

Ares Senior Credit Strategies Fund, Inc.  
Form N-2  
March 22, 2011

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As filed with the Securities and Exchange Commission on March 22, 2011

Securities Act Registration No. 333-[ ]  
Investment Company Registration No. 811-22535

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

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**FORM N-2**

REGISTRATION STATEMENT  
UNDER  
THE SECURITIES ACT OF 1933 <sup>§</sup>

Pre-Effective Amendment No. [ ]  
Post-Effective Amendment No. [ ]

REGISTRATION STATEMENT  
UNDER  
THE INVESTMENT COMPANY ACT OF 1940 <sup>§</sup>

Amendment No. [ ]

**Ares Senior Credit Strategies Fund, Inc.**

(Exact Name of Registrant as Specified in Charter)

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2000 Avenue of the Stars  
12th Floor  
Los Angeles, California 90067  
(Address of Principal Executive Offices)

(310) 201-4200  
(Registrant's Telephone Number, Including Area Code)

Kevin A. Frankel  
2000 Avenue of the Stars  
12th Floor  
Los Angeles, California 90067  
(310) 201-4200  
(Name and Address of Agent for Service)

Copies to:

Donald R. Crawshaw  
William G. Farrar  
Sullivan & Cromwell LLP  
125 Broad Street  
New York, NY 10004  
(212) 558-4000

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**Approximate Date of Proposed Public Offering:**  
As soon as practicable after the effective date of this Registration Statement.

If any of the securities being registered on this form will be offered on a delayed or continuous basis in reliance on Rule 415 under the Securities Act of 1933, other than securities offered in connection with a dividend reinvestment plan, check the following box. o

It is proposed that this filing will become effective (check appropriate box)

when declared effective pursuant to section 8(c)

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**CALCULATION OF REGISTRATION FEE UNDER THE SECURITIES ACT OF 1933**

| Title of Securities Being Registered        | Amount Being Registered | Proposed Maximum Offering Price per Unit | Proposed Maximum Aggregate Offering Price(1) | Amount of Registration Fee |
|---|-------------------------|--|--|----------------------------|
| Common Stock, (\$0.001 par value per share) | 50,000 shares           | \$20.00                                  | \$1,000,000                                  | \$116.10                   |

(1) Estimated solely for purpose of calculating the registration fee.

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The registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that the Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such dates as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

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**THE INFORMATION IN THIS PROSPECTUS IS NOT COMPLETE AND MAY BE CHANGED. THE FUND (AS DEFINED BELOW) MAY NOT SELL THESE SECURITIES UNTIL THE REGISTRATION STATEMENT FILED WITH THE SECURITIES AND EXCHANGE COMMISSION IS EFFECTIVE. THIS PROSPECTUS IS NOT AN OFFER TO SELL THESE SECURITIES AND IT IS NOT SOLICITING AN OFFER TO BUY THESE SECURITIES IN ANY JURISDICTION WHERE THE OFFER OR SALE IS NOT PERMITTED.**

Subject to Completion  
Preliminary Prospectus dated March 22, 2011

PROSPECTUS

Shares

**Ares Senior Credit Strategies Fund, Inc.**

**Common Stock  
\$20.00 per Share**

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Ares Senior Credit Strategies Fund, Inc. (the "Fund") is a newly organized, non-diversified, closed-end management investment company.

*Investment Objective.* The Fund's investment objective is to seek current income and preservation of capital. There can be no assurance that the Fund will achieve its investment objective or be able to structure its investment portfolio as anticipated. The Fund will seek to achieve its investment objective by investing primarily in senior, secured loans made to companies whose debt is rated below investment grade ("Senior Loans") and investments with similar economic characteristics, such as debt instruments rated below investment grade.

*Investment Policies.* Under normal market conditions, at least 70% of the Fund's Managed Assets (as defined in this prospectus) will be invested in floating rate Senior Loans and investments with similar economic characteristics. Senior Loans typically pay interest at rates that are determined periodically on the basis of a floating base lending rate, primarily the London-Interbank Offered Rate, plus a premium. Senior Loans are typically made to U.S. and, to a limited extent, non-U.S. corporations, partnerships and other business entities that operate in various industries and geographical regions. Senior Loans typically are rated below investment grade. Securities rated below investment grade are often referred to as "junk bonds", "leveraged loans" or "high yield" securities. Securities of this type are often high risk and have speculative characteristics.

*Leverage.* The Fund may seek to enhance the level of its current distributions to holders of shares of its common stock through the use of leverage. The Fund may use leverage through borrowings, including loans from certain financial institutions and/or the issuance of debt securities, as well as through the issuance of shares of preferred stock. The Fund expects to initially incur leverage in an aggregate amount of approximately 33% of the Fund's Managed Assets (as defined herein) immediately after such borrowings and/or issuances of shares of preferred stock. The use of leverage is a speculative technique that involves special risks associated with the leveraging of common stock. There can be no assurance that any leveraging strategy the Fund employs will be successful during any period in which it is employed. See "Leverage", and "Risk Factors - Principal Risks Relating to Fund Operations - Leverage Risk".

*No Prior History.* The Fund is a newly formed entity and has no previous operating or trading history upon which you can evaluate the Fund's performance. Shares of closed-end management investment companies that are listed on an exchange, such as those of the Fund, frequently trade at prices that reflect a discount from their net asset values. If you purchase shares of the Fund's common stock in its initial public offering or otherwise and sell the shares on an exchange or otherwise, you may receive an amount that is less than: (1) the amount you paid for the shares and/or (2) the net asset value of the Fund's shares at the time of sale.

*Listing.* It is anticipated that the Fund's common shares will be approved for listing on the New York Stock Exchange, subject to notice of issuance, under the symbol "ACS".

**Investing in the Fund's common shares involves certain risks. See "Risk Factors" beginning on page [44] of this prospectus.**

Per Share

Total(1)

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|  |         |    |
|--|---------|----|
| Public offering price                    | \$20.00 | \$ |
| Sales load                               | \$0.90  | \$ |
| Proceeds, after expenses, to the Fund(2) | \$[ ]   | \$ |

(1) The underwriters named in this prospectus have an option to purchase up to \_\_\_\_\_ additional common shares at the public offering price, less the sales load, within 45 days of the date of this prospectus solely to cover overallocments, if any. If such overallocment option is exercised in full, the total public offering price, sales load, estimated offering expenses and proceeds, after expenses, to the Fund will be \$ \_\_\_\_\_, \$ \_\_\_\_\_, \$ \_\_\_\_\_ and \$ \_\_\_\_\_, respectively. See "Underwriters".

(2) The Fund will pay all organizational expenses and offering expenses incurred by the Fund.

**Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.**

The underwriters expect to deliver the common shares to purchasers on or about \_\_\_\_\_, 2011.

[ ]

The date of this prospectus is \_\_\_\_\_, 2011.

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This prospectus provides information that you should know about the Fund before investing. Please read this prospectus carefully and keep it for future reference. Information required to be in the Fund's statement of additional information is found in this prospectus. Additional information about the Fund has been filed with the Securities and Exchange Commission ("SEC") and is available upon written or oral request and without charge. Information about the Fund can be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. Call 1-202-551-8090 for information on the operation of the public reference room. This information also is available on the SEC's Internet site at <http://www.sec.gov> and copies may be obtained upon payment of a duplicating fee by writing the Public Reference Section of the SEC, 100 F Street, N.E., Washington, D.C. 20549-0102. You may also email requests for these documents to [publicinfo@sec.gov](mailto:publicinfo@sec.gov). For a free copy of the Fund's annual or semi-annual report (following the Fund's completion of an annual or semi-annual period, as applicable) or to request other information or ask questions about the Fund, please write to the Fund at 2000 Avenue of the Stars, 12th Floor, Los Angeles, California 90067 or call [ ] or visit the Fund's website at [ ]. This reference to the website does not incorporate the contents of the website into this prospectus.

The Fund's common shares do not represent a deposit or obligation of, and are not guaranteed or endorsed by, any bank or other insured depository institution, and are not federally insured by the Federal Deposit Insurance Corporation, the Federal Reserve Board or any other government agency.

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**You should rely only on the information contained or incorporated by reference in this prospectus. The Fund has not, and the underwriters have not, authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. The Fund is not, and the underwriters are not, making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted. You should assume that the information in this prospectus is accurate only as of the date of this prospectus. The Fund's business, financial condition and prospects may have changed since the date of this prospectus.**

## PROSPECTUS SUMMARY

*This summary highlights some of the information included elsewhere in this prospectus. It is not complete and may not contain all of the information that you may want to consider. You should read carefully the more detailed information set forth under "Risk Factors" on page [43] of this prospectus and the other information included elsewhere in this prospectus. The information below is qualified in all respects by the more detailed information included elsewhere in this prospectus and in the appropriate Registration Statements filed with the U.S. Securities and Exchange Commission.*

### **The Fund**

Ares Senior Credit Strategies Fund, Inc. (the "Fund") is a corporation organized under the laws of the State of Maryland and registered with the U.S. Securities and Exchange Commission (the "SEC") under the Investment Company Act of 1940, as amended (the "Investment Company Act"), as a closed-end, non-diversified management investment company. Ares Capital Management II LLC (the "Adviser") serves as the Fund's investment adviser.

### **The Offering**

The Fund is offering \_\_\_\_\_ shares of its common stock, par value \$0.001 per share ("common shares"), at an initial offering price of \$20.00 per share through a group of underwriters (the "Underwriters") led by [ \_\_\_\_\_ ], which price includes a sales load of 4.5% per share. These common shares have been registered for sale with the SEC under the Securities Act of 1933, as amended (the "Securities Act"). An investor buying common shares during the Fund's initial public offering generally must purchase at least 100 common shares. The Underwriters have an option to purchase up to an additional \_\_\_\_\_ shares of the Fund within 45 days of the date of this prospectus to cover any overallocments. See "Underwriters".

### **Who May Wish to Invest**

The Fund may be an appropriate investment for:

Long-term investors seeking current income and preservation of capital.

Fixed income investors seeking the potential for additional diversification through investment in a low duration fixed income portfolio.

Investors who believe interest rates and inflation may rise in the future and want the benefits that floating rate fixed income investments may offer.

Investors seeking access to the investment acumen of the Adviser and its affiliates.

Investors should consider their investment goals, time horizons and risk tolerance before investing in the Fund. An investment in the Fund is not appropriate for all investors, and the Fund is not intended to be a complete investment program. The Fund is designed as a long-term investment and not as a trading vehicle.

**Investment Objective**

The Fund's investment objective is to seek current income and preservation of capital. There can be no assurance that the Fund will achieve its investment objective or be able to structure its investment portfolio as anticipated.

The Fund's investment objective may be changed on 60 days' prior written notice to shareholders.

**Investment Strategies**

The Fund will seek to achieve its investment objective by investing primarily in senior, secured loans made to companies whose debt is rated below investment grade ("Senior Loans") and investments with similar economic characteristics, such as debt instruments rated below investment grade. Senior Loans typically hold a first lien priority and typically pay interest at rates that are determined periodically on the basis of a floating base lending rate, primarily the London-Interbank Offered Rate ("LIBOR"), plus a premium. Senior Loans are typically made to U.S. and, to a limited extent, non-U.S. corporations, partnerships and other business entities ("Borrowers") which operate in various industries and geographical regions. Borrowers may obtain Senior Loans, among other reasons, to refinance existing debt, engage in acquisitions, pay dividends, recapitalize, complete leveraged buyouts and pursue general corporate purposes.

Senior Loans typically are rated below investment grade. Securities and other instruments rated below investment grade (including Senior Loans) are those that, at the time of investment, are rated Ba1 or lower by Moody's Investors Service, Inc. ("Moody's"), BB+ or lower by Standard & Poor's Corporation Ratings Group ("S&P") or BB+ or lower by Fitch Ratings, Inc. ("Fitch"), or if unrated are determined by the Adviser to be of comparable quality. Below investment grade securities, commonly referred to as "junk bonds", "leveraged loans" or "high yield" securities often are regarded as having predominately speculative characteristics with respect to an issuer's capacity to pay interest and repay principal. Although many of the Fund's investments may consist of securities and other instruments rated below investment grade, the Fund reserves the right to invest in debt securities and loans of any credit quality, maturity and duration. The Fund may invest in U.S. dollar and non-U.S. dollar denominated loans and securities of issuers located anywhere in the world, and of issuers that operate in any industry. The Fund may also seek to gain exposure to Senior Loans by investing in swaps, including single name credit default swaps, single name loan credit default swaps, total return swaps, collateralized loan obligations (including synthetic collateralized loan obligations), reverse repurchase agreements and other similar transactions.



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The Fund will invest at least 70% of its Managed Assets (as defined below) in Senior Loans and investments with similar economic characteristics. "Managed Assets" means the total assets of the Fund (including any assets attributable to any preferred shares that may be issued or to indebtedness) minus the Fund's liabilities other than liabilities relating to indebtedness.

The Fund may also invest in structured corporate credit securities. Structured corporate credit securities are typically floating rate, are typically issued by a special purpose legal entity that holds a portfolio (diversified by both industry and issuers) of corporate debt securities, and are of varying seniority with respect to the capital structure of both the special purpose entity issuing the structured security and the corporation issuing the portfolio security.

The Fund may invest in subordinated loans and corporate bonds. Subordinated loans generally have the same characteristics as Senior Loans except that such loans are subordinated in payment and/or lower in lien priority to first lien holders ("Subordinated Loans"). A corporate bond issuer generally pays the investor a fixed or variable rate of interest and normally must repay the amount borrowed on or before maturity. Certain corporate bonds have no maturity and are thus "perpetual".

In addition to the types of securities and other investments listed above, the Fund also may invest in (i) loan interests that are not secured by any collateral of the Borrower; (ii) other income producing securities (including, without limitation, U.S. Government debt securities and investment and non-investment grade, subordinated and unsubordinated corporate debt securities) and (iii) rights, warrants and equity securities issued by a Borrower or its affiliates as part of a package of investments in the Borrower or its affiliates or as part of a restructuring, bankruptcy or plan of reorganization. The Fund may also invest in asset-backed securities, repurchase agreements, cash and cash equivalents, options, futures contracts, options on futures contracts, options on swaps, forward contracts or other derivatives or financial instruments (including, but not limited to, credit-linked notes, commodity-linked notes, indexed and inverse floating rate securities, convertible instruments and preferred stocks), shares of money market mutual funds or other investment companies or other pooled investment vehicles. Although the Fund does not currently expect to invest significantly in these types of investments, it may do so for, among other reasons, cash management, financing activities or to hedge its positions.

The Fund may invest in debt securities of any maturity, including perpetual securities, and does not manage its portfolio seeking to maintain a targeted dollar-weighted average maturity level. The Fund, however, does seek to manage its portfolio's average duration. Specifically, under normal market conditions, the Adviser expects to maintain an average duration of less than one year (including the effect of anticipated leverage). In comparison to maturity (which is the date on which a debt instrument matures and the issuer is obligated to repay the principal amount), duration is a measure of the price volatility of a debt instrument as a result of changes in market rates of interest, based on the weighted average timing of the instrument's expected principal and interest payments. Duration differs from maturity in that it considers a security's yield, coupon payments, principal payments and call features in addition to the amount of time until the security finally matures. As the value of a security changes over time, so will its duration. Prices of securities with longer durations tend to be more sensitive to interest rate changes than securities with shorter durations.

In making its investment decisions, the Adviser has adopted Ares' long-standing, consistent credit-based investment approach that was developed over 20 years ago by its founders. Specifically, the Adviser's investment philosophy, portfolio construction and portfolio management involve an assessment of the overall macroeconomic environment, financial markets and company-specific research and analysis. Its investment approach emphasizes capital preservation, low volatility and minimization of downside risk. In addition to engaging in extensive due diligence from the perspective of a long-term investor, the Adviser's approach seeks to reduce risk as further described below.

The Adviser's investment process is rigorous, proactive and continuous. Close monitoring of each investment in the portfolio provides foresight for making buy, sell and hold decisions. The Adviser utilizes what it believes to be a conservative approach that focuses on credit fundamentals, collateral coverage and structural seniority. The Adviser may also employ a sector analysis to assess industry trends and characteristics that may impact a Borrower's potential future ability to generate cash, as well as profitability, asset values, financial needs and potential liabilities. The Adviser takes a disciplined approach to its credit investment selection process in which criteria used by the Adviser in credit selection may include an evaluation of whether a Senior Loan or other loan or debt security is adequately collateralized or over-collateralized and whether it is covered by sufficient earnings

and cash flow to service the Borrower's indebtedness on a timely basis. The Adviser also takes into consideration the credit ratings of borrowers in evaluating potential investments but credit ratings are generally not the primary determinative factor in the investment selection process. The Adviser expects to gain exposure to Borrowers across a broad range of industries and of varying characteristics and return profiles.

When identifying prospective investment opportunities, the Adviser currently intends to focus primarily on the following attributes:

Strong franchises and sustainable competitive advantage. When identifying potential investment opportunities, the Adviser favors well-established companies with strong franchises and sustainable competitive advantages. The Adviser intends to invest in Borrowers that it believes have developed strong positions within their markets and exhibit the potential to maintain sufficient cash flows and revenues to service their obligations in a range of economic environments. The Adviser will seek Borrowers that it believes possess advantages in scale, scope, customer loyalty, product pricing or product quality versus their competitors.

Investing in stable Borrowers with cash flows that are dependable and predictable. The Adviser intends to invest in Borrowers believed to be stable and well established with cash flows that are dependable and predictable. The Adviser believes these attributes evidence Borrowers that may be well positioned to maintain consistent cash flow to service and repay their obligations and maintain growth in their businesses or market share. The Adviser currently does not expect to invest significantly in start-up companies, companies in turnaround situations or companies with speculative business plans, although the Fund is permitted to do so.

Management teams with demonstrated track records and economic incentive. The Adviser intends to focus on investments in which the Borrower has an experienced management team with an established track record of success and economic incentives to succeed.

Investments in industries with positive long-term dynamics. The Adviser will seek to invest the Fund's assets broadly among Borrowers and industries with positive long-term dynamics, thereby potentially reducing the risk that a downturn in any one company or industry will have a disproportionate effect on the value of the Fund's portfolio.

Rates of return commensurate with the perceived risks. The Adviser and its affiliates have extensive experience investing in a wide variety of securities for leveraged companies with a diverse set of terms and conditions. The Fund believes this approach and experience enables the Adviser to identify attractive investment opportunities throughout economic cycles and across a company's capital structure so the Fund can make investments consistent with its stated investment objective and preserve principal while seeking appropriate risk adjusted returns.

Securities or investments that are structured with protective terms and covenants. The Adviser will seek investments that seek to permit the Borrower to operate its business while balancing the need to assure repayment of the Fund's investment through protective terms and covenants.

In managing the Fund's portfolio, the Adviser will engage in regular and periodic monitoring of credit risk with a goal toward the early identification, and sale, of Senior Loans and other investments with potential credit problems. This monitoring process may include reviewing (i) a Borrower's financial resources and operating history; (ii) a comparison of a Borrower's current operating results with the Adviser's initial investment thesis for the investment and initial expectations for the performance of the obligation; (iii) a Borrower's sensitivity to economic conditions; (iv) the performance of a Borrower's management; (v) a Borrower's debt maturities and borrowing requirements; (vi) a Borrower's interest and asset coverage; and (vii) the relative value of an investment based on a Borrower's anticipated cash flow or where other comparable assets are trading in the market.

Under normal market conditions, at least 80% of the Fund's net assets, plus the amount of any borrowings for investment purposes, will be invested in senior credit strategies, including, but not limited to, Senior Loans and other debt instruments. This policy is not fundamental and may be changed by the board of directors of the Fund (the "Board of Directors" or the "Board") with at least 60 days' prior written notice to the shareholders. As used in this prospectus, "net assets" are determined by subtracting any liabilities (including borrowings for investment purposes) from the total value of the Fund's portfolio investments and other assets.

Part of the Fund's investment objective is to seek preservation of capital. The ability of the Fund to achieve this part of its investment objective is limited due to the Fund's investment policy of investing primarily in Senior Loans and investments with similar economic characteristics, which may be speculative. The Adviser seeks to achieve preservation of capital through a disciplined approach to its credit investment selection process and its evaluation of Borrowers. The Adviser

also expects to gain exposure to Borrowers across a broad range of industries and of varying characteristics and return profiles, as well as active management of such investments in light of current economic developments and trends. The Fund is classified as "non-diversified" under the Investment Company Act and its investment portfolio may be more heavily invested in a smaller number of companies than the portfolios of other issuers. The Fund may take certain actions if short-term interest rates increase or market conditions otherwise change (or the Fund anticipates such an increase or change) and the Fund's use of leverage, if any, begins (or is expected) to adversely affect common shareholders. In order to attempt to offset such a negative effect of leverage on common shareholders, the Fund may shorten the average maturity of its investment portfolio (by investing in short-term securities), may reduce its indebtedness or unwind other leveraged transactions, or may engage in interest rate hedging arrangements. The Fund may attempt to reduce the utilization of leverage by redeeming or otherwise purchasing outstanding preferred shares, if any, or prepaying debt or other borrowings.

For a more complete discussion of the Fund's portfolio composition, see "The Fund's Investments".

### **Leverage**

The Fund currently anticipates utilizing leverage. The Fund may engage in leverage to the maximum extent permitted by law for investment and other general corporate purposes. The Fund expects to initially incur leverage in an aggregate amount of approximately 33% of the Fund's Managed Assets. The Fund may issue preferred shares and/or notes or other forms of indebtedness, and it may also borrow funds from banks and other financial institutions. The Fund may also gain leverage synthetically through swaps and other derivatives. The issuance of preferred shares or the use of borrowings to leverage the common shares can create risks, including increased variability of the Fund's net income, distributions and/or net asset value in relation to market changes. Changes in the value of the Fund's portfolio, including securities bought with the proceeds of leverage, will be borne entirely by common shareholders. All costs and expenses related to any form of leverage used by the Fund will be borne entirely by common shareholders. Increases and decreases in the value of the Fund's portfolio will be magnified if the Fund uses leverage. In particular, leverage may magnify interest rate risk, which is the risk that the prices of portfolio securities will fall (or rise) if market interest rates for those types of securities rise (or fall). During periods when the Fund is using leverage, the fees paid to the Adviser for advisory services will be higher than if the Fund did not use leverage because the fees paid will be calculated on the basis of the Fund's Managed

Assets, which includes the assets purchased through leverage. In such case, the Adviser may have a financial incentive to increase the Fund's use of leverage, which constitutes an inherent conflict of interest. In addition, the fees paid to the Adviser are borne exclusively by common shareholders. It is expected that preferred shareholders, noteholders and any lenders to the Fund will not bear any expenses of the Fund. The Fund's leveraging strategy, if utilized, may not be successful.

The Fund may negotiate with one or more large commercial banks to arrange a floating rate credit facility (the "Credit Facility") pursuant to which the Fund would be entitled to borrow funds from time to time in accordance with the terms of the Credit Facility. Any such borrowings, as well as the issuance of notes or other forms of indebtedness, would constitute financial leverage and would be subject to the asset coverage requirements imposed by the Investment Company Act with respect to the amount of the borrowings and the Fund's ability to declare dividends and distributions or repurchase its capital stock. The Fund may choose not to enter into a Credit Facility. See "Leverage".

**Investment Adviser**

Ares Capital Management II LLC, the Fund's investment adviser (the "Adviser"), is an affiliate of Ares Management LLC ("Ares"). The Adviser leverages off of Ares' entire investment platform and benefits from the significant capital markets, trading and research expertise of all of Ares' investment professionals. Ares has over 140 investment professionals covering current investments in approximately 1,000 companies across over 30 industries. The Fund's portfolio management team is comprised of members of Ares' Capital Markets Group.

Founded in 1997, Ares is a global alternative asset manager and SEC registered investment adviser with approximately \$39 billion of total committed capital under management and over 360 employees as of December 31, 2010.

Ares specializes in originating and managing assets in both the leveraged finance and private equity markets. Ares' leveraged finance activities include the origination, acquisition and management of senior loans, high yield bonds, mezzanine debt and special situation investments. Ares' private equity activities focus on providing flexible, junior capital to middle-market companies. Ares has the ability to invest across a capital structure, from senior floating rate debt to common equity. This flexibility, combined with Ares' "buy and hold" philosophy, enables Ares to structure an investment to meet

the specific needs of a company rather than the less flexible demands of the public markets.

The Adviser will receive a monthly fee at the annual rate of 1.00% of the average daily value of the Fund's Managed Assets. During periods when the Fund is using leverage, the fees paid to the Adviser will be higher than if the Fund did not use leverage because the fees paid will be calculated on the basis of the Fund's Managed Assets, which includes the assets purchased through leverage. See "Management of the Fund Investment Advisory and Management Agreement".

**Risk Factors**

*General.* Investing in the Fund's common shares involves certain risks and the Fund may not be able to achieve its intended results for a variety of reasons, including, among others, the possibility that the Fund may not be able to structure its investments as anticipated. Because the value of your investment in the Fund will fluctuate, there is a risk that you will lose money. Your investment will decline in value if, among other things, the value of the Fund's investments decreases. The value of your shares also will be affected by the Fund's ability to successfully implement its investment strategy, as well as by market, economic and other conditions. As with any security, complete loss of investment is possible.

*Investment and Market Risk.* An investment in the Fund's common shares is subject to investment risk, including the possible loss of the entire principal amount invested. An investment in the Fund's common shares represents an indirect investment in the portfolio of Senior Loans, loans and other securities owned by the Fund, and the value of these securities and loans may fluctuate, sometimes rapidly and unpredictably. For instance, as evidenced by the recent global economic downturn, the secondary markets for Senior Loans and investments with similar economic characteristics can experience sudden and sharp price swings, which can be exacerbated by large or sustained sales by major investors in these markets, a high-profile default by a major borrower, movements in indices tied to these markets or related securities or investments, or a change in the market's perspective of Senior Loans and investments with similar economic characteristics. At any point in time, an investment in the Fund's common shares may be worth less than the original amount invested, even after taking into account distributions paid by the Fund, if any, and the ability of common shareholders to reinvest dividends. The Fund anticipates using leverage, which will magnify the Fund's risks and, in turn, the risks to the Fund's common shareholders.

*Senior Loans Risk.* Senior Loans are usually rated below investment grade, but may be unrated. As a result, the risks associated with Senior Loans are similar to the risks of below investment grade fixed income instruments, although Senior Loans are senior and typically secured in contrast to other below investment grade fixed income instruments, which are often subordinated or unsecured. Investment in Senior Loans rated below investment grade is considered speculative because of the credit risk of the Borrowers. Such Borrowers are more likely than investment grade Borrowers to default on their payments of interest and principal owed to the Fund, and such defaults could reduce the Fund's net asset value and income distributions. An economic downturn would generally lead to a higher non-payment rate, and a Senior Loan may lose significant market value before a default occurs. Moreover, any specific collateral used to secure a Senior Loan may decline in value or become illiquid, which would adversely affect the Senior Loan's value. Senior Loans are subject to a number of risks described elsewhere in this prospectus, including liquidity risk and the risk of investing in below investment grade fixed income instruments.

Senior Loans are subject to the risk of non-payment of scheduled interest or principal. Such non-payment would result in a reduction of income to the Fund, a reduction in the value of the investment and a potential decrease in the net asset value of the Fund. There can be no assurance that the liquidation of any collateral securing a Senior Loan would satisfy the Borrower's obligation in the event of non-payment of scheduled interest or principal payments, whether when due or upon acceleration, or that the collateral could be liquidated, readily or otherwise. In the event of bankruptcy or insolvency of a Borrower, the Fund could experience delays or limitations with respect to its ability to realize the benefits of the collateral, if any, securing a Senior Loan. The collateral securing a Senior Loan, if any, may lose all or substantially all of its value in the event of the bankruptcy or insolvency of a Borrower. Some Senior Loans are subject to the risk that a court, pursuant to fraudulent conveyance or other similar laws, could subordinate such Senior Loans to presently existing or future indebtedness of the Borrower or take other action detrimental to the holders of Senior Loans including, in certain circumstances, invalidating such Senior Loans or causing interest previously paid to be refunded to the Borrower. Additionally, a Senior Loan may be primed in bankruptcy, which reduces the ability of the holders of the Senior Loan to recover on the collateral.

There may be less readily available and reliable information about most Senior Loans and the Borrowers thereunder than is the case for many other types of securities, including securities issued in transactions registered under the Securities



Act, or registered under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and Borrowers subject to the periodic reporting requirements of Section 13 of the Exchange Act. As a result, the Adviser will rely primarily on its own evaluation of a Borrower's credit quality rather than on any available independent sources. Therefore, the Fund will be particularly dependent on the analytical abilities of the Adviser.

In general, the secondary trading market for Senior Loans is not well developed. No active trading market may exist for certain Senior Loans, which may make it difficult to value them. Illiquidity and adverse market conditions may mean that the Fund may not be able to sell Senior Loans quickly or at a fair price. To the extent that a secondary market does exist for certain Senior Loans, the market for them may be subject to irregular trading activity, wide bid/ask spreads and extended trade settlement periods.

The Fund may acquire Senior Loans through assignments or participations. The purchaser of an assignment typically succeeds to all the rights and obligations of the assigning institution and becomes a lender under the credit agreement with respect to the debt obligation; however, the purchaser's rights can be more restricted than those of the assigning institution, and the Fund may not be able to unilaterally enforce all rights and remedies under the loan and with regard to any associated collateral. In general, a participation is a contractual relationship only with the institution participating out the interest, not with the Borrower. Sellers of participations typically include banks, broker-dealers, other financial institutions and lending institutions. In purchasing participations, the Fund generally will have no right to enforce compliance by the Borrower with the terms of the loan agreement against the Borrower, and the Fund may not directly benefit from the collateral supporting the debt obligation in which it has purchased the participation. As a result, the Fund will be exposed to the credit risk of both the Borrower and the institution selling the participation. Further, in purchasing participations in lending syndicates, the Fund will not be able to conduct the due diligence on the Borrower or the quality of the Senior Loan with respect to which it is buying a participation that the Fund would otherwise conduct if it were investing directly in the Senior Loan, which may result in the Fund being exposed to greater credit or fraud risk with respect to the Borrower or the Senior Loan.

*Subordinated Loans Risk.* Subordinated Loans generally are subject to similar risks as those associated with investments in Senior Loans, except that such loans are subordinated in payment and/or lower in lien priority to first lien holders. In the event of default on a Subordinated Loan, the first priority lien

holder has first claim to the underlying collateral of the loan to the extent such claim is secured. Additionally, an oversecured creditor may be entitled to additional interest and other charges in bankruptcy increasing the amount of their allowed claim. Subordinated Loans are subject to the additional risk that the cash flow of the Borrower and property securing the loan or debt, if any, may be insufficient to meet scheduled payments after giving effect to the senior unsecured or senior secured obligations of the Borrower. This risk is generally higher for subordinated unsecured loans or debt, which are not backed by a security interest in any specific collateral. Subordinated Loans generally have greater price volatility than Senior Loans and may be less liquid.

*Below Investment Grade Securities Risk.* The Fund anticipates that it will invest the majority of its assets in Senior Loans, Subordinated Loans and other debt instruments that are rated below investment grade. Non-investment grade fixed income or convertible securities often referred to as "junk bonds", "leveraged loans" or "high yield" securities are debt securities that are rated below investment grade by the major rating agencies or are unrated securities that the Adviser believes are of comparable quality. While generally providing greater income and opportunity for gain, non-investment grade debt securities and similar debt instruments may be subject to greater risks than securities or instruments that have higher credit ratings, including a high risk of default. The credit rating of a high yield security does not necessarily address its market value risk, and ratings may from time to time change, positively or negatively, to reflect developments regarding the issuer's financial condition. High yield securities and similar instruments often are considered to be speculative with respect to the capacity of the issuer to timely repay principal and pay interest or dividends in accordance with the terms of the obligation and may have more credit risk than higher rated securities. Lower grade securities and similar debt instruments may be particularly susceptible to economic downturns. It is likely that a prolonged or deepening economic recession could adversely affect the ability of Borrowers issuing such securities and similar debt instruments to repay principal and pay interest on the instrument, increase the incidence of default and severely disrupt the market value of the securities and similar debt instruments.

*New Adviser Risk.* The Adviser is a newly organized entity with no operating history. The Adviser's sole assets under management initially will be the assets raised in connection with the initial public offering of the Fund's common shares.

*Credit Risk.* Credit risk is the risk that one or more debt securities in the Fund's portfolio will decline in price or fail to pay

interest or principal when due because the issuer of the security experiences a decline in its financial status. While a senior position in the capital structure of a Borrower may provide some protection with respect to the Fund's investments in Senior Loans, losses may still occur because the market value of Senior Loans is affected by the creditworthiness of Borrowers and by general economic and specific industry conditions. To the extent the Fund invests in below investment grade securities, it will be exposed to a greater amount of credit risk than a fund that invests in investment grade securities. The prices of lower grade securities are more sensitive to negative developments, such as a decline in the issuer's revenues or a general economic downturn, than are the prices of higher grade securities. In addition, the Fund may use credit derivatives that may expose it to additional risk in the event that the securities underlying the derivatives default.

*Prepayment Risk.* During periods of declining interest rates, Borrowers may exercise their option to prepay principal earlier than scheduled. For fixed rate securities, such payments often occur during periods of declining interest rates, which may require the Fund to reinvest in lower yielding securities, resulting in a possible decline in the Fund's income and distributions to shareholders. This is known as prepayment or "call" risk. Below investment grade securities frequently have call features that allow the issuer to redeem the security at dates prior to its stated maturity at a specified price (typically greater than par) only if certain prescribed conditions are met ("Call Protection"). An issuer may redeem a below investment grade security if, for example, the issuer can refinance the debt at a lower cost due to declining interest rates or an improvement in the credit standing of the issuer. Subordinated Loans typically do not have Call Protection. For premium bonds (bonds acquired at prices that exceed their par or principal value) purchased by the Fund, prepayment risk may be enhanced. Senior Loans are subject to prepayment risk and typically do not have Call Protection. The degree to which Borrowers prepay Senior Loans, whether as a contractual requirement or at their election, may be affected by general business conditions, the financial condition of the Borrower and competitive conditions among Senior Loan investors, among others. For these reasons, prepayments cannot be predicted with accuracy. Upon a prepayment, either in part or in full, the outstanding debt on which the Fund derives interest income will be reduced. The Fund may not be able to reinvest the proceeds received on terms as favorable as the prepaid loan.

*Interest Rate Risk.* Because Senior Loans with floating or variable rates reset their interest rates periodically, changes in prevailing interest rates can be expected to cause some fluctuations in the Fund's net asset value. Similarly, a sudden and significant increase in market interest rates (which are currently considered low by historic standards) may cause a decline in the Fund's net asset value. In addition, Senior Loans or similar loans or securities may allow the Borrower to opt between LIBOR-based interest rates and interest rates based on bank prime rates, which may have an effect on the Fund's net asset value.

*Liquidity Risk.* The Fund generally considers "illiquid securities" to be securities that cannot be sold within seven days in the ordinary course of business at approximately the value used by the Fund in determining its net asset value. The Fund may not be able to readily dispose of such securities at prices that approximate those at which the Fund could sell the securities if they were more widely-traded and, as a result of that illiquidity, the Fund may have to sell other investments or engage in borrowing transactions if necessary to raise cash to meet its obligations. Limited liquidity can also affect the market price of securities, thereby adversely affecting the Fund's net asset value and ability to make dividend distributions.

Some Senior Loans are not readily marketable and may be subject to restrictions on resale. Senior Loans generally are not listed on any national securities exchange and no active trading market may exist for the Senior Loans in which the Fund may invest. When a secondary market exists, if at all, the market for some Senior Loans may be subject to irregular trading activity, wide bid/ask spreads and extended trade settlement periods. The Fund has no limitation on the amount of its assets that may be invested in securities that are not readily marketable or are subject to restrictions on resale.

*Distressed and Defaulted Debt Risk.* The Fund may invest in securities, including loans purchased in the secondary market, that are the subject of bankruptcy proceedings or otherwise in default or at risk of being in default as to the repayment of principal and/or interest at the time of acquisition by the Fund ("Distressed Debt"). Investment in Distressed Debt is speculative and involves significant risks.

*Structured Products Risk.* Investments in structured products involve risks, including credit risk and market risk. Where the Fund's investments in structured products are based upon the movement of one or more factors, including currency exchange rates, interest rates, reference bonds and stock indices, depending on the factor used and the use of multipliers or deflators, changes in interest rates and movement of the factor may cause significant price fluctuations. Additionally, changes in the reference instrument or security may cause the

interest rate on the structured product to be reduced to zero, and any further changes in the reference instrument may then reduce the principal amount payable on maturity. Structured products may be less liquid than other types of securities and more volatile than the reference instrument or security underlying the product.

*Inflation/Deflation Risk.* Inflation risk is the risk that the value of certain assets or income from the Fund's investments will be worth less in the future as inflation decreases the value of money. As inflation increases, the real value of investments and distributions can decline. In addition, during any periods of rising inflation, the dividend rates or borrowing costs associated with the Fund's use of leverage would likely increase, which would tend to further reduce returns to shareholders. Deflation risk is the risk that prices throughout the economy decline over time the opposite of inflation. Deflation may have an adverse effect on the creditworthiness of issuers and may make issuer defaults more likely, which may result in a decline in the value of the Fund's portfolio.

*General Risks Associated with Derivatives.* The Fund may use derivative instruments ("Derivatives") including, in particular, swaps, synthetic collateralized loan obligations, reverse repurchase agreements and other similar transactions, in seeking to achieve its investment objective or for other reasons, such as cash management, financing activities or to hedge its positions. The use of Derivatives may subject the Fund to the following risks, including but not limited to:

Credit Risk the risk that the counterparty in a Derivative transaction will be unable to honor its financial obligation to the Fund, or the risk that the reference entity in a credit default swap or similar Derivative will not be able to honor its financial obligations. Certain participants in the Derivatives market, including larger financial institutions, have recently experienced significant financial hardship and deteriorating credit conditions. If the Fund's counterparty to a Derivative transaction experiences a loss of capital, or is perceived to lack adequate capital or access to capital, it may experience margin calls or other regulatory requirements to increase equity. Under such circumstances, the risk that a counterparty will be unable to honor its obligations may be substantially increased.

Currency Risk the risk that changes in the exchange rate between two currencies will adversely affect the value (in U.S. dollar terms) of an investment.

Leverage Risk the risk associated with certain types of Derivative strategies that relatively small market movements may result in large changes in the value of an investment.

Certain investments or trading strategies that involve leverage can result in losses that greatly exceed the amount originally invested.

Liquidity Risk the risk that certain securities may be difficult or impossible to sell at the time that the seller would like or at the price that the seller believes the security or loan is currently worth. This risk is heightened to the extent the Fund engages in over-the-counter Derivative transactions.

Correlation Risk the risk that changes in the value of a Derivative will not match the changes in the value of the portfolio holdings that are being hedged or of the particular market, security or loan to which the Fund seeks exposure.

Index Risk if the Derivative is linked to the performance of an index, it will be subject to the risks associated with changes in that index. If the index changes, the Fund could receive lower interest payments or experience a reduction in the value of the Derivative to below what the Fund paid. Certain indexed securities, including inverse securities (which move in an opposite direction to the index), may create leverage, to the extent that they increase or decrease in value at a rate that is a multiple of the changes in the applicable index.

*Leverage Risk.* The Fund intends to utilize leverage and may utilize leverage to the maximum extent permitted by law for investment and other general corporate purposes. The Fund may obtain leverage by issuing preferred shares and/or notes and it may also borrow funds from banks and other financial institutions. The Fund may also gain leverage synthetically through swaps and other Derivatives. The use of leverage to purchase additional securities creates an opportunity for increased common share dividends, but also creates risks for the Fund's common shareholders, including increased variability of the Fund's net income, distributions and/or net asset value in relation to market changes. Leverage is a speculative technique that exposes the Fund to greater risk and increased costs than if it were not implemented. Increases and decreases in the value of the Fund's portfolio will be magnified if the Fund uses leverage. In particular, leverage may magnify interest rate risk, which is the risk that the prices of portfolio securities will fall (or rise) if market interest rates for those types of securities rise (or fall). As a result, leverage may cause greater changes in the Fund's net asset value, which will be borne entirely by the Fund's common shareholders. To the extent that the Fund makes investments in Senior Loans or other debt instruments that provide a minimum coupon (called a "LIBOR floor") that helps protect the Fund's income in falling or flat-rate environments, the Fund will not realize additional income if rates increase to levels below the

LIBOR floor but the Fund's cost of financing is expected to increase, resulting in the potential for a decrease in the level of income available for dividends or distributions made by the Fund. If the Fund issues preferred shares and/or notes or engages in other borrowings, it will have to pay dividends on its preferred shares or interest on its notes or borrowings, which will increase expenses and may reduce the Fund's return. These dividend payments or interest expenses (which will be borne entirely by common shareholders) may be greater than the Fund's return on the underlying investments. The Fund's leveraging strategy, if utilized, may not be successful.

The Fund may issue preferred shares and/or notes or other forms of indebtedness as a form of leverage. These means of obtaining leverage would be senior to the Fund's common shares, such that holders of preferred shares and/or notes or other Fund indebtedness would have priority over the common shareholders in the distribution of the Fund's assets, including dividends, distributions of principal and liquidating distributions. If preferred shares are issued and outstanding, holders of the preferred shares would elect two directors of the Fund, and would vote separately as a class on certain matters which may at times give holders of preferred shares disproportionate influence over the Fund's affairs. If the preferred shares were limited in their term, redemptions of such preferred shares would require the Fund to liquidate its investments and would reduce the Fund's use of leverage, which could negatively impact common shareholders. In addition, if the Fund elects to issue preferred shares and/or notes (or other forms of indebtedness) its ability to make distributions to its common shareholders or to repurchase its stock will be limited by the asset coverage requirements and other limitations imposed by the Investment Company Act and the Fund's lenders.

The Fund will pay (and common shareholders will bear) all costs and expenses relating to the issuance and ongoing maintenance of any preferred shares and/or notes or other forms of indebtedness issued by the Fund, including higher advisory fees. As a result, the Fund cannot assure you that the issuance of preferred shares and/or notes or other forms of indebtedness will provide a higher yield or return to the holders of the Fund's common shares. If the Fund offers and/or issues preferred shares and/or notes or other forms of indebtedness, the costs of the offering will be borne immediately by the Fund's common shareholders and result in a reduction of the net asset value of the Fund's common shares.

There is no assurance that a leveraging strategy will be successful. Leverage involves risks and special considerations for common shareholders, including:

the likelihood of greater volatility of net asset value, market price and dividend rate of common shares than a comparable portfolio without leverage;

the risk that fluctuations in interest rates on borrowings and short-term debt or in dividend payments on, principal proceeds distributed to, or redemption of any preferred shares and/or notes or other forms of indebtedness that the Fund has issued will reduce the return to the common shareholders;

the effect of leverage in a declining market, which is likely to cause a greater decline in the net asset value of the Fund's common shares than if the Fund were not leveraged, which may result in a greater decline in the market price of the Fund's common shares;

when the Fund uses financial leverage, the investment advisory fees payable to the Adviser will be higher than if the Fund did not use leverage, and may provide a financial incentive to the Adviser to increase the Fund's use of leverage and create an inherent conflict of interest; and

leverage may increase expenses (which will be borne entirely by common shareholders), which may reduce total return.

If the Fund issues preferred shares and/or notes or other forms of indebtedness, the Fund may be subject to certain restrictions on investments imposed by the guidelines of one or more rating agencies, which may issue ratings for the preferred shares and/or notes or short-term debt securities issued by the Fund, or may be subject to covenants or other restrictions imposed by its lenders. These guidelines may impose asset coverage or portfolio composition requirements that are more stringent than those imposed by the Investment Company Act. Certain types of borrowings by the Fund may result in the Fund being subject to covenants relating to asset coverage and portfolio composition requirements. These covenants and restrictions may negatively affect the Fund's ability to achieve its investment objective.

*Key Personnel.* The Adviser depends on the diligence, skill and network of business contacts of its senior management. For a description of the senior management team, see "The Portfolio Managers". The Adviser will also depend, to a significant extent, on its access to the investment professionals and partners of its affiliates and the information and deal flow generated by the investment professionals of its affiliates in the course of their investment and portfolio management activities. The senior management of the Adviser will, among other things, evaluate, negotiate, structure and monitor the



Fund's investments. The Fund's future success will depend on the continued service of the senior management team of the Adviser. The departure of any of the senior managers of the Adviser, or of a significant number of the investment professionals or partners of the Adviser's affiliates, could have a material adverse effect on the Fund's ability to achieve its investment objective. In addition, there is no assurance that the Adviser will remain the Fund's investment adviser or that the Adviser will continue to have access to the investment professionals and partners of its affiliates and the information and deal flow generated by the investment professionals of its affiliates.

*Potential Conflicts of Interest Risk Allocation of Investment Opportunities.* The Adviser has adopted allocation procedures that are intended to ensure that each fund or account managed by Ares ("Ares-advised funds") is treated in a manner that, over a period of time, is fair and equitable. Certain existing Ares-advised funds have, and future Ares-advised funds may have, investment objectives similar to those of the Fund, and such funds will invest in asset classes similar to those targeted by the Fund. Certain other existing Ares-advised funds do not, and future Ares-advised funds may not, have similar investment objectives, but such funds may from time to time invest in asset classes similar to those targeted by the Fund. The Adviser will endeavor to allocate investment opportunities in a fair and equitable manner, and in any event consistent with any fiduciary duties owed to the Fund and in an effort to avoid favoring one client over another and taking into account all relevant facts and circumstances, including (without limitation): (i) differences with respect to available capital, (ii) differences with respect to investment objectives or current investment strategies, (iii) differences in risk profile at the time the opportunity becomes available, (iv) the potential transaction and other costs of allocating an opportunity among the Ares-advised funds, (v) potential conflicts of interests, (vi) the nature of the investment or transaction, (vii) current and anticipated market and general economic conditions and (viii) existing and prior positions in the Borrower. Nevertheless, it is possible that the Fund may not be given the opportunity to participate in certain investments made by investment funds managed by investment managers affiliated with the Adviser. In the event investment opportunities are allocated among the Fund and the other Ares-advised funds, the Fund may not be able to structure its investment portfolio in the manner desired. Furthermore, the Fund and the other Ares-advised funds may make investments in securities where the prevailing trading activity may make impossible the receipt of the same price or execution on the entire volume of securities purchased or sold by the Fund and the other Ares-advised funds. When this occurs, the various prices may be averaged, and the Fund will be charged or credited with the average price. Thus, the effect of the aggregation may operate on some occasions to the disadvantage of the Fund. In addition, under certain circumstances, the Fund may not be

charged the same commission or commission equivalent rates in connection with a bunched or aggregated order. It is likely that the other Ares-advised funds may make investments in the same or similar securities at different times and on different terms than the Fund. The Fund and the other Ares-advised funds may make investments at different levels of an issuer's capital structure or otherwise in different classes of an issuer's securities. Such investments may inherently give rise to conflicts of interest or perceived conflicts of interest between or among the various classes of securities that may be held by such entities. Conflicts may also arise because portfolio decisions regarding the Fund may benefit the other Ares-advised funds. For example, the sale of a long position or establishment of a short position by the Fund may impair the price of the same security sold short by (and therefore benefit) one or more Ares-advised funds, and the purchase of a security or covering of a short position in a security by the Fund may increase the price of the same security held by (and therefore benefit) one or more Ares-advised funds.

*Potential Conflicts of Interest Risk Allocation of Personnel.* The Fund's executive officers and directors, and the employees of the Adviser, serve or may serve as officers, directors or principals of entities that operate in the same or a related line of business as the Fund or of investment funds or accounts managed by the Adviser or its affiliates. As a result, they may have obligations to investors in those entities, the fulfillment of which might not be in the best interests of the Fund or its shareholders. Additionally, certain personnel of the Adviser and its management may face conflicts in their time management.

*Potential Conflicts of Interest Risk Lack of Information Barriers.* There are generally no information barriers among the Adviser and certain of its affiliates. If no information barriers are in place and the Adviser or its affiliates receives material non-public information about a particular company, or have an interest in investing in a particular company, the Fund may be prevented from investing or liquidating an investment in such company. This risk may affect the Fund more than it does other investment vehicles, as the Adviser generally does not use information barriers that many firms implement to separate persons who make investment decisions from others who might possess material, non-public information that could influence such decisions. The Adviser's decision not to implement these barriers could prevent its investment professionals from undertaking certain transactions such as advantageous investments or dispositions that would be permissible for them otherwise. In addition, the Adviser could in the future decide to establish information barriers permanently or on a more frequent basis, particularly as its business expands and diversifies. See "Conflicts of Interest" for an additional discussion of the types of conflicts of interest to which the operations of the Fund may be subject.

*Limitations on Transactions with Affiliates Risk.* The Investment Company Act limits the Fund's ability to enter into certain transactions with certain of its affiliates. As a result of these restrictions, the Fund may be prohibited from buying or selling any security directly from or to any portfolio company of a registered investment company or private equity fund managed by Ares or any of its affiliates. The Investment Company Act also prohibits certain "joint" transactions with certain of the Fund's affiliates, which could include investments in the same portfolio company (whether at the same or different times). These limitations may limit the scope of investment opportunities that would otherwise be available to the Fund. See "*Risks Limitations on Transactions with Affiliates Risk*".

*Non-Diversification Risk.* The Fund is classified as "non-diversified" under the Investment Company Act. As a result, it can invest a greater portion of its assets in obligations of a single issuer than a "diversified" fund. The Fund may therefore be more susceptible than a diversified fund to being adversely affected by any single corporate, economic, political or regulatory occurrence. The Fund intends to qualify for the special tax treatment available to "regulated investment companies" ("RIC"s) under Subchapter M of the Internal Revenue Code of 1986, as amended (the "Code"), and thus intends to satisfy the diversification requirements applicable to RICs. Shareholders should refer to the "Material U.S. Federal Income Tax Considerations" section of this prospectus for a description of such requirements.

*Risks Associated with Fund Distribution Policy.* The Fund intends to make regular distributions. Currently, in order to maintain a relatively stable level of distributions, the Fund may pay out less than all of its net investment income, pay out undistributed income from prior months, return capital in addition to current period net investment income or borrow money to fund distributions. The distributions for any full or partial calendar year might not be made in equal amounts, and one distribution may be larger than the other. The Fund will make a distribution only if authorized by the Fund's Board of Directors and declared by the Fund out of assets legally available for these distributions. This distribution policy may, under certain circumstances, have certain adverse consequences to the Fund and its shareholders because it may result in a return of capital, which would reduce the Fund's net asset value and, over time, potentially increase the Fund's expense ratio. If the Fund distributes a return of capital, it means that the Fund is returning to shareholders a portion of their investment rather than making a distribution that is funded from the Fund's earned income or other profits. The Fund's distribution policy may be changed at any time by the Board of Directors.

If the Fund elects to issue preferred shares and/or notes or other forms of indebtedness, its ability to make distributions to its common shareholders will be limited by the asset coverage requirements and other limitations imposed by the Investment Company Act and the Fund's lenders.

*No Operating History.* The Fund is a recently formed entity and has no previous operating or trading history upon which a potential investor can evaluate the Fund's performance. Special risks apply during a fund's start-up period, including the risk of failing to achieve the desired portfolio composition within the time period expected and the risk of commencing operations under inopportune market conditions. The Fund's common shares have no history of trading.

*Inadequate Return.* No assurance can be given that the returns on the Fund's investments will be commensurate with the risk of investment in the Fund's common shares nor can the Fund assure you that the Adviser will be able to find enough appropriate investments that meet the Fund's investment criteria. Fund investments may be highly speculative and aggressive, therefore, an investment in the Fund's common shares may not be suitable for someone with a low risk tolerance. Investors should not purchase the Fund's common shares unless they have the resources to sustain the loss of their entire investment in the Fund.

*Closed-End Structure; Market Discount from Net Asset Value.* Shares of closed-end investment companies that trade in a secondary market frequently trade at market prices that are lower than their net asset values. This is commonly referred to as "trading at a discount". This risk may be greater for investors expecting to sell their shares in a relatively short period after completion of the public offering. As a result, the Fund is designed primarily for long-term investors. The Fund's total assets will be reduced following this offering by the amount of offering and related expenses to be paid by the Fund.

Although the value of the Fund's net assets is generally considered by market participants in determining whether to purchase or sell the Fund's common shares, whether an investor will realize gains or losses upon the sale of the Fund's common shares will depend entirely upon whether the market price of the Fund's common shares at the time of sale is above or below the investor's purchase price for the Fund's common shares. Because the market price of the Fund's common shares will be determined by factors such as relative supply of and demand for the Fund's common shares in the market, general market and economic conditions, and other factors beyond the control of the Fund, the Fund cannot predict whether the Fund's common shares will trade at, below or above net asset value or at, below or above the initial public offering price. The net asset value of the Fund's common shares, however, is expected to be reduced immediately following the initial public offering as a result of the payment of offering costs. As with any security, complete loss of investment is possible.

*Anti-Takeover Provisions.* The Fund's charter and bylaws contain provisions that may delay, defer or prevent a transaction or a change in control that might otherwise be in the best interests of the shareholders. Such provisions may discourage outside parties

from seeking control of the Fund or seeking to change the composition of its Board of Directors, which could result in shareholders not having the opportunity to realize a price greater than the current market price for their shares at some time in the future.

The Fund's charter classifies the Fund's Board of Directors into three classes, serving staggered three-year terms, and authorizes the Board of Directors to cause the Fund to issue additional shares of common stock. The Board of Directors also may classify or reclassify any unissued shares of common stock into one or more series of stock, including preferred stock, may set the terms of each class or series and may authorize the Fund to issue the newly-classified or reclassified shares. The Board of Directors may, without any action by the Fund's shareholders, amend the Fund's charter from time to time to increase or decrease the aggregate number of shares of stock or the number of shares of stock of any class or series that the Fund has the authority to issue. The Fund's bylaws require shareholders who wish to nominate individuals for election as Directors or propose other business at meetings of shareholders to satisfy various requirements in order to do so, including a requirement to provide advance notice of such nomination or other business within the time period specified in the bylaws accompanied by the information and other specified materials. The bylaws also require that such information be updated.

**Listing of Shares**

It is anticipated that the Fund's common shares will be approved for listing on the New York Stock Exchange ("NYSE"), subject to notice of issuance, under the ticker symbol "ACS" and will be required to meet the NYSE's listing requirements.

**Board of Directors**

The Board of Directors is responsible for the overall supervision of the operations of the Fund and performs the various duties imposed on the directors of investment companies by the Investment Company Act and applicable Maryland law. The directors of the Fund (the "Directors") are divided into three classes, serving staggered three-year terms. Any vacancy on the Board of Directors may be filled only by a majority of the remaining Directors, except to the extent that the Investment Company Act requires the election of directors by shareholders.

**Administrator  
Distributions**

[To come.]

Commencing with the Fund's initial dividend, the Fund intends to make regular monthly cash distributions of all or a portion of its net investment income to common shareholders. The Fund expects to declare the initial monthly dividend on the Fund's common shares within approximately 45 days after completion of this offering and to pay that initial monthly dividend approximately 60 to 90 days after completion of this offering. The Fund intends to pay common shareholders at least annually all or substantially all of its net investment income after the payment of dividends and interest, if any, owed with respect to any outstanding preferred shares and/or notes or other forms of leverage utilized by the Fund. The Fund intends to pay any capital gains distributions at least annually. If the Fund makes a long-term capital gain distribution, it will be required to allocate such gain between the Fund's common shares and any preferred shares issued by the Fund in proportion to the total dividends paid to each class for the year in which the income is realized.

Various factors will affect the level of the Fund's income, including the asset mix, the average maturity of the Fund's portfolio and

default rates, the amount of leverage utilized by the Fund, if any, and any use of hedging activities by the Fund. To permit the Fund to maintain a more stable monthly distribution, the Fund may from time to time distribute less than the entire amount of income earned in a particular period. The undistributed income would be available to supplement future distributions. As a result, the distributions paid by the Fund for any particular monthly period may be more or less than the amount of income actually earned by the Fund during that period. Undistributed income will add to the Fund's net asset value (and indirectly benefits the Adviser by increasing its fees) and, correspondingly, distributions from undistributed income will reduce the Fund's net asset value.

The distributions for any full or partial year might not be made in equal amounts, and one distribution may be larger than the other. The Fund will make a distribution only if authorized by the Fund's Board of Directors and declared by the Fund out of assets legally available for these distributions. The Fund may pay a special distribution at the end of each calendar year if necessary to maintain the Fund's tax treatment as a RIC and/or avoid the imposition of tax on the Fund. This distribution policy may, under certain circumstances, have certain adverse consequences to the Fund and its shareholders because it may result in a return of capital to shareholders, which would reduce the Fund's net asset value and, over time, potentially increase the Fund's expense ratio. If the Fund distributes a return of capital, it means that the Fund is returning to shareholders a portion of their investment rather than making a distribution that is funded from the Fund's earned income or other profits. The Board of Directors may elect to change the Fund's distribution policy at any time.

The Fund has adopted a dividend reinvestment plan that allows for reinvestment of dividend distributions on behalf of shareholders. As a result, if the Board of Directors authorizes, and the Fund declares, a cash dividend, then shareholders who have "opted in" to the dividend reinvestment plan will have their cash dividends automatically reinvested in additional common shares, rather than receiving the cash dividends.

**Custodian and Transfer Agent Services**  
**Independent Registered Public**  
**Accounting Firm**  
**Tax Considerations**

[To come.]

[To come.]

The Fund intends to elect to be treated as a RIC for U.S. federal income tax purposes. To satisfy the distribution requirements applicable to RICs, the Fund intends to distribute all or substantially all of its net investment income and realized gains, if any, to its shareholders at least annually. Shareholders should refer to the

"Material U.S. Federal Income Tax Considerations" section of this prospectus for additional information on the potential U.S. federal income tax consequences of an investment in the Fund. Shareholders should consult their own tax advisors on any potential state income tax consequences of an investment in the Fund.

## SUMMARY OF FUND EXPENSES

The following table is intended to assist you in understanding the costs and expenses that an investor in shares of the Fund's common stock will bear directly or indirectly. Shareholders should understand that some of the percentages indicated in the table below are estimates and may vary. The expenses shown in the table under "Other Expenses" and "Total Annual Expenses" are based on estimated amounts for the Fund's annual operations and assume that the Fund issues approximately [ ] common shares. The following table also assumes the Fund issues preferred shares and/or notes or other forms of indebtedness with an aggregate liquidation value and/or principal amount in an amount approximately equal to 33% of the Fund's Managed Assets (after the leverage is incurred) and shows Fund expenses as a percentage of net assets attributable to the Fund's common shares. If the Fund issues fewer common shares, all other things being equal, these expenses would increase as a percentage of net assets attributable to the Fund's common shares.

**Shareholder Transaction Expenses**

|  |                      |
|--|----------------------|
| Sales Load (as a percentage of common share offering price)  | 4.50% <sup>(1)</sup> |
| Offering Expenses borne by the Fund (as a percentage of common share offering price)                               | [ ]% <sup>(2)</sup>  |
| Dividend Reinvestment Plan Fees  | None <sup>(3)</sup>  |
| Preferred Shares and/or Notes Offering Expenses borne by the Fund (as a percentage of common share offering price) | [ ]% <sup>(4)</sup>  |

|  | <b>Percentage of<br/>Net Assets<br/>Attributable to<br/>Common<br/>Shares<sup>(5)(6)</sup></b> |
|--|--|
| <b>Annual Expenses</b>   |  |
| Advisory Fees  | 1.00% <sup>(7)</sup>   |
| Dividends on Preferred Shares and/or Interest Payments on Borrowed Funds | [ ]%   |
| Other Expenses   | [ ]% <sup>(8)</sup>  |
| Total Annual Expenses  | [ ]%   |

(1) For a description of the sales load and of other compensation paid to the Underwriters by the Fund and the Adviser, see "Underwriters".

(2) The Fund will pay all organizational expenses and offering expenses incurred by the Fund.

(3) You will be charged a fee if you direct the plan administrator to sell your shares held in a dividend reinvestment account.

(4) If the Fund offers and/or issues preferred shares and/or notes, costs of the offering are estimated to be approximately [ ]% of the total offering price of the preferred shares and/or notes, all of which will be borne immediately by the Fund's common shareholders and result in a reduction of the net asset value of the Fund's common shares. Based on an offering of [ ] common shares and further assuming an offering and/or issuance of preferred shares and/or notes with an aggregate liquidation value and/or principal amount of \$[ ], the total offering costs of preferred shares and/or notes are estimated to be \$[ ] or \$[ ] per share ([ ]% of the common share offering price).

(5) For purposes of this table, the Fund has assumed that the Fund has issued preferred shares and/or notes with an aggregate liquidation value or principal amount of 33% of its Managed Assets (after the issuance of preferred shares and/or notes).



(6) The table presented below in this footnote sets forth the estimate of what the Fund's expected annual expenses would be stated as percentages of the Fund's net assets attributable to the Fund's common shares, assuming that the Fund is the same size as in the table above but that no leverage is incurred. In accordance with these assumptions, the Fund's expected expenses would be estimated to be as follows:

|                        | Percentage of<br>Net Assets<br>Attributable to<br>Common<br>Shares<br>(Assumes No<br>Leverage<br>Incurred) |
|------------------------|--|
| <b>Annual Expenses</b> |  |
| Advisory Fees          | 1.00%  |
| Other Expenses         | [ ]%   |
| Total Annual Expenses  | [ ]%   |

(7) The Adviser will receive a monthly fee at the annual rate of 1% of the average daily value of the Fund's Managed Assets. For the purposes of this table, it is assumed that the Fund has issued preferred shares and/or notes or other indebtedness with an aggregate liquidation value or principal amount of approximately 33% of its Managed Assets (after the leverage is incurred). The Adviser may elect from time to time, in its sole discretion, to waive its right to reimbursement or its receipt of the advisory fee. If the Adviser elects to waive its compensation, such action may have a positive effect on the Fund's performance or yield. The Adviser is under no obligation to waive its fees or rights to reimbursement, may elect not to do so, or may decide to waive its compensation periodically.

(8) Other Expenses have been estimated based on estimated asset levels and expenses for the Fund's first year of operations. These amounts include estimated payments of approximately \$[ ] by the Fund to the Adviser under an Administrative Services and Expense Reimbursement Agreement between the Fund and the Adviser. See "Agreements with the Adviser".

**Example**

While the example assumes, as required by the SEC, a 5% annual return, the Fund's performance will vary and may result in a return greater or less than 5%. An investor would pay the following expenses (including the sales load of \$[ ], estimated offering expenses of this offering of \$[ ] on a \$1,000 investment and estimated offering expenses related to the issuance of preferred shares and/or notes or other forms of indebtedness of \$[ ]) assuming total annual expenses of [ ]% and a 5% annual return throughout the periods.

|                         | 1<br>Year | 3<br>Year | 5<br>Year | 10<br>Year |
|-------------------------|-----------|-----------|-----------|------------|
| Total Expenses Incurred | \$        | \$        | \$        | \$         |

If dividends and/or interest paid on preferred shares and/or notes are not included, the total expenses incurred for 1, 3, 5 and 10 years will be \$[ ], \$[ ], \$[ ] and \$[ ], respectively.

*This Example and the expenses in the table above should not be considered a representation of future Fund expenses; actual expenses may be greater or less than those shown.* The example assumes reinvestment of all dividends and distributions at net asset value.

## THE FUND

Ares Senior Credit Strategies Fund, Inc. (the "Fund") is a corporation organized under the laws of the State of Maryland on March 14, 2011 and registered with the U.S. Securities and Exchange Commission (the "SEC") under the Investment Company Act of 1940, as amended (the "Investment Company Act"), as a closed-end, non-diversified management investment company. The Fund expects to commence its investment operations on or after [ ], 2011, depending on market conditions. The Fund's principal office, including its office for service of process, is located at 2000 Avenue of the Stars, 12<sup>th</sup> Floor, Los Angeles, CA 90067. Ares Capital Management II LLC (the "Adviser") serves as the investment adviser to the Fund.

## THE OFFERING

The Fund is offering [ ] shares of its common stock, par value \$0.001 per share ("common shares"), at an initial offering price of \$20.00 per share through a group of underwriters (the "Underwriters") led by [ ], [ ] and [ ], which price includes a sales load of [ ]% per share. The Fund's common shares have been registered for sale with the SEC under the Securities Act of 1933, as amended (the "Securities Act"). An investor buying the Fund's common shares during the Fund's initial public offering generally must purchase at least 100 common shares. The Underwriters have an option to purchase up to an additional [ ] shares of the Fund within 45 days of the date of this prospectus to cover any overallocments.

## WHO MAY WISH TO INVEST

The Fund may be an appropriate investment for:

Long-term investors seeking current income and preservation of capital.

Fixed income investors seeking the potential for additional diversification through investment in a low duration fixed income portfolio.

Investors who believe interest rates and inflation may rise in the future and want the benefits that floating rate fixed income investments may offer.

Investors seeking access to the investment acumen of the Adviser and its affiliates.

Investors should consider their investment goals, time horizons and risk tolerance before investing in the Fund. An investment in the Fund is not appropriate for all investors, and the Fund is not intended to be a complete investment program. The Fund is designed as a long-term investment and not as a trading vehicle.

## USE OF PROCEEDS

The net proceeds of this offering of common shares will be approximately \$ [ ] (\$ [ ] if the Underwriters exercise the overallocation option in full) after payment of organizational costs and offering expenses. The Fund will pay all organizational expenses and offering expenses incurred by the Fund. In general, the Fund intends to use the net proceeds of this offering to seek its investment objective and for other general corporate purposes, which may include the payment of Fund expenses. The Fund will invest the net proceeds of this offering in accordance with the Fund's investment objective and policies as stated below. It is currently anticipated that the Fund will be able to invest substantially all of the net proceeds of this offering in securities that meet the Fund's investment objective and policies within approximately three months after the completion of this offering. Pending such investment, it is anticipated that all or a portion of the proceeds will be invested in U.S. Government securities or high grade, short-term money market instruments. A relatively long initial

investment period may have a negative impact on the Fund's performance and its return to shareholders.

## THE FUND'S INVESTMENTS

### Investment Objective

The Fund's investment objective is to seek current income and preservation of capital. There can be no assurance that the Fund will achieve its investment objective or be able to structure its investment portfolio as anticipated.

### Investment Strategies

The Fund will seek to achieve its investment objective by investing primarily in senior, secured loans made to companies whose debt is rated below investment grade ("Senior Loans") and investments with similar economic characteristics, such as debt instruments rated below investment grade. Senior Loans typically hold a first lien priority and typically pay interest at rates that are determined periodically on the basis of a floating base lending rate, primarily the London-Interbank Offered Rate ("LIBOR"), plus a premium. Senior Loans are typically made to U.S. and, to a limited extent, non-U.S. corporations, partnerships and other business entities ("Borrowers") which operate in various industries and geographical regions. Borrowers may obtain Senior Loans, among other reasons, to refinance existing debt, engage in acquisitions, pay dividends, recapitalize, complete leveraged buyouts and pursue general corporate purposes.

Senior Loans typically are rated below investment grade. Securities and other debt instruments rated below investment grade (including Senior Loans) are those that, at the time of investment, are rated Ba1 or lower by Moody's Investors Service, Inc. ("Moody's"), BB+ or lower by Standard & Poor's Corporation Ratings Group ("S&P") or BB+ or lower by Fitch Ratings, Inc. ("Fitch"), or if unrated are determined by the Adviser to be of comparable quality. Below investment grade securities, commonly referred to as "junk bonds", "leveraged loans" or "high yield" securities often are regarded as having predominately speculative characteristics with respect to an issuer's capacity to pay interest and repay principal. Although many of the Fund's investments may consist of securities rated below investment grade, the Fund reserves the right to invest in debt securities, including loans, of any credit quality, maturity and duration. The Fund may invest in U.S. dollar and non-U.S. dollar denominated securities of issuers located anywhere in the world, and of issuers that operate in any industry. The Fund may also seek to gain exposure to Senior Loans by investing in swaps, including single name credit default swaps, single name loan credit default swaps, total return swaps, collateralized loan obligations (including synthetic collateralized loan obligations), reverse repurchase agreements and other similar transactions as described below.

The Fund will invest at least 70% of its Managed Assets (as defined below) in Senior Loans and investments with similar economic characteristics. "Managed Assets" means the total assets of the Fund (including any assets attributable to any preferred shares that may be issued or to indebtedness) minus the Fund's liabilities other than liabilities relating to indebtedness.

The Fund may invest in structured corporate credit securities. Structured corporate credit securities are typically floating rate, are typically issued by a special purpose legal entity that holds a portfolio (diversified by both industry and issuers) of corporate debt securities, and are of varying seniority with respect to the capital structure of both the special purpose entity issuing the structured security and the corporation issuing the portfolio security.

As further described below, the Fund may also invest in subordinated loans and corporate bonds. Subordinated loans generally have the same characteristics as Senior Loans except that such loans are subordinated in payment and/or lower in lien priority to first lien holders ("Subordinated Loans"). A

corporate bond issuer generally pays the investor a fixed or variable rate of interest and normally must repay the amount borrowed on or before maturity. Certain corporate bonds have no maturity and are thus "perpetual".

In addition to the types of securities and investments listed above, the Fund also may invest in (i) loan interests that are not secured by any collateral of the Borrower; (ii) other income producing securities (including, without limitation, U.S. Government debt securities and investment and non-investment grade, subordinated and unsubordinated corporate debt securities) and (iii) rights, warrants and equity securities issued by a Borrower or its affiliates as part of a package of investments in the Borrower or its affiliates or as part of a restructuring, bankruptcy or plan of reorganization. The Fund may also invest in asset-backed securities, repurchase agreements, cash and cash equivalents, options, futures contracts, options on futures contracts, options on swaps, forward contracts or other derivatives or financial instruments (including, but not limited to, credit-linked notes, commodity-linked notes, indexed and inverse floating rate securities, convertible instruments and preferred stocks), shares of money market mutual funds or other investment companies or other pooled investment vehicles. Although the Fund does not currently expect to invest significantly in these types of investments, it may do so for, among other reasons, cash management, financing activities or to hedge its positions.

The Fund may invest in debt securities of any maturity, including perpetual securities, and does not manage its portfolio seeking to maintain a targeted dollar-weighted average maturity level. The Fund, however, does seek to manage its portfolio's average duration. Specifically, under normal market conditions, the Adviser expects to maintain an average duration of less than one year (including the effect of anticipated leverage). In comparison to maturity (which is the date on which a debt instrument matures and the issuer is obligated to repay the principal amount), duration is a measure of the price volatility of a debt instrument as a result of changes in market rates of interest, based on the weighted average timing of the instrument's expected principal and interest payments. Duration differs from maturity in that it considers a security's yield, coupon payments, principal payments and call features in addition to the amount of time until the security finally matures. As the value of a security changes over time, so will its duration. Prices of securities with longer durations tend to be more sensitive to interest rate changes than securities with shorter durations.

In making its investment decisions, the Adviser has adopted Ares' long-standing, consistent credit-based investment approach that was developed over 20 years ago by its founders. Specifically, the Adviser's investment philosophy, portfolio construction and portfolio management involve an assessment of the overall macroeconomic environment, financial markets and company-specific research and analysis. Its investment approach emphasizes capital preservation, low volatility and minimization of downside risk. In addition to engaging in extensive due diligence from the perspective of a long-term investor, the Adviser's approach seeks to reduce risk as further described below.

The Adviser's investment process is rigorous, proactive and continuous. Close monitoring of each investment in the portfolio provides foresight for making buy, sell and hold decisions. The Adviser utilizes what it believes to be a conservative approach that focuses on credit fundamentals, collateral coverage and structural seniority. The Adviser may also employ a sector analysis to assess industry trends and characteristics that may impact a Borrower's potential future ability to generate cash, as well as profitability, asset values, financial needs and potential liabilities. The Adviser takes a disciplined approach to its credit investment selection process in which the criteria used by the Adviser in credit selection may include an evaluation of whether a Senior Loan or other loan or investment is adequately collateralized or over-collateralized and whether it is covered by sufficient earnings and cash flow to service the Borrower's indebtedness on a timely basis. The Adviser takes into consideration the credit ratings of borrowers in evaluating potential investments but credit ratings are generally not the primary or determinative factor in the investment selection process. The Adviser expects to gain exposure to Borrowers across a broad range of industries and of varying characteristics and return profiles.

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When identifying prospective investment opportunities, the Adviser currently intends to focus primarily on the following attributes:

Strong franchises and sustainable competitive advantage. When identifying potential investment opportunities, the Adviser favors well-established companies with strong franchises and sustainable competitive advantages. The Adviser intends to invest in Borrowers that it believes have developed strong positions within their markets and exhibit the potential to maintain sufficient cash flows and revenues to service their obligations in a range of economic environments. The Adviser will seek Borrowers that it believes possess advantages in scale, scope, customer loyalty, product pricing or product quality versus their competitors.

Investing in stable Borrowers with cash flows that are dependable and predictable. The Adviser intends to invest in Borrowers believed to be stable and well established with cash flows that are dependable and predictable. The Adviser believes these attributes evidence Borrowers that may be well positioned to maintain consistent cash flow to service and repay their obligations and maintain growth in their businesses or market share. The Adviser currently does not expect to invest significantly in start-up companies, companies in turnaround situations or companies with speculative business plans, although the Fund is permitted to do so.

Management teams with demonstrated track records and economic incentive. The Adviser intends to focus on investments in which the Borrower has an experienced management team with an established track record of success and economic incentives to succeed.

Investments in industries with positive long-term dynamics. The Adviser will seek to invest the Fund's assets broadly among Borrowers and industries with positive long-term dynamics, thereby potentially reducing the risk that a downturn in any one company or industry will have a disproportionate effect on the value of the Fund's portfolio.

Rates of return commensurate with the perceived risks. The Adviser and its affiliates have extensive experience investing in a wide variety of securities for leveraged companies with a diverse set of terms and conditions. The Fund believes this approach and experience enables the Adviser to identify attractive investment opportunities throughout economic cycles and across a company's capital structure so the Fund can make investments consistent with its stated investment objective and preserve principal while seeking appropriate risk adjusted returns.

Securities or investments that are structured with protective terms and covenants. The Adviser will seek investments that seek to permit the Borrower to operate its business while balancing the need to assure repayment of the Fund's investment through protective terms and covenants.

In managing the Fund's portfolio, the Adviser will engage in regular and periodic monitoring of credit risk with a goal toward the early identification, and sale, of Senior Loans and other investments with potential credit problems. This monitoring process may include reviewing (i) a Borrower's financial resources and operating history; (ii) a comparison of a Borrower's current operating results with the Adviser's initial investment thesis for the investment and initial expectations for the performance of the obligation; (iii) a Borrower's sensitivity to economic conditions; (iv) the performance of a Borrower's management; (v) a Borrower's debt maturities and borrowing requirements; (vi) a Borrower's interest and asset coverage; and (vii) the relative value of an investment based on a Borrower's anticipated cash flow or where other comparable assets are trading in the market.

Similar to its investment in Senior Loans and other debt investments, the Adviser adheres to a disciplined approach with respect to the Fund's investments in structured corporate credit securities, including collateralized loan obligations. The Adviser will seek to select structured corporate credit securities which are well structured and collateralized by portfolios of primarily Senior Loans that the Adviser believes to be of sufficient quality, diversity and amount to support the structure and fully collateralize the tranche purchased by the Fund. Likewise, the Adviser will evaluate the

creditworthiness of counterparties and the investment characteristics of reference assets when causing the Fund to enter into other types of structured products, such as swaps or other derivative transactions.

Under normal market conditions, at least 80% of the Fund's net assets, plus the amount of any borrowings for investment purposes, will be invested in senior credit strategies, including, but not limited to, Senior Loans and other debt instruments. This policy is not fundamental and may be changed by the board of directors of the Fund (the "Board of Directors" or the "Board") with at least 60 days' prior written notice to shareholders. As used in this prospectus, "net assets" are determined by subtracting any liabilities (including borrowings for investment purposes) from the total value of the Fund's portfolio investments and other assets.

Part of the Fund's investment objective is to seek preservation of capital. The ability of the Fund to achieve this part of its investment objective is limited due to the Fund's investment policy of investing primarily in Senior Loans and investments with similar economic characteristics, which may be speculative. The Adviser seeks to achieve preservation of capital through a disciplined approach to its credit investment selection process and its evaluation of Borrowers. The Adviser also expects to gain exposure to Borrowers across a broad range of industries and of varying characteristics and return profiles, as well as active management of such investments in light of current economic developments and trends. The Fund is classified as "non-diversified" under the Investment Company Act and its investment portfolio may be more heavily invested in a smaller number of companies than the portfolios of other issuers. The Fund may take certain actions if short-term interest rates increase or market conditions otherwise change (or the Fund anticipates such an increase or change) and the Fund's use of leverage, if any, begins (or is expected) to adversely affect common shareholders. In order to attempt to offset such a negative effect of leverage on common shareholders, the Fund may shorten the average maturity of its investment portfolio (by investing in short-term securities), may reduce its indebtedness or unwind other leveraged transactions or may engage in interest rate hedging arrangements. The Fund may attempt to reduce the utilization of leverage by redeeming or otherwise purchasing outstanding preferred shares, if any, or prepaying debt or other borrowings.

To the extent Senior Loans have a floating or variable rate feature, investment in these types of Senior Loans may allow the Fund to have less significant interest rate-related fluctuations in its net asset value per share than investment companies investing primarily in fixed income securities (other than money market funds and short term bond funds). When interest rates decline, the value of a fixed income portfolio can normally be expected to rise. Conversely, when interest rates rise, the value of a fixed income portfolio can normally be expected to decline. Although the income available to the Fund will vary, the Adviser expects that acquiring interests in floating rate Senior Loans may minimize fluctuations in net asset value of the Fund resulting from changes in market interest rates. Because floating or variable rates on Senior Loans reset periodically, however, changes in prevailing interest rates can be expected to cause some fluctuations in the Fund's net asset value. Similarly, a sudden and significant increase in market interest rates may cause a decline in the Fund's net asset value. A significant decline in the Fund's net asset value may impair the Fund's ability to maintain required levels of asset coverage if leverage is utilized. Other factors (including, but not limited to, rating downgrades, credit deterioration, a large downward movement in stock prices, a disparity in supply and demand of certain securities or market conditions that reduce liquidity) can reduce the value of Senior Loans and other debt obligations, impairing the Fund's net asset value.

During temporary defensive periods or in order to reduce the Fund's leverage exposure or to keep the Fund's cash fully invested, including during the period when the net proceeds of the offering of common shares are being invested, or at other times deemed appropriate by the Adviser, the Fund may deviate from its investment strategies and objective. During such periods, the Fund may invest all or a portion of its Managed Assets in U.S. Government securities, including bills, notes and bonds differing as to maturity and rates of interest that are either issued or guaranteed by the Treasury or by U.S.

Government agencies or instrumentalities; non-U.S. Government securities which have received the highest investment grade credit rating, certificates of deposit issued against funds deposited in a bank or a savings and loan association; commercial paper; bankers' acceptances; bank time deposits; shares of money market funds; credit-linked notes; repurchase agreements with respect to any of the foregoing; asset-backed securities or any other fixed income securities that the Adviser considers consistent with this strategy. It is impossible to predict when, or for how long, the Fund will use these strategies. There can be no assurance that such strategies will be successful. The Fund is not required to adopt defensive positions or hedge its investments and may choose not to do so even in periods of extreme market volatility and economic uncertainty.

### **Portfolio Composition**

Under normal circumstances, the Fund's portfolio is expected to be comprised principally of the following types of investments:

#### ***Senior Loans***

Senior Loans hold the most senior position in the capital structure of a Borrower, are typically secured with specific collateral and have a claim on the assets and/or stock of the Borrower that is senior to that held by unsecured creditors, subordinated debt holders and holders of equity of the Borrower. Typically, in order to borrow money pursuant to a Senior Loan, a Borrower will, for the term of the Senior Loan, pledge collateral (subject to typical exceptions), including but not limited to (i) working capital assets, such as accounts receivable and inventory; (ii) tangible fixed assets, such as real property, buildings and equipment; (iii) intangible assets, such as trademarks and patent rights (but excluding goodwill); and (iv) security interests in shares of stock of subsidiaries or affiliates. In the case of Senior Loans made to non-public companies, the company's shareholders or owners may provide collateral in the form of secured guarantees and/or security interests in assets that they own. In many instances, a Senior Loan may be secured only by stock in the Borrower or its subsidiaries. Collateral may consist of assets that may not be readily liquidated, and there is no assurance that the liquidation of such assets would satisfy fully a Borrower's obligations under a Senior Loan.

A Borrower must comply with various covenants contained in a loan agreement or note purchase agreement between the Borrower and the holders of the Senior Loan (the "Loan Agreement"). In a typical Senior Loan, an agent (the "Agent") administers the terms of the Loan Agreement. In such cases, the Agent is normally responsible for the collection of principal and interest payments from the Borrower and the apportionment of these payments to the credit of all institutions that are parties to the Loan Agreement. The Fund will generally rely upon the Agent or an intermediate participant to receive and forward to the Fund its portion of the principal and interest payments on the Senior Loan. Additionally, the Fund normally will rely on the Agent and the other loan investors to use appropriate credit remedies against the Borrower. The Agent is typically responsible for monitoring compliance with covenants contained in the Loan Agreement based upon reports prepared by the Borrower. The Agent may monitor the value of the collateral and, if the value of the collateral declines, may accelerate the Senior Loan, may give the Borrower an opportunity to provide additional collateral or may seek other protection for the benefit of the participants in the Senior Loan. The Agent is compensated by the Borrower for providing these services under a Loan Agreement, and such compensation may include special fees paid upon structuring and funding the Senior Loan and other fees paid on a continuing basis. With respect to Senior Loans for which the Agent does not perform such administrative and enforcement functions, the Adviser may perform such tasks on the Fund's own behalf, although a collateral bank will typically hold any collateral on behalf of the Fund and the other loan investors pursuant to the applicable Loan Agreement.

Senior Loans typically have rates of interest that are determined daily, monthly, quarterly or semi-annually by reference to a base lending rate, plus a premium or credit spread. As a result, as short-

term interest rates increase, interest payable to the Fund from its investments in Senior Loans should increase, and as short-term interest rates decrease, interest payable to the Fund from its investments in Senior Loans should decrease. These base lending rates are primarily LIBOR and secondarily the prime rate offered by one or more major U.S. banks and the certificate of deposit rate or other base lending rates used by commercial lenders.

Offerings of Senior Loans generally are not registered with the SEC, or any state securities commission, and are not listed on any national securities exchange. There is less readily available or reliable information about most Senior Loans than is the case for many other types of securities, including securities issued in transactions registered under the Securities Act or registered under the Securities Exchange Act of 1934, as amended ("the Exchange Act"). No active trading market may exist for some Senior Loans, and some loans may be subject to restrictions on resale. Any secondary market for Senior Loans may be subject to irregular trading activity, wide bid/ask spreads and extended trade settlement periods, which may impair the ability of a seller to realize full value and thus cause a material decline in the Fund's net asset value. In addition, the Fund may not be able to readily dispose of its Senior Loans at prices that approximate those at which the Fund could sell such loans if they were more widely-traded and, as a result of such illiquidity, the Fund may have to sell other investments or engage in borrowing transactions if necessary to raise cash to meet its obligations. A limited supply or relative illiquidity of Senior Loans may adversely affect the Fund's yield.

The Fund may purchase and retain in its portfolio Senior Loans where the Borrower has experienced, or may be perceived to be likely to experience, credit problems, including involvement in or recent emergence from bankruptcy court proceedings or other forms of debt restructuring. Such distressed investments may provide opportunities for enhanced income as well as capital appreciation, although they also will be subject to greater risk of loss. At times, in connection with the restructuring of a Senior Loan either outside of bankruptcy court or in the context of bankruptcy court proceedings, the Fund may determine or be required to accept equity securities or junior credit securities in exchange for all or a portion of a Senior Loan.

In the process of buying, selling and holding Senior Loans, the Fund may receive and/or pay certain fees. These fees are in addition to interest payments received and may include facility fees, commitment fees, amendment fees, commissions and prepayment penalty fees. When the Fund buys a Senior Loan it may receive a facility fee and when it sells a Senior Loan it may pay a facility fee. On an ongoing basis, the Fund may receive a commitment fee based on the undrawn portion of the underlying line of credit portion of a Senior Loan. In certain circumstances, the Fund may receive a prepayment penalty fee upon the prepayment of a Senior Loan by a Borrower. Other fees received by the Fund may include covenant waiver fees, covenant modification fees or other amendment fees.

*Direct Assignments.* The Fund may purchase Senior Loans on a direct assignment basis. If the Fund purchases a Senior Loan on direct assignment, it typically succeeds to all the rights and obligations under the Loan Agreement of the assigning lender and becomes a lender under the Loan Agreement with the same rights and obligations as the assigning lender. Investments in Senior Loans on a direct assignment basis may involve additional risks to the Fund. For example, if such loan is foreclosed, the Fund could become part owner of any collateral, and would bear the costs and liabilities associated with owning and disposing of the collateral.



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*Loan Participations.* The Fund may transact in participations in Senior Loans. The participation by the Fund in a lender's portion of a Senior Loan typically will result in the Fund's having a contractual relationship only with such lender, not with the Borrower. As a result, the Fund may have the right to receive payments of principal, interest and any fees to which it is entitled only from the lender selling the participation and only upon receipt by such lender of payments from the Borrower. Such indebtedness may be secured or unsecured. In connection with purchasing participations, the Fund generally will have no right to enforce compliance by the Borrower with the terms of the Loan Agreement, nor any rights with respect to any funds acquired by other investors through set-off against the Borrower and the Fund may not directly benefit from the collateral supporting the Senior Loan in which it has purchased the participation. In the event of the insolvency of the entity selling a participation, the Fund may be treated as a general creditor of such entity. The selling entity and other persons interpositioned between such entity and the Fund with respect to such participations will likely conduct their principal business activities in the banking, finance and financial services industries. Persons engaged in these industries may be more susceptible to, among other things, fluctuations in interest rates, changes in the Federal Reserve Open Market Committee's monetary policy, governmental regulations concerning these industries and concerning capital raising activities generally and fluctuations in the financial markets generally.

*Prefunded Letter of Credit Loans.* The Fund may transact in participations in prefunded letter of credit loans (a "Prefunded L/C Loan"). A Prefunded L/C Loan is a facility created by the Borrower in conjunction with the agent bank as issuer of a loan, and the Prefunded L/C Loan is backed by letters of credit (each letter, an "L/C"). Each participant in a Prefunded L/C Loan (sometimes referred to as a funded letter of credit facility) fully funds its commitment amount to the agent bank for the facility. The funds are invested by the agent bank and held solely to satisfy a Prefunded L/C Loan lender's obligation to the agent bank under the facility. The funds paid by the lenders are invested by the agent bank in deposits that pay interest, usually approximating a benchmark rate, such as LIBOR, which goes to the Borrower. Generally, the Borrower, via the agent bank, pays the lenders an interest rate, equivalent to the fully drawn spread plus the benchmark rate, usually LIBOR. The funds are returned to the lender upon termination of the Prefunded L/C Loan (and upon satisfaction of all obligations). Under the terms of the Prefunded L/C Loan agreement, a lender often may sell and assign all or a portion of its interest in the loan to another lender so long as the other lender is eligible and agrees to the terms and conditions of the Prefunded L/C Loan agreement.

When the Borrower needs funds, it may draw against the Prefunded L/C Loan and the agent bank makes payment to the Borrower by withdrawing some of the amount invested as deposits. Consequently, the lenders do not have to advance any additional funds at the time the Borrower draws against the Prefunded L/C Loan facility. The Prefunded L/C Loan can be structured from the standpoint of the Borrower as either (i) a revolving credit facility, where the Borrower can reborrow, during the term of the loan, moneys it has paid back to the facility during the term of the loan or (ii) a delayed draw term loan where the Borrower may not reborrow moneys it has repaid to the facility during the term of the loan.

When the Fund purchases a participation in a Prefunded L/C Loan, the proceeds of the purchase are deposited in a collateral account, which backs an L/C loan by the agent bank to the Borrower to support trade or other financing. The Fund typically receives interest on the cash collateral account equal to LIBOR. Participations by the Fund in a Prefunded L/C Loan typically will result in the Fund's having a contractual relationship only with the agent bank, not with the Borrower. As a result, the Fund may have the right to receive interest, fees and any repayments, if any, to which it is entitled only from the agent bank selling the participation and only upon receipt by the agent bank of such payments from the Borrower. In connection with purchasing the participation in a Prefunded L/C Loan, the Fund generally will have no right to enforce compliance by the Borrower with the terms of the Prefunded L/C Loan. As a result, the Fund may assume the credit risk of both the Borrower and the agent bank

selling the participation in a Prefunded L/C Loan. In the event of the insolvency of the agent bank selling a participation in a Prefunded L/C Loan, the Fund may be treated as a general creditor of such agent bank. The agent bank will likely conduct its principal business activities in the banking, finance and financial services industries. Persons engaged in such industries may be more susceptible to, among other things, fluctuations in interest rates, changes in the Federal Reserve Open Market Committee's monetary policy, governmental regulations concerning such industries and concerning capital raising activities generally and fluctuations in the financial markets generally.

#### ***Subordinated Loans***

The Fund may invest in Subordinated Loans. Because Subordinated Loans are subordinated and thus lower in priority of payment and/or in priority of lien to Senior Loans, they are subject to the additional risk that the cash flow of the Borrower and property securing the loan or debt, if any, may be insufficient to meet scheduled payments after giving effect to the senior secured obligations of the Borrower. This risk is generally higher for subordinated unsecured loans or debt, which are not backed by a security interest in any specific collateral. Subordinated Loans generally have greater price volatility than Senior Loans and may be less liquid. There is also a possibility that originators will not be able to sell participations in Subordinated Loans, which would create greater credit risk exposure for the holders of such loans. Subordinated Loans share the same risks as other below investment grade instruments.

#### ***Corporate Bonds***

The Fund may invest in corporate bonds. The investment return of corporate bonds reflects interest on the security and changes in the market value of the security. The market value of a corporate bond generally may be expected to rise and fall inversely with interest rates. The value of intermediate- and longer-term corporate bonds normally fluctuates more in response to changes in interest rates than does the value of shorter-term corporate bonds. The market value of a corporate bond also may be affected by the credit rating of the corporation, the corporation's performance and perceptions of the corporation in the marketplace. There is a risk that the issuers of these securities may not be able to meet their obligations on interest or principal payments at the time called for by an instrument.

#### ***Structured Corporate Credit Securities***

The Fund may invest in structured corporate credit securities. Structured corporate credit securities are typically floating rate, are typically issued by a special purpose legal entity that holds a portfolio (diversified by both industry and issuers) of corporate debt securities, and are of varying seniority with respect to the capital structure of both the special purpose entity issuing the structured security and the corporation issuing the portfolio security.

#### ***Collateralized Loan Obligations***

A collateralized loan obligation ("CLO") typically takes the form of a financing company (generally called a Special Purpose Vehicle or "SPV"), created to reapportion the risk and return characteristics of a pool of assets. While the assets underlying CLOs are often Senior Loans, the assets may also include (i) Subordinated Loans; (ii) debt tranches of other CLOs; and (iii) equity securities incidental to investments in Senior Loans. The Fund may invest in lower tranches of CLOs, which typically experience a lower recovery, greater risk of loss or deferral or non-payment of interest than more senior tranches of the CLO. When investing in a CLO, the Fund intends, although is not required, to invest in a CLO consisting primarily of individual Senior Loans of Borrowers and not repackaged CLO obligations from other high risk pools. A key feature of the CLO structure is the prioritization of the cash flows from a pool of debt securities among the several classes of the CLO.

The SPV is a company founded for the purpose of securitizing payment claims arising out of this diversified asset pool. On this basis, marketable securities are issued by the SPV which, due to the diversification of the underlying risk, generally represent a lower level of risk than the original assets. The redemption of the securities issued by the SPV typically takes place at maturity out of the cash flow generated by the collected claims.

***Distressed and Defaulted Debt***

The Fund may invest in securities, including loans or other debt instruments purchased in the secondary market, that are the subject of bankruptcy proceedings or are otherwise in default or at risk of being in default as to the repayment of principal and/ or interest at the time of acquisition by the Fund ("Distressed Debt"). Investment in Distressed Debt is speculative and involves significant risks.

***Equity Securities***

From time to time, the Fund may invest in or hold shares of common stock and other equity securities incident to the purchase or ownership of a Senior Loan or other debt instruments or in connection with a reorganization of a Borrower. Investments in equity securities incidental to investment in Senior Loans entail certain risks in addition to those associated with investments in Senior Loans. Common stock represents an equity ownership interest in a company. Historical trends would indicate that common stock is subject to higher levels of volatility and market and issuer-specific risk than debt securities. The value of equity securities may be affected more rapidly, and to a greater extent, by company-specific developments and general market conditions. These risks may increase fluctuations in the Fund's net asset value. In addition, the Fund frequently may possess material non-public information about a Borrower as a result of its ownership of a Senior Loan of a Borrower. Because of prohibitions on trading in securities while in possession of material non-public information, the Fund might be unable to enter into a transaction in a security of the Borrower when it would otherwise be advantageous to do so. The equity interests held by the Fund, if any, may not pay dividends or otherwise generate income or appreciate in value and, in fact, may decline in value. Accordingly, the Fund may not be able to realize gains from its equity investments, and any gains that the Fund does realize may not be sufficient to contribute materially to the Fund's investment objective of seeking current income. Equity securities held by the Fund may be illiquid.

***Non-U.S. Securities***

The Fund may invest in non-U.S. securities. Some non-U.S. securities may be less liquid and more volatile than securities of comparable U.S. issuers. Similarly, there is less volume and liquidity in most foreign financial markets than in the United States and, at times, greater price volatility than in the United States.

Because evidences of ownership of such securities usually are held outside the United States, the Fund will be subject to additional risks if it invests in non-U.S. securities, which include possible adverse political and economic developments, seizure or nationalization of foreign deposits and adoption of governmental restrictions that might adversely affect or restrict the payment of principal and interest on the foreign securities to investors located outside the country of the issuer, whether from currency blockage or otherwise. Because non-U.S. securities may trade on days when the Fund's common shares are not traded on the New York Stock Exchange ("NYSE"), the market value or net asset value of the Fund's common shares can change at times when the Fund's common shares cannot be sold.

*Foreign Currency Transactions*

The Fund may engage in foreign currency exchange transactions in connection with its investments in foreign securities. The Fund is not required to hedge its currency exposure, if any, and may choose not to do so. The Fund generally will conduct its foreign currency exchange transactions either on a spot (*i.e.*, cash) basis at the spot rate prevailing in the foreign currency exchange market or through forward contracts to purchase or sell foreign currencies, including the payment of dividends and the settlement of securities transactions that otherwise might require untimely dispositions of Fund securities.

A forward foreign currency exchange contract involves an obligation to purchase or sell a specific currency at a future date, which may be any fixed number of days (usually less than one year) from the date of the contract agreed upon by the parties, at a price and for an amount set at the time of the contract. These contracts are traded in the interbank market conducted directly between currency traders (usually large commercial banks) and their customers. A forward contract generally has a deposit requirement, and no commissions are charged at any stage for trades. Although foreign exchange dealers do not charge a fee for conversion, they do realize a profit based on the difference (the spread) between the price at which they are buying and selling various currencies. At the consummation of a forward contract, the Fund may either make delivery of the foreign currency or terminate its contractual obligation to deliver the foreign currency by purchasing an offsetting contract obligating it to purchase, at the same maturity date, the same amount of such foreign currency. If the Fund chooses to make delivery of the foreign currency, it may be required to obtain such currency through the sale of portfolio securities denominated in such currency or through conversion of other assets of the Fund into such currency. If the Fund engages in an offsetting transaction, the Fund will incur a gain or loss to the extent that there is a difference between the forward contract price and the offsetting forward contract price.

It should be noted that this method of protecting the value of the Fund's portfolio securities against a decline in the value of a currency does not eliminate fluctuations in the underlying prices of the securities. Rather, it simply establishes a rate of exchange that can be achieved at some future point in time. Additionally, although such contracts tend to minimize the risk of loss due to a decline in the value of the hedged currency, at the same time they tend to limit any potential gain should the value of the currency increase.

*Derivatives*

The Fund may use instruments referred to as derivative securities ("Derivatives"). Derivatives are financial instruments the value of which is derived from another security, a commodity (such as gold or oil), a currency or an index (a measure of value or rates, such as the S&P 500 Index or the prime lending rate). Derivatives may allow the Fund to increase or decrease the level of risk to which the Fund is exposed more quickly and efficiently than transactions in other types of instruments. The Fund may or may not use Derivatives for hedging purposes, as a form of leverage or for speculative purposes to seek to enhance returns, including speculation on changes in credit spreads, interest rates or other characteristics of the market, individual securities or groups of securities. If the Fund invests in a Derivative for speculative purposes, the Fund will be fully exposed to the risks of loss of that Derivative, which may sometimes be greater than the Derivative's cost. The use of Derivatives may involve substantial leverage.

*Swap Agreements.* The Fund may enter into swap agreements, including interest rate and index swap agreements, for hedging purposes, as a form of leverage or to seek to obtain a particular desired return at a lower cost to the Fund than if the Fund had invested directly in an instrument that yielded the desired return. Swap agreements are two party contracts entered into primarily by institutional investors for periods ranging from a few weeks to more than one year. In a standard "swap"

transaction, two parties agree to exchange the returns (or differentials in rates of return) earned or realized on particular predetermined investments or instruments. The gross returns to be exchanged or "swapped" between the parties are calculated with respect to a "notional amount" (*i.e.*, the dollar amount invested at a particular interest rate, in a particular foreign currency, or in a "basket" of securities representing a particular index). The "notional amount" of the swap agreement is only a basis on which to calculate the obligations that the parties to a swap agreement have agreed to exchange. The Fund's obligations (or rights) under a swap agreement generally will be equal only to the "net amount" to be paid or received under the agreement based on the relative values of the positions held by each party to the agreement. The Fund's obligations under a swap agreement will be accrued daily (offset against any amounts owing to the Fund) and any accrued but unpaid net amounts owed to a swap counterparty will be covered by marking as segregated liquid, unencumbered assets, marked-to-market daily, to avoid potential leveraging.

The Fund may enter into credit default swap agreements and similar agreements, and may also buy credit-linked securities. Among other purposes, credit default swaps provide investment exposure to changes in credit spreads and relative interest rates. The credit default swap agreement or similar instrument may have as reference obligations one or more securities that are not currently held by the Fund (including a "basket" of securities representing an index). The protection "buyer" in a credit default contract may be obligated to pay the protection "seller" an upfront payment or a periodic stream of payments over the term of the contract provided generally that no credit event on a reference obligation has occurred. If a credit event occurs, the seller generally must pay the buyer the "par value" (full notional value) of the swap in exchange for an equal face amount of deliverable obligations of the reference entity described in the swap, or the seller may be required to deliver the related net cash amount, if the swap is cash settled. The Fund may be either the buyer or seller in the transaction. If the Fund is a buyer and no credit event occurs, the Fund recovers nothing if the swap is held through its termination date. However, if a credit event occurs, the Fund may elect to receive the full notional value of the swap in exchange for an equal face amount of deliverable obligations of the reference entity that may have little or no value. As a seller, the Fund generally receives an upfront payment or a fixed rate of income throughout the term of the swap, which typically is between six months and three years, provided that there is no credit event. If a credit event occurs, generally the seller must pay the buyer the full notional value of the swap in exchange for an equal face amount of deliverable obligations of the reference entity that may have little or no value.

*Swaptions.* The Fund, to the extent permitted under applicable law, may enter into "swaptions", which are options on swap agreements on either an asset-based or liability-based basis. A swaption is a contract that gives a counterparty the right (but not the obligation) to enter into a new swap agreement or to shorten, extend, cancel or otherwise modify an existing swap agreement, at some designated future time on specified terms. The Fund may write (sell) and purchase put and call swaptions. Depending on the terms of the particular option agreement, the Fund generally will incur a greater degree of risk when it writes a swaption than it will incur when it purchases a swaption. When the Fund purchases a swaption, it risks losing only the amount of the premium it has paid should it decide to let the option expire unexercised. When the Fund writes a swaption, upon exercise of the option the Fund will become obligated according to the terms of the underlying agreement.

*Credit-Linked Securities.* Among the income producing securities in which the Fund may invest are credit-linked securities, which are issued by a limited purpose trust or other vehicle that, in turn, invests in a Derivative instrument or basket of Derivative instruments, such as credit default swaps, interest rate swaps and other securities, in order to provide exposure to certain fixed income markets. For instance, the Fund may invest in credit-linked securities as a cash management tool in order to gain exposure to a certain market and/or to remain fully invested when more traditional income producing securities are not available.

*Indexed and Inverse Floating Rate Securities.* The Fund may invest in securities that provide a potential return based on a particular index of value or interest rates. To the extent the Fund invests in these types of securities, the Fund's return on such securities will be subject to risk with respect to the value of the particular index: that is, if the value of the index falls, the value of the indexed securities owned by the Fund will fall. Interest and principal payable on certain securities may also be based on relative changes among particular indices. The Fund may invest in so-called "inverse floating obligations" or "residual interest bonds" on which the interest rates vary inversely with a floating rate (which may be reset periodically by a Dutch auction, a remarketing agent, or by reference to a short-term tax-exempt interest rate index). The Fund may purchase synthetically-created inverse floating rate bonds evidenced by custodial or trust receipts. Generally, income on inverse floating rate bonds will decrease when interest rates increase, and will increase when interest rates decrease.

### **Segregation and Cover Requirements**

As a closed-end investment company registered with the SEC, the Fund is subject to the federal securities laws, including the Investment Company Act, the rules thereunder, and various SEC and SEC staff interpretive positions. In accordance with these laws, rules and positions, the Fund may "set aside" liquid assets (often referred to as "asset segregation"), or engage in other SEC- or staff-approved measures, to "cover" open positions with respect to certain kinds of Derivatives that could be considered "senior securities" as defined in Section 18(g) of the Investment Company Act. With respect to certain Derivatives that are contractually required to cash settle, for example, the Fund is permitted to set aside liquid assets in an amount equal to the Fund's daily marked-to-market net obligations (*i.e.*, the Fund's daily net liability) under the contracts, if any, rather than such contracts' full notional value. The Fund reserves the right to modify its asset segregation policies in the future to comply with any changes in the positions from time to time announced by the SEC or its staff regarding asset segregation. These segregation and coverage requirements could result in the Fund's maintaining securities positions that it would otherwise liquidate, segregating assets at a time when it might be disadvantageous to do so or otherwise restricting portfolio management. Such segregation and cover requirements will not limit or offset losses on related positions.

### **LEVERAGE**

The Fund currently anticipates utilizing leverage. The Fund may engage in leverage to the maximum extent permitted by law for investment and other general corporate purposes. The Fund expects to initially incur leverage in an aggregate amount of approximately 33% of the Fund's Managed Assets. As discussed further below, the Fund's ability to use leverage will be limited by the Investment Company Act and any agreements on debt limitations or asset coverage requirements imposed on the Fund by its lenders or necessary to obtaining ratings on any preferred stock or debt issued by the Fund. The Fund may issue preferred shares and/or notes or other forms of indebtedness, and it may also borrow funds from banks and other financial institutions. The Fund may also gain leverage synthetically through swaps and other Derivatives. The issuance of preferred shares or use of borrowings to leverage the common shares can create risks, including increased variability of the Fund's net income, distributions and/or net asset value in relation to market changes. Changes in the value of the Fund's portfolio, including securities bought with the proceeds of leverage, will be borne entirely by common shareholders. All costs and expenses related to any form of leverage used by the Fund will be borne entirely by common shareholders. Increases and decreases in the value of the Fund's portfolio will be magnified if the Fund uses leverage. In particular, leverage may magnify interest rate risk, which is the risk that the prices of portfolio securities will fall (or rise) if market interest rates for those types of securities rise (or fall). To the extent that the Fund makes investments in Senior Loans or other debt instruments that provide a minimum coupon (called a "LIBOR floor") that helps protect the Fund's income in falling or flat-rate environments, the Fund will not realize additional income if rates increase to levels below the LIBOR floor but the Fund's cost of financing is expected to increase, resulting in

the potential for a decrease in the level of income available for dividends or distributions made by the Fund. During periods when the Fund is using leverage, if any, the fees paid to the Adviser for advisory services will be higher than if the Fund did not use leverage because the fees paid will be calculated on the basis of the Fund's Managed Assets, which includes the assets purchased through leverage. In such case, the Adviser may have a financial incentive to increase the Fund's use of leverage, which constitutes an inherent conflict of interest. In addition, the fees paid to the Adviser are borne exclusively by common shareholders. It is expected that preferred shareholders, noteholders and any lenders to the Fund will not bear any expenses of the Fund. The Fund's leveraging strategy, if utilized, may not be successful.

#### **Preferred Shares and Notes**

The Fund may engage in leverage through the issuance of preferred shares and/or notes or other forms of indebtedness. Under the Investment Company Act, the Fund is not permitted to issue preferred shares unless immediately after such issuance the Fund will have an asset coverage of at least 200%. In general, the term "asset coverage" for this purpose means the ratio the value of the total assets of the Fund, less all liabilities and indebtedness not represented by senior securities, bears to the aggregate amount of senior securities representing indebtedness of the Fund plus the aggregate of the involuntary liquidation preference of the preferred shares. The involuntary liquidation preference refers to the amount to which the preferred shares would be entitled on the involuntary liquidation of the Fund in preference to a security junior to them. In addition, the Fund is not permitted to declare any cash dividend or other distribution on its common shares or purchase its common shares unless, at the time of such declaration or purchase, the Fund satisfies this 200% asset coverage requirement after deducting the amount of the distribution or purchase price, as applicable.

Under the Investment Company Act, the Fund is not permitted to incur indebtedness, including through the issuance of debt securities, unless immediately thereafter the Fund will have an asset coverage of at least 300%. In general, the term "asset coverage" for this purpose means the ratio which the value of the total assets of the Fund, less all liabilities and indebtedness not represented by senior securities, bears to the aggregate amount of senior securities representing indebtedness of the Fund. In addition, the Fund is not permitted to declare any cash distribution on its capital stock or purchase its capital stock unless, at the time of such declaration or purchase, the Fund has an asset coverage of at least 300% after deducting the amount of such distribution or purchase price, as applicable. The Investment Company Act contains an exception, however, that permits dividends to be declared upon any preferred stock issued by the Fund if the Fund's indebtedness has an asset coverage of at least 200% at the time of declaration after deducting the amount of the dividend.

In addition, as a condition to obtaining financing or, if applicable, ratings on the preferred shares and/or notes or other forms of indebtedness, the terms of any preferred shares and/or notes or other forms of indebtedness issued would be expected to include asset coverage maintenance provisions that would require a reduction of indebtedness or the redemption of the preferred shares and/or notes or other forms of indebtedness in the event of non-compliance by the Fund and might also prohibit dividends and other distributions on the common shares in such circumstances. In order to meet such redemption requirements, the Fund might have to liquidate portfolio securities. These liquidations and redemptions, or reductions in indebtedness, would cause the Fund to incur related transaction costs and could result in capital losses to the Fund. Prohibitions on dividends and other distributions on the common shares could impair the Fund's ability to qualify as a RIC under the Internal Revenue Code of 1986, as amended (the "Code").

If the Fund has preferred shares outstanding, two of the Fund's directors will be elected by the holders of preferred shares voting separately as a class. The remaining directors of the Fund will be elected by common shareholders and preferred shareholders voting together as a single class. In the event dividends on the preferred shares are unpaid in an amount equal to two full years' dividends on

such securities, holders of preferred shares would be entitled to elect a majority of the directors of the Fund (subject to any prior rights of debt holders) and continue to be so represented until all dividends in arrears shall have been paid or otherwise provided for.

If the Fund issues preferred shares and/or notes or other forms of indebtedness, it may be subject to certain restrictions imposed by guidelines of one or more ratings agencies that may issue ratings for preferred shares issued by the Fund, or may be subject to covenants or other restrictions imposed by its lenders. These guidelines would be expected to impose asset coverage or portfolio composition requirements that would be more stringent than those imposed on the Fund by the Investment Company Act. It is not anticipated that these covenants or guidelines would impede the Adviser from managing the Fund's portfolio in accordance with the Fund's investment objective and policies.

### **Credit Facility**

The Fund may negotiate with one or more large commercial banks to arrange a floating rate credit facility (the "Credit Facility") pursuant to which the Fund would be entitled to borrow funds from time to time in accordance with the terms of the Credit Facility. Any such borrowings, as well as the issuance of notes or other forms of indebtedness, would constitute financial leverage and would be subject to the 300% asset coverage requirements imposed by the Investment Company Act described above with respect to the amount of the borrowings and the Fund's ability to declare dividends and distributions or purchase its capital stock. The Fund may choose not to enter into a Credit Facility.

The Fund may be required to prepay outstanding amounts or incur a penalty rate of interest upon the occurrence of certain events of default. The Fund expects that a Credit Facility would contain customary covenants that, among other things, likely would limit the Fund's ability to pay distributions in certain circumstances, incur additional debt, change its fundamental investment policies and engage in certain transactions, including mergers and consolidations, and require asset coverage ratios in addition to those required by the Investment Company Act. The Fund may be required to pledge some or all of its assets and to maintain a portion of its assets in cash or high-grade securities as a reserve against interest or principal payments and expenses. The Fund expects that any Credit Facility would have customary covenant, negative covenant and default provisions. There can be no assurance that the Fund will enter into an agreement for a Credit Facility, or, if it does, that the Fund would receive terms and conditions representative of the foregoing, or that additional material terms will not apply. In addition, if entered into, the Credit Facility may in the future be replaced or refinanced by one or more credit facilities having substantially different terms or by the issuance of preferred shares or debt securities.

The Fund may borrow money in an amount equal to 5% of its total assets as a temporary measure for extraordinary or emergency purposes, including the payment of dividends and the settlement of securities transactions that otherwise might require untimely dispositions of Fund securities.

### **Effects of Leverage**

The following table is furnished in response to requirements of the SEC. It is designed to illustrate the effect of leverage on the return to a common shareholder, assuming hypothetical annual investment portfolio total returns, net of expenses (comprised of income and changes in the value of securities held in the Fund's portfolio) of -10%, -5%, 0%, 5% and 10%. Actual returns may be greater or less than those appearing in the table. The table further reflects leverage representing, in the aggregate, 33% of the Fund's total assets, net of expenses, and the Fund's currently projected dividend and/or interest rate of [ ]% on its preferred shares and/or notes or other forms of indebtedness. The Fund's common shares must experience an annual return of [ ]% in order to cover the rate of annual dividend and/or interest payments on preferred shares and/or notes or other forms of indebtedness, if any. As the table shows, the total leverage generally increases the return to common shareholders when



portfolio return is positive or greater than the cost of leverage and decreases when the portfolio total return is negative or less than the cost of leverage. These assumed investment portfolio returns are hypothetical figures and are not necessarily indicative of the investment portfolio returns that may be experienced by the Fund.

| Assumed Portfolio Total Return (Net of Expenses) | (10)%    | (5)%     | 0%       | 5%   | 10%  |
|--|----------|----------|----------|------|------|
| Common Share Total Return                        | ( [ ] )% | ( [ ] )% | ( [ ] )% | [ ]% | [ ]% |

Common share total return is comprised of two elements the common share dividends paid by the Fund (the amount of which is largely determined by the net investment income of the Fund after paying dividends) and gains or losses on the value of the securities the Fund owns. As required by SEC rules, the table above assumes that the Fund is more likely to suffer capital losses than to enjoy capital appreciation. For example, to assume a total return of 0% the Fund must assume that the interest it receives on its investments is entirely offset by losses in the value of those investments.

If the Fund uses leverage, the amount of fees paid to the Adviser for investment advisory services will be higher than if the Fund does not use leverage because the Fees paid are calculated on the Fund's Managed Assets, which include assets purchased with leverage. Therefore, the Adviser has a financial incentive to use leverage, which creates a conflict of interest between the Adviser and the common shareholders as only the common shareholders would bear the fees and expenses incurred through the Fund's use of leverage.

## RISK FACTORS

*An investment in the Fund's common shares may be speculative in that it involves a high degree of risk and should not constitute a complete investment program. Before making an investment decision, you should carefully consider the following risk factors, together with the other information contained in this prospectus. At any point in time, an investment in the Fund's common shares may be worth less than the original amount invested, even after taking into account the distributions paid, if any, and the ability of common shareholders to reinvest dividends. If any of the risks discussed in this prospectus occurs, the Fund's results of operations could be materially and adversely affected. If this were to happen, the price of Fund common shares could decline significantly and you could lose all or a part of your investment.*

### General

Investing in the Fund's common shares involves certain risks and the Fund may not be able to achieve its intended results for a variety of reasons, including, among others, the possibility that the Fund may not be able to structure its investments as anticipated. Because the value of your investment in the Fund will fluctuate, there is a risk that you will lose money. Your investment will decline in value if, among other things, the value of the Fund's investments decreases. The value of your shares also will be affected by the Fund's ability to successfully implement its investment strategy, as well as by market, economic and other conditions. As with any security, complete loss of investment is possible.

Beginning in 2007, the global capital markets were in a period of disruption evidenced by a lack of liquidity in the debt capital markets, significant write-offs in the financial services sector, the re-pricing of credit risk in the broadly syndicated credit market and the failure of certain major financial institutions and have remained as such through the date of this prospectus. Despite actions of the United States federal government and foreign governments, these events have contributed to general economic conditions that are materially and adversely impacting the broader financial and credit markets and reducing the availability of debt and equity capital for the market as a whole and financial services firms in particular. These conditions could continue for a prolonged period of time or worsen in the future. While these conditions persist, the capital markets, and, in particular, the market for debt obligations, may be subject to heightened volatility, increased risks of default, periods of illiquidity and other situations adverse to investors.

On July 21, 2010, the President signed into law major financial services reform legislation in the form of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"). The Dodd-Frank Act, among other things, grants regulatory authorities such as the Commodity Futures Trading Commission and SEC broad rulemaking authority to implement various provisions of the Dodd-Frank Act, including comprehensive regulation of the over-the-counter derivatives market. It is unclear how these regulators will exercise these revised and expanded powers and whether they will undertake rulemaking, supervisory or enforcement actions that would adversely affect the Fund or investments made by the Fund. Possible regulatory actions taken under these revised and expanded powers may include actions related to financial consumer protection, proprietary trading and derivatives. There can be no assurance that future regulatory actions authorized by the Dodd-Frank Act will not significantly reduce the revenues of the Fund. The implementation of the Dodd-Frank Act could adversely affect the Fund by increasing transaction and/or regulatory compliance costs. In addition, greater regulatory scrutiny may increase the Fund's and the Adviser's exposure to potential liabilities. Increased regulatory oversight can also impose administrative burdens on the Fund and the Adviser, including, without limitation, responding to examinations or investigations and implementing new policies and procedures.

At any time after the date of this prospectus, legislation may be enacted that could negatively affect the assets of the Fund or the issuers of such assets. Changing approaches to regulation may have a negative impact on the entities in which the Fund invests. Legislation or regulation may also change

the way in which the Fund itself is regulated. There can be no assurance that future legislation, regulation or deregulation will not have a material adverse effect on the Fund or will not impair the ability of the Fund to achieve its investment objective.

Instability in the credit markets has made it more difficult for a number of issuers of debt securities to obtain financing or refinancing for their investment or lending activities or operations. In particular, because of volatile conditions in the credit markets, issuers of debt securities may be subject to increased cost for debt, tightening underwriting standards and reduced liquidity for loans they make, securities they purchase and securities they issue. Certain Borrowers may, due to macroeconomic conditions, be unable to repay their Senior Loans or other debt obligations because of these conditions. A Borrower's failure to satisfy financial or operating covenants imposed by lenders could lead to defaults and, potentially, termination of the Senior Loans and foreclosure on its secured assets, which could trigger cross-defaults under other agreements and jeopardize a Borrower's ability to meet its obligations under its debt securities. The Fund may incur expenses to the extent necessary to seek recovery upon default or to negotiate new terms with a defaulting Borrower. The Fund may also experience a loss of principal.

These developments also (i) may make it more difficult for the Fund to accurately value its portfolio securities or to sell its portfolio securities on a timely basis; (ii) could adversely affect the ability of the Fund to use leverage for investment purposes and increase the cost of such leverage, which would reduce returns to the common shareholders; and (iii) may adversely affect the broader economy, which in turn may adversely affect the ability of issuers of securities owned by the Fund to make payments of principal and interest when due, lead to lower credit ratings of the issuer and increased defaults by the issuer. Such developments could, in turn, reduce the value of securities owned by the Fund and adversely affect the net asset value and market price of the Fund's common shares.

### **Principal Risks Relating to Fund Investments**

#### **Investment and Market Risk**

An investment in the Fund's common shares is subject to investment risk, including the possible loss of the entire principal amount invested. An investment in the Fund's common shares represents an indirect investment in the portfolio of Senior Loans and other securities owned by the Fund, and the value of these investments may fluctuate, sometimes rapidly and unpredictably. For instance, as evidenced by the recent global economic downturn, the secondary markets for Senior Loans and investments with similar economic characteristics can experience sudden and sharp price swings, which can be exacerbated by large or sustained sales by major investors in these markets, a high-profile default by a major borrower, movements in indices tied to these markets or related securities or investments, or a change in the market's perspective of Senior Loans and investments with similar economic characteristics. At any point in time, an investment in the Fund's common shares may be worth less than the original amount invested, even after taking into account distributions paid by the Fund, if any, and the ability of common shareholders to reinvest dividends. The Fund anticipates using leverage, which will magnify the Fund's risks and, in turn, the risks to the Fund's common shareholders.

#### **Senior Loans Risk**

Senior Loans are usually rated below investment grade, but may be unrated. As a result, the risks associated with Senior Loans are similar to the risks of below investment grade fixed income instruments, although Senior Loans are senior and typically secured in contrast to other below investment grade fixed income instruments, which are often subordinated or unsecured. Investment in Senior Loans rated below investment grade is considered speculative because of the credit risk of their Borrowers. Such Borrowers are more likely than investment grade Borrowers to default on their payments of interest and principal owed to the Fund, and such defaults could reduce the Fund's net asset value and income distributions. An economic downturn would generally lead to a higher non-

payment rate, and a Senior Loan may lose significant market value before a default occurs. Moreover, any specific collateral used to secure a Senior Loan may decline in value or become illiquid, which would adversely affect the Senior Loan's value. Senior Loans are subject to a number of risks described elsewhere in this prospectus, including liquidity risk and the risk of investing in below investment grade fixed income instruments.

Senior Loans are subject to the risk of non-payment of scheduled interest or principal. Such non-payment would result in a reduction of income to the Fund, a reduction in the value of the investment and a potential decrease in the net asset value of the Fund. There can be no assurance that the liquidation of any collateral securing a Senior Loan would satisfy the Borrower's obligation in the event of non-payment of scheduled interest or principal payments, whether when due or upon acceleration, or that the collateral could be liquidated, readily or otherwise. In the event of bankruptcy or insolvency of a Borrower, the Fund could experience delays or limitations with respect to its ability to realize the benefits of the collateral, if any, securing a Senior Loan. The collateral securing a Senior Loan, if any, may lose all or substantially all of its value in the event of the bankruptcy or insolvency of a Borrower. Some Senior Loans are subject to the risk that a court, pursuant to fraudulent conveyance or other similar laws, could subordinate such Senior Loans to presently existing or future indebtedness of the Borrower or take other action detrimental to the holders of Senior Loans including, in certain circumstances, invalidating such Senior Loans or causing interest previously paid to be refunded to the Borrower. Additionally, a Senior Loan may be "primed" in bankruptcy, which reduces the ability of the holders of the Senior Loan to recover on the collateral. Priming takes place when a debtor in bankruptcy is allowed to incur additional indebtedness by the bankruptcy court and such indebtedness has a senior or pari passu lien with the debtor's existing secured indebtedness, such as existing Senior Loans.

There may be less readily available and reliable information about most Senior Loans and the Borrowers thereunder than is the case for many other types of securities, including securities issued in transactions registered under the Securities Act, or registered under the Securities Exchange Act of 1934, as amended, (the "Exchange Act"), and Borrowers subject to the periodic reporting requirements of the Exchange Act. As a result, the Adviser will rely primarily on its own evaluation of a Borrower's credit quality rather than on any available independent sources. Therefore, the Fund will be particularly dependent on the analytical abilities of the Adviser.

In general, the secondary trading market for Senior Loans is not well developed. No active trading market may exist for certain Senior Loans, which may make it difficult to value them. Illiquidity and adverse market conditions may mean that the Fund may not be able to sell Senior Loans quickly or at a fair price. To the extent that a secondary market does exist for certain Senior Loans, the market for them may be subject to irregular trading activity, wide bid/ask spreads and extended trade settlement periods.

Senior Loans and other variable rate debt instruments are subject to the risk of payment defaults of scheduled interest or principal. Such payment defaults would result in a reduction of income to the Fund, a reduction in the value of the investment and a potential decrease in the net asset value of the Fund. Similarly, a sudden and significant increase in market interest rates may increase the risk for payment defaults and cause a decline in the value of these investments and in the Fund's net asset value. Other factors (including, but not limited to, rating downgrades, credit deterioration, a large downward movement in stock prices, a disparity in supply and demand of certain securities or market conditions that reduce liquidity) can reduce the value of Senior Loans and other debt obligations, impairing the Fund's net asset value.

Senior Loans are subject to legislative risk. If legislation or state or federal regulations impose additional requirements or restrictions on the ability of financial institutions to make loans, the availability of Senior Loans for investment by the Fund may be adversely affected. In addition, such requirements or restrictions could reduce or eliminate sources of financing for certain Borrowers. This

would increase the risk of default. If legislation or federal or state regulations require financial institutions to increase their capital requirements this may cause financial institutions to dispose of Senior Loans that are considered highly levered transactions. Such sales could result in prices that, in the opinion of the Adviser, do not represent fair value. If the Fund attempts to sell a Senior Loan at a time when a financial institution is engaging in such a sale, the price the Fund could receive for the Senior Loan may be adversely affected.

The Fund may acquire Senior Loans through assignments or participations. The purchaser of an assignment typically succeeds to all the rights and obligations of the assigning institution and becomes a lender under the credit agreement with respect to the debt obligation; however, the purchaser's rights can be more restricted than those of the assigning institution, and the Fund may not be able to unilaterally enforce all rights and remedies under the loan and with regard to any associated collateral. In general, a participation is a contractual relationship only with the institution participating out the interest, not with the Borrower. Sellers of participations typically include banks, broker-dealers, other financial institutions and lending institutions. In purchasing participations, the Fund generally will have no right to enforce compliance by the Borrower with the terms of the loan agreement against the Borrower, and the Fund may not directly benefit from the collateral supporting the debt obligation in which it has purchased the participation. As a result, the Fund will be exposed to the credit risk of both the Borrower and the institution selling the participation. Further, in purchasing participations in lending syndicates, the Fund will not be able to conduct the due diligence on the Borrower or the quality of the Senior Loan with respect to which it is buying a participation that the Fund would otherwise conduct if it were investing directly in the Senior Loan, which may result in the Fund being exposed to greater credit or fraud risk with respect to the Borrower or the Senior Loan.

#### **Subordinated Loans Risk**

Subordinated Loans generally are subject to similar risks as those associated with investments in Senior Loans except that such loans are subordinated in payment and/or lower in lien priority to first lien holders. In the event of default on a Subordinated Loan, the first priority lien holder has first claim to the underlying collateral of the loan to the extent such claim is secured. Additionally, an oversecured creditor may be entitled to additional interest and other charges in bankruptcy and senior lenders may provide financing to the debtor increasing the amount of their claim and reduce the proceeds of the estate available to service the Fund's claim. Subordinated Loans are subject to the additional risk that the cash flow of the Borrower and property securing the loan or debt, if any, may be insufficient to meet scheduled payments after giving effect to the senior unsecured or senior secured obligations of the Borrower. This risk is generally higher for subordinated unsecured loans or debt, which are not backed by a security interest in any specific collateral. Subordinated Loans generally have greater price volatility than Senior Loans and may be less liquid.

#### **Below Investment Grade Securities Risk**

The Fund anticipates that it will invest the majority of its assets in Senior Loans, Subordinated Loans and other debt instruments that are rated below investment grade. Non-investment grade fixed income or convertible securities, often referred to as "junk bonds", "leveraged loans" or "high yield" securities are debt securities that are rated below investment grade by the major rating agencies or are unrated securities that the Adviser believes are of comparable quality. While generally providing greater income and opportunity for gain, non-investment grade debt securities and similar debt instruments may be subject to greater risks than securities or instruments that have higher credit ratings, including a high risk of default. The credit rating of a high yield security does not necessarily address its market value risk, and ratings may from time to time change, positively or negatively, to reflect developments regarding the issuer's financial condition. High yield securities and similar instruments often are considered to be speculative with respect to the capacity of the issuer to timely repay principal and pay interest or dividends in accordance with the terms of the obligation and may

have more credit risk than higher rated securities. Lower grade securities and similar debt instruments may be particularly susceptible to economic downturns. It is likely that a prolonged or deepening economic recession could adversely affect the ability of Borrowers issuing such securities and similar debt instruments to repay principal and pay interest on the instrument, increase the incidence of default and severely disrupt the market value of the securities and similar debt instruments.

#### **New Adviser Risk**

The Adviser is a newly organized entity with no operating history. The Adviser's sole assets under management initially will be the assets raised in connection with the initial public offering of the Fund's common shares.

#### **Credit Risk**

Credit risk is the risk that one or more debt securities in the Fund's portfolio will decline in price or fail to pay interest or principal when due because the issuer of the security experiences a decline in its financial status. While a senior position in the capital structure of a Borrower may provide some protection with respect to the Fund's investments in Senior Loans, losses may still occur because the market value of Senior Loans is affected by the creditworthiness of Borrowers and by general economic and specific industry conditions. To the extent the Fund invests in below investment grade securities, it will be exposed to a greater amount of credit risk than a fund that invests in investment grade securities. The prices of lower grade securities are more sensitive to negative developments, such as a decline in the issuer's revenues or a general economic downturn, than are the prices of higher grade securities. In addition, the Fund may use credit derivatives that may expose it to additional risk in the event that the securities underlying the derivatives default.

#### **Prepayment Risk**

During periods of declining interest rates, Borrowers may exercise their option to prepay principal earlier than scheduled. For fixed rate securities, such payments often occur during periods of declining interest rates, which may require the Fund to reinvest in lower yielding securities, resulting in a possible decline in the Fund's income and distributions to shareholders. This is known as prepayment or "call" risk. Below investment grade securities frequently have call features that allow the issuer to redeem the security at dates prior to its stated maturity at a specified price (typically greater than par) only if certain prescribed conditions are met ("Call Protection"). An issuer may redeem a below investment grade security if, for example, the issuer can refinance the debt at a lower cost due to declining interest rates or an improvement in the credit standing of the issuer. Subordinated Loans typically do not have Call Protection. For premium bonds (bonds acquired at prices that exceed their par or principal value) purchased by the Fund, prepayment risk may be enhanced.

Senior Loans are subject to prepayment risk and typically do not have Call Protection. The degree to which Borrowers prepay Senior Loans, whether as a contractual requirement or at their election, may be affected by general business conditions, the financial condition of the Borrower and competitive conditions among Senior Loan investors, among others. For these reasons, prepayments cannot be predicted with accuracy. Upon a prepayment, either in part or in full, the outstanding debt on which the Fund derives interest income will be reduced. The Fund may not be able to reinvest the proceeds received on terms as favorable as the prepaid loan.

#### **Interest Rate Risk**

Because Senior Loans with floating or variable rates reset their interest rates periodically, changes in prevailing interest rates can be expected to cause some fluctuations in the Fund's net asset value. Similarly, a sudden and significant increase in market interest rates (which are currently considered low by historic standards) may cause a decline in the Fund's net asset value. In addition, Senior Loans or

similar securities may allow the Borrower to opt between LIBOR-based interest rates and interest rates based on bank prime rates, which may have an effect on the Fund's net asset value.

### **Liquidity Risk**

The Fund generally considers "illiquid securities" to be securities that cannot be sold within seven days in the ordinary course of business at approximately the value used by the Fund in determining its net asset value. The Fund may not be able to readily dispose of such securities at prices that approximate those at which the Fund could sell the securities if they were more widely-traded and, as a result of that illiquidity, the Fund may have to sell other investments or engage in borrowing transactions if necessary to raise cash to meet its obligations. Limited liquidity can also affect the market price of securities, thereby adversely affecting the Fund's net asset value and ability to make dividend distributions.

Some Senior Loans are not readily marketable and may be subject to restrictions on resale. Senior Loans generally are not listed on any national securities exchange and no active trading market may exist for the Senior Loans in which the Fund may invest. When a secondary market exists, if at all, the market for some Senior Loans may be subject to irregular trading activity, wide bid/ask spreads and extended trade settlement periods. The Fund has no limitation on the amount of its assets that may be invested in securities that are not readily marketable or are subject to restrictions on resale.

### **Distressed and Defaulted Debt Risk**

The Fund may invest in securities, including loans purchased in the secondary market, that are the subject of bankruptcy proceedings or otherwise in default or at risk of being in default as to the repayment of principal and/or interest at the time of acquisition by the Fund ("Distressed Debt"). Investment in Distressed Debt is speculative and involves significant risks.

The Fund may make such investments when the Adviser believes it is reasonably likely that the issuer of Distressed Debt will make an exchange offer or will be the subject of a plan of reorganization pursuant to which the Fund will receive new securities in return for Distressed Debt. There can be no assurance, however, that such an exchange offer will be made or that such a plan of reorganization will be adopted. In addition, a significant period of time may pass between the time at which the Fund makes its investment in Distressed Debt and the time that any such exchange offer or plan of reorganization is completed, if at all. During this period, it is unlikely that the Fund would receive any interest payments on the Distressed Debt, the Fund would be subject to significant uncertainty whether the exchange offer or plan of reorganization will be completed and the Fund may be required to bear certain extraordinary expenses to protect and recover its investment. Therefore, to the extent the Fund seeks capital appreciation through investment in Distressed Debt, the Fund's ability to achieve current income for its shareholders may be diminished. The Fund also will be subject to significant uncertainty as to when and in what manner and for what value the obligations evidenced by the Distressed Debt will eventually be satisfied (*e.g.*, through a liquidation of the obligor's assets, an exchange offer or plan of reorganization involving the Distressed Debt or a payment of some amount in satisfaction of the obligation). Even if an exchange offer is made or plan of reorganization is adopted with respect to Distressed Debt held by the Fund, there can be no assurance that the securities or other assets received by the Fund in connection with such exchange offer or plan of reorganization will not have a lower value or income potential than may have been anticipated when the investment was made or no value. Moreover, any securities received by the Fund upon completion of an exchange offer or plan of reorganization may be restricted as to resale. Similarly, if the Fund participates in negotiations with respect to any exchange offer or plan of reorganization with respect to an issuer of Distressed Debt, the Fund may be restricted from disposing of such securities. To the extent that the Fund becomes involved in such proceedings, the Fund may have a more active participation in the affairs of the issuer than that assumed generally by an investor.

### **Structured Products Risk**

The Fund may invest in structured products, including, without limitation, structured corporate credit securities, CLOs, structured notes and credit-linked notes. Holders of structured products bear risks of the underlying investments, index or reference obligation and are subject to counterparty risk.

The Fund may have the right to receive payments only from the structured product, and generally does not have direct rights against the issuer or the entity that sold the assets to be securitized. While certain structured products enable the investor to acquire interests in a pool of securities without the brokerage and other expenses associated with directly holding the same securities, investors in structured products generally pay their share of the structured product's administrative and other expenses. Although it is difficult to predict whether the prices of indices and securities underlying structured products will rise or fall, these prices (and, therefore, the prices of structured products) will be influenced by the same types of political and economic events that affect issuers of securities and capital markets generally. If the issuer of a structured product uses shorter term financing to purchase longer term securities, the issuer may be forced to sell its securities at below market prices if it experiences difficulty in obtaining short-term financing, which may adversely affect the value of the structured products owned by the Fund.

Certain structured products may be thinly traded or have a limited trading market. Structured corporate credit securities and CLOs are typically privately offered and sold. As a result, investments in structured corporate credit securities and CLOs may be characterized by the Fund as illiquid securities. In addition to the general risks associated with debt securities discussed above, structured corporate credit securities and CLOs carry additional risks, including, but not limited to: (i) the possibility that distributions from collateral securities will not be adequate to make interest or other payments; (ii) the quality of the collateral may decline in value or default; (iii) the possibility that the investments in structured corporate credit securities and CLOs are subordinate to other classes or tranches of the structured corporate credit securities and CLOs; and (iv) the complex structure of the security may not be fully understood at the time of investment and may produce disputes with the issuer or unexpected investment results.

Investments in structured products involve risks, including credit risk and market risk. Where the Fund's investments in structured products are based upon the movement of one or more factors, including currency exchange rates, interest rates, reference bonds and stock indices, depending on the factor used and the use of multipliers or deflators, changes in interest rates and movement of the factor may cause significant price fluctuations. Additionally, changes in the reference instrument or security may cause the interest rate on the structured product to be reduced to zero, and any further changes in the reference instrument may then reduce the principal amount payable on maturity. Structured products may be less liquid than other types of securities and more volatile than the reference instrument or security underlying the product.

### **Inflation/Deflation Risk**

Inflation risk is the risk that the value of certain assets or income from the Fund's investments will be worth less in the future as inflation decreases the value of money. As inflation increases, the real value of investments and distributions can decline. In addition, during any periods of rising inflation, the dividend rates or borrowing costs associated with the Fund's use of leverage would likely increase, which would tend to further reduce returns to shareholders. Deflation risk is the risk that prices throughout the economy decline over time the opposite of inflation. Deflation may have an adverse effect on the creditworthiness of issuers and may make issuer defaults more likely, which may result in a decline in the value of the Fund's portfolio.



## Derivatives Risks

*Swap Agreements.* The Fund may enter into swap agreements, including interest rate and index swap agreements, for hedging purposes, as a form of leverage or to seek to obtain a particular desired return at a lower cost to the Fund than if the Fund had invested directly in an instrument that yielded the desired return. Swap agreements are two party contracts entered into primarily by institutional investors for periods ranging from a few weeks to more than one year. In a standard "swap" transaction, two parties agree to exchange the returns (or differentials in rates of return) earned or realized on particular predetermined investments or instruments. Whether the Fund's use of swap agreements will be successful in furthering its investment objective will depend on the Adviser's ability to correctly predict whether certain types of investments are likely to produce greater returns than other investments. Because they are two party contracts and because they may have terms of greater than seven days, some swap agreements may be considered by the Fund to be illiquid. Moreover, the Fund bears the risk of loss of the amount expected to be received under a swap agreement in the event of the default or bankruptcy of a swap agreement counterparty. The Fund may seek to reduce this risk to some extent by entering into a transaction only if the counterparty meets the Adviser's current credit standards for over-the-counter ("OTC") option counterparties. Swap agreements also bear the risk that the Fund will not be able to meet its payment obligations to the counterparty. Generally, the Fund will deposit in a segregated account liquid assets permitted to be so segregated by the SEC in an amount equal to or greater than the market value of the Fund's liabilities under the swap agreement or the amount it would cost the Fund initially to make an equivalent direct investment plus or minus any amount the Fund is obligated to pay or is to receive under the swap agreement. Restrictions imposed by the tax rules applicable to regulated investment companies may limit the Fund's ability to use swap agreements. The swap market currently is largely unregulated. It is possible that developments in the swap market, including potential significant government regulation, could adversely affect the Fund's ability to enter into or terminate swap agreements or to realize amounts to be received under these agreements. Swap transactions may involve substantial leverage.

The Fund may enter into credit default swap agreements and similar agreements, and may also buy credit-linked securities. Credit default swaps are often structured with significant leverage and may be considered speculative. The credit default swap agreement or similar instrument may have as reference obligations one or more securities that are not currently held by the Fund. The protection "buyer" in a credit default contract may be obligated to pay the protection "seller" an upfront payment or a periodic stream of payments over the term of the contract provided generally that no credit event on a reference obligation has occurred. If a credit event occurs, the seller generally must pay the buyer the "par value" (full notional value) of the swap in exchange for an equal face amount of deliverable obligations of the reference entity described in the swap, or the seller may be required to deliver the related net cash amount, if the swap is cash settled. The Fund may be either the buyer or seller in the transaction. If the Fund is a buyer and no credit event occurs, the Fund recovers nothing if the swap is held through its termination date. However, if a credit event occurs, the Fund may elect to receive the full notional value of the swap in exchange for an equal face amount of deliverable obligations of the reference entity that may have little or no value. As a seller, the Fund generally receives an upfront payment or a fixed rate of income throughout the term of the swap, which typically is between six months and three years, provided that there is no credit event. If a credit event occurs, generally the seller must pay the buyer the full notional value of the swap in exchange for an equal face amount of deliverable obligations of the reference entity that may have little or no value.

*Swaptions.* The Fund, to the extent permitted under applicable law, may enter into "swaptions", which are options on swap agreements on either an asset-based or liability-based basis. A swaption is a contract that gives a counterparty the right (but not the obligation) to enter into a new swap agreement or to shorten, extend, cancel or otherwise modify an existing swap agreement, at some designated future time on specified terms. The Fund may write (sell) and purchase put and call swaptions.

Depending on the terms of the particular option agreement, the Fund generally will incur a greater degree of risk when it writes a swaption than it will incur when it purchases a swaption. When the Fund purchases a swaption, it risks losing only the amount of the premium it has paid should it decide to let the option expire unexercised. When the Fund writes a swaption, upon exercise of the option, the Fund will become obligated according to the terms of the underlying agreement.

*Credit-Linked Securities.* Among the income producing securities in which the Fund may invest are credit-linked securities, which are issued by a limited purpose trust or other vehicle that, in turn, invests in a Derivative instrument or basket of Derivative instruments, such as credit default swaps, interest rate swaps and other securities, in order to provide exposure to certain fixed income markets. For instance, the Fund may invest in credit-linked securities as a cash management tool in order to gain exposure to a certain market and/or to remain fully invested when more traditional income producing securities are not available.

Like an investment in a bond, investments in these credit-linked securities represent the right to receive periodic income payments (in the form of distributions) and payment of principal at the end of the term of the security. However, these payments are conditioned on the issuer's receipt of payments from, and the issuer's potential obligations to, the counterparties to the Derivative instruments and other securities in which the issuer invests. For instance, the issuer may sell one or more credit default swaps, under which the issuer would receive a stream of payments over the term of the swap agreements provided that no event of default has occurred with respect to the referenced debt obligation upon which the swap is based. If a default occurs, the stream of payments may stop and the issuer would be obligated to pay the counterparty the par (or other agreed upon value) of the referenced debt obligation. This, in turn, would reduce the amount of income and principal that the Fund would receive. The Fund's investments in these instruments are indirectly subject to the risks associated with Derivative instruments, including, among others, credit risk and leverage risk. There may be no established trading market for these securities and they may constitute illiquid investments.

*General Risks Associated with Derivatives.* The Fund may use derivative instruments ("Derivatives") including, in particular, swaps, synthetic collateralized loan obligations, reverse repurchase agreements and other similar transactions, in seeking to achieve its investment objective or for other reasons, such as cash management, financing activities or to hedge its positions. Accordingly, Derivatives may be used as a form of leverage or for speculative purposes to seek to enhance returns, including speculation on changes in credit spreads, interest rates or other characteristics of the market, individual securities or groups of securities. If the Fund invests in a Derivative for speculative purposes, the Fund will be fully exposed to the risks of loss of that Derivative, which may sometimes be greater than the Derivative's cost. The use of Derivatives may involve substantial leverage. The use of Derivatives may subject the Fund to the following risks, including but not limited to:

*Credit Risk* the risk that the counterparty in a Derivative transaction will be unable to honor its financial obligation to the Fund, or the risk that the reference entity in a credit default swap or similar Derivative will not be able to honor its financial obligations. Certain participants in the Derivatives market, including larger financial institutions, have recently experienced significant financial hardship and deteriorating credit conditions. If the Fund's counterparty to a Derivative transaction experiences a loss of capital, or is perceived to lack adequate capital or access to capital, it may experience margin calls or other regulatory requirements to increase equity. Under such circumstances, the risk that a counterparty will be unable to honor its obligations may be substantially increased.

*Currency Risk* the risk that changes in the exchange rate between two currencies will adversely affect the value (in U.S. dollar terms) of an investment.

*Leverage Risk* the risk associated with certain types of Derivative strategies that relatively small market movements may result in large changes in the value of an investment. Certain

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investments or trading strategies that involve leverage can result in losses that greatly exceed the amount originally invested.

*Liquidity Risk* the risk that certain securities may be difficult or impossible to sell at the time that the seller would like or at the price that the seller believes the security is currently worth. This risk is heightened to the extent the Fund engages in OTC Derivative transactions.

*Correlation Risk* the risk that changes in the value of a Derivative will not match the changes in the value of the portfolio holdings that are being hedged or of the particular market or security to which the Fund seeks exposure.

*Index Risk* if the Derivative is linked to the performance of an index, it will be subject to the risks associated with changes in that index. If the index changes, the Fund could receive lower interest payments or experience a reduction in the value of the Derivative to below what the Fund paid. Certain indexed securities, including inverse securities (which move in an opposite direction to the index), may create leverage, to the extent that they increase or decrease in value at a rate that is a multiple of the changes in the applicable index.

### **Other Risks Relating to Fund Investments**

#### **Investments in Equity Securities Incidental to Investments in Senior Loans**

From time to time, the Fund also may invest in or hold common stock and other equity securities incidental to the purchase or ownership of a Senior Loan or other debt instruments or in connection with a reorganization of a Borrower. Investments in equity securities incidental to investments in Senior Loans or other debt instruments entail certain risks in addition to those associated with investments in Senior Loans or other debt instruments. Because equity is merely the residual value of an issuer after all claims and other interests, it is inherently more risky than Senior Loans or other debt instruments of the same Borrower. The value of the equity securities may be affected more rapidly, and to a greater extent, by company-specific developments and general market conditions. These risks may increase fluctuations in the Fund's net asset value. The Fund frequently may possess material non-public information about a Borrower as a result of its ownership of a Senior Loan or other debt instruments of a Borrower. Because of prohibitions on trading in securities while in possession of material non-public information, the Fund might be unable to enter into a transaction in a security of the Borrower when it would otherwise be advantageous to do so.

#### **Lender Liability Risk**

A number of U.S. judicial decisions have upheld judgments of borrowers against lending institutions on the basis of various evolving legal theories, collectively termed "lender liability". Generally, lender liability is founded on the premise that a lender has violated a duty (whether implied or contractual) of good faith, commercial reasonableness and fair dealing, or a similar duty owed to the Borrower or has assumed an excessive degree of control over the Borrower resulting in the creation of a fiduciary duty owed to the Borrower or its other creditors or shareholders. Because of the nature of its investments, the Fund may be subject to allegations of lender liability.

In addition, under common law principles that in some cases form the basis for lender liability claims, if a lender or bondholder (i) intentionally takes an action that results in the undercapitalization of a Borrower to the detriment of other creditors of such Borrower; (ii) engages in inequitable conduct to the detriment of the other creditors; (iii) engages in fraud with respect to, or makes misrepresentations to, the other creditors; or (iv) uses its influence as a stockholder to dominate or control a Borrower to the detriment of other creditors of the Borrower, a court may elect to subordinate the claim of the offending lender or bondholder to the claims of the disadvantaged creditor or creditors, a remedy called "equitable subordination".

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Because affiliates of, or persons related to, the Adviser may hold equity or other interests in obligors of the Fund, the Fund could be exposed to claims for equitable subordination or lender liability or both based on such equity or other holdings.

### **Non-U.S. Securities Risk**

The Fund may invest in securities, including Senior Loans and Subordinated Loans, of non-U.S. issuers or Borrowers. These investments involve certain risks not involved in domestic investments and may experience more rapid and extreme changes in value than investments in securities of U.S. companies. Markets for these investments in foreign countries often are not as developed, efficient or liquid as similar markets in the United States, and therefore, the prices of non-U.S. securities be more volatile. Certain foreign countries may impose restrictions on the ability of issuers of non-U.S. securities to make payments of principal and interest to investors located outside the country, whether from currency blockage or otherwise. In addition, the Fund will be subject to risks associated with adverse political and economic developments in foreign countries, including seizure or nationalization of foreign deposits, different legal systems and laws relating to creditors' rights and the potential inability to enforce legal judgments, all of which could cause the Fund to lose money on its investments in non-U.S. securities. Generally, there is less readily available and reliable information about non-U.S. issuers or Borrowers due to less rigorous disclosure or accounting standards and regulatory practices. The ability of a foreign sovereign issuer to make timely payments on its debt obligations will also be strongly influenced by the sovereign issuer's balance of payments, including export performance, its access to international credit facilities and investments, fluctuations of interest rates and the extent of its foreign reserves. The cost of servicing external debt generally will also be adversely affected by rising international interest rates, as many external debt obligations bear interest at rates that are adjusted based upon international interest rates. Because non-U.S. securities may trade on days when the Fund's common shares are not traded on the NYSE, the market value or net asset value of the Fund's shares can change at times when the Fund's common shares cannot be sold.

### **Foreign Currency Risk**

Because the Fund may invest in securities denominated or quoted in currencies other than the U.S. dollar, changes in foreign currency exchange rates may affect the value of securities in the Fund and the unrealized appreciation or depreciation of investments. Currencies of certain countries may be volatile and therefore may affect the value of securities denominated in such currencies, which means that the Fund's net asset value could decline as a result of changes in the exchange rates between foreign currencies and the U.S. dollar. The Adviser may, but is not required to, elect for the Fund to seek to protect itself from changes in currency exchange rates through hedging transactions depending on market conditions. The Fund may incur costs in connection with the conversions between various currencies. In addition, certain countries may impose foreign currency exchange controls or other restrictions on the repatriation, transferability or convertibility of currency.

### **Repurchase Agreements and Reverse Repurchase Agreements Risk**

Subject to its investment objective and policies, the Fund may invest in repurchase agreements. Repurchase agreements are transactions in which the Fund purchases securities or other obligations from a bank or securities dealer (or its affiliate) and simultaneously commits to resell them to the counterparty at an agreed-upon date or upon demand and at a price reflecting a market rate of interest unrelated to the coupon rate or maturity of the purchased obligations. The Fund maintains custody of the underlying obligations prior to their repurchase, either through its regular custodian or through a special "triparty" custodian or sub-custodian that maintains separate accounts for both the Fund and its counterparty. The obligation of the counterparty to pay the repurchase price on the date agreed to or upon demand is, in effect, secured by such obligations.

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Repurchase agreements carry certain risks not associated with direct investments in securities, including a possible decline in the market value of the underlying obligations. If their value becomes less than the repurchase price, plus any agreed-upon additional amount, the counterparty must provide additional collateral so that at all times the collateral is at least equal to the repurchase price plus any agreed-upon additional amount. The difference between the total amount to be received upon repurchase of the obligations and the price that was paid by the Fund upon acquisition is accrued as interest and included in its net investment income.

Repurchase agreements involving obligations other than U.S. Government securities (such as commercial paper and corporate bonds) may be subject to special risks and may not have the benefit of certain protections in the event of the counterparty's insolvency. In the event of the bankruptcy or other default of a seller of a repurchase agreement, the Fund could experience both delays in liquidating the underlying securities and losses, including (1) possible decline in the value of the underlying security during the period in which the Fund seeks to enforce its rights thereto; (2) possible lack of access to income on the underlying security during this period; and (3) expenses of enforcing its rights.

Reverse repurchase agreements involve the sale of securities held by the Fund subject to the Fund's agreement to repurchase the securities at an agreed-upon date or upon demand and at a price reflecting a market rate of interest. Reverse repurchase agreements may be subject to the Fund's limitation on borrowings and may be entered into only with banks or securities dealers or their affiliates.

Reverse repurchase agreements involve the risk that the buyer of the securities sold by the Fund might be unable to deliver them when the Fund seeks to repurchase. In the event that the buyer of securities under a reverse repurchase agreement files for bankruptcy or becomes insolvent, the buyer, trustee or receiver may receive an extension of time to determine whether to enforce the Fund's obligation to repurchase the securities, and the Fund's use of the proceeds of the reverse repurchase agreement may effectively be restricted pending such decision.

### **U.S. Government Debt Securities Risk**

U.S. Government debt securities generally do not involve the credit risks associated with investments in other types of debt securities, although, as a result, the yields available from U.S. Government debt securities are generally lower than the yields available from other securities. Like other debt securities, however, the values of U.S. Government securities change as interest rates fluctuate. Fluctuations in the value of portfolio securities will not affect interest income on existing portfolio securities but will be reflected in the Fund's net asset value. Because the magnitude of these fluctuations will generally be greater at times when the Fund's average maturity is longer, under certain market conditions the Fund may, for temporary defensive purposes, accept lower current income from short-term investments rather than investing in higher yielding long-term securities.

### **Government Intervention in the Financial Markets**

The recent instability in the financial markets has led the U.S. Government and other governments around the world to take a number of unprecedented actions designed to support certain financial institutions and segments of the financial markets that have experienced extreme volatility, and in some cases a lack of liquidity. Federal, state, and other governments, their regulatory agencies or self regulatory organizations may take additional actions that affect the regulation of the securities, debt instruments or structured products in which the Fund invests, or the issuers of such securities or structured products, in ways that are unforeseeable. Legislation or regulation may also change the way in which the Fund itself is regulated. Such legislation or regulation could limit or preclude the Fund's ability to achieve its investment objective. The Adviser will monitor developments and seek to manage

the Fund's portfolio in a manner consistent with achieving the Fund's investment objective, but there can be no assurance that it will be successful in doing so. Governments or their agencies may also acquire distressed assets from financial institutions and acquire ownership interests in those institutions. The implications of government ownership and disposition of these assets are unclear, and such a program may have positive or negative effects on the liquidity, valuation and performance of the Fund's portfolio holdings. Furthermore, volatile financial markets can expose the Fund to greater market and liquidity risk and potential difficulty in valuing portfolio instruments held by the Fund. The Adviser will monitor developments and seek to manage the Fund's portfolio in a manner consistent with achieving the Fund's investment objective, but there can be no assurance that it will be successful in doing so.

#### **Market Disruption and Geopolitical Risk**

Instability in the Middle East, Afghanistan and Pakistan, the aftermath of the war in Iraq, terrorist attacks in the United States and around the world the impact of the earthquake and tsunami on Japan and other natural disasters and other events may result in market volatility, may have long-term effects on the United States and worldwide financial markets and may cause further economic uncertainties in the United States and worldwide. The Fund does not know how long the financial markets may be affected by these events and cannot predict the effects of these events or similar events in the future on the U.S. economy and financial markets. These events could impact interest rates, secondary trading, ratings, credit risk, inflation and other factors relating to an investment in the Fund's common shares. High yield securities and leveraged loans tend to be more volatile than investment grade fixed income securities and, as a result, these events and other market disruptions may have a greater impact on the prices and volatility of high yield securities than on investment grade fixed income securities. There can be no assurance that such market disruptions may not have other material and adverse implications for the high yield securities or leveraged loan markets.

#### **Principal Risks Relating to Fund Operations**

##### **Leverage Risk**

The Fund intends to utilize leverage and may utilize leverage to the maximum extent permitted by law for investment and other general corporate purposes. The Fund may obtain leverage by issuing preferred shares and/or notes and it may also borrow funds from banks and other financial institutions. The Fund may also gain leverage synthetically through swaps and other Derivatives. The use of leverage to purchase additional securities creates an opportunity for increased common share dividends, but also creates risks for common shareholders, including increased variability of the Fund's net income, distributions and/or net asset value in relation to market changes. Leverage is a speculative technique that exposes the Fund to greater risk and increased costs than if it were not implemented. Increases and decreases in the value of the Fund's portfolio will be magnified if the Fund uses leverage. In particular, leverage may magnify interest rate risk, which is the risk that the prices of portfolio securities will fall (or rise) if market interest rates for those types of securities rise (or fall). As a result, leverage may cause greater changes in the Fund's net asset value, which will be borne entirely by the Fund's common shareholders. To the extent that the Fund makes investments in Senior Loans or other debt instruments structured with LIBOR floors, the Fund will not realize additional income if rates increase to levels below the LIBOR floor but the Fund's cost of financing is expected to increase, resulting in the potential for a decrease in the level of income available for dividends or distributions made by the Fund. If the Fund issues preferred shares and/or notes or engages in other borrowings, it will have to pay dividends on its preferred shares or interest on its notes or borrowings, which will increase expenses (which will be borne entirely by common shareholders) and may reduce the Fund's return. These dividend payments or interest expenses may be greater than the Fund's return on the underlying investments. The Fund's leveraging strategy, if utilized, may not be successful.

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The Fund may issue preferred shares and/or notes or other forms of indebtedness as a form of leverage. These means of obtaining leverage would be senior to the Fund's common shares, such that holders of preferred shares and/or notes or other Fund indebtedness would have priority over the common shareholders in the distribution of the Fund's assets, including dividends, distributions of principal and liquidating distributions. If preferred shares are issued and outstanding, holders of the preferred shares would elect two directors of the Fund, and would vote separately as a class on certain matters which may at times give holders of preferred shares disproportionate influence over the Fund's affairs. If the preferred shares were limited in their term, redemptions of such preferred shares would require the Fund to liquidate its investments and would reduce the Fund's use of leverage, which could negatively impact common shareholders. In addition, if the Fund elects to issue preferred shares and/or notes (or other forms of indebtedness) its ability to make distributions to its common shareholders or to repurchase its stock will be limited by the asset coverage requirements and other limitations imposed by the Investment Company Act and the Fund's lenders.

The Fund will pay (and common shareholders will bear) all costs and expenses relating to the issuance and ongoing maintenance of any preferred shares and/or notes or other forms of indebtedness issued by the Fund, including higher advisory fees. As a result, the Fund cannot assure you that the issuance of preferred shares and/or notes or other forms of indebtedness will provide a higher yield or return to the holders of the Fund's common shares. If the Fund offers and/or issues preferred shares and/or notes or other forms of indebtedness, the costs of the offering will be borne immediately by the Fund's common shareholders and result in a reduction of the net asset value of the Fund's common shares.

The Fund anticipates that any money borrowed from a bank or other financial institution for investment purposes will accrue interest based on shorter-term interest rates that would be periodically reset. So long as the Fund's portfolio provides a higher rate of return, net of expenses, than the interest rate on borrowed money, as reset periodically, the leverage may cause common shareholders to receive a higher current rate of return than if the Fund were not leveraged. If, however, long-term and/or short-term rates rise, the interest rate on borrowed money could exceed the rate of return on securities held by the Fund, reducing returns to common shareholders. Developments in the credit markets may adversely affect the ability of the Fund to borrow for investment purposes and may increase the costs of such borrowings, which would reduce returns to common shareholders.

There is no assurance that a leveraging strategy will be successful. Leverage involves risks and special considerations for common shareholders, including:

the likelihood of greater volatility of net asset value, market price and dividend rate of common shares than a comparable portfolio without leverage;

the risk that fluctuations in interest rates on borrowings and short-term debt or in dividend payments on, principal proceeds distributed to, or redemption of any preferred shares and/or notes or other forms of indebtedness that the Fund has issued will reduce the return to the common shareholders;

the effect of leverage in a declining market, which is likely to cause a greater decline in the net asset value of the Fund's common shares than if the Fund were not leveraged, which may result in a greater decline in the market price of the Fund's common shares;

when the Fund uses financial leverage, the investment advisory fees payable to the Adviser will be higher than if the Fund did not use leverage, and may provide a financial incentive to the Adviser to increase the Fund's use of leverage and create an inherent conflict of interest; and

leverage may increase expenses (which will be borne entirely by common shareholders), which may reduce total return.

If the Fund issues preferred shares and/or notes or other forms of indebtedness, the Fund may be subject to certain restrictions on investments imposed by the guidelines of one or more rating agencies, which may issue ratings for the preferred shares and/or notes or short-term debt securities issued by the Fund, or may be subject to covenants or other restrictions imposed by its lenders. These guidelines may impose asset coverage or portfolio composition requirements that are more stringent than those imposed by the Investment Company Act. Certain types of borrowings by the Fund may result in the Fund being subject to covenants relating to asset coverage and portfolio composition requirements. These covenants and restrictions may negatively affect the Fund's ability to achieve its investment objective.

#### **Key Personnel**

The Adviser depends on the diligence, skill and network of business contacts of its senior management. For a description of the senior management team, see "The Portfolio Managers". The Adviser will also depend, to a significant extent, on its access to the investment professionals and partners of its affiliates and the information and deal flow generated by the investment professionals of its affiliates in the course of their investment and portfolio management activities. The senior management of the Adviser will, among other things, evaluate, negotiate, structure and monitor the Fund's investments. The Fund's future success will depend on the continued service of the senior management team of the Adviser. As with any managed fund, the Adviser may not be successful in selecting the best-performing securities or investment techniques for the Fund's portfolio and the Fund's performance may lag behind that of similar funds. The Adviser has informed the Fund that the investment professionals associated with the Adviser are actively involved in other investment activities not concerning the Fund and will not be able to devote all of their time to the Fund's business and affairs. The departure of any of the senior managers of the Adviser, or of a significant number of the investment professionals or partners of the Adviser's affiliates, could have a material adverse effect on the Fund's ability to achieve its investment objective. Individuals not currently associated with the Adviser may become associated with the Fund and the performance of the Fund may also depend on the experience and expertise of such individuals. In addition, there is no assurance that the Adviser will remain the Fund's investment adviser or that the Adviser will continue to have access to the investment professionals and partners of its affiliates and the information and deal flow generated by the investment professionals of its affiliates.

#### **Potential Conflicts of Interest Risk Allocation of Investment Opportunities**

The Adviser has adopted allocation procedures that are intended to ensure that each fund or account managed by Ares ("Ares-advised funds") is treated in a manner that, over a period of time, is fair and equitable. Certain existing Ares-advised funds have, and future Ares-advised funds may have, investment objectives similar to those of the Fund and such funds will invest in asset classes similar to those targeted by the Fund. Certain other existing Ares-advised funds do not, and future Ares-advised funds may not, have similar investment objectives, but such funds may from time to time invest in asset classes similar to those targeted by the Fund. The Adviser will endeavor to allocate investment opportunities in a fair and equitable manner, and in any event consistent with any fiduciary duties owed to the Fund and in an effort to avoid favoring one client over another and taking into account all relevant facts and circumstances, including (without limitation): (i) differences with respect to available capital, (ii) differences with respect to investment objectives or current investment strategies, (iii) differences in risk profile at the time the opportunity becomes available, (iv) the potential transaction and other costs of allocating an opportunity among the Ares-advised funds, (v) potential conflicts of interests, (vi) the nature of the investment or transaction, (vii) current and anticipated market and general economic conditions and (viii) existing and prior positions in the Borrower. Nevertheless, it is possible that the Fund may not be given the opportunity to participate in certain investments made by investment funds managed by investment managers affiliated with the Adviser. In



the event investment opportunities are allocated among the Fund and the other Ares-advised funds, the Fund may not be able to structure its investment portfolio in the manner desired.

Furthermore, the Fund and the other Ares-advised funds may make investments in securities where the prevailing trading activity may make impossible the receipt of the same price or execution on the entire volume of securities purchased or sold by the Fund and the other Ares-advised funds. When this occurs, the various prices may be averaged, and the Fund will be charged or credited with the average price. Thus, the effect of the aggregation may operate on some occasions to the disadvantage of the Fund. In addition, under certain circumstances, the Fund may not be charged the same commission or commission equivalent rates in connection with a bunched or aggregated order.

It is likely that the other Ares-advised funds may make investments in the same or similar securities at different times and on different terms than the Fund. The Fund and the other Ares-advised funds may make investments at different levels of an issuer's capital structure or otherwise in different classes of an issuer's securities. Such investments may inherently give rise to conflicts of interest or perceived conflicts of interest between or among the various classes of securities that may be held by such entities. Conflicts may also arise because portfolio decisions regarding the Fund may benefit the other Ares-advised funds. For example, the sale of a long position or establishment of a short position by the Fund may impair the price of the same security sold short by (and therefore benefit) one or more Ares-advised funds, and the purchase of a security or covering of a short position in a security by the Fund may increase the price of the same security held by (and therefore benefit) one or more Ares-advised funds.

The Adviser, its affiliates and their clients may pursue or enforce rights with respect to an issuer in which the Fund has invested, and those activities may have an adverse effect on the Fund. As a result, prices, availability, liquidity and terms of the Fund's investments may be negatively impacted by the activities of the Adviser and its affiliates or their clients, and transactions for the Fund may be impaired or effected at prices or terms that may be less favorable than would otherwise have been the case.

The Adviser is paid a fee based on a percentage of the Fund's Managed Assets. The Adviser may have a conflict of interest in deciding whether to cause the Fund to incur leverage or to invest in more speculative investments or financial instruments, thereby potentially increasing the assets of the Fund and, accordingly, the fees received by the Adviser. Certain other Ares-advised funds pay the Adviser or its affiliates performance-based compensation, which could create an incentive for the Adviser or affiliate to favor such investment fund or account over the Fund.

#### **Potential Conflicts of Interest Risk Allocation of Personnel**

The Fund's executive officers and directors, and the employees of the Adviser, serve or may serve as officers, directors or principals of entities that operate in the same or a related line of business as the Fund or of investment funds or accounts managed by the Adviser or its affiliates. As a result, they may have obligations to investors in those entities, the fulfillment of which might not be in the best interests of the Fund or its shareholders. Additionally, certain personnel of the Adviser and its management may face conflicts in their time management and commitments.

#### **Potential Conflicts of Interest Risk Lack of Information Barriers**

There are generally no information barriers among the Adviser and certain of its affiliates. Nonetheless, from time to time the Adviser may establish information barriers between investment professionals and others who might possess material non-public information. If no information barriers are in place and the Adviser or its affiliates receives material non-public information about a particular company, or have an interest in investing in a particular company, the Fund may be prevented from investing or liquidating an investment in such company. This risk may affect the Fund more than it does other investment vehicles, as the Adviser generally does not use information barriers that many

firms implement to separate persons who make investment decisions from others who might possess material, non-public information that could influence such decisions. The Adviser's decision not to implement these barriers could prevent its investment professionals from undertaking certain transactions such as advantageous investments or dispositions that would be permissible for them otherwise. In addition, the Adviser could in the future decide to establish information barriers permanently or on a more frequent basis, particularly as its business expands and diversifies. See "Conflicts of Interest" for an additional discussion of the types of conflicts of interest to which the operations of the Fund may be subject.

#### **Limitations on Transactions with Affiliates Risk**

The Investment Company Act limits the Fund's ability to enter into certain transactions with certain of the Fund's affiliates. As a result of these restrictions, the Fund may be prohibited from buying or selling any security directly from or to any portfolio company of a registered investment company or private equity fund managed by Ares or any of its affiliates. The Investment Company Act also prohibits certain "joint" transactions with certain of the Fund's affiliates, which could include investments in the same portfolio company (whether at the same or different times). These limitations may limit the scope of investment opportunities that would otherwise be available to the Fund.

#### **Non-Diversification Risk**

The Fund is classified as "non-diversified" under the Investment Company Act. As a result, it can invest a greater portion of its assets in obligations of a single issuer than a "diversified" fund. The Fund may therefore be more susceptible than a diversified fund to being adversely affected by any single corporate, economic, political or regulatory occurrence. The Fund intends to qualify for the special tax treatment available to RICs under Subchapter M of the Code, and thus intends to satisfy the diversification requirements applicable to RICs. Shareholders should refer to the "Material U.S. Federal Income Tax Considerations" section of this prospectus for a description of such requirements.

#### **Risks Associated with Fund Distribution Policy**

The Fund intends to make regular distributions. Currently, in order to maintain a relatively stable level of distributions, the Fund may pay out less than all of its net investment income, pay out undistributed income from prior months, return capital in addition to current period net investment income or borrow money to fund distributions. The distributions for any full or partial calendar year might not be made in equal amounts, and one distribution may be larger than the other. The Fund will make a distribution only if authorized by the Fund's Board of Directors and declared by the Fund out of assets legally available for these distributions. This distribution policy may, under certain circumstances, have certain adverse consequences to the Fund and its shareholders because it may result in a return of capital, which would reduce the Fund's net asset value and, over time, potentially increase the Fund's expense ratio. If the Fund distributes a return of capital, it means that the Fund is returning to shareholders a portion of their investment rather than making a distribution that is funded from the Fund's earned income or other profits. The Fund's distribution policy may be changed at any time by the Board of Directors.

If the Fund elects to issue preferred shares and/or notes or other forms of indebtedness, its ability to make distributions to its common shareholders will be limited by the asset coverage requirements and other limitations imposed by the Investment Company Act and the Fund's lenders.

#### **No Operating History**

The Fund is a recently formed entity and has no previous operating or trading history upon which a potential investor can evaluate the Fund's performance. Special risks apply during a fund's start-up

period, including the risk of failing to achieve the desired portfolio composition within the time period expected and the risk of commencing operations under inopportune market conditions. The Fund's common shares have no history of trading.

#### **Inadequate Return**

No assurance can be given that the returns on the Fund's investments will be commensurate with the risk of investment in the Fund's common shares nor can the Fund assure you that the Adviser will be able to find enough appropriate investments that meet the Fund's investment criteria. Fund investments may be highly speculative and aggressive, therefore, an investment in the Fund's common shares may not be suitable for someone with a low risk tolerance. Investors should not purchase the Fund's common shares unless they have the resources to sustain the loss of their entire investment in the Fund.

#### **Closed-End Structure; Market Discount from Net Asset Value**

Shares of closed-end investment companies that trade in a secondary market frequently trade at market prices that are lower than their net asset values. This is commonly referred to as "trading at a discount". This risk may be greater for investors expecting to sell their shares in a relatively short period after completion of the public offering. As a result, the Fund is designed primarily for long-term investors. The Fund's total assets will be reduced following this offering by the amount of offering and related expenses to be paid by the Fund.

Although the value of the Fund's net assets is generally considered by market participants in determining whether to purchase or sell the Fund's common shares, whether an investor will realize gains or losses upon the sale of the Fund's common shares will depend entirely upon whether the market price of the Fund's common shares at the time of sale is above or below the investor's purchase price for the Fund's common shares. Because the market price of the Fund's common shares will be determined by factors such as relative supply of and demand for the Fund's common shares in the market, general market and economic conditions, and other factors beyond the control of the Fund, the Fund cannot predict whether the Fund's common shares will trade at, below or above net asset value or at, below or above the initial public offering price. The net asset value of the Fund's common shares, however, is expected to be reduced immediately following the initial public offering as a result of the payment of offering costs. As with any security, complete loss of investment is possible.

#### **Anti-Takeover Provisions**

The Fund's charter and bylaws contain provisions that may delay, defer or prevent a transaction or a change in control that might otherwise be in the best interests of the shareholders. Such provisions may discourage outside parties from seeking control of the Fund or seeking to change the composition of its Board of Directors, which could result in shareholders not having the opportunity to realize a price greater than the current market price for their shares at some time in the future.

The Fund's charter classifies the Fund's Board of Directors into three classes, serving staggered three-year terms, and authorizes the Board of Directors to cause the Fund to issue additional shares of common stock. The Board of Directors also may classify or reclassify any unissued shares of common stock into one or more series of stock, including preferred stock, may set the terms of each class or series and may authorize the Fund to issue the newly-classified or reclassified shares. The Board of Directors may, without any action by the Fund's shareholders, amend the Fund's charter from time to time to increase or decrease the aggregate number of shares of stock or the number of shares of stock of any class or series that the Fund has the authority to issue.

**Risk of Failure to Qualify as a RIC**

Although the Fund intends to elect to be treated as a RIC under Subchapter M of the Code, no assurance can be given that the Fund will be able to qualify for and maintain RIC status. If the Fund qualifies as a RIC under the Code, the Fund will not be required to pay corporate level federal income taxes on its income and capital gains distributed (or deemed distributed) to its shareholders. To qualify as a RIC under the Code and to be relieved of federal taxes on income and gains distributed to the Fund's shareholders, the Fund must meet certain source-of-income, asset diversification and distribution requirements. The distribution requirement for a RIC is satisfied if the Fund distributes at least 90% of its net ordinary income and net short-term capital gains in excess of net long-term capital losses, if any, to the Fund's shareholders on an annual basis.

**Risk of Recognition of "Phantom" Income**

For U.S. federal income tax purposes, the Fund may be required to include in income certain amounts that the Fund has not yet received in cash, such as the accretion of "original issue discount". This may arise if the Fund purchases assets that were issued at a discount or in certain other circumstances. The Fund may be required to include in income certain other amounts that it will not receive in cash. In these cases, the Fund may have difficulty meeting the requirement to distribute at least 90% of the Fund's net ordinary income and net short-term capital gains in excess of net long-term capital losses, if any, to qualify for the tax benefits available to RICs. To satisfy this distribution requirement, the Fund may have to sell some investments at times and/or at prices the Fund would not consider advantageous, raise additional debt or equity capital or reduce new investment originations and sourcings. If the Fund is not able to obtain such cash from other sources, the Fund may fail to qualify for the tax benefits available to RICs and thus be subject to corporate-level income tax. Please refer to the "Material U.S. Federal Income Tax Considerations" section in this prospectus.

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The above discussion of the various risks associated with the Fund and its investments is not, and is not intended to be, a complete enumeration or explanation of the risks involved in an investment in the Fund. Prospective investors should read this entire prospectus and consult with their own advisors before deciding whether to invest in the Fund. In addition, as market, economic, political, tax and other factors change or evolve over time, an investment in the Fund may be subject to risk factors not foreseeable at this time or able to be described in this prospectus at this time.

## LISTING OF SHARES

It is anticipated that the Fund's common shares will be approved for listing on the NYSE, subject to notice of issuance, under the ticker symbol "ACS" and will be required to meet the NYSE's listing requirements.

## INVESTMENT RESTRICTIONS

### Fundamental Investment Restrictions:

The following investment restrictions are fundamental policies of the Fund and may not be changed without the approval of the holders of a majority of the Fund's outstanding common shares and preferred shares, if any, voting as a single class (which for this purpose and under the Investment Company Act means the lesser of (i) 67% of the outstanding voting shares represented at a meeting at which more than 50% of the outstanding voting shares are represented or (ii) more than 50% of the outstanding voting shares). Subject to such shareholder approval, the Fund may not:

1. Make investments for the purpose of exercising control or management;
2. Purchase or sell real estate, commodities or commodity contracts, except that, to the extent permitted by applicable law, the Fund may (i) invest in securities directly or indirectly secured by real estate or interests therein or issued by entities that invest in real estate or interests therein; (ii) acquire, hold and sell real estate acquired through default, liquidation, or other distributions of an interest in real estate as a result of the Fund's ownership of other assets; (iii) invest in instruments directly or indirectly secured by commodities or securities issued by entities that invest in or hold such commodities and acquire temporarily commodities as a result thereof; and (iv) purchase and sell forward contracts, financial futures contracts and options thereon;
3. Issue senior securities or borrow money except as permitted by Section 18 of the Investment Company Act or otherwise as permitted by applicable law;
4. Underwrite securities of other issuers, except insofar as the Fund may be deemed an underwriter under the Securities Act in selling its own securities or portfolio securities;
5. Make loans to other persons, except that (i) the Fund will not be deemed to be making a loan to the extent that the Fund makes investments in accordance with its stated investment strategies or otherwise purchases Senior Loans, Subordinated Loans, bonds, debentures or other loans or debt securities of any type, preferred securities, commercial paper, pass through instruments, loan participation interests, corporate loans, certificates of deposit, bankers acceptances, repurchase agreements or any similar instruments; (ii) the Fund may take short positions in any security or financial instrument; and (iii) the Fund may lend its portfolio securities in an amount not in excess of 33<sup>1</sup>/<sub>3</sub>% of its total assets, taken at market value, provided that such loans shall be made in accordance with applicable law; and
6. Invest more than 25% of its total assets (taken at market value at the time of each investment) in the securities of issuers in any one industry; provided that securities issued or guaranteed by the U.S. Government or its agencies or instrumentalities and tax-exempt securities of governments or their political subdivisions will not be considered to represent an industry. The Fund determines industries by reference to the Global Industry Classification Standard as it may be amended from time to time.

**Non-Fundamental Investment Restrictions:**

The Fund is also subject to the following non-fundamental restrictions and policies, which may be changed by the Board of Directors without the approval of the holders of a majority of the outstanding common shares or preferred shares, if any. The Fund may not:

1. change or alter the Fund's investment objective;
2. under normal market conditions, invest less than 80% of its net assets, plus the amount of any borrowings for investment purposes, in senior credit strategies, including, but not limited to, Senior Loans and other debt instruments. The Fund will provide shareholders with written notice at least 60 days prior to changing this non-fundamental policy of the Fund, unless such change was previously approved by shareholders. As used in this prospectus, "net assets" are determined by subtracting any liabilities (including borrowings for investment purposes) from the total value of the Fund's portfolio investments and other assets;
3. purchase securities of other investment companies, except to the extent that such purchases are permitted by applicable law, including any exemptive orders issued by the SEC; and
4. purchase any securities on margin except as may be necessary in connection with transactions described under "The Fund's Investments" above and except that the Fund may obtain such short-term credit as may be necessary for the clearance of purchases and sales of portfolio investments (the deposit or payment by the Fund of initial or variation margin in connection with swaps, forward contracts and financial futures contracts and options thereon is not considered the purchase of a security on margin).

Compliance with any policy or limitation of the Fund that is expressed as a percentage of assets is determined at the time of purchase of portfolio securities. The policy will not be violated if these limitations are exceeded because of changes in the market value or investment rating of the Fund's assets or if a Borrower distributes equity securities incident to the purchase or ownership of a Senior Loan or in connection with a reorganization of a Borrower. The Fund interprets its policies with respect to borrowing and lending to permit such activities as may be lawful for the Fund, to the full extent permitted by the Investment Company Act or by exemption from the provisions thereof pursuant to an exemptive order of the SEC.

**MANAGEMENT OF THE FUND**

**Board of Directors**

The Fund's business and affairs are managed under the direction of the Board of Directors. The Board of Directors currently consists of [ ] members, [ ] of whom are not "interested persons" of the Fund as defined in Section 2(a)(19) of the Investment Company Act. The Fund refers to these individuals as its independent directors. The Board appoints the Fund's officers, who serve at the discretion of the Board. The Board maintains an audit committee and nominating and governance committee, and may establish additional committees from time to time as necessary.

*Biographical Information.* Certain biographical and other information relating to the Directors of the Fund is set out below, including their ages, their principal occupations for at least the last five

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years, the length of time served, the total number of portfolios overseen in the complex of funds advised by the Adviser ("Ares Funds") and other public directorships.

| Name, Address <sup>(1)</sup><br>and Age of Director | Position(s)<br>Held<br>with the<br>Fund | Term of<br>Office<br>and<br>Length of<br>Time<br>Served | Principal<br>Occupation(s)<br>During Past Five<br>Years | Number of<br>Ares<br>Funds<br>and<br>Portfolios<br>Overseen | Other<br>Directorships<br>Held by the<br>Director<br>During Past Five<br>Years |
|---|---|---|---|---|--|
| <b>Interested Directors</b>                         |   |   |   |   |  |
| David A. Sachs<br>[ ]                               | Director                                | Since<br>2011   | [ ]   | [ ]   | [ ]  |
| Kevin A. Frankel<br>[ ]                             | Director                                | Since<br>2011   | [ ]   | [ ]   | [ ]  |
| <b>Independent Directors</b>                        |   |   |   |   |  |
| [ ]   | Director                                | Since<br>2011   | [ ]   | [ ]   | [ ]  |
| [ ]   | Director                                | Since<br>2011   | [ ]   | [ ]   | [ ]  |
| [ ]   | Director                                | Since<br>2011   | [ ]   | [ ]   | [ ]  |

(1) The address of each Director is care of the Fund at 2000 Avenue of the Stars, 12<sup>th</sup> Floor, Los Angeles, CA 90067.

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*Biographical Information of the Executive Officers of the Fund.* Certain biographical and other information relating to the executive officers of the Fund is set out below:

| Name, Address <sup>(1)</sup> and Age of Officer | Position(s) Held with the Fund                   | Term of Office and Length of Time Served | Principal Occupation(s) During Past Five Years   |
|---|--|--|--|
| Americo Cascella<br>[ ]                         | President and Chief Executive Officer            | Since 2011                               | Mr. Cascella is a Portfolio Manager in the Ares Capital Markets Group. Mr. Cascella serves as an Investment Committee member on all Ares U.S. Credit Strategy/Capital Markets Funds. |
| Dan Nguyen<br>[ ]                               | Treasurer, Chief Financial Officer and Secretary | Since 2011                               | [ ]  |
| [ ]<br>[ ]                                      | [ ]  | Since 2011                               | [ ]  |
| [ ]<br>[ ]                                      | [ ]  | Since 2011                               | [ ]  |

(1) The address of each officer is care of the Fund at 2000 Avenue of the Stars, 12<sup>th</sup> Floor, Los Angeles, CA 90067.

*Stock Ownership.* Information relating to each Director's share ownership in the Fund and in all Ares Funds as of December 31, 2010 is set out in the chart below.

| Name                         | Dollar Range of Equity Securities in the Fund | Aggregate Dollar Range of Equity Securities in Ares Funds |
|------------------------------|---|---|
| <i>Interested Directors</i>  |   |   |
| David A. Sachs               | None  | None  |
| Kevin A. Frankel             | None  | None  |
| <i>Independent Directors</i> |   |   |
| [ ]                          | None  | None  |
| [ ]                          | None  | None  |
| [ ]                          | None  | None  |

As of the date of this prospectus, none of the Directors and officers of the Fund owned any outstanding shares of the Fund. As of the date of this prospectus, none of the Independent Directors of the Fund or their immediate family members owned beneficially or of record any securities in the Adviser or the Underwriters.

*Compensation of Directors.* The following table sets forth the estimated compensation to be paid by the Fund to the Directors projected through the end of the Fund's first fiscal year and the projected aggregate compensation to be paid to them from all Ares Funds for the calendar year ending



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December 31, 2011. The Directors who are "interested persons", as defined in the Investment Company Act, of the Fund and the Fund's officers do not receive compensation from the Fund.

| Name                         | Aggregate<br>Compensation<br>from the Fund | Pension or<br>Retirement<br>Benefits<br>Accrued as<br>Part of Fund<br>Expenses | Total<br>Compensation<br>from the Fund<br>and Ares Fund<br>Complex Paid<br>to Each<br>Director |
|------------------------------|--|--|--|
| <i>Interested Directors</i>  |  |  |  |
| David A. Sachs               | None                                       | None   | None   |
| Kevin A. Frankel             | None                                       | None   | None   |
| <i>Independent Directors</i> |  |  |  |
| [ ]                          | \$[ ]                                      | None   | \$[ ]  |
| [ ]                          | \$[ ]                                      | None   | \$[ ]  |
| [ ]                          | \$[ ]                                      | None   | \$[ ]  |

### *Board Role in Risk Oversight*

The Board of Directors expects to perform its risk oversight function primarily through (a) its two standing committees, which report to the entire Board of Directors and are comprised solely of independent directors and (b) monitoring by the Fund's Chief Compliance Officer in accordance with the Fund's compliance policies and procedures.

As described below in more detail under "Committees of the Board of Directors", the audit committee and the nominating and governance committee intend to assist the Board of Directors in fulfilling its risk oversight responsibilities. The audit committee's risk oversight responsibilities include overseeing the Fund's accounting and financial reporting processes, the Fund's systems of internal controls regarding finance and accounting and audits of the Fund's financial statements and discussing with management the Fund's major financial risk exposures and the steps management has taken to monitor and control such exposures, including the Fund's risk assessment and risk management policies. The nominating and governance committee's risk oversight responsibilities include selecting, researching and nominating directors for election by the Fund's shareholders, developing and recommending to the board a set of corporate governance principles and overseeing the evaluation of the Board of Directors and its committees. Both the audit committee and the nominating and governance committee consist solely of independent directors.

The Board of Directors will perform its risk oversight responsibilities with the assistance of the Fund's Chief Compliance Officer. The Fund's Chief Compliance Officer prepares a written report annually discussing the adequacy and effectiveness of the compliance policies and procedures of the Fund and certain of its service providers. The Chief Compliance Officer's report, which is reviewed by the Board of Directors, addresses at a minimum (a) the operation of the compliance policies and procedures of the Fund and certain of its service providers since the last report; (b) any material changes to such policies and procedures since the last report; (c) any recommendations for material changes to such policies and procedures as a result of the Chief Compliance Officer's annual review and (d) any compliance matter that has occurred since the date of the last report about which the Board of Directors would reasonably need to know to oversee the Fund's compliance activities and risks. In addition, the Chief Compliance Officer meets separately in executive session with the independent directors at least once each year.

The Fund believes that the Board of Director's role in risk oversight is effective and appropriate given the extensive regulation to which the Fund is already subject as a closed-end investment company registered with the SEC. Specifically, as a closed-end investment company registered with the SEC the Fund must comply with certain regulatory requirements that control the levels of risk in the Fund's

business and operations. For example, the Fund's ability to incur indebtedness is limited such that the Fund's asset coverage must equal at least 300% immediately after each time it incurs indebtedness. In addition, the Fund has elected to be treated as a RIC under Subchapter M of the Code. As a RIC the Fund must, among other things, meet certain income source and asset diversification requirements. See "Certain Material U.S. Federal Income Tax Considerations".

The Fund believes that the extent of the Board's (and its committees') role in risk oversight complements the Board of Director's leadership structure because it allows the Fund's independent directors, through the two fully independent board committees, a lead independent director, executive sessions with the Chief Compliance Officer, auditor and independent valuation providers and otherwise, to exercise oversight of risk without any conflict that might discourage critical review.

The Board of Directors believes that Board roles in risk oversight must be evaluated on a case by case basis and that the existing Board role in risk oversight is appropriate. However, the Board of Directors continually re-examine the manner in which the Board of Directors administers its oversight function on an ongoing basis to ensure that it continues to meet the Funds needs.

#### *Committees of the Board of Directors*

The Board of Directors has established an audit committee and a nominating and governance committee. The Fund does not have a compensation committee because its executive officers do not receive any direct compensation from the Fund. During 2011, since the Fund's formation on March 14, 2011, the board of directors held [ ] formal meetings, the audit committee held [ ] formal meetings and the nominating and governance committee held [ ] formal meetings. The Fund encourages, but does not require, the directors to attend the Fund's annual meeting of stockholders.

#### ***Audit Committee.***

The members of the audit committee are [ ], each of whom is independent for purposes of the Investment Company Act and NYSE's corporate governance regulations. [ ] serves as chairman of the audit committee. The Board of Directors has adopted a charter for the audit committee, which is available on the Fund's website at [ ]. The audit committee is responsible for approving the Fund's independent accountants, reviewing with the Fund's independent accountants the plans and results of the audit engagement, approving professional services provided by the Fund's independent accountants, reviewing the independence of the Fund's independent accountants and reviewing the adequacy of the Fund's internal accounting controls.

#### ***Nominating and Governance Committee.***

The members of the nominating and governance committee are [ ], each of whom is independent for purposes of the Investment Company Act and the NYSE's corporate governance regulations. [ ] serves as chairman of the nominating and governance committee. The Board of Directors has adopted a charter for the nominating and governance committee, which is available on the Fund's website at www. [ ]. The nominating and governance committee is responsible for selecting, researching and nominating directors for election by the Fund's stockholders, selecting nominees to fill vacancies on the Board of Directors or a committee of the Board Directors, developing and recommending to the Board of Directors a set of corporate governance principles and overseeing the evaluation of the Board of Directors and its committees.

The nominating and governance committee may consider recommendations for nomination of directors from the stockholders. Nominations made by stockholders must be delivered to or mailed (setting forth the information required by the Fund's bylaws) and received at the Fund's principal executive offices not earlier than 150 days nor fewer than 120 days in advance of the first anniversary of the date on which the Fund first mailed its proxy materials for the previous year's annual meeting of stockholders; provided, however, that if the date of the annual meeting has changed by more than

30 days from the prior year, the nomination must be received not earlier than the 150th day prior to the date of such annual meeting nor later than the later of (a) the 120th day prior to the date of such annual meeting or (b) the 10th day following the day on which public announcement of such meeting date is first made.

*Director Qualifications*

The nominating and governance committee seeks candidates who possess the background, skills and expertise to make a significant contribution to the Board of Directors, the Fund and its stockholders. In considering possible candidates for election as a director, the nominating and governance committee takes into account, in addition to such other factors as it deems relevant, the desirability of selecting directors who:

are of high character and integrity;

are accomplished in their respective fields, with superior credentials and recognition;

have relevant expertise and experience upon which to be able to offer advice and guidance to management;

have sufficient time available to devote to the affairs of the Fund;

are able to work with the other members of the board of directors and contribute to the success of the Fund;

can represent the long-term interests of the Fund's stockholders as a whole; and

are selected such that the board of directors represents a range of backgrounds and experience.

*Interested Directors*

*David A. Sachs.* Mr. Sachs is a Senior Advisor in the Ares Capital Markets Group. Mr. Sachs serves as an Investment Committee member on all Ares Management funds. From 1994 to 1997, Mr. Sachs was a principal of Onyx Partners, Inc. specializing in merchant banking and related capital raising activities in the private equity and mezzanine debt markets. From 1990 to 1994, Mr. Sachs was employed by Taylor & Co., an investment manager providing investment advisory and consulting services to members of the Bass Family of Fort Worth, Texas. From 1984 to 1990, Mr. Sachs was with Columbia Savings and Loan Association, most recently as Executive Vice President, responsible for all asset-liability management as well as running the Investment Management Department. Mr. Sachs serves on the Board of Directors of Terex Corporation. Mr. Sachs serves on the McCormick Advisory Council at Northwestern University. Mr. Sachs graduated from Northwestern University with a BS in Industrial Engineering and Management Science.

*Kevin A. Frankel.* Mr. Frankel is a Transaction Partner in the Ares Private Equity Group where he focuses on transaction processing, deal execution and portfolio company management. Mr. Frankel joined Ares in 2003 as Ares Management's General Counsel. Prior to joining Ares, Mr. Frankel was with RiverOne, Inc., a company providing supply chain management software and services, most recently as Senior Vice President Business Development and General Counsel. Prior to joining RiverOne, Inc., Mr. Frankel worked with Aurora National Life Assurance Company, most recently as Senior Vice President Operations and General Counsel. Prior to joining Aurora National Life Assurance Company, Mr. Frankel was with the law firm of Irell & Manella, most recently as a partner, resident in its corporate securities group and specializing in mergers and acquisitions. Mr. Frankel received his BA from UCLA and his Juris Doctorate from the UCLA School of Law, where he was awarded a John M. Olin Fellowship in Law and Economics for academic achievement and graduated Order of the Coif.

*Independent Directors*

[        ].

**AGREEMENTS WITH THE ADVISER**

**The Investment Adviser**

Ares Capital Management II LLC serves as the Fund's investment adviser (the "Adviser"). The principal executive offices of the Adviser are at 2000 Avenue of the Stars, 12th Floor, Los Angeles, CA 90067. The Adviser is a newly organized entity with no operating history. The Adviser's sole assets under management initially will be the assets raised in connection with the initial public offering of the Fund's common stock.

The Adviser provides certain investment advisory, management and administrative services to the Fund pursuant to an investment advisory and management agreement with the Fund (the "Investment Advisory and Management Agreement"). The Fund and the Adviser have also entered into an Administrative Services and Expense Reimbursement Agreement pursuant to which the Adviser will provide certain administrative services, personnel and facilities to the Fund and perform operational services necessary for the operation of the Fund not otherwise provided by other Fund service providers. Pursuant to this agreement, the Fund will reimburse the Adviser at cost, at the Adviser's request, for certain costs and expenses incurred by the Adviser that are necessary for the administration and operation of the Fund.

The Adviser may elect from time to time, in its sole discretion, to waive its right to reimbursement or its receipt of the advisory fee. If the Adviser elects to waive its compensation, such action may have a positive effect on the Fund's performance or yield. The Adviser is under no obligation to waive its fees or rights to reimbursement, may elect not to do so, or may decide to waive its compensation periodically.

**Investment Advisory and Management Agreement**

*Management Services*

Ares Capital Management II LLC serves as the Fund's investment adviser and is registered as an investment adviser under the Investment Advisers Act of 1940, as amended. Subject to the overall supervision of the Board of Directors, the Adviser manages the day-to-day operations of, and provides investment advisory and management services to, the Fund. Under the terms of the investment advisory and management agreement, the Adviser:

determines the composition of the Fund's portfolio, the nature and timing of the changes to the portfolio and the manner of implementing such changes;

identifies, evaluates and negotiates the structure of the investments the Fund makes (including performing due diligence on the Fund's prospective investment);

closes and monitors the investments the Fund makes; and

determines the investments and other assets that Fund purchases, retains or sells.

The Adviser's services to the Fund under the investment advisory and management agreement are not exclusive, and it is free to furnish similar services to other entities.

The sole member of the Adviser is Ares Management LLC, a global alternative asset manager and SEC registered investment adviser. As of December 31, 2010, Ares Management LLC had approximately \$39 billion of committed capital under management.

*Management Fee*

Pursuant to the investment advisory and management agreement with the Adviser and subject to the overall supervision of the Board of Directors, the Adviser provides investment advisory services to the Fund. For providing these services, the Adviser receives a monthly fee at the annual rate of 1% of the average daily value of the Fund's Managed Assets. "Managed Assets" means the total assets of the Fund (including any assets attributable to any preferred shares that may be issued or to indebtedness) minus the Fund's liabilities other than liabilities relating to indebtedness. Fees for any partial month are appropriately prorated. During periods when the Fund is using leverage, if any, the fees paid to the Adviser will be higher than if the Fund did not use leverage because the fees paid are calculated on the basis of the Fund's Managed Assets, which includes the assets purchased through leverage.

A discussion regarding the basis of the Board of Directors' approval of the Investment Advisory and Management Agreement will be available in the Fund's first shareholder report issued following the effectiveness of this prospectus.

*Payment of the Fund's Expenses*

The services of all investment professionals and staff of the Adviser, when and to the extent engaged in providing investment advisory and management services, and the compensation and routine overhead expenses of such personnel allocable to such services, are provided and paid for by the Adviser. The Fund bears all other costs and expenses of its operations and transactions, including those relating to: organization; calculation of its net asset value; expenses incurred by the Adviser payable to third parties, including agents, consultants or other advisers, in monitoring the Fund's financial and legal affairs and in monitoring the Fund's investments and performing due diligence on the Fund's prospective portfolio companies; interest payable on indebtedness, if any, incurred to finance the Fund's investments; offerings of common shares and other securities; investment advisory and management fees; administration fees; fees payable to third parties, including agents, consultants or other advisers, relating to, or associated with, evaluating and making investments; transfer agent and custodial fees; registration fees; listing fees; taxes; independent directors' fees and expenses; costs of preparing and filing reports or other documents with the SEC; the costs of any reports, proxy statements or other notices to stockholders, including printing costs; to the extent the Fund is covered by any joint insurance policies, the Fund's allocable portion of the insurance premiums for such policies; direct costs and expenses of administration, including auditor and legal costs; and all other expenses incurred by the Fund in connection with administering the Fund's business, such as the Fund's allocable portion of overhead under the administration agreement, including the Fund's allocable portion of the salary and cost of the Fund's officers (including the Fund's chief compliance officer, chief financial officer, secretary and treasurer) and their respective staffs (including travel).

*Duration, Termination and Amendment*

The Board of Directors approved the investment advisory and management agreement on [ ], 2011 and Ares Holdings LLC, the Fund's initial sole shareholder, approved the investment advisory and management agreement on [ ], 2011. Unless terminated earlier, the investment advisory and management agreement will continue in effect until [ ], 2013 and will renew for successive annual periods thereafter if approved annually by the Board of Directors or by the affirmative vote of the holders of a majority of the Fund's outstanding voting securities, including, in either case, approval by a majority of the Fund's directors who are not "interested persons". The investment advisory and management agreement will automatically terminate in the event of its assignment. The investment advisory and management agreement may be terminated by either party without penalty upon 60 days' written notice to the other.

Conflicts of interest may arise if the Adviser seeks to change the terms of the Fund's investment advisory and management agreement, including, for example, the amount of the management fee or

the incentive fee or other terms for compensation. Any material change to the investment advisory and management agreement must be submitted to stockholders for approval under the Investment Company Act and the Fund may from time to time decide it is appropriate to seek stockholder approval to change the terms of the agreement. See "Risk Factors Potential Conflicts of Interest Risk Allocation of Personnel" and "Risk Factors Potential Conflicts of Interest Risk Allocation of Investment Opportunities".

#### *Indemnification*

The investment advisory and management agreement provides that, absent willful misfeasance, bad faith or gross negligence in the performance of its duties or by reason of the reckless disregard of its duties and obligations, the Adviser, its members and their respective officers, managers, partners, agents, employees, controlling persons, members and any other person or entity affiliated with it are entitled to indemnification from the Fund for any damages, liabilities, costs and expenses (including reasonable attorneys' fees and amounts reasonably paid in settlement) arising from the rendering of the Adviser's services under the investment advisory and management agreement or otherwise as the Adviser.

#### *Organization of the Investment Adviser*

Ares Capital Management II LLC is a Delaware limited liability company that is registered as an investment adviser under the Advisers Act. The principal executive offices of Ares Capital Management II LLC are located at 2000 Avenue of the Stars, 12th Floor, Los Angeles, California 90067.

### **THE PORTFOLIO MANAGERS**

Unless otherwise indicated, the information below is provided as of the date of this prospectus.

The following individuals (the "Portfolio Managers") have primary responsibility for the day-to-day implementation of the Fund's investment strategy:

*Americo Cascella.* Mr. Cascella is a Portfolio Manager in the Ares Capital Markets Group. Mr. Cascella serves as an Investment Committee member on all Ares U.S. Credit Strategy/Capital Markets Funds. Mr. Cascella joined Ares in 1998 from Price Waterhouse LLP where he served as a Senior Associate with responsibility for foreign exchange and interest rate derivative risk analysis and corporate treasury risk management consulting. Mr. Cascella also directed financial evaluations of clients in various industries, including financial services, industrial products, manufacturing, professional services, and construction engineering and design. Mr. Cascella graduated from the University of California at Los Angeles, where he earned a BA in Economics with an emphasis in Business.

*John A. Leupp.* Mr. Leupp is a Portfolio Manager in the Ares Capital Markets Group. Mr. Leupp joined Ares in 2003 from Credit Suisse First Boston (formerly DLJ), most recently as a Director in the Fixed Income Department responsible for the gaming, lodging and leisure industries. From 1989 to 1997, Mr. Leupp was involved in the fixed income market as a high yield research analyst covering various industries. Mr. Leupp graduated with a BS in Finance from Santa Clara University and received his Master of Arts in Economics from UCLA.

\* \* \*

*Compensation.* The Adviser's financial arrangements with its portfolio managers, its competitive compensation and its career path emphasis at all levels reflect the value senior management places on key resources. Compensation may include a variety of components and may vary from year to year based on a number of factors. The portfolio managers may receive, all or some combination of, salary, an annual bonus and interests in the carried interest in certain of Ares' funds.

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*Base Compensation.* Generally, when portfolio managers receive base compensation it is based on their individual seniority and their position within the firm.

*Discretionary Compensation.* In addition to base compensation, portfolio managers may receive discretionary compensation. Discretionary compensation may be based on individual seniority and contribution.

*Material Conflicts of Interest.* Actual or apparent conflicts of interest may arise when a Portfolio Manager has day-to-day management responsibilities with respect to more than one fund or other account.

Certain inherent conflicts of interest arise from the fact that the Portfolio Managers, the Adviser and its affiliates provide investment management services both to the Fund and the other Ares-advised funds, including other funds, as well as client accounts, proprietary accounts and any other investment vehicles that the Adviser and its affiliates may establish from time to time, managed by the Adviser and its affiliates in which the Fund will not have an interest. The investment program of the Fund and the other Ares-advised funds may or may not be substantially similar. The Portfolio Managers, the Adviser and its affiliates may give advice and recommend securities to the other Ares-advised funds that may differ from advice given to, or securities recommended or bought for, the Fund, even though their investment objectives may be the same or similar to those of the Fund.

The Adviser will seek to manage potential conflicts of interest in good faith; nonetheless, the portfolio strategies employed by the Portfolio Managers, the Adviser and its affiliates in managing the other Ares-advised funds could conflict with the transactions and strategies employed by the Portfolio Managers in managing the Fund and may affect the prices and availability of the securities and instruments in which the Fund invests. Conversely, participation in specific investment opportunities may be appropriate, at times, for both the Fund and the other Ares-advised funds.

It is the Adviser's policy that all investment opportunities will be allocated among the Adviser's or its related parties' clients on a basis that over a period of time is fair and equitable to each client relative to other clients consistent with any fiduciary duties owed to clients and in an effort to avoid favoring one client over another, taking into account all relevant facts and circumstances, including (without limitation): (i) differences with respect to available capital, (ii) differences with respect to investment objectives or current investment strategies, (iii) differences in risk profile at the time the opportunity becomes available, (iv) the potential transaction and other costs of allocating an opportunity among the Ares-advised funds, (v) potential conflicts of interests, (vi) the nature of the investment or transaction, (vii) current and anticipated market and general economic conditions and (viii) existing and prior positions in the Borrower.

In general, this policy will result in such opportunities being allocated pro rata (taking into account, among other factors, available cash and the relative capital of the respective funds) among the Fund and the other Ares-advised funds. Nevertheless, investment and/or opportunities may be allocated other than on a pro rata basis, to the extent it is done in good faith and does not, or is not reasonably expected to, result in an improper disadvantage or advantage to one participating Ares-advised fund as compared to another participating Ares-advised fund.

In the event investment opportunities are allocated among the Fund and the other Ares-advised funds, the Fund may not be able to structure its investment portfolio in the manner desired. Although the Adviser endeavors to allocate investment opportunities in a manner that, over a period of time, is fair and equitable, it is possible that the Fund may not be given the opportunity to participate in certain investments made by the other Ares-advised funds or portfolio managers affiliated with the Adviser. Furthermore, the Fund and the other Ares-advised funds may make investments in securities where the prevailing trading activity may make impossible the receipt of the same price or execution on the entire volume of securities purchased or sold by the Fund and the other Ares-advised funds. When this occurs, the various prices may be averaged, and the Fund will be charged or credited with the

average price. Thus, the effect of the aggregation may operate on some occasions to the disadvantage of the Fund. In addition, under certain circumstances, the Fund may not be charged the same commission or commission equivalent rates in connection with a bunched or aggregated order.

It is likely that other Ares-advised funds may make investments in the same or similar securities at different times and on different terms than the Fund. The Fund and the other Ares-advised funds may make investments at different levels of an issuer's capital structure or otherwise in different classes of an issuer's securities. Such investments may inherently give rise to conflicts of interest or perceived conflicts of interest between or among the various classes of securities that may be held by such entities. Conflicts may also arise because portfolio decisions regarding the Fund may benefit the other Ares-advised funds. For example, the sale of a long position or establishment of a short position by the Fund may impair the price of the same security sold short by (and therefore benefit) one or more Ares-advised funds, and the purchase of a security or covering of a short position in a security by the Fund may increase the price of the same security held by (and therefore benefit) one or more Ares-advised funds.

While these conflicts cannot be eliminated, the Adviser, when practicable, will cause the Fund and the other Ares-advised funds to hold investments in the same levels of an issuer's capital structure in the same proportion at each level; provided, however, that neither the Fund nor any other Ares-advised fund will be required to hold an investment if holding such investment would result in a violation of the provisions of the organizational documents of the Fund or the other Ares-advised fund, as applicable, or constitute a breach of, or default or debt repayment event with respect to, any credit facility or other debt instrument or obligation.

Although the professional staff of the Adviser will devote as much time to the management of the Fund as the Adviser deems appropriate to perform its obligations, the professional staff of the Adviser may have conflicts in allocating its time and services among the Fund and the Adviser's other investment vehicles and accounts. The Adviser and its affiliates are not restricted from forming additional investment funds, from entering into other investment advisory relationships or from engaging in other business activities, even though such activities may be in competition with the Fund and/or may involve substantial time and resources of the Adviser and its professional staff. These activities could be viewed as creating a conflict of interest in that the time and effort of the members of the Adviser and their officers and employees will not be devoted exclusively to the business of the Fund but will be allocated between the business of the Fund and the management of the monies of other clients of the Adviser.

*Beneficial Ownership of Securities.* As of the date of this prospectus, none of the Portfolio Managers beneficially owns any equity securities of the Fund.

## CONTROL PERSONS

A control person includes a person who beneficially owns more than 25% of the voting securities of a company. Ares Holdings LLC has provided the initial capitalization of the Fund and therefore is a control person of the Fund because it is the sole shareholder of the Fund as of the date of this prospectus. The Adviser may also be considered a controlling person of the Fund under the Investment Company Act to the extent it has the power to exercise a controlling influence over the management or policies of the Fund.

## NET ASSET VALUE

Net asset value per common share will be determined daily by [ ] as of 4 p.m. on each day the NYSE is open for trading or at such other times as the Board of Directors may determine. Net asset value per share common share is determined by dividing the total value of the Fund's net assets by the total number of common shares outstanding. The Fund's net assets are



determined by subtracting any liabilities (including borrowings for investment purposes) from the total value of its portfolio investments and other assets. The Fund's net assets are available to holders of preferred shares (if any) and common shares. If any preferred shares are outstanding, net assets available for the common shareholders is determined by deducting from net assets the liquidation preference and any accrued dividends on the preferred shares.

The Fund values its investments primarily using the mean between the last available bid and ask price of market quotations from a nationally recognized security pricing service. Securities and assets for which market quotations are not readily available or for which the valuations provided by the primary pricing sources are believed to be unreliable are valued at fair value pursuant to procedures adopted by the Board of Directors of the Fund. Market quotations may be deemed not to represent fair value in certain circumstances where the Adviser reasonably believes that facts and circumstances applicable to an issuer, a seller or purchaser or the market for a particular security causes current market quotes not to reflect the fair value of the security. Examples of these events could include situations in which material events are announced after the close of the market on which a security is primarily traded, when a security trades infrequently causing a quoted purchase or sale price to become stale or in the event of a "fire sale" by a distressed seller.

If available, bank loans are priced based on valuations provided by an approved independent, third-party pricing agent or broker. If a price is not available from an independent, third-party pricing service or broker or, if the price provided by the independent third-party pricing service or broker is believed to be unreliable, the security will be fair valued pursuant to procedures adopted by the Board of Directors.

Long positions in securities traded in the OTC market, electronic dealer quotation system or Bulletin Board are valued at the mean between the last available bid and ask price or yield equivalent obtained from one or more dealers or any pricing services approved by the Board of Directors. Short positions in securities traded in the OTC market, electronic dealer quotation system or Bulletin Board are valued at the mean between the last available bid and ask price.

The value of swaps, including credit default swaps, total return swaps and interest rate swaps will be determined by obtaining at least one dealer quotation (including information from counterparties) or valuations from third-party pricing services. If no quotations or valuations are available, or if such quotations or valuations are believed to be unreliable, swaps will be fair valued pursuant to procedures adopted by the Board of Directors. Repurchase agreements are generally valued at cost plus accrued interest.

Generally, trading in U.S. Government securities and money market instruments is substantially completed each day at various times prior to the close of business on the NYSE. The values of such securities used in computing the net asset value of the Fund's common shares are determined as of such times.

## **DISTRIBUTIONS**

Commencing with the Fund's initial dividend, the Fund intends to make regular monthly cash distributions of all or a portion of its net investment income to common shareholders. The Fund expects to declare the initial monthly dividend on the Fund's common shares within approximately 45 days after completion of this offering and to pay that initial monthly dividend approximately 60 to 90 days after completion of this offering. The Fund intends to pay common shareholders at least annually all or substantially all of its net investment income after the payment of dividends and interest, if any, owed with respect to any outstanding preferred shares and/or notes or other forms of leverage utilized by the Fund. The Fund intends to pay any capital gains distributions at least annually. If the Fund makes a long-term capital gain distribution, it will be required to allocate such gain between the common shares and any preferred shares issued by the Fund in proportion to the total dividends paid to each class for the year in which the income is realized.

## Edgar Filing: Ares Senior Credit Strategies Fund, Inc. - Form N-2

The U.S. federal income tax treatment and characterization of the Fund's distributions may vary significantly from time to time because of the varied nature of the Fund's investments. In light of the Fund's investment policies, the Fund anticipates that the Investment Company Act will require it to accompany each monthly distribution with a statement setting forth the estimated source (as between net income, capital gains and return of capital) of the distribution made. The Fund will indicate the proportion of its capital gains distributions that constitute long-term and short-term gains annually. The ultimate U.S. federal income tax characterization of the Fund's distributions made in a calendar or fiscal year cannot finally be determined until after the end of that taxable year. As a result, there is a possibility that the Fund may make total distributions during a calendar or taxable year in an amount that exceeds the Fund's net investment company taxable income and net capital gains for the relevant taxable year. In such situations, if a distribution exceeds the Fund's current and accumulated earnings and profits (as determined for U.S. federal income tax purposes), a portion of each distribution paid with respect to such taxable year would generally be treated as a tax-free return of capital reducing the amount of a shareholder's tax basis in such shareholder's shares. When a shareholder sells shares in the Fund, the amount, if any, by which the sales price exceeds the shareholder's basis in the Fund's shares is gain subject to tax. Because a return of capital reduces a shareholder's basis in the shares, it will increase the amount of such shareholder's gain or decrease the amount of such shareholder's loss when such shareholder sells the shares, all other things being equal. To the extent that the amount of any return of capital distribution exceeds the shareholder's basis in such shareholder's shares, the excess will be treated as gain from a sale or exchange of the shares.

Various factors will affect the level of the Fund's income, including the asset mix, the average maturity of the Fund's portfolio and default rates, the amount of leverage utilized by the Fund, if any, and any use of hedging activities by the Fund. To permit the Fund to maintain a more stable monthly distribution, the Fund may from time to time distribute less than the entire amount of income earned in a particular period. The undistributed income would be available to supplement future distributions. As a result, the distributions paid by the Fund for any particular monthly period may be more or less than the amount of income actually earned by the Fund during that period. Undistributed income will add to the Fund's net asset value (and indirectly benefits the Adviser by increasing its fees) and, correspondingly, distributions from undistributed income will reduce the Fund's net asset value. The Board of Directors may elect to change the Fund's distribution policy at any time.

The distributions for any full or partial year might not be made in equal amounts, and one distribution may be larger than the other. The Fund will make a distribution only if authorized by the Fund's Board of Directors and declared by the Fund out of assets legally available for these distributions. The Fund may pay a special distribution at the end of each calendar year, if necessary, to comply with U.S. federal income tax requirements. This distribution policy may, under certain circumstances, have certain adverse consequences to the Fund and its shareholders because it may result in a return of capital to shareholders, which would reduce the Fund's net asset value and, over time, potentially increase the Fund's expense ratio. If the Fund distributes a return of capital, it means that the Fund is returning to shareholders a portion of their investment rather than making a distribution that is funded from the Fund's earned income or other profits.

Section 19(b) of the Investment Company Act and Rule 19b-1 thereunder generally limit the Fund to one long-term capital gain distribution per year, subject to certain exceptions.

### **DIVIDEND REINVESTMENT PLAN**

Unless a shareholder specifically elects to receive common shares of the Fund as set forth below, all net investment income dividends and all capital gains distributions declared by the Board of Directors will be payable in cash.

A shareholder may elect to have net investment income dividends and capital gains distributions reinvested in common stock of the Fund. To exercise this option, such shareholder must notify [

], the plan administrator and the Fund's transfer agent and registrar, in writing so that such notice is received by the plan administrator not less than 10 days prior to the record date fixed by the Board of Directors for the net investment income dividend and/or capital gains distribution involved.

The plan administrator will set up an account for shares acquired pursuant to the plan for each shareholder that elects to receive common stock of the Fund (each a "Participant"). The plan administrator may hold each Participant's shares, together with the shares of other Participants, in non-certificated form in the plan administrator's name or that of its nominee.

The shares are acquired by the plan administrator for a participant's account, depending upon the circumstances described below, either (i) through receipt of additional unissued but authorized shares of common stock from the Fund ("Newly Issued Shares") or (ii) by purchase of outstanding shares of common stock on the open market ("Open-Market Purchases") on the NYSE or elsewhere. If, on the dividend payment date, the net asset value per share of the common stock is equal to or less than the market price per share of the common stock plus estimated brokerage commissions (such condition being referred to as "market premium"), the plan administrator will invest the dividend amount in Newly Issued Shares on behalf of the Participant. The number of Newly Issued Shares of common stock to be credited to the Participant's account will be determined by dividing the dollar amount of the dividend by the net asset value per share on the date the shares are issued, unless the net asset value is less than 95% of the then current market price per share, in which case the dollar amount of the dividend will be divided by 95% of the then current market price per share. If on the dividend payment date the net asset value per share is greater than the market value (such condition being referred to as "market discount"), the plan administrator will invest the dividend amount in shares acquired on behalf of the Participant in Open-Market Purchases.

The plan administrator's service fee, if any, and expenses for administering the plan will be paid for by the Fund. If a Participant elects by written notice to the plan administrator to have the plan administrator sell part or all of the shares held by the plan administrator in the Participant's account and remit the proceeds to the Participant, the plan administrator is authorized to deduct a \$[ ] transaction fee plus a [ ] per share brokerage commission from the proceeds.

Shareholders who receive dividends in the form of stock are subject to the same federal, state and local tax consequences as shareholders who elect to receive their dividends in cash. A shareholder's basis for determining gain or loss upon the sale of stock received in a dividend from the Fund will generally be equal to the total dollar amount of the dividend payable to the shareholders. Any stock received in a dividend will have a new holding period for tax purposes commencing on the day following the day on which the shares are credited to the U.S. shareholder's account.

Participants may terminate their accounts under the dividend reinvestment plan by notifying the plan administrator via its website at [ ], by filling out the transaction request form located at bottom of their statement and sending it to the plan administrator at [ ] or by calling the plan administrator's hotline at [ ].

The dividend reinvestment plan may be terminated by the Fund upon notice in writing mailed to each participant at least 30 days prior to any record date for the payment of any dividend by us. All correspondence concerning the dividend reinvestment plan should be directed to the plan administrator via the Internet at [ ], by mail at [ ] or by telephone at [ ].

Additional information about the dividend reinvestment plan may be obtained by contacting the plan administrator via the Internet at [ ], by mail at [ ] or by telephone at [ ].

## PORTFOLIO TRANSACTIONS

The Adviser is responsible for decisions to buy and sell securities for the Fund, the selection of brokers and dealers to effect the transactions and the negotiation of prices and any brokerage commissions. With respect to Senior Loans and Subordinated Loans, the Fund generally will engage in privately negotiated transactions for purchase or sale in which the Adviser will negotiate on behalf of the Fund, although a more developed market may exist or develop for certain Senior Loans and Subordinated Loans. Most of these transactions will be principal transactions at net prices for which the Fund will generally incur little or no brokerage costs. The Fund may be required to pay fees, or forgo a portion of interest and any fees payable to the Fund, to a lender selling assignment or participations to the Fund. The Adviser will determine the lenders from whom the Fund will purchase assignments and participations by considering their professional ability, level of service, relationship with the Borrower, financial condition, credit standards and quality of management. Affiliates of the Adviser may participate in the primary and secondary market for Senior Loans and Subordinated Loans. Because of certain limitations imposed by the Investment Company Act, this may restrict the Fund's ability to acquire some Senior Loans and Subordinated Loans. The Adviser does not believe that this will have a material effect on the Fund's ability to acquire Senior Loans and Subordinated Loans consistent with its investment policies. Sales to dealers are effected at bid prices. The illiquidity of many Senior Loans and Subordinated Loans may restrict the ability of the Adviser to locate in a timely manner persons willing to purchase the Fund's interests in Senior Loans or Subordinated Loans at a fair price should the Fund desire to sell such interests.

With respect to other types of securities, the Fund may purchase certain money market instruments directly from an issuer, in which case no commissions or discounts are paid, may purchase securities in the over-the-counter market from an underwriter or dealer serving as market maker for the securities, in which case the price includes a fixed amount of compensation to the underwriter or dealer, and may purchase and sell listed securities on an exchange, which are effected through brokers who charge a commission for their services.

The Adviser is responsible for placing portfolio transactions and will do so in a manner deemed fair and reasonable to the Fund and not according to any formula. The primary consideration in all portfolio transactions is prompt execution of orders in an effective manner at the most favorable price. In selecting broker-dealers and in negotiating prices and any brokerage commissions on such transactions, the Adviser considers the firm's reliability, integrity and financial condition and the firm's execution capability, the size and breadth of the market for the security, the size of and difficulty in executing the order, and the best net price. There may be instances when, in the judgment of the Adviser, more than one firm can offer comparable execution services.

A commission paid to such brokers may be higher than that which another qualified broker would have charged for effecting the same transaction, provided that the Adviser determine in good faith that such commission is reasonable in terms either of the transaction or the overall responsibility of the Adviser to the Fund and its other clients and that the total commissions paid by the Fund will be reasonable in relation to the benefits to the Fund over the long-term. The advisory fees that the Fund pays to the Adviser will not be reduced as a consequence of the Adviser's receipt of brokerage and research services. To the extent that portfolio transactions are used to obtain such services, the brokerage commissions paid by the Fund will exceed those that might otherwise be paid by an amount that cannot be presently determined. Such services generally would be useful and of value to the Adviser in serving one or more of their other clients and, conversely, such services obtained by the placement of brokerage business of other clients generally would be useful to the Adviser in carrying out their obligations to the Fund. While such services are not expected to reduce the expenses of the Adviser, the Adviser would, through use of the services, avoid the additional expenses that would be incurred if they should attempt to develop comparable information through their own staffs. Commission rates for brokerage transactions on foreign stock exchanges are generally fixed.

## Portfolio Turnover

Although the Fund does not expect to incur portfolio turnover at a rate of more than 100% in any fiscal year, it is possible that the portfolio turnover rate may exceed 100% in any fiscal year. The Fund's portfolio turnover rate is calculated by dividing the lesser of purchases or sales of portfolio securities for the particular fiscal year by the monthly average of the value of the portfolio securities owned by the Fund during the particular fiscal year. A high portfolio turnover rate generally results in greater transaction costs, which are borne directly by the Fund, and may also have certain adverse tax consequences for shareholders.

## CONFLICTS OF INTEREST

The Fund's executive officers and directors, and the employees of the Adviser, serve or may serve as officers, directors or principals of entities that operate in the same or a related line of business as the Fund or of other Ares-advised funds. As a result, they may have obligations to investors in those entities, the fulfillment of which might not be in the best interests of the Fund or its shareholders. Moreover, notwithstanding the difference in principal investment objectives between the Fund and the other Ares-advised funds, such other Ares sponsored funds, including potential new pooled investment vehicles or managed accounts not yet established (whether managed or sponsored by those Ares affiliates or the Adviser), have, and may from time to time have, overlapping investment objectives with the Fund and, accordingly, invest in, whether principally or secondarily, asset classes similar to those targeted by the Fund. To the extent the other Ares-advised funds have overlapping investment objectives, the scope of opportunities otherwise available to the Fund may be adversely affected and/or reduced. Additionally, certain employees of the Adviser and its management may face conflicts in their time management and commitments as well as in the allocation of investment opportunities to other Ares funds.

The Adviser and/or its affiliates and portfolio managers may determine that an investment is appropriate both for the Fund and for one or more other funds or accounts. In such event, depending on the availability of such investment and other appropriate factors, the Adviser may determine that the Fund should invest on a side-by-side basis with one or more other funds. The Fund may make all such investments subject to compliance with applicable laws and regulations and interpretations thereof by the SEC and its staff. In certain circumstances, negotiated co-investments may be made only if the Fund has received an exemptive order from the SEC permitting such investment. There can be no assurance that any such exemptive order will be sought or obtained.

In the event investment opportunities are allocated among the Fund and the other Ares-advised funds, the Fund may not be able to structure its investment portfolio in the manner desired. Although Ares endeavors to allocate investment opportunities in a manner that, over a period of time, is fair and equitable, it is possible that the Fund may not be given the opportunity to participate in certain investments made by the other Ares-advised funds or portfolio managers affiliated with the Adviser. Furthermore, the Fund and the other Ares-advised funds may make investments in securities where the prevailing trading activity may make impossible the receipt of the same price or execution on the entire volume of securities purchased or sold by Ares for the Fund and the other Ares-advised funds. When this occurs, the various prices may be averaged, and the Fund will be charged or credited with the average price. Thus, the effect of the aggregation may operate on some occasions to the disadvantage of the Fund. In addition, under certain circumstances, the Fund may not be charged the same commission or commission equivalent rates in connection with a bunched or aggregated order.

It is likely that the other Ares-advised funds may make investments in the same or similar securities at different times and on different terms than the Fund. The Fund and the other Ares-advised funds may make investments at different levels of an issuer's capital structure or otherwise in different classes of an issuer's securities. Such investments may inherently give rise to conflicts of

interest or perceived conflicts of interest between or among the various classes of securities that may be held by such entities. Conflicts may also arise because portfolio decisions regarding the Fund may benefit the other Ares-advised funds. For example, the sale of a long position or establishment of a short position by the Fund may impair the price of the same security sold short by (and therefore benefit) one or more Ares-advised funds, and the purchase of a security or covering of a short position in a security by the Fund may increase the price of the same security held by (and therefore benefit) the other Ares-advised funds.

The results of the Fund's investment activities may differ significantly from the results achieved by the other Ares-advised funds. It is possible that one or more Ares-advised funds will achieve investment results that are substantially more or less favorable than the results achieved by the Fund. Moreover, it is possible that the Fund will sustain losses during periods in which one or more affiliates achieve significant profits on their trading for proprietary or other accounts. The opposite result is also possible. The investment activities of one or more Adviser affiliates for their proprietary accounts and accounts under their management may also limit the investment opportunities for the Fund in certain markets.

The Adviser, its affiliates and their clients may pursue or enforce rights with respect to an issuer in which the Fund has invested, and those activities may have an adverse effect on the Fund. As a result, prices, availability, liquidity and terms of the Fund's investments may be negatively impacted by the activities of the Adviser and its affiliates or their clients, and transactions for the Fund may be impaired or effected at prices or terms that may be less favorable than would otherwise have been the case.

The Adviser may enter into transactions and invest in securities, instruments and currencies on behalf of the Fund in which customers of its affiliates, to the extent permitted by applicable law, serve as the counterparty, principal or issuer. In such cases, such party's interests in the transaction could be adverse to the interests of the Fund, and such party may have no incentive to assure that the Fund obtains the best possible prices or terms in connection with the transaction. In addition, the purchase, holding and sale of such investments by the Fund may enhance the profitability of the Adviser or its affiliates. One or more affiliates may also create, write or issue Derivatives for their customers, the underlying securities, currencies or instruments of which may be those in which the Fund invests or which may be based on the performance of the Fund. The Fund may, subject to applicable law, purchase investments that are the subject of an underwriting or other distribution by one or more Adviser affiliates and may also enter into transactions with other clients of an affiliate where such other clients have interests adverse to those of the Fund.

The Adviser may select brokers that furnish the Adviser directly or through correspondent relationships, with research or other appropriate services that provide, in the Adviser's view, appropriate assistance to the Adviser in the investment decision-making process (including with respect to futures, fixed-price offerings and OTC transactions). Such research or other services may include, to the extent permitted by law, research reports on companies, industries and securities; economic and financial data; financial publications; proxy analysis; and other services and products. Research or other services obtained in this manner may be used in servicing any or all of the Fund and other client accounts, including in connection with client accounts other than those that pay commissions to the broker relating to the research or other service arrangements. Such products and services may disproportionately benefit other client accounts relative to the Fund based on the amount of brokerage commissions paid by the Fund and such other client accounts. For example, research or other services that are paid for through one client's commissions may not be used in managing that client's account. In addition, other client accounts may receive the benefit, including disproportionate benefits, of economies of scale or price discounts in connection with products and services that may be provided to the Fund and to such other client accounts. The Adviser may receive research that is bundled with the trade execution, clearing, and/or settlement services provided by a particular broker-dealer. To the extent that the Adviser receives research on this basis, many of the same conflicts related to traditional

soft dollars may exist. For example, the research effectively will be paid by client commissions that also will be used to pay for the execution, clearing, and settlement services provided by the broker-dealer and will not be paid by the Adviser.

The Fund will be required to establish business relationships with its counterparties based on the Fund's own credit standing. Neither the Adviser nor any of its affiliates will have any obligation to allow its credit to be used in connection with the Fund's establishment of its business relationships, nor is it expected that the Fund's counterparties will rely on the credit of the Adviser or its affiliates in evaluating the Fund's creditworthiness.

The Adviser is paid a fee based on a percentage of the Fund's Managed Assets. The Adviser may have a conflict of interest in deciding whether to cause the Fund to incur leverage or to invest in more speculative investments or financial instruments, thereby potentially increasing the assets of the Fund and, accordingly, the fees received by the Adviser. Certain other Ares-advised funds pay the Adviser or its affiliates performance-based compensation, which could create an incentive for the Adviser or affiliate to favor such investment fund or account over the Fund.

There are generally no information barriers among the Adviser and certain of its affiliates. Nonetheless, from time to time the Adviser may establish information barriers between investment professionals and others who might possess material non-public information. If no information barriers are in place and the Adviser or its affiliates receives material non-public information about a particular company, or have an interest in investing in a particular company, the Fund may be prevented from investing or liquidating an investment in such company. This risk may affect the Fund more than it does other investment vehicles, as the Adviser generally does not use information barriers that many firms implement to separate persons who make investment decisions from others who might possess material, non-public information that could influence such decisions. The Adviser's decision not to implement these barriers could prevent its investment professionals from undertaking certain transactions such as advantageous investments or dispositions that would be permissible for them otherwise. In addition, the Adviser could in the future decide to establish information barriers permanently or on a more frequent basis, particularly as its business expands and diversifies.

The Adviser has adopted policies and procedures designed to prevent conflicts of interest from influencing proxy voting decisions made on behalf of advisory clients, including the Fund, and to help ensure that such decisions are made in accordance with its fiduciary obligations to clients. Nevertheless, notwithstanding such proxy voting policies and procedures, actual proxy voting decisions may have the effect of favoring the interests of other clients, provided that the Adviser believes such voting decisions to be in accordance with its fiduciary obligations.

The Fund has entered into a royalty-free license agreement with Ares Partners Management Company LLC, pursuant to which Ares Partners Management Company LLC has agreed to grant the Fund a non-exclusive, royalty free license to use the name "Ares". Under the license agreement, the Fund has the right to use the "Ares" name for so long as the Adviser or one of its affiliates remains the Fund's investment adviser. Like the Investment Advisory and Management Agreement, the licensee agreement may also be terminated by either party without penalty upon 60 days' written notice to the other. In addition, the Fund may pay fees to, or reimburse expenses of, the Adviser or its affiliates for certain management or administration services and disbursements, including the Fund's allocable portion of the cost of its Chief Financial Officer and Chief Compliance Officer and their respective staffs, which can create conflicts of interest.

**CODE OF ETHICS**

The Fund and Ares Capital Management II LLC have each adopted a code of ethics pursuant to Rule 17j-1 under the Investment Company Act that establishes procedures for personal investments and restricts certain personal securities transactions. Personnel subject to each code may invest in securities for their personal investment accounts, including securities that may be purchased or held by us, so long as such investments are made in accordance with the code's requirements.

The codes of ethics may be viewed and copied at the SEC's Public Reference Room in Washington, D.C. Information about the SEC's Public Reference Room may be obtained by calling the SEC at (202) 551-8090. The codes of ethics also may be available on the Edgar Database on the SEC's website, <http://www.sec.gov>, or be obtained, after paying a duplicating fee, by electronic request to [publicinfo@sec.gov](mailto:publicinfo@sec.gov), or by writing to: SEC's Public Reference Section, 100 F Street, N.E., Washington, D.C. 20549-0102. This reference to the website does not incorporate the contents of the website into this prospectus.

**PROXY VOTING POLICIES**

The Board of Directors of the Fund has delegated the voting of proxies for Fund securities to the Adviser pursuant to the Adviser's proxy voting guidelines. Under these guidelines, the Adviser will vote proxies related to Fund securities in the best interests of the Fund and its shareholders. A copy of the Adviser's proxy voting policy is attached as Appendix B.

Information on how the Fund voted proxies (if any) relating to portfolio securities during the most recent 12 month period ended June 30 will be available without charge by calling (888) 301-3838, or on the SEC's website at <http://www.sec.gov>. This reference to the website does not incorporate the contents of the website into this prospectus.

**DESCRIPTION OF SECURITIES**

The following description of the terms of the Fund's shares is only a summary. For a complete description, please refer to the Maryland General Corporation Law, and the Fund's charter and bylaws. The charter and bylaws are exhibits to the Registration Statement, of which this prospectus forms a part.

*Outstanding Securities.* The following table sets forth information with respect to the outstanding securities of the Fund as of [ ], 2011.

| <b>Title of Class</b> | <b>Amount of<br/>Shares Authorized</b> | <b>Amount of<br/>Shares Held by<br/>the Fund for its<br/>Account</b> | <b>Amount of<br/>Shares Outstanding</b> |
|-----------------------|--|--|---|
|                       | [                    ]                 | [                    ]   | [                    ]                  |
| Common Stock          | Shares                                 | Shares   | Shares                                  |

The Fund's Board of Directors may, without any action by the Fund's shareholders, approve amendments to the Fund's charter from time to time to increase or decrease the aggregate number of shares of stock or the number of shares of any class or series of stock that the Fund is authorized to issue. Additionally, the Fund's charter authorizes the Board of Directors to classify and reclassify any unissued shares of common stock into one or more classes or series of stock, including preferred stock, from time to time, by setting or changing the preferences, conversion and other rights, voting powers, restrictions, limitations as to dividends and other distributions, qualifications and terms and conditions of redemption for each class or series. Although the Fund has no present intention of doing so, it could issue a class or series of stock that could delay, defer or prevent a transaction or change in control of the Fund that might otherwise be in the shareholders' best interest.



## Common Stock

*General.* All shares of common stock offered pursuant to this prospectus will be, upon issuance, duly authorized, fully paid and nonassessable. All shares of common stock offered pursuant to this prospectus will be of the same class and will have identical rights, as described below. Holders of shares of common stock are entitled to receive distributions when, as and if authorized by the Board of Directors and declared by the Fund out of assets legally available for the payment of distributions. Common shareholders have no preference, conversion, exchange, sinking fund, redemption or appraisal rights and have no preemptive rights to subscribe for any of the Fund's securities. Shares of common stock are freely transferable, except where their transfer is restricted by federal and state securities laws or by contract. All shares of common stock have equal earnings, assets, distribution, liquidation and other rights.

*Distributions.* Distributions may be paid to the Fund's common shareholders if, as and when authorized by the Fund's Board of Directors and declared by the Fund out of assets legally available therefor.

If any shares of preferred stock are outstanding, common shareholders generally will not be entitled to receive any distributions from the Fund unless (1) the Fund has paid all accumulated dividends on the preferred stock, (2) the Fund has redeemed the full number of shares of preferred stock required to be redeemed by any provision for mandatory redemption of such preferred stock, (3) immediately after such a distribution, the Fund has an asset coverage of at least 200%, (4) the assets in the Fund's portfolio meet any asset coverage requirements set forth by the Fund's lenders or any applicable rating agency, in each case, after giving effect to such a distribution, and (5) there is no event of default existing under the terms of any of the Fund's borrowings, in each case, after giving effect to such distributions. See "Leverage".

So long as senior securities representing indebtedness of the Fund are outstanding, common shareholders generally will not be entitled to receive any distributions from the Fund unless (1) there is no event of default existing under the terms of such indebtedness, (2) immediately after such a distribution, the Fund has an asset coverage of at least 300% and (3) the assets in the Fund's portfolio meet any asset coverage requirements set forth by the Fund's lenders or any applicable rating agency, in each case, after giving effect to such a distribution. See "Leverage".

*Liquidation Rights.* The Fund's common shareholders are entitled to share ratably in the assets legally available for distribution to the Fund's shareholders in the event of the liquidation, dissolution or winding up of the Fund, after payment of or adequate provision for all of the Fund's known debts and liabilities, including any outstanding debt securities or other borrowings and any interest thereon. These rights are subject to the preferential rights of outstanding shares of any other class or series of the Fund's stock, including any preferred stock.

*Voting Rights.* Each outstanding share of common stock generally entitles the holder to cast one vote on all matters submitted to a vote of the Fund's shareholders, including the election of Directors. The presence of common shareholders entitled to cast a majority of the votes entitled to be cast at a meeting of the Fund's shareholders constitutes a quorum at the meeting, unless applicable law or the Fund's charter requires a separate vote of one or more classes of the Fund's stock, in which case the presence in person or by proxy of the holders of shares entitled to cast a majority of the votes entitled to be cast by each such class on such a matter will constitute a quorum.

The Fund's charter provides that, except as may otherwise be provided in the Fund's bylaws, Directors will be elected by the affirmative vote of the holders of a majority of the shares of stock outstanding and entitled to vote thereon. There is no cumulative voting in the election of Directors. Consequently, at each annual meeting of the Fund's shareholders, the holders of a majority of the outstanding shares of stock entitled to vote will be able to elect all of the successors of the class of Directors whose terms expire at that meeting, except that holders of any outstanding preferred stock will

have the right to elect two Directors at all times. Pursuant to the Fund's charter and bylaws, the Board of Directors may amend the bylaws from time to time to alter the vote required to elect a Director.

Under the rules of the NYSE applicable to listed companies, the Fund will be required to hold an annual meeting of shareholders in each fiscal year. If for any reason the common stock are not listed on the NYSE (or any other national securities exchange, the rules of which require annual meetings of the Fund's shareholders) or such rule otherwise ceases to apply to the Fund, the Fund may amend its bylaws so that the Fund is not otherwise required to hold annual meetings of shareholders.

*Issuance of Additional Shares.* The provisions of the Investment Company Act generally require that the public offering price of common stock of a closed-end investment company (less underwriting commissions and discounts) must equal or exceed the net asset value of the company's common stock (calculated within 48 hours of pricing), unless the sale is made with the consent of a majority of the Fund's common shareholders. Any sale of common stock by the Fund will be subject to the requirements of the Investment Company Act.

### **Preferred Stock**

The Fund's charter authorizes the Board of Directors to classify and reclassify any unissued shares of common stock into shares of other classes or series of stock, including preferred stock, without the approval of the common shareholders. Common shareholders have no preemptive right to purchase any shares of preferred stock that the Fund may issue. The Fund may elect to issue preferred stock as part of a leveraging strategy.

Prior to issuance of shares of each class or series, the Board of Directors is required by Maryland law and by the Fund's charter to set the preferences, conversion and other rights, voting powers, restrictions, limitations as to dividends and other distributions, qualifications and terms and conditions of redemption for each class or series. Thus, the Board of Directors could authorize the Fund to issue shares of preferred stock with terms that could have the effect of delaying, deferring or preventing a transaction or a change in control that might involve a premium price for common shareholders or otherwise be in their best interest. Any issuance of preferred stock, however, must comply with the requirements of the Investment Company Act.

The Investment Company Act, among other things, requires that the holders of outstanding shares of preferred stock, voting separately as a class, have the right to elect at least two Directors at all times. The remaining Directors will be elected by common and preferred shareholders, voting together as a single class. In addition, subject to the prior rights, if any, of the holders of any other class of senior securities outstanding, preferred shareholders will have the right to elect a majority of the Directors at any time that two years' dividends on any outstanding shares of preferred stock are unpaid.

### **Certain Provisions of the Maryland General Corporation Law and the Fund's Charter and Bylaws**

The Maryland General Corporation Law and the Fund's charter and bylaws contain provisions that could make it more difficult for a potential acquiror to acquire the Fund by means of a tender offer, proxy contest or otherwise. These provisions are designed to discourage certain coercive takeover practices and inadequate takeover bids and to encourage persons seeking to acquire control of the Fund to negotiate first with the Board of Directors. The Fund believes that the benefits of these provisions outweigh the potential disadvantages of discouraging any such acquisition proposals because, among other things, the negotiation of such proposals may improve their terms.

*Classified Board of Directors.* The Fund's Board of Directors is divided into three classes of Directors serving staggered three-year terms. The current terms for the first, second and third classes will expire in 2012, 2013 and 2014, respectively. Upon expiration of their current terms, Directors of each class will be elected to serve for three-year terms and until their successors are duly elected and qualify, and each year one class of Directors will be elected by the shareholders. A classified board may render a

change in control of the Fund or the removal of the Fund's incumbent management more difficult. The Fund believes, however, that the longer time required to elect a majority of a classified Board of Directors will help to ensure the continuity and stability of the Fund's management and policies.

*Election of Directors.* The Fund's charter and bylaws provide that the affirmative vote of the holders of a majority of the outstanding shares of stock entitled to vote in the election of Directors will be required to elect a Director. As noted above, pursuant to the Fund's charter, the Board of Directors may amend the bylaws from time to time to alter the vote required to elect a Director.

*Number of Directors; Vacancies; Removal.* The Fund's charter provides that the number of Directors will be set only by the Board of Directors in accordance with the Fund's bylaws. The Fund's bylaws provide that a majority of the entire Board of Directors may at any time increase or decrease the number of Directors. However, unless the Fund's bylaws are amended, the number of Directors cannot be less than the minimum number required by the Maryland General Corporation Law or more than 10.

The Fund's charter provides that, at such time as the Fund has at least three independent directors and its common stock is registered under the Exchange Act, the Fund elects to be subject to the provision of Subtitle 8 of Title 3 of the Maryland General Corporation Law regarding the filling of vacancies on the Board of Directors. For that reason, except as may be provided by the Board of Directors in setting the terms of any class or series of preferred stock, any and all vacancies on the Board of Directors may be filled only by the affirmative vote of a majority of the Directors remaining in office, even if the remaining Directors do not constitute a quorum, and any Director elected to fill a vacancy will serve for the remainder of the full term of the directorship in which the vacancy occurred and until a successor is elected and qualifies, subject to any applicable requirements of the Investment Company Act.

The Fund's charter provides that a Director may be removed only for cause, as defined in the charter, and then only by the affirmative vote of at least two-thirds of the votes entitled to be cast in the election of Directors.

*Action by Shareholders.* Under the Maryland General Corporation Law, shareholder action can be taken only at an annual or special meeting of shareholders or, unless the charter provides for shareholder action by less than unanimous written consent (which is not the case for the Fund's charter), by unanimous written consent in lieu of a meeting. These provisions, combined with the requirements of the Fund's bylaws regarding the calling of a shareholder-requested special meeting of shareholders discussed below, may have the effect of delaying consideration of a shareholder proposal until the next annual meeting of shareholders.

*Advance Notice Provisions for Shareholder Nominations and Shareholder Proposals.* The Fund's bylaws provide that, with respect to an annual meeting of shareholders, the nomination of individuals for election as Directors and the proposal of other business to be considered by the Fund's shareholders may be made only (1) pursuant to the Fund's notice of the meeting, (2) by or at the direction of the Board of Directors or (3) by a shareholder who is entitled to vote at the meeting in the election of such individuals as Directors or on such other business and who has complied with the advance notice requirements of, and provided the information required by, the Fund's bylaws. With respect to special meetings of the Fund's shareholders, only the business specified in the notice of the meeting may be brought before the meeting. Nominations of individuals for election as Directors at a special meeting of shareholders may be made only (i) by or at the direction of the Board of Directors or (ii) if the special meeting has been called in accordance with the Fund's bylaws for the purpose of electing directors, by any shareholder who is a shareholder of record both at the time the shareholder provides the notice required by the Fund's bylaws at the time of the special meeting, who is entitled to vote at the meeting in the election of each individual so nominated and who has complied with the advance notice requirements of, and provided the information required by, the Fund's bylaws.

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*Calling of Special Meetings of Shareholders.* The Fund's bylaws provide that special meetings of the Fund's shareholders may be called by the Board of Directors and certain of the Fund's officers. The Fund's bylaws also provide that, subject to the satisfaction of certain procedural and informational requirements by the shareholders requesting the meeting, a special meeting of shareholders must be called by the secretary of the Fund upon the written request of shareholders entitled to cast not less than a majority of all the votes entitled to be cast at such meeting. The Fund's secretary will inform the requesting shareholders of the reasonably estimated cost of preparing and mailing the notice of meeting (including the Fund's proxy materials), and the requesting shareholders must pay the estimated cost before the secretary may prepare and mail notice of the special meeting.

*Approval of Extraordinary Corporate Action; Amendment of the Fund's Charter and Bylaws.* Under Maryland law, a Maryland corporation generally cannot dissolve, amend its charter, merge, sell all or substantially all of its assets, engage in a share exchange or engage in similar transactions outside the ordinary course of business, unless approved by the affirmative vote of shareholders entitled to cast at least two-thirds of the votes entitled to be cast on the matter. However, a Maryland corporation may provide in its charter for approval of these matters by a lesser percentage, but not less than a majority of all of the votes entitled to be cast on the matter.

The Fund's charter generally provides for approval of charter amendments and extraordinary transactions by the shareholders entitled to cast at least a majority of the votes entitled to be cast on the matter. However, the Fund's charter provides that the following matters require the approval of shareholders entitled to cast at least 80 percent of the votes entitled to be cast on such matter:

amendments to the provisions of the Fund's charter relating to the classification of the Board of Directors, the power of the Board of Directors to fix the number of directors and to fill vacancies on the Board and the vote required to elect or remove a Director;

charter amendments that would convert the Fund from a closed-end company to an open-end company or make the Fund's common stock a redeemable security (within the meaning of the Investment Company Act);

the liquidation or dissolution of the Fund or charter amendments to effect the liquidation or dissolution of the Fund;

amendments to the provisions of the Fund's charter relating to the vote required to approve the dissolution of the Fund, charter amendments and extraordinary transactions;

any merger, consolidation, share exchange or sale or exchange of all or substantially all of the Fund's assets that the Maryland General Corporation Law requires be approved by the Fund's shareholders; or

any transaction between the Fund, on the one hand, and any person or group of persons acting together that is entitled to exercise or direct the exercise, or acquire the right to exercise or direct the exercise, directly or indirectly (other than solely by virtue of a revocable proxy), of one-tenth or more of the voting power in the election of Directors generally, or any affiliate of such a person, group or member of such a group (collectively "Transacting Persons"), on the other hand.

However, if such amendment, proposal or transaction is approved by at least two-thirds of the Fund's continuing directors (in addition to approval by the Board of Directors), the amendment, proposal or transaction may instead be approved by a majority of the votes entitled to be cast on such amendment, proposal or transaction, except that any transaction including Transacting Persons that would not otherwise require shareholder approval under the Maryland General Corporation Law would not require further shareholder approval unless another provision of the Fund's charter requires such approval.

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The "continuing directors" are defined in the Fund's charter as its current Directors and Directors whose nomination for election by the Fund's shareholders or whose election by the Directors to fill a vacancy on the Board is approved by a majority of the continuing directors then serving on the Board of Directors.

The Fund's charter and bylaws provide that the Board of Directors will have the exclusive power to adopt, alter or repeal any provision of the Fund's Bylaws and to make new Bylaws.

### **CLOSED-END FUND STRUCTURE**

The Fund is a newly organized, non-diversified, closed-end management investment company (commonly referred to as a closed-end fund). Unlike open-end funds (which are generally referred to as mutual funds) closed-end funds generally list their shares for trading on a stock exchange and do not redeem their shares at the request of the shareholder. As a result, if shareholders wish to sell common shares of a closed-end fund they must trade them on the market as they would with respect to any other stock at the prevailing market price at that time. If the shareholder wishes to sell shares of the mutual fund, the mutual fund will redeem or buy back the shares at "net asset value".

Shares of closed-end funds frequently trade at a discount to their net asset value. Because of this possibility and the recognition that any such discount may not be in the interest of shareholders, the Fund's Board of Directors might consider from time to time engaging in transactions such as open-market repurchases, tender offers for shares or other programs intended to reduce the discount. The Fund cannot guarantee or assure, however, that the Fund's Board of Directors will decide to engage in any of these actions. Nor is there any guarantee or assurance that such actions, if undertaken, would result in the shares trading at a price equal or close to net asset value per common share.

### **REPURCHASE OF COMMON SHARES**

Because the Fund is a closed-end management investment company, its shareholders will not have the right to cause the Fund to redeem their common shares. Instead, the Fund's common shares will trade in the open market at a price that will be a function of several factors, including dividend levels (which are in turn affected by expenses), net asset value, dividend stability, relative demand for and supply of such shares in the market, general market and economic conditions and other factors. Notice is hereby given in accordance with Section 23(c) of the Investment Company Act that the Fund may purchase at market prices from time to time its common shares in the open market but is under no obligation to do so.

Notwithstanding the foregoing, at any time if the Fund has preferred shares outstanding, the Fund may not purchase, redeem or otherwise acquire any of its common shares unless (i) all accrued preferred shares dividends have been paid and (ii) at the time of such purchase, redemption or acquisition, the Fund has an asset coverage of at least 200% after deducting the amount of such purchase, redemption or acquisition, as applicable. Similarly, if the Fund has outstanding indebtedness, the Fund may not purchase, redeem or acquire its capital stock unless the Fund has an asset coverage of at least 300% after deducting the amount of such purchase, redemption or acquisition, as applicable. See "Leverage". Any service fees incurred in connection with any tender offer made by the Fund will be borne by the Fund and will not reduce the stated consideration to be paid to tendering shareholders.

Subject to its investment restrictions, the Fund may borrow to finance the repurchase of common shares or to make a tender offer for those shares. Interest on any borrowings to finance share repurchase transactions or the accumulation of cash by the Fund in anticipation of share repurchases or tenders will reduce the Fund's net income. Any share repurchase, tender offer or borrowing approved by the Fund's Board of Directors would have to comply with the NYSE listing requirements and the Exchange Act, the Investment Company Act, and the rules and regulations thereunder.

There is no assurance that, if action is undertaken to repurchase or tender for common shares, such action will result in the Fund's common shares trading at a price that approximates their net asset value. Although share repurchases and tenders could have a favorable effect on the market price of the Fund's common shares, shareholders should be aware that the acquisition of common shares by the Fund will decrease the total net assets of the Fund and, therefore, may have the effect of increasing the Fund's expense ratio and decreasing the asset coverage with respect to any preferred shares outstanding and any amounts borrowed.

### **MATERIAL U.S. FEDERAL INCOME TAX CONSIDERATIONS**

The following discussion is a general summary of the material U.S. federal income tax considerations applicable to the Fund and to an investment in the Fund's common shares. This summary does not purport to be a complete description of the income tax considerations applicable to such an investment. For example, the Fund has not described tax consequences that may be relevant to certain types of holders subject to special treatment under U.S. federal income tax laws, including shareholders subject to the alternative minimum tax, tax-exempt organizations, insurance companies, dealers in securities, traders in securities that elect to use a mark-to-market method of accounting for securities holdings, pension plans, trusts, financial institutions and persons that will hold common shares as a position in a "straddle", "hedge" or as part of a "constructive sale" for federal income tax purposes. This summary assumes that shareholders hold common shares as capital assets (within the meaning of the Code). The discussion is based upon the Code, Treasury regulations, and administrative and judicial interpretations, each as of the date of this prospectus and all of which are subject to change, possibly retroactively, which could affect the continuing validity of this discussion. This summary does not discuss any aspects of U.S. estate or gift tax or foreign, state or local tax.

A "U.S. shareholder" is a beneficial owner of common shares that is for U.S. federal income tax purposes:

a citizen or resident of the United States;

a domestic corporation;

an estate, the income of which is subject to U.S. federal income taxation regardless of its source; or

a trust if a U.S. court can exercise primary supervision over its administration and one or more U.S. persons have the authority to control all substantial decisions of the trust.

A "Non-U.S. shareholder" is a beneficial owner of common shares that is not a U.S. shareholder.

If a partnership (including an entity treated as a partnership for U.S. federal income tax purposes) holds common shares, the tax treatment of a partner in the partnership will generally depend upon the status of the partner and the activities of the partnership. A partner in a partnership that will hold common shares should consult his, her or its tax advisor with respect to the U.S. federal tax treatment of an investment in common shares.

Tax matters are very complicated and the tax consequences to a shareholder of an investment in common shares will depend on the facts of his, her or its particular situation. The Fund encourages shareholders to consult their own tax advisors regarding the specific consequences of such an investment, including tax reporting requirements, the applicability of federal, state, local and foreign tax laws, eligibility for the benefits of any applicable tax treaty, and the effect of any possible changes in the tax laws.

### Taxation of the Fund

The Fund intends to elect to be treated and to qualify each taxable year as a RIC under Subchapter M of the Code. To qualify under Subchapter M for the favorable tax treatment accorded to regulated investment companies, the Fund must, among other things: (1) distribute to its shareholders in each taxable year at least 90% of the sum of its investment company taxable income (*i.e.*, income other than its net realized long-term capital gain over its net realized short-term capital loss, but without regard to the deduction for dividends paid); (2) derive in each taxable year at least 90% of its gross income from (a) dividends, interest, payments with respect to certain securities loans, and gains from the sale or other disposition of stock, securities or foreign currencies, or other income (including but not limited to gain from options, futures and forward contracts) derived with respect to its business of investing in such stock, securities or foreign currencies; and (b) net income derived from interests in "Qualified Publicly Traded Partnerships" (*i.e.*, partnerships that are traded on an established securities market or tradable on a secondary market) that derive less than 90% of their gross income from the items described in (a) above and (3) diversify its holdings so that, at the end of each quarter of each taxable year of the Fund (a) at least 50% of the value of the Fund's total assets is represented by cash, cash items, U.S. government securities and securities of other regulated investment companies, and other securities, with these other securities limited, with respect to any one issuer, to an amount not greater in value than 5% of the value of the Fund's total assets, and to not more than 10% of the outstanding voting securities of such issuer, and (b) not more than 25% of the value of the Fund's total assets is represented by the securities (other than U.S. government securities or securities of other regulated investment companies) of (I) any one issuer, (II) any two or more issuers that the Fund controls and that are determined to be engaged in the same or similar trades or businesses or related trades or businesses or (III) any one or more Qualified Publicly Traded Partnerships. As a RIC, the Fund generally will not be subject to U.S. federal income tax on its investment company taxable income and net capital gain (the excess of net long-term capital gain over net short-term capital loss), if any, that it distributes in each taxable year to its shareholders. The Fund intends to distribute to its shareholders, at least annually, substantially all of its investment company taxable income and net capital gain.

A RIC that fails to distribute, by the close of each calendar year, an amount at least equal to the sum of 98% of its ordinary taxable income for such calendar year and 98.2% of its capital gain net income for the one-year period ended on October 31 of such calendar year, plus any shortfalls from any prior year's required distribution, is liable for a 4% excise tax on the portion of the undistributed amounts of such income that are less than the required distributions. For these purposes, the Fund will be deemed to have distributed any income on which it paid federal income tax. To avoid the imposition of this excise tax, the Fund intends to make the required distributions of its ordinary taxable income and its capital gain net income, to the extent possible, by the close of each calendar year.

The Fund's investments in partnerships, including in Qualified Publicly Traded Partnerships, may result in the Fund being subject to state, local or foreign income, franchise or withholding tax liabilities.

If for any year the Fund does not qualify as a RIC, all of its taxable income (including its net capital gain) will be subject to tax at regular corporate rates without any deduction for distributions to shareholders. Such distributions will generally be taxable to the shareholders as qualified dividend income, as discussed below, and generally will be eligible for the dividends received deduction in the case of corporate shareholders.

The Fund may make investments or engage in transactions that affect the character, amount and timing of gains or losses realized by the Fund. The Fund may make investments that produce income that is not matched by a corresponding cash receipt by the Fund. Any such income would be treated as income earned by the Fund and therefore would be subject to the distribution requirements of the Code. Such investments may require the Fund to borrow money or dispose of other securities in order

to comply with those requirements. The Fund may also make investments that prevent or defer the recognition of losses or the deduction of expenses. These investments may likewise require the Fund to borrow money or dispose of other securities in order to comply with the distribution requirements of the Code. Additionally, the Fund may make investments that result in the recognition of ordinary income rather than capital gain, or that prevent the Fund from accruing a long-term holding period. These investments may prevent the Fund from making capital gain distributions as described below. The Fund intends to monitor its transactions, will make the appropriate tax elections and will make the appropriate entries in its books and records when it makes any such investments in order to mitigate the effect of these rules.

### **Taxation of U.S. Shareholders**

Distributions by the Fund generally are taxable to U.S. shareholders as ordinary income or capital gains. Distributions of the Fund's investment company taxable income will be taxable as ordinary income to U.S. shareholders to the extent of the Fund's current or accumulated earnings and profits, whether paid in cash or reinvested in additional common shares. For taxable years beginning before January 1, 2013, to the extent such distributions paid by the Fund to non-corporate shareholders are attributable to dividends from U.S. corporations and certain qualified foreign corporations, such distributions generally will be eligible for a maximum federal tax rate of 15%. Dividends paid by the Fund with respect to a taxable year will qualify for the dividends received deduction generally available to corporations to the extent of the amount of dividends received by the Fund from certain domestic corporations for the taxable year. It is anticipated that distributions paid by the Fund will generally not will not qualify for the 15% maximum federal tax rate or the dividends received deduction.

Distributions of the Fund's net capital gain (which is generally the Fund's realized net long-term capital gains in excess of realized net short-term capital losses) properly designated by the Fund as "capital gain dividends" will be taxable to a U.S. shareholder as long-term capital gains in the case of individuals, trusts or estates, regardless of the U.S. shareholder's holding period for his, her or its common shares and regardless of whether paid in cash or reinvested in additional common shares. Long-term capital gain of an individual U.S. shareholder is generally taxed at preferential rates. Distributions in excess of the Fund's earnings and profits first will reduce a U.S. shareholder's adjusted tax basis in such shareholder's common shares and, after the adjusted basis is reduced to zero, will constitute capital gains to such U.S. shareholder.

Distributions will be treated in the manner described above regardless of whether such distributions are paid in cash or invested in additional common shares of the Fund. Shareholders receiving distributions in the form of additional common shares of the Fund will be treated as receiving a distribution in the amount of cash that they would have received if they had elected to receive the distribution in cash, unless the Fund issues additional common shares with a fair market value equal to or greater than net asset value, in which case, shareholders will be treated as receiving a distribution in the amount of the fair market value of the distributed common shares.

Although the Fund currently intends to distribute any net long-term capital gains at least annually, the Fund may in the future decide to retain some or all of its net long-term capital gains but designate the retained amount as a "deemed distribution." In that case, among other consequences, the Fund will pay tax on the retained amount, each U.S. shareholder will be required to include his, her or its share of the deemed distribution in income as if it had been distributed to the U.S. shareholder, and the U.S. shareholder will be entitled to claim a credit equal to his, her or its allocable share of the tax paid on the deemed distribution by the Fund. The amount of the deemed distribution net of such tax will be added to the U.S. shareholder's tax basis for its common shares. A shareholder that is not subject to federal income tax or otherwise required to file a federal income tax return would be required to file a federal income tax return on the appropriate form in order to claim a refund for the taxes the Fund paid. In order to utilize the deemed distribution approach, the Fund must provide written notice to its



shareholders prior to the expiration of 60 days after the close of the relevant taxable year. The Fund cannot treat any of its investment company taxable income as a "deemed distribution."

For purposes of determining (1) whether the annual distribution requirement applicable to RICs is satisfied for any year and (2) the amount of capital gain dividends paid for that year, the Fund may, under certain circumstances, elect to treat a dividend that is paid during the following taxable year as if it had been paid during the taxable year in question. If the Fund makes such an election, the U.S. shareholder will still be treated as receiving the dividend in the taxable year in which the distribution is made. However, any dividend declared by the Fund in October, November or December of any calendar year, payable to shareholders of record on a specified date in such a month and actually paid during January of the following year, will be treated as if it had been received by the U.S. shareholders on December 31 of the year in which the dividend was declared.

A shareholder generally will recognize taxable gain or loss if the shareholder sells or otherwise disposes of his, her or its common shares. Any gain arising from such sale or disposition generally will be treated as long-term capital gain or loss if the shareholder has held his, her or its shares for more than one year. Otherwise, it would be classified as short-term capital gain or loss. However, any capital loss arising from the sale or disposition of common shares held for six months or less will be treated as long-term capital loss to the extent of the amount of capital gain dividends received, or undistributed capital gain deemed received, with respect to such shares. In addition, all or a portion of any loss recognized upon a disposition of common shares may be disallowed if other common shares are purchased (whether through reinvestment of distributions or otherwise) within 30 days before or after the disposition. In such a case, the basis of the common shares acquired will be increased to reflect the disallowed loss.

In general, individual U.S. shareholders currently are subject to a maximum federal income tax rate of 15% on their net capital gain recognized in taxable years beginning on or before December 31, 2012. After such date, the maximum federal income tax rate on long-term capital gains is scheduled to return to 20%. Such rate is lower than the maximum rate on ordinary income currently payable by individuals. Corporate U.S. shareholders currently are subject to federal income tax on net capital gain at the maximum 35% rate also applied to ordinary income. Non-corporate shareholders with net capital losses for a year (i.e., net capital losses in excess of net capital gains) generally may deduct up to \$3,000 of such losses against their ordinary income each year; any net capital losses of a non-corporate shareholder in excess of \$3,000 generally may be carried forward and used in subsequent years as provided in the Code. Corporate shareholders generally may not deduct any net capital losses for a year, but may carryback such losses for three years or carry forward such losses for five years.

The Fund will send to each of its U.S. shareholders, as promptly as possible after the end of each calendar year, a notice detailing, on a per share and per distribution basis, the amounts includible in such U.S. shareholder's taxable income for such year as ordinary income and as long-term capital gain. In addition, the federal tax status of each year's distributions generally will be reported to the IRS. Distributions may also be subject to additional state, local and foreign taxes depending on a U.S. shareholder's particular situation.

The Fund will be required in certain cases to backup withhold and remit to the U.S. Treasury a portion of qualified dividend income, ordinary income dividends and capital gain dividends, and the proceeds of redemption of shares, paid to any shareholder (1) who has provided either an incorrect tax identification number or no number at all, (2) whom the IRS subjects to backup withholding for failure to report the receipt of interest or dividend income properly or (3) who has failed to certify to the Fund that it is not subject to backup withholding or that it is a "exempt recipient." Backup withholding is not an additional tax and any amounts withheld may be refunded or credited against a shareholder's federal income tax liability, provided the appropriate information is furnished to the IRS.

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If a U.S. shareholder recognizes a loss with respect to common shares of the Fund of \$2 million or more for an individual shareholder or \$10 million or more for a corporate shareholder, the shareholder generally must file with the IRS a disclosure statement on Form 8886. Direct shareholders of portfolio securities are in many cases exempted from this reporting requirement, but under current guidance, shareholders of a RIC are not exempted. The fact that a loss is reportable under these regulations does not affect the legal determination of whether the taxpayer's treatment of the loss is proper. U.S. shareholders should consult their tax advisors to determine the applicability of these regulations in light of their specific circumstances.

For taxable years beginning after December 31, 2012, a U.S. shareholder that is an individual or estate, or a trust that does not fall into a special class of trusts that is exempt from such tax, will be subject to a 3.8% tax on the lesser of (1) the U.S. shareholder's "net investment income" for the relevant taxable year and (2) the excess of the U.S. shareholder's modified gross income for the taxable year over a certain threshold (which in the case of individuals will be between \$125,000 and \$250,000, depending on the individual's circumstances). A U.S. shareholder's net investment income will generally include its gross dividend income and its net gains from the disposition of shares, unless such dividends or net gains are derived in the ordinary course of the conduct of a trade or business (other than a trade or business that consists of certain passive or trading activities). U.S. shareholders that are individuals, estates or trusts are urged to consult their tax advisors regarding the applicability of the Medicare tax to their income and gains in respect of their investment in shares of the Fund's common stock.

### **Taxation of Non-U.S. Shareholders**

Whether an investment in common shares of the Fund is appropriate for a Non-U.S. shareholder will depend upon that person's particular circumstances. An investment in common shares of the Fund by a Non-U.S. shareholder may have adverse tax consequences as compared to a direct investment in the assets in which the Fund will invest. Non-U.S. shareholders should consult their tax advisors before investing in common shares of the Fund.

Distributions of the Fund's investment company taxable income to Non-U.S. shareholders will be subject to withholding of federal tax at a 30% rate (or lower rate provided by an applicable treaty) to the extent of the Fund's current and accumulated earnings and profits unless the distributions are effectively connected with a U.S. trade or business of the Non-U.S. shareholder, and, if an income tax treaty applies, attributable to a permanent establishment in the United States, in which case the distributions will be subject to federal income tax at the rates applicable to U.S. shareholders. In that case, the Fund will not be required to withhold federal tax if the Non-U.S. shareholder complies with applicable certification and disclosure requirements. Special certification requirements apply to a Non-U.S. shareholder that is a foreign partnership or a foreign trust, and such entities are urged to consult their own tax advisors.

For taxable years beginning before January 1, 2012, properly designated dividends received by a Non-U.S. stockholder are generally exempt from U.S. federal withholding tax when they (1) are paid in respect of the Fund's "qualified net interest income" (generally, the Fund's U.S. source interest income, other than certain contingent interest and interest from obligations of a corporation or partnership in which the Fund is at least a 10% shareholder, reduced by expenses that are allocable to such income), or (2) are paid in connection with the Fund's "qualified short-term capital gains" (generally, the excess of the Fund's net short-term capital gain over the Fund's long-term capital loss for such taxable year). However, depending on the circumstances, the Fund may designate all, some or none of its potentially eligible dividends as such qualified net interest income or as qualified short-term capital gains, and/or treat such dividends, in whole or in part, as ineligible for this exemption from withholding. In order to qualify for this exemption from withholding, a Non-U.S. stockholder must comply with applicable certification requirements relating to its non-U.S. status (including, in general, furnishing an IRS

Form W-8BEN or an acceptable substitute or successor form). In the case of shares held through an intermediary, the intermediary may withhold even if the Fund designates the payment as qualified net interest income or qualified short-term capital gain. Non-U.S. stockholders should contact their intermediaries with respect to the application of these rules to their accounts.

Actual or deemed distributions of the Fund's net capital gains to a Non-U.S. shareholder, and gains realized by a Non-U.S. shareholder upon the sale of common shares of the Fund, will not be subject to federal withholding tax and generally will not be subject to federal income tax unless the distributions or gains, as the case may be, are effectively connected with a U.S. trade or business of the Non-U.S. shareholder and, if an income tax treaty applies, are attributable to a permanent establishment maintained by the Non-U.S. shareholder in the United States or, in the case of an individual Non-U.S. shareholder, the shareholder is present in the United States for 183 days or more during the year of the sale or capital gain dividend and certain other conditions are met.

If the Fund distributes its net capital gains in the form of deemed rather than actual distributions (which the Fund may do in the future), a Non-U.S. shareholder will be entitled to a federal income tax credit or tax refund equal to the shareholder's allocable share of the tax the Fund paid on the capital gains deemed to have been distributed. In order to obtain the refund, the Non-U.S. shareholder must obtain a U.S. taxpayer identification number and file a federal income tax return even if the Non-U.S. shareholder would not otherwise be required to obtain a U.S. taxpayer identification number or file a federal income tax return. For a corporate Non-U.S. shareholder, distributions (both actual and deemed), and gains realized upon the sale of common shares of the Fund that are effectively connected with a U.S. trade or business may, under certain circumstances, be subject to an additional "branch profits tax" at a 30% rate (or at a lower rate if provided for by an applicable treaty). Accordingly, investment in the common shares of the Fund may not be appropriate for a Non-U.S. shareholder.

A Non-U.S. shareholder who is a non-resident alien individual, and who is otherwise subject to withholding of federal income tax, may be subject to information reporting and backup withholding of federal income tax on dividends unless the Non-U.S. shareholder provides the Fund or the dividend paying agent with an IRS Form W-8BEN (or an acceptable substitute form) or otherwise meets documentary evidence requirements for establishing that it is a Non-U.S. shareholder or otherwise establishes an exemption from backup withholding.

Pursuant to recently enacted legislation, certain payments in respect of shares or made to corporate holders after December 31, 2011 may be subject to information reporting and backup withholding, notwithstanding the previous paragraph.

Under recently enacted legislation, certain foreign financial institutions, investment funds and other non-U.S. persons are subject to information reporting requirements with respect to their direct and indirect U.S. shareholders and/or U.S. accountholders. A 30% withholding tax would be imposed on certain payments that are made after December 31, 2012 that are made to a non-U.S. person that is subject to such requirements and fails to comply with them. Such payments would include U.S.-source dividends (which include dividends on the common shares of the Fund) and the gross proceeds from the sale or other disposition of common shares that can produce U.S.-source dividends.

Non-U.S. shareholders should consult their own tax advisors with respect to the U.S. federal income tax and withholding tax, and state, local and foreign tax consequences of an investment in the common shares of the Fund.

#### UNDERWRITERS

Under the terms and subject to the conditions contained in the underwriting agreement dated as of the date of this prospectus, the Underwriters named below, for whom [ ], [ ] and [ ] are acting as Representatives, have severally agreed

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to purchase, and the Fund has agreed to sell to them, severally, the number of the Fund's common shares indicated below.

| Name  | Number of<br>Common Shares |
|-------|----------------------------|
| [ ]   |                            |
| Total |                            |

The Underwriters are offering the Fund's common shares subject to their acceptance of the common shares from the Fund and subject to prior sale. The underwriting agreement provides that the obligations of the several Underwriters to pay for and accept delivery of the common shares offered by this prospectus are subject to the approval of legal matters by their counsel and to certain other conditions. The Underwriters are obligated to take and pay for all of the common shares offered by this prospectus if any such common shares are taken. However, the Underwriters are not required to take or pay for the common shares covered by the Underwriters' over-allotment option described below.

The Underwriters initially propose to offer part of the common shares directly to the public at the initial offering price listed on the cover page of this prospectus and part to certain dealers at a price that represents a concession not in excess of \$ per common share under the initial offering price. After the initial offering of the common shares, the offering price and other selling terms may from time to time be varied by the Representatives. The underwriting discounts and commissions (sales load) of \$0.90 per common share are equal to 4.5% of the initial offering price. Investors must pay for any common shares purchased on or before , 2011.

The Fund has granted to the Underwriters an option, exercisable for 45 days from the date of this prospectus, to purchase up to an aggregate of common shares at the initial offering price per common share listed on the cover page of this prospectus, less underwriting discounts and commissions. The Underwriters may exercise this option solely for the purpose of covering overallotments, if any, made in connection with the offering of the common shares offered by this prospectus. To the extent the option is exercised, each Underwriter will become obligated, subject to limited conditions, to purchase approximately the same percentage of the additional common shares as the number listed next to the Underwriter's name in the preceding table bears to the total number of common shares listed next to the names of all Underwriters in the preceding table. If the Underwriters' overallotment option is exercised in full, the total price to the public would be \$ , the total Underwriters' discounts and commissions (sales load) would be \$ , the estimated offering expenses would be \$ , \$ of which would be borne by the Fund, and the total proceeds to the Fund would be \$ .

The following table summarizes the estimated expenses and compensation that the Fund will pay:

|                                       | Per Common Share |               | Total         |               |
|---------------------------------------|------------------|---------------|---------------|---------------|
|                                       | With             | Without       | With          | Without       |
|                                       | Overallotment    | Overallotment | Overallotment | Overallotment |
| Public offering price                 | \$ 20.00         | \$ 20.00      | \$            | \$            |
| Sales load                            | \$ 0.90          | \$ 0.90       | \$            | \$            |
| Estimated offering expenses           | \$ [ ]           | \$ [ ]        | \$            | \$            |
| Proceeds, after expenses, to the Fund | \$ [ ]           | \$ [ ]        | \$            | \$            |

The Fund will pay all organizational expenses and offering expenses incurred by the Fund. The aggregate offering expenses (excluding sales load) are estimated to be \$ in total (or \$ if the Underwriters exercise their overallotment option in full). If the Fund issues preferred shares and/or notes, the Fund's common shareholders will also bear the expenses of such an offering. The total

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offering expenses for this offering and any offering of preferred shares and/or notes are estimated to be approximately \$ \_\_\_\_\_ per share.

The Underwriters have informed the Fund that they do not intend sales to discretionary accounts to exceed five percent of the total number of common shares offered by them.

In order to meet requirements for listing the common shares on the NYSE, the Underwriters have undertaken to sell lots of 100 or more shares to a minimum of 400 beneficial owners in the United States. The minimum investment requirement is 100 common shares (\$2,000).

The Fund has applied to list its common shares on the NYSE, subject to notice of issuance, under the trading or "ticker" symbol "ACS" and will be required to meet the NYSE's listing requirements.

The Fund and all Directors and officers and holders of the Fund's outstanding common shares have agreed that, without the prior written consent of [ \_\_\_\_\_ ], [ \_\_\_\_\_ ] and [ \_\_\_\_\_ ], on behalf of the Underwriters, the Fund and themselves will not, during the period ending 180 days after the date of this prospectus:

offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, lend, or otherwise transfer or dispose of, directly or indirectly, any common shares or any securities convertible into or exercisable or exchangeable for common shares, or

enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of the common shares,

whether any such transaction described above is to be settled by delivery of common shares or such other securities, in cash or otherwise; or file any registration statement with the SEC relating to the offering of any common shares or any securities convertible into or exercisable or exchangeable for common shares. Notwithstanding the foregoing, if (i) during the last 17 days of the 180-day restricted period, the Fund issues an earnings release or announces material news or a material event relating to the Fund occurs; or (ii) prior to the expiration of the 180-day restricted period, the Fund announces that it will release earnings results during the 16-day period beginning on the last day of the 180-day restricted period, the restrictions described above shall continue to apply until the expiration of the 18-day period beginning on the date of the earnings release or the announcement of the material news or material event. These lock-up agreements will not apply to the common shares to be sold pursuant to the underwriting agreement for this offering or any common shares issued pursuant to the Fund's dividend reinvestment plan or any preferred share issuance, if any.

In order to facilitate the offering of the common shares, the Underwriters may engage in transactions that stabilize, maintain or otherwise affect the price of the common shares. Specifically, the Underwriters may sell more common shares than they are obligated to purchase under the underwriting agreement, creating a short position in the common shares for their own account. A short sale is covered if the short position is no greater than the number of common shares available for purchase by the Underwriters under the overallotment option (exercisable for 45 days from the date of this prospectus). The Underwriters can close out a covered short sale by exercising the overallotment option or purchasing common shares in the open market. In determining the source of common shares to close out a covered short sale, the Underwriters will consider, among other things, the open market price of the common shares compared to the price available under the overallotment option. The Underwriters may also sell common shares in excess of the over-allotment option, creating a naked short position. The Underwriters must close out any naked short position by purchasing common shares in the open market. A naked short position is more likely to be created if the Underwriters are concerned that there may be downward pressure on the price of the common shares in the open market after pricing that could adversely affect investors who purchase in the offering. As an additional means of facilitating the offering, the Underwriters may bid for, and purchase, common shares in the

open market to stabilize the price of the common shares. Finally, the underwriting syndicate may also reclaim selling concessions allowed to an Underwriter or a dealer for distributing the common shares in the offering, if the syndicate repurchases previously distributed common shares in transactions to cover syndicate short positions or to stabilize the price of the common shares. Any of these activities may raise or maintain the market price of the common shares above independent market levels or prevent or retard a decline in the market price of the common shares. The Underwriters are not required to engage in these activities, and may end any of these activities at any time.

Prior to this offering, there has been no public or private market for the common shares or any other securities of the Fund. Consequently, the offering price for the common shares was determined by negotiation among the Fund, the Adviser and the Representatives. There can be no assurance, however, that the price at which the common shares trade after this offering will not be lower than the price at which they are sold by the Underwriters or that an active trading market in the common shares will develop and continue after this offering.

The Fund anticipates that certain Underwriters may from time to time act as brokers and dealers in connection with the execution of its portfolio transactions after they have ceased to be Underwriters and, subject to certain restrictions, may act as such brokers while they are Underwriters.

In connection with this offering, certain of the Underwriters or selected dealers may distribute prospectuses electronically. The Fund, the Adviser and the Underwriters have agreed to indemnify each other against certain liabilities, including liabilities under the Securities Act. As a newly organized entity, the Adviser may have limited ability to meet any obligations under the joint and several agreement of the Adviser and the Fund to indemnify the Underwriters.

Prior to the public offering of common shares, Ares Holdings LLC purchased common shares from the Fund in an amount satisfying the initial capital requirements of Section 14(a) of the Investment Company Act. As of the date of this Prospectus, Ares Holdings LLC owned 100% of the outstanding common shares.

The principal business address of [Name to come] is [ ]. The principal business address of [Name to come] is [ ].

The Underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities. Certain of the Underwriters or their respective affiliates from time to time have provided in the past, and may provide in the future, investment banking, securities trading, hedging, brokerage activities, commercial lending and financial advisory services to the Fund, certain Fund officers and Fund affiliates and the Adviser and its affiliates in the ordinary course of business, for which they have received, and may receive, customary fees and expenses.

No action has been taken in any jurisdiction (except in the United States) that would permit a public offering of the common shares, or the possession, circulation or distribution of this prospectus or any other material relating to the Fund or the common shares in any jurisdiction where action for that purpose is required. Accordingly, the common shares may not be offered or sold, directly or indirectly, and neither this prospectus nor any other offering material or advertisements in connection with the common shares may be distributed or published, in or from any country or jurisdiction except in compliance with the applicable rules and regulations of any such country or jurisdiction.

#### **ADMINISTRATIVE, CUSTODIAN AND TRANSFER AGENT SERVICES**

[Names to come]

**VALIDITY OF COMMON SHARES**

Certain legal matters in connection with the common shares will be passed upon for the Fund by Sullivan & Cromwell LLP, New York, New York, and for the Underwriters by [ ]. Sullivan & Cromwell LLP and [ ] LLP may rely as to certain matters of Maryland law on the opinion of Venable LLP, Baltimore, Maryland.

**FISCAL YEAR**

For accounting purposes, the Fund's fiscal year is the 12-month period ending on December 31. For tax purposes, the Fund has adopted the 12-month period ending December 31 of each year as its taxable year.

**INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

[Name to come]

**Report of Independent Registered Public Accounting Firm**

[To come]

**STATEMENT OF NET ASSETS**

[To come]

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### DESCRIPTION OF S&P, MOODY'S AND FITCH RATINGS(1)

(1)

The ratings indicated herein are believed to be the most recent ratings available at the date of this prospectus for the securities listed. Ratings are generally given to securities at the time of issuance. While the rating agencies may from time to time revise such ratings, they undertake no obligation to do so, and the ratings indicated do not necessarily represent ratings which would be given to these securities on the date of the Fund's fiscal year end.

**Standard & Poor's Corporation** A brief description of the applicable Standard & Poor's Corporation ("S&P") rating symbols and their meanings (as published by S&P) follows:

#### ISSUE CREDIT RATING DEFINITIONS

A Standard & Poor's issue credit rating is a forward-looking opinion about the creditworthiness of an obligor with respect to a specific financial obligation, a specific class of financial obligations, or a specific financial program (including ratings on medium-term note programs and commercial paper programs). It takes into consideration the creditworthiness of guarantors, insurers, or other forms of credit enhancement on the obligation and takes into account the currency in which the obligation is denominated. The opinion reflects Standard & Poor's view of the obligor's capacity and willingness to meet its financial commitments as they come due, and may assess terms, such as collateral security and subordination, which could affect ultimate payment in the event of default.

Issue credit ratings can be either long term or short term. Short-term ratings are generally assigned to those obligations considered short-term in the relevant market. In the U.S., for example, that means obligations with an original maturity of no more than 365 days including commercial paper. Short-term ratings are also used to indicate the creditworthiness of an obligor with respect to put features on long-term obligations. The result is a dual rating, in which the short-term rating addresses the put feature, in addition to the usual long-term rating. Medium-term notes are assigned long-term ratings.

#### Long-Term Issue Credit Ratings

Issue credit ratings are based, in varying degrees, on the following considerations:

Likelihood of payment capacity and willingness of the obligor to meet its financial commitment on an obligation in accordance with the terms of the obligation;

Nature of and provisions of the obligation;

Protection afforded by, and relative position of, the obligation in the event of bankruptcy, reorganization, or other arrangement under the laws of bankruptcy and other laws affecting creditors' rights.

Issue ratings are an assessment of default risk, but may incorporate an assessment of relative seniority or ultimate recovery in the event of default. Junior obligations are typically rated lower than senior obligations, to reflect the lower priority in bankruptcy, as noted above. (Such differentiation may apply when an entity has both senior and subordinated obligations, secured and unsecured obligations, or operating company and holding company obligations.)

"AAA" An obligation rated "AAA" has the highest rating assigned by Standard & Poor's. The obligor's capacity to meet its financial commitment on the obligation is extremely strong.

"AA" An obligation rated "AA" differs from the highest-rated obligations only to a small degree. The obligor's capacity to meet its financial commitment on the obligation is very strong.



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|                                 |   |
|---------------------------------|---|
| "A"                             | An obligation rated "A" is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher-rated categories. However, the obligor's capacity to meet its financial commitment on the obligation is still strong.  |
| "BBB"                           | An obligation rated "BBB" exhibits adequate protection parameters. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitment on the obligation.   |
| "BB", "B", "CCC", "CC", and "C" | Obligations rated "BB", "B", "CCC", "CC", and "C" are regarded as having significant speculative characteristics. "BB" indicates the least degree of speculation and "C" the highest. While such obligations will likely have some quality and protective characteristics, these may be outweighed by large uncertainties or major exposures to adverse conditions.                       |
| "BB"                            | An obligation rated "BB" is less vulnerable to nonpayment than other speculative issues. However, it faces major ongoing uncertainties or exposure to adverse business, financial, or economic conditions which could lead to the obligor's inadequate capacity to meet its financial commitment on the obligation.   |
| "B"                             | An obligation rated "B" is more vulnerable to nonpayment than obligations rated "BB", but the obligor currently has the capacity to meet its financial commitment on the obligation. Adverse business, financial, or economic conditions will likely impair the obligor's capacity or willingness to meet its financial commitment on the obligation.                                     |
| "CCC"                           | An obligation rated "CCC" is currently vulnerable to nonpayment, and is dependent upon favorable business, financial, and economic conditions for the obligor to meet its financial commitment on the obligation. In the event of adverse business, financial, or economic conditions, the obligor is not likely to have the capacity to meet its financial commitment on the obligation. |
| "CC"                            | An obligation rated "CC" is currently highly vulnerable to nonpayment.  |

A-2

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"C" A "C" rating is assigned to obligations that are currently highly vulnerable to nonpayment, obligations that have payment arrearages allowed by the terms of the documents, or obligations of an issuer that is the subject of a bankruptcy petition or similar action which have not experienced a payment default. Among others, the "C" rating may be assigned to subordinated debt, preferred stock or other obligations on which cash payments have been suspended in accordance with the instrument's terms or when preferred stock is the subject of a distressed exchange offer, whereby some or all of the issue is either repurchased for an amount of cash or replaced by other instruments having a total value that is less than par.

"D" An obligation rated "D" is in payment default. The "D" rating category is used when payments on an obligation, including a regulatory capital instrument, are not made on the date due even if the applicable grace period has not expired, unless Standard & Poor's believes that such payments will be made during such grace period. The "D" rating also will be used upon the filing of a bankruptcy petition or the taking of similar action if payments on an obligation are jeopardized. An obligation's rating is lowered to "D" upon completion of a distressed exchange offer, whereby some or all of the issue is either repurchased for an amount of cash or replaced by other instruments having a total value that is less than par.

PLUS (+) OR MINUS (-) The ratings from "AA" to "CCC" may be modified by the addition of a plus (+) or minus ( ) sign to show relative standing within the major rating categories.

"N.R." This indicates that no rating has been requested, that there is insufficient information on which to base a rating, or that Standard & Poor's does not rate a particular obligation as a matter of policy.

#### **Short-Term Issue Credit Ratings**

"A-1" A short-term obligation rated "A-1" is rated in the highest category by Standard & Poor's. The obligor's capacity to meet its financial commitment on the obligation is strong. Within this category, certain obligations are designated with a plus sign (+). This indicates that the obligor's capacity to meet its financial commitment on these obligations is extremely strong.

"A-2" A short-term obligation rated "A-2" is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher rating categories. However, the obligor's capacity to meet its financial commitment on the obligation is satisfactory.

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|       |   |
|-------|---|
| "A-3" | A short-term obligation rated "A-3" exhibits adequate protection parameters. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitment on the obligation.   |
| "B"   | A short-term obligation rated "B" is regarded as having significant speculative characteristics. Ratings of "B-1", "B-2", and "B-3" may be assigned to indicate finer distinctions within the "B" category. The obligor currently has the capacity to meet its financial commitment on the obligation; however, it faces major ongoing uncertainties which could lead to the obligor's inadequate capacity to meet its financial commitment on the obligation.  |
| "B-1" | A short-term obligation rated "B-1" is regarded as having significant speculative characteristics, but the obligor has a relatively stronger capacity to meet its financial commitments over the short-term compared to other speculative-grade obligors.   |
| "B-2" | A short-term obligation rated "B-2" is regarded as having significant speculative characteristics, and the obligor has an average speculative-grade capacity to meet its financial commitments over the short-term compared to other speculative-grade obligors.  |
| "B-3" | A short-term obligation rated "B-3" is regarded as having significant speculative characteristics, and the obligor has a relatively weaker capacity to meet its financial commitments over the short-term compared to other speculative-grade obligors.   |
| "C"   | A short-term obligation rated "C" is currently vulnerable to nonpayment and is dependent upon favorable business, financial, and economic conditions for the obligor to meet its financial commitment on the obligation.  |
| "D"   | A short-term obligation rated "D" is in payment default. The "D" rating category is used when payments on an obligation, including a regulatory capital instrument, are not made on the date due even if the applicable grace period has not expired, unless Standard & Poor's believes that such payments will be made during such grace period. The "D" rating also will be used upon the filing of a bankruptcy petition or the taking of a similar action if payments on an obligation are jeopardized. |

**Active Qualifiers (Currently applied and/or outstanding)**

|               |  |
|---------------|--|
| "i"           | This subscript is used for issues in which the credit factors, terms, or both, that determine the likelihood of receipt of payment of interest are different from the credit factors, terms or both that determine the likelihood of receipt of principal on the obligation. The "i" subscript indicates that the rating addresses the interest portion of the obligation only. The "i" subscript will always be used in conjunction with the "p" subscript, which addresses likelihood of receipt of principal. For example, a rated obligation could be assigned ratings of "AAAp NRi" indicating that the principal portion is rated "AAA" and the interest portion of the obligation is not rated.     |
| "L"           | Ratings qualified with "L" apply only to amounts invested up to federal deposit insurance limits.  |
| "P"           | This subscript is used for issues in which the credit factors, the terms, or both, that determine the likelihood of receipt of payment of principal are different from the credit factors, terms or both that determine the likelihood of receipt of interest on the obligation. The "p" subscript indicates that the rating addresses the principal portion of the obligation only. The "p" subscript will always be used in conjunction with the "i" subscript, which addresses likelihood of receipt of interest. For example, a rated obligation could be assigned ratings of "AAAp NRi" indicating that the principal portion is rated "AAA" and the interest portion of the obligation is not rated. |
| "pi"          | Ratings with a "pi" subscript are based on an analysis of an issuer's published financial information, as well as additional information in the public domain. They do not, however, reflect in-depth meetings with an issuer's management and therefore may be based on less comprehensive information than ratings without a "pi" subscript. Ratings with a "pi" subscript are reviewed annually based on a new year's financial statements, but may be reviewed on an interim basis if a major event occurs that may affect the issuer's credit quality.  |
| "pr"          | The letters "pr" indicate that the rating is provisional. A provisional rating assumes the successful completion of the project financed by the debt being rated and indicates that payment of debt service requirements is largely or entirely dependent upon the successful, timely completion of the project. This rating, however, while addressing credit quality subsequent to completion of the project, makes no comment on the likelihood of or the risk of default upon failure of such completion. The investor should exercise his own judgment with respect to such likelihood and risk.  |
| "preliminary" | Preliminary ratings are assigned to issues, including financial programs, in the following circumstances.  |

Preliminary ratings may be assigned to obligations, most commonly structured and project finance issues, pending receipt of final documentation and legal opinions. Assignment of a final rating is conditional on the receipt and approval by Standard & Poor's of appropriate documentation. Changes in the information provided to Standard & Poor's could result in the assignment of a different rating. In addition, Standard & Poor's reserves the right not to issue a final rating.

Preliminary ratings are assigned to Rule 415 Shelf Registrations. As specific issues, with defined terms, are offered from the master registration, a final rating may be assigned to them in accordance with Standard & Poor's policies. The final rating may differ from the preliminary rating.

Preliminary ratings may be assigned to obligations that will likely be issued upon reorganization or emergence from bankruptcy, based on late-stage reorganization plans, documentation and discussions with the obligor. These ratings consider the anticipated general credit quality of the reorganized or postbankruptcy issuer as well as attributes of the anticipated obligation(s). The final rating may differ from the preliminary rating as a result of changes in the reorganization plan or other developments. Standard & Poor's reserves the right not to issue a final rating.

"t" This symbol indicates termination structures that are designed to honor their contracts to full maturity or, should certain events occur, to terminate and cash settle all their contracts before their final maturity date.

unsolicited Unsolicited ratings are those credit ratings assigned at the initiative of Standard & Poor's and not at the request of the issuer or its agents.

**Inactive Qualifiers (No longer applied or outstanding)**

"\*:" This symbol indicated continuance of the ratings is contingent upon Standard & Poor's receipt of an executed copy of the escrow agreement or closing documentation confirming investments and cash flows. Discontinued use in August 1998.

"C" This qualifier was used to provide additional information to investors that the bank may terminate its obligation to purchase tendered bonds if the long-term credit rating of the issuer is below an investment-grade level and/or the issuer's bonds are deemed taxable. Discontinued use in January 2001.

"q" A "q" subscript indicates that the rating is based solely on quantitative analysis of publicly available information. Discontinued use in April 2001.

"r" The "r" modifier was assigned to securities containing extraordinary risks, particularly market risks, that are not covered in the credit rating. The absence of an "r" modifier should not be taken as an indication that an obligation will not exhibit extraordinary non-credit related risks. Standard & Poor's discontinued the use of the "r" modifier for most obligations in June 2000 and for the balance of obligations (mainly structured finance transactions) in November 2002.

**Moody's Investors Service, Inc.** A brief description of the applicable Moody's Investors Service, Inc. ("Moody's") rating symbols and their meanings (as published by Moody's) follows:

#### LONG TERM OBLIGATION RATINGS

Moody's long-term obligation ratings are opinions of the relative credit risk of a fixed income obligation with an original maturity of one year or more. They address the possibility that a financial obligation will not be honored as promised. Such ratings reflect both the likelihood of default and any financial loss suffered in the event of default.

#### Long-Term Rating Definitions:

|       |  |
|-------|--|
| "Aaa" | Obligations rated Aaa are judged to be of the highest quality, with minimal credit risk.   |
| "Aa"  | Obligations rated Aa are judged to be of high quality and are subject to very low credit risk.   |
| "A"   | Obligations rated A are considered upper-medium grade and are subject to low credit risk.  |
| "Baa" | Obligations rated Baa are subject to moderate credit risk. They are considered medium grade and as such may possess certain speculative characteristics. |
| "Ba"  | Obligations rated Ba are judged to have speculative elements and are subject to substantial credit risk.   |
| "B"   | Obligations rated B are considered speculative and are subject to high credit risk.  |
| "Caa" | Obligations rated Caa are judged to be of poor standing and are subject to very high credit risk.  |
| "Ca"  | Obligations rated Ca are highly speculative and are likely in, or very near, default, with some prospect of recovery of principal and interest.          |
| "C"   | Obligations rated C are the lowest rated class of bonds and are typically in default, with little prospect for recovery of principal or interest.        |

*Note:* Moody's appends numerical modifiers 1, 2, and 3 to each generic rating classification from Aa through Caa. The modifier 1 indicates that the obligation ranks in the higher end of its generic rating category; the modifier 2 indicates a mid range ranking; and the modifier 3 indicates a ranking in the lower end of that generic rating category.



### MEDIUM TERM NOTE RATINGS

Moody's assigns long-term ratings to individual debt securities issued from medium term note (MTN) programs, in addition to indicating ratings to MTN programs themselves. Notes issued under MTN programs with such indicated ratings are rated at issuance at the rating applicable to all *pari passu* notes issued under the same program, at the program's relevant indicated rating, provided such notes do not exhibit any of the characteristics of listed below:

Notes containing features that link interest or principal to the credit performance of any third party or parties (*i.e.*, credit-linked notes);

Notes allowing for negative coupons, or negative principal;

Notes containing any provision that could obligate the investor to make any additional payments;

Notes containing provisions that subordinate the claim.

For notes with any of these characteristics, the rating of the individual note may differ from the indicated rating of the program.

For credit-linked securities, Moody's policy is to "look through" to the credit risk of the underlying obligor. Moody's policy with respect to non-credit linked obligations is to rate the issuer's ability to meet the contract as stated, regardless of potential losses to investors as a result of non-credit developments. In other words, as long as the obligation has debt standing in the event of bankruptcy, the Fund will assign the appropriate debt class level rating to the instrument.

Market participants must determine whether any particular note is rated, and if so, at what rating level. Moody's encourages market participants to contact Moody's Ratings Desks or visit [www.moody.com](http://www.moody.com) directly if they have questions regarding ratings for specific notes issued under a medium-term note program. Unrated notes issued under an MTN program may be assigned an NR (not rated) symbol.

#### Short Term Rating Definitions:

Moody's short term ratings are opinions of the ability of issuers to honor short-term financial obligations. Ratings may be assigned to issuers, short-term programs or to individual short-term debt instruments. Such obligations generally have an original maturity not exceeding thirteen months, unless explicitly noted.

Moody's employs the following designations to indicate the relative repayment ability of rated issuers:

|       |  |
|-------|--|
| "P-1" | Issuers (or supporting institutions) rated Prime 1 have a superior ability to repay short-term debt obligations. |
| "P-2" | Issuers (or supporting institutions) rated Prime 2 have a strong ability to repay short-term debt obligations.   |
| "P-3" | Issuers (or supporting institutions) rated Prime 3 have an acceptable ability to repay short-term obligations.   |
| "NP"  | Issuers (or supporting institutions) rated Not Prime do not fall within any of the Prime rating categories.      |

*Note:* Canadian issuers rated P-1 or P-2 have their short term ratings enhanced by the senior most long-term rating of the issuer, its guarantor or support provider.

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**Fitch IBCA, Inc.** A brief description of the applicable Fitch IBCA, Inc. ("Fitch") ratings symbols and meanings (as published by Fitch) follows:

### INTERNATIONAL ISSUER AND CREDIT RATING SCALES

The Primary Credit Rating Scales (those featuring the symbols "AAA" "D" and "F1" "D") are used for debt and financial strength ratings. The below section describes their use for issuers and obligations in corporate, public and structured finance debt markets.

#### Long-Term Ratings Scales Issuer Credit Ratings Scales

Rated entities in a number of sectors, including financial and non-financial corporations, sovereigns and insurance companies, are generally assigned Issuer Default Ratings (IDRs). IDRs opine on an entity's relative vulnerability to default on financial obligations. The "threshold" default risk addressed by the IDR is generally that of the financial obligations whose non-payment would best reflect the uncured failure of that entity. As such, IDRs also address relative vulnerability to bankruptcy, administrative receivership or similar concepts, although the agency recognizes that issuers may also make pre-emptive and therefore voluntary use of such mechanisms.

In aggregate, IDRs provide an ordinal ranking of issuers based on the agency's view of their relative vulnerability to default, rather than a prediction of a specific percentage likelihood of default. For historical information on the default experience of Fitch-rated issuers, please consult the transition and default performance studies available from the Fitch Ratings website.

"AAA"

**Highest credit quality.**

"AAA" ratings denote the lowest expectation of default risk. They are assigned only in case of exceptionally strong capacity for payment of financial commitments. This capacity is highly unlikely to be adversely affected by foreseeable events.

"AA"

**Very high credit quality.**

"AA" ratings denote expectations of very low default risk. They indicate very strong capacity for payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.

"A"

**High credit quality.** "A"

ratings denote expectations of low default risk. The capacity for payment of financial commitments is considered strong. This capacity may, nevertheless, be more vulnerable to changes in circumstances or in economic conditions than is the case for higher ratings.

"BBB"

**Good credit quality.** "BBB"

ratings indicate that expectations of default risk are currently low. The capacity for payment of financial commitments is considered

adequate but adverse changes in circumstances and economic conditions are more likely to impair this capacity.

"BB"

**Speculative.** "BB" ratings indicate an elevated vulnerability to default risk, particularly in the event of adverse changes in business or economic conditions over time; however, business or financial flexibility exists which supports the servicing of financial commitments.

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- "B" **Highly speculative.** "B" ratings indicate that material default risk is present, but a limited margin of safety remains. Financial commitments are currently being met; however, capacity for continued payment is vulnerable to deterioration in the business and economic environment.
- "CCC" **Substantial credit risk.** Default is a real possibility.
- "CC" **Very high levels of credit risk.** Default of some kind appears probable.
- "C" **Exceptionally high levels of credit risk.** Default is imminent or inevitable, or the issuer is in standstill. Conditions that are indicative of a "C" category rating for an issuer include:
- a. the issuer has entered into a grace or cure period following non-payment of a material financial obligation;
  - b. the issuer has entered into a temporary negotiated waiver or standstill agreement following a payment default on a material financial obligation; or
  - c. Fitch Ratings otherwise believes a condition of "RD" or "D" to be imminent or inevitable, including through the formal announcement of a coercive debt exchange.
- "RD" **Restricted default.** "RD" ratings indicate an issuer that in Fitch Ratings' opinion has experienced an uncured payment default on a bond, loan or other material financial obligation but which has not entered into bankruptcy filings, administration, receivership, liquidation or other formal winding-up procedure, and which has not otherwise ceased business. This would include:
- a. the selective payment default on a specific class or currency of debt;
  - b. the uncured expiry of any applicable grace period, cure period or default forbearance period following a payment default on a bank loan, capital markets security or other material financial obligation;
  - c. the extension of multiple waivers or forbearance periods upon a payment default on one or more material financial obligations, either in series or in parallel; or
  - d. execution of a coercive debt exchange on one or more material financial obligations.
- "D" **Default.** "D" ratings indicate an issuer that in Fitch Ratings' opinion has entered into bankruptcy filings, administration, receivership, liquidation or other formal winding-up procedure, or which has otherwise ceased business.
- Default ratings are not assigned prospectively to entities or their obligations; within this context, non-payment on an instrument that contains a deferral feature or grace period will generally not be considered a default until after the expiration of the deferral or grace period, unless a default is otherwise driven by bankruptcy or other similar circumstance, or by a coercive debt exchange.

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"Imminent" default typically refers to the occasion where a payment default has been intimated by the issuer, and is all but inevitable. This may, for example, be where an issuer has missed a scheduled payment, but (as is typical) has a grace period during which it may cure the payment default. Another alternative would be where an issuer has formally announced a coercive debt exchange, but the date of the exchange still lies several days or weeks in the immediate future.

In all cases, the assignment of a default rating reflects the agency's opinion as to the most appropriate rating category consistent with the rest of its universe of ratings, and may differ from the definition of default under the terms of an issuer's financial obligations or local commercial practice.

*Note:* The modifiers "+" or "-" may be appended to a rating to denote relative status within major rating categories. Such suffixes are not added to the "AAA" Long-Term IDR category, or to Long-Term IDR categories below "B".

### ***Limitations of the Issuer Credit Rating Scale:***

Specific limitations relevant to the issuer credit rating scale include:

The ratings do not predict a specific percentage of default likelihood over any given time period.

The ratings do not opine on the market value of any issuer's securities or stock, or the likelihood that this value may change.

The ratings do not opine on the liquidity of the issuer's securities or stock.

The ratings do not opine on the possible loss severity on an obligation should an issuer default.

The ratings do not opine on the suitability of an issuer as a counterparty to trade credit.

The ratings do not opine on any quality related to an issuer's business, operational or financial profile other than the agency's opinion on its relative vulnerability to default.

Ratings assigned by Fitch Ratings articulate an opinion on discrete and specific areas of risk. The above list is not exhaustive, and is provided for the reader's convenience. Readers are requested to review the section Understanding Credit Ratings Limitations and Usage for further information on the limitations of the agency's ratings.

### **Short-Term Ratings Short-Term Ratings Assigned to Obligations in Corporate, Public and Structured Finance**

A short-term issuer or obligation rating is based in all cases on the short-term vulnerability to default of the rated entity or security stream and relates to the capacity to meet financial obligations in accordance with the documentation governing the relevant obligation. Short-Term Ratings are assigned to obligations whose initial maturity is viewed as "short term" based on market convention. Typically, this means up to 13 months for corporate, sovereign, and structured obligations, and up to 36 months for obligations in U.S. public finance markets.

|      |  |
|------|--|
| "F1" | <b>Highest short-term credit quality.</b> Indicates the strongest intrinsic capacity for timely payment of financial commitments; may have an added "+" to denote any exceptionally strong credit feature. |
| "F2" | <b>Good short-term credit quality.</b> Good intrinsic capacity for timely payment of financial commitments.  |
| "F3" | <b>Fair short-term credit quality.</b> The intrinsic capacity for timely payment of financial commitments is adequate.   |

|      |  |
|------|--|
| "B"  | <b>Speculative short-term credit quality.</b> Minimal capacity for timely payment of financial commitments, plus heightened vulnerability to near term adverse changes in financial and economic conditions. |
| "C"  | <b>High short-term default risk.</b> Default is a real possibility.  |
| "RD" | <b>Restricted default.</b> Indicates an entity that has defaulted on one or more of its financial commitments, although it continues to meet other financial obligations. Applicable to entity ratings only. |
| "D"  | <b>Default.</b> Indicates a broad-based default event for an entity, or the default of a specific short-term obligation.   |

***Limitations of the Short-Term Ratings Scale:***

Specific limitations relevant to the Short-Term Ratings scale include:

The ratings do not predict a specific percentage of default likelihood over any given time period.

The ratings do not opine on the market value of any issuer's securities or stock, or the likelihood that this value may change.

The ratings do not opine on the liquidity of the issuer's securities or stock.

The ratings do not opine on the possible loss severity on an obligation should an obligation default.

The ratings do not opine on any quality related to an issuer or transaction's profile other than the agency's opinion on the relative vulnerability to default of the rated issuer or obligation.

Ratings assigned by Fitch Ratings articulate an opinion on discrete and specific areas of risk. The above list is not exhaustive, and is provided for the reader's convenience. Readers are requested to review the section Understanding Credit Ratings Limitations and Usage for further information on the limitations of the agency's ratings.

**NATIONAL RATINGS**

**National Credit Ratings**

For those countries in which foreign and local currency sovereign ratings are below "AAA", and where there is demand for such ratings, Fitch Ratings will provide National Ratings. It is important to note that each National Rating scale is unique and is defined to serve the needs of the local market in question.

The National Rating scale provides a relative measure of creditworthiness for rated entities only within the country concerned. Under this rating scale, an "AAA" Long-Term National Rating will be assigned to the lowest relative risk within that country, which, in most but not all cases, will be the sovereign state.

The National Rating scale merely ranks the degree of perceived risk relative to the lowest default risk in that same country. Like local currency ratings, National Ratings exclude the effects of sovereign and transfer risk and exclude the possibility that investors may be unable to repatriate any due interest and principal repayments. It is not related to the rating scale of any other national market. Comparisons between different national scales or between an individual national scale and the international rating scale are therefore inappropriate and potentially misleading. Consequently they are identified by the addition of a special identifier for the country concerned, such as "AAA(arg)" for National Ratings in Argentina.



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In certain countries, regulators have established credit rating scales, to be used within their domestic markets, using specific nomenclature. In these countries, the agency's National Rating definitions may be substituted by the regulatory scales. For instance Fitch's National Short Term Ratings of "F1+(xxx)", "F1(xxx)", "F2(xxx)" and "F3(xxx)" may be substituted by the regulatory scales, *e.g.* "A1+", "A1", "A2" and "A3". The below definitions thus serve as a template, but users should consult the individual scales for each country listed on Fitch's website to determine if any additional or alternative category definitions apply.

### National Long-Term Credit Ratings

|            |   |
|------------|---|
| "AAA(xxx)" | "AAA" National Ratings denote the highest rating assigned by the agency in its National Rating scale for that country. This rating is assigned to issuers or obligations with the lowest expectation of default risk relative to all other issuers or obligations in the same country.  |
| "AA(xxx)"  | "AA" National Ratings denote expectations of very low default risk relative to other issuers or obligations in the same country. The default risk inherent differs only slightly from that of the country's highest rated issuers or obligations.   |
| "A(xxx)"   | "A" National Ratings denote expectations of low default risk relative to other issuers or obligations in the same country. However, changes in circumstances or economic conditions may affect the capacity for timely repayment to a greater degree than is the case for financial commitments denoted by a higher rated category.   |
| "BBB(xxx)" | "BBB" National Ratings denote a moderate default risk relative to other issuers or obligations in the same country. However, changes in circumstances or economic conditions are more likely to affect the capacity for timely repayment than is the case for financial commitments denoted by a higher rated category.   |
| "BB(xxx)"  | "BB" National Ratings denote an elevated default risk relative to other issuers or obligations in the same country. Within the context of the country, payment is uncertain to some degree and capacity for timely repayment remains more vulnerable to adverse economic change over time.  |
| "B(xxx)"   | "B" National Ratings denote a significantly elevated default risk relative to other issuers or obligations in the same country. Financial commitments are currently being met but a limited margin of safety remains and capacity for continued timely payments is contingent upon a sustained, favorable business and economic environment. For individual obligations, this rating may indicate distressed or defaulted obligations with potential for extremely high recoveries. |
| "CCC(xxx)" | "CCC" National Ratings denote that default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic conditions.   |



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|           |  |
|-----------|--|
| "CC(xxx)" | "CC" National Ratings denote that default of some kind appears probable.         |
| "C(xxx)"  | "C" National Ratings denote that default is imminent.                            |
| "D(xxx)"  | "D" National Ratings denote an issuer or instrument that is currently in default |

### **National Short-Term Credit Ratings**

|           |  |
|-----------|--|
| "F1(xxx)" | Indicates the strongest capacity for timely payment of financial commitments relative to other issuers or obligations in the same country. Under the agency's National Rating scale, this rating is assigned to the lowest default risk relative to others in the same country. Where the liquidity profile is particularly strong, a "+" is added to the assigned rating. |
| "F2(xxx)" | Indicates a good capacity for timely payment of financial commitments relative to other issuers or obligations in the same country. However, the margin of safety is not as great as in the case of the higher ratings.  |
| "F3(xxx)" | Indicates an adequate capacity for timely payment of financial commitments relative to other issuers or obligations in the same country. However, such capacity is more susceptible to near-term adverse changes than for financial commitments in higher rated categories.  |
| "B(xxx)"  | Indicates an uncertain capacity for timely payment of financial commitments relative to other issuers or obligations in the same country. Such capacity is highly susceptible to near-term adverse changes in financial and economic conditions.   |
| "C(xxx)"  | Indicates a highly uncertain capacity for timely payment of financial commitments relative to other issuers or obligations in the same country. Capacity for meeting financial commitments is solely reliant upon a sustained, favorable business and economic environment.  |
| "D(xxx)"  | Indicates actual or imminent payment default.  |

### ***Notes to Long-Term and Short-Term National Ratings:***

The ISO International Country Code is placed in parentheses immediately following the rating letters to indicate the identity of the National market within which the rating applies. For illustrative purposes, (xxx) has been used.

"+" or "-" may be appended to a National Rating to denote relative status within a major rating category. Such suffixes are not added to the "AAA(xxx)" Long-Term National Rating category, to categories below "CCC(xxx)", or to Short-Term National Ratings other than "F1(xxx)".

### PROXY VOTING POLICIES AND PROCEDURES

SEC-registered advisers that have the authority to vote (client) proxies (which authority may be implied from a general grant of investment discretion) are required to adopt policies and procedures reasonably designed to ensure that the adviser votes proxies in the best interests of its clients. Registered advisers also must maintain certain records on proxy voting. In most cases, the Fund invests in securities that do not generally entitle it to voting rights in its portfolio companies. When the Fund does have voting rights, the Fund delegates the exercise of such rights to Ares Capital Management II LLC (the "Adviser"). The Adviser's proxy voting policies and procedures are summarized below:

In determining how to vote, officers of the Adviser consult with each other and other investment professionals of Ares, taking into account the Fund's and the Fund's investors' interests as well as any potential conflicts of interest. The Adviser consults with legal counsel to identify potential conflicts of interest. Where a potential conflict of interest exists, the Adviser may, if it so elects, resolve it by following the recommendation of a disinterested third party, by seeking the direction of the independent directors of the Fund or, in extreme cases, by abstaining from voting. While the Adviser may retain an outside service to provide voting recommendations and to assist in analyzing votes, the Adviser will not delegate its voting authority to any third party.

An officer of the Adviser keeps a written record of how all such proxies are voted. The Adviser retains records of (a) proxy voting policies and procedures, (b) all proxy statements received (or it may rely on proxy statements filed on the SEC's EDGAR system in lieu thereof), (c) all votes cast, (d) investor requests for voting information and (e) any specific documents prepared or received in connection with a decision on a proxy vote. If it uses an outside service, the Adviser may rely on such service to maintain copies of proxy statements and records, so long as such service will provide a copy of such documents promptly upon request.

The Adviser's proxy voting policies are not exhaustive and are designed to be responsive to the wide range of issues that may be subject to a proxy vote. In general, the Adviser votes the Fund's proxies in accordance with these guidelines unless: (a) it has determined otherwise due to the specific and unusual facts and circumstances with respect to a particular vote, (b) the subject matter of the vote is not covered by these guidelines, (c) a material conflict of interest is present or (d) the Fund finds it necessary to vote contrary to the Fund's general guidelines to maximize stockholder value or the best interests of the Adviser's clients. In reviewing proxy issues, the Adviser generally uses the following guidelines:

**Elections of Directors:** In general, the Adviser will vote in favor of the management-proposed slate of directors. If there is a proxy fight for seats on a portfolio company's board of directors, or the Adviser determines that there are other compelling reasons for withholding the Fund's vote, it will determine the appropriate vote on the matter. The Adviser may withhold votes for directors when it (a) believes a direct conflict of interest exists between the interests of the director and the stockholders, (b) concludes that the actions of the director are unlawful, unethical or negligent or (c) believes the board is entrenched in or dealing inadequately with performance problems, and/or acting with insufficient independence between the board and management. Finally, the Adviser may withhold votes for directors of non-U.S. issuers where there is insufficient information about the nominees disclosed in the proxy statement.

**Appointment of Auditors:** The Adviser believes that a portfolio company remains in the best position to choose its independent auditors and the Adviser will generally support management's recommendation in this regard.

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**Changes in Capital Structure:** Changes in a portfolio company's charter or bylaws may be required by state or federal regulation. In general, the Adviser will cast the Fund's votes in accordance with the management on such proposals. However, the Adviser will consider carefully any proposal regarding a change in corporate structure that is not required by state or federal regulation.

**Corporate Restructurings, Mergers and Acquisitions:** The Adviser believes proxy votes dealing with corporate reorganizations are an extension of the investment decision. Accordingly, the Adviser will analyze such proposals on a case-by-case basis and vote in accordance with its perception of the Fund's interests.

**Proposals Affecting Stockholder Rights:** The Adviser will generally vote in favor of proposals that give stockholders a greater voice in the affairs of a portfolio company and oppose any measure that seeks to limit such rights. However, when analyzing such proposals, the Adviser will balance the financial impact of the proposal against any impairment of stockholder rights as well as of the Fund's investment in the portfolio company.

**Corporate Governance:** The Adviser recognizes the importance of good corporate governance. Accordingly, the Adviser will generally favor proposals that promote transparency and accountability within a portfolio company.

**Anti-Takeover Measures:** The Adviser will evaluate, on a case-by-case basis, any proposals regarding anti-takeover measures to determine the measure's likely effect on stockholder value dilution.

**Stock Splits:** The Adviser will generally vote with management on stock split matters.

**Limited Liability of Directors:** The Adviser will generally vote with management on matters that could adversely affect the limited liability of directors.

**Social and Corporate Responsibility:** The Adviser will review proposals related to social, political and environmental issues to determine whether they may adversely affect stockholder value. The Adviser may abstain from voting on such proposals where they do not have a readily determinable financial impact on stockholder value.

Stockholders may obtain information regarding how the Adviser voted proxies with respect to the Fund's portfolio securities during the twelve-month period ended [ ], 2011 free of charge by making a written request for proxy voting information to: Ares Capital Management II LLC, 2000 Avenue of the Stars, 12th Floor, Los Angeles, California 90067 or by calling us collect at (310) 401-4200.

**Shares**

**Ares Senior Credit Strategies Fund, Inc.**

**Common Stock  
\$20.00 per Share**

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**PROSPECTUS  
, 2011**

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[ ]

Through and including \_\_\_\_\_, 2011 (the 25th day after the date of this prospectus), all dealers effecting transactions in these securities, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to the dealers' obligation to deliver a prospectus when acting as underwriters and with respect to their unsold allotments or subscriptions.

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**PART C**

**OTHER INFORMATION**

**Item 25. Statements and Exhibits**

(1)

***Financial Statements***

Statement of net assets, dated as of [ ], 2011.

(2)

***Exhibits***

- (a) Articles of Incorporation.<sup>(1)</sup>
- (b) Bylaws.<sup>(1)</sup>
- (c) Not Applicable.
- (d) Portions of the Articles of Incorporation and By-laws of the Registrant defining the rights of holders of shares of common stock of the Registrant.<sup>(2)</sup>
- (e) Form of Dividend Reinvestment Plan.<sup>(2)</sup>
- (f) Not Applicable.
- (g) Form of Investment Advisory and Management Agreement between the Registrant and Ares Capital Management II LLC (the "Adviser").<sup>(2)</sup>
- (h)(1) Form of Underwriting Agreement.<sup>(2)</sup>
- (i) Not Applicable.
- (j) Form of Custodian Agreement.<sup>(2)</sup>
- (k)(1) Form of Service Agreement for Transfer Agency Services.<sup>(2)</sup>
- (k)(2) Form of Administration and Accounting Services Agreement between Registrant and [ ].<sup>(2)</sup>
- (k)(3) Form of Administrative Services and Reimbursement Agreement between the Registrant and the Adviser.<sup>(2)</sup>
- (k)(4) Form of License Agreement between the Registrant and the Adviser.<sup>(2)</sup>
- (k)(5) Structuring Agreement.<sup>(2)</sup>
- (k)(6) Master Agreement among Underwriters.<sup>(2)</sup>
- (k)(7) Master Selected Dealers Agreement.<sup>(2)</sup>
- (l)(1) Opinion and Consent of Fund Counsel.<sup>(2)</sup>
- (m) Not Applicable.
- (n) Consent of Independent Registered Public Accounting Firm.<sup>(2)</sup>

(o) Not Applicable.

(p) Certificate of Initial Stockholder.<sup>(2)</sup>

(q) Not Applicable.

(r)(1) Code of Ethics of Fund.<sup>(2)</sup>

(r)(2) Code of Ethics of Adviser.<sup>(2)</sup>

(s) Power of Attorney.<sup>(2)</sup>

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(1) Filed herewith.

(2) To be filed by amendment.

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**Item 26. Marketing Arrangements**

Reference is made to the form of the underwriting agreement included as Exhibit (h)(1) hereto.

**Item 27. Other Expenses of Issuance and Distribution**

|   |      |
|---|------|
| Securities and Exchange Commission registration fee | \$ * |
| Exchange listing fees                               | *    |
| Financial Industry Regulatory Authority fees        | *    |
| Printing expenses                                   | *    |
| Accounting fees and expenses                        | *    |
| Legal fees and expenses                             | *    |
| Underwriters Expense Reimbursement                  | *    |
| Miscellaneous                                       | *    |
| Total   | *    |

\*  
To be furnished by amendment.

**Item 28. Persons Controlled by or Under Common Control with Registrant**

Immediately prior to this offering, Ares Holdings LLC will own shares of the Registrant, representing 100% of the common stock outstanding. Following the completion of this offering, Ares Holdings LLC's share ownership is expected to represent less than 1% of the common stock outstanding.

**Item 29. Number of Holders of Securities**

The following table sets forth the approximate number of record holders of the Company's common stock at [ ], 2011.

| Title of Class                             | Number of Record Holders |
|--|--------------------------|
| Common shares, par value \$0.001 per share | 1                        |

**Item 30. Indemnification**

Maryland law permits a Maryland corporation to include a provision in its charter limiting the liability of its directors and officers to the corporation and its stockholders for money damages, except for liability resulting from (a) actual receipt of an improper benefit or profit in money, property or services or (b) active and deliberate dishonesty that is established by a final judgment and is material to the cause of action. The Registrant's charter contains a provision that eliminates its directors' and officers' liability to the maximum extent permitted by Maryland law and the Investment Company Act of 1940 (the "1940 Act").

The Registrant's charter authorizes it to obligate itself, and its bylaws require it, to the maximum extent permitted by Maryland law and subject to the requirements of the 1940 Act, to indemnify any present or former director or officer or any individual who, while a director or officer of the Registrant and at the request of the Registrant, serves or has served another corporation, real estate investment trust, partnership, joint venture, limited liability company, trust, employee benefit plan or other enterprise as a director, officer, partner, manager, managing member or trustee, from and against any claim or liability to which that individual may become subject or which that individual may incur by reason of his or her service in any of the foregoing capacities and to pay or reimburse his or her reasonable expenses in advance of final disposition of a proceeding, without requiring a preliminary

determination of the ultimate entitlement to indemnification. The Registrant's charter and bylaws also permit it to indemnify and advance expenses to any individual who served any predecessor of the Registrant in any of the capacities described above and any employee or agent of the Registrant or any predecessor of the Registrant. In accordance with the 1940 Act, the Registrant will not indemnify any person for any liability to which such person would be subject by reason of such person's willful misfeasance, bad faith, gross negligence or reckless disregard of the duties involved in the conduct of his office.

Maryland law requires a Maryland corporation (unless its charter provides otherwise, which the Registrant's charter does not) to indemnify a director or officer who has been successful in the defense of any proceeding to which he or she is made or threatened to be made a party by reason of his or her service in that capacity. Maryland law permits a Maryland corporation to indemnify its present and former directors and officers, among others, against judgments, penalties, fines, settlements and reasonable expenses actually incurred by them in connection with any proceeding to which they may be made or threatened to be made a party by reason of their service in those or other capacities unless it is established that (a) the act or omission of the director or officer was material to the matter giving rise to the proceeding and (i) was committed in bad faith or (ii) was the result of active and deliberate dishonesty, (b) the director or officer actually received an improper personal benefit in money, property or services or (c) in the case of any criminal proceeding, the director or officer had reasonable cause to believe that the act or omission was unlawful. A Maryland corporation may not indemnify a director or officer who has been adjudged liable in a suit by or in the right of the corporation or in which the director or officer was adjudged liable to the corporation or on the basis that a personal benefit was improperly received. A court may order indemnification if it determines that the director or officer is fairly and reasonably entitled to indemnification, even though the director or officer did not meet the prescribed standard of conduct, was adjudged liable to the corporation or was adjudged liable on the basis that personal benefit was improperly received; however, indemnification for an adverse judgment in a suit by or in the right of the corporation, or for a judgment of liability on the basis that personal benefit was improperly received, is limited to expenses.

In addition, Maryland law permits a Maryland corporation to advance reasonable expenses to a director or officer upon the corporation's receipt of (a) a written affirmation by the director or officer of his or her good faith belief that he or she has met the standard of conduct necessary for indemnification by the corporation and (b) a written undertaking by him or her or on his or her behalf to repay the amount paid or reimbursed by the corporation if it is ultimately determined that the standard of conduct was not met.

Insofar as indemnification for liability arising under the Securities Act of 1933 (the "Securities Act") may be permitted to directors, officers and controlling persons of the Registrant pursuant to the foregoing provisions, or otherwise, the Registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Registrant of expenses incurred or paid by a director, officer or controlling person of the Registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

**Item 31. Business and Other Connections of Adviser**

The description of the Adviser under the caption "Management of the Fund" in the prospectus, which forms part of this registration statement, is incorporated by reference herein. Information as to



the directors and officers of the Adviser together with information as to any other business, profession, vocation or employment of a substantial nature engaged in by the directors and officers of the Adviser in the last two years, will be included in its application for registration as an investment adviser on Form ADV (File No. [ ] filed under the Investment Advisers Act of 1940, as amended, and is incorporated herein by reference. The Adviser's principal business address is 2000 Avenue of the Stars, 12th Floor, Los Angeles, CA 90067.

**Item 32. Locations of Accounts and Records**

All accounts, books and other documents required to be maintained by Section 31(a) of the Investment Company Act of 1940, and the rules thereunder are maintained at the offices of

- (1) the Registrant, Ares Senior Credit Strategies Fund, Inc., 2000 Avenue of the Stars, 12th Floor, Los Angeles, California, 90067;
- (2) the Transfer Agent, [ ], [ ];
- (3) the Custodian, [ ], [ ]; and
- (4) the Adviser, Ares Capital Management II LLC, 2000 Avenue of the Stars, 12th Floor, Los Angeles, CA 90067.

**Item 33. Management Services**

Not applicable.

**Item 34. Undertakings**

1. The Registrant undertakes to suspend the offering of shares until the prospectus is amended if (1) subsequent to the effective date of its registration statement, the net asset value declines more than ten percent from its net asset value as of the effective date of the registration statement; or (2) the net asset value increases to an amount greater than the net proceeds as stated in the prospectus.
2. The Registrant undertakes that:
  - (a) For the purpose of determining any liability under the Securities Act, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the Registrant pursuant to Rule 497(h) under the Securities Act shall be deemed to be part of this registration statement as of the time it was declared effective.
  - (b) For the purpose of determining any liability under the Securities Act, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.



**SCHEDULE OF EXHIBITS**

| <b>Exhibit<br/>No.</b> | <b>Description</b>         |
|------------------------|----------------------------|
| 2(a)                   | Articles of Incorporation. |
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