Ares Diversified Credit Fund

ARSN 644 797 599 APIR HOW7354AU

March 2023 - Quarterly Report

Performance	1 month %	3 Months %	CYTD %	1 year %	3 years % p.a.	5 years % p.a.	Inception %
Fund return (gross)[1]	-0.2	3.1	3.1	1.1	-	-	4.4
Fund return (net)[2]	-0.2	3.1	3.1	1.1	-	-	4.4

[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 March 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 capitalise 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	628
Total Managed Assets[3]	US$3.7BN
Sharpe Ratio[7]	0.94
Standard Deviation	3.90%
Yield to Maturity (YTM)	11.32%
Distribution Rate (p.a.)[7]	8.30%
Running Yield	10.87%
Interest rate duration	0.51
Spread Duration	2.39

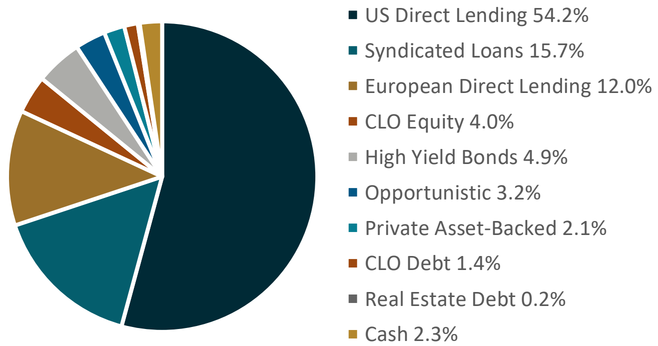
[3] Total assets (including any assets attributable to financial leverage) minus accrued liabilities (other than debt representing financial leverage)

Fund Facts

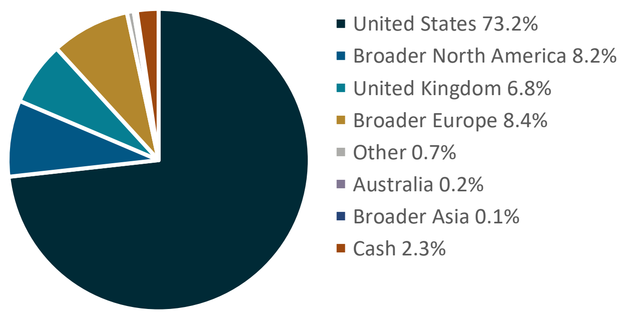
Inception date	17 December 2020
Fund FUM	$403M
Management Fee	Nil[4]
Performance fee	Nil[4]
Buy/sell spread	+0.25%/-0.00%
Distribution Frequency	Monthly
Distribution Rate[7]	0.59%

Underlying Fund Allocation[5]

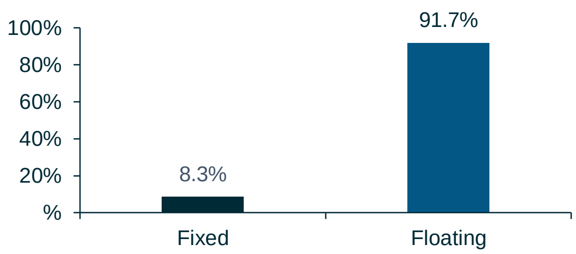
Asset Allocation



Geographic Allocation



Interest Type[6]



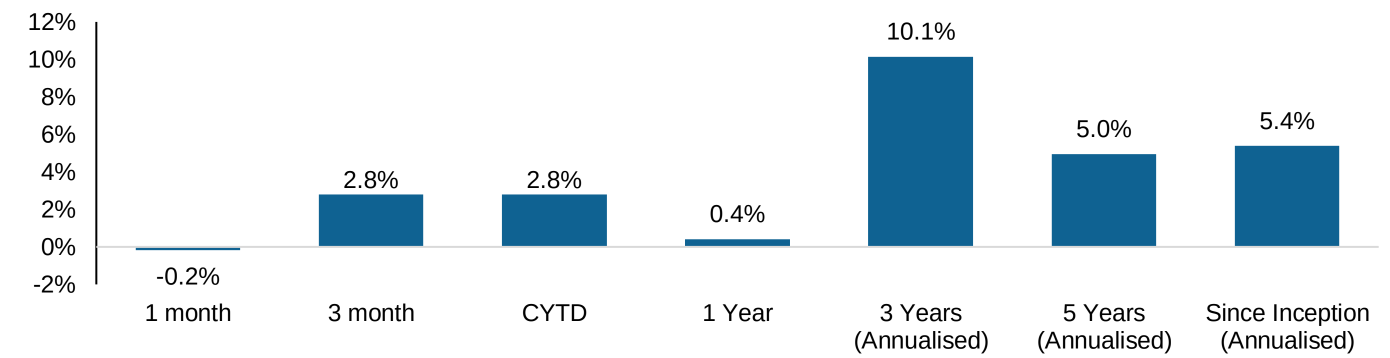
[4] The only fee is a recoverable expense, which is currently 3 bps.
[6] Excludes cash, other net assets and equity instruments.
[7] There can be no guarantee that the disbution rate will accrue at such amount and there is no assurance that distributions will be maintained at the targeted level or at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

Underlying Fund Top 10 Holdings[5]	
Mimecast	1.3%
Kaseya	1.2%
Nielsen	1.2%
DigiCert	1.1%
TurnPoint Services	1.1%
High Street Insurance Partners	1.1%
European Camping Group	1.0%
Conservice Midco, LLC	1.0%
Platinum Credit	0.9%
eCapital Finance Corp.	0.9%

Underlying Fund Industry Allocation[5]	
Software & Services	21.4%
Commercial & Professional Services	10.7%
Health Care Equipment & Services	8.5%
Financial Services	8.4%
Structured Products	7.1%
Capital Goods	6.2%
Insurance	6.0%
Consumer Services	5.9%
Other	23.5%
Cash	2.3%

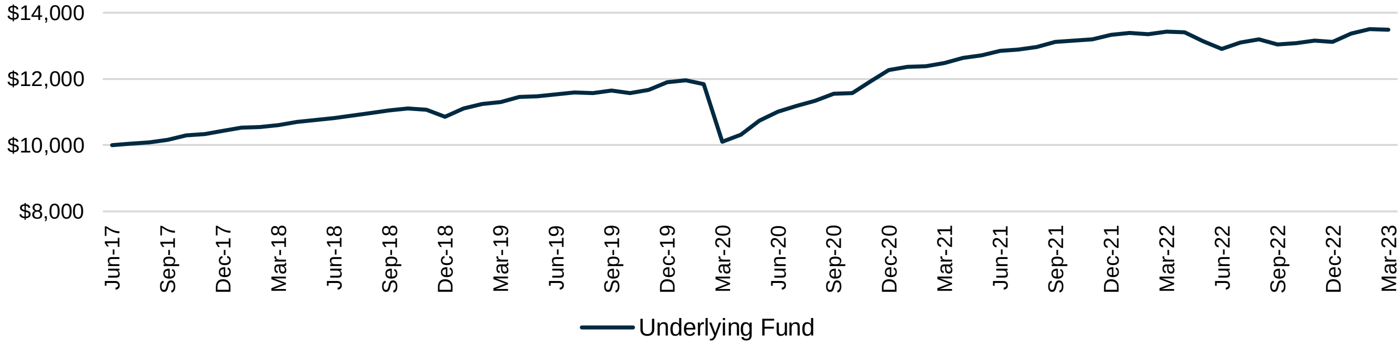
[5] As of 31 March 2023. Holdings and allocations, unless otherwise indicated, are based on the total portfolio and subject to change without notice. Data shown is for informational purposes only and not a recommendation to buy or sell any security.

Underlying Fund Historical Performance[8]



[8]As of 31 March 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 4.87% as of December 31, 2022. 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

Risk assets started 2023 on a positive note amid optimism that central banks would alter their tightening regimes, which offset elevated recession probabilities and strains within the banking sector. While positive, asset prices were volatile in both directions amid heightened uncertainty around the go-forward path of the global economy. Following a risk rally in January, driven by positive macro surprises and better than feared corporate earnings, sentiment was mixed as the Federal Reserve (the "Fed") raised rates by 25 basis points in February and March, with Chair Jerome Powell stating inflation "has a long way to go and is likely to be bumpy"[9]. Market volatility peaked in March amid elevated fears of contagion within the banking sector following deposit runs and regional bank failures in the U.S., and UBS' takeover of Credit Suisse. Despite a -4.51% weekly return following the takeover of Silicon Valley Bank by U.S. regulators, equities (proxy: S&P 500) returned +7.48% in Q1'23, as contagion fears subsided heading into quarter-end. Within credit, markets were positive as default rates remained below historical averages and key credit metrics continued to exhibit resiliency. Specific to liquid credit, high yield bonds (proxy: HUC0) and syndicated loans (proxy: CSLLI) returned +3.72% and +3.11%, respectively, behind steady demand and stalled primary activity amid bank contagion fears. With heightened execution risk in the syndicated markets, borrowers turned to the private markets to fund strategic acquisitions, and corporate direct lending was the preferred source for M&A financing during the quarter[10]. While volumes were muted, terms were relatively lender friendly due to scarcity of capital with approximately 45% of banks reporting tighter lending conditions[11].

Underlying Fund Commentary

The Underlying Fund actively rotated exposures during the period, taking advantage of favourable origination trends within private credit and episodic volatility in the syndicated markets. Asset prices were relatively stable in the incumbent portfolio, and issuer-level credit metrics remained healthy despite borrowers navigating around elevated interest expenses. From an allocation perspective, the presence of U.S. direct lending was reduced due to lower volumes and prepayments within the existing portfolio. That said, the allocation to European direct lending was increased amid higher to public to private transactions within this cohort. Shifting to liquid credit, the allocation to syndicated loans was increased as we took advantage of discounted prices in the secondary market and elevated yields by acquiring short duration paper issued by high quality companies. While similar conditions exist in high yield, we continue to hold off on adding fixed rate credit as we believe spreads do not accurately reflect to the uncertain economic backdrop. Within the portfolio's asset-backed exposures, the allocations to CLO debt and equity were added to modestly as we participated in new issue deals from top tier managers at attractive levels. The allocations to directly originated private asset-backed and real estate debt were flat during the quarter. Notably, the portfolio has limited exposure to real estate lending at presenting, with one investment in the multi-family sub sector.

Shifting to performance, the Fund received positive contributions from multiple credit sectors, underscoring our ability to generate attractive returns across the liquidity spectrum. The allocation to U.S. direct lending was the leading contributor, a byproduct of the Fund's overweight coupled with elevated yields due to higher base rates. Conversely, the lone detractor was the allocation to real estate debt as our exposure was marked down during the quarter to reflect fair value. Allocations to syndicated loans and European direct lending were the second and third leading contributors, respectively, with both asset classes benefitting from elevated yields entering the period.

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

*Presented in order of contribution to Fund returns. As of March 31, 2023. European Direct Lending includes the impact of FX hedges.

Outlook

The second quarter has started on a positive note across credit markets despite rate volatility reaching levels not seen since the global financial crisis[12] and macro indicators continuing to suggest an economic slowdown is on the horizon. More recently, the IMF lowered their global growth outlook for 2023 due to financial sector turmoil, high inflation and ongoing effects of Russia's invasion of Ukraine[13]. The positive market sentiment has been driven by resilient corporate fundamentals, and despite rhetoric suggesting otherwise, markets suggesting we are the late stages of the Fed's hiking regime. Altogether, these conflicting themes are expected to lead to continued market uncertainty, and episodic volatility like we witnessed in the first quarter. Looking ahead, we continue to monitor the impact of elevated macro concerns and their potential impact on portfolio companies and lending conditions more broadly. We expect to maintain our overweight positioning towards directly originated assets, particularly US direct lending given attractive relative value. Within liquid credit, while spreads have yet to widen materially, we are tactically taking advantage of weakness to acquire high carry opportunities in large, liquid capital structures. Within illiquid credit, the portfolio maintains a diverse pipeline of directly originated corporate and asset backed direct lending opportunities, as the market looks for dependable sources of capital amid heightened execution risk in the capital markets. The existing portfolio continues to benefit from rising rates, and tighter lending conditions bode well for new issue activity moving forward. Overall, we believe the Fund's defensive posture and overweight towards floating rate, directly originated assets in defensive, non-cyclical, service-based industries will continue to provide support against a mixed macro backdrop.

9. Source: NPR, "Federal Reserve Chair Jerome Powell warns inflation fight will be long and bumpy". As of March 2023.
10. Source: Pitchbook Leverage Commentary & Data ("LCD"). As of March 2023.
11. Source: Federal Reserve. Senior Loan Officer Opinion Survey on Bank Lending Practices. Represented by the net percentage of banks tightening standards for C&I loans to large and middle-market firms. Source:
12. Axios, "Bond market swings are wildest since '08". As of March 2023.
13. Source: IMF World Economic Outlook. As of April 2023.

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 and portfolio company information herein is as of the dates herein 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.

For further information, please contact:

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