

Ares Management, L.P. | Annual Letter 2017

Consistent Fund Performance. Platform Expansion. Compelling Growth Opportunities.

2017 marked the 20th anniversary of the founding of Ares Management, and we are proud of the significant progress that we have made to become a global leader in alternative asset management. Our success is a testament to our consistent investment performance and our ability to find attractive value through market cycles for our investors. This has helped us attract new investors and expand our strategies and product offerings. We take great pride in our position today with leading businesses across Credit, Private Equity and Real Estate. At December 31, 2017, Ares managed approximately \$106 billion¹ in AUM across more than 200 investment vehicles, with investors spanning five continents.

Last year, we reached three important milestones — crossing \$100 billion in AUM, hiring our 1,000th employee and surpassing 200 active investor funds under management.

Our business continues to benefit from several strong industry trends:

- **The growing global demand for alternative investments** as investors seek higher returns with less volatility and correlation to the traded markets;
- **The global search for high current income** to solve for funding gaps or retirement fund needs;
- **Consolidation**, among both our investor base as limited partners shrink the number of their GP relationships and as sub-scale managers seek a partner like Ares with greater economies of scale; and
- **The growing acceptance of direct lending** as an attractive and sustainable asset class for investors as banks continue to retrench from segments of the global credit markets.

These trends have helped drive impressive double-digit growth across our AUM and management fees over the past 10 years. As a result, we have further diversified our company and benefited from a broader product offering and investor base.

To further capitalize on these trends, we have continued to invest in new and adjacent strategies to offer more investment solutions to our clients. For example, the emergence of ancillary or step-out strategies in areas like structured credit, European direct lending, private credit solutions, asset-based lending and power and energy infrastructure have supported the growth in our product offering. Since our IPO in 2014, fundraising from new strategies or new channels has accounted for approximately 20% of our annual fundraising compared to 4% the year prior to our IPO. We have also continued to scale our marketing efforts to limited partner investors. Today, we have approximately 70 professionals in marketing and investor relations in eight offices and in five regions around the world. Supported by our attractive fund performance, the investments in our business development staff are yielding benefits as we systematically raise larger successor funds, launch sizable first-time funds, and penetrate new geographies and distribution channels.

HEADQUARTERS

Ares Management, L.P.
2000 Avenue of the Stars
12th Floor
Los Angeles, CA 90067
www.aresmgmt.com

Company Locations

U.S. Los Angeles, New York, Chicago,
Boston, Atlanta, Washington D.C., Dallas,
San Francisco

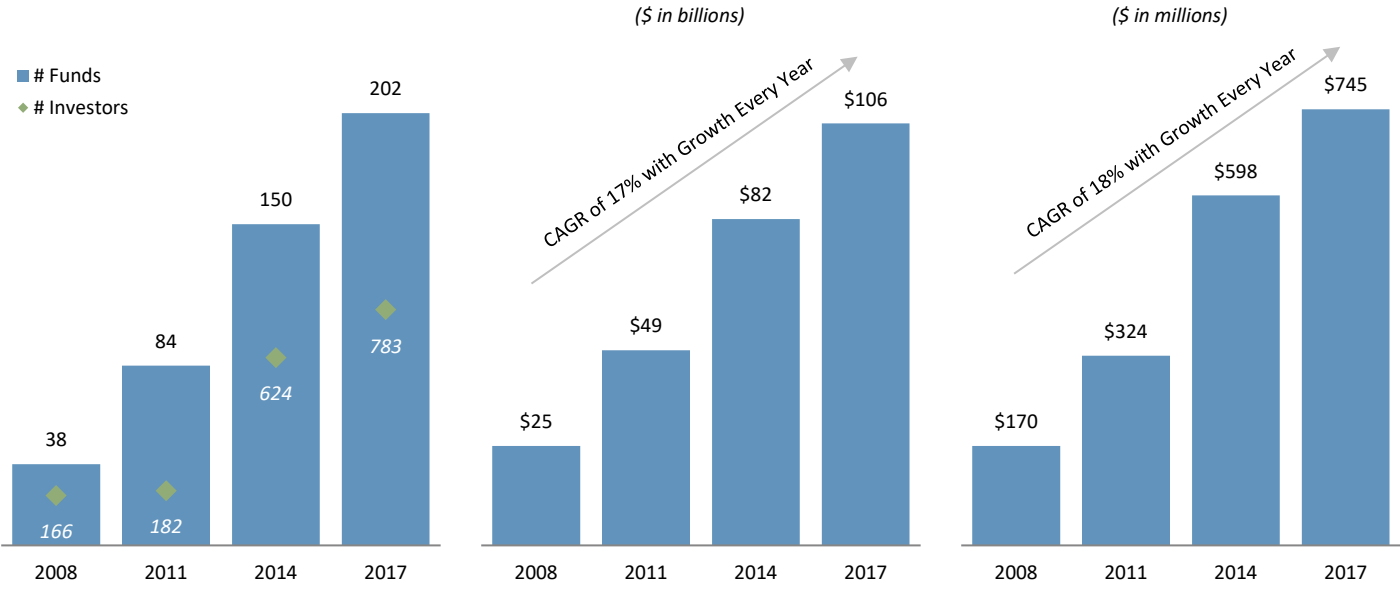
Europe/Middle East London, Paris,
Frankfurt, Stockholm, Luxembourg,
Dubai

Asia/Australia Shanghai, Hong Kong,
Chengdu, Sydney

Please see the Endnotes and Legal Notice
and Disclaimers beginning on page 7.



# of Funds ¹ and Investors ²	AUM ³	Management Fee Revenue ⁴
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Note: Past performance is not indicative of future results. There can be no guarantee that Ares can or will sustain such growth.

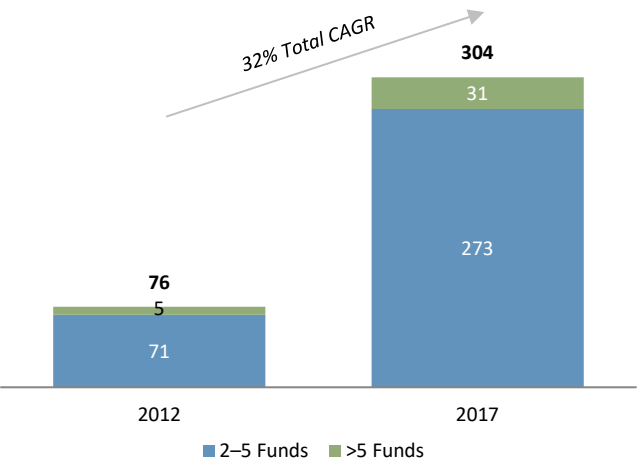
- 2014 and beyond does not include CLOs or SMAs, which is how Ares reports its number of funds publicly.
- Represents direct institutional investors.
- AUM amounts include funds managed by Ivy Hill Asset Management, L.P., a wholly owned portfolio company of Ares Capital Corporation and a registered investment adviser.
- Includes ARCC Part I Fees.

Our investors have rewarded our consistent and attractive fund performance with larger capital commitments, and in many cases, by investing in more than one Ares strategy. Five years ago, we had approximately 76 direct institutional investors that participated in more than one Ares fund. At year end, that

number totaled more than 300 investors, and our average client has invested in more than two Ares funds. In terms of AUM, five years ago only \$9.6 billion was invested in more than one Ares Group compared to \$36.1 billion at the end of 2017.

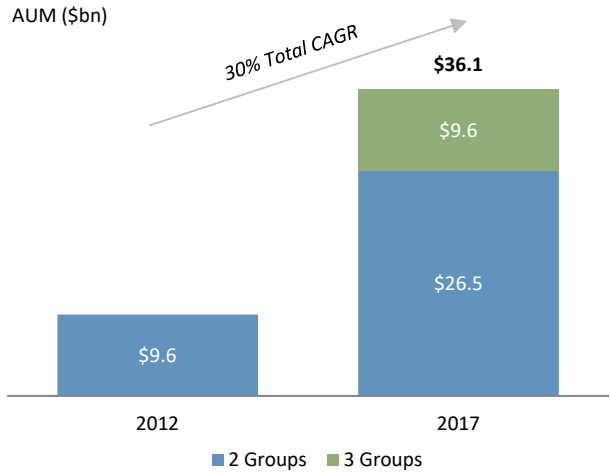
Additional Investors Investing Across Funds

Ares has cross marketed its existing investors into new funds...



Successful Cross-Selling Across Investment Groups

...and into multiple strategies across platform



Investment performance has always been and remains our main focus. Our 2017 management fees, fee related earnings and economic net income all experienced double-digit growth as we benefited from another year of strong investment performance across our platform. Within Credit, we generated solid performance on a wide range of strategies, including full-year gross returns of more than 15% in our European direct lending strategies, and 5% to 8% gross returns on our liquid strategies in syndicated bank loans and high yield bonds. In addition, our externally managed business development company, Ares Capital Corporation, generated a total net return (dividends plus change in net asset value) of approximately 10.8% for the year. In our corporate private equity strategy, 2017 gross returns were approximately 26%. Our two primary real estate private equity strategies had gross returns of approximately 19% in the U.S. and approximately 24% in Europe. We believe this attractive and consistent fund performance and client satisfaction is positioning us for additional success in our fundraising, including in new adjacent strategies.

As we look back on our accomplishments in 2017, we attribute our success to the breadth and strength of the Ares platform with more than 1,000 employees collaborating to generate attractive investment solutions for our clients around the globe.

Strong Fundraising

We followed our strong fundraising in 2016 with another impressive year. In 2017, we raised gross commitments of \$16.7 billion across our three investment groups and from 146 direct institutional investors, 78 of which were new to our platform. Over the last three years, we averaged more than \$17 billion in new fund commitments. Approximately 63% of the capital raised in 2017 was from North American investors with the remaining 37% coming from Asia, Europe and the Middle East. Our largest investors continue to be pension funds, insurance companies and sovereign wealth funds, however we are also generating significant demand and momentum from high net worth investors, endowments and foundations.

The trend of growing our relationships within our platform continued in 2017 with existing clients accounting for more than 65% of new commitments. Institutional investors continue to seek efficiency in their asset allocations, employing more capital with fewer asset management firms that have broader

platforms. We are increasingly providing customized cross-platform investment solutions across the risk-return spectrum for our clients.

Credit: Our leading global credit platform continues to have great momentum as investors seek yield and non-correlated returns, especially in times of recent heightened volatility and low interest rates. These factors helped us raise \$14.9 billion in gross new commitments across commingled funds, CLOs and separately managed accounts in our Credit Group in 2017, including \$9.7 billion in U.S. and European direct lending strategies, \$3.5 billion in syndicated bank loans, and \$1.7 billion in other credit strategies. Our 2017 fundraising was highlighted by the final closing of our first junior capital private direct lending fund, Ares Private Credit Solutions (“APCS”), in Q4 2017. APCS closed with a total fund size of \$3.4 billion, significantly more than our target of \$2.5 billion. More than 60% of the investors participating in the final close were new to the Ares platform. Our junior capital strategy, which is complementary to our market-leading senior loan funds, invests in upper middle market companies in the form of second lien loans, mezzanine debt, private high yield and equity co-investments.

Private Equity: Following the successful flagship Ares Corporate Opportunity Fund V (“ACOF V”) fundraise in 2016, we raised \$356 million in gross new commitments in Private Equity, driven primarily by \$300 million in equity commitments to Energy Investors Fund V (“EIF V”), which closed at over \$800 million.

Real Estate: We raised approximately \$1.4 billion in gross equity commitments across our real estate equity and debt strategies. This was driven primarily by equity commitments and co-investments in our U.S. and European equity strategies led by \$690 million of equity commitments to our ninth U.S. value add private equity real estate fund.

As we look back on our accomplishments in 2017, we attribute our success to the breadth and strength of the Ares platform with more than 1,000 employees collaborating to generate attractive investment solutions for our clients around the globe.

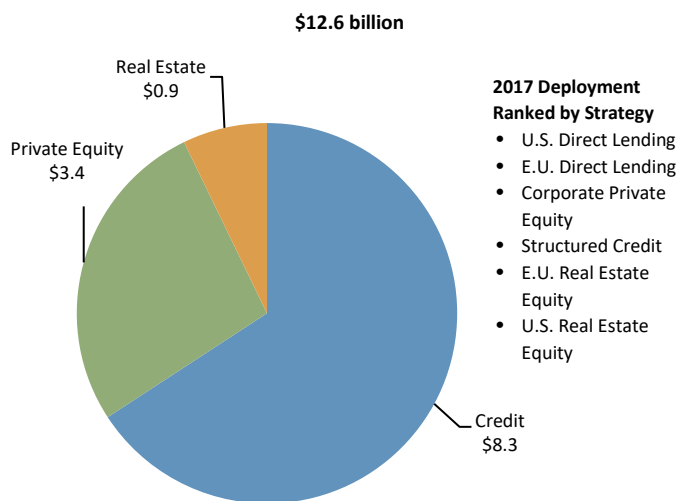
Note: 2017 gross and net returns for the ACOF I–V aggregate are 26.5% and 18.3% respectively. Returns for our largest U.S. and European real estate equity funds are U.S. Real Estate Equity (U.S. Fund VIII): 19.2% gross, 13.5% net; European Real Estate Equity (EU IV): 24.1 gross, 17.9% net. 2017 gross and net returns for our Credit strategies include: U.S. Direct Lending: Ares Capital Corporation net return of 10.8% European Direct Lending (ACE II & ACE III): 15.4% gross, 11.3% net; High Yield: 8.2% gross, 7.6% net; Syndicated Loans: 4.9% gross, 4.4% net. Past performance is not indicative of future results. For additional detail on performance methodology, please see the Endnotes.

Excellence in Investing

The investing environment remained challenging in 2017, but we continued to draw upon our deep sourcing capabilities and our flexible capital strategies to find attractive investments in global markets generally characterized by elevated asset pricing. Overall, we invested approximately \$16.4 billion in 2017 compared to \$10.2 billion in 2016.

Our deployment also reflects the growth of our global platform, particularly within direct lending. Within our drawdown funds, we deployed \$12.6 billion during 2017, primarily in U.S. and European direct lending strategies, followed by active deployment of flexible capital within our corporate private equity, structured credit and real estate equity strategies.

Capital Deployment in Drawdown Funds (2017)



Total gross invested capital for the year ended December 31, 2017 of \$16.4 billion with \$12.6 billion related to drawdown funds.

Credit: Within our Credit Group, we generated solid performance in a wide range of strategies including full-year gross returns ranging from 5% to 15% across our credit strategies in U.S. and European direct lending, and our liquid strategies in syndicated loans and high yield.

- *U.S. Direct Lending:* ARCC net return of 10.8%ⁱⁱ
- *European Direct Lending (ACE II & ACE III):* 15.4% gross, 11.3% netⁱⁱⁱ
- *High Yield:* 8.2% gross, 7.6% net^{iv}
- *Syndicated Loans:* 4.9% gross, 4.4% netⁱⁱⁱ

We continued to actively invest in our liquid syndicated bank loan and high yield strategies. However, our greatest investment activity within drawdown funds was in our U.S. and

European direct lending strategies, which comprised more than half of our total deployment. We were able to use the breadth of our origination platform, scale, incumbent relationships and flexibility to source a broad spectrum of attractive transactions. For example, in the U.S., we made more than \$10 billion in commitments across 206 new transactions, and in Europe, we committed €3.7 billion across Western Europe. We were also active in structured credit, deploying approximately \$2.2 billion across CLO and private asset-backed investments.

Private Equity: Our Private Equity Group performance was strong in 2017, with our ACOF I–V aggregate generating 26.5% gross and 18.3% net returns.^v We continued to focus on attractive investments in our corporate private equity funds. Given LBO market dynamics and elevated purchase price multiples, we continue to employ an investment strategy emphasizing careful company selection, a focus on high-quality assets and driving asymmetric upside.

We were active investors within our corporate private equity funds, especially in our latest flagship ACOF V fund, which invested more than \$1 billion across several attractive companies. Our largest private equity investments in 2017 included a strategic investment into a leading, multi-specialty physician group based in Chicago, a best-in-class dental practice management company and several upstream and midstream oil and gas companies.

Real Estate: During 2017, we achieved strong returns in our largest U.S. and European real estate private equity funds:

- *U.S. Real Estate Equity (U.S. Fund VIII):* 19.2% gross, 13.5% net^{vi}
- *European Real Estate Equity (EU IV):* 24.1% gross, 17.9% net^v

Within our real estate strategies, we remained active in both the U.S. and Europe, investing in opportunities across the capital structure:

- Committed approximately \$900 million across our U.S. and European real estate equity and debt strategies
- Led significant acquisitions and dispositions in Europe's largest and most liquid markets across property types including office, retail and residential
- Continued to expand the real estate debt platform with origination volume exceeding \$900 million in FY 2017 with 24 new investments collateralized by multifamily, student housing, office, industrial and hotel properties

Investment Realizations

During 2017, we took advantage of firmer market conditions to make strategic exits across our portfolios and generate realized performance-related earnings of \$108.5 million. Our realizations were driven by exit activity across our corporate private equity funds in multiple sectors. These realizations were complemented by sales in our U.S. and E.U. real estate equity funds as well as monetizations in a variety of credit funds.

Market Recognition

For the first time, Ares was recognized by the readers of *Private Debt Investor* for its top award, *Global Fund Manager of the Year* as well as *Lender of the Year, Americas* (for the fourth consecutive year) and *Deal of the Year Americas*.^{vii} *Private Equity International* readers additionally awarded Ares with *Lender of the Year in North America* and *Lender of the Year in Europe*.^{viii} *Institutional Investor* awarded ARCC with the Most Honored designation and the highest rankings for Best CEO, CFO, IR Professional and Investor Relations program in the Mid-Cap category for 2017.^{ix} Ares was also rated by *PERE* as a Top 15 Real Estate Manager based on 2010-2017 equity raised and as the 2017 Firm of the Year in Germany.^x



Global Fund Manager of the Year
Lender of the Year, Americas
Deal of the Year, Americas



Lender of the Year in North America
Lender of the Year in Europe



Most Honored designation and the highest rankings for Best CEO, CFO, IR Professional and Investor Relations program



2017 Firm of the Year in Germany



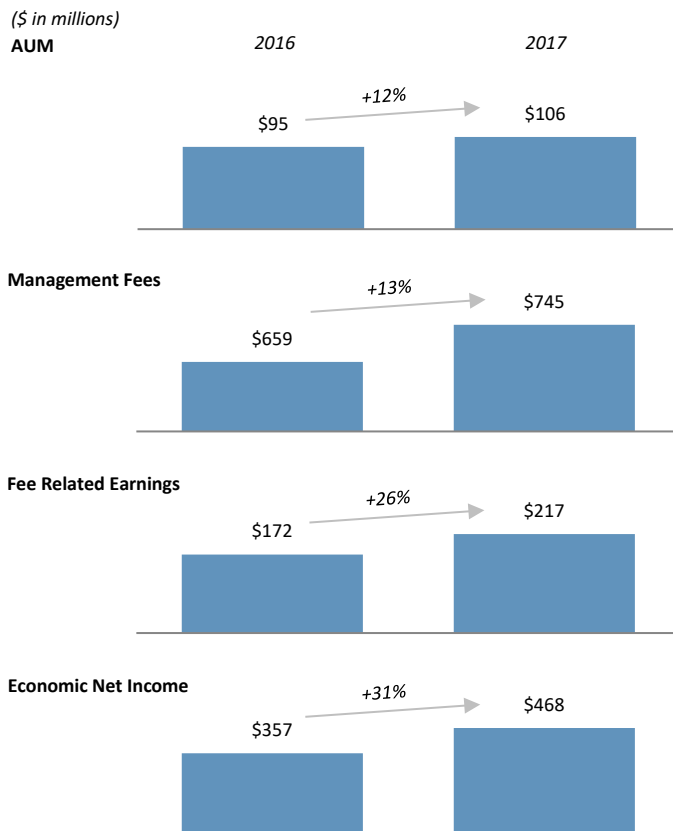
Top 15 Real Estate Manager

We took advantage of firmer market conditions in 2017 to make strategic exits across our portfolios.

Financial Results

We continued to generate strong growth across our key financial metrics during 2017, including by increasing our assets under management to \$106 billion, which brought year-over-year growth to approximately 12%. Our full-year 2017 management fees and fee-related earnings were \$744.8 million and \$217.0 million, increasing 13% and 26%, respectively. Management fees continue to be the primary driver of our revenue, representing 82% of our 2017 total fee revenue (including fees we generate from ARCC's Part I fees). In 2017, our economic net income increased 31% to \$467.7 million compared to \$357.0 million in 2016. For 2017, we distributed \$1.10 per unit to our common unitholders, up from \$0.91 from 2016, a growth rate of 21%.

Substantial Growth in AUM, Revenue and Earnings



Corporate Tax Status Election and New Dividend Policy

On February 15, 2018, we announced that we submitted an election to the IRS to be treated as a corporation for state and federal income tax purposes, effective March 1, 2018. As background, we believe asset managers taxed as partnerships have historically traded at meaningful discounts to other asset managers taxed as corporations. We believe that the complexities of pass-through taxes and schedule K-1 reporting have limited our potential investor base. Therefore, we decided to make this change to simplify our tax structure and to expand our eligible investor universe. We believe that the ability to attract a broader and more diverse investor base should benefit all equity holders by improving trading liquidity and enable us to be valued accordingly. In addition, with a more liquid currency, we believe we can more efficiently pursue selective acquisitions and continue to broaden and deepen our platform.

Finally, in conjunction with this election, we adopted a dividend policy that will allow investors to better appreciate the underlying stability and growth of our core management fee business. One of the challenges for investors with alternative managers has been inconsistent distributions based upon lumpy realization activity. Therefore, we elected to move to a level, quarterly dividend which will be reassessed each year based upon the level and growth of our after-tax fee related earnings. We believe this will provide more predictability, reduce dividend volatility and allow us to retain our net realized performance related earnings stream to fund future growth or for other corporate purposes.

We believe these changes bring multiple benefits to our public shareholders including:

- Broader eligible shareholder universe
- Simplified tax structure
- Qualified dividend to shareholders
- Improved capital structure flexibility

Lastly, the election also reduces the operational complexity of managing a publicly traded partnership, including the requirement to send out Schedule K-1s. We expect that this will result in annual savings to our company.

Looking Ahead Into 2018

We remain optimistic about Ares and our current market position moving into 2018. An increasing global appetite for alternative investments from both institutional and retail investors continues to drive growth opportunities for our business. In addition, we have seen consolidation in our space in two notable ways: LPs are aggregating more capital with fewer GP relationships and sub-scale or single-strategy managers are merging into larger platforms. We believe these trends will accelerate, providing further momentum to our meaningful growth opportunity. We expect that our decision to be taxed as a corporation will help us capitalize on this opportunity, with a simpler structure, more liquid and attractive shares and the ability to retain earnings for growth.

In addition, the transition relating to our senior leadership changes, which we announced in December 2017, is progressing smoothly. As Executive Chairman, Tony is primarily focusing on major client marketing, corporate strategy and brand building activities for the firm. Mike's appointment as Chief Executive Officer, Michael McFerran as Chief Operating Officer and Ryan Berry as Chief Marketing Officer reflect the successful growth of the Ares platform and recognize our team's valuable and ongoing contributions to the Company's continued success. We believe these changes further enhance Ares' organizational structure to better serve our growing investor base and help us take advantage of the wide array of opportunities that lie ahead.

In our view, the outlook for our business is bright, and there are meaningful ways to further expand our business prudently and in a manner that is accretive to our public shareholders. As we look forward to the year to come, we remain confident about our strong business performance, and we believe that we are well-positioned for growth in 2018 and beyond. We greatly appreciate your support.



Tony Ressler
Executive Chairman



Michael Arougheti
Chief Executive Officer
and President

Legal Notice

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

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

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

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

Past performance is not indicative of future results.

Endnotes

ⁱ AUM amounts include funds managed by Ivy Hill Asset Management, L.P., a wholly owned portfolio company of Ares Capital Corporation and a registered investment adviser.

ⁱⁱ ARCC 2017 net return was calculated using the fund's NAV and assumes dividends were reinvested at the closest quarter-end NAV to the relevant quarterly ex-dividend dates. Additional information related to ARCC can be found in its financial statements filed with the SEC, which are not part of this document.

ⁱⁱⁱ The net return for E.U. direct lending is 11.3% for FY-17. Gross and net returns for E.U. direct lending are represented by a composite made up of the ACE II and ACE III Euro-denominated feeder funds. The gross and net returns for the composite made up of the ACE II and ACE III U.S. dollar denominated feeder funds are 14.4% and 10.6% for FY-17, respectively. Returns are shown for the Euro-denominated composite as it is the larger of the two composites. Composite returns are calculated by asset-weighting the underlying fund-level returns. Returns include the reinvestment of income and other earnings from securities or other investments and reflect the deduction of all trading expenses. Gross returns do not reflect the deduction of management fees, carried interest, if applicable, or any other expenses. Net returns are reduced by applicable management fees, accrued carried interest, if applicable, and other expenses.

^{iv} Performance for syndicated loans is represented by the U.S. Bank Loan Aggregate Composite. Performance for high yield is represented by the U.S. High Yield Composite.

^v Performance for corporate private equity portfolio is represented by the ACOF I-V Aggregate, which is comprised of investments held by ACOF I, ACOF II, ACOF III, ACOF IV and ACOF V. Performance returns are gross time-weighted rates of return calculated on a quarterly basis. Returns include the reinvestment of income and other earnings from securities or other investments and reflect the deduction of all trading expenses. Gross returns do not reflect the deduction of management fees, carried interest, if applicable, or any other expenses. Net returns are reduced by applicable management fees, accrued carried interest, if applicable, and other expenses. Net returns for corporate private equity portfolio was 18.3% for FY-17. We believe aggregated performance returns reflect overall quarterly performance returns in a strategy, but are not necessarily investable funds or products themselves.

^{vi} Returns are gross time-weighted rates of return and do not reflect the deduction of management fees or carried interest, or fund expenses, if applicable. Gross return for U.S. equity is represented by U.S. Fund VIII and gross return for E.U. equity is represented by EF IV. EF IV is made up of two feeder funds, one denominated in U.S. dollars and one denominated in Euros. The gross returns are for the U.S. dollar denominated feeder fund as that is the larger of the two feeders. Gross returns do not reflect the deduction of management fees, carried interest, if applicable, or any other expenses including taxes. The funds shown represent the significant funds with at least 2 years from initial investment. Net returns are reduced by applicable management fees, accrued carried interest, if applicable, and other expenses. Net returns for U.S. equity and E.U. equity were 13.5% and 17.9% for FY-17, respectively. The gross and net returns for the Euro denominated feeder fund were 22.9% and 18.0% for FY-17, respectively.

^{vii} The performance and awards/ratings noted herein relate only to selected funds/strategies, are provided solely for informational purposes and may not be representative of any given client's or investor's experience and should not be viewed as indicative of Ares' past performance or its funds' future performance. Private Debt Investor selected Ares Management as Global Fund Manager of the Year, Lender of the Year, Americas and Deal of the Year Americas for 2016. Private Equity International selected Ares Management as Lender of the Year in North America and Lender of the Year in Europe. PERE selected Ares Management as the 2017 Firm of the Year in Germany. Ares was selected to be on a short list of nominees, identified by the publications editorial team, for the awards referenced above and was selected as the winner of the awards through a voting process by readers of Private Debt Investor, Private Equity International and PERE. The selection of Ares to receive the award was based in part on subjective criteria and a limited universe of candidates.

^{viii} The performance and awards/ratings noted herein relate only to selected funds/strategies, are provided solely for informational purposes and may not be representative of any given client's or investor's experience and should not be viewed as indicative of Ares' past performance or its funds' future performance. Private Equity International selected Ares Management as Lender of the Year in North American and Lender of the Year in Europe for 2017 - Awards based on an industry wide global survey across 71 categories conducted by Private Equity International. In the Lender of the Year category, Ares was listed as one of four shortlisted firms as suggested by the editorial board of PEI Media. Survey participants voted independently. In addition, survey participants could nominate another firm not listed in the category.

^{ix} The performance and awards/ratings noted herein relate only to selected funds/strategies, are provided solely for informational purposes and may not be representative of any given client's or investor's experience and should not be viewed as indicative of Ares' past performance or its funds' future performance. ARCC received the 2018 All- America Executive Team award alongside 43 other companies. Various Ares personnel received first place awards in the following categories: CEO, CFO, IR Professional and IR program. 248 other institutions also received a first-, second-, or third-place ranking in one or more of those four categories. Institutional Investor based these awards on the opinions of 1,940 portfolio managers and buy-side analysts, and 826 sell-side analysts who participated in this survey.

^x RANKING: The performance and awards/ratings noted herein relate only to selected funds/strategies, are provided solely for informational purposes and may not be representative of any given client's or investor's experience and should not be viewed as indicative of Ares' past performance or its funds' future performance. PERE 50: Ares ranked 15th out of 50. Ranking applies to the Ares Real Estate Group related to selected funds managed therein, some of which were previously managed by Ares Property Partners ("AREA") prior to Ares Management LLC's acquisition of AREA in July 2013. The PERE 50 measures equity raised between January 1, 2012 and the end of March 2017 for direct real estate investment through closed-ended, commingled real estate funds and co-investment vehicles that invest alongside these funds. The vehicles must give the general partner discretion over capital and investment decisions and excludes club funds, separate accounts and joint ventures where the general partner does not have discretion over capital and investments. Also excluded are funds with strategies other than real estate value-added and opportunistic (such as core and core-plus), funds not directly investing in real estate (such as fund of funds and debt funds) and funds where the primary strategy is not real estate-focused (such as general private equity funds). 2017 Global PERE Awards: Ares was selected to be on a short list of nominees, identified by the publication's editorial team, for the award referenced above and was selected as the winner of the award through a voting process by readers of PERE (Private Equity Real Estate). The selection of Ares to receive the award was based in part on subjective criteria and a limited universe of candidates. Ranking applies to the Ares European Real Estate Group Funds. The 2017 Global PERE Awards measures the deal volume, including the acquisitions and disposals across property types in the country between January 1, 2017 and the end of December 2017 for direct real estate investment through closed-ended, commingled real estate funds and co-investment vehicles that invest alongside these funds. Ares did not pay a participation fee or licensing fee in order to be considered for the PERE 50 ranking. Ares did not pay a participation fee in order to be considered for the 2017 PERE Global Award, however, Ares has paid a licensing fee for the ability to distribute the PERE award write-up.

REF: AM-00039