Ares Diversified Credit Fund

ARSN 644 797 599 APIR HOW7354AU

December 2023 - Quarterly Report

Performance	1 month %	3 Months %	CYTD %	1 year %	3 years % p.a.	5 years % p.a.	Inception %
Fund return (gross)[1]	1.6	2.7	13.2	13.2	6.5	-	6.6
Fund return (net)[2]	1.6	2.7	13.2	13.2	6.5	-	6.5

[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 2023.**

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.

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	690
Total Managed Assets[3]	US$4.45BN
Sharpe Ratio[7]	1.08
Standard Deviation	3.81%
Yield to Maturity (YTM)	10.67%
Distribution Rate (p.a.)[7]	9.23%
Running Yield	10.93%
Interest rate duration	0.57
Spread Duration	2.25

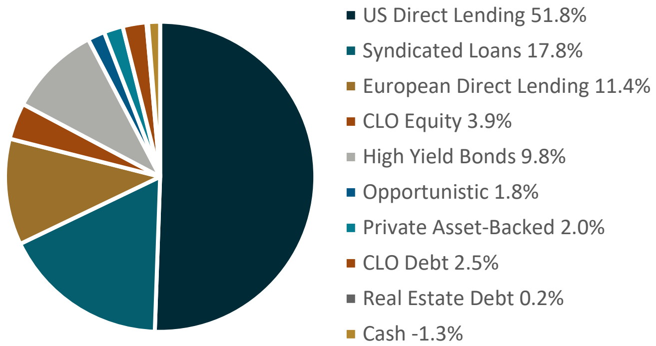
[3] Total assets (including any assets attributable to financial leverage) minus accrued liabilities (other than debt representing financial leverage)

Fund Facts

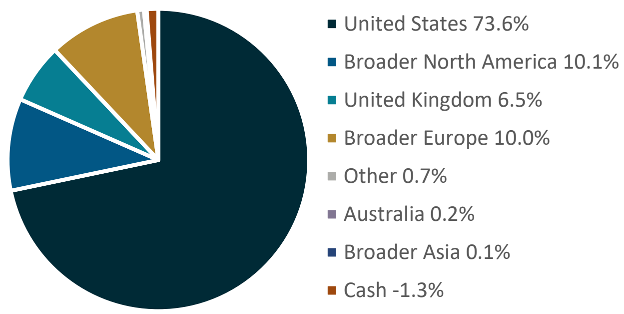
Inception date	17 December 2020
Fund FUM	$681M
Management Fee	Nil[4]
Performance fee	Nil[4]
Buy/sell spread	+0.25%/-0.00%
Distribution Frequency	Monthly
Distribution Rate[7]	0.79%

Underlying Fund Allocation[5]

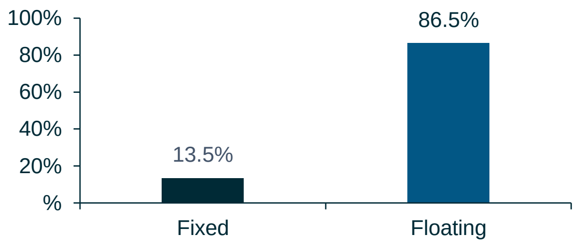
Asset Allocation



Geographic Allocation



Interest Type[6]



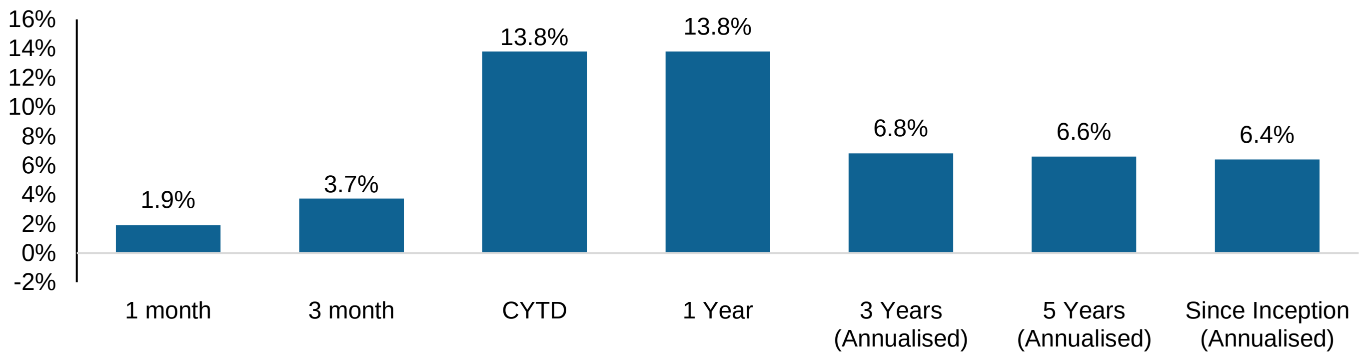
[4] The only fee is a recoverable expense, which is currently 3 bps.
[6] Excludes cash, other net assets, and equity instruments.
[7] There can be no guarantee that the disbution rate will accrue at such amount and there is no assurance that distributions will be maintained at the targeted level or at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

Underlying Fund Top 10 Holdings[5]	
Kaseya	1.1%
Mimecast	1.1%
Nielsen	1.0%
High Street Insurance Partners	1.0%
DigiCert	1.0%
TurnPoint Services	0.9%
European Camping Group	0.9%
eCapital	0.9%
RSK Group Limited	0.9%
Platinum Credit	0.8%

Underlying Fund Industry Allocation[5]	
Software and Services	21.3%
Commercial and Professional Services	9.8%
Financial Services	9.2%
Health Care Equipment and Services	8.1%
Structured Products	8.0%
Consumer Services	6.7%
Capital Goods	6.7%
Insurance	6.0%
Other	25.6%
Cash	-1.3%

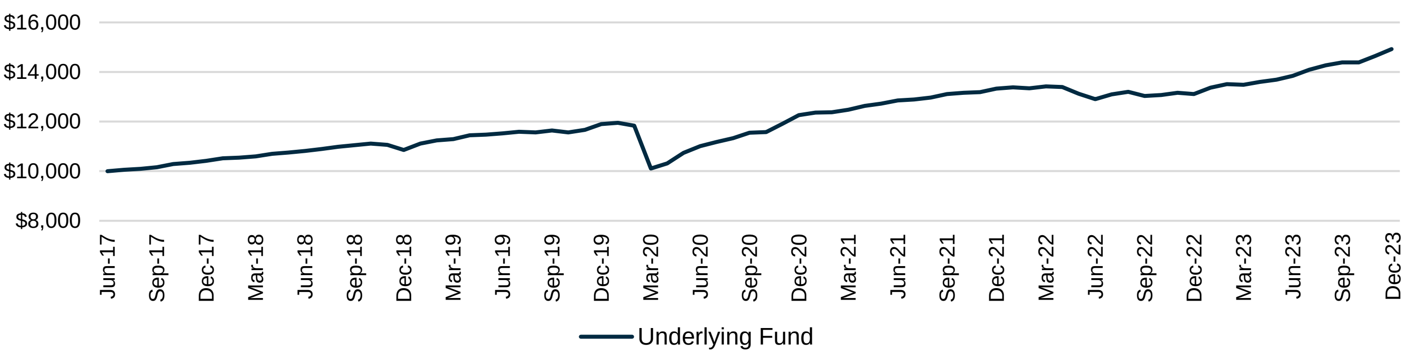
[5] As of 31 December 2023. Holdings and allocations, unless otherwise indicated, are based on the total portfolio and subject to change without notice. Data shown is for informational purposes only and not a recommendation to buy or sell any security.

Underlying Fund Historical Performance[8]



[8]As of 31 December 2023. 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 4.08% as of June 30, 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.

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.

Recommended
Lonsec Research

Market Overview
Credit markets were positive in the fourth quarter as benign inflation data and dovish Federal Reserve (the "Fed") rhetoric prompted the market to price in an aggressive easing cycle in 2024. Despite heightened geopolitical tensions in the Middle East and rate volatility during Q4, markets roared in the final two months of the year as the Fed increased their guidance to 75 basis points of cuts in 2024 due to lower inflation, which, coupled with a positive GDP print in December, served as a tailwind for asset prices. Within credit markets, gains were widespread as investors prepared for a potential shift in monetary policy. Syndicated loans (proxy: Credit Suisse Leveraged Loan Index) were a consistent source of positive returns and returned +2.85% for the quarter. High yield bonds (proxy: ICE BofA US High Yield Constrained Index) returned +7.06% as spreads and yields quickly snapped back after reaching their historical mid-point and top decile, respectively, in October. Contrary to trends from earlier in the year, lower credit quality paper underperformed in both markets while default rates remained in line with historical averages. Meanwhile, new issue activity picked up as companies and sponsors became comfortable with higher, but relatively stable, debt costs. This uptick in new issue activity occurred in the private markets as well, and pent-up dry powder led to increased competition for new deals and modest spread tightening over the period. Specific to asset-based lending, we saw bank-lead portfolio activity increase as financial institutions sought to clean up their balance sheets heading into year-end.

Underlying Fund Commentary
The Underlying Fund maintained an emphasis towards its core holdings in U.S. and European direct lending throughout the period while benefitting from tactical asset allocation across the liquid and alternative credit markets. Specific to liquid credit, the Underlying Fund's exposure to syndicated loans and high yield bonds increased by 337 basis points as we added to high credit quality bond and loan paper during October's price volatility. Within alternative credit, the Underlying Fund's exposure to CLO debt modestly increased as spreads grinded tighter across the capital stack, and while the exposure to private ABS decreased during the period, the Underlying Fund participated in a diverse array of transactions. Within corporate direct lending, the presence of U.S. direct lending decreased modestly as deployment remained steady, albeit slower relative to prior years. The allocation to European direct lending increased as the Underlying Fund continued to take advantage of favorable lending trends with companies in defensive industries.

Regarding performance, the Underlying Fund experienced positive contributions from every credit sector during the quarter, underscoring our capabilities across the global credit spectrum. U.S. and European direct lending were the leading contributors to performance as the incumbent portfolio remained healthy and elevated base rates drove enhanced income. Allocations to syndicated loans and high yield bonds were a source of strong absolute returns as tactical allocations in October were enhanced by strong credit selection. The Underlying Fund's exposure to opportunistic, alternative credit and RE debt investments were sources of positive contribution as well, though to a lesser extent given their relatively smaller allocations overall.

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

*Presented in order of contribution to Fund returns. As of December 31,2023.

Outlook
Performance across credit markets has been mixed thus far in January following the strong risk rally that concluded the year as speculation around monetary policy has influenced sentiment, with some market participants wondering if too much easing has been priced in. While recent Fed commentary has leaned dovish, the extent to which the central bank eases – if at all – remains to be seen. Further, while markets are pricing in several interest rate cuts during 2024, the current expectation is that easing will not be as aggressive as the Fed's hiking agenda, leaving rates at elevated levels, which is expected to be a tailwind for credit investing. Over the near term, we continue to actively monitor the incumbent portfolio for potential deteriorations in credit quality and seek to maintain a steady pipeline of corporate and asset-backed opportunities as the primary market continues to thaw. Within liquid credit, we remain buyers of syndicated loans due to their high current income coupled with Ares' ability to source paper with attractive economics in the primary market. Overall, we are pleased with portfolio positioning today, with a core allocation to defensive, directly originated assets, and ample liquidity to take advantage of periodic market dislocations. The Fund continues to benefit from elevated base rates, and we believe the Fund's flexible investment strategy will drive alpha as relative value shifts across global credit markets. Looking ahead, we continue to focus on the macro environment and its potential impact on portfolio companies and lending conditions more broadly.

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:

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

---