

Compelling Opportunity for Investors: Improving Convexity, Yet Benign Default Risk

June 2022

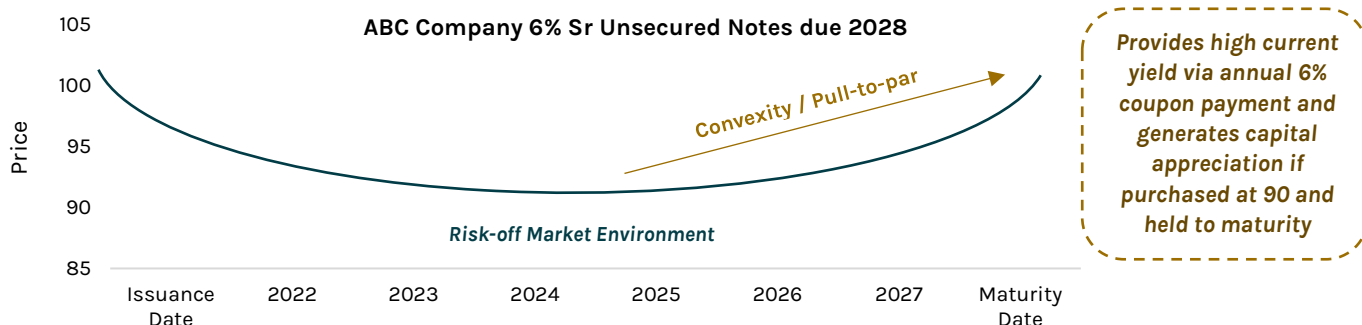
What is Convexity & Why Is It Important?

When credit instruments sell off, market participants will often talk about convexity being back. So, what is it?

Convexity can involve complex mathematics; however, a simple way to describe the concept is that it occurs where risk and reward are asymmetrical: positive convexity refers to an investment with more upside than downside; while negative convexity means the downside is greater than the upside.

During a risk-off environment, the price of a credit instrument typically drops below its nominal value (also referred to as “face” or “par” value) due to perceived increased default risk. As illustrated by the example in Chart 1 below, there is a compelling investment opportunity when a bond trades at a discount to its nominal value - assuming the bond does not default, a bond’s price will benefit from a natural “pull” to the nominal value as it approaches maturity. This movement is referred to as “pull-to-par”. Typically, bonds and loans that trade at a discount have positive convexity, offering investors enhanced yield and capital appreciation potential without taking excess risk.

CHART 1: Convexity – the credit “smile”



Compelling Opportunity for Higher Convexity Assets During Market Dislocations

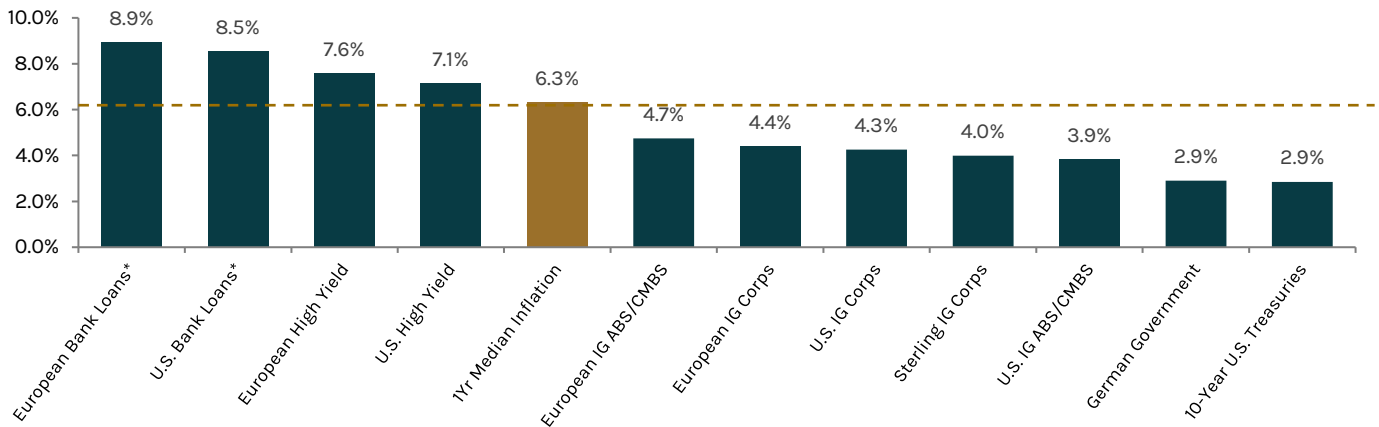
Market Opportunity – Convexity & Higher Yields

Calendar year 2022 has presented significant turmoil for global financial markets amid a risk-off environment and sustained macro uncertainty. Global inflationary pressures continue to persist, including the ongoing war in Ukraine, slowing growth, higher energy prices and supply-chain disruptions. Central banks face substantial challenges as they look to combat elevated inflation with interest rate hikes, but without triggering a recession. Against the backdrop of wider spreads and the sell-off in rates over the past few months, fixed income yields

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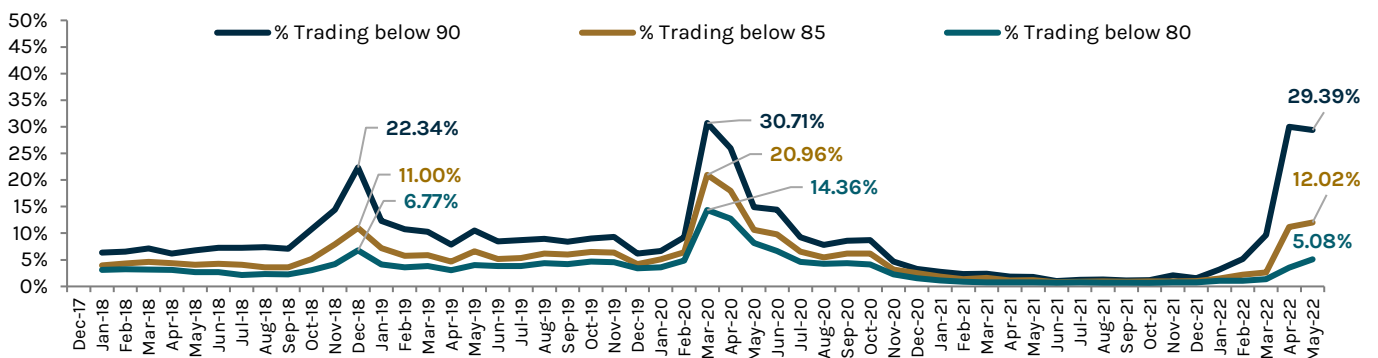
have reset to higher levels, presenting an attractive opportunity for yield-focused investors. Global leveraged credit assets are providing a meaningful pickup in real yields when compared to traditional fixed income markets, as illustrated in Chart 2.

CHART 2: Market Yields – USD Hedged¹



Higher yields and a decline in asset prices have introduced greater upside convexity in leveraged credit markets for total return investors, particularly for high yield bonds. As illustrated in Chart 3, the proportion of the U.S. high yield market currently trading below par has climbed towards levels not seen since March 2020. Further, headline high yield prices have only been lower than their current levels for approximately 5% of the time over the past 10 years. With convexity in high yield bonds' favour, there's greater upside potential than downside risk as borrowing costs continue to rise.

CHART 3: Price development within high yield has created convexity²



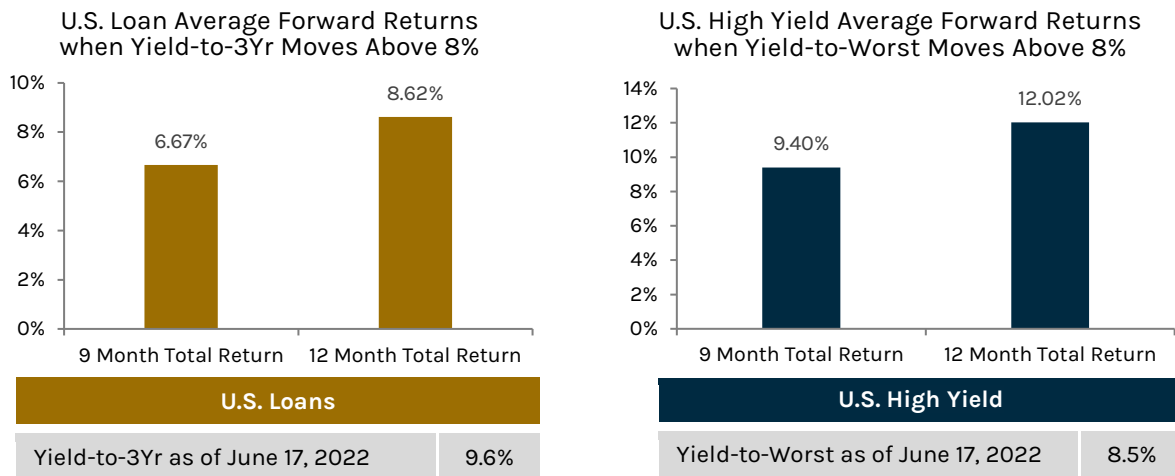
This combination of higher yields and cheaper prices in an environment where bouts of volatility have become shorter and more frequent, is presenting alpha generating opportunities for active managers. History suggests investing in periods of dislocation, when yields reach current levels, provides attractive forward returns in the high yield bond and bank loan markets.

¹ Data as of May 31, 2022. For illustrative purposes only. Asset class yields do not represent a return to investors. Forecasts are inherently limited and should not be relied upon as indicators of actual or future performance. *Represents the yield to three-year call. Sources: ICE BofA Indices, S&P Capital IQ, Credit Suisse, Bloomberg, European Bank Loans represented by the Credit Suisse Western European Leveraged Loan Index ("CSWELLI"). U.S. Bank Loans represented by the Credit Suisse Leveraged Loan Index ("CSLLI"). U.S. High Yield represented by the ICE BofA US High Yield Index (HOAO). European High Yield represented by the ICE BofA Euro High Yield Index (HE00). U.S. IG Corps represented by the ICE BofA US Corporate Index (COAO). Sterling IG Corps represented by the ICE BofA Sterling Corporate Index (UR00). European IG ABS/CMBS represented by the ICE BofA Euro Asset backed & Mortgage-backed Securities Index (EA00). 10-Year U.S. Treasuries represented by the ICE BofA 7-10 Year US Treasury and Agency Index (G4A0). U.S. IG ABS/CMBS represented by the ICE BofA US ABS & CMBS Index (CABS). European IG Corps represented by the ICE BofA Euro Corporate Index (ER00). German Government Bonds represented by the ICE BofA German Government Index (GODO). Note: Yield to worst data is being presented unless otherwise noted. All yields are USD-hedged. Inflation expectation figured provided in the April 2022 Survey of Consumer Expectations, Federal Reserve Bank of New York. Please see endnotes for Index Definitions.

² For illustrative purposes only. All data is as of May 31, 2022. Sources: U.S. High Yield represented by the ICE BofA US High Yield Constrained Index (HUCO). Please see endnotes for index definitions.

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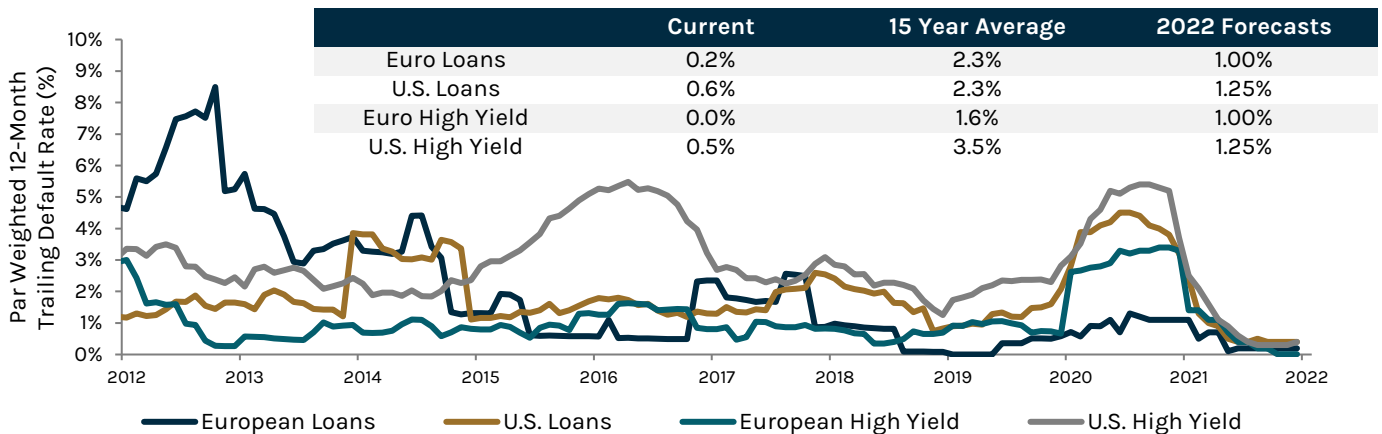
CHART 4: Historical High Yield and Bank Loan Forward Returns From Elevated Yields³



Market Outlook

Despite elevated volatility within financial markets this year, default rates remain below 1% and are tracking near historical lows. We do expect default rates to modestly increase moving forward given tighter monetary conditions and slowing growth. That said, even if we hit a recession in the next 12-24 months, we don't expect default rates to come close to the highs experienced in previous dislocations and anticipate they'll remain below historical averages. Expectations for a benign default outlook are supported by (1) healthy corporate balance sheets, (2) maturity walls that have been pushed out over the past year, and (3) leverage levels that are below historical averages.

CHART 5: Default Rates Are Currently Tracking At Their Historical Lows⁴



Looking forward, we expect volatility to persist with the potential for asset coverage leakage and an uneven recovery across markets. We believe credit spreads are currently at levels that represent attractive entry points, but tail risks have increased, and we anticipate elevated credit dispersion as well as rising idiosyncratic credit events driven by a host of conflicting themes. We believe Ares is well positioned to provide superior credit

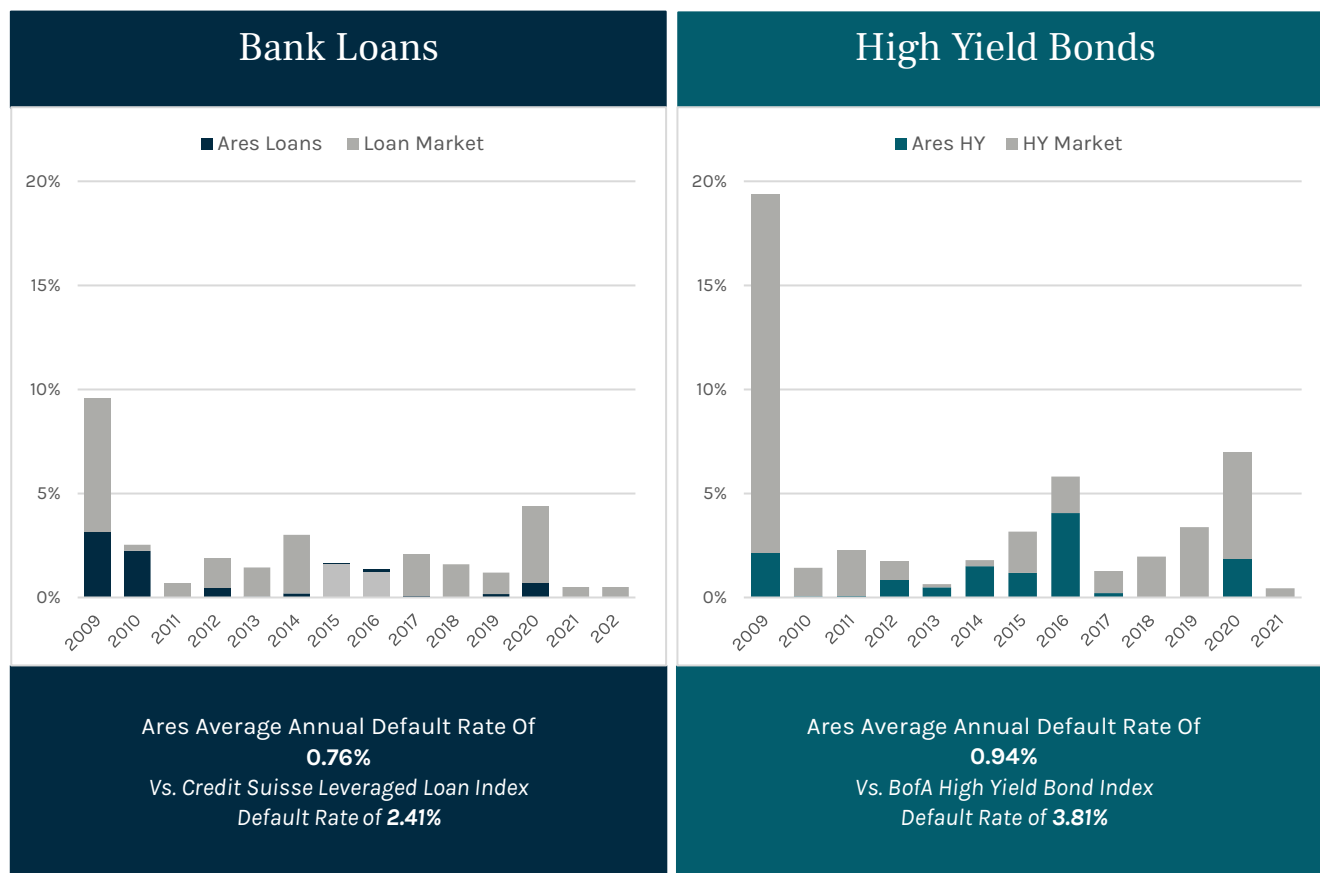
³ Note: For illustrative purposes only. Forecasts are inherently limited and should not be relied upon as indicators of actual or future outcomes. The period of analysis is from January 1997 to May 2020. Source: Credit Suisse, ICE BofA Indices, Bloomberg. The chart shows the forward returns of asset classes when respective yields exceed 8% as defined by yield-to-worst for high yield bonds and yield to 3-year life for bank loans.

⁴ For illustrative purposes only. Current and 15 year average default rates are as of May 31, 2022. Source: European Loans represented by the Credit Suisse Western European Leveraged Loan Index ("CSWELLI"). U.S. Loans represented by the Credit Suisse Leveraged Loan Index ("CSLLI"). European High Yield represented by the Credit Suisse Western European High Yield Index. U.S. High Yield represented by the Credit Suisse High Yield Index. Distressed exchanges included in default rate calculation. 2022 forecasts are sourced from JP Morgan. Please see endnotes for index definitions.

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selection and vigilant risk management in today's volatile market due to our disciplined investment process that focuses on capital preservation, predicated on bottom-up fundamental research with the goal of minimizing default risk by identifying and avoiding marginal quality credit. This core tenet of Ares' investment philosophy has resulted in significantly lower defaults in its bank loan and high yield bond strategies, particularly in periods of dislocation.

CHART 6: Default Summary of Ares Broadly Syndicated Bank Loan and High Yield Bond Strategies⁵



In summary, as investors are faced with rising rates and elevated inflation, many may struggle to determine how best to position their credit exposure in an effort to maximize yield and mitigate risk. At Ares, our differentiated approach to capitalizing on the best risk-adjusted return opportunities across the investable universe is rooted in the scale and integration of our Global Liquid and Alternative Credit strategies, which allows us to fully leverage extensive research and origination capabilities, proprietary technologies and longstanding relationships.

⁵ LTM annual average par-weighted default rates for the period January 1, 2009 - March 31, 2022. U.S. bank loan default rates represented by the CSLLI. Ares bank loan default rates are represented by all bank loan transactions in all commingled funds and separately managed accounts executed by investment professionals within Ares Liquid Credit Group. U.S. high yield default rates are represented by the HOAO. Ares high yield default rates are represented by all high yield bond transactions in all commingled funds and separately managed accounts executed by investment professionals within Ares Liquid Credit Group.

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Index Disclosure & Definitions

Index Disclosure: 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. The information related to the various indices is sourced from the providers' websites. Ares is not responsible for any historic revision made to the indices.

The Credit Suisse Western European Leveraged Loan Index ("CSWELLI") is designed to mirror the investable universe of the leveraged loan market of issues which are denominated in US\$ or Western European currencies. The issuer has assets located in or revenues derived from Western Europe, or the loan represents assets in Western Europe, such as a loan denominated in a Western European currency. Loan facilities must be rated "5B" or lower. That is, the highest Moody's/S&P ratings are Baa1/BB+ or Ba1/BBB+. Only fully funded term loan facilities are included and the tenor must be at least one year. Minimum outstanding balance is \$100 million and new loans must be priced by a third-party vendor at month-end. The index inception is January 1998

The Credit Suisse Leveraged Loan Index ("CSLLI") is designed to mirror the investable universe of the \$US-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+. If unrated, the initial spread level must be Libor plus 125 basis points or higher. 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 Master II Constrained Index (HUCO) contains all securities in The ICE BofA US High Yield Master II Index but caps issuer exposure at 2%. Index constituents are capitalization-weighted, based on their current amount outstanding, provided the total allocation to an individual issuer does not exceed 2%. Issuers that exceed the limit are reduced to 2% and the face value of each of their bonds is adjusted on a pro-rata basis. Similarly, the face values of bonds of all other issuers that fall below the 2% cap are increased on a pro-rata basis. In the event there are fewer than 50 issuers in the Index, each is equally weighted and the face values of their respective bonds are increased or decreased on a pro-rata basis. Accrued interest is calculated assuming next-day settlement. Cash flows from bond payments that are received during the month are retained in the index until the end of the month and then are removed as part of the rebalancing. Cash does not earn any reinvestment income while it is held in the Index. The Index is rebalanced on the last calendar day of the month, based on information available up to and including the third business day before the last business day of the month. Issues that meet the qualifying criteria are included in the Index for the following month. Issues that no longer meet the criteria during the course of the month remain in the Index until the next month-end rebalancing at which point they are removed from the Index.

ICE BofA US High Yield Index (HOAO) 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. The FX-G10 includes all Euro members, the US, Japan, the UK, Canada, Australia, New Zealand, Switzerland, Norway and Sweden. Original issue zero coupon bonds, 144a securities (both with and without registration rights) and pay-in-kind securities (including toggle notes) are included in the index. Callable perpetual securities are included provided they are at least one year from the first call date. Fixed-to-floating rate securities are included provided they are callable within the fixed rate period and are at least one year from the last call prior to the date the bond transitions from a fixed to a floating rate security. Contingent capital securities ("cocos") are excluded, but capital securities where conversion can be mandated by a regulatory authority, but which have no specified trigger, are included. Other hybrid capital securities, such as those issues that potentially convert into preference shares, those with both cumulative and non-cumulative coupon deferral provisions, and those with alternative coupon satisfaction mechanisms, are also included in the index. Securities issued or marketed primarily to retail investors, equity-linked securities, securities in legal default, hybrid securitized corporates, eurodollar bonds (USD securities not issued in the US domestic market), taxable and tax-exempt US municipal securities and \$1000 par preferred and DRD eligible securities are excluded from the index. Inception date: August 31, 1986

The ICE BofA European Currency High Yield Constrained Index (HPCO) contains all securities in The BofA European Currency High Yield Index but caps issuer exposure at 3%. Index constituents are capitalization weighted, based on their current amount outstanding, provided the total allocation to an individual issuer does not exceed 3%. Issuers that exceed the limit are reduced to 3% and the face value of each of their bonds is adjusted on a pro-rata basis. Similarly, the face values of bonds of all other issuers that fall below the 3% cap are increased on a pro-rata basis. In the event there are fewer than 34 issuers in the Index, each is equally weighted and the face values of their respective bonds are increased or decreased on a pro-rata basis. Inception date: December 31, 1997.

ICE BofA Euro High Yield Index (HEOO) tracks the performance of EUR denominated below investment grade corporate debt publicly issued in the euro domestic or eurobond markets. Qualifying securities must have a below investment grade rating (based on an average of Moody's, S&P and Fitch) and at least 18 months to final maturity at the time of issuance. In addition, qualifying securities must have at least one year remaining term to maturity, a fixed coupon schedule and a minimum amount outstanding of EUR 250 million. Original issue zero coupon bonds, "global" securities (debt issued simultaneously in the eurobond and euro domestic markets), 144a securities and pay-in-kind securities, including toggle notes, qualify for inclusion in the Index. Callable perpetual securities qualify provided they are at least one year from the first call date. Fixed-to-floating rate securities also qualify provided they are callable within the fixed rate period and are at least one year from the last call prior to the date the bond transitions from a fixed to a floating rate security. Contingent capital securities ("cocos") are excluded, but capital securities where conversion can be mandated by a regulatory authority, but which have no specified trigger, are included. Other hybrid capital securities, such as those issues that potentially convert into preference shares, those with both cumulative and non-cumulative coupon deferral provisions, and those with alternative coupon satisfaction mechanisms, are also included in the index. Securities in legal default, equity-linked and euro legacy currency securities are excluded from the Index. Securities issued or marketed primarily to retail investors do not qualify for inclusion in the index. Inception date: December 31, 1997

ICE BofA 7-10 Year US Treasury & Agency Index ("G4A0") is a subset of ICE BofA US Treasury & Agency Index including all securities with a remaining term to final maturity greater than or equal to 7 years and less than 10 years. Inception date: June 30, 1986. ICE BofA US Treasury & Agency Index tracks the performance of US dollar denominated US Treasury and non-subordinated US agency debt issued in the US domestic market. Qualifying securities must have an investment grade rating (based on an average of Moody's, S&P and Fitch). In addition, qualifying securities must have at least one year remaining term to final maturity, at least 18 months to maturity at time of issuance, a fixed coupon schedule and a minimum amount outstanding of \$1 billion for sovereigns and \$250 million for agencies. "Global" securities (debt issued simultaneously in the eurobond and US domestic markets) and 144a securities qualify for inclusion in the Index. Subordinated US agency securities are excluded from the index. Callable perpetual securities qualify provided they are at least one year from the first call date. Fixed-to-floating rate securities also qualify provided they are callable within the fixed rate period and are at least one year from the last call prior to the date the bond transitions from a fixed to a floating rate security. Bills, inflation-linked debt and strips are also excluded from the Index; however, original issue zero coupon bonds are included in the Index and the amounts outstanding of qualifying coupon securities are not reduced by any portions that have been stripped.

ICE BofA US ABS & CMBS Index ("CABS") tracks the performance of US dollar denominated investment grade fixed and floating rate asset backed securities and fixed rate commercial mortgage backed securities publicly issued in the US domestic market. Qualifying securities must have an investment grade rating (based on an average of Moody's, S&P and Fitch), at least one year remaining term to final stated maturity and at least one month to the last expected cash flow. 144a securities qualify for inclusion in the Index. Callable perpetual securities qualify provided they are at least one year from the first call date. Inverse floating rate, interest only and principal only tranches of qualifying deals are excluded from the Index as are all tranches of re-securitized deals. Inception date: December 31, 1997.

ICE BofA Global High Yield Index ("HWOO") tracks the performance of USD, CAD, GBP and EUR denominated below investment grade corporate debt publicly issued in the major domestic or eurobond markets. 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 USD 250 million, EUR 250 million, GBP 100 million, or CAD 100 million. Original issue zero coupon bonds, eurodollar bonds, 144a securities (with and without registration rights), and pay-in-kind securities (including toggle notes) are included in the index. Callable perpetual securities are included provided they are at least one year from the first call date. Fixed-to-floating rate securities are included provided they are callable within the fixed rate period and are at least one year from the last call prior to the date the bond transitions from a fixed to a floating rate security. Contingent capital securities ("cocos") are excluded, but capital securities where conversion can be mandated by a regulatory authority, but which

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have no specified trigger, are included. Other hybrid capital securities, such as those issues that potentially convert into preference shares, those with both cumulative and non-cumulative coupon deferral provisions, and those with alternative coupon satisfaction mechanisms, are also included in the index. Securities issued or marketed primarily to retail investors, equity-linked securities, securities in legal default, hybrid securitized corporates, taxable and tax-exempt US municipal securities and \$1000 par preferred and DRD-eligible securities are excluded from the index. Index constituents are market capitalization weighted. Inception date: December 31, 1997.

ICE BofA Euro Corporate Index ("ER00") tracks the performance of EUR denominated investment grade corporate debt publicly issued in the eurobond or Euro member domestic markets. Qualifying securities must have an investment grade rating (based on an average of Moody's, S&P and Fitch) and at least 18 months to final maturity at the time of issuance. In addition, qualifying securities must have at least one year remaining term to final maturity, a fixed coupon schedule and a minimum amount outstanding of EUR 250 million. Original issue zero coupon securities and pay-in-kind securities, including toggle notes, qualify for inclusion in the Index. Callable perpetual securities qualify provided they are at least one year from the first call date. Fixed-to-floating rate securities also qualify provided they are callable within the fixed rate period and are at least one year from the last call prior to the date the bond transitions from a fixed to a floating rate security. Contingent capital securities ("cocos") are excluded, but capital securities where conversion can be mandated by a regulatory authority, but which have no specified trigger, are included. Other hybrid capital securities, such as those issues that potentially convert into preference shares, those with both cumulative and non-cumulative coupon deferral provisions, and those with alternative coupon satisfaction mechanisms, are also included in the index. Euro legacy currency, equity-linked and securities in legal default are excluded from the Index. Securities issued or marketed primarily to retail investors do not qualify for inclusion in the index. Inception date: December 31, 1995

ICE BofA US Corporate Index ("COAO") tracks the performance of US dollar denominated investment grade corporate debt publicly issued in the US domestic market. Qualifying securities must have an 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. Original issue zero coupon bonds, 144a securities (with and without registration rights), and pay-in-kind securities (including toggle notes) are included in the index. Callable perpetual securities are included provided they are at least one year from the first call date. Fixed-to-floating rate securities are included provided they are callable within the fixed rate period and are at least one year from the last call prior to the date the bond transitions from a fixed to a floating rate security. Contingent capital securities ("cocos") are excluded, but capital securities where conversion can be mandated by a regulatory authority, but which have no specified trigger, are included. Other hybrid capital securities, such as those issues that potentially convert into preference shares, those with both cumulative and non-cumulative coupon deferral provisions, and those with alternative coupon satisfaction mechanisms, are also included in the index. Equity-linked securities, securities in legal default, hybrid securitized corporates, eurodollar bonds (USD securities not issued in the US domestic market), taxable and tax-exempt US municipal securities and \$1000 par preferred and DRD-eligible securities are excluded from the index. Inception date: December 31, 1972

ICE BofA Sterling Corporate Index ("UR00") tracks the performance of GBP denominated investment grade corporate debt publicly issued in the eurobond or UK domestic market. Qualifying securities must have an investment grade rating (based on an average of Moody's, S&P and Fitch). In addition, qualifying securities must have at least one year remaining term to final maturity, at least 18 months to final maturity at point of issuance, a fixed coupon schedule and a minimum amount outstanding of GBP 100 million. Original issue zero coupon bonds, "global" securities (debt issued simultaneously in the eurobond and UK domestic bond markets) and pay-in-kind securities, including toggle notes, qualify for inclusion in the Index. Contingent capital securities ("cocos") are excluded, but capital securities where conversion can be mandated by a regulatory authority, but which have no specified trigger, are included. Other hybrid capital securities, such as those issues that potentially convert into preference shares, those with both cumulative and non-cumulative coupon deferral provisions, and those with alternative coupon satisfaction mechanisms, are also included in the index. Callable perpetual securities qualify provided they are at least one year from the first call date. Fixed-to-floating rate securities also qualify provided they are callable within the fixed rate period and are at least one year from the last call prior to the date the bond transitions from a fixed to a floating rate security. Securities in legal default, hybrid securitized corporate securities, and equity-linked securities are excluded from the Index.

ICE BofA Euro Asset Backed & Mortgage Backed Securities Index ("EA00") is a subset of ICE BofA Euro Securitized/ Collateralized Index including all securitized debt. Inception date: December 31, 1996. ICE BofA Euro Securitized/Collateralized Index tracks the performance of EUR denominated investment grade securitized and collateralized debt publicly issued in the eurobond or Euro member domestic markets, including pfandbriefe, non-pfandbrief covered bonds, mortgage backed securities and asset backed securities. Qualifying securities must have an investment grade rating (based on an average of Moody's, S&P and Fitch). In addition, qualifying securities must have at least one year remaining term to final maturity, at least 18 months to final maturity at point of issuance, a fixed coupon schedule and a minimum amount outstanding of EUR 250 million. Original issue zero coupon securities qualify for inclusion in the Index. Callable perpetual securities qualify provided they are at least one year from the first call date. Fixed-to-floating rate securities also qualify provided they are callable within the fixed rate period and are at least one year from the last call prior to the date the bond transitions from a fixed to a floating rate security. Euro legacy currency, equity-linked and legally defaulted securities are excluded from the Index.

ICE BofA German Government Index ("GOD0") tracks the performance of EUR denominated sovereign debt publicly issued by the German government in the German domestic or eurobond market. Qualifying securities must have at least 18 months to maturity at point of issuance, at least one year remaining term to final maturity, a fixed coupon schedule and a minimum amount outstanding of EUR 1 billion. Callable perpetual securities qualify provided they are at least one year from the first call date. Fixed-to-floating rate securities also qualify provided they are callable within the fixed rate period and are at least one year from the last call prior to the date the bond transitions from a fixed to a floating rate security. Bills, inflation-linked debt and strips are excluded from the Index; however, original issue zero coupon bonds are included in the index and the amounts outstanding of qualifying coupon securities are not reduced by any portions that have been stripped. Securities issued or marketed primarily to retail investors do not qualify for inclusion in the index. Inception date: December 31, 1985

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