Ares Global Credit Income Fund

ARSN 639 123 112 APIR HOW4476AU

January 2022 - Monthly Fact Sheet

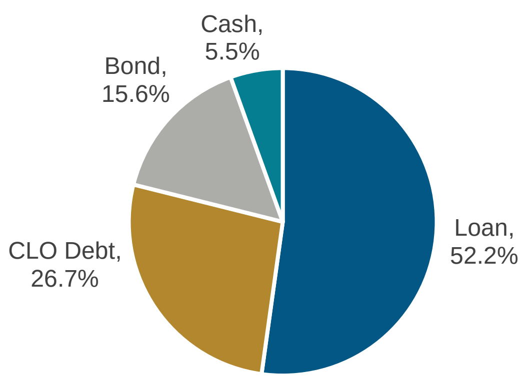
Performance	1 Month %	3 Month %	FYTD %	1-Year %	3-Year % p.a.	5-Year % p.a.	Inception % p.a.
Fund return (gross)[1]	-0.1	0.5	1.5	3.9	-	-	8.6
Fund return (net)[2]	-0.1	0.3	1.1	3.1	-	-	8.0
Bloomberg AusBond Bank Bill Index	0.0	0.0	0.0	0.0	-	-	0.1
Active return	**-0.1**	**0.3**	**1.1**	**3.1**	**-**	**-**	**7.9**

[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, 31 January 2022.**

Fund Facts

Portfolio managers	Charles Arduini, Seth Brufsky, Samantha Milner, Boris Okuliar
Inception date	1 May 2020
Management fee	0.75% p.a.
Fund Objective	To outperform the AusBond Bank Bill Index over a three-year period
Buy/sell spread[3]	+0.25% / -0.25%
Strategy FUM	$17.2 M
Distribution Frequency	Monthly

Asset Class Allocation[6]



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:[4] Ares believes protecting principal is key to superior performance and therefore places emphasis on dampening volatility and minimising defaults.

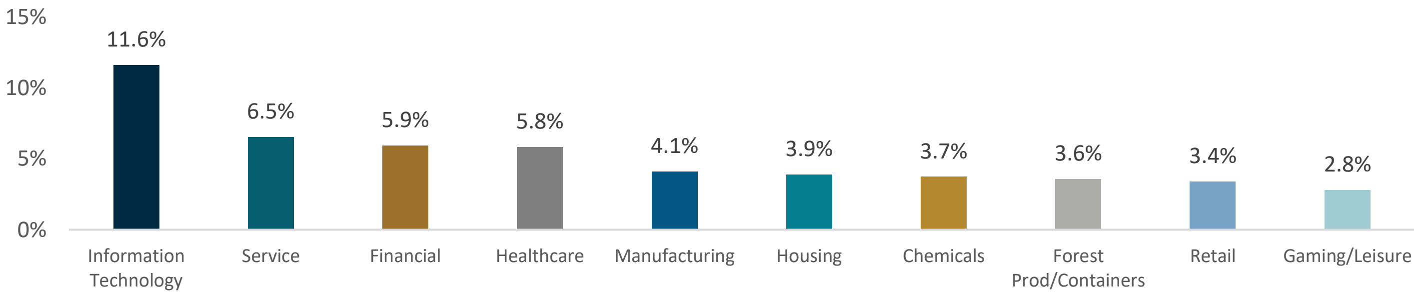
Dynamic asset allocation: The Fund has the ability to dynamically allocate capital based on the best relative value opportunities across industries, issuers and regions within the credit spectrum.

Diversification:[5] 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.

Key Attributes	Fund	Change from 31 Dec 2021
Number of issuers	160	-1
Weighted Average Spread (L+)	352	0
Current Yield (Fx Adjusted to AUD)	3.90%	-0.07%
Yield to Worst (Fx Adjusted to AUD)	4.97%	+0.25%
Weighted Average Credit Quality (S&P)	BB-	-
Total Investment Grade Exposure	50.69%	+0.09%

Top 10 Industry Exposure (% of Total Market Value)[7]



[3] 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.
[4] References to “downside protection” or similar language are not guarantees against loss of investment capital or value.
[5] Diversification does not assure profit or protect against market loss.
[6] 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.
[7] Credit Suisse Industry Distribution. Excludes collateralised loan obligations and cash (26.7% and 5.5% portfolio market value as of 31 January 2022, respectively).

Market Commentary

After a strong 2021, it has been a tumultuous start to the year for global markets. Inflation, escalating tensions between the US and Russia over Ukraine and hawkish remarks from US Federal Reserve Chair Powell drove a spike in volatility during January.

U.S. high yield bonds returned -2.75%(1) in January as prices came under pressure and spreads widened amid rising Treasury yields, geopolitical tensions and equity weakness as markets reassessed the inflation path and central bank policies. U.S. high yield primary market activity experienced its lightest volume since April 2020 amid rising yields, with 36 bonds pricing for $24.2 billion over the course of the month. Meanwhile, U.S. high yield funds reported significant outflows of $6.8 billion in January following inflows of $4.2 billion in December.(2)

Despite volatility across risk assets, U.S. leveraged loans proved resilient to inflationary pressures and returned 0.36%(3) in January, outperforming U.S. high yield bonds by the widest margin on record. Loan primary market activity increased in January with $50.9 billion in loans pricing over the course of month, following $27.6 billion in December. Notably, 41 offerings linked to the secured overnight financing rate (SOFR) priced for $48.7 billion during the month, compared to only thirteen SOFR-linked deals in December. Demand for loans remained robust with $6.6 billion of retail inflows against the backdrop of rising interest rate risk.(2)

Similarly, U.S. CLO debt securities delivered strong returns in January with all ratings tranches generating gains.(4) CLO market conditions remain supportive amid strong fundamentals, a benign corporate default outlook, and robust demand for higher beta, lower duration assets. U.S. CLO issuance moderated significantly in January compared to prior months. Issuance totaled $4.9 billion, while refinancings and resets totaled $3.4 billion for the month.(5)

Conversely, U.S. investment grade bonds underperformed floating rate assets, returning -2.15%(6) in January, as heavy supply and a spike in Treasury yields weighed on performance of the asset class.

In Europe, high yield bonds returned -1.52%(7) in January, amid rising rates, hawkish signals from the European Central Bank and growing geopolitical tensions in Eastern Europe. Meanwhile, the European loan market posted positive results, returning 0.29%(8) in January, its tenth consecutive month of positive total returns. Robust demand amid rising rates and light primary market activity provided a supportive technical backdrop for the asset class.

Market Outlook

2022 kicked off with significant volatility fueled by a higher-than-expected U.S. inflation print for January, inciting investor concerns surrounding potentially larger and more frequent interest rate hikes. In addition, geopolitical tensions between the U.S. and Russia weighed on investor sentiment, as Russia began a large-scale military exercise near Ukraine. Furthermore, the Consumer Price Index climbed at the fastest pace in 40 years, as global supply chains were unable to keep up with the increased consumer demand. Leveraged credit markets reacted unevenly, with a rate-driven sell-off in the bond market compared to resilience in the loan market.

We are closely monitoring central bank action as we anticipate further volatility around rate hikes throughout 2022. While we acknowledge that inflation remains an important factor to consider, we believe it will begin to normalize by year-end. The challenging combination of inflation, strong consumer demand and struggling supply chains may create additional bouts of volatility, which can present an attractive opportunity for active investors to seek value.

Fund Commentary

The Ares Global Credit Income Fund (“AGCIF” or the “Fund”) returned -0.06% gross and -0.12% net for the month of January. Fund performance was led by the portfolio’s allocation to bank loans and CLO debt, which continued to benefit from the positive technical in floating rate assets. The portfolio’s allocation to high yield bonds, however, weighed on performance as the asset class experienced increased volatility amid rising interest rate risk and inflation concerns.

In terms of portfolio positioning, during January we took profits on certain Single-B rated loans and IG-rated CLO debt securities and rotated into Single-B rated bonds that were oversold. We continued to be active in both the primary and secondary markets throughout the month. Within the loan allocation, we remain overweight the Single-B rated cohort and focused on loans with London Inter-Bank Offered Rate (LIBOR)/SOFR floors. From a fixed versus floating perspective, we continue to be overweight floating rate assets given increasing interest rate risk; however, we have been modestly increasing exposure to high yield bonds as we believe the current market volatility has created an attractive entry point for certain fixed rate assets. Within the Fund’s structured credit allocation, we continue to favor transactions with high quality underlying portfolios and ample time remaining in their reinvestment periods. Within corporate credit, we remain overweight technology, packaging and healthcare and underweight individual sectors and credits that may be susceptible to inflationary pressures.

Looking forward, we remain slightly overweight credit risk and underweight duration against an expected backdrop of low default rates and higher interest rates in the months ahead. Despite relatively tight valuations, we believe risk assets will continue to be supported in 2022 by the favourable fundamental backdrop. At the same time, we anticipate increased credit dispersion relative to 2021 and a rise in idiosyncratic credit events to be driven by a host of conflicting themes, including inflation concerns, tightening lending conditions, supply chain and logistics issues, new COVID-19 variant disruptions and macroeconomic headwinds. Overall, we believe credit selection and active portfolio management will continue to be paramount in 2022. As a result, we view the Fund to be well-positioned to deliver attractive returns in 2022 due to our disciplined investment process rooted in fundamental credit selection, relative value analysis, and rigorous risk management.

As of 31 January 2022. Sources: (1) ICE BofA US High Yield Index “H0A0”, (2) JPM, (3) Credit Suisse Leveraged Loan Index “CSLLI”, (4) CLOIE, (5) LCD, (6) Bloomberg Barclays U.S. Aggregate Bond Index, (7) ICE BofA European Currency High Yield Constrained Index Hedged to EUR, (8) Credit Suisse Western European Leveraged Loan Index Hedged to EUR.

Views expressed are those of the Ares Global Credit Income Fund Portfolio Managers as of 31 January 2022 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 January 2022 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 (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. AAM is an Authorised Representative No. 001280423 of Fidante Partners Limited ABN 94 002 835 592 AFSL 234668 (Fidante). 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 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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