Ares Diversified Credit Fund

ARES | ARES AUSTRALIA MANAGEMENT

ARSN 644 797 599 APIR HOW7354AU

September 2022 - Monthly Fact Sheet

Performance	1 month %	CYTD %	1 year %	3 years % p.a.	5 years % p.a.	Inception %
Fund return (gross)[1]	-1.1	-1.9	-0.3	-	-	3.4
Fund return (net)[2]	-1.1	-1.9	-0.3	-	-	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, 30 September 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	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	595
Total Managed Assets[3]	US$3.4BN
Sharpe Ratio	0.95
Standard Deviation	3.99%
Yield to Maturity (YTM)	11.46%
Distribution Rate	6.57%
Running Yield	9.21%
Interest rate duration	0.48
Spread Duration	2.33

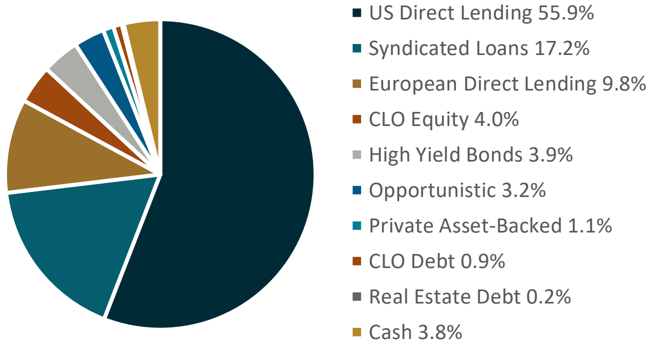
[3] Total assets (including any assets attributable to financial leverage) minus accrued liabilities (other than debt representing financial leverage)

Fund Facts

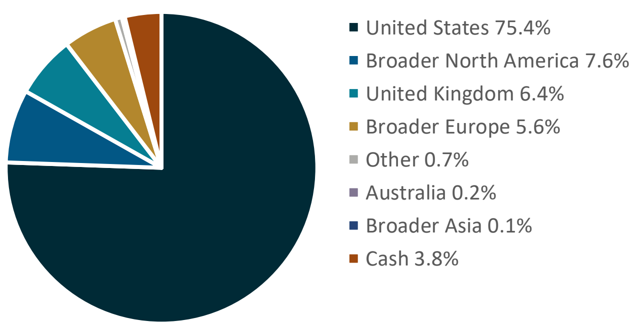
Inception date	17 December 2020
Fund FUM	$382M
Management Fee	Nil[4]
Performance fee	Nil[4]
Buy/sell spread	+0.00%/-0.00%
Distribution Frequency	Monthly
Distribution Rate	0.47%

Underlying Fund Allocation[5]

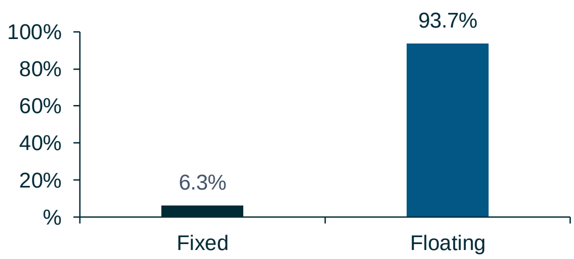
Asset Allocation



Geographic Allocation



Interest Type[6]



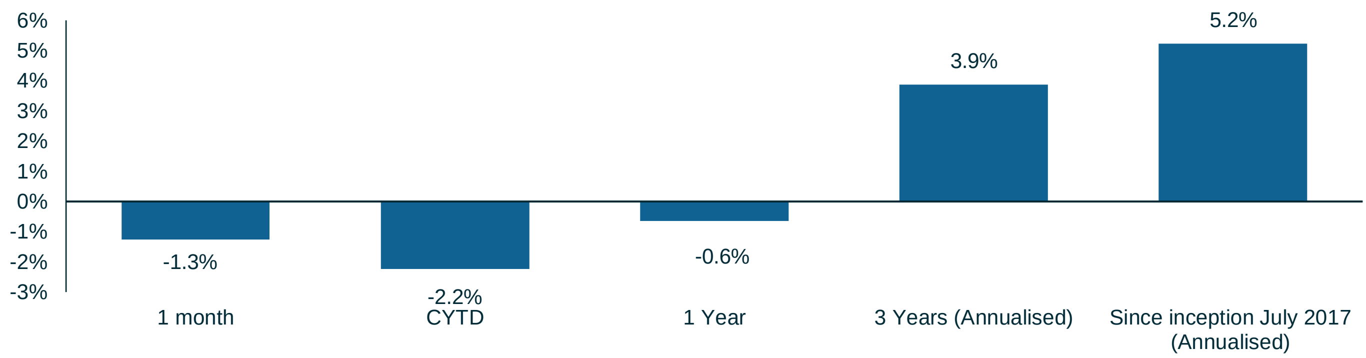
[4] The only fee is a recoverable expense, which is currently 3 bps.
[6] Excludes cash, other net assets and equity instruments.

Underlying Fund Top 10 Holdings[5]	
Mimecast	1.3%
Kaseya	1.3%
Global Medical Response, Inc.	1.2%
DigiCert	1.1%
TurnPoint Services	1.0%
eCapital	1.0%
High Street Insurance Partners	1.0%
Conservice Midco, LLC	1.0%
Cornerstone OnDemand, Inc.	0.9%
Shermco Intermediate Holdings, Inc.	0.9%

Underlying Fund Industry Allocation[5]	
Software & Services	23.1%
Commercial & Professional Services	9.5%
Health Care Equipment & Services	9.2%
Capital Goods	6.8%
Diversified Financials	6.8%
Structured Products	6.6%
Insurance	5.6%
Consumer Services	5.5%
Other	23.2%
Cash	3.8%

[5] As of 30 September 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[7]



[7] As of 30 September 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 estimated expense ratio is 3.88%. 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

Risk assets were mixed in the third quarter as central banks continued to combat persistently high inflation with aggressive monetary policy, contributing to growing recessionary fears and elevated volatility across capital markets. Market sentiment shifted into a risk-off tone throughout the quarter, as better-than-expected corporate earnings fueled a risk rally in July that was later offset by high inflation prints, rate hikes and hawkish rhetoric from central bankers across the globe. Despite posting a +9.22% return in July, equities (proxy: S&P 500), slipped into bear market territory and returned -4.89% in Q3 as the emerging European energy crisis exacerbated already elevated investor anxiety. Specific to credit markets, dispersion across asset classes, industries and ratings remained elevated as investors sought to insulate their portfolio's amid weakening economic conditions. Traditional fixed income (proxy: Bloomberg U.S. Aggregate Bond Index) returned -4.75% during the quarter due to a surge in short-term treasury yields, culminating in the largest curve inversion since 1982, negatively impacting fixed rate assets. Within leveraged credit, fixed rate high yield bonds (proxy: ICE BofA High Yield Master II Index) were impacted by the move as well, leading to a -0.68% return for the quarter. Despite a -14.62% return for the year-to-date period thus far, spreads in this sector remain well-inside of past recessionary periods, suggesting a vast majority of price declines have been due to rates. Syndicated Loans (proxy: Credit Suisse Leveraged Loan Index) were a relative bright spot and returned +1.19% amid steady demand in the form of retail inflows and CLO formation, though the former began to fade heading into quarter-end amid the broader risk-off environment. Within alternative credit, spreads were stable for a majority of the quarter before widening in September amid weakness in the underlying loan market. Private credit has followed the public markets, albeit more muted and with less velocity, in terms of both spread widening as well as increased discounts. When combined with an increase in base rates, all-in yields have increased when compared to the beginning of the year.

Within private credit, supply reduced and evolved into a “club” market for LBO financings. To that end, manager deal and hold sizes decreased while new deals had relatively defensive structures.

Underlying Fund Commentary

The Underlying Fund maintained a more defensive posture throughout the quarter, high-grading the more liquid segments of the portfolio in an effort to mitigate mark-to-market volatility. The Underlying Fund’s overweight positioning toward U.S. direct lending was increased for the second consecutive quarter and this allocation continued to be the top contributor to returns as we maintained a steady pipeline of directly originated opportunities despite shifting primary market dynamics. Positive performance within the US direct lending cohort was a byproduct of elevated income due to higher rates and wider spreads in the middle market. The allocation to European direct lending was increased, but to a lesser degree, as elevated capital markets volatility contributed to companies pivoting from public to private markets for financing. Shifting to alternative credit, CLO equity was the second leading contributor, but secondary spreads widened on the debt side of the ledger, negatively impacting the portfolio’s allocation in this cohort. The allocation to private asset-backed securities was roughly flat during the quarter, though we continue to maintain a steady pipeline of opportunities. The liquid credit allocation was modestly reduced as we rotated to defensively structured, attractive yielding opportunities within private credit. Within the allocation, we sought to high grade the Underlying Fund’s exposure to syndicated loans and high yield bonds, targeting short duration paper in defensive industries. The Underlying Fund benefited from positive performance amid less cyclical credit sectors such as Opportunistic, and sectors that are relatively insulated from inflation such as Real Estate Debt. 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 support against broader market volatility.

Portfolio Contribution by Asset Category*

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

*Presented in order of contribution to Fund returns. As of September 30, 2022.
European Direct Lending includes the impact of FX hedges.

Outlook

The third quarter closed on a volatile note as markets responded to an increasingly worrisome macroeconomic backdrop. That said, following the selloff in September, risk assets have rallied in early October as investors continue to rebalance their portfolio’s. Looking ahead, the outlook for economic growth remains mixed as central banks continue to tighten in an attempt to curb demand and temper inflation. While a contraction seems likely based on our internal scorecards, maturities have been pushed out and corporate balance sheets have remained on solid footing as many companies locked in a lower cost of capital in recent years, which we believe will keep default rates relatively benign moving forward. Coupled with elevated yields in both the public and private markets, we believe current valuations are attractive and the go-forward environment is ripe for credit investing. Specific to the Underlying Fund, we continue to remain biased towards directly originated assets given their senior secured, illiquid profile, which should provide insulation from continued mark-to-market volatility and heightened recessionary pressures. Further, recent widening in the primary market has created attractive opportunities relative to earlier in the year. Within the liquid markets, we’re taking advantage of the October bounce to continue with our agenda of high-grading the allocation, sourcing shorter duration paper issued by industry leading companies in defensive sectors. While yields look attractive in this space, credit spreads remain inside of prior recessionary periods, and we do not expect to add materially to this cohort over the near term. Within opportunistic and alternative credit, we continue to maintain a steady pipeline of directly originated opportunities and in recent weeks, have sourced differentiated investments due to banks cleaning up their balance sheets amid heightened market volatility and stringent regulatory capital requirements. Looking ahead, we continue to monitor the impact of elevated macro concerns and their potential impact on 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.

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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This material has been prepared by Ares Australia Management Pty Ltd (ABN 51 636 490 732, AFSL 343753) AAM, the investment manager of the Ares Diversified Credit Income Fund. Fidante Partners Limited ABN 94 002 835 592 AFSL 234668 (Fidante) is a member of the Challenger Limited group of companies (**Challenger Group**) and is the responsible entity of the Fund. Other than information which is identified as sourced from Fidante in relation to the Fund, Fidante is not responsible for the information in this material, including any statements of opinion. It is general information only and is not intended to provide you with financial advice or take into account your objectives, financial situation or needs. You should consider, with a financial adviser, whether the information is suitable to your circumstances. The Fund's Target Market Determination and Product Disclosure Statement (PDS) available at www.fidante.com should be considered before making a decision about whether to buy or hold units in the Fund. To the extent permitted by law, no liability is accepted for any loss or damage as a result of any reliance on this information. Past performance is not a reliable indicator of future performance. AAM and Fidante have entered into arrangements in connection with the distribution and administration of financial products to which this material relates. In connection with those arrangements, AAM and Fidante may receive remuneration or other benefits in respect of financial services provided by the parties. Fidante is not an authorised deposit-taking institution (ADI) for the purpose of the *Banking Act 1959* (Cth), and its obligations do not represent deposits or liabilities of an ADI in the Challenger Group (**Challenger ADI**) and no Challenger ADI provides a guarantee or otherwise provides assurance in respect of the obligations of Fidante. Investments in the Fund are subject to investment risk, including possible delays in repayment and loss of income or principal invested. Accordingly, the performance, the repayment of capital or any particular rate of return on your investments are not guaranteed by any member of the Challenger Group.