Ares Diversified Credit Fund

ARSN 644 797 599 APIR HOW7354AU

September 2023 - Quarterly Report

Performance	1 month %	3 Months %	CYTD %	1 year %	3 years % p.a.	5 years % p.a.	Inception %
Fund return (gross)[1]	0.5	4.6	10.2	11.1	-	-	6.1
Fund return (net)[2]	0.5	4.5	10.2	11.1	-	-	6.1

[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 September 2023.**

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 capitalize 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	12 July 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	683
Total Managed Assets[3]	US$4.16BN
Sharpe Ratio[7]	1.03
Standard Deviation	3.83%
Yield to Maturity (YTM)	11.49%
Distribution Rate (p.a.)[7]	9.35%
Running Yield	11.03%
Interest rate duration	0.57
Spread Duration	2.33

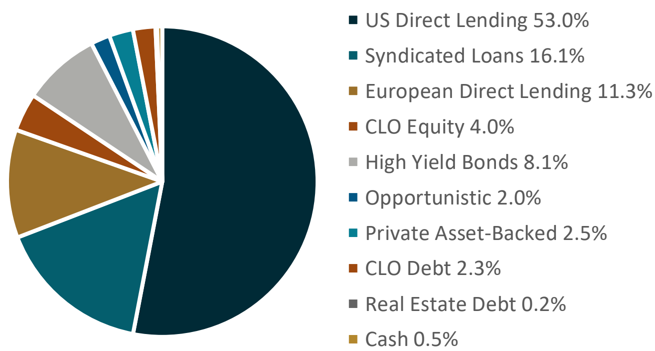
[3] Total assets (including any assets attributable to financial leverage) minus accrued liabilities (other than debt representing financial leverage)

Fund Facts

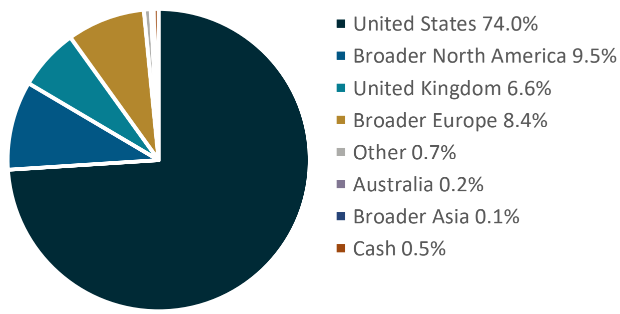
Inception date	17 December 2020
Fund FUM	$558M
Management Fee	Nil[4]
Performance fee	Nil[4]
Buy/sell spread	+0.25%/-0.00%
Distribution Frequency	Monthly
Distribution Rate[7]	0.75%
Standard Deviation	3.27%

Underlying Fund Allocation[5]

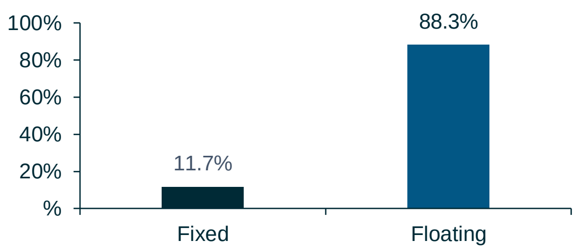
Asset Allocation



Geographic Allocation



Interest Type[6]



[4] The only fee is a recoverable expense, which is currently 3 bps.
[6] Excludes cash, other net assets, and equity instruments.
[7] There can be no guarantee that the disbution rate will accrue at such amount and there is no assurance that distributions will be maintained at the targeted level or at all

Underlying Fund Top 10 Holdings[5]

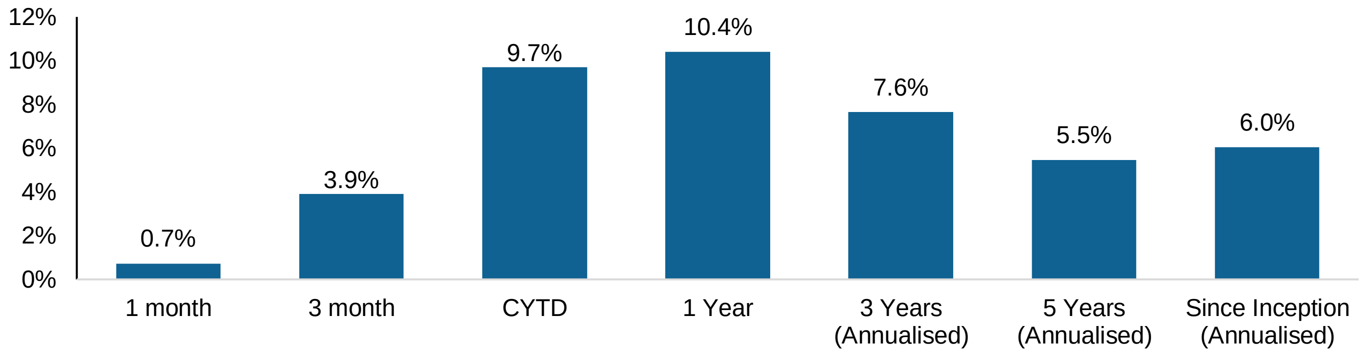
Kaseya	1.1%
Mimecast	1.1%
Nielsen	1.1%
High Street Insurance Partners	1.0%
DigiCert	1.0%
TurnPoint Services	0.9%
European Camping Group	0.9%
RSK Group Limited	0.9%
Conservice Midco, LLC	0.8%
eCapital	0.8%

Underlying Fund Industry Allocation[5]

Software and Services	21.8%
Commercial and Professional Services	9.9%
Financial Services	9.1%
Structured Products	8.0%
Health Care Equipment and Services	7.9%
Capital Goods	6.9%
Consumer Services	6.1%
Insurance	5.9%
Other	23.8%
Cash	0.5%

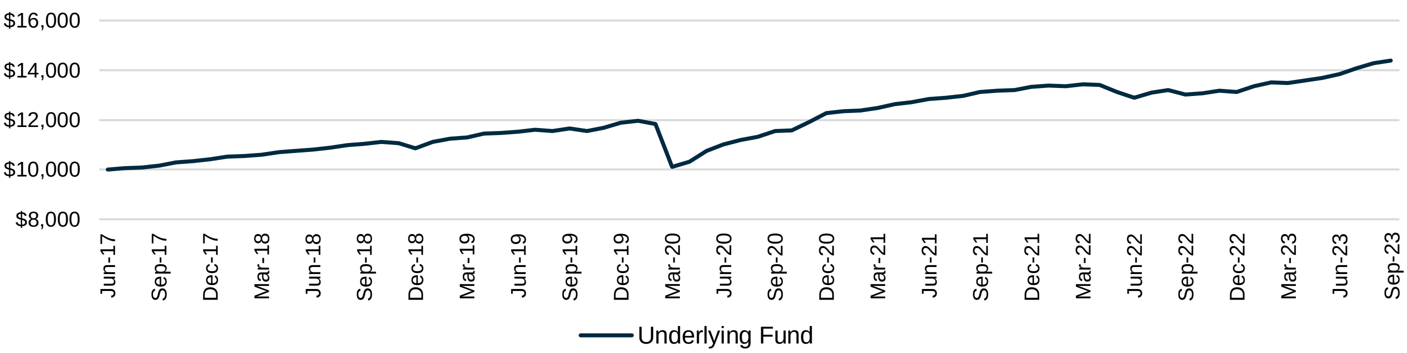
[5] As of 30 September 2023. Holdings and allocations, unless otherwise indicated, are based on the total portfolio and subject to change without notice. Data shown is for informational purposes only and not a recommendation to buy or sell any security.

Underlying Fund Historical Performance[8]



[8]As of 30 September 2023. 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 expense ratio was 4.08% as of June 30, 2023 excluding interest expense. 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.

Underlying Fund Growth of $10,000 since Inception (net of fees)[9]



[9]This graph illustrates the performance of a hypothetical $10,000 investment made in this Fund from the inception date of the product. This is represented as the change in total return at monthly intervals. Total return is a measure of the change in NAV including reinvestment of all distributions and is presented on a net basis reflecting the deduction of fund expenses and applicable fees with expense support provided by CION Ares Management (CAM). The performance quoted represents past performance, is no guarantee of future results and may not provide an adequate basis for evaluating the performance of the Fund over varying market conditions or economic cycles. Investment return and principal value of an investment will fluctuate; therefore, you may have a gain or loss when you sell your shares. Current performance may be higher or lower than the performance data quoted.

Recommended
Lonsec Research

Market Overview

Leveraged credit markets were positive in the third quarter as resilient corporate fundamentals, positive macroeconomic trends and increased “soft landing” rhetoric offset political instability, elevated rate volatility and the prospect of “higher for longer” rates. Participants shrugged off the U.S. debt downgrade by Fitch as labor conditions remained firm and headline inflation moved lower. Coupled with better-than-feared corporate earnings, market participants began to push out their recession expectations and likelihood of a soft landing gained momentum.

Despite the generally positive sentiment, dispersion was elevated amid heightened rate volatility; the MOVE Index was consistently above the 5-year average throughout the quarter and the 10-year U.S. treasury reached a 16-year high in September. Lower duration syndicated loans (proxy: CSLLI) and fixed rate high yield bonds (proxy: HUC0) returned +3.37% and +0.53%, respectively. Primary market activity rebounded, lower credit quality assets outperformed and higher, yet below average, default activity unfolded in both markets. The syndicated loan market benefitted from higher base rates and a pickup in CLO issuance towards quarter-end, which contributed to high current income and supportive technicals. Within private credit, companies and private equity sponsors continued to look to corporate direct lending as a financing source in an effort to decrease execution risk; notably, a $5.3 billion financing package for Vista Equity’s portfolio company Finastra was announced, the largest U.S. private credit loan recorded, according to Kroll. Volumes rebounded relative to earlier in the year with new deals exhibiting modest spread tightening, higher original issue discount (“OID”), while all-in yields continued to benefit from elevated base rates. Tighter lending conditions continued to be a source of opportunity for alternative credit as well with banks stepping away from areas such as fund finance, while secondary CLO debt spreads moved tighter across the capital stack and equity holders benefitted from higher carry within the syndicated loan market.

Underlying Fund Commentary

The Underlying Fund maintained an emphasis towards floating rate assets throughout the period, which was favorable from a return perspective as most fixed rate sectors came under pressure, and tactically took advantage of volatility and tighter bank lending conditions. From an allocation standpoint, the portfolio remained overweight illiquid, directly originated assets during the quarter. That said, the Underlying Fund’s exposure to fixed rate high yield bonds modestly increased in August and early September, as we added exposure to high quality total return opportunities. As of quarter-end, 69% of the high yield market traded below $95, 48% was BB-rated and 30% was comprised of secured bonds. Meanwhile, we trimmed the allocation to syndicated loans amid strong market technicals. Shifting towards alternative credit, the allocation to Private ABS was increased as we maintained a steady pipeline of opportunities, many of which are driven by a reduction in traditional bank lending. Within corporate direct lending, we continued to actively participate in transactions across the U.S. and Europe, benefitting from a large cohort of incumbent borrowers amid a less active M&A calendar. Payments from the incumbent portfolio outpaced new originations, leading to a slight reduction of both allocations.

Shifting to performance, the Underlying Fund experienced positive contributions from a vast majority of the credit sectors during the quarter. The leading contributor to returns was U.S. direct lending as the incumbent portfolio remained healthy and elevated rates lead to enhanced income in the portfolio. Syndicated loans, which outperformed the broader market, and CLO equity, which benefitted from elevated cash yields in the underlying collateral pools, were also strong contributors to total returns. Conversely, high yield bonds and real estate debt detracted from performance. Heightened rate volatility in September was a headwind for the high yield bond allocation, while the real estate debt allocation, comprised of one multi-family investment, was marked lower to reflect weakness in the commercial real estate market.

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

*Presented in order of contribution to Fund returns. As of September 30, 2023.

Outlook

It’s been a bumpy ride for markets to start the fourth quarter due to heightened geopolitical tensions, instability in Washington and the Federal Reserve (“Fed”) suggesting lower economic growth is necessary for inflation to meet their 2% target. We expect the volatile backdrop to persist throughout the remainder of 2023 and into 2024, as elections unfold in Taiwan (January) and the U.S. (November). As it relates to monetary policy, resilient economic and corporate fundamental data, coupled with the Fed’s recent commentary, supports our view that rates will be higher for longer, which is expected to be a tailwind for credit investing. Over the near term, we continue to actively monitor the incumbent portfolio for potential deteriorations in credit quality and seek to maintain a steady pipeline of corporate and asset-backed opportunities as the M&A environment begins to thaw and banks seek to tighten their balance sheets heading into year-end. Within the liquid markets, we continue to trade around relative value in the syndicated loan market, acquiring high carry assets, and selectively add to high yield bonds on weakness. We are pleased with portfolio positioning today, with a core allocation to defensive, directly originated assets, and ample liquidity to take advantage of periodic market dislocations.

The Underlying Fund continues to benefit from rising rates and continues to pass those benefits through to investors in the form of distribution rate increases. Effective October 1, the distribution rate was increased to 9.35% on an annualized basis, the sixth increase since 2022. Looking ahead, we continue to focus on the macro environment and potential impact on portfolio companies and lending conditions more broadly. Overall, we believe the Underlying Fund's emphasis on diversification and directly originated assets will continue to add value amid tighter lending conditions and heightened geopolitical instability globally.

Index Definitions

The Credit Suisse Leveraged Loan Index is designed to mirror the investable universe of the US dollar-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+. For unrated loans, the initial spread must be 125 basis points or higher above the benchmark reference reset rate. 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 Constrained Index ("HUC0") 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. Index constituents are market capitalization weighted, provided the total allocation to an individual issuer does not exceed 2%. Inception date: December 31, 1996.

For further information, please contact:

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