# Ares Global Credit Income Fund

ARSN 639 123 112 APIR HOW4476AU

## July 2023 - Monthly Fact Sheet

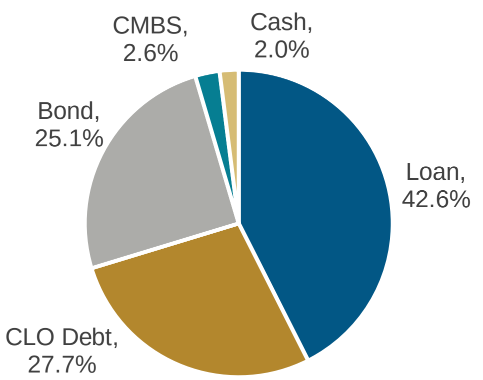
| Performance | 1 Month % | 3 Month % | 6 Month % | 1-Year % | 2-Year % p.a. | 3-Year % p.a. | Inception % p.a. |
|---|---|---|---|---|---|---|---|
| Fund return (gross)[1] | 1.2 | 2.5 | 3.5 | 7.1 | 2.3 | 4.4 | 5.7 |
| Fund return (net)[2] | 1.1 | 2.3 | 3.1 | 6.2 | 1.5 | 3.6 | 4.9 |
| Bloomberg AusBond Bank Bill Index | 0.4 | 1.0 | 1.8 | 3.1 | 1.7 | 1.1 | 1.1 |
| **Active return** | **0.7** | **1.3** | **1.3** | **3.0** | **-0.2** | **2.5** | **3.9** |

[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. **Data Source: Fidante Partners Limited, 31 July 2023.**

### Fund Facts

| | |
|---|---|
| **Portfolio managers** | Charles Arduini, Seth Brufsky, Samantha Milner, Boris Okuliar |
| **Inception date** | 1 May 2020 |
| **Management fee** | 0.75% p.a. |
| **Fund Objective** | To outperform the AusBond Bank Bill Index over a three-year period |
| **Buy/sell spread[3]** | +0.40% / -0.40% |
| **Strategy FUM** | $81.4 M |

### Asset Class Allocation[6]




### Fund Features

**Attractive income:** The Fund aims to provide a stable income stream for investors by seeking to offer monthly distributions.

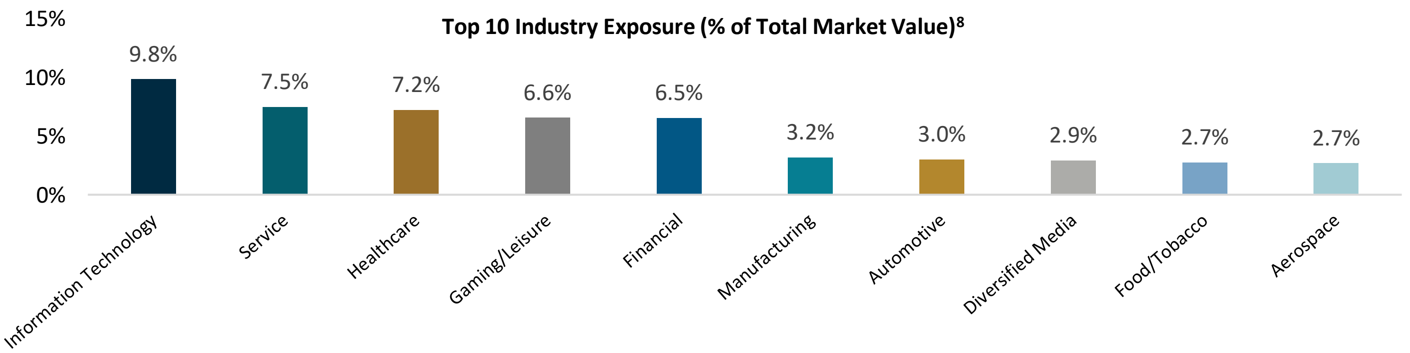
**Focus on downside protection:[4]** Ares believes protecting principal is key to superior performance and therefore places emphasis on dampening volatility and minimising defaults.

**Dynamic asset allocation:** The Fund has the ability to dynamically allocate capital based on the best relative value opportunities across industries, issuers and regions within the credit spectrum.

**Diversification:[5]** The Fund provides access to investment opportunities and asset classes which are generally unavailable to individual investors.

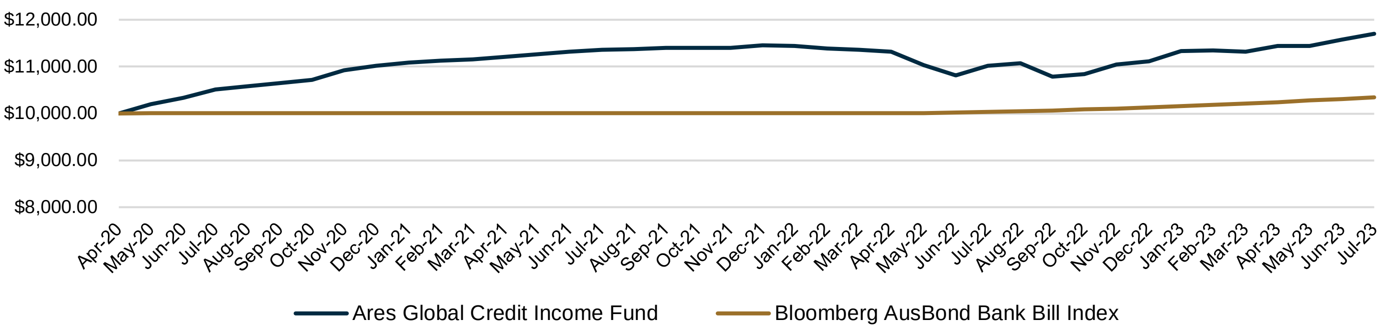
**Leading global investment team:** The Fund offers access to a leading global investment team with 20+ years of experience investing in global credit markets. The experienced management team applies an integrated and collaborative approach using the scale and power of the platform seeking to deliver compelling risk-adjusted returns through market cycles.

| Key Attributes | Fund | Change from 30 Jun 2023 |
|---|---|---|
| Number of issuers | 252 | -3 |
| Weighted Average Spread (L+) | 349 | +18 |
| Current Yield (AUD-Hedged) | 6.89% | -0.08% |
| Yield to Worst (AUD-Hedged) | 6.63% | -0.33% |
| Current Yield (Unhedged) | 8.00% | +0.14% |
| Yield to Worst (Unhedged) | 7.73% | -0.13% |
| Duration | 0.95 | +0.13 |
| Spread Duration | 3.65 | +0.06 |
| Weighted Average Credit Quality[7] | BB+ | - |
| Total Investment Grade Exposure | 56.26% | +0.46% |



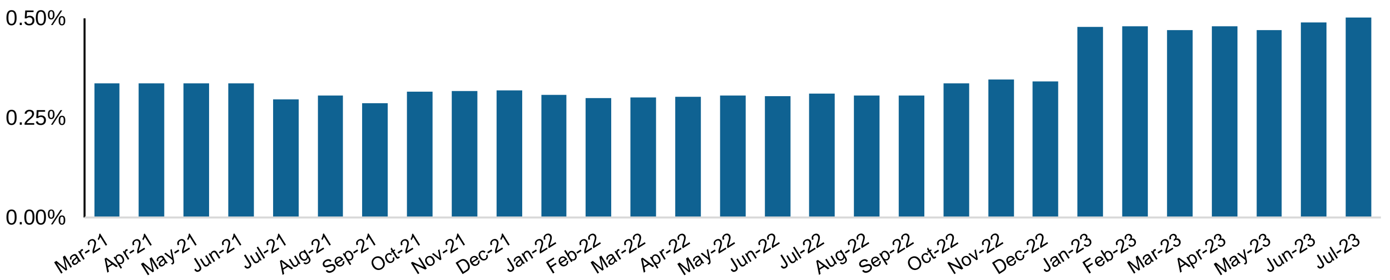

[3] Source: Ares. During normal market conditions, bid/ask spreads have averaged 25 -100bps, however, during periods of volatility, we have observed spreads widen out to 300-400bps.
[4] References to "downside protection" or similar language are not guarantees against loss of investment capital or value.
[5] Diversification does not assure profit or protect against market loss.
[6] The Fund's allocation is based on recent market conditions and is subject to change based on future market conditions at the time of investment and may differ materially from that set forth herein.
[7] Reflects the risk-adjusted weighted average higher of rating using Moody's, S&P, and Fitch.
[8] Credit Suisse Industry Distribution. Excludes CLO debt, CMBS and cash.

## Growth of $10,000 Since Inception (Net of Fees)




**Past performance is no indication of future performance.** Represents performance of a hypothetical $10,000 investment made in this fund from the inception date. There is no guarantee of future results and this may not provide 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. The Fund's inception date is 1 May 2020.

## Monthly Distribution Rate




**Past performance is no indication of future performance**. There is no assurance monthly distributions paid by the Fund will be maintained at targeted level or paid at all. Calculated as the cents per unit (CPU) distribution at month end divided by the ex-distribution unit price at the start of the month.

## Market Commentary

In July, the global risk rally continued, driven by better-than-expected jobs and inflation data, which bolstered investor sentiment and optimism for a potential soft-landing. Amid increased optimism, economists have recalculated and lowered recession probabilities in response to the constructive data prints. Market sentiment remains buoyed by these developments as well, with equities trading higher and in credit markets, spreads grinding tighter. However, some investors remain biased toward higher-quality assets as leading indicators continue to suggest a slowdown and lending conditions remain tight.

U.S. high yield bonds returned 1.42%[1] during the month amid light supply, moderating inflation and better-than-expected earnings. Notably, capital market conditions for high yield bonds moderated in July with only 12 new issue bonds pricing for $6.7 billion over the course of the month, following $14.1 billion in June. Further, demand for the asset class improved in July with U.S. high yield funds reporting $1.4 billion of inflows over the course of month.[2]

Similarly, U.S. loans generated strong returns in July, returning 1.30%[3] as prices benefitted from a stall in retail withdrawals, negligible net new supply, and elevated yields. Primary market activity increased with $23.0 billion of loan paper pricing over the course of the month. Further, U.S. loan funds reported the first monthly inflow since April 2022 totalling $69 million in July.[2]

CLO debt securities posted positive returns during the month with all ratings tranches generating gains.[4] Demand for primary U.S. CLO deals improved amid mild spread compression, a revived refinancing market and brewing interest in CLO secondary securities. Although a sustained period of elevated rates moving forward will undoubtedly be a headwind for borrowers, the diminishing probability of a recession should ultimately serve as a tailwind for the CLO market.[5]

U.S. investment grade bonds underperformed below investment-grade credit, returning -0.07%[6] in July as the asset class came under pressure amid heavy supply and a less compelling spread valuation.

Meanwhile, European leveraged credit markets posted positive returns with high yield bonds and leveraged loans returning 1.20%[7] and 1.15%,[8] respectively. While the European Central Bank ("ECB") raised interest rates by 25 bps during the month, President Lagarde's commentary following the announcement was perceived as dovish, buoying optimism for a potential pause in rate hikes. Further, European leveraged credit market technicals remained firm during the month as issuance was muted in July.

## Market Outlook

Leveraged credit markets have produced mixed performance through the first half of August amid a further rise in long-end Treasury yields, retail outflows, and a wave of refinancing activity. While positive news on growth and moderating inflation have spurred soft-landing hopes, Treasury yields have retraced to levels briefly seen last fall . Meanwhile, consumer sentiment has improved driven by a lower trending Consumer Price Index and resiliency in labor markets; however, sentiment for lower-income consumers continues to decline. Elsewhere, new home sales have picked up momentum, although existing home sales remain near recent lows. Against this mixed macro backdrop, more market strategists have pushed their recession forecasts into 2024. Catalysts for slower growth into 2024 include lagged effects of rate hikes, fading post-pandemic tailwinds, tighter bank credit, whittling savings, and mounting fiscal headwinds. While Q2'23 corporate earnings have generally been better-than-expected, forward guidance remains conservative, and we are increasingly focused on earnings projections given the potential weakness in upcoming quarters as the full impact of tighter lending standards and higher rates is realized. While tighter lending conditions may lead to higher loan and bond default rates over the next 12 months, we believe defaults are unlikely to spike to previous recessionary levels, due in part to the recent cycle in 2020, healthy issuer balance sheets and sufficient liquidity.

## Fund Commentary

The Ares Global Credit Income Fund ("AGCIF" or the "Fund") returned 1.16% gross and 1.10% net for the month of July. As a result of the continued risk rally, performance across asset classes was positive, with the portfolio's allocations to structured credit and bank loans being the largest contributors to performance. The portfolio's allocation to CLO debt benefitted from a strong floating rate technical and spread tightening within the Triple-B rated cohort, while the portfolio's allocation to bank loans generated attractive returns in large part due to credit selection within the Single-B rated cohort. Similarly, performance within high yield benefitted from generally positive macro news and a stronger bid for risk against a slower new issue calendar.

During the month, we maintained our higher quality risk posture and continued to focus on identifying opportunities arising from today's evolving economic environment. From a positioning perspective, we remain overweight floating rate assets and continue to actively trade around relative value across individual credits, selling select risk names that have outperformed the rally in June and July, and topping up on other discounted credits that we view as undervalued. From a sector perspective, we remain overweight defensive sectors with favourable supply-demand dynamics and earnings trajectories, as well as sectors more upstream in supply chains and companies with strong pricing power, including software and necessary services sectors. We are underweight sectors that are more susceptible to consumer discretionary income weakness, input cost pressures and general cyclicality, and we are closely monitoring certain sectors where liquidity may be challenging, such as certain segments of the technology and healthcare sectors. Specific to structured credit, we continue to favour transactions with top tier managers that we know well, specifically within Triple-B rated CLO debt. From a geographical perspective, we are comfortable with our existing exposure given the lighter primary calendar in Europe and will look to opportunistically increase our European exposure when the new issue market picks up following the summer holiday. Importantly, we anticipate increased dispersion in credit fundamentals in the months ahead and remain acutely focused on security selection both in seeking to outperform against the upcoming default cycle, as well as to avoid the significant downdraft in price/liquidity that we have seen when a company misses earnings.

As of 31 July 2023. Sources: (1) ICE BofA US High Yield Index "H0A0", (2) JP Morgan, (3) Credit Suisse Leveraged Loan Index "CSLLI", (4) CLOIE, (5) LCD News. (6) Bloomberg Barclays U.S. Aggregate Bond Index, (7) ICE BofA European Currency High Yield Constrained Index Hedged to EUR, (8) Credit Suisse Western European Leveraged Loan Index Hedged to EUR.

*Views expressed are those of the Ares Global Credit Income Fund Portfolio Managers as of 31 July 2023 are subject to change at any time, and may differ from the views of other portfolio managers or of Ares Australia Management as a whole.*

*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 investment information herein is as of 31 July 2023 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.*

*Index Definition & Disclosure:*

*The Bloomberg AusBond Bank Bill Index is engineered to measure the Australian money market by representing a passively managed short term money market portfolio. This index is comprised of 13 synthetic instruments defined by rates interpolated from the RBA 24-hour cash rate, 1M BBSW, and 3M BBSW.*

*Indices are provided for illustrative purposes only and not indicative of any investment. They have not been selected to represent appropriate benchmarks or targets for the strategy. Rather, the indices shown are provided solely to illustrate the performance of well known and widely recognized indices. Any comparisons herein of the investment performance of a strategy to an index are qualified as follows: (i) the volatility of such index will likely be materially different from that of the strategy; (ii) such index will, in many cases, employ different investment guidelines and criteria than the strategy and, therefore, holdings in such strategy will differ significantly from holdings of the securities that comprise such index and such strategy may invest in different asset classes altogether from the illustrative index, which may materially impact the performance of the strategy relative to the index; and (iii) the performance of such index is disclosed solely to allow for comparison on the referenced strategy's performance to that of a well known index. Comparisons to indices have limitations because indices have risk profiles, volatility, asset composition and other material characteristics that will differ from the strategy. The indices do not reflect the deduction of fees or expenses. You cannot invest directly in an index. No representation is being made as to the risk profile of any benchmark or index relative to the risk profile of the strategy presented herein. There can be no assurance that the future performance of any specific investment, investment strategy, or product will be profitable, equal any corresponding indicated historical performance, or be suitable for a portfolio.*

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