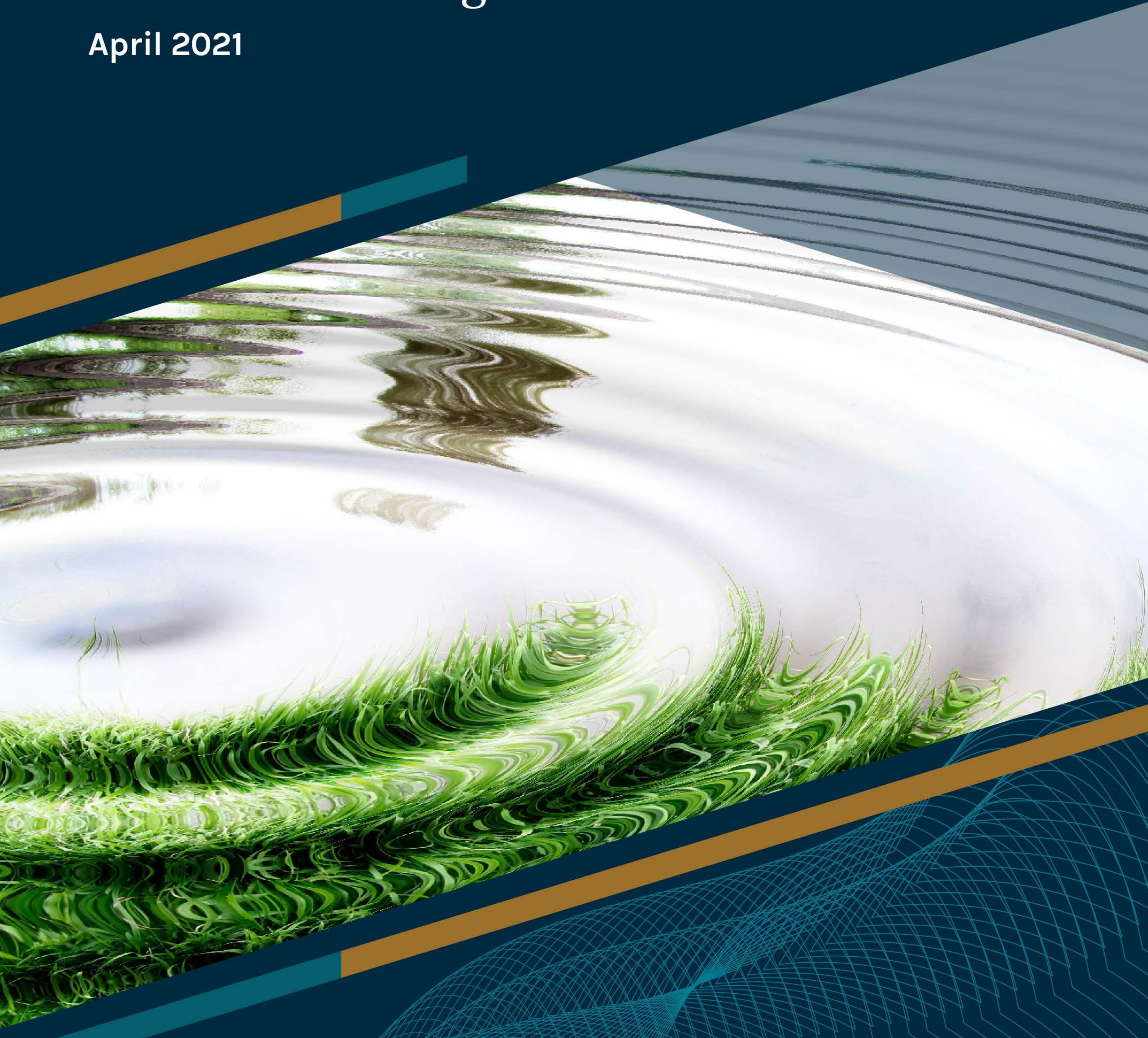
ARES

Direct Lending's ESG (R)evolution

Passive is a Thing of the Past

April 2021



Direct Lending's ESG (R)evolution

Passive is a Thing of the Past

April 2021

Executive Summary

The private markets have entered a new era of investing. Now more than ever, greater focus and scrutiny are being placed on private markets investment managers to address critical Environment, Social and Governance ("ESG") factors, as a passive compliance-oriented commitment to ESG integration is no longer the standard. ESG engagement is expanding from those who control the assets (e.g., private equity owners) to include counterparties with significant influence and is beginning to shape not only fundraising dynamics but also the business of direct lending.

A revolution of ESG programs in the direct lending industry is now taking place, which will have significant ramifications for managers in the coming years. The recent pandemic exposed inequities in the economy and in society, prompting investors to bring ESG to the forefront of their investment considerations. There is a greater sense of urgency and accountability up and down the chain.

As a result, ESG in direct lending is progressing from merely a high-level screening of investments to a more sophisticated incorporation of ESG considerations throughout the full investment life cycle, compelling total integration into a firm's DNA, which often results in a permanent and significant cultural shift.

We believe these revolutionary changes are an essential component of positioning a platform for success, as the integration of ESG enhances investment decision-making, which in turn is likely to lead to differentiated investment and manager performance.

As a leading global direct lender, Ares is committed to providing our insights to advance ESG practices within the direct lending asset class. At Ares, we seek to be a catalyst for positive impact for our stakeholders and within our communities at large. For the purposes of this piece, stakeholders include borrowers, sponsors, investors and participants in the broader private market ecosystem, such as regulatory bodies, industry associations and the general public.

Readers of this whitepaper should gain a clear understanding of the importance of ESG as a cultural evolution, the role of direct lenders in advancing ESG principles, and the development and implementation of a successful direct lending ESG program.

The goal of this paper is to set the stage and illustrate this ESG evolution in five sections: 1) answering the call for ESG leadership, 2) the importance of establishing a foundation of responsible investment in direct lending, 3) integrating ESG throughout the life of a loan, 4) understanding where ESG is headed and 5) our view of ESG competencies that we think will define ESG leadership in the future.

Exhibit A: The Five Discussion Sections for the ESG Evolution

1 Answering the Call for ESG Leadership

- Momentum is building for ESG excellence
- ESG can be a competitive advantage in today's market
- Direct lenders can enable positive ESG changes from borrowers

2 Establishing a Foundation of Responsible Investment in Direct Lending

- Establish firm support for ESG initiatives at the most senior levels
- Create clear objectives
- Utilize core concepts to incorporate ESG into investment practices

3 Integrating ESG Throughout the Life of a Loan

- Evaluating new investments
- Portfolio monitoring and company engagement
- Transparent reporting metrics

4 The ESG Evolution –Observations in the Direct Lending Industry

- Develop formal policies with clear actions
- Create a system to promote continuous improvement
- Promote a broad firm-level focus
- Support ESG goals to be achieved throughout the life of a loan
- Measure the impact

5 The ESG Revolution – Six Pivotal ESG Competencies that Will Define Future Leadership for Direct Lenders

- Ensure the ESG policy is actionable
- Responsibility for ESG integration
- Holistic approach to the investment life cycle
- Improve ESG data collection
- Transparency through regular ESG reporting
- Measurable impact of ESG initiatives

1 Answering the Call for ESG Leadership

> Ares believes that direct lenders who incorporate ESG into their investment process can gain distinct competitive advantages

There has been a fundamental realization by companies across the globe that addressing ESG issues is an important business imperative. Within the private markets ecosystem, momentum around crucial ESG topics is building as institutional investors deepen their commitment to their ultimate beneficiaries to "do no harm." Not only has there been an increased demand from investors to add contractual ESG-related investment exclusions in connection with their direct lending commitments, but there has also been a push for accountability and leadership in the asset class following an investment decision. This has presented a new dynamic for direct lenders who must in turn heed the call to both conduct their businesses with a greater emphasis on sustainable practices while also generating attractive risk-adjusted returns through a responsible approach to investing.

ESG Excellence Can Be a Competitive Advantage: On the surface, competitive forces and limited governance may appear to be justifiable reasons for non-control asset classes, such as direct lending, to not focus on integrating ESG factors throughout the investment process. However, business owners have become more receptive as the positive impact of ESG can support value enhancement, and conversely, negative ESG implications can have significant downside consequences. Further, since the typical middle-market company may not possess the internal resources or infrastructure to tackle material ESG issues, the advancement of ESG practices by a direct lender can be viewed as a source of potential value creation and a tool to mitigate business risk.

While the journey to developing a leading ESG strategy requires significant time, resources and, most importantly, a corporate culture that is willing to embrace ESG principles, we believe that direct lenders who incorporate ESG into their investment process will gain distinct competitive advantages. Though there are limited examples of direct lenders today who have reached this point, we aspire to demonstrate the competitive advantages that we believe our ESG endeavors provide in an effort to catalyze the adoption of similar practices among industry peers.

Ares Direct Lending Spotlight

Over the past 12 months, we have held a number of conversations with our portfolio companies and sponsors to discuss existing ESG practices. In 2020, one of our U.K. portfolio companies was interested in using Ares for guidance on implementing ESG best practices. Our Head of ESG worked with the company to develop new organizational frameworks to enhance ESG integration into their business, including utilizing online tools to support the evaluation of key steps in their supply chain.

A Roadmap for the Future of ESG in Direct Lending: With the growing prominence of the asset class, there are many ways that direct lenders can play an important role in advancing the adoption of responsible investing within the industry. Direct lenders of scale are in a leadership position to not only embed ESG principles more holistically into their investment processes, but also to contribute to the future progression of these principles.

2 Establishing a Foundation of Responsible Investment in Direct Lending

Initially, at a high level, objectives should be defined, including establishing measurable thresholds for what is considered acceptable in relation to specific industries or business practices. ESG-specific considerations may include:

Exhibit B: ESG-Specific Considerations

Environmental	Social	Governance
• Air quality / pollution • Biodiversity conservation / management • Climate change related risks • GHG emissions / management • Environmental compliance / liabilities • Waste processes / reduction • Water usage / scarcity / contamination	• Customer interactions and satisfaction • Diversity, equity and inclusion • Employee benefits • Equal access & workplace disability • Labor-management relations • Supply chain / vendor vetting • Workplace health & safety	• Board structure and composition • Executive compensation • Reporting frameworks • Risk management / internal controls

With this in mind, we offer steps that could be taken to systematically integrate ESG into the investment process to achieve whichever objectives a lender may set out.

There are some core concepts that we believe are critical to incorporating ESG within the investment practices of direct lenders. We believe garnering executive and business line support for execution, establishing clear and measurable objectives for the program, and implementing policies and procedures to achieve and monitor those objectives are fundamental factors in creating a successful responsible investment program.

Exhibit C: Fundamental Factors and Illustrative Characteristics of a Strong Responsible Investment Plan

Broad Support	• Senior executive ownership and accountability • ESG should be a natural extension of a firm's culture and DNA • Focus on making ESG a mission-critical aspect of investment decisions • Ensure Head of ESG, or ESG Committee has executive level support • Empower frontline investment and portfolio management professionals to own ESG implementation
Clear Objectives	• Invest with a high ethical standard • Enhance the ability to identify and evaluate potential risks, pre-investment • Promote improvements in ESG performance in a borrower's business to reduce risk and improve long-term overall performance • Integrate "systemic" ESG factors like climate change and diversity, equity, and inclusion • Serve as a resource to mid-market companies and their sponsors on ESG best practices

Demonstrated Policies and Procedures	
Demonstrated Policies and Procedures	• Codify objectives into an explicit policy • Build an ESG integration plan with clear implementation steps that tie directly to the stated objectives in the policy • Ensure that these steps generate data and documentation that can confirm follow-through with policy commitments • Review policies and procedures on a regular basis to close any gaps between stated objectives, implementation and documentation

3 Integrating ESG throughout the Life of a Loan

A leading responsible investment program is one that touches the full life cycle of a loan and generates measurable data at each stage of the loan process: underwriting, monitoring and reporting. When it comes to applying ESG principles, these stages have some overlap, and ESG considerations often impact multiple phases at one time.

An integrated life of a loan approach self-reinforces the relevance and value of ESG integration as it creates an ongoing conversation about these topics among the lender, borrower and sponsor. These multiple touch points can create opportunities for collaboration on ESG topics and over time a sense of shared objectives. Furthermore, as the ESG evolution continues to unfold, the changing requirements of investors across factors such as reporting can be more rapidly adopted. In all, the life of a loan approach, in our view, is an important capability in driving the positive benefits of ESG adoption across many different, interconnected, stakeholders.

Exhibit D:
ESG Touches Various Stages of the Life of a Loan with Opportunities for Collaboration Amongst Stakeholders

Underwriting New Investments

When assessing new investments there are several important ESG integration steps direct lenders can undertake.

Sourcing

At the origination stage, the direct lender can apply an initial screening framework to clarify: (i) whether certain investments are out of bounds, such as companies operating in sectors like coal, tobacco and firearms, among others, (ii) which investment opportunities require escalation early in the process for deeper ESG diligence, and (iii) which investment opportunities can proceed along a "normal" ESG diligence course based on the sector and the business practices that can be observed. For example, companies that operate in countries with sanctions or with historically weak human rights practices may require escalation early in due diligence. An adverse ESG assessment could be enough to decline an investment even if there is an attractive business case. Conversely, companies with market leading ESG policies and practices could lend further support to an investment thesis as a signal of good risk management and operational excellence.

Ares Direct Lending Case Study

The Ares European Direct Lending team was asked to consider supporting the acquisition of a producer of narcotic raw materials and active pharmaceutical ingredients. Despite the strong historical financial performance of the company, the high barriers to entry due to the related nature of the market and a well-invested asset base, we declined to pursue the opportunity in light of concerns related to the use of opioids and potential health impacts.

Underwriting

For borrowers that pass the defined criteria established in the initial screens, due diligence is the next important stage. As mentioned earlier, we believe private equity sponsors and their portfolio companies are increasingly attuned to the needs of ESG-oriented lender diligence. This may aid the evaluation process for direct lenders as goals are aligned with private equity sponsors who have likely performed detailed ESG diligence and may have engaged specialists in the matter.

Better evaluation of ESG principles can lead to improved credit decisions: Direct lenders should have an established, well-defined set of standards to perform a rigorous assessment of the "E," "S" and "G" and to identify potential risks and opportunities. Since ESG factors vary significantly by company, industry and geography, it should be the investment team's responsibility to assess the material ESG factors that apply within the standards established by the lender. As such, ongoing training of investment professionals is a key element to ensuring that ESG considerations are properly understood and appropriately evaluated. There are also several helpful industry frameworks, such as the Sustainability Accounting Standards Board (SASB) Materiality Map, and third-party AI-enabled ESG incident reporting tools that can help managers evaluate the ESG profile of a borrower. In the end, well-trained investment professionals with the right tools at their disposal can help ensure key ESG considerations are evaluated during the underwriting process.

Ares Direct Lending Case Study

The Ares U.S. Direct Lending team looked at a business services company in a sector where we believe we had deep industry experience. Equipped with ESG training and the relevant tools, the team uncovered elevated risks with regard to unfair labor practices during the diligence of the business. This led us to pass on the transaction. We believe these insights were not known by the potential acquiring sponsor at the time and were informative to their evaluation of the business.

Direct Lending’s ESG (R)evolution

ESG isn’t just about saying “No:” Too often “adverse” incidents and risks are the only considerations that are taken into account during due diligence. However, a strong ESG proposition can add long-term value and help support a company’s success and longevity. Therefore, the due diligence process should also give credit to companies that are demonstrating tangible progress on ESG initiatives.

In addition to the case studies listed below, we have observed a number of companies that contribute to fighting the negative impacts or spread of COVID-19. This includes private hospitals providing additional capacity to the public system, healthcare companies offering their expertise to testing efforts, telecommunications providers lending their infrastructure to various scientific projects to develop a vaccine, or companies simply accommodating flexible work practices for vulnerable employees. These initiatives can drive long-term value for companies and their stakeholders and therefore should be positively taken into account during the investment evaluation process.

Ares Direct Lending Case Study

The U.S. Direct Lending team invested in a vertically integrated company focused on the residential solar and energy efficiency market. While environmental sustainability is at the core of this company’s operations, given its focus on the residential solar market, the company is also focused on providing energy affordability for its clients. This combination of social aspects of the business model helped support our investment decision.

Ares Direct Lending Case Study

The European Direct Lending team financed one of the U.K.’s leading integrated environmental, engineering and technical services firms. A core part of the business’ strategy is assisting customers to manage environmental and social impacts. The company’s leadership position in these markets and services were important factors in our view of the growth prospects for the business. Furthermore, the company has improved their carbon footprint and published a detailed business plan to meet the UN’s Sustainability Development Goals by 2025.

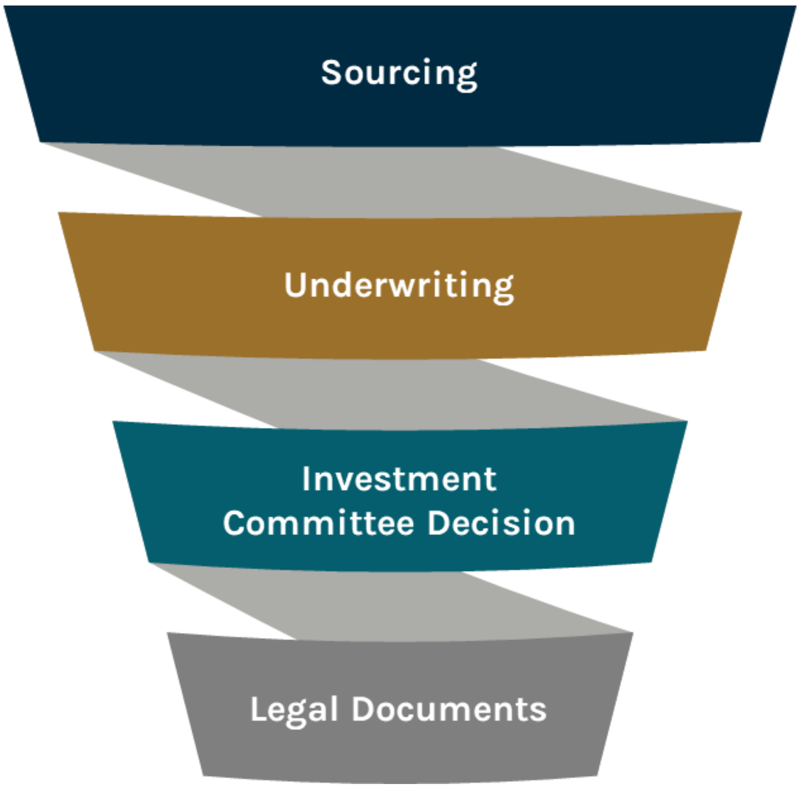
Investment Committee Decision

Ultimately, just like other business factors, ESG findings from diligence should be appropriately reflected in the materials provided to the Investment Committee. To systematically highlight the importance of ESG, both positive and negative, investment teams should rate the ESG issues evaluated and these factors should be actively discussed and benchmarked, where possible, during Investment Committee meetings.

Legal Documents

Finally, direct lenders could also insert ESG language into the credit agreement in the associated representations, warranties and ongoing covenants. This could harmonize the borrower's operations and ESG considerations with the direct lender's overarching ESG objectives.

Exhibit E: Implementing ESG in the Evaluation of New Investments



Monitoring and Portfolio Management

In an effort to capture more value from ESG integration and amidst the backdrop of investors’ increasing standards, direct lenders should take on a more focused approach to ongoing monitoring and borrower engagement. Effective ESG monitoring entails both investment in technology to drive information scale and experienced investment professionals with strong ESG competencies to provide borrower oversight.

Technology

Over the last few years, advances in machine learning – a method of data analysis where systems can learn from data to identify patterns and make decisions with minimal human intervention – have made monitoring an investment portfolio for adverse ESG incidents much more effective and comprehensive. In a prior era, direct lenders may have had to depend on borrowers or sponsors to proactively share news about ESG incidents, often without such information requests explicitly included in legal documents. However, today there are several technology-enabled methods to access this information in real time.

A third-party service provider, cross checks portfolio company names against over 100,000 public sources daily, while training the algorithms to surface news items related to adverse ESG incidents like human rights abuses, cyber-attacks, compliance breaches and fatalities.

This ability to continuously search for developments that may adversely affect an underlying credit can put managers on the front foot when monitoring a portfolio company. This practice becomes even more critical as investors expect direct lending managers to inform them of adverse incidents that reach a certain materiality threshold.

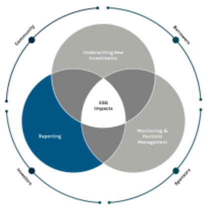
Experienced Professionals Providing Oversight

Scaled direct lenders often have deep and long-term relationships with their borrowers and private equity sponsors, and sometimes are the only debt provider to the company. As such, direct lenders are an important counterparty and therefore in a position to incentivize the borrower to uphold high ESG standards. Direct lenders could engage with borrowers and private equity sponsors frequently, and request systematic Key Performance Indicators (“KPIs”) that are tailored to the borrower’s business and industry. The frequency of such engagement depends on the assessment of risks and opportunities identified as part of due diligence. The more material the risks or opportunities identified, the closer the manager should be to the key stakeholders with a view to driving positive change.

This level of ongoing monitoring for ESG performance can also give rise to opportunities to re-engage with borrowers. Since many of the loans provided by direct lenders contain unfunded credit commitments subject to compliance with certain covenants and compliance tests, these tests may offer direct lenders an opportunity to revisit ESG progress or tie ESG metrics to a specific condition. Additionally, during the life of a loan, borrowers may need to amend some more minor terms. These engagement moments generally present opportunities to raise issues and discuss relevant risk-mitigation or value-accretive types of ESG initiatives. Additionally, as the future unfolds for direct lenders, the expectation is that covenant compliance along with pricing incentives will help accelerate borrowers to progress against their respective ESG business plans. There may even be opportunities to provide credit and pricing terms that incentivize a borrower to achieve specified ESG-related milestones. In advanced stages of a responsible investment program, we believe this will be an important way that direct lenders can play a leading role in shaping the future of ESG standards.

Ares Direct Lending Case Study

The European Direct Lending team financed a fast-food chain that was later criticized by an investigative journalist for low health and safety standards. This had a negative impact on the business as the story was widely spread in the media. Ares provided the company with additional financing that was used to upgrade the value chain and increase health and safety standards. Following these improvements, sales recovered and profitability returned to original levels.



Reporting

There are different objectives for internal and external reporting. Internally, direct lenders seek to provide ESG updates (positive or negative), which will directly influence the ongoing monitoring and strategy of the investment portfolio.

From an external perspective, reporting may include both a dedicated sustainability report for advanced direct lenders, as well as ongoing updates regarding the ESG risks and KPIs within a portfolio. We believe that reporting to stakeholders, including investors, will move from anecdotal case studies to more detailed data-driven metrics over time. ESG data aggregation at the portfolio-level is very important as it provides a higher level of transparency for stakeholders.

It should be noted, given the variability of business models and stages of ESG programs, that company-specific statistics and quantifiable assessments may lag the progress that institutions may be taking with ESG. We believe many middle-market companies are at the development and implementation phase of ESG. As these companies advance on relevant ESG initiatives, reporting and specific measurements will be one of the most important areas for change as businesses and direct lenders focus on illustrating their ESG success.

Exhibit F: Key Internal Reporting Elements and Illustrative ESG Data Points

01

Screening

- Was the deal escalated to the ESG team?
- Declined for ESG related reasons?

02

ESG Maturity of Sponsor

- Is sponsor a UNPRI signatory?
- Does sponsor have an ESG policy?

03

ESG Maturity of Borrower

- Is borrower a signatory of an ESG standard?
- Does borrower have an ESG policy?

04

Company-Specific ESG Data

- Is there relevant company specific data that may enhance an ESG evaluation, such as the carbon footprint of the borrower?

05

Overall Rating

- Low / Medium / High risk?
- How has rating changed over time?

Case Study: Ares Reporting and ESG Rating Process

Our approach to ESG reporting continues to evolve as we work to understand the needs of our various public and private investors and the ESG data that we can collect throughout the investment and portfolio management processes.

During the monitoring phase, we have found benefits in incorporating our ESG assessment alongside our quarterly portfolio and investment review. In our view, incorporating the ESG assessment with the investment evaluation allows for a consistent, frequent and a more holistic view of each investment as well as the portfolio. Furthermore, this approach provides a structured review of the status of our ESG efforts and highlights areas for continued progress.

Exhibit G: Ares ESG Direct Lending Ratings Process

“E,” “S” and “G” are Separately Evaluated

- Initial evaluation is led by investment professionals during the underwriting process with quality control conducted by the internal ESG champions and the global head of ESG, if needed
- Framework remains consistent across investments but rating components reflect industry and company dynamics
- Company and industry information, including insight from industry experts and various AI-based tools, support comprehensive data collection

Conservative Approach to Rating

- Overall company ESG rating is the lowest rating for each “E,” “S” and “G” rating
- While this may be more conservative than most, we believe it appropriately focuses on the area that needs the most improvement

ESG Monitoring

- ESG monitoring incorporated as a part of the quarterly review process
- ESG ratings for each portfolio company investment are reviewed by the Investment Committee during both the initial Investment Committee and the ongoing monitoring process
- This process helps highlight ESG as an investment consideration and ways that we can be helpful in supporting positive or remedial ESG initiatives

Reporting

- ESG ratings are evaluated as part of our investment memos and are reviewed and updated on a periodic basis
- Portfolio ratings are provided to senior management
- ESG information to be made available to fund investors on an annual basis

4 The ESG Evolution – Observations in the Direct Lending Industry

Similar to the experience of ESG in other asset classes, we expect that practices that are considered leading today will soon become the standard. We envision the future of ESG in direct lending will be marked with new methods designed to be more substantive, impactful and measurable.

We highlight this evolution across five key dimensions and consider where the industry has come from, where it is today and where we see it headed.

Exhibit H: From ESG 1.0 to 3.0; the Evolution of ESG in Direct Lending

	ESG 1.0 PAST	ESG 2.0 PRESENT	ESG 3.0 FUTURE
Policy	Limited/high level	Formal but may lack implementation	Formal implementation steps and system for continuous improvement
Responsibility	Limited responsibility	Increased with internal committees	Dedicated ESG plan designed for frontline professionals to own
Focus	New investment sourcing	Sourcing and diligence	Sourcing, diligence and monitoring
Reporting	Limited and qualitative	Portfolio level with limited company data	Portfolio and company level across key topics
Impact	Limited	Emerging	Enhanced

5 The ESG Revolution – Six Pivotal ESG Competencies that Will Define Future Leadership for Direct Lenders

As we look to the future, we believe there are six key areas that direct lenders must enhance in their approach to ESG to take their organizations to the next level of ESG integration.

Exhibit I: Six Competencies Needed for the Future

1. **Ensuring the ESG Policy is Actionable:** While many direct lenders assert that ESG has always been integrated into their investment processes, few have formally codified this commitment into a policy or clear implementation plan. Today, we see more direct lenders establishing formal ESG policies, however, these policies often lack specific implementation steps and documentation that then lead to repeatable, scalable, and measurable results. It is our view that leading direct lenders will be expected to not only have a clear implementation plan but also possess a governance structure that maintains organizational focus on year-on-year improvement.
2. **ESG Integration Accountability:** Without an established ESG approach, there could be no individual or group held responsible for implementation. As more direct lenders have begun to develop or enhance a formal ESG policy, they have mobilized internal committees comprised of a diverse range of professionals. These groups often take the responsibility to sharpen the ESG integration process, develop implementation tools, establish documentation protocols consistent with the stated ESG goals, and craft the firm's ESG narrative and case studies for external stakeholders. In the future, many of these direct lenders will seek dedicated ESG resources to own the design of the ESG process, while keeping responsibility for frontline execution grounded in the investment and portfolio management teams along with documenting goals and progress for internal and external stakeholders.
3. **Life of a Loan Approach to ESG:** The earliest ESG integration plans focused on the sourcing stage, developing boundaries for investments a direct lender would not make due to sector exposure or poor ESG practices. Indeed, many investors would stress test ESG policies by asking direct lenders for examples of

prospective investments that were declined for ESG reasons. Today, there is a greater focus on standardizing the approach to pre-investment considerations. In the future, differentiated direct lenders must demonstrate how they monitor their portfolios and engage with borrowers and private equity sponsors on ESG topics throughout the entire life of a loan.

4. **Rigor of ESG Data:** As direct lenders implement more ambitious ESG programs, they will want to demonstrate to stakeholders – both internally and externally – that they are following through with their commitments. Case study examples will no longer be considered sufficient evidence of a rigorous ESG program and will need to be combined with portfolio-wide data that demonstrates the scale of implementation. We expect that systematic and transparent tracking of ESG-related data, whether process data or company-level ESG data, will eventually become the industry standard, supported by regulatory tailwinds like the European Commission's Sustainable Finance Disclosure Regulation (SFDR) and the Securities and Exchange Commission's increased focus on ESG investing.

5. **Transparency Through Regular ESG Reporting:** As direct lenders collect more ESG data – capturing both their ESG process and company-specific ESG information, there will be increased demand for transparency from investors. While the specific ESG data reported may vary across managers, driven by the specific objectives of their respective ESG programs, we expect that limited partners will demand more regular reporting that shows how the ESG integration plan is implemented and key developments and improvements year to year.

6. **Translation of Principles Into Impact:** As the elements above come together, we expect to see the best direct lenders translate their high-level ESG principles and objectives into meaningful and measurable impact. Expressed a different way, we believe that direct lenders who can demonstrate that their lending activities can generate positive ESG impacts will have differentiated ESG offerings. Impact-related activities could take the form of dedicated thematic ESG products, loans that offer lower interest rates to borrowers who successfully de-risk through improved ESG performance, or partnerships with private equity sponsors to scale leading sustainability practices. We believe that ESG related pricing and covenants are key trends that will become more common in the near future.

While each of these steps have discrete elements that drive their ultimate success, progress across these six competencies can have a compounding effect on organizational momentum and help achieve a truly integrated ESG investment program.

6 Conclusion

In a short time, expectations surrounding the focus, rigor and impact of an ESG integration plan in direct lending has outpaced the current practices of many direct lenders. By sharing the blueprint for a leading responsible investment approach, we hope to catalyze a greater sense of urgency and ambition among our colleagues in the direct lending market. We also seek to affirm to a wider range of financial participants – borrowers, private equity sponsors and other business owners, investors and other investors – that direct lenders have a critical role to play in securing a sustainable economy.

In the years ahead, we anticipate further acceleration and intensification of ESG efforts across the industry, which should generate new tools, frameworks and technologies that can be widely adopted and applied.

We at Ares feel the urgency and have embraced the challenge and opportunity that lies ahead for our business as it relates to ESG. The events of 2020 taught us many things including the necessity for us all to adapt, adjust and create new paradigms for growth and success. Emerging from this environment, urgency has given way to a higher standard, one of accountability. We believe accountability is required if change is going to happen quickly and sustainably.

We look forward to partnering on ESG matters with our full range of stakeholders, sharing our insights while seeking ways to be catalysts of change together.

DISCLAIMER

The views expressed in this article are those of the author(s) as of the date of the article. Ares has no obligation to provide updates on the subject in the future. The views are provided for informational purposes only, are not meant as investment advice, and are subject to change. Moreover, while this article expresses views as to certain credit investment opportunities, Ares may undertake investment activities on behalf of one or more investment mandates inconsistent with such views subject to the requirements and objectives of the particular mandate. Ares and its affiliates cannot guarantee the accuracy or completeness of any statements or data contained in this material.

These materials are not an offer to sell, or the solicitation of an offer to purchase, any security, the offer and/or sale of which can only be made by definitive offering documentation. Any offer or solicitation with respect to any securities that may be issued by any investment vehicle (each, an 'Ares Fund') managed by Ares Management LLC or any of its affiliated entities (collectively, 'Ares') may be made only by means of definitive offering memoranda, which will be provided to prospective investors and will contain material information that is not set forth herein, including risk factors relating to any such investment. Any such offering memoranda will supersede these materials and any other marketing materials (in whatever form) provided by Ares to prospective investors. In addition, these materials are not an offer to sell, or the solicitation of an offer to purchase securities of Ares Management Corporation ('Ares Corp'), the parent of Ares Management LLC. In the United States, Ares Fund securities may be offered through our affiliate, Ares Investor Services LLC, a broker-dealer registered with the SEC, and a member of FINRA and SIPC.

The securities/investment process mentioned in this research paper may not be suitable for all investors. This research paper does not provide tailored investment advice and has been primarily for distribution to institutional investors and market professionals. In making a decision to invest in any securities of an Ares Fund, prospective investors should rely only on the offering memorandum for such securities and not on these materials, which contain preliminary information that is subject to change and that is not intended to be complete or to constitute all the information necessary to adequately evaluate the consequences of investing in such securities. Ares makes no representation or warranty (express or implied) with respect to the information contained herein (including, without limitation, information obtained from third parties) and expressly disclaims any and all liability based on or relating to the information contained in, or errors or omissions from, these materials; or based on or relating to the recipient's use (or the use by any of its affiliates or representatives) of these materials; or any other written or oral communications transmitted to the recipient or any of its affiliates or representatives in the course of its evaluation of Ares. Ares undertakes no duty or obligation to update or revise the information contained in these materials.

Nothing in these materials should be construed as a recommendation to invest in any securities that may be issued by Ares Corp or an Ares Fund or as legal, accounting or tax advice.

These materials are not intended for distribution to, or use by, any person or entity in any jurisdiction or country where such distribution or use would be contrary to law or regulation.

In the United Kingdom, this document is intended only for distribution to professional clients and eligible counterparties, as defined by the Financial Services and Markets Act 2000 (Financial Promotion) Order 2001, and such other persons to whom financial promotions can be issued within the scope of available exemptions. Investments should only be made by persons with professional experience of participating in unregulated collective investment schemes and any other person who receives this document should not rely upon it. In other EEA countries, these materials are available for distribution only to persons regarded as professional clients (or the equivalent) in their home jurisdiction.

Notice to Australian Residents: The financial services are provided by Ares Management LLC or Ares Management Limited; Ares Management LLC and Ares Management Limited are exempt from the requirement to hold an Australian financial services license under the Corporations Act (Cth) 2001; Ares Management LLC is regulated by the U.S. Securities and Exchange Commission under U.S. laws, which differ to Australian laws; and Ares Management Limited is regulated by the U.K. Financial Services Authority under U.K. laws, which differ to Australian laws.

These materials may contain 'forward-looking' information that is not purely historical in nature, and such information may include, among other things, projections, forecasts or estimates of cash flows, yields or returns, scenario analyses and proposed or expected portfolio composition. The success or achievement of various results and objectives is dependent upon a multitude of factors, many of which are beyond the control of Ares. No representations are made as to the accuracy of such estimates or projections or that such projections will be realized. Actual events or conditions are unlikely to be consistent with, and may differ materially from, those assumed. Past performance is not indicative of future results. Ares does not undertake any obligation to publicly update or review any forward-looking information, whether as a result of new information, future developments or otherwise, except as required by law. In addition, in light of the various investment strategies of such other investment partnerships, funds and/or pools, it is noted that such other investment programs may have portfolio investments inconsistent with those of the strategy or investment vehicle proposed herein.

This may contain information sourced from Bank of America, used with permission. BANK OF AMERICA IS LICENSING THE ICE BOFA INDICES AND RELATED DATA "AS IS," MAKES NO WARRANTIES REGARDING SAME, DOES NOT GUARANTEE THE SUITABILITY, QUALITY, ACCURACY, TIMELINESS, AND/OR COMPLETENESS OF THE ICE BOFA INDICES OR ANY DATA INCLUDED IN, RELATED TO, OR DERIVED THEREFROM, ASSUMES NO LIABILITY IN CONNECTION WITH THEIR USE, AND DOES NOT SPONSOR, ENDORSE, OR RECOMMEND ARES MANAGEMENT, OR ANY OF ITS PRODUCTS OR SERVICES.

The outbreak of a novel and highly contagious form of coronavirus ("COVID-19"), which the World Health Organization has declared to constitute a pandemic, has resulted in numerous deaths, adversely impacted global commercial activity and contributed to significant volatility in certain equity and debt markets. The global impact of the outbreak is rapidly evolving, and many countries have reacted by instituting quarantines, prohibitions on travel and the closure of offices, businesses, schools, retail stores and other public venues. Businesses are also implementing similar precautionary measures. Such measures, as well as the general uncertainty surrounding the dangers and impact of COVID-19, are creating significant disruption in supply chains and economic activity and are having a particularly adverse impact on energy, transportation, hospitality, tourism, entertainment and other industries. The impact of COVID-19 has led to significant volatility and declines in the global financial markets and oil prices and it is uncertain how long this volatility will continue. As COVID-19 continues to spread, the potential impacts, including a global, regional or other economic recession, are increasingly uncertain and difficult to assess. Any public health emergency, including any outbreak of COVID-19 or other existing or new epidemic diseases, or the threat thereof, and the resulting financial and economic market uncertainty could have a significant adverse impact on the core holdings referenced herein, the value of the investments and the portfolio companies. The information herein is as of the date referenced and the effects, directly and indirectly, resulting from COVID-19 may not be fully reflected in such information as the situation remains continuously fluid.

This may contain information obtained from third parties, including ratings from credit ratings agencies such as Standard & Poor's. Reproduction and distribution of third party content in any form is prohibited except with the prior written permission of the related third party. Third party content providers do not guarantee the accuracy, completeness, timeliness or availability of any information, including ratings, and are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, or for the results obtained from the use of such content. THIRD PARTY CONTENT PROVIDERS GIVE NO EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE. THIRD PARTY CONTENT PROVIDERS SHALL NOT BE LIABLE FOR ANY DIRECT, INDIRECT, INCIDENTAL, EXEMPLARY, COMPENSATORY, PUNITIVE, SPECIAL OR CONSEQUENTIAL DAMAGES, COSTS, EXPENSES, LEGAL FEES, OR LOSSES (INCLUDING LOST INCOME OR PROFITS AND OPPORTUNITY COSTS OR LOSSES CAUSED BY NEGLIGENCE) IN CONNECTION WITH ANY USE OF THEIR CONTENT, INCLUDING RATINGS. Credit ratings are statements of opinions and are not statements of opinions and are not statements of fact or recommendations to purchase, hold or sell securities. They do not address the suitability of securities or the suitability of securities for investment purposes, and should not be relied on as investment advice.

REF: CP-00763