Ares Diversified Credit Fund

ARSN 644 797 599 APIR HOW7354AU

September 2021 - Monthly Fact Sheet

Performance	1 month %	CYTD %	1 year %	3 years % p.a.	5 years % p.a.	Inception %
Fund return (gross)[1]	1.1	6.1	-	-	-	6.5
Fund return (net)[2]	1.1	6.1	-	-	-	6.4

[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 2021.**

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	573
Strategy FUM[3]	US$2.14BN
Sharpe Ratio	1.16
Standard Deviation	4.27%
Yield to Maturity (YTM)	6.95%
Distribution Rate	5.37%
Running Yield	6.61%
Interest rate duration	1.60

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

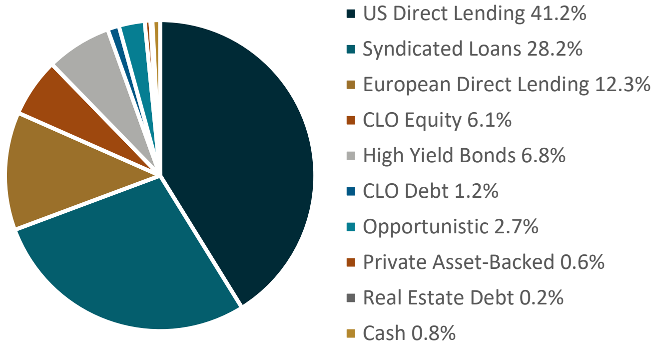
Fund Facts

Inception date	17 December 2020
Fund FUM	$199.2 M
Management Fee	Nil[4]
Performance fee	Nil[4]
Buy/sell spread	0.20% / 0.00%
Distribution Frequency	Monthly
Distribution Rate	0.34%

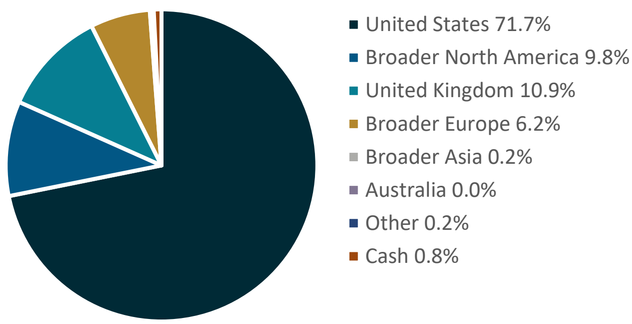
[4] The only fee is a recoverable expense, which is currently 4.5 bps.

Underlying Fund Allocation[5]

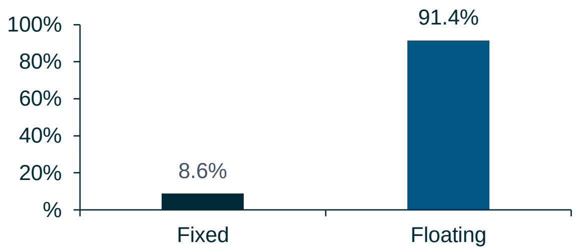
Asset Allocation



Geographic Allocation



Interest Type[6]



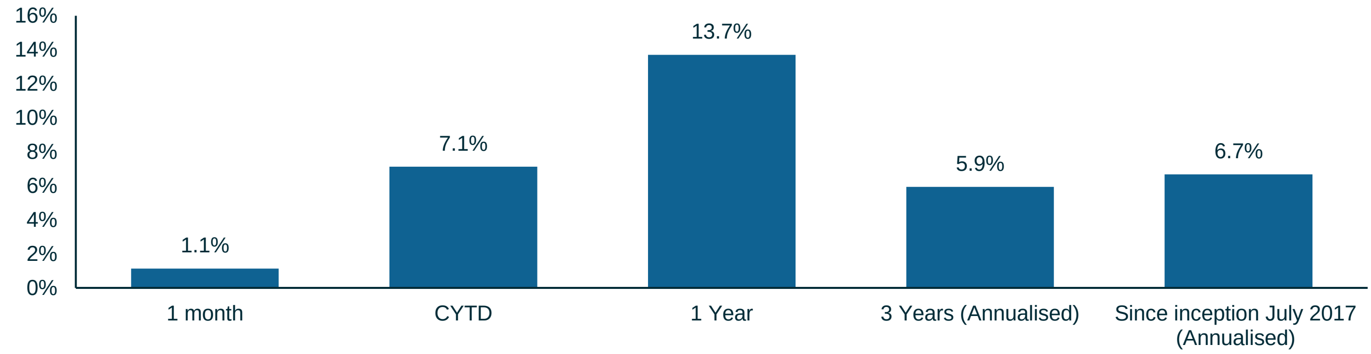
[6] Excludes cash, other net assets and equity instruments.

Underlying Fund Top 10 Holdings[5]	
TurnPoint Services	1.3%
CEP V I 5 Midco Limited (aka Mak System)	1.2%
DigiCert	1.0%
DecoPac, Inc.	1.0%
High Street Insurance Partners	0.9%
True Potential Group Limited	0.9%
Sympir Software, Inc.	0.8%
Pluralsight, Inc.	0.8%
Dr Scholl's (Scholl's Wellness Company)	0.7%
Commercial Trailer Leasing, Inc	0.7%

Underlying Fund Industry Allocation[5]	
Software & Services	20.9%
Health Care Equipment & Services	9.3%
Structured Products (CLOs & Private ABS)	8.1%
Consumer Services	7.8%
Commercial & Professional Services	7.8%
Diversified Financials	7.4%
Capital Goods	7.2%
Insurance	6.1%
Other	24.5%
Cash	0.8%

[5] As of 30 September 2021. 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 30 September 2021. 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 were positive in the third quarter owing to increased vaccination rates, continued fiscal support, and COVID cases falling from their recent peak in the U.S.; however, inflation concerns, global supply chain issues, an increase in Treasury yields and the ongoing labor shortage lead to market volatility in September, significantly impacting relative returns. Equities (proxy: S&P 500) fell -4.65% in September, the largest monthly decline since March 2020, and returned +0.58% for the quarter while traditional fixed income (proxy: Bloomberg Barclays U.S. Agg) generated a modest +0.05% for the quarter, due in part to a -0.87% decline in September. Conversely, leveraged credit assets were relatively insulated from September's volatility and were a source of stable, consistent returns throughout the quarter. Within liquid credit, syndicated loans (proxy: Credit Suisse Leveraged Loan Index) and high yield bonds (proxy: ICE BofA High Yield Master II Index) returned +1.13% and +0.94% during Q3'21, respectively, outperforming equities and traditional fixed income behind steady demand from institutional and retail investors. Deployment within the middle market was robust as M&A activity remained strong across the U.S. and Europe, and financials continued to improve as inflation concerns did not materialize. Notably, $1.11 trillion of M&A volume came to market across the U.S. and Europe in Q3'21, the most active quarter in over a decade[1], contributing to robust public and private market investment opportunities. Within Alternative Credit, CLO markets remained active with steady new issuance and stable secondary market spreads.

Underlying Fund Commentary

The Underlying Fund actively deployed capital across public and private markets throughout the quarter, benefitting from various macroeconomic, fundamental, and technical trends across credit markets. Notably, each of the Underlying Fund's underlying asset categories delivered positive returns for the quarter, underscoring our ability to identify attractive opportunities across the liquidity spectrum. The Underlying Fund's U.S. direct lending allocation was the leading contributor to returns as issuer fundamentals remained healthy while structural protections continued to preserve a healthy illiquidity premium amidst continued yield compression in liquid markets. The Underlying Fund's allocation to European direct lending continued to be a source of positive returns as well and was increased during the quarter amidst elevated M&A activity in the region. Shifting to liquid credit, syndicated loans were the second leading contributor to performance and the allocation was increased during the quarter due to a supportive technical environment. Loan funds saw +$8 billion of retail inflows during the quarter while August and September also brought record breaking months of CLO formation[2]. Within this cohort, we continued to participate in deals where our liquid credit and direct lending teams collaborate for differentiated insights, preferred economics and favorable allocations relative to the broader market. The allocation to high yield bonds was increased as well due to strong technicals, though to a lesser degree when compared to syndicated loans. Within Alternative Credit, the exposure to CLOs was reduced further as we took advantage of secondary market conditions and took profits on positions previously acquired at a discount. While reduced on a relative basis, we expect to increase the allocation to CLO equity in the near term through new issue transactions. The Underlying Fund's Opportunistic allocation generated the strongest return for the quarter, and the allocation was recently increased as we continue to participate in differentiated deals sourced through the power of the Ares platform. Overall, the Underlying Fund continues to maintain a diversified investment posture given the asymmetrical return profile of credit assets, with an emphasis towards defensive industries and directly originated assets.

Portfolio Contribution by Asset Category*

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

*Presented in order of contribution to Fund returns. As of September 30, 2021.

Outlook

While the market backdrop has been generally positive in 2021, investors are beginning to feel the pressure from mixed economic and political headlines. Factors such as central bank policy, inflation and the debt ceiling are top of mind and, as shown by September's volatility, could drive choppy market conditions heading into year-end. Specific to the US Federal Reserve (Fed), officials have signaled they will begin slowing bond purchases as early as November, and the recent lackluster jobs report is unlikely to alter current plans to taper or raise interest rates in the near future. On the inflation front, while many believe this is transitory, the period has lengthened, leading to recent weakness in consumer spending. Additionally, as 3Q corporate earnings season begins, many are wondering how supply chain disruptions and higher energy prices will impact corporate fundamentals. Shifting to Washington, while a debt ceiling agreement was reached on October 8, the topic could potentially fuel investor angst moving forward due to its short term nature combined with a divided legislative branch. With these headlines dominating the news cycle, it would not be surprising to see bouts of volatility in the near-term future. However, despite these negative factors, the economy is on track for steady expansion and recovery. 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.

Disclaimer

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: Goldman Sachs, Global Markets Daily: M&A sets another record in 3Q, with no slowdown in sight. October 4, 2021.*
2. *Source: JP Morgan Market Monitor.*

For further information, please contact:

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