Ares Diversified Credit Fund

ARSN 644 797 599 APIR HOW7354AU

September 2024 - Quarterly Report

Performance	1 month %	3 Months %	CYTD %	1 year %	3 years % p.a.	5 years % p.a.	Inception %
Fund return (gross)[1]	0.5	1.3	6.3	9.2	6.6	-	6.9
Fund return (net)[2]	0.5	1.3	6.3	9.2	6.5	-	6.9

[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 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	787
Total Managed Assets[3]	US$6.04BN
Sharpe Ratio[7]	1.10
Standard Deviation	3.75%
Yield to Maturity (YTM)	9.17%
Distribution Rate (p.a.)[7]	9.20%
Running Yield	10.12%
Interest rate duration	0.53
Spread Duration	2.35

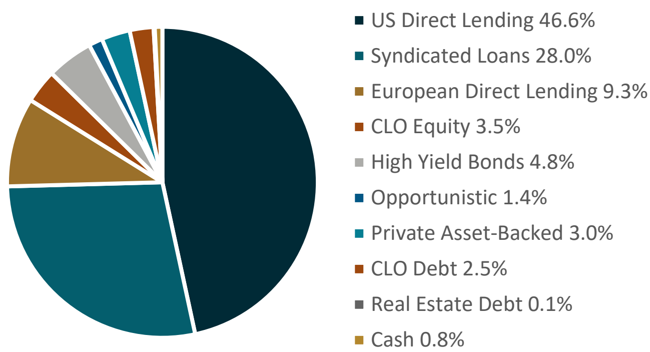
[3] Total assets (including any assets attributable to financial leverage) minus accrued liabilities (other than debt representing financial leverage)

Fund Facts

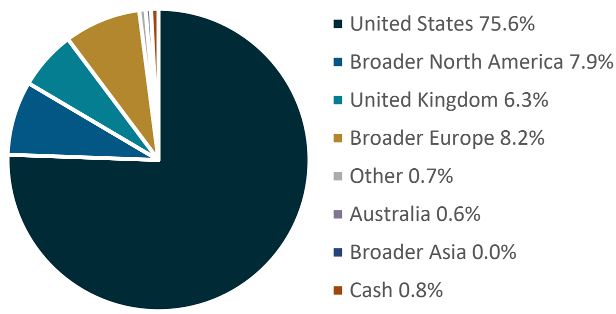
Inception date	17 December 2020
Fund FUM	$1,196M
Management Fee	Nil[4]
Performance fee	Nil[4]
Buy/sell spread	+0.25%/-0.00%
Distribution Frequency	Monthly
Distribution Rate[7]	0.78%

Underlying Fund Allocation[5]

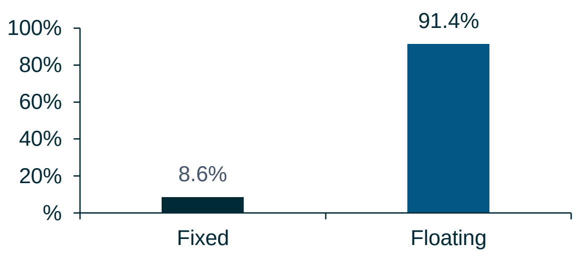
Asset Allocation



Geographic Allocation



Interest Type[6]



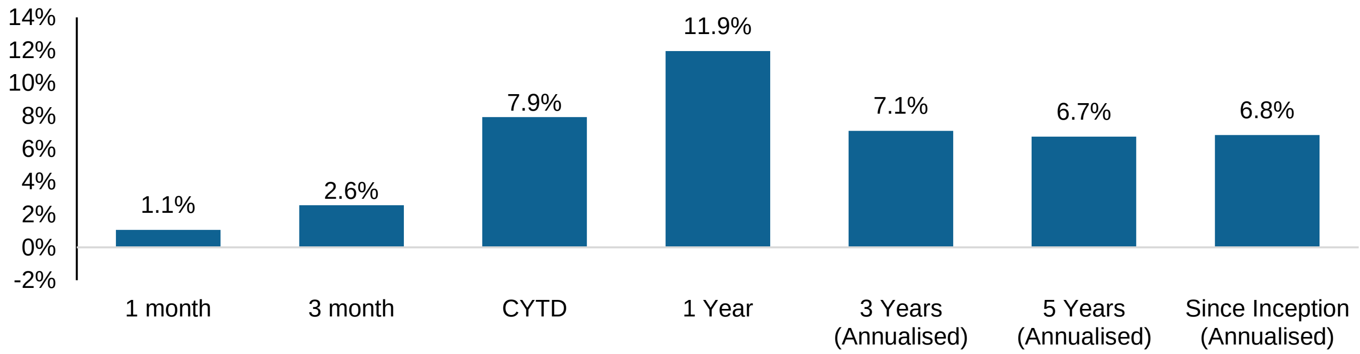
[4] The only fee is a recoverable expense, which is currently 3 bps.
[6] Excludes cash, other net assets, and equity instruments.
[7] There can be no guarantee that the disbution rate will accrue at such amount and there is no assurance that distributions will be maintained at the targeted level or at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

Underlying Fund Top 10 Holdings[5]	
Global Medical Response	1.2%
Citrix	1.0%
Mimecast	0.9%
Kaseya	0.8%
Platinum Credit	0.8%
Central Security Group	0.8%
High Street Insurance Partners	0.8%
Reddy Ice	0.8%
Nielsen	0.8%
Equinox Fitness Clubs	0.8%

Underlying Fund Industry Allocation[5]	
Software and Services	22.5%
Health Care Equipment and Services	9.0%
Commercial and Professional Services	8.3%
Financial Services	7.6%
Insurance	7.4%
Capital Goods	7.3%
Structured Products	7.1%
Consumer Services	5.3%
Other	24.6%
Cash	0.8%

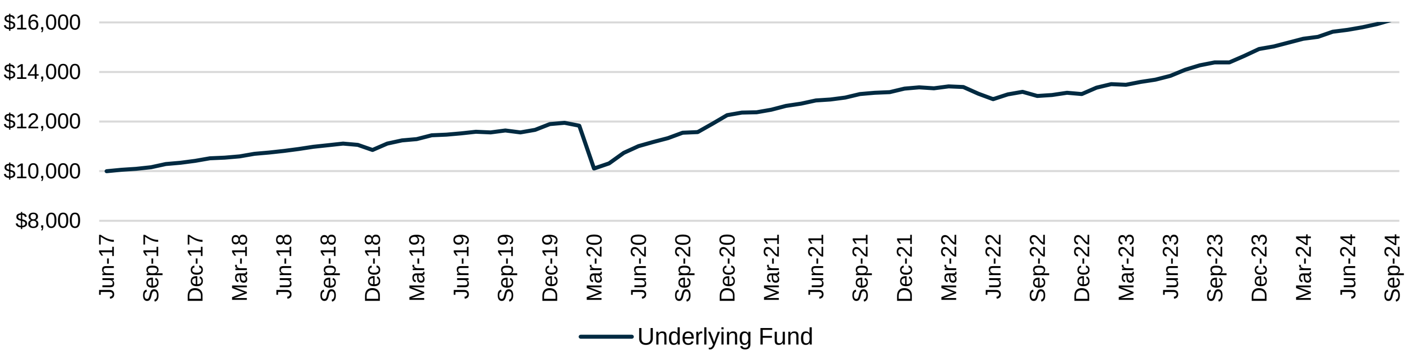
[5] As of 30 September 2024. Holdings and allocations, unless otherwise indicated, are based on the total portfolio and subject to change without notice. Data shown is for informational purposes only and not a recommendation to buy or sell any security.

Underlying Fund Historical Performance[8]



[8]As of 30 September 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 were positive in the third quarter amid a supportive technical backdrop driven by increased expectations of an interest rate cut by the Federal Reserve ("Fed"). Those expectations came to fruition in September, when the Fed announced a 50-basis point rate cut, their first since 2020. The decision was driven by continued economic growth, healthy labor conditions, and progress towards their 2% inflation target. Regarding fundamentals, Q2 corporate earnings were generally positive while forward guidance was mixed. Nevertheless, balance sheets and credit metrics largely remain stable. The S&P 500 returned +5.89% for the quarter, with positive returns driven by both small company and value stocks, corners of the market that had previously lagged on a year-to-date basis. Shifting to leveraged credit, syndicated loans (proxy: Credit Suisse Leveraged Loan Index) were a consistent source of positive returns and returned +2.08% for the quarter, benefitting from elevated cash yields and steady CLO origination. High yield bonds (proxy: ICE BofA US High Yield Constrained Index) returned +5.28%, largely driven by the interest rate tailwind as well as a +$10.1 billion retail fund inflow. New issuance remained active in both markets and was driven by refinancings, though LBO loan volumes reached their highest quarterly level since Q1'22. Within private credit, market activity remains strong, with year-to-date volumes totalling $193bn, and LBO activity comprising $61bn of that volume[3]. While there continues to be strong demand for non-traditional financing sources in a competitive lending market, we are able to leverage the incumbency and breadth of the Ares platform to maintain robust deployment.

Underlying Fund Commentary

The Underlying Fund maintained its core allocation to corporate direct lending globally, while actively rotating exposures across liquid and alternative credit markets, taking advantage of episodic volatility and idiosyncratic developments. Within liquid credit, the allocation to syndicated loans and high yield bonds decreased as we took advantage of firm demand to pivot towards less liquid assets as yields and spreads compressed. Notably, we took profits on certain liquid positions and rotated into alternative credit cohorts such as CLO debt and equity. Within illiquid credit, the Underlying Fund continued to actively deploy capital towards corporate and asset-based direct lending, though the exposure decreased as a result of prepayment activity. Generally, we continue to maintain a steady pipeline of compelling opportunities in these segments as banks and sponsors further look to optimize balance sheets.

The Underlying Fund generated positive returns for the ninth 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 216 basis points of return as portfolio companies continued to withstand elevated base rates. Within liquid credit, syndicated loans and high yield bonds contributed nicely to performance as well and outperformed their respective market proxies. Allocations to private ABS and European direct lending continued to be a source of yield premium, benefiting from elevated rate levels. The difference between ADCF and Underlying Fund performance is largely due to foreign exchange forward curve volatility in August. While a headwind in Q3, we expect the relative performance of ADCF to retrace over time as the Fund's longer dated forward positions approach their respective maturities.

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

*Presented in order of contribution to Fund returns. As of September 30, 2024.

Outlook

Performance across credit markets has been positive thus far in October amid positive sentiment around the go-forward path of interest rates and the economy, while technicals have been supported by a temporary slowdown in bank lending prior to the U.S. election season. Despite the slowdown, sponsors remain active and continue to build their M&A pipelines, which should bode well for LBO volumes following the election and into next year. Sponsors also remain active in seeking to return capital to LPs, providing an additional source of deal flow for providers of flexible capital such as Ares. In terms of rates, though market participants are pricing in additional cuts this year, the Fed's target is expected to remain above 4%. This "higher for longer" rate environment should be a continued tailwind for the Fund, which has a 91.4% allocation towards floating rate credit. From a deployment perspective, we continue to maintain a strong pipeline of corporate and asset-based opportunities in the U.S. and Europe and will seek to de-emphasize liquid credit in lieu of CLO securities in an effort to preserve yield in the portfolio. Overall, we are pleased with positioning today given our overweight exposure to defensive, self-originated assets, while we continue to utilize the Fund's flexible investment strategy to tactically rotate exposures based on where we see the best relative value. The portfolio continues to benefit from elevated rates and we believe that our dynamic approach will drive attractive risk-adjusted returns as relative value shifts across global credit markets. Looking forward, we continue to monitor the impact of both economic and geopolitical 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:

Fidante Partners Investor Services | **p:** 1300 721 637 | **e:** info@fidante.com.au | **w:** www.fidante.com

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