ANNUAL LETTER 2018

# ARES MANAGEMENT CORPORATION

## Leveraging the Power of Our Collaborative Platform to Deliver Solutions-Oriented Investment Results

ARES

**$36.1 BILLION**
in Gross Capital Raised

**AUM UP 23%**
to
**$131 BILLION**

Fee Related Earnings
**GROWTH OF 18%**

Realized Income
**GROWTH OF 21%**

Capital Deployment of
**$17 BILLION**

*Above numbers for the full year ended 12/31/18

2018 was a great year for Ares. We set records in fundraising and investment deployment, which helped drive record results across our firm's assets under management (AUM), revenues, fee related earnings and realized income. These milestones are a testament to our proven track record of cycle-tested performance and reflect the investments that we have made in our people and infrastructure over the past several years to broaden our investment strategies, expand our distribution and scale our business operations while maintaining our unique, collaborative culture. In addition to the growth in our core investment strategies, we continue to make new investments to expand into adjacent areas across all three of our investment groups where we have significant investing advantages and expect future investor demand. We have built a business that thrives on collaboration across our platform to enhance the flow of information, share relationships, gain unique market insights and enable smarter investment decisions, and we are continuing to see the results of that philosophy in our investment returns.

As a firm, we continue to perform well for our fund investors by delivering differentiated, long-term returns throughout market cycles. We firmly believe that our assets will grow with strong performance and our results in 2018 exemplified this trend. In 2018, we raised a record $36.1 billion in gross capital, nearly double our five-year average. This acceleration in growth reflects our deepening relationships with our existing clients and our ability to attract new clients to our expanding platform.

The successful execution of our core business drivers – fundraising, investing and realizing investment outcomes – are supporting significant growth for our stakeholders. AUM increased 23% year-over-year – reaching nearly $131 billion. We also achieved our goal of maintaining mid-teens core earnings growth as our fee related earnings of $255 million and realized income of $395 million increased 18% and 21%, respectively. Our corporate objective is to deliver strong investment performance for our fund investors, which we believe will translate into continued growth in our AUM and fee related earnings in the low to high teens annually, consistent with our past growth.

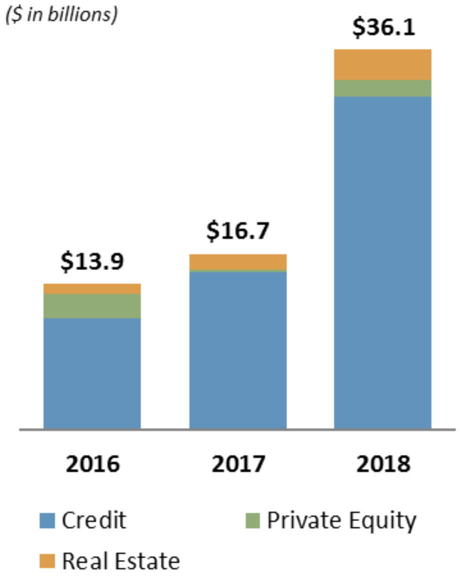
Ares continues to benefit from several strong industry trends in alternative asset management:

- **The search for high current income** to address funding gaps or retirement needs for institutional and retail investors;
- **The growing global demand for alternative investments** as investors seek actively managed strategies that deliver higher returns with less volatility and lower correlation to traditional assets;
- **The trend of consolidation** as limited partners continue to allocate greater amounts of capital to fewer, larger scaled managers; and
- **The changing regulatory capital and risk frameworks** within the banking and insurance industries and across capital markets.

The above factors are significant growth drivers for our firm and the alternative asset management industry. Based on data from PwC, the growth in alternative assets has significantly outpaced the growth of traditional assets and this trend is expected to continue. All three of our investment groups operate across large addressable $1 trillion+ markets allowing us to scale our presence further in the $109 trillion global market for AUM. Investors are increasingly willing to shift from liquid, more volatile investments to the relative value and returns available in illiquid assets. In addition, with the growth of passive investing strategies across the asset management industry, we are intentionally bucking this trend by becoming even more "active" with our strategies, emphasizing proprietary advantaged originations, deepening our due diligence, leveraging our information flow across the platform and more proactively managing our investments.

In 2018, we also made an important change to our corporate structure as we converted from a limited partnership to a C-corporation for tax purposes in March and for legal and governance purposes in November. These changes were designed to increase the liquidity in, and broaden the universe of potential buyers of, our stock. While still early, we have already seen significant benefits of these actions. Between March and the end of 2018, we saw our public float increase from approximately 10% to about 30%, our average daily trading volumes increase more than four-fold, and the number of institutional investors triple. In addition, we were included in some well-known stock indices for the first time in late 2018.

GROSS CAPITAL RAISED BY GROUP




We believe that as a C-Corp we will be better positioned to capture value for our stockholders over the long-term and continue to open our firm to a new universe of institutional investors that had previously not held Ares.

## RECORD FUNDRAISING

We continue to offer fund investors innovative, results-oriented investment solutions to grow and protect their capital. As such, investors from around the world are entrusting us with more opportunities to further scale our three businesses and put their capital to work.

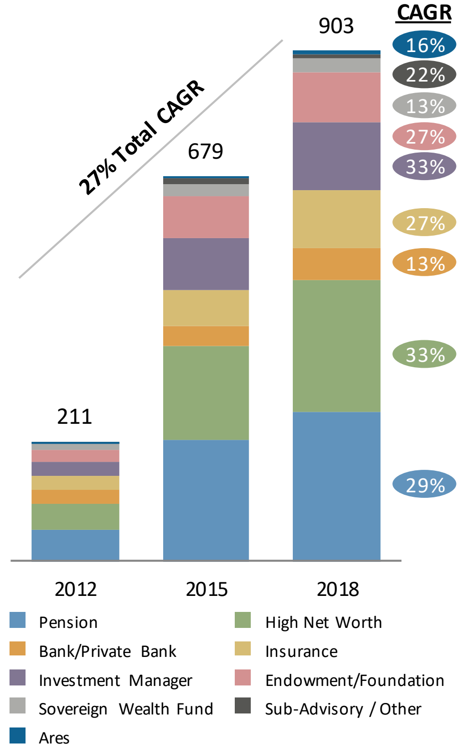
Our $36.1 billion of new gross commitments were raised across 270 direct institutional investors, 139 of whom were new to our franchise. Our investor base has increased five-fold since 2011 with over 900 direct institutional investors compared to 211 in 2012. Given our global expansion, we are seeing more investors from outside North America with approximately 57% coming from Asia, Europe and the Middle East during 2018. Our largest investors continue to be pension funds, insurance companies and sovereign wealth funds. However, we are also generating significant demand from private banks, high net worth investors, endowments, family offices and foundations.

As we continue to grow our platform and AUM, we remain focused on maintaining our disciplined approach while broadening the investment solutions we are able to offer to meet the needs of our investors. The increased scale of our platform provides greater visibility and reach across all of our strategies and allows us to be even more targeted and flexible in how we deploy capital. We believe this will translate into continued strong risk-adjusted returns for our fund investors.

Although our investment commitments are coming from about 50% existing and 50% new investors, the trend of growing our existing relationships continued in 2018. Existing clients accounted for more than 70% of new capital commitments. This trend has persisted for several years as clients increasingly invest in more funds across our platform or increase their commitments with Ares. With new growth initiatives and adjacent strategies launched in every business group, we are well positioned to continue our growth in the years ahead.

**INSTITUTIONAL DIRECT INVESTORS**

*In addition to institutional direct investors, Ares has 200,000+ retail investors across public funds[1]*




Note: Past performance is not indicative of future results. There can be no guarantee that Ares can or will sustain such growth.

1. As of March 16, 2018 for ARCC, April 12, 2018 for ACRE and April 16, 2018 for ARDC.

**Credit:** Within our global credit platform, we continue to expand our product offering as investors seek high current income and less correlated returns. In 2018, we raised more than $31 billion within our Credit Group in gross new commitments across U.S. and European direct lending, commingled funds, separately managed accounts and other closed end funds. Our European and U.S. Direct Lending franchises led the way with our final close of ACE IV at $7.6 billion, our fourth commingled European Direct Lending fund, which closed at its hard cap and was significantly oversubscribed. We also held a final fund closing for our inaugural Senior Direct Lending Fund at $3.0 billion of equity, which we expect will grow to over $5 billion of AUM with a modest amount of leverage. In addition, we raised over $2.5 billion in our growing Alternative Credit strategy as we look to expand across non-traditional corporate and consumer credit assets.

**Private Equity:** In 2018, we raised over $1.5 billion despite not raising a flagship Corporate Private Equity fund. Our fundraising was highlighted by a first close in our Energy Opportunities strategy of over $750 million. Energy Opportunities is the first of several sub-strategies that are expected across our Private Equity Group in the coming years. We also raised $354 million in additional commitments for our Infrastructure and Power strategy. Our private debt and private equity teams within Infrastructure and Power recently combined to create a powerful, comprehensive approach to investing. We are also seeking to grow our Special Opportunities strategy. This is an expansion of a strategy that we have been executing on since our inception and we expect this will be a significant growth area for the firm going forward.

**Real Estate:** In our Real Estate Group, we raised approximately $2.3 billion in gross equity commitments across our U.S. and European Real Estate Equity strategies. This was highlighted by additional closings in our fifth European Real Estate fund and the final closing of our ninth U.S. Real Estate fund, US IX, which closed at over $1 billion. In addition, our Real Estate Debt strategy raised over $650 million in AUM and represents a significant growth opportunity. We now manage five vehicles totaling $3.4 billion in real estate debt within our Real Estate Group AUM of $11.3 billion.

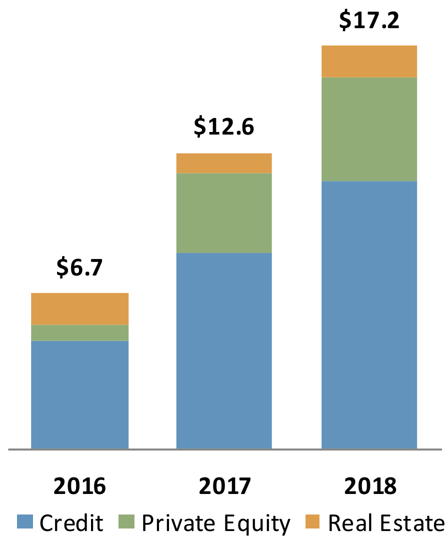
## INVESTMENT ACTIVITIES, FUND PERFORMANCE AND REALIZATIONS

From an investing standpoint, we were very active in strategies where we found attractive relative value and could leverage our competitive advantages in asset origination. Capital deployment within our drawdown funds was over $17 billion in 2018, up from nearly $13 billion in 2017, with growth across all three investment groups. One of the key themes for us in 2018 was quality; we continued to focus on franchise businesses with best in class management teams where we could add value over time and protect our downside risk. Our deployment highlights the significant scale that we have achieved in our global direct lending franchise. In 2018, we invested in 246 transactions totaling more than $10 billion within our drawdown funds in U.S. and European direct lending with approximately 50% of such transactions backing the growth of our existing borrowers.

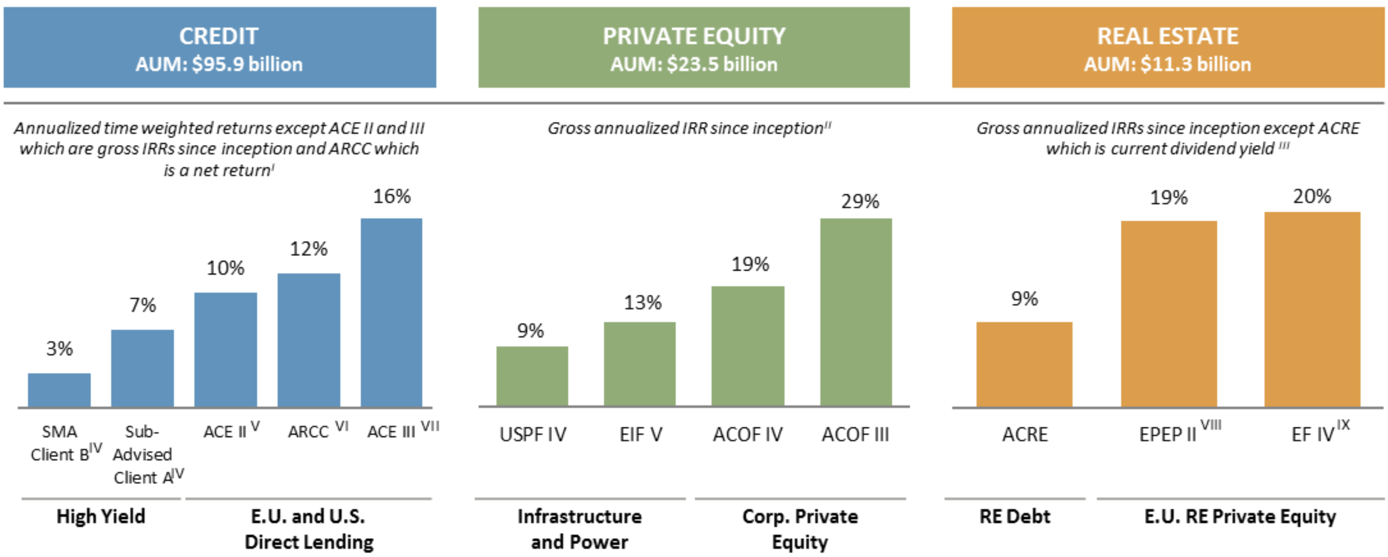
As the chart below highlights, our long-term track record of investing through our core strategies remains strong and consistent across our three established businesses – Credit, Private Equity and Real Estate.

**DRAWDOWN DEPLOYMENT BY GROUP**

*($ in billions)*




**TRACK RECORD OF CONSISTENT INVESTMENT PERFORMANCE**

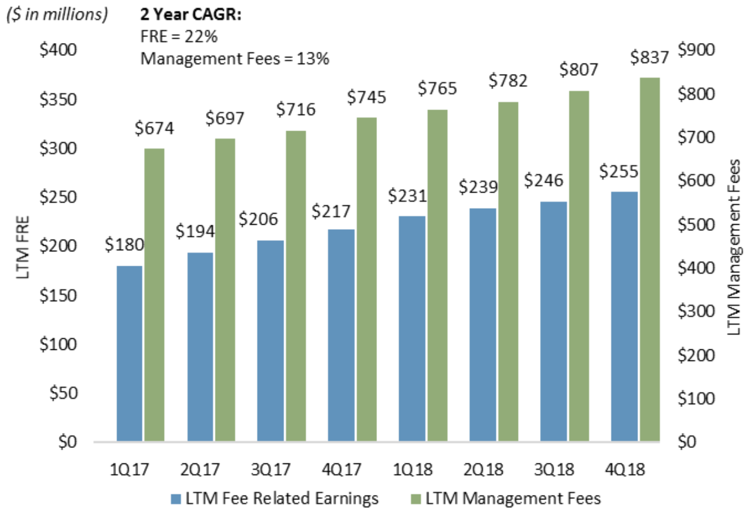



**NET PERFORMANCE RETURNS. Credit:** 3% for SMA Client B, 7% for Sub-Advised Client A, 8% for ACE II and 12% for ACE III. Returns shown for ACE II are of its USD feeder fund, and for ACE III its EU feeder fund. Returns for EF IV are of its USD parallel fund. **Private Equity:** 5% for USPF IV, 6% for EIF V, 12% for ACOF IV and 21% for ACOF III. **Real Estate:** 17% for EPEP II and 15% for EF IV.

Note: Past performance is not indicative of future results. AUM and Returns as of December 31, 2018 unless otherwise noted. Reflects performance of all significant funds at Ares with more than two years of historical performance information and are within strategies having more than $2 billion of AUM. **Please see endnotes for information about Ares' significant funds**. Return information presented may not reflect actual returns earned by investors in the applicable fund. ARCC is a publicly traded vehicle.

During 2018, we continued to take advantage of the prevailing strong valuation backdrop by monetizing select assets and realizing investment and performance income. Our realized net performance fees were fairly balanced with nearly equal contributions from each group – 43% from Credit, 30% from Real Estate and 27% from Private Equity. In particular, 2018 capped an impressive year of realizations within our Real Estate Group highlighted by two large sales in our opportunistic/development funds. These sales helped drive realized income in our Real Estate Group to over $67 million for the year.

## FINANCIAL RESULTS




We increased both our fee related earnings and realized income at 18%+ and increased our AUM over 20% driven by a record year of fundraising. As the chart to the left shows, our management fees and fee related earnings have grown steadily based upon the growth in fee paying AUM (from strong deployment and fundraising), steady to growing average management fee rates, operating leverage from top line growth and limited redemption activity as our capital base is generally based on long term, locked up capital. We announced our intention to increase our regular quarterly dividend by 14% to $0.32 per share ($1.28 per share on an annualized basis) starting in the first quarter of 2019 based on our positive outlook for continued growth in fee related earnings. Our steady, stable growth in our fee related earnings continues to account for about two thirds of our realized income and provides a solid and growing foundation for realized income growth. We also believe the aggregate amount of our realized performance income will continue to track higher over time with the growth in our underlying incentive eligible AUM.

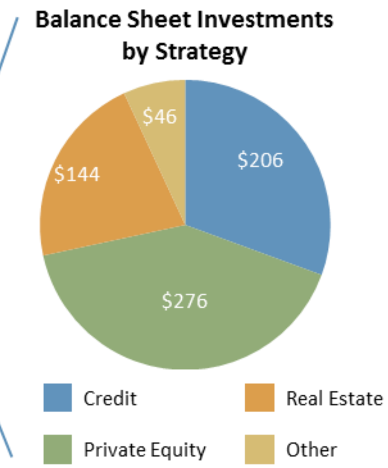
## STRONG BALANCE SHEET

As an asset manager, Ares operates a balance sheet light operating model. Our largest assets are comprised of our investment portfolio (mostly investments in funds we manage), net performance (income) receivables and cash. Our liabilities are primarily comprised of our unsecured credit facility borrowings and our unsecured notes. Importantly, we have maintained a conservative amount of net debt (net of cash) relative to our fee related earnings. We believe our modestly leveraged balance sheet positions us well for future growth.

**STRONG BALANCE SHEET ENABLES GROWTH**

*($ in millions)*

| *Assets* | 12/31/18 |
|---|---|
| Cash | $110 |
| Investments | 672 |
| Net Performance Fee Receivable | 249 |




| *Debt Capitalization* | Maturity | 12/31/18 *($ in millions)* |
|---|---|---|
| Credit Facility | 2024 | $235 |
| Senior Notes | 2024 | 246 |
| Total Debt Obligations | | $481 |

## MARKET RECOGNITION

In 2018, based upon our record year of fundraising and the strong performance of Ares Capital Corporation (NASDAQ: ARCC), we were recognized by the readers of *Private Debt Investor* for Global Fundraising of the Year, BDC of the Year (Americas), and Fundraising of the Year for Europe. In addition, our leading European Direct Lending platform was recognized as Lender of the Year, Europe. Overall, this year we received more awards in *Private Debt Investor* than any asset manager. *Private Equity International* readers additionally awarded Ares with Lender of the Year in Europe for the second time. Ares Capital Corporation also received the prestigious "Most Honored Company" designation from *Institutional Investor* for the second year in a row.

PRIVATE DEBT INVESTOR AWARDS 2018

*Global Fundraising, BDC (Americas), Lender (Europe), & Fundraising (Europe) of the Year 2018*

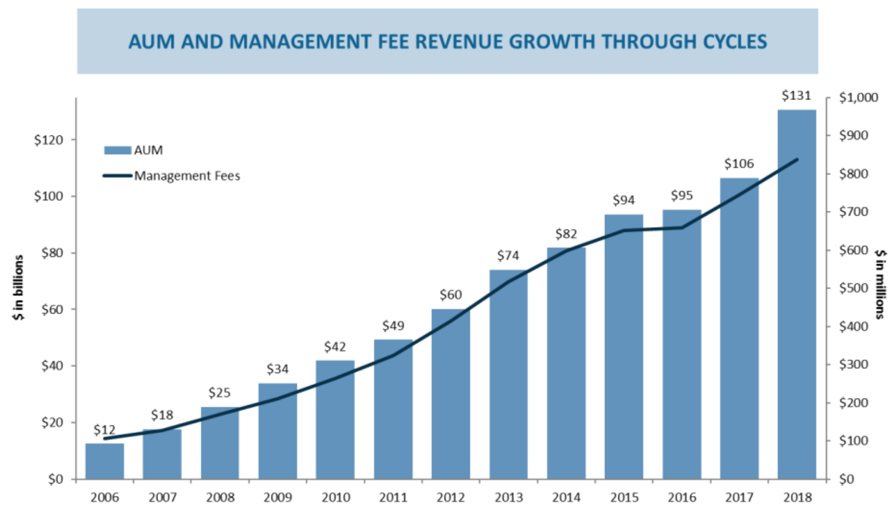
PRIVATE EQUITY INTERNATIONAL AWARDS 2018

*Lender of the Year (Europe) 2018*

Institutional Investor
2019 ALL-AMERICA EXECUTIVE TEAM
ARES CAPITAL CORPORATION
**A Most Honored Company**
**Best Investor Relations Program**

## POSITIONED FOR FUTURE GROWTH

As we look to the future, we believe we have never been better positioned as a firm. We are in an attractive industry with significant growth potential. We are investing in new products, people and operating infrastructure to support our expansion. Our clients continue to give us a greater share of their capital and, with our expanding product suite, we are experiencing significant fundraising momentum. With new growth initiatives and adjacent strategies launched in every business group, we are poised to continue our growth and expansion. We have world class investment, capital raising and business operations teams and a cycle-tested investment approach that is demonstrated by our investment performance.




We have started 2019 with over $38 billion of available capital, including $24 billion in AUM not yet earning fees and currently available for deployment. Since this AUM will earn fees upon deployment, we are in a great position to further increase our management fees in future years. As evidenced by our strong growth in AUM and management fees during the 2007-10 economic downturn (as shown in the chart), Ares has generally performed well in volatile markets, which provide us the chance to showcase the power of our platform. In the last economic downturn, we were able to differentiate our investment performance, make accretive, strategic acquisitions and consistently increase our AUM and management fees.

We are confident that the next dislocation, whenever it comes, will also provide strong opportunities for Ares, our fund investors and our stockholders. We do expect to enter the next cycle as a much stronger and more diversified firm with deeper client relationships and significant available capital for investment.

Overall, we believe we are well positioned to perform well on behalf of our fund investors throughout market cycles and the growth outlook for our investment platform continues to be bright. As always, we remain grateful for your support of Ares.

**Tony Ressler**
Co-Founder, Executive Chairman

**Michael Arougheti**
Co-Founder, Chief Executive Officer

## 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.

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

# GLOSSARY

| | |
|---|---|
| **ARCC Part 1 Fees** | ARCC Part I Fees refers to a quarterly performance income on the investment income from ARCC. Such fees from ARCC are classified as management fees as they are paid quarterly, predictable and recurring in nature, not subject to contingent repayment and are typically cash settled each quarter. |
| **Assets Under Management** | Assets Under Management (or "AUM") refers to the assets we manage. For our funds other than CLOs, our AUM represents the sum of the net asset value of such funds, the drawn and undrawn debt (at the fund level including amounts subject to restrictions) and uncalled committed capital (including commitments to funds that have yet to commence their investment periods). For our funds that are CLOs, our AUM represents subordinated notes (equity) plus all drawn and undrawn debt tranches. |
| **AUM Not Yet Earning Fees** | AUM Not Yet Earning Fees, also referred to as Shadow AUM, is our AUM that is not currently generating fees and is eligible to earn management fees upon deployment. |
| **Fee Paying Assets Under Management** | Fee Paying AUM (or "FPAUM") refers to the AUM on which we directly earn management fees. Fee Paying AUM is equal to the sum of all the individual fee bases of our funds that directly contribute to our management fees. |
| **Fee Related Earnings** | Fee Related Earnings (or "FRE"), a non-GAAP measure, is used to assess core operating performance by determining whether recurring revenue, primarily consisting of management fees, is sufficient to cover operating expenses and to generate profits. FRE differs from income before taxes computed in accordance with GAAP as it excludes performance income, performance related compensation, investment income from our Consolidated Funds and non-consolidated funds and certain other items that we believe are not indicative of our performance. |
| **Performance Income** | Performance income refers to income we earn based on the performance of a fund, which is generally based on certain specific hurdle rates as defined in the fund's investment management or partnership agreements and may be structured as either an incentive fee or as carried interest. |
| **Realized Income** | Realized income (or "RI"), a non-GAAP measure, is an operating metric used by management to evaluate performance of the business based on operating performance and the contribution of each of the business segments to that performance, while removing the fluctuations of unrealized income and expenses, which may or may not be eventually realized at the levels presented and whose realizations depend more on future outcomes than current business operations. RI differs from net income by excluding (a) income tax expense, (b) operating results of our Consolidated Funds, (c) depreciation and amortization expense, (d) the effects of changes arising from corporate actions, (e) unrealized gains and losses related to performance income and investment performance and (f) certain other items that we believe are not indicative of our operating performance. Changes arising from corporate actions include equity-based compensation expenses, the amortization of intangible assets, transaction costs associated with mergers, acquisitions and capital transactions, underwriting costs and expenses incurred in connection with corporate reorganization. Beginning in 2018, placement fees are no longer excluded but are amortized to match the period over which management fees are recognized. Prior to the introduction of RI, management used distributable earnings for this evaluation. Management believes RI is a more appropriate metric to evaluate the Company's current business operations. |

## ENDNOTES

I. Returns are time-weighted rates of return and include the reinvestment of income and other earnings from securities or other investments and reflect the deduction of all trading expenses. For ACE II and ACE III, the gross IRR is an annualized since inception gross internal rate of return of cash flows to and from the fund and the fund's residual value at the end of the measurement period. Gross IRR reflects returns to the fee-paying limited partners and if applicable, excludes interests attributable to the non-fee paying limited partners and/or the general partner which does not pay management fees or performance income. The cash flow dates used in the gross IRR calculation are based on the actual dates of the cash flows. Gross IRRs are calculated before giving effect to management fees, performance income as applicable, and other expenses.

II. The gross IRR is an annualized since inception gross internal rate of return of cash flows to and from investments and the residual value of the investments at the end of the measurement period. Gross IRRs reflect returns to all partners. For all funds, cash flows are assumed to occur at month-end. The gross IRRs are calculated before giving effect to management fees, performance income as applicable, and other expenses.

III. The gross IRR is an annualized since inception gross internal rate of return of cash flows to and from investments and the residual value of the investments at the end of the measurement period. Gross IRRs reflect returns to all partners. Cash flows used in the gross IRR calculation are assumed to occur at quarter-end. The gross IRRs are calculated before giving effect to management fees, performance income as applicable, and other expenses. ACRE annualized dividend yield is as of 3/31/2019.

IV. Gross returns do not reflect the deduction of management fees or any other expenses. Net returns are calculated by subtracting the applicable management fee from the gross returns on a monthly basis.

V. ACE II is made up of two feeder funds, one denominated in U.S. dollars and one denominated in Euros. The gross and net IRR presented in the chart are for the U.S. dollar denominated feeder fund as that is the larger of the two feeders. The gross and net IRRs for the Euro denominated feeder fund are 12% and 9%, respectively. Original capital commitments are converted to U.S. dollars at the prevailing exchange rate at the time of the fund's closing. All other values for ACE II are for the combined fund and are converted to U.S. dollars at the prevailing quarter-end exchange rate. The variance between the gross and net IRRs for the U.S. dollar denominated and Euro denominated feeder funds is driven by the U.S. GAAP mark-to-market reporting of the foreign currency hedging program in the U.S. dollar denominated feeder fund. The feeder fund will be holding the foreign currency hedges until maturity, and therefore is expected to ultimately recognize a gain while mitigating the currency risk associated with the initial principal investments.

VI. Net returns are calculated using the fund's NAV and assume dividends are 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 presentation.

VII. ACE III is made up of two feeder funds, one denominated in U.S. dollars and one denominated in Euros. The gross and net IRRs presented in the chart are for the Euro denominated feeder fund as that is the larger of the two feeders. The gross and net IRRs for the U.S. dollar denominated feeder fund are 17% and 13%, respectively. Original capital commitments are converted to U.S. dollars at the prevailing exchange rate at the time of the fund's closing. All other values for ACE III are for the combined fund and are converted to U.S. dollars at the prevailing quarter-end exchange rate.

VIII. EPEP II is made up of dual currency investors and Euro currency investors. The gross and net IRRs for the euro currency investors, which include foreign currency gains and losses, are 19% and 15%, respectively. Original capital commitments are converted to U.S. dollars at the prevailing exchange rate at the time of fund's closing. All other values for EPEP II are for the combined fund and are converted to U.S. dollars at the prevailing quarter-end exchange rate.

IX. EF IV is made up of two parallel funds, one denominated in U.S. dollars and one denominated in Euros. The gross and net IRRs presented in the chart are for the U.S. dollar denominated parallel fund as that is the larger of the two funds. The gross and net IRRs for the Euro denominated parallel fund are 21% and 15%, respectively. Original capital commitments are converted to U.S. dollars at the prevailing exchange rate at the time of fund's closing. All other values for EF IV are for the combined fund and are converted to U.S. dollars at the prevailing quarter-end exchange rate.

All performance as of December 31, 2018 unless otherwise noted. Past performance is not indicative of future results.