

Ares Management Corporation

2019 Annual Letter

Dedicated To Delivering Attractive Risk-Adjusted Returns
For Our Investors Throughout Market Cycles



Dear Ares Shareholder,

As we write this letter, we are surrounded by a great deal of uncertainty stemming from the developing coronavirus (“COVID-19”) pandemic and its public health and economic implications. On behalf of Ares’ leadership, we hope this note finds you, your families and your colleagues healthy and safe. Our foremost priority has been the well-being of our employees along with our duties to our clients, business partners, shareholders and other stakeholders.

Despite the pandemic’s global disruption, we are pleased to say that we are fully operational with minimal business interruption. In response to the developing COVID-19 situation, Ares is executing a comprehensive plan to ensure employees are equipped with the appropriate resources and technology to continue to carry out their roles effectively and execute Ares’ key business operations. Rest assured that we remain acutely focused on managing our current investment portfolios and being diligent stewards of our clients’ and investors’ capital.

We believe our business model, which generates stable and diversified management fee revenue and fee related earnings, positions us particularly well during this current period of uncertainty. Our durable business model, our outstanding 1,200 team members across the globe and our many competitive advantages are even more important in changing markets. We believe that we are well-positioned to successfully navigate varying market conditions over time for the following reasons:

- **Cycle-Tested Experience:** We have successfully managed through difficult cycles before. Ares’ senior investment professionals each have a strong track record and over 20 years of experience creating attractive risk-adjusted returns through bull and bear market cycles, including the Great Recession.¹
- **Culture of Collaboration:** The cultivation of an energetic and dynamic work environment – where collaboration and ambition are the norm, and excellence is the standard – has always been and will continue to be, a core focus. We embrace partnership and thought leadership as key values to drive our success as a firm. Our culture of collaboration creates differentiated information and research sharing across the platform, thereby enhancing investment decisions.
- **Multi-Asset Class Expertise:** Our ability to invest across liquid and illiquid markets globally, up and down the capital structure and in strategies spanning the risk-reward spectrum allows us to identify attractive risk-adjusted returns, particularly in volatile markets.
- **Direct Origination:** One of the attributes that truly differentiates Ares through cycles is our ability to source differentiated transactions. We have invested heavily in local sourcing and relationship networks to drive growth both in the U.S. and across Europe.
- **Stable, Long Duration AUM:** Ares’ management fees are supported by long-dated AUM primarily based on invested and committed capital, which insulates us from redemptions and mark-to-market fluctuations.
- **Strong Capital Position to Drive Growth in Fees:** At year end, we had \$34.6 billion of available capital for investment that enables us to be opportunistic in our deployment during volatile markets. Of this amount, \$25.2 billion was in AUM Not Yet Paying Fees available for future deployment. We also have significant liquidity to support and grow our business.
- **Flexible Strategies to Capitalize on Volatility:** As markets evolve, we are able to utilize the flexible capital mandates of our funds to identify and invest in what we believe to be the most attractive parts of capital structures during volatile markets.

- **Broad, Supportive and Growing Investor Base:** We have a growing loyal client base of more than 875 direct institutional investors with 80% of our AUM derived from investors in more than one Ares fund. We also continue to attract a significant number of new investors to the platform as we expand our investment solutions and improve our client coverage model across the globe. In 2019, approximately 80% of fundraising was generated through existing investor relationships.

It is from this perspective that we proudly look back at 2019 with record financial results and the accomplishment of many of our goals, including a strong market reaction to our conversion to a C-Corporation in 2018. As we look to the remainder of 2020, we believe the strong foundation and competitive advantages that we have built over the years will position us well to manage risks and take advantage of opportunities that are presented to us in the coming year and beyond.

2019: A Record Year

2019 was another record year for Ares as we executed across all aspects of our business: strategic expansion, capital raising, operational improvement and investment performance. We continued to benefit from the secular trends that are driving increased global appetite for alternative investments and demand from companies seeking private capital.

Industry Trends

Ares continued to benefit from several compelling trends in the alternative asset management industry:

Fundraising Trends:

- **Consolidation of Limited Partner relationships** as LPs continued to allocate greater amounts of capital to fewer, larger-scale managers to decrease their administrative costs and enhance accountability and strategic benefits
- **Increasing demand for alternative investments** as investors looked to actively managed strategies that can deliver higher returns with less volatility and lower correlation to traditional assets
- **Rotation from liquid to illiquid assets** as investors were increasingly willing to shift from liquid, more volatile investments to the relative value and returns available in illiquid assets
- **Growing pension liability gap and insurance demand for yield** as these investors looked to address funding gaps or retirement needs for institutional and retail investors with yields now trading near historic lows

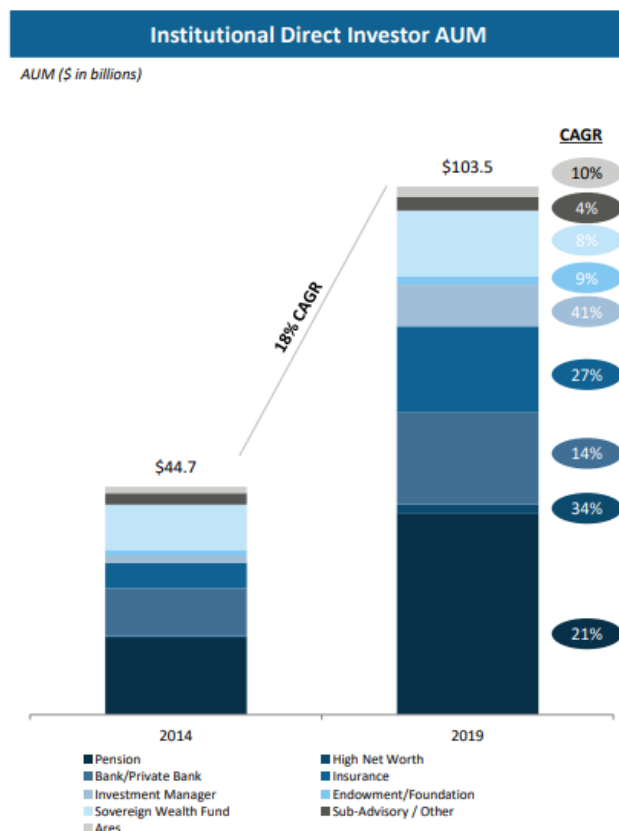
Deployment Trends:

- **Banks leaving a void for private capital to fill** as the changing regulatory capital and risk frameworks within the banking and insurance industries and across capital markets created a tremendous opportunity for non-bank participants such as Ares
- **Market shift toward private capital** as the private equity and private credit markets continued to take market share from the public equity and public debt markets

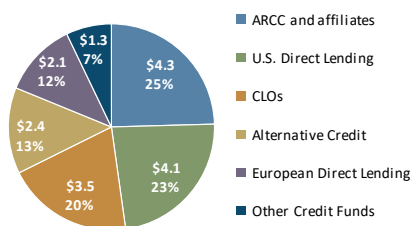
Fundraising

2019 marked another strong year for fundraising across our segments with \$23.8 billion in gross new capital raised.

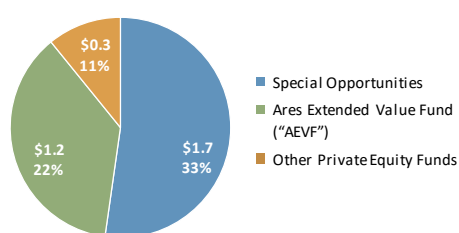
We continued to benefit from a broad consolidation trend – limited partners are shrinking their number of GP relationships to achieve economies of scale and invest more with their preferred managers. To illustrate this point, our existing LPs represented more than 80% of our gross capital raised as they re-upped into successor funds or invested in other strategies across the platform at an impressive rate. Of the 151 LPs that made new direct investments with us, 100 were existing and 51 were new to Ares. Existing LPs invested more than 4x the capital of our new investors, highlighting the growth of wallet share from our existing clients, which continues to be a great opportunity for us. We continue to broaden and deepen our relationships with our investors – 80% of our AUM from direct investors is invested in more than one Ares fund and over 50% is invested in two or more of our investment groups.



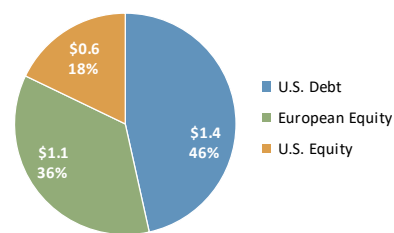
CREDIT INFLOWS: \$17.6BN



PRIVATE EQUITY INFLOWS: \$3.2BN



REAL ESTATE INFLOWS: \$3.1BN



At the group level, Credit inflows were mostly led by fundraising across our U.S. and European Direct Lending, Syndicated Loan and Alternative Credit strategies. Within Private Equity, we actively raised capital for our inaugural Special Opportunities fund, and we also raised a new adjacent fund to our ACOF strategy, Ares Extended Value Fund. In Real Estate, fundraising was strong in our U.S. Debt and European Equity strategies. For example, we held a final close for our fifth European opportunistic fund, which hit its hard cap of €1.8 billion, our largest real estate equity fund to date.

Heading into 2020, we are embarking on a meaningful period of capital raising with several of our largest flagship funds already in the market or soon to be launched, including our sixth corporate private equity fund, our inaugural special opportunities fund, our fifth European direct lending fund, our second U.S. junior capital direct lending fund,

our third U.S. opportunistic real estate fund, our third European value-add real estate fund and our inaugural alternative credit and climate infrastructure private equity funds.

Investing Activities

From an investing and deployment standpoint, we had an active year with total drawdown deployment of approximately \$22 billion, up from \$17 billion in 2018, with growth across all three investment groups.

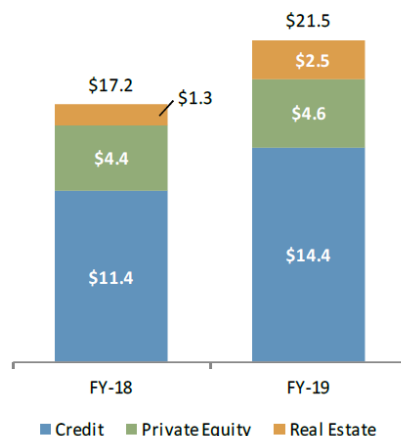
During 2019, we were most active in our U.S. and European direct lending strategies, where we used our self-origination capabilities and flexible capital to invest approximately \$12 billion in our drawdown funds. Through the course of the year, we largely deployed to senior secured loans in defensively-positioned industries with a strong emphasis on funding the growth needs of our existing borrowers. To put that in perspective, approximately 43% of our global direct lending deal flow was sourced from existing borrowers. These incumbent relationships enable us to make new commitments to fund the growth needs of our best borrowers in less competitive situations.

In Private Equity, we invested \$4.6 billion, including in franchise businesses with strong growth dynamics as well as in select distressed and opportunistic investments where we could provide private, flexible capital solutions. As an example, during the third quarter, we completed the acquisition of a leading provider of safety, quality, patient experience and workforce engagement solutions for healthcare organizations.

Within Infrastructure & Power, we invested in the largest single-phase, single-site wind project in the U.S. We have already signed 80% of this project’s eventual renewable power capacity through long-term contracts with blue-chip corporate clients.

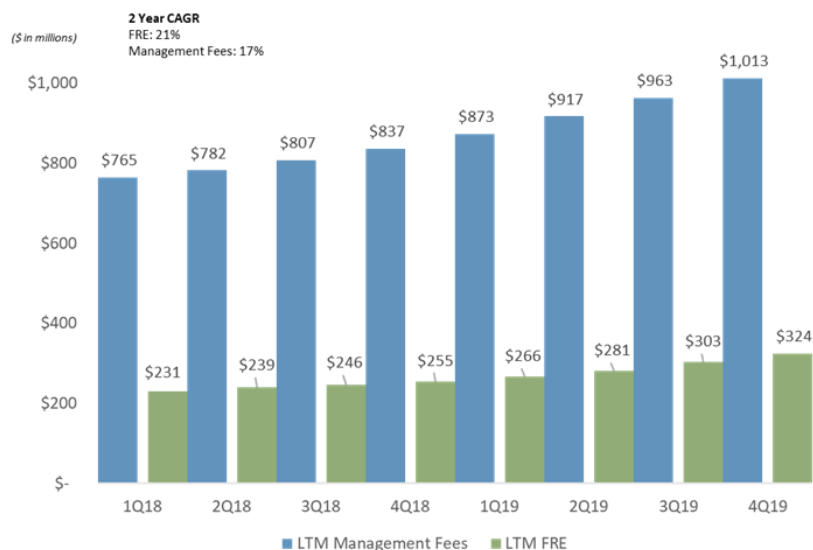
In Real Estate, we continued to focus on top, growing metro areas where we believe demand for next-generation real estate is underserved. We also continued our demonstrated track record of investing in residential and multifamily properties in the U.S. and Europe, in both our real estate equity and debt strategies.

CAPITAL DEPLOYMENT IN OUR DRAWDOWN FUNDS (\$BN)



Financial Results

In 2019, we achieved double digit growth in each of the following key financial metrics. Our AUM reached \$148.9 billionⁱⁱ at year's end, an increase of 14% over the prior year driven by another strong year of fundraising. Our Fee-Paying AUM increased more than 18% year-over-year as a meaningful amount of our AUM was converted to Fee-Paying AUM upon investment. Our strong drawdown deployment of \$21.5 billion was up 25% from the prior year,



which accelerated growth in our Fee-Paying AUM. We have good visibility on future Fee-Paying AUM and management fee growth through the embedded management fees that we expect to generate from capital already raised but not yet deployed, also referred to as “Shadow AUM.” Importantly, we ended the year with near-record amounts of dry powder and Shadow AUM, and these balances represent the opportunity to capture value from existing capital upon deployment. Our Available Capital totaled \$34.6 billion with Shadow AUM of \$27.1 billion (\$25.2 billion currently available for deployment).

STRONG CAPITAL POSITION & LIQUIDITY

Heading into 2020, Ares is in a favorable capital and liquidity position, and we believe the company is well-positioned to navigate the current volatility. From a liquidity perspective, we have a \$1.065 billion revolving credit facility and we have no debt maturities until 2024 at the earliest. We believe our capital and liquidity puts us in a strong position to navigate the uncertain times ahead.

C-CORP CONVERSION

Ares led its peers in the alternative asset management industry by being the first company to elect to change its corporate status, which resulted in a change from a publicly traded partnership to a corporation in 2018. Since then, we have seen significant growth in long-only and passive investors. Our index ownership also continued to expand through 2019 with the addition of the Russell Index funds. Ares is now represented in various Vanguard, CRSP, Russell, S&P and MSCI indices.

MARKET RECOGNITION

We received industry recognition in 2019 for nine annual awards from prominent industry publications:ⁱⁱⁱ

Private Debt Investor presented Ares with its most prestigious award, Global Fund Manager of the Year, for the third time. Ares was also recognized as BDC of the Year (Americas), Junior Lender of the Year (Americas) and for the Deal of the Year (Americas). In addition, *Private Equity International* recognized our firm as the Lender of the Year (North America).

We were also very pleased to be recognized by *Infrastructure Investor* as a leading investor in the renewables sector and to be chosen as North American Infrastructure Fund Manager of the Year, Renewables Investor of the Year and Renewables Deal of the Year, North America for Aviator Wind.

Private Debt Investor

Global Fund Manager of the Year
BDC of the Year (Americas)
Junior Lender of the Year (Americas)
Deal of the Year (Americas)

Private Equity International

Lender of the Year (North America)

Infrastructure Investor

North American Infrastructure Fund Manager of the Year
Renewables Investor of the Year
Renewables Deal of the Year, North America for Aviator Wind

ESG & COMMUNITY INVOLVEMENT

At Ares, our ESG practices are focused on upholding and promoting environmental, social and governance principles across the firm, to our investors, employees, shareholders and the broader community. We truly believe that responsible investing does not only generate superior returns, but also drives positive change in local communities and the world at large.

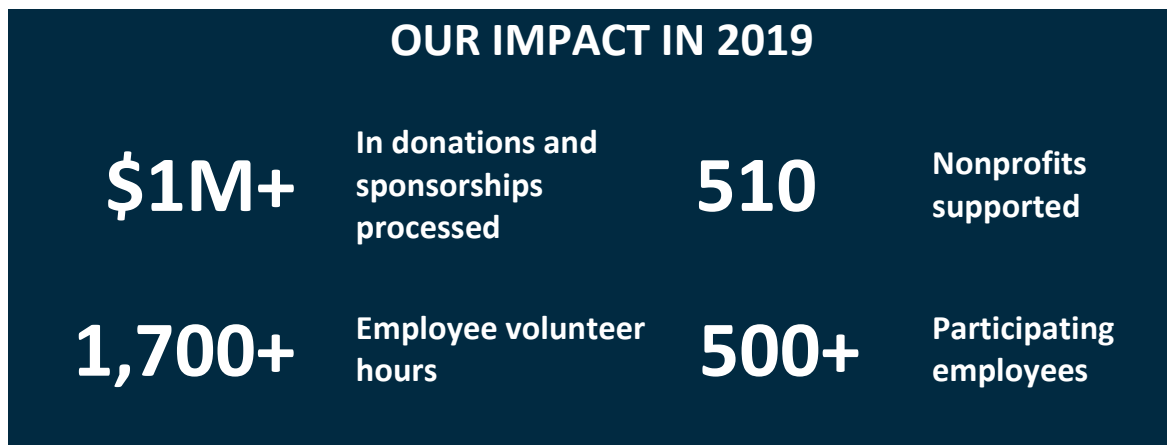
In recognition of the importance of considering ESG factors in the investment process, we have adopted a firmwide ESG Policy based on guidelines that are principally consistent with the Principles of Responsible Investment (“PRI”) and Private Equity Growth Capital Council’s (“PEGCC”) Guidelines for Responsible Investment. We have a long history of incorporating ESG into our investment processes and in our firm culture.

In May 2019, we announced a strategic partnership with Volery Capital Partners, a private equity firm that provides growth equity and strategic support to leading investment managers that generate positive environmental and social impact. Capital allocations to both sustainable and impact investments are growing globally, and Ares and Volery both believe that there is significant opportunity to establish a leading growth equity platform supporting impact- and sustainability-focused asset managers.

More recently, in March 2020, we announced the appointment of Adam Heltzer as the Head of ESG. In this role, he will lead our global ESG initiatives and will work in close coordination with the investment teams and portfolio companies across the Ares platform. With Adam’s guidance, we will seek to enhance our existing ESG efforts and establish a more robust framework for assessing and reporting against key performance indicators across our Credit, Private Equity and Real Estate strategies. Adam will also advise on the formulation of new corporate ESG policies and ESG-related investment products. Our focus on ESG has been, and will remain, a strategic priority for us. We look forward to sharing further updates on our ESG efforts and progress going forward.

In addition to adhering to responsible investment practices, we actively support local communities and charities through firmwide sponsorships, board positions, charitable donations and grassroots volunteering. Now it is more important than ever that communities come together to support each other in any way that they can. Throughout the year and across our global locations, our Ares In Motion (“AIM”) program offered a variety of opportunities for our team members to serve our diverse communities and engage in a meaningful manner.

In 2019, we also made significant strides to advance our diversity and inclusion efforts across the firm. Diversity in all of its forms is key to our firm’s open culture and long-term success. To support our diverse workforce and enrich our work environment, we offer a multitude of programs and policies that reflect our purpose-driven culture. By fully appreciating our team members' diverse experiences, backgrounds and perspectives, we believe we are positioned to realize favorable outcomes for our investors and for the firm both in the short- and long-term.



STRATEGIC EXPANSION

We continue to invest in our future expansion by pursuing strategic initiatives that we believe will provide meaningful AUM and earnings growth. These strategic initiatives include: the expansion of our insurance platform via the launch of Aspida, the launch of Ares Australia Management with our joint venture partner, Fidante, and our recently announced planned expansion across Asia through our pending SSG capital transaction.



In October 2019, we announced the formation of Ares Australia Management to coordinate marketing and investment management in Australia and New Zealand. Ares Australia Management is a strategic joint venture with Fidante, an investment management company that is part of Challenger Limited based in Sydney. The formation of this strategic partnership will better position us to address the increased demand for retirement assets with stable income and attractive returns in the region. We believe that this joint venture will provide us with the opportunity to grow our presence in the region over time as we offer funds across all three of our groups in this geography with a value-added strategic partner.



In July 2019 we announced the launch of Aspida Financial, the next step in the evolution of our insurance solutions platform. Aspida has agreed to acquire a life insurance and annuity platform based in Michigan that has assets over \$1 billion. This platform was responsible for more than \$1.7 billion in annuity sales in 2018 alone. Upon the closing of the transaction, Aspida will be backed by a strong team that intends to capitalize on retirement market trends and increasing demand for insurance products. Ares expects that Aspida will pursue a three-pronged growth strategy of underwriting new business, executing reinsurance transactions and pursuing opportunistic acquisitions. It is expected that Aspida's growth will be supported by future third party capital sources. We believe that Aspida will enable us to grow our insurance capabilities organically as well as inorganically and continue to allow us to partner with our insurance clients through reinsurance transactions.



CAPITAL MANAGEMENT

In January 2020, we announced a definitive agreement to acquire SSG Capital ("SSG"). With \$6.2 billion in AUM, SSG is a leading pan-Asian alternative asset manager focusing on credit and special situations investing. SSG has strong investment performance, a global investor base, extensive relationships and significant infrastructure built across several countries in this high-growth strategic region. We believe that SSG is a clear market leader in the Asian private credit markets and when added to our leading U.S. and European franchises, cements our global leadership position in private credit.

LOOKING AHEAD

2020 has started off as a challenging year for markets around the world. The impact of COVID-19 has led to significant volatility and declines in the financial and energy markets, and it is uncertain how long this volatility will continue. As COVID-19 continues to spread, the potential impacts are increasingly uncertain and difficult to assess.

During these unprecedented times, we believe our business is well-positioned and structured to perform in any market environment. We are continuing to closely monitor and actively manage the impact of COVID-19 on our portfolios and we are taking the necessary precautions to protect our employees, partners, clients, stakeholders and the communities in which we operate. Rest assured, we are working hard to preserve, prudently invest and provide attractive returns on our investors' capital.

It is during these volatile times when our strength and capabilities are most evident. Our world-class investment, capital raising and business operations teams, available capital of nearly \$35 billion and strong liquidity have us very well-positioned to navigate the evolving markets.

In closing, we are grateful to the entire Ares team for their hard work and efforts in delivering outstanding results in 2019 and for their current dedication to our business. As always, we appreciate your time and support for our company.



Tony Ressler

Co-Founder, Executive Chairman



Michael Arougheti

Co-Founder, Chief Executive Officer

LEGAL NOTICE

All information presented in this letter is as of December 31, 2019 unless otherwise noted, and is subject to change. This letter contains “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995, which relate to future events or Ares’ future performance or financial condition. These statements are based on certain assumptions about future events or conditions and involve a number of risks and uncertainties. These statements are not guarantees of future performance, condition or results. Actual results may differ materially from those in the forward-looking statements as a result of a number of factors, including those described from time to time in our filings with the SEC. Ares undertakes no duty to update any forward-looking statements made herein.

Nothing in this letter constitutes an offer to sell or solicitation of an offer to buy any securities of Ares or an investment fund managed by Ares or its affiliates.

Management uses certain non-GAAP financial performance measures to evaluate Ares’ performance and that of its business segments. Management believes that these measures provide investors with a greater understanding of Ares’ business and that investors should review the same supplemental non-GAAP financial measures that management uses to analyze Ares’ performance. The measures described herein represent those non-GAAP measures used by management, in each case before giving effect to the consolidation of certain funds that Ares consolidates with its results in accordance with GAAP. These measures should be considered in addition to, and not in lieu of Ares’ financial statements prepared in accordance with GAAP. These non-GAAP financial measures are discussed more fully in, and the reconciliations of these non-GAAP financial measures to the most directly comparable financial measures calculated and presented in accordance with GAAP are included under, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in Ares’ Annual Report on Form 10-K (the “Form 10-K”) and are accessible on the SEC’s website at www.sec.gov.

Management fee figures included in this letter include ARCC Part I Fees.

Please refer to the Form 10-K for more information regarding ARCC Part I Fees.

Past performance is not indicative of future results.

For the definitions of certain terms used in this presentation, please refer to the "Glossary".

GLOSSARY

ARCC Part 1 Fees	ARCC Part I Fees refers to a quarterly performance income on the investment income from ARCC. Such fees from ARCC are classified as management fees as they are paid quarterly, predictable and recurring in nature, not subject to contingent repayment and are typically cash settled each quarter.
Assets Under Management	Assets Under Management (or "AUM") refers to the assets we manage. For our funds other than CLOs, our AUM represents the sum of the net asset value of such funds, the drawn and undrawn debt (at the fund level including amounts subject to restrictions) and uncalled committed capital (including commitments to funds that have yet to commence their investment periods). For our funds that are CLOs, our AUM represents subordinated notes (equity) plus all drawn and undrawn debt tranches.
AUM Not Yet Paying Fees	AUM Not Yet Paying Fees, also referred to as Shadow AUM, is our AUM that is not currently generating fees and is eligible to earn management fees upon deployment.
Available Capital	Available Capital is comprised of uncalled committed capital and undrawn amounts under credit facilities and may include AUM that may be canceled or not otherwise available to invest (also referred to as "Dry Powder").
Fee Paying Assets Under Management	Fee Paying AUM (or "FPAUM") refers to the AUM on which we directly earn management fees. Fee Paying AUM is equal to the sum of all the individual fee bases of our funds that directly contribute to our management fees.
Fee Related Earnings	Fee Related Earnings (or "FRE"), a non-GAAP measure, is used to assess core operating performance by determining whether recurring revenue, primarily consisting of management fees, is sufficient to cover operating expenses and to generate profits. FRE differs from income before taxes computed in accordance with GAAP as it excludes performance income, performance related compensation, investment income from our Consolidated Funds and non-consolidated funds and certain other items that we believe are not indicative of our performance.

ⁱ Past performance is not indicative of future results.

ⁱⁱ As of December 31, 2019 AUM amounts include funds managed by Ivy Hill Asset Management, L.P., a wholly owned portfolio company of Ares Capital Corporation and registered investment adviser. Past performance is not indicative of future results.

ⁱⁱⁱ The performance, awards and rankings noted herein relate only to selected funds/strategies and may not be representative of any given client's experience and should not be viewed as indicative of Ares' past performance or its funds' future performance. All investments involve risk, including loss of principal. Private Equity International selected Ares Management as Lender of the Year in North America – 2019. Awards based on an industry wide global survey across 76 categories conducted by Private Equity International. Survey participants voted independently. In addition, survey participants could nominate another firm not listed in the category. Private Debt Investor selected Ares Management for Global Fund Manager of the Year, Lender of the Year (Americas), and Deal of the Year (Americas) and selected Ares Capital Corporation for BDC of the year in the Americas. Awards based on an industry wide global survey across 47 categories conducted by Private Debt Investor. Survey participants voted independently. In addition, survey participants could nominate another firm not listed in the category. Infrastructure Investors selected Ares Infrastructure and Power Group for Fund Manager of the Year in North America, Renewables Investor of the Year in North America and Renewables Deal of the Year in North America for the year 2019. Ares received the awards represented by survey participants that voted independently. In addition, survey participants could

nominate another firm not listed in the category. Infrastructure Investors is a publication that covers the flow of private capital into infrastructure projects around the world, as published by PEI, which is a group focused exclusively on private equity, private debt, private real estate and infrastructure and agri-investing. Ares was selected as the winner of the aforementioned awards through a selection process by those persons choosing to vote in each category, which may include firms that submitted for awards, but which are not allowed to vote for themselves. Ares did submit for these categories but did not pay a fee to participate in the selection process. The selection of Ares Infrastructure and Power Group to receive these awards was based in part on subjective criteria and a potentially limited universe of competitors. There may be other award categories for which Ares, its funds or its portfolio companies were considered but did not receive awards.

All performance as of December 31, 2019 unless otherwise noted. Past performance is not indicative of future results.