

## February 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) <sup>1</sup>	-0.4	0.0	1.1	3.0	-	-	8.0
Fund return (net) <sup>2</sup>	-0.5	-0.2	0.6	2.3	-	-	7.3
Bloomberg AusBond Bank Bill Index	0.0	0.0	0.0	0.0	-	-	0.1
<b>Active return</b>	<b>-0.5</b>	<b>-0.2</b>	<b>0.6</b>	<b>2.3</b>	<b>-</b>	<b>-</b>	<b>7.3</b>

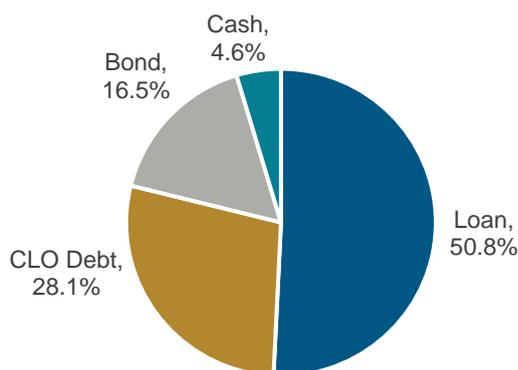
<sup>1</sup>Returns are calculated before fees have been deducted and assume distributions have been reinvested. No allowance is made for tax when calculating these figures.

<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. **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, 28 February 2022.

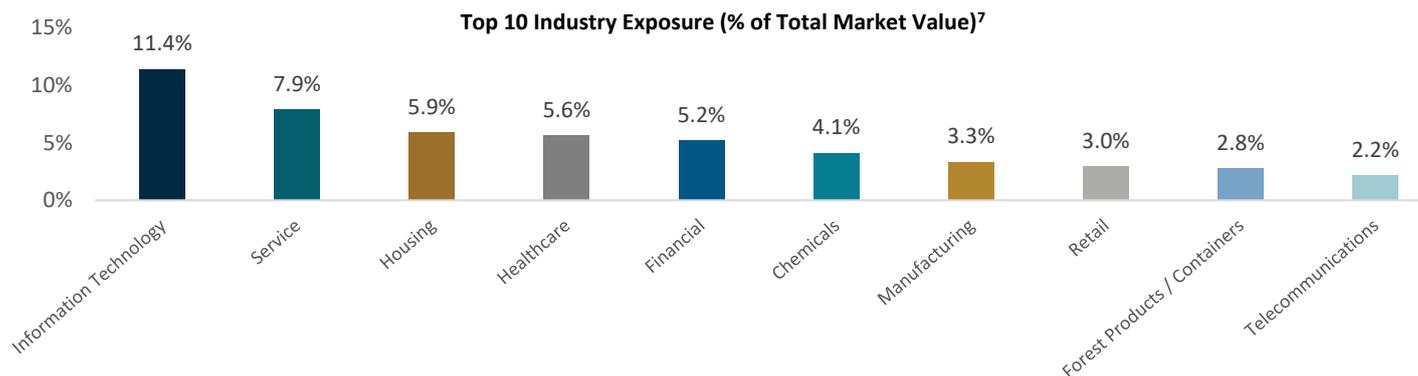
Fund Facts	
Portfolio managers	Charles Arduini, Seth Brusky, Samantha Milner, Boris Okuliar
Inception date	1 May 2020
Management fee	0.75% p.a.
Fund Objective	To outperform the AusBond Bank Bill Index over a three-year period
Buy/sell spread <sup>3</sup>	+0.25% / -0.25%
Strategy FUM	\$20.9 M
Distribution Frequency	Monthly

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:</b> <sup>4</sup>	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:</b> <sup>5</sup>	The Fund provides access to investment opportunities and asset classes which are generally unavailable to individual investors.
<b>Leading global investment team:</b>	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 Jan 2022
Number of issuers	173	+13
Weighted Average Spread (L+)	355	+3
Current Yield (Fx Adjusted to AUD)	3.69%	-0.21%
Yield to Worst (Fx Adjusted to AUD)	5.00%	+0.03%
Weighted Average Credit Quality (S&P)	BB-	-
Total Investment Grade Exposure	50.41%	+0.72%



<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> Credit Suisse Industry Distribution. Excludes collateralised loan obligations and cash (28.1% and 4.6% portfolio market value as of 28 February 2022, respectively).

## Market Commentary

The Russian invasion of Ukraine has added uncertainty to an already complex macroeconomic backdrop where high inflation, hawkish central bank policy and extended valuations are weighing on investor sentiment. Leveraged credit spreads widened during February, and new supply moderated as coordinated sanctions against Russia fueled volatility in equities, lower treasury yields, and a spike in commodity prices.

U.S. high yield bonds returned -0.90%<sup>(1)</sup> in February and yields rose to a nearly 17-month high amid expectations for the Federal Reserve (“Fed”) to move forward with an aggressive pace of interest rate hikes in 2022, despite recent geopolitical developments. U.S. high yield primary market activity slowed in February amid escalating geopolitical tensions and volatility in yields, with only 16 bonds pricing for \$9.3 billion over the course of the month. Meanwhile, U.S. high yield funds reported significant outflows of \$8.1 billion during February.<sup>(2)</sup>

Despite outperforming its fixed income peers, U.S. leverage loans posted their weakest monthly performance since March 2020, returning -0.50%<sup>(3)</sup> in February, as the asset class experienced risk-off contagion with lower quality, higher beta cohorts underperforming. Amid heightened volatility across the broader market, loan primary market activity moderated in February, with \$48 billion in loans pricing over the course of the month, following \$50.9 billion in January. Demand for loans remained robust with \$5.5 billion of retail inflows against the backdrop of rising interest rate risk.<sup>(2)</sup>

U.S. CLO debt securities posted negative returns in February with all ratings tranches selling off.<sup>(4)</sup> Against the backdrop of growing macroeconomic risks, CLO origination stalled in February amid a less robust loan technical and liability spread widening.

Similar to its fixed rate peers, U.S. investment grade bonds underperformed floating-rate assets, returning -1.12%<sup>(5)</sup> in February due to investor concerns surrounding geopolitical uncertainties and volatility in yields.

In Europe, high yield bonds returned -3.12%<sup>(6)</sup> in February, as hawkish signals from the European Central Bank (“ECB”) and investor concerns surrounding the potential disruption of the flow of oil and gas from Russia into Europe negatively impacted the asset class. Meanwhile, the European loan market returned -0.90%<sup>(7)</sup> in February, as the risk-off sentiment in high yield gradually leaked into the loan market as the conflict in Ukraine escalated throughout the month.

## Market Outlook

As the crisis in Russia and Ukraine entrenches further and the Western sanctions on Russia penetrate deeper into the country’s economic linkages, global markets have remained volatile during the first two weeks of March. Expectations for further commodity price volatility and the potential for global supply chain disruptions, specifically in agriculture, metals and energy where Russia and Ukraine are key exporters, continues to add pressure on the global growth outlook and inflation concerns. Against this backdrop, at the most recent Federal Open Market Committee meeting, the Fed approved a 0.25% percentage point rate hike, which marks the first increase since December 2018. Additionally, officials indicated an aggressive path ahead, with rate rises expected at each of the remaining six meetings in 2022.

Meanwhile, the ECB followed the Fed and shifted course in a hawkish direction, indicating its intent to end asset purchases in the third quarter of this year. Despite these factors, we remain constructive on the U.S. economy and continue to closely monitor the geopolitical crisis and its implications, inflation and shifts in global monetary policy.

## Fund Commentary

The Ares Global Credit Income Fund (“AGCIF” or the “Fund”) returned -0.41% gross and -0.47% net for the month of February. Broader market volatility stemming from the Russian invasion of Ukraine impacted all asset classes, with high yield experiencing the greatest downward pressure; specifically, the lower-rated bond cohort sold off more substantially as market participants shifted to a risk-off stance during the month. The portfolio’s allocation to bank loans and structured credit also weighed on performance amid a less robust loan technical.

During February, we tactically traded the portfolio to reduce risk and remained active in both the primary and secondary markets. In terms of portfolio positioning, we trimmed exposure of certain Single-B rated loans and Double-B rated bonds, and rotated into Triple-B rated bonds, Double-B rated loans, and investment-grade CLO debt securities. From a fixed versus floating perspective, we continue to be overweight floating rate assets amid rising interest rate risk and persistent inflation. Within the Fund’s structured credit allocation, we continue to take advantage of the yield premium in CLO debt relative to corporate credit and continue to favour transactions with high quality underlying portfolios and ample time remaining in their reinvestment periods. Specific to corporate credit, we maintain core positions in defensive sectors, including software and technology, services and housing/building products. Looking forward, we have begun trimming risk by rotating out of cyclical sectors while remaining underweight duration against an expected backdrop of slowing economic growth and higher interest rates in the months ahead. We believe credit spreads are currently at levels that represent attractive entry points in a non-recessionary environment. At the same time, tail risks have increased and we anticipate elevated credit dispersion as well as rising idiosyncratic credit events to be driven by a host of conflicting themes. Against this backdrop, we believe credit selection and active portfolio management will continue to be paramount in 2022 and view the Fund to be well-positioned to deliver attractive returns due to our disciplined investment process rooted in fundamental credit selection, relative value analysis, and rigorous risk management.



Views expressed are those of the Ares Global Credit Income Fund Portfolio Managers as of 28 February 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 28 February 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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**For further information, please contact:**

**Fidante Partners Investor Services** | p: 13 51 53 | e: info@fidante.com.au | w: www.fidante.com

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