Ares European Loan Funding II Limited

(A Private Limited Company)

Annual Report and Audited Financial Statements

For the Period from March 5, 2021 (Incorporation Date) through December 31, 2021

CONTENTS

Management and Administration

Portfolio Adviser

Ares Management Limited
8th Floor, 20 Farringdon Street
London, EC4A 4AB

Administrator

SS&C Technologies, Inc. and SS&C Fund Services (Cayman) Ltd
80 Lamberton Road,
Windsor,CT 06095

Legal Adviser (United Kingdom)

Paul Hastings (Europe) LLP
100 Bishopsgate
London EC2N 4AG

Legal Adviser (Jersey)

Maples and Calder (Jersey) LLP
2nd Floor, Sir Walter Raleigh House.
48-50 Esplanade
Jersey St. Helier JE2 3QB

Independent Auditor

Ernst & Young LLP
25 Churchill Place, Canary Wharf,
London E14 5EY

Directors of the Company at date of approval of the financial statements

Niels Larsen
Matthew Theodorakis
Sam Ellis
Charles Leahy
Emma Tighe

Company Secretary and Registered Address

Maples Company Secretary (Jersey) Limited
2nd Floor, Sir Walter Raleigh House.
48-50 Esplanade
St. Helier, Jersey JE2 3QB

Directors' report

The Directors present their report and financial statements of Ares European Loan Funding II Limited (the "Company") for the period ended December 31, 2021.

Introduction

Ares European Loan Funding II Limited is a Jersey company established to satisfy the UK Tax Securitisation Rules whose investment strategy is to provide Note Holders with exposure to a loan origination and investment business. The investment objective of the Company is to generate attractive risk-adjusted returns from its investments through the origination and/or purchase of Company Assets. Such objective is intended to be achieved by way of a long term investment strategy in the Company Assets. As part of this investment strategy, the Company intends to utilise the CLO market as a means of obtaining exposure to a diversified pool of Company Assets. In particular, it establishes by way of serving as originator on, and subsequently holding retention positions in, CLOs managed by Ares Management and any successor thereto. The Company is established to hold CLO Equity and/or other CLO tranches (i.e. on a "horizontal" or a "vertical" basis).

Retention positions are held by the Company to maturity in compliance with the Risk Retention Requirements. Other Company Assets (other than loans that are originated for European CLO SPVs) are intended to be held by the Company on a medium to long term basis, which may result in holdings of "secondary strategy" Company Assets until maturity where not sold prior to maturity based on the Company's assessment and management of the credit, market value, relative value and liquidity risk of such investments from time to time and in accordance with the Company's Investment Strategy. Where the Company has established the relevant European CLO SPV, it intends that it will invest in retention positions issued by such European CLO SPVs in accordance with and to satisfy the Risk Retention Requirements in Europe and the UK and, to the extent applicable, the U.S.

Directors

Directors who served during the year and up to the date of this report were:
Niels Larsen
Matthew Theodorakis
Sam Ellis
Charles Leahy
Tina Westwood (Refer Note 10)
Emma Tighe (Refer Note 10)

Going concern

The Company's activities, together with the factors likely to affect its future development, its financial position and the financial risks are described in the financial statement. Refer to Note 2.

After making enquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for a period of at least 12 months from the date of the issuance of these financial statements. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

As the Company has sufficient financial resources, the Directors believe that the Company is well placed to manage its business risks successfully.

Results and review of the business

The company's Statement of Comprehensive Income set out on **page 14** shows a net profit for the period of €655,531.

The financial position of the company is set out on **page 13** and is considered by the Board to be satisfactory.

Principal risks and uncertainties

The company evaluates and monitors its risks in line with the various financial instruments it holds. The principal risks and uncertainties the company faces are broadly grouped as market risk, liquidity risk, credit risk, price risk and currency risk.

The company has a risk and financial management framework of which the primary objective is to protect the company from events that hinder the achievement of the company's performance objectives through the monitoring and management of risk. Refer to Note 3.

Future developments

The Board will continue to review, appraise and develop its management policies and procedures to ensure a robust and formalised risk management structure, appropriate to the size and complexity of the company's business, is always in place.

Statement of Directors' responsibilities

The Directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

The Directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standard Board ("IASB"). The Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Appointment of Auditors

Ernst & Young LLP have been appointed as Independent Auditors of the Company and have indicated their willingness to continue in office.

By the order of the Board

Charles Leahy

Director

Report of the Manager

Market Comment

In the fourth quarter of 2021, European leveraged loans returned 0.70%. On a monthly basis, returns were 0.14%, 0.15% and 0.42% in October, November and December respectively. The headline 3yr discount margin has been trading in a tight range for over 6 months, including the fourth quarter of 2021, where there was just 10bps of widening over the period.

The start of the quarter saw a softer tone for risk assets as a result of news flow surrounding energy price increases, supply chain disruptions and developments within the Chinese real estate sector. Additionally, concerns around persistently high inflation prints provoking central banks to enact tighter monetary policy measures helped to send risk-free rates higher. There was another negative shift in November as market participants responded to concerns surrounding the impact of a new Covid-19 variant and fresh lockdowns measures being imposed across the globe. These market jitters were more evident in the high yield market where spreads have a higher sensitivity to prevailing market conditions, while loan market spreads were only marginally wider. Additionally, their floating rate characteristics meant that they were shielded from the negative impact of rising rates. This meant the income component of loan returns was able to keep total returns in positive territory in both October and November. Concerns around the impact of fresh lockdowns proved to be short lived as it became apparent that the Omicron variant would be less severe compared to prior waves meaning European leveraged loans finished the year on a firm footing.

The fourth quarter of 2021 saw €23.5bn of CLO issuance, which was ultimately one of the key drivers of demand for European leveraged loans. €12.9bn was new issuance, while refis and resets totalled €3.6bn and €7.0bn respectively. This capped a fourth quarter in a row of over €20bn in European CLO issuance, leaving total issuance for the year at record levels. With regards to new issue CLO discount margins, there was a steady grind tighter in AAA spreads, however AA through to single-B spread all saw moderate widening throughout the quarter, which was in line with the moves seen in the leveraged loan market.

From a positioning standpoint, although we have maintained a defensive posture within portfolios – with an overweight to secured/first lien paper and non-cyclical sectors – we have been actively looking for relative value trades to move into credits that appear oversold due to the recent bout of volatility. For instance, we have added to certain issuers that have exposure to rising energy prices and have made some tactical switches from loans to bonds, focusing on high quality issuers where valuations appear to be tracking at attractive levels. Elsewhere, we have looked to the primary market to add risk as we have seen some attractive new issues offering enhanced economics to attract investor demand amid the prevailing market conditions.

AELF II Activity

Ares European Loan Funding II - Activity		
Date	**Capital Activity**	**Amount (€)**
12/10/2021	1st Close	167,562,500
04/11/2021	Capital Call	12,000,000
08/12/2021	Capital Call	16,500,000
24/12/2021	Distribution	2,300,000

Report of the Manager

Ares European Loan Funding II - CLO Equity Investments				
Deal Name	**Pricing Date**	**Closing Date**	**% of Equity Tranche Purchased**	**Par (€m)**
Ares European CLO XV	15/11/2021	16/12/2021	66.52%	29.8

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF ARES EUROPEAN LOAN FUNDING II LIMITED

Opinion

We have audited the financial statements of Ares European Loan Funding II Limited (the "Company") for the period ended 31 December 2021 which comprise the Statement of Financial Position, the Statement of Comprehensive Income, the Statement of Changes in Net Assets of Note Holders, the Statement of Cash Flows and the related notes 1 to 10, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards issued by the International Accounting Standards Board.

In our opinion, the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2021 and of its profit for the period then ended;
- have been properly prepared in accordance with International Financial Reporting Standards; and
- have been properly prepared in accordance with the requirements of the Companies (Jersey) Law 1991.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements, including the UK FRC's Ethical Standard as applied to listed entities and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the directors' assessment of the Company's ability to continue to adopt the going concern basis of accounting included evaluation and challenge of: management's method to assess the Company's ability to continue as a going concern, the relevance and reliability of the underlying data used in making the assessment, and management's assumptions in regards to future income, expenses and availability of uncalled capital commitments.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for a period to 30 April 2023, which is at least 12 months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Company's ability to continue as a going concern.

Overview of our audit approach

Key audit matters	► Risk of incorrect valuation of investments
Materiality	► Overall materiality of £537,611 which represents 2% of net assets.

An overview of the scope of our audit

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for the Company. This enables us to form an opinion on the financial statements. We take into account size, risk profile, the organisation of the Company and effectiveness of controls, including controls and changes in the business environment when assessing the level of work to be performed.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Risk	**Our response to the risk**	**Key observations communicated to the directors**
Risk of incorrect valuation of investments (€25,590,485) *Refer to the Significant Accounting policies (page 17); and Note 5 of the Financial Statements (page 25)* The majority of the investments balance held by the Company on the Statement of Financial Position is a CLO equity tranche, comprising 99% of the total investments balance. The CLO investment is held at fair value through profit or loss and is assessed by management as there is limited market activity to provide reliable observable inputs. Judgment is required where there is limited market activity to provide reliable observable inputs. There is the risk that inaccurate judgments made in the assessment of fair value could lead to the incorrect valuation of investment in the CLO which could materially misstate the carrying amount of Financial assets at fair value through profit or loss in the Company's Statement of Financial Position. In turn, this could materially misstate the unrealised gains and losses on the revaluation of investments recorded in the Net loss on financial assets and liabilities at fair value	**Our audit procedures addressed the impact as follows:** We obtained an understanding of management's processes and controls for the valuation of the CLO by performing walkthrough procedures, in which we evaluated the design effectiveness of controls. As observable market data was not available, we challenged management's assessment by forming an independent range of fair values for the equity tranche with the assistance of our valuation specialists. This included: – projecting cash flows using a cash flow model and market-based assumptions including default rates; – performing comparative calculations using the cash flows and yields. We recalculated the unrealised loss on revaluation of investments impacting the Net loss on financial assets and liabilities at fair value in the Statement of Comprehensive Income.	Based on our procedures performed we had no material matters to report to the directors.

Risk	Our response to the risk	Key observations communicated to the directors
account in the Statement of Comprehensive Income. There is also a risk that management may influence the judgments and estimations in the valuation of the investment in CLO equity tranche in order to meet investor expectations.	Further, we assessed whether sufficient and appropriate disclosures were included in the notes to the financial statements in relation to the fair value of investments.	

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality
The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the company to be £537,611, which is 2% of net assets. We believe that net assets provide us with the most relevant measure of Company performance to the stakeholders of the Company

Performance materiality
The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Company's overall control environment, our judgement was that performance materiality was 75% of our planning materiality, namely £403,208. We have set performance materiality at this percentage due to our experience of the control environment of the Portfolio Adviser and lack of material misstatements noted.

Reporting threshold
An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the directors that we would report to them all uncorrected audit differences in excess of £26,881, which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other information

The other information comprises the information included in the annual report other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters in relation to which the Companies (Jersey) Law 1991 requires us to report to you if, in our opinion:

- proper accounting records have not been kept by the Company, or proper returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the Company's accounting records and returns; or
- we have not received all the information and explanations we require for our audit

Responsibilities of directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 4, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the Company and management.

► We obtained an understanding of the legal and regulatory frameworks that are applicable to the Company and determined that the most significant are International Financial Reporting Standards, the Companies (Jersey) Law 1991 and the Private Placement Memorandum.

► We understood how the Company is complying with those frameworks by making enquiries of management and corroborating our understanding by reviewing directors' meeting minutes, policy and procedures manuals and by seeking representation from those charged with governance.

► We assessed the susceptibility of the Company's financial statements to material misstatement, including how fraud might occur by designating the valuation of investments as a fraud risk. Our audit procedures stated above in the 'Key audit matters section' of this Auditor's report, including test of journal entries, were performed to address this identified fraud risk. Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved inquiry with management, review of legal and professional expenses, and review of directors' meeting minutes.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the Company's members, as a body, in accordance with Article 113A of the Companies (Jersey) Law 1991. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Ernst & Young LLP

Ashley Coups
for and on behalf of Ernst & Young LLP
London
29 April 2022

Ares European Loan Funding II Limited
(A Private Limited Company)
Statement of Financial Position
As at December 31, 2021

(EXPRESSED IN EUROS)

	Notes	31-Dec-21
		EUR
ASSETS		
Non-current assets		
Financial assets at fair value through profit or loss (cost EUR 26,160,576)	5	25,590,485
Current assets		
Accounts receivable	6	170,226
Cash and cash equivalents		1,224,817
		1,395,043
TOTAL ASSETS		26,985,528
LIABILITIES		
Current liabilities		
Accrued expenses	7	129,997
TOTAL LIABILITIES		129,997
Net assets attributable to the Note Holders		26,855,531
TOTAL LIABILITIES AND NOTE HOLDERS' CAPITAL		26,985,528

The financial statements and accompanying notes on pages 17 to 28 were approved and authorised for issue by the Board on April 29, 2022 and were signed on its behalf by:

Director: Charles Leahy

Ares European Loan Funding II Limited

(The notes on pages 17 to 28 form part of these audited financial statements)

Ares European Loan Funding II Limited
(A Private Limited Company)
Statement of Comprehensive Income
For the Period from March 5, 2021 (Incorporation Date) through December 31, 2021

(EXPRESSED IN EUROS)	Notes	5 Mar 21 to 31 Dec 21 EUR
INCOME		
Net loss on financial assets and liabilities at fair value through profit or loss		(570,091)
Net foreign exchange loss		(1,238)
Investment income		2,203,927
TOTAL INCOME		1,632,598
EXPENSES		
Legal fees		906,528
Directors' fees	9	29,184
Bank charges and interest		11,546
Administration fees		2,574
Audit fees		25,000
Professional fees		2,199
Management fees	9	36
TOTAL EXPENSES		977,067
INCREASE IN NET ASSETS ATTRIBUTABLE TO THE NOTE HOLDERS FROM OPERATIONS		655,531
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		655,531

(The notes on pages 17 to 28 form part of these audited financial statements)

Ares European Loan Funding II Limited

(A Private Limited Company)

Statement of Changes in Net Assets of Note Holders

For the Period from March 5, 2021 (Incorporation Date) through December 31, 2021

(EXPRESSED IN EUROS)

	Capital Contributions	Income Account	Total
	EUR	EUR	EUR
Net assets attributable to the Note Holders at March 5, 2021	-	-	-
Capital contributions called	28,500,000	-	28,500,000
Distributions paid	-	(2,300,000)	(2,300,000)
Increase in net assets attributable to the Note Holders from operations	-	655,531	655,531
Net assets attributable to the Note Holders at December 31, 2021	28,500,000	(1,644,469)	26,855,531

(The notes on pages 17 to 28 form part of these audited financial statements)

Ares European Loan Funding II Limited
(A Private Limited Company)
Statement of Cash Flows
For the Period from March 5, 2021 (Incorporation Date) through December 31, 2021

(EXPRESSED IN EUROS)	**5 Mar 21 to 31 Dec 21**
	EUR
CASH FLOWS PROVIDED/(USED) BY OPERATING ACTIVITIES	
Net increase in net assets attributable to the Note Holders for the period	655,531
Adjustment for:	
Net loss on financial assets and liabilities at fair value through profit or loss	570,091
Increase in accrued expenses	129,997
Increase in accounts receivable	(170,226)
NET CASH PROVIDED BY OPERATING ACTIVITIES	1,185,393
CASH FLOWS USED BY INVESTING ACTIVITIES	
Purchase of investments	(26,160,576)
NET CASH USED BY INVESTING ACTIVITIES	(26,160,576)
CASH FLOWS PROVIDED BY FINANCING ACTIVITIES	
Capital contributions received	28,500,000
Distributions paid	(2,300,000)
NET CASH (USED BY)/PROVIDED BY FINANCING ACTIVITIES	26,200,000
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS FOR THE PERIOD	1,224,817
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	-
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	1,224,817

(The notes on pages 17 to 28 form part of these audited financial statements)

1. Organization and Business Purpose

Ares European Loan Funding II Ltd. (the "Company") was incorporated on March 5, 2021 in Jersey in accordance with Companies (Jersey) Law 1991 as a private limited company. The Company has an authorized share capital of €10,000 divided into 10,000 ordinary shares with par value of €1 each, with 1 unpaid share issued. The Company is wholly owned by the Share Trustee "Maples Trustees (Jersey) Limited" which holds the share issued by the Company as of the balance sheet date.

Under the Profit Participating Note Programme the Company may from time to time issue, on a private placement basis, profit participating notes. The Company is seeking to issue approximately €400 million in aggregate commitments through the issuance of Notes under the Programme.

The Company is a Jersey company established with a view to satisfying the UK Tax Securitisation Rules whose investment strategy is to provide Note Holders with exposure to a loan origination and investment business. The investment objective of the Company is to generate attractive risk-adjusted returns from its investments through the origination and/or purchase of investments including debt obligation in the form of senior, mezzanine and second lien loans, high yield bonds, floating rate notes on a levered or unlevered basis and other similar credit assets, investments in CLO warehouse facilities and CLO securities by way of debt and/ or equity (including CLO Retention Investments) and other related investments.

As of December 31, 2021, the Note Holders made net drawdowns of €28,500,000 to the Company, which represents 17.01% of the total committed capital of €167,562,500. Total unfunded amounts available as of December 31, 2021 were €139,062,500 or approximately 82.99% of aggregate capital commitments.

Ares Management is a private limited liability company incorporated in England and Wales which acts as a portfolio adviser, (the "Adviser") advises the Company on the investments that have prospects to appreciate in value in the medium and long term period. Ares Management acts as portfolio adviser to the Company pursuant to the Portfolio Advisory and Management Agreement.

2. Significant Accounting Policies

The principal accounting policies applied in the preparation of these financial statements are set out below.

Basis of preparation

The financial statements of the Company have been prepared on a going concern basis and in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB"). The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss. The preparation of financial statements in conformity with IFRS requires the use of accounting estimates and exercise of judgement by the management while applying the Company's accounting policies (see Note 4). Changes in assumptions may have a significant impact on the financial statements in the period in which the assumptions changed. These estimates are based on the management's best knowledge of the events which existed at the statement of financial position date; however, the actual results may differ from these estimates. Net assets attributable to the Note Holders are classified as a financial liability, due to a finite life and contractual payment provision to each of the Note Holders within the PPM. Net assets attributable to the Note Holder's capital are carried at amortised cost.

2. Significant Accounting Policies (continued)

Standards and amendments to existing standards effective January 1, 2021

The Board have assessed any impact on new standards and there are no standards or interpretations that are effective for annual periods beginning on January 1, 2021 that have a material effect on the financial statements of the Company.

Going concern

The Company will meet its working capital requirements and other obligations through the receipt of investment income from the Investments in CLOs. The Company receives quarterly fixed interest from the notes held in these investments and is also able to receive variable interest if available. To date, the investment income significantly outweighs the ongoing obligations. Additionally the total unfunded commitments available as of December 31, 2021 were €139,062,500 or approximately 82.99% of aggregate capital commitments of €167,562,500. Therefore the Board has a reasonable expectation that the Company will have adequate resources to settle the outstanding liabilities as at December 31, 2021 and to continue in operational existence for at least the next 12 months from the date of signing these financial statements.

As of December 31, 2021 the global impact of the coronavirus ("COVID-19") pandemic is ongoing. Many geographies, including those in which portfolio companies and underlying businesses of the Company's investments operate, continue to have preventative measures in place to contain or mitigate its spread, causing reductions in business activity and financial transactions, supply chain interruptions, and overall economic and financial market instability. Throughout 2021 a number of tested and approved vaccines were rolled out around the globe. As percentages of populations being vaccinated increased and infection rates decreased, individual countries and regions started to relax the measures put in place to combat the virus, leading to recoveries in economic and leisure activity. However, the uneven roll out of vaccines across the world, and the periodic emergence of more infectious and transmissible COVID-19 variants, among other things, mean that the negative effects of the pandemic are likely to continue for some time to come, which in turn could adversely affect the Company's investments, financial condition and results of operations. The Board believes the estimates and assumptions underlying its financial statements are reasonable and supportable based on the information available as of December 31, 2021. However, continuing uncertainty over the ultimate impact the COVID-19 pandemic will have on the global economy and the Company's investments makes any estimates and assumptions as of December 31, 2021 inherently less certain than they would be absent the current and potential impacts of the COVID-19 pandemic. Actual results could differ from those estimates.

Financial assets at fair value through the profit or loss

(a) Classification

The investments are classified as financial assets at fair value through profit or loss in accordance with the provisions set out in IFRS9, whereby debt investments of the Company will fail the Solely Payments of Principal and Interest test as income is not solely payments of principal and interest on the principal amounts outstanding. The Company acts as the risk retention holder for the purposes of the European Risk Retention Legislation for each CLO in respect of which it acts as the sponsor. The Board designates the classification of its investments at the time of purchase.

(b) Recognition, derecognition and measurement

All purchases and sales of investments are recognised on Trade date. These investments are initially recognised at fair value and transaction costs are expensed in the statement of comprehensive income. Any gain or loss resulting

2. Significant Accounting Policies (continued)

from the changes in fair value of the financial assets at fair value through profit or loss are presented in the statement of comprehensive income in the period in which they arise.

Financial assets are derecognised when the Company's rights to receive cash flows from the investments have expired or the Company has transferred substantially all the risks and rewards of ownership. Any gains or losses on derecognition of investments are calculated after setting the proceeds against the cost and, in respect of part disposals, against the average costs at the date of sale. The gain or loss on realisation is presented in the statement of comprehensive income.

(c) Fair value estimation

IFRS 9 requires financial assets to be held at fair value, except only in rare circumstances where the fair value cannot be reliably measured in which case it allows the financial asset to be carried at cost less provision for impairment. IFRS 13, "Fair Value Measurement" defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. IFRS 13 establishes a fair value hierarchy that categorises into three levels the inputs to valuation techniques used to measure fair value. The fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities (Level I inputs) and the lowest priority to unobservable inputs (Level III inputs). Market price observability is impacted by a number of factors, including the type of investment and the characteristics specific to the investment. Investments with readily available active quoted prices, either for the identical instrument or similar instruments, generally will have a higher degree of market price observability and a lesser degree of judgement used in measuring fair value.

Investments measured and reported at fair value are classified and disclosed utilising inputs from one or more of the following categories:

Level I - Quoted prices (unadjusted) in active markets for identical investments that the entity can access at the reporting date. The type of investments which may be included in Level I are publicly traded equity securities.

Level II - Inputs other than quoted prices included in Level I which are either directly or indirectly observable as of the reporting date. Investments which may be included in this category include, but are not limited to, investments in which secondary market transactions meeting certain requirements (size, financial disposition buyer/seller, relative proximity of transaction date to reporting date, etc.) occurred.

Level III - Pricing inputs are unobservable and include situations where there is little, if any, market activity for the investment. Fair values for these investments are determined using valuation methodologies that consider a range of factors, including, but not limited to, the price at which the investment was acquired, the nature of the investment, local market conditions, trading values on public exchanges for comparable securities, current and projected operating performance and financing transactions subsequent to the acquisition of the investment. The inputs into the determination of fair value require significant management judgement. Due to the inherent uncertainty of estimates, these values may differ materially from the values that might have resulted had a ready market for these investments existed. Investments that are included in this category generally are privately held debt and equity securities.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment’s level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The Director’s assessment of the significance of a particular input to the fair value measurement in its entirety requires judgement, and considers factors specific to the investment.

2. Significant Accounting Policies (continued)

The Company shall estimate the value of its applicable asset(s) upon consideration of such factors as are deemed relevant by the Company or its Portfolio Adviser and any valuation committee that may be established. These factors may include, but are not limited to, non-binding indicative bids from multiple dealers, recent trading prices for specific investments, recent purchases, third-party pricing services, sales known to Company or its affiliates in substantially similar securities and output from a third-party cashflow model (INTEXcalc).The INTEXcalc third-party cashflow model incorporates a waterfall engine to store the collateral data, generate collateral cash flows from the assets, and distribute the cash flows to the liability structure based on the priority of payments. The values of CLO Equity and other CLO securities shall be determined by reference to INTEXcalc. Key inputs to the model, including assumptions for future loan default rates, recovery rates, prepayment rates, reinvestment rates and discount rates, will be documented and provided to the Company or its Portfolio Adviser and any valuation committee.

Transfers between Levels are recognised at the end of the reporting year in which the event or change in circumstances that caused the transfer had occurred.

Accounts receivable

Accounts receivable are recognised at fair value and measured subsequently at amortised cost using the effective interest rate method. In accordance with IFRS 9, there is no expected credit loss to the Company in respect of the investment income receivable at December 31, 2021. There are no other receivables as of December 31, 2021.

Cash and cash equivalents

For the purposes of the statement of cash flow, cash comprises cash at hand, demand deposits and other short-term, highly liquid investments that are readily convertible to known amounts of cash and are subject to insignificant changes in value.

Foreign currencies

(a) Functional and presentational currency

Items included in the Company’s financial statements are measured using the currency of the primary economic environment in which it operates. As investments and drawdowns have been made and distributions will be made in Euro ('EUR'), this is considered to be the functional and presentational currency of the Company.

(b) Transactions and balances

Foreign currency transactions are translated into Euro using the exchange rates prevailing at the dates of the transactions. Foreign exchange gain or loss resulting from the settlement of such transactions and from the translation at period end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income. Translation differences arising from financial assets and liabilities at fair value through profit or loss are reported as part of the fair value gain or loss within statement of comprehensive income.

2. Significant Accounting Policies (continued)

Accrued expenses

Accrued expenses are initially recognised at fair value and subsequently measured at amortised cost using the effective interest rate method, for those that are interest bearing. Accrued expenses are derecognised when the obligation under the liability is discharged or cancelled or expires.

Expense recognition

Expenses are accounted for on an accruals basis and recognised within the statement of comprehensive income.

Income recognition

Investment income is equity income from the CLO's of fixed and variable interest amounts. It is recognised when due and is contractually receivable. Bank interest income is recognised on a accruals basis.

Use of estimates and judgements

The Board make estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial period. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Financial instruments

The Company holds the following material financial instruments:

Investment Name	**Investment Type**
Ares European CLO XV DAC	Collateralized Loan Obligations Equity

3. Financial Risk Management

The Company is exposed to a number of risks arising from the various financial instruments it holds. The main risks to which the Company is exposed are: market risk, credit risk and liquidity risk. The risk management policies employed by the Company to manage these risks are discussed below:

Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market prices and includes price risk, foreign currency risk, interest rate risk and other price risk such as commodity or equity risks. In February 2022, a number of countries (including the US, UK and EU) imposed sanctions against certain entities and individuals in Russia as a result of the invasion of Ukraine by the Russian Federation. Announcements of potential additional sanctions have been made following war initiated by Russia against the Ukraine on February 24, 2022. Due to the growing geopolitical tensions, since February 2022, there has been a significant increase in volatility on the securities and currency markets, as well as a significant depreciation of the ruble against the US dollar and the euro. It is expected that these events may affect the activities of Russian enterprises in various sectors of the economy. The Company regards these events as non-adjusting events after the reporting period. Although neither the Company's performance and going concern nor operations, at the date of this

3. Financial Risk Management (continued)

report, have been significantly impacted by the above, the Board continues to monitor the evolving situation and its impact on the financial position and results of the Company.

Price risk

The Company's unquoted investments are susceptible to market price risk arising from uncertainties about future values of the equity securities. The Company's Investment Adviser, Ares Management Limited (the "Adviser") advises the Company on the investments that have prospects to appreciate in value in the medium and long term period. The Adviser's recommendations are reviewed by the Board before the investment decisions are implemented.

As at December 31, 2021, the Board believes that a 20% variance in the price of investments is reasonable based on historic experience in the past year. A 20% drop in the price of the investments, with all other variables held constant, would have resulted in a decrease in the NAV of EUR 5,118,097. The movement given a 20% rise would have resulted in an equal but opposite movement.

Currency risk

The Company is exposed to some currency risk as liabilities in relation to operating expenses are denominated in Pound Sterling ('GBP'). The Company's overall currency risk and exposure is monitored on a quarterly basis by the Board.

The table below summarises the exposure of the financial liabilities of the Company to Pound Sterling:

31 December 2021	**EUR**
Accrued expenses	93,013

As at December 31, 2021 a 10% weakening of GBP against the EUR, with all other variables held constant, would have resulted in a decrease in the profit for the period as per the statement of comprehensive income and a decrease in net assets of the Company by EUR 9,301. If GBP had strengthened against the EUR by 10%, the profit for the period as per the statement of comprehensive income would have increased and the net assets of the Company would have increased by the same amount with all other variables held constant.

Credit risk

The Company takes on exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due resulting in financial loss to the Company. The Company is exposed to the risk of non-payment of commitments to the Company before the Company is fully drawndown. The Company is now exposed to credit risk of non-payment of investment income when due from the underlying investments.

The Board manages the risk of defaulting investments by putting in adequate controls in place to monitor that all investment monies are received on a timely manner.

The Company assesses all counterparties for credit risk before contracting with them.

3. Financial Risk Management (continued)

The maximum exposure to credit risk as at December 31, 2021 is the carrying amount of the investment income due to the Company, which is set out below:

	31 Dec 21
	EUR
Investment income receivable	170,226
	170,226

As at December 31, 2021, none of the assets held by the Company are past due or impaired (December 31, 2020: N/A).

Liquidity risk

The liquidity risk is the risk that the Company will not meet its financial obligations when they fall due.

The following table illustrates the expected liquidity of assets held:

	Less than 1 month	1 - 12 months	Upon maturation of
	EUR	EUR	EUR
31 December 2021			
Total assets	1,224,817	170,226	25,590,485

The amounts in the table are the contractual undiscounted cash flows.

The table below analyses the Company's financial liabilities into the relevant maturity grouping based on the remaining period at the reporting date. The amounts in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

3. Financial Risk Management (continued)

	Less than 1 year	Between 1-2 years	More than 2 years	Total
	EUR	EUR	EUR	EUR
31 December 2021				
Liabilities				
Accrued expenses	129,997	-	-	129,997
Net assets attributable Note Holders	-	-	26,855,531	26,855,531
Total	129,997	-	26,855,531	26,985,528

The Board is of the opinion that the Company therefore has no liquidity risk for the foreseeable future.

Capital risk management

If a Note Holder fails to pay when due installments of its commitment to the Company, and the investment made by non-defaulting Note Holders and borrowings by the Company are inadequate to cover the defaulted Commitment Call, the Company may be unable to pay its obligations when due. If a Note Holder faults, the Company may apply remedies including, but not limited to forfeiting their Notes. The Company is reliant on members of the Portfolio Adviser and other third party service providers to carry on its businesses and a failure by one or more of such service providers could materially disrupt the businesses of the Company and ultimately the return on the Notes.

4. Critical Accounting Estimates and Judgements

The Company makes estimates and judgements concerning the future. The resulting accounting estimates will by definition seldom equal the actual results. The Company has equity investments in Collateralized Loan Obligations. The fair value of Collateralized Loan Obligations is generally estimated based on various valuation models of third party pricing services. The third party pricing service's valuation models generally utilize discounted cash flows and take into consideration prepayment and loss assumptions, based on historical experience and projected performance, economic factors, the characteristics and condition of the underlying collateral, comparable yields for similar securities and recent trading activity. These securities are classified as Level 3.

5. Financial Assets at Fair Value through Profit or Loss

	31 Dec 21
	EUR
Unquoted Investments	
At historical cost	26,160,576
Unrealised (loss)/gain on investments	(570,091)
At fair value	25,590,485

The following table summarises the valuation of the Company's investments by the IFRS 13 fair value hierarchy and level of disaggregation as at December 31, 2021:

	31 Dec 21
	EUR
Investments at fair value	
Investments holdings:	
Level II	237,479
Level III	25,353,006
	25,590,485

The changes in investments classified within Level III are as follows:

	31 Dec 21
	EUR
Opening balance	-
Purchases	25,923,020
Sales	-
Gains / (losses)	
- Realised	-
- Unrealised	(570,014)
Closing balance	25,353,006

5. Financial Assets at Fair Value through Profit or Loss (continued)

All realised and unrealised gains and losses on the table above are recognised in the statement of comprehensive income.

The following table summarises the valuation methodology and inputs used for Collateralized Loan Obligations Equity as Level III inputs as at December 31, 2021:

Description	Fair Value	Valuation technique	Range (Weighted avergae)
31 December 2021	EUR		
Collateralized Loan Obligations Equity	25,353,006	Net asset value	n/a

In line with the Company's accounting policy the subordinated investments in the CLOs are held at fair value. The fair values of the CLOs are estimated based on various valuation models of third-party pricing services as well as internal models. The valuation models generally utilize discounted cash flows and take into consideration prepayment and loss assumptions, based on historical experience and projected performance, economic factors, the characteristics and condition of the underlying collateral, comparable yields for similar securities and recent trade activity.

6. Accounts Receivable

	31 Dec 21
	EUR
Investment income receivable	170,226
	170,226

In accordance with IFRS 9, there is no expected credit loss in respect of the investment income receivable at December 31, 2021. The amount represents accrued fixed interest income with contracted payment dates. There is also an amount of variable interest income but don't foresee there to be an expected credit loss. €170,226 of the accrued fixed and variable interest receivable due at the December 31, 2021 is expected to be received in Q2 2022. On this basis, the Company has adopted an approach similar to the simplified approach to ECLs and any expected credit loss is deemed immaterial to the Company.

7. Accrued Expenses

	31 Dec 21
	EUR
Administration fees	2,574
Audit fees	25,000
Director fees	24,510
Custodian fees	9,375
Legal fees	66,273
Professional fees	2,229
Management fees	36
	129,997

8. Taxation

The Company is incorporated in Jersey, the Board intends to exercise management and control of the Company from within the UK such that the Company is resident for tax purposes in the UK. The Company has been advised that it should fall within the permanent regime for the taxation of securitisation companies, and as such should be taxed only on the amount of its "retained profit" (as defined in the TSC Regulations), for so long as it satisfies the conditions of the UK Tax Securitisation Rules. Based on TSC regulations, the Company will be subject to corporation tax on the cash profit retained by it for each accounting period in accordance with the transaction documents. There is no accrual as of December 31, 2021.

9. Related Party Disclosures

The Company has five directors. Niels Larsen acts as an independent board member. Matthew Theodorakis is a partner in the Ares Credit Group. The remaining three independent directors are Sam Ellis, Charles Leahy and Emma Tighe, services from whom is being provided by Maples Fiduciary, which has entered into a Director Services Agreement with the Company. The director's fees are in relation to independent directors.

In accordance with Clause 1.2 and Clause 8 of the Portfolio Advisory and Management Agreement dated October 12, 2021, the Company pays a quarterly Management Fee on the later of (i) 20 Business Days following each Quarterly Valuation Date, and (ii) the first date on which there are sufficient Income Collections to pay all Company Expenses for the relevant Accrual Period, each fiscal quarter equal to 0.5% per annum of the proportionate amount of the total Investment Amounts invested in the Company's secondary strategy, being the Company's General Credit Business Investments only, (less the acquisition cost of realised and distributed (or wholly written off) General Credit Business Investments and the amount of any Ares CLO Notes included in the Company's General Credit Business Investments). For the period ended December 31, 2021, the Company incurred EUR 35.80 in management fees.

9. Related Party Disclosures (continued)

	5 Mar 21 to 31 Dec 21
	EUR
Director fees	29,184
Management fees	36

During the year the Company received investment income from its investment in Warehouse of Ares European CLO XV DAC totaling EUR 2,038,790. The outstanding investment income receivable is disclosed in Note 6.

10. Subsequent Events

Subsequent events have been evaluated up to the date the financial statements were approved and authorised for issue by the Board of Directors of the Company and the following event occurred:

Tina Westwood resigned as a director effective February 21, 2022 & Emma Tighe was appointed as an independent director effective February 21, 2022.