

ARSN 639 123 112 APIR HOW4476AU

## January 2024 - 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>	0.9	3.8	5.0	8.7	4.3	4.1	6.3
Fund return (net) <sup>2</sup>	0.9	3.6	4.6	7.9	3.4	3.3	5.5
Bloomberg AusBond Bank Bill Index	0.4	1.1	2.1	4.0	2.8	1.8	1.5
<b>Active return</b>	<b>0.5</b>	<b>2.5</b>	<b>2.5</b>	<b>3.9</b>	<b>0.7</b>	<b>1.5</b>	<b>4.0</b>

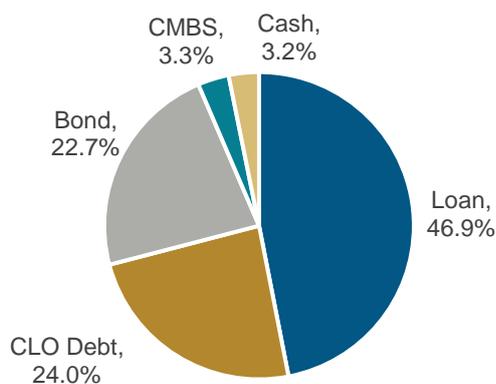
<sup>1</sup>Returns are calculated before fees have been deducted and assume distributions have been reinvested. No allowance is made for tax when calculating these figures.  
<sup>2</sup>Returns are calculated after fees have been deducted and assume distributions have been reinvested. No allowance is made for tax when calculating these figures.  
 Past performance is not a reliable indicator of future performance. **Data Source: Fidante Partners Limited, 31 January 2024.**

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>	\$112.9 M

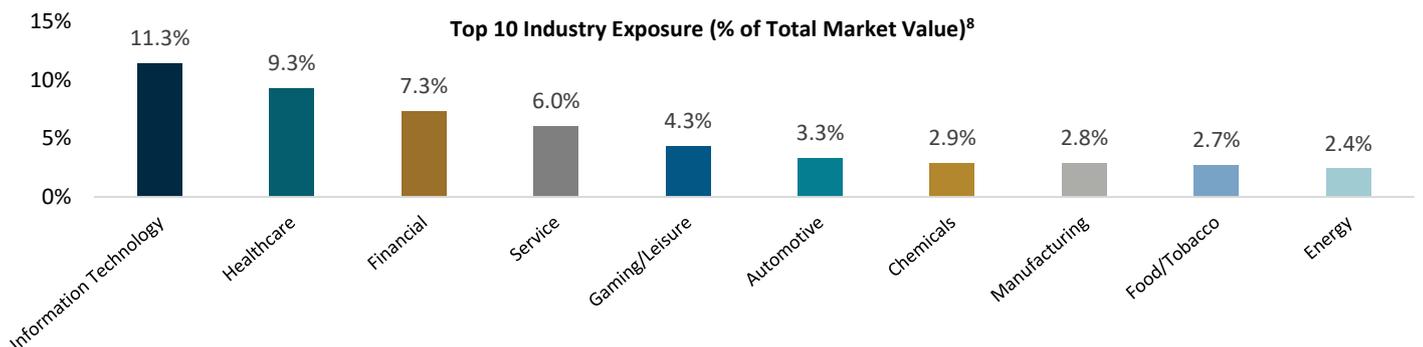
Fund Features	
<b>Attractive income:</b>	The Fund aims to provide a stable income stream for investors by seeking to offer monthly distributions.
<b>Focus on downside protection:<sup>4</sup></b>	Ares believes protecting principal is key to superior performance and therefore places emphasis on dampening 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.

**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 Dec 2023
Number of issuers	267	+6
Weighted Average Spread (L+)	353	-5
Current Yield (AUD-Hedged)	7.09%	-0.16%
Yield to Worst (AUD-Hedged)	6.14%	-0.03%
Current Yield (Unhedged)	8.10%	-0.12%
Yield to Worst (Unhedged)	7.15%	+0.02%
Duration	1.00	+0.13
Spread Duration	3.40	+0.11
Weighted Average Credit Quality <sup>7</sup>	BB	-
Total Investment Grade Exposure	52.86%	-3.24%



<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.

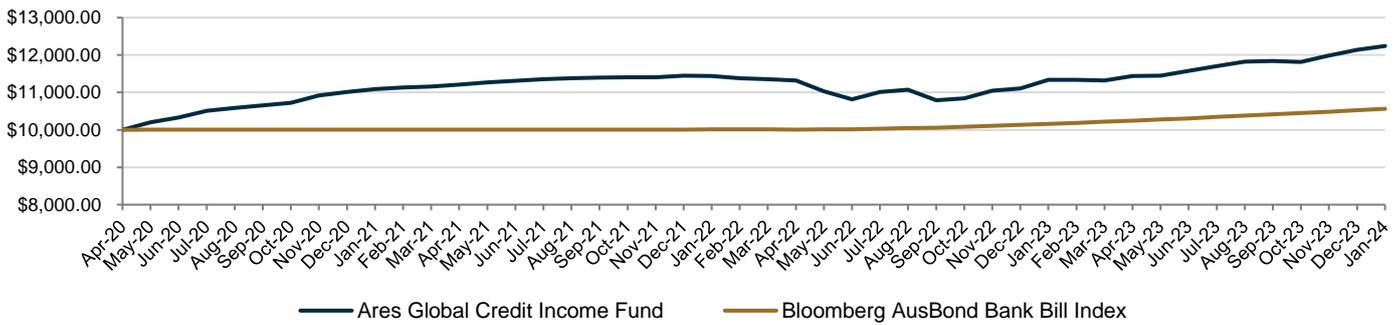
<sup>5</sup> Diversification does not assure profit or protect against market loss.

<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.

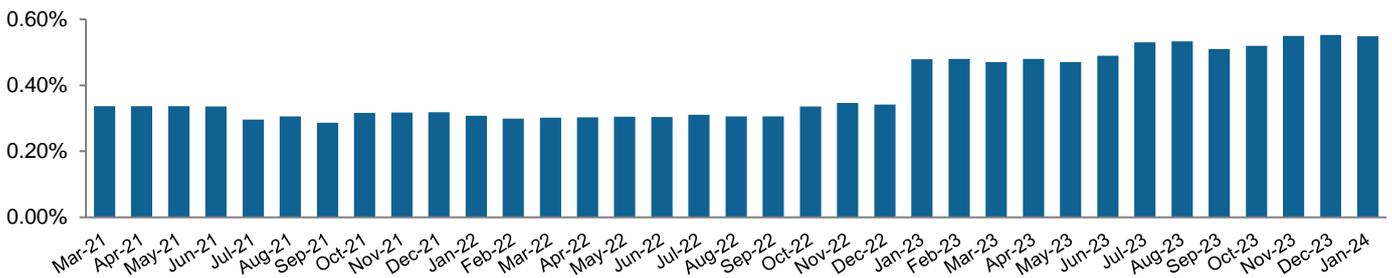
<sup>8</sup> Credit Suisse Industry Distribution. Excludes CLO debt, CMBS and cash.

### 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

Performance across credit markets was mixed in January amid a combination of benign inflation news, resilient growth data, and increased odds of a soft-landing. Floating rate assets outperformed fixed rate peers during the month as investors weighed tight valuations against improving prospects of rate cuts in 2024 and 2025.

Despite the strong risk backdrop, the U.S. high yield market returned 0.02%<sup>1</sup> in January with spreads widening ~20 basis points. January also produced one of the heaviest months of refinancing and repricing activity in high yield bonds since May 2021 as issuers actively addressed maturities following a collapse in yields during 4Q'23. Notably, primary market activity for high yield bonds increased with \$31.6 billion of bonds pricing over the course of the month, following \$13.4 billion in December. Meanwhile, demand for the asset class remained stable in January with high yield funds reporting \$406 million of inflows, following \$2.7 billion of inflows in December.<sup>2</sup>

U.S. leveraged loans outperformed fixed rate peers, returning 0.78%<sup>3</sup> during the month as prices benefitted from increased refinancing activity, strong earnings and a supportive technical. Notably, primary market activity increased as companies capitalized on strong market conditions to term out revolvers, extend maturities, and re-price loans with \$136.1 billion of loan paper pricing over the course of the month.

Meanwhile, U.S. loan funds reported \$94 million of inflows, following \$182 million of outflows in December.<sup>2</sup>

CLO debt securities posted positive returns during the month with all ratings tranches generating gains.<sup>4</sup> U.S. CLO issuance picked up in January amid tight Triple-A spreads and a pickup in investor demand with U.S. banks returning as Triple-A buyers in both the U.S. and European CLO markets. Notably, U.S. CLO issuance totalled \$12.5 billion, reflecting the highest total CLO origination volume to begin a calendar year.<sup>5</sup>

U.S. investment grade bonds returned -0.27%<sup>6</sup> in January as bonds came under pressure amid increased supply and range bound spreads.

Meanwhile, European high yield bonds and leveraged loans returned 0.90%<sup>7</sup> and 1.32%<sup>8</sup> during the month, respectively. European leveraged credit market technicals remained firm and continued to apply downward pressure on spreads. As a result of the spread compression, repricing activity surged in the loan market with margin cuts across €13 billion of paper, the highest level since 2021. Meanwhile, high yield bonds priced €8.2 billion during the month, largely in line with the prior three-year average.

## Market Outlook

Performance across credit markets has been mixed thus far in February. Macroeconomic data prints in January strongly supported the soft-landing narrative as evidenced by U.S. 4Q GDP increasing to 3.3% on an annualized basis, payrolls remaining robust, core inflation approaching the target 2% level, and leading economic indicators tilting in a favorable direction. Furthermore, the Bloomberg survey of economists is now more confident than not that the U.S. will avoid a recession in 2024 after 16 months of saying otherwise. While the exact timing of monetary easing is uncertain, it appears that central banks have earned the ability to cut rates in 1H'24 (though likely after March) given the better-than-expected macroeconomic health and normalizing inflation in the U.S. and Eurozone. We expect 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. That all said, current interest rates remain elevated and the lagging effect of tighter monetary policy from 2023 is likely to culminate in slower global economic growth in 2024. Regarding fundamentals in the leveraged credit universe, as corporates navigate a challenging landscape in 2024, forward guidance remains conservative, and the number of earnings misses has increased leading to a rise in single name dispersion. Although defaults increased in 2023, we expect them to remain modest 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 continue to improve this year as we are seeing increased capital market activity as we as M&A transactions and are seeing continued demand from global institutional investors. Looking ahead, we continue to closely monitor potential headwinds including the 2024 elections and the potential impacts of elevated geopolitical tensions. Importantly, we remain focused on security selection as we expect volatility to increase in the coming months.

## Fund Commentary

The Ares Global Credit Income Fund ("AGCIF" or the "Fund") returned 0.93% gross and 0.87% net in January. Specific to Fund performance, the portfolio's allocations to bank debt and CLO debt were the largest contributors to returns in January. 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 January and continued to focus on identifying opportunities arising from today's evolving economic environment. We continue to favor floating rate loans and CLOs over fixed rate assets given rates are back near fair value following the large move at year-end. 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 discounted bonds that we believe are 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 cyclical, 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 source interesting opportunities in each component asset class 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 January 2024 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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