

Ares Dynamic Credit Allocation Fund, Inc.  
Form N-CSRS  
July 06, 2017

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

**FORM N-CSR**

**CERTIFIED SHAREHOLDER REPORT OF REGISTERED  
MANAGEMENT INVESTMENT COMPANIES**

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)

Copy to:

Daniel J. Hall  
2000 Avenue of the Stars, 12th Floor  
Los Angeles, California 90067  
(Name and address of agent for service)

P. Jay Spinola, Esq.  
Willkie Farr & Gallagher LLP  
787 Seventh Avenue  
New York, New York 10019

Registrant's telephone number, including area code: (310) 201-4100

Date of fiscal year end: October 31

Date of reporting period: April 30, 2017

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**Item 1. Report to Stockholders.**

**Ares Dynamic Credit Allocation Fund, Inc.**  
**(NYSE: ARDC)**

**Semi-Annual Report**

**April 30, 2017**

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Ares Dynamic Credit Allocation Fund, Inc.

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Ares Dynamic Credit Allocation Fund, Inc.

## **Letter to Shareholders**

April 30, 2017 (Unaudited)

**Dear Shareholders,**

We would like to start by thanking you for your interest and participation in the Ares Dynamic Credit Allocation Fund, Inc. ("ARDC" or the "Fund"). We appreciate the trust and confidence that you have demonstrated in Ares through your investment in ARDC.

## **Economic Conditions and Leveraged Finance Market Update**

Year-to-date through April, 2017 has largely been a continuation of robust returns in the non-investment grade credit market. The period began with a sustained risk-on rally following the surprise victory of President Trump and enthusiastic expectations regarding the potential benefits of his economic policies. Through the first two months of 2017, the S&P 500 had already returned an impressive 5.9%. Similarly, non-investment grade credit, as measured by the Bank of America Merrill Lynch High Yield Master II Index ("H0A0") and Credit Suisse Leveraged Loan Index ("CSLLI"), returned 2.9% and 1.1%, respectively. However, fears regarding an oversupply in oil and political uncertainty out of Washington led to a temporary reversal in sentiment during March. The market swiftly shrugged off this indigestion as oil prices rebounded and news resurfaced regarding Trump's proposed tax reforms. Amidst this strong technical backdrop, corporate fundamentals have buoyed performance as companies within the S&P 500 reported a return to earnings growth after seven straight quarters of decline. The Federal Reserve ("Fed") narrative reiterated only gradual increases in the Fed funds rate with only one increase after their mid-March meeting, which markets have ultimately cheered. Nonetheless, real rates in the market have remained largely unchanged in the wake of a record repricing wave across the leveraged finance market with over \$100 billion in loans repricing in January alone.<sup>1</sup> Despite these headwinds in the loan market, the CSLLI has notched positive returns every month year-to-date as renewed CLO issuance has exacerbated demand for floating rate assets. Regardless of political uncertainty domestically and abroad, volatility hit a two decade low giving investors the incentive to reach deeper into the risk spectrum. Consistent with much of 2016, riskier assets for both loans and bonds drove performance. Year-to-date through April, the H0A0, CSLLI and S&P 500 have returned 3.9%, 1.6% and 7.2%, respectively, marking a convincing continuation of the rally beginning last February 2016.

Capital markets demonstrated resiliency in the face of mixed economic data releases as credit assets continued to benefit from supportive technicals and a dip in Treasury yields. The U.S. Department of Commerce released the first advance estimate of U.S. GDP in late April, reporting the economy expanded at a 0.7% annualized rate during the first quarter of 2017, its weakest pace in three years. Over the past few years the trend has been for the first quarter of the year to produce weaker than normal growth figures; the Fed even dismissed the data as only "likely to be transitory". However, there are increasing signs that economic growth in the U.S. is moderating with the Commerce Department reporting consumer spending had the slowest first quarter since 2009. This deceleration in consumer spending includes rather sluggish figures for durable goods (i.e. autos), an area that had been experiencing strong growth since last year. Additionally the U.S. Bureau of Labor Statistics reported that consumer prices fell by 0.3% in March after hitting a five year peak, now edging below the Fed's inflation target of 2.0%. However, consumers remain in fair shape, evidenced by personal incomes rising again in March by 0.2%. Employment data supports that fact pattern, with the U.S. Department of Labor reporting that 211,000 jobs were added during the month of April, which exceeded the 185,000 estimate and nearly tripled March's hiring total. Regardless of the dip in inflation, most economists believe that the Fed is now close to achieving its dual mandate, and is widely expected to hike its benchmark lending rate by another quarter point at the June meeting. Odds of a hike increased following release of the jobs report, with probability of a June interest rate increase reaching 78% according to futures markets. On a brighter note, corporate

earnings for the first quarter of 2017 have been largely positive. According to Factset, 83% of the S&P 500 companies have reported earnings through May 5 and of those firms, 75% reported earnings per share above consensus estimates. By and large the market has shrugged off these mixed economic indications and remains intently focused on regulatory reform and corporate income tax relief, but as recent history has demonstrated, there is no guarantee the proposed changes by the Trump Administration will actually bear fruit for the U.S. economy.

Despite geopolitical headlines looming over the region throughout most of 2017, the European markets exhibited strong performance with the BofA Merrill Lynch European High Yield Index ("HE00") and the Credit Suisse Western European Leveraged Loan Index ("WELLI") gaining 2.78% and 2.04%, respectively, year-to-date through April. Eurozone growth had accelerated at the end of 2016 with EuroStat reporting a full year 2016 GDP growth of 1.7% for the region. Additionally, Britain's Office of National Statistics reported U.K. GDP grew by 0.6% over the fourth quarter of 2016 contributing to overall economic growth of about 2.0% for the calendar year. Economic expansion has broadened on the continent thus far in 2017. The European composite of surveys of purchasing managers ("PMI") used to measure activity in the manufacturing and services sectors rose to 56.8 in April, a six year high, while core inflation within the region reported a 1.2% increase in

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Ares Dynamic Credit Allocation Fund, Inc.

**Letter to Shareholders** *(continued)*

April 30, 2017 (Unaudited)

April, the highest mark since March 2013. Although these figures show positive signs of growth, they are still below the ECB's target growth rates. As a result, Mario Draghi and the ECB have been steadfast in their dovish commitment to accommodative monetary policy despite mounting pressure from Germany to begin a tapering policy. Headlines concerning the region, however, largely focused on the future of a united Europe. In March Theresa May invoked Article 50 in order to formally notify the European Union of the U.K.'s intent to leave the E.U. triggering little fanfare regardless of all the media attention. The difficult task of negotiating this withdrawal remains and will require a myriad of regulation and trade agreements, set to begin in late May or early June with a deadline to conclude by October 2018. This is undoubtedly an aggressive timeline, and the political landscape within Europe has the potential to dramatically change over the next year. Elections in the Netherlands and France expected to bring upheaval from the far right and unnerve incumbents fell flat. The "Frexit" election hype featuring Macron and Le Pen led to a sweeping victory for centrist Macron and little more to discuss. Even though results of the contrary would have likely injected more volatility to the region, the Macron victory brought volatility to all-time lows across the globe. Thus, while prospects for a united and economically robust Europe seem brighter than in many years past, there still remain many unknowns regarding the full economic and political impact of "Brexit" and timeline of accommodative monetary policy.

The structured credit market has been a bright spot for investors thus far in 2017. Fears regarding the impact of risk retention on new issuance were short lived. Following a subdued January in which issuance totaled \$1.4 billion across 3 deals, global CLO issuance through April 30, 2017 has totaled \$32.3 billion across 60 deals, versus \$17.6 billion across 45 deals in the prior year period.<sup>2</sup> Despite voracious investor demand for CLOs, most managers report that opportunity and value in the loan market is their greatest challenge when working to create a new CLO to meet that demand. This is largely a result of conditions within the leveraged loan market as spreads compressed and the market underwent a record repricing wave. Year-to-date through April leveraged loan volume in the U.S. totaled \$427 billion; however, 75% of this volume was comprised of borrowers refinancing their debt.<sup>3</sup> Thus, CLOs have had difficulty, amongst stiff competition from mutual fund demand, to obtain fresh collateral for new issuance. Consequently, CLO managers have been urgently refinancing to maintain their arbitrage amidst this difficult market environment. In an unprecedented refinancing wave in the CLO market, there have been 153 CLOs reset or refinanced through April 30, 2017 compared to only 2 in the prior year period.<sup>4</sup> The result has been intense compression in liabilities with AAA spreads tightening by approximately 25bps since the beginning of the year. Similarly, liabilities have been stretched to longer reinvestment periods with some managers allowed to reinvest for 6 years, the longest reinvestment period seen since the financial crisis. On the risk retention front, the vast majority of managers have opted to take a 20% horizontal stake in the equity rather than 5% vertical strips in each tranche. However, three recently priced deals have utilized a novel approach to the vertical positioning that references a second layer of securitization-like notes. Industry experts believe this innovation may open the flood gates for additional managers to utilize the vertical option going forward. While the primary CLO market has witnessed an abundance of new issuance, the secondary market has experienced a dearth of supply. Trading in the secondary market for April 2017 saw the lowest volumes since December 2011 with a mere \$1.4 billion versus an average of \$2.9 billion over the last twelve months.<sup>5</sup> Much of this is a result of paper trading at or above par and limiting new opportunities to the primary market. We expect these market dynamics to persist so long as the loan market continues to reprice and see spreads compress.

With the results of the French election in favor of the established, moderate form of government, the EU avoided a potential unwind that would most likely have created havoc in the world's capital markets. This was one identifiable event in 2017 that had the potential to create market instability in what has been a fairly mundane and orderly market thus far. Even the Trump Administration, initially thought to stir turmoil with its ambitious legislative agenda, has



generated a historically low level of volatility beyond very short episodic blips. In early May the CBOE Volatility Index or "VIX", a widely regarded measure for market anxiety, hit lows not seen since 1993, indicating that most participants are shrugging off any political rhetoric and honing focus on positive corporate earnings and steady predictable global growth. Most of the instability this year has been centered on the commodity space, as we recently witnessed the price of oil dropping over 4% in early May, although even those dislocations have shortened in duration with value investors armed with "dry powder" stepping in to form a bottom.<sup>6</sup> Given the benign inflationary environment, a patient stance from the Fed to tighten monetary policy and the lack of a visibly overheated sector, we believe there is a lower probability for a severe market dislocation within credit. That said, there is no certainty that the relative calm experienced thus far will continue and unexpected idiosyncratic events could provide opportunities to source paper at discounted levels. The strength in demand has shortened the amount of time dislocations linger and we believe the ability to execute on opportunities in credits that may have been overly punished or are trading at spreads inconsistent with their fundamental risk profile will benefit nimble managers.

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Ares Dynamic Credit Allocation Fund, Inc.

**Letter to Shareholders** *(continued)*

April 30, 2017 (Unaudited)

**Portfolio Performance and Positioning**

For the calendar year-to-date period through April 30, ARDC has returned 4.50% based on Net Asset Value ("NAV"), which compares to 1.1% for the Credit Suisse Leveraged Loan Index ("CSLLI") and 2.9% for the Bank of America Merrill Lynch High Yield Master II Index ("H0A0"). On a last twelve months basis through April 30, ARDC has returned 20.26% based on NAV, which compares to 8.2% for the CSLLI and 13.7% for the H0A0. However, it is important to note that given its flexible mandate and focus on senior secured bank loans, high yield bonds and CLOs, we believe there is no single established benchmark that reasonably lends itself to comparison with ARDC.

Over the past year, ARDC continued to increase its allocation to CLO debt and equity to 27.7% as of April 30, 2017 from 24.2% as of April 30, 2016, as we believe these assets offered the best relative value to source investment opportunities. From an industry perspective, over the last twelve months we significantly increased exposure to Metals & Mining to 7.0% from 1.0% as those industries experienced meaningful recoveries following the 2015/2016 dislocation. Year to date through April, we have focused on income and high coupon investments across asset classes as price appreciation has become more difficult to source within non-investment grade credit. Nonetheless, the Fund is prepared to capitalize on exogenous shocks to the market that may create the opportunity for price appreciation.

On November 6, 2015, the Board of Directors (the "Board") of ARDC authorized the repurchase of shares of common stock of the Fund (the "Common Shares") on the open market when the Common Shares are trading on the New York Stock Exchange at a discount of 10% or more (or such other percentage as the Board may determine from time to time) from the net asset value ("NAV") of the Common Shares. The Fund may repurchase its outstanding Common Shares in open-market transactions at the Fund management's discretion. The Fund is not required to effect share repurchases. Any future purchases of the Common Shares may not materially impact the discount of the market price of the Common Shares relative to their NAV and any narrowing of this discount that does result may not be maintained. Since inception of the program through April 30, 2017, the Fund has repurchased 518,334 shares at an average price of \$13.08, representing an average discount of -15.2%.

**Ares Dynamic Credit Allocation Fund, Inc.**

ARDC is a closed-end fund that trades on the New York Stock Exchange under the symbol "ARDC" and is externally managed by Ares Capital Management II LLC (the "Adviser"), a subsidiary of Ares Management, L.P. ARDC's investment objective is to provide an attractive level of total return, primarily through current income and, secondarily, through capital appreciation by investing in a broad, dynamically-managed portfolio of below investment grade senior secured loans, high yield corporate bonds and collateralized loan obligation securities.

In conclusion, we maintain strong conviction in the ARDC portfolio and believe the Fund continues to be well positioned to take advantage of buying opportunities in the new issue and secondary markets. We continue to believe that the ability to dynamically allocate is critical to successfully navigating an evolving market environment with headline and interest rate driven volatility. Thank you again for your continued support of ARDC. If you have any questions about the Fund, please call 1-877-855-3434, or visit the Fund's website at [www.arespublicfunds.com](http://www.arespublicfunds.com).

Best Regards,

Ares Capital Management II LLC

*Note: The opinions of the Adviser expressed herein are subject to change without notice. Information contained herein has been obtained from sources believed to be reliable, but is not guaranteed. This material may contain "forward-looking" information that is not purely historical in nature. No representations are made as to the accuracy of such information or that such information will be realized. Actual events or conditions are unlikely to be consistent with, and may differ materially from, those assumed. Past performance is not indicative of future results. Ares does not undertake any obligation to publicly update or review any forward-looking information, whether as a result of new information, future developments or otherwise, except as required by law.*

<sup>1</sup> S&P Global Market Intelligence: LCD News "January Repricings Smash Record as Issuance Tops \$100B".

<sup>2</sup> Source: S&P Capital IQ LCD. "Global Databank," April 28, 2017.

<sup>3</sup> Source: "Asset Backed Alert" May 19, 2017.

<sup>4</sup> Source: S&P Capital IQ LCD. "Global Databank," April 28, 2017.

<sup>5</sup> Source: Goldman Sachs. "GS CLO Secondary: April 2017 Month End Recap and Thoughts 'Glacier'," May 5, 2017.

<sup>6</sup> Source: Bloomberg: Price of U.S. West Texas Intermediate Crude Futures (WTI) from May 1, 2017 to May 4, 2017.

Ares Dynamic Credit Allocation Fund, Inc.

## Fund Profile & Financial Data

April 28, 2017 (Unaudited)

### Portfolio Characteristics as of 4.28.17

Weighted Average Floating Coupon <sup>1</sup>	6.29%
Weighted Average Bond Coupon <sup>2</sup>	8.05%
Current Distribution Rate <sup>3</sup>	7.59%
Dividend Per Share	\$0.1025

1 The weighted-average gross interest rate on the pool of loans as of April 28, 2017.

2 The weighted-average gross interest rate on the pool of bonds at the time the securities were issued.

3 Monthly dividend per share annualized and divided by the April 28, 2017 market price per share. The Fund's April 2017 distributions were comprised of net investment income and short-term capital gains. The distribution rate alone is not indicative of Fund performance. To the extent that any portion of the current distributions were estimated to be sourced from something other than income, such as return of capital, the source would have been disclosed in a Section 19(a) Notice located under the "Investor Information" section of the Fund's website. Please note that the distribution classifications are preliminary and certain distributions may be re-classified at year end. Please refer to year-end tax documents for the final classifications of the Fund's distributions for a given year.

### Top 10 Holdings<sup>4</sup> as of 4.28.17

Anglo American Capital, PLC	1.18%
GCP Applied Technologies, Inc.	1.15%
Rite Aid Corp	1.13%
Builders FirstSource, Inc.	1.13%
Madison Park Funding Ltd	1.10%
FMG Resources Pty Ltd	1.06%
Atrium CDO	0.97%
LCM 23 CLO, Ltd.	0.97%
JC Penney Corp Inc.	0.96%
Kraton Polymers LLC	0.95%

4 Market value percentage may represent multiple instruments by the named issuer and/or multiple issuers being consolidated to the extent they are owned by the same parent company. These values may be different than the issuer concentrations in certain regulatory filings.

### Performance as of 4.28.17

	Market	NAV
1 Month	1.83%	0.80%
Year to Date	10.28%	4.68%
3 Years (annualized)	4.87%	4.50%
Since Inception**	3.54%	5.94%

\*\*Since Inception of fund (11/27/2012) and annualized.

Source: Morningstar

Performance data quoted represents past performance, which is no guarantee of future results, and current performance may be lower or higher than the figures shown. Since Inception returns assume a purchase of common shares at the initial offering price of \$20.00 per share for market price returns or initial net asset value (NAV) of \$19.10 per share for NAV returns. Returns for periods of less than one year are not annualized. All distributions are assumed to be reinvested either in accordance with the dividend reinvestment plan (DRIP) for market price returns or NAV for NAV returns.

**Portfolio Composition as of 4.28.17**

**Fixed vs. Floating Rate as of 4.28.17**

**Industry Allocation<sup>5</sup> as of 4.28.17**

5 Merrill Lynch industry classifications weighted by market value. These values may be different than industry classifications in certain regulatory filings.

This data is subject to change on a daily basis.

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Ares Dynamic Credit Allocation Fund, Inc.

**Schedule of Investments**

April 30, 2017 (Unaudited)

**Senior Loans 36.0%(b)**

	<b>Principal Amount</b>	<b>Value(a)</b>
<b>Aerospace and Defense 2.5%</b>		
Air Methods Corporation, Initial Term Loan, L+ 3.50%, 04/05/2024 <sup>(c)</sup>	\$2,618,943	\$ 2,615,669
Engility Corporation, Term B-2 Loan, 4.75%, 08/12/2023	1,325,735	1,334,021
Hensoldt Holding Germany, GmbH, Term Loan B, (Denmark), 3.75%, 02/28/2024	€2,000,000	2,197,422
Sequa Corporation, Initial Loan 1st Lien, L+ 5.50%, 11/26/2021 <sup>(c)</sup>	\$1,392,273	1,406,196
Sequa Corporation, Initial Loan 2nd Lien, L+ 9.00%, 04/28/2022 <sup>(c)</sup>	1,015,282	1,031,780
Standard Aero Aviation Holdings, Inc., 1st Lien Term Loan, L+ 4.25%, 07/07/2022 <sup>(c)</sup>	1,744,186	1,747,238
		<b>10,332,326</b>
<b>Automotive 0.7%</b>		
CH Hold Corporation, 2nd Lien Term Loan, L+ 7.25%, 02/01/2025 <sup>(c)</sup>	1,464,592	1,490,223
Lumileds Holding B.V., Term Loan B, L+ 4.50%, 03/15/2024 <sup>(c)</sup>	1,481,481	1,498,148
		<b>2,988,371</b>
<b>Banking, Finance, Insurance &amp; Real Estate 1.6%</b>		
Asurion, LLC, 2nd Lien Term Loan, 8.50%, 03/03/2021	3,000,000	3,043,740
Asurion, LLC, Incremental B-5 Term Loan, 4.75%, 11/03/2023	1,960,075	1,974,775
Gulf Finance, LLC, Tranche B Term Loan,	1,492,500	1,488,769

6.25%, 08/25/2023

6,507,284

**Beverage, Food and Tobacco 0.5%**Candy Intermediate Holdings,  
Inc.,

Initial 1st Lien Term Loan,

5.65%, 06/15/2023

2,009,174

1,965,233

**Senior Loans<sup>(b)</sup> (continued)****Principal  
Amount****Value<sup>(a)</sup>****Business Equipment & Services 0.5%**

CCC Information Services, Inc.,

2017 1st Lien Term Loan,

L+ 3.00%, 04/29/2024<sup>(c)</sup>

\$ 499,875

\$ 497,500

CCC Information Services, Inc.,

2017 2nd Lien Term Loan,

L+ 6.75%, 04/28/2025<sup>(c)</sup>

1,425,532

1,452,261

**1,949,761****Chemicals, Plastics & Rubber 2.1%**

HII Holding Corporation,

1st Lien U.S. Term Loan,

4.40%, 12/20/2019

994,329

1,000,544

HII Holding Corporation,

2nd Lien Term Loan,

9.75%, 12/21/2020

1,500,000

1,515,000

Inovyn Finance PLC,

2021 EUR Term Loan B,

(Great Britain),

4.50%, 05/15/2021

€1,563,207

1,710,323

Inovyn Finance PLC,

Term Loan B, (Great Britain),

L+ 3.00%, 05/15/2024<sup>(c)</sup>

666,667

729,408

Kraton Polymers, LLC,

Initial Term Loan,

5.00%, 01/06/2022

\$2,426,448

2,459,957

PQ Corporation,

Tranche B-1 Term Loan,

5.25%, 11/04/2022

1,237,562

1,251,930

**8,667,162****Construction & Building 0.4%**

Fairmount Santrol Inc.

(fka Fairmount Minerals, Ltd.),

New Tranche B-2 Term Loan,

4.50%, 09/05/2019

1,745,478

1,714,932

**Consumer Goods: Durable 0.9%**

Comfort Holding, LLC,

1st Lien Term Loan,

5.78%, 02/05/2024

949,367

949,965

Comfort Holding, LLC,

2nd Lien Term Loan,

1,263,158

1,212,632



11.03%, 02/03/2025

Unifrax Corporation,  
Initial USD Term Loan,  
4.90%, 04/04/2024

1,483,871

1,486,349

**3,648,946**

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Ares Dynamic Credit Allocation Fund, Inc.

**Schedule of Investments** *(continued)*

April 30, 2017 (Unaudited)

**Senior Loans<sup>(b)</sup>** *(continued)*

	<b>Principal Amount</b>	<b>Value<sup>(a)</sup></b>
<b>Consumer Goods: Non-Durable 0.4%</b>		
G-III Apparel Group, Ltd., Initial Term Loan, 6.25%, 12/01/2022	\$1,773,399	\$ 1,740,893
<b>Containers, Packaging &amp; Glass 0.3%</b>		
Berlin Packaging, LLC, Initial 2nd Lien Term Loan, 7.75%, 09/30/2022	750,000	748,748
Fort Dearborn Holding Company, Inc., Initial 2nd Lien Term Loan, 9.65%, 10/21/2024	625,000	618,750
		<b>1,367,498</b>
<b>Energy: Electricity 0.1%</b>		
Pike Corporation, Initial Term Loan, 4.75%, 03/10/2024	571,429	577,143
<b>Energy: Oil &amp; Gas 3.9%</b>		
California Resources Corporation, Initial Loan, 11.38%, 12/31/2021	1,925,000	2,115,094
Chesapeake Energy Corp., Class A Term Loan, 8.55%, 08/23/2021		