Ares Diversified Credit Fund

ARSN 644 797 599 APIR HOW7354AU

March 2021 - Monthly Fact Sheet

Performance	1 month %	Quarter %	FYTD %	1 year %	3 years % p.a.	5 years % p.a.	Inception %
Fund return (gross)[1]	0.8	1.4	-	-	-	-	1.8
Fund return (net)[2]	0.8	1.4	-	-	-	-	1.7

[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 March 2021.**

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	26 January 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	497
Strategy FUM[3]	US$1.34BN
Sharpe Ratio	0.93
Standard Deviation	4.49%

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

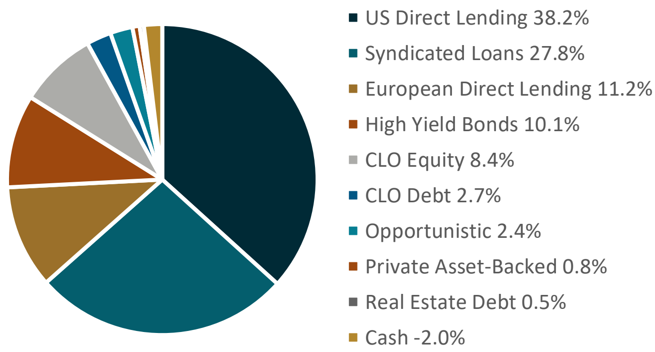
Fund Facts

Inception date	17 December 2020
Fund FUM	$57.8 M
Management Fee	Nil[4]
Performance fee	Nil[4]
Buy/sell spread	Nil
Distribution Frequency	Monthly
Distribution Rate	0.36%

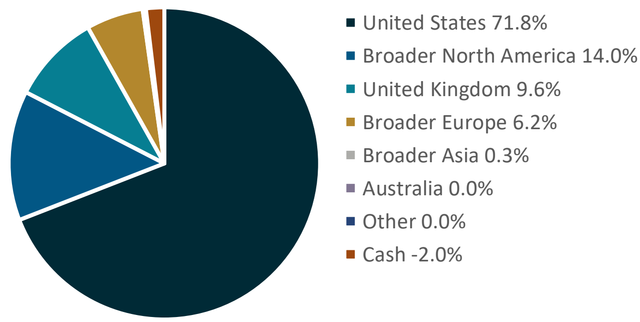
[4] The only fee is a recoverable expense, which is currently 10 bps.

Underlying Fund Allocation[5]

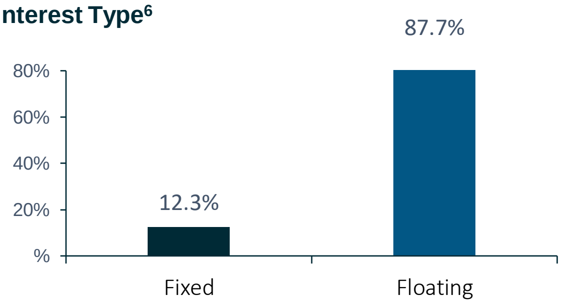
Asset Allocation



Geographic Allocation



Interest Type[6]



[6] Excludes cash, other net assets and equity instruments.

Underlying Fund Top 10 Holdings[5]	
CEP V I 5 Midco Limited (aka Mak System)	1.9%
True Potential Group Limited	1.2%
Commercial Trailer Leasing, Inc.	1.1%
Essential Services Holding Corporation	1.0%
Capstone Logistics	0.9%
GPM Investments, LLC	0.9%
Aston Lark	0.9%
Sophia, L.P. (aka Ellucian)	0.9%
OHALF 2016-1	0.8%
AffiniPay	0.8%

Underlying Fund Industry Allocation[5]	
Software & Services	17.4%
Structured Products (CLOs & Private ABS)	12.5%
Health Care Equipment & Services	11.0%
Consumer Services	7.0%
Capital Goods	6.9%
Commercial & Professional Services	6.6%
Insurance	6.5%
Diversified Financials	6.1%
Materials	4.8%
Energy	3.1%

[5] As of 31 March 2021. 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.

Market Overview

Capital markets sentiment was decidedly "risk on" in the first quarter due to a faster than expected vaccine rollout, passage of a $1.9 trillion stimulus package in the U.S., and improved GDP expectations. Citing effective vaccine distribution and additional fiscal support measures, the OECD[1] revised their forecast for global GDP growth from +4.2% to +6.5%, and from +3.2% to +6.5% for the U.S., specifically. Treasury yields surged behind rising global growth expectations and subsequent inflation fears, resulting in the 10-year Treasury yield reaching its highest level in more than year. The increase in rates influenced market technicals, which drove leveraged loan prices higher due to 11 consecutive weeks of retail inflows and a record $15.0 billion of CLO primary market issuance in February. Liquid credit markets delivered positive returns, driven by cyclicals and lower quality paper, with syndicated loans (proxy: Credit Suisse Leveraged Loan Index) and high yield bonds (proxy: ICE BofA High Yield Master II Constrained Index) returning +2.01% and 0.90%, respectively. Both sectors outperformed rate sensitive traditional fixed income (proxy: Bloomberg Barclays U.S. Aggregate Bond Index) which returned -3.37%. The secondary CLO market was fundamentally stable throughout the quarter, and an uptick in refinance and reset activity improved the CLO arbitrage for equity holders. In the middle market, new issuance got off to a seasonally slow start before picking up towards quarter-end as deal making resumed. Notably, certain upper middle market companies pivoted from the private to syndicated market to take advantage of stronger technicals and lower their cost of capital[2]. Against this backdrop, the CION Ares Diversified Credit Fund (CADC) actively rotated exposures across global credit markets and generated a positive return for the quarter[3].

Underlying Fund Commentary

The Underlying Fund actively rotated exposures throughout the quarter and benefitted from a host of macroeconomic and fundamental trends. Direct lending deployment remained active though was impacted by a seasonal slowdown as well as yield compression in the syndicated markets, which led to increased repayment activity as borrowers locked in a lower cost of capital. From a performance perspective, allocations to the U.S. and Europe were positive contributors as middle market companies continued to benefit from a reopening of the global economy. U.S. direct lending was the leading contributor behind improved corporate fundamentals and enhanced by an increased allocation during the prior quarter. Pivoting to liquid credit, syndicated loans and high yield bonds were the second and third leading contributors, respectively, due to strong credit selection and supportive market technicals. The Underlying Fund reduced its exposure to high yield bonds during the quarter, realizing gains from discounted purchases which occurred following the 2020 dislocation. Proceeds were rotated into syndicated loans in the U.S. and Europe, taking advantage of strong demand from retail funds and CLOs. The Underlying Fund also participated in certain "Ares Angle[4]" deals which are syndicated loan transactions where our liquid credit and direct lending teams collaborate for differentiated insights, preferred economics and favorable allocations relative to the broader market. Following a strong fourth quarter, performance within the Alternative Credit cohorts was mixed as the market absorbed strong supply and pricing levels fluctuated as the market recalibrated, though fundamentals remain strong and investments are performing as expected. The Underlying Fund's exposure to CLOs and private ABS was modestly reduced as we took profits on certain names amidst tighter conditions. The Underlying Fund's allocation to opportunistic investments increased during the quarter and was a source of positive returns, too. Broadly, eight credit sectors were a positive contributor to returns, underscoring our ability to identify attractive opportunities across the credit spectrum. We continue to position the Underlying Fund in a diversified manner given the asymmetrical return profile of credit assets, while emphasizing defensive industries and utilizing the scale and collaboration of the Ares platform to source attractive risk-adjusted return opportunities across liquid and illiquid credit markets.

Portfolio Allocation and Contribution by Asset Category*

Asset Class *	31-Dec	31-Mar	% Change
U.S. Direct Lending	39.37%	37.41%	-1.96%
Syndicated Loans	20.12%	27.28%	7.16%
Alternative Credit: CLO Debt	3.17%	2.63%	-0.54%
Alternative Credit: CLO Equity	10.74%	8.28%	-2.47%
Alternative Credit: Private ABS	0.80%	0.77%	-0.03%
European Direct Lending	11.14%	10.94%	-0.19%
High Yield Bonds	13.02%	9.87%	-3.15%
Opportunistic	1.12%	2.38%	1.26%
Real Estate Debt	0.51%	0.44%	-0.07%

*Asset class allocation excludes cash. Allocations are subject to change at any time.

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

*Presented in order of contribution to Fund returns. As of December 31, 2020.

Outlook

Moving forward, we expect market sentiment to remain risk-on due to supportive monetary and fiscal policy, along with the continued recovery of the global economy. These factors have begun to have a positive fundamental impact in the form of reduced default rates, upgrades outpacing downgrades, and strong corporate earnings. While optimism is high, the spike in rates and subsequent volatility underscores the potential for episodic “air pockets” in the coming months, particularly with levels at or inside pre-pandemic levels. Additionally, with ample liquidity in the market we expect competition for new deals to be elevated in the middle market and broadly syndicated markets. While competitive, we believe this dynamic is a tailwind for managers with scale and incumbency in both markets. In addition, we believe the current backdrop places an emphasis on mistake avoidance given historically tight levels and elevated competition. We are continuing to keep a sharp focus on credit selection as we expect outperformance this year will be dictated by protecting principal and taking advantage of periodic market dislocations as they arise. Overall, we believe active and nimble portfolio management will continue to be paramount across global credit markets. We appreciate your support as we seek to generate attractive risk-adjusted returns.

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.

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1. *Organisation for Economic Co-operation and Development*
2. *Source: Bloomberg, Private Credit Volume Looks 'Robust' With Competition Heating Up. April 13, 2021*
3. *Past performance is not indicative of future results. Current performance may differ and can be obtained at cioninvestments.com.*
4. *Ares Angle transactions reflect investments where Ares, through the size of its investment platform, believe that It was able to source broadly syndicated loans with preferential economic terms, favorable allocations relative to the broader market. These investments will generally include providing borrowers with early commitments to build syndication momentum and Ares receives premium economics for its capital committed, but does not provide services like an arranger or underwriter or negotiate the terms of the financing.*

Ref: AAM-00119

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