Ares Diversified Credit Fund

ARSN 644 797 599 APIR HOW7354AU

December 2022 - Monthly Fact Sheet

Performance	1 month %	CYTD %	1 year %	3 years % p.a.	5 years % p.a.	Inception %
Fund return (gross)[1]	-0.8	-1.1	-1.1	-	-	3.4
Fund return (net)[2]	-0.8	-1.1	-1.1	-	-	3.4

[1] Returns are calculated before fees have been deducted and assume distributions have been reinvested. No allowance is made for tax when calculating these figures.
[2] Returns are calculated after fees have been deducted and assume distributions have been reinvested. No allowance is made for tax when calculating these figures. **Past performance is not a reliable indicator of future performance. Past performance figures that are less than 12 months are for informational purposes only and are not to be relied upon when considering the likely future performance of the Fund. Data Source: Fidante Partners Limited, 31 December 2022.**

Underlying Fund

The Fund primarily invests in a diversified portfolio of global liquid and illiquid asset classes via its investment in the CION Ares Diversified Credit Fund (**Underlying Fund**). The Fund also invests in cash and foreign exchange hedging instruments. In this report, where we refer to the Fund's investments we generally do so on a 'look-through' basis; that is, we are referring to the underlying assets that the Fund is exposed to through its investment in the Underlying Fund.

Underlying Fund Overview

The Underlying Fund's investment objective is to provide superior risk-adjusted returns across various market cycles by investing in a diversified portfolio of liquid and illiquid asset classes. The Underlying Fund seeks to capitalise on market inefficiencies and relative value opportunities throughout the entire global credit spectrum. The Underlying Fund seeks to achieve its investment objective by employing an opportunistic, dynamic and unconstrained global credit investments strategy based on absolute and relative value considerations and its analysis of credit markets. It seeks risk-adjusted returns over full market cycles by creating and managing a portfolio with balanced exposures to multiple industry sectors and geographic regions, systematically allocating capital across multiple segments of the global fixed-income markets, including U.S. and non-U.S. credit instruments.

Underlying Fund Facts[5]

Portfolio managers	Mitch Goldstein and Greg Margolies
Inception date	12 July 2017
Management fee	1.25% p.a.
Performance fee	15% subject to a hurdle rate of 1.5% per quarter (6% annualised), and subject to a catch-up feature.
Total Issuers	614
Total Managed Assets[3]	US$3.5BN
Sharpe Ratio[7]	0.91
Standard Deviation	3.94%
Yield to Maturity (YTM)	11.73%
Distribution Rate[7]	7.31%
Running Yield	10.37%
Interest rate duration	0.44
Spread Duration	2.27

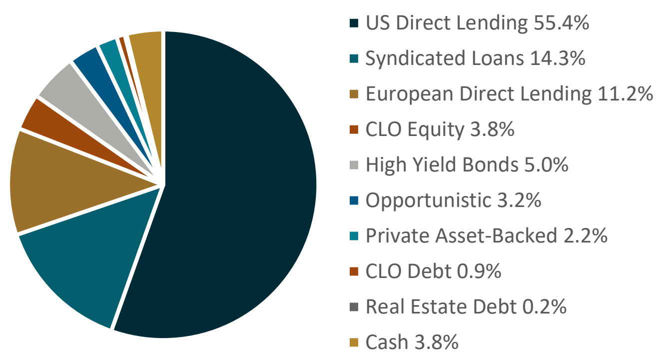
[3] Total assets (including any assets attributable to financial leverage) minus accrued liabilities (other than debt representing financial leverage)

Fund Facts

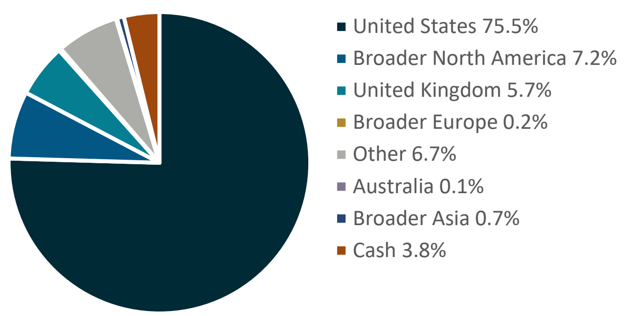
Inception date	17 December 2020
Fund FUM	$389M
Management Fee	Nil[4]
Performance fee	Nil[4]
Buy/sell spread	+0.00%/-0.00%
Distribution Frequency	Monthly
Distribution Rate[7]	0.52%

Underlying Fund Allocation[5]

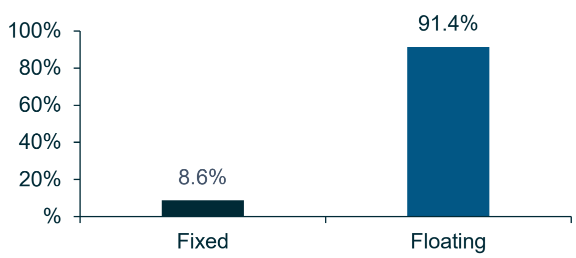
Asset Allocation



Geographic Allocation



Interest Type[6]



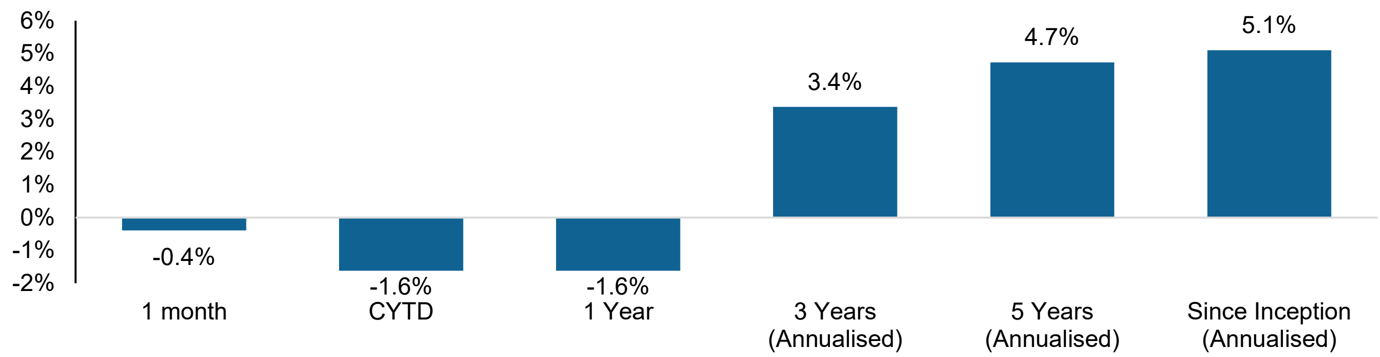
[4] The only fee is a recoverable expense, which is currently 3 bps.
[6] Excludes cash, other net assets and equity instruments.
[7] There can be no guarantee that the disbution rate will accrue at such amount and there is no assurance that distributions will be maintained at the targeted level or at all

Underlying Fund Top 10 Holdings[5]	
Mimecast	1.3%
Kaseya	1.3%
Nielsen	1.3%
DigiCert	1.1%
TurnPoint Services	1.1%
High Street Insurance Partners	1.1%
eCapital	1.0%
Conservice Midco, LLC	1.0%
Premium Credit	1.0%
Global Medical Response, Inc.	0.9%

Underlying Fund Industry Allocation[5]	
Software & Services	21.4%
Commercial & Professional Services	10.6%
Health Care Equipment & Services	8.7%
Diversified Financials	8.5%
Capital Goods	6.6%
Structured Products	6.4%
Insurance	5.8%
Consumer Services	5.8%
Other	22.6%
Cash	3.8%

[5] As of 31 December 2022. Holdings and allocations, unless otherwise indicated, are based on the total portfolio and subject to change without notice. Data shown is for informational purposes only and not a recommendation to buy or sell any security.

Underlying Fund Historical Performance[8]



[8] As of 31 December 2022. Returns of the CION Ares Diversified Credit Fund Class I Shares. Returns are in USD and include reinvestment of distributions and reflect fund expenses inclusive of recoupment of previously provided expense support. The expense ratio was 3.88% as of June 30, 2022. Expense ratios are annualised and calculated as a percentage of estimated average net assets. Share values will fluctuate, therefore if repurchased, they may be worth more or less than their original cost. Past performance is not indicative of future results. The performance shown is on a 'look-through' basis to the performance of the Underlying Fund. The performance of the Fund may not exactly replicate the performance of the Underlying Fund.

Recommended
Lonsec Research

Market Overview

Risk assets generated positive returns in the fourth quarter due to better-than-expected corporate earnings and cooling inflation concerns, which offset an otherwise gloomy economic outlook. Inflation moved lower in the United States and Europe, concluding the year at 6.5% and 9.2%[9], respectively, due largely to moderating commodity prices and reduced supply chain disruptions. Despite the improving inflation outlook, core areas such as food, housing, and labor remained elevated and supported additional interest rate hikes along with hawkish rhetoric from global central banks, which contributed to episodic periods of volatility throughout the quarter. Overall, however, cooling trends in both regions spurred optimism amongst investors that the pace of future rate hikes would slow, and coupled with resilient corporate earnings, sparked a rally in equities (proxy: S&P 500) which returned +7.55% for the quarter, capping off an otherwise negative year for the asset class. Specific to credit markets, dispersion increased across asset classes, ratings cohorts and industries as investors balanced attractive valuations with a weak economic outlook. Syndicated loans (proxy: Credit Suisse Leveraged Loan Index) and high yield bonds returned +2.33% and +3.98%, respectively, due to a supportive technical backdrop. The primary market remained quiet in both markets; syndicated loan issuance in 2022 was down 70% year-over-year while high yield bond issuance declined 78%[10]. Demand in both markets was positive due to steady CLO origination and investors taking advantage of attractive yields in both markets, which ranged from high single digit to low double-digit levels. Returns were driven by Double-BB and noncyclical industries in both markets as asset managers maintained a defensive investment posture amid declining leading economic indicators and elevated recession probabilities in the U.S. and Europe. Shifting to alternative credit, secondary CLO spreads tightened across the capital stack behind strength in the underlying loan market coupled with demand for discounted CLO paper. Within private credit, demand continued to take the shape of a "club" market for LBO financings. To that end, deal and hold sizes remained smaller when compared to recent periods; however, structures were relatively defensive and all-in yields were elevated due to higher base and coupon rates, coupled with enhanced original issue discount due to heightened execution risk. The market largely repriced during the quarter to reflect the weaker economic outlook and shift in broadly syndicated valuations.

Underlying Fund Commentary

The Underlying Fund maintained its defensive posture throughout the quarter while tactically taking advantage of attractive secondary market levels in liquid markets and positive origination trends within private credit. The portfolio continued to benefit from its 91.4% exposure to floating rate assets and deliberate rotation into directly originated assets earlier in the year, resulting in elevated all-in yields while dampening mark to market volatility. Coupled with tactical and selective purchases in the public credit markets, the Underlying Fund concluded 2022 with an attractive 10.37% current yield. The Underlying Fund's allocation to U.S. direct lending was the leading contributor to returns, driven predominantly by income, and while new originations were impacted by a seasonal slowdown, the Underlying Fund benefitted from elevated all-in yields. Shifting to Europe, the Fund's allocation to direct lending benefitted from moderating foreign exchange volatility which was a headwind earlier in the year, and the allocation was a positive contributor during the quarter. Further, while the Underlying Fund is underweight Europe given elevated geopolitical and recessionary risks when compared to the U.S., we continued to selectively participate in defensive opportunities with larger borrowers in this cohort. Specific to liquid credit, the allocation to syndicated loans was reduced as we continued to de-risk this cohort while simultaneously taking advantage of discounted secondary market opportunities. This asset category was a positive contributor to returns as we sold high dollar price loans, using proceeds to purchase high credit quality high yield bond and alternative credit opportunities. Within alternative credit, allocations to CLO debt and equity were modestly reduced in favor of relatively defensive rated private asset-backed investments. Overall, we believe the Underlying Fund's defensive posture and overweight towards floating rate, secured, directly originated assets in non-cyclical, service-based industries will continue to provide benefits amidst what is expected to be a challenging market environment in 2023.

Asset Class *	Contribution
European Direct Lending	Positive
US Direct Lending	Positive
Syndicated Loans	Positive
Alternative Credit: Private ABS	Positive
Opportunistic	Positive
Alternative Credit: CLO Equity	Positive
Alternative Credit: CLO Debt	Positive
RE Debt	Positive
HY Bonds	Positive

*Presented in order of contribution to Fund returns. As of December 31, 2022. European Direct Lending includes the impact of FX hedges.

Outlook

The start of 2023 has reversed many trends that characterized 2022, with investor sentiment decidedly risk-on thus far in January due to expectations of a shallow recession, and even whispers of a soft landing, coupled with the view that global central banks will at the least moderate their hawkish stance in the year ahead. Specific to credit markets, lower quality paper has outperformed as strong credit fundamentals, in combination with limited near-term maturities, have dampened fears of an elevated default cycle. While certain positive economic developments may give the rally additional momentum, such as improving wage and inflation data as well as Germany revising their GDP forecast upward for 2023, the threat of a recession and continued macroeconomic uncertainty looms over credit markets. Further, despite the renewed optimism, leading economic indicators continue to point towards a recession or slowdown as the highest probability outcome, which should drive continued decompression across credit markets as investors brace for weaker fundamental trends. Over the coming months, we expect to volatility to persist as global central banks continue to navigate a tight path towards their inflation targets. While this can lead to an economic pullback, tight labor conditions suggest a recession will be shallow, which, coupled with lower valuations, could create attractive risk-adjusted opportunities for active managers. Specific to the Underlying Fund, we expect the portfolio's overweight positioning towards direct lending to persist as we seek to take advantage of favorable lending conditions and elevated yields. Within liquid credit, we continue to look for high quality credits trading at a discount, though remain underweight public markets broadly as spreads remain tight given the economic outlook. We continue to maintain a steady pipeline of directly originated opportunities within alternative credit and more recently, have sought to add high credit quality CLO debt securities offering attractive relative value. Looking ahead, we continue to monitor the impact of elevated macro concerns and their potential impact on our portfolio companies and lending conditions more broadly, and will seek to take advantage of a growing opportunity set of attractive risk-adjusted return opportunities across the liquidity spectrum.

9. Source: Bloomberg. As of December 31, 2022.
10. Source: JP Morgan Market Monitor. As of December 31, 2022

The outbreak of a novel and highly contagious form of coronavirus ("COVID-19"), which the World Health Organization has declared to constitute a pandemic, has resulted in numerous deaths, adversely impacted global commercial activity and contributed to significant volatility in certain equity and debt markets. The global impact of the outbreak is rapidly evolving, and many countries have reacted by instituting quarantines, prohibitions on travel and the closure of offices, businesses, schools, retail stores and other public venues. Businesses are also implementing similar precautionary measures. Such measures, as well as the general uncertainty surrounding the dangers and impact of

COVID-19, are creating significant disruption in supply chains and economic activity and are having a particularly adverse impact on energy, transportation, hospitality, tourism, entertainment and other industries. The impact of COVID-19 has led to significant volatility and declines in the global financial markets and oil prices and it is uncertain how long this volatility will continue. As COVID-19 continues to spread, the potential impacts, including a global, regional or other economic recession, are increasingly uncertain and difficult to assess. Any public health emergency, including any outbreak of COVID-19 or other existing or new epidemic diseases, or the threat thereof, and the resulting financial and economic market uncertainty could have a significant adverse impact on the Fund, the value of its investments and its portfolio companies. The performance and portfolio company information herein is as of the dates herein and not all of the effects, directly or indirectly, resulting from COVID-19 and/or the current market environment may be reflected herein. The full impact of COVID-19 and its ultimate potential effects on portfolio company performance and valuations is particularly uncertain and difficult to predict.

For further information, please contact:

Fidante Partners Investor Services | **p:** 13 51 53 | **e:** info@fidante.com.au | **w:** www.fidante.com

---