Ares Diversified Credit Fund

ARSN 644 797 599 APIR HOW7354AU

March 2022 - Monthly Fact Sheet

Performance	1 month %	CYTD %	1 year %	3 years % p.a.	5 years % p.a.	Inception %
Fund return (gross)[1]	0.4	0.8	7.3	-	-	7.1
Fund return (net)[2]	0.4	0.8	7.2	-	-	7.0

[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, 31 March 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	605
Strategy FUM[3]	US$3.08BN
Sharpe Ratio	1.21
Standard Deviation	4.11%
Yield to Maturity (YTM)	8.24%
Distribution Rate	5.39%
Running Yield	6.48%
Interest rate duration	0.68
Spread Duration	2.55

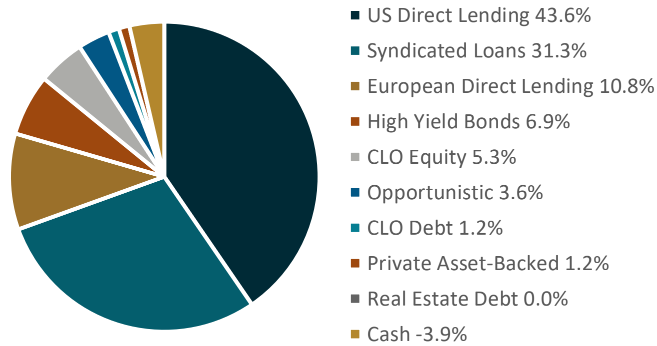
[3] Total assets (including any assets attributable to financial leverage) minus accrued liabilities (other than debt representing financial leverage)

Fund Facts

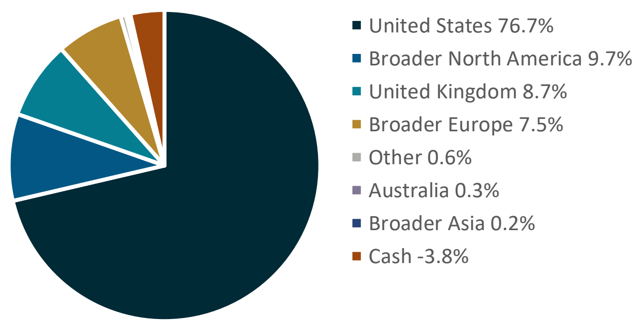
Inception date	17 December 2020
Fund FUM	$363M
Management Fee	Nil[4]
Performance fee	Nil[4]
Buy/sell spread	+0.25%/-0.00%
Distribution Frequency	Monthly
Distribution Rate	0.41%

Underlying Fund Allocation[5]

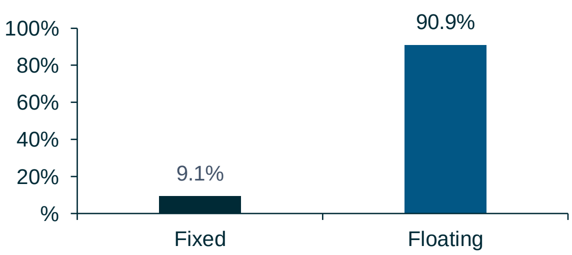
Asset Allocation



Geographic Allocation



Interest Type[6]



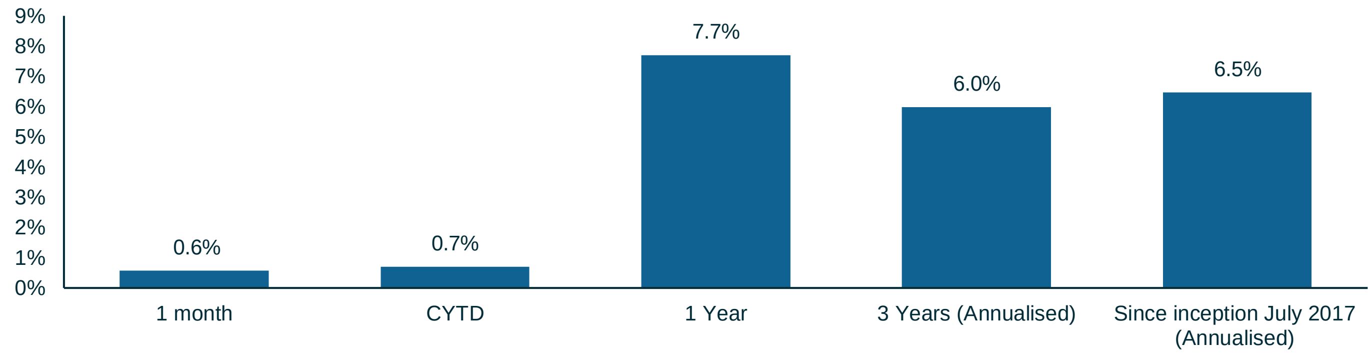
[4] The only fee is a recoverable expense, which is currently 4.5 bps.
[6] Excludes cash, other net assets and equity instruments.

Underlying Fund Top 10 Holdings[5]	
Global Medical Response, Inc.	1.2%
Cornerstone OnDemand, Inc.	1.1%
Athenahealth	1.1%
High Street Insurance Partners	1.1%
TurnPoint Services	1.1%
Ellucian	0.9%
CEP V I 5 Midco Limited (aka Mak System)	0.8%
DigiCert	0.8%
DecoPac, Inc.	0.8%
Convera	0.7%

Underlying Fund Industry Allocation[5]	
Software & Services	19.8%
Health Care Equipment & Services	9.6%
Capital Goods	8.7%
Structured Products	8.4%
Diversified Financials	7.8%
Commercial & Professional Services	7.6%
Consumer Services	7.5%
Insurance	6.6%
Other	27.9%
Cash	-3.8%

[5] As of 31 March 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[6]



[6] As of 31 March 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 3.52%. 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 risk assets experienced volatility to start the year as heightened inflationary pressures, hawkish central bank actions and Russia's invasion of Ukraine weighed on investor sentiment. Capital markets turned risk-off as inflation remained elevated due to supply chain constraints and a spike in commodity prices following economic sanctions enacted in response to the invasion of Ukraine; inflation in the U.S. reached 8.5% in March, a 40-year high[1]. Central banks sought to restrict monetary policy in an attempt to combat heightened inflation, resulting in a 25-basis point interest rate increase in early March with the expectation of more hikes to come. Heightened inflation prints and tighter monetary policy drove elevated demand for floating rate assets, resulting in a +$13.4 billion inflow to retail loan funds[2]. These macroeconomic factors, combined with a yield curve inversion in the U.S., lead to weaker sentiment and a more cautious tone among investors. As a result, equities (proxy: S&P 500) returned -4.51% while traditional fixed income (proxy: Bloomberg Barclays U.S. Agg) declined -5.93% for the quarter. Leveraged credit assets were negative, but outperformed equities and investment grade assets, given their reduced sensitivity to movement in interest rates and elevated yields; syndicated loans (proxy: Credit Suisse Leveraged Loan Index) and high yield bonds (proxy: ICE BofA High Yield Master II Index) returned -0.10% and -4.51%, respectively. Shifting to the middle market, deployment remained healthy and pricing was stable due to strong investor demand and sponsors seeking to reduce execution risk amidst a volatile capital markets environment. Within Alternative Credit, primary Collateralized Loan Obligation (CLO) market activity improved as the quarter progressed and demand for floating rate assets persisted. Owing to its defensive positioning at the start of year, the Underlying Fund proved resilient and returned +0.71% for the quarter.

Underlying Fund Commentary

The Underlying Fund actively rotated exposures across public and private markets throughout the quarter, capitalizing on opportunities created by various macroeconomic, fundamental, and technical trends across credit markets. The Underlying Fund benefitted from positive performance across the majority of underlying asset categories, while syndicated loans and high yield bonds experienced mark-to-market volatility. Within the liquid credit allocation, we took advantage of this volatility, increasing the Underlying Fund's exposure to syndicated loans as broader market yields crossed 7% for the first time since June 2020[3]. Simultaneously, the Underlying Fund's allocation to high yield bonds was reduced modestly as we sought to preserve the Fund's low duration profile in the wake of rising rates. Specific to direct lending, allocations to the U.S. and Europe were slightly reduced as deployment experienced a seasonal slowdown, though maintained pace with equity inflows. From a fundamental perspective, our portfolio companies have been able to navigate the inflationary environment with de minimis impact and we continue to actively monitor exposure to factors such as labor and freight costs, along with commodity price increases. The existing portfolio benefitted from rising rates and specifically, the London Interbank Offered Rate (LIBOR) exceeding 1%[4], which lead to U.S. direct lending being the top contributor to performance during the quarter. Rising LIBOR influenced positioning within the alternative credit allocation as the Fund's exposure to CLO equity was reduced in favor of CLO debt as rising rates increased the coupon paid to debt holders while reducing payments made to equity investors. Allocations to both CLO debt and CLO equity were accretive to portfolio performance, along with the allocation to Private ABS as we continued to actively deploy capital into self-originated, high cashflow generating asset-backed opportunities. Overall, the Underlying Fund continues to employ a diversified investment posture given the asymmetrical return profile of credit assets, with an emphasis towards defensive industries and directly originated assets. Notably, the Underlying Fund's overweight exposure to floating rates assets, approximately 91% of the Underlying Fund as of March 31, is expected to provide insulation from future interest rate hikes.

Portfolio Contribution by Asset Category*

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

*Presented in order of contribution to Fund returns. As of March 31, 2022.

Outlook

While economic growth forecasts remain positive, Russia's invasion of Ukraine is expected to weigh on conditions globally; the IMF recently cut their global growth forecast for 2022 due to the invasion's impact on commerce, commodity prices and the global supply chain[5]. Additionally, COVID-19 variants remain a potential headwind, as evident by recent lockdown measures implemented in China. Monetary policy has increasingly come under focus in this environment, as Central Banks attempt to combat inflation while simultaneously avoiding a recession. Specific to the U.S., while economists predict nine rate hikes in 2022[6], consumer health is a key factor expected to influence the pace and level of future tightening. Another important barometer for the U.S. Federal Reserve will be corporate fundamentals, with earnings season providing policy makers and investors insight on how management teams are handling rising input costs. While uncertainty is elevated, we believe the go-forward environment will provide a robust opportunity set for active managers to add value for investors. Following a prolonged period of spread tightening, largely due to central bank and fiscal stimulus, we believe inflationary pressures and rising borrowing costs will lead to increased dispersion as some companies are better equipped to weather the headwinds compared to others. We believe this type of environment creates opportunities to add value through mistake avoidance, or "winning by not losing", and by identifying credits which have been disproportionately impacted by the market. Looking ahead, we expect to maintain our defensive positioning while tactically seeking discounted opportunities across global credit markets. With additional pockets of volatility expected in liquid credit in particular, we are reducing exposure there in favor of directly originated opportunities due to their enhanced yields and structural protections. Overall, we expect the Underlying Fund's emphasis on secured, floating rate, directly originated assets will serve investors well amidst elevated inflation, rising rates and heightened volatility across global markets. We believe our scaled platform, tenured experience and cycle-tested investment process will allow us to successfully navigate these changing market environments and take advantage of any short-term bouts of volatility in the coming months. 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. Sources: JP Morgan, Lipper.
3. Source: Credit Suisse Leveraged Loan Index.
4. Source: Bloomberg
5. Source: International Monetary Fund.
6. Source: Bloomberg. As of April 26, 2022.

For further information, please contact:

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