Ares Diversified Credit Fund

ARSN 644 797 599 APIR HOW7354AU

March 2024 - Quarterly Report

Performance	1 month %	3 Months %	CYTD %	1 year %	3 years % p.a.	5 years % p.a.	Inception %
Fund return (gross)[1]	1.1	3.7	3.7	13.8	7.3	-	7.2
Fund return (net)[2]	1.1	3.7	3.7	13.8	7.3	-	7.2

[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 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.

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	716
Total Managed Assets[3]	US$4.81BN
Sharpe Ratio[7]	1.10
Standard Deviation	3.79%
Yield to Maturity (YTM)	10.32%
Distribution Rate (p.a.)[7]	9.20%
Running Yield	10.78%
Interest rate duration	0.44
Spread Duration	2.04

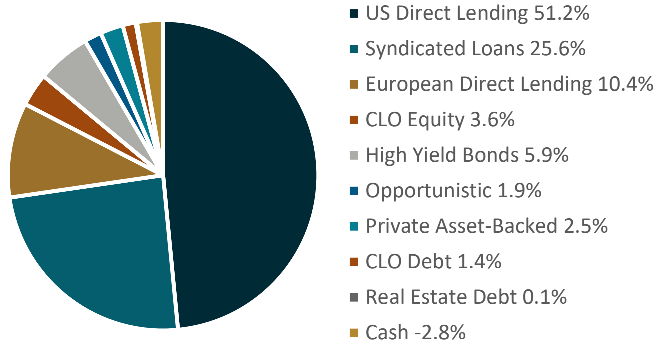
[3] Total assets (including any assets attributable to financial leverage) minus accrued liabilities (other than debt representing financial leverage)

Fund Facts

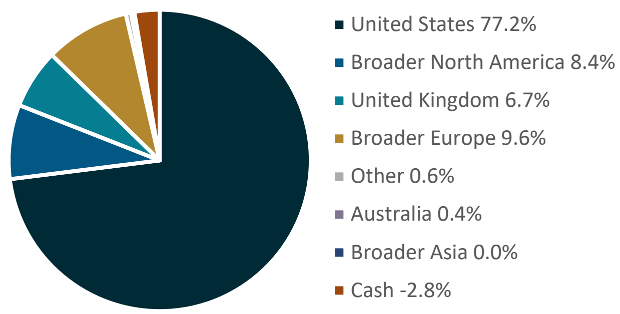
Inception date	17 December 2020
Fund FUM	$848M
Management Fee	Nil[4]
Performance fee	Nil[4]
Buy/sell spread	+0.25%/-0.00%
Distribution Frequency	Monthly
Distribution Rate[7]	0.78%

Underlying Fund Allocation[5]

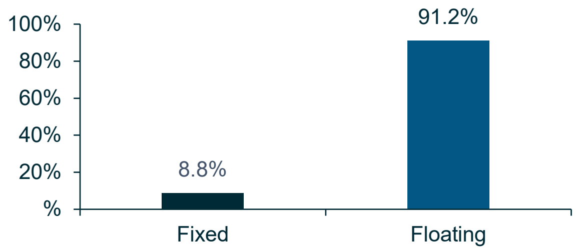
Asset Allocation



Geographic Allocation



Interest Type[6]



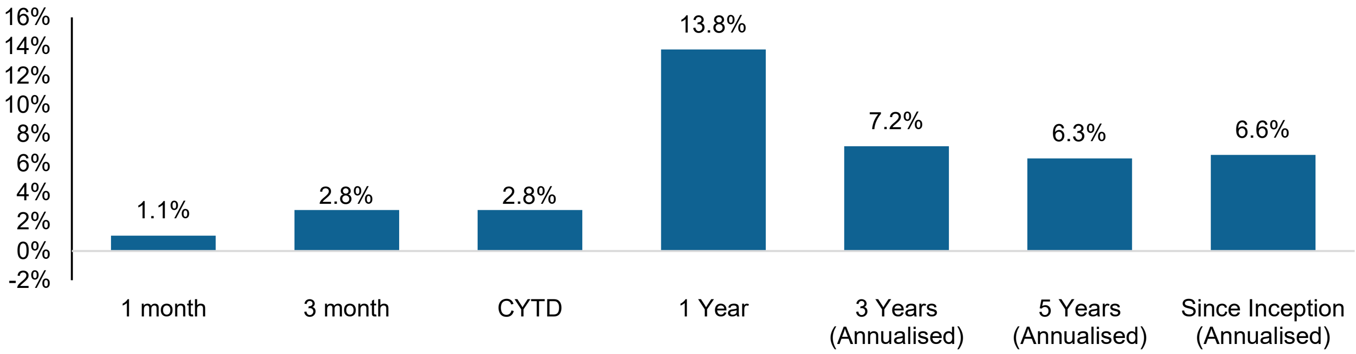
[4] The only fee is a recoverable expense, which is currently 3 bps.
[6] Excludes cash, other net assets, and equity instruments.
[7] There can be no guarantee that the disbution rate will accrue at such amount and there is no assurance that distributions will be maintained at the targeted level or at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

Underlying Fund Top 10 Holdings[5]	
Citrix	1.0%
Kaseya	1.0%
Mimecast	1.0%
Nielsen	1.0%
Equinox Fitness Clubs	0.9%
High Street Insurance Partners	0.9%
Ardonagh Packaging	0.9%
DigiCert	0.9%
Global Medical Response	0.9%
TurnPoint Services	0.8%

Underlying Fund Industry Allocation[5]	
Software and Services	21.2%
Commercial and Professional Services	9.3%
Financial Services	9.1%
Capital Goods	8.9%
Health Care Equipment and Services	8.9%
Consumer Services	7.0%
Structured Products	6.6%
Insurance	6.4%
Other	25.4%
Cash	-2.8%

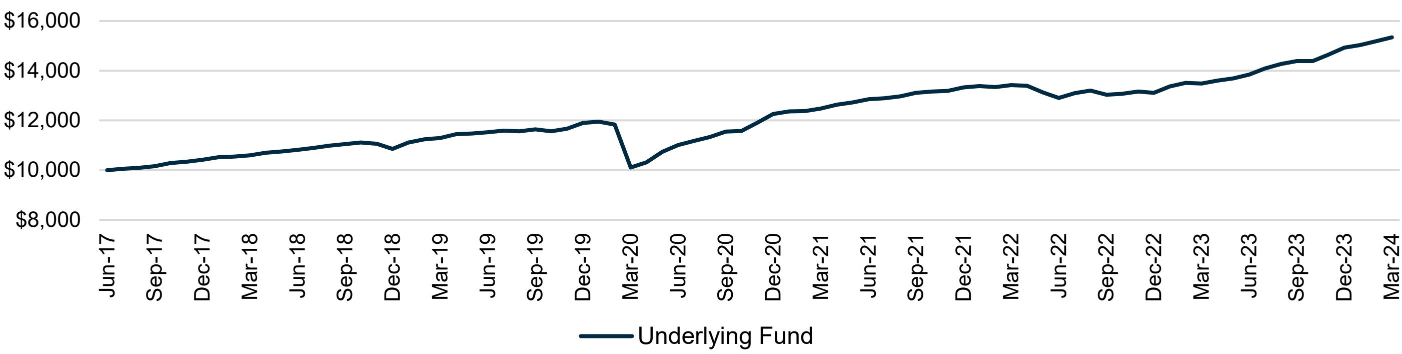
[5] As of 31 March 2024. Holdings and allocations, unless otherwise indicated, are based on the total portfolio and subject to change without notice. Data shown is for informational purposes only and not a recommendation to buy or sell any security.

Underlying Fund Historical Performance[8]



[8]As of 31 March 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.

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

Markets began the year on strong footing due to continued macroeconomic stability and resilient corporate fundamentals, which offset moderating rate expectations. Despite stickier than expected inflation trends, the macro environment was positive as labor conditions remained strong, manufacturing data moved towards expansionary levels and the Federal Reserve (“Fed”) raised their GDP forecast for 2024. The Fed kept rates unchanged during 1Q’24, citing their desire to see a “sustainable path” towards 2% inflation before cutting interest rates. Forecasts around rate cuts decreased significantly on the news, with economists shifting their expectations from as many as six cuts in 2024 to a more modest easing cycle, if any, this calendar year. Corporate fundamentals continued to prove resilient and companies are seemingly able to withstand a prolonged period of higher rates, thus far. Notably, 81% of the S&P 500 beat estimates and leveraged credit issuers saw positive EBITDA growth and reduced leverage. The combination of a healthy economy, decent interest coverage, and the prospect of “higher for longer” contributed to a vibrant technical environment across leveraged credit markets. Syndicated loans (proxy: Credit Suisse Leveraged Loan Index) were a consistent source of positive returns and returned +2.52% for the quarter, benefitting from strong demand which absorbed the busiest new issue calendar since 2017. High yield bonds (proxy: ICE BofA US High Yield Constrained Index) returned +1.51% with spreads continuing to grind tighter amid the positive macro backdrop and overall bid for risk. Primary market activity in both markets was heavily driven by refinancings and repricing’s as companies used firm demand across syndicated and private credit markets to lock in a lower cost of capital. Shifting to private credit, competition with bank lending was elevated, cultivating a relatively borrower friendly environment for companies and sponsors. Despite increased competition, private credit remained the primary source of LBO financing (based on deal count), and the supply-demand imbalance between private equity and private credit dry powder remains significant.

Underlying Fund Commentary

The Underlying Fund maintained its core allocation to U.S. and European direct lending while actively rotating exposures across liquid and alternative credit markets based on relative value. Notably, the allocation to syndicated loans increased by over 750 basis points. This allocation decision was driven by our relative value views as we concurrently decreased the Underlying Fund’s high yield bond allocation by almost 400 basis points given the strong income profile in loans and growing yield differential between the two liquid credit sectors. Further, we were able to leverage the scale and network of Ares’ sponsor and bank relationships to source high quality liquid loans with favorable economics relative to the street. Within illiquid credit, the Underlying Fund maintained a steady pipeline of corporate and asset-based direct lending opportunities, though repricing’s outpaced new originations within corporate direct lending specifically.

The Underlying Fund generated a positive return for the seventh consecutive quarter and experienced positive contributions from most component asset classes. The allocation to U.S. direct lending was the leading contributor to returns while CLO equity generated the strongest absolute return. Allocations to European direct lending and private ABS continued to be a source of high current income, while allocations to syndicated loans, high yield bonds and CLO debt benefitted from favorable secondary market technicals. The allocation to Opportunistic was a positive contributor, too. The lone detractor during the period was the Underlying Fund’s real estate debt allocation, as our singular holding in the multi-family sector was repriced to reflect market conditions.

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

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

Outlook

Performance across credit markets has been mixed in April as geopolitical tensions and positive macro data prints shape sentiment. Following a robust Q1’24, primary market activity has moderated as managers have shifted their focus, at least temporarily, to corporate earnings releases. While inflation has surprised many market participants this year, leading indicators still point to lower CPI, which leaves room for the possibility of rate cuts in 2024, albeit fewer than originally forecasted. This shift in rate expectations has and should continue to be a tailwind for the Underlying Fund, which has a 91.2% allocation to floating rate assets. Within the portfolio, we continue to maintain a strong pipeline of corporate and asset-based opportunities in the U.S. and Europe and continue to favor syndicated loans within liquid credit given their strong cash yields relative to high yield bonds. Overall, we are pleased with portfolio positioning today given our core allocation to defensive, directly originated assets, and ample liquidity to take advantage of episodic volatility within liquid credit markets. The portfolio continues to benefit from elevated base rates, and we believe the Underlying

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.

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