Ares Diversified Credit Fund

ARSN 644 797 599 APIR HOW7354AU

December 2024 – Quarterly Report

Performance	1 month %	3 Months %	CYTD %	1 year %	3 years % p.a.	5 years % p.a.	Inception %
Fund return (gross)[1]	1.4	4.0	10.6	10.6	7.4	-	7.5
Fund return (net)[2]	1.4	4.0	10.5	10.5	7.3	-	7.5

[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 2024.**

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.

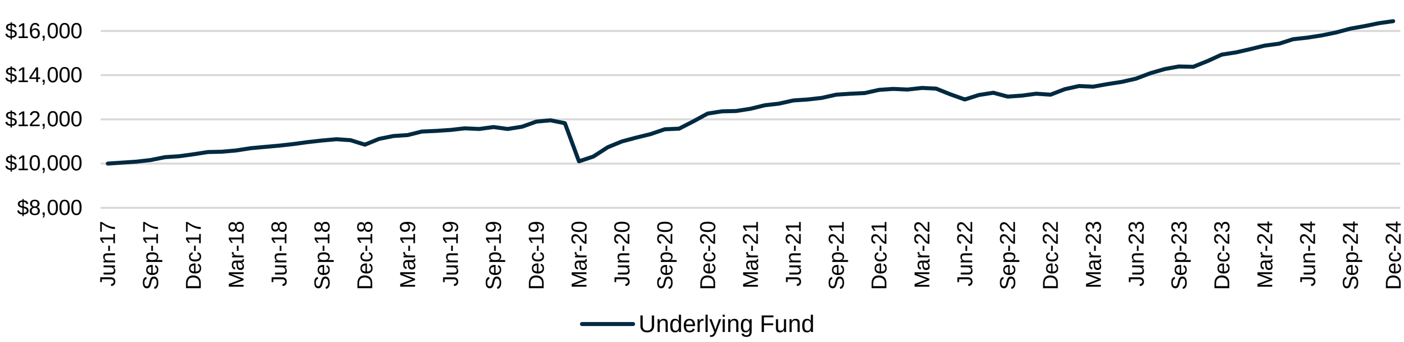
Underlying Fund Overview

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 capitalize 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.

Performance Commentary

During December, the AUD USD forward curve continued to steepen with the 2-year forward increasing by 20pips. This helped the Ares Diversified Credit Fund outperform the Underlying Fund in December.

Underlying Fund Growth of $10,000 Since Inception (net of fees)[9]



[9]This graph illustrates the performance of a hypothetical $10,000 investment made in this Fund from the inception date of the product. This is represented as the change in total return at monthly intervals. Total return is a measure of the change in NAV including reinvestment of all distributions and is presented on a net basis reflecting the deduction of fund expenses and applicable fees with expense support provided by CION Ares Management (CAM). The performance quoted represents past performance, is no guarantee of future results and may not provide an adequate basis for evaluating the performance of the Fund over varying market conditions or economic cycles. Investment return and principal value of an investment will fluctuate; therefore, you may have a gain or loss when you sell your shares. Current performance may be higher or lower than the performance data quoted.

Underlying Fund Facts

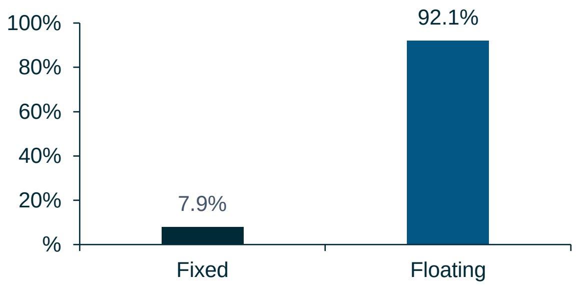
Portfolio managers	Mitch Goldstein, Greg Margolies, Michael Smith
Inception date	12 July 2017
Management fee	1.25% p.a.
Performance fee	15% subject to a hurdle rate of 1.5% per quarter (6% annualised), and subject to a catch-up feature.
Total Issuers	825
Total Managed Assets[3]	US$6.53BN
Sharpe Ratio[7]	1.11
Standard Deviation	3.71%
Yield to Maturity (YTM)	9.76%
Distribution Rate (p.a.)[7]	9.16%
Running Yield	9.66%
Interest rate duration	0.55
Spread Duration	2.09

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

Fund Facts

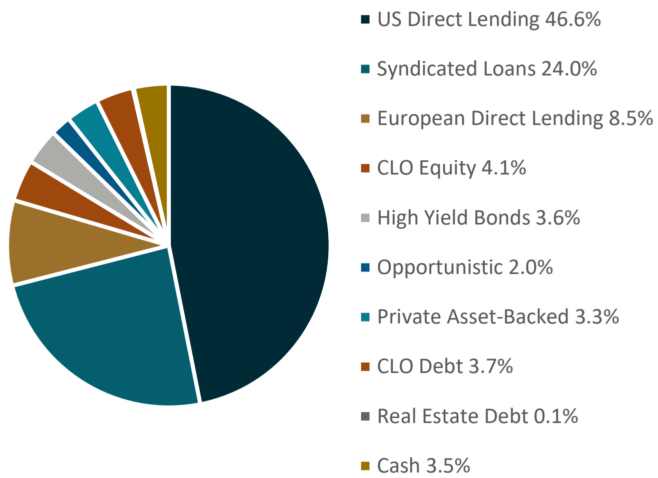
Inception date	17 December 2020
Fund FUM	$1,347M
Management Fee	Nil[4]
Performance fee	Nil[4]
Buy/sell spread	+0.25%/-0.00%
Distribution Frequency	Monthly
Distribution Rate[7]	0.78%

Interest Type[6]

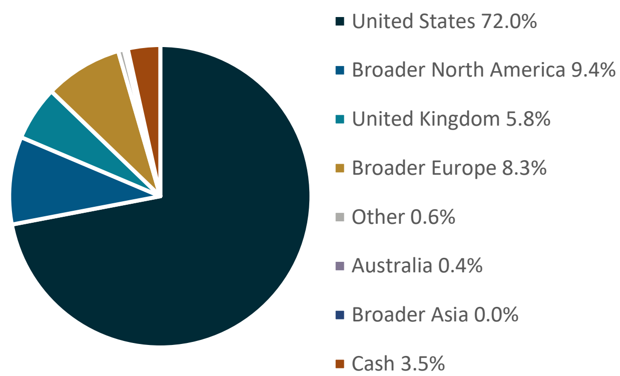


Underlying Fund Allocation[5]

Asset Allocation



Geographic Allocation



[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]

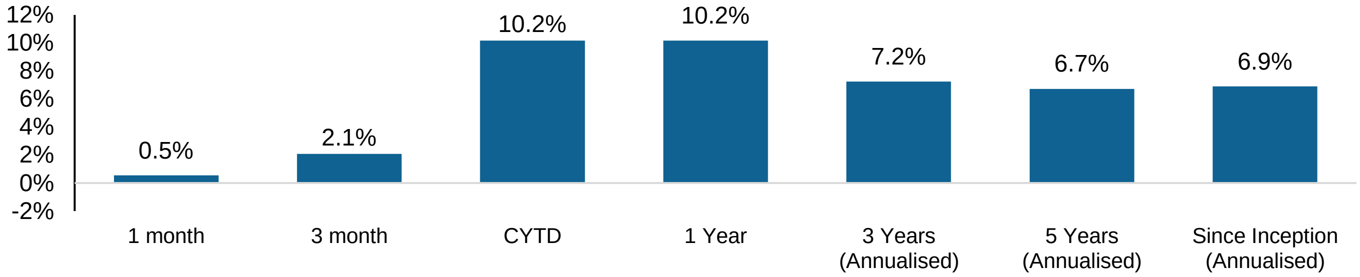
Global Medical Response	1.2%
Citrix	1.1%
Enviva Partners	0.9%
FinEquity Holdings	0.9%
eCapital	0.9%
Kaseya	0.8%
Mimecast	0.8%
Central Square Security	0.8%
High Street Insurance Partners	0.8%
Reddy Ice	0.7%

Underlying Fund Industry Allocation[5]

Software and Services	22.2%
Structured Products	9.3%
Health Care Equipment and Services	8.4%
Financial Services	7.9%
Commercial and Professional Services	7.2%
Insurance	6.7%
Capital Goods	4.8%
Consumer Services	4.7%
Other	25.4%
Cash	3.5%

[5] As of 31 December 2024. 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 2024. 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 4.18% as of December 31, 2023 excluding interest expense. 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.

Market Overview

Markets were positive in the fourth quarter amid a healthy macroeconomic backdrop and expectations of an incoming pro-business administration in the U.S. The Federal Reserve (the "Fed") actioned two 25-basis point interest rate cuts, following an aggressive 50-basis point cut in September. These decisions were driven by strong employment data and further visibility around price stability, as the Fed continues to make progress towards their 2% inflation target. Their last cut in December was ironically considered hawkish, as the central bank also projected a slower pace of cuts in 2025. Corporate fundamentals largely remained healthy as companies continued to grow revenue and EBITDA, while defaults were minimal. The S&P 500 returned +2.39% for the quarter, and returned +25.00% for the year, marking a second consecutive year of returns exceeding 20%. Shifting to leveraged credit, syndicated loans (proxy: S&P UBS Leveraged Loan Index) were a consistent source of positive returns and returned +2.29% during 4Q'24 as a result of high current income and strong CLO origination. High yield bonds (proxy: ICE BofA US High Yield Constrained Index) returned +0.16% for the quarter, largely driven by treasury yield volatility around the election and subsequent shift in rate expectations. New issuance during the quarter followed the overarching theme of 2024 - repricing and refinancing - bringing refinancing year-to-date totals to $218bn for high yield and $760bn for loans[3]. Within private credit, market activity was steady quarter-over-quarter, with LBO activity totaling $15bn of volume in 4Q'24 and $70bn of volume for the calendar year[4]. Strong demand for private credit drove competitive market dynamics and tighter spreads.

Underlying Fund Commentary

The Underlying Fund maintained its overweight exposure to corporate direct lending, while actively rotating positions in liquid and alternative credit markets, taking advantage of relative value opportunities and market dislocations as the quarter progressed. Within liquid credit, we took advantage of strong market technicals and decreased the allocation of syndicated loans and high yield bonds, rotating profits into CLO securities as well as private asset-backed and direct lending opportunities. Within illiquid credit, the Underlying Fund continued to actively deploy capital in the corporate and asset-based direct lending space, as we continue to see significant yield premium in these sectors relative to liquid corporate credit. Generally, our ability to source transactions across the middle market contributed to a steady pipeline across these segments, a testament to the scaled Ares platform.

Shifting to performance, the Underlying Fund generated positive returns for the tenth consecutive quarter and experienced positive contribution from a majority of the asset classes in scope. The allocation to U.S. direct lending was the leading contributor to returns, adding 160 basis points of return, as the elevated base rate environment persisted and fundamentals within the incumbent portfolio remained steady. Within liquid credit, syndicated loans were the second highest contributor, adding 101 basis points of return, due to the strong floating rate demand technical. Within alternative credit, the allocation to CLO debt benefitted from strong demand and tighter secondary market spreads while high reset volumes and a lower cost of capital was a tailwind for the portfolio's CLO equity exposure. A source of high current income, the allocation to private ABS was a positive contributor, too.

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

*Presented in order of contribution to Fund returns. As of December 31, 2024.

Outlook

Performance across credit markets has been positive thus far in January amid continued optimism around the new pro-business administration that is expected to be supportive of deal making. Accordingly, M&A activity is expected to continue to pick up as the regulatory environment eventually eases. Rate forecasts currently err on the side of hawkish, supporting an attractive carry profile for leveraged credit in the months ahead, though levels are expected to move slightly lower which would drive reduced interest expense for borrowers. This environment bodes well for the portfolio, which currently has a 92.1% allocation towards floating rate assets and should serve as a tailwind for the Underlying Fund. From a deployment perspective, we continue to sustain a healthy pipeline of corporate and asset-based opportunities across both U.S. and European geographies and will continue to de-emphasize the liquid credit allocation in lieu of CLO securities in an effort to increase portfolio level yields. Overall, we are comfortable with positioning today given our overweight exposure to defensive, self-originated assets, while we continue to apply the Underlying Fund's flexible investment strategy to tactically rotate exposures based on where we see the best relative value across credit markets. We believe that our dynamic approach and active management will drive attractive risk-adjusted returns as relative value shifts across global credit markets. Looking ahead, we will continue to monitor the impact of broader macroeconomic factors and their potential impact on portfolio companies and lending conditions more broadly.

References to "downside protection" or similar language are not guarantees against loss of investment capital or value.

Index Definitions

The Credit Suisse Leveraged Loan Index is designed to mirror the investable universe of the US dollar-denominated leveraged loan market. The index inception is January 1992. The index frequency is daily, weekly, and monthly. New loans are added to the index on their effective date if they qualify according to the following criteria: 1) Loan facilities must be rated "5B" or lower. That is, the highest Moody's/S&P ratings are Baa1/BB+ or Ba1/BBB+. For unrated loans, the initial spread must be 125 basis points or higher above the benchmark reference reset rate. 2) Only fully funded term loan facilities are included. 3) The tenor must be at least one year. 4) Issuers must be domiciled in developed countries; issuers from developing countries are excluded.

The ICE BofA US High Yield Constrained Index ("HUC0") tracks the performance of US dollar denominated below investment grade corporate debt publicly issued in the US domestic market. Qualifying securities must have a below investment grade rating (based on an average of Moody's, S&P and Fitch), at least 18 months to final maturity at the time of issuance, at least one-year remaining term to final maturity as of the rebalancing date, a fixed coupon schedule and a minimum amount outstanding of $250 million. In addition, qualifying securities must have risk exposure to countries that are members of the FX-G10, Western Europe or territories of the US and Western Europe. Index constituents are market capitalization weighted, provided the total allocation to an individual issuer does not exceed 2%. Inception date: December 31, 1996.

For further information, please contact:

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