

Ares Dynamic Credit Allocation Fund, Inc.  
Form N-CSR  
January 04, 2017

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

**FORM N-CSR**

**CERTIFIED SHAREHOLDER REPORT OF REGISTERED  
MANAGEMENT INVESTMENT COMPANIES**

Investment Company Act file number 811-22535

ARES DYNAMIC CREDIT ALLOCATION FUND, INC.  
(Exact name of registrant as specified in charter)

2000 AVENUE OF THE STARS  
12TH FLOOR  
LOS ANGELES, CALIFORNIA  
(Address of principal executive offices)

90067  
(Zip code)

Copy to:

P. Jay Spinola, Esq.

Daniel J. Hall

Willkie Farr & Gallagher LLP

2000 Avenue of the Stars, 12th Floor

787 Seventh Avenue

Los Angeles, California 90067  
(Name and address of agent for service)

New York, New York 10019

Registrant's telephone number, including area code: (310) 201-4100

Date of fiscal year end: October 31

Date of reporting period: October 31, 2016

**Item 1. Report to Stockholders.**

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**Ares Dynamic Credit Allocation Fund, Inc.**  
**(NYSE: ARDC)**

**Annual Report**

**October 31, 2016**

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Ares Dynamic Credit Allocation Fund, Inc.

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Ares Dynamic Credit Allocation Fund, Inc.

## Letter to Shareholders

October 31, 2016 (Unaudited)

### Dear Shareholders,

We would like to start by thanking you for your interest and participation in the Ares Dynamic Credit Allocation Fund, Inc. ("ARDC" or the "Fund"). We appreciate the trust and confidence that you have demonstrated in Ares through your investment in ARDC.

### Economic Conditions and Leveraged Finance Market Update

2016 thus far through October has been a strong year for credit with the Credit Suisse Leveraged Loan Index ("CSLLI") and Merrill Lynch High Yield Master II Index ("H0A0") posting gains of 8.28% and 15.68%, respectively, compared to gains of 5.87% for the S&P 500. The year began with a continued collapse in oil prices, concerns about China's currency devaluation pace, and U.S. recession fears. Through February 11, the S&P 500 had traded down by as much as 5.7%, oil traded down to a low of \$26.21 a barrel and the sell-off in high yield bonds gathered momentum, putting high yield securities squarely in oversold territory. Around mid-February, improvements across a number of global issues provided a more constructive macro backdrop for non-investment grade credit markets. The European Central Bank ("ECB") provided a larger expansion of monetary policy than anticipated, China gave more reassurance on foreign exchange rates, OPEC and non-OPEC members held talks regarding the possibility of putting a floor under oil prices, U.S. recession concerns faded amidst better economic data and the Federal Reserve ("Fed") narrative remained dovish. Following the momentum gained in late February, capital markets firmly advanced through the spring as a more traditional risk rally took hold amid improving investor sentiment and accommodative central bank action and rhetoric. Through June 30, U.S. credit markets posted strong returns, led by lower rated assets and cyclical sectors. Following a brief disruption at the end of June surrounding the surprising vote by the British populous to leave the European Union ("Brexit"), credit markets rallied throughout the Summer and early Fall as market participants continued their search for yield owing to negative sovereign rates persistent across the globe. The strong risk rally within credit that prevailed for much of the year began to show indications of waning in October amid the increased probability of a December rate hike, renewed concern over potential OPEC agreements and rising Treasury yields. Following Donald Trump's unexpected victory in the U.S. presidential election, high yield bonds came under pressure amid the sharpest sell-off in Treasuries since the "Taper Tantrum" in May 2013 while leveraged loans held up relatively well. Rate concerns are now heightened amid prospects for firmer global economic conditions, higher deficits, a rise in inflation expectations, and possibly an even more active Fed under a Trump White House. At this stage uncertainty abounds, in particular regarding the detailed policies, posture, and makeup of the forthcoming administration. Continued volatility is likely, and drawing conclusions or making macroeconomic forecasts in such a fluid environment remains difficult.

October saw generally positive economic data releases offset rising concerns surrounding the political landscape, a potential rate hike in December and renewed weakness in commodities. The U.S. Department of Commerce released the advance estimate of U.S. GDP in late October, reporting the economy expanded at a 2.9% annual rate during the third quarter of 2016, marking the strongest quarter of growth in two years. Estimates for real GDP exceeded expectations this quarter largely due to strength in business investment, consumer spending and a better performance in global trade. Specific to payrolls, the U.S. Labor Department reported that 161,000 jobs were added during the month of October, which was fewer than expected but still a healthy gain. Importantly, the unemployment rate fell back down to 4.9% and average hourly earnings rose 2.8% year-over-year, the fastest pace of wage growth since the financial recession. The October employment report marked the 73rd consecutive month of job gains for the U.S. economy and may be enough to clear the path for the Fed to raise interest rates at its next meeting in December.

Nonetheless, the market's focus in October centered around the U.S. Presidential election which took place on November 8 after almost two years of contentious and unpredictable campaigning. In the days leading up to the election, the polls and political pundits gave Republican Donald Trump little chance of winning and were projecting that Secretary of State Hillary Clinton would likely be elected. However, in a historic upset, the American people chose Mr. Trump to be the 45th President of the United States. This outcome was widely unexpected and while equity futures plunged late Tuesday night after Mr. Trump claimed victories in several key battleground states, U.S. stocks rebounded the following day led by large gains in the healthcare, financials, and industrials sectors. The market's initial reaction was generally positive but a great deal of fiscal, monetary, political and economic uncertainty remains. We believe it will take time for investors to consider the implications of a Trump presidency and act accordingly. Therefore, in the more immediate term we expect the market to re-focus on important events between now and year-end including the November 30 OPEC meeting and the ECB, Bank of Japan, and Fed meetings taking place in December. According to pricing in federal funds futures, the probability of a rate hike in December now stands at 84%, but the odds could fluctuate between now and then given the unexpected outcome of the Presidential election, concerns about low inflation, moderate economic growth and continued turmoil abroad.

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Ares Dynamic Credit Allocation Fund, Inc.

**Letter to Shareholders** *(continued)*

October 31, 2016 (Unaudited)

Continued signs of a modestly recovering EU were provided in the form of Eurozone factory activity, as data released by Markit pointed to their most active month in nearly three years. The Eurozone factory purchasing managers index rose to 53.5, its highest level since 2014. Additionally, manufacturers reported hiring has picked up and that they had raised their selling prices as well, a boost to the ECB who has been intently focused on increasing inflation through its various QE initiatives. Although inflation still remains doggedly low, green shoots have started to appear. These improvements have led to speculation that the ECB may look to taper its current bond purchasing program as early as December. The scarcity of eligible bonds and the artificial effects the stimulative program has had on the credit markets in general may prompt the ECB to scale back its current efforts to drive inflation and economic recovery. This would certainly increase the probability for increased volatility within the region at a time where concerns are mounting regarding the growth prospects for 2017. Elections in Germany and France could provide surprise results much like the Brexit vote or the recent U.S. Presidential election. Additional volatility could be experienced with the UK set to begin its negotiations to separate from the EU in early 2017 as well.

Improved market tone and strong demand technicals in both the loan and CLO debt markets has led to a rally in credit and CLOs. Surpassing September's \$8.2 billion of new issuance, October was the strongest month for primary CLO issuance in the U.S. with ~\$8.4 billion across 17 deals. As of October 31, year-to-date 2016 primary issuance totals ~\$55.9 billion exceeding certain CLO analyst forecasts of \$55 billion for the full year. With the U.S. risk retention deadline a few short weeks away, we expect November to be another busy month as CLO managers race to get deals done in advance of the deadline. In Europe, primary issuance is on track to set a new post-crisis high with €1.7 billion across four deals in October bringing the year-to-date 2016 total to €14.3 billion as of October month-end.<sup>2, 3, 4</sup> In the primary market, spreads continue to tighten as international demand remains strong. In Europe, new issue AAA spreads reached a post-crisis low of 98bps in October. Senior spread tightening has lowered the average cost of funding for primary Euro CLOs, even despite widening lower in the capital stack. Single-B tranches priced in the mid to high 900s, up from the low to mid 800s at the end of 2015. In the U.S., primary AAA spreads ranged from 143-159bps while BB spreads ranged from 725-875bps. With elevated supply in the primary, new issue AAA spreads have yet to break 140bps in the U.S.<sup>5</sup> The trailing twelve month default rate for the S&P Leveraged Loan Index remained flat at 1.95% in October. With no new defaults, the amount of defaulted collateral in post-crisis CLOs continues to decline. However, in light of the outlook for the loan market in October,<sup>3</sup> we believe the quantum of fundamental risks have increased slightly as our pipeline of watch list credits continues to grow.

The CLO market had a muted reaction to the election of Donald Trump both the U.S. and European CLO markets were virtually unchanged. It appears market participants were positioned with a "buy the dip / opportunistic" posture similar to what occurred after Brexit though so far that buying opportunity has been limited. Against an uncertain background and expected further volatility, we seek to manage our portfolios with caution and pragmatism but stand ready to hunt for value. Despite having to endure market volatility and the resultant impact on short-term returns, these are the kinds of markets where we believe our process, team and technology platform can really shine. For additional information about the instruments in which ARDC invests, please refer to the Fund's shareholder report.

**Ares Dynamic Credit Allocation Fund, Inc.**

ARDC is a closed-end fund that trades on the New York Stock Exchange under the symbol "ARDC" and is externally managed by Ares Capital Management II LLC (the "Advisor"), a subsidiary of Ares Management, L.P. ("Ares") ARDC's investment objective is to provide an attractive risk adjusted level of total return, primarily through current income and, secondarily, through capital appreciation by investing in a broad, dynamically-managed portfolio of



below investment grade senior secured loans, high yield corporate bonds and collateralized loan obligation securities.

### **Portfolio Performance and Positioning**

For the calendar year-to-date period through October 31, 2016, ARDC has returned 16.6% based on Net Asset Value ("NAV"), which compares to 8.3% for the Credit Suisse Leveraged Loan Index ("CSLLI") and 15.7% for the Bank of America Merrill Lynch High Yield Master II Index ("H0A0"). On a last twelve months basis through October 31, 2016, ARDC has returned 9.0% based on NAV, which compares to 6.3% for the CSLLI and 10.2% for the H0A0. For the period ended October 31, 2016, ARDC Market Price returns were 18.9% for the calendar year-to-date and 12.5% for the last twelve months basis, respectively. However, it is important to note that given its flexible mandate and focus on senior secured bank loans, high yield bonds and CLOs, we believe there is no single established benchmark that reasonably lends itself to comparison with ARDC.

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Ares Dynamic Credit Allocation Fund, Inc.

**Letter to Shareholders** *(continued)*

October 31, 2016 (Unaudited)

Over the past year, ARDC increased its allocation to CLO debt and equity to 25.1% as of October 31, 2016 from 20.7% as of October 31, 2015, as those assets were relatively dislocated toward the end of 2015/beginning of 2016 which allowed us to source investments at attractive valuations. In addition, ARDC slightly increased its allocation to bank loans while slightly reducing exposure to high yield bonds and holding very low cash balances throughout the year. From an industry perspective, over the last twelve months we meaningfully increased exposure to Metals & Mining to 4.9% from 0.5% and modestly increased exposure to Energy to 7.7% from 6.6% as those industries have been experiencing a recovery, while reducing exposure to Broadcasting to 4.4% from 7.2%.

On November 6, 2015, the Board of Directors (the "Board") of ARDC authorized the repurchase of shares of common stock of the Fund (the "Common Shares") on the open market when the Common Shares are trading on the New York Stock Exchange at a discount of 10% or more (or such other percentage as the Board may determine from time to time) from the net asset value ("NAV") of the Common Shares. The Fund may repurchase its outstanding Common Shares in open-market transactions at the Fund management's discretion. The Fund is not required to effect share repurchases. Any future purchases of Common Shares may not materially impact the discount of the market price of the Common Shares relative to their NAV and any narrowing of this discount that does result may not be maintained. Since inception of the program through October 31, 2016, the Fund has repurchased 489,383 shares at an average price of \$12.97, representing an average discount of -15.3%.

In conclusion, we maintain strong conviction in the ARDC portfolio and believe the Fund continues to be well positioned to take advantage of buying opportunities in the new issue and secondary markets. We continue to believe that the ability to dynamically allocate is critical to successfully navigating an evolving market environment with headline and interest rate driven volatility. Thank you again for your continued support of ARDC. If you have any questions about the Fund, please call 1-877-855-3434, or visit the Fund's website at [www.arespublicfunds.com](http://www.arespublicfunds.com).

Best Regards,

Ares Capital Management II LLC

*Note: The opinions of the Adviser expressed herein are subject to change without notice. Information contained herein has been obtained from sources believed to be reliable, but is not guaranteed. This letter is distributed for educational purposes and should not be considered investment advice or an offer of any security for sale. This material may contain "forward-looking" information that is not purely historical in nature. No representations are made as to the accuracy of such information or that such information 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.*

<sup>1</sup> Source: S&P Capital IQ LCD. "Global Databank," October 31, 2016.

<sup>2</sup> Source: J.P. Morgan. "Salt n Pepa: Seasoning of CLO Asset Portfolios," November 4, 2016.

<sup>3</sup> Source: Deutsche Bank. "The Outlook: MBS and Securitized Products," November 9, 2016.

<sup>4</sup> Source: Goldman Sachs. "GS CLO Secondary: October 2016 Month End Recap and Thoughts "Tourbillon," November 8, 2016.

<sup>5</sup> Source: S&P Capital IQ LCD. "Global CLO Roundup: European AAA Spreads Reach Post-Crisis Low," October 31, 2016.

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Ares Dynamic Credit Allocation Fund, Inc.

**Fund Profile & Financial Data**

October 31, 2016 (Unaudited)

**Portfolio Characteristics as of 10.31.16**

|   |          |
|---|----------|
| Weighted Average Floating Coupon <sup>1</sup> | 5.79%    |
| Weighted Average Bond Coupon <sup>2</sup>     | 7.95%    |
| Current Distribution Rate <sup>3</sup>        | 8.37%    |
| Dividend Per Share                            | \$0.1025 |

1 The weighted-average gross interest rate on the pool of loans as of October 31, 2016.

2 The weighted-average gross interest rate on the pool of bonds at the time the securities were issued.

3 October 2016 dividend per share annualized and divided by the October 31, 2016 market price per share. The Fund's October 2016 distributions were comprised of net investment income and short-term capital gains. The distribution rate alone is not indicative of Fund performance. To the extent that any portion of the current distributions were estimated to be sourced from something other than income, such as return of capital, the source would have been disclosed in a Section 19(a) Notice located under the "Investor Information" section of the Fund's website. Please note that the distribution classifications are preliminary and certain distributions may be re-classified at year end. Please refer to year-end tax documents for the final classifications of the Fund's distributions for a given year.

**Top 10 Holdings<sup>4</sup> as of 10.31.16**

|                                 |       |
|---------------------------------|-------|
| Rite Aid Corp                   | 1.53% |
| Cablevision Systems Corp        | 1.27% |
| Guala Closures S.P.A.           | 1.25% |
| Alinta Energy Ltd               | 1.18% |
| Mohegan Tribal Gaming Authority | 1.17% |
| Tegna Inc.                      | 1.15% |
| TMF Group Holdings BV           | 1.14% |
| AerCap Holdings N.V.            | 1.12% |
| Builders FirstSource, Inc.      | 1.09% |
| Numericable Group               | 1.09% |

4 Market value percentage may represent multiple instruments by the named issuer and/or multiple issuers being consolidated to the extent they are owned by the same parent company. These values may be different than the issuer concentrations in certain regulatory filings.

**Performance as of 10.31.16**

|                      | Market | NAV    |
|----------------------|--------|--------|
| 1 Month              | -0.32% | 0.90%  |
| Year to Date         | 18.90% | 16.55% |
| 3 Years (annualized) | 1.95%  | 3.37%  |
| Since Inception**    | 0.43%  | 4.60%  |

\*\*Since Inception of fund (11/27/2012) and annualized.

Source: Morningstar

Performance data quoted represents past performance, which is no guarantee of future results, and current performance may be lower or higher than the figures shown. Since Inception returns assume a purchase of common shares at the initial offering price of \$20.00 per share for market price returns or initial net asset value (NAV) of \$19.10 per share for NAV returns. Returns for periods of less than one year are not annualized. All distributions are assumed to be reinvested either in accordance with the dividend reinvestment plan (DRIP) for market price returns or NAV for NAV returns.

### **Portfolio Composition as of 10.31.16**

### **Fixed vs. Floating Rate as of 10.31.16**

### **Industry Allocation<sup>5</sup> as of 10.31.16**

5 Merrill Lynch industry classifications weighted by market value. These values may be different than industry classifications in certain regulatory filings.

This data is subject to change on a daily basis. As of 10.31.16, the Fund held a negative traded cash balance of -3.41%.

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Ares Dynamic Credit Allocation Fund, Inc.

**Schedule of Investments**

October 31, 2016

**Floating Rate Term Loans 47.0%<sup>(b)</sup>**

|  | <b>Principal<br/>Amount</b> | <b>Value<sup>(a)</sup></b> |
|--|-----------------------------|----------------------------|
| <b>Aerospace and Defense 2.0%</b>  |                             |                            |
| Doncasters U.S., LLC,<br>Term Loan 2nd Lien,<br>9.50%, 10/09/2020                              | \$1,500,000                 | \$ 1,410,000               |
| Engility Corporation,<br>Term B-2 Loan,<br>5.75%, 08/12/2023                                   | 1,411,765                   | 1,428,240                  |
| Square Holding Germany GmbH,<br>Term Loan B, (Denmark),<br>L+ 5.00%, 05/31/2023 <sup>(c)</sup> | €1,000,000                  | 2,229,592                  |
| TransDigm, Inc.,<br>Tranche F Term Loan,<br>3.75%, 06/09/2023                                  | \$2,793,000                 | 2,780,795                  |
|  |                             | <b>7,848,627</b>           |
| <b>Automotive 1.0%</b>   |                             |                            |
| Gates Global, LLC,<br>USD Term Loan,<br>4.25%, 07/06/2021                                      | 2,493,546                   | 2,456,392                  |
| KAR Auction Services, Inc.,<br>Tranche B-3 Term Loan,<br>4.38%, 03/09/2023                     | 1,343,250                   | 1,357,099                  |
|  |                             | <b>3,813,491</b>           |
| <b>Banking, Finance, Insurance &amp; Real Estate 3.1%</b>                                      |                             |                            |
| Asurion, LLC,<br>2nd Lien Term Loan,<br>8.50%, 03/03/2021                                      | 3,000,000                   | 3,021,240                  |
| Asurion, LLC,<br>B-5 Term Loan B,<br>L+ 3.75%, 10/31/2023 <sup>(c)(d)</sup>                    | 2,000,000                   | 2,000,000                  |
| Gulf Finance, LLC,<br>Tranche B Term Loan,<br>6.25%, 08/25/2023                                | 2,272,396                   | 2,218,427                  |
| Headwaters, Inc.,<br>Term B-1 Loan,<br>4.00%, 03/24/2022                                       | 997,475                     | 1,002,153                  |
| Jeld-Wen, Inc.,<br>Term B-1 Loan,<br>4.75%, 07/01/2022   | 3,960,000                   | 3,983,087                  |
|  |                             | <b>12,224,907</b>          |

**Beverage, Food and Tobacco 1.5%**

|   |           |                  |
|---|-----------|------------------|
| Albertson's, LLC,<br>2016-1 Term B-4 Loan,<br>4.50%, 08/25/2021                           | 3,813,377 | 3,840,376        |
| Candy Intermediate Holdings,<br>Inc.,<br>Initial Term Loan 1st Lien,<br>5.50%, 06/15/2023 | 2,019,296 | 2,033,188        |
|   |           | <b>5,873,564</b> |

**Floating Rate Term Loans<sup>(b)</sup> (continued)**

|  | Principal<br>Amount | Value <sup>(a)</sup> |
|--|---------------------|----------------------|
| <b>Chemicals, Plastics &amp; Rubber 2.4%</b>   |                     |                      |
| Allnex Sarl,<br>Tranche B-1 Term Loan,<br>(Luxembourg),<br>5.00%, 09/13/2023                         | € 392,266           | \$ 436,113           |
| HII Holding Corporation,<br>Term Loan 2nd Lien,<br>9.75%, 12/21/2020                                 | \$1,500,000         | 1,477,500            |
| HII Holding Corporation,<br>U.S. Term Loan 1st Lien,<br>4.25%, 12/20/2019                            | 999,522             | 999,522              |
| Inovyn Finance PLC,<br>Initial Tranche B Euro Term<br>Loan,<br>(Great Britain),<br>6.25%, 05/15/2021 | €1,571,063          | 1,743,902            |
| Kraton Polymers, LLC,<br>Initial Term Loan,<br>6.00%, 01/06/2022                                     | \$3,500,000         | 3,519,250            |
| PQ Corporation,<br>Tranche B-1 Term Loan,<br>5.75%, 11/04/2022                                       | 1,243,781           | 1,242,226            |
|  |                     | <b>9,418,513</b>     |
| <b>Consumer Goods: Durable 0.6%</b>  |                     |                      |
| NBTY, Inc.,<br>USD Term B Loan,<br>5.00%, 05/05/2023   | 2,174,550           | 2,180,487            |
| <b>Consumer Goods: Non-Durable 0.5%</b>  |                     |                      |
| G-III Apparel Group, Ltd.,<br>Term Loan B,<br>L+ 5.25%, 10/05/2022 <sup>(c)</sup>                    | 2,068,966           | 2,056,034            |
| <b>Containers, Packaging &amp; Glass 0.6%</b>  |                     |                      |
| Fort Dearborn Company,<br>2nd Lien Term Loan,<br>9.50%, 10/07/2024                                   | 625,000             | 631,250              |
| Fort Dearborn Holding Company,<br>Inc.,<br>Initial Term Loan 1st Lien,                               | 1,875,000           | 1,883,213            |



5.00%, 10/19/2023

**2,514,463**

**Energy: Electricity 0.4%**

Cortes NP Acquisition Corp.,

Term Loan B,

L+ 5.00%, 09/29/2023<sup>(c)</sup>

1,650,000

1,639,687

**Energy: Oil & Gas 2.8%**

California Resources

Corporation,

Initial Loan,

11.38%, 12/31/2021

1,925,000

2,066,969

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Ares Dynamic Credit Allocation Fund, Inc.

**Schedule of Investments** (continued)

October 31, 2016

**Floating Rate Term Loans**<sup>(b)</sup> (continued)

|  | <b>Principal<br/>Amount</b> | <b>Value<sup>(a)</sup></b> |
|--|-----------------------------|----------------------------|
| Chesapeake Energy Corp.,<br>Class A Term Loan,<br>8.50%, 08/23/2021  | \$3,500,000                 | \$ 3,738,455               |
| Energy & Exploration Partners,<br>LLC,<br>2nd Lien Term Loan,<br>5.00%, 05/13/2022 <sup>(d)</sup>            | 156,403                     | 105,572                    |
| Energy & Exploration Partners,<br>LLC,<br>Tranche A Term Loan 1st Lien,<br>13.00%, 11/12/2021 <sup>(d)</sup> | 280,535                     | 284,742                    |
| Energy & Exploration Partners,<br>LLC,<br>Tranche B Term Loan,<br>13.00%, 11/12/2021 <sup>(d)(e)</sup>       | 107,898                     | 1,618                      |
| MEG Energy Corp.,<br>Initial Term Loan,<br>L+ 2.75%, 03/31/2020 <sup>(c)</sup>                               | 1,000,000                   | 942,030                    |
| Western Refining, Inc.,<br>2016 Incremental Term Loan,<br>5.50%, 06/23/2023                                  | 3,715,688                   | 3,708,739                  |
|  |                             | <b>10,848,125</b>          |
| <b>Healthcare &amp; Pharmaceuticals 2.6%</b>   |                             |                            |
| DJO Finance, LLC,<br>Initial Term Loan,<br>L+ 3.25%, 06/08/2020 <sup>(c)</sup>                               | 1,042,120                   | 1,030,397                  |
| Envigo Holdings, Inc.,<br>Term Loan,<br>L+ 8.50%, 10/28/2021 <sup>(c)(d)</sup>                               | 1,153,846                   | 1,136,538                  |
| Envision Healthcare Corporation,<br>Tranche B-2 Term Loan,<br>4.50%, 10/28/2022                              | 1,983,756                   | 1,989,965                  |
| Financiere Verdi I S.A.S,<br>Facility B, (France),<br>5.00%, 06/21/2023                                      | € 615,385                   | 1,791,081                  |
| Immucor, Inc.,<br>Term B-2 Loan,<br>L+ 3.75%, 08/17/2018 <sup>(c)</sup>                                      | \$ 300,000                  | 292,800                    |
| Kinetic Concepts, Inc.,<br>USD Term F Loan,  | 997,494                     | 1,004,357                  |

5.00%, 11/04/2020

Lantheus Medical Imaging, Inc.,

Initial Term Loan,

L+ 6.00%, 06/30/2022<sup>(c)</sup>

706,284

692,158

Press Ganey Holdings, Inc.,

Initial Loan 2nd Lien,

L+ 7.25%, 10/21/2024<sup>(c)</sup>

555,556

562,500

Press Ganey Holdings, Inc.,

Initial Term Loan,

L+ 3.25%, 10/21/2023<sup>(c)</sup>

1,750,000

1,750,000

**10,249,796****Floating Rate Term Loans<sup>(b)</sup> (continued)**

|  | <b>Principal<br/>Amount</b> | <b>Value<sup>(a)</sup></b> |
|--|-----------------------------|----------------------------|
| <b>High Tech Industries 3.9%</b>   |                             |                            |
| Applied Systems, Inc.,<br>2nd Lien Term Loan,<br>L+ 6.50%, 01/24/2022 <sup>(c)</sup>       | \$2,000,000                 | \$ 2,011,880               |
| Dell International, LLC,<br>Term B Loan,<br>4.00%, 09/07/2023                              | 2,180,328                   | 2,195,219                  |
| Diebold, Inc.,<br>USD Term B Loan,<br>5.25%, 11/06/2023                                    | 1,790,000                   | 1,808,652                  |
| ON Semiconductor Corp.,<br>2016 Incremental Term Loan,<br>3.78%, 03/31/2023                | 3,080,000                   | 3,096,940                  |
| Rocket Software, Inc., Loan,<br>L+ 9.50%, 10/11/2024 <sup>(c)</sup>                        | 665,514                     | 667,178                    |
| Rocket Software, Inc.,<br>Term Loan,<br>L+ 4.25%, 10/14/2023 <sup>(c)</sup>                | 1,255,931                   | 1,261,168                  |
| Veritas US, Inc.,<br>Initial USD Term B-1 Loan,<br>6.63%, 01/27/2023                       | 2,655,416                   | 2,472,033                  |
| Western Digital Corporation,<br>USD Term B Loan,<br>4.50%, 04/29/2023                      | 1,847,370                   | 1,867,155                  |
|  |                             | <b>15,380,225</b>          |
| <b>Hotel, Gaming &amp; Leisure 1.6%</b>  |                             |                            |
| Affinity Gaming,<br>Term Loan 2nd Lien,<br>L+ 8.25%, 09/23/2024 <sup>(c)</sup>             | 2,000,000                   | 1,957,500                  |
| Mohegan Tribal Gaming<br>Authority,<br>Term B Loan,<br>L+ 4.50%, 10/13/2023 <sup>(c)</sup> | 4,230,769                   | 4,213,592                  |
|  |                             | <b>6,171,092</b>           |
| <b>Media: Advertising, Printing &amp; Publishing 1.3%</b>                                  |                             |                            |
|  | 2,635,176                   | 2,108,141                  |

|  |           |                  |
|--|-----------|------------------|
| F&W Media, Inc.,<br>Initial Term Loan,<br>10.75%, 06/30/2019           |           |                  |
| Lee Enterprises, Inc.,<br>Term Loan,<br>7.25%, 03/31/2019              | 525,532   | 525,532          |
| LSC Communications, Inc.,<br>Term B Loan,<br>7.00%, 09/30/2022         | 1,000,000 | 990,000          |
| Tribune Publishing Company,<br>Initial Term Loan,<br>5.75%, 08/04/2021 | 1,440,000 | 1,400,400        |
|  |           | <b>5,024,073</b> |

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Ares Dynamic Credit Allocation Fund, Inc.

**Schedule of Investments** (continued)

October 31, 2016

**Floating Rate Term Loans**<sup>(b)</sup> (continued)

|   | Principal<br>Amount | Value <sup>(a)</sup> |
|---|---------------------|----------------------|
| <b>Media: Broadcasting &amp; Subscription 1.4%</b>  |                     |                      |
| Cumulus Media Holdings, Inc.,<br>Term Loan,<br>4.25%, 12/23/2020                                | \$3,600,000         | \$ 2,475,000         |
| Intelsat Jackson Holdings S.A.,<br>Tranche B-2 Term Loan,<br>(Luxembourg),<br>3.75%, 06/30/2019 | 3,000,000           | 2,865,330            |
| RCN Corporation,<br>Commitment Bridge Loan,<br>L+ 6.75%, 10/18/2017 <sup>(c)(d)(e)</sup>        | 3,500,000           |                      |
|   |                     | <b>5,340,330</b>     |
| <b>Media: Diversified &amp; Production 1.8%</b>   |                     |                      |
| Delta 2 (LUX) Sarl,<br>Facility B-3 USD, (Luxembourg),<br>4.75%, 07/30/2021                     | 1,500,000           | 1,502,085            |
| Delta 2 (LUX) Sarl,<br>Term Loan 2nd Lien,<br>(Luxembourg),<br>7.75%, 07/29/2022                | 1,000,000           | 1,006,670            |
| Equinox Holdings, Inc.,<br>2nd Lien Term Loan,<br>L+ 8.50%, 07/31/2020 <sup>(c)</sup>           | 1,375,000           | 1,373,281            |
| Equinox Holdings, Inc.,<br>Initial Term Loan,<br>5.00%, 01/31/2020                              | 3,220,174           | 3,238,304            |
|   |                     | <b>7,120,340</b>     |
| <b>Metals &amp; Mining 1.7%</b>   |                     |                      |
| Freeport-McMoran Copper &<br>Gold, Inc.,<br>Term Loan A,<br>3.29%, 05/31/2018                   | 599,732             | 597,111              |
| Freeport-McMoran, Inc.,<br>2020 Loan,<br>3.29%, 02/28/2020                                      | 1,500,000           | 1,447,500            |
| Murray Energy Corporation,<br>Term Loan B-2,<br>L+ 7.25%, 04/16/2020 <sup>(c)</sup>             | 4,493,219           | 4,107,072            |
| Zekelman Industries, Inc.,<br>Term Loan,  | 598,500             | 602,240              |

6.00%, 06/14/2021

6,753,923

**Printing and Publishing 0.5%**

Dex Media, Inc.,

Closing Date Loan,

L+ 10.00%, 07/29/2021<sup>(c)</sup>

2,109,696

2,049,928

**Floating Rate Term Loans<sup>(b)</sup> (continued)****Principal  
Amount****Value<sup>(a)</sup>****Retail 6.3%**

Academy, Ltd.,

Initial Term Loan,

L+ 4.00%, 07/01/2022<sup>(c)</sup>

\$1,875,000

\$ 1,816,988

GOBP Holdings, Inc.,

1st Lien Term Loan,

5.00%, 10/21/2021

3,223,318

3,217,677

GOBP Holdings, Inc.,

2nd Lien Term Loan,

9.25%, 10/21/2022

1,750,000

1,744,173

Harbor Freight Tools USA, Inc.,

Initial Loan 2nd Lien,

4.14%, 08/19/2023

3,692,977

3,717,203

J.C. Penney Corp., Inc.,

Initial Loan,

5.25%, 06/23/2023

2,484,375

2,498,660

Petco Animal Supplies, Inc.,

Tranche B-1 Term Loan,

5.00%, 01/26/2023

2,481,250

2,501,026

Rite Aid Corporation,

2nd Priority Tranche 1 Term

Loan,

5.75%, 08/21/2020

4,170,000

4,181,718

Rite Aid Corporation,

Tranche 2 Term Loan,

4.88%, 06/21/2021

3,575,000

3,585,439

True Religion Apparel, Inc.,

Initial Term Loan,

5.88%, 07/30/2019

4,342,500

1,116,630

True Religion Apparel, Inc.,

Initial Term Loan 2nd Lien,

11.00%, 01/30/2020<sup>(d)</sup>

1,369,565

241,687

**24,621,201****Services: Business 5.2%**

Cypress Semiconductor Corp.,

2016 Incremental Term Loan

Facility,

6.50%, 07/05/2021

2,468,750

2,498,079

Micron Technology, Inc.,

Term Loan,

4.29%, 04/26/2022

1,745,625

1,755,453

|   |            |           |
|---|------------|-----------|
| Solera, LLC,<br>USD Term Loan,<br>5.75%, 03/03/2023   | 1,492,500  | 1,508,126 |
| Syncreon Global Finance (US),<br>Inc.,<br>Term Loan,<br>5.25%, 10/28/2020                     | 3,968,773  | 3,547,091 |
| TMF Group Holding B.V.,<br>Term Loan B, (Netherlands),<br>L+ 4.00%, 09/29/2023 <sup>(c)</sup> | €1,211,599 | 1,346,580 |

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Ares Dynamic Credit Allocation Fund, Inc.

**Schedule of Investments** (continued)

October 31, 2016

**Floating Rate Term Loans**<sup>(b)</sup> (continued)

|  | <b>Principal<br/>Amount</b> | <b>Value<sup>(a)</sup></b> |
|--|-----------------------------|----------------------------|
| TMF Group Holding B.V.,<br>Term Loan B-2, (Netherlands),<br>L+ 4.00%, 09/29/202 <sup>(c)</sup> | € 538,401                   | \$ 590,465                 |
| Travelport Finance Sarl,<br>Term B Loan, (Luxembourg),<br>5.00%, 09/02/2021                    | \$5,826,716                 | 5,858,763                  |
| VWR Funding, Inc.,<br>Tranche B Term Loan,<br>4.00%, 01/15/2022                                | €977,500                    | 3,300,137                  |
|  |                             | <b>20,404,694</b>          |
| <b>Services: Consumer 0.4%</b>   |                             |                            |
| Weight Watchers International,<br>Inc.,<br>Initial Tranche B-2 Term Loan,<br>4.10%, 04/02/2020 | \$1,984,576                 | 1,506,293                  |
| <b>Technology 0.8%</b>   |                             |                            |
| Allflex Holdings III, Inc., (U.S.),<br>Initial Term Loan 2nd Lien,<br>8.00%, 07/19/2021        | 3,000,000                   | 3,000,000                  |
| <b>Telecommunications 1.3%</b>   |                             |                            |
| Rackspace Hosting, Inc.,<br>Term Loan,<br>L+ 4.25%, 10/26/2023 <sup>(c)</sup>                  | 2,200,000                   | 2,211,352                  |
| Windstream Services, LLC,<br>Tranche B-6 Term Loan,<br>4.75%, 03/29/2021                       | 3,000,000                   | 3,006,870                  |
|  |                             | <b>5,218,222</b>           |
| <b>Transportation: Consumer 1.0%</b>   |                             |                            |
| Air Medical Group Holdings, Inc.,<br>Initial Term Loan,<br>4.25%, 04/28/2022                   | 3,950,000                   | 3,912,988                  |
| <b>Utilities: Electric 0.6%</b>  |                             |                            |
| TEX Operations Company, LLC,<br>Term C Loan,<br>5.00%, 08/04/2023                              | 456,609                     | 460,604                    |
| TEX Operations Company, LLC,<br>Term Loan,<br>5.00%, 08/04/2023                                | 2,002,053                   | 2,019,571                  |
|  |                             | <b>2,480,175</b>           |
| <b>Utilities: Oil &amp; Gas 1.7%</b>   |                             |                            |



|  |         |         |
|--|---------|---------|
| Alinta Energy Finance Pty, Ltd.,<br>Delayed Draw Term Loan,<br>(Australia),<br>6.38%, 08/13/2018 | 408,794 | 407,568 |
| <b>Floating Rate Term Loans<sup>(b)</sup> (continued)</b>  |         |         |

|  | <b>Principal<br/>Amount</b> | <b>Value<sup>(a)</sup></b> |
|--|-----------------------------|----------------------------|
| Alinta Energy Finance Pty, Ltd.,<br>Term B Loan, (Australia),<br>6.38%, 08/13/2019 | \$6,159,323                 | \$ 6,140,844               |
|  |                             | <b>6,548,412</b>           |
| <b>Total Floating Rate Term Loans</b><br>(Cost: \$188,151,056)                     |                             | <b>184,199,590</b>         |

**Corporate Bonds 61.8%****Aerospace and Defense 1.1%**

|  |           |                  |
|--|-----------|------------------|
| Engility Corp., 144A,<br>8.88%, 09/01/2024 | 1,600,000 | 1,632,000        |
| Leidos, Inc.,<br>7.13%, 07/01/2032         | 2,500,000 | 2,581,688        |
|  |           | <b>4,213,688</b> |

**Automotive 0.4%**

|  |           |           |
|--|-----------|-----------|
| Dana Financing Luxembourg<br>Sarl,<br>144A, (Luxembourg),<br>6.50%, 06/01/2026 | 1,500,000 | 1,595,625 |
|--|-----------|-----------|

**Banking, Finance, Insurance & Real Estate 1.9%**

|   |           |                  |
|---|-----------|------------------|
| Builders FirstSource, Inc., 144A,<br>10.75%, 08/15/2023 | 5,270,000 | 6,060,500        |
| Hillman Group, Inc., 144A,<br>6.38%, 07/15/2022         | 1,500,000 | 1,391,250        |
|   |           | <b>7,451,750</b> |

**Beverage, Food and Tobacco 0.8%**

|  |            |                  |
|--|------------|------------------|
| Albertsons Cos, LLC, 144A,<br>5.75%, 03/15/2025              | 820,000    | 809,496          |
| Albertsons Cos, LLC, 144A,<br>6.63%, 06/15/2024              | 610,000    | 632,875          |
| Iceland Bondco PLC,<br>(Great Britain),<br>6.25%, 07/15/2021 | £1,500,000 | 1,762,703        |
|  |            | <b>3,205,074</b> |

**Chemicals, Plastics & Rubber 2.4%**

|   |             |           |
|---|-------------|-----------|
| GCP Applied Technologies,<br>144A,<br>9.50%, 02/01/2023 | \$5,250,000 | 5,945,625 |
| Kraton Polymers, LLC, 144A,<br>10.50%, 04/15/2023       | 1,000,000   | 1,120,000 |
| PQ Corp., 144A,<br>6.75%, 11/15/2022                    | 2,000,000   |           |