



ARES EIF MANAGEMENT, LLC

Form ADV Part 2A Firm Brochure

Updated: March 31, 2015

This brochure provides information about the qualifications and business practices of Ares EIF Management, LLC (“Ares EIF,” the “Firm,” “we” or “us”). If you have any questions about the contents of this brochure, please contact us at 310.201.4100 or adell@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 EIF is also available on the SEC’s website at: www.adviserinfo.sec.gov

Registration with the SEC as an investment adviser does not imply that Ares EIF or any principals or employees of Ares EIF possess a particular level of skill or training in the investment advisory or any other business.

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Item 2. Material Changes

This brochure has been updated from the previous brochure dated March 27, 2014, to reflect a change of ownership and control of EIF Management LLC (“EIF”).

On January 1, 2015, EIF was acquired by a subsidiary of Ares Management, L.P., (“Ares LP”), a publicly traded, leading global alternative asset manager and the parent company to Ares Management LLC, an investment adviser registered with the U.S. Securities and Exchange Commission (“SEC”). Following the acquisition, EIF Management LLC’s legal name was changed to Ares EIF Management, LLC (“Ares EIF”).

Although the EIF organization underwent a material change in ownership and control, as well as a change to the legal/business names of many of its entities, there has been no material change to its business.

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Item 4. Advisory Business

Ares EIF, a Delaware limited liability company that was founded in 1987, primarily invests private equity for institutional investors in the U.S. power sector through pooled investment vehicles. Ares EIF is a wholly owned subsidiary of Ares Management LLC ("Ares Management"), an SEC-registered investment adviser and subsidiary of Ares Management, L.P. ("Ares LP"), a publicly traded, leading global alternative asset manager. The indirect principal owner of Ares LP is Antony P. Ressler who, together with the other Co-Founders of Ares, indirectly holds a majority ownership in Ares LP through intermediate holding companies.

Ares EIF is a discretionary investment manager that specializes in private investment opportunities in the U.S. power sector and advises only pooled investment vehicles that invest in that sector. These funds generally have made, or seek to make, long-term equity and equity-related investments in electric generating and transmission facilities, as well as midstream assets, and related energy and energy infrastructure investments (each a "Power Asset" and, collectively, the "Power Assets").

Ares EIF manages pooled investment vehicles referred to herein as "Funds" as well as vehicles formed primarily to allow certain investors to participate in a co-investment opportunity with a Fund, referred to herein as "Co-investment Funds." Each Fund and Co-investment Fund is a client of the Firm and is referred to herein as a "Client" and, collectively, as the "Clients". Ares EIF, or an affiliated entity controlled by Ares EIF, serves as general partner, managing member, investment adviser, sub-adviser or manager of each of its Clients. References to Ares EIF, Ares Management or Ares in this brochure include, as the context requires, affiliates through which Ares EIF provides investment advisory services or that act in any capacity referenced in the previous sentence. The Clients' underlying investors are accredited investors and qualified purchasers (as noted in Item 7 below). These underlying investors are referred to herein as "Underlying Investors." For each Client, the capital commitments made to it are generally fixed – meaning that the Client can no longer accept new capital commitments and the Underlying Investors cannot redeem their interests in the Client (although, Underlying Investors are generally permitted to transfer their interests subject to the terms of the relevant operating agreement).

We tailor our advisory services to the specific investment objectives and restrictions of each Fund or Client. Clients have investment restrictions that are particular to such Client account or Fund, such as prohibitions on investing in certain types of assets, restrictions on issuer domiciles, and limitations on the percentage a particular type of security can comprise of a Client's or Fund's investment portfolio.

Current and prospective Fund investors and Clients should refer to the applicable confidential private placement memorandum, limited partnership agreement, investment management agreement and other governing documents (the "Governing Documents") for complete information on the investment objectives, investment restrictions and risks. Prior performance, while illustrative of Ares Management's investment philosophy and experience, is not indicative of future performance and there is no assurance that any investment objectives will be achieved.

Ares EIF or a Fund general partner, managing member, investment adviser, sub-adviser or manager may enter into “side letters” or similar agreements with certain investors are granted specific rights, benefits, or privileges that are not generally made available to other investors.

We do not participate in any wrap fee programs.

We manage all assets on a discretionary basis. As of December 31, 2014, the amount of regulatory assets we managed was approximately \$4,855,600,000 (“RAUM”).

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.

These arrangements generally provide for each Fund to pay management fees to the Firm quarterly in advance, based upon a percentage of committed or invested capital of such Fund. Management fees typically range from 1.50% to 2.00% of committed or invested capital per annum for the Funds and from 0.60% to 0.70% of committed capital per annum for the Co-investment Funds. To the extent described in a Fund’s operating agreement, the following fees are credited towards an offset of such management fees: transaction fees, placement fees, amounts of capital calls to be funded by the Firm, and a percentage of all co-investment management fees. Except as stated in the following sentence, all Underlying Investors invested in a particular Client are generally subject to the same management fee as other Underlying Investors invested in such Client. The limited partnership agreement for EIF’s most recent Fund, EIF United States Power Funds IV, L.P. (“USPF IV”) permits the Firm to agree with the general partner of USPF IV to negotiate different fee arrangements with certain Underlying Investors in USPF IV based on the amount of such Underlying Investor’s capital commitment.

The Firm is prohibited from receiving transactional fees from any portfolio company in which a Fund holds an interest, unless either (i) such fees offset the management fees to be paid by such Fund to the Firm or (ii) such transaction has been approved by such Fund’s investor advisory board (comprised entirely of representatives of certain Underlying Investors).

Deduction of Fees; Timing of Payments; Termination

For many of our advisory clients, we are 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 account, at the times and in the amounts set forth in the Governing Documents. For separately managed accounts, our ability to deduct advisory fees may be negotiable.

Management fees are generally paid by each Client by (i) requiring Underlying Investors in such Client to make capital contributions in respect of such fees, or (ii) withholding the amount of such fees from investment proceeds that would otherwise be distributable to the Underlying Investors in such Client. Management fees are then paid by the applicable Client to the Firm or one of its affiliates. In addition, the Firm often has the ability to cause Clients to borrow money for the payment of such fees. Ares EIF has the authority to deduct its management fees from any Client account.

Base advisory fees for our Clients are payable in advance, generally on a quarterly. Please refer to the applicable Governing Documents 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. Our 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 Clients upon termination of the investment program.

Other Fees and Expenses

In addition to the fees payable to Ares, 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 Fund or client;
- commissions, brokerage fees and similar charges incurred in connection with the purchase or sale of portfolio investments (including any merger fees payable to third parties and whether or not any such purchase or sale is consummated);
- costs and expenses incurred in investigating, developing, negotiating, structuring, settling, monitoring and holding portfolio investments (whether or not consummated), including travel, legal, tax and accounting expenses therewith;
- market data costs; research-related expenses, including, without limitation, news and quotation equipment, software and services;
- the costs and expenses of reporting to the Client's Underlying Investors, including travel-related expenses, including costs of private jet travel, of holding meetings or conferences with Fund investors (or other clients);
- costs of any investigation, administrative proceeding or regulatory matter, litigation and threatened litigation involving a client or a Fund;
- 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 a Fund or a client;
- premiums for liability insurance;
- costs of dissolving a Fund or client's investment vehicle and liquidating its assets;
- costs and expenses for tax and audit services to a Fund or client;
- organizational expenses, including costs and expenses pertaining to the offering and sale of interests in a Fund, related legal payments and travel expenses (including costs of private jet travel);
- certain administrative expenses; and
- certain expenses related to regulatory filings.

Please refer to the Governing Documents for complete information on the expenses payable by advisory clients. Note that some of these expenses are generally not applicable to Co-Investment Funds. Additionally, note that brokerage fees are not typical for the types of investments made by the Clients.

See discussion below in “*Item 12. Brokerage Practices*” for a description of the factors we consider 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 portfolio investments made by our advisory clients, Ares, our affiliates or supervised persons may receive commitment, structuring, monitoring or other transaction fees. These types of arrangements present potential conflicts of interest and may provide our supervised persons with an incentive to recommend investments based on compensation received rather than making an investment decision based on the best interests of a Fund or client. To mitigate such potential conflicts, all or a portion of such fees received by Ares are generally offset against advisory fees payable by the related Fund or client. Please refer to the Governing Documents for complete information on additional compensation received by Ares, our affiliates or supervised persons in connection with services related to portfolio investments and any offsets against advisory fees.

Item 6. Performance-Based Fees and Side-by-Side Management

Performance-Based Fees

The Firm acts as investment adviser to the Clients, and Ares EIF affiliates typically act as general partners (or managing members) of such Clients. These affiliates are entitled to receive “carried interest” from each Fund, generally equal to 20% of the applicable profits after capital contributions have been returned to such Fund’s Underlying Investors and such Fund’s Underlying Investors have received their applicable preferred return, if any, each as further described in the applicable Fund’s operating agreement. The Firm typically does not charge performance-based fees or carried interest to Co-Investment Funds.

Performance-based fee and allocation arrangements received by us or our related persons may create incentives for us 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.

Additionally, to the extent required by the terms of the applicable operating agreement, if the Firm determines in good faith that an investment that falls within the scope of the investment focus of a Fund is not an appropriate investment for such Fund at a particular time, and such investment is made by another Ares entity, the Firm reports such determination and the reasons behind such determination to the members of such Fund’s investor advisory board (comprised entirely of representatives of certain Underlying Investors) prior to the transaction occurring.

Side-by-Side Management

Ares EIF or its related persons may provide concurrent advisory services to advisory clients that are not charged a performance-based fee and clients that are charged a performance-based fee. The potential for us and our related persons to receive greater fees from performance-based accounts creates potential conflicts of interest with respect to the allocation of investment opportunities, as we may have incentives to direct the best investment ideas to, or to allocate investments in favor of, advisory clients that pay performance fees. To mitigate potential conflicts of interest, allocations of investment opportunities among advisory clients are determined by our portfolio managers and senior partners within their respective groups in accordance with our investment allocation policy and consistent with our fiduciary duties and corresponding investment mandates. It is our policy that all investment opportunities will, to the extent practicable, be allocated among our advisory clients on a basis that over a period of time is fair and equitable to each advisory client relative to other clients, taking into account relevant facts and circumstances.

All actual allocation decisions are subject to relevant facts and circumstances and the investment objectives of various Clients. In addition, Ares EIF and our principals may co-invest with certain of the Funds or other advisory clients, as permitted and described in applicable Governing Documents. Please see “*Item 11. Code of Ethics, Participation or Interest in Client Transactions and Personal Trading*” for a discussion of how Ares EIF addresses these matters.

Item 7. Types of Clients

Types of Clients

The criteria for investing in a Co-Investment Fund are described in the related Fund’s operating agreement and generally require a particular minimum commitment to such related Fund. In order to invest in any of the Funds, an Underlying Investor must be an “accredited investor” as defined by Regulation D under the Securities Act of 1933, as amended, and a “qualified purchaser” as defined in Section 2(a)(51)(A) of the Investment Company Act of 1940, as amended. The Underlying Investors include a wide array of institutional, financial, and strategic investors (both domestic and foreign), including: banks/financial institutions, bilateral and multilateral government agencies, corporate pension funds, endowments and foundations, family offices, fund-of-funds, insurance companies, money managers, public pensions funds (state, city, county, police & fire), strategic energy and power industry participants, and sovereign wealth funds.

We 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, other than the Co-investment Funds, is stated in its Governing Documents and is generally \$10 million. We may waive this minimum at our

discretion. The criteria for investing in a Co-Investment Fund are described in the related Fund's operating agreement and generally require a particular minimum commitment to such related Fund.

Item 8. Methods of Analysis, Investment Strategies and Risk of Loss

Methods of Analysis and Investment Strategies

The Funds make investments in Power Assets typically by either acquiring existing operating facilities or developing and constructing new ones. The Firm's primarily asset-based investment strategy is grounded in the principle of utilizing long-term contracts or similar structures to generate predictable cash flow streams, regardless of asset type (i.e., the Funds have made investments in natural gas, coal, oil, wind, solar, geothermal, landfill gas, biomass, and hydroelectric power facilities, as well as transmission line investments and pipelines). The Firm typically structures investments to reduce both merchant (non-contracted) exposure by passing on the commodity pricing risks associated with the cost of fuel and the price of electricity to the purchaser of the capacity under the terms of a power purchase agreement, other offtake contract or energy hedge.

Fund portfolios are allocated into two general categories to maximize return and minimize risk while producing current cash distributions. Funds generally (i) deploy substantial equity capital into the acquisition of existing operating assets, and (ii) invest nominal capital in development-stage assets to secure the option of providing larger follow-on equity commitments required during the construction phase of the same project.

The Firm often seeks to identify complex situations where extensive operating skills, commercial experience and regulatory navigation are essential. Whether a Power Asset or a portfolio of Power Assets is acquired on a proprietary basis or even in a limited competitive process, the Firm expects to create value by executing on multiple operational initiatives, e.g., cost cutting, improving efficiencies, expanding facilities, and renegotiating off-take power contracts and fuel procurement contracts, as well as structuring management services agreements and tax equity partnership agreements.

Upon closing an investment, the Firm's asset management group actively manages and monitors the project's commercial, operational, and financial performance. The Firm draws on the resources of its experienced staff of financial, engineering, and legal professionals, as well as its commercial and regulatory experience, to optimize the value of the Clients' investments. Specifically, the asset management group oversees third party operations, maintenance providers and construction contractors, and works with them to, among other things, negotiate new project contracts and renegotiate existing ones in an effort to garner more advantageous (and often mutually beneficial) terms; monitor compliance and provide detailed reporting analysis on a regular basis; maintain ongoing dialog with lenders and credit rating agencies; and execute refinancings. The asset management group also strives to implement synergies relating to power plant maintenance and emissions strategies across the entire portfolio of assets in which the Clients are invested.

Furthermore, the asset management staff engages in regular and ongoing consultations with project developers and personnel during the construction and operational phases of a Power Asset in an attempt to achieve efficiencies and maximize financial returns to Clients.

The Firm's primary objective for assets in which Clients have invested is typically to establish long-term contracted cash flows with sound underlying operations. Once this objective is achieved, the Firm often seeks a strategic buyer that desires to integrate additional Power Assets into an existing enterprise, or a financial buyer who seeks mature, low risk assets with a predictable cash flow stream. Purchasers of a Client's assets may include private equity and infrastructure funds, financial institutions, publicly-traded utilities or other load serving entities, pension plans with direct investment programs, and independent power producers.

The Clients generally seek to obtain liquidity for their Underlying Investors primarily from one or more of the following five potential sources: (i) asset sales (sales of profitable single operating assets or portfolios of assets); (ii) current cash distributions; (iii) leveraged recapitalizations or securitizations of assets or groups of assets; (iv) disaggregations and sales of integrated companies; and (v) public markets.

For additional details relating to the methods of analysis and investment strategies employed by a client account, please refer to its Governing Documents.

Material Risks

Investing in securities involves a risk of loss that advisory clients and investors should be prepared to bear. There can be no assurance that any Fund or other client will be able to make and realize any particular investment or generate returns. Clients and investors in the Funds should carefully consider, among other factors, the following material risks involved with Ares' investment strategies.

Not all possible risks are described below. 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.

The historical returns attributable to our Funds should not be considered as indicative of the future results of our Funds.

Due Diligence of and Conduct at Portfolio Companies. Before making portfolio investments, Ares EIF will typically conduct due diligence that it deems reasonable and appropriate based on the facts and circumstances applicable to each portfolio investment. Due diligence may entail evaluation of important and complex business, financial, tax, accounting, engineering, regulatory, environmental and legal issues. Outside consultants, legal advisors, accountants, investment banks and other third parties may be involved in the due diligence process to varying degrees depending on the type of investment. Such involvement of third-party advisors or consultants may present a number of risks primarily relating to Ares EIF's reduced control of the functions that are outsourced. When conducting due diligence and making an assessment regarding an investment, Ares EIF will rely on the resources available to it, including information provided by the target of the investment and, in some circumstances, third-party investigations. The due diligence investigation that Ares EIF carries out with respect to any investment opportunity may not reveal or highlight all relevant facts that may be necessary or

helpful in evaluating such investment opportunity. Moreover, such an investigation will not necessarily result in the portfolio investment being successful.

There can be no assurance that attempts to provide downside protection with respect to portfolio investments will achieve their desired effect and potential investors should regard an investment in a Client as speculative and having a high degree of risk. There can be no assurance that a Client will be able to detect or prevent potential or existing problems, such as irregular accounting, employee misconduct or other fraudulent practices, during the due diligence phase or during its efforts to monitor the portfolio investment on an ongoing basis. In the event of fraud by any portfolio company or any of its affiliates, a Client may suffer a partial or total loss of capital invested in that company. A Client will rely upon the accuracy and completeness of representations made by portfolio companies and/or their former owners in the due diligence process, to the extent reasonable, when it makes its investments, but cannot guarantee such accuracy or completeness. Under certain circumstances, payments to a Client may be reclaimed if any such payment or distribution is later determined to have been a fraudulent conveyance or a preferential payment.

Broken Deal Expenses. Investments in the energy industry often require extensive due diligence activities and regulatory approvals prior to acquisition. Due diligence may include feasibility and technical studies, preliminary engineering and marketing studies, legal, regulatory, and environmental review, any or all of which may entail significant third-party expenses. In the event that an investment is not consummated, a Client may bear some or all of such third party expenses and any termination fees.

Non-Controlling Investments. A Client will seek appropriate rights in negotiating investments in order to protect a Client's investment and the interests of the Underlying Investors. However, a Client may not have the right to participate in the management of some investments. To the extent that a Client does not acquire a controlling interest in a portfolio company, the day-to-day operations of such portfolio company will be the responsibility of such company's management team. In such instances, a Client is subject to the risk that a portfolio company may make business decisions with which Ares EIF disagrees, and the stockholders and management of such company may take risks or otherwise act in ways that do not serve a Client's interests. As a result, a portfolio company may make decisions that could decrease the value of a Client's investment and, in turn, have a material adverse effect on the value of the Interests.

Exculpation and Indemnification. The Governing Documents will limit the circumstances under which Ares EIF and others can be held liable to a Client or the Underlying Investors. As a result, Underlying Investors may have a more limited right of action in certain cases than they would in the absence of such a limitation. In addition, a Client will be required to indemnify, among others, Ares EIF, any of its respective affiliates or any partner, members, stockholders, officers, directors, trustees, employees or agents of any of the foregoing and members of the Investor Advisory Board or an Underlying Investor that designated such member for liabilities incurred in connection with the affairs of a Client. Such liabilities may be material. For example, in their capacity as directors of portfolio companies, the partners, or affiliates of Ares EIF may be subject to derivative or other similar claims brought by security holders or creditors of such portfolio companies. The indemnification obligations of a Client would be payable from the assets of a Client, including the unused commitments of the Partners. If the assets of a Client are

insufficient to pay such indemnification obligations, the Underlying Investors may be required to return distributions previously made to them to satisfy such obligations.

Confidential Information. The Governing Documents will contain confidentiality provisions intended to protect proprietary and other information relating to a Client's portfolio companies. To the extent that such information is publicly disclosed, competitors of a Client or its portfolio companies may benefit from such information, thereby adversely affecting a Client, its portfolio companies, Ares EIF and the economic interests of the Underlying Investors. The Underlying Investors may include entities that are subject to state public records or similar laws that may compel public disclosure of confidential information regarding a Client, its investments and its investors. There can be no assurance that such information will not be disclosed either publicly or to regulators, or otherwise. To the extent that Ares EIF determines that, as a result of such public records or similar laws, a Underlying Investor or any of its affiliates or agents may be required to disclose information relating to a Client, its affiliates and/or any portfolio company (other than information that Ares EIF has previously consented to in writing that the Underlying Investor may disclose), Ares EIF may, to prevent any such potential disclosure, withhold all or any part of the information otherwise to be provided to such Underlying Investor.

Limited Access to Information. Underlying Investors' rights to information regarding a Client will be specified, and strictly limited, in the Governing Documents. In particular, it is anticipated that Ares EIF will obtain certain types of material information from portfolio investments that will not be disclosed to Underlying Investors because such disclosure is prohibited for contractual, legal or similar obligations outside of Ares EIF's control. Decisions by Ares EIF to withhold information may have adverse consequences for Underlying Investors in a variety of circumstances. For example, a Underlying Investor that seeks to transfer its Interests may have difficulty in determining an appropriate price for such Interests. Decisions to withhold information also may make it difficult for Underlying Investors to monitor Ares EIF and its performance. Additionally, it is expected that Underlying Investors who designate representatives to participate on the Investor Advisory Board may, by virtue of such participation, have more information about a Client and portfolio investments in certain circumstances than other Underlying Investors generally and may be disseminated information in advance of communication to other Underlying Investors generally.

Early-Stage Companies. A Client may invest in some projects at an early stage of development. These projects involve additional uncertainties, including the possibility that the projects may not be completed, construction or operating licenses may not be obtained or may contain unduly burdensome conditions and limitations, and permanent financing may be unavailable. Further, there is no assurance that these projects will be profitable or generate cash flow sufficient to provide a return on or recovery of amounts invested therein.

Concentration of Investments. Each Client invests in a limited number of portfolio companies. As a result, each Client's investment portfolio will be highly concentrated, and the performance of a few holdings may substantially affect the Client's aggregate return.

In-kind distributions. Although a Client expects to distribute only cash to the Underlying Investors, there can be no assurance that this expectation will be met. Under certain circumstances, the Underlying Investors may receive in kind distributions, if permitted by law and the Governing Documents. Such securities, instruments or other property may not be readily

marketable or saleable and may be required to be held by the Underlying Investors for an indefinite period of time, during which depreciations in value may occur.

Reserves. As is customary in the industry, Ares EIF will establish reserves for investments by a Client, operating expenses of a Client, Fund liabilities, and other matters. Estimating the appropriate amount of such reserves is difficult. Inadequate or excessive reserves could impair the investment returns to the Underlying Investors. If reserves are inadequate, a Client may be unable to take advantage of attractive investment opportunities or may not be able to pay its liabilities or expenses as they come due. If reserves for liabilities or expenses are excessive, a Client may decline attractive investment opportunities.

Litigation. A Client's investment activities subject it to the risks of becoming involved in litigation or other disputes with third parties. The expense of prosecuting or defending any such disputes or paying any amounts pursuant to settlements or judgments will be borne by a Client and will reduce amounts available for distribution to the Underlying Investor. Ares EIF and others will be indemnified by a Client in connection with such disputes, subject to certain limitations.

A Client's assets, including any investments made by a Client and any funds held by a Client, are available to satisfy all liabilities and other obligations of a Client, including to Ares EIF. If a Client becomes subject to a liability, parties seeking to have the liability satisfied may have recourse to a Client's assets generally and will not be limited to any particular assets, such as the asset representing the investment giving rise to the liability.

Accordingly, the Underlying Investors could find its Interests adversely affected by a liability arising out of an investment of a Client or otherwise in connection with the affairs of a Client. In addition, the Underlying Investors may be required to return distributions to a Client to satisfy Fund obligations, including obligations to Ares EIF.

Illiquid and Long-Term Investments. Although the Clients' investments may generate current income, the return of capital and the realization of gains, if any, from an investment generally will occur only upon the partial or complete disposition of such investment. Although an investment may be sold at any time, it is not generally expected that this will occur for a number of years after the investment is made. The limited market for the Clients' investments may cause the value of these investments to be volatile. Periods of economic, regulatory, and political uncertainty may result in substantially greater volatility in the value of the Clients' investments. There can be no assurance that the Clients' investments will not be sold at a price below their acquisition cost. In addition, it is unlikely that there will be a public market for the securities held by the Clients at the time of acquisition of such securities. The Clients will generally not be able to sell securities held by them unless their sale is registered under applicable securities laws (which the issuers of such securities may be under no obligation to effect), or unless an exemption from such registration requirements is available. Certain sales of interests in portfolio investments require pre-consummation regulatory approval, which involves a formal process and some discretion on the part of regulatory agencies.

Ability to Exit Investments. Individual investments in infrastructure assets tend to be large due to the general nature and size of such assets (such as power plants, transmission lines, distribution properties or gas storage and pipeline facilities). Infrastructure assets may have

unique geographic and market characteristics (and may be subject to political, regulatory, and public opinion considerations), which could make them highly illiquid. The Clients may acquire portfolios of assets that are not easily separated into individual asset acquisitions or dispositions. Accordingly, the Clients' investments may be quite sizeable. There are limited pools of capital available in the sector that can make sizeable investments and limited numbers of market participants. As a result, the potential exits from these investments may be limited and there can be no assurance that the Clients will be able to realize their investments on favorable terms, in a timely manner or at all. Moreover, the realizable value of a highly illiquid investment may be less than its intrinsic value.

Project Financings. Some of the Clients' investments are structured on a project finance basis. A project finance structure entails the assumption of "project risk" by equity investors such as the Clients, usually without recourse to a project sponsor. Buildings and other structures may be subject to design and construction flaws. It may be difficult to locate customers for power that is generated, and projected markets for power may not materialize. Projects in which the Clients invest may experience shortages of skilled personnel. Operations may depend upon government licenses, franchises, and contracts, which may be subject to termination, revocation or modification. Fund investments may be adversely affected by storms and other natural disasters. Operators of power projects may be adversely affected by sharp increases in fuel prices and in some cases limited availability of fuel. Power producers may also be adversely affected by events that affect the creditworthiness of the electric utilities to which they sell power. Regulatory changes may affect or require substantial modifications to key project documents, including power sales, interconnection, and fuel and power transmission agreements.

Leveraged Portfolio Companies. The Clients may make equity investments in companies whose capital structures may include leverage in significant amounts. While the use of leverage may increase the potential returns on equity, leverage also increases the risk of loss since borrowings represent a prior claim on assets and require fixed payments, regardless of the profitability of particular investments encumbered by such borrowings. In the case of default under any borrowing, some or all of the assets of the borrower could be taken by the lenders in payment of their claims. Moreover, leveraged capital structures are more sensitive to rising investment rates and to increases and decreases in revenues and expenses.

Operating Risk. The Clients may invest in operating facilities. Operation of such facilities involves certain operational risks, which include: the possibility of performing below expected levels of output, availability or efficiency; interruption in fuel or other necessary supplies; increases in the cost of fuel or other necessary supplies; pipeline disruptions; disruptions in the offtake of steam or electrical energy; power shutdowns; breakdown or failure of equipment or processes; accidental discharges of hazardous materials; labor disputes; changes in law; failure to obtain or maintain necessary governmental permits; or catastrophic events such as fires, earthquakes, lightning, explosions, hurricanes, tornados, floods or similar occurrences affecting a facility owned by the Clients or their power purchasers, steam purchasers, fuel suppliers or fuel transporters.

Construction Risk. The Clients' investments may involve significant construction risk, including the risk of substantial delays or increase in cost due to a number of unforeseen factors, including: political opposition; regulatory and permitting delays; delays in procuring sites; equipment; labor disputes; lawsuits and other disputes; environmental issues; force majeure; or

failure by one or more of the infrastructure investment participants to perform in a timely manner (or at all) its or their contractual, financial or other commitments. New facilities have no operating history and may employ recently developed or technologically complex equipment that may take time to operate at peak levels of output and efficiency. A material delay or increase in cost not absorbed by other participants in the transaction could significantly impair the financial viability of an infrastructure investment project and result in a material adverse effect on the Clients' investment therein.

International Investments. A Client may invest not more than 10% of its committed capital in companies whose principal assets or operations are in Canada, unless such companies have their primary offtake agreements with U.S.-based entities. To the extent one of the Funds makes investments in Canada, those investments are subject to risks and uncertainties relating to the political, social, and economic structures of Canada. Risks related specifically to non-U.S. investments may include risks of expropriation, confiscatory taxation and nationalization, currency exchange and convertibility risks, unreliable governmental subsidies, risks of increased regulation and approvals, and governmental policies limiting returns to foreign investors.

Energy Regulatory Matters. Federal and state energy laws regulate, among other things, the development, ownership, business organization, and operation of generating and transmission facilities, the sales of electricity and gas, and the construction, siting, and operation of hydro power projects and interstate gas pipelines and storage fields. State laws regulate the activities of traditional utilities which serve retail electric and gas customers. The Federal Power Act ("FPA") authorizes the Federal Energy Regulatory Commission ("FERC") to regulate the wholesale sale (any sale for re-sale) of electric energy and the transmission of electric energy in interstate commerce, along with certain electric-sector asset and corporate ownership changes and financings. Under the FPA, FERC also promulgates and enforces market-conduct, anti-fraud, anti-manipulation, and related regulations, and may conduct both confidential and public investigations and formal adjudicatory proceedings, and may impose penalties, fines, requirements to refund revenues and disgorge profits, and other remedies for violations of its regulations. The Public Utility Holding Company Act of 2005 ("PUHCA") provides for accounting, cost-allocation and disclosure regulation of holding companies that are deemed by FERC to control, own or operate facilities for the generation, transmission or distribution of electricity or the distribution of gas, except where specific exemptions apply. The Public Utility Regulatory Policies Act of 1978 ("PURPA") was enacted to encourage the development of generating facilities which conserve fossil fuels.

Several of the project investments owned by Clients' are Qualifying Facilities ("QFs") under PURPA. A QF either must produce a certain proportion of its total energy output in the form of thermal energy that is used for a commercial purpose, and its fossil fuel input must be in a certain proportion to its electric and thermal output, or satisfy FERC requirements relating to facility size and fuel use. PURPA requires utilities in some regions of the U.S. and permits utilities in other regions to purchase the electric output of QFs at negotiated rates or rates up to the incremental or "avoided" cost that the utility would have incurred if it produced the electricity itself or purchased it from another source. State public utility commissions must approve the rates, and in some instances, other contract terms, under which utilities purchase electricity from QFs. Since the enactment of the Energy Policy Act of 2005, many utilities have been prospectively excused from PURPA "must-buy" requirements. State public utility commissions are responsible for determining the avoided cost rates for utilities subject to their

jurisdiction, although QFs and utilities may negotiate outside of this framework. Some state public utility commissions require utilities to file their agreements under which utilities purchase electricity from QFs. Many QFs also make other wholesale sales of power, subject to FERC regulation and in some states may make retail power sales to direct customers. Under PURPA and FERC regulations, most QFs also are entitled to certain exemptions from the FPA, PUHCA and state utility regulation. A QF that owns or operates a smaller generator of no larger than 20 MW of installed capacity normally does not need to obtain other or further FERC authorizations to sell wholesale electricity.

Each of the project companies owned by the Clients (the “Project Companies”) that sells electricity, but is not a QF, has filed rate schedules with FERC in compliance with the FPA and has received FERC authorization to sell electricity at wholesale at market-based or negotiated rates to any unaffiliated purchaser or into a FERC-regulated regional energy market except for projects not yet in or approaching commercial operation. Additionally, certain QFs have obtained power sales approvals from FERC to allow certain non-PURPA sales of power, or when those QFs are too large to hold automatic power sales authority (typically, when the QF is over 20 MW in size). In connection with market-based rate authorizations, companies usually receive a blanket authorization to issue securities or assume liabilities without further FERC pre-approval, and waivers of other FPA regulations which apply to traditional utilities selling electricity at cost-based rates. Each of these companies files quarterly reports providing certain details concerning wholesale power transactions during the prior calendar quarter. The Project Companies that have filed rate schedules with FERC must obtain the prior authorization of FERC for change-of- control transactions and for the sale or other transfer of jurisdictional facilities, including wholesale power sale contracts and interconnection facilities connecting a generating facility to the transmission grid.

Some Project Companies are also Exempt Wholesale Generators (“EWGs”) under PUHCA. An EWG may only be in the business of producing and selling power for resale. Unless an EWG is also a QF exhibiting a small output size, typically under 20 MW, an EWG must receive FERC permission to sell power; FERC grants based rate authority only to sellers found to lack market power. To assess whether an entity has market power, FERC has put in place several market power statistical screens, and imposed a variety of technical requirements applicable to sellers’ market conduct and continuing disclosure requirements.

PUHCA gives FERC (i) access to the books and records of any holding company or affiliate of an electric or gas utility relevant to the rates of that electric or gas utility or any affiliated natural gas pipeline company subject to FERC’s jurisdiction, and (ii) authority to regulate accounting matters and to allocate costs within holding company systems, including where a service company is involved, and state utility regulatory authorities were given similar books and records access rights. At present, Ares EIF and all of the projects owned by its funds are immune from accounting and cost-allocation regulation under PUHCA.

Certain Project Companies also hold economic interests in the independent transmission sector. Various funds managed by Ares EIF hold indirect, passive interests in companies formed to develop, construct, own, and operate independent transmission companies. All investments made by Clients in independent transmission to date have been declared by FERC to be passive in nature, and have not provided Ares EIF with day-to-day control over the independent transmission business.

Certain Project Companies own the indirect interests in a FERC-regulated interstate gas pipeline company, and several associated midstream natural gas assets.

Ares EIF also controls Aria Energy LLC, a partial subsidiary of Aria Energy Corp. (“Aria Corp.”), a publicly-traded company. Aria Energy LLC owns a fleet of over 30 landfill gas electric generating companies, each of which is a QF. Co-owners of some of the generating companies own interests ranging up to 50%. Aria Energy LLC also owns interests in certain gas-generating landfills at which no Aria Energy LLC entity produces or sells electricity and that are not regulated by FERC. Most of Aria Corp.’s generating companies require no FERC authorization, other than their QF status, to sell wholesale electricity.

Regulation of Gas Pipeline Systems, Transportation, and Storage. The siting of pipeline systems and transportation and storage of natural gas in interstate commerce is subject to regulation by FERC under the Natural Gas Act of 1938 and under the Natural Gas Policy Act of 1978 and, as such, rates and charges for the transportation of natural gas in interstate commerce, the extension, enlargement or abandonment of jurisdictional facilities, and accounting, among other things, are subject to regulation.

Rates, charges and non-rate service conditions and tariffs for the transportation of natural gas in interstate commerce are subject to regulation by FERC. Generally, rates charged by interstate natural gas companies may not exceed the just and reasonable rates approved by FERC. In addition, interstate natural gas companies are prohibited from granting any undue preference to any person, or maintaining any unreasonable difference in their rates or terms and conditions of service except for any FERC approved negotiated or discounted rate.

The Natural Gas Pipeline Safety Act of 1968 (as amended, the “NGPSA”) regulates safety requirements in the design, construction, operation, and maintenance of interstate natural gas transmission facilities. The NGPSA requires any entity that owns or operates pipeline facilities to comply with applicable safety standards, to establish and maintain inspection and maintenance plans, and to comply with such plans. Inspections and tests are performed at prescribed intervals to ensure the integrity of the pipeline system. These inspections, for example, include periodic corrosion surveys, testing of relief and over-pressure devices, and periodic aerial inspections of the rights-of-way.

In 2002, the U.S. Congress enacted the Pipeline Safety Improvement Act (“PSIA”), with final regulations implementing the PSIA issued in December 2003. The PSIA makes numerous changes to pipeline safety law, the most significant of which is the requirement that operators of pipeline facilities implement written integrity management programs. Such programs include a baseline integrity assessment of each facility located in high consequence areas that must be completed within ten years of the enactment of the PSIA. The PSIA and its applicable regulations have increased costs associated with new pipeline inspection and pipeline integrity program requirements.

Under the Clean Air Act, the U.S. Environmental Protection Agency has promulgated regulations addressing emissions from equipment present at typical natural gas compressor stations. These regulations include National Emission Standards for Hazardous Air Pollutants for

reciprocating internal combustion engines, stationary turbines, and glycol dehydration equipment in addition to regulations that address regional transport of ozone.

The U.S. Department of Transportation, through the Pipeline and Hazardous Materials Safety Administration, has adopted regulations that govern all aspects of the design, construction, operation, and maintenance of pipeline facilities. These regulations require, among other things, that pipeline operators engage in a regular program of pipeline integrity testing to assess, evaluate, repair, and validate the integrity of their pipelines within areas of high consequence. Determination of such high consequence areas, for natural gas transmission pipelines, is primarily based on density factors, such as population.

Availability of Natural Gas Supplies. The operating results of a portfolio company that transports natural gas will be dependent upon its customers having access to adequate supplies of natural gas. Such portfolio company will likely depend on having access to multiple sources of gas production so that customers can satisfy their total gas requirements and have the opportunity to source gas at the lowest overall delivered cost. Moreover, such portfolio company will not have the ability to operate its pipeline system at full capacity without access to sufficient gas sources. The ability of producers to maintain production is dependent on the prevailing market price of natural gas, the exploration and production budgets of the major and independent gas companies, the depletion rate of existing sources, the success of new sources, environmental concerns, regulatory initiatives, and other matters beyond the portfolio company's control. Operational failures on pipelines that deliver gas to such portfolio company's pipeline system, such as reductions in pressure or volume, or interruptions in service due to maintenance activities or unanticipated emergencies, could result in lower volumes of gas being available to the portfolio company for transportation. There is no guarantee that production or supplies of natural gas will be maintained at sufficient levels to sustain the expected volume of transportation commitments on the pipeline system or that multiple sources of gas will remain available to provide the company's customers with access to sufficient low cost supplies. If the availability of natural gas supplies decreases, the revenues and results of such a portfolio company's operations could be adversely affected.

Decreases in Demand for Natural Gas. Demand for the services of a portfolio company that operates gas pipelines depends on the ability and willingness of customers with access to such company's facilities to store natural gas on, and deliver natural gas through, the company's system. Demand for natural gas is dependent upon the impact of weather, industrial and economic conditions, fuel conservation measures, alternative fuel availability and requirements, the market price of gas, fuel taxes, price competition, drilling activity and supply availability, governmental regulation, and technological advances in fuel economy and energy generation devices. The pricing of natural gas can also affect its consumption, in comparison with other fuel sources, and according to the U.S. Department of Energy, gas pricing levels are generally below the 15-year pricing average. As a general matter, natural gas commodity pricing is set by the market, and while FERC can and does regulate gas transportation and business practices, FERC does not directly regulate wholesale gas rates.

Competitive Pressures. The market for Power and Energy Assets is competitive. Other entities could construct new facilities or expand existing facilities that could potentially serve the same markets as one of the Clients' portfolio companies. Any such new facility could offer services that are more desirable to customers because of locations, rates or other factors. These new

facilities could charge rates or provide service to locations that could result in savings for shippers and producers and thereby force a portfolio company to lower the rates charged for services on its services in order to extend existing service agreements or to attract new customers. An increase in the availability of competing alternative facilities or services could result in a significant reduction in a portfolio company's revenue.

Additionally, forms of energy compete with each other, including natural gas, electricity, coal, hydroelectric power, nuclear power and fuel oil. The principal elements of competition among alternative forms of energy are based on the existing infrastructure, rates, terms of services, access to supply and reliability. The impact of competition on a portfolio company could decrease demand for its services in the markets such company serves.

Environmental and Other Regulatory Matters. Investments are subject to federal, state, regional and local laws, regulations, directives, and policies relating to, among other things, trade, imports, currency, energy, labor, and environmental, land use and regulatory matters. Investments may require numerous regulatory approvals, licenses and permits to commence and continue their operations. In addition, projects in certain jurisdictions are required to obtain emissions reduction credits or similar emissions trading credits. Under the cap and trade programs that create these credits, the costs of the credits can be significant and may increase substantially over time. Moreover, these programs can result in limiting the operations of facilities. Failure of projects to obtain required regulatory approvals, permits, and/or credits could adversely affect the Clients. New laws, policies, or regulations, or changes in the interpretation or application of existing laws, policies, and regulations that modify the present regulatory environment, could also have an adverse effect on the Clients' investments. The Clients' investments may be subject to other developing areas of regulation, such as thermal pollution, species impacts, and noise requirements, that are the subject of ongoing legislative and regulatory efforts. These developments have the potential to significantly impact energy related projects. For instance, to the extent that projects use sea water or freshwater as a cooling medium that is not recycled (once through cooling), there is a significant risk that such systems will be regulated out of existence over time. Replacement of existing cooling systems that lack recycling may involve substantial capital investment and regulatory approval risks or may not be technologically feasible.

Compliance with statutes and regulations pertaining to emissions, discharges, releases, exposures, environmental controls or restrictions and the storage, handling, transportation, disposal of hazardous and toxic material, waste, or other substances may be costly and may affect the ongoing power-generating capacity of a project or facility in which the Clients invest. Failure by a project or facility in which the Clients invest to comply with any such statutes or regulations could, among other things, prevent operation of such project or facility, require expenditure of significant funds to bring the project or facility into compliance, result in substantial investigation and remediation costs, result in cleanup liens and fines, and give rise to civil or criminal liability. Coal-fired power plants have been especially heavily-targeted by regulations focusing on mercury and other emissions. If those regulations are vindicated by the courts, such facilities will likely face substantial costs to comply. The storage and handling of coal waste-ash is subject to safety and disposal requirements that can also give rise to liabilities on the part of coal generation owners.

Power producers, transmitters, and natural gas pipeline and distribution systems are also subject to a wide variety of permitting and regulatory requirements affecting the physical loss, emission or discharge of liquid, particulate, gaseous and other substances associated with their facilities and operations. Some of these requirements involve obtaining advance governmental approvals which are prerequisites for constructing and operating a facility that will have such discharges. Failure to comply with any discharge permitting limits set in such approvals can result in consequences similar to those identified above for failures to comply with statutes or regulations. In addition, the construction and operation of such projects must sometimes avoid impacts to particularly sensitive or protected plant and animal species. Doing so can contribute to increased project and operating costs. Failure to do so can prevent projects from being completed or result in operating restrictions, fines, and civil or criminal liability.

Additionally, the Clients may also invest in portfolio companies that could be subject to the effects of extreme weather. Extreme weather conditions could stress a portfolio company's transmission and distribution system or its generation facilities resulting in increased maintenance and capital expenditures. Extreme weather events, including hurricanes or storms or other natural disasters, could be destructive and result in casualty losses that are not ultimately offset by insurance proceeds or in increased capital expenditures or costs, including supply chain costs. Moreover, an extreme weather event could cause disruption in service to customers due to downed wires and poles or damage to other operating equipment, which could result in the portfolio company foregoing sales of electricity and lost revenue. Similarly, an extreme weather event might affect the availability of generation and transmission capacity, limiting the portfolio company's ability to source or deliver electricity to where it is needed. These conditions, which cannot be reliably predicted, could have an adverse consequence by requiring the portfolio company to seek additional sources of electricity when wholesale markets are tight or to seek to sell excess electricity when those markets are weak.

The physical risks of climate change, such as more frequent or more extreme weather events, changes in sea level, temperature and precipitation patterns, ground and surface water availability, and other related phenomena may exacerbate these risks. Such issues, if experienced at the facilities of a Client's portfolio companies, could adversely impact a Client's and its portfolio companies' revenues, increase costs to repair and maintain certain systems, subject such portfolio companies to potential litigation and/or damage claims and increase the level of oversight of the transmission and generation operations and infrastructure of a Client's portfolio companies. Variations in weather conditions, primarily temperature and humidity, also would be expected to affect the energy needs of customers.

Regulation of Greenhouse Gas Emissions. In recent years, a growing concern has emerged nationally and internationally about global climate change and how greenhouse gas emissions ("GHGs"), such as CO₂ and methane, contribute to global climate change. For instance, recent state and regional carbon control initiatives and the potential for future federal, state or regional carbon control legislation could substantially impact power generating facilities as well as natural gas transportation facilities. Several bills addressing climate change have been introduced in Congress or discussed by the Obama administration that are intended to address climate change using different approaches, including a cap on carbon emissions with emitters allowed to trade unused emission allowances (cap-and-trade), a tax on carbon emissions (carbon-tax), incentives for the development of low-carbon technology, and federal renewable portfolio standards. In addition, the United States regularly participates in various international

negotiations that could result in commitments to reduce GHGs originating in the United States. In addition, in April 2007, the U.S. Supreme Court issued its decision in *Massachusetts v. US Environmental Protection Agency* holding that CO₂ and other GHG emissions are pollutants subject to regulation under the new motor vehicle provisions of the Clean Air Act. The Environmental Protection Agency has, in turn, begun issuing new regulations designed to limit GHG emissions from a wide variety of stationary industrial sources, including the electricity generation sector and the oil and gas sector. These regulations will affect both newly constructed generating facilities and some existing generating facilities, as well as natural gas midstream assets such as gathering, processing and transportation facilities. Existing facilities may need to implement additional costly control technologies to continue in operation or may require additional permits before modifying future operations. To the extent that the Clients invest in portfolio companies that produce GHG emissions, its financial condition and results of operations could be materially adversely affected by the enactment of any legislation or regulation that mandates a reduction in GHG emissions or that imposes financial penalties, costs or taxes upon those that produce GHG emissions. For example, to the extent a cap-and-trade program is adopted, the portfolio company may be required to incur material costs to reduce its GHG emissions or to procure emission allowances or credits to comply with such program, and may or may not be able to pass these costs through to its electric power purchaser, depending on the terms of the applicable PPA. To the extent a carbon-tax is adopted, the portfolio company could be subject to a material tax liability under such a program and could incur material costs to reduce its GHG emissions in order to reduce such tax liability. In addition, certain GHG and other environmental regulations could affect the costs of certain carbon energy sources used as fuel, also contributing to an increase in operating costs.

Complying with various environmental regulatory requirements, especially the MATS regulation, has been significant in many projections that existing coal-fired generation will be retired. Should the Supreme Court strike down the EPA's MATS regulation, that would at least delay and potentially permanently derail the need for older existing power plants to install costly new controls. In turn, that could make certain anticipated coal retirements less likely, or lower in total capacity, resulting in greater competition for natural-gas powered generation.

Item 9. Disciplinary Information

Neither Ares EIF 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

Ares Management LLC, the parent company of Ares EIF, has a wholly owned limited-purpose broker-dealer subsidiary, Ares Investor Services LLC ("AIS"), which had its registration with FINRA approved on January 2, 2014. The Firm's Chief Compliance Officer is a registered principal of AIS and serves as its Chief Compliance Officer.

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

Neither Ares EIF nor any of its management persons is registered as a registered futures commission merchant, commodity pool operator (“CPO”) or commodity trading advisor.

Relationships with Related Persons

Ares Management LLC, the parent company of Ares EIF and an SEC-registered investment adviser, is also the parent company of:

- (i) Ares Capital Management LLC (“ACM”), 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;
- (ii) Ares Capital Management II, LLC (“ACM II”), an SEC-registered investment adviser, and the investment adviser of Ares Dynamic Credit Allocation Fund, Inc. (“ARDC”; NYSE:ARDC) and Ares Multi-Strategy Credit Fund, Inc. (“ARMF”; NYSE:ARMF), both of which are non-diversified closed-end registered management investment companies;
- (iii) Ares Capital Management III, LLC (“ACM III”), an SEC-registered investment adviser, ACM III provides advisory services to primarily Korean-based institutional investors;
- (iv) Ares Commercial Real Estate Management LLC (“ACREM”), an SEC-registered investment adviser that was formed in July 2011 and commenced operations in August 2011. ACREM provides advisory services to Ares Commercial Real Estate Corporation (“ACRE”), a specialty finance company that completed its initial public offering of shares of its common stock in April 2012;
- (v) Ares Real Estate Management Holdings LLC (“AREMH”), an SEC-registered investment adviser, AREHM provides advisory services primarily to pooled investment vehicles and other institutional accounts;
- (vi) Ares Management Limited (“AML”), an entity established in the United Kingdom and authorized and regulated by the UK Financial Conduct Authority; and
- (vii) Ares Management UK Limited (“AMUKL”), an entity established in the United Kingdom and authorized and regulated by the UK Financial Conduct Authority.

In addition, ARCC directly or indirectly also owns the equity and voting interests of its portfolio company, Ivy Hill Asset Management, L.P. (“Ivy Hill”), an SEC-registered investment adviser.

Ares EIF’s related persons also include affiliates of Ares Management’s that are investment advisers to the various investment management clients managed within the Ares platform, including the Funds, and are the general partners and, in many cases, limited partners of the Funds.

Ares EIF and its related persons are the sponsors and, in certain cases, may also be investors in various collective investment vehicles managed by Ares EIF. Certain Ares EIF personnel may spend substantially all of their business time on one or more of the foregoing collective investment vehicles as required pursuant to the terms of the relevant Governing Documents.

In the event that an investment opportunity that Ares EIF evaluates for potential investment by one of its Clients is an eligible investment for another Client, it is Ares EIF's policy that investment opportunity 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 EIF's allocation policy.

Principals, officers and employees of Ares EIF ("Covered Persons"), members of their families and related persons of Ares EIF may participate directly or indirectly as investors in Ares EIF's Funds, as described in a Fund's Governing Documents, which may be privately negotiated transactions at varying prices. Ares EIF 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 EIF 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, Participation or Interest in Client Transactions and Personal Trading"* below.

Selection or Recommendation of Other Advisers

Ares EIF does not recommend or select other third-party investment advisers for its clients. Except for Ares Management LLC (Ares EIF's parent), ACM, ACM II, ACM III, ACREM, AREHM, AML and AMUKL, each a wholly owned subsidiary of Ares Management, and Ares EIF's related party, Ivy Hill, Ares EIF does not have other business relationships with other advisers that create a material conflict of interest.

Item 11. Code of Ethics, Participation or Interest in Client Transactions and Personal Trading

Statement of Business Ethics and Code of Ethics

Ares Management has adopted an Ethics Policy (the "Code") pursuant to Rule 204A-1 under the Advisers Act that applies to Ares EIF and sets forth standards of business and fiduciary conduct that Ares EIF requires of Covered Persons. The Code is reasonably designed to minimize actual or potential conflicts of interest between Covered Persons and the interest of Ares EIF, our Funds or clients and prevent violation of federal securities laws. The Code includes, among other things, a) policies and procedures regarding personal securities transactions; b) disclosure and reporting obligations of personal securities transactions and holdings; and c) obligations for Covered Persons to report any violations of the Code to the Chief Compliance Officer ("CCO").

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

Ares EIF Management, LLC
Attn: Compliance Department
2000 Avenue of the Stars, 12th Floor
Los Angeles, CA 90067

Participation or Interest in Client Transactions; Personal Trading

The Code provides that no Covered Person may engage directly or indirectly in any business 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 in a manner detrimental to the Funds or other clients. Further, as general partners, limited partners or investors in certain of the Funds, Ares EIF and our 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. 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 or a client, 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 business relationship with the issuer of such covered security that a Covered Person and his or her "covered family members" (as defined in the Code) has or proposes to acquire.

The Code covers personal trading policies and procedures of all Covered Persons and their covered family members. Under the Code, Covered Persons and their covered family members are permitted to trade in securities for their own accounts so long as they follow the Code, which contains preclearance procedures, reporting requirements and other provisions that restrict trading by Covered Persons. Generally, for "covered securities" transactions in a Covered Person's or their covered family member's account, Covered Persons are required to obtain preclearance approval from the Compliance Department. Covered securities purchased by a Covered Person or their covered family members are generally subject to a minimum holding period. The Code also requires that all covered securities holdings and transaction information in covered securities accounts be disclosed to the Compliance Department. On a quarterly basis, Covered Persons must provide a report on all applicable transactions in any covered security in which they have acquired direct or indirect ownership and any brokerage accounts that they or covered family members maintain. On an annual basis, Covered Persons must provide a full accounting of their covered securities holdings. Lastly, Covered Persons are required to certify that they have read and understand the Code, and certify that they have complied with the provisions of the Code on an annual basis.

Any transactions in securities or investments that are held by one or more Funds or other clients are generally subject to a blackout period of five business days after any client or Fund has traded in any security of that issuer and may further be restricted further by a Fund's Governing Documents. The Code's personal trading procedures are administered by the Firm's Compliance Department.

Other Potential Conflicts

From time to time, subject to the applicable Governing Documents, a Fund may engage in cross trades with one or more other Funds. Neither Ares EIF nor our affiliates will receive commission or similar fees in connection with such cross trade. Generally, the value of any positions that are cross-traded in this manner will be determined in a manner that is consistent with applicable policies.

In addition, Ares EIF and our 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 EIF’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 Board or Investment 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 EIF and its related persons may make investments on their own behalf and on behalf of their affiliates in securities it recommends to a Fund or other client accounts. In addition, Ares EIF and our principals may co-invest with certain Funds or other clients, as permissible in the applicable Governing Documents. Any such co-investments or related transactions may raise potential conflicts of interest, particularly if a Fund or a client invests in different classes or types of securities of the same portfolio company. In such cases, the interest of one Fund may not always be aligned with the other Fund or client account and may pose an actual or potential conflict of interest, as a Fund may pursue or enforce rights with respect to an investment, and those activities may have an adverse effect on the Fund or client accounts as prices, liquidity, terms of the investments and levels of risk may be negatively impacted by such actions.

Ares Management personnel may receive discounts from products and services offered by the Private Equity Group’s portfolio companies, similar to what would be given to an employee of the portfolio company.

Ares Management also requires certain outside business activities to be reported and monitored to avoid potential or actual conflicts of interest. Such activities require prior written approval from the CCO, and may be subject to restrictions or conditions and is revocable at any time.

Item 12. Brokerage Practices

Subject to the investment objectives, policies and restrictions of each Fund and other client as set forth in their respective Governing Documents, Ares EIF 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.

Ares EIF’s investment strategy does not typically involve public securities. As such, the Firm does not generally select or recommend broker-dealers for Client transactions. However, to meet its fiduciary duties to the Clients, the Firm has adopted written policies to address selection of broker-dealers. In selecting broker-dealers to effect transactions, Ares EIF 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 EIF generally seeks reasonably competitive trade execution costs, Funds and other client accounts will not necessarily pay the lowest spread or commission available.

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 EIF does not engage in soft dollar arrangements.

Trade Aggregation

The Firm’s investment strategy of acquiring Power Assets does not typically present opportunities to aggregate the purchase or sale of securities for various Client accounts; however, under Ares EIF’s trade aggregation policy, 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 minimis changes in the allocations, a written rationale must be provided in the allocation statement. Please refer to “*Item 6. Side-by-Side Management*” for further information regarding Ares EIF’s allocation policy.

Item 13. Review of Accounts

Review of Client Accounts

Ares EIF 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, 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.

Reports to Clients

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

Investors in each Fund generally receive quarterly written reports which include, among other things: summary financial information; financial statements; a general discussion of the business and affairs of each portfolio company and of any material developments with respect thereto (all subject to legal or contractual restrictions); and the fair value of each of the Fund's investments. In addition, Underlying Investors may receive specific reports regarding their accounts upon request.

Finally, Ares EIF 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 EIF or its related persons may receive commitment, structuring, monitoring 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 EIF and its related persons to receive such economic benefits may create conflicts of interest as Ares EIF 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 EIF 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 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 EIF or a combination thereof. In addition, Ares EIF may compensate third parties who refer prospective investors to any of its Funds or new clients to Ares EIF.

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

Ares EIF endeavors at all times to put the interests of its clients, including the Funds, first as part of Ares EIF'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 EIF and the Funds. Moreover, potential conflicts of interest may arise between the interests of clients in obtaining best price and execution and Ares EIF's interest in receiving future referrals to the Funds from certain broker-dealers. Ares EIF addresses these potential

conflicts of interest by seeking to obtain best execution by considering factors set forth in “*Item 12. Brokerage Practices*” above.

Ares EIF will not compensate any placement agents or solicitors for an introduction to, or to influence any investment decision making process in connection with, any potential U.S. public pension fund clients or investors. Ares EIF may engage with intermediaries such as consultants, in connection with potential clients or investors, including those hired by U.S. public pension funds that may engage such consultants to assist with their investment advisory needs.

Item 15. Custody

It is Ares EIF’s general policy not to have physical custody of any client assets. However, Ares EIF 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 EIF’s policy generally to cause each Fund with assets over which Ares EIF 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 (180 days if the client is a “fund of funds”). In addition, upon the final liquidation of any such Fund, Ares EIF 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 EIF is deemed to have custody of a client account solely due to its ability to withdraw client funds to pay its advisory fees, Ares EIF 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 EIF urges all clients and investors to compare the reports they receive from Ares EIF to the statements they receive from their custodians. Any issues or discrepancies should be communicated to Ares EIF promptly.

Item 16. Investment Discretion

Ares EIF 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 client accounts, including the selection of, and commissions paid to, broker-dealers. This discretionary authority is subject to the investment objectives, policies and restrictions as set forth in the Governing Documents of each such Fund or client account. For Ares EIF to assume such discretionary authority, each investor or client must complete the appropriate Fund subscription documents or an investment advisory agreement prior to the establishment of an advisory relationship granting such authority.

Item 17. Voting Client Securities

Securities held by the Clients (e.g., promissory notes) do not typically allow for the exercise of voting authority. However, in instances where a client owns equity securities in which it has the right to vote via shareholder proxy (each a “Voting Security”), Ares EIF generally retains proxy

voting authority with respect to these Voting Securities. Ares EIF has adopted and implemented written Proxy Voting Policies and Procedures (“Proxy Voting Procedures”) that are designed to reasonably ensure that Ares EIF votes proxies in the best interests of its advisory clients for whom Ares EIF has voting authority.

The Proxy Voting Procedures describe the positions Ares EIF generally takes in voting proxies on particular issues and require Ares EIF 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 EIF and its affiliates, and those of one or more clients of Ares EIF, Ares EIF, 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.

Some examples of potential conflicts can include;

- Ares EIF provides investment advice to an officer or director of an issuer and Ares EIF receives a proxy solicitation from that issuer;
- An issuer or some other third party offers Ares EIF or an employee, officer, director, partner or member of Ares Management (an “Associate”) compensation in exchange for voting a proxy in a particular way;
- An Associate or a member of an Associate’s household has a personal or business relationship with an issuer;
- An Associate has a beneficial interest contrary to the position held by Ares EIF on behalf of its clients;
- Ares EIF holds various classes and types of equity and debt securities of the same issuer contemporaneously in different client portfolios; and
- Any other circumstance where Ares EIF’s duty to service its clients’ interest could be compromised.

Ares EIF will not delegate its voting authority to any third party, although it may retain an outside service to provide voting recommendations and to assist in analyzing votes.

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

Item 18. Financial Information

Not Applicable.

