

Ares: Global credit offers upside for investors into 2024

13 November 2023: Investing in global credit strategies can offer investors attractive go-forward returns as interest rates level off and the default environment is proving better than anticipated, according to leading global alternative investment manager, Ares Management Corporation (“Ares”).

Head of Ares Wealth Management Solutions in Australia, Teiki Benveniste, said investors should look past the negative headlines, with credit markets providing opportunities for investors.

“After three years of tumultuous market conditions, with traditional fixed income suffering historical losses and volatility alongside credit markets facing wider spreads and rising defaults, we are seeing increased pockets of opportunities in credit markets,” said Mr. Benveniste.

“We believe income-oriented solutions constructed around senior, higher quality segments of the corporate debt and alternative credit markets are able to hit the ‘sweet spot’ of credit, delivering higher yields and minimising volatility.”

Ares’ demonstrated experience actively managing global credit assets has been supported by the performance of the Ares Global Credit Income Fund (‘AGCIF’ ‘the Fund’), which recently surpassed its three-year track record.

The strategy was launched with the goal of delivering higher yield, diversification, and downside protection to investors. With a core holding in senior and secured, floating rate credit, the Fund has been significantly less sensitive to rising interest rates.

Against the backdrop of a rapidly changing and volatile market environment, the Fund has outperformed traditional fixed income markets, returning 9.7% for the last twelve months ended 30 September 2023 and 5.1% p.a. since its inception on 1 May 2020.¹

“Low yields and long duration have driven low and volatile returns in traditional fixed income strategies amid concerns around inflation, recession and geopolitical conflict,” said Mr. Benveniste. “The track record of AGCIF demonstrates the benefit of an alternative income-oriented solution that offers a defensive source of yield for investors.”

“The combination of higher yields, cheaper asset prices and wider spreads in an environment where bouts of volatility have become shorter and more frequent can present meaningful alpha-generating opportunities.

“As the era of low sovereign rates across the globe comes to an end, we believe flexible investment solutions anchored in floating rate credit should benefit from the go-forward market environment and should serve as the new ballast within investor portfolios.”

Actively managing tail risks

While the current entry point looks attractive, Ares recognises that increased tail risks need to be closely monitored. Slower growth and higher rates will likely drive increased ratings downgrades and, to a lesser extent, defaults, leading to heightened volatility and dispersion.

Loan defaults continue to rise off historical lows, but Ares believes default rates will not spike and should remain manageable over the next 12 months. Credit selection comes to the fore in this environment, and despite an increase in defaults across credit markets, AGCIF has experienced a 0% default rate since inception.

“Active credit selection will be a key driver in returns in an environment where default rates in credit are expected to revert to the historical mean,” said Mr. Benveniste. “However, and importantly, we do not expect [the worst case scenario] to materialise.

“In this rapidly evolving market, nimble and active portfolio management will remain key to capitalising on intermittent bouts of volatility, as the attractive entry points this environment can create are usually only short-lived,” said Mr. Benveniste.

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For more information contact or to speak with Teiki Benveniste, please contact:

Paul Cheal

p.cheal@fcr.com.au

0427755296

About Ares Management Corporation

Ares Management Corporation (NYSE: ARES) is a leading global alternative investment manager offering clients complementary primary and secondary investment solutions across the credit, private equity, real estate and infrastructure asset classes. We seek to provide flexible capital to support businesses and create value for our stakeholders and within our communities. By collaborating across our investment groups, we aim to generate consistent and attractive investment returns throughout market cycles. As of 30 September 2023, Ares Management Corporation's global platform had approximately \$395 billion of assets under management with approximately 2,800 employees operating across North America, Europe, Asia Pacific and the Middle East. For more information, please visit www.aresmgmt.com.

Ares Australia Management is a wholly owned subsidiary of Ares and leverages the broad investor distribution, marketing, back office, and administration services of Fidante in Australia.

Important Information

1. 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, 30 June 2023.

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