# Ares Global Credit Income Fund

ARSN 639 123 112 APIR HOW4476AU

## February 2023 - Monthly Fact Sheet

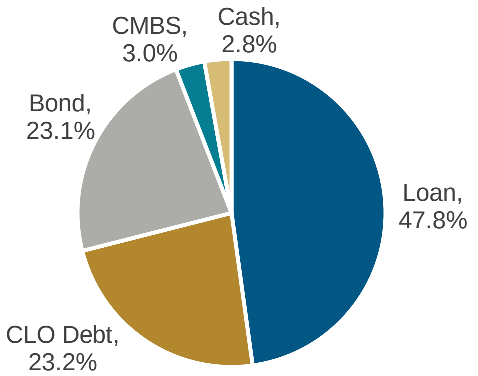
| Performance | 1 Month % | 3 Month % | FYTD % | 1-Year % | 2-Year % p.a. | 5-Year % p.a. | Inception % p.a. |
|---|---|---|---|---|---|---|---|
| Fund return (gross)[1] | 0.0 | 2.8 | 5.4 | 0.4 | 1.7 | - | 5.3 |
| Fund return (net)[2] | 0.0 | 2.6 | 4.8 | -0.5 | 0.9 | - | 4.5 |
| Bloomberg AusBond Bank Bill Index | 0.2 | 0.8 | 1.7 | 1.8 | 0.9 | - | 0.7 |
| **Active return** | **-0.3** | **1.8** | **3.1** | **-2.2** | **0.0** | **-** | **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, 28 February 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** | $74.0 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.

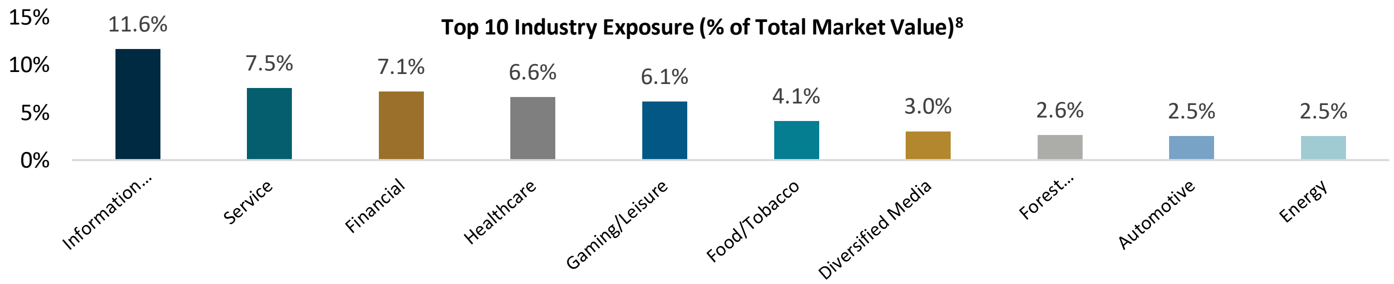
**Focus on downside protection:[4]** Ares believes protecting principal is key to superior performance and therefore places emphasis on dampening volatility and minimising defaults.

**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.

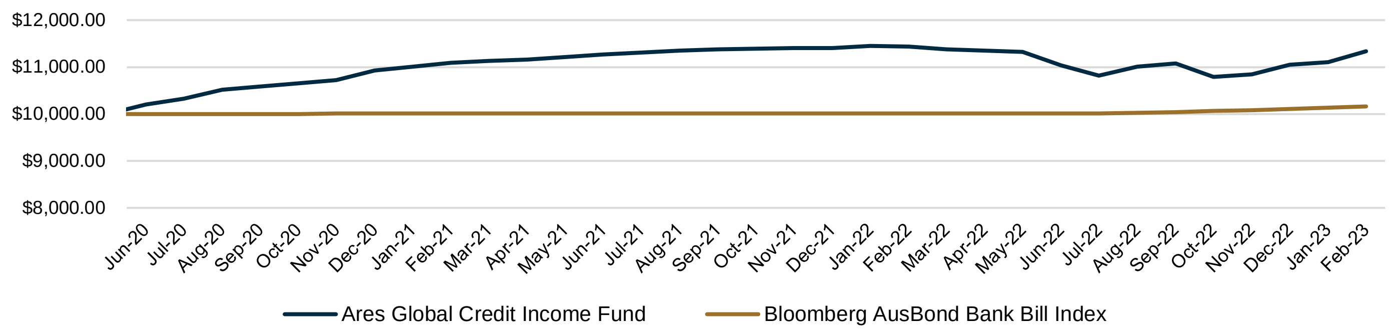
**Leading global investment team:** The Fund offers access to a leading global investment team with 20+ years of experience investing in global credit markets. The experienced management team applies an integrated and collaborative approach using the scale and power of the platform seeking to deliver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

| Key Attributes | Fund | Change from 31 Jan 2023 |
|---|---|---|
| Number of issuers | 278 | +6 |
| Weighted Average Spread (L+) | 318 | +4 |
| Current Yield (AUD-Hedged) | 6.22% | +0.20% |
| Yield to Worst (AUD-Hedged) | 6.82% | +0.69% |
| Current Yield (Unhedged) | 7.33% | +0.09% |
| Yield to Worst (Unhedged) | 7.93% | +0.58% |
| Duration | 0.90 | -0.03 |
| Spread Duration | 3.55 | -0.03 |
| Weighted Average Credit Quality[7] | BB+ | - |
| Total Investment Grade Exposure | 57.32% | -1.69% |



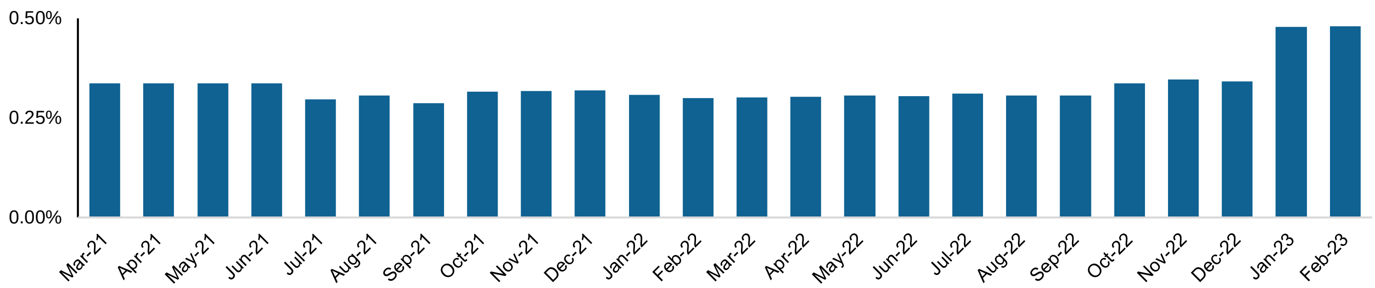

[3] Source: Ares. During normal market conditions, bid/ask spreads have averaged 25 -100bps, however, during periods of volatility, we have observed spreads widen out to 300-400bps.
[4] References to “downside protection” or similar language are not guarantees against loss of investment capital or value.
[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 (23.2%, 3.0% and 2.8% as of 28 February 2023, respectively).

## 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

Global risk assets in February generally tilted negative due to economic data suggesting persistent inflation across global economies. Consequently, the somewhat dovish tone of the Federal Reserve ("the Fed") in January reversed more hawkish in February, worrying investors that interest rates may remain higher for longer than previously expected.

U.S. high yield bonds returned -1.29%[1] during the month, fueled by a more hawkish Fed narrative; and as a result, lower quality bonds outperformed the higher quality cohort for the second consecutive month. Capital market conditions for high yield issuers were robust to start the month; however, activity moderated alongside a surge in yields with only 18 bonds pricing for a total of $14.4 billion over the course of February. Meanwhile, hawkish central bank rhetoric eroded retail flows during the month with U.S. high yield funds reporting outflows of $8.4 billion.[2]

U.S. loans outperformed fixed rate peers, returning 0.36%[3] in February against the backdrop of improving capital market access, a rising forward curve, and a firmer loan technical. The asset class also endured outperformance down in quality as recession fears moderated. U.S. loan primary market activity surged in February with $38.9 billion of loan paper pricing over the course of the month.

Meanwhile, U.S. loan funds reported outflows of $1.6 billion, the lightest monthly outflow over the previous ten months.[2]

Collateralized Loan Obligation (CLO) debt securities posted positive returns in February with most ratings tranches generating gains due to a relatively stronger technical in the underlying loan market.[4] Notably, U.S. CLO issuance surged during the month, totaling $15.2 billion excluding refinancings, a two-fold increase compared to January's issuance of $7.4 billion.[5]

U.S. investment grade bonds returned -2.59%[6] during the month as the asset class came under pressure amid heavy supply and continued retail outflows.

In Europe, high yield bonds and leveraged loans returned -0.06%[7] and 0.79%,[8] respectively. The market's risk-on sentiment was broadly sustained throughout February, despite a renewal of inflationary fears impacting risk assets. From a technicals standpoint, there continued to be strong demand for primary deals; however, new issue volumes slowed in February with the majority of supply coming from high quality issuers in less cyclical sectors looking to extend maturities through refinancing and amend and extend (A&E) deals.

## Market Outlook

Global capital markets have seen increased volatility in March following the failure of two regional banks, Silicon Valley Bank and Signature Bank, both of which were put into receivership by the Federal Deposit Insurance Corporation (FDIC). Although both banks ultimately had 100% of their deposits guaranteed by the FDIC, fears of contagion kept the market on edge especially as other regional banks came under pressure, while international headlines around Credit Suisse further exacerbated concerns around the financial sector. As a result, rates saw significant volatility and the market started to price in a much lower Fed funds terminal rate with expectations for fewer hikes followed by a pause and potentially rate cuts by year-end. The market declined in the immediate aftermath, but the tone has since improved as it has become increasingly clear that governments stand ready to prevent any systemic issues in the banking sector.

Looking forward, while we anticipate that slower growth and tighter monetary policy will drive increased ratings downgrades (and defaults to a lesser degree) and ultimately heightened volatility and dispersion, we expect solid returns in leveraged credit in the next 12-18 months given the starting point of spread, yield and discount. Defaults continue to be historically low, corporate fundamentals remain decent albeit declining and leveraged credit issuers have done a good job pushing out near-term maturities and shoring up liquidity to strengthen balance sheets. While we anticipate defaults to rise off the lows seen in 2022, we expect them to remain manageable in the 3.5-4.5% context for 2023. In addition, given recent events, the "higher for longer" scenario isn't as likely which should benefit coverage metrics. That said, if we enter into a deeper and longer recession than expected, we expect the percentage of distressed and/or defaults to increase. We are increasingly focused on the downstream effects from recent events around the banking sector and believe potential risks include a contraction in financing to the tech ecosystem, negative impacts to small and medium sized businesses who are supported by regional banks and a general contraction in credit availability that further exacerbates the tightening in lending standards. We believe that in the wake of increased dispersion, disciplined and opportunistic credit pickers that take advantage of the volatility will be rewarded.

## Fund Commentary

The Ares Global Credit Income Fund ("AGCIF" or the "Fund") returned 0.02% gross and -0.04% net for the month of February. Performance across asset classes was mixed, with the portfolio's allocation to bank debt being the largest contributor to performance, benefiting from disciplined credit selection within the Single -B rated cohort. Meanwhile, the portfolio's high yield bond allocation weighed on performance amid the weaker technical in the asset class.

During the month, we maintained our higher quality risk posture and continued to focus on identifying opportunities arising from today's complex economic environment. In terms of positioning, we remain overweight floating rate assets and are more focused on volatility and downgrade risk rather than default risk. We continued to be buyers of the higher quality segments of the high yield bond and bank loan markets given the discount benefit and overall higher quality nature of high yield bonds and the strong current income of bank loans. Within corporate credit, we are overweight defensive sectors with favorable 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, such as retail and pharmaceuticals. In light of recent events, we are closely watching companies that have outsized exposure to small-medium enterprises, who could potentially be more impacted by the deposit outflows and funding issues at regional banks. We are also 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 favor transactions with top tier managers that we know well and are maintaining our exposure given attractive relative value for high quality assets. While we expect opportunities to arise in the near-term, we are being cautious and disciplined in our deployment. Importantly, we anticipate increased dispersion in credit fundamentals in the months ahead and believe our dynamic and active approach to portfolio management remains critical to unearthing relative value opportunities in the current economic environment.

As of 28 February 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 28 February 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 28 February 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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This material has been prepared by Ares Australia Management Pty Ltd ABN 51 636 490 732, AFSL 537 666 (AAM), the investment manager of the Ares Global Credit Income Fund (ARSN 639 123 112) (the Fund) and is current as at the date of publication. 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 issuer and responsible entity of the Fund. Other than information which is sourced from Fidante in relation to the Fund, Fidante is not responsible for the information in this publication, 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(s). 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 indicative of future performance. Any projections are based on assumptions which we believe are reasonable but are subject to change and should not be relied upon. Fidante has entered into arrangements with Ares and AAM in connection with the distribution and administration of financial products managed by Ares or AAM. In connection with those arrangements, Fidante or AAM may receive remuneration or other benefits. 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. 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 nor AAM or its related bodies corporate.

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