

Ares Dynamic Credit Allocation Fund, Inc.
Form N-Q
March 28, 2013

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

FORM N-Q

**QUARTERLY SCHEDULE OF PORTFOLIO HOLDINGS OF REGISTERED
MANAGEMENT INVESTMENT COMPANY**

Investment Company Act file number 811-22535

Ares Dynamic Credit Allocation Fund, Inc.
(Exact name of registrant as specified in charter)

2000 Avenue of the Stars

12th Floor

Los Angeles, California
(Address of principal executive offices)

90067
(Zip code)

Michael D. Weiner

Daniel J. Hall

2000 Avenue of the Stars

12th Floor

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

Registrant's telephone number, including area code: (310) 201-4200

Date of fiscal year end: October 31, 2013

Date of reporting period: January 31, 2013

ITEM 1. SCHEDULE OF INVESTMENTS.

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Ares Dynamic Credit Allocation Fund, Inc.

Schedule of Investments

January 31, 2013 (UNAUDITED)

| | Principal Amount | Value (e) |
|---|------------------|--------------|
| Floating Rate Term Loans 55.1% (a) | | |
| Aerospace and Defense 3.8% | | |
| Booz Allen Hamilton, Inc., Initial Tranche B Term Loan, 4.50%, 07/31/2019 | \$ 2,493,750 | \$ 2,522,329 |
| DAE Aviation Holdings, Inc., Tranche B-1 Loan (2018), L+5.00%, 10/29/2018 (b)(c) | 574,468 | 584,521 |
| FR Acquisition Corporation (US), Inc., Facility B (Mezzanine), L+11.00%, 12/20/2017 (b)(c)(d) | 1,660,178 | 1,573,019 |
| JFB Firth Rixson, Inc., Initial Dollar Term Facility, 5.50%, 06/30/2017 | 5,000,000 | 5,018,750 |
| Sequa Corporation, Initial Term Loan, 5.25%, 05/29/2017 | 2,500,000 | 2,536,450 |
| Standard Aero Ltd., Tranche B-2 Loan, L+5.00%, 11/02/2018 (b)(c) | 544,803 | 554,337 |
| | | 12,789,406 |
| Automobile 1.5% | | |
| Federal-Mogul Corporation, Tranche B Term Loan, 2.15%, 12/27/2014 | 1,981,273 | 1,877,256 |
| Federal-Mogul Corporation, Tranche C Term Loan, 2.15%, 12/27/2015 | 1,010,853 | 957,783 |
| Schaeffler AG, Facility C2 Loan-USD, 6.00%, 01/27/2017 | 2,000,000 | 2,017,720 |
| | | 4,852,759 |
| Banking, Finance and Insurance 0.6% | | |
| Ocwen Loan Servicing, LLC, Term Loan, L+3.75%, 01/22/2018 (b)(c) | 2,000,000 | 2,025,000 |
| Beverage, Food and Tobacco 1.9% | | |
| Del Monte Foods Company, Initial Term Loan, L+3.00%, 03/08/2018 (b)(c) | 3,500,000 | 3,506,580 |
| Michael Foods Group, Inc., Term B Loans, 4.25%, 02/25/2018 | 2,851,065 | 2,890,268 |
| | | 6,396,848 |
| Broadcasting and Entertainment 4.5% | | |
| Clear Channel Communications, Inc., Tranche A Term Loan, L+3.40%, 07/30/2014 (b)(c) | 2,500,000 | 2,471,875 |
| Cumulus Media Holdings, Inc., Term Loan (2018), 4.50%, 09/16/2018 | 4,987,500 | 5,047,350 |
| DigitalGlobe, Inc., Term Loan, L+2.75%, 01/22/2020 (b)(c) | 2,000,000 | 2,023,760 |
| Gray Television, Inc., Initial Term Loan, 4.75%, 10/14/2019 | 2,409,910 | 2,449,071 |
| Nine Entertainment (Delaware) Corporation, Exit Term Loan, L+3.25%, 01/17/2020 (b) | 3,000,000 | 3,022,500 |
| | | 15,014,556 |
| Chemicals, Plastics and Rubber 1.4% | | |
| HII Holding Corporation, Term Loan 2nd Lien, 9.50%, 12/20/2020 | 1,500,000 | 1,511,250 |
| HII Holding Corporation, U.S. Term Loan 1st Lien, 5.25%, 12/20/2019 | 3,000,000 | 3,033,750 |
| | | 4,545,000 |
| Diversified and Conglomerate Services 4.2% | | |
| Affinion Group, Inc., Tranche B Term Loan, 6.50%, 07/16/2015 | 997,440 | 950,421 |
| Brickman Group Holdings, Inc., Tranche B-1 Term Loan, L+4.25%, 10/14/2016 (b)(c) | 2,700,000 | 2,727,000 |
| Kronos, Inc., Tranche B-1 Term Loan, 5.50%, 10/30/2019 | 2,000,000 | 2,017,500 |
| NEP/NCP Holdco, Inc., Term Loan 1st Lien, L+4.00%, 01/18/2020 (b)(c) | 2,750,000 | 2,792,405 |
| NEP/NCP Holdco, Inc., Term Loan 2nd Lien, L+8.25%, 08/18/2020 (b)(c) | 1,000,000 | 1,030,000 |
| VWR Funding, Inc., Dollar Term B-1 Loan, L+4.00%, 04/03/2017 (b)(c) | 1,725,000 | 1,735,057 |
| VWR Funding, Inc., Euro Term B-1 Loan, L+4.25%, 04/03/2017 (b)(c) | 1,000,000 | 1,355,754 |
| West Corporation, Term B-6 Loan, L+4.50%, 06/30/2018 (b)(c) | \$ 1,500,000 | 1,517,340 |
| | | 14,125,477 |
| Electronics 2.9% | | |
| NXP B.V., Tranche C Loan, 4.75%, 01/11/2020 | 5,000,000 | 5,062,500 |
| SunGard Data Systems Inc., Tranche D Term Loan, 4.50%, 12/17/2019 | 4,500,000 | 4,546,890 |
| | | 9,609,390 |

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Furnishings, Housewares Durable Consumables 0.3%

| | | |
|---|---------|---------|
| Grohe Holding GMBH, U.S. Loan, L+5.50%, 05/18/2017 (b)(c) | 951,188 | 958,321 |
|---|---------|---------|

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| | Principal Amount | Value (e) |
|--|------------------|--------------|
| Floating Rate Term Loans (a) (continued) | | |
| Grocery 0.9% | | |
| Roundy's Supermarkets, Inc., Tranche B Term Loan, 5.75%, 02/13/2019 | \$ 2,994,975 | \$ 2,858,943 |
| Healthcare, Education and Childcare 6.9% | | |
| AssuraMed Holding Inc., Initial Term Loan 1st Lien, 5.50%, 10/24/2019 | 3,000,000 | 3,042,180 |
| Bright Horizons Family Solutions LLC, Term Loan, L+3.50%, 01/16/2020 (b)(c) | 1,200,000 | 1,206,996 |
| MedAssets, Inc., Term B Loan, 4.00%, 12/13/2019 | 2,000,000 | 2,024,160 |
| Mediq N.V., Facility B1, L+5.50%, 02/13/2020 (b) | 4,000,000 | 5,348,356 |
| Quintiles Transnational Corporation, Additional Term B-2 Loan, 4.50%, 06/08/2018 | \$ 4,642,405 | 4,700,435 |
| Sheridan Holdings Inc., Initial Term Loan 1L, 6.00%, 06/29/2018 | 3,492,481 | 3,541,376 |
| United Surgical Partners International, Inc., Extended Term Loan, L+4.50%, 04/19/2017 (b)(c) | 2,000,000 | 2,014,380 |
| United Surgical Partners International, Inc., New Tranche B Term Loan, 6.00%, 04/03/2019 | 1,097,250 | 1,106,171 |
| | | 22,984,054 |
| Hotels, Motels, Inns and Gaming 4.4% | | |
| Affinity Gaming, LLC, Initial Term Loan, 5.50%, 11/09/2017 | 2,600,493 | 2,628,137 |
| Caesars Entertainment Operating Company Inc., Term B-4 Loans, 9.50%, 10/31/2016 | 3,493,573 | 3,549,016 |
| Cannery Casino Resorts, LLC, Term Loan 1st Lien, 6.00%, 10/02/2018 | 3,495,000 | 3,528,203 |
| MGM Resorts International, Term Loan B, 4.25%, 12/20/2019 | 5,000,000 | 5,068,700 |
| | | 14,774,056 |
| Industrials 0.8% | | |
| Hamilton Sundstrand, Refinanced Term Loan, 5.00%, 12/13/2019 | 2,700,000 | 2,722,950 |
| Insurance 1.3% | | |
| Alliant Holdings I, LLC, Initial Term Loan, 5.00%, 12/20/2019 | 4,250,000 | 4,296,027 |
| Leisure, Amusement and Entertainment 2.4% | | |
| Delta 2 (Lux) Sarl, Facility B2 (USD), L+4.75%, 04/30/2019 (b)(c) | 4,000,000 | 4,045,000 |
| Equinox Holdings, Inc., Term Loan, L+4.25%, 11/16/2019 (b)(c) | 2,000,000 | 2,032,500 |
| MTL Publishing, LLC, Term B Loan, L+4.25%, 06/29/2018 (b)(c) | 2,000,000 | 2,026,260 |
| | | 8,103,760 |
| Machinery(Nonagriculture, Nonconstruction, Nonelectronic) 1.0% | | |
| Doncasters US Holdings, Inc., Facility B2, L+4.50%, 05/15/2015 (b)(c) | 1,750,000 | 1,707,703 |
| Doncasters US Holdings, Inc., Facility C2, L+5.00%, 05/13/2016 (b)(c) | 1,750,000 | 1,716,452 |
| | | 3,424,155 |
| Manufacturing 2.3% | | |
| Alliance Laundry Systems, LLC, Initial Term Loan 1st Lien, 5.50%, 12/10/2018 | 5,000,000 | 5,056,250 |
| Alliance Laundry Systems, LLC, Initial Term Loan 2nd Lien, 9.50%, 12/10/2019 | 500,000 | 510,000 |
| Generac Power Systems, Inc., Term Loan B, 6.25%, 05/30/2018 | 1,994,987 | 2,035,605 |
| | | 7,601,855 |
| Mining, Steel, Nonprecious Metals 0.6% | | |
| FMG Resources Pty Ltd., Loan, 5.25%, 10/18/2017 | 1,995,000 | 2,019,319 |
| Oil and Gas 1.2% | | |
| Everest Acquisition, LLC, Incremental Term Loan, L+3.50%, 04/30/2019 (b)(c) | 1,500,000 | 1,514,460 |
| Gibson Energy ULC, Tranche B Term Loan, L+3.75%, 06/15/2018 (b)(c) | 2,000,000 | 2,031,660 |
| Venoco, Inc., Loan 2nd Lien, 8.50%, 06/30/2017 | 496,032 | 504,712 |
| | | 4,050,832 |
| Personal Transportation 2.1% | | |
| Air Medical Group Holdings, Inc., B-1 Term Loan, 6.50%, 06/30/2018 | 4,875,000 | 4,960,312 |
| Rural/Metro Corporation, Metro Corporation/Term Loan, 5.75%, 06/29/2018 | 2,155,659 | 2,159,259 |
| | | 7,119,571 |

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| | Principal Amount | Value (e) |
|---|------------------|--------------------|
| Floating Rate Term Loans (a) (continued) | | |
| Printing and Publishing 2.6% | | |
| Dex Media East, LLC, Term Loan, L+2.50%, 10/24/2014 (b)(c) | \$ 3,000,000 | \$ 2,184,990 |
| Dex Media West, LLC, Loan, L+4.00%, 10/24/2014 (b)(c) | 3,000,000 | 2,314,500 |
| Tribune Company, Tranche B Term Loan, 4.00%, 12/17/2019 | 4,000,000 | 4,030,000 |
| | | 8,529,490 |
| Retail Stores 4.3% | | |
| Bass Pro Group, LLC, Term Loan, 4.00%, 11/20/2019 | 1,850,000 | 1,868,500 |
| BJ's Wholesale Club, Inc., 1st Lien Replacement Loan, 5.75%, 09/26/2019 | 1,500,000 | 1,521,660 |
| Harbor Freight Tools USA, Inc., Term Loan B, 5.50%, 11/14/2017 | 1,589,756 | 1,610,422 |
| Leslie's Poolmart, Inc., Tranche B Term Loan, 5.25%, 10/16/2019 | 1,995,400 | 1,986,467 |
| Michaels Stores, Inc., Term B Loan, L+2.75%, 01/31/2020 (b)(c) | 3,250,000 | 3,274,343 |
| Neiman Marcus Group, Inc., Term Loan, 4.75%, 05/16/2018 | 4,000,000 | 4,007,520 |
| | | 14,268,912 |
| Technology 2.4% | | |
| Avaya Inc., Term B-5 Loan, L+6.75%, 03/30/2018 (b)(c) | 2,000,000 | 2,011,500 |
| EIG Investors Corporation, Term Loan 1st Lien, 6.25%, 11/09/2019 | 2,000,000 | 2,017,500 |
| EIG Investors Corporation, Term Loan 2nd Lien, L+9.00%, 05/08/2020 (b)(c) | 1,250,000 | 1,250,000 |
| Riverbed Technology, Inc., Term Loan, 4.00%, 12/18/2019 | 2,500,000 | 2,522,925 |
| | | 7,801,925 |
| Utilities 0.8% | | |
| Calpine Corporation, Term Loan (2019), L+3.25%, 10/09/2019 (b)(c) | 2,500,000 | 2,529,825 |
| | | |
| Total Floating Rate Term Loans (Cost: \$181,640,310) | | 183,402,431 |
| Corporate Bonds 69.3% | | |
| Aerospace and Defense 3.7% | | |
| DAE Aviation Holdings, Inc., 144A, 11.25%, 08/01/2015 | 6,000,000 | 6,165,000 |
| DynCorp International Inc., 10.38%, 07/01/2017 | 3,500,000 | 3,412,500 |
| Sequa Corporation, 144A, 7.00%, 12/15/2017 | 2,750,000 | 2,770,625 |
| | | 12,348,125 |
| Banking, Finance and Insurance 1.6% | | |
| TransUnion Holding Company, Inc., 9.63%, 06/15/2018 (d) | 4,945,000 | 5,278,788 |
| Beverage, Food and Tobacco 1.9% | | |
| Cott Beverages, Inc., 8.38%, 11/15/2017 | 3,000,000 | 3,247,500 |
| Michael Foods Holding, Inc., 144A, 8.50%, 07/15/2018 (d) | 2,850,000 | 2,928,375 |
| | | 6,175,875 |
| Broadcasting and Entertainment 2.5% | | |
| Entravision Communications Corporation, 8.75%, 08/01/2017 | 2,656,000 | 2,888,400 |
| Salem Communications, 9.63%, 12/15/2016 | 5,023,000 | 5,525,300 |
| | | 8,413,700 |
| Buildings and Real Estate 2.1% | | |
| HD Supply, Inc., 144A, 10.50%, 01/15/2021 | 3,500,000 | 3,578,750 |
| Hillman Companies, Inc., 144A, 10.88%, 05/31/2018 | 3,040,000 | 3,309,800 |
| | | 6,888,550 |
| Business Equipment and Services 0.5% | | |
| Iron Mountain, Inc., 5.75%, 08/15/2024 | 1,500,000 | 1,513,125 |

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| | Principal Amount | Value (e) |
|---|------------------|--------------|
| Corporate Bonds (continued) | | |
| Cable and Satellite TV 11.5% | | |
| AMC Networks, Inc., 4.75%, 12/15/2022 | \$ 2,625,000 | \$ 2,625,000 |
| Cablevision Systems Corporation, 5.88%, 09/15/2022 | 3,500,000 | 3,443,125 |
| Cequel Communications Holdings I, LLC, 144A, 6.38%, 09/15/2020 | 2,300,000 | 2,409,250 |
| DISH DBS Corporation, 7.00%, 10/01/2013 | 4,000,000 | 4,135,000 |
| Intelsat (Luxembourg) S.A., 11.50%, 02/04/2017 (d) | 4,000,000 | 4,240,000 |
| Nara Cable Funding, 144A, 8.88%, 12/01/2018 | 3,000,000 | 3,000,000 |
| Nara Cable Funding II Limited, 144A, 8.50%, 03/01/2020 (c) | 5,000,000 | 6,736,349 |
| Unitymedia Hessen GmbH & Co. KG, 144A, 5.13%, 01/21/2023 | 3,400,000 | 4,499,949 |
| UPC Broadband Holding B.V., 9.75%, 04/15/2018 | 2,000,000 | 2,864,221 |
| Videotron Ltee, 9.13%, 04/15/2018 | \$ 4,000,000 | 4,230,000 |
| | | 38,182,894 |
| Cargo Transportation 1.2% | | |
| Syncreon Global Finance (US) Inc., 144A, 9.50%, 05/01/2018 | 3,960,000 | 4,158,000 |
| Chemicals, Plastics and Rubber 3.9% | | |
| Hexion U.S. Finance Corporation, 8.88%, 02/01/2018 | 1,500,000 | 1,515,000 |
| Hexion U.S. Finance Corporation, 9.00%, 11/15/2020 | 2,000,000 | 1,860,000 |
| Hexion US Finance Corporation, 144A, 6.63%, 04/15/2020 | 1,364,000 | 1,343,540 |
| Perstorp Holding AB, 144A, 8.75%, 05/15/2017 | 4,000,000 | 4,170,000 |
| Rain Escrow Corporation, 144A, 8.25%, 01/15/2021 | 1,850,000 | 1,942,500 |
| Vertellus Specialties, Inc., 144A, 9.38%, 10/01/2015 | 2,500,000 | 2,193,750 |
| | | 13,024,790 |
| Containers, Packaging and Glass 1.1% | | |
| Reynolds Group Holdings Inc., 9.00%, 04/15/2019 | 1,900,000 | 2,004,500 |
| Reynolds Group Holdings Inc., 9.88%, 08/15/2019 | 1,500,000 | 1,638,750 |
| | | 3,643,250 |
| Diversified and Conglomerate Services 6.8% | | |
| Abengoa S.A., 144A, 8.88%, 02/05/2018 (c) | 2,500,000 | 3,325,754 |
| Affinion Group Holdings, Inc., 11.50%, 10/15/2015 | \$ 2,500,000 | 2,118,750 |
| Aramark Corporation, 8.50%, 02/01/2015 | 1,500,000 | 1,509,390 |
| Aramark Corporation, 144A, 8.63%, 05/01/2016 (d) | 2,850,000 | 2,917,716 |
| Brickman Group Holdings, Inc., 144A, 9.13%, 11/01/2018 | 1,000,000 | 1,065,000 |
| Hertz Corporation, 8.50%, 07/31/2015 | 5,000,000 | 7,194,489 |
| West Corporation, 8.63%, 10/01/2018 | \$ 4,237,000 | 4,544,182 |
| | | 22,675,281 |
| Electronics 2.8% | | |
| AMKOR Technology, Inc., 7.38%, 05/01/2018 | 3,289,000 | 3,461,673 |
| Freescale Semiconductor, Inc., 144A, 10.13%, 03/15/2018 | 2,000,000 | 2,210,000 |
| Syniverse Holdings, Inc., 9.13%, 01/15/2019 | 3,500,000 | 3,806,250 |
| | | 9,477,923 |
| Forest Products 0.9% | | |
| Verso Paper Holdings, LLC, 11.75%, 01/15/2019 | 3,000,000 | 2,830,000 |
| Grocery 0.8% | | |
| Tops Holding Corporation, 144A, 8.88%, 12/15/2017 | 2,500,000 | 2,687,500 |
| Healthcare, Education and Childcare 0.8% | | |
| inVentiv Health, Inc., 144A, 9.00%, 01/15/2018 | 2,500,000 | 2,565,625 |
| Hotels, Motels, Inns and Gaming 3.2% | | |
| Affinity Gaming, LLC, 144A, 9.00%, 05/15/2018 | 2,165,000 | 2,294,900 |
| Caesars Entertainment Operating Company Inc., 144A, 9.00%, 02/15/2020 | 2,000,000 | 2,035,000 |

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| | Principal Amount | Value (e) |
|---|------------------|--------------|
| Corporate Bonds (continued) | | |
| Hotels, Motels, Inns and Gaming (continued) | | |
| Host Hotels and Resorts, L.P., 9.00%, 05/15/2017 | \$ 5,835,000 | \$ 6,199,687 |
| | | 10,529,587 |
| Industrials 0.9% | | |
| Boart Longyear Management Pty Ltd., 144A, 7.00%, 04/01/2021 | 3,000,000 | 3,105,000 |
| Manufacturing 1.6% | | |
| Case New Holland, Inc., 7.75%, 09/01/2013 | 5,330,000 | 5,489,900 |
| Metals & Minerals 0.6% | | |
| Molycorp, Inc., 144A, 10.00%, 06/01/2020 | 2,000,000 | 2,000,000 |
| Mining, Steel, Nonprecious Metals 1.8% | | |
| CONSOL Energy, Inc., 6.38%, 03/01/2021 | 1,430,000 | 1,462,175 |
| CONSOL Energy, Inc., 8.00%, 04/01/2017 | 2,000,000 | 2,160,000 |
| CONSOL Energy, Inc., 8.25%, 04/01/2020 | 1,300,000 | 1,407,250 |
| FMG Resources Pty Ltd., 144A, 7.00%, 11/01/2015 | 1,000,000 | 1,042,500 |
| | | 6,071,925 |
| Oil and Gas 8.1% | | |
| Atlas Pipeline Partners, L.P., 8.75%, 06/15/2018 | 3,500,000 | 3,752,000 |
| Atlas Pipeline Partners, L.P., 144A, 5.88%, 08/01/2023 (c) | 3,000,000 | 2,992,500 |
| Atlas Pipeline Partners, L.P., 144A, 6.63%, 10/01/2020 | 1,425,000 | 1,496,250 |
| Bill Barrett Corporation, 7.00%, 10/15/2022 | 1,000,000 | 1,030,000 |
| Bill Barrett Corporation, 7.63%, 10/01/2019 | 1,500,000 | 1,578,750 |
| Chesapeake Energy Corporation, 7.63%, 07/15/2013 | 3,250,000 | 3,331,250 |
| Chesapeake Energy Corporation, 9.50%, 02/15/2015 | 1,000,000 | 1,132,500 |
| Halcon Resources Corporation, 144A, 8.88%, 05/15/2021 | 4,535,000 | 4,841,112 |
| Midstates Petroleum Company, Inc., 144A, 10.75%, 10/01/2020 | 1,500,000 | 1,635,000 |
| Quicksilver Resources, Inc., 8.25%, 08/01/2015 | 1,500,000 | 1,447,500 |
| Quicksilver Resources, Inc., 11.75%, 01/01/2016 | 2,000,000 | 2,040,000 |
| Venoco, Inc., 11.50%, 10/01/2017 | 1,750,000 | 1,863,750 |
| | | 27,140,612 |
| Packaging 0.6% | | |
| Albea Beauty Holdings S.A., 144A, 8.38%, 11/01/2019 | 2,000,000 | 2,115,000 |
| Personal, Food and Miscellaneous Services 1.6% | | |
| B&G Foods, Inc., 7.63%, 01/15/2018 | 5,000,000 | 5,393,750 |
| Retail Stores 2.9% | | |
| New Academy Finance Company, LLC, 144A, 8.00%, 06/15/2018 (d) | 3,000,000 | 3,093,750 |
| Petco Animal Supplies, Inc., 144A, 8.50%, 10/15/2017 (d) | 2,000,000 | 2,060,000 |
| Yankee Candle Company, Inc., 9.75%, 02/15/2017 | 4,500,000 | 4,668,795 |
| | | 9,822,545 |
| Technology 2.8% | | |
| Avaya Inc., 144A, 9.00%, 04/01/2019 | 4,000,000 | 4,130,000 |
| GXS Worldwide, Inc., 9.75%, 06/15/2015 | 4,827,000 | 5,032,148 |
| | | 9,162,148 |
| Telecommunications 3.1% | | |
| Digicel Group Ltd., 144A, 8.25%, 09/01/2017 | 3,000,000 | 3,180,000 |
| Wind Acquisition Finance S.A., 144A, 11.75%, 07/15/2017 | 2,000,000 | 2,150,000 |
| Windstream Corporation, 7.00%, 03/15/2019 | 1,000,000 | 1,020,000 |
| Windstream Corporation, 7.50%, 04/01/2023 | 1,000,000 | 1,070,000 |

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| | Principal Amount | Value (e) |
|---|------------------|---------------|
| Corporate Bonds (continued) | | |
| Telecommunications (continued) | | |
| Windstream Corporation, 7.75%, 10/15/2020 | \$ 1,000,000 | \$ 1,087,500 |
| Windstream Corporation, 8.13%, 08/01/2013 | 1,710,000 | 1,757,025 |
| | | 10,264,525 |
| Total Corporate Bonds (Cost: \$228,856,130) | | 230,958,418 |
| Collateralized Loan Obligations/Collateralized Debt Obligations 11.8% | | |
| Structured Finance Obligation 11.8% | | |
| Apidos CDO IX, 144A, 5.30%, 07/15/2023 | 3,000,000 | 3,028,266 |
| Atrium IX, 144A, 3.80%, 02/28/2024 (c) | 2,500,000 | 2,417,500 |
| Carlyle Global Market Strategies CLO 2012-4 Ltd., 144A, 4.89%, 01/20/2025 | 4,000,000 | 4,037,520 |
| Cent XVII CLO, L.P., 144A, 3.80%, 01/30/2025 (c) | 4,000,000 | 3,728,400 |
| Finn Square CLO Ltd., 144A, 4.12%, 12/24/2023 | 4,500,000 | 4,375,458 |
| ING IM CLO 2011-1 LLC, 144A, 3.61%, 06/22/2021 | 4,000,000 | 3,804,280 |
| KVK CLO 2013-1 Ltd., 144A, 4.65%, 04/14/2025 (c) | 3,000,000 | 2,915,190 |
| Magnetite VII CLO Ltd., 144A, 4.81%, 01/15/2025 | 4,000,000 | 4,015,944 |
| Mountain Hawk I CLO Ltd., 144A, 3.40%, 01/20/2024 (c) | 2,000,000 | 1,797,500 |
| OHA Credit Partners VII Ltd., 144A, 4.34%, 11/20/2023 | 1,000,000 | 994,487 |
| OZLM Funding Ltd., 144A, 4.20%, 01/22/2025 (c) | 2,000,000 | 1,950,200 |
| Symphony CLO XI Ltd., 144A, 4.56%, 04/17/2025 (c) | 2,750,000 | 2,686,838 |
| Tralee CDO I Ltd., 144A, 1.80%, 04/16/2022 | 3,000,000 | 2,654,829 |
| Venture VIII CDO Ltd., 144A, 3.21%, 02/28/2024 | 1,000,000 | 1,005,009 |
| Total Collateralized Loan Obligations/Collateralized Debt Obligations (Cost: \$38,468,346) | | 39,411,421 |
| Total Investments - 136.2% | | |
| (Cost: \$448,964,786) | \$ | 453,772,270 |
| Liabilities in Excess of Other Assets - (36.2%) | | (120,711,433) |
| Net Assets - 100.0% | \$ | 333,060,837 |

Footnotes:

- (a) Interest rates on floating rate term loans adjust periodically based upon a predetermined schedule. Stated interest rate in this schedule represents the all-in rate at period end.
- (b) This position or a portion of this position represents an unsettled loan purchase. The interest rate will be determined at the time of settlement and will be based upon the London-Interbank Offered Rate (LIBOR or L) or the applicable LIBOR floor plus a spread which was determined at the time of purchase.
- (c) When-Issued or delayed delivery security based on typical market settlement convention for such security.
- (d) Pay-In-Kind security (PIK), which may pay interest/dividends in additional par/shares.
- (e) Investment holdings in foreign currencies are converted to U.S. Dollars using period end spot rates.

As of January 31, 2013, the aggregate cost of securities for Federal income tax purposes was \$448,964,786. Unrealized appreciation and depreciation on investments for Federal income tax purposes are as follows:

| | | |
|------------------------------------|-----------|------------------|
| Gross unrealized appreciation | \$ | 5,670,563 |
| Gross unrealized depreciation | | (863,079) |
| Net unrealized appreciation | \$ | 4,807,484 |

Abbreviations:

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144A Certain conditions for public sale may exist. Unless otherwise noted, these securities are deemed to be liquid.

CDO Collateralized Debt Obligation

CLO Collateralized Loan Obligation

Currencies:

Euro Currency

\$ U.S. Dollars

Ares Dynamic Credit Allocation Fund, Inc.

Notes to Schedule of Investments

January 31, 2013 (UNAUDITED)

(1) Organization

Ares Dynamic Credit Allocation Fund, Inc. (the *Fund*) is a corporation incorporated 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. The Fund was initially funded on October 17, 2012 and completed its initial public offering on November 27, 2012. Ares Capital Management II LLC (the *Adviser*) serves as the investment adviser to the Fund. The Fund's common shares are listed on the New York Stock Exchange (the *Exchange*) and trades under the ticker symbol *ARDC*.

The Fund's investment objective is to provide an attractive level of total return, primarily through current income and, secondarily, through capital appreciation. The Fund will seek to achieve its investment objective by investing primarily in a broad, dynamically managed portfolio of (i) secured loans (*Senior Loans*) made to companies whose debt is rated below investment grade, (ii) corporate bonds (*Corporate Bonds*) that are expected to be primarily high yield issues rated below investment grade, and (iii) debt securities issued by entities commonly referred to, and referred to herein, as collateralized loan obligations (*CLOs*), and such debt securities, (*CLO Debt Securities*). The Adviser will dynamically allocate the Fund's portfolio among investments in the various targeted credit markets, to seek to manage interest rate and credit risk and the duration of the Fund's portfolio.

(2) Significant Accounting Policies

Investments Valuation

All investments in securities are recorded at their estimated fair value, as described in Note 3.

Revolving loan, bridge loan and delayed draw term loan agreements

The Fund has entered into certain loan commitments which may include revolving loan, bridge loan, partially unfunded term loan and delayed draw term loan agreements (*Unfunded loan commitments*) for investment purposes. Unfunded loan commitments are agreements to participate in the lending of up to a specified maximum amount for a specified period. As of January 31, 2013, the fair value of the loans disclosed in the Schedule of Investments is net of unfunded commitments of \$32,000.

(3) Investments

Fair Value Measurements

The Fund follows the provisions of *Fair Value Measurements and Disclosures* under U.S. generally accepted accounting principles (U.S. GAAP), which among other matters, requires enhanced disclosures about investments that are measured and reported at fair value. This standard defines fair value and establishes a hierarchal disclosure framework which prioritizes and ranks the level of market price observability used in measuring investments at fair value and expands disclosures about assets and liabilities measured at fair value. *Fair Value Measurements and Disclosures* defines fair value as the amount for which an investment could be sold in an orderly transaction between market participants at the measurement date in the principal or most advantageous market of the investment. The hierarchal disclosure framework establishes a three tier hierarchy to maximize the use of observable data and minimize the use of unobservable inputs. Inputs refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk, for example, the risk inherent in a particular valuation technique used to measure fair value (such as a pricing model) and/or the risk inherent in the inputs to the valuation technique.

Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability based on the best information available in the circumstances. The three-tier hierarchy of inputs is summarized in the three broad levels listed below.

- Level 1 unadjusted quoted prices in active markets for identical investments

Ares Dynamic Credit Allocation Fund, Inc.

Notes to Schedule of Investments

January 31, 2013 (UNAUDITED)

- Level 2 - other significant observable inputs (including quoted prices for similar investments, interest rates, prepayment speeds, credit risk, etc.)
- Level 3 - significant unobservable inputs (including a single broker quote or the Fund's own assumptions in determining the fair value of investments)

The fair value of the Fund's investments is primarily estimated based on quoted market prices, dealer quotations or alternative pricing sources supported by observable inputs. The Fund's custodian obtains prices from independent pricing services based on an authorized pricing matrix as approved by the Fund's Board of Directors. The Adviser has internal controls in place that support its reliance on information received from third-party pricing sources. For any securities, if market or dealer quotations are not readily available, or if the Adviser determines that a quotation of a security does not represent a fair value, then the security is valued at a fair value as determined in good faith by the Adviser and will be classified as Level 3. In such instances, the Adviser will use valuation techniques consistent with the market or income approach to measure fair value and will give consideration to all factors which might reasonably affect the fair value.

The following is a summary of the inputs used as of January 31, 2013, in valuing the Fund's investments carried at fair value:

| | Level 1 - Quoted Prices | Level 2 - Other Significant Observable Inputs | Level 3 - Significant Unobservable Inputs | Total |
|---|----------------------------|---|--|----------------|
| Floating Rate Term Loans | \$ | \$ 163,404,848 | \$ 19,997,583 | \$ 183,402,431 |
| Corporate Bonds | | 224,222,069 | 6,736,349 | 230,958,418 |
| Collateralized Loan Obligations/Collateralized Debt Obligations | | | 39,411,421 | 39,411,421 |
| Total Investments | \$ | \$ 387,626,917 | \$ 66,145,353 | \$ 453,772,270 |

Ares Dynamic Credit Allocation Fund, Inc.

Notes to Schedule of Investments

January 31, 2013 (UNAUDITED)

The following is a reconciliation of investments in which significant unobservable inputs (Level 3) were used in determining fair value.

For the Period Ended January 31, 2013:

| | Floating Rate Term Loans | Corporate Bonds | Collateralized Loan Obligations/Collateralized Debt Obligations | Total |
|--|--------------------------|---------------------|---|----------------------|
| Balance as of 11/27/12 (a) | \$ | \$ | \$ | \$ |
| Purchases (b) | 19,807,768 | 6,698,340 | 38,456,983 | 64,963,091 |
| Sales (c) | | | | |
| Realized gain/ (loss) and net change in unrealized appreciation/(depreciation) | 189,510 | 38,009 | 942,756 | 1,170,275 |
| Accrued discounts/ (premiums) | 305 | | 11,682 | 11,987 |
| Transfers in to Level 3 | | | | |
| Transfers out of Level 3 | | | | |
| Balance as of 1/31/13 | \$ 19,997,583 | \$ 6,736,349 | \$ 39,411,421 | \$ 66,145,353 |
| Net change in unrealized appreciation/(depreciation) from Investments held as of 1/31/13 | \$ 189,510 | \$ 38,009 | \$ 942,756 | \$ 1,170,275 |

(a) Commencement of operations.

(b) Purchases include paid-in-kind interest and securities received from restructure.

(c) Sales include principal redemptions.

Ares Dynamic Credit Allocation Fund, Inc.

Notes to Schedule of Investments

January 31, 2013 (UNAUDITED)

The valuation techniques used by the Adviser to measure fair value as of January 31, 2013 maximized the use of observable inputs and minimized the use of unobservable inputs. The valuation techniques and significant amounts of unobservable inputs used in the valuation of the Fund's Level 3 securities are outlined in the table below.

| | Fair value | Valuation techniques | Unobservable Inputs | Range |
|--|----------------------|---|---------------------|-------|
| Assets | | | | |
| Investments in securities | | | | |
| Floating Rate Term Loans | \$ 5,348,356 | Recent transaction price | N/A | N/A |
| | 14,649,227 | Broker quotes and/or 3rd party pricing services | N/A | N/A |
| | \$ 19,997,583 | | | |
| Corporate Bonds | \$ 6,736,349 | Broker quotes and/or 3rd party pricing services | N/A | N/A |
| Collateralized Loan Obligations/Collateralized Debt Obligations | | | | |
| | \$ 15,495,628 | Recent transaction price | N/A | N/A |
| | 23,915,793 | Broker quotes and/or 3rd party pricing services | N/A | N/A |
| | \$ 39,411,421 | | | |
| Total Level 3 investments | \$ 66,145,353 | | | |

ITEM 2. CONTROLS AND PROCEDURES.

(a) The registrant's principal executive officer and principal financial officer have concluded that the registrant's disclosure controls and procedures (as defined in Rule 30a-3(c) under the Investment Company Act of 1940, as amended) are effective at a reasonable level of assurance based on their evaluation of these controls and procedures as of a date within 90 days of the filing date of this report as required by Rule 30a-3(b) under the 1940 Act and Rule 13a-15(b) under the Securities Exchange Act of 1934, as amended.

(b) There were no significant changes in the registrant's internal control over financial reporting (as defined in Rule 30a-3(d) under the 1940 Act) that occurred during the registrant's last fiscal quarter that have materially affected, or are reasonably likely to materially affect, the registrant's internal control over financial reporting.

ITEM 3. EXHIBITS.

The following exhibits are attached to this Form N-Q:

| EXHIBIT NO. | DESCRIPTION OF EXHIBIT |
|--------------------|--|
| 3 (a) (1) | Certification of Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 3 (a) (2) | Certification of Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

(Registrant): Ares Dynamic Credit Allocation Fund, Inc.

By: /s/ Seth J. Brufsky
Seth J. Brufsky
Chief Executive Officer (principal executive officer) of
Ares Dynamic Credit Allocation Fund, Inc.

Date: March 25, 2013

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By: /s/ Seth J. Brufsky
Seth J. Brufsky
Chief Executive Officer (principal executive officer) of
Ares Dynamic Credit Allocation Fund, Inc.

Date: March 25, 2013

By: /s/ Daniel F. Nguyen
Daniel F. Nguyen
Chief Financial Officer (principal financial officer) of
Ares Dynamic Credit Allocation Fund, Inc.

Date: March 25, 2013
