

ARSN 639 123 112 APIR HOW4476AU

## August 2023 - Monthly Fact Sheet

Performance	1 Month %	3 Month %	6 Month %	1-Year %	2-Year % p.a.	3-Year % p.a.	Inception % p.a.
Fund return (gross) <sup>1</sup>	1.1	3.5	4.6	7.6	2.7	4.5	5.9
Fund return (net) <sup>2</sup>	1.0	3.3	4.2	6.7	1.9	3.7	5.1
Bloomberg AusBond Bank Bill Index	0.4	1.0	1.9	3.4	1.9	1.3	1.1
<b>Active return</b>	<b>0.6</b>	<b>2.2</b>	<b>2.3</b>	<b>3.3</b>	<b>0.0</b>	<b>2.5</b>	<b>4.0</b>

<sup>1</sup>Returns are calculated before fees have been deducted and assume distributions have been reinvested. No allowance is made for tax when calculating these figures.  
<sup>2</sup>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, 31 August 2023.**

### Fund Facts

<b>Portfolio managers</b>	Charles Arduini, Seth Brufsky, Samantha Milner, Boris Okuliar
<b>Inception date</b>	1 May 2020
<b>Management fee</b>	0.75% p.a.
<b>Fund Objective</b>	To outperform the AusBond Bank Bill Index over a three-year period
<b>Buy/sell spread<sup>3</sup></b>	+0.40% / -0.40%
<b>Strategy FUM</b>	\$86.3 M

### Fund Features

**Attractive income:** The Fund aims to provide a stable income stream for investors by seeking to offer monthly distributions.

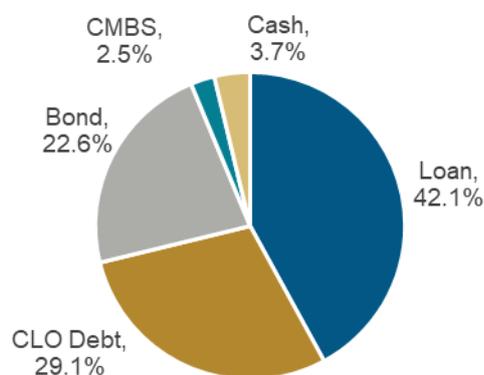
**Focus on downside protection:**<sup>4</sup> Ares believes protecting principal is key to superior performance and therefore places emphasis on dampening volatility and minimising defaults.

**Dynamic asset allocation:** The Fund has the ability to dynamically allocate capital based on the best relative value opportunities across industries, issuers and regions within the credit spectrum.

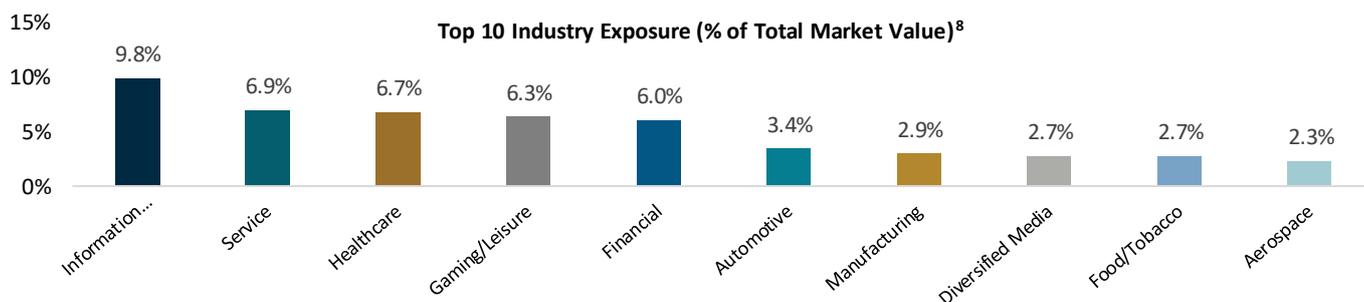
**Diversification:**<sup>5</sup> The Fund provides access to investment opportunities and asset classes which are generally unavailable to individual investors.

**Leading global investment team:** The Fund offers access to a leading global investment team with 20+ years of experience investing in global credit markets. The experienced management team applies an integrated and collaborative approach using the scale and power of the platform seeking to deliver compelling risk-adjusted returns through market cycles.

### Asset Class Allocation<sup>6</sup>



Key Attributes	Fund	Change from 31 Jul 2023
Number of issuers	245	-7
Weighted Average Spread (L+)	355	+6
Current Yield (AUD-Hedged)	6.96%	+0.07%
Yield to Worst (AUD-Hedged)	6.63%	-
Current Yield (Unhedged)	8.16%	+0.16%
Yield to Worst (Unhedged)	7.82%	+0.09%
Duration	0.87	-0.08
Spread Duration	3.61	-0.04
Weighted Average Credit Quality <sup>7</sup>	BB+	-
Total Investment Grade Exposure	58.49%	+2.23%



<sup>3</sup> Source: Ares. During normal market conditions, bid/ask spreads have averaged 25 -100bps, however, during periods of volatility, we have observed spreads widen out to 300-400bps.

<sup>4</sup> References to "downside protection" or similar language are not guarantees against loss of investment capital or value.

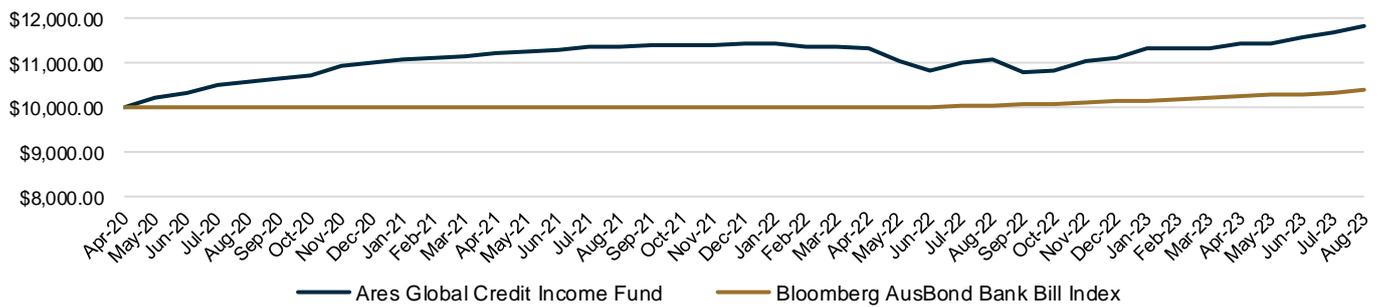
<sup>5</sup> Diversification does not assure profit or protect against market loss.

<sup>6</sup> The Fund's allocation is based on recent market conditions and is subject to change based on future market conditions at the time of investment and may differ materially from that set forth herein.

<sup>7</sup> Reflects the risk-adjusted weighted average higher of rating using Moody's, S&P, and Fitch.

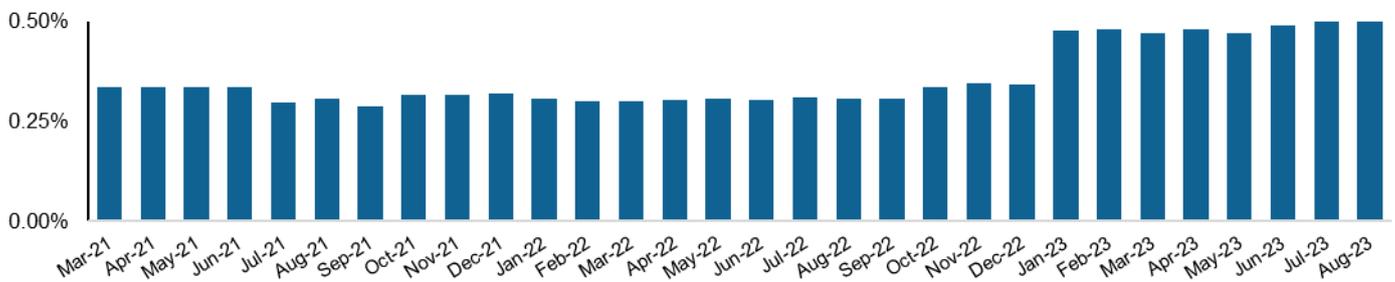
<sup>8</sup> Credit Suisse Industry Distribution. Excludes CLO debt, CMBS and cash.

### Growth of \$10,000 Since Inception (Net of Fees)



**Past performance is no indication of future performance.** Represents performance of a hypothetical \$10,000 investment made in this fund from the inception date. There is no guarantee of future results and this may not provide 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. The Fund's inception date is 1 May 2020.

### Monthly Distribution Rate



**Past performance is no indication of future performance.** There is no assurance monthly distributions paid by the Fund will be maintained at targeted level or paid at all. Calculated as the cents per unit (CPU) distribution at month end divided by the ex-distribution unit price at the start of the month.

## Market Commentary

The global risk rally continued in August driven by resilient growth data and better-than-expected earnings. While solid global economic data continues to feed hopes that central banks will cease monetary tightening this year, global bond yields have been volatile.

Despite increased rate volatility in August, US high yield bonds produced modest gains, returning 0.29%<sup>1</sup> during the month. Capital market activity for high yield bonds continued to improve, with 15 new issue bonds pricing for \$9.3 billion over the course of the month, following \$6.7 billion in July. Meanwhile, U.S. high yield funds reported outflows totalling \$2.0 billion in August, following \$1.4 billion of inflows in July.<sup>2</sup>

US Leveraged loans outperformed fixed rate peers, returning 1.15%<sup>3</sup> during the month as prices benefitted from increased refinancing activity, strong earnings and a supportive technical. Primary market activity increased with \$41.3 billion of loan paper pricing over the course of the month. Further, demand for the asset class improved in August with U.S. loan funds reporting \$215 million of inflows.<sup>2</sup>

CLO debt securities posted positive returns during the month with all ratings tranches generating gains.<sup>4</sup> Despite a slow September start for primary CLO issuance, managers are seeing improved prospects for deal generation through the remainder of the year, fuelled by improving spread conditions and a pickup in demand.<sup>5</sup>

U.S. investment grade bonds underperformed below investment-grade credit, returning -0.64%<sup>6</sup> in August as the asset class came under pressure amid heavy supply and volatile bond yields.

Meanwhile, European leveraged credit markets posted positive returns with high yield bonds and leveraged loans returning 0.24%<sup>7</sup> and 1.36%<sup>8</sup>, respectively. Inflation dynamics continue to show signs of improvement in Europe, while corporate earnings have generally been positive. Further, European leveraged credit market technicals remained firm during the month amid muted issuance and stable demand.

## Market Outlook

Leveraged credit markets produced mixed performance in early September amid resilient US growth data, stable earnings, and an increase in rate volatility. From a macro perspective, the soft-landing narrative continues amid positive momentum in employment and inflation data prints. Specifically, wage growth has trended lower and core inflation continues to move closer to the US Federal Reserve's objective. As a result, markets are pricing in more certainty around terminal rate movements, expecting a greater likelihood for no further interest rate hikes. While leading indicators still point to a downturn based on their historical track records, more market strategists have lowered and pushed their recession forecasts into 2024. Against this macro backdrop, the outlook for merger and acquisition related activity has improved and September is expected to bring more leveraged buyout (LBO) business to a credit market that has been starved for new-money paper. That said, with the forward calendar still at the low end of its historical range, opportunistic business is expected to be the primary driver of deal flow. From a fundamental perspective, corporate earnings have generally been better-than-expected; however, forward guidance remains conservative, and we are increasingly focused on earnings projections given the potential weakness in upcoming quarters and have actively traded our portfolios to get ahead of earnings misses or add to discounted names. While we expect tighter lending conditions and higher rates to lead to higher loan and bond default rates over the next 12 months, we believe defaults are unlikely to spike to previous recessionary levels, due in part to the recent cycle in 2020, healthy issuer balance sheets and sufficient liquidity.

## Fund Commentary

The Ares Global Credit Income Fund ("AGCIF" or the "Fund") returned 1.08% gross and 1.01% net for the month of August. Due to the continued risk rally, returns across asset classes were positive, with the portfolio's allocations to structured credit and bank loans being the largest contributors to performance. The portfolio's allocation to CLO debt continued to benefit from strong demand for the asset class alongside a supportive floating rate technical, while the portfolio's allocation to bank loans generated attractive returns in large part due to credit selection within the Single-B rated cohort.

During the month, we maintained our higher quality risk posture and continued to focus on identifying opportunities arising from today's evolving economic environment. From a positioning perspective, we remain overweight floating rate assets and continue to actively trade around relative value across individual credits, selling select risk names and topping up on other discounted credits that we view as undervalued. From a sector perspective, we remain overweight defensive sectors with favourable supply-demand dynamics and earnings trajectories, as well as sectors more upstream in supply chains and companies with strong pricing power, including software and necessary services sectors. We are underweight sectors that are more susceptible to consumer discretionary income weakness, input cost pressures and general cyclicality, and we are closely monitoring certain sectors where liquidity may be challenging, such as certain segments of the technology and healthcare sectors. Specific to structured credit, we continue to favour transactions with top tier managers that we know well, specifically within Triple-B rated CLO debt. From a geographical perspective, we are comfortable with our existing non-US exposure given the lighter primary calendar in Europe and will look to opportunistically increase our European allocation as new issue comes to market. Importantly, we anticipate increased dispersion in credit fundamentals in the months ahead and remain acutely focused on security selection, both in seeking to outperform against the upcoming default cycle, as well as to avoid the significant downdraft in price/liquidity that we have seen when a company misses earnings.



Views expressed are those of the Ares Global Credit Income Fund Portfolio Managers as of 31 August 2023 are subject to change at any time, and may differ from the views of other portfolio managers or of Ares Australia Management as a whole.

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 investment information herein is as of 31 August 2023 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.

#### Index Definition & Disclosure:

The Bloomberg AusBond Bank Bill Index is engineered to measure the Australian money market by representing a passively managed short term money market portfolio. This index is comprised of 13 synthetic instruments defined by rates interpolated from the RBA 24-hour cash rate, 1M BBSW, and 3M BBSW.

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This material has been prepared by Ares Australia Management Pty Ltd ABN 51 636 490 732, AFSL 537 666 (AAM), the investment manager of the Ares Global Credit Income Fund (ARSN 639 123 112) (the Fund) and is current as at the date of publication. Fidante Partners Limited ABN 94 002 835 592 AFSL 234668 (Fidante) is a member of the Challenger Limited group of companies (Challenger Group) and is the issuer and responsible entity of the Fund. Other than information which is sourced from Fidante in relation to the Fund, Fidante is not responsible for the information in this publication, including any statements of opinion. It is general information only and is not intended to provide you with financial advice or take into account your objectives, financial situation or needs. You should consider, with a financial adviser, whether the information is suitable to your circumstances. The Fund's Target Market Determination and Product Disclosure Statement (PDS) available at [www.fidante.com](http://www.fidante.com) should be considered before making a decision about whether to buy or hold units in the Fund(s). To the extent permitted by law, no liability is accepted for any loss or damage as a result of any reliance on this information. Past performance is not indicative of future performance. Any projections are based on assumptions which we believe are reasonable but are subject to change and should not be relied upon. Fidante has entered into arrangements with Ares and AAM in connection with the distribution and administration of financial products managed by Ares or AAM. In connection with those arrangements, Fidante or AAM may receive remuneration or other benefits. Fidante is not an authorised deposit-taking institution (ADI) for the purpose of the Banking Act 1959 (Cth), and its obligations do not represent deposits or liabilities of an ADI in the Challenger Group (Challenger ADI) and no Challenger ADI provides a guarantee or otherwise provides assurance in respect of the obligations of Fidante. Investments in the Fund are subject to investment risk, including possible delays in repayment and loss of income or principal invested. The performance, the repayment of capital or any particular rate of return on your investments are not guaranteed by any member of the Challenger Group nor AAM or its related bodies corporate.

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