

Registered No. OC404019

ARES EUROPEAN LOAN MANAGEMENT LLP  
AUDITED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2021

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## ARES EUROPEAN LOAN MANAGEMENT LLP

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## ARES EUROPEAN LOAN MANAGEMENT LLP

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### MANAGEMENT AND ADMINISTRATION

#### Registered Office

C/O Tmf Group, 8th Floor  
20 Farringdon Street  
London EC4A 4AB

#### Companies House registered number

0C404019

#### Designated Members

Ares European Loan Management Holdings  
(Jersey) Limited  
Third Floor  
37 Esplanade  
St Helier  
Jersey JE1 1AD  
Channel Islands

Ares European Loan Management Holdings LLC  
Corporation Services Company  
2000 Avenue Of The Stars, 12th Floor  
Los Angeles  
California  
United States of America

#### Member

Ares European Loan Management Holdings  
(Luxembourg) S.a.r.l  
14-16 Avenue Pasteur  
Luxembourg L-2310

#### Legal Advisers (Jersey)

Ogier  
44 Esplanade  
St. Helier  
Jersey JE4 9WG  
Channel Islands

#### Legal Advisers (United Kingdom)

Travers Smith  
10 Snow Hill  
London EC1A 2AL

#### Independent Auditors

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

#### Investment Adviser

Ares Management Limited  
C/O TMF Group, 8th Floor  
20 Farringdon Street  
London EC4A 4AB

## **REPORT OF THE MEMBERS**

In accordance with the provisions of the Limited Liability Partnership Agreement (the "LLPA") dated 29 June 2016, Ares European Loan Management Holding (Jersey) Limited ("Jersey Co") and Ares European Loan Management Holdings LLC ("Ares LLC") were admitted as Designated Members and Ares European Loan Management Holding (Luxembourg) Sarl ("Lux Co") was admitted as a Member (altogether "Members").

The Members present their report and the audited financial statements for Ares European Loan Management LLP (the "Partnership") for the year ended 31 December 2021.

## **PRINCIPAL ACTIVITIES AND REVIEW OF THE BUSINESS**

The Partnership was incorporated on 28 January 2016. The Partnership was authorised by the Financial Conduct Authority (the "FCA") to conduct investment advisory business on 20 September 2016 and is regulated by the FCA with registered number 737906.

The Partnership was established to carry on the investment and management business with a view to producing profits for distribution to the Members in accordance with the provisions of the LLPA dated 29 June 2016. There was no LLPA in place before 29 June 2016. The Partnership will act as the segregated discretionary investment manager to future Ares-branded collateralised loan obligations ("CLO") which it is proposed should be established and managed by the Partnership. The Partnership will act as the risk retention holder for the purposes of the European Risk Retention Legislation of each CLO in respect of which it acts as the sponsor.

The net assets attributable to the Members as at 31 December 2021 was EUR 178,164,928 (31 Dec 2020: EUR 163,040,404).

The total comprehensive income for the year was EUR 34,284,367 (31 Dec 2020: loss EUR 1,129,815).

The total distributions paid by the Partnership during the year were EUR 19,159,843 (31 Dec 2020: EUR 23,474,658).

Ares LLC shall not be required to make any contributions to the Partnership. Jersey Co and Lux Co shall have in aggregate a notional maximum commitment which shall be adjusted from time to time such that it never exceeds the amounts of commitments in Ares European Loan Funding SLP ("Ares SLP"). The commitment of investors in Ares SLP was EUR 220,000,000 as at 31 December 2021.

The cumulative amount of capital contributions relating to the Members was EUR 199,131,417 (31 Dec 2020: EUR 199,131,417).

When a payment is due to the Members and a corresponding amount is required to be received from the Members, no cash is paid or received and a virtual payment and a virtual receipt is deemed to have occurred.

## REPORT OF THE MEMBERS - (CONTINUED)

### GOING CONCERN ASSESSED TO 31 DECEMBER 2022

The Partnership has a reasonable expectation that it will meet its working capital requirements and other obligations through income generated from its financial assets and additional equity contributions from its Members where required. The Members have a reasonable expectation that the Partnership will have adequate resources to settle the outstanding liabilities as at 31 December 2021 and to continue in operational existence until at least 31 March 2023, which is at least 12 months after these financial statements were available for issuance. Ares Management continues to undertake regular testing and managing of the tail risk in the portfolios and if ultimately necessarily looking for exit strategies to minimise losses. Testing of the CLO's currently foresees that the Partnership will still be likely to receive senior and subordinated management fee income and equity income for the next 12 months. Accordingly, the Partnership continues to adopt the going concern basis in preparing the financial statements.

### STATEMENT OF MEMBER'S RESPONSIBILITIES

In accordance with the Limited Liability Partnership Agreement, the Managing Member is responsible for preparing financial statements for each financial period in accordance with UK adopted international accounting standards.

In preparing these financial statements, the Managing Member is required to:

- \* select suitable accounting policies and then apply them consistently;
- \* make judgements and estimates that are reasonable and prudent;
- \* state whether applicable UK adopted international accounting standards as applied to limited liability partnerships have been followed subject to any material departures disclosed and explained in the financial statements; and
- \* prepare financial statements on a going concern basis unless it is inappropriate to presume that the Partnership will continue in business.

The Managing Member is responsible for keeping adequate accounting records that are sufficient to show and explain the Partnership's transactions and disclose with reasonable accuracy at any time the financial position of the Partnership and enable it to ensure that the financial statements comply with the Limited Liability Partnerships Agreement and UK adopted international accounting standards as applied to limited liability partnerships. The Managing Member is also responsible for safeguarding the assets of the Partnership and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

REPORT OF THE MEMBERS - (CONTINUED)

STATEMENT OF DISCLOSURE OF INFORMATION TO AUDITORS

Each of the Members at the time when this Members' Report is approved has confirmed that:

- \* So far as that Member is aware, there is no relevant audit information of which the Partnership's auditor is unaware, and
- \* that Member has taken all the steps that ought to have been taken as a Member in order to be aware of any relevant audit information and to establish that the Partnership's auditor is aware of that information.

INDEPENDENT AUDITORS

Ernst & Young LLP has been appointed Independent Auditors of the Partnership and has indicated their willingness to continue in office.



Signed on behalf of  
Ares European Loan Management Holdings (Jersey) Limited  
Designated Member

BY ORDER OF THE BOARD

Director of the Members  
Date: 09/03/2022

# **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ARES EUROPEAN LOAN MANAGEMENT LLP**

## **Opinion**

We have audited the financial statements of Ares European Loan Management LLP ("LLP") for the year ended 31 December 2021 which comprise the Statement of Financial Position, the Statement of Comprehensive Income, the Statement of Changes in Partners' Capital, the Statement of Cash Flows and the related notes 1 to 14, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and UK adopted international accounting standards as applied to limited liability partnerships.

In our opinion the financial statements:

- ▶ give a true and fair view of the state of the limited liability partnership's affairs as at 31 December 2021 and of its profit for the year then ended;
- ▶ have been properly prepared in accordance with UK adopted international accounting standards as applied to limited liability partnerships; and
- ▶ have been prepared in accordance with the requirements of the Companies Act 2006 as applied to limited liability partnerships.

## **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 below. We are independent of the LLP in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, 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 members' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

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 LLP's ability to continue as a going concern for the period to 31 March 2023.

Our responsibilities and the responsibilities of the members 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 LLP's ability to continue as a going concern.

## **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 members are responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, 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 this gives rise to 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 Act 2006 as applied to limited liability partnerships requires us to report to you if, in our opinion:

- ▶ adequate accounting records have not been kept, or 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 accounting records and returns; or
- ▶ we have not received all the information and explanations we require for our audit

### **Responsibilities of members**

As explained more fully in the Statement of Members' Responsibilities set out on page 4, the members 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 members 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 members are responsible for assessing the partnership'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 members either intend to liquidate the partnership 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 entity and management.



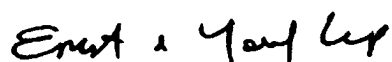
Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the LLP and determined that the most significant is UK adopted international accounting standards as applied to limited liability partnerships. In addition, the LLP is required to comply with laws and regulations relating to its operations, including the FCA rules.
- We understood how the LLP is complying with those frameworks by making enquiries of management and corroborated our understanding by reviewing members' meeting minutes, policy and procedures manuals and by seeking representation from those charged with governance. Where applicable, we also reviewed correspondence with relevant authorities.
- We assessed the susceptibility of the LLP's financial statements to material misstatement, including how fraud might occur by considering the risk of management override and by designating the appropriateness of revenue recognition and valuation of investments as a fraud risk. We performed journal entry testing by specific risk criteria, with a focus on journals indicating large or unusual transactions based on our understanding of the LLP's business. Our procedures also involved gaining an understanding of processes and controls surrounding revenue recognition and valuation of investments. For revenue recognition, in relation to management fee income, we recalculated the revenue receivable for the year from the CLOs managed by the LLP and agreed the fee rate and collateral principal amounts to agreements and supporting documentation. For interest income, we recalculated the revenue receivable for the year from the CLOs managed by the LLP and agreed the interest rate and subordinated units to agreements and supporting documentation. For the valuation of investments, our procedures additionally included reviewing a sample of the valuations prepared by management, challenging key assumptions used by management are appropriate and in accordance with the applicable valuation guidelines and obtaining sufficient and appropriate evidence for the significant inputs to the valuation. We also engaged our internal valuation specialists to perform specific procedures on a sample of the investments.
- Based on this understanding we designed our audit procedures to identify noncompliance with such laws and regulations. Our procedures involved inquiry with management, review of legal and professional expenses, review of breaches and complaints register and review of members' 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 members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 as applied to Limited Liability Partnerships. Our audit work has been undertaken so that we might state to the 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 LLP and the LLP's members as a body, for our audit work, for this report, or for the opinions we have formed.



**Ashley Coups (Senior statutory auditor)**  
**for and on behalf of Ernst & Young LLP, Statutory Auditor**  
**London**  
**14 March 2022**

STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2021

(EXPRESSED IN EUROS)

	<u>Notes</u>	<u>31 Dec 21</u>	<u>31 Dec 20</u>
		EUR	EUR
<b>ASSETS</b>			
Non-current assets			
Financial assets at fair value through profit or loss (cost EUR 190,781,417; 2020: EUR 190,781,417)	5	151,066,657	140,395,344
Current assets			
Accounts receivable	6	11,864,364	14,106,896
Cash and cash equivalents		19,491,725	12,732,349
<b>TOTAL CURRENT ASSETS</b>		31,356,089	26,839,245
<b>TOTAL ASSETS</b>		182,422,746	167,234,589
Creditors: amounts falling due within one year			
Accrued expenses	8	4,257,818	4,194,185
<b>TOTAL CURRENT LIABILITIES</b>		4,257,818	4,194,185
<b>NET ASSETS ATTRIBUTABLE TO MEMBERS</b>		178,164,928	163,040,404
Represented by:			
Members' capital classified as equity	7	199,131,417	199,131,417
Other reserves		( 20,966,489)	( 36,091,013)
<b>TOTAL MEMBERS' INTERESTS</b>		178,164,928	163,040,404

The financial statements and accompanying notes on pages 13 to 25 were approved and authorised for issue by the Members on the 09/03/2022 and were signed on its behalf by:

Ares European Loan Management Holdings (Jersey) Limited  
as Designated Member of  
Ares European Loan Management LLP

(The notes on pages 13 to 25 form part of these audited financial statements)

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2021

(EXPRESSED IN EUROS)

		01 Jan 21 to 31 Dec 21	01 Jan 20 to 31 Dec 20
	Notes	EUR	EUR
INCOME			
Management fee income	9	18,667,906	17,304,254
Investment income	10	22,940,648	23,945,998
Net unrealised gain/(loss) on financial assets at fair value through profit or loss	5	10,671,313	( 25,708,663)
TOTAL INCOME		52,279,867	15,541,589
OPERATING EXPENSES			
Legal fees		3,534	33,192
Administration fees	12	41,574	43,610
Audit fees		37,322	21,902
Bank Charges		113,824	119,753
Management service fees	12	17,734,511	16,376,310
Registrar expense		16,709	21,730
Professional fees		47,677	54,907
TOTAL EXPENSES		17,995,151	16,671,404
PROFIT/(LOSS) FOR THE YEAR AVAILABLE FOR DISCRETIONARY DIVISION AMONG MEMBERS		34,284,716	( 1,129,815)
OTHER COMPREHENSIVE LOSS			
Realised FX loss		( 349)	-
TOTAL OTHER COMPREHENSIVE LOSS		( 349)	-
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR		34,284,367	( 1,129,815)

There were no recognised gains or losses other than those included in the Statement of Comprehensive Income.

(The notes on pages 13 to 25 form part of these audited financial statements)

STATEMENT OF CHANGES IN PARTNERS' CAPITAL

FOR THE YEAR ENDED 31 DECEMBER 2021

(EXPRESSED IN EUROS)

		Capital Contributions	Income Account	Total
	Notes	EUR	EUR	EUR
Net assets attributable to the Members at 31 December 2019		166,986,507	( 11,486,540)	155,499,967
Capital contributions called	7	32,144,910		32,144,910
Decrease in net assets attributable to the Members from operations		-	( 1,129,815)	( 1,129,815)
Distributions paid		-	( 23,474,658)	( 23,474,658)
Net assets attributable to the Members at 31 December 2020		199,131,417	( 36,091,013)	163,040,404
Increase in net assets attributable to the Members from operations		-	34,284,367	34,284,367
Distributions paid		-	( 19,159,843)	( 19,159,843)
Net assets attributable to the Members at 31 December 2021		199,131,417	( 20,966,489)	178,164,928

*(The notes on pages 13 to 25 form part of these audited financial statements)*

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2021

(EXPRESSED IN EUROS)

	01 Jan 21 to 31 Dec 21	01 Jan 20 to 31 Dec 20
	EUR	EUR
<b>CASH FLOWS PROVIDED BY OPERATING ACTIVITIES</b>		
Total comprehensive income/(loss) for the year	34,284,367	( 1,129,815)
Adjustment for:		
Unrealised (gain)/loss on investments	( 10,671,313)	25,708,663
Decrease/(Increase) in accounts receivable	2,242,532	( 1,675,235)
Increase in accrued expenses	63,633	645,378
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>25,919,219</b>	<b>23,548,991</b>
<b>CASH FLOWS USED IN INVESTING ACTIVITIES</b>		
Purchase of investments	-	( 32,144,910)
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>-</b>	<b>( 32,144,910)</b>
<b>CASH FLOWS (USED IN)/PROVIDED BY FINANCING ACTIVITIES</b>		
Capital contributions	-	32,144,910
Distributions paid	( 19,159,843)	( 23,474,658)
<b>NET CASH (USED IN)/PROVIDED BY FINANCING ACTIVITIES</b>	<b>( 19,159,843)</b>	<b>8,670,252</b>
<b>NET INCREASE IN CASH FOR THE YEAR</b>	<b>6,759,376</b>	<b>74,333</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR</b>	<b>12,732,349</b>	<b>12,658,016</b>
<b>CASH AND CASH EQUIVALENTS AT END OF THE YEAR</b>	<b>19,491,725</b>	<b>12,732,349</b>

(The notes on pages 13 to 25 form part of these audited financial statements)

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2021

#### 1. ORGANISATION AND BUSINESS PURPOSE

Ares European Loan Management LLP was established and registered as a limited liability partnership in the United Kingdom under the Limited Liability Partnerships Act 2000, on 28 January 2016. The Partnership will terminate on the date on which all of the Partnership's assets have been realised and the Partnership has ceased to act as the collateral manager of all of the CLOs in respect of which it had been so appointed and the Designated Members determine it is appropriate to wind up the Partnership or the Partnership is wound up pursuant to the provisions of the Limited Liability Partnerships Act 2000.

The Partnership was established to make investments and act as the collateral manager of the CLOs with a view to producing profits for distribution to the Members in accordance with the provisions of the LLPA.

Ares LLC shall not be required to make any contributions to the Partnership. Jersey Co and Lux Co shall have in aggregate a notional maximum commitment which shall be adjusted from time to time such that it never exceeds the amounts of commitments in Ares SLP. The commitment of investors in Ares SLP was EUR 220,000,000 as at 31 December 2021.

The cumulative amount of capital contributions relating to the Members was EUR 199,131,417 (31 Dec 2020: EUR 199,131,417).

The Partnership is regulated by the Financial Conduct Authority with registered number 737906.

#### 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 Partnership have been prepared on a going concern basis and in accordance with UK adopted International Accounting Standards as applied to limited liability partnerships in conformity with the requirements of the Companies Act 2006 as applied to Limited Liability Partnerships. 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 UK adopted international accounting standards as applied to limited liability partnerships requires the use of accounting estimates and exercise of judgement by the management while applying the Partnership's accounting policies. Changes in assumption 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.

NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2021

2. SIGNIFICANT ACCOUNTING POLICIES - (CONTINUED)

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 IFRS 9, whereby debt investments of the Partnership 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 Partnership 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 Designated Members designate the classification of its investments at the time of purchase.

(b) Recognition, derecognition and measurement

All purchases and sales of investments are recognised on settlement date - the date on which an asset is delivered by or to the Partnership.

These investments are initially recognised at fair value and transaction costs are expensed in the statement of comprehensive income. Any gain or loss resulting 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 Partnership's rights to receive cash flows from the investments have expired or the Partnership 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.

NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2021

2. SIGNIFICANT ACCOUNTING POLICIES - (CONTINUED)

Financial assets at fair value through the profit or loss - (continued)

(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 these 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.



NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2021

2. SIGNIFICANT ACCOUNTING POLICIES - (CONTINUED)

Financial assets at fair value through the profit or loss - (continued)

(c) Fair value estimation - (continued)

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 Designated Members' 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.

The investments are valued on a daily basis based on an automated pricing feed from JP Morgan Pricing Direct as a third party valuation provider.

The Designated Members have concluded that the Partnership's investments should be classified as using significant Level III inputs.

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.

The Partnership's investments are in a closed ended investment vehicle, which provides for no liquidity or redemption option, and is not readily marketable.

Net gain on financial assets at fair value through profit or loss

The net gain on financial assets at fair value through profit or loss comprises interest income not yet received on funds invested and net changes in the fair value of financial assets at fair value through profit or loss.

Interest income is recognised on the due date of such income.

Members' interests and contributions

In accordance with Schedule 3 of the LLPA, Ares European Loan Management Holdings (Luxembourg) S.à r.l (the "Investor Member") will contribute 100% into the Partnership while the other two members, Ares European Loan Management Holdings LLC ("Ares LLC") and Ares European Loan Management Holdings (Jersey) Limited ("Jersey Company"), will have 0% contribution. However, Jersey Co has agreed and will make a contribution to the Partnership if required and requested from time to time.

Members' remuneration and profit allocation

All Management Net Income in respect of each accounting period will be allocated among the Members pro rata to their management sharing percentages as set out in schedule 3 of the LLPA. The management sharing percentage states that Ares LLC shall get 95%, Lux Co 4.5% and Jersey Co 0.5%.

NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2021

2. SIGNIFICANT ACCOUNTING POLICIES - (CONTINUED)

All net investment income, net investment income losses, investment capital gains and investment capital losses shall in each accounting period be allocated among the Members pro rata to their investment sharing percentages as set out in schedule 3 of the LLPA. The investment sharing percentage states that Lux Co shall contribute 100% while Jersey Co and Ares LLC each contribute 0%.

Accounts receivable

Accounts receivable are initially recognised at fair value and measured subsequently at amortised cost using the effective interest rate method.

Cash and cash equivalents

For the purposes of the statement of cash flow, cash comprises cash on 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 presentation currency

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

(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.

Management fee income recognition

Management fee income is recognised on an accrual basis based on the CLO traded par value at 15 basis points per annum in respect of senior fees and 35 basis points per annum in respect of subordinated fees.

Investment income recognition

Investment income is equity income from the CLO's of fixed and variable interest amounts. These amounts are recognised on an accruals basis.

## NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2021

#### 2. SIGNIFICANT ACCOUNTING POLICIES - (CONTINUED)

##### Expense recognition

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

The Partnership bears all of the financial obligations of the Designated Members with the exception of the commitment of the Designated Members to the Partnership.

##### Use of estimates and judgements

The Designated Members make estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. 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.

#### 3. FINANCIAL RISK MANAGEMENT

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

##### Price risk

The Partnership's unquoted investments are susceptible to market price risk arising from uncertainties about future values of the equity securities. The Partnership's Investment Adviser, Ares Management Limited (the "Adviser") advises the Partnership 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 Designated Member before the investment decisions are implemented.

As at 31 December 2021, a 10% drop in the price of the investments, with all other variables held constant, would have resulted in a decrease in the NAV of EUR 15,106,666 (31 Dec 2020: EUR 14,039,534). The movement given a 10% rise would have resulted in an equal but opposite movement.

##### Currency risk

The Partnership is not exposed to significant currency risk as its liabilities are substantially denominated in Euro ('EUR'). The Partnership's overall currency risk and exposure is monitored on a quarterly basis by the Designated Members.

NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2021

3. FINANCIAL RISK MANAGEMENT - (CONTINUED)

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

31 December 2021	<u>GBP</u>	<u>EUR</u>	<u>Total</u>
Accrued expenses	<u>53,243</u>	<u>4,204,574</u>	<u>4,257,818</u>
31 December 2020	<u>GBP</u>	<u>EUR</u>	<u>Total</u>
Accrued expenses	<u>34,226</u>	<u>4,159,959</u>	<u>4,194,185</u>

As at 31 December 2021 a 10% weakening of GBP against the EUR, with all other variables held constant, would have resulted in a decrease in the income for the year as per the statement of comprehensive income and a decrease in net assets of the Company by EUR 5,324 (31 Dec 2020: EUR 3,423). If GBP had strengthened against the EUR by 10%, the income for the year 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.

Interest rate risk

The Partnership is not exposed to any interest rate risk as it does not hold any assets and liabilities as at 31 December 2021 which are interest bearing.

Credit risk

The Partnership 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 Partnership. The Partnership is exposed to the risk of non-payment of commitments to the Partnership.

The Designated Members manage the risk of defaulting investors by putting in adequate controls in place to monitor that all capital call monies are received on a timely manner. Investors agree that they are aware of their obligations before being accepted into the Partnership and the Designated Members believe there are adequate provisions in the LPA, Clause 3.10, which deals with defaulting investors.

The Partnership has assessed that there is credit risk in relation to the interest and management fees receivable from the CLO's at year-end, however, as these are received shortly after year-end and there is no risk of loss on balances presented.

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

The maximum exposure to credit risk as at 31 December 2021 is the carrying amount of the financial assets set out below:

	<u>31 Dec 21</u>	<u>31 Dec 20</u>
	<u>EUR</u>	<u>EUR</u>
Accounts receivable	<u>11,864,364</u>	<u>14,106,896</u>

NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2021

3. FINANCIAL RISK MANAGEMENT - (CONTINUED)

As at 31 December 2021 the assets held by the Partnership are not past due or impaired.

Liquidity risk

The liquidity risk is the risk that the Partnership will not meet its financial obligations when they fall due. When funds are required, capital contributions are called from the Members. As at 31 December 2021 amounts available for call amounted to EUR 20,868,583 (2020: EUR 20,868,583). The Members therefore are of the belief that the Partnership has no liquidity risk for the foreseeable future.

The table below analyses the Partnership'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.

	Less than 1 year	Between 1-2 years	More than 2 years	Total
	EUR	EUR	EUR	EUR
31 December 2021				
Liabilities				
Accrued expenses	4,257,818	-	-	4,257,818
	<u>4,257,818</u>	<u>-</u>	<u>-</u>	<u>4,257,818</u>
	Less than 1 year	Between 1-2 years	More than 2 years	Total
	EUR	EUR	EUR	EUR
31 December 2020				
Liabilities				
Accrued expenses	4,194,185	-	-	4,194,185
	<u>4,194,185</u>	<u>-</u>	<u>-</u>	<u>4,194,185</u>

NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2021

3. FINANCIAL RISK MANAGEMENT - (CONTINUED)

Capital risk management

The capital of the Partnership is represented by the net assets attributable to the Members. The Partnership's objective when managing the capital is to safeguard the ability to continue as a going concern in order to provide returns for Members and benefits for other stakeholders and to maintain a strong capital base to support the development of the investments activities of the Partnership.

The Designated Members monitor capital on the basis of the undrawn commitment and value of the net assets or liabilities attributable to the Members.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

In preparing the financial statements, the Designated Members are required to make estimates and assumptions which affect reported income, expenses, assets, liabilities and disclosure of contingent assets and liabilities. Use of available information and application of judgement are inherent in the formation of estimates, together with past performance and expectations of future events that are believed to be reasonable under the circumstances. Actual results in the future could differ from such estimates.

Fair value of investments

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Designated Members use their judgement to select a variety of methods, and make assumptions that are mainly based on market conditions existing at the end of each reporting period. Ares Management use JP Morgan systems to value the financial instruments.

5. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	<u>31 Dec 21</u>	<u>31 Dec 20</u>
	EUR	EUR
Unquoted Investments		
At historical cost	190,781,417	158,636,507
Additions	-	32,144,910
Unrealised loss on investments	( 39,714,760)	( 50,386,073)
At fair value	<u>151,066,657</u>	<u>140,395,344</u>

NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2021

5. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (CONTINUED)

	<u>31 Dec 21</u>	<u>31 Dec 20</u>
	EUR	EUR
Net gain/(loss) on financial assets at fair value through profit or loss		
Unrealised gain/(loss) on investment	10,671,313	( 25,708,663)
	<u>10,671,313</u>	<u>( 25,708,663)</u>

All financial assets held at fair value through profit and loss are classified as level III investments. There were no transfers between levels during the financial period.

The following summarises the valuation methodology and inputs used for risk retention notes categorised as Level III inputs as at 31 December 2021.

<u>Description</u>	<u>Fair value</u>	<u>Valuation technique</u>	<u>Range (Weighted average)</u>
<u>31 December 2021</u>	EUR		
Risk Retention notes	151,066,657	Net asset value	n/a
<u>31 December 2020</u>	EUR		
Risk Retention notes	140,395,344	Net asset value	n/a

In line with the Partnership'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 utilise 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.

6. ACCOUNTS RECEIVABLE

	<u>31 Dec 21</u>	<u>31 Dec 20</u>
	EUR	EUR
CLO management fee income receivable	4,425,866	4,378,901
Investment income receivable	6,268,570	6,958,549
VAT receivable	1,169,928	2,769,446
	<u>11,864,364</u>	<u>14,106,896</u>

NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2021

7. CAPITAL CONTRIBUTIONS	<u>31 Dec 21</u>	<u>31 Dec 20</u>
	EUR	EUR
Ares European Loan Management Holdings (Luxembourg) S.à r.l	199,006,417	199,006,417
Ares European Loan Management Holdings (Jersey) Limited	125,000	125,000
	<u>199,131,417</u>	<u>199,131,417</u>

No capital contributions have been called in the year (2020: EUR 32,144,910).

8. ACCRUED EXPENSES	<u>31 Dec 21</u>	<u>31 Dec 20</u>
	EUR	EUR
Management service fee expense	4,204,572	4,159,957
Administration fee	24,827	7,665
Audit fee	28,419	26,563
	<u>4,257,818</u>	<u>4,194,185</u>

9. MANAGEMENT FEE INCOME

Management fee income is received by the Partnership as per the provisions outlined in Schedule 1 of the LLPA. For the year ended 31 December 2021, management fee income received amounted to EUR 18,667,906 (2020: EUR 17,304,254).

10. INVESTMENT INCOME

Investment income is received by the Partnership and allocated to the Members as per Schedule 3 of the LLPA. For the period ended 31 December 2021, investment income received amounted to EUR 22,940,648 (2020: EUR 23,945,998).

11. TAXATION

The Partnership is a UK limited liability partnership which is not subject to United Kingdom taxation. On that basis United Kingdom taxation is not provided in the financial statements.

The Partnership's Luxembourg member is subject to the general tax regulations applicable to all Luxembourg companies.



NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2021

12. RELATED PARTY DISCLOSURES

During the year, the Partnership incurred the following management service fees with Ares Management Limited:

	<u>31 Dec 21</u>	<u>31 Dec 20</u>
	EUR	EUR
Management service fees	17,734,511	16,376,310
	<u>17,734,511</u>	<u>16,376,310</u>

As at 31 December 2021, EUR 4,204,572 remained payable (31 Dec 2020: EUR 4,159,957).

K. Early, B. Okuliar, J. Atherton and M. Craston are directors of Ares European Loan Management Holdings (Jersey) Limited and employees of companies related to Ares Management Limited. K. Early, B. Okuliar, J. Atherton and M. Craston are to be regarded as having an interest in any transaction with the Partnership. The Partnership did not incur any fees in relation to their services as directors during the period.

M. Craston and M. Thomas are directors of Ares European Loan Management Holdings (Luxembourg) S.à r.l and employees of companies related to Ares Management Limited. M. Craston and M. Thomas are to be regarded as having an interest in any transaction with the Partnership. The Partnership did not incur any fees in relation to their services as directors during the year.

F. Gauvin, P. Roll and J. Atherton are directors of Ares European Loan Management Holdings LLC and employees of companies related to Ares Management Limited. F. Gauvin, P. Roll and J. Atherton are to be regarded as having an interest in any transaction with the Partnership. The Partnership did not incur any fees in relation to their services as directors during the year.

L. Ricci Director of Ares European Loan Management Holdings (Luxembourg) S.à r.l. and is an employee of Alter Domus Luxembourg. Alter Domus Luxembourg provided administrative services to Lux Co at commercial rates including directors fees.

During the year the Partnership incurred the following expenses with Alter Domus (Jersey) Limited:

	<u>31 Dec 21</u>	<u>31 Dec 20</u>
	EUR	EUR
Administration fees	41,574	43,610

The outstanding administration fees payable are disclosed in Note 8.

NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2021

13. CONTROLLING PARTIES

The General Partner of Ares SLP, Ares European Loan Funding GP Limited, is considered to be the immediate controlling party. The Members do not consider there to be one ultimate controlling party.

14. 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 Members and the following event occurred:

Distribution payment of EUR 11,873,277.13 relating to Q2 and Q3 2021 equity returns received in Q3 and Q4 2021 respectively was made on 7 February 2022 to Ares European Loan Management Holdings (Luxembourg) S.a r.l.