

# **ARES MANAGEMENT LLC**

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**March 30, 2011**

**This brochure provides information about the qualifications and business practices of Ares Management LLC (“Ares Management” or the “Firm”). If you have any questions about the contents of this brochure, please contact us at 310-201-4100 or [weiner@aresmgmt.com](mailto:weiner@aresmgmt.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (“SEC”) or by any state securities authority.**

**Additional information about Ares Management also is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

**REGISTRATION WITH THE SEC AS AN INVESTMENT ADVISER DOES NOT IMPLY THAT ARES MANAGEMENT OR ANY PRINCIPALS OR EMPLOYEES OF ARES MANAGEMENT POSSESS A PARTICULAR LEVEL OF SKILL OR TRAINING IN THE INVESTMENT ADVISORY OR ANY OTHER BUSINESS.**

## **Item 2 - Material Changes**

On July 28, 2010, the SEC published “Amendments to Form ADV” which amends the disclosure document that we provide to clients as required by SEC rules. This brochure, dated March 30, 2011, is a new document prepared according to the SEC’s new requirements and rules. As such, this document is materially different in structure and requires a substantial amount of new information that our previous brochure, dated May 10, 2010, did not require.

In the future, this Item 2 will discuss specific material changes that have been made to this brochure since the prior annual update and a summary of such changes. We will also reference the date of the last annual update to our brochure.

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#### **Item 4 - Advisory Business**

Ares Management is a Delaware limited liability company that was initially established in 1997 and became an independent company in 2001. The indirect principal owner of Ares Management is Antony P. Ressler who, together with 10 members of Ares Management's senior management team through their ownership interests in Ares Partners Management Company LLC, the indirect controlling parent of Ares Management ("APMC"), holds indirectly a majority ownership in Ares Management. Intermediate holding companies include Ares Holdings Inc., Ares Holdings LLC and Ares Management Holdings LLC.

Ares Management provides the services described below to its advisory clients, which include various pooled investment vehicles and private investment funds (collectively, the "Funds") as well as certain separate investment accounts for single investors. For some separate accounts, Ares Management forms special purpose entities to serve as investment vehicles for investors. Ares Management, or an affiliated entity controlled by Ares Management, serves as general partner, managing member, investment adviser, sub-adviser and/or manager of each of its clients, including separate or managed accounts. References to Ares Management in this brochure include, as the context requires, affiliates through which Ares Management provides investment advisory services or that act in any capacity referenced in the previous sentence.

Ares Management's investment advisory business is principally focused on the private equity and leveraged finance markets with investment activities managed by dedicated teams in its Private Equity, Capital Markets and Private Debt Groups. Ares Management tailors its advisory services to the specific investment objectives and restrictions of each Fund or other client. Ares Management's private equity Funds and other similar client accounts generally seek capital appreciation through majority or shared-control equity and equity-related investments, principally in under-capitalized middle market companies. Ares Management's leveraged finance activities are conducted through its Capital Markets and Private Debt platforms. Ares Management's capital markets Funds and other similar client accounts, which generally have either a current income or total return objective, invest primarily in tradable securities, including broadly syndicated senior secured and unsecured loans, mezzanine loans, special situation investments and, to a lesser extent, equities (including post-reorganization equities and loans including debtor-in-possession loans). Ares Management's private debt Funds and other similar client accounts, which generally seek current income and, to a lesser extent, long-term capital gains, invest primarily in first and second lien senior loans and mezzanine debt of middle market companies, each of which may include an equity component, and, to a lesser extent, equity securities of such companies, with the majority of such investments originated and structured by the Private Debt Group. Many clients and Funds have investment restrictions that are particular to such client or Fund. Investment restrictions may include prohibitions on investing in certain types of assets (e.g., equity securities), restrictions on issuer domiciles, restrictions on price or rating of investments, limitations on the percentage a particular type of security can comprise of a client's or Fund's investment portfolio, etc.

Clients and investors and prospective clients and investors in each Fund should refer to the confidential private placement memorandum, limited partnership agreement, investment management agreement and other governing documents for each such client or Fund (the “Governing Documents”) for complete information on the investment objectives and investment restrictions with respect to such client or Fund. Prior performance, while illustrative of Ares Management’s investment philosophy and experience, is not necessarily indicative of future performance and there is no assurance that any client’s investment objectives will be achieved.

In accordance with common industry practice, Ares Management or a Fund general partner may enter into “side letters” or similar agreements with certain investors pursuant to which Ares Management or the general partner grants the investor specific rights, benefits, or privileges that are not made available to investors generally.

Ares Management does not participate in any wrap fee programs.

Ares Management manages all assets on a discretionary basis in accordance with the terms and conditions of each client’s Governing Documents. As of December 31, 2010, the amount of assets Ares Management manages on a discretionary basis was approximately \$39,698,557,000 (“AUM”). AUM is calculated by aggregating for all Funds and other client accounts (a) invested capital or, in the case of funds for which Ares Management is paid management fees based on net asset value, gross asset value plus (b) unfunded commitments including amounts available under debt facilities and includes assets under management by a wholly-owned subsidiary, Ares Capital Management (“ACM”), also an SEC-registered investment adviser, and assets under management by a portfolio company or other company controlled by ACM’s client. Ares Management does not manage any client assets on a non-discretionary basis.

## **Item 5 - Fees and Compensation**

### ***Compensation and Fee Schedules***

All investors and clients should review the Governing Documents of a Fund or client account for complete information on fees and compensation payable with respect thereto. All clients of Ares Management are “qualified purchasers” as defined in Section 2(a)(51) of the Investment Company Act of 1940, as amended (the “Investment Company Act”).

In certain circumstances, the advisory fees payable to Ares Management by individual clients or investors in a Fund may be negotiable. Clients and investors and prospective investors in each Fund should refer to the Governing Documents for the applicable client or Fund for complete information on the advisory fees charged by Ares Management.

From time to time, a Fund or other client account managed by Ares Management may purchase an interest in another Fund managed by Ares Management, provided that the sale or purchase is consistent with Ares Management’s fiduciary obligations to each such Fund or client account and otherwise consistent with the investment mandate of the Fund

and/or client account. While Ares Management endeavors at all times to act in the best interests of the Funds and other clients, investors should be aware that Ares Management's receipt of compensation from each of the Funds and client accounts and the contribution of additional capital by a Fund or client account to another Fund may create potential conflicts of interest with respect to such transactions.

### ***Deduction of Fees; Timing of Payments; Termination***

For many of the Funds and other client accounts, Ares Management is authorized under the Fund's or client's Governing Documents to charge and deduct advisory fees directly from the assets of the Fund or applicable client, at the times and in the amounts set forth in the Governing Documents. For separate account clients, Ares Management's ability to deduct advisory fees may be negotiable.

Base advisory fees for many of Ares Management's clients, including many of the Funds, are payable in arrears, generally on a quarterly or semi-annual basis. Since such advisory fees are payable in arrears, they are not paid until after services have been rendered. With respect to certain other clients and Funds, the base advisory fees are payable quarterly in advance. Please refer to the Governing Documents of a Fund or client account for complete information on the timing of advisory fee payments.

Clients have the right to terminate the advisory or investment management agreements in accordance with the terms of such agreements. Ares Management's general policy is to repay advisory fees paid in advance in excess of the pro rata portion earned (based on the number of days during the period) through the termination date. Any such refund would be implemented through a wire transfer of funds to the affected investors upon termination of the investment program.

### ***Other Fees and Expenses***

In addition to the fees payable to Ares Management, the Funds and other clients may incur certain charges imposed by third parties, including (but not limited to) any sales or other taxes, fees or government charges that may be assessed against the client; commissions, brokerage fees and similar charges incurred in connection with the purchase or sale of securities (including any merger fees payable to third parties and whether or not any such purchase or sale is consummated); the costs and expenses (including travel-related expenses) of holding meetings or conferences with a Fund's investors (and/or other clients); expenses relating to litigation and threatened litigation involving the client; indemnification obligations and expenses; expenses attributable to normal and extraordinary investment banking, commercial banking, accounting, auditing, appraisal, tax advisory, tax preparation, legal, external consulting, custodial and registration services provided to the client; premiums for liability insurance; the costs of dissolving a Fund or client's investment vehicle and liquidating its assets; and the costs and expenses for tax and audit services to the client. Please refer to the Governing Documents for complete information on the expenses payable by the Funds.

See discussion below in Item 12 - “Brokerage Practices” for a description of the factors Ares Management considers in selecting or recommending broker-dealers and determining the reasonableness of their compensation.

### ***Timing of Payments***

Please refer to the subsection entitled “*Deduction of Fees; Timing of Payments; Termination*” above.

### ***Transaction-Based Compensation***

In connection with investments made by certain Funds or other clients, Ares Management or its affiliates or supervised persons may receive commitment, structuring, monitoring and/or other transaction fees from portfolio investments in which one or more of the Funds or clients may invest or propose to invest. These types of arrangements present potential conflicts of interest and provide Ares Management’s supervised persons with an incentive to recommend investments based on compensation received rather than the best interests of a Fund or client. To mitigate potential conflicts, such benefits received by Ares Management in connection with its services related to portfolio companies or transactions are generally offset against advisory fees payable by the related Fund or client. Please refer to the Governing Documents for complete information on the additional compensation received by Ares Management or its affiliates or supervised persons in connection with investments and any offsets against advisory fees.

## **Item 6 - Performance-Based Fees and Side-by-Side Management**

### ***Performance-Based Fees***

For some of the Funds and other clients, Ares Management may be entitled to an incentive fee as part of its compensation for management services, including in certain situations allocations calculated and charged based on a share of cumulative profits of such Funds. See discussion above in Item 5 under the section “*Compensation and Fee Schedules*.”

Performance-based fee and allocation arrangements received by Ares Management or its related persons may create incentives for Ares Management to recommend investments that may be riskier or more speculative than those that would be recommended under different fee arrangements. Please refer to the Governing Documents of each Fund or other client for more complete information on the “performance-based fee” arrangements of each client.

### ***Side-by-Side Management***

Ares Management may provide concurrent advisory services to clients that are not charged a performance-based fee or allocation by Ares Management or its related persons and clients that are charged a performance-based fee or allocation. The potential for Ares Management and its related persons to receive greater fees or allocations from performance-based accounts creates potential conflicts of interest with respect to the

allocation of investment opportunities, as Ares Management may have incentives to direct the best investment ideas to, or to allocate investments in favor of, Funds or investment accounts that pay performance fees or special allocations of profits. To mitigate potential conflicts of interest, allocations of investment opportunities among clients are determined by Ares Management in accordance with its investment allocation policy and consistent with its fiduciary duties and corresponding investment mandates. It is Ares Management's policy that all investment opportunities will, to the extent practicable, be allocated among its clients on a basis that over a period of time is fair and equitable to each client relative to other clients, taking into account relevant facts and circumstances, including, but not limited to: (i) differences with respect to available capital, size, and remaining life of a client; (ii) differences in investment objectives or strategies; (iii) differences in risk profile at the time an opportunity becomes available; (iv) the potential transaction and other costs of allocating an opportunity among various clients; (v) potential conflicts of interest, including whether a client has an existing investment in the issuer in question; (vi) the nature of the security or the transaction including minimum investment amounts and the source of the opportunity; (vii) current and anticipated market conditions; and (viii) differences in particular portfolio profile covenants or other contractual requirements, including requirements set forth in the debt agreements of funds utilizing leverage.

The head of Ares Management's Capital Markets Group and the group's portfolio managers and the senior partners of Ares Management's Private Equity and Private Debt Groups are generally responsible for administering transactions among such groups, with the portfolio manager or senior partner for any particular group of Funds or clients (or his/her duly authorized alternate) generally responsible for transaction allocations within its group. Allocations of investment opportunities are reviewed periodically by Ares Management to assess the effectiveness of the procedures. Ares Management and its principals may co-invest with certain of the Funds or other clients, as described in the Funds' or client's Governing Documents.

## **Item 7 - Types of Clients**

### ***Types of Clients***

Ares Management's separate investment account clients and investors in the Funds are comprised primarily of government and private pension funds, sovereign wealth funds, endowments, foundations, family offices, banks, insurance companies and a limited number of high net worth individuals. Ares Management or its related persons may establish certain Funds ("Feeder Funds") to address particular tax or regulatory requirements. Each Feeder Fund, if formed, would be a limited partner of or investor in a Fund and interests in such Feeder Fund would be held by the investors who elect to participate in the Fund through such Feeder Fund. Prospective investors should refer to the Governing Documents of the applicable Fund for complete details on any Feeder Fund established with respect to such Fund.

### ***Minimum Investment Requirements***

The minimum investment in each of the Funds is stated in its Governing Documents and ranges from \$100,000 to \$25 million. Ares Management generally may waive this minimum in its discretion. With respect to separate investment accounts, Ares Management generally requires a minimum investment of \$100 million.

### **Item 8 - Methods of Analysis, Investment Strategies and Risk of Loss**

#### ***Methods of Analysis and Investment Strategies***

Ares Management's investment philosophy and portfolio construction generally involve deliberate company-specific research and analysis and an assessment of the overall macroeconomic environment and financial markets.

The specific methods of analysis and investment strategy utilized by Ares Management for Funds and other clients managed by its Capital Markets Group, Private Equity Group and Private Debt Group are described below.

#### **Capital Markets Group**

Ares' Capital Markets Group ("CMG") manages primarily cash and synthetic senior secured bank loans, high yield bonds, other fixed income investments and reorganization equities in a variety of Funds. Its primary focus is on below-investment grade debt instruments.

CMG's objective is to construct portfolios that balance the benefits of diversification, credit quality, defensive industry allocations, efficient and flexible portfolio financing and participation in the securities of companies with which, in many cases, Ares Management has had prior experience.

CMG's fixed income investment process emphasizes due diligence on companies, with a focus on principal protection, relative value and adherence to portfolio guidelines. The strategy employed by CMG generally emphasizes the importance of the following:

- Credit intensive analysis and ongoing monitoring;
- Control of investment risk; protection of principal;
- Long-term value creation; avoidance of short-term trading mentality;
- Relative value analysis;
- Use of Ares Management's extensive network of contacts;
- Broad access to deal flow combined with flexibility in investing in all parts of the capital structure;

- Active portfolio monitoring;
- Investment memoranda and periodic updates; and
- Investment committee presentations and discussion.

Additionally, in analyzing a prospective investment, CMG's research analysts seek information from a wide variety of sources including company management, fixed income and equity analysts, rating agencies, competitors, and other industry sources.

### Private Equity Group

Ares' Private Equity Group ("PEG") primarily focuses on majority and/or shared control investments in growth, rescue and de-leveraging situations.

The investment philosophy and portfolio construction of PEG involve:

- an assessment of the overall macroeconomic environment and financial markets;
- company-specific research and analysis; and
- with respect to each individual company, an emphasis on unlocking value by providing flexible capital and focusing management on growth initiatives rather than on capital funding issues.

The foundation of this investment philosophy and portfolio construction is detailed modeling and sensitivity analyses, a disciplined approach to financial leverage and a diversification strategy. PEG follows a rigorous process based on:

- a comprehensive analysis of the quality of the business and the viability of its growth prospects;
- an evaluation of management;
- an analysis of business strategy and industry trends; and
- an in-depth examination of capital structure, financial results and projections.

PEG seeks to identify middle-market companies with strong franchises and attractive growth opportunities that are distressed, over-leveraged or capital constrained. The process through which PEG makes an investment decision involves extensive research into the target company, its industry, its growth prospects and its ability to withstand adverse conditions. If the senior investment professional responsible for the transaction

determines that an investment opportunity should be pursued, PEG will engage in an intensive due diligence process.

### Private Debt Group

Ares' Private Debt Group ("PDG") primarily invests in first and second lien senior loans and mezzanine debt of middle market companies, each of which may include an equity component, and, to a lesser extent, in equity securities of such companies.

The investment philosophy and portfolio construction of PDG involve:

- an assessment of the overall macroeconomic environment and financial markets;
- company-specific research and analysis; and
- with respect to each individual company, an emphasis on capital preservation, low volatility and minimization of downside risk.

The foundation of this investment philosophy and portfolio construction is intensive credit investment analysis, a strict sales discipline based on both market technicals and fundamental value-oriented research and a diversification strategy. PDG follows a rigorous process based on:

- a comprehensive analysis of issuer creditworthiness, including a quantitative and qualitative assessment of the issuer's business;
- an evaluation of management;
- an analysis of business strategy and industry trends; and
- an in-depth examination of capital structure, financial results and projections.

PDG seeks to identify those issuers exhibiting superior fundamental risk-reward profiles and strong defensible business franchises while focusing on relative value of the security across the industry as well as for the specific issuer. The process through which PDG makes an investment decision involves extensive research into the target company, its industry, its growth prospects and its ability to withstand adverse conditions. If the senior investment professional responsible for the transaction determines that an investment opportunity should be pursued, PDG will engage in an intensive due diligence process.

### ***Material Risks***

The task of identifying investment opportunities and managing such investments can be difficult. There can be no assurance that any Fund or other client will be able to make

and/or realize any particular investment or generate returns. Investing involves a risk of loss that clients and investors in the Funds should be prepared to bear. Clients and investors in the Funds should carefully consider, among other factors, the following material risks involved with Ares Management's investment strategies. Investors in the Funds or other clients are requested to refer to the Governing Documents of the applicable Fund or client for more complete information on investment strategies employed and the corresponding risks associated with such investment strategies.

### Capital Markets Group

**Investment and Trading Risks.** The CMG Funds invest in bonds, loans and other fixed income securities and instruments, including, without limitation, commercial paper and "higher yielding" (and, therefore, higher risk) debt securities and instruments. Such securities and instruments will be primarily below "investment grade" or nonrated and may face ongoing uncertainties and exposure to adverse business, financial or economic conditions which could lead to the obligor's inability to meet timely interest and principal payments. The market prices of such investments are also subject to abrupt and erratic market movements and changes in liquidity and above-average price volatility, and the spread between the bid and asked prices of such investments may be greater than those prevailing in other more liquid markets. The CMG Funds may utilize such investment techniques as short sales, leverage and the use of synthetic instruments, such as credit default swaps, interest rate swaps, other swaps, options on securities, forward contracts and other derivative instruments, which practices can, in certain circumstances, magnify the adverse impact to the client involved.

**Macroeconomic Factors.** The performance of the client's investments could be adversely affected by macroeconomic factors, including general economic conditions affecting capital markets and participants therein (such as the obligations on or issuers of the client's investments). Such macroeconomic factors include (i) the economic downturns and uncertainties affecting economies and capital markets worldwide, (ii) continuing military conflicts, incidents of terrorism and domestic unrest occurring outside the United States and other consequences thereof and similar events, (iii) concerns about financial performance, accounting and other issues relating to various companies and (iv) recent and proposed changes in mortgage lending regulations, accounting and reporting standards.

**Prepayment Risks.** The frequency at which prepayments (including voluntary prepayments and accelerations due to defaults) occur on bonds and loans will be affected by a variety of factors including the prevailing level of interest rates and spreads as well as economic, demographic, tax, social, legal and other factors. The upside potential of an investment prepayable at par may be limited, and unexpected prepayments may disrupt related hedges, resulting in substantial losses.

**Use of Swaps.** A CMG Fund may enter into various swap agreements, such as (but not limited to) credit default swaps, cross currency swaps, total return swaps, interest rate swaps, Loan CDS instruments and other derivative instruments. Swap agreements are

individually negotiated and can be structured to create or hedge exposure to a variety of different types of investments or market factors. Depending on their structure, swap agreements may increase or decrease the client's exposure to, non-U.S. currency values, corporate credit risks or other factors.

**Hedging Transactions.** The CMG Funds may at times attempt to hedge portfolio positions of a client, however, they may determine not to do so. Hedging may limit gains, while not hedging and imperfect hedging may result in losses or may fail to fully mitigate losses. A CMG Fund's or other client's hedging investment strategies may not achieve the desired results due to implementation lag, other timing factors, portfolio management decision-making, economic or market conditions or other unanticipated factors.

**Synthetic and Other Derivative Assets.** The CMG Funds may invest in synthetic assets such as credit linked notes and engage in credit default swaps and Loan CDS transactions, in lieu of investing in bonds or loans in "cash" form. Such transactions do not perfectly replicate direct ownership of the referenced or underlying assets, and present additional risks, such as exposure to the creditworthiness of the counterparty and relatively lower liquidity.

All of the reference obligations in respect of such synthetic or derivative assets will generally consist of the types of assets in which the relevant CMG Fund would otherwise be permitted to invest. These obligations are subject to a number of risks, including prepayment risk, credit risk, liquidity risk, structural risk, legal risk, counterparty risk and interest rate risk, which may be different from those of other types of debt obligations. The performance of a reference obligation may be affected by a variety of factors, including the amount and timing of payments and recoveries on the underlying assets.

**Portfolio Risk Factors.** The risks of debt instruments include (among others): (a) limited liquidity and secondary market support, (b) the possibility that earnings of the relevant obligor may be insufficient to meet its debt service, (c) the declining creditworthiness and potential for (or actual) insolvency of the relevant obligor of such debt during periods of economic downturn, (d) that the relevant obligor is often a small or mid-size company serving only local or regional interests, (e) spread compression over the reference interest rate available for reinvestment during any period in which prepayments are received and (f) if subordinated, subordination to the prior claims of other debt or senior lenders. Debt instruments are generally subject to market value volatility that may not be apparent from historical volatility studies and that could be significant at times. A continued economic downturn could severely disrupt the market for debt instruments and adversely affect the value of outstanding debt and the ability of the borrowers thereof to repay principal and interest. Moreover, the default history for debt instruments is limited, actual defaults may be greater than indicated by historical data and the timing of defaults may vary significantly from historical observations.

In certain circumstances, the collateral securing a debt instruments, if any, might not be sufficient to satisfy the relevant obligor's obligations in the event of nonpayment of scheduled interest or principal, and may be difficult to liquidate on a timely basis.

Additionally, a decline in the value of the collateral could cause the debt to become substantially unsecured, and circumstances could arise (such as in the bankruptcy of a borrower) which could cause the security interest in the debt instrument's collateral to be invalidated. Also, much of the collateral will be subject to restrictions on transfer intended to satisfy securities regulations, which will limit the number of potential purchasers if the issuer intends to liquidate such collateral.

The portfolio may also include unsecured debt instruments. Unsecured debt instruments are subject to the same investment risks generally applicable to debt instruments described above but are subject to additional risk that the assets and cash flow of the relevant obligor may be insufficient to repay the scheduled payments to the lender after giving effect to any secured obligations of the relevant obligor. Unsecured debt instruments will be subject to certain additional risks to the extent that such debt may not be protected and such debt is not secured by collateral, financial covenants or limitations upon additional indebtedness. Unsecured debt instruments are also expected to be more illiquid than senior secured debt instruments for this reason.

**Investment in Reorganizations and Restructurings.** The CMG Funds may make investments in restructurings that involve companies that are experiencing or are expected to experience severe financial difficulties. These severe financial difficulties may never be overcome and may cause such companies to become subject to bankruptcy proceedings. In such situations, a CMG Fund's investment may be subject to the risk that a bankruptcy filing may adversely and permanently impact the value of a company and that high administrative costs may impair the value of the company. In addition, such investments could subject a CMG Fund to certain additional potential liabilities that may exceed the value of a CMG Fund's original investment therein. Furthermore, investments in distressed companies and restructurings may be adversely affected by statutes relating to, among other things, fraudulent conveyances, voidable preferences, lender liability and the court's discretionary power to disallow, subordinate or disenfranchise particular claims.

Having a "blocking position" in a security that is subject to a plan of reorganization or a restructuring entails significant risks if a CMG Fund's evaluation of the anticipated outcome of the investment situation should prove incorrect. In addition, an investment in a company involved in a reorganization proceeding or restructuring entails significant risks and may be adversely impacted if a CMG Fund's evaluation of the anticipated outcome of the investment situation should prove incorrect.

Some of the investments a CMG Fund will make may require active monitoring and representation on official and unofficial creditors' committees for a company involved in a reorganization proceeding or restructuring. Accordingly, a CMG Fund may seek representation on such committees from time to time if the manager or general partner of such CMG Fund, in its discretion, determines that such representation is necessary or advisable to protect or further a CMG Fund's interests. Serving on an official or unofficial committee increases the possibility that a CMG Fund will be deemed an "insider" or a "fiduciary" of the company it has so assisted and may restrict a CMG

Fund's trading of its investments in such company and exposes the person serving on the committee to litigation risks. Should such assistance be provided before a company enters bankruptcy proceedings, the Bankruptcy Court, under certain conditions such as a finding of fraud or inequitable conduct, may invoke the doctrine of "equitable subordination" with respect to any claim or equity interest held by a CMG Fund in such company and subordinate any such claim or equity interest in whole or in part to other claims or equity interests in such company. Claims of equitable subordination may also arise outside of the context of a CMG Fund's committee activities. In addition, if representation of a creditors' committee of a company causes a CMG Fund to be deemed an affiliate of the company, the securities of such company held by a CMG Fund may become restricted securities, which are not freely tradable. As a CMG Fund will indemnify any person serving on a committee on its behalf for claims arising from the breaches of those obligations, indemnification payments could adversely affect the return on a CMG Fund's investment in a portfolio company.

**Distressed Securities.** A CMG Fund may invest in securities, private claims and obligations of domestic and foreign entities which are experiencing significant financial or business difficulties. A CMG Fund may lose a substantial portion or all of its investment in a distressed environment or may be required to accept cash or securities with a value less than a CMG Fund's investment. The market prices of such instruments are also subject to abrupt and erratic market movements and above average price volatility, and the spread between the bid and asked prices of such instruments may be greater than normally expected due to a variety of factors that are inherently difficult to predict, such as domestic or international economic and political developments, may significantly affect the results of a CMG Fund's activities. Investments in distressed securities, particularly in connection with reorganizations, often involve litigation generally related to issues related to control and preference among classes, claimants and other related matters. Such litigation can be time-consuming and expensive, and can frequently lead to unpredicted delays or losses that by their nature involve business, financial, market and/or legal risks.

**Illiquidity of Debt Instruments.** Debt instruments and interests in debt instruments have significant liquidity risks and market value risks since they are not generally traded in organized exchange markets but are traded by banks and other institutional investors engaged in loan syndications. In such cases, the primary resale opportunities for such debt instruments are privately negotiated transactions with a limited number of purchasers. This may restrict the ability of a CMG Fund to dispose of investments in a timely fashion and/or at a favorable price. The inability to dispose of a debt instrument position could result in losses to a CMG Fund, including the loss of its entire investment. The debt of highly-leveraged companies or companies in default also may be less liquid than other debt. If a CMG Fund voluntarily or involuntarily sold its interest in those types of debt securities, it may not receive the full value that it expected.

**Highly-Leveraged Borrowers.** The issuers of debt in which a CMG Fund may invest are likely to be highly leveraged. Although a CMG Fund's debt instruments may be in the senior position of the capital structure, a borrower's leverage may adversely impact a

CMG Fund in a number of ways, such as creating a greater possibility of default or bankruptcy of the borrower. It is also possible that the pledging of collateral (if any) to secure the debt could be found to constitute a fraudulent conveyance or preferential transfer which would be nullified or subordinated to the rights of other creditors of the borrower under applicable law. In addition, CMG Funds may also utilize leverage which will increase the exposure of such CMG Funds to adverse economic factors such as rising interest rates and downturns in the economy. In the event that a CMG Fund is unable to meet principal and interest payments on its third-party indebtedness, the value of an investor's interest in such CMG Fund could be significantly reduced or even eliminated.

**Special Situations.** A CMG Fund may invest in companies involved in (or the target of) acquisition attempts or tender offers or companies involved in work-outs, liquidations, spin-offs, reorganizations, bankruptcies and similar transactions. In any investment opportunity involving any such type of business enterprise, there exists the risk that the transaction in which such business enterprise is involved either will be unsuccessful, will take considerable time or will result in a distribution of cash or a new security the value of which will be less than the purchase price to a CMG Fund of the security or other financial instrument in respect of which such distribution is received. Similarly, if an anticipated transaction does not in fact occur, a CMG Fund may be required to sell its investment at a loss. Because there is substantial uncertainty concerning the outcome of transactions involving financially troubled companies in which a CMG Fund may invest, there is a potential risk of loss by a CMG Fund of its entire investment in such companies. In connection with such transactions (or otherwise), a CMG Fund may purchase securities on a when-issued basis, which means that delivery and payment take place sometime after the date of the commitment to purchase and is often conditioned upon the occurrence of a subsequent event, such as approval and consummation of a merger, reorganization or debt restructuring. The purchase price and/or interest rate receivable with respect to a when-issued security are fixed when a CMG Fund enters into the commitment, thus such securities are subject to changes in their market value prior to delivery.

#### Private Equity Group

**Nature of Investments.** A substantial portion of a PEG Fund's investments will be in equity or equity-related investments, although depending upon the general economic environment, investments in distressed debt instruments offering opportunities for potential control and equity-like returns may also be made, that by their nature involve business, financial, market and/or legal risks. A PEG Fund's investments generally will be highly illiquid, and there can be no assurance that a PEG Fund will be able to realize on such investments in a timely manner. Consequently, dispositions of such investments may require a lengthy time period or may result in distributions in kind to investors.

While such investments offer the opportunity for significant capital gains, they also involve a high degree of risk that may result in substantial losses. There can be no assurance that a PEG Fund will correctly evaluate the nature and magnitude of the various factors that could affect the value of such investments. Prices of the investments

may be volatile, and a variety of other factors that are inherently difficult to predict, such as domestic or international economic and political developments, may significantly affect the results of a PEG Fund's activities.

**Non-Controlling Investments.** Although the PEG Funds primarily make control-oriented investments, a PEG Fund may invest in minority and/or credit based positions in portfolio companies for which a PEG Fund may have a limited ability to exert significant influence or protect its position. Accordingly, a PEG Fund may have a limited ability to protect its interests in such portfolio companies and to influence such portfolio companies' management. In such cases, a PEG Fund will be significantly reliant on the other equity participants in the portfolio companies and on the existing management and board of directors of such portfolio companies, which may include representation of other financial investors with whom a PEG Fund is not affiliated and whose interests may conflict with the interests of such PEG Fund.

**Competitive Market for Investment Opportunities.** The activities of identifying, completing and realizing suitable investments are highly competitive. Although PEG has been successful in identifying suitable investments in the past, PEG will be competing for investments against other private investment funds, strategic buyers and other institutional investors. Other investors may make competing offers for investment opportunities that are identified, and consummating a transaction is subject to innumerable uncertainties, only some of which are foreseeable or within the control of the general partner of a PEG Fund. Competition for investments may reduce returns. There can be no assurance that PEG will be able to locate, complete and exit investments that satisfy a PEG Fund's performance objectives, or realize upon their values, or that it will be able to fully invest its committed capital.

**Limited Number of Investments.** PEG may intend for a PEG Fund to participate in a limited number of investments and, as a consequence, the aggregate return of such PEG Fund may be adversely affected by the unfavorable performance of even a single investment. Although PEG intends to diversify each PEG Fund's portfolio to the extent reasonably possible within the confines of such PEG Fund's investment strategy, the inability of PEG to achieve this objective could adversely affect the performance of a PEG Fund. Furthermore, to the extent that the capital raised is less than the targeted amount, a PEG Fund may make fewer investments and thus be less diversified.

**Middle-Market Companies.** A component of a PEG Fund's investment strategy is to invest in middle-market companies. While investments in middle-market companies may present greater opportunities for growth, such investments may also entail larger risks than are customarily associated with investments in large companies. Medium-sized companies may have more limited product lines, markets and financial resources, and may be dependent on a smaller management group. As a result, such companies may be more vulnerable to general economic trends and to specific changes in markets and technology. In addition, future growth may be dependent on additional financing, which may not be available on acceptable terms when required. Further, there is ordinarily a more limited marketplace for the sale of interests in smaller, private companies, which

may make realizations of gains more difficult, by requiring sales to other private investors. In addition, the relative illiquidity of private equity investments generally, and the somewhat greater illiquidity of private investment in small and medium-sized companies, could make it difficult for a PEG Fund to react quickly to negative economic or political developments.

**Leverage.** Portfolio companies in which a PEG Fund invests typically have leveraged capital structures, although, Ares believes, the PEG Funds generally seek investments in somewhat less leveraged capital structures than other more aggressive investing groups. Use of leverage may increase the exposure to adverse economic factors such as significantly rising interest rates, downturns in the economy or deterioration in the condition of any given portfolio company or its industry. In the event a portfolio company is unable to meet principal and interest payments on its third-party indebtedness, the value of a PEG Fund's investment in such entity could be significantly reduced or even eliminated.

In addition, a PEG Fund's ability to achieve attractive rates of return will depend in part on its ability to access sufficient sources of indebtedness for its portfolio companies at attractive rates and terms. Reduced availability, an increase in interest rates and/or other tightening of terms associated with indebtedness available to a PEG Fund's portfolio companies may make it more expensive to finance such PEG Fund's portfolio investments and could make it more difficult for a PEG Fund to compete for suitable investment opportunities.

**Reliance on Other Management.** The day-to-day operations of each portfolio company in which a PEG Fund invests will be the responsibility of such portfolio company's management team. Although PEG and each PEG Fund's general partner will monitor the performance of a PEG Fund's portfolio companies and will screen for and, if necessary, recruit capable management, there can be no assurance that such management will be able to operate any such portfolio company in accordance with such PEG Fund's expectations.

**Follow-On Investments.** A PEG Fund may be called upon to provide follow-on funding for its portfolio companies or have the opportunity to increase its investment in portfolio companies. There can be no assurance that a PEG Fund will have sufficient capital to do so. Any decision not to make follow-on investments or the inability to make them may have a substantial negative impact on a portfolio company in need of such an investment or may diminish a PEG Fund's proportionate ownership in such portfolio company and thus its ability to influence such portfolio company's future development.

**Investments Longer than Term.** A PEG Fund may invest in investments that may not be advantageously disposed of prior to the date that such PEG Fund will be dissolved, either by expiration of a PEG Fund's term or otherwise. Although PEG expects that investments will be disposed of prior to dissolution or suitable for in-kind distribution at dissolution, a PEG Fund may have to sell, distribute or otherwise dispose of investments at a disadvantageous time as a result of dissolution.

## Private Debt Group

**Highly Competitive Market.** The PDG Funds operate in a highly competitive market for investment opportunities. A number of entities compete with the PDG Funds to make the types of investments that the PDG Funds make in middle-market companies. The PDG Funds compete with BDCs, public and private funds, commercial and investment banks, commercial financing companies, insurance companies, high yield investors, hedge funds, and, to the extent they provide an alternative form of financing, private equity funds. Many of the PDG Funds' competitors are substantially larger and have considerably greater financial, technical and marketing resources than the PDG Funds. Some competitors may have a lower cost of funds and access to funding sources that are not available to the PDG Funds. In addition, some of the PDG Funds' competitors may have higher risk tolerances or different risk assessments, which could allow them to consider a wider variety of investments and establish more relationships than the PDG Funds.

**Changes in Interest Rates.** The PDG Funds are exposed to risks associated with changes in interest rates. General interest rate fluctuations may have a substantial negative impact on the PDG Funds' investments and investment opportunities and, accordingly, may have a material adverse effect on the PDG Funds' investment objectives and rates of return on invested capital.

**Illiquidity.** The lack of liquidity in the PDG Funds' investments may adversely affect the PDG Funds' business. As PDG Funds generally make investments in private companies, substantially all of these investments are subject to legal and other restrictions on resale or are otherwise less liquid than publicly traded securities. The illiquidity of these investments may make it difficult for the PDG Funds to sell such investments if the need arises. In addition, if a PDG Fund is required to liquidate all or a portion of such PDG Fund's portfolio quickly, such PDG Fund could realize significantly less than the value at which such PDG Fund has recorded its investments. In addition, a PDG Fund may face other restrictions on such PDG Fund's ability to liquidate an investment in a portfolio company to the extent that such PDG Fund or an affiliated manager of Ares has material non-public information regarding such portfolio company.

**Economic recessions or downturns.** Economic recessions or downturns could impair the portfolio companies of the PDG Funds and harm performance. Many of these portfolio companies may be susceptible to economic slowdowns or recessions (including the economic downturn that began in 2007 and slowdowns or recessions less severe) and may be unable to repay loans during these periods. Therefore, during these periods a PDG Fund's non-performing assets may increase and the value of such PDG Fund's portfolio may decrease if such PDG Fund is required to write down the values of its investments. Adverse economic conditions may also decrease the value of collateral securing some of a PDG Fund's loans and the value of any equity investments. Economic slowdowns or recessions could lead to financial losses in a portfolio and a decrease in revenues, net income and assets.

**Investments in privately held middle-market companies.** The PDG Funds primarily invest in privately held U.S. middle-market companies. Investments in privately held middle-market companies involve a number of significant risks, including the following:

- these companies may have limited financial resources and may be unable to meet their obligations, which may be accompanied by a deterioration in the value of any collateral and a reduction in the likelihood of a PDG Fund realizing any guarantees such PDG Fund may have obtained in connection with such PDG Fund investment;
- they typically have shorter operating histories, narrower product lines and smaller market shares than larger businesses, which tend to render them more vulnerable to competitors' actions and market conditions, as well as general economic downturns;
- they typically depend on the management talents and efforts of a small group of persons; therefore, the death, disability, resignation or termination of one or more of these persons could have a material adverse impact on a PDG Fund's portfolio company and, in turn, on such PDG Fund;
- there is generally little public information about these companies. These companies and their financial information are not subject to the Exchange Act and other regulations that govern public companies, and a PDG Fund may be unable to uncover all material information about these companies, which may prevent such PDG Fund from making a fully informed investment decision and cause such PDG Fund to lose money on its investments;
- they generally have less predictable operating results and may require substantial additional capital to support their operations, finance expansion or maintain their competitive position;
- a PDG Fund's executive officers, directors and investment adviser may, in the ordinary course of business, be named as defendants in litigation arising from such PDG Fund's investments in the portfolio companies; and
- they may have difficulty accessing the capital markets to meet future capital needs.

**Debt Investments.** A PDG Fund's debt investments may be risky and such PDG Fund could lose all or part of its investment. The debt investments of the PDG are typically not initially rated by any rating agency, but the PDG Funds believe that if such investments were rated, they would be below investment grade (rated lower than "Baa3" by Moody's Investors Service, lower than "BBB-" by Fitch Ratings or lower than "BBB-" by Standard & Poor's Rating Service). Indebtedness of below investment grade quality is regarded as having predominantly speculative characteristics with respect to the issuer's capacity to pay interest and repay principal. Therefore, the PDG Funds' investments may result in an above average amount of risk and volatility or loss of principal. The PDG

Funds also invest in assets other than first and second lien and mezzanine debt investments, including high-yield securities, U.S. government securities, credit derivatives and other structured securities and certain direct equity investments. These investments entail additional risks that could adversely affect a PDG Fund's investment returns.

**Investments in Equity Securities.** Investments in equity securities, many of which are illiquid with no readily available market, involve a substantial degree of risk. The PDG Funds may purchase common and other equity securities. Although common stock has historically generated higher average total returns than fixed income securities over the long term, common stock also has experienced significantly more volatility in those returns and in recent years has significantly under performed relative to fixed income securities. The equity securities a PDG Fund acquires may fail to appreciate and may decline in value or become worthless and such PDG Fund's ability to recover its investment will depend on such PDG Fund's portfolio company's success. Investments in equity securities involve a number of significant risks, including:

- any equity investment a PDG Fund makes in a portfolio company could be subject to further dilution as a result of the issuance of additional equity interests and to serious risks as a junior security that will be subordinate to all indebtedness (including trade creditors) or senior securities in the event that the issuer is unable to meet its obligations or becomes subject to a bankruptcy process;
- to the extent that the portfolio company requires additional capital and is unable to obtain it, a PDG Fund may not recover such PDG Fund's investment; and
- in some cases, equity securities in which a PDG Fund invests will not pay current dividends, and such PDG Fund's ability to realize a return on its investment, as well as to recover its investment, will be dependent on the success of the portfolio company. Even if the portfolio company is successful, such PDG Fund's ability to realize the value of its investment may be dependent on the occurrence of a liquidity event, such as a public offering or the sale of the portfolio company. It is likely to take a significant amount of time before a liquidity event occurs or such PDG Fund can otherwise sell its investment. In addition, the equity securities such PDG Fund receives or invests in may be subject to restrictions on resale during periods in which it could be advantageous to sell them.

There are special risks associated with investing in preferred securities, including:

- preferred securities may include provisions that permit the issuer, at its discretion, to defer distributions for a stated period without any adverse consequences to the issuer. If a PDG Fund owns a preferred security that is deferring its distributions, such PDG Fund may be required to report income for tax purposes before such PDG Fund receive such distributions;
- preferred securities are subordinated to debt in terms of priority to income and liquidation payments, and therefore will be subject to greater credit risk than debt;
- preferred securities may be substantially less liquid than many other securities, such as common stock or U.S. government securities; and
- generally, preferred security holders have no voting rights with respect to the issuing company, subject to limited exceptions.

**Lender Liability Claims.** There may be circumstances where a PDG Fund's debt investments could be subordinated to claims of other creditors or the PDG Funds could be subject to lender liability claims. If one of a PDG Fund's portfolio companies were to go bankrupt, even though such PDG Fund may have structured its interest as senior debt, depending on the facts and circumstances, a bankruptcy court might recharacterize such PDG Fund's debt holding as an equity investment and subordinate all or a portion of such PDG Fund's claim to that of other creditors. In addition, lenders can be subject to lender liability claims for actions taken by them where they become too involved in the borrower's business or exercise control over the borrower. For example, a PDG Fund could become subject to a lender's liability claim, if, among other things, such PDG Fund actually renders significant managerial assistance.

**Minority Interests.** When a PDG Fund is a debt or minority equity investor in a portfolio company, such PDG Fund may not be in a position to exert influence on the entity, and stockholders and management of the company may make decisions that could decrease the value of such PDG Fund's portfolio holdings.

**Leverage.** Some of the PDG Funds' portfolio companies may be highly leveraged, which may have adverse consequences to these companies and to a PDG Fund as an investor. These companies may be subject to restrictive financial and operating covenants and the leverage may impair these companies' ability to finance their future operations and capital needs. As a result, these companies' flexibility to respond to changing business and economic conditions and to take advantage of business opportunities may be limited. Further, a leveraged company's income and net assets will tend to increase or decrease at a greater rate than if borrowed money were not used.

## **Item 9 - Disciplinary Information**

Neither Ares Management nor any of its management persons has been the subject of any material legal or disciplinary proceedings that are material to a client's evaluation of our business or the integrity of our management.

## **Item 10 - Other Financial Industry Activities and Affiliations**

### ***Registered Broker-Dealers***

Neither Ares Management nor any of its management persons is registered as a broker-dealer or a registered representative of a broker-dealer or is affiliated with any broker-dealer, bank or other financial services firm.

### ***Registered Futures Commission Merchants, Commodity Pool Operators and Commodity Trading Advisors***

Neither Ares Management nor any of its management persons is registered as a registered futures commission merchant, commodity pool operator or commodity trading advisor.

### ***Relationships with Related Persons***

Ares Management is the parent company of Ares Capital Management LLC ("Ares Capital"), which is an SEC-registered investment adviser and the investment manager of Ares Capital Corporation ("ARCC"), a closed-end, non-diversified specialty finance company that is regulated as a business development company under the Investment Company Act. Ares Management is also the parent company of Ares Management Limited, an entity formed in the United Kingdom and authorized by the UK Financial Services Authority. Ares Management and its related persons are investment advisers to all of Ares Management's clients, including the Funds, and are the general partners and, in many cases, limited partners of the Funds and other investment vehicles that are limited partnerships. Certain Ares Management personnel may spend substantially all of their business time on one or more of the Funds as required pursuant to the terms of each Fund's Governing Documents. In addition, employees of Ares Management and its affiliates may serve as advisors, directors, members of credit committees or, less frequently, officers for portfolio companies in which the Funds or other clients invest, or provide other services to portfolio companies. To mitigate potential conflicts, benefits received by Ares Management in connection with such services are generally offset against advisory fees payable by the related Fund or client. As a result of such roles and in connection with investment activities, employees may also from time to time be given access to confidential information relating to companies in which the Funds or other clients invest. As a result, certain Funds and other clients may, under certain circumstances, be prohibited for periods of time from engaging in transactions with respect to the debt or securities of such a portfolio company, which prohibition may have an adverse effect on such clients.

Many of the investment opportunities that Ares Management evaluates for potential investment by its clients may be eligible investments for more than one such client. It is Ares Management's policy that all investment opportunities will, to the extent practicable, be allocated among its clients on a basis that over a period of time is fair and equitable to each client relative to other clients, taking into account all relevant facts and circumstances. See discussion under Item 6 – "Performance-Based Fees and Side-by-Side Management" above for more detail on Ares Management's allocation policy.

Principals, officers and employees of Ares Management ("Covered Persons"), members of their families and related persons of Ares Management may participate directly or indirectly as investors in Ares Management's Funds, as described in a Fund's Governing Documents, which investments may be in privately negotiated transactions at varying prices. Ares Management may recommend to clients the purchase or sale of securities in which it, or a Covered Person or related person thereof, has a financial interest. In addition, Ares Management permits its Covered Persons to engage in personal securities transactions, subject to compliance with the Firm's Code of Ethics.

For a general discussion of how we address resulting conflicts of interest, see discussion under Item 11 – "Code of Ethics" below.

### ***Selection or Recommendation of Other Advisers***

Ares Management does not recommend or select other third-party investment advisers for its clients. Except for its wholly owned subsidiary Ares Capital Management LLC, which is an SEC-registered investment adviser, Ares Management does not have other business relationships with other advisers that create a material conflict of interest.

## **Item 11 – Code of Ethics**

### ***Code of Ethics***

Ares Management has adopted a Code of Ethics (the "Code") pursuant to Rule 204A-1 under the Advisers Act that includes formal personal trading policies and procedures, generally requiring, among other things, all Covered Persons to file with Ares Management's Chief Compliance Officer ("CCO") certain reports concerning their personal securities holdings and transactions and, subject to certain exceptions, to obtain pre-clearance for purchasing and selling "covered securities." All Covered Persons are also required to report any violations of the Code to Ares Management's CCO.

The Code provides that no Covered Person may, in breach of any fiduciary duty he or she owes to the Funds or other client accounts advised or managed by Ares Management, engage directly or indirectly in any business investment in a manner detrimental to the Funds or other clients or use confidential information gained by reason of his or her employment by or affiliation with Ares Management in a manner detrimental to the Funds or other clients. Additionally, the Code requires that before, or at the time that, a Covered Person recommends or authorizes the purchase or sale of a covered security by a Fund, he or she must disclose to the CCO: a) any beneficial ownership in such covered

security that he or she has or proposes to acquire; b) any interest he or she has or proposes to acquire in any third party account in which such covered security is held; c) any beneficial interest in any other security that may benefit from such proposed purchase, sale or other action; and d) any interest in or relationship with the issuer of such covered security that he or she has or proposes to acquire.

The Code further obligates each Covered Person to:

- Conduct his or her personal securities transactions in a manner consistent with the Code and that will avoid abuse of his or her position of trust and responsibility with Ares Management;
- Avoid engaging in any act, practice, or course of business that is in breach of the fiduciary duty of care, loyalty, honesty and good faith that he or she and Ares Management owe to the Funds or other clients; and
- Avoid engaging in any act, practice or course of business in violation of any applicable law, rule or regulation, including, without limitation, the federal securities laws.

Any client or prospective client or investor or prospective investor in a Fund may obtain a copy of the Code upon request.

### ***Participation or Interest in Client Transactions; Personal Trading***

As general partners, limited partners or investors in certain of the Funds, Ares Management and its related persons have indirect beneficial interests in the securities owned by such Funds and will share in any profits and losses generated by such Funds' investments. Before Ares Management makes a recommendation that a Fund or other client buy or sell a security, all related persons that have beneficial ownership of such security at the time of such recommendation (not including any indirect interest by reason of their interest in a Fund) are required to disclose such interest to Ares Management.

Ares Management permits its employees and other related persons to engage in personal securities transactions, subject to compliance with its Code. Any transactions in securities or investments (or related securities or investments such as derivative securities) that are held by one or more Funds or other clients are generally subject to blackout periods that begin two business days before and end two business days after any client has traded in that security or a related security. Moreover, from time to time, Ares Management may cause a Fund or other client to engage in "cross trades" via the purchase of a portfolio investment from or sale of a portfolio investment to another client, provided that the sale or purchase is consistent with Ares Management's fiduciary obligations to each client and otherwise complies with applicable law and Ares Management's policies.

In addition, Ares Management and its related persons may, directly or through one or more entities, sell securities in which they have a direct or indirect ownership interest to certain Funds or other clients in connection with certain “warehousing” transactions, provided that the sale is consistent with Ares Management’s fiduciary obligations to such Funds or other clients. Such transactions will be fully disclosed in writing, and the written consent of the appropriate Fund (which, in certain circumstances, may be provided by a Fund’s Advisory Committee) or client, as applicable, will be obtained prior to the consummation of any such transactions in accordance with Section 206(3) of the Advisers Act and all other applicable state and federal securities laws.

Ares Management and its principals may co-invest with certain of the Funds or other clients, as described in the applicable Governing Documents. Ares Management also makes investments on its own behalf and on behalf of its affiliates.

## **Item 12 - Brokerage Practices**

Subject to the investment objectives, policies and restrictions of each Fund and other client as set forth in its Governing Documents, Ares Management has discretionary authority to determine the type, amount, and price of securities and investments to be bought and sold on behalf of each client or Fund, including the selection of, and commissions paid to, brokers.

In selecting broker-dealers to effect transactions, Ares Management seeks to obtain best execution by considering various factors including, but not limited to, price (including the applicable brokerage commission or dealer spread), size of order, timeliness and certainty of execution, liquidity of the securities traded, expertise as it relates to specific securities, counterparty risk and business reputation. While Ares Management generally seeks reasonably competitive trade execution costs, Funds and other client accounts will not necessarily pay the lowest spread or commission available.

From time to time, Ares Management may receive client or investor referrals from broker-dealers, which may provide an incentive for Ares Management to select or recommend certain broker-dealers for execution services. Please refer to the subsection entitled “*Third Party Compensation for Referrals*” in Item 14 below for complete information.

## ***Research and Other Soft Dollar Benefits***

Section 28(e) of the Securities Exchange Act of 1934 (the “Exchange Act”) provides a safe harbor that permits advisers, when selecting brokers to execute transactions for client accounts, to take into account certain research products and services provided to the adviser by brokers. Ares Management does not engage in soft dollar arrangements.

## ***Trade Aggregation***

Under Ares Management’s policy respecting aggregation of orders, orders for the same investment, including acquisition and disposition transactions, entered on behalf of more

than one client may be aggregated (i.e., blocked or bunched), subject to the aggregation being in the best interests of all participating clients. The trade order must indicate the amount or percentage of the trade intended to be allocated to each participating client. If the final allocation differs from the initially indicated allocation or is not allocated on a pro rata basis for partially filled orders, except in the case of de minimus changes in the allocations, a written rationale must be provided in the allocation statement.

### **Item 13 - Review of Accounts**

#### ***Review of Client Accounts***

Ares Management monitors all portfolio investments on behalf of each Fund and other client on an ongoing basis. Investments are reviewed in the context of each client's (i) adherence to the investment objectives and guidelines as set forth in its Governing Documents and (ii) investment performance. Subsequent to an investment, each position is monitored on an ongoing basis by at least one investment professional. The monitoring may include ongoing dialogue with company management, fixed income and equity analysts, rating agencies, competitors, and/or other industry sources. In addition, a client's positions as well as a client's overall performance and adherence to its investment mandates and restrictions are monitored on an ongoing basis by senior investment professionals, including portfolio managers in the Capital Markets Group and senior partners in the Private Equity and Private Debt Groups, as applicable.

#### ***Reports to Clients***

Ares Management provides reports to investors in the Funds and to other clients as required by the applicable Governing Documents. Investors in Funds and clients should refer to the applicable Governing Documents for further information on the reports provided to a particular Fund's investors or to the client.

The Governing Documents of certain Funds and other clients typically require quarterly and annual financial statements to be distributed to a Fund's investors or to the client and Ares Management also typically provides written investor letters with respect to a Fund or other client and its performance. Ares Management distributes K-1 filings to investors, where applicable, and provides certain other reports and analyses to investors and potential investors upon request.

With respect to certain Funds that are collateralized loan obligations or similarly structured finance vehicles, the independent trustees of the Funds generally prepare monthly compliance reports. Additionally, Ares Management may prepare periodic investor letters, portfolio profile summaries and pro forma results to supplement and further clarify any trustee reports. Also, in connection with equity distributions for these Funds, Ares Management typically sends a letter to the investors in these Funds summarizing the current status of the particular Fund and all distributions made to date.

Finally, Ares Management may hold annual investor meetings and calls and other interim calls as appropriate for certain of the Funds or other clients.

## **Item 14 - Client Referrals and Other Compensation**

### ***Economic Benefits Received from Third Parties***

In connection with investments made by certain of the Funds or other clients, Ares Management or its related persons may receive commitment, structuring, monitoring and/or other transaction fees from portfolio investments in which one or more of the Funds or other clients may invest or propose to invest. The potential for Ares Management and its related persons to receive such economic benefits may create conflicts of interest as Ares Management and its related persons may have economic incentives to invest in portfolio investments that provide such benefits. To mitigate potential conflicts, such benefits received by Ares Management in connection with its services related to portfolio companies or transactions are generally offset against advisory fees payable by the related Fund or client.

### ***Third Party Compensation for Referrals***

Any of the Funds may impose sales charges to compensate unaffiliated broker-dealers who assist in obtaining subscriptions. The sales charge may be payable by investors, one or more of the Funds, the general partner of a Fund, Ares Management or a combination thereof. In addition, Ares Management may compensate third parties who refer prospective investors to any of its Funds or new clients to Ares Management.

Certain of the solicitors or placement agents utilized to market Ares Management's Funds, as well as individuals employed by such solicitors or placement agents, may invest in the Funds and may not pay, or pay reduced, advisory fees with respect to their investment(s) in the Funds. In addition, Ares Management may transact client orders through broker/dealers that also act as solicitors or placement agents for its Funds.

Ares Management endeavors at all times to put the interests of its clients, including the Funds, first as part of Ares Management's fiduciary duty. Nevertheless, the receipt of compensation by placement agents and the potential receipt of brokerage commissions by broker-dealers create potential conflicts of interest and may affect the judgment of placement agents and broker-dealers when making referrals to Ares Management and the Funds. Moreover, potential conflicts of interest may arise between the interests of clients in obtaining best price and execution and Ares Management's interest in receiving future referrals to the Funds from certain broker-dealers. Ares Management addresses these potential conflicts of interest by seeking to obtain best execution by considering factors set forth in Item 12 - "Brokerage Practices" above.

## **Item 15 – Custody**

It is Ares Management's general policy to not have physical custody of any client assets. However, Ares Management may be deemed to have custody of the assets of certain Funds and other clients because of the authority it or a related party has over such clients or their assets. It is Ares Management's policy generally to cause each Fund with assets over which Ares Management is deemed to have "custody" to be audited annually and to distribute audited financial statements, prepared in accordance with U.S. generally

accepted accounting principles (“GAAP”), to investors no later than 120 days after the end of each fiscal year. In addition, upon the final liquidation of any such Fund, Ares Management will obtain a final audit and distribute audited financial statements prepared in accordance with GAAP with respect to such Fund to all investors promptly after completion of the audit.

In the alternative, where Ares Management is deemed to have custody of a client account solely due to its ability to withdraw client funds to pay its advisory fees, Ares Management may comply with the custody rules under the Advisers Act by having a reasonable belief that a qualified custodian will send quarterly account statements to each investor or client. Ares Management urges all clients and investors to compare the reports they receive from Ares Management to the statements they receive from their custodians. Any issues or discrepancies should be communicated to Ares Management promptly.

#### **Item 16 - Investment Discretion**

Subject to the investment objectives, policies and restrictions of each Fund/client as set forth in the Governing Documents of such Fund and/or client, Ares Management has discretionary authority to determine the type, amount and price of securities and investments to be bought and sold on behalf of each Fund and/or client, including the selection of, and commissions paid to, broker-dealers.

#### **Item 17 - Voting Client Securities**

Ares Management’s advisory business primarily focuses on fixed income securities and bank debt; however, Funds and other clients may also acquire voting securities. In instances where a client owns equity securities in which it has the right to vote via shareholder proxy (each a “Voting Security”), Ares Management generally retains proxy voting authority with respect to these Voting Securities. Ares Management has adopted and implemented written Proxy Voting Policies and Procedures (“Proxy Voting Procedures”) that are designed to reasonably ensure that Ares Management votes proxies in the best interests of its advisory clients for whom Ares Management has voting authority.

The Proxy Voting Procedures describe the positions Ares Management generally takes in voting proxies on particular issues and require Ares Management to keep records with respect to the votes cast.

The Proxy Voting Procedures also provide that, in the event a particular proxy vote would involve a conflict between the interests of Ares Management and its affiliates, and those of one or more clients of Ares Management, Ares Management, if it so elects, may:

- vote in accordance with the recommendations of a disinterested third party;
- refer the voting decision to the client; or

- abstain from voting.

Clients may obtain a copy of Ares Management's Proxy Voting Procedures or information about how Ares Management voted client proxies by contacting Ares Management's Legal Department at (310) 201-4100.

**Item 18 - Financial Information**

Not Applicable.