

ARSN 639 123 112 APIR HOW4476AU

## December 2023 - Monthly Fact Sheet

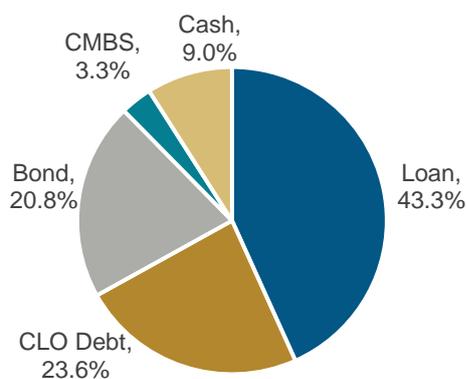
Performance	1 Month %	3 Month %	6 Month %	1-Year %	2-Year % p.a.	3-Year % p.a.	Inception % p.a.
Fund return (gross) <sup>1</sup>	1.3	2.7	5.2	10.0	3.8	4.1	6.2
Fund return (net) <sup>2</sup>	1.2	2.5	4.9	9.1	2.9	3.3	5.4
Bloomberg AusBond Bank Bill Index	0.4	1.1	2.1	3.9	2.6	1.7	1.4
<b>Active return</b>	<b>0.9</b>	<b>1.4</b>	<b>2.7</b>	<b>5.3</b>	<b>0.3</b>	<b>1.6</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 December 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>	\$106.8 M

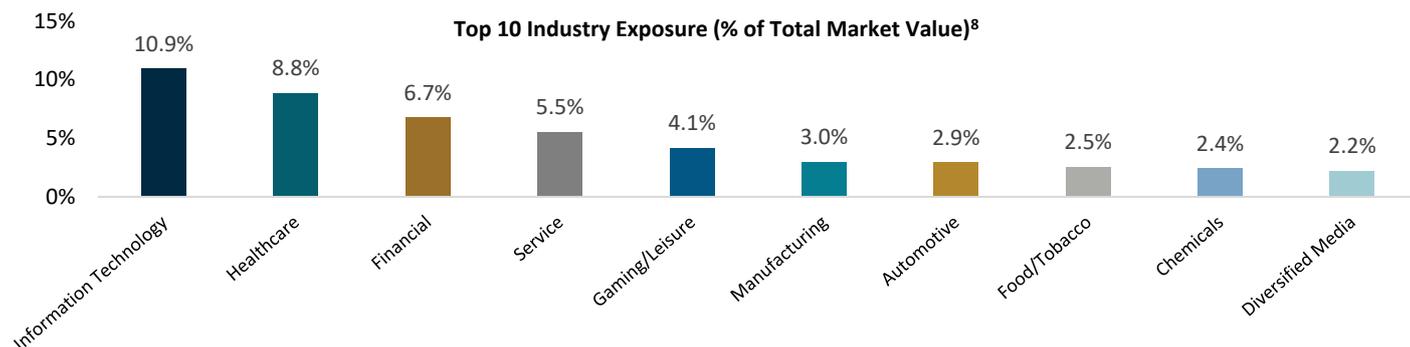
Fund Features	
<b>Attractive income:</b>	The Fund aims to provide a stable income stream for investors by seeking to offer monthly distributions.
<b>Focus on downside protection:<sup>4</sup></b>	Ares believes protecting principal is key to superior performance and therefore places emphasis on dampening volatility and minimising defaults.
<b>Dynamic asset allocation:</b>	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.
<b>Diversification:<sup>5</sup></b>	The Fund provides access to investment opportunities and asset classes which are generally unavailable to individual investors.

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



**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.

Key Attributes	Fund	Change from 30 Nov 2023
Number of issuers	261	+9
Weighted Average Spread (L+)	358	-1
Current Yield (AUD-Hedged)	7.25%	-0.10%
Yield to Worst (AUD-Hedged)	6.17%	-0.74%
Current Yield (Unhedged)	8.22%	-0.09%
Yield to Worst (Unhedged)	7.13%	-0.73%
Duration	0.87	-0.05
Spread Duration	3.29	-0.18
Weighted Average Credit Quality <sup>7</sup>	BB	-
Total Investment Grade Exposure	56.10%	-0.35%



<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.

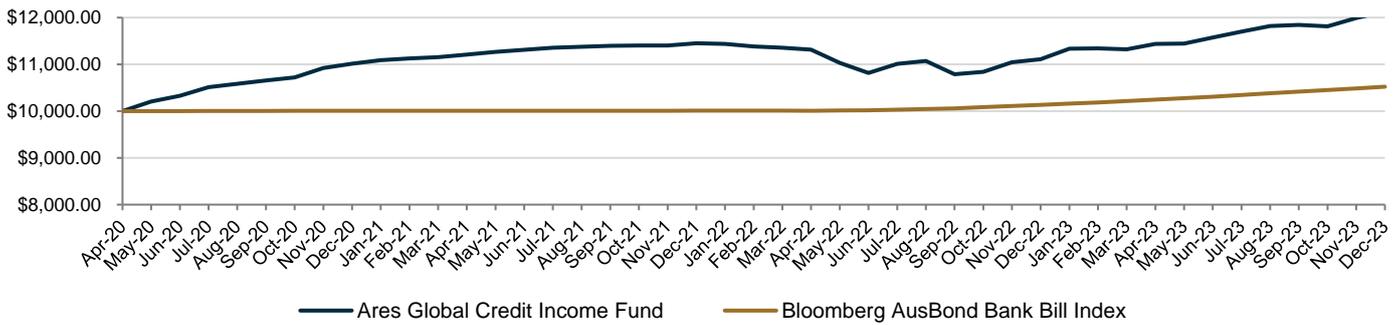
<sup>5</sup> Diversification does not assure profit or protect against market loss.

<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.

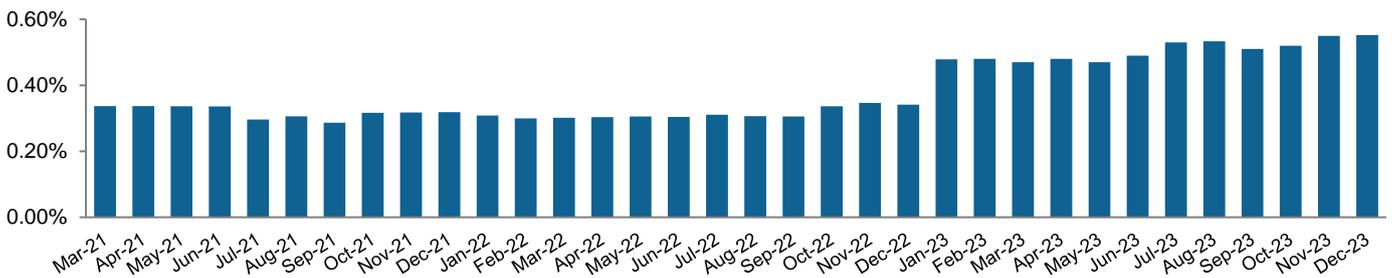
<sup>8</sup> Credit Suisse Industry Distribution. Excludes CLO debt, CMBS and cash.

### 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

Global risk assets rallied into year-end as the market bet on a soft landing and easing of monetary policy in 2024. The prospect of lower interest rates is supported by central bank rhetoric and positive macroeconomic data prints including moderating inflation and resilient economic growth. However, some investors believe the market is pricing in too much optimism around rate expectations, thereby inflating asset prices, and while inflation data has improved, risk of a global recession continues to linger. Nevertheless, performance was strong across all markets in December and the riskier end of the credit spectrum outperformed.

The U.S. high yield market returned 3.69%<sup>1</sup> in December as bond spreads continued to tighten amid a rally in rates and equities alike. Primary market activity for high yield bonds increased with \$13.3 billion of bonds pricing over the course of the month, following \$19.4 billion in November. Meanwhile, demand for the asset class remained robust in December with high yield funds reporting \$2.7 billion of inflows, following \$12.7 billion of inflows in November.<sup>2</sup>

Similarly, U.S. leveraged loans rallied alongside fixed rate assets, returning 1.61%<sup>3</sup> in December. With the potential for rate cuts in 2024 and the market's expectation for an economic soft landing, the weighted average price for loans reached new highs for the year in December.

Meanwhile, primary market activity increased as companies capitalized on strong market conditions to term out revolvers, extend maturities, and re-price loans with \$52.5 billion of loan paper pricing over the course of the month. Meanwhile, U.S. loan funds reported \$182 million of outflows, following \$900 million of inflows in November.<sup>2</sup>

CLO debt securities posted positive returns during the month with all ratings tranches generating gains.<sup>4</sup> While U.S. CLO issuance in December modestly slowed, certain issuers priced deals with the tightest Triple-A spreads seen in 2023. Notably, U.S. CLO issuance totalled \$186.7 billion, while middle market CLO deals totalled \$27.1 billion, reflecting the emergence of private credit CLO transactions in 2023.<sup>5</sup>

U.S. investment grade bonds returned 3.83%<sup>6</sup> in December as bond prices continued to rally amid resilient growth data and moderating inflation.

Meanwhile, European high yield bonds and leveraged loans returned 2.88%<sup>7</sup> and 1.19%<sup>8</sup> in December, respectively. European leveraged credit market technicals remained firm during the month and continued to apply downward pressure on spreads. Primary market activity was dominated by amend & extend deals and refinancing activity; however, mergers, acquisitions and dividend recap deals were well-absorbed by investors, reflecting the appetite and demand for European leveraged credit.

## Market Outlook

Following a strong risk rally in December, performance across credit markets has been mixed thus far in January; specifically, bond yields widened as investors began to question the high level of uncertainty over policy easing in 2024. At its most recent meeting, the Federal Open Market Committee (“FOMC”) noted the progress that has been made in the battle to bring down inflation, agreed to hold its benchmark rate steady in a range between 5.25% and 5.5% and indicated they expect three 25 basis point cuts by the end of 2024. However, there was an elevated degree of uncertainty about the policy path as participants stressed that it will highly depend on how the economy evolves. Despite the cautionary tone from FOMC officials, the market continues to expect central banks to cut aggressively in 2024. Looking forward, the balance of risks may soon shift from persistent inflation to concerns around employment and the broader economy, which are demonstrating resilience for the time being. In addition to resilient growth and progress on disinflation, improving capital markets conditions and stable credit fundamentals are expected to support current valuations through at least the first quarter of this year. Regarding fundamentals, Q3’2023 corporate earnings are in a good position heading into a more challenging landscape in 2024; however, forward guidance remains conservative, and the number of misses has increased, leading to elevated single name dispersion. Default rates are expected to modestly decline in 2024 amid limited near-term maturities, strong balance sheets, and a year-over-year decrease in the distressed universe. Meanwhile, the technical environment should remain modestly supportive this year amid stable demand from global institutional investors and a pick-up in bond retail inflows; however, we do expect an increase in capital markets activity amid lower rates. Looking ahead, we continue to closely monitor leading economic indicators and potential headwinds including the 2024 elections and the potential impacts of various geopolitical conflicts. Importantly, we remain focused on security selection as we expect single-name dispersion to continue to increase in the coming months.

## Fund Commentary

The Ares Global Credit Income Fund (“AGCIF” or the “Fund”) returned 1.29% gross and 1.22% net for the month of December. The portfolio finished the year on strong footing with the allocations to high yield, CLO debt and bank debt being the largest contributors to returns in December. The high yield cohort benefitted from generally positive macro news and a stronger bid for fixed rate assets, which drove bond spreads tighter amid a rate induced rally. The bank debt allocation benefitted from disciplined credit selection within Single-B rated loans, while CLO debt continued to perform well due to the strong floating rate technical in the underlying loan asset class and overall bid for risk.

In terms of positioning, we maintained our higher quality risk posture in December and continued to focus on identifying opportunities arising from today’s evolving economic environment. In terms of positioning, following the large move in rates at the end of the year, we are no longer increasing the Fund’s high yield exposure and now favour floating rate loans and CLOs given rates are back near fair value. We continue to actively trade around relative value across individual credits, taking profits on select Double-B rated bonds trading at tight levels, rotating into floating rate assets and select investment grade bonds. 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 challenged, 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 maintained a market-neutral weighting to Europe, focused on allocating to attractive opportunities in the primary market. Importantly, we continue to be mindful of softer economic growth and increased dispersion in credit fundamentals in the months ahead and remain focused on security selection. We continue to see good value in each of our markets and expect volatility to increase in 2024, underscoring the importance of an actively managed, dynamic portfolio.



Views expressed are those of the Ares Global Credit Income Fund Portfolio Managers as of 31 December 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.

**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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