assets – see Note 12.

AUD Australian Dollar
BV Limited Liability Company
CDO Collateralized Debt Obligation
CLO Collateralized Loan Obligation
EUR Euro
GBP Great Britain Pound
LLC Limited Liability Company
LP Limited Partnership

NV	Publicly Traded Company
plc	Public Limited Company
SA	Corporation
ULC	Unlimited Liability Corporation

See notes to financial statements.

STATEMENT OF ASSETS AND LIABILITIES May 31, 2015

ASSETS:	
Investments, at value (cost $229,843,989)	$224,811,275
Foreign currency, at value (cost $17,067)	16,767
Cash	479
Unrealized appreciation on forward exchange currency contracts	330,309
Receivables:	
Interest	3,357,061
Investments sold	2,209,322
Tax reclaims	9,729
Other assets	15,150
Total assets	230,750,092
LIABILITIES:	
Reverse repurchase agreements	65,942,734
Unfunded loan commitments, at value (Note 10) (commitment fees received $1,379,241)	1,095,749
Segregated cash from broker	384,000
Interest payable on borrowings	12,638
Unrealized depreciation on forward exchange currency contracts	2,931
Payable for:	
Investments purchased	8,210,766
Investment advisory fees	191,326
Fund accounting fees	13,654
Administration fees	5,144
Trustee's fees and expenses*	1,089
Accrued expenses and other liabilities	137,121
Total liabilities	75,997,152
NET ASSETS	$154,752,940
NET ASSETS CONSIST OF:	
Common stock, $.01 par value per share; unlimited number of shares authorized, 6,629,724 shares issued and outstanding	$66,297
Additional paid-in capital	157,725,662
Undistributed net investment income	3,347,759
Accumulated net realized loss on investments	(1,961,687)
Net unrealized depreciation on investments	(4,425,091)
NET ASSETS	$154,752,940
Net asset value	$23.34

* Relates to Trustees not deemed "interested persons" within the meaning of Section 2(a)(19) of the 1940 Act.

See notes to financial statements.

STATEMENT OF OPERATIONS May 31, 2015
For the Year Ended May 31, 2015

INVESTMENT INCOME:	
Interest	$15,811,371
Dividends	295,357
Total investment income	16,106,728
EXPENSES:	
Investment advisory fees	2,175,218
Interest expense	432,717
Professional fees	142,756
Excise tax expense	117,550
Trustee's fees and expenses*	87,924
Fund accounting fees	68,418
Administration fees	58,504
Printing fees	30,313
Registration and filings	24,820
Custodian fees	20,675
Transfer agent fees	18,858
Insurance	14,118
Miscellaneous	2,460
Total expenses	3,194,331
Net investment income	12,912,397
NET REALIZED AND UNREALIZED GAIN (LOSS):	
Net realized gain (loss) on:	
Investments	(2,236,742)
Foreign currency transactions	2,373,649
Net realized gain (loss)	136,907
Net change in unrealized appreciation (depreciation) on:	
Investments	(8,007,718)
Foreign currency translations	173,947
Net change in unrealized appreciation (depreciation)	(7,833,771)
Net realized and unrealized loss	(7,696,864)
Net increase in net assets resulting from operations	$5,215,533

* Relates to Trustees not deemed "interested persons" within the meaning of Section 2(a)(19) of the 1940 Act.

See notes to financial statements.

STATEMENTS OF CHANGES IN NET ASSETS May 31, 2015

	Year Ended May 31, 2015	Period from June 26, 2013a to May 31, 2014
INCREASE (DECREASE) IN NET ASSETS FROM OPERATIONS:		
Net investment income	$12,912,397	$10,801,191
Net realized gain (loss) on investments	136,907	1,361,006
Net change in unrealized appreciation (depreciation) on investments	(7,833,771)	3,408,680
Net increase in net assets resulting from operations	5,215,533	15,570,877
DISTRIBUTIONS TO SHAREHOLDERS FROM:		
Net investment income	(10,401,790)	(9,698,371)
Capital gains	(3,888,548)	–
Total distributions to shareholders	(14,290,338)	(9,698,371)
SHAREHOLDER TRANSACTIONS:		
Net proceeds from the issuance of common shares	–	158,273,898
Reinvestments	12,591	–
Common share offering costs charged to paid-in capital	–	(331,250)
Net increase in net assets resulting from share transactions	12,591	157,942,648
Net increase (decrease) in net assets	(9,062,214)	163,815,154
NET ASSETS:		
Beginning of period	163,815,154	–
End of period	$154,752,940	$163,815,154
Undistributed net investment income at end of period	$3,347,759	$824,702

a Commencement of operations

See notes to financial statements.

STATEMENT OF CASH FLOWS May 31, 2015
For the Year Ended May 31, 2015

Cash Flows from Operating Activities:	
Net increase in net assets resulting from operations	$5,215,533
Adjustments to Reconcile Net Increase in Net Assets Resulting from Operations to Net Cash Used In Operating and Investing Activities:	
Net change in unrealized depreciation on investments	8,007,718
Net change in unrealized appreciation on foreign currency translations	(173,947)
Net realized loss on investments	2,236,742
Net gains on paydowns received	(62,506)
Net accretion of bond discount and amortization of bond premium	174,079
Purchase of long-term investments	(163,128,740)
Paydowns received on mortgage and asset backed securities	22,039,566
Proceeds from sales of long-term investments	120,064,430
Net sales of short-term investments	1,356,127
Other payments	274,009
Increase in unfunded loan commitments, at value	1,134,156
Increase in segregated cash from broker	384,000
Decrease in interest receivable	80,109
Decrease in investments sold receivable	143,294
Increase in tax reclaims receivable	(6,130)
Decrease in other assets	2,277
Increase in payable for investments purchased	1,445,071
Increase in investment advisory fees payable	7,558
Increase in fund accounting fees payable	1,363
Decrease in interest payable on borrowings	(25,556)
Increase in administration fees payable	151
Increase in trustee fees and expenses payable	1,089
Increase in accrued expenses and other liabilities	19,981
Net Cash Used In Operating and Investing Activities	(809,626)
Cash Flows From Financing Activities:	
Distributions to common shareholders	(14,277,747)
Increase in reverse repurchase agreements	12,598,659
Net Cash Used In Financing Activities	(1,679,088)
Net decrease in cash	(2,488,714)
Cash at Beginning of Period (including foreign currency)	2,505,960
Cash at End of Period (including foreign currency)	$17,246
Supplemental Disclosure of Cash Flow Information: Cash paid during the period for interest	$458,273
Supplemental Disclosure of Non Cash Financing Activity: Dividend reinvestment	$12,591

See notes to financial statements.

FINANCIAL HIGHLIGHTS May 31, 2015

	Year Ended May 31, 2015	Period Ended May 31, 2014(a)
Per Share Data:		
Net asset value, beginning of period	$24.71	$23.82
Income from investment operations:		
Net investment income(b)	1.95	1.64
Net gain (loss) on investments (realized and unrealized)	(1.16)	0.71
Total from investment operations	0.79	2.35
Less distributions from:		
Net investment income	(1.57)	(1.46)
Capital gains	(0.59)	–
Total distributions to shareholders	(2.16)	(1.46)
Net asset value, end of period	$23.34	$24.71
Market value, end of period	$23.07	$24.68
Total Return(c)		
Net asset value	3.45%	10.12%
Market value	2.54%	5.08%
Ratios/Supplemental Data:		
Net assets, end of period (in thousands)	$154,753	$163,815
Ratios to average net assets:		
Total expenses, including interest expense(d)	2.04%	1.73%
Net investment income, including interest expense	8.23%	7.28%
Portfolio turnover rate(e)	55%	54%

See notes to financial statements.

FINANCIAL HIGHLIGHTS continued May 31, 2015

	Year Ended May 31, 2015	Period Ended May 31, 2014(a)
Senior Indebtedness		
Total Borrowings outstanding (in thousands)	$65,572	$53,344
Asset Coverage per $1,000 of indebtedness(f)	$3,360	$4,071

(a) Since commencement of operations: June 26, 2013. Percentage amounts for the period, except total return and portfolio turnover rate, have been annualized.

(b) Based on average shares outstanding.

(c) Total return is calculated assuming a purchase of a common share at the beginning of the period and a sale on the last day of the period reported either at net asset value ("NAV") or market price per share. Dividends and distribution are assumed to be reinvested at NAV for NAV returns or the prices obtained under the Fund's Dividend Reinvestment Plan for market value returns. Total investment return does not reflect brokerage commissions. A return calculated for a period of less than one year is not annualized.

(d) Excluding interest expense, the operating expense ratio would be 1.76% and 1.55% for the periods ended May 31, 2015 and May 31, 2014, respectively.

(e) Portfolio turnover is not annualized for periods of less than one year.

(f) Calculated by subtracting the Fund's total liabilities (not including borrowings) from the Fund's total assets and dividing by the total borrowings.

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS May 31, 2015

Note 1 – Organization:

Guggenheim Credit Allocation Fund (the “Fund”) was organized as a Delaware statutory trust on June 7, 2012, and commenced investment operations on June 26, 2013. The Fund is registered as a diversified, closed-end management investment company under the Investment Company Act of 1940, as amended (the “1940 Act”).

The Fund’s investment objective is to seek total return through a combination of current income and capital appreciation.

Note 2 – Accounting Policies:

The Fund operates as an investment company and accordingly follows the investment company accounting and reporting guidance of the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification Topic 946 Financial Services – Investment Companies.

The preparation of the financial statements in accordance with U.S. generally accepted accounting principles (“GAAP”) requires management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements. Actual results could differ from these estimates.

The following is a summary of significant accounting policies consistently followed by the Fund.

(a) Valuation of Investments

The Board of Trustees of the Fund (the “Board”) has adopted policies and procedures for the valuation of the Fund’s investments (the “Valuation Procedures”). Pursuant to the Valuation Procedures, the Board has delegated to a valuation committee, consisting of representatives from Guggenheim’s investment management, fund administration, legal and compliance departments (the “Valuation Committee”), the day-to-day responsibility for implementing the Valuation Procedures, including, under most circumstances, the responsibility for determining the fair value of the Fund’s securities or other assets.

Valuations of the Fund’s securities are supplied primarily by pricing services appointed pursuant to the processes set forth in the Valuation Procedures. The Valuation Committee convenes monthly, or more frequently as needed and will review the valuation of all assets which have been fair valued for reasonableness. The Fund’s officers, through the Valuation Committee and consistent with the monitoring and review responsibilities set forth in the Valuation Procedures, regularly review procedures used by, and valuations provided by, the pricing services.

If the pricing service cannot or does not provide a valuation for a particular investment or such valuation is deemed unreliable, such investment is fair valued by the Valuation Committee.

Equity securities listed on an exchange (New York Stock Exchange (“NYSE”) or American Stock Exchange) are valued at the last quoted sales price as of the close of business on the NYSE, usually 4:00 p.m. Eastern time on the valuation date. Equity securities listed on the NASDAQ market system are valued at the NASDAQ Official Closing Price on the valuation date, which may not necessarily represent the last sale price. If there has been no sale on such exchange or NASDAQ on such day, the security is valued at the mean of the most recent bid and asked prices on such day.

Open-end investment companies ("Mutual Funds") are valued at their NAV as of the close of business on the valuation date. Exchange Traded Funds ("ETFs") and closed-end investment companies are valued at the last quoted sales price.

Debt securities with a maturity of greater than 60 days at acquisition are valued at prices that reflect broker/dealer supplied valuations or are obtained from independent pricing services, which may consider the trade activity, treasury spreads, yields or price of bonds of comparable quality, coupon, maturity, and type, as well as prices quoted by dealers who make markets in such securities. Short-term debt securities with a maturity of 60 days or less at acquisition and repurchase agreements are valued at amortized cost, provided such amount approximates market value.

Typically loans are valued using information provided by an independent third party pricing service which uses broker quotes in a non-active market.

Generally, trading in foreign securities markets is substantially completed each day at various times prior to the close of the NYSE. The values of foreign securities are determined as of the close of such foreign markets or the close of the NYSE, if earlier. All investments quoted in foreign currency are valued in U.S. dollars on the basis of the foreign currency exchange rates prevailing at the close of U.S. business at 4:00 p.m. Eastern time. Investments in foreign securities may involve risks not present in domestic investments. The Valuation Committee will determine the current value of such foreign securities by taking into consideration certain factors which may include those discussed above, as well as the following factors, among others: the value of the securities traded on other foreign markets, ADR trading, closed-end fund trading, foreign currency exchange activity, and the trading prices of financial products that are tied to foreign securities such as World Equity Benchmark Securities. In addition, under the Valuation Procedures, the Valuation Committee and Guggenheim Funds Investment Advisors, LLC ("GFIA or the "Adviser") are authorized to use prices and other information supplied by a third party pricing vendor in valuing foreign securities.

Investments for which market quotations are not readily available (including restricted securities) are fair valued as determined in good faith by the Adviser, subject to review by the Valuation Committee, pursuant to methods established or ratified by the Board. Valuations in accordance with these methods are intended to reflect each security's (or asset's) "fair value." Each such determination is based on a consideration of all relevant factors, which are likely to vary from one pricing context to another. Examples of such factors may include, but are not limited to: (i) the type of security, (ii) the initial cost of the security, (iii) the existence of any contractual restrictions on the security's disposition, (iv) the price and extent of public trading in similar securities of the issuer or of comparable companies, (v) quotations or evaluated prices from broker-dealers and/or pricing services, (vi) information obtained from the issuer, analysts, and/or the appropriate stock exchange (for exchange traded securities), (vii) an analysis of the company's financial statements, and (viii) an evaluation of the forces that influence the issuer and the market(s) in which the security is purchased and sold (e.g. the existence of pending merger activity, public offerings or tender offers that might affect the value of the security).

(b) Investment Transactions and Investment Income

Investment transactions are accounted for on the trade date. Realized gains and losses on investments are determined on the identified cost basis. Paydown gains and losses on mortgage and asset-backed securities are treated as an adjustment to interest income. Dividend income is

recorded net of applicable withholding taxes on the ex-dividend date and interest income is recorded on an accrual basis. Discounts or premiums on debt securities purchased are accreted or amortized to interest income over the lives of the respective securities using the effective interest method.

(c) Currency Translation

Assets and liabilities denominated in foreign currencies are translated into U.S. dollars at the mean of the bid and asked price of respective exchange rates on the last day of the period. Purchases and sales of investments denominated in foreign currencies are translated at the exchange rate on the bid and asked price of respective exchange rates on the date of the transaction.

The Fund does not isolate that portion of the results of operations resulting from changes in foreign exchange rates on investments from the fluctuations arising from changes in market prices of securities held. Such fluctuations are included with the net realized and unrealized gain or loss from investments.

Foreign exchange realized gain or loss resulting from holding of a foreign currency, expiration of a currency exchange contract, difference in exchange rates between the trade date and settlement date of an investment purchased or sold, and the difference between dividends or interest actually received compared to the amount shown in the Fund's accounting records on the date of receipt is shown as net realized gains or losses on foreign currency transactions on the Fund's Statement of Operations.

Foreign exchange unrealized gain or loss on assets and liabilities, other than investments, is shown as unrealized appreciation (depreciation) on foreign currency translation on the Fund's Statement of Operations.

(d) Forward Exchange Currency Contracts

Forward exchange currency contracts are agreements between two parties to buy and sell currencies at a set price on a future date. Fluctuations in the value of open forward exchange currency contracts are recorded for financial reporting purposes as unrealized appreciation and depreciation by the Fund until the contracts are closed. When the contracts are closed, realized gains and losses are recorded, and included on the Statement of Operations in foreign currency transactions.

(e) Distributions to Shareholders

The Fund declares and pays monthly distributions to common shareholders. These distributions consist of investment company taxable income, which generally includes qualified dividend income, ordinary income and short-term capital gains. Any net realized long-term capital gains are distributed annually to common shareholders. To the extent distributions exceed taxable income, the excess will be deemed a return of capital.

Distributions to shareholders are recorded on the ex-dividend date. The amount and timing of distributions are determined in accordance with federal income tax regulations, which may differ from GAAP.

(f) New Accounting Pronouncement

In June 2014, the FASB issued an Accounting Standards Update ("ASU") that expands secured borrowing accounting for certain repurchase agreements. The ASU also sets forth additional disclosure requirements for certain transactions accounted for as sales, in order to provide financial statement users with information to compare to similar transactions accounted for as secured borrowings. The ASU is effective prospectively during interim or annual periods beginning after December 15, 2014. At this time, management is evaluating the implications of these changes on the financial statements.

Note 3 – Investment Advisory Agreement, Sub-Advisory Agreement and Other Agreements:

Pursuant to an Investment Advisory Agreement (the "Agreement") between the Fund and Guggenheim Funds Investment Advisors, LLC, the Adviser furnishes offices, necessary facilities and equipment, provides administrative services, oversees the activities of Guggenheim Partners Investment Management, LLC ("GPIM" or the "Sub-Adviser"), provides personnel including certain officers required for the Fund's administrative management and compensates the officers or trustees of the Fund who are affiliates of the Adviser. As compensation for these services, the Fund pays the Adviser a fee, payable monthly, in an amount equal to 1.00% of the Fund's average daily managed assets.

Pursuant to a Sub-Advisory Agreement (the "Sub-Advisory Agreement") among the Fund, the Adviser and the Sub-Adviser, GPIM provides a continuous investment program for the Fund's portfolio; provides investment research, makes and executes recommendations for the purchase and sale of securities; and provides certain facilities and personnel, including certain officers required for its administrative management and pays the compensation of all officers and trustees of the Fund who are GPIM's affiliates. As compensation for its services, the Adviser pays GPIM a fee, payable monthly, in an annual amount equal to 0.50% of the Fund's average daily managed assets.

Certain officers and trustees of the Fund may also be officers, directors and/or employees of the Adviser or GPIM. The Fund does not compensate its officers or trustees who are officers, directors and/or employees of the aforementioned firms.

Rydex Fund Services, LLC ("RFS"), an affiliate of the Adviser and the Sub-Adviser, provides fund administration services to the Fund. As compensation for these services RFS receives a fund administration fee payable monthly at the annual rate set forth below as a percentage of the average daily managed assets of the Fund.

Managed Assets	Rate
First $200,000,000	0.0275%
Next $300,000,000	0.0200%
Next $500,000,000	0.0150%
Over $1,000,000,000	0.0100%

For purposes of calculating the fees payable under the foregoing agreements, "average daily managed assets" means the average daily value of the Fund's total assets minus the sum of its accrued liabilities. "Total assets" means all of the Fund's assets and is not limited to its investment securities. "Accrued liabilities" means all of the Fund's liabilities other than borrowings for investment purposes.

The Bank of New York Mellon ("BNY") acts as the Fund's custodian. As custodian, BNY is responsible for the custody of the Fund's assets.

RFS acts as the Fund's accounting agent. As accounting agent, RFS is responsible for maintaining the books and records of the Fund's securities and cash. RFS receives a fund accounting fee payable monthly at the annual rate set forth below as a percentage of the average daily managed assets of the Fund.

Managed Assets	Rate
First $200,000,000	0.0300%
Next $300,000,000	0.0150%
Next $500,000,000	0.0100%
Over $1,000,000,000	0.0075%
Minimum Annual Charge	$50,000
Certain out-of-pocket charges	Varies

Note 4 – Fair Value Measurement:

In accordance with GAAP, fair value is defined as the price that the Fund would receive to sell an investment or pay to transfer a liability in an orderly transaction with an independent buyer in the principal market, or in the absence of a principal market, the most advantageous market for the investment or liability. GAAP establishes a three-tier fair value hierarchy based on the types of inputs used to value assets and liabilities and requires corresponding disclosure. The hierarchy and the corresponding inputs are summarized below:

Level 1 — quoted prices in active markets for identical assets or liabilities.

Level 2 — significant other observable inputs (for example quoted prices for securities that are similar based on characteristics such as interest rates, prepayment speeds, credit risk, etc.).

Level 3 — significant unobservable inputs based on the best information available under the circumstances, to the extent observable inputs are not available, which may include assumptions.

The types of inputs available depend on a variety of factors, such as the type of security and the characteristics of the markets in which it trades, if any. Fair valuation determinations that rely on fewer or no observable inputs require greater judgment. Accordingly, fair value determinations for Level 3 securities require the greatest amount of judgment.

The following table represents the Fund's investments carried on the Statement of Assets and Liabilities by caption and by level within the fair value hierarchy at May 31, 2015.

Description	Level 1	Level 2	Level 3	Total
Assets:				
Common Stocks	$2,302,953	$–	$229,590	$2,532,543
Preferred Stocks	6,204,000	3,248,187	–	9,452,187
Corporate Bonds	–	103,978,837	3,868,867	107,847,704
Senior Floating Rate Interests	–	70,682,075	10,253,395	80,935,470
Asset Backed Securities	–	19,113,494	–	19,113,494
Mortgage Backed Securities	–	2,887,005	–	2,887,005
Money Market Fund	2,042,872	–	–	2,042,872

Forward Exchange Currency Contracts	–	330,309	–	330,309
Total Assets	$10,549,825	$200,239,907	$14,351,852	$225,141,584

NOTES TO FINANCIAL STATEMENTS continued May 31, 2015

Description	Level 1	Level 2	Level 3	Total
Liabilities:				
Forward Exchange Currency Contracts	$–	$2,931	$–	$2,931
Unfunded Commitments	–	1,095,749	–	1,095,749
Total Liabilities	$–	$1,098,680	$–	$1,098,680

Independent pricing services are used to value a majority of the Fund's investments. When values are not available from a pricing service, they will be determined under the valuation policies that have been reviewed and approved by the Board. In any event, values are determined using a variety of sources and techniques, including: market prices; broker quotes; and models which derive prices based on inputs such as prices of securities with comparable maturities and characteristics or based on inputs such as anticipated cash flows or collateral, spread over Treasuries, and other information and analysis. A significant portion of the Funds' assets and liabilities are categorized as Level 2 or Level 3, as indicated in this report.

Indicative quotes from broker-dealers, adjusted for fluctuations in criteria such as credit spreads and interest rates, may also be used to value the Fund's assets and liabilities, i.e. prices provided by a broker-dealer or other market participant who has not committed to trade at that price. Although indicative quotes are typically received from established market participants, the Fund may not have the transparency to view the underlying inputs which support the market quotations.

Certain fixed income securities are valued by obtaining a monthly indicative quote from a broker-dealer, adjusted for fluctuations in criteria such as credit spreads and interest rates.

The inputs or methodologies used for valuing securities are not necessarily an indication of the risk associated with investing in those securities. The suitability of the techniques and sources employed to determine fair valuation are regularly monitored and subject to change.

The following is a summary of the significant unobservable input used in the fair valuation of assets and liabilities categorized within the Level 3 of the fair value hierarchy:

Category	Ending Balance at 5/31/2015	Valuation Technique	Unobservable Inputs
Corporate Bonds	$ 2,622,392	Enterprise Value	Valuation Multiple*
Corporate Bonds	1,246,475	Monthly Broker Quote	Indicative Quote
Common Stocks	229,590	Enterprise Value	Valuation Multiple*
Senior Floating Rate Interests	518,820	Monthly Broker Quote	Indicative Quote
Senior Floating Rate Interests	9,734,575	Enterprise Value	Valuation Multiple*

*Valuation multiples utilized ranged from 2.8 to 14.6.

Significant changes in an indicative quote or valuation multiple would generally result in significant changes in the fair value of the security.

Transfers between investment levels may occur as the markets fluctuate and/or the availability of data used in an investment's valuation changes. Transfers between valuation levels, if any, are in comparison to the valuation levels at the end of the previous fiscal year, and are effective using the fair value as of the end of the current fiscal period.

As of May 31, 2015, the Fund had securities with a total value of $3,531,659 transferred from Level 3 to Level 2 due to availability of market price information at the period end. The Fund had a security with a value of $1,104,125 transferred from Level 1 to Level 2 due to lack of an active market.

Summary of Fair Value of Level 3 Activity

Following is a reconciliation of Level 3 assets for which significant unobservable inputs were used to determine fair value for the year ended May 31, 2015:

Level 3 – Fair value measurements using significant unobservable inputs

	Senior Floating Rate Interests	Asset-Backed Securities	Corporate Bonds	Common Stocks	Total
Assets:					
Beginning Balance	$6,313,152	$ 3,880,432	$1,318,110	$–	$11,511,694
Purchases	4,536,692	–	2,563,625	230,000	7,330,317
Paydowns Received	(2,777,053)	(417,154)	–	–	(3,194,207)
Payment-in-kind Distributions Received	(184,113)	–	–	–	(184,113)
Realized Gain/Loss	107,823	–	–	–	107,823
Total change in unrealized gains or losses included in earnings	(426,093)	68,381	(12,868)	(410)	(370,990)
Transfers into Level 3	2,682,987	–	–	–	2,682,987
Transfers out of Level 3	–	(3,531,659)	–	–	(3,531,659)
Ending Balance	$10,253,395	$ –	$3,868,867	$229,590	$14,351,852

Note 5 – Federal Income Taxes:

The Fund intends to continue to comply with the requirements of Subchapter M of the Internal Revenue Code of 1986, as amended (the "Internal Revenue Code"), applicable to regulated investment companies.

The Fund may be subject to an excise tax of 4% of the amount by which 98% of the Fund's annual taxable income and 98.2% of net realized gains exceed the distributions from such taxable income and realized gains for the calendar year. The Fund paid excise tax of $117,550 or $0.018 per share, attributable to calendar year 2014.

Due to inherent differences in the recognition of income, expenses and realized gains/losses under GAAP and federal income tax purposes, permanent differences between book and tax basis reporting have been identified and appropriately reclassified on the Statement of Assets and Liabilities. As of May 31, 2015, the following reclassification was made to the capital accounts of the Fund to reflect permanent book and tax differences relating to foreign currency transactions, paydown gains and losses, excise tax paid, collateralized loan obligations, and the reclassification of distributions from capital gains to ordinary income. Net investment income, net realized gains and net assets were not affected by these reclassifications.

Undistributed Net Investment Income	Accumulated Net Realized Gain	Additional Paid-in Capital
$ 12,450	$ 105,100	$ (117,550)

As of May 31, 2015, the cost of investments and accumulated unrealized appreciation (depreciation) on investments for federal income tax purposes were as follows:

Cost of Investments for Tax Purposes	Gross Tax Unrealized Appreciation	Gross Tax Unrealized Depreciation	Net Tax Unrealized Depreciation on Investments
$ 229,873,207	$ 3,372,124	$ (8,434,056)	$ (5,061,932)

The net tax unrealized appreciation on unfunded commitments is $283,492.

The differences between book basis and tax basis unrealized appreciation (depreciation) is primarily attributable to the tax deferral of losses on wash sales, the mark to market of PFIC investments, and equity to debt accruals of income.

As of May 31, 2015, the components of accumulated earnings/(losses) (excluding paid-in capital) on a tax basis were as follows:

Undistributed Ordinary Income	Accumulated Long-Term Gains/ (Accumulated Capital Loss)	Net Unrealized Appreciation/ (Depreciation)
$ 3,687,828	$ (1,945,160)	$ (4,781,687)

For the years ended May 31, 2015 and 2014, the tax character of distributions paid to shareholders as reflected in the Statements of Changes in Net Assets was as follows:

Distributions paid from:	2015	2014
Ordinary income	$ 14,290,338	$ 9,698,371

Note: For federal income tax purposes, short-term capital gain distributions are treated as ordinary income distributions.

For Federal income tax purposes, capital loss carryforwards represent realized losses of the Fund that may be carried forward and applied against future capital gains. Under the RIC Modernization Act of 2010, the Fund is permitted to carry forward capital losses incurred in taxable years beginning after December 22, 2010 for an unlimited period and such capital loss carryforwards will retain their character as either short-term or long-term capital losses. As of May 31, 2015, capital loss carryforwards for the Fund were as follows:

Unlimited Short-Term	Unlimited Long-Term	Total Capital Loss Carryforward
$ (335,967)	$ (1,609,193)	$ (1,945,160)

For all open tax years and all major jurisdictions, management of the Fund has concluded that there are no significant uncertain tax positions that would require recognition in the financial statements. Uncertain tax positions are tax positions taken or expected to be taken in the course of preparing the Fund's tax returns that would not meet a more-likely-than not threshold of being sustained by the applicable tax authority and would be recorded as a tax expense in the current year. Open tax years are those that are open for examination by taxing authorities (i.e. generally the last four tax year ends and the interim tax period since then).

NOTES TO FINANCIAL STATEMENTS continued May 31, 2015

Note 6 – Investments in Securities:

During the year ended May 31, 2015, the cost of purchases and proceeds from sales of investments, excluding short-term investments were $163,128,740 and $120,064,430, respectively.

Note 7 – Derivatives:

The Fund is required by GAAP to disclose: a) how and why a fund uses derivative instruments, b) how derivative instruments and related hedge fund items are accounted for, and c) how derivative instruments and related hedge items affect a fund's financial position, results of operations and cash flows.

(a) Forward Exchange Currency Contracts

The Fund enters into forward exchange currency contracts in order to hedge its exposure to changes in foreign currency exchange rates on its foreign portfolio holdings, to hedge certain firm purchases and sales commitments denominated in foreign currencies and for investment purposes.

A forward exchange currency contract is a commitment to purchase or sell a foreign currency on a future date at a negotiated forward rate. Risk may arise from the potential inability of a counterparty to meet the terms of a contract and from unanticipated movements in the value of a foreign currency relative to the U.S. dollar. The face or contract amount, in U.S. dollars, reflects the total exposure the Fund has in that particular currency contract.

At May 31, 2015, the following forward exchange currency contracts were outstanding:

Contracts to Sell		Counterparty	Settlement Date	Settlement Value	Value as of 5/31/15	Net Unrealized Appreciation (Depreciation)
AUD	880,000					
for USD	704,677	The Bank of New York Mellon	06/05/2015	$704,677	$672,650	$ 32,027
EUR	7,800,000					
for USD	8,866,494	The Bank of New York Mellon	06/05/2015	8,866,494	8,568,212	298,282
GBP	2,100,000					
for USD	3,207,015	The Bank of New York Mellon	06/05/2015	3,207,015	3,209,946	(2,931)
Net unrealized appreciation on forward exchange currency contracts						$ 327,378

(b) Summary of Derivatives Information

The following table presents the types of derivatives in the Fund by location as presented on the Statement of Assets Liabilities at May 31, 2015.

Statement of Assets and Liabilities
Presentation of Fair Values of Derivative Instruments (value in $000s):

	Asset Derivatives		Liability Derivatives	
Primary Risk Exposure	Statement of Assets and Liabilities Location	Fair Value	Statement of Assets and Liabilities Location	Fair Value
Foreign exchange risk	Unrealized appreciation on forward exchange currency contracts	$330	Unrealized depreciation on forward exchange currency contracts	$3

The following table presents the effect of derivatives instruments on the Statement of Operations for the year ended May 31, 2015.

Effect of Derivative Instruments on the Statement of Operations:

	Amount of Realized Gain (Loss) on Derivatives (value in $000s)
Primary Risk Exposure	Foreign Currency Transactions
Foreign exchange risk	$2,374
	Change in Unrealized Appreciation on Derivatives (value in $000s)
Primary Risk Exposure	Foreign Currency Translations
Foreign exchange risk	$201

Derivative Volume

Forward Exchange Currency Contracts:

The Fund had the following activity in forward exchange currency contracts during the year ended May 31, 2015:

Average Settlement Value Purchased	$3,154,713
Average Settlement Value Sold	3,662,216

Note 8 – Offsetting:

In the normal course of business, the Fund enters into transactions subject to enforceable master netting arrangements or other similar arrangements. Generally, the right to offset in those agreements allows the Fund to counteract the exposure to a specific counterparty with collateral received or delivered to that counterparty based on the terms of the arrangements. These arrangements provide for the right to liquidate upon the occurrence of an event of default, credit event upon merger or additional termination event.

In order to better define their contractual rights and to secure rights that will help the Fund mitigate their counterparty risk, the Fund may enter into an International Swaps and Derivatives Association, Inc. Master Agreement ("ISDA Master Agreement") or similar agreement with their derivative contract counterparties. An ISDA Master Agreement is a bilateral agreement between a Fund and a counterparty that governs OTC derivatives, including foreign exchange contracts, and typically contains, among other things, collateral posting terms and netting provisions in the event of a default and/or termination event. The provisions of the ISDA Master Agreement typically permit a single net payment in the event of a default (close-out netting) or similar event, including the bankruptcy or insolvency of the counterparty.

For derivatives traded under an ISDA Master Agreement, the collateral requirements are typically calculated by netting the mark to market amount for each transaction under such agreement and comparing that amount to the value of any collateral currently pledged by the Funds and the counterparty. For financial reporting purposes, cash collateral that has been pledged to cover obligations of the Funds and cash collateral received from the counterparty, if any, is reported separately on the Statement of Assets and Liabilities as segregated cash with broker/ receivable for variation margin, or payable for swap settlement/variation margin. Generally, the amount of collateral due from or to a counter party must exceed a minimum transfer amount threshold (e.g., $300,000) before a transfer is required to be made. To the extent amounts due to the Funds from their counterparties are not fully collateralized, contractually or otherwise, the Funds bear the risk of loss from counterparty nonperformance. The Funds attempt to mitigate counterparty risk by only entering into agreements with counterparties that they believe to be of good standing and by monitoring the financial stability of those counterparties.

For financial reporting purposes, the Fund does not offset derivative assets and derivative liabilities that are subject to netting arrangements in the Statement of Assets and Liabilities.

The following tables present derivative financial instruments and secured financing transactions that are subject to enforceable netting arrangements and offset in the Statement of Assets and Liabilities in conformity with GAAP.

Description	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Statement of Assets and Liabilities	Net Amounts of Assets Presented in the Statement of Assets and Liabilities	Gross Amounts Not Offset in the Statement of Assets & Liabilities Financial Instruments	Net Amount
Forward Exchange Currency Contracts	$330,309	$ –	$330,309	$2,931	$327,378

Description	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Statement of Assets and Liabilities	Net Amounts of Liabilities Presented in the Statement of Assets and Liabilities	Gross Amounts Not Offset in the Statement of Assets & Liabilities Financial Instruments	Net Amount
Reverse Repurchase Agreements	$65,942,734	$ –	$65,942,734	$65,942,734	$ –

Forward Exchange Currency Contracts	2,931	–	2,931	2,931	–

Note 9 – Leverage:

Reverse Repurchase Agreements

The Fund may enter into reverse repurchase agreements as part of its financial leverage strategy. Under a reverse repurchase agreement, the Fund temporarily transfers possession of a portfolio instrument to another party, such as a bank or broker-dealer, in return for cash. At the same time, the Fund agrees to repurchase the instrument at an agreed upon time and price, which reflects an interest payment. Such agreements have the economic effect of borrowings. The Fund may enter into such agreements when it is able to invest the cash acquired at a rate higher than the cost of the agreement, which would increase earned income. When the Fund enters into a reverse repurchase agreement, any fluctuations in the market value of either the instruments transferred to another party or the instruments in which the proceeds may be invested would affect the market value of the Fund's assets. As a result, such transactions may increase fluctuations in the market value of the Fund's assets. For the year ended May 31, 2015, the average daily balance of reverse repurchase agreements outstanding amounted to $60,649,318. The weighted average interest rate was 0.71%. At May 31, 2015, there was $65,942,734 in reverse repurchase agreements outstanding.

At May 31, 2015, the Fund had outstanding reverse repurchase agreements with various counterparties. Details of the reverse repurchase agreements by counterparty are as follows:

Counterparty	Interest Rates	Maturity Dates	Face Value
Barclays Capital, Inc.	0.70% - 1.00%	06/03/15 – 07/21/15	$ 9,794,617
Barclays Capital, Inc.	1.00% - 1.10%	Open Maturity	5,602,119
Bank of America	0.93%	06/10/15 – 07/07/15	14,349,788
Credit Suisse First Boston	0.90% - 1.25%	06/01/15 – 07/17/15	6,975,845
Royal Bank of Canada	0.80% - 1.10%	06/11/15 – 11/03/15	27,520,365
Royal Bank of Canada	0.00%	Open Maturity	1,700,000
			$ 65,942,734

There is no guarantee that the Fund's leverage strategy will be successful. The Fund's use of leverage may cause the Fund's NAV and market price of common shares to be more volatile and can magnify the effect of any losses.

Note 10 – Loan Commitments:

Pursuant to the terms of certain Term Loan agreements, the Fund held unfunded loan commitments as of May 31, 2015. The Fund is obligated to fund these loan commitments at the borrower's discretion. The Fund reserves against such contingent obligations by designating cash, liquid securities, and liquid term loans as a reserve. As of May 31, 2015, the total amount segregated in connection with reverse repurchase agreements and unfunded commitments was $98,373,027.

At May 31, 2015, the Fund had the following unfunded loan commitments which could be extended at the option of the borrower:

Borrower	Maturity Date	Face Amount	Value
Acosta, Inc.	09/26/19	$2,000,000	$–
Advantage Sales and Market	07/25/19	900,000	96,480
American Stock Transfer	06/26/18	400,000	32,953
BBB Industries, LLC	10/17/19	1,029,286	127,189
CEVA Group PLC	03/19/19	360,000	55,879
Eyemart Express	12/18/19	1,000,000	110,588
Hillman Group Inc.	06/13/19	450,000	40,388
Informatica Corp.	05/18/16	800,000	–
IntraWest Holdings S.A.R.	12/10/18	1,100,000	31,024
Learning Care Group	05/05/19	500,000	51,804
McGraw-Hill Global Education	03/22/18	1,000,000	76,410
National Financial Partners	07/01/18	1,500,000	130,418
Phillips Medsize Corp.	06/14/19	1,100,000	106,054
ProMach Group, Inc.	10/22/19	650,000	68,909
Rite Aid Corp.	08/10/15	500,000	–
Signode Industrial Group	05/01/19	350,000	34,236
Signode Industrial Group	05/01/19	1,050,000	102,707
SS&C Technologies, Inc.	02/27/16	700,000	–
Wencor Jazz Acquisition	06/19/19	323,077	30,710
		$15,712,363	