Ares Diversified Credit Fund

ARSN 644 797 599 APIR HOW7354AU

June 2022 - Monthly Fact Sheet

Performance	1 month %	CYTD %	1 year %	3 years % p.a.	5 years % p.a.	Inception %
Fund return (gross)[1]	-1.7	-3.4	0.3	-	-	3.0
Fund return (net)[2]	-1.7	-3.4	0.2	-	-	2.9

[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 June 2022.**

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 capitalise 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[5]

Portfolio managers	Mitch Goldstein and Greg Margolies
Inception date	26 January 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	602
Strategy FUM[3]	US$3.4BN
Sharpe Ratio	0.96
Standard Deviation	4.06%
Yield to Maturity (YTM)	10.14%
Distribution Rate	5.94%
Running Yield	7.70%
Interest rate duration	0.51
Spread Duration	2.51

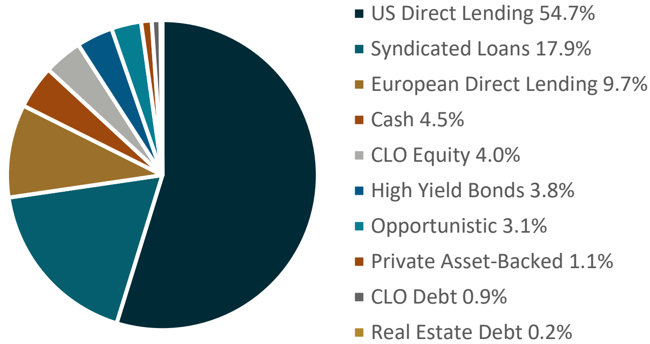
[3] Total assets (including any assets attributable to financial leverage) minus accrued liabilities (other than debt representing financial leverage)

Fund Facts

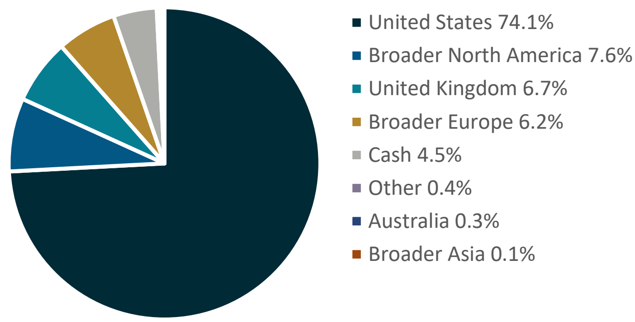
Inception date	17 December 2020
Fund FUM	$394M
Management Fee	Nil[4]
Performance fee	Nil[4]
Buy/sell spread	+0.00%/-0.00%
Distribution Frequency	Monthly
Distribution Rate	0.43%

Underlying Fund Allocation[5]

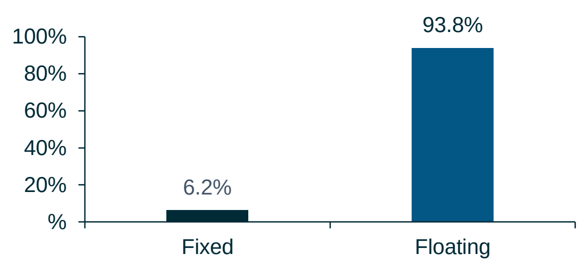
Asset Allocation



Geographic Allocation



Interest Type[6]



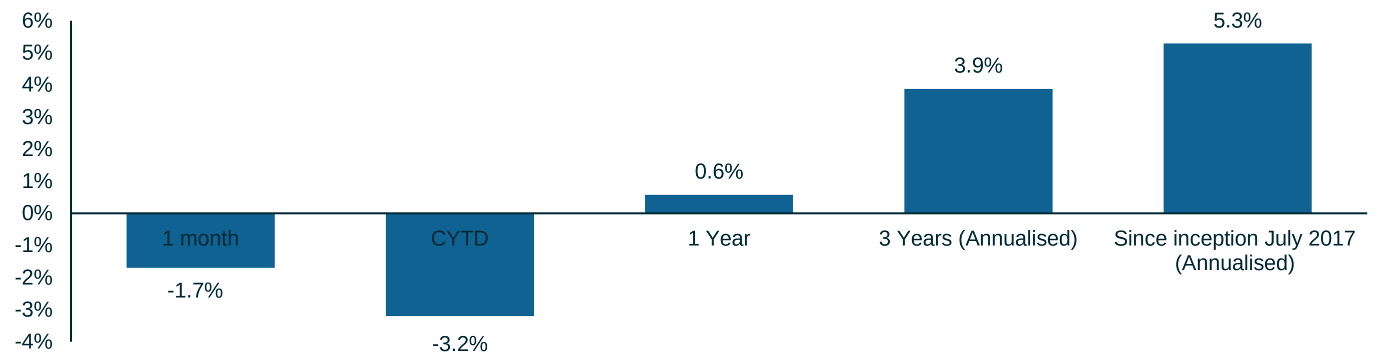
[4] The only fee is a recoverable expense, which is currently 4.5 bps.
[6] Excludes cash, other net assets and equity instruments.

Underlying Fund Top 10 Holdings[5]	
Mimecast	1.4%
Kaseya	1.3%
Global Medical Response, Inc.	1.2%
TurnPoint Services	1.0%
eCapital	1.0%
Conservice Midco, LLC	1.0%
High Street Insurance Partners	1.0%
Cornerstone OnDemand, Inc.	0.9%
Shermco Intermediate Holdings, Inc.	0.9%
Athenahealth	0.9%

Underlying Fund Industry Allocation[5]	
Software & Services	23.1%
Commercial & Professional Services	9.2%
Health Care Equipment & Services	9.1%
Capital Goods	6.9%
Structured Products	6.6%
Diversified Financials	6.3%
Insurance	5.4%
Consumer Services	5.4%
Other	23.4%
Cash	4.5%

[5] As of 30 June 2022. 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[7]



[7] **As of 30 June 2022. 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 estimated expense ratio is 3.43%. 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.**

Market Overview

Global markets were decidedly "risk-off" in the second quarter amid high inflation, hawkish central bank policy and growing recessionary fears. Inflation remained elevated and ended the quarter at 9.1%, the highest level since 1981[1], largely driven by elevated commodity prices. In an effort to cool inflation, central banks remained aggressive, with the Fed hiking rates by 75 basis points in June, their largest hike since 1994. Rising input costs began to impact companies and the consumer too; while earnings largely beat expectations, 70% of the S&P 500 cited "supply chain" on their earnings calls[2], often in the context of forward guidance cuts, and consumer sentiment ticked lower as people reacted to higher prices with a lack of fiscal stimulus to rely on. Global economic growth forecasts were cut, and recessionary fears grew as investors speculated as to whether central banks could engineer a "soft landing" amid a decelerating backdrop. Within capital markets, dispersion by asset class and individual companies was high as the uncertain environment weighed on sentiment and contributed to a "risk-off" tone in equity and credit markets. Specific to liquid credit, syndicated loans (proxy: Credit Suisse Leveraged Loan Index) and high yield bonds (ICE BofA High Yield Master II Index) returned –4.35% and -9.97%, respectively, outperforming equities (proxy: S&P 500) which returned -16.11%. Reflective of the broader aversion to risk, liquid credit performance was mixed relative to traditional fixed income, which returned -4.69% (proxy: Bloomberg Barclays U.S Agg), and lower credit quality CCCs underperformed within both markets[3]. Shifting to alternative credit, CLO secondary spreads widened amid the broader risk-off environment while primary market volumes were muted amid weakness in the underlying loan market. While slower to reprice, issuance slowed in the middle market as macro uncertainty weighed on dealmaking and conditions started to shift towards a relatively lender friendly environment.

Underlying Fund Commentary

The Underlying Fund actively rotated exposures throughout the quarter, shifting into a defensive posture amid the mixed macroeconomic backdrop. The Underlying Fund's exposure to U.S. direct lending, the leading contributor to returns for the quarter, was increased materially via a portfolio trade, reducing mark-to-market risk in the portfolio via a unique sourcing opportunity. While U.S. direct lending was increased, the exposure to European Direct Lending was reduced amid fears that a recession would be deeper relative to the U.S. Shifting to the tradeable markets, The portfolio's exposure to liquid credit, Syndicated Loans and High Yield Bonds, was reduced materially as a result, and within this cohort we sought to move up in credit quality given the uncertain economic backdrop that lies ahead. While spreads and yields in both liquid sectors look attractive relative to recent history, we expect bouts of volatility to persist, and don't foresee these allocations being increased materially in the near-term. Within alternative credit, the allocation to CLOs was reduced as we held off on new purchases as spreads widened across equity and debt tranches. Private ABS was a positive contributor to returns during the quarter and we steadily deployed capital within this cohort, identifying directly originated opportunities with a high credit risk profile. The Opportunistic allocation was reduced incrementally during the quarter, though our pipeline in this cohort has grown recently amid higher execution risk in the capital markets. Overall, we believe the Underlying Fund's defensive posture and overweight towards floating rate, directly originated assets in defensive, non-cyclical, service-based industries will continue to provide support against broader market volatility. Notably, the Underlying Fund's overweight exposure to floating rates assets, approximately 94% of the Underlying Fund as of June 30, is expected to provide insulation from future interest rate hikes, and potentially lead to enhanced yields moving forward.

Portfolio Contribution by Asset Category*

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

*Presented in order of contribution to Fund returns. As of June 30, 2022. European Direct Lending includes asset level returns and the impact of FX hedges.

Outlook

The global economy presents a mixed picture as we enter the second half of 2022. Credit markets continue to be under pressure amid a risk-off environment and sustained macro uncertainty as record-high inflation, tighter financial conditions, and growing recession risk continue to weigh on investor sentiment. In the U.S., real consumer spending has started to contract, and the latest manufacturing data was weaker than expected. Despite slowing growth, global central banks remain focused on combating inflation and restoring price stability by raising interest rates. While commodity prices have recently declined, the risk of energy prices spiking higher in the coming months lingers as a result of the conflict between Russia and the West. Despite weakness in the economy, employment and labor income remain robust, investment spending continues to grow and balance sheets remain healthy. Even if we experience a recession in the next 12-24 months, we expect default rates to remain below historical averages and stay muted relative to previous dislocations. As a result of our dynamic rotation and increased volatility, the portfolio's yield has increased by approximately 300 basis points creating an attractive entry for yield-focused investors. Looking ahead, we believe attractive risk-adjusted return opportunities lie ahead in the private markets, which have begun to reprice and tilt towards more defensive structures as companies and private equity sponsors seek to mitigate execution risk that lies in the capital markets. It's in these environments that scaled providers of flexible capital, such as Ares, are able to directly originate attractive yield opportunities. While we don't anticipate to materially add to liquid credit in the near term, we continue to actively "high grade" our allocation in this cohort by adding to short duration, high convexity credits. We are closely monitoring macroeconomic headwinds and proactively managing exposures to identify relative value opportunities created by shifts in sentiment on rates, growth expectations, and idiosyncratic credit news. In today's rapidly evolving market, we believe credit selection and active portfolio management will continue to be paramount. We appreciate your support as we seek to generate attractive risk-adjusted returns, while protecting the downside.

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 and portfolio company information herein is as of the dates herein 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.

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1. Source: U.S. Bureau of Labor Statistics.
2. Source: Factset as of May 27, 2022.
3. Sources: Credit Suisse Leveraged Loan Index, ICE BofA HY Indices.

For further information, please contact:

Fidante Partners Investor Services | **p:** 13 51 53 | **e:** info@fidante.com.au | **w:** www.fidante.com

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